|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 31e | 2e | Discours sur le budget | 7 mars 1978 | Darcy McKeough | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

**Developing an Economic Strategy for Canada and Ontario**

Mr. Speaker, all Members will have followed closely the proceedings of the First Ministers' Conference, held in Ottawa, February 13-15, 1978. Ontario played a constructive role on this important occasion in developing a set of economic policies appropriate to today's economic realities. The Premier of Ontario, the Honourable William G. Davis, put forward a specific ten point plan of action for economic growth and development. He also tabled a document entitled, "An Economic Development Policy for Canada" which contained a number of solid proposals designed to:

• encourage price stability;

• improve the business climate and increase private investment;

• promote exports and replace imports; and,

• reduce regional disparities.

The Conference communique reflects in considerable measure the Ontario proposals. Let me comment on some of the more important actions we are taking.

First, to encourage price stability, to improve business confidence and to provide room for job creation in the private sector, we have firmly checked growth in the Province's spending. Expenditure growth is down for the fourth successive year, and we are holding to our plan to balance the budget by 1981. Second, to increase private investment we have introduced substantial tax incentives; we will maintain in this Province a competitive tax climate. This Budget contains new tax initiatives to further stimulate economic activity. Third, my col- league, the Minister of Industry and Tourism, will be directing this Government's "Buy Canadian" campaign to promote further exports and replace imports. Fourth, we are encouraging research and development with new initiatives in a number of areas. Fifth, the Province of Ontario, having made a substantial contribution to reducing regional disparities in Canada, will continue to encourage and support federal efforts in this most important endeavour.

Let me also comment on the consultative process. For a number of years, this Government has been advocating a more open approach to decision making; we have called for a genuine consultative process. The First Ministers' Conference and the preparatory meetings of Ministers represent substantial progress toward this goal. There will be more frequent meetings in the future, giving the opportunity to assess our actions and build upon the progress already made.

That progress is considerable. Ontario strived for a consensus and, for the first time, a consensus has been arrived at that constitutes a framework within which Canadian economic policy can be developed on a co-ordinated basis. There is recognition of the need to set explicit objectives; to pursue taxation and expenditure policies consistent with moderating inflation; to improve the business climate; and, to deal head-on with sectoral problems. All of these things must be done to provide for stable growth of the economy, to create the large number of new jobs needed to employ all of our labour force, and to ensure our continued prosperity.

Ontario's Economic Prospects

The economic prospects for 1978 and 1979 are favourable. The economy is on a recovery path.

Despite concerns about unemployment, inflation and national unity, Ontario recorded considerable progress in expanding job opportunities and restoring competitiveness to the economy in 1977. Employment grew by 73,000 jobs, or 2.0 per cent. December, 1977 over December, 1976 employment was up by 109,000, or 3.0 per cent. Seventy per cent of the new entrants to Ontario's labour force, which grew by 2.9 per cent in 1977, were youths or females. Unemployment among young people between 15 and 24 years of age has confirmed that jobs for youth continues to be the major challenge facing governments both in Ontario and in Canada.

Our expectations for 1978 are for a stronger provincial economic performance, with real growth of 4.3 per cent. This forecast is close to the middle of the range of current projections coming from a number of private and institutional sources. The Conference Board in Canada, for example, has recently forecast a more optimistic growth rate of 5.1 per cent for Ontario. The general view of increasing strength in the economy as the year progresses is consistent with my own. I see the process evolving at a moderate pace, with considerably stronger growth of 5.5 per cent in 1979. Essentially, I look forward to a strong export performance in 1978, reinforced by more buoyant consumer spending and renewed business investment in 1979. On the employment front, I expect that 100,000 new jobs will be created in 1978 and that the rate of unemployment will show a small decline.

Our recovery from the 1975 recession has been sluggish and ir- regular. Consumers have been uneasy in the face of high levels of both unemployment and inflation, and have been hesitant to expand significantly their own spending plans. Investment expenditures have been particularly slow at providing strength, reflecting uncertainty about our economic future. In addition, the concerted national effort to break the cost and wage spiral, reflected in the Anti-Inflation Program, coupled with general recognition of the need to restore a balance to our economy, has brought forth a sustained effort to limit the growth of government and reduce its involvement in the economy. All of these factors limited our growth last year.

Turning to '78-'79, consumer confidence is on the upswing, according to recent surveys. While personal savings are still at historically high levels, the potential for a continued expansion of retail sales is excellent and very encouraging. Moreover, improvements in Canada's trading balance are expected to make a major contribution to growth in Ontario's economy in 1978. Continued strength in the economies of our major trading partners will provide strong stimulus for our exports. In addition, the major improvement in the competitive position of Ontario industries, brought about by the more realistic level of the Canadian dollar and the substantial improvement in our cost performance, has yet to be fully realized. Ontario manufacturers now face a major opportunity to compete with imports in the domestic market and to make new inroads in foreign markets. In addition, I foresee considerable growth for our tourism industry as the year progresses.

With moderating government expenditures, an improving cost performance and a restoration of consumer and investor confidence, Ontario will be poised for a strong revival of private sector capital outlays in late 1978 and into next year. Capacity utilization should improve significantly in a number of key sectors, and new job creation can be expected to keep pace with a rapidly growing labour force. A better profit performance and an ample supply of credit will provide the base for a substantial resurgence of investment. Moreover, I look forward to continued strength in investment through 1980-81, as major energy projects across Canada get under way and make their contribution to healthy demand in Ontario. My expectation, therefore, is for a steady expansion of private sector jobs, private sector incomes, and private sector prosperity of lasting benefit to all citizens.

Ontario and Canada, then, are well positioned for an economic expansion based on private sector initiatives. I would be less than frank, however, if I did not acknowledge the continuing drag on the economy caused by the worrisome uncertainty surrounding Quebec. That uncertainty has hurt confidence and investment, not only in Quebec, but throughout Canada.

**Keeping Ontario Competitive**

The First Ministers and Ministers of Finance agreed that general stimulation in the form of increased spending by governments would be counter productive. It is desirable to hold the trend growth in government spending below the trend growth in the economy. There also was a clear recognition that large-scale tax cuts could not be afforded, because government deficits are already too large.

This message was evident in the extensive discussions I held again this year with representatives of various groups in the economy, including labour, business and the professions. Their informative comments have deepened my perspective of the year just past and focused my attention on the problems ahead. I would like to express my appreciation to them for their participation in the budget formulation process.

On February 16th, my Ministry released a staff study entitled, "Reassessing the Scope for Fiscal Policy in Canada". This paper raises serious questions about the capacity of provincial governments to stimulate employment by further increasing their deficits. The paper shows that both the federal and Ontario governments face large deficits even at high levels of employment.

In reading this staff study, one reluctantly comes to the conclusion that the taxpayers of Ontario would see only marginal returns to the Provincial treasury when government stimulates the economy through general measures. Nearly all of the budget dividends arising from the resulting job creation flow to federal coffers in the form of savings on unemployment insurance.

Accordingly, the fiscal actions of this Budget are framed within the realities of Ontario's overall budget capacity. They aim to be selectively stimulative as we continue on our program of balancing the Ontario Budget by 1981.

The maintenance of competitive industry is of paramount importance to Ontario, and this Government recognizes the vital role of investment and profits in the economic growth process. Taxation is an important element of business costs, and it is essential that tax policies reflect the realities of international competition. The fiscal measures I am proposing in this Budget have been developed in full recognition of their impact on Ontario's competitive position.

I would like to call the Members' attention to the study I am tabling with this Budget entitled "Ontario's Retail Sales Tax Exemption Program for Production Machinery and Equipment "An Economic Assessment". This document is a report to the Legislature on the economic impact of this incentive. It is an important study which represents the combined input of the corporate sector, the Institute for Policy Analysis of the University of Toronto and Treasury staff.

The results are strongly positive. The tax incentive stimulates investment, output and final demand. It also creates jobs. In fact, the Institute concludes its assessment of the program with these words: "It would be difficult to think of any other policy which, if taken at the Provincial level, would stimulate production levels to as great an extent". This is evident in the high benefit-cost ratio of the incentive which shows three dollars of income generated for one dollar of tax forgone.

The retail sales tax exemption improves Ontario's competitive position by lowering front-end costs. This study shows that, in Ontario, our taxation levels compare favourably with those of nearby jurisdictions with which we compete. We cannot be complacent in this regard, however, as tax levels can quickly change and offset our advantage. In the United States, for example, President Carter has recently pro- posed a package of tax changes which would, among other things, reduce the rate of corporate tax by 4 percentage points and make the U.S. investment tax credit considerably more generous. If changes such as these are implemented, the Province and the federal government must be prepared to review our combined tax levels to ensure that we remain competitive.

The impact of inflation on profits is also of concern to this Government. In 1976, we established the Ontario Committee on Inflation Accounting to study this problem. The Committee's Report was made public in July, 1977. The Canadian Institute of Chartered Accountants has a central role to play in further developments in this area, and I would ask them to pursue more aggressively improvements in financial reporting.

Mr. Speaker, the federal and provincial governments have made substantial progress in the consultative process. Greater understanding and stronger relationships between all groups in our society- labour, business and governments — is one of the keys to success in the 1980s. The Partnership for Prosperity Conference was convened in February, 1977, and the Premier's Advisory Committee on Ontario's Economic Future formed shortly after. As well, the federal Minister of Industry, Trade and Commerce has announced that he is forming joint committees of labour, business and governments, in which Ontario will play a full role, to study and make recommendations for various sectors of the economy. These are important initiatives.

Ontario must be prepared to meet the challenges of the 1980s, and to develop economic policies which will ensure the continued growth and prosperity of our key sectors, particularly agriculture, resources and manufacturing. We must also deal with the economic adjustments that will follow tariff changes. In these important tasks, the Government needs advice from all participants in the economic process.

**Selective Measures to Stimulate the Economy**

Mr. Speaker, I propose three selective and essential actions to:

• expand employment for Ontario's youth;

• improve the situation in the mining industry; and,

• stimulate the hospitality industry.

Jobs for Young People

The Government of Ontario has led the way in Canada in providing employment opportunities for our energetic young people. In 1977 we implemented a five point program which provided jobs and introductory training to the labour market for some 47,000 young people, at a cost of $65 million.

Of these Ontario initiatives, perhaps the most successful was the Ontario Youth Employment Program (OYEP) which paid $1 per hour towards the wages of young people aged 15-24. The response by Ontario businesses and farmers to this new employment incentive was over- whelming; more than 12,000 employers participated in the program, creating 21,500 new summer jobs. Ten thousand of these employers replied to the Premier, expressing their satisfaction with OYEP, and indicating strongly that they would like to see it operate again in 1978.

I propose to reintroduce the OYEP program in 1978 and expand it in two significant ways. The incentive grant will be increased to $1.25 per hour and the program will run for a full 25 weeks as compared to 16 weeks last summer. Furthermore, all employers who created jobs under the program last year will be eligible for the $1.25 subsidy on both their 1977 level of OYEP jobs plus new job creation. An initial funding level of $17.2 million has been provided in the 1978 Estimates with the expectation that OYEP-1978 will generate some 30,000 jobs for young Ontarians. If additional funding is required, it will be forth- coming.

The Government will also expand significantly in 1978 its other youth-oriented employment programs. Funding for the Ontario Career Action Program (OCAP) will rise 33 per cent to $9.3 million, allowing some 5,750 young people to gain the work experience which will help them to secure employment upon leaving school. The capacity of our Junior Ranger camps will be expanded to the maximum to provide places for an additional 300 applicants. And the Experience program will be enlarged by 2,100 jobs, to a total of 13,500 positions for young people seeking a rewarding summer in public service before resuming their studies. Altogether, Ontario's commitment to opportunities for youth will involve a total expenditure of $78 million for 1978, generating more than 60,000 jobs.

These Ontario actions will help to reduce the unacceptably high unemployment rate among our 15-24 age group. But more permanent measures are needed. No amalgam of public job creation programs, however well intentioned, can provide the challenges, the rewards and the career prospects which our young people deserve. That is why the Premier, at the recent Conference of First Ministers, urged the federal government to find ways of diverting UIC payments to youth into private sector incentives which create productive and lasting jobs to meet the legitimate expectations of these new adults in our society.

Incentives for the Mining Industry

Mr. Speaker, the mining industry has played an important and innovative role in the development of our economy in terms of growth, foreign exchange, support of secondary industry, and regional development. This sector is now in a serious slowdown. Many mining companies appear to be directing their new activities to third world countries, which are still largely unexplored and where more attractive incentives are available. I am disturbed that Ontario's mining exploration expenditures in the last five years have declined and very few new mines have been developed.

The First Ministers have agreed on the need for a joint federal- provincial review of the taxation of the resource industries by Finance and Resource Ministers. My colleague, the Minister of Natural Re- sources, and I will be participating in this important review. However, some interim action is essential, and I am therefore proposing the following amendments to The Mining Tax Act. effective March 7. 1978:

• an exemption for new mines and major expansions of existing mines;

• the carry-forward of unused processing allowance and the re- moval of mandatory minimum deductions of depreciation and exploration and development expenditures; and,

• full allowance of foreign processing costs incurred in the pro- cessing of Ontario ore.

These changes will encourage the search for and development of new mines in Ontario, and even out the burden of the mining tax over the metals cycle. As an additional incentive, I am also proposing to allow certain expenses related to social assets. To attract and retain employees, mining companies located in isolated regions of the province provide housing, social and recreational facilities. Operating and maintenance costs of social assets in Ontario will be allowed as a deductible expense after April 9, 1974.

I estimate these measures to assist the mining industry will cost $5 million in 1978-79. In years of stronger markets they will yield considerably greater tax savings to our vital resource industry. Equally important, these measures will provide a climate of certainty and confidence which is essential to high-risk investments. They will benefit small and medium-sized operations as well as the large integrated mining corporations. In the case of uranium for Ontario Hydro, these measures will apply only to new contracts.

Stimulating the Hospitality Industry

Travel costs and costs of accommodation in Canada have risen considerably over the last few years, even faster than the general cost of living. Travellers from the U.S. and abroad, as well as Canadians themselves, have been turning more and more to alternate destinations and, as a result, the nation's balance of trade in travel has deteriorated seriously. Ontario, as the principal Canadian destination of both Canadian and non-Canadian travellers, has, of course, felt this impact most directly.

To counteract these trends, I am proposing to suspend until the end of 1979 the full 7 per cent retail sales tax on all taxable accommodation. This change, effective for all guests checking in after mid- night tonight, will also apply to the full price of hospitality services sold as a package deal under the American Plan, with the exception of charges for liquor. It will provide a total tax saving for travellers and tourists in Ontario of about $30 million in 1978-79. This tax saving, coupled with recent currency developments and the industry's own efforts to restrain costs, will result in significant reductions in average room costs. Here in Toronto, for example, the price of a room has already been effectively reduced by 15 per cent since November, 1976 for our American friends, and by as much as 40 per cent over the same period for visitors from Japan and Western Europe. This tax exemption will also lower the cost of charter arrangements for Canadian travel recently announced by the federal government.

The hospitality industry, as the second largest sector in the Ontario economy, can be expected to experience considerable benefits from these changes. The spillover effects in terms of employment growth, new construction and improvements to existing facilities should be substantial as visitors and Canadians alike experience the pleasures of an Ontario vacation. These beneficial effects will be realized most directly in the restaurant industry and retail trades.

I am confident the hospitality industry will respond with vigour and imagination to this new opportunity to establish Ontario as a prime international vacation centre.

Tax Incentive for Research and Development Jobs

An additional incentive to strengthen the economy, in the form of a 100 per cent tax credit for new jobs in industrial research, development and design, was proposed by the Premier in Ottawa. It would cost $100 million or more a year for the next five years in terms of tax revenues forgone, but would generate tangible benefits to our economy. It would build up our capacity for essential innovation, improve our productivity and export performance, and make Canada less dependent on foreign technology. It would also pay large dividends in terms of better jobs for talented young people, jobs which fully utilize the skills of our college and university graduates. This research and development tax incentive should be implemented on a national scale, with full participation of both the federal government and the provinces. I have already informed the Minister of Finance that Ontario wants to proceed along these lines immediately, and that we are willing to assist in the formulation of a powerful incentive program.

In passing, let me point out that the R & D program should be available to all corporations doing business in Canada, both large and small. We cannot afford to let concern about a "branch plant economy" limit the potential benefits which will flow to all Canadians. The pro- gram should also apply to a broad spectrum of research and development, including for example, a draughtsman in a tool and die shop or other project designers.

**1978-79 Expenditure Plan**

Mr. Speaker, you will recall that on September 16, 1977, I out- lined the broad dimensions of the Government's 1978 spending plan. The key feature of that plan was a target of 6.9 per cent for our expenditure growth rate in the 1978-79 fiscal year. This Government has stuck to its target. The Chairman of Management Board will table Estimates which hold our spending growth for 1978-79 to 7 per cent.

This will be the fourth year in a row that Ontario has progressively reduced its spending growth rate. We have proven that government can reduce its claim on total resources. This message is finally beginning to sink in at Ottawa as well. Perhaps the most significant result of the First Ministers' Conference was the agreement to restrain government spending below the growth in the economy. That is one of the essential policies we have been advocating for building a stronger economy in the years ahead.\* We are targeting for a balanced budget to make room in the economy for the private sector to grow and to flourish.

The Government has made difficult decisions and has substantially reordered its priorities to hold our spending growth to 7 per cent. But I believe we can continue to maintain essential public services. Indeed, in a number of areas there are improvements in levels of service. Health care, for example, has been allocated additional funding of $276 million in 1978-79, or 29 per cent of the total spending increase of $952 million. This represents an increase of 8.1 per cent. To accommodate our priorities, and the unavoidable increases for such items as public debt interest and pension contributions, we have reduced our Government operating costs and our payroll budget to the minimum. Let me reiterate that at 7 per cent, unlike the Government of Canada, we are actively eating inflation. I have included for the information of Members a table which compares Ontario and federal spending performance since 1974-75.

I have also included a table which illustrates how the Government rationed its limited funds among these competing expenditure claims. To those who would say to us the job can be done better, I would suggest that they lay the specifics before this Legislature so that the school boards, the municipalities, the public service unions and citizens' groups— each of which claims to deserve more can respond.

**Assistance to Local Government**

As Members are aware, the Province allocates some 30 per cent of its budget to support local government under a revenue-sharing formula known as the Edmonton Commitment. Last September 16, 1 announced Ontario's financial assistance to local governments would be $4,023 million for 1978-79, and provided a general outline of our transfers so municipalities could commence their 1978 budget planning. In our Estimates process, we have made some adjustments to the distribution of our transfers and raised the total, despite the fact that revenues have come in considerably below the forecast level upon which the Edmonton Commitment was based. Total financial assistance for 1978-79 is in- creased to $4,039 million. For the information of Members, I have included a table which shows the Edmonton Commitment distribution of $4,023 million announced in September and compares it with the total of $4,039 million contained in the printed Estimates.

I detect that some representatives and employees of some local governments are reluctant to share our commitment to expenditure restraint. They protest that I have redefined the Edmonton Commitment to cut back on provincial transfers. The facts prove otherwise. Over the five years this revenue-sharing arrangement has been in operation, that is from 1973-74 through 1977-78, the Province has delivered $13,581 million in actual transfers to local government, versus a cumulative entitlement under the original Edmonton Commitment formula of $13,583 million. That's a shortfall or underdelivery of only $2 million or j$ of 1 per cent. I would be ecstatic if the Province came anywhere close to such a balance in its financial arrangements with the federal government.

I make no apology for reformulating the Edmonton Commitment for the future to include major elements of Provincial assistance which should have been in the formula right from the beginning. In particular,

I added our Provincial payments to the Teachers' Superannuation Fund, which are just as valuable a form of financial assistance to school boards as are general legislative grants. On the revised and more realistic basis, the Province has been more than fair to local governments, overdelivering its commitment by some $444 million through the end of 1977-78.

Mr. Speaker, with declining school enrolments and with populations which may not be growing, I question whether or not school board and municipal spending needs to increase more than our own.

While on the topic of local government, I would like to discuss briefly several other important matters of longer term significance.

Property Tax Reform

First, let me clarify how the Government is proceeding with the complex matter of property tax reform. I have established a working committee of local elected representatives who are to report back by March 31, 1978. They are to make recommendations on the fundamental issues of implementation of market value assessment and the tax principles set out in the January 4 White Paper. After we have agreement on an acceptable way to implement market value assessment and property tax reform, then the Province will proceed to the complementary matters of grant reform and a revised revenue-sharing arrange- ment with local government.

The overall tax burden on residences will not increase due to re- form and there will be a phasing-in process, particularly for single family dwellings. I have cautioned the Committee, however, not to look for an easy way out by loading more of the burden onto industry. Ontario's tax system must remain competitive, not just at the provincial level but at the local level as well. I am aware that some American jurisdictions are using the local tax base as assistance for industry. However, I do not think that what is in effect a municipal giveaway would be appropriate in Ontario.

Second, I expect to act on the findings of five important studies on reform of local government structure—Metropolitan Toronto, Regional Niagara, Regional Ottawa-Carleton, the County of Northumberland and the District of Parry Sound. These studies represent an important contribution to the task of making local government more responsive and efficient.

Provincial-Municipal Reciprocal Taxation

Third, I would like to indicate my intention to pursue the matter of reciprocal taxation. As Members know, Ontario entered into a reciprocal tax agreement with the federal government as of October 1, 1977; it is working well. Under this arrangement, governments pay taxes to each other on those purchases and other activities which are taxable in the private sector. This minimizes special exemptions and greatly simplifies tax administration. Under property tax reform the Province will be paying full local taxes on its properties, hence it is logical for local governments to pay Provincial taxes, that is sales tax, fuel taxes and licence fees. In the long run this will streamline the overall tax structure in Ontario and simplify our statutes.

Reducing Property Taxes for Senior Citizens

Mr. Speaker, let me turn to another aspect of our commitment to reform of the property tax. At the recent First Ministers' Conference, Prime Minister Trudeau singled out Ontario's tax credit system for high praise. Let me share with you this quote from Mr. Trudeau's speech on February 13th.

"Many of you, in your own jurisdiction, have been equally creative. Premier Davis your Government in Ontario has introduced a refund- able tax credit system to provide relief from property and sales tax for low and middle income taxpayers. Perhaps this is a model that should be pursued on a broader scale."

Budget Paper B, appended to this Statement, explains in detail how our tax credits work to relieve property tax burdens in the most equitable and efficient way. We propose to build on this proven system to meet our commitment in a "Charter for Ontario", which promises this Government will: "reduce the municipal tax burden on senior citizens, and work toward the ultimate elimination of this particular tax for the majority of Ontario's senior citizens."

In conjunction with the implementation of property tax reform, the basic tax credit to senior citizens will be enriched from $290 to $510, thereby offsetting in total more than 80 per cent of their property tax burden.

**Measures to Raise Revenues**

Within the economic and financial objectives the Government has set for this year, I have decided that it is necessary to raise additional revenues. Having examined various alternatives, I am proposing a balanced and equitable package of tax actions to raise an additional $374 million. These actions will not detract from the economic recovery nor will they impair Ontario's competitive position.

OHIP Premiums

The control of health costs continues to be a high priority of this Government. Expenditures on insured health services increased 14.5 per cent in 1976-77 and 9.2 per cent in 1977-78. For 1978, we expect an even better performance. Nevertheless, the financing of health costs continues to be unbalanced, with the share covered by OHIP premiums steadily declining. Premiums retain a visible link with the cost of services. Consequently, I am proposing to increase OHIP premiums to restore the balance in financing.

We have considered other alternatives and rejected them. My colleague in Health, and my former colleague in Health, the Minister of Natural Resources, have both worked hard to control costs. They have argued eloquently against deterrent fees, quite rightly pointing out that such a policy would deny access to our high quality health care system for those least able to pay.

Effective May 1, 1978, OHIP premiums will increase by $6 per month for single subscribers and $12 per month for families. That will produce new premium levels of $22 per month and $44 per month for single persons and families respectively. At the same time, our system of premium assistance will be enriched to ensure that this increase does not impact on low and modest income families.

I would also point out to Members that while the OHIP increase will raise payroll costs to employers, our Ontario companies will still enjoy a considerable advantage on this score over their U.S. counter- parts. Even with the higher premiums, the effective rate of payroll taxation in Ontario is below that in the U.S., and this differential in our favour will widen when the American Social Security financing amendments take effect in 1978 and subsequent years.

This necessary adjustment to OHIP premiums will generate an additional $271 million. As a result, premiums in 1978-79 will again cover one-third of the costs of insured health services, which approximates the long-run norm recently recommended by the Joint Advisory Committee on Methods to Control Health Costs.

Full details of these OHIP changes are provided in Appendix C to this Statement.

Alcohol and Tobacco Taxes

I also propose to raise additional revenue from alcohol and tobacco.

Effective April 1, 1978 the gallonage fee on beer will be increased by 7 cents per gallon, and the mark-ups on spirits, wines and imported beer will also be raised. The mark-up increases will be slightly smaller on imports, as we begin to neutralize over the longer term what has been, in effect, an Ontario tariff. These increases will generate about $40 million in additional revenues in 1978-79.

As of midnight this day, the tax on cigarettes will be increased 2.8 cents to a total of 22 cents per package of 20, and the tax on cigars and pipe tobacco will also be raised. I estimate that these new rates will produce $30 million in additional revenue. Following the practice of past years, full details of these changes are set out in the Tax Appendix to this Statement.

I am also proposing to increase the compensation paid to appointed tobacco tax collectors, from the present maximum level of $700 to $1,000 per annum, effective April 1, 1978. While on the subject of compensation, I would point out to Members that the level of compensation paid to motor vehicle agents has not been changed since 1972. As an incentive to encourage motor vehicle agents to tighten up their appraisal of used cars and generate higher tax collections, I am now proposing increases in compensation, effective April 1, 1978.

I am proposing two further measures to raise revenues. First, effective March 8, 1978, the retail sales tax exemption for railway rolling stock will be withdrawn, and the 7 per cent tax will be applied on the basis of miles travelled in Ontario. Similar tax treatment is now in effect in Quebec, Manitoba, Saskatchewan and British Columbia, and these provinces— unlike Ontario— also levy a tax on the diesel fuel used in locomotives. Second, the capital tax levied on loan and trust companies will be changed to parallel the treatment of banks, effective for fiscal years ending after March 7, 1978.

I estimate that these two changes will increase our revenues by $18 million.

Structural Changes

Let me turn now to measures relating to our tax structure and collection procedures.

The federal changes to the Income Tax Act, as implemented by Bill C-l 1, will be paralleled in most instances in our corporate income tax. Our schedule of instalment payments under The Corporations Tax Act will also be changed to match the federal schedule. This will simplify the work of business accountants and also result in a one-time cash flow adjustment of $70 million in favour of the Province.

I would like to inform Members that some Ontario-based insurance companies have been forced to pay retaliatory taxes in the United States as a result of the 1976 increase in our premiums tax from 2 per cent to 3 per cent. This has put them at a competitive disadvantage in selling life insurance and sickness and accident insurance in the United States. In view of these developments, I propose to move Ontario's premiums tax back to 2 per cent on life insurance and sickness and accident insurance, effective March 8, 1978. Moreover, I have requested that the federal government, in its negotiations of the Canada-U.S. tax treaty, seek an exemption for the provinces from these retaliatory tax provisions.

Ontario will also parallel the federal changes to the income taxation of insurance companies. These two measures will cost a net of $5 million in 1978-79.

Tax Removed on Storm Windows and Doors

The Ontario economy is steadily adapting itself towards energy conservation. To assist in this process, I propose to remove the retail sales tax from storm windows and storm doors, effective March 8, 1978. This measure will cost $15 million in 1978-79 and bring the Government's total package of energy conservation exemptions to $25 million per annum.

Personal Income Tax

Mr. Speaker, I am pleased to announce that Ontario's personal income tax rate for 1978 will remain at 44 per cent —the second lowest among the ten provinces. I would also like to inform the Members that Ontario intends to seek amendments to its Tax Collection Agreement with the federal government amendments which will ensure direct provincial participation in the preparation of annual income tax estimates and payment flows, and guarantee our access to the necessary tax data.

Let me summarize the tax changes I have outlined. The tax in- creases I have proposed amount to $359 million in total, plus $70 million in cash flow from acceleration of corporation instalment payments. The tax cuts for mining, tourism, insurance and energy conservation amount to $55 million. Altogether, therefore, these tax actions will contribute $374 million towards Ontario's financial requirements for the 1978 fiscal year, and bring us back on course towards a balanced budget.

**Streamlining Government Operations**

This Government's success in trimming the public sector provides the opportunity to develop complementary borrowing and investment strategies. Accordingly, in this Budget, I am introducing a number of significant changes in the Province's long-run financial planning. These changes are explained in detail in Budget Paper C and in Budget Paper A. Consequently, I shall deal only with the main features in this Statement.

• The Province will reduce its borrowing from the Ontario Municipal Employees Retirement System (in the form of non-marketable debentures) to $100 million in 1978-79, and to zero in following years. That will leave OMERS free to invest its entire surplus in marketable securities in the private sector and in other market- able securities. I understand that OMERS will redeploy a substantial part of this additional capital into Ontario Hydro bonds.

• The direct lending activities of the Ontario Mortgage Corporation will be phased out as current commitments are completed. The Province will commence immediately to sell back to private sector institutions the large mortgage portfolio that OMC has acquired.

• Beginning in the 1978 fiscal year, the Province will switch its capital assistance to universities, school boards, hospitals and sewer and water projects from amortized loans to up-front grants.

• The Minister of Industry and Tourism will re-examine the role of the Ontario Development Corporations as direct lending agencies and explore with the private sector alternative financing mechanisms such as loan guarantees.

Mr. Speaker, these changes are of fundamental significance. In particular, the redeployment of internal pension funds into private sector investments is an important achievement. This is directly attributable to this Government's success in reducing both our spending and our reliance on deficit financing.

The financing of Canada's economic growth is itself a major challenge which we have to face. The trimming of government deficits is a necessary contribution to stable credit markets. In Ontario, we have not borrowed in the public market on our own account for the past two years. We are not just concerned about the impact of government borrowing and of regulatory policies but also about the overall flows of funds in the economy. Consequently, my Ministry will be expanding its analytical work in this area to provide fuller information to the Government on the availability and cost of credit.

**Conclusion**

The balanced package of tax proposals I have put before you, along with our restrained spending plan, will keep Ontario's finances in sound shape. The revenue shortfall we experienced in 1977-78 represents only a temporary setback to our goal of a balanced budget. For the 1978 fiscal year, I am estimating our overall cash requirements will decline to $1,055 million, which is within $200 million of the target set in last year's Budget.

This prudent fiscal plan means that, once again Mr. Speaker, Ontario will not need to borrow in the public capital markets. Our non-public sources of funds will be more than sufficient to finance our cash requirements.

Mr. Speaker, Ontario's economic outlook is encouraging. However, an early federal budget is important. I would expect that the federal Minister of Finance will introduce measures flowing directly from the First Ministers' communique. Ontario stands ready to respond to important federal initiatives.

Avant de terminer, je tiens à dire aux membres de cette Assemblée que le présent discours marque un moment important dans l'histoire de l’Ontario. Pour la première fois au cours des 111 années que compte maintenant la Confédération, le budget de l’Ontario est publié dans les deux langues officielles du Canada. Monsieur le Président, je suis fier de remettre des exemplaires du budget en langue française au Premier ministre Davis, aux chefs des partis d'opposition et à mon collègue, le député de Cochrane Nord.

In conclusion, this equitable and constructive Budget attests to the sound management and prudent financing policies of this Government. It reaffirms our commitment to balance the budget and to pro- mote a healthy economy.

• It builds upon our achievements at the First Ministers' Conference.

• It expands significantly Ontario's job programs for young people.

• It cuts taxes to help tourism and the hospitality industry.

• It introduces new long-term tax incentives for expansion of the mining industry.

• It restrains spending yet meets the social and public needs of our people.

• And it prepares for the challenges of the 1980s.

With our faith in private enterprise and our control of the public sector, I believe our citizens can be confident of the future.