|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 26e | 2e | Discours du budget | 9 mars 1961 | James N. Allan | Treasurer of Ontario | Progressive Conservative Party of Ontario |

Mr. Speaker,

In moving the traditional motion which ushers in this year's Budget, may I say that in this particular year we are faced in many ways with an entirely different situation from that which has prevailed in the past. This year the Legislature commenced its deliberations on the 22nd of November. Since then the Estimates of most Departments have been considered and passed. The plans of the Government for the coming year are, therefore, very largely common knowledge. It is true there remains a small balance of Departmental Estimates to be placed before the Members to round out the picture. Nevertheless, in general, the Members of this House are familiar with the details of the expenditures provided for in the Budget for 1961-62.

I think the procedure adopted this year is an improvement over that of the past. It has enabled more time with less pressure to be given to the consideration of the Province's business. From my own standpoint, it has relieved me from delivering at this time a comprehensive statement in relation to the activities and programs of the various Departments. In most cases, statements have already been made by the Ministers of the various Departments, and the consideration of these, together with the approval of their Estimates by the House, has left me free to present to the Honourable Members and through them to the people of Ontario an outline of the ways and means that we propose to employ to meet the challenging days with which we are faced.

May I say by way of introduction that Ontario is a dynamic Province in which conditions are ever changing. During the last decade and a half the population has increased by more than two million. In the next 15 years we will be faced with an expansion which will add nearly three million more people to our population or another 50 per cent. These forces of growth have imposed upon us huge demands for the development of our human and material resources on a scale that has been completely unprecedented. While the outlook is one that is full of opportunity, at the same time it is full of challenges and perplexities. It is my task to place before you today a review of our stewardship for the current fiscal year and of our plans for the future.

I shall adopt in general the plan of first giving you the results of the operations for the fiscal year which ends on March 31. I shall then deal with the fiscal year which commences on the first day of April, and with this take the opportunity of discussing with you such things as our tax position in the Canadian economy, which includes Federal-Provincial relations, the debt position of our Province and our fiscal requirements. Then, having regard to the need in both Canada and the United States for stepping up the pace of economic activity to the tempo required in a developmental age, I shall submit our plans, involving public projects and services, taxation and borrowings, for meeting the essential human and material requirements of our Province as well as stimulating the expansion of our industry and employment.

SUMMARY OF FINANCIAL POSITION FOR 1960-61

I now submit our estimates of the net ordinary expenditure, net capital disbursements and combined net ordinary and net capital expenditures for the fiscal year ending March 31, 1961.

The estimated net ordinary expenditures, including the supplementary payments as well as $17.0 million for sinking funds and $77.0 million for capital projects financed out of ordinary revenue, total $738.3 million. In addition to these net ordinary expenditures, an estimated $211.6 million is being spent in the current fiscal year for capital purposes. Of this amount $171.0 million is for Provincial highways and roads (including $45.8 million for municipal road subsidies) while $36.9 million is for Ontario Hospitals and other public works, and $3.7 million is for logging, mining and access roads, rural power extensions and other physical assets. Thus, after deducting from the net ordinary expendi­ture the $77.0 million of capital construction financed out of ordinary revenue, the combined ordinary and capital expenditure of the Province for the fiscal year ending March 31, 1961 is estimated at a total of $872.9 million-an increase of $55.6 million over the combined net ordinary and net capital expenditures in 1959-60.

I am very glad to report to the Honourable Members that we have lived well within our Estimates and that the net debt increase as at March 31, 1961, will be considerably smaller than that indicated in the Budget I brought down a year ago. At that time I estimated that our increase in the net debt on March 31 next would be $142 million and I am happy to inform the House that the increase will be reduced to an estimated $118.2 million.

I now come to a statement of our net ordinary revenue, our net capital receipts and our combined net ordinary revenue and capital receipts. As our net capital receipts amounted to only $2.1 million in 1960-61, representing receipts mainly from the sale of lands and buildings, I shall only summarize the combined net ordinary and net capital revenues.

In 1960-61, Ontario's combined net ordinary revenue and net capital receipts amounted to $740.7 million. This is an increase of $35.8 million over net combined revenues in 1959-60 and is attributable exclusively to the growth of population and the general expansion of business activity. The principal sources of revenue are: corporations tax, $187.0 million; personal income tax rental agreement, $113.8 million; succession duty, $36.0 million; gasoline and diesel fuel taxes, $163.8 million; motor vehicle licences and fees, $68.4 million; and Liquor Control Board profits and fees, $80.5 million.

This provides us with a residual surplus on ordinary account of $293,000 after financing $77.0 million of capital works out of current revenues and providing $17.0 million for sinking funds. After taking into account our net capital expenditures of $211.6 million, our shortfall of revenue is therefore $132.2 million while the increase in our net debt, after making the aforementioned provision for sinking funds and making certain other adjustments, is estimated for the fiscal year ending March 31,1961 to be $118.2 million. In conclusion, therefore, we have not only operated well within the Estimates approved by this House a year ago but will come to the end of our fiscal year with a smaller increase in our net debt than we had estimated last February.

At this point I should like to outline our debt position in somewhat greater detail.

IMPACT OF EXPANSION ON THE PROVINCE'S NET CAPITAL DEBT

The vast program of expanded services and accretion of physical stock could not have been achieved with the very moderate structure of taxation that we have been employing without some additions to our net debt. In these years of rapid expansion and development we have never attempted an overall surplus, believing that in such years it was an unfair burden to cast upon the present generation. We have always felt that if we could provide for the payment, including sinking funds, of approximately 60 per cent of our capital expenditures from current revenues, we were doing an exceedingly good job. In the last decade and a half we have spent well over 52 billion in enlarging the public physical assets of our Province, more than in all the previous years of our history.

Many benefits have stemmed from this course. Since 1945 we have created one of the most modern and efficient highway systems on the North American Continent. 'We have met the prodigious increase in our school population by modernizing and more than doubling our school and university facilities. \Ye have carried out a program of hospital construction which has resulted, after the elimination of obsolete facilities, in greatly increased capacity for our mental and public general hospitals. We have radically changed the conventional approach to water and sewage problems through the establishment of the Ontario Water Resources Commission, and are providing new and improved works in this field on a scale hitherto unknown. We have extended this program to many other fields and this has been of incalculable value to our people.

In carrying out this expansion we have not hesitated to make rational use of our capital money markets. By adopting this course we have been able to impose a more moderate rate of taxation than would otherwise have been possible and thus gave impetus to the growth and development of our Provincial economy. At the end of March 1961, it is estimated that our net capital debt will total $1,112 million, an increase of $644 million since March 31,1948. Thus, over this period we have been able to finance two-thirds of our investment in capital works and assets out of current revenue. The balance we have borrowed.

Although population growth and higher real incomes have tended to reduce the burden of this net capital debt, nevertheless, the greatly increased capital program that has been undertaken has meant that with our present system of taxation we have been obliged to make greater use of capital borrowing and this is reflected in the rise in our net capital debt. To illustrate, in the last three years we have had successive increases in our net capital debt of $81.9 million, $93.0 million and $118.2 million. While the rise in this net debt by any reasonable standard is most moderate, nevertheless, we recognize that increases in debt have to be kept moderate.

EXPENDITURE PROGRAM FOR 1961-62

From the Departmental Estimates for the fiscal year 1961-62 already submitted to and approved by the Legislature, it will have become apparent to the Honourable Members that we are committed to a major increase in our expenditures for the fiscal year commencing on April 1, 1961. In aggregate, the estimated net ordinary expenditure of the Province for 1961-62 amounts to $772.9 million (excluding $40 million for capital disbursements to be financed out of ordinary revenue) - an increase of $111.6 million over the corresponding net ordinary expenditure of $661.3 million in the fiscal year 1960-61. There is no escaping the fact that this is a huge increase, and I propose to give to the Honourable Members a detailed explanation of the reasons for this increase and then to discuss the fiscal problems with which this Province will be confronted next year and in the ensuing years. If we could leave out of our considerations the pressing requirements of education, hospitals and other health services, we could manage very well indeed. But of course, education and health arc two of the primary responsibilities of the Province and its municipalities, and cannot be left out of account. Of the $111.6 million increase in net ordinary expenditure to which I have referred, the increase in the Department of Education's expenditure accounts for $41.8 million or 38 per cent of the total, while the increase in the Department of Health's expenditure accounts for an additional $40.3 million or 36 per cent of the total increase. Thus, the expenditures of these two Departments, Health and Education, will require next year an additional $82.1 million, and absorb 74 per cent of the increase in the Province's net ordinary expenditure. The remainder, representing 26 per cent, is made up of-the Department of Municipal Affairs, whose outlays are being increased by $8.2 million; the Department of Highways for maintenance work, $3.7 million; Public Debt-interest, etc., $7.6 million; increase in sinking fund instalments, $3.0 million; and all other Departments, $7.0 million.

I shall return to give a fuller outline of the increases in the expenditures of the Departments of Education and Health after I have summarized our expenditures for capital purposes and then for combined ordinary and capital purposes.

Our projected net capital expenditure for 1961-62 totals $242.3 million.

This is an increase of $30.7 million over our estimated capital expenditure in the current fiscal year. Of this increase, $19.4 million is for highways and roads and the remainder is for a large volume of construction of Ontario Hospitals and other public buildings, conservation projects, rural power extensions and logging, mining and access roads. Thus, the combined total of our net ordinary and net capital expenditures for the coming fiscal year is at an all-time record level of $1,015.3 million, an increase of $142.4 million over the estimated expenditures in our current fiscal year 1960-61. This is, of course, by far the largest Budget ever introduced in this Legislature.

OUR CAPITAL EXPANSION PROGRAM

The problem with which we as a people are faced is that of ordering our economy and our business in such a way that we create new physical assets for the orderly and efficient development of our communities and industries and thus promote high and stable levels of income and employment. In our judg­ment, we must step out boldly in this matter, having high confidence in the future of our Province and our country.

We are very conscious of the need in our modern society for a social security system that makes provision for persons who through illness or other reasons, often beyond their control, are unable to support themselves and their families. Indeed, Ontario has a distinguished record of achievement in the field of social welfare, having pioneered legislation for disabled persons and having played a leading role in the adoption of the old age security system in this country. Together with mothers' allowances, general welfare assistance, child welfare and many other services, they form a comprehensive system of protection for our less fortunate citizens. While such measures provide relief and assistance to those in need, they also serve as a built-in stabilizer, helping to maintain income during times when the pace of our economic activity has slackened. While we must provide for the needs of these people, we are also cognizant of the fact that, in general, men and women want work and not relief or other welfare assistance, and that this must be one of our primary objectives-to maintain a satisfactory rate of growth and development and a high level of prosperity.

In carrying out this huge program we do not have to resort to make-work projects. We have a very large volume of work of a valuable, and indeed, essential nature with which we can proceed. We do, of course, face the limitations that our financial resources impose upon us.

In the coming fiscal year we shall either undertake ourselves or contribute to, the largest volume of new capital construction in our history. This will include new highways and roads, hospitals, teachers' colleges and a variety of physical structures, including conservation projects for the preservation and development of our natural resources. The main elements in this program are as follows:

Taking all these projects into consideration, it is estimated that the new capital and repair expenditure of the Province together with its various com­missions and other agencies and the municipalities, will total $954 million in 1961-62, an increase of $96 million over the $858 million spent in 1960-61. The increased outlay in 1961-62 will create an additional 25,000 employment opportunities throughout Ontario over the number employed last year.

HEALTH, EDUCATION AND MUNICIPAL ASSISTANCE

I now return to the two services-health and education-which are responsible for nearly three-quarters of the increase in our net ordinary expenditure and in discussing education, I wish as well to make reference to the assistance that the Province has been providing to its municipalities.

Health

Expenditures of the Department of Health next year show all increase of $40.3 million over those in the current fiscal year. Of this amount, approximately $8 million is required for additional staff and services in our mental

Before provision for capital disbursements financed out of ordinary revenue, hospitals, including retarded children's schools which are associated with them. The detailed Estimates of the Department of Health will show the particulars of this increase. The principal factor, however, is the Province's contribution to the Ontario Hospital Care Insurance Plan which is being raised from $18.0 million in the current fiscal year to $50.0 million for next year-an increase of $32 million. This contribution does not include the cost of administration which is also borne by the Province. In order that everyone may understand the astronomical rise in the cost of Ontario's hospital and health services, I am including here a statement comparing the expenditures being made on Ontario's hospital and health services system, together with sources of funds, for the fiscal years 1945-46, 1960-61 and 1961-62.

I think the Honourable Members will agree that the Ontario Hospital Care Insurance Plan introduced January 1, 1959, has been a distinct success. Not only have people received far more comprehensive protection under this Plan than otherwise would have been available to them, but both the hospitals and the municipalities have benefited from it financially. The number of persons covered by the Plan has increased from 5,540,688 in 1959 to 5,832,842 in 1960 providing coverage for 95 per cent of Ontario's population. Having regard to economic conditions, this is a very remarkable achievement.

We in Ontario, however, have been faced with rising hospital costs. Last year these costs increased by 20 per cent, an experience common to virtually all Canadian provinces. Such increases arise from a variety of causes as dis­cussed in the Committee on Health. It should be pointed out that salaries and wages represent 70 per cent of the net operating costs of all public general hospitals and these have risen by 52.5 per cent in the last three years alone. Neither present Federal-Provincial contributions nor the revenue from hospital insurance premiums at present rates are sufficient to finance these rising costs.

The present premiums are $2.10 monthly for a single person and $4.20 monthly for a family, If the increases in the Province's costs, exclusive of the Federal Government's contribution, were translated into the premiums it would mean that for the coming three years the monthly premiums would have to be increased to $3.15 for a single person-an increase of $1.05 per month-while the monthly family premium would have to rise to $6.30 - an increase of $2.10. After the most intensive consideration of this problem, we have come to the conclusion that it is in the public interest to maintain the premiums at the present level of $2.10 and $4.20 respectively for the next three years and to meet from general revenues the additional costs totalling $120 million which will not be met from other revenue sources. Under present conditions, increases in the premiums of the magnitude required could produce hardships and increase the number of "drop-outs". Thus, we are including in this Budget an additional appropriation of $32 million from general revenue to meet this situation. In the following years larger appropriations will be required. The explanation of the increase in Health Estimates is therefore, first, the extension and improve­ment in hospital and health services and second, the stabilization of hospital insurance premiums at the present rates.

I now turn to the second point, namely the very large increases in our expenditures on education.

Education

This Budget brings out in bold relief the massive assistance that is being provided across the whole spectrum of education. Legislative grants to the elementary and secondary schools have been raised from $8.2 million in 1943-44 to $160.8 million in 1960-61, and now for next year we are increasing them to a total of $191 million. This will be composed of the increase of $23.2 million in our grants arising from what we refer to as the normal increment of growth and $7 million which is being provided under an entirely new program.

This year we intend to initiate an additional assistance payment for the benefit of residential and farm municipal taxpayers, based upon a new approach, namely, without interfering with our existing grants system, to pay to each school board for the reduction of residential and farm real estate taxes the sum of $5 for every pupil in elementary and secondary schools, including vocational schools.

In the next fiscal year, 1962-63, this special additional assistance payment will be increased to $12 per pupil of average daily attendance in the elementary and secondary schools.

In the third fiscal year from now, namely 1963-64, this special additional payment will be increased to $20 per pupil for elementary schools, $20 per pupil for continuation schools, $30 per pupil for academic secondary schools and S40 per pupil for vocational schools.

With grants so large as this, it is necessary to have a ceiling on the amount of the combined regular school grant and the special per pupil assistance in reduction of taxation. No combined grant will therefore exceed 95 per cent of the cost of operation in any school section. The regulations will be issued to the school boards shortly in connection with this new program.

The special additional per pupil assistance will apply in reduction of taxes on residential and farm properties. Municipalities will be required to deduct from the tax levy for educational purposes the amount of the per pupil grant in each school district. Honourable Members will recognize in this a completely new feature as applied to school costs, although this innovation was adopted by the Province in the case of the unconditional grants, payment of which commenced in the year 1954. The purpose of confining this assistance to residential and farm property is quite plain. Residential property owners, unlike the proprietors of business, have no means of treating their school taxes as an expense and, therefore, as a deductible item for income tax purposes. Many farm owners have been caught in the squeeze of stable prices and rising expenses, with the result that such taxes have become burdensome. It will, therefore, be seen that this plan is of signal importance and assistance to our home owners and farmers who are in the main unable to charge these taxes to cost of production and upon whom the pressures and burdens are the heaviest.

This gives me the opportunity of pointing out the dramatic assistance which we are giving to our school boards. This plan will cost the Province an additional $54 million and, when combined with the normal growth of our school grants, will produce a total increase of over $104 million in the third year. Thus, in 1963-64 the school grants under this plan will total $265 million or $104 million more than those payable in the current fiscal year.

When one looks ahead and sees the magnitude of the cost of these school grants which will be borne by the Province, one might seriously question where we can find all the money to finance them. But, of course, the grants to school boards are only one item in the Province's total educational bill.

Another cost assumed by the Province and often overlooked is the contribution that it makes to the Teachers' Superannuation Fund. Such contributions from the Province have pyramided sharply from $1.4 million at the end of World War II to $15.6 million in the current fiscal year, and a further increase to $17.2 million is being projected for next year.

The Province's grants to universities have also been increased very substantially. They have been raised for both maintenance and capital purposes from $2.6 million in 1945-46 to $29.9 million in the current fiscal year, 1960-61, and are being further augmented in this Budget by an additional $6.7 million to $36.6 million for the coming fiscal year.

The Province also is required to provide funds for public libraries, scholarships, bursaries and a host of other things including the operation of teachers' colleges, which all together add up to an expenditure by the Department of Education in the coming fiscal year of $268.9 million. This is an increase of $41.8 million over the current fiscal year, and indeed far exceeds the Department's total bill for education in 1945-46 which amounted to $30.8 million. This is a measure of the prodigious assistance which the Province is providing for education.

From these hard facts one can gain some idea of the magnitude of the problems which face this Province from the standpoint of education alone. I emphasize again that it is definitely necessary for our Province and our Country to assess the problems which have to be met and then be selective about the other things which it might be desirable to do but which we cannot afford to do at the present time.

The following table provides a summary of the rise in the Province's contribution to education from 1942-43 to 1961-62 inclusive.

Provincial Assistance to Municipalities

My remarks concerning the growth in the Province's contributions to the elementary and secondary school boards illustrate the dramatic assistance that is being given to municipalities and their local agencies-in many cases for services which 20 years ago were financed predominantly if not exclusively by the municipalities themselves.

The blunt truth is that the Provincial Budget is being bled white by the huge grants to municipalities and school boards. In the current fiscal year, such assistance totals $344 million and absorbs 45 cents out of every dollar of Provincial revenue. Nevertheless, we have been prepared to extend our assistance to the municipalities and to the school boards in recognition of the stern facts of the growth forces we have been experiencing and the tremendously increased weight of cost imposed upon the municipalities by expansion and development, in part the outcome of more people, more children, more schools, more industry, and more municipal services of all kinds.

During the period since the end of World War II when the pressures of growth have exerted such a pronounced effect on the Province's expenditures for its own direct services, we have been able to bring into operation a provincial-municipal partnership system that has been instrumental in enabling the municipalities to provide a higher standard of services while keeping their local rates within manageable dimensions.

Prior to 1945, the amount contributed by the Province totalled about $21 million per year. In the current fiscal year we are supporting local services to the extent of $344 million and in the coming fiscal year we will provide an unprecedented increase of $54.9 million, raising the level of our assistance to the staggering total of $398.9 million a nineteen fold increase since 1943-44 and bringing our aggregate contribution in this period to 52.8 billion. Of this amount, no less than 55 per cent or $1.5 billion will have been provided in the last five years alone. The Provincial assistance to the municipalities this year, as I have now pointed out, is also marked by a special per pupil assistance payment for the reduction of school tax rates on residential and farm properties. The varied methods adopted of assisting the local ratepayer and the magnitude of that assistance provide the best testimony of the interest of the Province in maintaining local tax rates at the lowest possible levels.

An explanation has now been given of the main factors occasioning the large increase in our expenditures for 1961-62. As has been observed, the burdens of operating our hospital and health services and our educational system and the methods we have adopted to provide assistance to municipalities, to afford relief from taxation to home and farm owners and to expand our departmental program-aimed at extending and improving the physical and capital stock of our Province and stimulating employment-all underlie the Budget plan for next year involving net ordinary and net capital expenditures of $1,015 million.

1 now wish to turn to the matter of financing this huge but essential program which is aimed at the betterment of our Province and our people.

THE NECESSITY OF OBTAINING NEW SOURCES OF REVENUE

The task of developing new revenues to finance the expanding demands imposed upon the Province to meet the requirements that I have outlined is one to which we have given intensive, indeed almost exhaustive, consideration. The revenue difficulties of the provinces, as well as the municipalities, today spring, in part at least, from the exigencies of World War II and the Federal-Provincial fiscal arrangements that emerged from it, particularly the Conference of 1945-46. By the very nature of the division of powers and functions contained in our Constitution, the expenditures, and therefore the need for revenues, of the Federal Government tend to grow swiftly during times of war while those of provinces and municipalities tend to grow more rapidly in times of peace.

During World War II the rates of direct taxation imposed by the Government of Canada were raised to extraordinarily high levels to meet the conditions of total war. At its termination this left the Federal Government deeply entrenched in the main direct tax fields to which the provinces are confined by the Constitution. From time to time adjustments have been made in these rates to provide a larger area of taxation for the provinces but at the present time they occupy only one-fifth of the total corporation income tax field and one-seventh of the personal income tax field. Even with the improvements which are projected for 1962 to 1966, the provinces are still left with a minor proportion of these major direct progressive tax fields to which, under our Constitution, they have at least equal rights with the Federal Government.

At the Federal-Provincial Conference in 1955, the Province, while asserting its right to a 50 per cent occupation of the fields of personal income tax, corporation tax and succession duties, advanced as a compromise proposal the 15-15 and 50 formula which would have given the Province $100 million more each year. That this was required as an absolute minimum has been completely and amply borne out by the fiscal operations of the last four or five years. To the extent that we did not receive this sum, we are behind at the present time. In the Conference commencing last J lily, we again asserted our equal rights to the fields mentioned, proposing that we should move progressively year by year to that objective. It was impressed that, at a very minimum, the Province needed and was entitled to at least an additional $150 million annually from these fields. Again, to the extent to which we do not derive these amounts we are faced with the problem of financing not only the deficiencies occurring in the previous five years but those which will accrue in the next five years.

At the Federal-Provincial Conference last February 23-24, the Government of Canada advanced new proposals for the five-rear period from April 1, 1962 to March 31, 1967. These proposals have several advantages:

1. Since the tax rental system will be discontinued and each province will be free to impose whatever tax in the individual income, corporation and succession duty fields it deems to be necessary to meet its financial operations, the provinces are provided with greater flexibility in the raising of their revenues than they have enjoyed in the past.

2. The Federal Government will undertake to collect individual income tax or corporation income tax or both for any province, free of charge, provided that the province adopts a definition of income and certain other terms contained in the Federal Income Tax Act and Regulations.

3. A more realistic equalization or fiscal need formula has been adopted.

While this will not benefit Ontario, it does channel Federal fiscal need payments to provinces more accurately and equitably in accordance with their need.

4. The Federal Government will undertake, effective January 1, 1962, to reduce its individual income tax by 16 per cent, thereby raising the provincial share by about 2 percentage points above the present standard rate of approximately 14 per cent, and will reduce its rate by an additional 1 percentage point in each of the succeeding four years until in 1966 the provincial tax will be equivalent to 20 per cent of their tax.

Two other proposals were advanced which may be of advantage to this Province. First, the Federal Government undertook to work out reciprocal arrangements concerning the application of sales or excise taxation on Crown agencies, and second, it agreed to discuss new methods relating to the taxation of companies engaged in logging operations. These matters are now being negotiated.

Although these proposed arrangements afford some improvement, they fall far short of meeting our revenue requirements. On the basis of current yields, the additional two per cent of personal income tax has a value of $17 million. Accordingly, the additional six per cent, which will not be fully available until 1966, has a value, computed at current yields, of approximately $50 million. The new arrangements, helpful as they are, cannot therefore be considered as an answer to our revenue problems. They are a step in the right direction but they do not obviate the necessity of the Province finding additional sources of revenue.

The Federal Government has given partial recognition to the justice of our claims by agreeing to the three per cent increase in the personal income tax abatement in 1958 and the additional two per cent effective in 1962, supplemented by one per cent in each of the succeeding four years. However, even by 1966-67 we will not have reached the equivalent of the 15-15-50 formula which we proposed as an initial step in 1955 for the tax-sharing arrangements of 1957-62. There is no doubt that the present proposals are more fair and realistic than those that have preceded them but the Federal Government has not succeeded in turning back the pages of history to overcome the disabilities of the 1945 fiscal arrangements.

In determining our course, we have given careful consideration to keeping the increase in our tax rates at the barest minimum consonant with sound finance and maintaining an economic climate best calculated to promote expansion, development and the creation of jobs. The essential program which is projected in this Budget will, of course, go far to create employment, but we have also been conscious of the need to make no greater demands upon the taxpayers than are absolutely necessary to maintain a viable financial position. Even with the steps that we are proposing to take in this Budget, we are still required to finance part of our capital program from borrowing. This will continue to be our policy. In order to keep our taxation reasonable in relation to-and where possible below-that of other jurisdictions and thus to impart the maximum stimulus to industry, we shall continue to make wise and prudent use of our credit to finance part of our capital program.

It has been pointed out that our additional minimum revenue requirements, which have been rising and will continue to rise, approximate $150 million. A number of suggestions have been made as to how this additional revenue should be raised. I shall briefly discuss the possible tax alternatives. In doing so, I again underline the necessity both from a Canadian and an Ontario standpoint of keeping our Province competitive. Otherwise, our producers and our people will be under a great disadvantage. As I have said, our additional requirement of $100 million annually in the five years ending March 31, 1962 and the $150 million required in the ensuing five years are minimum figures. Even with additional revenues in the coming fiscal year, it will still leave us with a net debt increase much larger than we would like. However, there should be some relief to this situation in the fiscal year commencing on April 1, 1962. The question we must ask ourselves is where and how we can obtain the additional revenue to meet our minimum requirements. No one likes taxes, but clearly if we are to supply the services that are demanded we must be prepared to pay for them. I think it will be agreed that what we propose in connection with health, hospital insurance premiums and education will be of great assistance to the ordinary taxpayer. I should for a moment like to look at some of the sources of revenue which, of course, can be considered now and in the future.

Personal Income Tax

It may be proposed that personal income tax could be increased. This would not be possible until the expiration of the tax rental agreement on March 31, 1962, and even at that time to obtain $150 million in personal income taxes would involve raising the rates on Ontario taxpayers by 17 per cent across the Province. Generally speaking, that would be an increase of 17 per cent above the national average. I think that it will be conceded that such an increase would have a very serious effect on the willingness and ability of our people to work and save. Next year, due to the new Federal-Provincial proposals, we shall be able to increase our revenue by imposing an additional rate of two per cent of personal income tax, taking up the amount vacated by the Federal Government, without raising the level of this tax. In each succeeding year for four years, we shall be enabled to take up an additional one per cent, so that by 1966 our rates will be 20 per cent of the Federal personal income tax. This will still leave us completely in line with the national average in so far as other provinces adhere to it. In the meantime, we shall be able to assess any changes that are made and a course can be taken that will best contribute to work and saving on the part of our people. I should emphasize that it is from employment and savings that the real possibilities lie for the development of our country, the increase in its productivity and the sale of our goods a t home and abroad.

Corporation Taxation

To obtain the sum mentioned from corporation income tax would necessitate an increase in the rate of this tax, now approximating 52 per cent, to 63 per cent. Ontario and Quebec presently have a 52 per cent rate while the rest of Canada has a 50 per cent rate. Economists generally contend that in times such as these, corporation taxes should be reduced and not raised. The reason is simply this. Corporation taxes, as I have said, now absorb about 52 cents out of every dollar of profits. From the remaining 48 cents along with depreciation reserves must come the means to provide for plant extension and modernization, which are an absolute necessity if industry is to expand and provide more work and employment for our growing work force. The slower rate of industrial growth today is one of our problems. Obviously to increase our corporation tax by 11 percentage points and indeed by any amount at the present time could not help. On the contrary it would place our Province at a disadvantage and retard its development. Many of these observations relating to corporation tax apply with equal and perhaps increased force to personal income tax. As I have stated, economists generally will agree that in times of recession a reduction in personal income and corporation taxes would stimulate the economy. While it is easy to suggest that further percentage points be added to these tax schedules, it is clear that this can only be done at the expense of expansion and development.

Fringe Taxes

The gasoline tax, the diesel fuel tax and the proceeds of motor vehicle licences are, of course. generally devoted to the construction and maintenance of our highways and roads. As has been pointed out, our difficulties arise principally from the increasing demands of health, hospitals and education. To produce the minimum new revenue to which I have referred would necessitate the imposition of an additional 12 cents per gallon on the gasoline tax, raising our tax from 13 to 25 cents. In this area in which we are highly competitive with the states of the American I Inion as well as with our sister provinces, we would be completely out of line. Furthermore, we would be departing from the purpose of the tax Which has been the basis of the superb highway system which Ontario has. Such a move would encourage more tank filling in the states along our borders and in the adjoining provinces. It would also be a deterrent to an increase in the tourist trade which is one of the natural elements of business expansion. In connection with liquor, experience has shown that increased prices do not necessarily increase profits and revenues. Actually in this field the law of diminishing returns may operate very quickly. Even small imposts alter buyer habits. This has been shown by the reports of the Alcoholism Research Foundation. Moreover, by raising prices, consumer purchases are diverted into the lower-priced products and this entails lower profits and smaller revenues. The sale of liquor involves social habits and customs. Therefore, profits and tax revenues arc only a part of a very complex picture.

Combination of Personal Income and Corporations Taxes, Gasoline Tax and Liquor Profits

No doubt small increases could be made in each of the above categories, but in every case the results would he as I have outlined them to a reduced degree. By this method nothing approaching our requirements could be obtained unless increases in tax rates were substantial across the board and this would produce undesirable effects. Under present conditions, every good reason suggests that these taxes should not be raised, and in fact could not be raised, without affecting development and employment in this Province.

Sales Tax

For a number of years the sales tax in Ontario has been a subject of lively discussion and speculation. Indeed, the imposition of such a tax has been an imminent possibility in this Province for several years. However, by various means, such as stretching out our revenues and making wise use of our credit, we have been able to avoid imposing it. As will be seen, we are now very much in the minority of the states and provinces that have not imposed it. One of the strong arguments we have used against employing such a tax is that constitutionally the Province is entitled to a 50-50-50 division of the direct tax fields-a right we have repeatedly asserted at the Federal-Provincial Conferences. For the best part of a decade we have been able to stave off a provincial sales tax in Ontario.

We have now, however, arrived at the point where even a superficial analysis of our financial position will demonstrate to you quite unequivocally that a large increase in revenues is a necessity. At the present time thirty-four states in the American Union as well as seven Canadian provinces are already administering this tax. The lowest rate being employed in any of the Canadian provinces imposing this tax is three per cent.

The imposition of a three per cent sales tax in Ontario has the great advantage that, on the basis of present estimates, it would produce the $150 million required in the first full year of operation. A sales tax at this rate would not put our Province out of line with the other provinces. Indeed, it would keep us parallel with the minimum at present being imposed. The regressive nature of this tax can be minimized by providing for very broad and generous exemptions.

At this point may I say a word about the proposals Ontario made at the Federal-Provincial Conference concerning an indirect retail sales tax. It was never the intention of the Government that such a tax would be hidden. As a matter of fact, a study of merchandising methods in Ontario and the implications of our retail trade across Canada indicate that this is wholly impracticable and undesirable. However, certain indirect methods would simplify the work of many retailers and contribute to a more economical collection of the tax. Under no circumstances was it considered that this would entail concealing the amount of the tax payable. When the matter was discussed at the Federal-Provincial Conference, by far the largest number of the provincial premiers agreed that an indirect method of sales tax collection would give assistance. For the provinces to obtain that power, however, requires a constitutional amendment and it was decided that the consideration of this amendment should he deferred until the present Federal-Provincial Conference on constitutional amending procedures has reached what is confidently expected to be agreement Then at that time consideration can be given to provisions enabling amendments to the constitution and delegation of powers as between the provinces and the Federal Government which will permit attention to be given to an indirect sales tax at the retail level. At the moment, however, due to the fact that there has been no amendment this method is not feasible.

The Only Possible Solution

Having carefully examined all the foregoing possibilities of raising revenues to finance Ontario's imperative needs-among these, corporation income tax, personal income tax and gasoline and other fringe taxes-we have come to the conclusion that the Government should ask the Legislature for its approval of a three per cent sales tax to become effective on September 1, 1961. This tax will be imposed only at the retail level. The main elements of the tax, including the exemptions which will be the broadest and most generous of any province in Canada, are as follows:

1. Any purchase where the consideration is less than 17 cents, no matter what the object of the purchase may be, will be exempt.

2. All food products with the exception of candy, confections and soft drinks will be exempt. Candy, confections and soft drinks will also be exempt where the purchase price is less than 17 cents.

3. All children's clothing will be exempt.

4. All drugs, medicines and dental and optical appliances sold on the prescription of a physician, dentist or optometrist, and artificial limbs, wheel chairs and hearing aids will be exempt.

5. Any meals costing $1.50 or less purchased in restaurants will be exempt.

This is the most generous exemption of all provinces levying such a tax.

6. All machinery used in the production of goods or tangible personal property when such goods or personal property are subject to sale at retail will be exempt no matter where sold. (Nova Scotia is the only province which now permits such a broad exemption. Most provinces exempt only certain tangible personal property which is used to become incorporated in the manufacture of other tangible personal property for sale. Ontario will exempt all such tangible personal property.)

7. All products that are for sale outside the Province or sold for shipment outside the Province, whether to other parts of Canada or abroad. will be exempt. Where such goods are manufactured in Ontario no part of the price of such goods will include the retail sales tax. Thus under the proposed Act the machinery used in the production of goods for sale, the materials and products which become ingredients in the goods for sale as well as the goods or personal property sold outside the Province will be exempt from tax.

8. Products used by farmers in the business of farming will be substantially exempt from tax. The list of exemptions follows that adopted by Saskatchewan, whose exemptions from retail sales tax for the benefit of agriculture are the most generous in Canada.

9. As the tax will be imposed at the retail level only, the amount of the tax can in each case be shown separately from the price.

10. Every vendor of tangible personal property in Ontario will be required for purposes of the administration of this tax to hold a permit to sell with respect to every outlet or place where he makes such sales in Ontario. There will be no charge for these permits. A vendor who holds a permit will become an agent of the Treasurer for the collection of the tax. Provision is being made for each vendor to receive remuneration as compensation for the work of recording the tax he has collected, the filing of returns and for the cost of remitting the tax collected. The rate of this remuneration will be established as a percentage of the tax collected and remitted by the vendor.

The Ontario retail sales tax has been carefully designed in the light of the necessity of obtaining additional revenue to achieve two main purposes:

(a) To be progressive in its incidence. By exempting necessaries such as food and children's clothing, it will bear lightly upon persons of relatively low incomes and more heavily upon persons with high incomes in accordance with the principle of ability to pay;

(b) To maintain a high rate of economic development. By exempting from the tax, machinery used in the production of goods and tangible personal property whether sold inside or outside the Province, we best ensure the continuing expansion of our industry and our exports to other provinces and to other countries.

It is estimated that the revenue from the three per cent sales tax in a full year dating from the time the tax is fully operating will amount to $150 million. The anticipated revenue during the fiscal year 1961-62 is estimated at $60 million.

No additional tax will be imposed or additional tax increases made. A Personal Income Tax Act will be introduced to give effect to the proposed tax-sharing arrangements advanced at the Federal-Provincial Conference last February 23 and 24, to come into effect in 1962, but there will be no increase in personal income tax rates or corporation income tax rates. There are to be minor amendments to The Corporations Tax Act and The Succession Duty Act. These are mainly of a technical nature and will involve no additional tax increases.

SUMMARY FORECAST OF REVENUE AND EXPENDITURE FOR THE FISCAL YEAR 1961-62

At this stage, 1 should like to summarize the forecast of our revenue for the fiscal year 1961-62 in relation to the forecast of our expenditure in that period.

In the coming fiscal year 1961-62 we are anticipating combined net ordinary revenue and net capital receipts of $815.3 million, including the $60 million which it is estimated will be realized from the sales tax. This will provide an increase in our revenue over that in the current fiscal year of $14.7 million (excluding the sales tax) and $74.7 million including the tax. Despite the imposition of a three per cent sales tax on September 1, the estimated increase in the net capital debt of the Province will amount to $180 million. This increase is far in excess of any past increase in our net debt. This demonstrates very clearly why the Province must impose this increase in taxation.

We shall of course be required to lean upon our credit to the extent of this net debt increase, believing that at this time we should make extensive use of our credit in order to keep our taxation as low as possible. In my judgment, this forecast of a net debt increase of $180 million is the maximum which the Province would be justified in incurring this year, particularly as the Province, in addition to borrowing to cover this revenue need, will be called upon to raise funds for the Ontario Water Resources Commission and the Ontario Municipal Improvement Corporation, and to borrow directly or provide a guarantee for issues of the Hydro-Electric Power Commission. It is estimated in this coming fiscal year the Province together with the various Provincial Commissions and Boards will require capital by way of borrowing to the extent of $350 million. I therefore point out with the utmost emphasis that our fiscal policy is balanced between a modest increase in taxation and a reasonably heavy reliance on our credit. In this way, we utilize the best means to encourage expansion, develop­ment and employment and at the same time keep our financial house in order.

We have intentionally budgeted for the lowest tax increase possible, and in our next fiscal year commencing on April 1 we will have to rely extensively upon our credit, which of course is very strong. In the succeeding fiscal year, namely, 1962-63, we shall have the advantage of a full year's operation of the three per cent sales tax. We shall also have the advantage of an additional two per cent personal income tax under the new Federal-Provincial proposals. Finally, we should benefit, revenue-wise, from an expanding economy. We look confidently for an upturn in the tempo of business which will bring improved revenues. The influence of our expanding economy upon our revenue position has of course been of vital importance to us in the post-war years. Indeed, all three factors which I have mentioned should help to place us in 1962-63 in a position in which our net debt increase will be relatively modest in relation to the expansion of the Province and the increase in our capital stock.

The following table summarizes our net ordinary revenues and net capital receipts and compares them with our combined net ordinary and net capital expenditures.

CONCLUSION

In assessing the appropriateness of a sales tax at this time a clear distinction must be made between the duties and responsibilities of the Provincial and Federal Governments in promoting expansion. The Federal Government has control over fiscal and monetary policies, foreign trade and immigration, and thus has the main responsibility for adopting contracyclical measures. It has the financial strength and the powers for this purpose.

The Provincial Government, on the other hand, is called upon to supply a variety of developmental and social services. Its task is to create a framework in which our industries can expand and prosper and promote higher living standards for all. The provision of education, health, water and sewage works, highways and roads, and other services and assets for the advancement of our people and industries is the primary responsibility of the Province and its municipalities. To carry out these important tasks, Ontario is obliged to find sufficient revenue from a relatively narrow tax base. The amount of money that can be borrowed to augment its revenues is limited.

The program of essential services and employment-stimulating works that have outlined in this Budget calls for increases in expenditures that can only be financed by additional taxation, and the only source which can yield the revenues needed without imposing conditions that would affect expansion is a sales tax. We do not have the latitude of choice in the imposition of taxes that the Federal Government has. We must utilize those sources which are open to us. We would prefer to avoid any increase in taxation. By a judicious and balanced policy of taxation and borrowing, we have been able to put off the imposition of a sales tax for a number of years. We have now come to the conclusion that a further postponement of the imposition of a sales tax could only be realized at the expense of imperilling our financial position and therefore our capacity to assist our municipalities and our ability to promote the orderly extension of services, without which communities cannot grow nor industry expand. Lack of action at this time would only undermine our financial position, jeopardize our credit and slow down the rate of our economic expansion both now and in the future, thus detracting from rather than contributing to high and stable levels of employment and income.

We must face up to realities. The program we have announced is designed to promote expansion and increase employment. If we forego the revenue from our sales tax, we must cut back on our services, our capital works and our assistance to municipalities and school boards. I think you will agree that at this time-when the pace of our economy has slackened-e-we need courage, vision, enterprise and bold action. The Budget that I am introducing today responds to this need.

We have formulated policies that are designed to stimulate a resurgence of economic activity and to lay the foundations for the continued development and expansion of industry and employment ill Ontario. We have not resigned ourselves to a sluggish rate of growth. Recognizing our responsibilities, we have fostered a program to promote economic recovery within the limitations imposed by our financial resources and our constitutional jurisdiction.

In carrying forward the Provincial program, we have been deeply conscious of the needs of our municipalities. To preserve and strengthen local government institutions and to facilitate their efforts in providing essential services to our people, we have brought into effect a Provincial-Municipal partnership surpassing anything that has gone before. We have consistently striven to raise the standards of health and education available to our people and to provide those services conducive to industrial development and the maintenance of our competitive position in a rapidly changing world.

You must not, however, expect the Province to solve all the problems confronting us today. This Budget has presented a positive program-a program designed to ensure that the underlying strength of our economy is not mitigated by the lack of purposeful leadership on the part of the Provincial Government. But the Province alone cannot provide a panacea for all ills. Government action, at all levels, together with the co-operation of business and labour is required. United we can forge ahead, confident in our ability to meet the challenges and profit from our opportunities.

SUMMARY

1. This Budget contains plans involving public projects and services, taxation and borrowing for meeting the essential human and material requirements of our Province as well as stimulating the expansion of industry and employment.

2. Supplementary Estimates for 1960-61 total $5.5 million. These special grants and contributions include:

(a) $75 per bed for all qualified public hospitals in Ontario, aggregating $3 million;

(b) $100,000 for the Ontario Heart Foundation; (c) $300,000 for the Princess Margaret Hospital;

(d) $1 million each for the Teachers' Superannuation Fund and the Public Service Superannuation Fund: and

(e) $48,100 for the Ontario Society for Crippled Children.

3. The Departments have lived well within their estimates and the net debt increase at March 31, 1961 will be considerably smaller than that indicated in the Budget brought down a year ago. At that time the increase in the net capital debt was expected to be $142 million, and is now estimated at $118.2 million.

4. The net ordinary expenditure of the Province for 1961-62 is forecast at $772.9 million (excluding $40 million for capital disbursements to be financed out of ordinary revenue). This represents an increase of $111.6 million over the corresponding net ordinary expenditure in the fiscal year 1960-61. Of this increase in expenditure, the Departments of Education and Health account for 74 per cent; the increase for the Department of Education amounts to $41.8 million, representing 38 per cent of the total, while the increase for the Department of Health amounts to $40.3 million or 36 per cent of the total increase.

5. Projected net capital expenditures for 1961-62 total $242.3 million-$30.7 million higher than in the current fiscal year. Of this increase $19.4 million is for highways and roads.

6. Ontario's all-time record Budget in 1961-62 amounts to $1,015.3 million, $142.4 million higher than in the current fiscal year. The Budget reflects the Government's policy of promoting the orderly and efficient development of industries and communities and the fostering of high and stable levels of employment and income.

7. The combined capital and repair program of the Government of Ontario, the municipalities and their various emanations in 1961-62 is nearly $100 million higher than in the current year, and will create additional employment opportunities for 25,000 workers.

8. To avoid a 50 per cent increase in premiums to meet the increased costs of the Hospital Care Insurance Plan, the Province will raise its contribution by $32 million to $50 million in 1961-62 and to higher amounts in the two subsequent years.

9. Special additional per pupil grants amounting to $5 in 1961-62, $12 in 1962-63 and $20 to $40 in 1963-64 will be paid in relief of local school tax rates. These payments, which will cost $54 million over the next three years, will accrue to the benefit of residential and farm property.

10. As a result of the normal increase in the school grants formula and these special additional per pupil payments, the combined grants for elementary and secondary schools will be raised by $30.2 million, from $160.8 million in 1960-61 to $191.0 million in 1961-62. By 1963-64 the school grants will rise by $104 million over the current fiscal year to $265 million.

11. Assistance to universities will be greatly increased in 1961-62, and will amount to $36.6 million-an increase of $6.7 million over those paid in 1960-61.

12. The Province's assistance to municipalities and school boards which amounts to $344 million in the current fiscal year will be increased in 1961-62 by $55 million to the staggering total of $399 million.

13. Ontario's need for additional revenue is placed at $150 million. To obtain this minimum revenue requirement would necessitate a 17 per cent increase on Ontario income taxpayers, or an 11 percentage point increase in the corporation tax or a 12c. per gallon increase in the gasoline tax. After careful examination of these possibilities the Government will ask approval of the Legislature for a three per cent sales tax, which will contain the most generous exemptions of any such tax imposed in Canada.

14. The sales tax, which will be collected at the retail level by the vendor, has been carefully designed to achieve two main purposes:

(a) To be progressive in its incidence. By exempting food and children's clothing, it will bear lightly upon persons of relatively low income.

(b) To maintain a high rate of economic development, sales of machinery will be exempted from the tax.

15. The three per cent sales tax to be effective on September 1, 1961 will yield $60 million in 1961-62 and $150 million in a full year of operation.

16. The forecast of net ordinary revenue and net capital receipts in 1961-62, including $60 million from the sales tax, is $815.3 million. The Government will lean on its credit to the extent of an estimated $180 million in order to provide services and the undertaking of the record-breaking new construction program, at the same time keeping Ontario's taxation as low as possible.

17. The Government has budgeted for the lowest tax increase possible in the light of its expanding requirements.

18. This Budget presents a positive program designed to stimulate a resurgence of economic activity and to lay the foundations for continued development and expansion. It fully recognizes the Province's responsibilities within the limitations of its financial resources and constitutional jurisdiction.