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| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 28e | 3e | Discours du budget | 31 mars 1970 | Charles MacNaughton | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker:

The Government has promised the people of Ontario that its 1970 budget would be balanced, without tax increases. I am pleased to submit to you today a budget that honours this commitment and goes even further toward meeting other important objectives.

This 1970 budget has been constructed in a difficult economic and fiscal environment. In the decade ahead, the continuing potential for economic and social development is unquestionable. However, our immediate legacy from the 1960s is an economy and a public sector in Canada that are fundamentally out of balance. The evidence is abundant:

• the economy is struggling under persistent inflation, tight money and increasing unemployment;

• expectations and appetites are rising far faster than the real resources available to satisfy them;

• the public sector is growing excessively relative to private production, investment and consumption; and,

• the chronic fiscal mismatch of governments is steadily worsening.

The challenge to public policy in the 1970s, therefore, is the restoration of balance and stability in the economy and in the federal system. The achievement of these goals will require long-run strategies to deflate expectations and combat latent inflationary tendencies, to keep the economy operating at full potential, to contain growth in the public sector within the bounds of present taxes, and to achieve a closer matching between the responsibilities of and the resources available to each level of government. Only with concerted government action to meet these requirements can Canada regain the essential balance necessary for real economic progress and true social reform.

The small surplus, which will be proposed in this budget, demonstrates that, in this uncertain period, the Ontario Government is steering a responsible course of moderation and consolidation in the province while contributing, in a constructive manner, toward the achievement of these broad national purposes.

As in the past three years, this Budget Statement is complemented by three Budget Papers in order to provide a broader perspective on the economic, fiscal and financial policies of the Ontario Government.

I call your attention particularly to Budget Paper B which contains an analysis of the operations and financing of the total government sector within Ontario. It illustrates the fiscal role, in this province, of each of the three levels of government and shows the significant financial interactions among them. It documents the amount of taxes raised by the federal, provincial and municipal governments and shows where this money is spent. Budget Paper B reveals that in 1968-69, for example, the federal government drew off $1.4 billion in financial resources from Ontario for redistribution to the fiscally weaker provinces. The magnitude of this reallocation, which can be expected to grow annually, indicates the importance of Ontario as a generator of wealth and fiscal resources for the entire country. Budget Paper A discusses current economic problems and the outlook for 1970, which is the background for the determination of our fiscal policies. It focuses on the problem of inflation and discusses the merits of present stabilization policies. It presents the Government's views on the long-run strategies and changes that are required to achieve price stability without high unemployment, and suggests means of improving federal-provincial policy co-ordination.

Budget Paper C is a comprehensive presentation of the Government's financial statements. The facts and figures for budgetary, non-budgetary and debt transactions which are presented in that paper provide a complete overview of the financial activities of the Ontario Government.

THE BASIC FRAMEWORK

Before proceeding with the details of this budget, I should like to discuss the major developments on the economic and federal-provincial fronts that directly affect the Ontario Government's immediate and longer-run budgetary plans. The first and most immediate factor influencing our 1970 fiscal plans is the performance of the Ontario economy. After nearly a decade of unprecedented growth, our economy is undergoing a significant slowdown while struggling with persistent inflation at the same time. Therefore, our 1970 fiscal policy is intended to provide a moderate, yet positive, thrust to the economy. Second, the matter of tax-sharing reform continues to be of paramount importance. Notwithstanding the widespread recognition of the totally unsatisfactory distribution of revenue sources, I must report, with regret, that the recent Tax Structure Committee exercise has left us no closer to resolution of the problem of federal-provincial fiscal imbalance. Third, the equally vital and related matter of tax structure reform is a public issue of high priority. In my last budget

I set out the Government's proposals for achieving comprehensive and co-ordinated tax reform, both in the provincial-municipal sphere and the federal-provincial shared-tax fields. In the interval, the federal government has brought forward its proposals for reform in these shared-tax areas and encouraged commentary or criticism. In recent weeks, we have asserted our fundamental disagreement with the federal approach to tax reform. We will continue to make proposals for a more acceptable tax system and to suggest means of achieving that goal.

Ontario's Economic Prospects and Fiscal Policy Requirements

As 1970 unfolds it is becoming increasingly evident that the Ontario economy is experiencing a significant slowdown. Growth in production and sales is levelling off, corporate profits are dropping, housing starts are down sharply, and unemployment is rising. Prices, however, are reacting very slowly to this deceleration in economic activity. Consequently, I anticipate that our Gross Provincial Product will rise by only 7 per cent in 1970 — about 3 per cent in volume of output and about 4 per cent in prices. By comparison, output rose by more than 5.0 per cent in 1969 and Gross Provincial Product advanced by 9.6 per cent. The prospects for 1970, therefore, add up to a below-potential performance for the Ontario economy.

This retreat from the buoyant economic advances of the preceding decade is largely the result of stringent monetary and fiscal policies designed to combat inflation. Budget Paper B shows the massive impact of federal fiscal action in Ontario. As I have noted, in the expansionary fiscal year 1968-69, the federal government drew off $1.4 billion in financial resources from Ontario. Based on the large surplus that the federal government is now running, the current reallocation out of Ontario probably exceeds $1.8 billion — or more than $250 from every person in Ontario. Obviously, this creates a huge "fiscal drag" and a strong deflationary bias in the Ontario economy.

The Government of Ontario agrees that price stability must be restored. However, the costs of present federal policies are already very high: fewer new jobs, higher unemployment, lower real growth and reduced productivity. This economic slackening is detrimental not only to Ontario but also to the country as a whole. Certainly any further restraint would be excessive, creating still higher unemployment and little further improvement in prices and costs. Budget Paper A deals with this problem of inflation and public policy in detail.

It suggests that we must seek longer-run strategies to prevent wide economic swings in the future. In particular, we must devise better co-ordinating mechanisms among governments and find a way to achieve orderly growth in the public sector. The lesson to be learned from our present difficulties is to avoid excesses, particularly within the public sector; it is these excesses which have been built into the inflationary spiral over many years.

Our fiscal policy for 1970 is designed to provide a moderate expansionary stimulus to the Ontario economy. Given the evidence of economic softening and the uncertainty that continued restrictive fiscal policies will be effective against inflation, we believe that some relaxation of provincial restraint is required. To achieve this positive fiscal impact, while at the same time keeping our finances in balance, we have applied part of our 1969-70 surplus against 1970-71 commitments. We have planned to maintain essential provincial expenditures and to increase our aid to municipalities without raising taxes. In fact, we are reducing taxes in selected areas to provide incentives and to reduce certain burdens. We also intend to refrain from new borrowing for provincial account in order to avoid added pressure on strained capital markets. Finally, we are co-operating with the Prices and Incomes Commission in its efforts to secure voluntary restraint in all sectors of the economy. We believe that such a fiscal program is appropriate in the face of an uncertain economic environment. Should the economic outlook deteriorate in the coming months we stand ready to adjust our policies quickly.

Federal-Provincial Fiscal Imbalance

In 1969, the Tax Structure Committee was reactivated to examine again the balance of fiscal responsibilities and resources of each level of government. Its 1970 report confirms the findings of the original 1966 study, which documented the chronic underfinancing at the provincial-municipal level and the potential fiscal surpluses at the federal level. The new projections show that, by 1971-72, provincial-municipal deficits will be in the order of $1.8 billion, while the federal government will enjoy a substantial surplus.

The 1970 report reveals the inevitable results of independent financing and unco-ordinated growth in public expenditures. The federal government virtually ignored the 1966 findings and told the provinces "to go out and raise taxes." That is exactly what has happened; property taxes and provincial taxes have been increased regularly to finance fast-growing costs in education, health, transportation and urban development. Meanwhile, the federal government has developed new programs to dispose of its potential surpluses.

As a consequence, the total government sector is steadily pre-empting a larger share of the national product. The 1970 report shows that all government expenditures, which took up 29 per cent of Gross National Product in 1964-65, have grown to over 33 per cent in 1969- 70 and should reach 35 per cent by 1971-72. In just five years, the public sector has increased its claim on the national product by about 15 per cent. This trend must be halted.

The Government has consistently argued that rapid growth of government expenditures would be the inevitable result of uncoordinated tax programs. Unless the financial requirements at each level of government can be accommodated and harmonized within one integrated system, the public sector will continue to encroach on the economy and the overall tax system will degenerate, with the taxpayer as the ultimate victim.

On the basis of the new Tax Structure Committee findings, Ontario, along with other provinces, recommended that present fiscal arrangements be modified so that the provinces together would have greater revenue at their disposal for 1970-71 and 1971-72, without channelling a greater proportion of national product into the public sector. The federal government was again unwilling to consider new fiscal arrangements, and restated its position that each government should proceed with independent taxing and spending decisions.

Such is the intergovernmental framework within which we must operate for 1970 and, presumably, for subsequent years. The failure to obtain a sensible resolution of federal-provincial tax-sharing problems will inevitably limit the Government's ability to increase aid to municipalities and to maintain essential provincial services.

Comprehensive Tax Reform

Since my last budget, which set out the Province's plan for reform of taxation and government structure in Ontario, the federal government has brought forth its proposals for tax reform. The Ontario Government agrees with some of the federal objectives, particularly, tax relief for low-income families, fairer treatment of wage and salary earners, child care allowances for working mothers, and a fair and equitable form of taxation of capital gains. On the other hand, we have serious reservations about the validity and workability of the federal proposals as a whole. We believe that the federal approach to tax reform is deficient on three major grounds: it increases federal taxes rather than maintaining or reducing them; it is piecemeal rather than comprehensive; and it will generate adverse rather than positive economic effects.

The federal white paper proposals have been designed to produce a significant increase in federal revenue-raising capacity, a move which we regard as totally retrograde. Given the surplus fiscal resources already available to the federal government and the need to contain public sector growth, federal tax reforms should aim to reduce taxes, not increase them. By contrast with Canada, the recent U.S. tax reform legislation entails a substantial reduction in federal tax revenues and, hence, a reduced federal claim on Gross National Product. We believe Canada should be moving in a similar direction. The best guarantee to taxpayers that there will be some control of government spending is to leave resources in the hands of the people, rather than taking more under the guise of reform. We strongly urge, therefore, that the federal proposals be amended to produce no net revenue gains. This can be achieved by offsetting the ultimate increases which will accrue in the corporation tax field by reductions in federal income tax rates, thereby providing tax relief to low-income families without placing heavier burdens on all other taxpayers.

The federal government is proceeding with reform by introducing changes in one tax field after another: first gift and estate taxes, then insurance company taxes, and now personal and corporate income taxes. Little regard has been shown for the cumulative effect on taxpayers.

For example, the piling of capital gains taxes on top of the new estate tax amounts to confiscatory taxation. The piecemeal federal approach also fails to deal with tax reform in the comprehensive way that the Ontario Government advocated in its own white paper. Our mutual goal should be the redistribution of total federal-provincial-municipal tax burdens. The goal of equity demands this comprehensive approach, because it is the property tax, not the income tax, that bears most heavily on low-income families. By ignoring provincial-municipal needs and inhibiting complementary provincial-municipal reforms, the federal government's proposed tax reform is almost certain to be a hollow achievement. Equity gains in the income tax area, achieved in isolation, could well be negated by increased reliance on regressive property taxes and on provincial taxes generally. We urge that the broader requirements of comprehensive tax design and reallocation of tax revenues among governments be accommodated in any federal reform program. Only in this way can government genuinely serve the best interests of taxpayers.

The federal tax reform proposals also contain major drawbacks in terms of their potential economic consequences. I have already set out our views in this regard at the appropriate federal-provincial meetings, drawing attention to the inflationary bias, and to the adverse effects on small businesses, on private savings and investment, on innovation and risk-taking, and on the long-run growth potential of the economy generally. In addition, the new proposals appear to create an unfavourable climate for Canadian-based international companies. Surely, in the modern age of multi-national corporations, with their advantages of scale, technology and specialization, Canada should be trying to increase its participation in such international economic activity. Our concern in these and other areas led the Government to call for broad-ranging studies of the economic implications of the federal white paper along the lines of those undertaken for the Carter Commission. Such studies would provide a concrete basis for moderating many of the federal reform proposals. We intend to continue to present our ideas on tax reform at future intergovernmental conferences and to press for comprehensive tax reform.

Let me outline briefly the tax reform strategy that we believe is appropriate in Canada to meet the problems and exploit the potential of the 1970s. We start with the fact that there is only one taxpayer for all levels of government. We believe his total tax bill is too high. Moreover, the present federal-provincial-municipal tax systems bearing upon him are haphazard and unco-ordinated. The two essential conditions for reform, therefore, are to arrest the growth in total public expenditures and to rationalize the overall tax structure. Without these conditions, tax reform will be wiped out by the steady encroachment of government and by competition for the tax dollar. Furthermore, we believe that tax reform must preserve a strong economy by fostering opportunity and productivity to achieve long-run growth and development. Unless taxes are redesigned to provide for sound economic growth, the result could be less real gain for all. Our approach, therefore, is to seek co-ordinated tax reforms that contain total tax burdens, that improve overall equity, and that preserve economic incentives— in short, tax reforms that meet the needs of taxpayers first and governments second.

REPORT ON FINANCIAL OPERATIONS FOR 1969-70

I should now like to report on the financial operations of our Government during the 1969-70 fiscal year. Although the results of this fiscal year are not yet complete, I am confident that the interim picture, which I am presenting today, will mirror closely the final results for 1969-70. This confidence is based on the successful development within the Department of Treasury and Economics of a sophisticated Financial Information System and the introduction of improved financial reporting within the Government generally. The tables in Budget Paper C set out these interim financial figures in full detail for 1969-70, based on actual performance for eleven months and estimates for the final month.

Our budget performance in 1969-70 differs substantially from the original financial plan that I put forward last year. Two factors account for the difference: first, the performance of the economy in 1969; and second, the major new policies introduced by the Government subsequentto my last budget.

The Ontario economy outperformed expectations at the time of the 1969 budget. As you will recall, it was estimated that our Gross Provincial Product would rise by slightly less than 8 per cent in 1969; in fact it rose by 9.6 per cent, an expansion clearly reflected by our revenues. Personal income taxes have produced revenue $50 million above my original forecast. Corporate taxes are up $73 million, mainly because 1969-70 receipts include unusually large final settlements for the 1968-69 fiscal year. Post-secondary education adjustment payments, on the other hand, are down $43 million from last year's budget forecast. This resulted from $35 million in federal backpayments being received at the end of the 1968-69 fiscal year rather than in 1969-70, as we had anticipated. The largest in-year change on the revenue side, however, arises out of medicare. The Ontario Government's participation in universal medicare since October 1, 1969, has brought into our provincial accounts $157 million in premium revenues that formerly flowed to private carriers and to OMSIP. In total, therefore, I expect our net general revenues for 1969-70 to reach $3,292 million, compared with the original forecast of $2,998 million. At this moment we expect net general expenditures for 1969-70 to be $3,266 million, compared with our original target of $2,996 million. This increase of $270 million is entirely the result of policy initiatives introduced during the course of the 1969-70 fiscal year. Medicare, of course, is the principal new program. Under OHSIP, all medicare expenditures are incorporated into the provincial accounts, where formerly these outlays were recorded in the accounts of private carriers and of OMSIP. Thus, provincial expenditures on medicare in 1969-70, net of federal payments, rose from $90 million to $161 million. Expenditures for 1969-70 also reflect other major in-year policy decisions.

For instance, we decided to increase our 1969-70 contribution to the Ontario hospital insurance plan so that hospital premiums would remain at the present level in 1970-71. This decision required an added commitment of $125 million. We provided an additional $50 million in support of school boards to prevent steep rises in local mill rates. We also increased by $34 million our advance payments against 1970-71 legislative grants in order to improve the cash flow to school boards.

Apart from these deliberate changes in expenditure policy, we have managed to hold our net general expenditures to the intended levels. All other provincial expenditures will reach $2,837 million, which represents a reduction from our target figure. This review of our 1969-70 revenue and expenditure performance is documented in the accompanying table.

BUDGETARY OPERATIONS FOR 1969-70

As a result of this revised revenue and expenditure performance, I now anticipate a budgetary surplus of $26 million in 1969-70, which represents a modest increase over our original plan. Our non-budgetary transactions will also show an improved position. Non-budgetary sources of finance, including borrowings from the Canada Pension Plan and transfers into internal funds, are expected to yield $906 million while non-budgetary outlays will require $616 million. The non-budgetary surplus, therefore, should approximate $290 million. After allowing for net redemptions of maturing debt at $74 million, we can look forward to an overall cash build-up of $242 million in 1969-70. The overall result of these financial operations will be to reduce our net capital debt by the end of the current year to $1,566 million. This represents a per capita net debt of only $206, down $8 per capita from the previous year, and a burden that could be retired with five months' revenue. Two years ago it would have required eight months' revenue.

In concluding this report on our financial operations for the current fiscal year, I wish to stress that several of the budgetary decisions we have taken during 1969-70 will carry over and take effect in 1970-71. This has important fiscal policy implications. For example, most of our additional $125 million contribution to the hospital insurance plan will move into the spending stream in 1970-71 as the Ontario Hospital Services Commission draws down the reserve for premium stabilization. What we are doing, in essence, is setting aside current funds to meet future obligations. This prudent funding will enable us to attain a financial balance in 1970-71 without increasing taxes, while generating a positive fiscal impact on the economy. In this manner, our fiscal policy objectives will be achieved.

PROGRESS TOWARD REFORM

A year ago, the Government of Ontario embarked upon a long-run program of basic reforms in provincial-municipal taxation and finance. Today, I want to report on our progress toward these reform objectives and to outline how we intend to proceed in the future. First, let me say that developments on the federal-provincial front have inevitably retarded our fiscal reform timetable. Our inability to secure a reasonable share of the jointly occupied growth tax fields has limited our ability to finance essential municipal reforms. Moreover, the recent federal tax reform proposals will inhibit complementary reforms at the provincial-municipal level. As I have already suggested, the federal government has adopted a unilateral approach to tax reform, whereas we believe a co-ordinated and comprehensive approach by all levels of government is essential. However, this lack of accord and progress at the federal-provincial level will not diminish our determination to achieve maximum reform within our own jurisdiction. In this budget, the Ontario Government is taking several significant steps toward reform of our existing provincial tax system. Later in this Budget Statement, I will outline major changes in the succession duties and the retail sales tax that we intend to implement. In the areas of personal and corporate income tax, on the other hand, we are not contemplating any major changes until federal-provincial tax structure negotiations are concluded. Let me reiterate that we are prepared to explore fully with the federal government potential ways of achieving our reform objectives within the framework of the national income tax system. In the corporate area, we will also continue to seek maximum harmonization and consistency within the national tax structure.

In the provincial-municipal sphere, the Government is making substantial progress toward reform. The initiative provided for in this budget, in addition to the new policies announced during 1969, will advance our reform program on four fronts: increased aid to local governments, property tax relief for needy pensioners, reform of assessment and reform of municipal structure.

Increased Aid to Local Governments

One of our principal reform objectives is to increase financial support to local governments in order to reduce the burden of financing that falls upon the regressive property tax. In 1968, we took two major steps in this direction: the takeover of administration of justice and the introduction of basic shelter tax exemption grants, thereby shifting more than $150 million from the property tax base to the provincial tax base. The 1969 budget committed Ontario to further long-run financial aid to municipalities. In this budget, we are increasing our long-run support to local governments by an additional $125 million. Let me enumerate these reform steps and indicate the additional costs that they will entail for the Province in 1970-71.

The full details of these new provincial policies will be presented to the Members by my colleagues, the Ministers of Education, Municipal Affairs, Highways, and Energy and Resources Management. For my part, I should like to point out that these provincial actions will have an immediate beneficial impact on municipal taxation and financing in 1970.

The increase in education grants represents the first step toward our target of 60 per cent provincial support by 1972-73. The move to permit municipal taxation of university properties and to provide compensatory grants to universities represents a start toward our goal of broadening the local tax base by removing exemptions. For 1970, university cities will be empowered to tax formerly exempt university properties to the extent of $25 per full-time student. This interim formula will be changed over to the normal method of taxation once university properties have been properly assessed. The new level and structure of aid to regional governments provides more unconditional assistance to municipalities. The assumption of the costs of property assessment will free municipal resources for other essential local services. The effect of these measures should be to place municipal financing on a sounder basis and relieve the pressure on mill rates.

This budget also recognizes the severe borrowing problems of Ontario municipalities, particularly smaller municipalities. I am satisfied that steps must be taken to enable municipal councils to secure the capital financing necessary to proceed with essential local facilities. Therefore we propose to make available, through the Ontario Municipal Improvement Corporation, $10 million in capital financing for smaller municipalities. This should be sufficient to supply the 1970 capital requirements of all municipalities in Ontario under 10,000 population. In addition, the Province intends to review the borrowing situation of larger municipalities. Currently, these municipalities are severely restricted by the inflexibility of their serial debentures, and some are finding it difficult to borrow at all. During the present Session, therefore, legislation will be introduced to allow more flexibility in municipal debt issues so that our larger municipalities can compete effectively in the capital markets.

Property Tax Relief for Needy Pensioners

I am proposing in this budget a major new thrust in our tax reform program. Beginning this year, the Government of Ontario will undertake a program of supplementary tax relief to old age pensioners with limited incomes. We plan eventually to provide this type of selective tax relief through personal income tax credits. But given the uncertainty of the federal reform proposals we have decided to proceed on our own. Let me outline the main dimensions of the new program we are proposing.

• The Ontario Government will provide up to $100 in supplementary tax relief to all elderly citizens or couples who receive the federal Guaranteed Income Supplement and maintain an independent household. The supplementary tax relief grants will be in addition to the existing basic shelter grants up to the limit of actual property tax liability. This combined tax relief will eliminate the property tax burden on many elderly householders and reduce it significantly for the rest.

• The supplemenary tax relief grants will be available to tenants as well as homeowners, but not to pensioners living in institutions or in subsidized senior citizen housing. Pensioners in these latter categories are already sheltered from rising property tax burdens.

• The supplementary tax relief grants will directly assist almost 200,000 needy pensioners living in their own homes or apartments, at a cost to the Province of approximately $10 million per year.

• The supplementary tax relief program will be administered directly by the Department of Municipal Affairs.

This new program recognizes that pensioners with little or no outside income have been hardest hit by inflation and are least able to pay rising property taxes and rising rents. The extra $100 in tax relief will eliminate or reduce the claim of property taxes against the limited incomes of these needy pensioners, it will assist many of our senior citizens to continue living independently and in some dignity in their own homes or apartments.

The new supplementary tax relief grants should substantially reduce the number of applicants for property tax deferral under our Municipal and School Tax Credit plan. Once the new program is in effect, therefore, we intend to eliminate this existing tax loan program.

Reform of Assessment and Property Taxation

As of January 1, 1970, the Province became responsible for the assessment of all real property in Ontario. Over the next four years, we plan to reassess all properties at current value in order to establish a uniform and consistent property tax base across the entire province. This reform of assessment is essential if we are to achieve equity among property owners, among property categories, and among municipalities.

Inevitably, as the process of reassessment proceeds there will be changes in the tax position of individual properties within each municipality. These changes from the existing situation reflect the varying degrees of under-assessment in the past. Thus, reassessment may imply increases in taxation for some properties, but these increases will be balanced by decreases in taxation for other properties. Overall, there will be no increase in total collections of municipal taxes due to reassessment itself; in fact, the revised tax base resulting from reassessed values will be accompanied by corresponding reductions in mill rates.

Reassessment has brought into relief the relationships and relative tax burdens among different classes of property: residential, farm, commercial and industrial. Depending on past assessment practices in a municipality, reassessment may produce shifts in tax burdens among property classes. From the results to date, reassessment appears to shift more of the total tax burden onto residential properties. The Department of Municipal Affairs is studying these effects of reassessment intensively. Once enough municipalities have been reassessed and a clear pattern of tax shifts emerges, the Province will introduce legislation to prevent any major shift of tax burden from commercial to residential properties, or vice versa. The Government recognizes that the move toward a modern and equitable property tax base may involve financial hardships in some instances. We believe it is necessary and desirable to alleviate such hardships and to cushion the adjustment to a new system of taxation.

During this Session, therefore, we will introduce measures to permit a phasing-in of onerous increases in tax burdens. My colleague, the Minister of Municipal Affairs, has already described his intentions; he will elaborate further on the whole program of reassessment and property tax reform next month at Ontario's first Provincial-Municipal Conference.

Reform of Municipal Structure

The Ontario Government's long-run program to reorganize the structure of local government is proceeding in response to municipal desires and needs. We are establishing new regional governments where municipalities have requested broader-based units to cope with common problems. Last year Ottawa-Carleton was established.

On January 1, 1970, the Niagara regional government came into being. By 1971, the Muskoka district government will be established. Within each of these new regions, moreover, we are achieving significant consolidation of municipalities. Our proposal for the Muskoka region, for example, will reduce the number of lower-tier municipalities from twenty-five to six. The Province is supporting municipal consolidation in other areas as well. As a case in point, the cities of Fort William and Port Arthur and parts of the townships of Neebing and Shuniah have recently been joined to create the new municipality of Thunder Bay. In all of these moves, the Province has sought the active participation and co-operation of the citizens and the local governments immediately affected. We intend to adhere to this principle in all future efforts to strengthen local government structure.

Regional Development

Last year, in my Budget Papers, the inter-relationship between the Government's programs of regional government and regional development was described. In the intervening year, steady progress has been made in the regional development program in line with our original timetable. Several specific reports have been made public, including a proposal for the retention and development of the recreational capacity of the Niagara Escarpment, and a framework for development planning in Southwestern Ontario. During the coming months a number of reports will also be made public and comments from interested citizens will be invited on development plans for various regions of the province. The current schedule is to place comprehensive plans before the public in six of the ten economic regions in 1970; the remaining four will be released in 1971.

Future Directions

In concluding this part of my Budget Statement, I should like to discuss briefly the future directions of Ontario's reform program. As I have already asserted, we must proceed systematically toward our goal of complete reassessment. We also must carry forward our reforms of municipal structure. We intend, as well, to continue increasing financial support to local governments up to the maximum limit of our resources. Increased local aid will claim a high priority in future Ontario budgets, just as it has in this budget. During the past year, we have undertaken a comprehensive review of our grant and aid policies with the objective of developing an improved unconditional grant system. In the future we will concentrate on the structure of provincial aid as well as on the level of support. Finally, the Government is embarking upon a series of provincial-municipal conferences focusing on our long-run reform program. These conferences will facilitate exchange of ideas with our municipal partners and fuller understanding of our long-run reform goals. We hope that this cooperative approach will ensure that reform remains a positive and creative force within Ontario.

EXPENDITURES

Let me turn now to our expenditure program for the coming year. Generally, we have sought to hold down spending within the limits of present financial resources. We have made reform our highest priority. Finally, we have prudently pursued our long-term objective of expanding public services to meet the urgent and essential needs of this growing and prosperous province.

Continuing Expenditure Restraint

During 1969-70, the Government followed a policy of severe and deliberate expenditure restraint. As a result, we have succeeded in slowing the rate of growth in our spending, compared with the record of previous years. But this has only been achieved at significant sacrifice, including underachievement of our priorities, postponement of essential service facilities and creation of a backlog of unfulfilled needs. In planning for 1970-71, therefore, we have had to face these delayed expenditure pressures plus normal growth requirements for existing services, along with our large outstanding commitment to reform. The cumulative effect of these pressures for increased spending in 1970-71 has been enormous, making our task of expenditure rationing extremely difficult.

The recent Tax Structure Committee exercise clearly illustrated the magnitude of expenditure claims on this 1970 budget. In our submission to the Tax Structure Committee, we projected 1970-71 expenditures at $5,037 million and revenues at $4,690 million, producing a potential deficit of $347 million. For the particular purposes of that exercise, expenditures and revenues were on a gross basis — including federal transfers on both sides and the gross costs and revenues of the Ontario Hospital Services Commission — whereas we customarily speak of net provincial expenditure and net provincial revenue. Translating the Tax Structure Committee projections into net terms, our expenditures were forecast at $3,985 million and our revenues at $3,638 million, still leaving a potential deficit of $347 million.

The Tax Structure Committee projection of $3,985 million for expenditures was based on the five-year forecasts prepared by each department and agency of the Government during the summer of 1969. As such, it reflected the outlays needed to maintain existing services, to provide for normal expansion due to population growth, to cover normal price increases and to finance our commitments to local governments. By the year-end, however, many departments had revised their forecasts upward in recognition of increasing unemployment, rapidly rising prices and higher costs of municipal reform commitments. In short, even the Tax Structure Committee figure of $3,985 million was an inadequate measure of the spending required to meet the Province's real needs in 1970-71.

Financial considerations make it imperative for the Government to continue its expenditure restraint in 1970-71. In order to avoid tax increases we have cut back our spending as far as possible. Consequently, the expenditure package I am presenting calls for a total outlay of $3,728 million in 1970-71, a reduction of $257 million from the projection of the Tax Structure Committee. Together with $101 million more revenues than originally expected, this expenditure curtailment will permit the Government to attain a financial balance in 1970-71, as is shown in the accompanying table.

We have managed to hold 1970-71 expenditures to $3,728 million by applying strict guidelines to provincial own-account spending. These guidelines limit 1970-71 capital expenditures in nearly every area to 1969-70 levels. Also, direct operating expenditures have been limited to a 6 per cent increase over 1969-70. These restraint guidelines reduced departmental budgets by about $100 million. In addition, we have funded, over two years, obligations that otherwise would have fallen entirely in 1970-71. It is interesting to note that the federal government adopted a similar practice in funding its new program of assistance to wheat farmers.

On the capital lending side, we have also exercised maximum restraint in this budget. Excluding debentures issued on behalf of the Ontario Hydro-Electric Power Commission, our 1970-71 loans and advances will amount to $601 million, up from $533 million in 1969-70. Almost all of this increase in provincial capital financing will go into areas of urgent need: housing, water and sewerage projects, and loans to municipalities.

Generally, we have designed our spending and lending program for 1970-71 to do all that is urgently required, yet still contain total provincial and municipal outlays. Our increased support to school boards, in particular, has been provided to control total education spending and give real relief to local taxpayers. We are confident that local governments in Ontario will join the Province in drawing up moderate and responsible budgets for 1970.

The Changing Composition of Provincial Spending

Before discussing our specific spending allocations for the next year, I should like to present our provincial expenditures in a different perspective. In my last budget, I documented the Government's long run emphasis on the priority areas of education, health, housing, and aid to local governments, and showed that these are the fastest growing and largest segments of the total budget. This year, I want to focus on the dynamics of our expenditure structure from another viewpoint by considering the diminishing proportion of total outlays that the Province spends and invests itself, and the increasing proportion it transfers to other spending units. It is this ongoing shift from own account spending to transfer payments that makes our task of overall expenditure rationing and restraint so difficult. Provincial net general expenditures fall into three broad categories: own-account operating expenditures, own-account capital investments and transfer payments. Own-account operating expenditure comprises civil service wages and salaries, and general administration costs. Capital investments consist of expenditures on physical assets such as highway construction, land acquisition and public works projects undertaken directly by provincial departments. Transfer payments include all of the grants, payments and subsidies that the Ontario Government makes available to persons, to institutions and to local governments. In addition to net general expenditures, the Province provides substantial non-budgetary outlays in the form of loans and advances to school boards, hospitals, universities, municipalities and other institutions. These loans and advances represent financial assets rather than physical assets of the Province, though in economic terms their impact is much the same as direct capital formation by provincial departments.

As the accompanying table shows, more and more of our provincial expenditures are being taken up by transfer payments, while own-account spending and investment are diminishing in relative importance. Over the period 1967-68 through 1970-71, own-account expenditures have declined from 28 per cent to 25 per cent of net general expenditure. Similarly, provincial capital investment has fallen off from 11 per cent to 7 per cent of net general expenditure. Transfer payments, on the other hand, have risen from 61 per cent to 68 per cent of our total budgetary outlays.

The major factors accounting for this dramatic shift in our expenditure structure become clear when one looks at the internal components of each of these broad spending categories. Turning first to the own-account category, it is evident that civil service costs are declining in relative importance as the provincial budget expands.

In 1967-68 these direct operating costs took up 28 per cent of total spending, while in 1970-71 they will account for less than 25 per cent of net general expenditure. This trend reflects the achievement of increasing economies of scale, in addition to our own efforts to contain growth in this area to the minimum consistent with effective government operations. Since 1967-68, there have been three significant new charges against own-account spending resulting from our "take-over" of the administration of justice, the municipal assessment and the medicare program. If these expansions in provincial responsibility are excluded, our regular own-account operations would consume only 22 per cent of 1970-71 net general expenditures.

Provincial direct investment is also declining in relative importance as the total budget grows. In 1967-68 capital investment in physical assets amounted to $254 million or 1 1 per cent of overall spending; in 1970-71 capital investment will take up $277 million or only 7 per cent of our net general expenditure. Two factors account for this trend. First, the Government has followed a deliberate policy of holding down public works spending over the past few years as part of its austerity measures. Second, our outlays for new highway construction have levelled off since 1967-68, following the massive build-up of earlier years. However, capital investment in the form of loans and advances has expanded strongly since 1967-68, particularly in the vital areas of education, housing, and water and sewer facilities.

Transfer payments, on the other hand, are consuming an increasing share of our total spending and are causing most of the pressure on the provincial budget. Between 1967-68 and 1970-71 transfer payments have grown from $1,384 million to $2,525 million, or from 61 per cent to almost 68 per cent of total provincial expenditures. The introduction of medicare — the net costs of which are shown as transfer payments for medical services — has raised the 1970-71 total transfer payments somewhat. Nevertheless, it is clear that our transfer payment programs are outpacing the growth in provincial spending as a whole. For example, payments to universities, Colleges of Applied Arts and Technology and Ryerson Polytechnical Institute have more than doubled from $220 million in 1967-68 to $468 million in 1970-71. Grants to school boards — including our contribution to teachers' superannuation funds and our vocational construction grants — have risen from $583 million to $919 million. Payments to municipalities are up by 87 per cent from $246 million in 1967-68 to $460 million in 1970-71. Provincial spending in these areas represents builtin commitments or open-ended programs of financial support. These commitments are growing rapidly and are not amenable to large discretionary changes in the short run. Consequently, we can anticipate that transfer payments will continue to place a heavy strain on the Government's financing capacity.

Highlights of the 1970-71 Expenditure Program

As I have previously indicated, our net general expenditures for 1970-71 will amount to an estimated $3,728 million. This is $462 million higher than our spending program in 1969-70. We have allocated the bulk of this overall increase to five departments:

• $128 million to EDUCATION, largely to increase support to school boards and for expanded operation of our Colleges of Applied Arts and Technology;

• $110 million to HEALTH — after taking into account the reduced 1970-71 contribution to the hospital insurance plan made possible by our extra contribution in 1969-70 — to provide for operation of medicare over a full fiscal year, to expand our medical teaching facilities and to maintain our mental health program;

• $65 million to UNIVERSITY AFFAIRS, largely to finance a 6 per cent increase in the basic income unit to bring it up to $1,650 for 1970-71;

• $37 million to MUNICIPAL AFFAIRS, to provide increased financial support to municipalities, to assume the costs of municipal assessment, and to finance supplementary tax relief to pensioners; and,

• $37 million to HIGHWAYS, to maintain our highway construction and maintenance programs, and to underwrite a larger share of road construction and maintenance by cities and separated towns.

The balance of increased expenditure is spread across the departments generally, most of it going to meet normal growth and increased costs of existing services. In addition to our net general expenditures, we are providing $601 million in loans and advances for 1970-71, an increase of $68 million over the current year. This increased capital aid will be allocated to housing, water and sewerage projects, and debt financing for smaller municipalities.

Following the convention of previous years I will table, along with this budget, the Government's 1970-71 Estimates, showing the complete detail of our proposed expenditures by department, program and activity. I would also remind the Members that the significant features and important items of our 1970-71 expenditures are summarized in Budget Paper C, which accompanies this statement. At this time, therefore, I should like to concentrate on the policy highlights of our 1970-71 expenditure program and to outline the new directions and new initiatives proposed by the Government for the coming year.

*Reform*. Of all of our objectives for 1970-71, we have accorded the highest priority to reform. We have provided for substantially increased financial aid to local governments and have initiated a new program of supplementary tax relief to elderly pensioners with limited incomes. Altogether, these reform measures add $135 million to the long-term financing load borne by the Province.

*Pollution Control*. This budget also accelerates the Ontario Government's program for effective pollution control. We are proposing three new expenditure measures to strengthen our campaign for environmental improvement.

First, we intend to initiate a five-year program of tax-expenditure grants to encourage industry to install anti-pollution equipment. These grants will be equivalent to the Ontario retail sales tax paid by industries on approved pollution abatement equipment. As a parallel move, we intend to replace existing sales tax exemptions on anti-pollution equipment purchased by municipalities with tax-equivalent grants. As well, the incentive will be broadened to include water treatment equipment and incinerators, and will be extended to schools, hospitals and universities. These tax-expenditure grants, effective April 1, will be carried out under the Minister of Energy and Resources Management and are expected to cost approximately $2 million in 1970-71. Second, we are establishing a new program under the Ontario Development Corporation to make loans to small businesses, at favourable interest rates, for the purchase of anti-pollution equipment. In 1970-71 we are allocating $5 million to the ODC for such anti-pollution loans. Third, the Ontario Water Resources Commission will broaden its program to include capital assistance to small municipalities for sewage treatment plants and water pipelines. In 1970-71, these OWRC capital grants to municipalities will amount to $5.4 million.26

These three expenditure initiatives will be reinforced by a new anti-pollution incentive on the tax side, which I shall outline shortly. In addition, of course, the Province will continue its own large program of direct spending to combat pollution. This represents a co-ordinated package of policies designed to achieve and preserve a clean environment for Ontario citizens.

*Ontario Mortgages for Housing*. Ontario is keenly aware of the difficulties of many potential homeowners, caused by the extremely tight mortgage market. We are proposing in this budget, therefore, to take direct steps to fortify the supply of mortgage money for home ownership. In 1970-71, we will set up a $50 million capital fund under the Housing Corporation Limited to provide first and second mortgages to purchasers of new dwellings. This initial allocation of $50 million will finance approximately 3,000 mortages. The interest rate on these Ontario mortgages will be the same as the rate for direct loans made by the Central Mortgage and Housing Corporation. The terms will include a maximum loan of 95 per cent of the lending value of the dwelling and repayment periods up to 35 years.

*Additional Insured Health Services*. As part of its expanding program to provide a high level of health care in Ontario, the Province intends to broaden the benefits available under the Ontario Health Services

*Insurance Plan*. Beginning on July 1, 1970, certain services provided by chiropracters, podiatrists and osteopaths will be eligible as insured service under OHSIP. It will be necessary, however, to prescribe annual limits on these new services. The specific details of this extended coverage will be outlined to the Members by my colleague, the Minister of Health. We anticipate that this enrichment of our health insurance plan will cost approximately $7 million in a full fiscal year.

*Summing up*. The four areas which I have just discussed represent the policy highlights of our 1970-71 spending program. Within our total outlay of $3,728 million for 1970-71 there are, of course, many other important and progressive items. We have increased our spending on day nurseries by 50 per cent, for example, in order to expand this vital service to working mothers. The Government has also recognized the need to re-examine the adequacy of existing welfare and assistance payments. The Department of Social and Family Services is now reviewing our programs in this area. Upon completion of that review, we are prepared to revise our 1970-71 budgetary allocation for these basic income maintenance programs. In other areas as well, we are prepared to be flexible and to revise our budgetary plans as the year progresses, both for the purpose of maintaining the thrust of our priority and reform program and to keep our fiscal operations finely tuned to changing economic conditions.

In all, I believe that the 1970-71 spending program we have drawn up represents a prudent and progressive use of resources available to the Government.

TAX CHANGES

As I have said, there will be no tax increase in the coming fiscal year, either in the form of increased rates on existing taxes, or through the introduction of new taxes. In fact, I shall ask the Members to approve positive measures to provide substantial tax relief to both individuals and industries. In determining our fiscal policy for 1970-71, we have consciously restricted expenditure growth within the limits of our existing financial capacity, in order to relieve the pressure on the tax system and to avoid further tax increases. As emphasized in our white paper on tax reform last year, we are well aware that the benefits of expenditure increases are in danger of being offset by increases in tax burdens, and that, in a meaningful way, reform must aim to halt tax increases as well as to redistribute tax loads on a more equitable basis. In determining our tax policy for 1970-71, we have been obliged to take the following factors into consideration:

• the national and provincial economies are in a period of extremely delicate balance between reduced and renewed economic growth, with particular signs of a weakening employment situation alongside continued inflation;

• while it is unnecessary and inappropriate to increase taxes at this time, it is equally important that tax reductions and relief should not detract from the viability of the Province's basic tax system in terms of its long-run revenue growth capacity; and,

• the limited capacity for tax relief should be used with maximum effectiveness in terms of achieving increased equity and promoting economic activity.

On the basis of these considerations we intend to recommend selective tax relief in three major areas:

• succession duties;

• retail sales tax on certain production goods; and

• corporation tax relief for environmental pollution control.

Succession Duties

In the white paper reform program described in the 1969 budget the Ontario Government announced its intention to phase out succession duties while introducing a capital gains tax. In the interim, the federal government has published its proposals to introduce capital gains taxation. The federal proposals do not involve compensating changes in estates taxation, which we believe is in critical need of reform in terms of the total taxation of wealth. At this point the federal reform proposals are being subjected to intensive public debate and scrutiny. In addition, only preliminary discussions have taken place on how the Province will participate in the proposed new federal tax system. As a result, it is not possible to discern the outcome in the particular area of estates taxes and succession duties.

The Ontario Government is convinced that it is necessary to introduce immediate relief in this area to ensure progress towards our ultimate reform objectives. We propose, therefore, to present legislation to effect the following changes in respect of deaths occurring after midnight this day, March 31, 1970:

• the exemption for widows will be increased from $75,000 to $125,000;

• the present restrictions related to widowers will be removed and the exemption will be $125,000;

• the exemptions granted to widows and widowers will be extended under certain circumstances to surviving common-law wives and husbands; and,

• in the event of the death or remarriage of an annuitant within four years of the death of the deceased, revaluation of assets is to be permitted, upon application, to take account of the reduced capital value of the annuity.

The proposed changes will provide substantial relief in the succession duties field. The increase in the exemption for widows to $125,000 recognizes the changes in living costs and will mean that less than one per cent of the estates assessed will involve duty payable by a widow. The granting of the same exemption to widowers and widows will recognize the interdependency of partners in a marriage. Similarly, the reform in respect of common-law spouses will relieve unnecessary hardships and bring the law into line with current social attitudes. These moves are in line with the recommendations of the Ontario Committee on Taxation and the Select Committee of the Legislature.

The impact of the proposed relief for annuitants can best be described by the example of a widow who is the beneficiary under a pension plan provided by her deceased husband. Under existing law, the value of an annuity is related to the life expectancy of the widow. This may give rise to an excessive duty in the event of the subsequent early death or remarriage of the widow. The proposed amendment will reduce this burden in the event that the annuity is terminated due to the death or remarriage of the widow within four years of the death of her husband. The anticipated revenue loss resulting from these proposals will be in the order of $3.0 million in 1970-71, and will increase to about $4.5 million a year as the new system matures.

Retail Sales Tax

The second area in which we propose to introduce significant tax relief is in the application of the retail sales tax to certain production goods. Our purpose is to assist industry in reducing costs and in improving competitive positions, as well as helping to defuse inflationary pressures on the economy. In 1969 we extended the retail sales tax to cover production machinery in general. This was a deliberate policy move to strengthen our long-term tax base, to simplify the taxation of business purchases, and to increase the neutrality of taxation among different types of industries. Following intensive analysis of the retail sales tax in this area, we are now prepared to introduce further refinements to improve the economic efficiency of the tax. This covers the removal of the present 5 per cent tax from a number of production tools that are subject to extraordinarily rapid replacement from wear-and-tear, or that have a very short economic life. These exemptions will be particularly helpful to industries in which short-lived production tools account for a high proportion of production costs.

We propose, therefore, to exempt from the retail sales tax the following items when used directly in the manufacturing process:

• tools attached to production machinery that are used for milling, grinding, pressing, and similar purposes;

• explosives; and,

• refractory materials, such as fire bricks and retorts.

The estimated revenue loss from these exemptions is over $7 million annually. The effective date of implementation will be June 1, 1970.

Corporations Tax

The third area of tax relief relates to the high priority we have given and will continue to give to the problem of bringing all forms of environmental pollution under control. I have already described the three-pronged effort we are making in the expenditures area, involving 5 per cent grants on anti-pollution equipment generally, selective loans to businesses on a needs basis, and the direct outlay of public funds under a number of integrated programs. At this point, however, I wish to announce a fourth move in the tax area that will directly complement those on the expenditure side.

In his budget on March 12, 1970, the federal Minister of Finance announced the extension, for three years, of the special provisions for the accelerated write-off of the capital costs of industrial pollution control equipment. He also announced that these provisions would be extended to include air as well as water pollution control equipment, I should like at this time to thank the federal Minister of Finance on behalf of the Ontario Government and welcome his move as a valuable support of our own efforts. More importantly, we will extend to the end of 1973 the accelerated capital cost write-off provisions for water pollution control equipment under our own corporation income tax system. Similarly, we will make provisions in our own income tax system for air pollution control equipment at the same time that these provisions are enacted under the Income Tax Act (Canada). The joint effect of these federal and provincial initiatives will be to allow firms to depreciate the cost of water and air pollution control equipment in two years. For the Ontario Government the extension of accelerated depreciation will cost about $2 to $3 million in loss of corporation tax revenue in 1970-71.

I am confident that this tax move, together with those outlined on the expenditure side, constitutes an effective program to facilitate pollution control. This program will continue to keep Ontario in the front ranks of North American jurisdictions in this high-priority area. I am certain that industry will respond to government aid and support. However, I must emphasize that we also expect industry to accept pollution control as an ordinary cost and responsibility of doing business.

FINANCIAL POSITION FOR 1970-71

I will now summarize our overall budget position for the 1970-71 fiscal year. Since there will be no tax increases in 1970-71 our revenue yield will depend primarily on the growth performance of the Ontario economy. As I have already said, the outlook for 1970 is less buoyant than in previous years. Our 1970 fiscal program, however, will generate a moderate but positive reinforcement to economic activity; hence, I am basing my revenue forecast on an expansion of Gross Provincial Product of 7 per cent.

I expect our total revenues to reach $3,739 million in 1970-71. Revenues from personal income taxes should rise by $186 million, of which $73 million represents an anticipated speed-up in the transfer of collections from the federal government to the Province. It might be noted here that, prior to the last meeting of the Tax Structure Committee, we had not expected this once-and-for-all revenue gain from an improved income tax payments flow. I expect the retail sales tax to yield an additional $42 million in 1970-71, the gasoline tax a further $18 million, and post-secondary education adjustment payments an increase of $46 million. However, corporation tax receipts are expected to be $23 million below the 1969-70 level as a result of several factors, including the anticipated decline in corporate profits and the absence of the once-and-for-all gains from acceleration in 1969. Revenue from all other sources, including medicare premiums for a full fiscal year, will add a further $178 million, bringing our total revenue increase expected for 1970-71 to $447 million.

Against our projected revenues of $3,739 million in 1970-71, we have planned an expenditure program of $3,728 million, leaving a budgetary surplus of $11 million for next year. Non-budgetary sources of finance, including borrowings from the Canada Pension Plan, are expected to yield $806 million, while non-budgetary disbursements should amount to $743 million, producing a non-budgetary surplus of $63 million. After allowing for net debt retirements of $56 million, we should end the 1970-71 year with a small increase in our liquid reserves.

CONCLUSION

Mr. Speaker, I have set before you and the Members a constructive budget which meets the economic and social requirements of 1970 and charts Ontario's course for the years ahead. It provides positive stimulus to our weakening economy. It holds down spending within the limits of present financial capacity.

It accords the highest priority to reform and to relief for municipal taxpayers.

It reduces provincial taxes to provide incentives and to moderate excessive burdens.

It provides special help to pensioners on limited incomes, who have been hardest hit by inflation.

It finances a broad package of new policies to improve the quality of the environment.

It carries forward essential provincial services and investments.

Given the approval of the Members, the program outlined in this budget should enable Ontario to move ahead vigorously into the 1970s and to provide an environment in which our citizens can be proud and happy.