



2000

Ontario Economic Outlook and Fiscal Review



Statement to the Legislature

**The Honourable Ernie Eves, Q.C.
Minister of Finance**

Presented to the
Members of the Legislative Assembly of Ontario by
The Honourable Ernie Eves, Q.C.
Minister of Finance
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est disponible en français.



Introduction

Thank you, Mr. Speaker.

In the 2000 Budget, we reported that Ontario's economy was growing stronger and faster than expected.

Today, our economy is still growing faster than all of the G-7 nations. Our businesses are still creating jobs at a vigorous pace. Hard-working Ontarians are still creating new opportunities.

These are major achievements. But staying competitive means not standing still.

Ontario's Strong Economic Record: Tax Cuts Key to Growth

Some people believe that tax cuts cost government money. Nothing could be further from the truth. Tax cuts create jobs, stimulate investment, and generate the fiscal resources we need to invest in our priorities.

We expect that by the end of this year our tax revenues will be \$14 billion higher than when we initiated our tax cut agenda five years ago.

Ontario's real GDP rose 6.1 per cent in 1999—more than the growth in the rest of Canada, any other province, the United States or any G-7 country.

Our prudent 2000 Budget projection suggested our economy would grow by 4.6 per cent in 2000 and 3.1 per cent in 2001. In fact, based on the exceptional performance so far in 2000, the recent average private-sector forecast is that Ontario will grow 5.5 per cent this year and 3.7 per cent in 2001.

This strong economic growth is reflected in vigorous job creation. So far this year, Ontario has created 184,000 new jobs compared to the same period in 1999. Since September of 1995 Ontario has created 830,000 net new jobs—more than half of all the jobs created in Canada over this period.

We have become and we remain, Mr. Speaker, the job creation leader of Canada.

Leading the Way in Tax Cuts

Tax cuts remain central to our strategy for strengthening our economic competitiveness. We are pleased the federal government finally realizes the economic benefits of tax cuts and is following our lead by beginning to cut personal and corporate income taxes. But Ottawa must do more to make Canada's tax rates competitive with other jurisdictions, particularly the United States.

In the 2000 Budget, we proposed that, beginning January 1, 2001, the capital gains inclusion rate in Ontario be reduced from two-thirds to 50 per cent, over four years.

We issued a challenge to the federal government to match these reductions. In its October 18, 2000 Economic Statement and Budget Update, the federal government responded.

To ensure that Ontario taxpayers obtain the full benefit of this move, we are prepared to accelerate the pace of our capital gains rate reductions too. Today, I am announcing that, retroactive to October 18, 2000, we will fully implement the 50 per cent capital gains inclusion rate.

In the 2000 Budget, we also announced plans to support the mining sector with a new bonus deduction for purchasers of flow-through shares.

Again, we issued a challenge to the federal government to support this critical sector. Ottawa has followed our lead by proposing a flow-through share tax credit.

Today, I am announcing that, retroactive to October 18, 2000, we propose to introduce a flow-through share tax credit of 5 per cent to parallel the federal move.

I would like to thank the Prospectors and Developers Association of Canada and my colleague, the Honourable Tim Hudak, Minister of Northern Development and Mines, whose dedication and persistence also helped lead the federal government to support this important sector and our northern communities.

Mr. Speaker, the tax changes announced today complement the many initiatives we have undertaken to support the development of an innovative society.

For example, in the 2000 Budget, I announced that we would be tripling funding for the Ontario Innovation Trust to \$750 million. This allows Ontario research

institutions to lever funding provided through the federal government's Canada Foundation for Innovation.

The 2000 Budget also proposed the Ontario Research Employee Stock Option Credit and the elimination of Employer Health Tax on stock options paid by research-intensive firms. More recently, we proposed a new 20 per cent Personal Income Tax credit for investments in Research Oriented Investment Funds. We are taking these steps to attract and retain workers in the highly-competitive knowledge-based economy.

Investing in our Province's Infrastructure

The SuperBuild Corporation represents a new and fresh approach to government capital planning and spending in Ontario. It is an approach anchored firmly in the belief that public-private partnerships can help build public infrastructure in the most cost-effective and productive manner possible.

Health care still remains our highest priority. Through partnerships we are investing \$1.8 billion to modernize our hospitals and provide Ontarians with the highest standards of health care possible.

Partnerships are also helping us expand our post-secondary education system to meet the challenges ahead of us. Together with post-secondary institutions, the private sector and other partners, we have committed \$1.8 billion to create 73,000 new student spaces in colleges and universities, ensuring that every Ontarian who is willing and qualified can pursue a post-secondary education.

This year we are investing a record \$1 billion to expand and renew Ontario's highway infrastructure. This includes a significant investment to pave the way for economic development in Northern Ontario through the accelerated four-laning of Highways 11 and 69.

We have demonstrated that partnerships between government and the private sector work. The successful sale of Highway 407 to the private sector, the largest highway privatization in the world, generated \$3.1 billion for the Ontario treasury. The continuing construction to complete the highway has created over 6,000 new jobs and has helped to relieve traffic congestion for business and commuter traffic across the Greater Toronto Area.

The recent lease agreement between the Province and British Energy for the Bruce Nuclear facility is a partnership that will see a dormant provincial asset revitalized and reactivated. As a result, jobs will be saved in many Bruce Peninsula communities and new economic growth will be possible in the region.

Details of SuperBuild's activities to date are provided in the first SuperBuild Corporation Progress Report, which we are releasing today.

Standing up for Ontario

Ontarians—like all Canadians—expect the federal government to be a true partner in the funding of health care and other social programs by committing to fund 18 per cent of provincial-territorial expenditures through the Canada Health and Social Transfer (CHST), the same share of the cost that it paid in 1994-95.

While we have certainly made progress with the federal government in this regard, it is still only funding 12 per cent of health care expenditures in the Province of Ontario this year.

Meanwhile, Ontario will be spending \$2.1 billion more on health care this year than we did in 1999-2000.

Made-for-Ontario Tax System

In the 2000 Budget, I announced that for 2001 we would fully implement a Made-for-Ontario tax system. Under that system, Ontario will establish our own income tax rates and brackets, and our own approach to reductions in income tax through credits, exemptions and deductions.

Today I am announcing that we will use our new Made-for-Ontario policy flexibility to enhance Ontario's non-refundable tax credits for students, people with disabilities and their caregivers.

This \$60 million increase in tax benefits will assist both part-time and full-time students with the costs of their post-secondary education and help people with disabilities live independently and with dignity.

It is Ontario's view that the flexibility provided by the Made-for-Ontario income tax system is desirable. We also think it can be achieved within a single tax administration system.

However, the federal government must begin to realize that the interests of taxpayers are different in different provinces. Taxpayers in Ontario have interests that are unique to Ontario and different from the interests of taxpayers in Saskatchewan, for example. Likewise, those in B.C. have different concerns from those in Nova Scotia or Newfoundland.

Mr. Speaker, every province should be able to address the needs of its own taxpayers as it sees fit.

For example, the Ontario Research Employee Stock Option Credit is an initiative that is designed to improve Ontario's competitiveness as a place for researchers to locate and conduct their work.

To date, the federal government has not responded to our challenge to match this program, nor has it agreed to administer this benefit at a fair and reasonable cost.

If the federal government remains unwilling to act in the taxpayers' best interests, Ontario will have no choice but to establish the capacity to provide this benefit directly ourselves.

Fiscal Achievements

In 1995, we committed that we would launch the new century with a balanced Budget. Mr. Speaker, we have more than honoured our commitment. We were there one year ahead of schedule.

In response to the strength of our economy and our robust revenue performance, we are eliminating the need for the Province's \$1 billion reserve and applying the full amount to reduce Net Provincial Debt.

We remain committed, as we announced in the 2000 Budget, to reduce Net Provincial Debt by at least \$5 billion during this mandate, more than double our Blueprint commitment.

Based on the Second Quarter Ontario Finances, which we are releasing today, I am pleased to report that we are now projecting a Budget surplus of \$1.4 billion for 2000-01.

This projection is based on recent forecasts of 5.5 per cent economic growth this year. Some private-sector forecasts have projected even stronger growth.

Stronger-than-expected revenue growth does not mean, however, that government can return to its past practices of being all things to all people all the time.

When we are fortunate enough to have extra money we must invest it wisely.

Conclusion

Earlier in this statement, I spoke of the need to challenge the federal government to act to boost the nation's competitiveness.

Mr. Speaker, we ask only that the federal government work with the provinces in a spirit of cooperation.

We all have a stake in Canada's future. Ontario wants to ensure Canada maintains its position at the leading edge of the global economy.

Ontario cannot do it alone.

The provinces cannot do it alone.

We can only achieve our goals if all levels of government take responsibility and work together.

Mr. Speaker, our Government remains committed to protecting the gains we have made and ensuring that the outlook remains bright and prosperous for Ontarians today and tomorrow.

Thank you.