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| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 32e | 2e | Discours sur le budget | 13 mai 1982 | Frank Miller | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker, I rise to present the 1982 budget of the government of Ontario. This is the fourth budget which I have had the honour to present to this House and I dare say it has been the most difficult one to write.

We live in troubled economic times. For nine years now the industrial economies of the world have tried to cope with massive problems of energy shocks, slow growth and inflation. No country has been able to master the challenge fully. Each time that we seem to be regaining a pattern of reasonable growth we are swamped by yet another wave of inflation. Last year the monetary authorities of the United States launched a hell-bent-for-leather attack on inflation by driving interest rates to unprecedented levels. The US administration was determined to bring inflation to a halt even if it meant stopping the American economy dead in its tracks, and that is what happened.

The Bank of Canada followed suit. But in our country we had to bear not only the cross of crushing interest rates but also the thorns of the November federal budget. Canadians now stand amid the fallout from these draconian policies. Investors have lost confidence. Business people,

farmers and home owners suffer under high interest charges. Worst of all, people have been laid off, others are taking pay cuts and some live in daily fear of losing their jobs.

It is understandable that many of our citizens are frustrated and concerned. They do not comprehend why a nation such as ours, with its enviable bounty of human and natural resources, can find itself in such circumstances. Quite frankly, I do not blame them.

In no way do I belittle the challenge that faces this great province, but I am confident we can meet it. I am confident not just because I am a natural optimist but because our track record is strong. In the past decade Ontario businesses and workers have clearly demonstrated their ability to rebound from setbacks thrust upon us by international economic conditions. I am confident because we have come through the past 10 years with one of the best job-creation performances recorded anywhere in the western industrial world. I am confident because this fine province continues to be led by the government of the Honourable William G. Davis.

With this budget I cannot solve all the problems that confront us, nor can I heal all the economic wounds that many of us bear as a result of the international and national economic situations. No one would suggest that any provincial government could do all that. Moreover, when our revenues are reduced because of slow economic growth and substantial federal cutbacks, I cannot conjure up a way of paying for a decent standard of public services that does not involve some increases in tax levels or the deficit.

When I wrote this budget I did not bemoan what could not be done. I sought out the positive things that we can do to create jobs and new investment, that we can do to reinforce confidence in our future and that we can do to maintain an affordable standard of services for our people. I believe the proposals outlined in the budget which I am placing before the members tonight will help accomplish these positive objectives.

As I have said, these are difficult economic times, and not just in Canada. We can sometimes be so preoccupied with our own problems that we fail to notice those of our neighbours. Yet their problems are vitally important to us because they have a profound impact on our own circumstances and on our abilities to pursue a strong economic recovery.

The world economy is struggling in the grip of a serious recession. The number of people out of work in the member nations of the Organization for Economic Co-operation and Development rose sharply to 25.8 million in the latter part of 1981. The United States, the world's largest and most vital economy and our major trading partner, has been in deep recession for the last six months. The average unemployment rate for the whole of the United States is currently at a post-war record of over nine per cent. The unemployment rate in the neighbouring state of Michigan, an auto-based economy, is over 16 per cent. When such conditions prevail in our export markets it is difficult for Canada's export-oriented economy to perform well.

The chief reason for this international recession is, of course, abnormally high real interest rates. In Canada, they are more than three times the average of the past IS-year period. While all sectors are adversely affected, the initial victims are industries such as autos, machinery, furniture, appliances, steel, metals, agriculture, housing construction and small business. These industries and their many suppliers are major employers. When their sales fall off, inventories accumulate and they are forced to slash production and layoff workers. This reverberates throughout the whole economy.

Real relief for the international economy awaits the reduction of interest rates to more realistic levels. In this regard, a crucial debate is under way in the United States over the fiscal and monetary policies of President Reagan's administration. Some reduction in the projected massive federal budgetary deficit must occur before interest rates in the United States will fall to levels more conducive to economic growth. When they do, this will provide for a world-wide economic expansion, just as high rates triggered a precipitous decline. The underlying strength of pent-up demand supported by a high level of savings gives the North American economy a strong recovery potential.

The recent federal budget was formulated in the context of the very strong job creation performance of the first half of 1981. However, when the federal Minister of Finance brought down his budget in November 1981, the Canadian economy was already in recession.

Therefore, it did not address the economic conditions of the day. In my response to that budget, I warned my federal counterpart of the weakened state of the economy. High interest rates and sharp increases in domestic oil prices had already undercut the strong expansion of the first half of 1981.

In recognition of the state of the Canadian economy and the need to re-establish a climate of confidence, Premier Davis presented 45 specific recommendations to the February 1982 first ministers' conference on the economy. The priorities outlined by Ontario were: immediate actions for job creation; encouraging small business creation and development; increasing investment; developing human resources; enhancing trade and export opportunities; and restoring a climate of confidence.

We continue to feel that our proposals, which have received widespread support from the private sector, should guide economic policy in Canada. They have played an important part in shaping this budget.

Let me turn to my forecast for the Ontario economy.

While the last few months have been very difficult, there is now a strong potential for the economy to follow a recovery path throughout the rest of the year. Businesses have been meeting demand in large part by running down inventories, a process that I expect will end soon. This means that sales will increasingly be filled from current production, leading to the recall of workers. Also, the combined effect of tax cuts, increases in social security payments and higher defence spending in the United States should restore some momentum to that economy. This, of course, will aid the recovery of Canadian exports.

Later in this statement I will outline a major job creation program, a new initiative for housing construction and an important incentive for small business that will also add significant stimulus to the Ontario economy.

Because of these factors and actions, the Ontario economy should strengthen during the balance of the year. Employment by year end should reach 125,000 over current levels. Real growth in gross provincial product in the second

half of 1982 should be four per cent on an annual basis.

Inflation is forecast at 10.7 per cent. While this is an improvement from last year's rate of 12.5 per cent, I am still concerned. The inflation we are experiencing is becoming embedded in the cost structure of our economy. This bodes ill for our long-term international competitiveness, especially as inflation in the US continues to moderate.

The Ontario economy faces great challenges, both in the long term and in the short term. In the long term, we must adapt to growing international competition and technological complexity. I will be proposing measures to address these issues. However, given the current state of the economy, we do have a responsibility to supplement our long-term efforts by taking immediate action to create jobs.

Accordingly, we are moving ahead with a comprehensive short-term employment creation program that I shall now outline for the members. This four-point program has been developed to achieve the maximum impact per dollar of expenditure. It is targeted on those sectors of the economy where there is the highest potential for both direct and indirect job creation in our province.

In addition, the short-term initiative for employment will: focus on regions, industries and groups most affected by unemployment; provide useful jobs, not make-work projects; and be implemented quickly. To ensure these criteria are met, the Board of Industrial Leadership and Development will be co-ordinating the administration of our employment stimulation program.

For some time now, the province has been calling for the innovative use of unemployment insurance funds. A breakthrough was achieved earlier this year with the establishment of the accelerated forest improvement programs in co-operation with the federal government. Under this arrangement, laid-off forestry workers are paid $240 a week from unemployment insurance benefits, plus $60 a week from provincial supplement to work on forest management projects. We want to see more of this kind of resourceful approach.

Therefore, we are establishing a new $ 15-million co-operative projects employment fund to finance participation with the federal government in further projects. To start off, the Ontario share of the recently announced mining special employment program will be financed out of this fund. We are developing more temporary programs of this nature and, assuming we can continue to receive the same level of cooperation from Ottawa, my colleagues will be announcing more new programs in the next few weeks. I have set a target of 6,000 jobs to be created by this fund.

Accelerating public investment projects can make an immediate contribution to employment. Therefore, the second component of our employment creation program will involve a speed-up of capital projects in all parts of the province, with emphasis on those areas where unemployment is highest.

To accomplish this, I am providing an additional $133 million to: accelerate repairs and additions to public buildings and other capital projects, including construction and maintenance of highways, roads, municipal bridges and water and sewage treatment projects; pay for renovation and repair projects sponsored by municipalities, school boards, universities and colleges; and provide for upgrading of forest and fishery resources. We estimate that this program will directly create 14,500 temporary jobs. Additional details concerning these initiatives will be announced by my colleagues in the next few days.

To recognize the fact that unemployment amongst young people has risen sharply in this recession, our youth employment programs, which are already substantial, will be expanded further. The allocation for youth employment programs for 1982-83 will be increased to $91 million, a 14.2 per cent increase over last year. In total, some 93,000 young people will get jobs under these programs.

This government has demonstrated its commitment to our agricultural sector. We have responded quickly to assist farmers who were in difficulty because of the current economic environment. For example, under the 1981-82 emergency beef payment programs some $57 million has already been paid to 30,000 Ontario beef producers.

Rather than wait until this budget, we took action last December with a new program to provide direct assistance to farmers experiencing extreme difficulty in coping with high interest rates. The farm adjustment assistance program has already provided assistance to hundreds of farmers. In total, I anticipate that, including funds already expended in the previous fiscal year, some $60 million worth of assistance will be taken up by as many as 5,000 farmers.

Tonight, I am proposing $11 million in additional measures to create jobs in our farming communities this summer.

First, I am increasing funds available for tile drainage by over 26 per cent. Second, there will be a new $5-million farmstead improvement program, which will provide grants to farmers to improve their farms. These measures will create 2,100 additional rural jobs this year.

My colleague the Minister of Agriculture and Food will be announcing details of these measures in the near future. He is also finalizing details of our new program for young farmers which was announced in the throne speech.

This government cares about creating jobs and is doing something about it. The four-point program I have just outlined will create 31,000 temporary jobs at a cost of $171 million in this fiscal year. It will provide a needed bridge over troubled economic waters, particularly for many of our young people.

Let me now turn to another new initiative which will create jobs and help our young families.

High interest rates have led to high unemployment in the residential construction sector. We must maintain a solid base in this industry to ensure capacity is available to meet future housing demand. When people buy new homes, they not only create jobs in the construction, household furnishings and appliance sectors but also free up rental accommodation.

Tonight, I am proposing a new program whereby Ontario residents who have been renting for the previous 12 months or who have never owned a home will be eligible for an interest-free loan of up to $5,000 upon the acquisition of a new house. This program, called the Ontario renter-buy program, applies to closings after today and will remain in effect for committed purchases made by October 30, 1982. Assistance will be limited to new homes costing up to $115,000 in and around Metro Toronto and $90,000 in the rest of the province.

I estimate that this program will provide $75 million for the purchase of 15,000 new homes which represent 38,000 man-years of employment. The rental units freed up by this program will help reduce the pressures in the rental market.

The Ontario renter-buy program will be administered by the Ontario Mortgage Corp. under the direction of my colleague the Minister of Municipal Affairs and Housing (Mr. Bennett) and he will be providing full details tomorrow.

Additional actions to increase the supply of rental housing are under consideration. The Minister of Municipal Affairs and Housing has been meeting with his federal counterpart to ensure that effective and viable measures for Ontario will be forthcoming.

I would like to deal briefly with the question of existing home owners' mortgage interest problems. The federal government has introduced a program to help people who have extreme difficulty renewing their mortgages. Since this program was introduced early last month, hundreds of Ontario families have received assistance. Little would be gained by a provincial initiative that would duplicate a program that seems to be working. Nevertheless, the government is concerned about this situation, and we are closely monitoring the progress of the federal program and the state of the mortgage markets.

I have proposed important new programs to create employment and to assist new home buyers. I have also reviewed our substantial assistance program for farmers. Later in the statement, I will outline an important new measure to assist small business. Now I wish to turn to revenue requirements for the current fiscal year.

In my budget last year, I documented the relatively slow growth of the Ontario revenue base. Inflation has a much more direct and immediate impact on our expenditures than it does on our revenues. When the deficit is under pressure, many will urge spending cuts before raising taxes. I totally agree with that approach, and that is what we have been doing. In fact, I would remind the members that in delivering a high level of services, Ontario spends less per capita than any other province in Canada. But we cannot always find all the required savings on the expenditure side of the ledger without cutting too deeply into the social and economic programs that are needed.

The members will be aware of the stance this province has taken with respect to unilateral federal cuts in our transfer payments. I draw members' attention to budget paper B, which provides a complete perspective on the record and challenge of fiscal federalism in Canada.

Clearly, the federal action to withdraw some $5.8 billion in support for health and postsecondary education over the next five years will make it harder to maintain national standards and inevitably will make it more difficult to ensure balanced economic growth across the country. Our share of this cut will cost almost $300 million this year alone and some $1.9 billion over the next five years.

At the January federal-provincial meeting of finance ministers, I illustrated that the cutback in transfers to this province was as large as the combined operating budgets of Ottawa, Carleton, Queen's and Western Ontario universities, with an overall enrolment of 58,000 students. In health, all 10 hospitals in the Ottawa area, with some 3,400 beds, incur operating costs which only account for two thirds of that federal cut in transfers.

It goes without saying that this government has no intention of making up these serious fiscal losses by large-scale closures of our hospitals and universities. But the federal cutback will coincide with lower growth in the province's overall revenue structure. So if we are to protect our levels of essential services and still maintain a stance of fiscal responsibility, we have no choice but to raise additional tax revenues.

In searching for a way to offset these federal cutbacks, I had to look at my chief sources of revenue: the personal income tax, the retail sales tax and the corporate income tax.

The need for Ontario to remain internationally competitive, as well as to repair the climate of confidence in this country, precludes any increases in corporate income tax. Also, the federal budget's changes to personal income tax investment incentives have left taxpayers confused and dismayed. I cannot add to this undesirable impact, nor do I want to snuff out the small flame of hope offered by federal cuts in marginal rates, by increasing Ontario's personal income tax rate. This leaves the retail sales tax as the only alternative.

A one-point increase in the retail sales tax rate would provide adequate replacement for lost federal transfers. I have carefully considered this option and have rejected it. Therefore, I have sought another option which keeps Ontario's sales tax rate at seven per cent.

I have concluded that the best way of recovering the lost revenue is to broaden the retail sales tax base. It was not an easy decision, but I am convinced it is better to bring certain items to tax than to raise the general rate.

I am now proposing to eliminate the exemptions for a number of items. These are discussed in more detail in the tax appendix to the statement but they include: certain household and personal hygiene products; building materials and certain other items purchased by publicly funded bodies such as municipalities; plants and household pets; cloth and clothing patterns; magazines; and items such as storm doors and windows, thermal insulation, chillers and wind deflectors for trucks.

At this point I should pause and give special recognition to my predecessor John White. He has beside him the predecessor of all of us and the originator of Treasury, James N. Allan, the most dearly loved. I just hope that when 1 am 62 I will look as well as he does.

I propose, however, to enhance the province's commitments to promoting alternative transportation fuels. The present retail sales tax exemptions for licensed motor vehicles powered exclusively by non-petroleum-based fuels and for kits used to convert vehicles to utilize those fuels will be broadened to include licensed vehicles with dual-fuel capacity and dual-fuel conversion kits.

Another retail sales tax action I am taking in response to federal cutbacks relates to soft drinks, candy and confections. These items currently have a special exemption level of 49 cents. I am proposing that this level be reduced to the general exemption level of 20 cents applicable to all sales and that the list of taxable confections be expanded.

These changes will become effective midnight tonight.

I am also proposing that effective June 14, 1982, the taxation of services be expanded to include the labour content of the repair, maintenance and installation of tangible personal property. This means that the labour charged to carry out repairs to cars, trucks and most appliances will be taxable.

These changes will yield some $230 million this year. The revenue yield will be somewhat less than the projected losses resulting from the removal of the revenue guarantee by the government of Canada.

I should make it clear to people that I am not changing the long-standing exemptions for food, children's clothing, fuel for heating and lighting, prescription drugs and medical appliances.

I should also like to propose a number of other measures to improve our revenues. One of these measures involves the hospitality industry. In my view, it is no longer appropriate to tax prepared meals differently on the basis of price. Therefore, I am proposing to apply the retail sales tax to all prepared food and meals at the single rate of seven per cent. Prepared meals will include those served by restaurants, cafeterias and caterers, and all take-out food.

The province will realize an additional $110 million from this action this fiscal year.

The members will recall my reimposition of the retail sales tax on accommodations in January of this year. I have reviewed this move in the light of the needs of the tourist industry. In my view, some modification is necessary to help the hospitality industry to remain competitive with respect to international conventions. Therefore, I propose to reduce the rate on transient accommodation from seven per cent to five per cent. This change will create a $10-million incentive for tourism. The effective date for implementation will be June 14, 1982.

The Minister of Revenue will bring forward legislation to implement all these retail sales tax changes.

One message I get loud and clear as I travel through this province is that people want us to maintain our quality health care system. This cannot be done without adequate funding. Last year, our health expenditures increased by about 18 per cent and the system continues to experience cost pressures. In order to maintain the funding of a reasonable share of costs from the Ontario hospital insurance plan premiums, rates must be adjusted.

Effective for the benefit month of October 1982, monthly OHIP premiums will be increased by $4 and $8 for single persons and families respectively. Additional revenues from this rate increase will be in the order of $170 million this fiscal year. I would remind the members that, despite this rate adjustment, premium revenues will cover less than 20 per cent of total health costs, compared with 23 per cent in 1979-80.

All residents of this province who now benefit from the system of premium exemptions will continue to do so. This means that all senior citizens, individuals experiencing temporary financial difficulties, social assistance recipients and their families will continue to receive a waiver of premiums. Individuals with low incomes will continue to benefit from premium assistance. I also point out that 70 per cent of premiums are paid by employers.

While I continue to believe our premium system is a good one, I know that some members would disagree. In a spirit of open consultation, I am tabling a staff discussion paper which deals with the question of substituting a payroll tax for premiums. I will elaborate on this paper later in my statement.

I also propose to increase revenues from alcohol and tobacco.

With respect to alcoholic beverages, I am making changes that will increase revenue by an estimated $27 million this year. The changes are effective May 25, 1982. Mark-ups on domestic spirits will be increased by five percentage points, which amounts to an increase of about 30 cents per 25-ounce bottle. Mark-ups on imported spirits will be increased by three percentage points, which amounts to an increase of about 25 cents per 25-ounce bottle. The licence fee on domestic beer will be increased by 1.2 percentage points, resulting in an increase in the retail price of 15 cents per case of 24.

With respect to tobacco, I am proposing that, effective midnight tonight, ad valorem rates of tax on cigarettes and cut tobacco be increased to 40 per cent. This will result in a tax increase of about 3.5 cents per package of 20 cigarettes. The extra yield is estimated at $30 million in this fiscal year. Wholesalers will be required to declare their cigarette inventories and to remit the appropriate tax. Legislation to effect this tobacco tax change will be tabled by the Minister of Revenue.

The members will be aware that a new system of motor vehicle registration has been announced by my colleague the Minister of Transportation and Communications. For the 1983 registration year, the proposed annual motor vehicle registration fees are as follows: $48 for passenger cars and for lightweight commercial vehicles used for personal purposes registered in southern Ontario, while for such vehicles registered in northern Ontario the fee will be $24; $72 for commercial motor vehicles weighing 3,000 kilograms or less, and $24 and $6 for motorcycles and mopeds, respectively. The revenue yield of the motor vehicle registration fees under the proposed system will be comparable to that of the old system.

Before turning to other matters I would like to discuss briefly options for change in Ontario's tax structure. We live in a world where things are ever-changing. Except for Tory government.

We live in a world where things are ever-changing. An important and disturbing development is that our federal government is apparently redirecting its economic priorities and indeed may have transmogrified the very way in which it views our Confederation.

My staff each year feel they have a responsibility to increase the vocabulary of all the members of the House by at least one word. This is the word for this year.

Amidst these developments, it is important for me as Treasurer to examine our taxation system to see whether it is appropriate to this changing environment. If it is not, then we must consider making alterations, even fundamental ones.

I must be concerned not only about what change might be appropriate but also how major taxation change is made. Since the federal budget last November, all of us in Canada have witnessed with anguish what happens when sweeping tax moves are introduced without prior consultation. When governments try to rewrite fundamentally the tax laws, I feel they must work together with citizens in a co-operative manner. Those directly affected, not just bureaucrats and politicians, must have a real say in these matters. I hope that the recently tabled federal discussion paper suggests a new awareness of consultation by our national government.

Ontario believes in the consultation process. To that end, I am tabling today a discussion paper on two important areas of taxation in Ontario. I hope this paper will stimulate discussion so that all of us in Ontario can determine what is best for our province's future. The paper deals with two issues. It discusses how Ontario could replace its existing OHIP premium structured a health care payroll tax and shows, from a technical point of view, the impact of one way in which this could be done. In the field of personal income tax, it discusses the potential problem of continuing to be a participant in an income tax system that may not be suitable to the economic needs of Ontario.

I emphasize that this paper is presented for discussion and does not reflect the government's policy at this time. In the case of health financing, I have doubts about the wisdom of abandoning our existing premium system. Nevertheless, I am asking those interested in the issues raised in the paper to submit briefs to me by the end of 1982. In the case of a possible Ontario-run personal income tax, I have asked the Ontario Economic Council, chaired by Dr. Thomas Courchene, to review the economic implications of this matter and to report to me by December.

I would now like to turn to another matter of utmost concern to this province and this nation, that of restoring a climate of investment confidence.

Before I am accused of fed-bashing, let me say that Ontario has a long and honourable record of supporting the powers required by the government of Canada to govern our country and to manage its economy. There is no question that occasionally we have differences of opinion. I believe it is important that they be fully aired. There is nothing wrong with that. It is the nature of democracy in a federal state. The fact that we can have such open and honest debates within the Canadian family simply reflects the strength of our country.

I wish to point out that Ontario finds itself in serious disagreement with Ottawa on two fundamental matters of economic policy. One concerns the federal government's apparent preference for a national industrial strategy based primarily on the resource sector. The other relates to its apparently negative attitude towards private investment.

I need hardly point out that Ontario supports the continued development of a strong resource economy in all parts of Canada. We want to see further development of energy resources in the west, off the east coast and at the frontier. However, we are concerned that such policies not be pursued single-mindedly by the national government. It must continue to recognize the importance of manufacturing to Canada's economic future.

We believe that private investment from both domestic and foreign sources will be required to create the large number of new jobs our people need. Therefore, our national policy should be carefully tailored to encourage productive investment from all sources. Canadianization should be a long-term goal that does not have features that are seen by international investors as unfair. Also, Canadians themselves must have the appropriate incentives to invest in their economy.

In line with these considerations, I would now like to discuss our own policies for industrial development and the stimulation of investment.

Through our BILD program, we have made a major commitment to supporting a climate of confidence and to stimulating long-term economic development. Our progress is summarized in budget paper C, which I am tabling with this statement. The highlights of our recent initiatives under this program include:

A new $S-million program that is funding, through our community colleges, a high-technology training program for 12,000 workers;

The stimulation of $60 million worth of investment in 10 new food processing facilities;

The development of a new energy park at the Bruce nuclear station;

The upgrading of six municipal airports;

Financial support for new convention centresin Toronto and Ottawa; and

The launching of new technology centres for microelectronics in Ottawa, for computer-aided design and manufacturing in Cambridge and Peterborough respectively, for farm technology in Chatham, for automotive parts in St. Catharines and for resource machinery in Sudbury.

BILD provides us with a way of involving business, communities and government in realizing our long-term economic development potential. Since its inception, BILD has initiated 66 specific programs. These initiatives are creating jobs in Ontario right now and will create many more in the future.

It is vitally important that our corporate income tax policy be appropriate to our economic requirements.

Since last November, I have repeatedly asked Ottawa to reconsider some of its proposed changes to corporate income tax. I am disturbed about the impact of the capital cost allowance changes on investment in the Ontario manufacturing sector in general and the steel and auto industries in particular. Moreover, the proposed change in definition of resource income will have a further damaging effect on our steel industry which, through the direct employment of 50,000 people and indirectly many more, is one of the great strengths of the Canadian economy. I am also concerned about the inadequacy of proposed reserve provisions for the disposition of property.

I am encouraged by the fact that no federal legislation has been tabled to date. It is not too late for the federal government to introduce measures that will encourage, not discourage, capital investment and will assist, not penalize, Ontario's industry.

Meanwhile, I am proposing that certain federal proposals not be paralleled in Ontario's corporate income tax system. The tax depreciation in the year of acquisition of capital assets will not be reduced. No change will be made to the definition of resource income for the steel industry. No change will be made to existing reserve positions. With these actions, the province will forgo an estimated $135 million in revenue this fiscal year.

I regret that these steps will reduce the harmony of our federal and provincial tax structures, but I will not propose that this House parallel, in the Corporations Tax Act, measures that could damage employment and investment prospects in Ontario.

The availability of sufficient equity capital to the private sector has to be a priority of all governments in Canada interested in preserving and creating jobs. Current high interest rates and the economic slowdown only reinforce the importance of generating equity capital. Without sufficient equity, businesses become too dependent on debt financing. When interest rates rise dramatically, this results in a cash flow squeeze and sharply curtailed business activity.

Ontario has already taken important steps to improve the flow of equity capital to small businesses through the small business development corporations and the Ontario mineral exploration program.

These programs were introduced to compensate for the lack of an effective national policy and to encourage stock ownership. I remain convinced that the federal government has the responsibility and the means to provide such support, not only for small business but also for Canadian business of all sizes. I strongly recommend to the Minister of Finance that he institute a program that would provide a substantial income tax incentive for people to buy common stocks. Ontario is prepared to work with Ottawa in designing an effective mechanism and to bear its share of the cost of such a program.

I mentioned earlier that I would be proposing a major new incentive for small business.

In recent years, more than 50 per cent of all new jobs in this province have been generated by small business. Small business is the heart of entrepreneurial drive and spirit which has developed our economy and which will build it in the future. As I examine the current situation of small businesses, I find great cause for concern.

To improve the confidence of small business people, to give them the incentive, desire and resources to weather the storm, to improve productivity through investment and, most important, to continue to preserve and create jobs, I am proposing to remove the corporate income tax on small businesses in Ontario.

This substantial incentive will be in place for the next two years. Instalment payments will be cancelled over the period of the tax holiday. Tax already paid during the current business year will be refunded.

This means that small businesses will not pay any provincial income taxes on funds reinvested in the business. Of course, funds paid out in the form of dividends and income will be taxed as personal income.

By abolishing their corporate income tax, I am returning more than $250 million this year alone to some 60,000 small businesses. In so doing, we are saying to small business people that there is one government that believes in them and in their desire and their ability to succeed and to create jobs for our people.

Before concluding, I would like to deal with the issue of public sector restraint. The major theme of this budget is getting people back to work. Economists do not agree on many issues, but there is one on which they are unanimous. Continuing high inflation is destroying jobs and is preventing the creation of the new jobs our people need.

To get our inflation under control there is a strong need for those who are employed, both in the private and public sector, to exercise restraint in wage demands. This applies equally to employers with respect to prices.

It is a time when we must appeal to the sense of community of all our people. It is a time when we must ask everyone to demand a little less of the system and to put a little more back into it.

I would like now to address my attention to what this means for our public sector. I am referring here to the public sector in the broadest context, namely all those activities which are financed largely by tax dollars. Employment in the public sector has one advantage that most private sector employment does not have-a considerable degree of job security. It can be argued that those insulated from job insecurity should not be fully protected against inflation when many taxpayers are facing reduced work hours, lower or no salary increases, or layoffs.

Ontario has led the way in the past with restraint of public sector growth. I now serve notice to all recipients of provincial funds that they should not count on future funding at or above inflation rates. If we did so, we would doom our economy to continuing high inflation and high unemployment.

In this approach, we feel that we are not asking those in charge of public programs, funded by the taxpayers, to accept any more stringent requirements than we have imposed on ourselves as a government. Over the last seven years, the number of our public servants has actually been decreased by six per cent, from 87,000 to 82,000, at a time when the general population has increased by six per cent.

Look at your friends in Ottawa. Just do not talk too much; they are a millstone around your neck and you know it.

The salaries at the most senior levels in Ontario have grown at less than half the rate of inflation, not only in the last few years but since 1973.

It is a simple and well-known fact that one of the causes of inflation has been the failure of the government of Canada and certain other areas in the public sector to exercise similar restraint in both numbers and salaries. At the highest level in the government of Canada and in some of the other provinces, salaries are from $20,000 to $25,000 in excess of those paid in Ontario.

We have talked about the public sector, but we must also consider the total economy. Wage and price restraint in all sectors will be essential if we are to avoid pricing our economy out of international markets. In this respect, we are one of the most export-dependent jurisdictions in the world. We depend upon exports for some 30 per cent of our gross national product, compared to the United States at 12 per cent.

Currently, we are hearing arguments supporting wage and price controls. It is surely preferable, at this time, to see a serious effort made by all sectors to exercise voluntary restraint in the interest of the common good.

If we are asking people in all walks of life to exercise restraint, we must begin with ourselves. At the levels of government. Wage restraint, as I mentioned, has since 1973 kept our people behind many other governments and far behind the private sector. In the normal course of events, therefore, salary adjustments to these groups would have been at least in the range of settlements already negotiated for the unionized bargaining groups. However, because of the severe economic conditions we now face, we will be cutting these increases to six per cent this year. This will apply to the top levels of the public service. Flexibility will be introduced to allow somewhat higher adjustments in the lower ranges of the non bargaining group.

We recognize that for our senior employees this is a serious and further imposition. As the economy improves, the province will undertake to review the salary inequities that have been shouldered by this group. However, we believe that during tough times the public sector must be prepared to show tough leadership.

We also feel that those of us in this House must demonstrate our recognition of the adverse economic situation as well. Each year the election expenses committee of the Legislature recommends increases for the members. This year the recommendation is for nine per cent. The government will propose to the Legislature that the members also set an example and agree that this award be cut to six per cent.

By the way, I hope the record shows this side supported that change and that side did not.

We expect municipal councils, boards of education, universities, colleges, hospitals and all those agencies funded principally from taxes, to review carefully their compensation plans and to show similar restraint. It is also our view that all agencies of the crown, corporations whose members are appointed by the government and bodies receiving the majority of their operating budgets from public funds, should follow the example of this government by publishing all senior salaries above $30,000 in some form of "public accounts."

A sunshine law on public agency incomes within provincial jurisdiction will, therefore, be presented to the Legislature. This will require the filing with the government of the total compensation package for all individual employees receiving over $30,000, by range. The legislation will require information on senior public sector remuneration in 1981, compared with the results that are achieved in 1982 and in subsequent years.

With respect to direct provincial programs, we intend to initiate a thorough-going analysis of options for trimming expenditures and introducing more efficiencies. This review will be under the direction of my colleague the Chairman of the Management Board of Cabinet.

We hope similar actions and examples can be accomplished by the federal government and other governments in Canada, as well as by the private sector.

Let me summarize the government's fiscal plan for 1982-83. I am projecting overall expenditures to increase by 11.6 per cent and revenues to go up by nine per cent. I am planning for a deficit of $2.2 billion which is approximately equal to the level of capital investment to be undertaken this year. The $672-million increase in net cash requirements over last year will provide a necessary economic stimulus.

I am pleased to note that the province will finance this level of cash requirements through non-public borrowing and liquid reserves. Our continuing policy of restraint has paid off. Now that we need to increase the deficit temporarily to accommodate difficult economic conditions, we have the flexibility to do so without putting our financial position in jeopardy.

Ontario's record of debt management and capital investment is discussed at some length in budget paper C. It shows that we have managed Ontario's finances effectively and have ensured that borrowing over the past decade has been prudently held below the level of public capital investment.

In conclusion, this budget has been crafted in some of the most difficult economic times facing Ontario and Canada. Nevertheless, the budget I place before the House fashions economic and financial policies to meet the challenges of today and tomorrow.

It provides investment incentives to create jobs in the future. It shows leadership in restraining the public sector. It provides for an expansionary deficit to stimulate the economy, while remaining true to our solid tradition of sound financial management. It continues and strengthens our commitment to the farming community.

It avoids major tax increases or reductions in public services despite federal cutbacks. It helps to restore confidence in our manufacturing industries. It creates 31,000 temporary jobs in Ontario. It helps 15,000 families buy new homes and creates thousands of needed jobs in the construction industry. It totally eliminates provincial corporate income tax on our small businesses.