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| Ontario | 31e | 3e | Discours sur le budget | 10 avril 1979 | Frank Miller | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker,

This evening I am pleased to present to you, and to the Members, my first Budget. It is an honour to serve as Treasurer of Ontario and, under the leadership of the Honourable William G. Davis, to share with my colleagues the opportunity to mould the future of this great province.

In carrying out the responsibilities of the Treasurer of Ontario, my goal is clear: to continue the outstanding achievements which have benefitted this province so greatly, in order to guarantee future employ- ment and prosperity and happiness for our citizens.

Without question, the most important problem facing Ontario today is the need to create more jobs. The employment creation record of the Province over the past few years has been outstanding. But because our labour force is growing so quickly— more than three times as quickly as Great Britain's or Germany's— we must further strengthen our efforts so that all new entrants to the labour force find employment.

In creating jobs we must not fan the flames of inflation. If we do so, we will do lasting damage to our economic prospects. While employment problems affect some of our people, inflation affects everyone. It is especially hard on the elderly and those on fixed incomes. When I sat down to prepare this Budget, the issues of unemployment and inflation were the first priorities I had to face. I realized that Ontario is subject to national and international forces that strongly influence our economy. No one government can single-handedly wipe out inflation and unemployment. Also, while much of the responsibility for tackling these problems lies with the federal government, Ontario can and must provide responsible leadership and policy initiatives that will help create jobs and reduce inflation. I believe that the proposals I will place before you tonight will do just that.

The path to greater economic prosperity in Ontario is clear. Only by stimulating the private sector can we create lasting jobs and growing incomes for our citizens, as well as the taxable resources so essential to providing the high standard of public services our citizens have come to expect. The efforts of this Government must be concentrated on making sure that we create the confidence and atmosphere needed for private sector investment in Ontario.

The private sector flourishes best with a minimum of government regulation. In fact, one of the main reasons prompting me to enter politics was my perception as a small businessman of the need to encourage government to lighten the burden of regulation and interference on the business community in Ontario. To be candid, I also believe that businesses should prosper without a lot of government financial concessions. But, Mr. Speaker, we do not set the international rules of the game. When other jurisdictions are aggressively competing for new investment, we cannot bury our heads in the sand and let job opportunities slip outside Canadian borders into other countries. We must take effective action to make sure that Ontario's economic future is secure.

In the weeks before preparing this Budget, I met with many individuals and groups— small businessmen, consumers, corporations, union representatives, bankers and farmers. These meetings were very useful and I learned a great deal about the individual problems of each group. I want to thank them for the time they took to give me the benefit of their thinking about our economy and our way of life. I can assure them all that I have listened to their recommendations very carefully and have weighed them while preparing this Budget.

One point came up repeatedly in these conversations. If government keeps its own house in order, maintains a positive climate for the development of the private sector and aims for reasonable cost and salary increases, the outlook for our continued prosperity is very bright. This Government wholeheartedly shares those opinions, Mr. Speaker. Accordingly, this Budget proposes:

• to maintain a high quality of public services in Ontario;

• to help create more jobs;

• to provide incentives for economic growth and small business development;

• to continue our sound management of Provincial spending, thereby helping to contain inflation; and,

• to reduce the deficit.

Before outlining specific measures to achieve these objectives, I would like to review briefly the economic outlook for the province.

**Ontario's Economic Prospects**

Ontario's economy continued to perform well in 1978. Growth was 3.6 per cent in real terms and a record 133,000 more people were employed in Ontario than the year before. All of these jobs were created in the private sector. This was an outstanding accomplishment by any standard. I was particularly encouraged by the fact that our manufacturing output growth accelerated by almost one full percentage point, to 4.8 per cent, and 36,000 new jobs were created in the manufacturing sector. In part, our economic performance was assisted by the lower value of the Canadian dollar, which improved our export competitiveness, as well as by the temporary reduction in retail sales tax.

There were disappointments in the year as well. Because of the rapid growth in the number of young people entering the labour force, an unacceptably high level of unemployment has persisted. While this surge will pass in two or three years, currently almost 75 per cent of the unemployed in Ontario are young people under twenty-five and adult women. Reducing the rate of unemployment is a major challenge for all governments. Comparatively speaking, however, the Ontario record of job creation has been outstanding.

Turning to the outlook, I have noted that many economists believe that the Canadian and Ontario economies will grow at a modestly slower rate this year. I have included a forecast for 1979 that reflects a consensus of economic forecasters both in and outside of government. It calls for a slight moderation in the rate of real growth in Ontario to 3.3 percent. This moderation in growth is predicated on the assumption that the United States economy will experience some slowing down during 1979. Nevertheless, we can look forward to seeing well over 100,000 new jobs created in Ontario this year. I would like to observe that this year Ontario's Gross Provincial Product will for the first time exceed $100 billion. This landmark takes on even more significance when one realizes that Ontario's economy has tripled in size since 1969. At this point I would draw the attention of the Members to Budget Paper A, which provides a thorough review of the performance of the Ontario economy throughout the 1970s and looks at our prospects for the next decade.

I noted with interest that the federal Minister of Finance, in his November budget, referred to a recent survey which showed that 300 large corporations in Canada are planning to increase their spending on plant and equipment this year by an average of 8 per cent in real terms. I have also had a survey conducted of some 100 corporations in Ontario, which indicates that Ontario business is moving ahead with expansion plans at a healthy pace.

I am confident that, as we continue to provide a sound climate for investment in Ontario, our citizens will reap the benefits of better jobs and higher incomes. In fact, I personally would not be surprised if the forecasters have underestimated growth in 1979. It may turn out to be a year of better economic performance than 1978. This growth- oriented Budget is designed to make this happen.

**Job Programs and Skill Training**

I have emphasized the need to improve the climate for employment growth and investment in Ontario. Mr. Speaker, we must continue to seek new ways to help our people, especially the young, to find lasting and rewarding employment. To do this the Government of Ontario has led the way with programs such as the Ontario Career Action Program and the Ontario Youth Employment Program. Last week, I announced the details of the OYEP program for 1979.

My Statement contains a table showing the funding and job creation levels of Ontario's programs for youth employment in 1979-80. In total we will be spending $79 million and creating directly some 70,000 jobs this year for young people in Ontario.

When we look at the problem of unemployment, we are confronted with the paradox that many job vacancies exist while a large number of people are seeking work. During my pre-budget consultations, both employers and union representatives told me of their concerns about the shortage of skilled workers.

In fact, in some parts of our province, machines are lying idle because there is no one to operate them. My colleagues, the Honourable Bette Stephenson, the Minister of Education, and the Honourable Robert Elgie, the Minister of Labour and Manpower, are developing long-term measures which will improve the situation through better training and closer coordination among unions, employers, job seekers and the educational system. We will support these efforts with a new program to assist employers directly to hire and train people in areas of critical skill shortages. This program will be financed through the Employment Development Fund which I will describe shortly. The details of this new thrust for skill training will be announced later in this Session. I am convinced that labour and industry leaders will cooperate with each other and with government to design and carry out practical skill training programs.

**Providing Incentives for Growth and Employment**

In preparing this Budget, I conducted a thorough review of our taxation system to see what changes might be made to stimulate business development and enhance confidence. In this regard I would direct the Members' attention to Budget Paper B, which discusses the appropriate fiscal policy for today's economy and looks at the changing role of fiscal policy over the past decade. At this stage I do not believe that any kind of across-the-board tax cut would be justified. But I do believe that some taxes bear particularly heavily on small business and generally hurt the climate of confidence in the province.

I would now like to outline additional incentives to create jobs and improve our economic performance.

Succession Duties

Mr. Speaker, in 1969 the Honourable Charles MacNaughton, then Treasurer, observed that the introduction of capital gains taxation would gradually eliminate the need for succession duties and gift taxes in Ontario. As revenues from capital gains increased, Ontario would be able to phase out succession duties and so avoid what many consider to be double taxation. At the time, the Province was prepared to vacate the succession duty field in return for a share of the federal estate tax. The federal government, however, unilaterally abandoned estate taxa- tion in 1971 when it introduced the capital gains tax. The Province, therefore, continued to levy succession duties and gift taxes, although its long-run objective was to get rid of these taxes. Over the past seven years we have progressively reduced the burden of succession duties. Meanwhile our sister provinces have vacated the field one by one, leaving only Ontario and Quebec.

I am convinced that the continuation of this tax is hurting our economic performance and costing us jobs. Business people making investment decisions, particularly as to location, are bound to take into consideration the tax position of their estates in Ontario. Succession duties and gift taxes have been a source of great concern to farmers and small business owners in Ontario. In spite of the fact that less than 3 per cent of estates in Ontario are subject to tax, there is widespread opinion that the successors of the average citizen will be subject to tax. For estates which are taxable, complex and costly legal procedures are involved to keep businesses within families. As well, individuals often experience great difficulty in disposing of assets so that they may pay the duties. I am satisfied that the present combination of other taxes provides government with an adequate return as wealth is accumulated.

Mr. Speaker, as of midnight tonight there will be no succession duty or gift taxation in Ontario. Later I will be introducing bills to repeal The Succession Duty Act and The Gift Tax Act effective with respect to deaths or gifts occurring after midnight April 10, 1979. I should point out that the legislation will continue to apply to deaths occurring and gifts made up to midnight this day.

1 estimate that the annual revenue loss from this change eventually will amount to some $50-$60 million a year. However, in this fiscal year, the revenue loss will be $28 million.

It is much more difficult to estimate the revenue gains and employment gains that will occur in Ontario due to the elimination of succession duties. However, I am satisfied that on balance Ontario will profit in many ways from this decision. Our citizens will have one less burden- some concern to deal with in planning their private lives. Provincial revenues are bound to increase as investors take advantage of this decision.

Mining Taxation

I would now like to turn to the mining industry. The importance of mining in Ontario is unquestioned. Almost 20 per cent of Ontario's dollar earnings from exports are from its mines. Many Northern Ontario communities depend entirely upon the mining industry for their employment. I am disturbed that this province has not seen a major new mine brought into operation for some years. Last year the federal government and the provinces reviewed the current situation in the mining industry. This review showed that high marginal tax rates were considered to be one of the most important problems facing the industry.

The Members will recall that several beneficial adjustments were made to the Ontario mining tax last year. Tonight I am proposing additional changes to further improve the investment climate for mining in Ontario. First, the top marginal mining tax rate will be reduced from 40 to 30 per cent; second, the basic exemption from mining tax will be increased from $100,000 to $250,000 of mining profits. This latter move will encourage the creation of more small mining companies and assist those already operating.

I am also proposing a modest reduction in the top processing allowance rates. This will bring them more closely into line with those offered in other provinces and will soften the impact of the rate reduc- tions on our revenues. These measures affecting the Ontario mining industry will apply with respect to fiscal years of companies ending after April 10, 1979. Enabling legislation will be introduced tonight by my colleague, the Honourable James Auld, Minister of Natural Resources.

The Hospitality Industry

I would now like to discuss the situation in the province's hospitality industry. This important industry provides employment for over 400,000 people, or about 10 per cent of Ontario's labour force. In 1978, tourist spending in the province exceeded $5 billion, including $1 billion of sales to non-residents.

In the last two years, the Government has undertaken to stimulate this industry through the temporary removal of the sales tax on transient accommodation, and other measures. This positive support has helped produce a momentum in the industry that must be sustained. Accordingly, I propose the following:

• First, the sales tax on kitchen machinery and equipment used in restaurants serving the public will be temporarily withdrawn as of midnight tonight. This will provide restaurants with the same kind of exemptions currently available to manufacturers.

• Second, purchases of furniture and furnishings for use in the hospitality industry will also be temporarily exempt from the retail sales tax.

These two exemptions will be available until March 31, 1981 and will provide the hospitality industry with an incentive to upgrade and expand its facilities.

• Third, the temporary sales tax exemption for transient accommodation that was originally scheduled to expire December 31, 1979 will be extended to March 31, 1981.

The combined additional cost of these measures to stimulate tourism will be $13 million in this fiscal year and $45 million on an annual basis.

Managing Expenditures

Mr. Speaker, one of the best incentives for economic development that any government can provide is to manage its spending and its affairs efficiently, and be seen to do so. This Province has led the way in Canada in containing public sector spending. A great deal of the credit for this must go to my predecessor, the Honourable Darcy McKeough. In the fiscal year just ended, we have held spending below the original Estimates for the third year in a row. This year, the Estimates provide for an increase in our ongoing expenditure base of only 6 per cent. When we add the Employment Development Fund Supplementary Estimates our total growth rate will be 7.4 per cent. This is still well below the projected growth rate of the economy.

I want to make it abundantly clear what our expenditure control policy is all about. We are not trimming the growth of Government spending because we cannot find the money to pay for high rates of growth. Ontario's credit is sound and its economy is strong. Rather we believe that the same high quality of our programs can be maintained without excessive cost escalation. We do this by demanding more efficiency. And we are getting it.

The Government will continue to allocate most of its resources to areas of high social priority, including health, education, and social service institutions. The existing high quality of Ontario's health services is being upgraded with the extension of the Home Care Program for the chronically ill to additional centres in the province. The budget of the Ministry of Community and Social Services has been increased by 6.9 per cent to provide greater emphasis on support services to the elderly and the handicapped. To enhance the participation of the physically handicapped in community activities, the five pilot projects providing special transit services will be made permanent. Additional funding has been made available to extend this program to other municipalities in Ontario.

**Employment Development Fund for Ontario**

Mr. Speaker, in addition to the measures I have just discussed, I would now like to outline details of another important new pro- gram to stimulate the development of our economy. This is the Employment Development Fund announced in the Speech from the Throne.

The Fund will be managed by a committee of Ministers called the Employment Development Board, which I shall chair. The Minister of Industry and Tourism will be the Vice-Chairman and his ministry will carry out the administrative functions of the Fund. The Provincial Secretary for Resources Development will also be on the Board. The major function of the Board will be to coordinate the Government's policies as they relate to providing direct economic development incentives to the private sector. The Board will also participate in the development of, and provide funding for, the new job training program to which I referred earlier.

The amount of the Fund has been set at $200 million for 1979-80. I would stress that the proceeds from the sales of our share of Syncrude and of Ontario Mortgage Corporation mortgages, as well as additional revenues the Province will raise from the corporate sector, are more than adequate to finance the Employment Development Fund this year. This means that ordinary taxpayers' dollars are not being diverted away from the normal programs of the Government.

To maximize the economic benefit to Ontario of the Employment Development Fund, the Board will encourage projects that:

• make a long-term contribution to employment;

• foster the development of needed job skills;

• have the potential for significant export development or import replacement;

• involve the development of new products and processes through Canadian-based innovation; and,

• stimulate key industries and regional development.

There are some people who have questioned why we should be giving such financial incentives to industry, particularly large and successful firms. Quite frankly, I was one of them. Nevertheless, I have concluded that we must follow this course of action. Many jurisdictions are aggressively competing for new investment. This is a challenge we cannot afford to ignore if we are determined that Ontario should get its fair share of new investment.

The financial incentives for the automotive and pulp and paper industries will be provided from this Fund. Further details on the operation of the Fund are provided in Appendix C to this Statement.

We must recognize that Ontario's pulp and paper industry is facing tough competition. At the same time, the industry is under pressure from this Government to clean up its pollution. The facts are simple. If we are going to impose high environmental standards, we must recognize the competitive and cyclical environment in which the industry operates. Therefore, it must receive special assistance. Mr. Speaker, who in this Assembly prefers the alternatives of continued damage to our environment or perhaps mill closures and whole towns out of work? Such alternatives simply are not acceptable to this Government.

**Encouraging Investment in Small Business**

I would now like to turn to the area of small business development. Let me state that I am a very strong supporter of two principles. First, I believe that the future success of our society is dependent upon the maintenance of a very strong commitment to free enterprise. Second, I believe that the bedrock strength of free enterprise lies in private equity investment. Individuals should be encouraged to take risks through the ownership of equity and hopefully most of them will turn a profit. I make no bones about this, Mr. Speaker, and I say woe betide those who think we can prosper in the future yet give up these principles.

Small Business Development Corporations

Members will recall that the Government introduced The Venture Investment Corporations Registration Act in 1977 to encourage corporations to increase the supply of venture capital and managerial advice to small business. To be candid, this program has not worked. There appear to be a number of reasons for this. First, the federal government chose not to support this initiative, thereby reducing the tax incentive for investors. Second, the incentive excluded individuals. Third, some of the provisions in the legislation may have been too restrictive.

I believe it is vitally important to make sure there is a stream of equity capital available to new enterprises. Ideally, the lure of profit in return for risk capital should be enough to attract investors. People today, however, receive such generous tax treatment under the personal income tax for much safer investments that they are reluctant to invest in new ventures. I believe we must do something about this.

Accordingly, I am proposing to introduce legislation this evening to encourage the development of new ventures in Ontario and to make it more attractive for more people to become directly involved in financing small business and building our economic future. Specifically, Mr. Speaker, I am advancing the following program:

• A Small Business Development Corporations Act will replace the existing venture investment corporations legislation.

• Individuals and corporations investing in Small Business Development Corporations (SBDCs) will receive a share credit from the Province equal to 30 per cent of their equity investment.

• The SBDCs will be empowered to invest in a broad range of new and expanding small business enterprises.

This means that if an individual purchased $1,000 worth of equity in an SBDC, the Province of Ontario would refund, directly, $300 to the private investor.

It is not possible to estimate with any precision the cost of this program. However, as the year progresses, I will set an upper limit to costs. Further details of the Small Business Development Corporations program are included in Appendix B to this Statement.

Capital Tax Reduction

Mr. Speaker, I would like to propose a further measure to assist small business. Perhaps the tax that creates the most problems for small businesses in Ontario is the capital tax. While rates are not high, this tax poses complex paperwork problems for many small firms.

In recognition of this problem and the nuisance of filling out a capital tax return, a reduced flat tax for small corporations was introduced in 1977. Tonight, I am proposing to extend this benefit. The flat tax for corporations with taxable capital in excess of $50,000 and up to $100,000 will be reduced from $100 to $50. For corporations with taxable capital in excess of $100,000 and up to $200,000, a flat tax of $100 will apply instead of the regular rate. Also, in order to smoothly phase small corporations into the regular rate, I will introduce a formula to apply to taxable capital in excess of $200,000 and up to $300,000.

I am proposing one additional measure to lighten the burden of this tax. Real hardship exists for some small businesses in a year in which they have lost money, yet still must pay full tax on their capital. In recognition of this, I am introducing, in lieu of the regular rate, a flat tax of $100, which will apply to corporations with taxable capital up to $1 million that have experienced a negative cash flow during the year.

I estimate that these capital tax changes will reduce revenues by $20 million in a full fiscal year but they will ease and simplify the capital tax for some 58,000 small businesses in Ontario. Large corporations will continue to pay tax at the regular rates.

**Provincial-Local Relations**

I would like to review briefly the area of provincial-local finance. Later this week, my colleague, the Honourable Tom Wells, Minister of Intergovernmental Affairs, will be tabling a document entitled Ontario Assistance to Local Governments. This publication provides an over- view of total transfers to the local sector and the details of the Province's unconditional grants in 1979.

There has been some criticism of the Government's announcement that total Provincial transfers to the local sector would be increased by 5 per cent in 1979-80. This increase was directly in line with the target growth rate the Government set for the total of its own regular ministry programs.

Mr. Speaker, politicians at every level of government worry about the amount of taxes that they must collect, and so they should. Predictably most politicians would rather see any level of government but their own raise taxes. Taxpayers, however, do not see it that way. They are concerned with the total amount of taxes they must pay. The obligation, therefore, rests with each level of government to contain the tax burden. We have to do this by controlling spending as much as possible. To the extent that tax increases are necessary, politicians at every level of government have to take the responsibility for raising them. We have not asked any more of local governments and their agencies than we have asked of our own ministries. If there is still a need to increase local revenues, then councils and school boards will have to accept that responsibility, just as I must do.

I am pleased to note that local governments have followed the Province's lead by achieving steadily decelerating growth rates in their spending. I estimate that total local spending in 1978 rose by only 8.2 per cent compared to a growth rate of 20 per cent in 1975. For 1979, it appears likely that the local sector will increase its spending by around 7 per cent. I find this progress in restraint at the local level most encouraging.

This restraint, combined with realistic increases in Provincial assistance, is reflected in local taxation developments. On average during 1978, residential property taxes per household rose only about 5 per cent and remained at about 2.6 per cent of average household income. In 1979, we expect increases in per household property taxes to average around 7 per cent. I would remind the Members that the Province's tax credits continue to modify considerably the impact of property taxes, particularly for low-income families and pensioners. This year some $375 million in property tax and rent relief will be provided through this program.

Financing of Health Care in Ontario

Mr. Speaker, the financing of health care in Ontario has been a contentious issue in this Assembly, and in this context I think it is useful to draw to your attention the magnitude of our existing health budget. This year the health budget will increase by $213 million to a total of $4.2 billion, or on average, $488 for every man, woman and child in Ontario.

Some of the Members participated in the review of health care financing conducted last year by the Select Committee on Health Care Costs and Financing. In spite of its best efforts, the Committee could not arrive at a consensus on the best way to pay for our health system.

The Government has considered the Committee's report and continues to study the issues. In so doing, we are aware of a number of important principles. We must continue to provide first rate health care on a universal basis as we are now doing; the health care system has to be adequately financed; and, we must continue to control costs, despite the public musings of the spendthrifts in Ottawa.

With these principles in mind, the Government continues to believe that OHIP premiums should be maintained. In my view, a visible financing link between individuals and their health care system is useful. In an area of government expenditure as massive as health care, it is important that people contribute some portion of costs through a public insurance system. Of equal importance, I do not believe that our economy should be subjected to the massive disturbance that would be caused by a shift away from health care premiums. I would remind the Members that about 70 per cent of health costs are financed out of general revenues. An analysis of the question of OHIP financing is included in Budget Paper D.

Mr. Speaker, we have made considerable progress in controlling the growth of health care spending. We have done so without reducing the quality of services provided. However, costs continue to escalate. Therefore, I propose to increase premiums by $1 per month for single people and $2 per month for families, effective for the benefit month of October. This modest increase of 5.3 per cent will be less than the growth in the cost of insured services which are projected to increase by 5.5 per cent. I need not remind the Members that elderly people in Ontario and those who receive social assistance do not pay premiums and will not be affected by this change. I estimate this measure will raise $40 million in this fiscal year.

Turning to the question of providing assistance to lower income people, we have studied the features of a possible new health tax credit for Ontario citizens. A credit might better ensure that all who are entitled to premium assistance actually get it. Budget Paper D lays out a possible design for a health tax credit. The Government will be interested in the views of the Members and of the public on the ideas outlined in this paper. In the meantime, lower income people remain eligible for assistance under the existing program operated by the Ministry of Health.

**Improving the Balance between Revenue and Spending**

Mr. Speaker, I now come to the most difficult part of the budget for any Treasurer, particularly a new one. I am going to talk about tax increases.

When I examined our tax structure, I was concerned not only with improving economic incentives but also with the overall level of revenue coming to the Province. For while we have pared down the growth of spending, our revenue growth rate also has been declining. Therefore, we still have a deficit level in Ontario which, in my view, should be reduced. For those interested, I would direct their attention to Budget Paper C which analyses Ontario's revenue and expenditure performance over the past several years.

Tax Actions

I will now propose a number of tax increases to restore a more appropriate balance between Provincial revenue and spending. I shall begin with the area of corporate taxation.

*Corporate Taxation*

I have outlined tax reductions for some businesses and given you the details of the new Employment Development Fund. While such actions unquestionably are needed, we must recognize that corporation profits, as a whole, have been growing at a healthy rate. It is only reasonable to expect the corporate sector to contribute a fair share of both the cost of incentive programs and the tax revenues required to improve the overall financial position of the Province.

At the same time, our industrial policy places a high priority on the need to upgrade manufacturing and to support small business. I propose, therefore, to maintain the low 10 per cent corporate income tax rate on small businesses and the 13 per cent rate on manufacturing and processing income, as well as on income from farming, fishing, mining and logging.

Effective midnight tonight, there will be a 14 per cent tax rate for all other corporation income. I anticipate additional revenues from this measure of some $36 million.

In addition, I propose to increase the capital tax rate on banks from | to f of one per cent, effective midnight this day. This measure will increase our revenues by some $5 million. The capital tax rate for loan and trust companies will remain unchanged.

*Retail Sales Tax*

Turning to the retail sales tax, I propose to expand the base of this tax by including all services relating to telecommunications. This will take effect midnight tonight. Currently only telephone and telegraph communications services are taxable. The major new area affected by this change will be telex and teletype communications. Cable television will be affected also. On average, cable T.V. subscribers will pay an additional 500 per month. This measure will augment Provincial revenues by $30 million this fiscal year.

*Fuel Taxes*

The gasoline tax and motor vehicle fuel tax rates have not been changed since 1972. Fuel taxes are not applied on an ad valorem basis and therefore revenues have grown slowly. In the meantime, the cost of building and maintaining our highways has continued to escalate Accordingly, I propose to raise the tax on both gasoline and diesel fuel by yq of 10 per litre to 4.60 and 5.90 per litre respectively. Mr. Speaker, contrary to what many people believe, revenues from road- users still fall below spending on highways, roads and related services.

I also propose to increase the tax rate on aviation fuel from .660 to 1.320 per litre. This tax has not been changed since 1968. Since that time, the Province has significantly increased its expenditures for building and upgrading airports, particularly in the North. With the $1 1 million the Government is planning to spend this year, the Province will have spent $27 million on airports since 1976.

Railway locomotives, unlike other commercial transportation vehicles, are at present exempt from the tax on diesel fuel. To improve equity among commercial carriers, I propose to impose a tax of 2.20 per litre on diesel fuel used in railway locomotives. I might mention that, until now, Newfoundland and Ontario were the only provinces which did not tax diesel fuel used in locomotives.

These gasoline and fuel tax changes will become effective midnight tonight and will add an additional $79 million to Provincial revenues in this fiscal year.

*Alcohol and Tobacco*

Mr. Speaker, I also propose to increase revenues from alcoholic beverages and tobacco.

With respect to alcoholic beverages I am making mark-up and licence fee changes effective April 30 to increase revenue by $22 million in 1979-80. The changes are as follows:

• Mark-ups on domestic spirits will be increased by the equivalent of 200 per 25 ounce bottle.

• Ontario table wine mark-ups will be increased by the equivalent of 200 per 26 ounce bottle.

• The licence fee on the production of beer for sale in Ontario will be increased by the equivalent of 100 per 24 bottle case.

• A licence fee on sales by Ontario wineries through their own stores will be reinstated at 10 per cent.

• The mark-up will be reduced on lower alcohol strength Ontario wine by the equivalent of 150 per bottle and the mark-up on Ontario brandy will be also reduced.

• Finally, there will be no mark-up increases for imported spirits and imported wine, or for other domestic wine.

Mr. Speaker, in spite of these changes Ontario continues to have the lowest beer prices in the Country, as well as the lowest prices for domestic spirits in any province with a sales tax. Ontario's prices are still the second lowest for imported scotch whiskey.

With respect to tobacco, the tax on a package of 20 cigarettes will be increased by 20 effective midnight this day. Also, the taxes on cut tobacco and cigars will be increased. Retailers will not be required to take inventory of existing tobacco stocks. This will lighten the load for retailers and allow cigarette products on hand to be sold at existing prices. These tobacco tax increases will yield some $22 million in additional revenues.

*Land Transfer Tax*

I propose to increase the basic rate of the land transfer tax to f of one per cent on the first $45,000 of the value of the transaction and to 2/5 of one per cent on the remainder. This change, which will take effect midnight tonight, is the first adjustment to the basic land transfer tax in seven years. I anticipate additional revenues of $20 million this fiscal year. As well, I am proposing to provide a tax-free rollover for transfers of land to family farm and small business corporations.

*Fees and Licences*

Many fees and licences are related to the costs of services and I believe that they should be reviewed regularly. This year, a number of fees and other charges will be increased. In total, I estimate that revenues will increase by some $15 million as a result of these changes. My colleagues, whose ministries are involved, will announce the details in due course.

Tax Reductions

Before concluding taxation matters, Mr. Speaker, I would like to propose a number of other changes— changes that reduce taxes.

First, I propose to raise the retail sales tax exemption for all candy, confection and soft drinks to 490, effective midnight this day. This measure will provide a tax saving to consumers of $16 million this fiscal year. The confectionery and soft drink industries employ over 12,000 people and play an important role in the Ontario economy. Recently, inflation has pushed the cost of many products over the 200 exemption level. This has created a number of problems for the industry and small retail vendors.

Second, I am proposing that with respect to admission fees, the ticket price exemption be increased from $3.00 to $3.50. The annual cost of this measure will be about $1 million. Exemption from the 10 per cent tax will be available to all entertainment provided by organizations qualifying as charitable, non-profit, or amateur athletic associations under the Income Tax Act (Canada).

Third, all purchases of aircraft and aircraft parts will be exempt from retail sales tax for all carriers licensed to provide commercial public transportation and cargo services. This action will eliminate an administrative discrepancy between inter- and intra-provincial carriers, and will assist Ontario airline operators. It will cost $4 million this fiscal year.

Fourth, to encourage energy conservation, promote safety and help homemakers cope with the cost of living, the following changes will be introduced. These measures will also be effective midnight today.

• The retail sales tax will be rebated on all materials purchased for incorporation into solar heating systems. The maximum rebate will be $700. This measure will ensure that people who build their own solar heating units receive the same tax benefit available to those who buy factory built models.

• Household smoke alarms will be exempt from sales tax.

• In response to requests from consumers, I propose to provide a full sales tax exemption for yard goods and clothing patterns purchased for household use.

The cost of these retail sales tax reductions will be $6 million.

In concluding my discussion of tax changes, let me inform the Members that my colleague, the Honourable Lome Maeck, Minister of Revenue, will be introducing a bill later tonight which will maintain Ontario's personal income tax rate at 44 per cent of basic federal income tax for 1979. This rate remains the second lowest in Canada.

The Minister of Revenue will also be introducing other legislation to implement tax changes announced tonight.

**1979 Fiscal Plan**

Mr. Speaker, I would now like to sum up our financial position.

Looking at the fiscal year just ended, interim figures show that our total spending was $14.5 billion, an increase of 6.9 per cent, which was under the original target. I would like to commend my colleague, the Honourable George McCague, Chairman of the Management Board, for the fine job he has done in managing our expenditures. As I said earlier, for the third year in a row, we have spent less than was originally budgeted. Now that, Mr. Speaker, is what good management is all about.

Our revenues in the 1978-79 fiscal year were under $13.2 billion, with the result that net cash requirements amounted to $1.3 billion. This represents a substantial reduction of $425 million from the previous year. Details of this improvement in our financial position have been documented in the quarterly *Ontario Finances*.

At the beginning of this Statement, I indicated that one of my objectives was to further reduce the Province's net cash requirements and establish a better balance between revenues and expenditures. The Government's expenditure plan, which the Members will be asked to approve, projects total spending— including the $200 million we have allocated to the Employment Development Fund — of $15.6 billion in 1979-80. The increase in ongoing spending, excluding the Fund, is only 6 per cent.

The tax changes I have proposed tonight will increase our revenues by $181 million, and all of these new revenues will be applied to reduce the deficit. The resulting net cash requirements of $1,153 million are well within the financing capacity provided by the Province's non- public borrowing sources. In fact, we will have additional financing flexibility this year of over $400 million. I plan to use part of this flexibility to reduce outstanding Treasury Bills by $195 million. This will help to alleviate upward pressure on interest rates and improve the availability of capital for the private sector.

As Members know, the bulk of our non-public borrowing comes from internal pension funds and the Canada Pension Plan. The entire pension system, both public and private, has been a matter of concern in recent years. In 1977 the Government established a Royal Commission on the Status of Pensions to examine the issues and make recommendations for improvement. Later this year the Government expects to receive the report of the very able Chairman of the Commission, Miss Donna Haley, Q.C.

**Conclusion**

And now, Mr. Speaker, may I just add this concluding word.

When I became Treasurer I wanted to set for myself a high standard. I could think of nothing better than to follow the creed of one of the finest Treasurers this province has ever known, the Honourable Leslie Miscampbell Frost. A new portrait of Mr. Frost hangs in the lobby of the building which also bears his name and beside it is a plaque quoting from his first Budget speech. He said:

For the fine old Province of Ontario there will be a great future. We are building not only for these times; we are planning for a greater population; for industrial expansion; for prosperous farms and for happy, healthy people. We are laying the sure foundations for a greater and stronger Ontario.

Mr. Speaker, I am confident that the proposals which I have put before you will meet the needs of our people and help to build for the future. This Budget will —

• create more jobs for Ontario's young people.

• It will restrain inflation by keeping the cost of government in check.

• It will reduce the deficit.

• It will provide new incentives for job-creating investments.

• It will help our farms, small businesses and manufacturing industries to grow and prosper.

• It will eliminate the costs, delays and fears of inheritance taxes.

• It will improve the investment climate in Ontario.

• It will promote economic development and employment in the North. And,

• it will ensure a dynamic and prosperous future for all of the people in Ontario.