

1999



**Statement to the Legislature
by**

**The Honourable Ernie Eves, O.C.
Minister of Finance
on the**

**Ontario
Economic Outlook
and Fiscal Review**

November 30, 1999

CHECK AGAINST DELIVERY

Introduction

We are pleased to provide the Legislature and the people of Ontario with a report on the state of the Province's finances and economy.

During the first half of this decade, Ontario lost jobs, investment, confidence and hope.

As we approach the new millennium, we see tremendous improvement in economic growth, job creation and fiscal accountability in government.

Our active agenda of tax cuts and sound economic and fiscal management has put Ontario back on track.

We are laying the groundwork for sustained economic growth. Ontario's economy is growing faster than the rest of Canada or any of the G-7 industrial countries. Investment and spending by households and by the private sector are surging. Confidence is high.

Strong employment creation is replacing job stagnation. Most of the growth is in full-time private-sector jobs.

With continued vigilance, we are on track to balance the budget in 2000-01 and to begin paying down the massive debt that is the legacy of the tax-and-spend policies of previous governments.

We have reversed the steady increase in taxes. We now have the lowest general personal income tax rate in the country.

In the 1999 Budget in May, we noted that the outlook for continued job growth and prosperity was bright. We are very pleased to report today that Ontario's performance and prospects are even stronger than we had anticipated earlier this year.

Tax Cuts Are Fuelling a Strong Economy

Tax cuts, careful spending and removal of barriers to growth are creating an economic climate that is restoring business and consumer confidence, spending and investment in Ontario.

The result is that Ontario's economy is expanding at a vigorous pace this year.

Real GDP rose by more than previously expected, at annualized rates of 5.2 per cent in the first quarter and 5.0 per cent in the second quarter of 1999.

So far this year, retail sales are up 7.3 per cent and housing starts are up 24.3 per cent. Exports have grown 16.2 per cent.

Strong Economic Growth Will Continue

The May 1999 Budget was based on projections of Ontario real GDP growth of 3.7 per cent in 1999.

Based on the economy's performance so far in 1999 we, along with the private sector, are projecting that Ontario is on pace for growth of 5.0 per cent this year.

The consensus among private-sector forecasters is that Ontario's economy will grow more rapidly than the economies of any of the G-7 industrial countries in 2000 as well. All private-sector forecasters also expect Ontario to register stronger economic growth than the rest of Canada this year and next.

The people of Ontario can now see that the hard work and sacrifice of the past five years are paying off.

The outlook shows unequivocally that the policies that they endorsed, the policies that were needed—policies of lower taxes and economic growth based on private-sector investment and job creation—are working.

Tax Cuts Are Fuelling Strong Job Creation

For all Ontarians the most compelling economic issue is creating and keeping good jobs.

Tax cuts have fuelled vigorous job growth in Ontario.

In the first half of this decade, Ontario consistently underperformed the rest of the country.

From January 1990 to September 1995, Ontario lost nearly 50,000 jobs, while the rest of Canada gained over 350,000 jobs.

Since mid-1995, Ontario's job growth has consistently outperformed that in the rest of the country. Most importantly, the increase has been in the private sector. The jobs have been full-time and Ontarians of all ages—including our young people—have benefitted from the growth.

Ontario's youth unemployment rate—while still too high—has fallen to 12.7 per cent.

Since September 1995, Ontario has gained 615,000 new jobs, nearly all of them full-time jobs in the private sector. These represent over half of all private-sector jobs created in Canada.

So far this year, 177,000 Ontarians have found jobs—virtually all of them full-time. This is roughly equivalent to the combined populations of Chatham-Kent and Sault Ste. Marie finding full-time jobs.

Ontario's Strong Job Growth Will Continue

Job growth is estimated to be 3.1 per cent in 1999. We are well on our way to meeting our goal of creating 725,000 jobs by the end of 2000.

As the Ontario experience demonstrates, low tax rates are critical for economic growth. As well, they enhance economic competitiveness.

As announced in the 1999 Budget, a Business Tax Review Panel is being formed in order to examine the current Ontario personal, corporate and property tax systems for their impact on the capacity of business, small and large, to create jobs. Advice provided by this committee will guide us as we create Ontario's Budget for the year 2000, and in the years ahead.

Federal Government Must Cut Taxes

In an open, global economy, jobs and investment find new homes quickly and easily. High taxes scare away new investment and jobs. They raise the costs of producing goods and services. They act as a drag on our economy, depressing job creation and prosperity.

Although Ontario and most other provinces have been steadily reducing taxes, Canadians face a higher personal income tax burden than citizens in any other nation in the G-7.

But provinces cannot make the tax system competitive on their own. Most of the personal income tax burden in Canada—over 60 per cent—is imposed by the federal government.

The federal government can, and should, create jobs and strengthen the national economy by cutting taxes.

Premier Harris and I have stressed that the federal government should cut taxes in the next federal budget.

I was pleased to host my provincial and territorial counterparts earlier this month, where all finance ministers agreed that federal tax cuts and immediate, full restoration of the Canada Health and Social Transfer (CHST) should be priorities.

We have also called for a reduction in job-killing federal Employment Insurance premiums, as the surplus in the EI account continues to balloon.

Ottawa is missing the opportunity to offset scheduled increases in CPP contribution rates with EI rate cuts. The federal government actually increased job-killing payroll taxes in 1999 and will do so in 2000 as well.

These increases in federal payroll taxes next year will cost Ontario employers and workers alone over \$560 million and could cost the province about 22,500 jobs. This is based on a paper issued by the C.D. Howe Institute that estimated that every \$1 billion increase in payroll tax results in the loss of up to 40,000 jobs.

It is time for the federal government to do its share.

As we approach 2000, we call upon the federal government to show respect for the equal and evolving nature of Canadian federalism, and show flexibility in its understanding of our respective roles in the federation of Canada.

The federal government has required that provincial personal income tax systems use the federal definition of taxable income. This limits our flexibility in designing tax systems to meet the specific needs of Ontario taxpayers. Ontario is no longer willing to accept federally imposed constraints—constraints from an earlier era of federal dominance in federal-provincial relations.

Ontario will move to a “tax on income” system, in which Ontario’s personal income tax will no longer be linked to federal tax and subject to hidden tax increases in the federal system. A “tax on income” system would preserve the benefits Ontario taxpayers have gained from this Government’s tax cuts. We embark on this course with the expectation that provinces will have the same flexibility as the federal government currently possesses over the personal income tax system of each.

The federal government also must restore CHST funding to 1994-95 levels immediately. Ottawa has slashed \$6.2 billion from these important provincial transfers for health and social programs and has restored only \$2 billion. We call on Ottawa to return the rest of this funding to provinces in 2000-01, including an appropriate escalator for these cash transfers that keeps pace with future cost pressures.

The Balanced Budget Plan Is on Track

Ontario’s strong economic and job growth is continuing to propel gains in government revenue.

While we have been cutting tax rates, our revenues have been rising—to an estimated \$59.1 billion this year, up from \$49.5 billion in 1995-96.

For this fiscal year, we are delighted to report that we are once again on track to exceed our target for deficit reduction. Based on the Second Quarter Ontario Finances, which we are releasing today, the 1999-00 deficit is now projected at \$1.0 billion, down \$1.1 billion from the 1999 Budget plan.

We can look forward to introducing a balanced budget for 2000-01 next spring, an excellent way to launch the new century.

Furthermore, we will ensure that the budget remains balanced. The Taxpayer Protection and Balanced Budget Act, 1999 approved by the Legislature last week will prevent Ontario governments from raising taxes in the future without the express permission of the people of Ontario and will prohibit governments from incurring deficits except in extraordinary circumstances.

It is imperative that we not revert to the tax-and-spend habits of previous governments once the deficit is eliminated.

Even when the budget is balanced, we will continue to safeguard taxpayers' hard-earned dollars. We will start paying down the debt, beginning with at least a \$2 billion repayment during our current mandate.

The legacy we inherited from previous governments was debt. Our legacy to future generations is a province that is on a sound fiscal footing, with a plan to keep it there.

The Job of Good Government Is Never Completed

Successful businesses review their operations continuously, looking for ways to find efficiencies and improve their products or services. Effective governments do the same.

We promised that under our Government all existing programs would be reviewed and justified on the basis of cost, necessity and efficiency, and we are doing this.

As announced in the 1999 Budget, the Ontario Financial Review Commission will be reconvened to assist the Government as we continue to strengthen financial management and public accountability. A blue-ribbon panel will be appointed and will provide recommendations to improve the financial management and accountability of key public-sector organizations, such as hospitals, universities, colleges and municipalities.

We are ever-vigilant in our efforts to ensure taxpayers' dollars are spent wisely.

We are making government work better by managing our spending on programs and on compensation prudently.

As my colleague the Chair of Management Board of Cabinet noted recently, the Province has reached collective agreements with its employees that are reasonable and fiscally responsible. Ontario's broader public sector, such as municipalities, schools, post-secondary institutions and the health care sector, should do the same.

Investments for Future Competitiveness

In a competitive world economy, where markets change at lightning speed, we cannot rest on our laurels and assume the battle is over.

We need to keep an eye on the future, while making the right investments today to sustain our economic competitiveness.

Earlier this year, the Ontario Jobs and Investment Board presented our Government with an economic road map for jobs and economic prosperity.

We will be following this direction to make the strategic investments that will promote new technology, innovation, skills development, and enhance our competitiveness now and in the future.

Conclusion

The actions the Government has taken to date, and the actions we will continue to take, are not quick fixes. They are not always the easiest choices.

But our economic and fiscal record of success together with the bright outlook for our economic future is demonstrating that they are the right choices.

Our policies are working.

The outlook for Ontario's strong, growing economy is very positive.

Our Government's agenda is motivated by our goal of ensuring that the people of Ontario have the opportunity to access good jobs, quality health and education services in a prosperous future.

We will not waver from this agenda or from the often difficult decisions required to implement it.

By continuing on the path of sound fiscal and economic management, we are laying the foundation for prosperity and quality of life that will benefit all Ontarians for generations to come.