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| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 28e | 4e | Discours du budget | 26 avril 1971 | Darcy McKeough | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker, on March 19, 1943, a predecessor from my riding, from the town of Wallaceburg-the then riding of Kent West which is now the riding of Chatham-Kent-introduced his first, and as it turned out his only, budget. At that time he forecast revenue of $102 million and ordinary expenditures of $97 million, or a surplus on ordinary account of $5.5 million lam not so sure that the picture will be quite the same today.

That predecessor, sir, was the Hon. A. St. Clair Gordon, who was known to most of ns in Kent county as Bill Gordon. To a 10-year-old boy, which I was then at that point, he was my Uncle Bill Gordon. He was Treasurer for some six months. He was the member for my riding for about 10 years and we are very proud of his record of service to our area and his contribution to the province.

He was followed, of course, by the hon. Mr. Frost, who is in the House today. We are always glad to have him with us. Mr. Frost was followed by the hon. Dana Porter. In 1958, a person who is still a member of the House, the member for Haldimand Norfolk (Mr. Allan), became Treasurer for some eight years; and then from 1966 to March 1 last, the member for Huron (Mr. MacNaughton) was provincial Treasurer.

Those shoes, sir, are large shoes to fill. They are a distinguished group of people who have given great service to our province and indeed our country. I refer, of course, in particular to my immediate predecessor. He made a contribution to good government, maintained the credit of this province and provided good financial management of this province in the usual sense.

Over and above that, I think all of us take some pleasure-those of us who have sat in the House-in sharing with the former Treasurer his contributions to the cause of national tax reform; to the beginnings of the regional development programme and economic planning yesterday; his contribution in opening to this province the foreign markets of the world for investment in Ontario securities; and his stress on the productivity of government. I refer particularly to the establishment of that committee and I join with all members in paying tribute to the hon. Charles Steel MacNaughton for his distinguished service.

I pay tribute of course, sir, to my staff, particularly to my deputy minister, Mr. MacDonald, to the present secretary of the Treasury Board, Mr. Brannan. They and a number of other people have for the last few weeks, few months, been working very diligently on this budget. I received several calls on Easter Sunday morning, for example. I can only say that I understand tonight they will do more than their share in contributing to those revenues which How to the province.

Mr. Speaker, this is the first budget of the new government of Ontario. Accordingly represents a careful review and assessment of' in all our policies and programmes and their effects on the citizens of this province budget which I am presenting today is a reflection of those policies and programmes in the form of an imaginative and forceful fiscal plan for Ontario. It aims to achieve four major objectives:

To restore full-employment economic growth in Ontario by encouraging expansion of the activities of the private section;

To maintain firm control over public spending in order to contain tax levels and the generation of inflationary pressures;

To advance provincial-municipal reforms in line with the long-term programme we announced in 1969; and

To ensure the attainment of the other priorities of government policy such as greater Canadian participation in our economic life, preservation and conservation of the environment and a fulfilling quality of life for all our citizens.

The taxation and expenditure policies in this budget give maximum expression to these objectives. With the approval of the members and the active co-operation of the total community, I am confident that the fiscal programme which the government has drawn up will move this province ahead toward greater prosperity and a more rewarding life.

Following the practice of past years, I have included three budget papers as part of my overall budget presentation for 1971. These papers provide supporting documentation and perspective on the economic, fiscal and reform policies which the government will continue to advance.

Before proceeding with the policies and details of this budget, I should like to report on the fiscal and economic aspects of federal provincial affairs and on Ontario's place within the Canadian federation. Over the past several years, two things have become clearly evident. First, the federal government is firmly bent on a course of greater centralization and concentration of power in its own hands. Second, Ontario has been singled out for a reduced role in the building of our nation. Not only is the federal government disregarding the needs of this region but it is also pursuing policies which are seriously reducing our economic strength.

The evidence of the thrust toward centralized power grows every day. It is most apparent in the vital matter of finance. Not only has the federal government refused to consider further tax sharing-which is an obvious requirement in Canada because the major public problems and expenditure priorities lie at the provincial-municipal level but it has also effectively pre-empted increased provincial tax effort by its own heavy use of the income tax field.

In this connection, Mr. Speaker, you will recall the imposition of the social development tax. Moreover, the federal tax reform proposals overtly provide for an even greater concentration of fiscal resources at the federal level. The initial federal white paper proposals would generate large revenue gains for the federal government and reduce provincial sharing in capital gains revenues and other base-broadening reforms in the personal income tax field from 28 per cent, to 22 per cent.

There has also been a concerted effort by the federal government to squeeze provincial pocketbooks by cutting back on its future financial commitments in shared-cost programmes. In the field of health insurance, for example, the federal government is advancing new sharing formulas which would work to reduce the maintenance of its financial commitment to these established programmes. At the same time, the federal government is attempting to extend its authority and involvement into areas of provincial jurisdiction such as consumer protection and securities regulation, notwithstanding the practical difficulties this will create and the significant progress which has already been made in interprovincial uniformity and co-ordination.

In the thrust to expand federal primacy, it is also evident that Ontario is marked out for particular attention. Our regional needs obviously have been neglected by the federal government, particularly in such key fields as manpower and regional economic development. More important, however, federal economic and fiscal policies have been aimed deliberately at the curtailment of economic growth in this province.

The severe deflationary policies of the federal government since 1969 have driven the Ontario economy far below its potential and created unemployment levels that are the highest in a decade. The "temporary" surtaxes on personal and corporate incomes, of which over 50 per cent is collected in Ontario, have been extended rather than removed, while the federal government has initiated selective fiscal measures such as the depreciation penalty on commercial buildings in Toronto and other key urban centres.

From this, I can only conclude that the intention seems to be one of reducing regional disparities in Canada by diminishing the economic strength and standard of living in Ontario.

In the face of these centralizing tendencies and the weakening of the Ontario economy, this government has only one course. We must act positively to protect the interests of our people.

Furthermore, we must reconsider, in a fundamental way, Ontario's basic role in Canadian federalism. The government of Ontario is convinced that national policies detrimental to Ontario are also detrimental to the national interest.

We are also convinced that the proper course for Canada in the decades ahead is toward greater decentralization and recognition of regional differences, not toward centralization of power and responsibility in a single omniscient and distant government.

National tax reform is the single most important issue facing Canadian federalism today. The decisions made on this vital matter of taxation in large measure will determine both the future progress of the Canadian economy and the future direction of federal-provincial relations.

In recognition of this, the Ontario government has made a large and constructive contribution to the process of national tax reform. Indeed, over the past year, we have advanced a complete alternative programme of tax reform which is clearly superior in respect of the two key objectives of equity and economic growth.

Our reform proposals are generally supported by a consensus of the provinces and overwhelmingly by independent observers and tax specialists.

Altogether, Ontario has advanced three policy papers and five supporting studies on national tax reform in the interest of developing the best possible national tax system-a tax system that will provide genuine benefits for Canadian taxpayers, contribute to economic growth and national objectives and be acceptable to the provinces as well as the federal government.

Last June the government of Ontario presented its general proposals for reform of income taxation in Canada, concentrating particularly on those reforms we regard as essential for a fair distribution of individual income tax burden.

We followed this up with a detailed staff study setting out the revenue and incidence effects of Ontario's personal income tax reforms, and showing the advantages of Ontario's selective approach to low-income tax relief.

Subsequently, we developed and proposed a new and effective method of providing tax incentives to small businesses, along with a technical paper outrunning how such an incentive system would work in practice.

Early this month we presented a third major policy paper and supporting technical studies showing that integration of personal and corporate income would be impractical and inflexible and should be abandoned as part of national tax reform.

In addition, we have maintained an ongoing programme of quantitative research which has allowed us to analyze the incidence effect and revenue implications both of the federal reform proposals and our own alternative reform recommendations. Our basic research has focused attention on the important matters of the revenue implications of tax reform and has provided major technical assistance to the federal government's capacity to quantify the impact of its proposals.

I believe that these efforts have been productive. They have raised materially the calibre of the technical underpinning of tax reform design. They have helped to ensure that all Canadians have had the benefit of a broad set of well-developed alternatives to the main federal tax reform proposals. Moreover, the federal government has already responded to many of our particular suggestions by agreeing that there shall be no tax increases as part of tax reform, by acknowledging the small-business problem and by magnifying its harsh initial proposals for the mining industry.

The Commons committee recommendations also moved strongly in the direction of this government's reform proposals, particularly in respect of capital gains taxation, retention of tax incentives for economic growth and the need to maintain an income tax system which can be used by both taxing jurisdictions.

But more is still required. In particular the new federal legislation should incorporate tax credits and selective low-income tax relief measures instead of universal tax exemptions, the integration proposals should be abandoned entirely, the federal surtaxes should be removed and the remaining reforms should be implemented on a priority basis and in manageable stages.

I am optimistic that the federal government will now recognize these requirements and produce final tax reform legislation that is broadly acceptable to the provinces and in the interests of Canadian taxpayers generally. We intend to continue our efforts toward the realization of this goal.

However, let me say that if the essential objectives that we seek are not met, or are thwarted by the new federal tax legislation, the Ontario government is prepared to proceed independently to achieve the maximum in reform for our own taxpayers. The situation demands nothing less.

Over the past five years Ontario and other provinces have repeatedly pointed out the fundamental fiscal imbalance in our Canadian federal system. The federal government enjoys a preponderance of elastic tax resources while the provincial governments and their municipal partners face the largest and fastest-growing expenditure commitments.

This fiscal mismatch has been dearly documented by the tax structure committee, first in 1966 and again in 1970. It has been confirmed by the Economic Council of Canada, by several independent studies, and by Ontario's own recent study of revenue growth to 1980.

The facts, Mr. Speaker, are clear. Under the present division of taxing powers and expenditure responsibilities, the federal government commands vastly larger revenue resources than it needs to finance its expenditure programmes. The provincial-municipal sector, by contrast, is chronically underfinanced.

The only sensible solution to this problem of basic fiscal imbalance is to transfer tax resources to the provincial-municipal level where they are needed to finance existing and emerging public priorities. In short, Canadian federalism needs a new deal in tax sharing, a deal which provides all levels of government with tax resources commensurate with their expenditure responsibilities.

The Ontario government will continue to press strongly for this overdue reform. This is what is required to contain total tax levels in Canada, to ease intergovernmental tensions and to reverse the trend toward central domination of the Canadian federation.

Reform of federal-provincial finance requires equally fundamental changes in the related area of shared-cost programmes. In fact, the existence of major shared-cost programmes demonstrates the essential contradiction in our system-the federal government has the money while the provinces have the responsibilities.

In preparation for the renegotiation of the existing shared-cost agreement, the federal government has increasingly been developing various new formula approaches in such fields as health insurance and post-secondary education. While there is some merit in these formulas themselves, the one obvious feature of them is that they reduce the future federal financial commitment in these established shared-cost programmes. If these formulas were implemented, therefore, the provinces would find themselves in an even worse financial predicament, while the federal government would acquire added capacity to invent new programmes and to further encroach on other governments' responsibilities.

This government cannot accept this application of federal leverage on its future budget flexibility. Accordingly, I wish to state now our clear intention to assume complete responsibility for the established shared-cost programmes in exchange for fiscal equivalence, and to resist rigorously the establishment of new shared-cost programmes. In the long run this solution will serve all governments better. It will eliminate complex bureaucratic procedures and leave each level of government the full responsibility to plan and finance its own programmes within its own framework of priorities.

Since 1968 the government of Ontario has participated actively and constructively in federal-provincial meetings to review the constitutional basis of the Canadian federation. What has emerged from these meetings is anawareness that there must be clearer jurisdictional demarcations and a major redistribution of powers to resolve the fiscal and functional problems of our federation.

At the heart of the problem, however, lies the financial impasse between the federal government and the provinces. Until there is substantial progress in tax sharing and unless the provinces achieve better financial arrangements with the federal government, I can see major obstacles in the way of any substantial advance in the other aspects of the constitutional review. Without this real reform of intergovernmental finance, other legal and jurisdictional improvements will be largely illusory, contributing little to the real capacity of governments in Canada to solve the day-to-day problems of our citizens.

Mr. Speaker, let me proceed to the first of the priorities in this budget-the policies which we are proposing to reduce unemployment and to restore vigorous economic expansion in Ontario.

In early 1970-over a year ago-and again in last year's budget, the Ontario government warned the federal government that the single-purpose thrust of its policies to reduce inflation would create unacceptably high levels of unemployment throughout Canada. Unhappily, the accuracy of that prediction is now all too clear. Unemployment mounted steadily in 1970 and now stands at 4.9 per cent of the labour force in Ontario, and six per cent nationally.

These bald statistics do not, of course, reveal the true human meaning of the situation. Low-income workers have been particularly hard hit, as have young people and students who find themselves unable to enter the labour force in ways which fully utilize their abilities and training. During this period of forced slowdown, large numbers of older employees have lost their jobs and many of them will find it difficult, if not impossible, to secure equivalent positions when the economy ultimately recovers.

The real cost of unemployment to these people has been enormous, not just in terms of lost incomes but also in terms of human dignity and family security. In addition, there has been a heavy cost to the community at large in lost output and weakened confidence. The Ontario government did not agree a year ago and does not agree now that this deliberate federal policy of high unemployment is a sound and just way to fight inflation.

Recently, sir, the federal government has relaxed its deflationary monetary and fiscal policy and the economy has shown modest signs of recovery. However, the revival of employment is likely to be both slow and delayed, so that unless further expansionary measures are taken, unemployment is likely to remain at high levels throughout 1971.

I strongly urge the government of Canada to introduce further positive measures to reinforce expansion and create jobs. Let me say, however, that I do not regard increased federal spending as an appropriate means to this end. Canada's experience over the past few years surely has proved that governments cannot spend the country back to prosperity. Rather, I would recommend the following steps:

Eliminate the federal three per cent temporary surtaxes to increase personal and corporate incomes by $250 million across Canada; introduce income tax credits to reduce the tax burden on low-income Canadians; and take positive measures to reduce long-run interest and mortgage rates and to lower the exchange value of the Canadian dollar.

Such measures by the federal government would increase consumer purchasing power, stimulate exports and restore business confidence and willingness to invest. As such, they would constitute a national policy for economic revival which would benefit all the regions of Canada, and would provide an overall policy framework within which provincial actions could be developed.

The new government of Ontario has promised the people of this province that it will combat the current intolerable level of unemployment with every means at its command.

Our objective is to reduce unemployment to three per cent as quickly as possible.

To achieve this target, 150,000 new jobs are needed in Ontario this year.

This budget has been designed to commit the maximum resources at our disposal to achieve this goal. However, I must stress again that we cannot do it alone. It is critical that our actions be reinforced by the full use of the major fiscal and monetary policy instruments at the disposal of the government of Canada.

As we indicated to the House last fall, the government of Ontario's budgetary operations became increasingly expansionary during the 1970-1971 fiscal year, in response to deteriorating economic conditions. The original budgetary target for 1970-1971 was a modest surplus of $11.3 million. However, in the course of the year we decided it was appropriate to increase expenditures by advancing the implementation of certain high priority programmes and introducing measures to combat unemployment directly. As a result the budgetary operations for 1970-1971 moved to a final deficit position of $115 million, which represents an expansionary swing of $126 million.

To meet our economic objectives it is necessary that our expansionary policy be continued and increased. Consequently the budget plan which I am presenting today calls for a deficit of $415 million, an increase in the deficit of $300 million over last year. While a deficit of this magnitude can be expected to exert a significant stimulus to the economy in an aggregate sense, the composition of the deficit is also of prime importance.

Generally, governments can achieve deficits either through expenditure increases or tax cuts. As I have said, it is the view of this government that a sound plan for economic recovery in Canada involves more than merely incurring large deficits by indiscriminate increases in spending. Large-scale expenditure increases may appear to be appropriate in recessionary periods, but they can also work to impede economic revival.

The expansion of the government sector can be distortionary as the economy moves back to full employment, insofar as it pre-empts economic resources that can be used more productively in the private sector and ultimately result in tax increases. Each of these factors can generate inflationary pressures and precipitate a second wave of restrictive fiscal and monetary policy.

For these reasons the government has decided to pursue the alternative route of stimulating the economy primarily by tax reductions, while containing expenditure growth within the limits of our long-term financial capacity. By these means we plan to increase private economic activity in investment and to expand employment without reactivating inflationary pressures.

Our budgetary policy for 1971-1972 is based on the use of the full-employment budgeting approach to fiscal policy formulation. This new technique is fully explained in the accompanying budget paper A. Full employment budgeting is particularly relevant to the current economic situation and the problem of fiscal policy co-ordination in the Canadian federal system.

Budgetary deficits are commonly understood to be expansionary. However, the full employment budget adds a new dimension to this conventional approach to fiscal policy formulation. It emphasizes the way in which revenues increase as economic activity revives and exert a "tax drag," thereby slowing down economic expansion, possibly before full employment has been achieved.

At the present time the Ontario economy is operating at about five per cent below its full employment potential, which means that we are losing some $2 billion in potential gross provincial product, and about $250 million in potential provincial revenues. As we demonstrated in our 1970 budget paper B, the federal government's budgetary operations in Ontario involve a permanent surplus; which first exerts a continuing contractionary impact on our economy regardless of the level of economic activity, and second increases rapidly as activity increases.

Our plan for offsetting the slack in the economy and counteracting the federal government's tax drag in Ontario is explained in an accompanying table (see appendix). This shows two main actions:

1. In line with our objective of controlling the growth of the public sector, our expenditures have been held to a level of $4.26 billion. This closely matches the level of expenditures which would be appropriate for us if the economy were operating at full employment.

2. We have cut taxes in a way which restores the growth potential of our economy.

Thus without any tax cuts our revenues at full employment could be expected to increase to some $4.17 billion with a resulting deficit of $80 million. However, by cutting taxes we will reduce the growth potential of revenues at full employment by about $70 million to a total of $4.1 billion, with a resulting deficit of $150 million.

Most important, however, the tax cuts in this budget are designed to offset part of the fiscal drag of federal revenue growth, as the economy reacts to our planned budgetary deficit of $415 million for 1971-1972. To the extent that our fiscal policy is successful in reviving economic growth and employment in Ontario, our ultimate budgetary deficit could be reduced.

I turn now, Mr. Speaker, to the section dealing with expenditures. The overall policy thrust of this budget is comprised of a set of carefully co-ordinated expenditure and tax actions. On the expenditure side, I am advancing a plan amounting to $4,262 million for 1971-1972, which is an increase in spending of 10.7 per cent over the 1970-1971 fiscal year.

This level of expenditure will allow the continuation of our existing programmes, the introduction of several important new programmes and progress toward increasing our financial support to school boards and municipalities. The expenditure programme which I am presenting today is a programme of priorities and a plan for the controlled use of public resources.

Although there is a substantial slack in the provincial economy, the government has resisted pressures to embark on uncontrolled increases in spending in order to generate an expansionary economic impact. Rather, we have held down our spending to make room for the private sector, to permit expansionary tax reductions and to stay within the discipline of the normal growth of our revenues.

We have exercised a maximum of restraint on cost pressures within the provincial sector itself, and we have requested our local government partners to exercise similar restraint. We have consciously striven to reduce the administrative and overhead components of our expenditure programme and to increase the delivery of real services.

Finally, we have continued to allocate our limited resources toward the most essential needs of our growing society and toward our long-term provincial-municipal reform programme.

We have tackled the job of controlling public spending in four main ways.

First, we have introduced expenditure guidelines for school boards in order to relieve the pressure on property taxes and to provide scope for other priority areas of local spending. Second, we have imposed strict constraints on the province's own-account spending and on cost increases within the public service.

Third, we have begun a basic reorganization of our departmental structure in order to streamline decision-making, realign programme responsibilities and achieve the maximum economy within government itself.

Fourth, we are evaluating all our programmes and grants with a view to eliminating those which have outlived their original purpose, simplifying wherever possible and generally getting more value for our money.

As the hon. members are aware, Mr. Speaker, the growing demand for essential services has placed enormous pressure on the financial resources of the province and its local government partners in recent years. Nowhere has this been more evident than in the field of education. In the past we have concentrated vast resources on the expansion and improvement of Ontario's school system in order to accommodate burgeoning employment and to provide the best possible education programme for our young people.

Now the growth pressure on our elementary and secondary education system is abating and this gives us a real opportunity to stabilize costs and reduce education levies without any sacrifice in the quality of education in this province.

The school board cost guidelines which we have established this year aim to achieve these desirable objectives. The expenditure ceilings already announced are sufficiently generous to permit every school board to maintain and even improve the content and quality of its service while preventing excessive increases in overall expenditures. In conjunction with this necessary and desirable control on school board spending, the province has budgeted for a further large increase in its legislative grants in 1971-1972. Over and above the legislative grants to finance last year's 51 per cent support we have provided an additional $72 million to raise the province's share of education financing to 55 per cent in 1971-1972.

I am convinced that these two measures-expenditure control and increased provincial support-will ensure an improved cost performance in the education sector without any deterioration in quality and a reduction in school property taxes across the province genera]]y.

The second major policy of restraint which we have pursued is in the area of the spending for administration, overhead and public service costs. In the estimates review process we placed major emphasis on limiting the growth in the size of the civil service. As a result the province's civil service complement will increase by only 1.6 per cent in 1971-1972.

Many departments will operate with no complement increase at all. Where staff additions have been approved, we have given the highest priority to those programmes which provide a direct service to the public rather than to those which increase the overhead costs of the government.

The Department of Correctional Services, for example, has been allowed a complement increase of 192 staff to operate the new Sudbury Training School and two Outward Bound camps. The largest increase-332 additional complement-was approved for The Department of Health, almost all of whom were required to staff our hospitals for the mentally retarded and our new school for retarded children at Picton. Increases in The Department of Justice and the Ontario Provincial Police have been provided to speed up the processing of cases through our courts and to maintain effective policing across the province generally.

Increased staff is also required to continue our municipal assessment programme, to provide additional services to municipalities in community planning and to handle the increased welfare case-load arising from high unemployment. The Ontario Housing Corporation has been allocated 93 extra complements to handle the 10,000 additional housing units it will administer in the coming year.

These departments account for the bulk of the 1,129 overall increase in staff approved for the new fiscal year. The remainder is distributed among a number of departments in recognition of increasing work loads and the introduction of new services. The accompanying table shows the public service complement for each department as of April 1, 1971, and the minimal increases planned for this year except in those areas of proved need.

In addition to limiting increases in civil service complement, I am also aiming to contain the increase in wage and salary scales to an average of five per cent for 1971-1972. This cost-control target will minimize the impact of provincial wage settlements as a potential source of inflationary pressure in the economy. To reinforce this measure the government is conducting an intensive and thorough investigation of ways and means to improve productivity over the whole spectrum of Ontario's public sector.

I am confident that our efforts in these directions will payoff in terms of a more efficient public service, more value for public money spent and more resources for use by the private sector and by taxpayers themselves.

The third means by which the new government aims to control spending and improve performance is by reforming the structure of government itself. As announced in the Speech from the Throne, we plan major departments along modern functional lines to ensure that government remains a positive and responsive instrument of our citizenry.

For example, the main branches and agencies in Ontario departments that deal with environmental management, conservation and protection will be brought together in a new Ontario Department of the Environment. Equally important consolidation of functions is planned in the areas of transportation, in communications, post-secondary education and health care insurance. In addition the government is implementing the recommendations of its committee on government productivity.

These internal reforms and departmental reorganizations are vital for the realization of long-term economies in government and controlled management of the Ontario public sector.

Fourth, we are continuing and intensifying our review and evaluation of all programmes and grants in terms of their costs, their benefits and their relative priority. Through our programme budgeting system we are emphasizing policy objectives and least-cost methods of achieving these objectives so that the province's limited finances are used with maximum effectiveness. This is an immense long-run task, but one which is imperative if the government is to achieve maximum economy and expenditure management.

One elementary fact must be recognized. If government spending is to be contained, then some existing programmes must be cut back or eliminated in order to make room for more urgent priorities. Certainly we cannot add new programmes on top of all our existing programmes. Rationalization and simplification of our grants to local government is a major goal of this overall review and evaluation programme.

As discussed in budget paper B, our aim is to eliminate many existing grants, reduce the number of provincial and municipal civil servants occupied in processing grants and unconditionalize provincial financial transfers to permit greater budget autonomy for our local governments.

Having indicated, sir, some of the ways in which we are moving to control the growth in basic cost elements in the government, let me turn now to the composition of our expenditure programme for this year. Net general expenditures of $4,262 million have been planned in 1971-1972. Of this total programme, some $2,666 million will be taken up by transfer payments for operating purposes to other spending units-to school boards, municipalities, institutions and people.

A further $287 million will be transferred in the form of grants for capital purposes. The province's own capital programme will amount to $300 million and the remaining $1,009 million will be taken up in direct operating costs. In terms of overall structure, therefore, 69 per cent of 1971-1972 spending consists of operating and capital transfer payments, seven per cent is direct capital spending and 24 per cent goes to operate our own provincial programmes.

This distribution of the 1971-1972 outlays continues the dynamic shift in our expenditure structure that was documented in the 1970 budget. Transfer payments are taking up a larger and larger share of total expenditures, while our own account spending and investment are diminishing in relative importance.

Net general expenditures are planned to increase by $411 million or 10.7 per cent in 1971-1972. Transfer payments for operating purposes will account for $304 million of this increase, up 12.9 per cent over last year. This large additional commitment is required both to continue our programmes of financial support to local governments, institutions and people, and to advance our provincial-municipal reform programme. Direct provincial spending will increase by $95 million or lOA per cent over 1970-1971.

The bulk of this increase will go to provide better services to the public, such as new facilities for emotionally disturbed children, expanded facilities for juvenile offenders, improved police protection and to meet increased interest costs on our public debt. As I have already said, we instructed our departments to cut administrative and overhead costs rigorously in order to provide scope for this expansion in essential provincial services.

On the investment side, we have placed our major emphasis and loans and advances rather than on direct capital spending and grants. Direct capital spending and capital grants have been increased by only $11 million while loans and advances are up $109 million or 17.9 per cent. These loans and advances to municipalities and school boards, post-secondary education institutions, hospitals and our housing agencies have the same economic impact as direct investment by government departments.

I have given emphasis to those areas of capital spending and lending which have a social priority and economic growth impact. Accordingly, the largest increases have been allocated to housing, environmental management, hospital construction and our new programme for land acquisition.

An accompanying table (see appendix), sets out these major dimensions of our expenditure and investment programme for 1971-1972 and shows where we have allocated our increased resources. I would call your attention, in particular, to the increased resources we are devating to the broad field of education. In total, our allocation to school boards, universities, community colleges and Ryerson will increase by over $220 million in 1971-1972.

The bulk of this overall increase is accounted for by legislative grants and by our financing of the colleges of applied arts and technology. Payments to universities will increase by only $9 million, but this arises because of a change in the fiscal year-end of our universities from June 30 to April 30. We have established a value of $1,730 for the basic income unit in 1971-1972 and we have agreed to increase this measure of support to universities to $1,765 in 1972-1973. We have also agreed to increase the weighting of part-time students in the determination of basic income units; the present weighting of one-sixth will be changed to one-fifth over the two years, 1972-1973 and 1973-1974.

The composition of our overall spending and investment programme is summarized in budget paper C which accompanies this statement. I would also remind members that the complete details of our expenditure programme for next year are shown in the government's 1971-1972 estimates which have been tabled along with the budget. In passing, it should be noted that the format of the estimates has been changed substantially in line with the recommendations of the public accounts committee. In the remaining discussion of the expenditure side of this budget, there fare, I should like to focus on the policy highlights of reform and increased employment and to outline the major new dimensions of our programme for the future.

Progress toward reform in provincial-municipal taxation and finance is one of the highest priorities in this budget. We are unequivocally committed to the long-run goal of increasing our financial support to local governments in order to reduce the burden of financing that falls upon the property tax. In this budget, I have allocated a further $78 million toward permanent reform.

The bulk of this will serve to increase our financial support to school boards to 55 per cent in 1971-1972. In addition, we propose to broaden the local tax base by permitting municipalities to tax the presently exempt properties of our colleges of applied arts and technology, as well as our provincial parklands. We are also providing major assistance to the recently established York regional government, the Muskoka district government and our other regional governments.

While these new reform measures will require $78 million in 1971-1972 their costs will grow each year in future as the local expenditure base expands. This is amply demonstrated by looking at the additional cost in 1971-1972 of last year's reform move from 46.5 per cent to almost 51 per cent of school board support. Because school board spending will increase by some $172 million from 1970 to 1971, the four-point increase in provincial support implemented in last year's budget costs an additional $7 million in this budget.

The costs of our other reforms have also mounted in value in each succeeding year after being implemented and this tendency can be expected to continue in the future. The combination of previous reform moves made over the past three years, the accumulating value of these reforms and the $78 million in additional reforms in this budget result in a total reform effort by the province of $461 million in the 1971-1972 fiscal year, as shown in budget paper B.

Budget paper B accompanying this statement provides a complete progress report on our long-term programme of reform in provincial-municipal finance and property taxation. It shows how the province's reform policies have taken hold since 1968 to alleviate the financial squeeze. on local governments and reduce property tax burdens. Property tax increases between 1967 and 1970, for example, decelerated to half their annual rate of growth in 1960-1967. In 1971 we look forward to no increase in education taxes and only a moderate increase in municipal taxes. This great improvement has been due almost entirely -to our greatly increased provincial grants without this on-going shift in financing from local governments to the province, an additional $461 million in property tax revenues would have been required to maintain local services in 1971-1972.

I would call your attention to one particular reform that this government intends to implement in 1971-1972. This concerns the method by which we make payments to mining municipalities.

The new formula which we intend to implement will involve a net increase of $400,000 in payments to the municipalities and school boards in mining areas in 19711972. The payment for municipal purposes will increase by a further $1.25 million in 1973-1973, and when the formula is completely operative in 1973-1974 the payment will again increase by $1.25 million. Taking into account increased costs, it is anticipated that the additional revenue transferred will exceed $3 million by that time.

The new formula will also improve the distribution of these payments by more closely reflecting the fiscal capacities of designated mining municipalities. This programme will be, in effect, a first step toward a "needs resources" type of grant system. Consequently, the new formula will relate future payments to both the level of equalized per capita assessment and the level of expenditure for municipal purposes in each municipality. In those municipalities in which less than 10 per cent of the population is directly employed by the mining industry, the payment will also be related to the ratio of resident mining employees to population.

We are also working to implement two further reforms to strengthen the financial base of our municipalities.

First, we propose to introduce in January 1972 an improved system of unconditional grants. The new unconditional grant will be designed to eliminate the criticism that the Ontario Communities on Taxation made of this programme, particularly the sharp cut off points based on the size of population, and to recognize the cost of providing policing in those municipalities which provide their own services. The additional benefits that will accrue to the municipalities under these reforms will be in the order of $16 million annually, and the province will ensure that no municipality receives less than it would receive under the existing system.

Second, we propose to accelerate the timing of our payments to municipalities, particularly in the areas of regional government, unconditional grants and highway grants. While this move will not involve any additional cost to the province, it will help municipalities achieve a better balance between inflows and outflows during the course of the year. Full details of these new schemes will be announced by the Minister of Municipal Affairs (Mr. Bales).

As I stressed earlier, this government is committed to the goal of restoring full employment in Ontario. We are convinced, however, that the way to achieve this objective, and to achieve it as quickly as possible, is by tax cuts which encourage investment and expansion of private sector activity and not by wholesale expansion of government spending.

The expenditure method of tackling unemployment has major drawbacks. There is a substantial lag between the time money is budgeted for expanded programmes and the time it is actually spent and begins to work its way through the economy, thereby creating jobs.

Moreover, temporary increases in government spending tend to become permanent, they get locked into the programme structure and continue long after the original need has vanished. There is a role for expenditures, however, in relieving severe winter unemployment and student unemployment. This budget allocates substantial funds for these specific aspects of the overall unemployment problem.

The government has already taken steps to ease the immediate unemployment situation. Last fall we established a cabinet committee to develop policies for alleviating winter unemployment. A package of programmes which included parks cleanup, removal of diseased elm trees and acceleration of highway construction was quickly assembled and by late January some 1,200 were employed.

This Ontario seasonal employment programme was subsequently expanded to provide employment for almost 4,500 men at a cost of $8.75 million and has now been extended to the end of April. In addition, a special municipal works incentive programme was established at a cost of $7.5 million to encourage municipalities to hire additional workers during the period April to June. We expect that this direct and simple grant programme will create an additional 7,500 jobs. In total then, Ontario's direct contribution to relieve immediate unemployment has reached over $16 million and should create an estimated 12,000 seasonal jobs.

In contrast to these positive efforts of the province itself, let me report on the federal loan programme for relieving winter unemployment. The federal programme was announced in the December 3 budget, with $17 million allocated as Ontario's share of the national loan fund-I say, sir, hardly a generous amount in relation to the size of our unemployment problem.

In fact, at one point after the programme and provincial allocations were first announced, Ontario's share was actually reduced to $9.3 million. Moreover, it became quickly apparent to us that the federal loan programme was restrictive in respect of eligible projects, ungenerous in respect of the interest rate and repayment terms, and overly complex in its administrative and accounting requirements.

We bargained hard to remove the complicated bureaucratic procedures, to restore the original allotment and to extend the repayment term to 25 years. It was not until late January that our allotment of $17 million was confirmed and not until early March that we received a final decision that the repayment term would be 20 years.

In any case, the Ontario government is acting only as a financial intermediary to channel the $17 million in federal loans for approved capital works programmes to our municipalities. We have, on our own account, extended the repayment period to 25 years and fixed a maximum interest rate of seven per cent.

We will pass on to the municipalities any savings if the actual rate under the federal formula turns out to be lower. Because the federal programme is concerned with capital projects and our municipalities have already finalized their capital budgets for 1971, I must state candidly that I do not expect it will have any major employment impact in Ontario until next winter.

In consideration of the problem of student employment, funds have been provided in this budget to expand greatly Ontario's direct efforts to provide job opportunities during the coming summer. Our departments, agencies and commissions themselves will employ 14,000 students, an increase of 3,000 or 27 per cent over the number hired last year. By contrast, the federal government has announced that it will increase its direct student employment by only 500 to a total of 23,000 this summer.

The payroll cost of Ontario's student employment programme will exceed $17 million. We will also spend about $1 million to provide summer activities and opportunities for young people in various athletic, artistic and social programmes. Beyond these steps by the province itself, we intend to actively encourage the business community and the private sector to offer the maximum job opportunities possible for our student population.

While we have concentrated on cost control, continued reform and employment generation within our on-going expenditure programme, this budget also provides funds for major expansions in priority areas and for new initiatives. In the field of housing, for example, we have doubled our commitment for direct lending. This provincial financing, along with funds from CMHC and the chartered banks, will generate a high level of housing starts in 1971 and beyond.

We have allocated funds within the highway estimates to provide financial assistance to urban transit systems, which is a real and pressing need in our increasingly urban and mobile society.

Similarly, in the area of environmental control we have allocated large additional funds. The capital spending to OWRC alone will increase by 27 per cent to a level of $50 million for the coming year. Along with outlays in operating costs, direct investment, loans and transfer payments, our total environmental management programme will amount to $92 million in 1971-1972.

In this budget I have set aside $20 million for a new land bank programme to be operated by the province. This will be the initial funding of the new Ontario Land Acquisition Corporation. Its purpose will be to acquire land for future public use, particularly land in and around our urban centres and recreation areas. With such a land bank programme, the province will be in a better position to implement its policies in the areas of regional development, urban development, recreation, transportation and communication and housing.

The corporation will also serve as the vehicle to co-ordinate land use planning and research as well as the land acquisition programmes now undertaken in a number of departments. Over the years the corporation will require greatly increased finances from the province as it builds up a large land holding. We intend to set aside the maximum resources possible for this purpose and thereby preserve for future generations of Ontario citizens an adequate stock of public land in every part of the province.

Though not specifically reflected in budgetary expenditures, regional development is a major consideration in all our spending decisions. The regional development programme is one of the most important responsibilities of the Treasurer of Ontario and Minister of Economics. Consequently, I intend to ensure that all proposals coming before cabinet and the Treasury Board with regional implications will be reviewed and assessed in the light of our regional development policies. I will also endeavour to ensure that in the development of long-run expenditure plans and priorities within individual departments and agencies, the regional component will be clearly identified and stressed.

I will also carry forward the work of my predecessor aimed at ensuring that federal expenditures within Ontario will complement the province's planning objectives. The new international airport is a case in point. This large project will have far-reaching effects within Ontario; hence we have insisted that the location and construction of such an airport must be co-ordinated with provincial development objectives and expenditure programmes.

The Toronto-centred region is perhaps our largest single regional development priority at the present time. On the basis of favourable reaction to our development concept and our own follow up work since last May, the government has decided to endorse the principles of this basic plan as the guideline for provincial decision-making in the Toronto centred region. We intend to apply the main elements of the Toronto-centred region concept in assessing and deciding on proposals submitted by municipalities. This reaffirmation of provincial intent should help to resolve a number of outstanding conflicts which have emerged since the Toronto-centred region concept was announced. To accelerate provincial planning in the Toronto-centred region, and in other regions generally, we have allocated more resources to The Department of Treasury and Economics and other departments.

Mr. Speaker, I wish to announce that commencing on April 1, 1972, Ontario will expand further its health care insurance programme to cover nursing homes and home care services.

Mr. Speaker, an expansion of this dimension requires a lead time of at least nine months to bring new facilities on stream. We are preparing a comprehensive plan for orderly integration of these presently uninsured services into our health insurance programme and to develop further, as rapidly as possible, the related programme of community home-care arrangements.

This major extension of our insured services means that Ontario will have one of the most comprehensive health insurance systems anywhere in the world.

The benefits flowing from this move are abundant: A heavy burden of financing will be lifted home individual families and spread over the population as a whole; the demand for active treatment hospital beds will be relieved and many patients will be able to receive care in their own homes and in their own communities.

It should be recognized that the costs of this major improvement in our health insurance system will be high. I estimate the net cost of this extended care to be over $50 million in 1972, rising to $100 million by 1975. This assumes that a fee of $3.50 per day will be charged. There will be some offsetting savings from a reduced need.

There will be some offsetting savings for a reduced need for active treatment beds, but these economies will only appear over a number of years. The federal government has been unwilling, at least no to the present; to assume any share of these increased insurance costs, despite the fact that in the long run this co-ordinated and comprehensive programme would be more effective and economic than our present arrangements. We hope that the federal government will even rally agree to participate in the financing of these additional services.

We hope that the federal government will eventually agree to participate in the financing of these additional services, but in the meantime the Ontario government is not willing to wait any longer for a federal decision and is prepared to carry the entire financing on its own. My colleague, the Minister of Health (Mr. A. B. R. Lawrence) will be announcing the full details of this major provincial initiative.

Mr. Speaker, I come now to the vital matter of tax policy-the key initiative in this budget to stimulate a revival of economic growth and job opportunities in Ontario. As I stated earlier, the government of Ontario is convinced that the best way to achieve economic recovery is by reducing taxes.

In particular, we believe that immediate and significant tax cuts are required in two main areas: First, personal income taxes should be cut in order to bolster consumer purchasing power, and second, corporate taxation should be reduced in order to restore business confidence and stimulate investment and economic growth.

Let me say that I would have liked to reduce personal income taxes, but for several reasons this option is not realistically open to us.

First, under the terms of the federal provincial collection agreement, Ontario cannot change its personal income tax rates before January 1, 1972.

Second, moreover the only type of change we could make is a costly across-the-board decrease in rates. We cannot make the less costly selective reductions for low-income groups of the type we think are needed and would be in line with our long-run reform proposals.

Third, the pressures of Ontario's long-run revenue requirements mean that we can only afford to finance a temporary tax cut, whereas a permanent reduction in personal income tax is required. It would be incongruous for Ontario to cut its income tax rates while the federal government continues its so-called temporary surtaxes.

For these reasons, therefore, I have decided to concentrate our limited capacity to finance tax cuts on a major move designed to produce a massive stimulus to business investment.

Tax cuts in this area can be more appropriately implemented for a limited period; and they have the important effect of expanding the economy's productive capacity in ways which relieve inflationary bottlenecks. While we are unable to increase individual incomes through direct income tax reductions, several of our actions in the area of municipal finance will have important indirect results to this effect. The control of school board spending, increased municipal and education grants and increased property tax rebates will work to reduce and contain the impact of property taxes on disposable incomes.

In moving on the investment side, I must emphasive that our measures alone cannot be expected to return the economy to full employment. For this reason we expect the federal government to add its weight to our policies by implementing complementary tax cuts in its forthcoming budget.

In particular, as I have already said, we invite the federal government to complete the pattern of tax cuts by reducing personal and corporate income taxes on a national basis through the elimination of the "temporary" three per cent federal surtaxes.

Mr. Speaker, I intend to incorporate a major new incentive in the province's corporation income tax to stimulate business investment and to create new jobs in Ontario. The incentive which I am proposing is a five per cent tax credit for investment in machinery and equipment that is purchased after midnight this day, April 26, 1971, and put in place and used in Ontario by March 31, 1973. In other words, for every $100 of investment in machinery and equipment during this period, companies will be eligible to reduce their tax payments to the province by $5. On $1 million investment the tax saving would be $50,000.

On a $20 million investment programme a company could reduce its taxes by $1 million. I expect this measure to be a powerful incentive for business expansion in Ontario; hence I am anticipating a gross revenue loss of $125 million in corporation income tax in 1971-1972, and perhaps an equivalent loss in 1972-1973.

This tax credit approach to stimulating investment, economic growth and job opportunities in Ontario has major advantages over alternative measures.

I can only say, Mr. Speaker, that as long as the member for Grey-Bruce wants to go on embarrassing his leader and his party he is welcome to do it. He is not interrupting me.

Mr. Speaker, this tax credit approach to stimulating investment, economic growth and job opportunities in Ontario has major advantages over alternative measures. It will have an immediate impact because is produces immediate tax savings to companies that invest in economic expansion. It does not reduce the value of basic capital cost allowances. It is simple to understand and administer. It can be implemented and removed without distorting long run arrangements. It will assist in the modernization of capital stock in this province to increase the long-run productivity of Ontario industry, and will help to achieve other social and economic objectives, particularly increased investment in pollution abatement equipment.

This government will help the people by getting the people back to work.

Mr. Speaker, this live per cent tax credit will be available to every company paying tax or liable to pay corporation income tax to the Ontario government. It will not be restricted to particular industries or particular sizes of companies, nor will there be upper or lower limits on the amount of investment that will qualify. Machinery and equipment investment will be defined generously to include most types of equipment, new or used but will exclude leasing arrangements, trucks, cars and buildings. I have excluded trucks and cars on the grounds that no specific incentive is warranted for this type of investment. Buildings have also been excluded because an incentive geared to machinery and equipment investment will stimulate new construction to house these assets in any event. This investment tax credit will also not affect the normal capital cost allowance write-offs by corporations; rather, it is in the nature of a temporary bonus over and above the regular depreciation system.

Finally, to ensure that all Ontario corporations can take full advantage of this incentive, loss companies will be allowed one additional year, to April 1, 1974, to generate profits against which the investment tax credit may be deducted.

Fuller details of this tax change, and the following tax changes, are provided in the appendix following the budget statement.

A major anomaly of present Canadian tax law is that foreign companies enjoy a tax advantage lover Canadian companies in bidding to take over other companies. This advantage arises because foreign purchasers, particularly United States corporations, can deduct the interest costs of funds borrowed t(} purchase shares in other companies, including Canadian companies, whereas a rival Canadian buyer cannot deduct comparable interest costs. This unfortunate and illogical situation has been allowed to continue on the grounds that income from purchase of shares is exempt from tax, hence there should be no deduction for exempt income. Whatever the validity of this tax principle, this feature of our tax law has undoubtedly been an important factor in the ability of foreign companies to acquire Canadian firms

The Ontario government is convinced that the present restrictive rule should be removed immediately.

Consequently, I am proposing to amend Ontario's corporation income tax legislation to permit deduction of the interest costs on money borrowed to purchase shares in other companies. This amendment will undoubtedly entail revenue use. I am convinced, however, that such losses are fully warranted in order to achieve the objective of greater participation by Canadians in the economic development of this province and of Canada as a whole.

In my recent policy paper on the reform of the taxation of corporations and shareholders, I urged the federal government to include this step in its tax reform legislation. I take this opportunity to stress again the common sense and the urgency of such a move. Relaxation of the federal tax law to allow deduction of interest costs, along with the move Ontario is now making in its corporation income tax, would put Canadian companies on a more competitive footing with foreign companies in bidding for shares in Canadian and non-Canadian companies. It would mean, in effect, that potential Canadian buyers would be able to finance acquisitions on the same terms, at least in respect of taxes, as rival foreign buyers; hence they would presumably enjoy greater success in maintaining Canadian control and participation in Canadian business.

The succession duties field of taxation. This policy was formulated in 1969, following the introduction by the federal government of a completely revamped Estate Tax Act. We proposed to relinquish the death duties field to the federal government in exchange for 75 per cent of the revenues that accrue in Ontario from full application of the federal estate 00; This would put Ontario in the same position as the seven provinces that have no death duties of their own.

We have decided not to eliminate our succession duties in a single step. There are three sound reasons for such a gradual approach.

First there is the matter of revenue losses. Complete elimination of succession duties would entail a loss of revenues to the province of about $25 million a year.

Second, the continuation of Ontario's succession duties, along with the half-application of the federal estate tax, will result in lower total taxation in many instances than under the full application of the federal estate tax alone.

Third, it is important to establish a connection between estate taxation and capital gains taxation. The Ontario government believes that death duties should be reduced as capital gains taxation comes into effect. The federal government, by contrast, has not recognized the interdependence of these two taxes on wealth and the consequent need to make compensating reductions in estate tax when a capital gains tax is introduced. It is prudent, therefore, for the province to retain some presence in the succession duties field until we see what form of capital gains tax is finally legislated and to ensure that the province participates fairly in the revenues.

Our interim policy, therefore, is to reduce succession duties progressively until the combined succession duties and estate tax revenues generate no more revenue than full application of the federal estate tax alone.

To advance another significant step in this budget, I am recommending the following changes in our succession duties legislation in respect of deaths occurring after midnight this day, April 26, 1971:

The exemptions for widows and widowers will be increased from $125,000 to $250,000.

The 15 percent surtax will be eliminated for preferred beneficiaries which include children and grandchildren;

Preferred beneficiaries will not be subject to duty on estates valued up to $100,000, as compared to the present level of $50,000; and,

The exemption for non-commutable annuities will be raised from $1,200 to $10,000 in aggregate.

This package of amendments will effectively eliminate succession duties on the vast majority of estates. I estimate that as a result of these changes, fewer than 5,000 estates per year will be taxable.

The tax burden in the case of transfers to children and grandchildren, and particularly spouses, will be significantly reduced. These changes will drastically reduce the tax burden on farm estates and in most cases makes the difference between selling out or continuing to operate a family farm. Family businesses will also benefit because the tax cost of passing on a business to a child or grandchild will be greatly reduced.

The pressure to sell out small firms and family businesses either to pay death duties or to avoid such taxes will be alleviated. Since these kinds of businesses are often sold to non-Canadians, this reduction in succession duties should reinforce our efforts to encourage more Canadian control and participation in the Ontario economy.

Let me stress that we regard this as a major and positive step in this direction.

I anticipate that these reductions in succession duties will result in a revenue loss of $12 million a year as the revised system matures. The revenue decline in 1971-1972 will be somewhat less-perhaps $6 million because most of the estates processed during 1971-1972 would relate to deaths occurring prior to the changes I have just announced.

Mr. Speaker, beer prices in northern Ontario are currently about five per cent or 26 cents a case higher than in southern Ontario.

This differential pricing policy was established to reflect higher costs of handling and transportation in the north. While the economics of supplying beer have not changed, I believe that beer drinkers in the north should not have to pay more than those in the rest of the province.

Accordingly, I propose to equalize beer prices in northern and southern Ontario effective May 1, 1971.

The mechanism for achieving this equalization of beer prices will be an additional two cents on the gallonage tax to be used to reduce northern beer prices by 11 cents a large case. At the same time, beer prices in southern Ontario will be increased 15 cents a large case. These two changes, sir, will mean that a case of 24 bottles of beer will cost $4.65 everywhere in Ontario, which, Mr. Speaker, is still the lowest price in Canada.

Mr. Speaker, at present Ontario residents must purchase an angling licence at a cost of $3 per year in order to fish in this province. This licence fee was introduced in 1968 as part of a general move to bring user fees more in line with the costs of services provided by The Department of Lands and Forests. While this objective remains generally valid, I would point out that it generates only $1.6 million in revenue -is costly to collect and is generally a nuisance to fishermen.

I propose, therefore, to abolish the resident fishing licence, effective retroactively to January 1 of this year.

Any residents who have already purchased a 1971 licence will be entitled to a refund by sending their licence to The Department of Lands and Forests at Queen's Park.

Mr. Speaker, I would like to conclude this section on tax changes by discussing Ontario's long-run policy for the taxation of mines. Since the announcement last August of revised federal proposals for the taxation of the mining industry, we have been studying the various proposals to determine the Ontario government's future policy on mining taxation. This was necessary since the revised federal proposals shifted to the provinces the responsibility for establishing the ultimate tax burden to be borne by the mining industry.

I believe it would be premature to make a categorical declaration of provincial policy before final tax reform legislation is brought down by the federal government. Nevertheless, I think it important to set out at this time the objectives and general thrust of our long-term policy in order that Ontario mining companies can take the provincial tax dimension into account in their forward planning and long-term investment decisions.

My department has undertaken an intensive policy review in this complex area. We have devoted particular effort to analyzing as fully as possible the potential impact of the revised federal proposals on our mining industry and on Ontario's finances. In undertaking this review, we received the full cooperation of the mining industry in providing essential data and information. This type of co-operation between government and industry is essential for the development of sound tax policies.

Let me summarize briefly the results of our analysis and the implications for our own mining tax policy.

The total package of federal mining tax 'reforms-the original white paper proposals and the revisions announced last August would not involve any reduction in the total tax burden on the mining industry in Ontario. The reduction of the federal corporate rate from 40 per cent to 25 per cent would be almost or completely offset by reforms widening the tax base: the non-deductibility of provincial mining tax, the change from automatic to earned depletion and the elimination of the three-year exemption.

The reduction in the federal corporate rate to 25 per cent would not open up major tax room for Ontario to pass benefits on to the mining industry or to take up in .increased provincial corporation or mining tax rates. If we simply maintained our existing rates, Ontario would enjoy a modest revenue gain from the base-broadening reforms noted previously while the federal government would suffer an equivalent revenue loss, but the total federal-provincial tax burden on mines would remain about the same as at present.

The revised federal proposals would involve a marked change in the distribution of the total tax yield among Ontario mining companies. In general, high profit companies and companies able to earn maximum depletion would pay less tax than at present while smaller companies, new companies and companies unable to earn maximum depletion would pay more tax.

These findings have an important bearing on the formulation of our own long-run policy. Not only will the province have little or no scope to increase its own corporate or mining tax rates without raising the total tax burden on the industry, but will also face the new problem of evening out or compensating for the shifts in tax burden among companies that will arise under the proposed federal system.

With these and other considerations in mind, Ontario intends to pursue a mining tax policy which aims to achieve the following objects:

In the short run: Maintain the total tax burden on the mining industry approximately at its present level, at least until the impact of the new tax system can be determined.

In the long run: Increase mineral processing in Canada-to this end we are prepared to introduce further provincial tax incentives and to use our regulatory powers; preserve provincial revenues and revenue growth capacity from the mining industry as a whole; and ensure a relatively even impact of the new tax system among different mining companies.

We intend to compensate for tax shifts which otherwise would provide unwarranted tax reductions to some companies and endanger existing small mines and dependent mining communities.

Now, Mr. Speaker, given our taxation and spending policies, I expect Ontario's gross provincial product to reach $38.1 billion, an increase of 8.9 per cent over 1970. On the basis of this forecast, total net general revenue is expected to reach $3,847 million. This revenue estimate allows for a gross loss of revenue from the corporate income tax of $125 million, and a further $6 million loss from reduced succession duties.

Part of the .loss from the corporate income tax will be recovered through the inevitable economic stimulus caused by this major tax decision. Yet our total 1971-1972 revenue will be only $110 million higher than in the previous year.

As I have already indicated, our budgetary spending plans for 1971-1972 amount to a total of $4,262 million. Our spending and tax policies for the current year constitute a responsible plan with immediate revitalization of the economy as its foremost rationale.

The expenditure policies, together with the significant tax reduction, will generate what I believe to be an appropriate budgetary deficit of $415 million. This is indeed, sir, the largest deficit for Ontario on record but its composition, notably the tax reductions should be an important factor in bringing the economy toward its potential. As such, it should reduce future financial problems of this government through increased generation of tax revenue. It is, however, a matter of some chagrin that the lion's share of such ultimate gains will go to the federal government because of its predominance in the direct income tax fields.

During the 1971-1972 fiscal year we will require $49 million to retire maturing debt issues. Together with our $415 million budgetary deficit, this would raise our financing requirements to $464 million. Surplus non budgetary sources of finance are expected to amount to about $71 million, leaving our overall cash requirements at over $393 million.

Our government has been able to avoid any borrowing in the Canadian capital market since February, 1968. This policy has proved particularly valuable as federal money policies created tight market conditions and high interest rates and inflationary demands on capital markets had to be avoided. We feel that the economic outlet for the current year is such that this government should once again enter the capital market.

However, through the judicious use of our liquid reserves, and guided by economic and financial developments, we expect to choose the time and the place for our borrowings without adverse effect on capital market conditions, the value of the Canadian dollar or our high credit rating.

Mr. Speaker, I have put before you the first budget of the government of the new Prime Minister (Mr. Davis). It has been framed in a climate of great economic uncertainty in this province and strong federal-provincial tensions in this country.

The 1971 budget faces these challenges with resolve and determination and charts the course for a renewed prosperity in Ontario and a strengthened federalism in Canada.

It proposes positive new measures to revitalize the economy and restore full employment in Ontario.

It cuts taxes to stimulate economic expansion and employment. It restrains government spending to free greater resources for individual taxpayers and private sector activity and heads off renewed inflation.

It advances long-term reforms aimed at strengthening local governments and relieving property tax burdens.

It launches new initiatives to provide a better quality of life for our citizens and to conserve public resources for future generations of our people.

It encourages Canadian ownership and participation in Canadian economic development.

It rejects unequivocally the trend toward greater federal domination of Canada's tax system and public programmes.

It asserts firmly the central importance of Ontario in building a new confederation.

I am confident, sir, that under the bold fiscal programme outlined in this budget and under the courageous, wise and imaginative leadership of the Prime Minister with that kind of leadership, sir, Ontario will realize an even more dynamic and productive future, and, Mr. Speaker, a progressively Conservative future.