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| Ontario | 31e | 4e | Discours sur le budget | 22 avril 1980 | Frank Miller | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker:

It is my pleasure tonight to present the 1980 Budget for the Province of Ontario. The policies this Budget contains will help to ensure enhanced economic prosperity and stability for the citizens of Ontario. They are the policies of a progressive, dynamic and sensitive Government under the leadership of the Honourable William G. Davis.

When I rose in this Chamber one year ago to present the 1979 Budget, I said that the most important challenge facing the province was the need to create more jobs. Our job creation record throughout the 1970s had been outstanding, but I felt then that we should do better in order to meet the needs of our growing labour force. I am pleased to report that our economy performed even better than most people thought it could. In 1979, 161,000 new jobs were created in this province. That was a remarkable accomplishment. Moreover, every one of these jobs was created in the private sector.

Last year I also stressed the need for government to ensure that it does not add to inflationary pressures. Programs to improve public services and to stimulate the economy must be undertaken within a framework of responsible fiscal management so that government limits its claim on the resources of the economy. It is with some pride as Treasurer that I can inform the Members of our achievement of a reduction in the deficit of $494 million below the original target for the fiscal year just ended.

Ontario's job creation and fiscal management accomplishments are important measures of the success of this Government in dealing with the problems of our economy. However, there is no room for complacency. I do not for a minute underestimate the economic challenges which lie before us in Ontario and Canada. We must continue to develop and implement comprehensive policies to ensure that Ontario's economic performance improves steadily throughout the 1980s. Our programs must be designed for the needs of tomorrow as well as today. At the same time, we must continue to deal effectively with the immediate issues of employment growth and inflation. I believe that I have developed a Budget plan consistent with these challenges.

It is designed to achieve three objectives:

• first, to maintain a favourable climate for job growth and economic expansion in Ontario;

• second, to ensure a high standard of social services for the people of Ontario and in particular to help our elderly citizens cope with inflation; and,

• third, to combat inflation by controlling government spending and minimizing deficit levels.

Mr. Speaker, before proceeding with my remarks I would like to thank all of the groups I consulted with before preparing this Budget. I met with organizations representing all walks of life including small businessmen, consumers, corporations, unions, farmers, teachers and bankers. All of our discussions were constructive and I benefitted from the advice I received. In my opinion, such open dialogue is essential to the formulation of sound policies.

I would like to deal first with the record of Ontario's economic performance in the past decade and our policies for economic development in the 1980s. Some would have us believe, Mr. Speaker, that Ontario has become a second rate province in terms of its economic well being. That simply is not so. The record shows that we in Ontario have done significantly better than most other industrial economies. Moreover, we have developed new economic policies to make sure that the people of this great province will continue to prosper throughout the 1980s.

As the Members will recall, during the mid 1970s the inter- national price of oil began to escalate quickly, setting off strong recessionary and inflationary pressures. Ontario, as well as every other industrial economy in the western world that was a net oil importer, faced fundamental problems of adjustment. Nevertheless, in terms of real output growth, Ontario outperformed West Germany, the United States and, in fact, the combined OECD countries. In the 1970s, our economy grew by 3.7 per cent per annum compared with an average of 3.5 per cent in the OECD countries. And in employment terms, in human terms, where it really counts, Ontario's performance in job growth ran well ahead of that in Germany, the United Kingdom or the United States. Since 1969, we have increased our employment by an average of 3.0 per cent each year, compared with 2.2 per cent in the United States and much lower levels in other OECD countries.

In Canada, the rate of inflation has recently been below that experienced in the United States, partly as a result of a determined effort to restrain expenditure and employment growth in the provincial public sector. In addition, the Ontario Government has put in place incentive programs to increase investment, job skills and productivity. Our cost performance has been much improved relative to the United States and we are more competitive in foreign markets.

Mr. Speaker, we are sometimes told that dire consequences flow from the fact that Ontario did not perform quite as well as some of the resource rich Western provinces. We are regaled with fables of poor comparative performance. But is it realistic or meaningful to compare Ontario with Alberta and draw conclusions about economic management? I think not. Consider, for example, comparing Japan, the most successful of the industrialized economies over the 1970s, to say Kuwait or Saudi Arabia. The OPEC nations on any income growth or per capita income comparisons would win hands down. But does it say anything about economic management in Japan or, for that matter, Saudi Arabia? No. If you are lucky enough to have oil in the ground, you can be made to appear a genius of economic management by these standards. But it is the management and development of total resources — human, natural and industrial — that really has meaning for the people. When you measure Ontario by that standard, we compare very well indeed.

This Government is committed to ensuring .continued strong economic growth in Ontario by building on the solid foundation that we have created. I would like to elaborate on some of the measures we are pursuing to ensure that the 1980s will be a decade of growth and prosperity for Ontario.

We are committed to pursuing initiatives in energy that lie within our own jurisdiction. We also will continue to press the federal government, the producing provinces, and other consuming provinces for oil pricing policies that are aimed at achieving Canadian self- sufficiency without exacting unnecessarily high social and economic costs. We will continue, as well, to support the polar gas study project. Ontario's participation in the consortium now exceeds $17 million. This investment is showing increasing promise of providing our economy with a major new source of natural gas, not to mention the many job opportunities that will be created during the pipeline construction phase. Later in this Statement I will outline some additional taxation and financial incentives to augment energy conservation and supply.

Turning to the area of manpower, I have already mentioned the exceptional job creation record we have set in Ontario in recent years. However, we recognize that skill training is an area to which more attention and resources must be devoted if our young people are to get better and more rewarding jobs, and our businesses are to become more productive. Last year, we acted to improve the operation and coordination of our manpower programs by creating the Ontario Manpower Commission. The Commission has undertaken an intensive evaluation of existing manpower programs and has moved to ensure greater community participation in manpower training activities. This year, we will be providing a significant increase in Provincial funding for the Employer Sponsored Training Program. We anticipate that an additional 5,000 employees will receive training as a result of this Program in 1980-81.

In my last Budget, I announced the establishment of the Employment Development Fund (EDF) to stimulate job creation and business investment in Ontario. Financial assistance was made available on a selective basis to the private sector to improve the province's competitive position and to enhance long term economic development.

In its first year, the EDF has been an effective catalyst in attracting significant investment capital to the province during a period of escalating interest rates and uncertainties in the North American economy. To date, the Employment Development Board has approved assistance which will secure total private sector investments of over $2 billion. The Province has obtained strong commitments for Canadian sourcing and job training in these new investment projects.

Negotiations with the general manufacturing and tourism sectors will result in capital expansions of about $900 million. This will assist in the creation of more than 10,000 jobs in Ontario over the next five years. The Province has also obtained commitments from the pulp and paper industry for capital investments for productivity improvement and pollution control, totalling $1.2 billion. This will dramatically improve the competitive position of this vital industrial sector and increase the long term job security of more than 20,000 mill workers and loggers located primarily in the smaller communities of Northern Ontario.

In light of the success of the EDF in its first year of operation. I intend to continue this program in the coming year. The Fund will have a budget of $125 million to complete the programs started last year and to finance new initiatives such as the recently announced textile productivity program. In addition, we have made provision for new initiatives to finance urban transportation development and the enriched manpower training to which I have already referred.

I would note as well, Mr. Speaker, that the improved programs of Ontario's Development Corporations and the investments triggered by our small business development corporation legislation are ensuring that small business also receives assistance in pursuing its investment plans. Encouraging Canadian ownership of business remains an objective of the Government. In continuing the EDF this year, we will again place priority on the encouragement of Canadian ownership and Canadian sourcing of materials as stated in the Ontario Budget of 1979.

The SBDC legislation, which 1 will ask this House to improve, will continue to have Canadian control as one of the criteria for an eligible small business. In addition, a new provision that I will describe shortly, will provide further investment incentives for small Canadian con- trolled private corporations so that we may strengthen and encourage Canadian ownership.

In our approach to economic development we are taking special initiatives to assist Northern and Eastern Ontario. As well as giving priority to EDF expenditures in these areas, we have taken additional steps. For example, in December, I signed a $50 million five-year agreement with DREE which will help finance further development of the resource base of Eastern Ontario and support related small business development. Already over $8.5 million has been committed under this agreement for agricultural and forestry projects. I am optimistic that we can conclude a similar agreement with the federal government for Northern Ontario.

The Government is also initiating new programs to stimulate the development of rural Ontario. Forestry expenditures on Crown lands in Southern Ontario will be increased by 30 per cent in 1980-81. The Ministry of Natural Resources will be accelerating its programs to improve forest management on private lands and will be undertaking demonstration projects to test new forestry techniques in Southern Ontario. These measures will help offset deficiencies in local wood supplies, thus ensuring a stable future for existing sawmills and other forest related industries. The Tourism Redevelopment Incentive Pro- gram, which I announced last year, is providing needed assistance to small tourist operations so important to rural employment. We are also taking another valuable step to assist the rural economy. As the Members will recall, Premier Davis has announced that in the Fall, the Government will consider recommendations from Hydro to reduce the differential between the retail rate for electricity paid by rural and urban residents.

In concluding my remarks on our longer term economic development policies, Mr. Speaker, I would like to say that I am deeply concerned about the present state of the auto industry in Ontario. In 1979, the Canadian deficit on automobile trade with the United States was over $3 billion. This reflected a staggering $4 billion deficit in auto parts trade. The elimination of this deficit would create up to 25,000 new jobs in the Canadian auto parts industry. Part of the auto trade deficit results from the current weakness of sales in the United States and the orientation of Canadian production to that market. Nonetheless, part of it is clearly a chronic deficit, reflecting the fact that Canada does not have a fair share of international auto parts production and research and development activities.

This Government has repeatedly called for the redress of these imbalances. Once again, I have written to the federal government urging them to adopt the following principles in their negotiations with the auto companies and the United States federal government:

• First, particular emphasis must be placed in the near term on a dramatic reduction of the overall trade deficit in auto parts production.

• Second, over the longer haul, a balance on all automotive trade, including auto parts, must be the prime objective of federal policy.

• Third, a "fair share" approach must be taken to the allocation of investment and research spending in North America.

Ottawa will have our full cooperation in pursuing these objectives.

I would like now to discuss Ontario's economic prospects for the coming year. Our outlook will continue to be significantly influenced by international events and by federal policies on oil pricing, on reinvestment of petroleum revenues and on interest rates.

In 1979 we witnessed further dramatic increases in international oil prices. Governments around the world are struggling, as they did in 1974, to minimize the inevitable social and economic disruption arising from these inflationary price hikes. In the United States, the increases in international oil prices, coupled with decontrol of domestic oil prices, have caused widespread inflation and soaring interest rates.

These developments continue to have a profound impact on Canada and Ontario. As I have noted, higher energy prices and gasoline shortages in the United States have severely reduced Ontario's exports of automobiles and parts as Americans move to cars smaller than those made in Ontario. Moreover, the most recent moves to tighten credit and restrain inflation in that country could, in 1980, produce the long expected U.S. recession. Personally, I am hopeful that such a recession would not prove to be as severe as many predict. Nonetheless, we must all be concerned about the trend of economic events to the south.

I have already taken a significant step to help a major sector of our economy this year. As the Members know, the retail sales tax on new 1979 cars and light trucks was eliminated for the month of February. This positive action provided a major boost to Ontario automobile sales when it was needed. I have included an appendix to this Statement which describes the impact of this program. It shows that, during the program, Ontario motor vehicle sales growth far exceeded sales performance in other Canadian provinces and the U.S., yet the cost to the Province was lower than estimated.

Turning back to the economic outlook, the U.S. inflation rate, currently in excess of 16 per cent, has led to higher interest rates and tighter monetary conditions in that country. The Bank of Canada has felt compelled to follow these higher U.S. interest rates in an attempt to protect the value of the Canadian dollar and restrain imported inflation. The result, in my view, has been a steady undermining of the growth potential of many key sectors of the Canadian economy. While the export sector in Canada performed strongly in 1979 and was, in many cases, operating at close to capacity, Canadian demand for domestically produced goods and services was eroded by high interest rates.

Mr. Speaker, I am concerned that the federal government may have allowed itself to be manoeuvred into a position where it has lost its ability to stabilize the Canadian economy. If the United States does move into recession, and our export sales fall off, the dollar may drop in any case. Our export industries would no longer operate close to capacity. Meanwhile, a high interest rate policy to sustain the dollar is lessening growth and employment potential in our own markets in 1980.

The federal concern with the value of the Canadian dollar is undoubtedly legitimate. But the debate on monetary policy in Canada would be improperly focused if the only consideration was whether or not lower interest rates would force down the value of the Canadian dollar and lead to more imported inflation. Monetary policy is a crude instrument for controlling the economy. It has profoundly different sectoral impacts. We all understand, for example, that homeowners, small businesspersons and farmers are severely affected by high interest rates. However, there is no current evidence of excessive inflation being generated by these sectors. On the contrary, the Bank of Canada cites the need to maintain sufficient capital inflows, and the lack of unused capacity in the export sector as the reasons for high interest rates. Why then should homeowners, farmers, and small businesses bear the burden of fighting inflation? I think the federal government must reconsider its anti-inflation policies.

Mr. Speaker, although 1980 may well turn out to be a more difficult year for the Ontario economy than last year, we still expect a year of real economic growth. Job creation will be slower but still healthy when one considers the remarkable pace of job creation last year. I am particularly gratified by a projected strong investment performance in manufacturing. Investment plans for manufacturing firms are up almost 40 per cent in Ontario. That compares to about 10 per cent for the rest of Canada. The confidence in Ontario as an investment location shown by business augurs well for our future economic well being.

Inflation, unfortunately, may well worsen. While it is a national problem, it is a matter of great concern to this Government. Nonetheless, 1 am confident that we can continue to make gains in our comparative cost performance with the United States, which is so essential to our attractiveness as an investment location. A viable national anti-inflation policy is a cornerstone of any national development strategy for the 1980s. To this end, Premier Davis has called upon the new federal government to give a high priority to such a policy. A national anti-inflation policy would complement Ontario's own initiatives in setting the framework for a decade of development in the 1980s.

Before concluding my remarks on the state of our economy in 1980, I would like to note that this Government continues to be concerned about the level of employment for our young people. This year we have increased funding for the Ontario Youth Employment Program to provide for an additional 10,000 summer jobs. In total, our youth employment programs will be providing over 75,000 jobs for Ontario's young people in 1980-81.

Mr. Speaker, I would like to turn back briefly to the subject of interest rates.

We are all aware of the suffering higher interest rates are inflicting on some people in Ontario, particularly those homeowners who must renew their mortgages at the present time. When this serious situation first became apparent, this Government made two things immediately clear. First, the number one priority for public assistance lies in the federal AHOP program where homeowners would experience crippling increases in their monthly payments if no further assistance were offered. Second, any effective action to alleviate the general impact of interest rates must be undertaken primarily as a national initiative. Some weeks ago the Minister of Housing, the Honourable Claude Bennett, and I made these concerns known to the Minister of Finance and the federal Minister responsible for CMHC. I am encouraged to note that shortly after our meeting, the federal government announced that steps would be taken to assist those in the AHOP program. We are continuing to pursue further possibilities with the federal government. I am hopeful that, by the time the federal budget is ready, Ottawa will have developed an effective program to deal with this national problem.

I would also like to inform the Members that this Government will be tabling a discussion paper in May which will outline alternatives available to deal with this pressing situation. With the cooperation of all Members, and the federal government, I am confident that we can effectively come to grips with this issue. This discussion paper will review interest rate trends and developments and their impact on the economy. Particular attention will be given to analyzing policy alter- natives available at the national level for restoring economic stability. As well, the question of providing short term assistance to homeowners, small businesses and farmers will be explored, and mechanisms for providing relief will be described. The paper will also review the roles of borrowers, lenders and government in the process of coping with higher interest rates over the short term.

The federal government has announced in the Speech from the Throne an increase in subsidized lending to small businesses and farmers. The ceilings on certain loans will be raised to $100,000. As well, other measures of assistance are promised. These moves are encouraging, and we are ready to assist the federal government in designing effective programs of interest rate relief. In preparing its discussion paper on interest rates, the Province will review its own programs for farm support. We are prepared, if necessary, to take independent actions to assist the farming community in Ontario.

I would now like to propose a number of measures which I believe will further assist job creation and economic growth in Ontario. In particular, I will deal with one of the most important areas of our economy, the small business sector. Small businesses provide 50 per cent of all private sector jobs in Ontario and 60 per cent of all the new jobs. They are the lifeblood of our communities. A major objective of this Government is to ensure that small business continues to play a strong and creative role in Ontario's future growth and prosperity.

Last year, I introduced innovative legislation with The Small Business Development Corporations Act designed to encourage investment in Canadian small business. This program has been a remarkable success. The term "SBDC" is fast becoming a byword for investment in progressive small business. Almost 50 SBDCs have been registered, with investments of $8 million already made and another $12 million planned. Last year, I indicated I would be willing to consider changes as we gained experience with this program. I have received many constructive suggestions and have decided to propose the following changes in the legislation which I will introduce tonight:

• First, to encourage community participation in local small business ventures, the minimum capital requirement for an SBDC will be reduced from $250,000 to $100,000. I have adopted this proposal in response to a number of submissions, particularly on behalf of small businesses in Northern Ontario.

• Second, while I intend to continue with the 100 employee test for an eligible small business, I propose that if the number of employees grows to exceed 100 but is not more than 200, the small business will continue to qualify as an SBDC investment. When the number of employees grows to more than 200, the investment will remain eligible for up to five years.

• Third, pension funds and credit unions will be eligible to receive grants when they invest in SBDCs. This will further expand the supply of funds for equity investment in small business.

• Fourth, the definition of an eligible small business will be expanded to include book publishing and research and development activities.

I will also be proposing a number of other technical amendments which are outlined in Appendix B to this Statement. As Members will recall, last year I indicated that as this program progressed, I would set an upper limit on the grants to be paid in any one year. In 1979-80, the cost of SBDC incentives was about $4 million. Now that individuals and businesses are actively investing in SBDCs, it is necessary for me to establish a limit which, in 1980-81, will be $10 million.

I would now like to propose an important measure to ease the tax burden on small business. Last year the Legislature approved a number of measures to reduce the capital tax. This year I would like to take a further major step. I propose to extend the $100 flat tax to corporations with taxable capital up to $1 million. Corporations with taxable capital of up to $100,000 will continue to pay $50.

I am recommending one other change in the capital tax. Currently, family farms pay a flat tax of $50 whatever the size of their capital. I propose to extend this provision to family fishing corporations as well.

These capital tax changes will take effect at midnight this day. I estimate the revenue loss to be $20 million this year. Mr. Speaker, as a result of this important measure to reduce and simplify this particular tax, some 150,000 small Ontario corporations will pay $100 or less. Only about 8,000 large corporations in Ontario will pay the full amount of capital tax.

I would now like to propose a new corporate income tax incentive for small businesses. It is important to the success of every small businessperson to be able to plough back as much capital as possible into the business. Yet the high cost of borrowing discourages this, as does the need to use scarce working capital to pay taxes. I believe it is possible to implement an effective tax incentive to encourage reinvestment by small businesses.

Accordingly, I am proposing a new investment tax credit which will apply to Canadian controlled private corporations which qualify for the federal small business deduction. The credit will be equal to 20 per cent of the purchase cost of depreciable assets for use in Ontario. The maximum credit in any one year for any individual small business will be $3,000. Full details of this incentive are outlined in Appendix A to this Statement. I estimate the cost of this measure to be $30 million in this fiscal year. For many entrepreneurs this will make a real difference in their ability to build up their businesses and further strengthen investment in Canadian business.

This new tax incentive, together with the capital tax reduction, will put $50 million back into the hands of small businesses. It will pay long term dividends to our economy in terms of job creation and growth. The program will be continued for two years until April 22, 1982. Before that time, its effectiveness will be reviewed.

As a further action to help small businesses, I propose to improve the compensation to retail sales tax collectors. First, the maximum annual compensation will be increased from $700 to $1,000. Second, compensation paid to those remitting only small amounts of tax will be increased. These two measures will provide additional compensation to thousands of Ontario small businesses at an estimated cost of $8 million in this fiscal year.

The encouragement of mining exploration is a high priority for this Government. Mining is one of the major sources of employment in Northern Ontario. It provides valuable export income to the national economy. While producing mining companies can take advantage of important tax incentives, individuals or non-mining companies who wish to invest in a mining exploration venture are unable to fully benefit from equivalent incentives. This was one of the reasons why I included mining activities as an eligible investment under the SBDC program. However, experience over the past year indicates that a separate incentive program would be more suitable for this particular industry. Accordingly, tonight 1 will introduce a Bill to establish the Ontario Mineral Exploration Program. This legislation will allow Provincial assistance of 25 per cent of approved mining exploration expenses incurred in Ontario.

• Individual prospectors and corporations involved solely in the field of mining exploration, and not an associate of any person actively engaged in mineral production, will qualify for Provincial assistance.

• Corporations whose principal business is not related to mining will qualify for non-refundable tax credits.

• To encourage wider participation by individual investors in Ontario exploration, individuals who invest in a joint venture involved in mining exploration in Ontario will be eligible for a grant equal to 25 per cent of their investment. This grant will be in addition to existing personal income tax incentives.

This new mining exploration program will be administered by the Ministry of Natural Resources under the direction of my colleague, the Honourable James Auld. It will improve and expand upon the existing Mineral Exploration Assistance Program which it will gradually replace by the end of this fiscal year. Since mineral exploration ventures will now be eligible for this expanded program, they will not have to be eligible investments for SBDCs. I have set a ceiling of $4 million for assistance under this new program in 1980-81. Details of this program are contained in Appendix C.

Mr. Speaker, I would like to outline a number of additional tax incentives to help our economy.

Currently, Ontario provides a retail sales tax exemption for machinery and equipment purchased by a manufacturer or producer for his own use in the development of products or of production processes. I propose to expand this incentive by exempting machinery and equipment used by manufacturers in research activities. The new exemption will also include R&D activities performed by one firm under contract to another. I estimate the cost of this incentive to be $3 million in this fiscal year.

This measure will reinforce the Province's commitment to expand the amount of research and development undertaken in Ontario. There are, of course, other tax actions that might be considered but these can be implemented effectively only by the federal government. I intend to urge the Minister of Finance to expand the range of incentives offered through the federal tax structure so that Canadian research and development can be further encouraged.

Let me now turn to discuss energy conservation. A central thrust of Ontario's energy policy is to reduce the consumption of fossil fuels by developing new conservation measures. I would point out to the Members the numerous retail sales tax incentives which the Ontario Government already provides to promote conservation. In total, these measures will cost the Province some $25 million in 1980-81.

Tonight I propose a number of new tax incentives to promote energy conservation. First, certain additional equipment and materials used in buildings to improve heating efficiency, including "chillers," weather stripping and caulking materials, will be exempt from sales tax. Second, as an incentive for the development of new automobile technology, I propose the elimination of the sales tax on licensed vehicles using non-petroleum based fuels. Third, to encourage further development of alternative fuels for automobiles, I am withdrawing completely the fuel tax on all natural and manufactured gases, including propane, and on alcohol when used as a fuel. I estimate that these initiatives will reduce revenues by some $14 million in 1980-81.

Mr. Speaker, the economic health of Ontario's farms is always a matter of high priority for this Government. I am proposing to rebate to farmers the full retail sales tax paid on materials incorporated into grain storage bins and structures used to dry grain. This will provide $1.5 million in benefits to farmers in 1980-81.

I also propose a measure to help tourism and the hospitality industry in our province. Currently, liquor licenses, such as restaurants, purchase most alcoholic beverages at the same prices as retail customers. On the other hand, licensees may purchase domestic beer at a discount of about five per cent. In most other jurisdictions, many of which are competing with Ontario for the tourist dollar, discounts on bulk purchases by commercial establishments are the rule rather than the exception. I therefore propose to authorize the LCBO to provide a discount of five per cent of the retail price of spirits, wines and imported beer purchased by licensed establishments. This measure will reduce costs to licensees by about $7 million in 1980-81, a saving which I anticipate will be fully passed on to customers.

Let me now turn to the taxation of corporations. In 1978, the Province introduced a "carrying on business" test to facilitate the taxation of non-resident corporations carrying on business in Ontario without a permanent establishment. The federal government has expressed the concern that such a provision creates difficulties under international tax treaties. While Ontario is within its constitutional rights to impose such a tax, I believe that it is in the national interest to withdraw this measure. I, therefore, propose that The Corporations Tax Act be amended to remove the "carrying on business" test for non-resident corporations having no permanent establishment in Ontario.

Last year, the federal government increased the net income tax rate on professional and personal service corporations from 15 to 237.1 per cent. I would like to announce that, for Ontario tax pur- poses, these corporations will continue to be taxed at the 10 per cent rate applicable to small business.

Legislation to enact this and other tax measures to which I have referred will be introduced later tonight by my colleague, the Honourable Lome Maeck, Minister of Revenue.

At the beginning of this Statement, Mr. Speaker, I indicated that one of the major objectives of my Budget was to help our senior citizens cope with inflation. I would now like to outline several new initiatives which will provide substantial increases in Provincial assistance for pensioners in Ontario.

As the Members are aware, this Province pioneered the concept of tax credits to help offset the burden of property and sales taxes. Our program has provided significant benefits to pensioners. For example, 46 per cent of property taxes paid by senior citizens in 1979 will be offset by tax credits.

While these benefits are substantial, property taxes continue to weigh heavily on many senior citizens. Recognizing this, Premier Davis made a commitment to, and I quote, "reducing the municipal tax burden on senior citizens, and to work towards the ultimate elimination of this particular tax for the majority of Ontario's senior citizens."

I would like now to outline a new program which is a major step towards fulfilling this promise.

Beginning this year, the Ontario Government will provide direct grants of up to $500 to offset property taxes of pensioners who own or rent their homes. This means that the first $500 of a pensioner's annual property taxes will be refunded dollar for dollar by Provincial grants. With this new program, Mr. Speaker, 63 per cent of property taxes paid by pensioners will be offset by the Province. Moreover, about one-half of our senior citizen homeowners and renters will have all of their property taxes refunded by the Province.

Pensioners will receive their grants in respect of 1980 taxes in the Fall of this year. Next year we plan to send two payments which will correspond with the interim and final local tax bills. I will be introducing legislation tonight to implement this program. Full details are contained in Budget Paper B.

Before deciding on this measure, 1 considered the option of simply enriching existing tax credits for pensioners. However, I chose the grant alternative for two important reasons. First, the tax credit system involves a considerable lag in benefits and saddles many pensioners with the inconvenience and worry of filling out a complex tax return which they would not otherwise have to complete. Second, we wished to build an element of universality into this program in order to recognize the lifelong contribution made by all pensioners to our communities.

The Government will also be replacing the sales tax credit for elderly people with a direct annual grant of $50 beginning this year. This grant will be paid to all Ontario pensioners who receive the Old Age Security pension. This new benefit will be paid in late Autumn. Details of the sales tax grant are contained in Budget Paper B.

Ontario's tax credit program will continue in its present form for people who are under 65. However, next year pensioners will not have to claim for tax credit benefits. Of course, they are eligible for 1979 benefits for which they have recently claimed and which many will have already received. In conjunction with this increased relief, The Municipal and School Tax Credit Assistance Act will be repealed at the end of this year. However, The Municipal Elderly Residents Assistance Act will be continued, allowing municipalities to provide relief to pensioners as well.

The cost of the new property tax grants will be $214 million in 1980-81. This represents $39 million in additional assistance. The sales tax grant will provide $41 million in relief for elderly people, an increase of $9 million.

In addition to our new grant programs, I am enriching GAINS payments to provide additional income assistance to low income pensioners. Starting in May, 1980, the maximum payments will be increased by $10 per month. This will provide an additional $120 per year to a single GAINS recipient and $240 more per year to pensioner couples who receive GAINS.

Mr. Speaker, 260,000 Ontario pensioners will benefit directly from this increase. The additional cost of this measure will be $27 million. This means the total additional cost of the GAINS increase and new property and sales tax grants will be $75 million in 1980-81. We are able to afford this because of our effective management of Provincial spending. Our restraint program has paid dividends, Mr. Speaker, and we are redirecting them to our elderly citizens.

I would now like to discuss provincial-local finance. Last year I announced a modest 5.4 per cent increase in transfers to local governments. On that occasion, I referred to the obligation we all have as governments to contain the tax burden, to streamline and restrain our spending, and to accept full responsibility for any tax increases we consider necessary. I am gratified, therefore, to advise the Members this evening that the local sector has kept its 1979 spending growth to about 7.3 per cent, even less than in 1978, in spite of higher inflation. As a result, local tax rates rose on average by only 6.4 per cent, well below the rate of inflation and the increase in average household income.

While spending restraint at the local level will remain an important objective, the Province recognizes that current inflationary forces are likely to cause local spending in 1980 to grow more rapidly than in 1979. In order to minimize pressures on local mill rates, the Government has decided in favour of a generous increase in its overall support of the local sector. Provincial transfers in 1980 will increase by 12.4 per cent over last year. Also, part of this enriched package was transferred in advance of the normal schedule, as part of the Province's 1979-80 spending, to reduce, if not eliminate, the need for local governments to engage in short term financing at unusually high interest rates. With the large increase in transfers, I expect that local mill rates in 1980 will increase at even less than the modest rate in 1979. On this basis, I estimate that property taxes on average will decline this year from 2.6 per cent to 2.4 per cent of household income.

I urge the local sector to continue to exercise the discipline dis- played in recent years by keeping spending growth as low as possible. In this way, the benefits of our combined efforts will be passed on to the taxpayers.

As the Members are aware, in 1979 the assessment equalization factors were unfrozen for the first time in a decade. As a result, a very large number of municipalities were at risk of financial setbacks. The Government decided therefore to develop an interim policy for 1980 under which the beneficial result of these factors was modified for some municipalities and potential losses were effectively cushioned for all others.

Under the new regime of annually updated equalization factors, a new set of factors will be developed by mid 1980 for 1981. I have already set in motion the necessary research in order to assess the need for further refinements or changes in the 1980 policy for implementation in 1981. It is expected that appropriate announcements of any such changes will be made upon publication of the new factors. If at all feasible, these policy announcements will also contain greater certainty as to the Government's direction for subsequent years.

Turning briefly to the area of federal-provincial finance, I am pleased to see a growing recognition by most other governments in Canada of the need to stabilize public sector growth. This is vital to the health of the nation. Looking ahead, developments in energy pricing could greatly disrupt the economic and fiscal balance among the regions of Canada. Budget Paper A demonstrates that growing fiscal disparities will occur between the oil and gas producing provinces and the other provinces unless current revenue sharing arrangements are thoroughly revised\* In particular, the federal- provincial revenue equalization program needs immediate review. All provinces in Canada, with the exception of British Columbia, Alberta and Ontario, rely on a redistribution of wealth from other regions. Ontario taxpayers contribute substantially to this essential fiscal re- distribution. None of the recipient provinces could opt out of this federal system without incurring grave immediate financial losses. It is Ontario's opinion that, if this basic feature of revenue sharing among the regions of Canada is to be preserved, a major item on the agenda of our Confederation in the 1980s must be the renegotiation of the equalization program.

Mr. Speaker, before summarizing my fiscal plan for 1980, 1 would like to review briefly the 1979 fiscal year. While we permitted spending increases of $267 million on regular ministry programs, this was more than offset by our careful management of expenditures which yielded savings of $293 million. For this, the credit goes to my colleague, the Honourable George McCague, Chairman of the Management Board of Cabinet. There were a number of unusual and non-recurring expenditure items which resulted in expenditures exceeding the original budget target. We accelerated certain payments, totalling $217 million, to school boards and municipalities in order to minimize their interim financing needs and thus reduce their interest costs. Expenditures were also increased last year to allow for special payments to Ontario Hydro for Parkway Belt West lands; to provide assistance to farmers who suffered tobacco crop losses; and, to assist communities that were affected by the Woodstock tornado and spring flooding. In sum, 1979-80 expenditures were increased by $297 million.

Our revenue performance in 1979-80 was outstanding. Total revenues were $791 million above the amount originally estimated. The bulk of this, about $500 million, resulted from adjustments to certain payments from the federal government and higher than anticipated corporation tax revenues. In all, even though we allowed expenditures to increase, the Provincial deficit dropped to $659 million, a reduction of $494 million. The full details concerning expenditures and revenues in 1979-80, as well as the new fiscal year, are contained in Budget Paper C.

Turning to the 1980 fiscal year, I would like to deal with expenditures. For the past five years, the Ontario Government has led the way in Canada in improving efficiency in the delivery of public services. In 1975-76, Provincial spending accounted for 17.2 per cent of the Gross Provincial Product in Ontario. This year I estimate that this figure will be 15.5 per cent. That 1.7 percentage point reduction translates into $1.9 billion in the hands of the private sector. These are resources which might otherwise have been in the grip of government had we not had the gumption to implement the restraint program and stick with it.

Despite the success of our efforts, one thing which this Government cannot control is the dogged persistence of external inflationary pressures which continue to have a capricious effect on our economy. It has become apparent that, while we have made great strides in improving the efficiency of program delivery, some Provincial programs must receive additional funds if they are to cope with inflation. While we remain unshaken in our determination to strive for even more efficiency in government, we recognize the need to accommodate these inflationary pressures by easing funding levels somewhat. There is no way that we will allow the high quality of public services in Ontario to deteriorate.

Last year it became evident that health services were beginning to experience strong cost pressures that could not all be accommodated by further efficiency measures. In 1979-80, the budget of the Ministry of Health was increased during the year by $71 million of which $60 million was earmarked for hospitals. In the new fiscal year, the Ministry of Health budget will be increased by 1 1.4 per cent, an increase of $487 million. This will include provision for 600 additional nursing home beds, a generous increase in compensation for family doctors, an additional $34 million for the construction and renovation of hospitals and a 40 per cent increase in expenditures on home care services.

I would like to highlight briefly some additional features of our 1980-81 expenditures. Transfer payments for developmental programs to help the mentally retarded will be increased by 27 per cent. School boards will receive a 20 per cent increase in funds for special education. Also, the budget for the daycare program will be increased by 14 per cent in order to help working mothers.

Turning now to the overall fiscal strategy, this year I am projecting total revenues of $16,172 million, an increase of $976 million over 1979. This includes provision for negotiations with Ontario Hydro to settle the Pickering Nuclear Agreement and an additional $10 million from Provincial fees and licences to recognize higher costs. I am projecting expenditures of $17,121 million, an increase of $1,266 million, or 8 per cent. The resulting net cash requirements will be $949 million. This is somewhat more than last year's deficit. However, in a year of economic uncertainty I believe it is appropriate to allow this pause in our deficit reduction strategy.

I would like to call the attention of the Members to our management of non-public borrowing. This year available funds will exceed Provincial net cash requirements, a situation that is likely to continue for at least the next few years. There is always a temptation to permit ongoing programs to gobble up these funds. In my view, however, pension funds should be invested in a way that will ensure long term benefits for our economy. Accordingly, this year the Province will make available about $500 million from the Canada Pension Plan to Ontario Hydro. This will provide Hydro with long term financing at competitive rates of interest and will reduce its need to secure capital in the Canadian and foreign bond markets. I have also indicated in Budget Paper C that we intend to initiate discussions with all interested parties concerning the development of a more independent investment policy for the Teachers' Superannuation Fund.

Mr. Speaker, the citizens of Ontario are hard working people. The support they give every day to developing the economy of their province is reflected in both our quality of life and our sound financial position. With controlled and modest growth in spending on the development of essential services, this Government will ensure that maximum resources are left in the economy and that we do not contribute to inflation. Stability in our major tax rates is an essential part of the Government's fiscal strategy. The dividend flowing from the sound fiscal management of the Government of William G. Davis is that I can announce that there will be no tax increases in 1980-81.

Mr. Speaker, the Budget which I place before you and the Members this evening will help us to meet the economic and social needs of this province for today and will provide a firm foundation for economic prosperity and social progress throughout the new decade of the 1980s.

• It creates more job opportunities for young people.

• It provides for a needed expansion of our health care system.

• It provides new incentives for job creating investment and improved skill training.

• It provides new incentives for energy conservation.

• It opens up a new source of capital for Ontario Hydro which will help to achieve our long term energy goals.

• It combats inflation by holding down the Provincial deficit.

• It provides new incentives for small business.

• It provides a major increase in assistance to pensioners.

And, Mr. Speaker, there will be no tax increases in Ontario this year.