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| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 33e | 3e | Discours sur le budget | 20 mai 1987 | Robert Nixon | Treasurer and Minister of Economics | Ontario Liberal Party |

This budget will outline the government's record of fiscal management and present an economic plan for this year.

Under the leadership of the Premier (Mr. Peterson), the government has dealt effectively with the issues confronting it over the past two years and has given a high priority to education, technology development and entrepreneurship. These are the surest foundations of Ontario's continued prosperity. We have increased spending on vital programs that have been starved for funding due to economic constraints. We have funded programs for special regions and for groups requiring special assistance. At the same time, we have significantly reduced the provincial deficit. Our aim now is to build on the sound fiscal foundation that has been established.

Ontario's economy is showing solid growth, but some regions, some economic sectors and some people are not sharing fully in the benefits. The government is committed to working towards a durable prosperity that is shared by all. Today I am laying out our plan to do this.

Before proceeding, I acknowledge the contribution of the standing committee on finance and economic affairs. I also thank the many organizations and individuals who appeared before the committee and met with me and with Treasury staff.

Ontario is experiencing its fifth straight year of economic expansion. Over the past two years, the real gross provincial product has grown by 9.4 per cent, faster than any of the major economies in the Organization for Economic Co-operation and Development.

Lower interest rates, lower oil prices, stable inflation rates and high and growing employment levels have encouraged consumer spending. In addition, favourable exchange rates and competitive cost structures have made Ontario an attractive location for investment by both foreign and domestic enterprises.

The world economy has been undergoing a major restructuring and the impact on Ontario has been significant. Some traditional industries have experienced decline, while a range of new industrial activities has emerged. This restructuring has been accompanied by job losses in some industries and some communities. Over the past two years, major layoffs in Ontario have affected some 27,000 people and have caused hardship not only to these individuals and their families but also to their communities.

During the same period, newly emerging industries and a generally strong and more efficient economy have meant that job gains overall have far exceeded job losses. On a net basis, overall employment increased by 312,000 jobs. In fact, Ontario has had faster employment growth than any other major industrial jurisdiction in North America.

Business capital investment has been one of the major sources of Ontario's recent economic strength and represents a vote of long-term confidence in our future. Over the past two years, private sector capital spending has grown by more than 30 per cent. In 1987, we expect a further increase of 7.2 per cent to a total of $24 billion.

Manufacturing investment in Ontario will remain strong, with transportation equipment maintaining the largest share. US and Japanese auto companies are undertaking major capital investments. As well, many Canadian-based auto parts suppliers are investing in new technology, often through joint venture projects.

Ontario's competitive position in materials, labour and electricity costs has allowed the province to attract a large share of new automotive investments in North America. State-of-the-art production facilities, a well-trained work force and innovative management techniques will enable Ontario's auto industry to continue to compete effectively with other jurisdictions in North America.

Capital investment in the electrical, high-technology electronic and machinery industries, as well as in pulp and paper and in clothing, will also show significant increases.

I am especially encouraged by the increase in investment activity in northern Ontario. In addition to new capital spending in pulp and paper, several new mines are under development and mining investment is growing.

Consumer spending remains strong, particularly in housing and household goods. Housing starts rose to 81,500 units last year, the highest level in more than a decade. We expect a further 82,000 housing starts this year.

The overall economic outlook for the province continues to be favourable. Real gross provincial product is forecast to grow by 3.5 per cent in 1987. Job creation will average 125,000 and the unemployment rate is expected to average 6.5 per cent for the year. Consumer price increases will remain moderate, averaging 4.2 per cent.

This budget will present policies in five priority areas: first, to promote economic expansion and job creation; second, to enhance opportunities in sectors and regions that are not fully participating in the benefits of economic growth; third, to rebuild our ageing infrastructure and accommodate growth pressures; fourth, to improve important social programs and to promote a fairer distribution of wealth in our society; and fifth, to maintain our vigilance over tax levels and the deficit.

It is essential that Ontario maintain and, indeed, increase its share of world trade and investment. To do so, the government must encourage the development of areas that are crucial to our international competitiveness, including technology and education.

The Premier's Council on technology was created in July 1986, in recognition of the importance of technology to the realization of our economic potential. The council plays a pivotal role in the government's technology development strategy. I acknowledge that in setting our first-year spending plan for the technology fund we allocated more money, as it turned out, than could be prudently spent. It is of foremost importance that these funds are spent wisely, not quickly, and the council will continue to help us ensure the money we have committed is well spent. Our $1-billion commitment remains intact.

The members of the council are busy people in their own chosen and widely varying fields, yet they have devoted considerable time and effort to the task they have undertaken.

The council has provided guidelines and criteria for the industry component of the technology fund and for the centres of excellence program. Its members have insisted on a rigorous review of all proposals, many of which are now being subjected to a peer review by an international panel of experts. Over the next few months, the government will be announcing its decisions in respect of the proposed centres of excellence.

The council has also commissioned an in-depth study of the competitiveness of our industry. This study will help guide us in directing our expenditures to best effect.

It is the government's top priority to improve the quality of education in Ontario. This includes not only schools and post-secondary institutions but also the entire spectrum of lifelong opportunities for learning and skills development. It is a crucial responsibility. Education is not only essential for long-term economic growth; it is also the key to the development of each person's full potential.

Ontario's education system has adapted well in recent years to society's changing needs, but as former Ontario Youth Commissioner Ken Dryden pointed out in his recent report:

"The rapidly accelerating pace of change will require people to have more adaptable skills and attitudes, to be better able to deal with change. Increased use of technology will mean less physical labour but the need for greater conceptual and numeracy, analytical and problem-solving skills."

The throne speech set out the steps we are taking to broaden the range and improve the quality of educational opportunities. The government attaches particular importance to establishing learning skills projects, upgrading the basic curriculum and improving the assessment of student achievement. We are launching new programs to make educational resources more readily available, especially to Franco-Ontarians and students in the north.

We have also acted to provide school facilities in areas of rapid growth. Capital grants for education have been set at $147 million for this fiscal year, which is double the amount provided in 1984-85.

Equally important are the government's efforts to confront the problem of young people leaving high school without having a job or plans for further training or education. While the drop-out rate is improving, it is still unacceptably high and special efforts are required to reduce it further.

Last year we launched a two-part program to help students remain in school and to ease their transition from classroom to work place. The co-operative education component is providing 28,500 Ontario students with alternating periods of classroom instruction and on-the-job training. The other phase, the transition to employment component, will help some 9,000 students find jobs when they leave school.

The budget provides funding for additional education initiatives announced in the throne speech. My colleague the minister will give details shortly.

Provincial and local spending for primary and secondary education in Ontario will total almost $9 billion this year, or $47 million every school day.

In 1985, the government introduced the Futures program to deal with the unemployment problems of out-of-school youth. The program has been highly successful. Since its inception in November 1985, Futures has provided more than 50,000 young people with a chance to upgrade their education as well as their life and work skills. The Futures program will be strengthened by assisting workers under the age of 25 to return to school on a part-time basis.

For older workers, who often have difficulty finding new jobs upon layoff--I bring to the attention of the former minister--the government will provide training support to help them acquire new skills, at a cost of $5 million this fiscal year and $14 million in a full year.

The government's commitment to post-secondary education is clearly reflected in its record of funding improvements. Last autumn, I announced that universities would receive a substantial base increase in operating grants of 11.5 per cent for 1987-88. Ontario's colleges of applied arts and technology received a special allocation of $60 million in 1986-87. These funds will continue in the funding base for 1987-88 and beyond.

The need to upgrade facilities in universities and colleges has accumulated due to capital funding constraints dating from the mid-1970s. The government will provide $100 million for post-secondary capital expenditures in 1987-88. This represents a doubling of the capital funding provided as recently as two years ago.

Accessibility to post-secondary education can be hindered by concern over the rising burden of loan repayment facing students upon graduation. The government has taken concrete measures to address this problem.

The Ontario student assistance program has been increased by $25 million, or 17 per cent, for the coming academic year. As well, a new interest relief plan will be introduced for those having difficulty repaying Ontario student loans. Unlike the Canada student loans plan, Ontario's plan will be closely geared to the graduate's actual income. The Minister of Colleges and Universities (Mr. Sorbara) will call on the federal government to extend its interest relief provisions to graduates in low-paying, part-time or internship positions.

One benefit of having outstanding educational institutions is that their excellence can be shared with others. Accordingly, we will assist 1,000 highly qualified graduate students from outside Canada by reducing their tuition fees to the level of domestic students. The benefits of this $5-million program will be substantial. The presence of international students in our universities strengthens the cultural and business links between Ontario and other countries, and it enriches the institutions themselves.

In addition to the measures we are taking to expand our economic potential, we are acting to enhance assistance to those regions that are not fully sharing in Ontario's current economic expansion.

Our northern economy is undergoing a difficult process of adjustment to a world economy characterized by more intense competition and low mineral prices. Many resource companies have been forced to cut costs, rationalize operations and to lay off employees or, in some cases, to shut down operations. Even though economic conditions are improving in some parts of the north, unemployment in the region as a whole is four percentage points higher than the provincial average.

We have responded to these difficulties by providing short-term assistance to help communities and individuals adjust to major layoffs. We have also committed ourselves to a strategy for long-term revitalization of the northern economy. This strategy is aimed at strengthening the resource-based sector and diversifying the economy by attracting new investment and making government programs and services more accessible and relevant to northern needs. It is our objective to return prosperity to the north by making it more competitive and less vulnerable to volatile resource markets.

In 1985, we established the $100-million northern development fund. To date, some $17 million has been spent. This fiscal year, we expect to spend a further $28 million in support of community adjustment, business and tourism development, new educational opportunities and northern job creation.

We have also set up nine northern development councils to advise the government on ways to achieve our northern development objectives.

The transfer of several government offices from Toronto to northern Ontario will assist in the diversification and stabilization of the local economies. When these transfers are completed, more than 1,200 permanent public service jobs will have been moved to northern Ontario. These relocations represent an annual payroll of $40 million.

We have consulted and listened. We have acted. We know that more needs to be done for northern Ontario.

People in the north are very concerned about transportation issues because of the distances they have to travel. We have consulted widely with northerners--in fact, our entire caucus has been up there consulting--and have been told that while there is concern about gasoline price differentials, the immediate priority should be that of improving northern highways.

In response, the government has decided to increase the allocation for northern transportation by over 32 per cent, or $26 million, to a level of $107 million for 1987-88, most of which will be spent on northern roads. Also, some of the extra funding will be dedicated to key northern access highways in order to improve commercial transportation and tourism. In addition to improving transportation in the north, a significant number of construction jobs will be created.

For decades, many northerners have believed that a larger share of revenue derived from their resource heritage should flow back into the region. We are establishing a northern Ontario heritage fund to help ensure long-term economic growth and diversification in the region. This fund will have an initial allocation of $30 million. The fund will operate under the guidance of the Minister of Northern Development and Mines (Mr. Peterson), who also happens to be the Premier. He will be assisted in his decisions by a heritage fund advisory council, with representatives from each of the northern development councils.

As a further benefit to the northern economy, I am proposing a three-year mining profits tax exemption for new mines. This exemption would apply to the net income of newly producing mines, and I estimate the value of the incentive to be $5 million per year.

Many parts of eastern Ontario are not fully participating in our economic growth. The throne speech announced a number of initiatives to address this problem, including the establishment of a small business services network and the opening of an Eastern Ontario Development Corp. office in Pembroke.

In addition, I am announcing a new eastern Ontario community economic development program to enhance growth and employment opportunities in the region. Under this program, the Ministry of Industry, Trade and Technology, in conjunction with local economic development commissioners and other municipal officials, will identify special opportunities for enhanced community economic development. We will allocate $25 million of this program over the next five years. The program will provide funding to co-ordinate business-related assistance programs and to help finance business support services and capital assistance.

The tourism industry represents a major source of economic potential, particularly for many of Ontario's smaller communities and the northern and eastern regions of the province. The government is committed to the strengthening and revitalization of this important sector. In the past year, we have significantly enhanced our marketing efforts and extended the tourism redevelopment incentive and the grading assistance programs for a further two years. Under the TRIP program, provincial loan guarantees are expected to reach $130 million this year.

The Destinations North and East programs we introduced in 1986 have received an enthusiastic welcome from the industry. To ensure that quality proposals are not passed over or delayed because of a lack of available funding, an additional $5 million has been provided to these programs.

This budget provides funds to make tourism and recreation programs and facilities more accessible to disabled persons and to provide financial support for the renovation and development of heritage inns.

These measures will bring the growth in the Ministry of Tourism and Recreation's budget to 9.3 per cent.

The agriculture community in Ontario continues to face difficult times. While red meat prices have improved, low prices for many other farm commodities, high debt loads and declining farm asset values continue to place many of our farmers in a tight financial position. Increasingly, farmers have to supplement their incomes from nonagricultural sources.

In recognition of the problems facing the agriculture community, the government has taken a number of initiatives. In 1985, we introduced the Ontario family farm interest rate reduction program. During the past year we extended the program and enhanced it further. In the fiscal year just ended, $50 million was provided through the farm income stabilization program. To assist in the orderly rationalization of the tobacco industry, we are contributing $15 million to the federal-provincial tobacco assistance plan. In 1986, we introduced the Ontario pork industry improvement program, for which funding will be increased to $11.3 million in 1987-88.

This fiscal year, we will be taking further steps to assist the industry.

To stimulate the agricultural and rural economy we are introducing a $50-million farm management, safety and repairs program. It will provide grants of up to $2,500 per farmer to encourage farm safety, improve farm management techniques and assist in the purchase of machinery repairs and grain storage facilities. The program will run from June 1, 1987, to May 31, 1988, and will be available to all farmers with a minimum of $12,000 in gross farm production income.

As announced in the throne speech, the Ministry of Agriculture and Food's headquarters will be moved to Guelph. This will improve communication among federal, provincial, university and private sector farm organizations and enhance Guelph as a centre of excellence in agricultural research and training.

The beginning farmers assistance program will be extended for five years.

For 1987-88, benefits under the OFFIRR program will be maintained at the 100 per cent level, rather than the scheduled reduction to 70 per cent.

To encourage sound land management practices, the government is introducing a new, three-year, $40-million land stewardship program. This program will provide financial assistance to farmers for restoring soil productivity and for reducing environmental damage on both productive and marginal lands.

Property taxation of farms is a long-standing issue in Ontario. Currently farmers receive a rebate from the province of 60 per cent of farm property taxes paid. The farm tax reduction program recognizes that productive farm property should not bear the full brunt of property taxes, but as currently structured it does not concentrate benefits on bona fide farmers. This situation is inequitable and should be corrected.

I am proposing a revised program to provide a more equitable tax treatment.

Beginning this year, the farm tax rebate will increase from 60 per cent of taxes paid on the entire farm to 100 per cent of taxes assessed on farm land and outbuildings. I want to make it clear that this will be a rebate, not an exemption. Farm residences will be considered separately and will continue to be taxed as farm property.

Starting in 1988, the rebate will be paid in two instalments. The requirement to prepay 60 per cent of taxes will be discontinued. As a result of these improvements, the total value of these rebates will increase by 17 per cent.

Similar changes will be introduced in respect of managed forest lands, and we will introduce a new rebate program for wetlands. The Ministers of Agriculture and Food (Mr. Ridden) and Natural Resources (Mr. Kerrio) will be announcing the full details shortly. With these announcements, funding for the Ministry of Agriculture and Food will have increased 72 per cent since we took office.

Sustained economic growth is our goal for Ontario, but we must recognize that growth is putting great pressure on our school and transportation facilities, particularly around Metro Toronto. Moreover, housing and environmental pressures must be addressed. Growth generates certain problems that, without good management and planning, would threaten the quality of our urban life.

With respect to school facilities, I have already indicated that the capital budget has been set at $147 million for the current fiscal year. In recognition of the pressing need to plan now for the rapid growth that is taking place in some Ontario communities, we have approved a capital budget of $226 million for 1988-89.

Ontario has one of the world's safest, most efficient transportation systems. But we agree with municipal representatives who have warned that it will take major expenditures to keep it that way. After years of spending constraints, Ontario's network of roads, bridges and expressways is beginning to deteriorate. We must act now to reverse that trend. In addition, we have to make provision for traffic congestion relief and other improvements to the existing network.

The government has decided, therefore, to provide a major enrichment of $290 million over the next three years to upgrade and expand the transportation system. As the minister has already announced, $130 million of this new funding will be spent in the greater Toronto area. As well as addressing other priority needs for municipal roads and transit, this will enable an immediate start on Highway 407. The balance of $160 million in new funding will be spent outside the greater Toronto area to address vital road and transit requirements.

In this fiscal year, in addition to the enrichment for northern roads, $50 million more will be provided for other regions of the province.

Transit spending will continue at high levels. Service improvements and expansion of the GO Transit system will be funded at more than $100 million this fiscal year. We will also be providing $177 million to municipalities for capital spending on their transit systems. In addition, the government is continuing discussions with municipalities and transit authorities to examine carefully proposals for new transit projects for the greater Toronto area.

With the three-year enrichment I am announcing today, the 1987-88 municipal roads allocation will be increased by a further $28 million to a total of $601 million, for an increase of 9.5 per cent over last year. In addition, we will continue the $30-million Ontario municipal improvement fund.

Transportation spending will rise by 7.8 per cent in 1987-88. The government is firmly resolved that by the end of this decade, Ontario will have a safer, more efficient and better-maintained transportation system.

As I mentioned earlier, the Ontario housing industry has returned to its full strength; however, the problem of providing enough low-cost rental accommodation continues to be a major challenge. Since taking office, the government has increased significantly the level of spending on housing programs. This year, the ministry will begin the next phase of its assured housing strategy that will, in total, provide a further $220 million in capital support for the construction of more affordable rental housing.

The government will also provide an additional $50 million annually to support the operating costs of these initiatives. As part of this strategy, we will enhance housing and integrated support services for the homeless, the disabled, discharged psychiatric patients, victims of family violence, the frail elderly and other socially disadvantaged persons.

In conjunction with the housing industry, we will undertake a program to use provincially owned lands for the production of affordable rental accommodation. We invite the federal government, with its extensive urban land holdings, to join us in this innovative approach.

This fiscal year, the Ministry of Housing will have available a total of $378 million, an increase of more than 34 per cent over the level spent last year. Details of the new initiatives will be announced by the minister.

For 1987-88, this budget provides more than $11 billion for health-care programs, including initiatives announced in the throne speech. This represents more than $1,200 per person. The government will provide additional funding to improve the quality of care in nursing homes, establish new addiction treatment services for youth, and increase access to health-care professionals and community mental health services in the north.

We are also aware of the greatest challenge in managing Ontario's health care system: to maintain quality in the face of rising demand, while at the same time holding costs within affordable limits. Two major studies of the future of our health-care system are under way--the Ontario health review panel and the panel on health goals for Ontario. The government is confident that their reports will recommend fresh responses to this challenge.

The government is proud of its record in supporting a greater emphasis on community-based services. We are also committed to maintaining and enhancing institutional services. In the 1986 budget, I announced a major hospital capital expansion which will improve access to institutional services.

The Minister of Citizenship and Culture (Ms. Munro) will be announcing a government-wide range of initiatives to enrich the cultural mosaic of our province. This budget provides $4 million in new funds to begin the implementation of a series of activities, including expanded second language training, multilingual resource materials for newcomers and increased support to community museums and activities.

The government places a high priority on protecting the environment and has introduced several major pollution abatement programs.

To reduce the level of toxic contaminants entering our waterways, the Minister of the Environment (Mr. Bradley) has introduced a municipal-industrial strategy for abatement.

An $8 million comprehensive waste management program is being introduced to assist municipalities in upgrading landfill sites and in developing waste management facilities.

Deteriorating water and sewer systems throughout the province must be rebuilt before they require even more costly replacement. To determine the extent and urgency of this problem, $14 million is being made available over the next three years to assist municipalities in undertaking detailed assessments of the condition of their facilities.

Although most of the pollution in the Niagara River originates from American sources, Ontario is committed to cleaning up domestic sources. In support of Canada's international agreement with the United States to reduce toxics in the river by 50 per cent by 1996, we recently announced more than $9 million over the next three years towards water pollution control projects in Welland and Fort Erie.

In total, an additional $49 million in capital funding is being provided this fiscal year for waste management and water and sewer projects.

Under the 1987 Canada-Ontario Agreement on Acid Rain, the two governments will each make available up to $85 million. These funds will assist Ontario's three largest industrial sources of acid gas emissions in financing the large investments required to meet the province's emissions target by 1994.

The total budget of the Ministry of the Environment has been set at $418 million, 16 per cent larger than last year.

The federal government did not respond favourably to the province's request that it participate in protective measures to deal with the problems created by high water levels in the Great Lakes. Although lake levels have receded in recent months, many municipalities along Lakes Huron, Erie and St. Clair have sustained damage to publicly owned infrastructure. To respond to immediate needs while a longer term solution is being developed, I am providing $6 million to share the cost of needed capital repairs. This funding will supplement existing capital assistance programs.

We believe there is an important link between strong social programs and the health of our economy. Fiscal responsibility and social conscience are not mutually exclusive.

We have made substantial progress towards improving our social programs and we will do more.

The government realizes that high-quality, affordable child care is both an economic and a social need and that parents require a range of choices--co-operative, nonprofit, private and informal-to suit their family circumstances.

The issue is not confined to Ontario. In recognition of its national dimensions, federal-provincial discussions are under way. The Minister of Community and Social Services (Mr. Sweeney) is taking an active part in these discussions.

We believe that a national policy should provide support for nonprofit and commercial centres. In addition, there is a need for capital grants and startup money to nonprofit operations. Furthermore, the current system of subsidies to needy parents should be simplified and made more flexible. In this regard, we are concerned about the directions proposed by the special House of Commons committee on child care.

While we have every expectation that the current negotiations will result in a national strategy, given the pressing needs in this area we have decided to take some action now. We will provide an additional $26 million for child care initiatives this year, raising our total commitment to child care to $185 million.

Over the next three years, the government will provide $33 million in capital funding. The minister will be announcing the details. Moreover, planning is under way to provide child care spaces in all new schools and to encourage municipalities to require child care facilities in new commercial buildings.

In recognition of the needs of the low-income disabled, I am increasing the guaranteed annual income system for the disabled benefits by $50 per month, to be paid beginning June 30, 1987. This change will cost $45 million this fiscal year and $54 million in a full year.

In addition, funding will be provided to improve our system of community support services for the disabled. Opportunities for disabled adults to maintain an independent existence in their own communities will be enhanced and the special needs of physically handicapped children at home will be addressed.

Since 1980, Ontario has paid tax grants to seniors for the first $500 of their property taxes. To help Ontario seniors continue to live independently, I propose to increase the maximum grant from $500 to $600 a year. In the fall, this enrichment will be included in the grant cheques to 570,000 Ontario seniors' households. These benefits will provide $55 million in 1987-88, bringing total property tax support for seniors to $385 million this fiscal year.

There is a pressing need to maintain and upgrade the municipal and charitable homes for the aged. Under the capital rehabilitation program announced in 1985, more than 60 homes have already received funding. The government will provide a further $100 million to renovate additional homes over the next six years.

Improvements are also needed in our taxation system to better reflect people's ability to pay their taxes. I expect tax reform to involve a reduction in tax burden for low-income Ontarians, but we cannot ask low-income people to wait for tax reform. Today, I am bringing forward three measures designed to ease their tax burden.

I am proposing legislation to strengthen our commitment to the Ontario property tax credit system. The basic property tax credit will be increased from $180 to $230, effective for the 1987 tax year. As a result, about 1.8 million low- and moderate-income tax filers who pay property taxes or rent will share an increase in benefits of $85 million.

This enrichment will raise the cost of the Ontario tax credit program to $360 million and will make local tax burdens fairer and more affordable.

But more can be done to ensure fair taxes for lower-income citizens. As members will recall, I enriched Ontario's tax reduction program for 1987 in the last budget. For 1988, I plan to expand the Ontario tax reduction program by an additional $10 million, bringing total tax cuts under the program to $35 million. As a result, an additional 100,000 people will pay no Ontario income tax and 60,000 people will pay less Ontario income tax.

This action means that since taking office, the government will have doubled the number of Ontario tax filers receiving income tax reductions. Fully 600,000 taxpayers, who pay up to $270 each in federal income tax, will pay no Ontario income tax in 1988 due to this program.

We will also substantially reduce the number of Ontarians who pay Ontario health insurance plan premiums. Effective for 1988, the income limits under which premiums are reduced or eliminated will be increased. As a result, another 40,000 individuals and families with low income will no longer pay premiums. This provides an additional benefit of $20 million.

In total, these measures to reduce income and property taxes and OHIP premiums will put $115 million into the hands of low- and moderate-income people.

We have made a commitment to a $4 exemption level for prepared food. I am pleased to announce that I am proposing the full implementation of this promise, effective June 1, 1987, at a projected cost of $40 million this year.

There are two matters on the federal-provincial horizon that could affect this year's fiscal plan and indeed the Ontario economy. I refer to tax reform and the Canada-United States trade negotiations.

On June 18, the federal government will table its proposals for tax reform. I believe the current tax system is failing the tests of fairness, simplicity and taxpayer acceptance. The proliferation of tax preferences has made the system complex, confusing and inequitable. With the right changes, the Canadian tax system can be fairer, more competitive and less intrusive into business and personal affairs.

l would like to commend the Minister of Finance on the forthright and co-operative manner in which he has dealt with the provinces on tax reform. Since last September, provincial treasurers have met with Mr. Wilson on four occasions to exchange ideas, concerns and advice on this important issue. In those discussions, I have outlined a number of key areas for federal consideration. I would like to summarize these for the members today.

In Ontario, we are studying major changes to our social welfare system. While the review is not complete, we have already found wide variation in benefits to social assistance recipients in similar circumstances, and serious disincentives to work. Tax reform must recognize that the tax system and the social assistance system need to be harmonized. Tax reform should not preclude the introduction of a guaranteed annual income.

Fairness also requires that exemptions be clearly justifiable. I have indicated my concern to Mr. Wilson, repeatedly, that the $500,000 capital gains exemption is unfair and leaves untaxed the profits from a number of types of transactions of dubious economic benefit to Ontario. This aspect has to be attended to if Canadians are to accept the spirit of the overall tax reform package.

I believe that improvements in simplicity and national tax harmony should also be objectives of tax reform. Members will be aware of the successful tax collection agreement for the administration of personal income tax between the provinces and the federal government. If the federal proposals to reform the federal sales tax result in a simpler and more progressive system, one which is generally acceptable, I believe the provinces should consider co-ordinating their sales tax structures with the federal system.

The province of Ontario now administers its own corporate income tax. While this separate administration provides maximum flexibility, it puts added paper burden on corporate taxpayers. If the federal corporate tax reforms are fair and consistent with Ontario's economic priorities, I plan to examine the possibility of re-entering a corporate income tax collection agreement with Ottawa. However, I would consider such action only with assurances of flexibility to pursue important provincial economic objectives through this tax.

I want to make it clear that consideration of these options will not impair the employment of any Ontario public servant associated with the current tax administration.

Federal reform will alter tax bases, rates and the shares of taxes coming from the three largest sources of federal revenues. Because provincial tax systems are closely linked with the federal tax bases, provincial taxes will have to be amended. I believe that provinces should not undermine federal rate reductions associated with tax reform. Neither should tax reform impose added costs or revenue losses on the provinces. It is my intention to meet both these objectives in designing any required adjustments.

There is much uncertainty in the area of Canada-United States bilateral trade negotiations. No one can yet be sure that there will be an agreement or indeed which of numerous possible features will be included should an agreement be reached. It is unquestionable that Canada-US trade issues are of utmost importance to our economy, our social policies and our cultural development.

Once I have greater certainty on the details of federal tax reform and the outcome of the trade negotiations, I will assess the impact on my economic forecast and fiscal plan, review our spending and tax policies and report to the House.

The emergence of a global trading economy has been accompanied by a global financial market. As the links between Canadian businesses and foreign markets have grown in importance, the existence in Toronto of a vigorous and outward-looking financial services industry has been of increasing benefit to the city, the province and the nation. The government is taking steps to encourage new competition and growth in the securities industry and to enhance Toronto's standing as a centre of domestic and international finance.

In addition, I intend to examine income and capital tax changes to make Ontario a more competitive location for international financial activity. This may be necessary to ensure that the financial industry makes business decisions on the basis of economic conditions rather than tax planning.

I would like to provide an update on the 1986-87 fiscal year. Last year's revenue was almost $1.3 billion higher than the original forecast. First the federal revenue forecast for personal income tax turned out to be $670 million too low. Second, higher corporate profits, an exceptional housing market, stronger retail sales and other factors combined to produce additional revenue of $602 million.

Of these additional funds, $233 million was used to reduce the provincial deficit. We provided $330 million to ease pressures on local mill rates, by reducing the level of short-term borrowing required by local school boards during the first three months of the calendar year.

A further $121 million was used to meet additional capital expenditure requirements. A total of $578 million was used to fund increased operating needs in post-secondary institutions, for health care and for social assistance.

When we took office, we faced a planned deficit of $2.2 billion for 1985-86 which we reduced to $1.6 billion. During 1986-87, the deficit was cut to $1.3 billion. I now turn to my fiscal plan for 1987-88, which, I am proud to say, includes a further reduction in the deficit to $980 million.

The fiscal plan I am putting forward today involves total expenditure of $34.8 billion and revenues of $33.8 billion. Projected net cash requirements stand at $980 million, a further reduction of $331 million from last year's reduced level. The province's operating position, which deals with current revenue and current expenditure, stood at a deficit of $416 million in 1985-86. In 1987-88, this operating deficit will be reduced to $28 million, an improvement of $388 million. Since this is a goal I set out in last year's budget, I am proud to say that it means the province's operating account is essentially balanced.

I expect to be able to secure $350 million in reductions through expenditure savings and constraints in the current fiscal year and I have reflected this in the overall expenditure target. Each ministry will be required to show Management Board of Cabinet where it can cut spending in areas other than transfer payments. Exceptions will be made for selected operations such as psychiatric hospitals and correctional institutions.

Ontario's total borrowing in 1986-87 was more than $300 million below the level projected in the 1986 budget. The province borrowed $232 million from the Canada pension plan and repaid $333 million in maturing CPP debt issued in the late 1960s. As a result, Ontario's own CPP debt declined by $101 million.

Ontario's 1987-88 financing needs will be less than $1 billion. With the amounts expected to be available from the teachers' superannuation fund, no CPP funds will be needed in this fiscal year for Ontario's own purposes.

We will also be repaying the final instalment of the province's deutsche mark loans, which were undertaken in the late 1960s and early 1970s. I am pleased to report that, by the end of this year, the province will have retired all its outstanding foreign debt.

The next stuff is particularly good. I would like to sum up the 1987 budget for the province of Ontario.

It cuts taxes by $246 million, primarily for the elderly and low-income people.

It funds essential social and economic priorities in education, health, housing, child care, transportation and high technology.

It provides important new programs for northern and eastern Ontario.

It delivers needed assistance to our agriculture community.

It reduces the deficit by $331 million. And, it contains no tax increases.