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| Ontario | 32e | 1re | Discours sur le budget | 19 mai 1981 | Frank Miller | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker:

It is a privilege to present tonight my third Budget, the 1981 Budget of the Government of Ontario — a Government which recently received a ringing endorsement by the people. Under the leadership of Premier William G. Davis, I am honoured once again to have the opportunity to contribute to the shaping of Ontario's future.

During the thirty-eight years of Progressive Conservative government in Ontario, this province has experienced great economic prosperity and social progress. The Province of Ontario is an en- viable place to live, to work and to play. In no small measure, this healthy state of affairs reflects the moral fibre and sense of community responsibility of all the people of Ontario, and strong and sensitive Government.

This Government is committed to ensuring continued economic growth and development for Ontario and to providing quality public services for our citizens.

My Budget plan for this fiscal year clearly recognizes these fundamental priorities, while taking into account the need for an appropriate level of revenues. If the Province is to continue to provide the high level of services the people of Ontario have come to expect, if we are to have the flexibility to take appropriate actions to promote economic development and job creation, and if we must do so in an environment of considerable inflationary pressure, then it is vital that we have a more appropriate balance between revenue and expenditure.

This Budget sets out a realistic fiscal framework that will:

• encourage the private sector to grow and compete in the international market place;

•maintain the high level of services provided by the Province and allow for growth in priority areas; and,

• ensure a financial balance consistent with long-term growth and employment generation.

**Strategy for Growth, Jobs and Price Stability**

The Members will be aware that persistent high inflation and lower real economic growth are circumstances not unique to Ontario. They are circumstances characteristic of most major energy-consuming industrial economies which rely heavily on export markets for their prosperity. In my view, Ontario has weathered these difficult economic times well. The resources freed up by our policy of holding the growth in Provincial spending below the rate of expansion in the economy have been put to work by the private sector. In 1980, business investment in Ontario increased by 18.8 per cent; investment in the manufacturing sector alone increased by 34.5 per cent. For 1981, intentions call for a further increase in business investment of 17.1 per cent. As well, over the four-year period to 1981, the provincial economy will have created over 450,000 new jobs. The Government's economic programs have increased investment and created jobs.

We are thus well positioned to take advantage of the economic opportunities of the 1980s. We are pursuing new directions in investment and entrepreneurship so that the economy remains healthy and continues to provide the stability and prosperity characteristic of Ontario. It is with concern, however, that I view the levels of inflation and interest rates we are currently facing. This Government is resolved to meet its responsibilities to limit the debilitating effects of high rates of inflation.

We have set an example with our own long-run strategy to reduce inflation.

• By encouraging investment, we are expanding capacity and rationalizing industry to make it more competitive in today's world trading environment.

• By encouraging the use of indigenous energy sources, we are rising to the challenge of inordinate increases in the world prices of energy.

• By facilitating labour mobility and training, we are adding to the supply of the skills our industries now need.

• By controlling the size of government, we are reducing the burden of the public sector, thus freeing up resources for private and personal use.

Unfortunately, our national government appears less committed to this objective. In my 1980 Budget and in subsequent statements, I emphasized the need for federal action. I continued voicing these concerns at meetings with my federal counterpart. Let me assure the Members that I will continue to urge the federal government to take its responsibilities for economic policy more seriously. Most importantly, the Premier has called upon the Prime Minister to convene a national conference of First Ministers on the issue of inflation and the economy. This will be a most critical forum in which to consider the national options in light of the causes and risks of inflation in Canada.

We need national policies to foster productivity improvements, to promote exports, to replace imports, to encourage energy substitution. We need a federal government with a controlled spending plan and a reasonable financial balance. We need to ensure that the uneven growth trends across Canada are not reinforced at the expense of the relatively slower growing provinces. And, perhaps above all, we need to ensure that as individuals, each and every one of us does not allow inflation to become a way of life. The fight against inflation, Mr. Speaker, is a fight that we can win. I am convinced that with effective, focused federal-provincial policies in this area, we can achieve substantial improvements.

I would now like to discuss the important components of the Government's economic and fiscal strategy.

**Mini-Budget Actions Stimulate the Economy**

The Members will recall that on November 13, 1980, 1 introduced a $260 million package of supplementary actions to stimulate the Ontario economy.

Foremost in the program were temporary retail sales tax cuts designed to impact selectively in specific sectors where economic performance was weak. The exemptions on purchases of major house- hold appliances, new residential furniture and selected building materials, and a rebate of sales tax on purchases of new light trucks and vans, were all designed to boost sales and production in these important areas of our economy.

While it is too early to present a detailed analysis of the economic impact of these measures, I have already received encouraging signals of their beneficial effect. According to preliminary information.

Ontario's share of total Canadian sales of the exempted products has increased. This strong sales performance has important implications for both production and employment in Ontario. It is my view that this performance reflects the timely and appropriate actions taken by this Government.

In addition, I am receiving positive comments from business that new jobs have been created and others retained in manufacturing, distribution and retailing. Retail inventories and operating costs are being reduced, thus improving liquidity. We can anticipate that the coming weeks will see further substantial gains as consumers take advantage of the measures before the expiry date of June 30, 1981.

There are significant delays between the placing of orders and the actual production and delivery of new furniture. Buyers of residential furniture will appreciate, Mr. Speaker, that I am granting a three-month extension of the delivery date to September 30, 1981, on purchases of residential furniture contracted for by the end of June. This extension will ensure that the intended benefit is provided to purchasers of residential furniture who are unable to take delivery within the prescribed time. The cost of this extension is $10 million.

**The Board of Industrial Leadership and Development**

Mr. Speaker, I would now like to discuss the Board of Industrial Leadership and Development established by the Premier last November to coordinate and implement Ontario's economic development strategy. This Committee of Cabinet now consists of nine Ministers working together to fulfill that task. The BILD development plan released in January detailed a wide range of potential development projects. Thirty-two projects were sufficiently developed that the details of their implementation could be announced during February and March. Others have been introduced in recent weeks. Within the current fiscal year, this Government expects to have a total of 50 BILD projects fully operational.

The response to the BILD development strategy has been tremendous. Individuals, companies, industrial associations and municipalities have come forward with ideas and money to invest. Ontario's initiatives have touched responsive chords in agriculture, mining, manufacturing, recreation — in fact, in all sectors. I am encouraged by this widespread interest and support.

We seek a cooperative partnership with Ottawa on development initiatives. The Premier presented a number of specific proposals to the Prime Minister. I have met with some of my federal counterparts, as have other BILD Ministers. We are not satisfied that Ottawa is moving quickly enough on the economic problems ahead of us. Their action is needed urgently.

As Chairman of the Board of Industrial Leadership and Development, I am pleased to report significant progress in the implementation of BILD projects in each of the six priority areas outlined in January. I would like to take this opportunity to highlight some of the BILD initiatives which are already well under way:

• Electricity: As announced in the BILD development plan, Hydro has confirmed that the completion timetable for the Darlington nuclear generation station has been accelerated to the maximum extent feasible. The new schedule will save Hydro an estimated $60 million in coal costs and will help to curb emissions that cause acid rain. A wide-ranging residential electrical services program to encourage Ontario homeowners to make their houses more energy efficient and switch in whole or part to electrical heat is being designed. During this fiscal year, legislation will be introduced to empower Ontario Hydro and the municipal electric utilities to permit homeowners to take full advantage of the electricity option, particularly heat pumps. As well, construction of the first stage of a steam supply system at the Bruce nuclear power development will commence this year to service the Bruce Energy Park. This project capitalizes on our past investment in nuclear power to move us into a new era of energy parks.

• Transportation: Construction and design work worth $25 million will take place this fiscal year on a long-term schedule of radial road improvements to accommodate increasingly heavy traffic in the Toronto-Niagara corridor. As announced in the BILD document, additional investments of $30 million have already been made in Ontario's Urban Transportation Development Corporation to create production facilities in Ontario for UTDC's high technology transit systems. The three main Ontario shipyards on the Great Lakes have responded very positively to the BILD initiative to improve drydock facilities. Their financial participation, plus Ontario's investment commitment, establishes the partnership for negotiating a firm deal with the Government of Canada.

• Resources: A full-scale fruit and vegetable storage program will commence this year to upgrade and expand the present storage, grading and packing capacity of Ontario's food growers. The tremendous early response to this initiative suggests that we shall see a large number of specific projects begun this year. BILD forestry initiatives, which will be brought to advanced stages of implementation, include the construction of forest seedling cultivation centres in Northern Ontario and the Ontario Institute for Biomass Research facility at Maple. A $10 million program of construction of custom gold sampling and milling facilities will commence this year in the gold mining areas of Ontario. A five-year program to establish drill core facilities across the province will also be initiated.

• Technology: Legislation has been introduced for the centrepiece of the Government's research and development initiatives— the IDEA Corporation. Its function will be to bridge the gap between public and private sector research activity, and to stimulate research and development in areas of critical importance to the Ontario economy, including auto parts technology, microelectronics, computer-aided design and manufacturing, and robotics. I am pleased to report that 25 companies have already signed up to participate in BILD's international intern program, which assists in the development of Ontario's international marketing skills. Major strides can be anticipated in strengthening research and development through Ontario's Buy Canadian policy and Office of Procurement Policy.

• People: Funds have been allocated to enable a significant expansion in the Government's Training in Business and Industry program and to provide a major increase in financial resources for the Colleges of Applied Arts and Technology in support of the purchase of new equipment. The commencement of another BILD initiative — Youth Employment Counselling Centres— has recently been announced.

• Community: As part of the Province's commitment to assist rural communities in securing industrial and commercial opportunities, the Government has already dedicated funds to the areas of Collingwood, Huntsville and Edwardsburgh for sewerage and water works. Draw down of BILD funds will also commence this year in support of the construction of new convention centres in Ottawa and Toronto. Finally, to foster local self-help initiatives, the Government is entertaining proposals from groups in small communities to aid in the establishment of community development corporations.

On the basis of the projects already considered, I estimate that the BILD initiatives committed for commencement this year will constitute more than $250 million in economic development investments. Of this amount, the BILD central pool of funds will provide $150 million. The remainder will come from redirection of internal funds of Ministries and from participation by the private sector and other levels of government. Mr. Speaker, my BILD colleagues and I are convinced this partnership approach to underwriting the BILD program will assure its ultimate success.

**Encouraging Small Business**

BILD is setting major new directions for the provincial economy. The creation and expansion of Ontario small businesses will be vitally important to sustaining this momentum. People who take an idea and build it into a successful business are the backbone of the economy. Much of the new job creation in this province occurs in the small business sector. Risks, however, are high.

Ontario has undertaken several tax actions in recent years to en- courage the formation and expansion of small businesses. Taxes on income and capital have been lowered and investment tax credits provided to increase internally generated funds. Access to outside risk capital and managerial expertise has also been improved by the creation of Small Business Development Corporations.

SBDCs are a growing success. In the space of only two years, over 140 SBDCs have been registered in the province. Already, they have invested $40 million in small businesses. This substantial new capital has been used by small businesses to start up production, to increase working capital and to reduce the burden of interest costs. In turn, this activity has increased employment and encouraged others to increase their financial interest in small businesses. Funds have been invested all over Ontario in enterprises engaged in a wide range of manufacturing, processing and tourist activities.

I now propose certain improvements to the SBDC program.

First, to encourage more individuals to become involved in the program and to stimulate the development of widely-held SBDCs, the maximum equity capital will be raised to $10 million from $5 million for public SBDCs. However, an SBDC will not be able to invest more than $5 million of its equity capital in any eligible small business. Second, the definition of eligible tourist activities will be expanded to include recreational facilities and certain other attractions. In addition, I am proposing certain other amendments which are outlined in Appendix C to this Statement.

The SBDC program, and the Ontario Mineral Exploration Program introduced last year, have helped to provide exploration funds for potential mineral producers and expansion funds for small businesses. However, I am still concerned that the need for development funds is not being met in the public market. I am hopeful that with the cooperation of the Toronto Stock Exchange and the Ontario Securities Commission a system for a new Venture Capital Listing on the TSE will be developed. I was encouraged by recent proposals made by the TSE in this regard, and I would support initiatives to assist corporations in the early stages of development to gain greater access to funds from the public market.

Finally, Mr. Speaker, to further assist Ontario's small businesses, I would like to announce that we will parallel the federal government's tax treatment of Small Business Development Bonds. I believe this is a useful way in which to help small business cope with today's high interest rates.

**Maintaining an Attractive Investment Climate**

It is vitally important to the success of our economic development initiatives that Ontario maintain an attractive investment climate.

I am not making an earth-shaking revelation when I say that Ontario must compete for industry if our resources are to be effectively utilized, and that we need to attract foreign capital to ensure our investment requirements are fully met. There can be no doubt that our infra- structure and services easily pass the test of world standards. But it is just as important to maintain competitive cost and taxation structures.

Tax competition appears to be increasing, particularly vis-a-vis the United States and some of our sister provinces. Canada's corporate taxation provisions and the indexing of the personal income tax compare favourably with measures proposed for the United States. I am confident that Ontario will remain competitive on the tax front, but I will continue to carefully follow tax developments in competing jurisdictions.

In the Canadian context, however, I am concerned about the potentially destructive implications of excessive tax competition among the provinces. This is a serious matter to which federal and provincial Finance Ministers must devote their early attention. A certain measure of harmony in provincial tax structures is important. Ontario's concerns in this regard are outlined in Budget Paper B to which I refer the Members.

**Quality Services for People**

Let me turn from economic growth to the Government's other major priority — that of providing quality and accessible services for the people. Economic growth and social progress go hand in hand. Ontario has well-developed transportation systems, modern services such as sewerage and water facilities, good housing, one of the best health care systems in the world, and excellent educational facilities and programs. As well, the elderly receive substantial recognition for their service to society.

For this fiscal year, the Government has set spending at $19.4 billion. This represents an increase of 12.2 per cent over the previous fiscal year. Although somewhat greater than increases in recent years, it is a realistic allocation in light of the sensitivity of government spending to inflation. It continues to reflect the Government's commitment to providing a high level of services without disturbing the balance between private and public sector growth.

Within this allocation, health care remains a priority. Over the past six years, health spending has increased from 27.2 per cent of our total budget to 28.7 per cent. For 1981-82, the Province has provided a sizeable increase in the funding for basic services. Provision has been made for a further expansion of chronic home care and for new extended care beds. As well, a telemedicine service will be introduced and a start made on the Northern air ambulance service.. Also, the provision for computerized axial tomography scanners will be expanded, and perinatal service improved. Continued expansion of hospital chronic care facilities will also take place.

The Province's commitment to disabled persons will be further reinforced in this the International Year of Disabled Persons. Funding of major programs for the disabled will rise from S499 million in 1980-81 to $593 million this year. This represents an increase of $94 million, or 18.8 per cent, including $28 million for the developmentally handicapped and an equivalent amount for special education.

We are continuing our focus on creating youth employment and providing for training opportunities. In 1981-82, expenditures on job development will continue to be a priority. This area will be allocated approximately $185 million.

Other initiatives contained in the 1981 expenditure plan are:

• provision for new subsidized day care nurseries;

• a renovation and expansion program for homes for the aged, which is expected to cost $40 million over five years on a shared-cost basis with municipalities;

• provision of $3.3 million for bullet-proof vests for the Ontario Provincial Police and municipal police forces;

• assistance towards construction of 15,000 new rental units under the Ontario Rental Construction Loan Program. The interest- free second mortgage loans to developers of up to $4,200 per unit will require an estimated outlay of $63 million over five years;

• subsidizing maintenance of municipal drains associated with agricultural drainage, at a cost of $2 million; and,

• the opening of a new agricultural college for Franco-Ontarian farmers in 1981-82 to provide agricultural instruction in the French language.

Mr. Speaker, I am confident the 1981-82 expenditure plan, developed in cooperation with the Chairman of Management Board and my other Cabinet colleagues, is both appropriate and realistic. Important new initiatives have been taken on a number of fronts. The planned expenditure growth rate recognizes the implications of inflation on costs, but ensures that Provincial spending does not fuel inflation. And allocations among programs reflect the shifting priorities and meet the needs of our society.

**Provincial-Local Finance**

The Members will be aware of the considerable support we provide to local governments. For example, last year the Government provided a generous increase of almost 12 per cent in assistance to the local sector with the result that mill rates increased by only 7 per cent on average. As a result, property tax increases were held considerably below the rate of inflation.

Earlier this year, the Government announced details of 1981 local government transfers. Support for 1981 will be in excess of $4.7 billion, an increase of 10.6 per cent over last year. I fully realize that inflationary forces have made it difficult for local governments to contain expenditure growth. Nevertheless, I am confident they will have reviewed their expenditure plans judiciously and ensured that increases in local tax rates will remain below the rate of inflation and growth in household income. In other words, the average real burden of property taxes should not rise, and in fact will remain well below the burden in the early seventies.

I would like to remind the Members that the Government's gradual approach to the reform of the local taxation system is working well and is producing meaningful progress without unacceptable tax shifts. Two hundred and forty-six municipalities and communities have already been reassessed at their own request under Section Kb of the Assessment Act, and a further 39 have been reassessed at full market value.

I am proposing tonight a further step in the Government's overall reform of property taxation.

This reform relates to farms and managed forests. In my opinion, farm residences should be treated the same way as other residences and appropriate recognition should be given to the contribution made to our economy by farm land and buildings on the one hand and by managed forests on the other. Accordingly, I propose the following approach.

• Full exemption would be provided from property taxation for defined farm land and buildings and for managed forests.

• Farm and managed forest tax rebate programs would be eliminated. I might add that the federal government will begin to tax these rebates this year.

• Farm residences would be treated the same way as other single residences for property tax purposes.

• Municipalities and school boards would be compensated for taxes foregone through exemptions.

There are a number of significant issues which will have to be resolved before this approach can be implemented. I intend in the very near future to discuss the proposal in detail with interested parties, including the farming community and its representatives, foresters and local governments. Provided any concerns brought forward in the discussions can be effectively met, I anticipate that the new property tax system for farms and managed forests can be in place by as early as the 1982 taxation year.

The Government's approach to determining an appropriate property tax burden is an important consideration for farmers. Let there be no doubt that this Government fully recognizes the importance of the farm sector to the Ontario economy and the substantial contribution of the farming community. In this context, I and my colleague, the Minister of Agriculture and Food, are examining the structural problems of the agricultural industry with its high capital requirements and cyclical incomes, and we will take what steps are necessary to ensure our farm sector remains prosperous.

**Federal-Provincial Matters**

I would now like to discuss federal-provincial financial matters and pension reform.

**Federal Transfers**

As the Members will recall, the federal Minister of Finance has given notice of his intention to seek significant savings from the renegotiation of major federal-provincial fiscal arrangements. This approach is part of a broad strategy to reduce the chronic federal deficit.

Mr. Speaker, in six short years, the federal government has more than doubled its budgetary deficit to some $14 billion, seriously damaging economic confidence in the process. I obviously support Ottawa's belated efforts to bring its budget under control. However, I hasten to add that for a number of valid reasons we believe large-scale retrenchment in fiscal transfers to the provinces is both unjustified and unwise.

In the first place, federal transfers to the provinces are not the root cause of Ottawa's fiscal difficulties. The federal government with- drew the very large Revenue Guarantee payments to the provinces in 1977, scaled down other transfers in the 1978 restraint program, and in 1980 terminated the $250 million Community Services Contribution Program. Second, through its energy policy, Ottawa has already much enhanced its current revenue position and prospects, while taking the fiscal sting out of its Oil Import Compensation Program. Third, significant reductions in the major federal-provincial transfers would further heighten the already serious and rapidly growing fiscal disparities among the provinces.

It is apparent the federal government is giving serious consideration to fundamental alterations in Established Programs Financing, under which provinces receive assistance towards the costs of health pro- grams and post-secondary education. This fiscal agreement took many years of negotiation and became a milestone hailed by both orders of government. Experience to date underscores that EPF has operated much as expected and is fundamentally sound. It was put in place as a long-term arrangement and should be viewed as such.

In my 1980 Budget Statement, I drew the attention of the Members to the fact that one of the cornerstones of our federation, the federal revenue equalization program, is in need of major reform. This important program's reputation suffered considerably when its formula produced large entitlements to Ontario. Only through special legislation could Ottawa avoid paying over $1.3 billion to this Province.

Ontario is greatly concerned about the future of the equalization program. This Government cannot accept the continuation of the program in its current form, nor can we accept Ontario's exclusion from entitlements without a fundamental solution to the problem of regional fiscal disparities. These disparities are so large that normally healthy interprovincial competition could deteriorate and lead to destructive protectionism and loss of national economic strength.

I am tabling today Budget Paper B on the renegotiation of the federal-provincial fiscal arrangements. This paper, together with last year's Budget Paper on equalization and fiscal disparities, presents a comprehensive Ontario perspective on this important subject.

Since 1975 this Province has urged public sector restraint in Canada. We have acted accordingly in our own fiscal planning over this period and substantially trimmed down spending growth rates and the size of our bureaucracy. I would therefore like to emphasize that federal transfer cuts would in all probability necessitate increased Provincial taxes to maintain service levels.

**Pension Reform**

Mr. Speaker, another federal-provincial -matter of considerable significance to Ontario is pension reform.

In April, the federal government convened a National Pensions Conference to explore ways of reforming the pension system. The Members will be aware that, although this conference was called by Ottawa, the jurisdiction over pensions is primarily provincial. The Canada Pension Plan, which is enacted and administered by the federal government, recognizes this important fact. No change to the terms of the Canada Pension Plan can be made without the consent of two-thirds of the provinces representing two-thirds of the population of Canada.

Several observations emerge from the National Pensions Conference. First, it is clear that the federal government regards pension reform as a high priority. Second, unless effective improvements can be made to private sector arrangements there will be strong pressure to expand the Canada Pension Plan. Third, it is imperative there be a coordinated effort by the provinces to develop a uniform approach to pension reform.

Ontario has been a leader in the pension field. This Province was the first to enact pension legislation when it introduced the Pension Benefits Act in 1965. In 1977, the Government established the Royal Commission on the Status of Pensions in Ontario whose ten-volume report I released in February. The report provides an exhaustive analysis of the problems currently existing in the pension system and sets out possible responses in its 163 recommendations.

Although it will be neither possible nor desirable to implement all of the recommendations, the findings of the Royal Commission will form the foundation for pension reform in Ontario. There is a fundamental premise in the report which is heartily endorsed by this Government, and I quote:

"There is general agreement that retirement is an individual matter and that ultimately the individual is responsible for his or her own retirement. . . Individual needs and desires require flexibility which cannot be given by group programs or universal social programs."

In dealing with the reform questions, there are six guiding principles which will govern the direction of our reforms.

First, the principal vehicle for reform should be the private sector. Only the flexibility of the private sector can meet individual needs and desires.

Second, reform must recognize the special needs of the existing lower income elderly. I do not believe the private sector will be able to solve this particular problem. Therefore, governments, both federal and provincial, must be prepared to take the initiative in this area.

Third, reforms in the private sector should reflect the perspective of the majority of Canadians that pensions are deferred wages. This means we will have to improve vesting, have a fairer allocation of employer contributions and a system to provide for portability.

Fourth, reform can be effective only if there is coordination of pension legislation across Canada. We will be encouraging the provinces to work together in developing pension reform plans to ensure the necessary measure of uniformity.

Fifth, we must take into account the special needs of women. For example, many women are excluded from participation in pension plans because they are employed on a part-time basis.

Finally — and this point is of great importance — the costs of reform must be within the ability of government, the taxpayer and the private sector to carry.

Our actions with respect to pension reform must recognize that the most important foundation for a secure pension system is a healthy economy. A Select Committee of the Legislature will be appointed to assist the Government in its deliberations on pension reform.

**Fiscal Plan**

Mr. Speaker, this leads me to the fiscal plan for 1981-82. As I have already indicated, expenditures will grow by 12.2 per cent. This rate of increase is below the forecast expansion of the economy of 13.6 per cent. Consequently, Provincial spending will decline relative to GPP for the sixth year in a row, to 15.5 per cent from the high of 17.5 per cent reached in 1975.

As discussed in Budget Paper A, the ability of the Province's revenue structure to generate revenues has been significantly reduced in recent years. However, expenditures are demonstrating considerable sensitivity to inflation. In the absence of tax increases, expenditures of $19.4 billion would push the deficit to $1.6 billion. This is unacceptable. After careful consideration, I have decided it is necessary to raise $603 million in additional revenues to limit the deficit increase. As a result, the deficit will be $997 million in 1981-82.

This level of net cash requirements is well within the capacity of the Government to finance from non-public borrowing sources. In keeping with our commitment to reduce our reliance on borrowed funds in order to free up capital for private borrowers, for the second year in a row the Province will make available $500 million from the Canada Pension Plan to Ontario Hydro. This long-term financing will be of considerable value to the Corporation in a time of crowded capital markets. It represents a sound investment of CPP funds in Ontario's energy future.

Our commitment to balance the budget remains firm, but progress towards this goal must recognize the needs of the economy and of our people. As I have mentioned, the stimulatory actions in my Mini- Budget will cost over $260 million. Over the medium term, I plan for a steady reduction in the level of net cash requirements, and the modest deficit levels projected keep us well within range of our objective. Budget Paper C provides details of the medium-term fiscal projections.

As I mentioned before, the Province's revenue needs are not being adequately met by our current tax structure. The inadequacy of revenues reflects, to a considerable degree, the many tax reductions implemented in recent years. I intend to review the substantial list of retail sales tax exemptions currently available, as well as possible expansions in the base. I anticipate the results of this review will be indicated in next year's Budget.

Consistent with this approach, I am proposing tonight only one change to the Retail Sales Tax Act, that is to exempt kits for converting licensed vehicles to utilize alternative fuels. This exemption will reinforce the already successful tax treatment which exists for new cars. This action will cost about SI million in 1981-82.

We are also reviewing Crown timber charges. The Province's costs of maintaining and protecting forests have escalated sharply, and it is my intention to determine the extent to which these increased costs can be shared with the industry.

It would be appropriate at this time for me to report briefly on our review of tax incentives for research and development. R&D spending in Canada is significantly below that required to meet the federal target of 1.5 per cent of GNP by 1985. Inadequate R&Disa Canadian problem and requires a program which is national in scope. I would urge the federal government to act quickly to ensure Canada's needs are met.

We have examined several options for stimulating R&D spending in this province, to encourage both new Canadian investment and greater activity by the multi-national corporations. We already have in place generous tax incentives. It is apparent that substantial increases in tax subsidies would be necessary to alter current R&D investment behaviour. Ontario simply cannot afford such measures and I have rejected the idea of granting further Provincial tax incentives. Instead, I will ensure that BILD activities encourage research and development in Ontario to the maximum extent possible.

Mr. Speaker. I will now propose a number of necessary revenue- raising measures.

**Personal Income Taxation**

The personal income tax is our most progressive levy, and is essential to the overall fairness of our tax system. However, over the past several years the revenue growth of this important tax has significantly declined.

I am proposing that Ontario's rate of personal income tax be in- creased from 44 per cent of basic federal tax to 48 per cent. This increase will take effect with an increase in withholding taxes from July 1st onward, so that the effective tax rate for the 1981 taxation year will be 46 per cent. For the typical wage earner, the increase in withholdings amounts to less than 3 per cent, and will be more than offset by the impact of indexing in the new year. For example, the tax increase for a single taxpayer at $290,000 of gross income will amount to $2.25 per week. However, assuming the same level of income for the taxpayer in 1982, and a rate of inflation indexing of 12 per cent, this individual's tax burden will decline by S4.56 per week.

Mr. Speaker, after this change, we will continue to have the lowest income tax burden in Eastern Canada and the third lowest provincial income tax rate in the nation.

The Members will be aware Ontario already has an income tax reduction program which eliminates Ontario tax for over 400,000 lower income Ontarians. That program will be enriched for the 1981 taxation year to reduce tax burdens for another 60,000 Ontario tax- payers with taxable incomes below 52,058. This enrichment, which smoothes the notch in Ontario's personal income tax, will bring the total benefits under the Ontario tax reduction program to $20 million.

On balance, these personal income tax measures will yield $235 million in increased revenues this fiscal year and $450 million on a full year basis. Full details of the tax increase and enriched Ontario tax reduction are contained in the Tax Appendix.

**OHIP Premiums**

As I am sure the Members will agree, Ontario can be justifiably proud of having one of the finest health care systems in the world. A wide range of health services is available to all Ontarians, regardless of their financial circumstances or state of health. This Government remains firm in its resolve to maintain this quality of care for the benefit of all residents of this province.

The Government has been successful during the past few years in achieving a high degree of cost efficiency in the health sector. In the early 1970s, the cost of providing insured health services escalated at an average annual rate of 15 per cent. In the three years after 1976, this rate of increase was held to an average of 8 per cent. More recently, upward cost pressures have emerged once again.

The funds for financing health care come from general revenues, including OHIP premiums. The ratio of premiums to health spending has continually fallen over time because of low natural growth in the premium base. In 1979-80, premiums contributed almost 29 per cent to the cost of insured health services, but this proportion would decline to less than 23 per cent this fiscal year without an adjustment.

Therefore, effective in respect of payments for coverage beginning October 1, premiums will be increased by $3 per month for single persons and $6 per month for families. The resulting new monthly premium levels become $23 and $46 for single persons and families, respectively. This measure, which increases premium revenue by $120 million this year, represents an increase in premium rates of 15 per cent since 1979, which is below the increase in the cost of health care services over the same period.

I would like to assure the Members that many Ontarians continue to benefit from the present system of premium assistance and exemptions. Moreover, this system will be enriched to ensure that the increase in premiums will not impose any financial burden on those least able to afford them. Details of this enrichment are provided in Appendix B. Individuals with annual gross incomes of up to $8,200, and families of four with gross incomes of up to $14,000, will now be eligible for assistance. Also, pensioners and recipients of social assistance will continue to pay no premiums. As a result, some 1.7 million Ontarians will be sheltered from all or part of the increase.

Mr. Speaker, some Members think that premiums are not an appropriate health financing vehicle. Let me say that I intend to explore in depth other financing options, such as a payroll tax. But I wish to emphasize there are significant implications which could still justify continuation of premium financing. I invite and welcome comment on this matter during the coming year.

**Revenues from Fuel, Tobacco and Beverage Alcohol**

I spoke earlier about my general concern with the diminished responsiveness of the revenue system. Consequently, I am proposing that the tax rates on gasoline, diesel fuel, railway diesel fuel, aviation fuel, on cigarettes and cut tobacco, and on domestic beer be converted from their current volume basis to an ad valorem basis.

At the same time, I am proposing the following specific tax increases.

• First, that the new ad valorem tax rate on gasoline be set to incorporate an average increase of about 1 cent per litre and the new tax rate on diesel fuel be set to impose a 1.1 cent per litre increase. There will be no specific increase for railway diesel fuel and aviation fuel. These changes will be effective midnight tonight, and, on the new ad valorem basis, will generate $135 million in this fiscal year. Furthermore, Mr. Speaker, as of April 1 , 1982, the Province will introduce a fuel colouration system for non-taxable middle distillate fuels. This measure is aimed at pre- venting tax evasion. Similar programs are already in place in the other provinces.

• Second, that the new ad valorem tax rate on cigarettes be set to incorporate an increase of just over 5 cents per pack of twenty. The tax on cut tobacco will also be increased. This change will be effective midnight tonight and, on the new ad valorem basis, will yield an additional $50 million this fiscal year.

• Third, that a five point increase in the mark-ups be applied to domestic and imported spirits, while a decrease in the mark-up on domestic brandy from 75 per cent to 58 per cent be introduced. The mark-up increases, effective July 20, 1981, amount to 20-25 cents per 25 ounce bottle of spirits sold at retail. In total, an additional $16 million will be generated in 1981-82.

• Fourth, that the new ad valorem tax rate on domestic beer be 20 per cent. This will increase beer prices by about 45 cents per case of 24 and will take effect on June 1, 1981. The revenue gain from this proposal will be $22 million in 1981-82. A number of other minor changes to the revenue system are also proposed, with a view to raising revenues, improving the working of the tax system and ensuring uniformity in tax bases. I would direct the Members to the Tax Appendix for details on these changes. On balance, these measures will add another $26 million to Ontario's revenues.

Mr. Speaker, our corporations will have to absorb a share of the burden of the tax increases on consumption items as well as OHIP premiums. I have decided to leave the corporate income tax and capital tax rates unchanged in view of the importance I attach to maintaining an attractive investment climate. I should note that we have in recent years imposed increases in taxes on large corporations. The capital tax was doubled on all corporations in 1977, and the income tax rate increased by one point, or almost 10 per cent, in 1978. A further capital tax increase of 33 and one-third per cent was imposed on banks in 1979. At the same time, the income tax rate was raised by an additional one point on most of our large corporations, making a total income tax increase of 17 per cent over the two-year period for these corporations. I have already indicated the intense competitive environment in which we must operate and the direction of tax policy in other jurisdictions. The inescapable conclusion I have reached is that direct taxes on corporations should not be increased this year.

The tax actions I have proposed will generate an additional $603 million in 1981-82. They are sustainable in light of the expected economic performance and will allow Ontario to remain competitive on the tax front. My colleague, the Minister of Revenue, will be tabling legislation tonight to effect these tax changes.

**Home Heating Credit**

Our improved revenue performance will enable us to continue to meet the needs of the people. The Members will recall my concern, expressed in the Mini-Budget, with the impact of sharp increases in home heating costs on lower income Ontarians. It will be a hardship for those with limited resources to adjust their budgets quickly to meet these cost increases. Consequently, it remains my conviction that a temporary, geared-to-income assistance program for home heating cost increases would be appropriate.

The impact of home heating cost increases on low-income people all across Canada should be a matter of national concern. I have taken this view directly to the Minister of Finance, presenting a set of options to him in December. In the absence of federal action, I will provide heating cost assistance for residents of this province. Consequently, I am reviewing the options available and will immediately initiate discussions with the federal government on the administration of the personal income tax system in anticipation of change. Home heating cost increases over the winter of 1981-82 would be the initial target of the program.

**Economic Outlook**

Mr. Speaker, I now turn to the economic outlook for Ontario.

There are a number of potentially favourable developments. Tax cuts and increases in defence spending in the United States should give renewed impetus to the growth in demand for Ontario's exports. President Reagan's program is clearly designed to promote economic growth and it will have positive spillover benefits for our economy. The possibility of an easing of international oil prices resulting from a growing glut of oil on the world market will also provide welcome relief. This outlook could be even further improved by the commencement of the energy mega-projects. The value of these projects to the Ontario and Canadian economies is quite clear, and I would urge that the negotiations now under way between Ottawa and the producing provinces recognize the importance of the prompt commencement of these projects.

I am confident, Mr. Speaker, about the ability of the Ontario economy to rebound to higher levels of growth and, with the Government's help, fight off inflation over the medium term. It is my view that we can expect a further improvement in our economic performance.

My confidence reflects the economic forecast for 1981 which calls for a significant recovery from last year's performance. In 1980, overall output declined by 0.2 per cent. Nonetheless, our job creation was 58,000, very close to my 1980 Budget forecast of 59,000. This year, I am forecasting a real growth rate for Gross Provincial Product of 2.4 per cent, and the creation of 106,000 new jobs. As a result, the unemployment rate will drop to 6.6 per cent from 6.9 per cent last year. The economic recovery in Ontario will be balanced across all sectors.

**Conclusion**

In conclusion, this Budget serves to maintain a required fiscal balance and:

• it lays out initiatives to foster economic growth and thereby reduce inflation;

• it creates jobs;

• it continues support for small business and the farming community;

• it maintains a competitive tax and investment climate;

• it reduces the size of government to the economy;

• it increases the level of funding for public services;

• it provides new assistance for disabled persons;

• it promises relief from sharp increases in home heating costs for lower income people;

• and, Mr. Speaker, it maintains the Province's commitment to balance the budget.