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| Ontario | 27e | 4e | Discours du budget | 9 février 1966 | James N. Allan | Treasurer of Ontario | Progressive Conservative Party of Ontario |

Mr. Speaker,

In commencing my eighth annual Budget Statement to this House, I am particularly happy to be able to report that the past year has been another year of marked progress for Ontario's economy and people. The exceptionally long period of economic expansion which began in 1961 was sustained throughout 1965. I am confident that this expansion will continue in the coming year.

This broad economic advance is, of course, the result of many factors. For our part, we have continually sought to provide the environment in which such growth can flourish. Indeed, we have initiated many far-sighted policies designed to exert a positive influence upon the economy. In the field of social services, we have diligently striven to promote the development of human resources and there­by assist our people and industry in achieving their maximum potential. The creation of new physical assets in the form of universities, schools, hospitals, highways, parks and other public works, and the development and conservation of our natural resources have also been important economic stimulants. In these and other ways, we have contributed in no small measure to our economic progress and rising living standards.

Prosperity is also having a beneficial effect upon our revenues. For the current fiscal year, the yields from a number of sources, and from the personal income tax particularly, are expected to be higher than could reasonably be anticipated a year ago. For this reason, we can look forward to a more satisfactory result in the current fiscal year than was forecast. At the same time, the demands to enlarge and adjust our expenditure program to meet Ontario's changing needs continue to mount relentlessly.

With the total demands for public services continuing to grow rapidly, it has become necessary to place greater emphasis on determining expenditure priorities and ensuring maximum efficiency in the use of our financial resources. To this end, we are constantly striving to plan our activities on the basis of thorough knowledge and understanding of economic and social conditions and trends. At the same time, we are keeping our administrative techniques and procedures modern and efficient in order to effect maximum economy in our day-to-day operations.

Because of the increasingly inter-dependent nature of the society in which we live, and the growing role that government is expected to play, there is a greater need than before for the closest co-operation and understanding among government, business, labour, and others. Policies and programs should not be conceived and implemented without regard for the objectives and goals that we all have in common. Between governments particularly, there is a great need for consultation and co-operation in the formulation of policy. We welcome the new awareness that the policies and programs of the various levels of government must be integrated if the best interests of the people are to be served.

In these introductory remarks, I have referred to the importance of economic growth and inter-governmental relations. I should now like to consider these matters in greater detail, commencing with economic conditions.

ECONOMIC CONDITIONS

This month marks the end of the fifth year of the current economic expansion, and the economy is continuing to grow. During 1965, Gross Provincial Product increased by about nine per cent or $1.7 billion, reaching a new high of $20.7 billion. New records were set in every sector of the economy, particularly in construction and manufacturing. The prosperity of the Province continued to be so attractive to people from abroad and from other parts of Canada that Ontario's population rose by 2.2 per cent compared with 1.5 per cent for the rest of Canada.

More significant than Ontario's gains in production and employment in 1965 was the increased tendency of our people to invest in future growth by improving the quality of the labour force. In spite of the temptation to enter the labour force at a relatively early age. our young people have become more aware of the need to further their education and training. We should be as proud of the increasing tendency of our people to invest in their long-run potential as we are satisfied with the expansion in our economy.

While the tendency to prolong education and training restrained the potential increase in the labour force in 1965, the fast rise in employment opportunities absorbed many of the unemployed so that Ontario's unemployment declined from 83,000 to 66,000. The unemployment rate fell from 3.2 per cent in 19M to 2.5 per cent in 1965, the lowest of any region in Canada.

Ontario could have achieved greater growth if a larger supply of qualified labour had been available. The limiting factor to Ontario's rate of growth in 1965 was not capital but qualified managerial, professional and skilled labour. Consequently, the Government has supported accelerated programs to upgrade the existing and potential labour supply. Despite the shortage of qualified labour, the Province set new records for output in every sector of the economy. The major engines of expansion in 1965 were the manufacture of durable goods and construction. It is estimated that factory shipments of durable goods rose by almost 13 per cent in Ontario compared with 5 per cent in the rest of Canada. Indeed production of motor vehicles, an activity dominantly located in Ontario increased by 27percent.

The net growth in Ontario employment in 1965 was 75,000. The major areas of increase were the following: about 30,000 in manufacturing, 14,000 in construction, 15,000 in wholesale and retail trade, and 17,000 in commercial services. Despite a large investment in improved technology in 1965, we can find no evidence to support the idea that automation is creating a general unemployment problem in the Province. In fact, while Ontario is moving rapidly in the process of introducing automation, our unemployment rate is the lowest in Canada. Indeed, were it not for the labour shortage, we would have increased manufacturing and other employment to a greater degree.

Although automation generates new jobs, it may create problems for some individuals. Therefore, we must ensure that the economy continues to provide adequate job opportunities. To achieve this, we must provide for adequate education, training and re-training, and must facilitate mobility so that individuals can adjust to a progressive world. Policies with respect to growth and development, education, and manpower must be formulated and implemented together within a system of goals and priorities designed to provide the people of Ontario with the best possible standard of living.

The people of Ontario can expect another substantial increase in economic production in 1966. The substantial rise in business investment last year, combined with the large increases in investment in human resources and social capital, will contribute further to the productivity of Ontario's economy. Exports of raw and processed materials as well as manufactured goods should remain buoyant. Consumer demand for non-durable goods and for services will continue to increase, while the market for durable goods should be sustained by residential construction, by rising personal incomes in Canada, by the introduction of new products, and by a strong replacement demand. We must strive to ensure that these conditions will be maintained if we are to meet the growing demands for government services and social capital.

One of the basic requirements for sustaining economic growth is vigorous and positive action at all levels of government. This in turn requires that each government has adequate financial resources and that machinery exists to provide for an integrated approach to the implementation of public policy. These matters are the basic concerns of Federal-Provincial relations to which I would now like to turn.

FEDERAL-PROVINCIAL RELATIONS

Any federal system of government will experience periods when adjustments in inter-governmental financial arrangements and responsibilities will be required to meet changing conditions. At the present time, provincial and municipal governments are faced with huge demands for investment in human and physical resources. The Federal Government is also required to implement new policies and programs in many areas under its jurisdiction. We are thus faced with the challenge of reconciling the need for a strong central government with the present and continuing strength of the provinces. If we approach this challenge reasonably and conscientiously, we will have no difficulty in finding acceptable answers to it.

The Government of Ontario recognizes the need for a strong central government to protect and promote the national interest in both the national and the international economy. In our endeavours to preserve national independence and to achieve a satisfactory rate of growth, we confront international challenges and the need to harmonize internal growth policies. A strong central government is essential for meeting these challenges and promoting this harmony.

At the same time, the provincial governments have jurisdiction over matters that are also vital to the national interest; they have a direct responsibility in building a strong economy that will be capable of supporting federal efforts to protect and promote the national interest. The importance of these matters is illustrated by the fact that in 1964 the provincial and municipal governments together accounted for 81.7 per cent of total capital investment made by all governments in Canada.

The effectiveness of government at the federal and the provincial levels depends upon two prerequisites. In the first place, the provincial governments must have revenue resources commensurate with the importance of their constitutional responsibilities. It is becoming increasingly clear that the combined total of provincial and municipal expenditures will continue to grow at a much more rapid rate than the corresponding federal commitments.

In the second place, because of the interdependence of economic circumstan­ces and policies today, there must be adequate consultation, co-operation and co-ordination between the two levels of government in order to achieve harmony in establishing goals, priorities and policies. During the past year, there has been substantial evidence of a favourable development in Federal-Provincial relations: the acceleration of the trend towards more consultation and co-operative study. Ontario representatives have participated in no fewer than 11 ministerial conferences and 90 meetings of officials at the Federal-Provincial level.

Although co-operation has been enhanced by this process reservations have been expressed about its consequences on the functioning of the parliamentary system. Yet, the process of consultation is far from adequate in view of the substantial areas of overlapping responsibility and concern. Policies initiated by the Federal Government frequently have serious implications for provincial priorities, resources and policies. This is particularly contentious where the jurisdiction involved is a provincial one. Even policies planned for areas of federal jurisdiction can have significant consequences for the provinces. For example, the free trade agreement with the United States concerning motor vehicles and parts was a welcome development, but Ontario manpower policy appropriate to the new development could have been initiated at a much earlier stage through collaboration in the general lines of the agreement.

I believe that the most encouraging indication of progress is to be found in the recent meeting of the Ministers of Finance and Treasurers of all 11 governments. This was certainly a step in the right direction, particularly when it was backed up by the research work that is being done by all governments in concert for the Tax Structure Committee. We would urge the Federal Government to exercise leadership in the development of machinery, methods and procedures for ensuring full exchange of information and for working towards adequate co-operation and co-ordination in policy formulation and implementation.

If this leadership is exercised by the Federal Government, then the federal and provincial governments can be in a position to make satisfactory judgments on overall prospects and on appropriate long-run and short-run fiscal policies within the areas of their responsibilities. We will then be able to fit our efforts to improve our economic potential into a framework of national priorities and policies.

These are major objectives of the Ontario Government in Federal-Provincial relations. If we endeavour to achieve these objectives earnestly and in good faith, we can deal successfully with our economic problems, greatly enhance our endeavours to create a strong, independent and prosperous country, and provide the wider opportunities that our people need and must have.

INTERIM STATEMENT OF FINANCIAL~OPERATIONS FOR 1965-66

Before submitting our plans for the coming fiscal year, I would like to present an interim statement of the financial operations of the Province for the fiscal year ending March 31, 1966. This statement, which is based on eight months' actual and four months' forecast, will provide the Honourable Members with a current picture of provincial finances and of the overall trends that are taking place in expenditures and revenues.

Included in the expenditures for the current fiscal year are Supplementary Estimates which we are presenting for your consideration and approval. The special grants which we propose to meet from this year's revenue total $5,436,600 and are as follows:

Energy and Resources Management:

Provision for payment to the Ontario Northland Transportation Commission to compensate for losses on operations for the year ended December 31, 1964 : $861,600

Health:

Special Grants to Public Hospitals under the authority of The Public Hospitals Act and the regulations thereunder : $4,075,000

Special Grants for teaching hospitals : $500,000

Inclusive of the Supplementary Estimates, the combined net expenditures on ordinary and capital accounts are estimated before providing for sinking fund at $1,494.2 million. Net ordinary expenditure before providing $41.5 million for sinking fund and $159.0 million for financing capital payments out of ordinary revenue amounts to $1,195.8 million, and net capital expenditure on physical assets is estimated at $298.4 million. Overall, our net expenditures represent an increase of $228.7 million or 18 per cent over the actual costs incurred in the preceding fiscal year.

While the growth in expenditures reflects higher outlays in many areas of responsibility, the major increases are for Education and University Affairs. These two departments account for $103.3 million or 45 per cent of the total increase in expenditures. Other significant increases include $37.8 million for Highways, $16.4 million for Public Welfare, and $13.7 million for Health.

Net ordinary revenue and net capital receipts are estimated at $1,398.5 million. This is an increase of $159.5 million or 13 per cent over the actual revenues received in the preceding fiscal year. The personal income tax, which produces about one-fifth of this year's revenues, accounts for three-fifths of the overall increase. The yield from this tax is estimated to rise by $94.4 million or 48 per cent to $290.3 million. The substantial increase in yield reflects not only the additional three percentage points made available to us, but the high pro­ductivity of this tax field in a period of sharply rising incomes. All other sources, which contribute nearly 80 per cent of our revenues, are expected to produce an additional $65.1 million, an increase of 6 per cent over the preceding fiscal year.

On the basis of these interim estimates, we will end the current fiscal year in a more favourable position than I forecast a year ago. While we will have carried out a huge capital program of $298.4 million, the increase in our net capital debt will be held to an estimated $98.8 million. Our net capital debt as of March 31 next is thus expected to total $1,464. 1 million.

I turn now to a summary of the major programs for the coming fiscal year, commencing with highways and roads.

HIGHW A YS AND ROADS

The demand for further expansion and improvement of our highway and road system remains strong. We are experiencing a rapid growth in motor vehicle registrations which can be expected to continue as increasing numbers of our young people enter the labour force. The sharply rising traffic volume in Ontario necessitates placing greater emphasis on multi-lane and controlled access highways. Our increasing expenditures are a reflection of the relatively higher cost of providing these modern facilities, as well as of maintaining an expanded road system. In the coming fiscal year, the net ordinary and capital expenditures of the Department of Highways will be increased by $36.5 million to $373.3 million.

Our freeways and expressways are of tremendous economic value. They allow the free flow of people and goods so essential to the efficient functioning of an urban, industrialized society. Moreover they represent assets which will continue to benefit our people and our economy for years to come. For these reasons, it is our policy to finance highways and roads partly from the general revenues of the Province and the remainder through judicious use of our borrowing capacity. In this way we are able to avoid the imposition of highway tolls.

Construction and reconstruction of highways and roads during 1965 continued at an accelerated pace resulting in the completion of 553 miles of paved highways and 61 new structures. The Macdonald-Carrier Freeway was completed as a four-lane facility over an additional 31 miles and, in Metropolitan Toronto, four miles were widened to 12 lanes and 23 bridges were completed. New sections were opened on Highways 403 and 406, and substantial work was done on the Brantford By-pass. In Ottawa, the approaches to the Macdonald-Cartier bridge and a new section of the Queensway were opened.

Progress on the Trans-Canada Highway routes in Ontario moved forward substantially with work on some 89 miles, including Highway 15 near Bell's Corners, by-passes at Madoc and Beaverton, three sections of Highway 17 in Northern Ontario, and Highway 103. Elsewhere, construction highlights included work on 51 miles of the Red Lake road, 73 miles of the Atikokan Highway, the Sudbury-Timmins Highway, the Welland Canal Tunnel and virtual completion of roadwork under the Roads to Resources program which expires on March 31.

Expenditures by municipalities on their road systems during 1965 continued to reflect rising costs and increased mileage. A number of cities have undertaken unprecedented construction programs, while the completion of needs studies of county road systems will undoubtedly also result in a marked increase in construction activities.

The emphasis in our highway construction program in the coming fiscal year will be on construction of the Macdonald-Cartier Freeway between Gananoque and Brockville and around Metropolitan Toronto, on the Weiland Canal Tunnels and the Kitchener-Waterloo Expressway. In Northern Ontario, work will continue on the major projects such as the Sudbury-Timmins Highway, Highway 105, Highway 101 from Foleyet to Wawa and on the new expressway at the Lakehead.

Of the $373.3 million to be appropriated for highways and roads in the coming year, $265.4 million will be for construction and $107.9 million will be for maintenance. The total includes $119.8 million for municipal road subsidies and assis­tance for roads in unincorporated townships. Thus, we will be providing for a combined provincial and municipal road program of almost half a billion dollars.

NATURAL RESOURCES

A fundamental and important responsibility of the Government is the conservation and development of Ontario's rich natural resources for our economic and recreational benefits both now and in future years. To support the wide-ranging activities of the various departments concerned, we are requesting appropriations totalling $92.1 million for the coming fiscal year. This is an increase of $8.7 million over the interim estimate of expenditures for the fiscal year 1965-66.

The Department of Agriculture is playing an intimate role in the pro­gressive development of Ontario's vital agricultural industry. During 1965, two new Federal-Provincial agreements were signed: one, a five year agreement under the Agricultural Rehabilitation and Development program which is placing more emphasis on farm adjustment programs in low-income rural areas, and the other, a new farm labour agreement providing for cost-sharing in the procurement of qualified farm labour. Under the ARDA program, financial assistance was provided last year to 246 rural municipalities to carry out water conservation and land use adjustment projects.

In the coming fiscal year, the ARDA program will include, among other projects, the inauguration of an orderly land consolidation program in Eastern and Northern Ontario. A new comprehensive program to assure adequate veterinary services at reasonable cost to livestock and poultry owners will be introduced in Northern Ontario. In co-operation with labour agencies and farm organizations, special emphasis will be placed on determining and fulfilling farm labour needs. A new research farm will be established to continue, on an expanded basis, the research formerly carried out in facilities which were vacated to provide for the development of the University of Guelph. The expenditures of the Depart­ment are forecast at $25.7 million for the coming fiscal year.

Through the Department of Lands and Forests, we are making a vital contribution both to the conservation of our forest, fish and wildlife resources, and to the development of Ontario's great recreational potential. Despite adverse weather conditions in 1965, the Department made important strides in the construction of access roads, tree planting, forest inventory and other forest management programs. Extensive improvements to a number of parks were also carried out, including the provision of new and improved roads, sewage and parking facilities, beach development and many hundreds of additional campsites.

In the coming fiscal year, construction of 152 miles of forest access road together with improvement of 75 miles of existing road is planned. Forest regeneration will be stepped up, and new measures to assist private owners in forest management will be introduced. Major improvements in five existing parks and development work in ten new park areas are also planned. The program to restore the original Crown survey fabric of the Province will be expanded. Total combined expenditures of the Department of Lands and Forests will reach an estimated $39.0 million in 1966-67.

The Department of Mines is assisting, through its services and programs, the exploration and development of the Province's mineral resources. Work commenced last year under a renewed Federal-Provincial agreement to complete the aeromagnetic survey of the Province. This final three-year phase of the survey is proceeding as planned with approximately one-third of the remaining area of the Province surveyed in 1965 and a further one-third scheduled to be surveyed in 1966. Progress is being made under the Department's program to build mining access roads in participation with industry. Recent experiments in the servicing of geological parties by helicopter have proven successful. The work of four geological parties will be greatly speeded up through helicopter servicing in 1966. The net appropriations for the Department of Mines are forecast at S3.5 million for the coming fiscal year.

Ontario's programs for the management of our water resources are expanding rapidly. With the announcement last July of the availability of government financing for water and sewage treatment facilities throughout the Province, the Ontario Water Resources Commission embarked upon a new phase of water and sewage works construction. Under the regular program for the development of water and sewage works, 340 projects were completed up to last October at an estimated cost of $133 million. Construction on the water pipeline to serve the London area is continuing, a further pipeline has been approved for the St. Thomas area, and feasibility studies are being made in six other regions of the Province. Further new developments in the field of water resources management include an enlarged program to combat industrial waste pollution. In addition, co-operation in the International Joint Commission investigation of pollution in the Great Lakes is being continued, and we are assuming a major role in the long-term Federal-Provincial study of Ontario's northern water resources.

The Department of Energy and Resources Management is continuing its program of assistance to Conservation Authorities for the construction of small reservoirs and dams. Structures under construction or completed number 33 with another 39 in the planning stages. Extensive work is also planned under the Federal-Provincial flood control program. Net ordinary and capital expenditures of the Department of Energy and Resources Management are forecast at $23.9 million for the coming fiscal year.

INDUSTRIAL DEVELOPMENT AND TRADE EXPANSION

The Government's program of industrial and trade expansion, being carried out by the Department of Economics and Development, is aimed at encouraging a satisfactory rate of industrial growth. Through international fairs, trade missions, local exhibits, and investment promotion, the Department is actively engaged in advancing our economic progress.

Varied trade programs are contributing to a marked expansion in Ontario's exports of secondary manufactured goods which in 1965 approached nearly $800 million. Last year, 18 sales missions to foreign markets were arranged, raising to 58 the total number of export trips since late 1962. Some 140 foreign buyers were brought to Ontario and put in touch with local manufacturers. In 1966, these programs will be extended. Trade missions will be continued not only in established market areas, but also in regions unfamiliar with Ontario products.

The drive to attract new investment and stimulate local industry throughout the Province has been both energetic and effective. New branch plants, licensing agreements, and joint ventures, most involving foreign participation, contributed greatly to increased Ontario manufacturing production in 1965. A concerted drive to encourage replacement of foreign-produced components with made in Canada products is under way and will continue in 1966.

Ontario's immigration policy continues to be a major contributor to the provincial economy. With the demand for skilled and professional workers exceeding the supply available in Canada, the Department has increased its efforts to attract immigrants. Some 170 employers requested assistance in 1965.

The Ontario Development Agency has stepped up its program of advisory services to small businesses in Ontario. In 1965, more than 300 companies with combined annual sales exceeding $35 million took advantage of these services. Since its inception, the Agency has counselled more than 4,000 small businesses in the Province. In addition to making provincial guarantees of S5 million available, the Agency has been instrumental in obtaining $15 million in additional financing from the regular lenders without government financial participation.

HOUSING

In the year following the establishment of the Ontario Housing Corporation. more than 100 municipalities requested housing, representing a potential program of 9,500 units. I am pleased to report that 1,350 units were purchased or completed during 1965. 1,000 units are in the course of purchase or construction, and a further 1,300 units are at the stage of final design or tender call.

In order to achieve an immediate impact and to ensure assembly of a significant number of dwelling units in a relatively short period of time, the Corporation has introduced a high degree of flexibility into its development program. Techniques such as "builder proposals" and the purchase of existing properties have been used to supplement the more traditional method of tendering on the basis of plans and specifications.

In addition to its rental housing program, the Corporation has continued the Federal-Provincial land assembly program in conjunction with Central Mortgage and Housing Corporation, has undertaken a community improvement project in Northern Ontario, and has carried out studies in connection with Indian housing.

The Ontario Housing Corporation's 1966 program in association with Central Mortgage and Housing Corporation will involve nearly $100 million. Rental accommodation will continue to be assembled through a variety of techniques using the method or methods appropriate to each municipality involved. In addition, other facets of development which appear possible under existing legislation will be carefully explored with Central Mortgage and Housing Corporation.

There is an obvious connection between the provision of public housing, the alleviation of poverty, and the provision of a physical and social environment that will permit families to move into the mainstream of the social and economic life of the community. To date the Ontario Housing Corporation's activities have been concentrated on specific areas. In the future, we believe that through new approaches our housing operation will become an even more active agent in community development.

LABOUR

In the Department of Labour during the past two years, both the range of services available and the Department's capability for responding rapidly to the needs of the Province have increased significantly. This is particularly evident in the new Industrial Training Branch where the on-the-job training program, launched less than six months ago, already is making a notable contribution to industry's skill requirements and at the same time is opening broader ernployment and earnings opportunities for individuals.

Through a variety of incentives, the Department is assisting firms through out the Province to set up and carry out both short-term occupational and long-term apprentice training programs. More than 50 short-term projects are training almost 4,000 persons in occupations ranging from sewing machine operator to hard-rock miner. The number of projects is increasing each week, and the field officers of the Training Branch are discussing arrangements with more than 500 firms that have signified an interest and a need for assistance. At the same time, the registration of apprentices in formal trade programs is mounting rapidly. The Estimates for the Department provide a substantial increase in funds and staff to carry forward into the next fiscal year the objectives of the new program: to provide for large-scale promotion of the services now available; to facilitate continued modernization of apprenticeship programs; and in the final analysis to help build a highly skilled labour force enjoying stable and rewarding employment.

Coupled with these human resource development programs are new initiatives being undertaken by the Department, in co-operation with industry and labour, to improve the working environment throughout the Province. A balanced program for the vital field of safety and accident prevention, covering enforcement of safety standards, research into the causes of accidents and accident prevention education, has been inaugurated.

WELFARE

In order to provide for our welfare services, the net ordinary expenditure of the Department of Public Welfare is forecast at $90.2 million for the coming year. This is an increase of $4.7 million over the interim estimate for the current year. The Estimates include $8.9 million to be paid to the Ontario Medical Services Insurance Division for the provision of medical services to welfare recipients and their dependents. Under new legislation, which will combine several welfare maintenance programs, additional benefits will also be extended to many thousands of persons in the form of increased services and allowances and in supplementary aid to pensioners.

A comprehensive Federal-Provincial agreement has been signed by this Government respecting welfare maintenance and community services to our Indian population. A new branch of the Department of Public Welfare will co-ordinate the efforts of several departments toward the betterment of economic conditions, education, housing and employment in Indian communities, as well as the provision of welfare, health and recreation services.

The development of Rest Homes as a new type of institution under the management of counties and cities is a progressive step. The Rest Homes augment present facilities offering care and a measure of nursing services to long-term residents. There will probably be less need for expansion in the larger Homes for the Aged, and the Rest Homes can be more widely distributed in local communities.

In the coming fiscal year, the rate of capital payment to adult charitable institutions will be doubled to the amount of $5,000 a bed. This is further encouragement to the construction of private Homes for the Aged in a continually expanding system of residential care for elderly persons.

During 1965, legislation was passed to provide for important improvements in child welfare services. The Government has accepted the total expense of the care of children of unmarried mothers. Children who have experienced parental neglect and require help in the way of protection, wardship or adoption, will benefit from these measures. The appropriation for the Child Welfare Branch is forecast at $14.4 million for the coming fiscal year and includes $5 million to meet the additional cost of implementing the new legislation.

HEALTH

The year 1959 marked a milestone in the history of Ontario's health services program with the introduction of the Hospital Care Insurance Plan. The year 1966 will signal another important and logical step forward with the inception of the Province's Medical Services Insurance Plan. The cost of the Plan in the com­ing fiscal year is estimated at $58.9 million, of which $50.0 million will be provided through the Department of Health and $8.9 million through the Department of Public Welfare. Together with increased appropriations for other health services, the new Plan will raise the net expenditure of the Department of Health in the coming fiscal year to $244.1 million. This is an increase of $75.8 million over the estimated net expenditure in the current fiscal year.

The new Medical Services Insurance Plan is voluntary and oilers benefits in the form of comprehensive physicians' services wherever they are rendered. These benefits are available to all residents of Ontario regardless of age, state of health or financial circumstances. Effective April 1, 1966, benefits will auto­matically be extended to those receiving assistance under welfare legislation. During the period March 1 to May 1 next, enrolment will be open with general coverage effective July 1.

Those in low income tax categories, namely, with taxable income of $500 and under for single persons, $1,000 and under for couples and $1,300 and under for families of three or more, will receive assistance in the form of reduced premiums. Where it is established that a person had no taxable income in the previous year, applications will be accepted and a contract provided by the Province without payment of a premium. Apart from this assistance to low income groups, the Plan will make medical services insurance available to individual residents who wish to participate. It will be a particular boon to citizens who because of age, health or ineligibility to participate in a group contract have found it difficult to secure medical insurance.

The number of insured persons under the Hospital Care Insurance Plan now exceeds 6.7 million and represents 99.4 per cent of the estimated eligible population of Ontario. The extension of the Plan last September to include as dependents under the family coverage all those, up to age 21 years, attending educational or training institutions where they do not receive a wage or salary, is estimated to cost the Plan $3.5 million in lost premiums. In accordance with the policy that I announced a year ago whereby there would be no increase in premium rates over the succeeding three years, we are again including in the Budget for the coming fiscal year an amount of $50.0 million to subsidize the costs of the Plan.

The provincial grants for hospital construction will be increased by $11.2 million to $23.6 million. A substantial part of the increase consists of $6.3 million for the special accelerated program of grants for schools of nursing. In addition, hospital construction is being encouraged through low interest loans, which are estimated at $9.6 million for 1965-66 and forecast to rise to $13.0 million for the coming fiscal year.

The expenditure of the Mental Health Branch, including the cost of operating the Ontario Hospitals, is forecast for the coming fiscal year at $87.8 million, an increase of $12.6 million over the current fiscal year. The higher level of expenditure now being incurred under the mental health program reflects not only the increased activity and facilities relating to the treatment of patients, but also the recent action of the Government to adjust salaries commensurate with the duties and responsibilities of the hospital staffs.

One of the primary objectives of the mental health program is to effect an appropriate distribution of services such as psychiatric units and out-patient services in general hospitals. Twenty-four such units are in the planning stage or under construction. These services will make available psychiatric treatment for short-term cases and out-patient services on the local level. The newest of such facilities is the C. K. Clarke Institute of Psychiatry, which will replace the Toronto Psychiatric Hospital with considerably expanded in-patient, out-patient and research facilities.

The remarkable decrease in the incidence of tuberculosis has reduced the need for treatment facilities to a fraction of those in use a few years ago. Some of these facilities have been procured by the Government for use in its expanding mental health program. Fourteen hundred beds have been converted to other uses such as chronic care, care of retarded children, general hospital accommodation or the treatment of psychiatric disorders. In the field of tuberculosis prevention, the Government is now directing its program at finding and examining those ex-patients whose disease has apparently been cured but who, either through reactivation or by infecting others, are responsible for one-third of those people who are found in need of treatment.

The Homes for Special Care program has progressed most favourably. To date over 1,700 patients have been moved from Ontario Hospitals to "Homes", and it is anticipated that this number will be substantially increased in the coming year. The estimates for this program totalling $5.3 million have been increased from $2.5 million.

It is proposed that in 1966-67 bursaries now provided for medical and dental undergraduate students will be extended to include graduate training for health personnel in a variety of situations which are critical to the development of comprehensive health services in Ontario. The demand for such personnel will be accentuated by the medical insurance program.

EDUCATION

In its second annual report, the Economic Council of Canada recommended that "the advancement of education at all levels be given a very high place in public policy, and that investment in education be accorded the highest rank in the scale of priorities". With this, we are in full agreement. In this fast-moving technological age, education represents an essential investment of great economic consequence.

This economic factor is exercising a marked influence on the educational program. The importance of basic skills is being emphasized in the elementary grades; a wide range of courses suited to varying interests and aptitudes is being offered in the secondary schools; facilities for technical education are being encouraged by Federal-Provincial grants; the unemployed are being trained or retrained for specific jobs; Ryerson Poly technical Institute, the technical institutes, and the vocational centres have record enrolments; and career counselling becomes daily more important at both student and adult levels.

A rapidly expanding school system raises new questions and sharpens the importance of others that have been with us for some time. In this situation, the value of educational research is increasingly recognized. The combining of three organizations in the newly established Ontario Institute for Studies in Education unites the former Department of Educational Research of the Ontario College of Education, the graduate school of the same College, and the Ontario Curriculum Institute in an integrated effort designed to discover answers to these questions.

New attention is being given to the provision of adequate opportunities for education in thinly populated regions. Nearly a thousand students in northern and northwestern Ontario are now assisted financially in meeting transportation costs to university and technical institute centres. "Under recent legislation, elementary school boards in territorial districts are assisted financially in reimbursing parents up to three dollars a day for board and transportation payments made on behalf of pupils attending a distant secondary school. Study is being given to further steps designed to improve educational opportunities in the North.

A beginning in provincially-sponsored educational television was made in January of this year when two series of broadcasts were initiated, one dealing with the new mathematics at the Grade 7 level and the other with the new Grade 13 course in physics. Long-term plans include broadcasts at a number of levels elementary, secondary, university, and in the field of adult education for persons no longer at school.

Three new provincial educational institutions opened their doors last September: Althouse College of Education in London, in affiliation with the University of Western Ontario; the St. Catharines Teachers' College on the campus of Brock University; and a Vocational Centre at Sault Ste. Marie. Each of these projects has made a promising beginning that augurs well for its future contribution to education in Ontario.

The development of the recently proposed Colleges of Applied Arts and Technology is receiving active attention. Among the early Colleges established will be some created through integration and adoption of existing institutes of technology and vocational centres. The Colleges will provide academic courses, as well as some vocational courses of a type not presently available in secondary schools and universities. An appropriation of $12.4 million will be required in the coming fiscal year to enable the Department to proceed with the development of these Colleges.

An outstanding feature of Ontario's developing educational system has been the recent expansion of facilities and programs in the technical and vocational field. Despite the emphasis that has been placed on providing vocational facilities, the demand for additional ones remains strong. To keep pace with modern industry's growing emphasis on skills, the Province will triple the provision for grants to school boards under Federal-Provincial agreements for the construction and equipment of vocational education facilities from $20.0 million in the current fiscal year to $60.0 million in the coming fiscal year.

Legislative grants to school boards constitute by far the largest item of educational expenditure. Our financial assistance to these boards is increasing very rapidly - the inevitable result of rising enrolment, new and greater demands for technical training, and higher unit costs. In the coming fiscal year, the amount available for school grants will be increased by $52.4 million to $383.4 million. Thus, the introduction of the Ontario Foundation Tax Plan will have raised the level of school grants by $149.7 million or 64 per cent over the first three years of its operation. Clearly, the Plan is having a tremendous impact on Ontario's educational system. It is not only providing funds to expand and improve educational opportunities, but it is also making a very significant contribution to the relief of local taxpayers.

Substantial additional appropriations are also required for various other essential educational services and programs. As a result, the total net expenditure of the Department of Education is forecast at $575.5 million for the coming fiscal year-an increase of $124.0 million over the interim estimate for the current fiscal year. This continuing and growing investment in our young people represents one of our best hopes for ensuring Ontario's future prosperity and progress.

UNIVERSITY AFFAIRS

During the past year, a massive expansion of our facilities for higher education took place. A source of great satisfaction is that it has been possible to accomplish this expansion of facilities while maintaining the quality of the programs offered. The result is that more than 52,000 students are this year enrolled in the provincially-assisted universities and colleges of Ontario, with more than 17,000 of these in the first year of their courses. Well over 6,000 students are doing graduate work, and the proportional increase in this area exceeds the growth in undergraduate years. Of those engaged in post-graduate studies, more than 1,500 benefit from Province of Ontario Graduate Fellowships.

In the fiscal year 1965-66, the sum of $64.6 million is being paid to assist the universities. Recently, the Federal Government announced an increase in its per capita grant from $2 to $5, but instead of using a straight per student amount for its distribution among the universities of the Province, has proposed a weighted formula based on actual enrolments in the academic session 1966-67. Consequently, while the total federal funds to be made available to universities in Ontario for the fiscal year 1966-67 can be estimated, there is 110 way of knowing at the present time the amount to be allocated to each university.

On the recommendation of the Committee on University Affairs, it has been decided that the amount required by the universities and colleges of Ontario from the Federal Government and this Government together for 1966-67 is $122.0 million. The portion of this being provided in our Estimates is $91.4 million, an increase of $26.8 million or 41 per cent over the present year. Because of the uncertainty referred to previously, the amount of the provincial grant to be allocated to each university has not yet been determined. However, the specific amount that each university can expect to receive from the two governments combined will be announced in the near future and in adequate time to permit planning for 1966-67.

The Estimates of the current fiscal year included $100.0 million for the continuation of capital expansion to provide for an average increased enrolment of 10,000 students per year for the next five years. The amount being provided in 1966-67 for this purpose is $150.0 million. While first consideration must always be the opportunity afforded each individual by the provision of higher education, the potential benefits for our society inherent in a university population in excess of 100,000 by 1970-71 is cause for the greatest optimism for this Province and for Canada.

AID TO LOCAL AUTHORITIES

Ontario's municipalities are facing challenges which are similar in many respects to those confronting the Province. They have an important contribution to make to our economic and social progress. At the same time, they rely heavily upon property taxes which are not sufficiently productive to meet their requirements. Recognizing this, the Province annually appropriates huge sums to ease the burden of rising costs on property owners. In the last five years, we have provided an average of half a billion dollars a year in assistance to municipalities, school boards and other local authorities.

Our financial assistance has already doubled in this decade, rising from $309.6 million in 1959-60 to an estimated $645.0 million this fiscal year. In this period, it has risen faster than our overall revenues, and this has occurred despite buoyant economic conditions, improvements in Federal-Provincial fiscal arrangements and various measures taken to expand our revenues.

Aid to local authorities is obviously placing a heavy strain on our resources.

At the same time, we simply cannot fail to fulfil our responsibility for aiding local ratepayers in financing essential local services. We are therefore planning to increase our total municipal assistance by an unprecedented $127.1 million to $772.1 million in the coming fiscal year. This increase is more than double the average annual increase of $61.0 million in the last three fiscal years.

A primary reason for the rising level of local assistance is the need to help local taxpayers in meeting education costs. Payments under the Ontario Foundation Tax Plan will again be increased sharply by $52.4 million to $383.4 million in the coming fiscal year. This increase brings to $149.7 million the total increase in general legislative grants in the first three years of the operation of the Plan. In the field of construction of vocational education facilities, the amount provided will be tripled, rising from $20.0 million to $60.0 million. These expenditures indicate the vast extent of the Province's partnership with local authorities in working together to meet the educational challenge.

Our participation in the provision of municipal roads and streets is also very extensive. The cost of the road building programs of some larger municipalities is greater than ever before. To assist in these developmental works, we are providing for an increase of $11.3 million to $119.8 million in municipal road subsidies and assistance for roads in unincorporated townships in Northern Ontario.

Local authorities receive important benefits from a wide variety of provincial programs in the health and welfare fields. In the coming fiscal year, local hospital authorities will benefit from estimated expenditures totalling $44.8 million for maintenance, construction and other hospital purposes. These expenditures pro­vide for a sharp increase in hospital construction grants of $11.2 million to $23.6 million next fiscal year. In the welfare field, an appropriation of $19.9 million will be made for general welfare assistance. The Estimates for the coming fiscal year also provide increased aid for Homes for the Aged and funds to expand the benefits available in the field of child welfare.

These various assistance programs are designed to promote the development of essential services at the municipal level throughout the Province. In addition, to provide flexibility, Ontario has developed unconditional grants which in the coming fiscal year will reach an estimated $28.3 million. We will continue to revise and expand our aid to local authorities in keeping with the growing responsibilities and financial needs of our municipalities and local boards.

CAPITAL BORROWING UNDER THE CANADA PENSION PLAN

The Canada Pension Plan consists of a two-stage operation. First, it creates the machinery to receive contributions, to pay benefits, and to provide for the expenses of administration. These transactions will be handled through an account to be called the Canada Pension Plan Account, the operation of which is to be a strictly federal function. Second, it provides for an account to be known as the Canada Pension Plan Investment Fund from which funds are to be channelled back into the economy through the medium of the provincial governments. After allowance has been made for three months' operating requirements, the balance of the funds will be available for the purchase of securities of the provinces, including provincially-guaranteed securities.

The provinces may borrow from the Canada Pension Plan Investment Fund In exchange for provincial securities. These securities must be issued to the Canada Pension Plan Investment Fund and are not negotiable or transferable. The term will be 20 years "or such lesser period as may from time to time be fixed by the Minister of Finance on the recommendation of the Chief Actuary of the Department of Insurance". In addition, the securities are subject to call in whole or in part, at any time, on six months' notice at the option of the Minister of Finance. These provisions are designed to ensure that the Fund will always be in a position to meet its commitments. The amount of Canada Pension Plan funds available for Ontario, assuming that we take up Our full entitlement, is expected to average $267.0 million a year over the first ten years. Present forecasts indicate that the funds available annually to Ontario after 1975 will diminish each year until 1986 when no further funds will be available.

I wish to emphasize that the responsibility for the operation of the Canada Pension Plan is vested in the Federal Government. As far as this Province is concerned, the Canada Pension Plan Investment Fund provides an assured source of capital funds to the extent and in the manner indicated above. We believe, however, that these funds should be used primarily to provide facilities for the development of our human resources, especially the young people of our Province. We recognize that large amounts of money will be required for the construction of educational facilities for elementary and secondary schools and universities. In addition, we believe that if these funds are made available to municipalities and school boards, then they will be able to plan their capital programs in a more effective manner.

We propose, therefore, to make the funds available for the purchase of debentures issued by municipalities and school boards for the construction of schools and through the Ontario Universities Capital Aid Corporation for the purchase of debentures from the universities. The rate of interest will be based on the cost to the Province of the funds available under the Canada Pension Plan.

SUMMARY OF EXPENDITURE PROGRAM FOR 1966-67

Having dealt with the programs of specific departments, I would now like to summarize the overall expenditure program of the Government for the coming fiscal year. Net ordinary expenditure before providing $42.0 million for sinking fund and $198.0 million for capital payments to be financed out of ordinary revenue is forecast at $1,486.2 million. Net capital expenditure on physical assets is forecast at $326.7 million. We are thus planning a Budget of $1,812.9 million or $318.8 million more than our estimated expenditures in the current fiscal year. This is a very large increase and indicates vividly the growing cost of meeting our responsibilities.

In acting to strengthen the foundations of future growth, we have placed paramount importance on programs for social and human betterment. In the coming fiscal year, 73 per cent of the increase in expenditures has been allocated for education and health services. The Departments of Education and University Affairs alone will receive $157.9 million or 50 per cent of the increased funds to be made available in the coming fiscal year. While emphasizing the development of programs for social and human betterment, this Budget also provides for an expanded capital program to create assets necessary to maintain economic efficiency.

In formulating our budgetary plans, we have given the most careful consideration to the needs of our local authorities. Of the total increase in our Budget next fiscal year, $127.0 million represents additional funds to be paid to local authorities. Thus, our expenditure program will not only enable the Government to carry out its own responsibilities but takes important steps to safeguard the financial strength of our local authorities.

REVENUE CONSIDERATIONS

The expenditure program that I have outlined for the coming fiscal year is indicative of the growing obligations that the Province must assume in meeting the requirements of an expanding economy. It is evident that a continuation of the upward trend in expenditures is unavoidable, as increasingly greater emphasis is placed upon the responsibilities that fall within provincial jurisdiction. Coupled with the larger appropriations that will be required for the creation of necessary physical assets and the development of natural resources will be the need for greatly increased investments in human resources, especially for education, health and job training programs. It is widely acknowledged that the pace of our economic progress depends to a large extent upon the provision of these services and the availability of an educated and well-trained labour force.

If the Province is to play its full role in sustaining economic and social advancement, it must have a revenue system which is capable of producing sufficient funds to discharge its responsibilities. One of the anomalies of public finance in Canada is that while the problems of growth and development fall largely upon provincial and municipal authorities, the tax systems of these levels of government do not have the revenue-producing capacity that characterizes the tax system of the Federal Government. The combined expenditures of all provincial and municipal governments now account for one-half of the total government expenditures in Canada, and are increasing more rapidly than those of the Federal Government. Yet, despite the improvements that have been made in the provincial share of the personal income tax, the major direct tax fields which are most productive in reflecting economic expansion and rising incomes are heavily occupied by the Federal Government.

Thus, while the provinces and their municipalities have the more rapidly rising expenditure responsibilities, the Federal Government has the more productive revenue system. With their limited tax systems, the provinces are finding it increasingly difficult to obtain the necessary revenues. They are currently receiving about one-fifth of the total revenue derived in Canada from personal and corporate income taxes. While this proportion will rise somewhat in the coming fiscal year with the additional three percentage points being made available in the personal income tax field, it will still fall far short of providing the provinces with an adequate share of these tax fields. A provincial tax system which is limited to such a small proportion of the progressive tax fields simply will not produce the growing revenues that are required in a highly urbanized and industrialized province such as Ontario.

As we are all aware, the entire field of taxation and public finance in Canada is under exhaustive study. For some time, various government committees and commissions have been working in this field. Through the Tax Structure Committee, the federal and provincial governments themselves are engaged in a comprehensive review and examination of the responsibilities, revenues, expenditures and future requirements of all levels of government in Canada. As a result of these studies and investigations, we anticipate that the tax structure can, in the long run, be adapted to provide a more equitable allocation of revenue resources relative to expenditure responsibilities. It is with this thought that we shall approach the Federal-Provincial financial negotiations, which will demand much attention in the coming year.

The Province, however, is confronted now with the task of financing a substantial increase in expenditures. On the basis of present taxation, the income from ordinary revenue and capital receipts, adjusted for the anticipated economic growth in the provincial economy, would be such that the proposed program of expenditure which I have outlined for the coming fiscal year would result in a shortfall of revenue of $281.0 million. In the following year, the shortfall could be expected to increase by a further $200.0 million, if we are to carry out the present programs and those which are being initiated. Present economic and fiscal conditions do not warrant planned deficits of this magnitude, nor would the Government be fulfilling its obligations to the people of Ontario and to Canada as a whole, if we were to proceed on this basis. I am, therefore, proposing that steps be taken to bring the revenue position more in line with the anticipated expenditure.

TAXATION

The fiscal needs of the Province as just outlined have been given very careful study. Obviously, funds must be provided for the expansion and development of our Province.

Having in mind the policy of the Government to keep the finances of Ontario in a sound condition, we have concluded that our financing should be along the same general lines as in the past. That is, we should finance some capital expansion from current revenues and provide for the remainder of our capital funds from borrowing.

We will, therefore, introduce legislation to provide changes in taxation necessary to meet our requirements, yet which will not be detrimental to the growth of our economy. Rather than apply excessive rates of taxation in anyone area, we have decided to utilize several fields.

The Retail Sales Tax Act

The retail sales tax of 3 per cent will be increased to 5 per cent, and the tax will be extended to charges for long distance calls and telegrams. By April, seven of the ten provinces will have a rate of 5 per cent or more.

The Gasoline Tax Act

The tax on gasoline will be increased by one cent a gallon to 16 cents. Only the three far western provinces will then have tax at less than 16 cents. Refunds for off-highway use will be 16 cents for farmers and commercial fishermen and 13 cents for others.

The Motor Vehicle Fuel Tax Act

The tax on diesel fuel for highway use will be increased by one and one-half cents to 22 cents per gallon, maintaining the approximate relationship with the tax on gasoline.

The Tobacco Tax Act

The tax on cigarettes will be increased to one-tenth of a cent per cigarette, which increase amounts to one cent on a package of 20 (or one and one-quarter cents on a package of 25), with adjusted increases on other tobaccos. The new rates will still be much below those of our neighbouring provinces. It is interesting to note that federal taxes on a package of 25 cigarettes are about 25 cents compared with the revised Ontario tax of two and one-half cents.

The Land Transfer Tax Act

Tax on land transfers will be increased from one-fifth to two-fifths of one per cent.

The Income Tax Act

Since 1962, the Federal Government has collected Ontario individual income tax. The federal tax has been abated by rates commencing at 16 per cent for 1962 and reaching 24 per cent for 1966. We have followed the policy of keeping our rate at the same figure as the federal abatement. During these years, some provinces have found it necessary to set their provincial rates at more than the federal abatement, and this has been completely in accord with the Federal-Provincial arrangements. For the 1966 year, the Ontario rate will continue at 24 per cent, the same as the federal abatement. We do not know at this time what arrangements will be made with the Federal Government to share the tax fields with the provinces after the present five-year collection agreement expires with the end of the 1966 taxation year. We expect that similar arrangements, or not less than equivalent provisions, adjusted upwards to meet the rapidly expanding needs of Ontario and the other provinces, will extend into the period subsequent to 1966, or at least until the recommendations of the several taxation commissions can be studied for implementation.

For the 1967 taxation year, Ontario will need at least the equivalent of an additional four percentage points of tax. If the federal abatement is similarly increased, there would be no net increase in the individual income tax paid by Ontario residents.

The Government of Ontario will seek an increase in its share of tax revenues of at least this amount in the forthcoming Federal-Provincial negotiations. Without such further abatement or its equivalent, we will have no alternative to the setting of an income tax rate to produce an additional yield of four percentage points.

The Succession Duty Ad

The exemptions under The Succession Duty Act will be increased from $60,000 to $75,000 for widows and certain widowers, from $10,000 to $15,000 for a dependent child, and from $15,000 to $25,000 for a dependent orphan.

The above tax changes, except income tax, will become effective on April 1, next.

Liquor Control Board

Finally, I should like to state that the Liquor Control Board of Ontario will be announcing increases in the price of liquor at an early date.

FORECAST OF FINANCIAL POSITION FOR 1966-67

Inclusive of the additional revenue we can expect from the tax changes have proposed, net ordinary revenue and net capital receipts are forecast at $1,728.0 million. Yields from our four major sources of revenue are forecast as follows: retail sales tax, $383.0 million; personal income tax, $362.5 million; corporations tax, $258.0 million; and gasoline tax, $25 7.0 million.

Increased revenue from the retail sales tax of $167.0 million is expected to account for over half of the total increase in our revenue. The increase in the Province's share of the personal income tax field from 21 to 24 per cent of federal rates of tax together with economic growth is expected to raise our revenue from this field by $72.2 million. The yield of the gasoline tax will rise by $25.0 million and revenues from corporations tax and the Liquor Control Board by $14.0 million each.

While we can expect considerable expansion in our revenues as a result of the tax measures proposed in this Budget, the expected improvement is the minimum necessary to maintain the financial strength of the Province. Despite adjustments in our revenues, we anticipate that total revenue will fall short of meeting overall requirements by $84.9 million in the fiscal year 1966-67. The extent to which we will be required to rely upon our credit in the coming fiscal year is reasonable in view of the expanded revenue base and the expenditure program to be undertaken. Nevertheless, we have reached no long-term solution. Appropriate measures must therefore be planned now to ensure that the Province can fulfil its responsibilities and still maintain a strong credit position.

CONCLUSION

As Treasurer of the Government of this Province, I am fully aware of the present complexity of our financial and economic problems and of the sensitive relationship between government and the provincial economy. In the past few years, we have witnessed a telescoping of heavy demands for social and economic development; in the years that lie immediately ahead, such heavy demands will continue to be felt. In turn, the steady growth of government expenditures has broadened the direct impact of government on the economy and made the provincial budget a delicate instrument of economic and fiscal policy.

In addition to providing a wide range of services, in which our objectives must be ones of efficiency and effectiveness, the provincial budget contributes directly to the character of aggregate demand in the provincial economy and to the economic productiveness of our people and institutions. To be successful in these objectives, however, we must avoid taxation becoming a burden on the progress of economic growth which we seek to foster.

With the rapid accumulation of demands for government services and social capital on the one hand and the objective of contributing to economic growth and productivity on the other hand, the Government must follow four broad principles of economic and financial policy.

In the first place, we believe that it is essential for the Government to establish policy priorities to assure that expenditures will make the greatest contribution to the development of the Province. It is patently obvious that our expenditures are outpacing our revenues-a condition that is likely to continue. In such circumstances, a government must examine ruthlessly which policies should assume priority in the broad spectrum of economic and social application. Nor is this a mere arithmetical ordering of expenditures. Rather, the priorities must be designed with a view to those policies which will have the greatest impact on growth and productivity, such as education and research. From such growth, the tax revenues will be self-generating and our budget maintained in some order.

The second principle follows from the first - that the Government must plan its financial and economic activity to achieve maximum effectiveness. Both in ordinary expenditures and in public capital investment, there must be careful long-range planning to create the most favourable climate for provincial growth. In particular, each element of proposed public investment must be carefully assessed for its contribution to economic growth and for its effect in counteracting movements in the business cycle.

The third principle is the means of long-range planning-the careful co-ordination of government policies and programs such as those designed to contribute to the economic development of all regions of the Province. Our economic and financial research is now being developed in a manner that will contribute to the greater success of priorities and planning in an applied sense through overall government co-ordination.

Finally, when we have established our own priorities, planning and co­ordination, we must view this actively in the broader context of federal, provincial, and municipal requirements. In this trinity of forces, the provincial government occupies the position of fulcrum-balancing its own demands on the Federal Government with the needs of the municipalities. Through the exercise of the Tax Structure Committee, we not only have a sobering view of what is in store but we also have guidelines to the fiscal requirements of each level of government. Consequently our policies must be formulated with a view to possible redistribution of tax revenues commensurate with future requirements for provincial expenditures.

To assist the Government in observing these principles, we are establishing a co-ordinating committee of financial and economic advisers. This committee will consist of senior officials concerned with revenues, expenditures, economic policy and Federal-Provincial affairs-the Deputy Provincial Treasurer, the Secretary of the Treasury Board, and the Chief Economist. These officials, through a continuing review of financial and economic affairs, would achieve an important measure of co-ordination among the key areas which they represent as well as serving the Government in pursuit of the four principles that I have set forth above. They will be concerned with long-range planning, for example, the application of capital funds. This Government, through its capital projects and its capital advances, is a major source of overall capital investment. Care must be taken to insure that the disposition and timing of this activity is designed to serve the needs of the provincial economy in the most effective manner.

Such are the guidelines which we believe must be observed under the exacting but significant financial and economic problems facing this Government in the days that lie ahead.

SUMMARY

1. In 1965, Gross Provincial Product increased by about 9 per cent or $1.7 billion, reaching a new high of $20.7 billion. New records were set in every sector of the economy, particularly in construction and manufacturing. The unemployment rate fell from 3.2 per cent in 1964 to 2.5 per cent in 1965, the lowest of any region in Canada. Another substantial increase in economic production can be expected in 1966.

2. The combined net expenditures on ordinary and capital accounts for 1965-66 are estimated before providing for sinking fund at $1,494.2 million, an increase of $228.7 million over 1964-65. Net ordinary expenditure (before providing $41.5 million for sinking fund and $159.0 million for financing capital payments out of ordinary revenue) amounts to $1,195.8 million, and net capital expenditure on physical assets is estimated at $298.4 million.

3. Net ordinary revenue and net capital receipts are estimated at $1,398.5 million for 1965-66, an increase of $159.5 million over 1964-65. The personal income tax, which produces about one-fifth of this year's revenues, accounts for three-fifths of the overall increase.

4. The Province will end the current fiscal year in a more favourable position than forecast a year ago. While a capital program of $298.4 million has been carried out, the increase in net capital debt will be held to an estimated $98.8 million.

.5. In 1966-67, the net ordinary and capital expenditures of the Department of Highways will be increased by $36.5 million to $373.3 million, of which $265.4 million will be for construction and $107.9 million will be for maintenance. The total includes $119.8 million for municipal road subsidies and assistance for roads in unincorporated townships.

6. The cost of the Medical Services Insurance Plan in the coming fiscal year is estimated at $58.9 million, of which $50.0 million will be provided through the Department of Health and $8.9 million through the Department of Public Welfare. Comprehensive physicians' services will automatically be extended to those receiving assistance under welfare legislation effective April 1, 1966. Those in low income tax categories will receive assistance in the form of reduced premiums. The Plan will make medical services insurance available to individual residents who wish to participate. General coverage under the Plan will become effective July 1, 1966.

7. The net expenditure of the Department of Health will rise $75.8 million to $244.1 million in the coming fiscal year. The total includes $50.0 million for the Medical Services Insurance Plan, $50.0 million for the stabilization of hospital insurance premiums and substantially increased funds for hospital construction.

8. The total net expenditure of the Department of Education is forecast at $575.5 million for the coming fiscal year-an increase of $124.0 million over the current fiscal year. The amount available for school grants will be increased by $52.4 million to $383.4 million, thus raising the level of school grants by $149.7 million or 64 per cent during the first three years of the Ontario Foundation Tax Plan.

9. The amount required by the universities and colleges of Ontario from the Federal Government and this Government together for 1966-67 is estimated at $122.0 million. The portion of this being provided by Ontario is $91.4 million, an increase of $26.8 million Or 41 per cent over the current year. The amount being provided in 1966-67 for the continuation of university construction is $150.0 million, compared with $100.0 million included in the Estimates for the current fiscal year.

10. Provincial assistance to municipalities, school boards and other local authorities in 1966-67 will amount to $772.1 million, an increase of $127.1 million over 1965-66 or more than double the average annual increase of $61.0 million in the last three fiscal years.

11. Ontario's share of the Canada Pension Plan funds is expected to average $267.0 million a year over the first ten years. These funds will be made available for the purchase of debentures issued by municipalities and school boards for the construction of schools, and for the purchase of debentures from universities through the Ontario Universities Capital Aid Corporation. The rate of interest will be based on the cost to the Province of the funds available under the Canada Pension Plan.

12. Budgetary-expenditures in 1966-67 will amount to $1,812.9 million, an increase of $318.8 million over 1965-66. Net ordinary expenditure (before providing $42.0 million for sinking fund and $198.0 million for capital payments to be financed out of ordinary revenue) is forecast at $l,486.2 million and net capital expeuditure on physical assets is forecast at S326.7 million. Education and health services account for 73 per cent of the overall increase, and the Departments of Education and University Affairs alone will receive $157.9 million, or 50 per cent of the increase.

13. On the basis of present taxation, revenues would be such that the proposed program of expenditure for the coming fiscal year would result in a shortfall of revenue of $281.0 million. In the following year, the shortfall could be expected to increase by a further $200.0 million. Present economic and fiscal conditions do not warrant planned deficits of this magnitude. Steps must be taken to bring the revenue position more in line with the anticipated expenditure.

14. Legislation will be introduced to provide changes in taxation necessary to meet requirements. Several fields will be utilized to avoid excessive rates of taxation in anyone area. The tax changes, including an increase in certain exemptions under The Succession Duty Act, are as follows:

(a) The Retail Sales Tax Act

The retail sales tax of 3 per cent will be increased to 5 per cent and the tax will be extended to charges for long distance calls and telegrams. By April, seven of the ten provinces will have a rate of 5 per cent or more.

(b) The Gasoline Tax Act

The tax on gasoline will be increased by one cent a gallon to 16 cents. Only the three far western provinces will then have tax at less than 16 cents. Refunds for off-highway use will be 16 cents for farmers and commercial fishermen and 13 cents for others.

(c) The Motor Vehicle Fuel Tax Act

The tax on diesel fuel for highway use will be increased by one and one-half cents to 22 cents per gallon, maintaining the approximate relationship with the tax on gasoline.

(d) The Tobacco Tax Act

The tax on cigarettes will be increased to one-tenth of a cent per cigarette, which increase amounts to one cent on a package of 20 (or one and one-quarter cents on a package of 25), with adjusted increases on other tobaccos. The new rates will still be much below those of our neighbouring provinces. It is interesting to note that federal taxes on a package of 25 cigarettes are about 25 cents compared with the revised Ontario tax of two and one-half cents.

(e) The Land Transfer Tax Act

Tax on land transfers will be increased from one-fifth to two-fifths of one per cent.

(f) The Income Tax Act

Since 1962, the Federal Government has collected Ontario individual income tax. The federal tax has been abated by rates commencing at 16 per cent for 1962 and reaching 24 per cent for 1966. Ontario has followed the policy of keeping its rate at the same figure as the federal abatement. During these years, some provinces have found it necessary to set their provincial rates at more than the federal abatement, and this has been completely in accord with the Federal-Provincial arrangements. For the 1966 year, the Ontario rate will continue at 24 per cent, the same as the federal abatement.

For the 1967 taxation year, Ontario will need at least the equivalent of an additional four percentage points of tax. If the federal abatement is similarly increased, there would be no net increase in the individual income tax paid by Ontario residents.

The Government of Ontario will seek an increase in its share of tax revenues of at least this amount in the forthcoming Federal-Provincial negotiations. Without such further abatement or its equivalent, Ontario will have no alternative to the setting of an income tax rate to produce an additional yield of four percentage points.

(g) The Succession Duty Act

The exemptions under The Succession Duty Act will be increased from $60,000 to $75,000 for widows and certain widowers, from $10,000 to $15,000 for a dependent child, and from $15,000 to $25,000 for a dependent orphan.

The above tax changes, except income tax, will become effective on April 1, next. The Liquor Control Board will be announcing increases in the price of liquor at an early date.

15. Inclusive of the additional revenue expected from tax adjustments, net ordinary revenue and net capital receipts for 1966-67 are forecast at $1,728.0 million. Budgetary expenditures will amount to $1,812.9 million. The anticipated expansion of revenue in the coming fiscal year is therefore the minimum necessary to maintain the financial strength of the Province. Even after the tax adjustments, total revenue is expected to fall short of meeting overall requirements by $84.9 million.