

Budget Speech

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Introduction

Over the past year, Québec has embarked upon an unprecedented effort to redefine its socioeconomic objectives and the means of attaining them within a framework that is at once progressive and rigorous.

Two successful summit conferences brought together the key players in Québec society. Between the two gatherings, a number of forums elaborated a series of initiatives designed to enhance the lives of Quebecers economically and socially.

This remarkable reflection has enabled us to pinpoint the two major priorities of this Budget:

- continue to put Québec's public finances in order and eliminate the budget deficit before the year 2000, while maintaining fairness and solidarity;
- at the same time and with equal diligence pursue job creation and catch up to and surpass within three years the Canadian job-creation rate.

The government has followed the course it has set itself from the standpoint of putting Québec's public finances in order. We decided to reduce the deficit to \$3.2 billion during the year just ended. Mission accomplished. For the second consecutive year, we have achieved our target. The government was long incapable of meeting its deficit targets. My predecessor, the MNA for Crémazie, put an end to this disgraceful situation. We have now entered the straight and narrow. The Québec government's new-found credibility is growing year by year and will continue to do so.

In the coming year, the target now set in legislation is \$2.2 billion. With the Budget I am tabling today, we remain on course and will thus achieve a crucial step on the road to a zero deficit. The year that is beginning is the hardest one, but it is also the last one to demand such immense sacrifices. Smoother sailing is in the offing.

However, this year's deficit-reduction target demands considerable effort on the part of all of Québec society, notably government employees, since it will be achieved, first and foremost, by a \$2.3-billion reduction in spending. Big companies will also be asked to make a special effort. The fight against unreported work and tax evasion will also contribute to deficit reduction.

As for economic growth, we have witnessed a number of encouraging signs in recent months. Forecasts for 1997 are not entirely satisfactory however, notably with respect to job creation. For this reason, this Budget contains important measures to help us achieve the job-creation objectives agreed upon with our summit conference partners. These objectives are all the more ambitious since Québec still does not control all of the levers required for its development.

I am announcing today a private and public investment plan of more than \$5 billion.

This Budget is also proposing a major reform of the Québec taxation system, intended to make it simpler, more competitive, fairer and better geared to job creation. This is obviously not the time to appreciably lower the overall tax burden. We are going to do otherwise with greater economic efficiency and social justice.

This reform is at the outset financially neutral for the government and taxpayers.

It will be financed by and large through an increase in the sales tax, from 6.5% to 7.5%, next January.

The reform includes a significant reduction in personal income tax that will benefit individuals once we have eliminated the deficit. At that time, they will gain some \$280 million.

The middle class and low-income earners will be the main beneficiaries. I am announcing an average reduction of 15% in the income tax of households earning \$50 000 or less, which will apply as of January 1, 1998.

I am announcing that 200 000 low-income earners will no longer pay income tax. Never in the past 25 years has our taxation system undergone such sweeping change. Never has it been simplified to such an extent.

All told, I am announcing an \$850-million reduction in personal income tax.

This Budget also proposes payroll tax relief and a series of initiatives to help young people assume their place in society, and to support development in such areas as the social economy, forests, mines, social housing and rural communities.

I. THE ECONOMY: EMPLOYMENT IS A PRIORITY

Economic growth in Québec last year reached 1.2%, which compares favourably with the 1.5% growth recorded in Canada, bearing in mind above all the austerity of our last Budget.

Despite an increase in investment and growth in exports, net job creation in 1996 totalled only 8 500 jobs, which is very disappointing. I am using the expression “net job creation” because a great many more jobs were created in 1996, but many jobs also disappeared. The result is that the unemployment rate in 1996 was 11.8%, which is unacceptable, although it is clearly an improvement over the dismal figure of 13.2% reached in 1993.

Québec’s 11.8% unemployment rate is higher than the Canadian rate, by a proportion similar to the one that has prevailed for 40 years. The differential between Canada and Québec is therefore structural, which is why only major structural initiatives can narrow the gap.

Several encouraging signs

The economic picture has brightened considerably recently.

Interest rates have fallen markedly over the past two years. This reduction is starting to bear fruit. Through stringent management, the Québec government is able to borrow more easily and at much better rates.

For several months, numerous economic indicators have been rising quickly, generally more rapidly in Québec than in Canada. This is true of automobile sales and retail sales. Home resales have revived strikingly. Deliveries in the manufacturing sector are up appreciably. Since March 1996, Québec’s international exports have skyrocketed by nearly 18%. In Canada, exports rose by 7.4%.

This improvement in the economic situation is affecting the labour market. Since July, 64 000 jobs have been created in Québec, nearly half of them in the past three months. Moreover, this represents the majority of jobs created in Canada since July.

Private investment

Business investment is an essential component of economic prosperity. How many times last year did we hear the prophets of doom and gloom say that investors were snubbing Québec in favour of the other regions of Canada? They were wrong.

What really happened in 1996? New figures from Statistics Canada provide the answer. Private-sector firms increased their investments in Québec last year by 12.6% to expand their facilities and modernize their equipment.

In itself, this increase, the highest since the late 1980s, is remarkable.

But what is even more remarkable is that the increase is three times that recorded in Canada. Moreover, it exceeded by a wide margin the 7.8% increase noted in Ontario.

We frequently hear and read that Québec appears to be receiving less than 10% of foreign investment in Canada. In fact, the data in question concern only acquisitions by foreign firms of Canadian businesses.

Our objective is to draw to Québec direct foreign investment that creates jobs.

In 1996, foreign firms announced \$2.5 billion in investments in Québec, concentrated mainly in leading-edge technologies. Foreign decision-makers clearly have confidence in Québec and they are helping to invigorate its economy.

The study prepared recently by Price Waterhouse confirms that Québec's taxation system is competitive in terms of attracting investments, especially in the case of businesses that conduct research and development.

The economy should revive gradually

The conditions are in place for gradual, sustained economic recovery. The striking increase in a number of economic indicators shows that the process is well under way. It should continue, given the low interest rates and the favourable economic climate that continues to prevail in the United States, our biggest external market.

Unfortunately, the constraints imposed on us by the heavy debt borne by households and governments will continue to be a stumbling block in 1997. They will tend to slow economic growth in the coming year. The past weighs heavily upon us. If we had put our finances in order sooner, we could take fuller advantage of the current economic upswing.

Starting in 1998, however, prospects seem more favourable. As the constraints from the past are gradually thrown off, we will be able to profit from the dividends resulting from the elimination of the deficit.

I would like to add that, as was the case last year, this Budget has been elaborated according to very cautious economic forecasts. For example, the assumption of 1.5% growth in 1997 is lower than that of all the private-sector experts.

The job-creation assumptions underlying this Budget predict only 25 000 jobs. Once again, the figure is lower than what private-sector experts anticipate. However, the measures I am announcing today and the government's and its partners' initiatives will ensure that this conservative forecast is largely exceeded.

At the Summit Conference on the Economy and Employment held last November in Montréal, we adopted as our collective objective the creation of proportionally as many if not more jobs in Québec than are created in Canada within three years. We have the momentum, it needs only to be stepped up.

1. A \$5.3-billion private and public investment plan

This Budget is proposing a concrete strategy to facilitate the injection of \$5.3 billion in new investments intended to create jobs over the next 18 months.

This strategy focuses, first and foremost, on the launching of \$4.2 billion in private investments, a veritable driving force for economic growth. To this end, the government will introduce the following series of measures:

- establishment of the Private Investment and Job Creation Promotion Fund;
- strengthening of fiscal provisions that promote private investment;
- partnerships with government corporations to carry out private-sector projects; and
- massive support for environmental investments.

The foregoing measures complement those adopted at the Summit Conference on the Economy and Employment held in Montréal.

a) Private Investment and Job Creation Promotion Fund: projects worth \$2.2 billion

I am announcing today the establishment of the Private Investment and Job Creation Promotion Fund to support projects worth \$2.2 billion.

The fund will give priority to projects worth over \$25 million, particularly in the manufacturing, information technologies and tourism sectors.

Government assistance will take different forms, e.g. loan guarantees, coverage of interest and worker training.

One example of the projects targeted is the acceleration of the strategic shift in the pulp and paper industry toward the manufacture of products with higher added value.

Several of these major projects are already on the drawing board. I am announcing that the fund will have at its disposal a set budget allocation of \$250 million. It will not be able to accept projects beyond the coming 18 months. This is an invitation to the private sector to respond quickly and effectively.

b) Tax incentives and partnerships with government corporations: \$1.3 billion in private investments

As for tax incentives, I am announcing today that any new manufacturing investment made in Québec by December 31, 1998 will benefit from:

- a two-year tax holiday for the tax on capital; and
- accelerated depreciation equivalent to 125% of the expense incurred.

Given that small and medium-sized businesses continue, as was the case when the Bâtir le Québec policy statement was released, to be the main job creators, I am announcing that all newly established small and medium-sized businesses will enjoy a five-year total tax holiday. They will pay neither the tax on capital, nor income tax, nor contributions to the Health Services Fund for the first five years of their existence.

Government corporations will make a more concerted effort to promote new projects in partnership with the private sector. Thus, government corporations will be instrumental in encouraging private companies to invest in Québec.

The tax provisions that I have mentioned and partnerships involving government corporations should engender at least \$1.3 billion in new industrial investments. The Appendix on Fiscal and Budgetary Measures, which is an integral part of the Budget Speech, contains details of these measures.

For example, the current involvement of the Société générale de financement with Noranda and Japanese partners in the Magnola project could lead in the near future to the construction of a world-class magnesium plant in Asbestos. This could mean an investment of over \$500 million.

Other partnerships with the Société générale de financement could come quickly to fruition in the aluminum processing, semi-conductor, petrochemical and pharmaceutical sectors. I am convinced that the new management team at the SGF, whose competence is unanimously acknowledged, will achieve the necessary synergy among government corporations.

Other projects with added value are well under way at Rexfor in the wood processing and paper sectors. The recent alliance between Hydro-Québec and Noverco will make it possible to support the power utility's continental mission and foster the expansion of the gas distribution system in Québec. It is to be hoped that everyone will support as much as our government does Gaz Métropolitain's proposal to link the Sable Island gas reserves off the coast of Nova Scotia to the Canadian gas distribution system, through New Brunswick and Québec. This ambitious initiative could lead to major investments in Québec.

c) \$235 million in environmental investments

Agricultural enterprises will also have to invest heavily in the coming years. We intend to support the adaptation imposed on them by environmental constraints and the demands of new markets.

The agri-food industry accounts for nearly 10% of Québec domestic output and employs more than 370 000 people. Friction between farmers and other residents in farming areas arises occasionally. It is unacceptable for Québec to be at odds with its powerful agriculture sector, which contributes so much to its prosperity and enables it to occupy its vast rural areas in a balanced, humane manner. Québec farmers merit our respect and support.

Farm producers are already investing in environmental protection and the reduction of nuisances. We must help them go further still by facilitating access to new methods such, for example, as the technique developed by the Centre de recherche industrielle du Québec.

To enable Québec farmers to pursue the adaptation of their operations, I am announcing an investment assistance program for storage facilities and organic waste treatment equipment. The program will be implemented at the same time as the coming into force of Bill 23 respecting the right to produce and the regulation on farm pollutants.

To comply, farmers will have to invest more than \$500 million over five years. Government assistance should make it possible to invest nearly \$200 million over the next two years. Obviously, these initiatives have been made possible through the concerted efforts of my colleagues the Minister of Agriculture, Fisheries and Food and the Minister of the Environment and Wildlife.

In the industrial sector, it is the cumbersome heritage of past operations that demands investments, in respect of which government assistance is essential.

Numerous contaminated sites are veritable black holes in the urban environment and are paralyzing economic development in the cities. Montréal and Québec City are particularly in need of our support in this regard.

I am therefore announcing a new financial assistance program to rehabilitate contaminated lots in Montréal and Québec City. The government and the cities concerned will equally share the cost of the program, under which \$32 million will be invested over the next two years.

Still in the realm of environmental protection, I am announcing today the elimination of the 8.2-cent-per-litre tax on propane. This will put propane on the same footing as natural gas and ethanol used to propel vehicles. We will promote the Québec industry specializing in the manufacture of propane tanks, while reducing pollution.

**d) Industrial Development Fund and block of energy:
\$500 million in investments**

We now dispose of two important levers elaborated at the Montréal Summit Conference on the Economy and Employment to attract new industrial clients to Québec, i.e. the Industrial Development Fund and the availability of a 500-MW block of energy. Over the next two years, we intend to promote at least \$500 million in private-sector investment, notably in segments of the electrometallurgical and electrochemical industries with high added value.

e) Public investments of \$763 million

The public sector will also contribute to job creation. To this end, it will carry out this year and next a number of priority projects to satisfy Quebecers' needs. I am therefore announcing new public investment totalling \$763 million over the next two years.

Health and social services

We will invest \$305 million in the transformation of the health and social services network, whose reorganization is now well under way, and adopt new ways of providing health care. These investments mark another stage in the realization of this major reform, whose architect, the MNA for Charlesbourg, deserves our admiration.

- Front-line health care

We will allocate \$150 million to enhance the system's ability to provide Quebecers with front-line health care. The investments will cover the expansion or relocation of several institutions. They will also cover purchases of equipment needed to shorten the length of hospital stays or, as the case may be, to avoid hospitalization altogether.

- Chronic care requires the recycling of facilities freed up by the transformation

We will allocate \$124 million to chronic-care facilities. These funds will be used, among other things, to reconvert facilities freed up by the transformation of the health care system to handle chronic care patients, especially the elderly.

- Social facilities

The establishments that provide social adaptation services for young people and adults experiencing difficulties also have considerable needs. We will allocate \$31 million to broaden access to them.

Education

In the realm of education, I am announcing that we will invest \$348 million to satisfy new needs engendered, among other things, by the reform of the education system and the family policy. The minister responsible is implementing the family policy. The proposed adjustments are presented in an appendix to the Budget Speech.

- Kindergarten for five-year-olds

We will have to build new schools or expand existing ones to accommodate anticipated increases in enrolment, especially at the kindergarten level. Some \$103 million will be invested in this respect.

- Vocational training

We will allocate \$64 million to alter and outfit facilities and modernize workshops to meet new demands posed by vocational training programs.

- Renovation of Montréal's oldest schools

It is essential to renovate schools on Montréal Island so that they can continue to adequately serve the students who use them. We will invest \$25 million in this project.

- Institutions of higher learning

We will invest \$156 million in the renovation of Cegep and university buildings, to ensure that they offer an environment more conducive to learning.

Culture

Moreover, I am pleased to announce new investments in culture, totalling some \$53 million. The funds will be earmarked for developmental projects focusing on cultural facilities and the restoration of heritage buildings.

Renovation of the Montréal Métro

The Montréal Métro is a major, valuable asset for Greater Montréal. However, the first 26 stations are now 30 years old. If we fail to prevent the deterioration of this heritage, the quality of service could suffer. Users would suffer, along with the urban environment, which is so crucial to security and harmony in the city.

I am therefore announcing that \$57 million will be invested over two years in major renovations. The government will pay half this amount, thus stimulating employment in the heart of Montréal.

f) Additional investments of more than \$369 million in the road network

Another vital asset that deteriorates quickly if we do not maintain it is the road network. To properly maintain it, we must increase investments.

For this reason, I am announcing today an investment plan aimed at raising over three years the budgets allocated to the road network. Such investments will be increased gradually to \$638 million in 1999-2000.

I am announcing that, starting this year, we will raise such investments to \$515 million, a \$155-million increase in relation to the investments stipulated in the Estimates tabled last week. Next year, these investments will reach \$574 million, a \$214-million increase.

Motorists and carriers will benefit the most from these investments. For this reason, my colleague the Minister of Transport and I will ask them to contribute through a \$28 increase in vehicle registration fees.

Such fees will be increased for luxury vehicles, in keeping with the recommendations of the Commission on Taxation and the Financing of Public Services. The increase will apply to vehicles worth more than \$40 000 and will be equivalent to 1% of the value in excess of this amount.

The government is aware that the autoroute network is incomplete. It is willing to examine partnership proposals from the private sector with respect to its expansion and operation.

2. Promote employment through tax reform

As I noted earlier, this Budget proposes a major overhaul of our taxation system. Taxation has a decisive impact on economic growth and job creation. The Commission on Taxation and the Financing of Public Services abundantly demonstrated the need to make our taxation system simpler, more competitive and fairer.

I would like to stress the remarkable contribution of Alban D'Amours, Chairman of the Commission who, along with the men and women who sat on the Commission, has rendered an outstanding service to Québec. Their deliberations are all the more remarkable since they produced a unanimous report despite their diverse backgrounds.

A crushing income tax burden thwarts job creation. Individuals and businesses prefer to curtail their productive efforts or to deploy such efforts in jurisdictions where they are less heavily taxed. There is a risk of collective and individual impoverishment associated with the excessive taxation of wage earners. Québec is already in the red zone in this respect.

a) Major reform of personal income tax and modification of the Québec sales tax

Personal income tax is overused in the Québec taxation system. Québec personal income tax is the highest in Canada. Indeed, it exceeds the level attained in all the G7 nations.

Such a tax burden is undermining our competitiveness and gradually draining our ability to maintain social justice.

The reform of taxation that I am announcing today focuses primarily on the recommendations of the Commission on Taxation and the Financing of Public Services, that is:

- better gearing taxation to jobs;
- reducing taxpayers' overall tax burden once we eliminate the budget deficit;

- achieving greater fairness for taxpayers;
- simplifying income tax and its administration; and
- enhancing the situation of low-income earners.

This major reform of personal income tax and changes in the Québec sales tax will result, in three years, in a net gain of \$280 million for taxpayers.

In the short term, the reform is neutral from the standpoint of the government's financial framework.

Reduction in personal income tax

The first component of this important reform consists in an \$850-million reduction in personal income tax starting January 1, 1998. This reduction will:

- cut by 15% the tax paid by households earning \$50 000 or less;
- trim by 3% the tax paid by households earning over \$50 000;
- completely eliminate the tax paid by 200 000 low-income earners;
- significantly improve the tax assistance offered low-income earners; and
- considerably simplify the administration of the taxation system for four out of five taxpayers.

The tax reduction is appreciable. It will mainly benefit middle class taxpayers and increase the disposable income of the least privileged households.

Significantly simplify the taxation system by making it fairer

The personal taxation system is far too complex. Some taxpayers have even suggested that a tax return should be no bigger than a postcard.

Without going that far, the reform that I am announcing today calls for extensive simplification in that the tax return of 80% of taxpayers will only be two pages long. These mere two pages may even include the returns of both spouses, if they so desire.

At the same time, the taxation system will become fairer for the vast majority of taxpayers without raising the upper tax rates.

To this end, we will introduce a new tax provision geared specifically to taxpayers who scarcely resort to tax credits and deductions. They will be able to take advantage of a new lump sum of \$2 350 per taxpayer.

This new amount will replace several tax credits and deductions offered under the general taxation system. It will be of particular benefit to low-income households.

Taxpayers who take advantage of many tax credits and deductions will continue to enjoy the provisions now in effect under the general taxation system. Each taxpayer will be able to choose either the general or the simplified system, according to his personal situation.

Moreover, in order to make the tax treatment of spouses fairer, the new amount may, should both spouses so desire, be transferred from one spouse to the other when it cannot be used to reduce one of the spouse's taxes.

A new tax table

One major component of the reform of personal income tax is to simplify the tax table. The current taxation system has five tax rates, to which are added two surtaxes and a tax reduction.

Starting January 1, 1998, these complex provisions will be replaced by a new tax table that will have only three rates. The upper marginal tax rate will drop slightly to 26%. Moreover, in order to enhance the progressive nature of our taxation system, the existing 20% tax credits will be increased to 23%.

Improve tax assistance for low-income households

The reform also strongly enhances the taxation of low-income earners. To encourage such individuals as much as possible to rejoin the labour market, we are increasing to \$26 000 the level of household income at which tax assistance for low-income households begins to be reduced. In this way, we are solving a daunting problem in our taxation system that has persisted for decades.

The tax assistance accorded households earning under \$26 000 is being increased considerably:

- property tax refunds will be bolstered by \$35 million; and
- assistance for low-income families that incur child care expenses because the parents work will be boosted by \$23 million.

Help for the disabled

Our government also intends to support disabled persons who wish to participate like other Quebecers in the labour market. We will allocate \$19 million a year to the taxation system so that a larger portion of the expenses engendered by their disabilities is recognized.

Measures to help the middle class

Overall, the reform of personal income tax will benefit all taxpayers, especially those in the middle class. This is only right and proper, since they have contributed heavily in recent years.

To illustrate the positive impact of the reform on the middle class, let us take the example of a household with income of \$30 000.

A couple with two children and two incomes will enjoy a gain of \$1 296, while a single-parent family with one child will see its disposable income increase by \$1 510. Single people will also benefit from these major reductions in the tax burden geared to the middle class. For example, a single person under the age of 65 will have an additional \$465 in disposable income. A single person 65 or over will enjoy a total gain of \$1 144.

Enhancement in the standard of living of low-income households

The reform will also improve the lot of low-income households. A family with two children and earning \$20 000 will see its disposable income increase by \$458. A single-parent family earning slightly more than the minimum wage, i.e. \$15 000, will enjoy a gain of \$550. The gains resulting from the reform will round out the important financial support initiative for families instigated by the Prime Minister.

In both cases, our initiative will be of particular benefit to the many women who are the heads of single-parent families. They warrant our respect and support.

A more competitive taxation system

The reform will also make our taxation system more competitive in relation to the taxation systems of our neighbours and trading partners. By reducing income taxes, the reform will enable us to reduce the production costs of businesses. It will also encourage investment by helping to draw to Québec specialized workers who are necessary if businesses are to prosper, or by encouraging the workers that Québec trains each year to remain here.

For example, a couple with two children and total income of \$80 000 will pay \$1 012 less income tax. A single person with the same income will enjoy an additional \$363 in disposable income.

IMPACT ON DISPOSABLE INCOME OF
THE PERSONAL INCOME TAX REFORM
(in dollars)

Household income	Couple with two children		Single-parent family with one child	Single person	
	One income	Two incomes		Under 65	65 or over
10 000	100	100	100	107	—
15 000	100	100	550	371	250
20 000	100	458	1 068	584	645
25 000	100	1 354	2 009	716	964
30 000	789	1 296	1 510	465	1 144
35 000	758	419	776	192	1 179
40 000	750	161	530	132	1 097
45 000	788	161	311	194	932
50 000	889	130	486	274	830
80 000	1 012	356	390	363	289
100 000	1 092	422	470	443	372

Financing the reform

Given the current state of Québec's public finances, this broad reform of personal income tax is unthinkable without alternate financing, where fiscal competitiveness allows it. With the exception of Alberta, Québec now has the lowest provincial sales tax rate. The rate of the sales tax will be increased from 6.5% to 7.5% as of January 1, 1998, when the reform of personal income tax comes into force.

The announcement of this measure with nine month's advance notice could spur retail sales in 1997 by encouraging consumers to move ahead the purchase of big-ticket consumer items.

This shift of the tax burden to the sales tax will enable Québec to better counteract the impact of the income tax reductions announced in Ontario and to bolster the competitiveness of its economy.

The burden of income tax tends to increase the labour costs of businesses. The sales tax is much less detrimental to the competitiveness of the Québec economy since it is subtracted from the price of exported goods. It is also more in line with the freedom of choice of taxpayers, who use disposable income as they see fit.

This rebalancing of our taxation system is in keeping with our budget strategy, which consists in eliminating the deficit before we reduce the overall tax burden. The increase in the rate of the sales tax will allow us to fully finance the reform of personal income tax over the next two years. A zero deficit will be achieved the following year. As a result of the reform, taxpayers will then enjoy a net decrease in their total tax burden on the order of \$280 million.

In 1999-2000, Quebecers will benefit even more from the rigorous management of their public finances and profit fully from their efforts and sacrifices.

Sales tax credit for low-income households increased to \$515 million

I do not want this shift in the tax burden to adversely affect low-income households. For this reason, I am announcing a substantial increase in the sales tax credit, which will be more generous and available to greater numbers of taxpayers.

This increase in the sales tax credit, combined with the measures I outlined earlier concerning tax assistance for low-income households, will inject an additional \$265 million into this redistribution measure, the total cost of which will reach \$515 million in 1998.

As a result of this far-reaching measure, the entire amount of the additional tax arising from the increase in the rate of the sales tax will be refunded to all low-income households. Better still, this enhancement of the sales tax credit will completely eliminate the burden of this tax for individuals with incomes under \$10 000.

For the first time since the introduction of the retail sales tax in 1940, the least privileged members of our society will be completely exempt from the burden of the sales tax. This is a significant improvement in our taxation system and a step in the direction of progressivity. In addition, the tax credit will be paid by cheque in two instalments each year.

Income security benefits: eliminate unfairness

At present, income security beneficiaries do not pay income tax, nor will they in the future. Individuals who live solely on these benefits will not have to pay tax.

However, a taxpayer who, in a given year, receives both social aid income and other income that, in combination, bring him to the taxation threshold, now enjoys an undue advantage. The protection from tax of his income from assistance of last resort is unfair to other taxpayers. Starting January 1, 1998, account will be taken in total income of income security benefits received by individuals who have other sources of taxable income, as my colleague the Minister of State for Employment and Solidarity has suggested in the proposed reform of income security.

b) Reimbursement of \$1 200 in payroll taxes for each new job

Each new job is precious. For this reason, I am announcing today that we will reimburse \$1 200 in payroll taxes for each new job. Any business may obtain up to \$36 000 in refunds if it creates 30 jobs during the year.

This measure substantially enhances the reduction in payroll taxes announced last December and is intended to:

- foster the creation of stable, full-time jobs;
- discourage recourse to overtime and the precarity of jobs; and
- encourage the voluntary reduction and sharing of work time.

Under this measure, many businesses that create jobs in Québec will pay payroll taxes that are lower than in Ontario during the year in which they create these jobs.

At the minimum wage, this is equivalent to the complete elimination of Québec payroll taxes in respect of new jobs.

3. Better prepare Québec for the 21st century

I have announced a strategy aimed at launching more than \$5 billion in investment. Moreover, I have just announced a tax reform that simplifies the taxation system and makes it fairer, and which improves the competitiveness of the Québec economy.

We are unquestionably responding to the expectations of our partners at the Summit Conference on the Economy and Employment as regards the economy and justice.

Our partners also told us that we must deal with structural elements in order to position Québec advantageously on the eve of the 21st century. To this end, they have asked us to focus on regulations, market penetration, the place to be made for young people in society, and the development of the social economy and rural communities.

a) Reduce regulatory red tape

Our partners reminded us that businesses are contending with a regulatory environment that is hindering competitiveness and job creation. Our government is committed to updating regulations and trimming those of no use. Today, it can proudly present its achievements and the initiatives it is about to take. I am making public today a list of nearly 120 regulatory streamlining measures that result from our effort to mobilize government departments and agencies.

As promised at the Summit Conference on the Economy and Employment, the decrees replacing collective agreements are under review. Draft regulations on the abrogation of decrees in the timber and flat glass sectors have just been published. My colleague the Minister of Labour will engage between now and the end of June in a priority review of decrees in the clothing, furniture and automobile services sectors.

In order to facilitate the start-up of businesses and simplify communications between businesses and the Québec government, I am proposing that, as of January 1, 1998, each business be assigned a single number that is valid in government departments and agencies. The administrative red tape resulting from a multitude of identification numbers, which is unjustified in light of current technology, will be eliminated.

b) Facilitate access by 2 000 small and medium-sized businesses to external markets

The Québec economy is very much open to external markets. However, in relation to other Western economies, too few Québec small and medium-sized businesses export their products.

Our objective, which I announced last year, is to increase by 2 000 the number of exporting small and medium-sized businesses, by the year 2000. Since June 1996, over 650 firms have expressed an interest in exporting. This Budget is proposing to increase by nearly 30% government financial assistance for exporting, in order to more quickly reach this target.

Our government intends to offer personalized service to small and medium-sized businesses located outside major centres and interested in export markets. Moreover, it will make available to businesses an effective and comprehensive trade information system.

Last year, we replaced part of our network of delegations abroad with representations known as service posts, in collaboration with my colleague the Minister of International Relations and Québec private- and public-sector partners. In addition to the delegations that have been maintained and the new office in Munich, Québec is now assured of a presence in 14 cities, i.e. Atlanta, Boston, Chicago and Los Angeles in the US; Bogota, Buenos Aires and Santiago de Chile in South America; Bangkok, Beijing, Hanoi, Jakarta, Kuala Lumpur and Taipei in Asia; and Milan in Europe.

The encouraging preliminary results of this initiative compel us to pursue the matter to ensure that Québec firms benefit from key developed markets and emerging markets. Initially, we will set up other service posts in Seoul and Manila. We are contemplating opening such posts in Barcelona, and in other cities in Asia, Latin America, Eastern Europe and the Middle East.

We will also engage in a broader array of trade missions and intend to take advantage of the support of company heads and leaders who voluntarily agree to promote investment in Québec and growth in our exports through their respective networks. This year, our government will organize 150 trade missions, a record number. For their contribution to date to our foreign sales, I would like to thank in particular my colleagues the Minister of International Relations, the Minister of Natural Resources and the Minister for Industry and Trade, and the MNAs for Berthier, Johnson, and Marguerite-D'Youville. The Prime Minister, who is working unstintingly to promote Québec's external trade, will personally lead two trade missions, one to China in the fall and the other to Latin America in 1998.

c) Help young people take their place on the labour market

The Québec economy cannot afford to deprive itself of the vitality, imagination and talent of its young people. We want Québec young people to break out of the Catch-22 of "no experience, no job" and to take their place on the job market.

Training sessions and summer jobs for students

This Budget will increase by more than \$30 million over the next three years funding for the creation of summer jobs for young people in businesses and the government.

I am announcing the injection of \$21 million over the next three years to help businesses hire student trainees.

By paying employers a wage subsidy for summer jobs, we will help students in secondary school vocational training and Cegep and university programs acquire work experience in their field of study.

The funds will be available to businesses and non-profit organizations in the agriculture, forest, mining, culture, communications, manufacturing, recycling and business services sectors.

Moreover, I am announcing that we will double the funds allocated last year to enable the government to hire students during the summer. Over the next three years, we will devote more than \$10 million to this initiative.

The foregoing and existing measures will enable some 20 000 students to find jobs this summer through Placement étudiant Québec, nearly 50% more than last year.

New employment sectors for the benefit of young people

Properly training young people will help solve the problem of businesses that have trouble recruiting sufficient numbers of highly qualified workers.

I am announcing in this respect \$10 million in funding for general and on-the-job training, notably in the information technologies and aerospace sectors. Our initiative will facilitate the adaptation of the skills of young graduates to the specific needs of businesses in these sectors.

If we are to find concrete solutions, it is essential to fully understand the nature of Québec's unemployment problem. The persistent 11.8% unemployment rate is not uniformly distributed in society. It varies a great deal depending on education and training, which are decisive factors. Among university graduates, the unemployment rate drops by half. On the other hand, the unemployment rate among workers with fewer than nine years of education is nearly 18%.

The unemployment rate also varies widely from one economic sector to another. In 1996, it reached 20% in the mining and forest sectors, compared with barely 6.4% in the transportation and communications sectors.

In the communications sector, the Québec government, in partnership with the École de technologie supérieure and the Institut national de recherche scientifique, and with the support of big companies such as Teleglobe, plans to set up an International Telecommunications Training Centre. The centre will train on a broader scale the highly qualified workers demanded by the new economy.

Information technology development centres

This Budget is also proposing the creation of environments that are propitious to the transmission to young Quebecers of the knowledge and culture of certain businesses. I am therefore announcing the establishment of information technology coordination centres to support Québec firms operating in emerging economic sectors.

These businesses will enjoy a five-year tax holiday in respect of:

- the tax on capital;
- income tax; and
- contributions to the Health Services Fund.

They will also be entitled to a tax credit for the acquisition of specialized equipment. However, they will be asked to carry on their operations in specially designed buildings.

To enable young people to take advantage of the presence in Québec of such businesses, I am proposing a tax credit equivalent to 40% of the wages that such firms pay to young people between the ages of 18 and 35.

Enhancement of tax assistance for education

Our government intends to better gear training to the needs of the labour market.

I am therefore announcing that the tax credit for on-the-job training will be broadened on two fronts. It will be extended to businesses that accept:

- apprentices under the new apprenticeship program announced at the Montréal Summit Conference on the Economy and Employment; or
- adult students enrolled in socio-vocational entry services at the secondary level.

To provide more extensive tax assistance to young people who are preparing for the future through advanced study, I am also announcing that:

- tax credits in respect of tuition fees that are not used in a given year may be carried over to subsequent years; and
- the definition of tuition fees will be broadened to include the related fees demanded by universities and colleges.

d) Social housing action plan

At the urging of my colleague the Minister of Municipal Affairs, the government has just adopted a social housing action plan, which will help revitalize employment in several ways starting this year.

All told, this Budget is committing nearly \$100 million in additional funding to several social housing measures that will create jobs.

First, to follow up on commitments made with respect to the social economy at the Summit Conference on the Economy and Employment, we will establish a Québec Social Housing Fund. With the \$43 million to be allocated annually to the fund, we will be able to make available each year:

- 1 200 dwellings for low-income households;
- 500 dwellings for the elderly who are losing their autonomy; and
- 120 dwellings for individuals with specific problems, such as battered women, the intellectually handicapped and the homeless.

Moreover, we will invest:

- \$30 million from the government and at least \$20 million from the municipalities for the renovation of dwellings and the revitalization of districts in urban and rural areas;
- \$5 million in additional funding for the Residential Adaptation Assistance Program for Disabled Persons;
- \$3 million for the adaptation of dwellings for the elderly who are losing their autonomy;
- \$1.3 million for specific community projects and organizations dedicated to defending citizens' rights in respect of housing.

In addition, we are establishing a single, broadened housing allowance, to which will be entitled current beneficiaries and nearly 28 000 additional households. Under this reform, 106 000 families will receive more generous housing assistance.

e) Promote the development of the social economy

The Summit Conference on the Economy and Employment highlighted the considerable potential for job creation in the social economy sector and the need to do what is necessary to make it a full-fledged component of the economy.

I take pleasure in announcing today specific financial support for three job-creation projects submitted by the Task Force on the Social Economy chaired by Nancy Neamtan. These projects will create more than 7 000 jobs over three years.

The first project is a financial exemption program for households that rely on domestic help services provided by social economy businesses. The assistance offered will be paid directly to the organization providing the service. An eligible person will pay only the difference between the rate demanded by the organization and the amount of the assistance provided. This program will cost \$79 million over the next three years and will create 6 000 jobs.

The second project will make possible the creation of 1 050 jobs over three years for disabled persons in adapted work centres. Some \$7.5 million will be allocated for this purpose to the Office des personnes handicapées du Québec.

We will also contribute to an assistance fund for businesses and organizations operating in the social economy sector. Some \$4 million over three years will be earmarked for the fund; the private sector will at the outset have made an equivalent contribution.

f) Promote the development of rural communities

Our government is keenly aware of the vitality and vigour of rural communities. It is in this perspective that I announced, in the previous Budget Speech, the establishment of a task force on “Villages prospères” to ascertain the traits of rural communities that are successfully managing their development.

The task force concluded that, if community commitment is indeed the key to successful development, the government must support this process. My colleague the Minister responsible for Regional Development is relentlessly pursuing this objective. The means at his disposal will be increased.

I am therefore announcing today that \$6 million in additional funding will be devoted over three years to financing specific support measures for rural communities. Part of the funds will be allocated to Solidarité rurale du Québec, which has agreed to advise the government on rural development matters.

The Contingency Development Fund will receive \$3 million in additional funding over three years.

g) Support sectors of the economy that create jobs

Provide still more support for the Québec cultural industry

Need I reiterate the Québec government's historic attachment to supporting culture? A recent, clumsy attempt to dispute the evidence highlighted the preponderant role that the Québec government plays in the realm of culture. This is normal and it is vital. From Georges-Émile Lapalme to the MNA for Chambly, a number of outstanding men and women have vigorously supported, along with the government, the efforts of the artists who are the heart and soul of our people.

Let me rephrase what I said last year: a people without a culture is an impoverished people, regardless of its level of material wealth.

Our government will therefore continue to significantly support the Québec cultural industry, which contributes splendidly to our unique identity.

This Budget announces the relaxation of two facets of the entertainment expense deduction pertaining to cultural events. Since last year, such expenses have been 100% deductible, rather than 50%, when businesses calculate their taxable income. I am announcing today that, from now on, subscriptions to performances by vocal artists will also be 100% deductible, as is the case for subscriptions to concert series or operas, plays and dance performances.

Moreover, when a business purchases all of the tickets for a cultural performance, the purchase will now be 100% deductible, as though it were a subscription.

Through this Budget, our government also wishes to promote the broader dissemination of books, a vital cultural product.

Even today, despite the remarkable potential offered by new technologies, access to knowledge and skills still relies first and foremost on books. This is also true of the mastery of language: specialists long ago established the explicit link between reading and language ability. The vitality of French in Québec hinges on sustained, widespread contact by Quebecers with books.

For this reason, our government wants to participate in the revitalization of Québec's public libraries, which have a great deal of catching up to do, notably to renew their holdings.

I am therefore announcing today that our government intends to build promptly in Montréal a major public lending library. The project is worth \$75 million and the Prime Minister has made it a personal priority.

I am also announcing that we are increasing from \$10 million to \$15 million a year the funds allocated to the public library book acquisition support program. The program operates in conjunction with the municipalities and we are jointly adding \$10 million a year for the acquisition of books by all public libraries in Québec.

Support the tourist industry

The tourist industry creates numerous jobs. For this reason, it is important to enhance the quality and competitiveness of the Québec tourism product through new investments. To this end, the holiday on the tax on capital announced earlier will also apply to this industry.

The Minister for Industry and Trade, who is responsible for tourism, has already announced a major overhaul of regulations in this sector, with a view to streamlining controls and promoting self-regulation. The industry greeted this reform enthusiastically.

It is incumbent upon the industry to take itself in hand and guarantee the quality of the Québec tourism product. We have therefore asked the industry to adopt a quality certification program governing tourist establishments. In order to support the industry in this undertaking, I am announcing that we are granting \$1 million a year over the next three years.

Among Québec's tourist attractions, its wide open spaces rank first. The Grand-Nord québécois region is the only one that still does not have a regional tourist association. This Budget is making available the funds necessary to overcome this absence. I would like to pay tribute here to Henri Jamet, who was employed by the government at the time of a fatal airplane crash last April in the Grand-Nord that he dearly loved and helped to make known to a wider public.

Support the development of the forest and mining sectors

Two key sectors of our economy, forests and mining, create large numbers of jobs in the regions. In addition to an array of specific tax incentives, which this Budget enhances, my colleague the Minister of Natural Resources will have at his disposal \$130 million over three years for forests and mining, to be allocated to:

- the development of forest resources;
- the creation of forestry jobs for income security beneficiaries;

- the implementation of measures to support entrepreneurship and promoters to accelerate the development and manufacture of forest products with high added value; and
- a new mining industry development program.

h) Ensure openness in the management of savings

According to various studies, it appears that an insufficient proportion of Quebecers' savings are reinvested in Québec. In this field, we believe that openness is necessary. I will therefore take the necessary steps to ensure that Quebecers are aware of the breakdown of the investment portfolios of public and parapublic agencies.

The government does not intend to intervene in an authoritarian manner in a field where fluidity must prevail, especially since Québec is a net importer of capital. However, various incentives should perhaps be contemplated to promote the growth of the portfolio management industry in Québec. The MNA for Crémazie is making available to me his experience and advice.

II. PUBLIC FINANCES: FORGE AHEAD WITH THE ZERO DEFICIT TARGET

The time has come to discuss another government priority, i.e. putting Québec's public finances in order. In the May 9, 1996 Budget Speech, we committed ourselves to following a budget deficit elimination plan.

The sequence of deficit targets is now well known: \$3.2 billion in 1996-1997, \$2.2 billion in 1997-1998; \$1.2 billion in 1998-1999; and zero in 1999-2000.

These objectives have been enshrined in the Act respecting the elimination of the deficit and a balanced budget, which the National Assembly adopted unanimously in December 1996.

1. The government has already achieved half of its deficit-reduction target

I announced that we have achieved our 1996-1997 target.

For the second consecutive year, we have reduced program spending in absolute value. Two years in a row is a first in the modern history of Québec. Let us pay tribute to this remarkable performance achieved in the Conseil du trésor by the MNA for Taillon and the MNA for Labelle.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS
(in millions of dollars)

	1995-1996	1996-1997		
	Real results	Budget Speech 1996-05-09	Preliminary results	Changes
Budgetary transactions				
Revenue	38 246	37 589	37 277	- 312
Expenditure	- 42 196	- 40 864	- 40 522	342
Deficit	- 3 950	- 3 275	- 3 245	30
Non-budgetary transactions				
Investments, loans and advances	- 287	- 598	- 558	40
Retirement plans	1 701	1 939	1 927	- 12
Other accounts	- 412	- 366	- 374	- 8
Surplus	1 002	975	995	20
Net financial requirements	- 2 948	- 2 300	- 2 250	50
Financing transactions				
Change in cash position	853	1 115	1 323	208
Change in direct debt	2 169	1 257	1 006	- 251
Retirement plans sinking fund	- 74	- 72	- 79	- 7
Total financing of transactions	2 948	2 300	2 250	- 50

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

What is even more encouraging about these results is that we are half way along the road to a zero deficit. We inherited a deficit of nearly \$6 billion. We have reduced it by almost half, to \$3.2 billion.

2. Cuts in federal transfers: a major obstacle

The process of putting Québec's public finances in order has come up against a major obstacle, i.e. Ottawa's determination to make Québec and the other provinces shoulder the burden of its deficit-reduction measures.

After two decades of budgetary laxity, the federal government has set out to put its finances in order. The objective is a laudable one, but the methods used raise questions.

Since 1993, half of the reductions in federal government spending have been achieved by slashing transfers to the provinces.

Cuts in social programs announced in the budgets of my federal counterpart resulted in an \$800-million shortfall for Québec in the year just ended. Next year, the shortfall will reach \$1.4 billion. These cutbacks are equivalent to 60% of the spending reductions that we must make this year. The sacrifices imposed on Québec government employees by these cutbacks indicate the extent of federal withdrawal.

What is most shocking of all is that the savings Ottawa has achieved are being used to finance new federal intrusions into Québec's fields of jurisdiction.

Among the federal government encroachments announced last February, mention should be made of prenatal nutrition, literacy, measures for children and the disabled, research infrastructure in universities and hospitals, and the establishment of a health information system, among others.

Instead of intruding in our fields of responsibility, Ottawa should act upon the request Québec has repeatedly submitted to it. The federal government should withdraw from the funding of social programs and transfer to Québec, in exchange, personal income tax points, in keeping with the spirit and the letter of the Canadian Constitution.

3. Harmonization with the GST: Québec demands fair treatment

I would like to turn briefly to the harmonization of the Québec sales tax with the federal goods and services tax.

In 1992, Québec was a trailblazer as regards the harmonization of its sales tax with the federal GST. The decision was a sound one, as it made it possible to enhance the competitiveness of Québec businesses and reduce the cost of their investments.

Québec has received nothing from the federal government to offset the lost revenue resulting from harmonization. Indeed, to ensure that the reform was neutral from the standpoint of its revenues, the Québec government had to increase the corporate taxation rates.

Three of the Atlantic provinces subsequently decided to harmonize, effective April 1, 1997, their sales taxes with the federal GST. In this instance, Ottawa will pay them over four years compensation totalling nearly \$1 billion. Using federal funds partly derived from our taxes, the three provinces will have made their taxation systems more competitive. Specifically, they will:

- reduce the rate of their sales taxes;
- fully refund to businesses the tax the latter pay on their purchases;
- avoid increasing corporate taxes to finance the reform;
- obtain these advantages for which we will pay with our taxes.

In addition, they are advertising in Québec newspapers to attract our businesses.

Québec denounced the federal harmonization assistance program as soon as it was introduced. However, a rudimentary concern for fairness dictates that Ottawa, failing the withdrawal of its assistance for the Atlantic provinces, grant equivalent assistance to any other province that decides to harmonize its sales taxes with the GST. Consequently, Québec is demanding \$2 billion in compensation, an amount appreciably lower than the per capita compensation accorded the three Atlantic provinces. Despite evidence of the cost to Québec of harmonization, Ottawa is refusing to treat Québec fairly in this regard.

At the Summit Conference on the Economy and Employment, our government received the support of our key socioeconomic partners as regards our undertaking. We will continue the fight and I hope that the Official Opposition, once it has carefully examined the figures, will unequivocally support Québec's position, as have Ontario, Alberta and British Columbia.

4. 1997-1998: a decisive step in the elimination of the deficit

In the coming year, in keeping with the policy direction we have followed until now, I am announcing that the \$2.2-billion deficit objective will be achieved.

GOUVERNEMENT DU QUÉBEC
SUMMARY OF FINANCIAL TRANSACTIONS 1997-1998
(in millions of dollars)

Budgetary transactions	
Revenue	38 076
Expenditure	- 40 276
Deficit	- 2 200
Non-budgetary transactions	
Investments, loans and advances	- 560
Retirement plans	1 879
Other accounts	- 519
Surplus	800
Net financial requirements	- 1 400
Financing transactions	
Change in cash position	70
Change in direct debt	1 415
Retirement plans sinking fund	- 85
Total financing of transactions	1 400

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

a) Program spending reductions are the key to the budget turnaround

We will achieve our deficit objective mainly by cutting spending.

Last week, my colleague the President of the Conseil du trésor submitted the estimates for the 1997-1998 fiscal year. Spending cuts will total \$2.3 billion.

b) Contribution by big companies to the elimination of the deficit

A special effort will be demanded of big companies. In the previous Budget, I set at March 31, 1997 the date on which big companies would start to receive the full refund of the Québec sales tax paid on their purchases. At present, certain purchases do not give entitlement to the sales tax refund. To ensure that everyone participates in our effort to eliminate the deficit and, following a careful examination of the situation, I have concluded that we do not have the means, at this time, to apply this measure, which would cost the government more than \$500 million this year.

Were Ottawa to pay us fair compensation for harmonization with the GST, I would immediately rescind this decision.

c) Fight tax evasion and unreported work

At the conclusion of their consultations, the members of the Commission on Taxation and the Financing of Public Services spoke clearly about the question of unreported work and tax evasion. They noted that Quebecers hoped that the government would vigorously, promptly tackle the problem before its consequences became irreversible.

Over the past two years, our government has initiated a series of measures in this respect. With this Budget, we will step up these measures. Specifically, we are:

- conducting a blitz against unreported work in the construction industry;
- rectifying the situation of tip employees and, at the same time, enhancing their social protection;
- accentuating existing revenue collection measures.

These measures should generate \$326 million in additional revenues in 1997-1998.

Eliminate unreported work in the construction industry

To eliminate unreported work and tax evasion in the construction industry, which is the sector hardest hit by these problems, this Budget is proposing measures centred on:

- an intensification of the measures implemented in recent years;
- the enhancement of monitoring mechanisms;
- the integration of the initiatives of the Régie du bâtiment and the Commission de la construction.

Rectify the situation of tip employees and improve their social protection

The under-reporting of tip income in the hotel and restaurant sectors is also a widespread problem, one that governments have neglected. Only 5% of tips are reported, which engenders a tax loss of \$115 million.

This situation adversely affects not only government revenues but the employees themselves. Indeed, they benefit from employment insurance only on the portion of their tips controlled by their employer. Some observers have suggested that we make tipping compulsory to abruptly halt this doubly anti-social situation. We have adopted a more moderate approach, advocated by numerous stakeholders in the restaurant sector.

This new approach should suit employees, employers, public finances and taxpayer compliance.

First of all, we will ensure that restaurant and hotel workers enjoy the same fringe benefits as other workers. To this end, our government will require that a written agreement, negotiated between the employer and employees in each establishment, be an integral part of the employees' work contract. The agreement will specify:

- the procedure by which the employee remits the tips to the employer;
- the rate of source deductions on tips; and
- the methods of redistributing the tips to the employees.

The federal government has assured us that this agreement will at last guarantee employees employment insurance entitlement on their tip earnings.

Starting January 1, 1998, employers will be required to make source deductions equivalent to 8% of sales made by an employee subject to tips if the employee remits to the employer an amount smaller than this amount.

Existing provisions in Québec social security programs such as the Québec Pension Plan and the workers' compensation fund already guarantee these employees benefits corresponding to the tip income they report. In this way, workers will be encouraged to report all of their tips.

As a result of these changes, employers will pay social contributions on the full amount of tips. To help them adapt to this new situation, this Budget grants them a tax credit equivalent to the additional contributions that will result from the measure.

Combat illicit trade in alcoholic beverages

Certain criminal groups display very violent behaviour that endangers the lives and safety of honest individuals.

Our government and my colleagues the Minister of Justice and the Minister of Public Security do not and will not tolerate such behaviour. The government has intervened vigorously through special police operations such as the CARCAJOU and GRICO squads. These operations will be pursued.

We will also strike criminal groups in another manner, without violence, right where it traditionally hurts them, i.e. the sources of the proceeds of their crimes. We will step up our fight against illicit trade in alcohol, an important source of income for organized crime.

Holders of liquor licences will be subject to a minimum 30-day suspension if they are found guilty of selling contraband alcohol or operating illegal amusement machines.

The reduction in contraband alcohol and the corresponding increase in legal sales of alcoholic beverages will benefit the public treasury. Workers in the spirits industry and their bosses, who are urging us to act, will also come out the winners.

d) Reform of local taxation

A number of services that the government produces or subsidizes are primarily of local interest. They would probably be better managed if they were produced by local authorities, including the regional county municipalities (RCMs) and the urban communities. This should encourage the establishment of services and procedures better adapted to the wishes of residents and enable the latter to better control costs.

In recent months, local authorities have had an opportunity to draw our attention to various problems they are facing. Mention should be made, among other things, of problems in main cities, whose tax burdens are especially high, urban sprawl, and the disproportionate weight of remuneration in municipal spending. As for the City of Montréal, I wish to emphasize that talks on a fiscal pact are proceeding smoothly and that we will be in a position to announce our government's decision in the near future.

We intend to reorganize local taxation and confer on local authorities broader responsibilities focusing on, among other things, the planning and financing of local and regional services and facilities.

This reorganization must reflect the principles of local autonomy, subsidiarity and fairness in the sharing of costs and services.

Local authorities will be encouraged to streamline their operations, reduce operating costs and find the funds necessary to assume their new responsibilities in order to avoid increasing the tax burden of local residents.

They will inevitably have to reexamine labour costs. The importance of such costs in their operating budgets and the occasionally considerable wage discrepancy in favour of municipal employees between their overall remuneration and that of workers in the public and private sectors demands such an examination.

The government intends to foster sustained discussions with municipal authorities and their employee associations in order to jointly find, if need be with the government's assistance, prompt, appropriate solutions to this genuine problem.

Fairness and the imperatives of sound public finances impose on all concerned parties the obligation to achieve results.

Moreover, we are determined to hasten the implementation of a community consolidation policy respecting population centres with over 10 000 inhabitants.

To enable local authorities to adequately assume their new responsibilities, other means must be contemplated. The concerned parties will have the time to discuss them, since the reform of local taxation will only come into force on January 1, 1998. The 1997 municipal budgets will therefore not be affected in any way.

Under the reform, the government will achieve budgetary savings of \$125 million for the 1997-1998 fiscal year, and \$500 million for the subsequent year. The financial framework is firm but discussions can focus on a wide array of means, in the full respect of local authorities.

My colleague the Minister of Municipal Affairs will shortly table a policy statement that outlines the general scope of the proposed reform, various issues and the measures contemplated. Provision will be made for a consultation process during which local elected representatives and the general public will be given free reign to express their points of view.

e) Tobacco

In February 1994, the Québec government committed itself to a policy to reduce the tax on tobacco products, in collaboration with the federal government. Ottawa reduced its tax by \$10 per carton of 200 cigarettes, while Québec reduced its tax by \$11. In May 1995, we recovered 72 cents of this extra dollar. As of midnight tonight, we will recover the remaining 28 cents.

Conclusion

To conclude, I would like to stress how much I have sought in this Budget to couple, as much as possible, the virtues of audacity, determination and tenacity that are demanded by especially trying circumstances. This Budget is an exacting plan of action that has mobilized the entire public administration. It has been made possible by the dedication of remarkable public servants, women and men who have given their best to help us elaborate the plan.

Thanks are also in order to the members of the government party for their timely suggestions, which have helped enrich the contents of this Budget.

Moreover, I would like to express my immense gratitude to the Prime Minister and my Cabinet colleagues, who have steadfastly supported reforms and government initiatives, and equally steadfastly rejected immobility and laxity.

The entire government can be proud. This Budget tackles the genuine problems facing Québec and enhances our competitiveness without sacrificing our ideals of solidarity. It is a Budget that puts things in order, prepares us for the future and boosts Québec's credibility.

All of these lengthy, difficult deliberations are another way of showing our love for our homeland. Our drive toward economic and financial health ties in perfectly with our progress toward our national destiny.

In everything we do, we can say, as did Gaston Miron in his immortal verse, "I have never travelled toward another country but you, my country".

GOUVERNEMENT DU QUÉBEC
 BUDGETARY REVENUE
 1997-1998 FORECAST
 (in millions of dollars)

Income and property taxes	
Personal income tax	13 556
Contributions to Health Services Fund	3 847
Corporate taxes ¹	2 839
	20 242
Consumption taxes	
Retail sales	5 650
Fuel	1 457
Tobacco	334
	7 441
Duties and permits	
Motor vehicles	622
Alcoholic beverages	138
Natural resources ²	324
Other	186
	1 270
Miscellaneous	
Sales of goods and services	582
Interest	250
Fines, forfeitures and recoveries	305
	1 137
Revenue from government enterprises³	
Société des alcools du Québec	385
Loto-Québec	918
Hydro-Québec	776
Other	99
	2 178
Total own-source revenue	32 268
Government of Canada transfers	
Equalization	3 940
Contributions to social programs	1 785
Other transfers related to fiscal arrangements	42
Other programs	41
Total Government of Canada transfers	5 808
Total budgetary revenue	38 076

1 Includes tax on corporate profits, tax on capital and tax on premiums in lieu of corporate taxes for insurance company.

2 Includes forest, mining and hydraulic resources.

3 Includes the dividends declared and the change in surpluses or deficits accumulated by government enterprises, which are consolidated with a corresponding reevaluation of the investment held by the government.

GOUVERNEMENT DU QUÉBEC
 BUDGETARY EXPENDITURE
 1997-1998 FORECAST
 (in millions of dollars)

Estimates by department and agency	
Assemblée nationale	67
Personnes désignées par l'Assemblée nationale	38
Affaires municipales	1 276
Agriculture, Pêcheries et Alimentation	537
Conseil du trésor, Administration et Fonction publique	1 049
Conseil exécutif	36
Culture et Communications	426
Développement des régions et Affaires autochtones	118
Éducation	8 946
Emploi, Solidarité et Condition féminine	4 238
Environnement et Faune	217
Famille et Enfance	266
Finances (excluding debt service)	79
Industrie, Commerce, Science et Technologie	300
Justice	450
Métropole	56
Relations avec les citoyens et Immigration	139
Relations internationales	80
Ressources naturelles	304
Revenu	683
Santé et Services sociaux	12 535
Sécurité publique	614
Tourisme	54
Transports	1 435
Travail	64
Items not included in respect of departments or agencies:	
Savings measures to be effected during the fiscal year	- 125
Change in the allowance for loss on share investments ¹	- 18
Total program spending	33 864
Debt service (ministère des Finances)	5 902
Total expenditure announced in the Estimates	39 766
Impact of budgetary measures on program spending	196
New family policy	314
Total probable expenditure	40 276

¹ Allowance created when the accumulated deficit of a government enterprise exceeds the cost of investment in shares held by the government.

GOUVERNEMENT DU QUÉBEC
 NON-BUDGETARY TRANSACTIONS
 1997-1998 FORECAST
 (in millions of dollars)

Investments, loans and advances	
GOVERNMENT ENTERPRISES	
Shares and investments	- 14
Change in the equity value of investments ¹	- 431
Loans and advances	- 120
Total government enterprises	- 565
INDIVIDUALS, CORPORATIONS AND OTHERS	3
MUNICIPALITIES AND MUNICIPAL BODIES	2
Total investments, loans and advances	- 560
Retirement plans	
Employer and employee contributions	3 698
Benefits and other payments	- 1 819
Total retirement plans	1 879
Other accounts	- 519
Total non-budgetary transactions	800

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing.

1 Net amount including the change in the allowance for loss on share investments.

GOUVERNEMENT DU QUÉBEC
 FINANCING TRANSACTIONS
 1997-1998 FORECAST
 (in millions of dollars)

Change in cash position	70
Change in direct debt	
New borrowings	7 168
Repayment of borrowings	- 5 753 ¹
Total change in direct debt	1 415
Retirement plans sinking fund	- 85
Total financing of transactions ²	1 400

Note: A negative entry indicates a financial requirement and a positive entry, a source of financing. For the change in cash position, a negative entry indicates an increase and a positive entry, a decrease.

1 Including \$1 041 million for the repayment prior to maturity of certain borrowings.

2 Excluding transactions carried out for the financing fund.