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| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 28e | 1re | Discours du budget | 12 mars 1968 | Charles MacNaughton | Treasurer of Ontario | Progressive Conservative Party of Ontario |

Mr. Speaker, in bringing down the Ontario Budget for 1968, my statement is a serious but, I trust, not a solemn one. The facts which I will present to you are sobering but not, I believe, discouraging. The message I bring to the members of this Legislature is a preview of the profound changes which lie ahead of us in the Ontario of tomorrow. It is a reflection of the great strength of our economy and the faith and confidence of the people in the future of this province. It is a declaration that this government is determined to play a purposeful part in the economic and social development of the province and our people. This Budget is a yardstick of what we can do and how quickly we can do it. It is an affirmation that we must do first things first and lay a foundation upon which growth and development may continue to be based. It is an investment Budget-an investment in our people, their economy and their governmental institutions. Finally, it is also a plea for a more rational approach to economic management, to intergovernmental taxation arrangements and to the significant issue of the relationship of the government sector to the private segments of the economy. For such are the economic and financial conditions confronting this nation that honest y, objectivity and surefootedness in our fiscal policy are necessary today as never before. in the process, however, we must not let momentary gloom bedoud the rich and buoyant future that lies ahead for this country and this province. Such is the approach which we have taken to this Budget and such is our belief in what is to be.

In introducing my first Budget statement in 1967, I announced our determination to reorganize the budgetary process in order to provide a solid basis for the development of effective provincial economic and fiscal policy. Since that time, three important steps have been taken towards this objective.

First, at the federal-provincial meeting of the Ministers of Finance in January, there was general agreement among the participants on the need to establish effective mechanisms for intergovernmental budgetary consultation. Combined with the work which has begun on the rationalization of federal-provincial tax sharing, this latest development should move us a step closer to the objective of co-ordinated federal and provincial fiscal policy.

Second, as announced in the Speech from the Throne and elaborated upon by the Prime Minister (Mr. Robarts) in this Legislature, we will bring forward legislation to convert The Treasury Department into two distinct organizations: a Department of Finance and Economics and a Department of Provincial Revenue. The core of necessary changes has already been introduced within the present department to bring together, under Finance and Economics, the economic, financial, fiscal, taxation and intergovernmental policy staff. The closest co-operation has been developed between the staff of Finance and Economies and the Treasury board secretariat to ensure that policy planning and administrative efficiency are twin tools of good financial management. The specialization which has been developed by our revenue group in the administration of tax statutes and the collection of revenues will permit the most effective application of effort within the various tax fields.

The third advance concerns the continuing improvement of the budgetary process and of the Budget presentation itself along the lines announced last year. Our work on the development and implementation of a programme budgeting system is progressing satisfactorily. Furthermore, apart from the emphasis in this statement on the organization of the government's vast range of activities within an overriding economic policy framework, the supporting Budget papers have been developed to provide a dearer and broader perspective of this year's budgetary policy.

This year's Budget papers are divided into three main parts. The first part contains a comprehensive review of economic developments in 1967 and the prospects for 1968. This assessment forms the basis for our judgment of the required form and direction of economic policy. The second part contains an analysis of the framework within which the annual Budget is developed and deals mainly with the growth of its overall financial capacity and the structure of its commitments to existing programmes and other agencies. Finally, within part three, the government's financial statements have been extensively revised to provide a clear and precise view of the full range of its budgetary operations and relations with other agencies.

Before setting out the details of this Budget, I want to come without delay to a matter of paramount importance-a matter on which the success or failure of governmental financial activity in this nation will turn. I refer to the fact that no government in Canada is an island to itself and failure to recognize this fact and, more important, to act upon it will result in the quite unnecessary failure of all of us to attain our objectives.

The details of this situation are elaborated upon in our second Budget paper which provides incontrovertible evidence that our fiscal affairs must be viewed in a total governmental framework. Above all, one lesson is clear: the solution to the problem of a growing burden on the municipal taxpayer does not lie with the provincial government alone. Nothing short of comprehensive tax reform and a major redistribution of taxation fields will provide an intelligent solution to this problem.

Where are the inexorable pressures for government expenditure today? In the burgeoning urban communities, on education and transportation and in other fields where services must grow as our population grows -pressures which must be met by provincial and municipal governments.

Who presently has principal access to the growth-fields of taxation-the personal income tax and the corporation income tax? The federal government. Who possesses the regressive tax fields-the retail sales tax and the various consumer taxes? The provincial government. And yet, what does it profit the hard-pressed municipal taxpayer to substitute one regressive tax field for another? Meanwhile, encouraged by the alluring prospect of growing revenues from the progressive tax fields, the federal government is in a position to invent new programmes, largely within provincial jurisdiction. Through the shared-cost mechanism, the provincial governments must then resort further to regressive tax fields to finance programmes which may not conform to their priorities.

It is evident in budgets of other provincial governments in recent weeks that the situation is endemic. The federal government may well answer, as it did at the last round of tax structure committee negotiations in 1966, that the provinces can increase their use of the personal and corporation income tax fields. But then what is there ever to awaken us from the taxation nightmare?

Such a solution is no solution at all to the obvious problem: the fact that there is only one taxpayer for all levels of government and he requires some control over the composite of government expenditures.

As this government stated to the tax structure committee in October 1966, we believe that the federal government can well abate up to 60 per cent of the personal income tax and 33 percent of the corporation income tax while still retaining adequate leverage for fiscal control. The projections undertaken for the tax structure committee and the Ontario committee on taxation indicate that such radical measures will be essential to prevent an ever-widening gap between revenues and expenditures at the provincial-municipal levels of government. The alternative is fiscal discord, a taxation catastrophe and competition between governments for programmes, three conditions which are totally unacceptable to our people.

The tax fields presently available to the provinces simply have no growth potential. Further relief to the property taxpayer, which we believe to be essential, will only some with greater access to the progressive tax fields. This, in turn, will only be achieved as a result of total tax-sharing reform among the three levels of government. It is not just the present problem which we must consider, but also what lies ahead. We regard some solution to this issue to be among the nation's top priorities. Whereas this government has underlined the importance of constitution al change in Canada, its value will be greatly diminished if we do not make adequate provision for financing the responsibilities which presently confront us.

SUMMARY OF FINANCIAL OPERATIONS FOR1967-68

It would appear that our financial operations for 1967-68 will turn out to be very close to our expectations in last year's Budget. On the basis of eight months' actual and four months' forecast, our net general revenues should amount to $2,112 million. Net general expenditures-excluding provision for sinking fund-will likely run to $2,291 million. Overall, then, our budgetary deficit in 1967-68 will approximate the $162 million which 1 forecast a year ago. We now estimate that we shall end the current year with a net capital debt of $1,538 million, which is well within the capacity of this growing and prosperous province to carry and which we could retire with only eight months' revenue. As shown in the Budget papers, the burden of this debt is equivalent to just over $200 per capita or 6.9 per cent of our provincial domestic product and is below the limit suggested by the Ontario committee on taxation.

THE ECONOMIC SITUATION

The Ontario Budget is an economic as well as a financial plan of action. It sets out a fiscal programme based on our assessment of the prospects and requirements for the Ontario economy in the year ahead. Let me review the economic situation, therefore, and outline the main thrust of our budgetary policy for 1968.

1 should like to begin by reporting briefly on the performance of the economy last year. The year 1967 was one of solid economic achievement for Ontario, but not a year of maximum growth and performance. Like the economies of Canada and the United States, the Ontario economy geared down to a slower rate of growth in 1967. Our gross provincial product rose by 7.8 per cent to reach $24.9 billion, which is slightly higher than I had predicted. The number of jobs increased by 95,000 and there were good gains in exports, tourism, housing and retail sales. On the other hand, our construction and manufacturing sectors operated below their full potential and unemployment edged up. For the second year in a row, our productivity improvement as inadequate and costs and prices increased more than we would have liked. These adverse developments marred our overall performance and put us below our long-term targets for real growth and efficiency.

Barring possible difficulties in international trade and finance, 1968 promises to be a better year for the Ontario economy than 1967. Whereas growth was slowing down at the beginning of 1967, momentum in the economy is now picking up. The recovery in manufacturing evident at the close of 1967 should continue and quicken in 1968. This rising level of activity in the key manufacturing sector will give a much-needed boost to overall productivity.

The acceleration of economic activity in the United States and in Europe should result in expanded exports by Ontario industries. Rapid growth in our labour force plus rising personal incomes should also ensure a substantial rise in consumer spending. Construction and business investment, on the other hand, will be slack in 1968, and the outlook for private housing starts is very uncertain. All in all, however, the balance of forces clearly points to continued expansion in 1968. We forecast, therefore, that Ontario's gross provincial product will increase by at least 7 per cent this year and our real output will expand by 4 per cent.

Yet, we should not be satisfied with anything less than full potential. In 1968, we face the same major economic problems as in 1967. Because of the weakness in investment and construction, the Ontario economy will still be operating below its full potential. Overall productivity will be lower than we would like and unemployment may well be higher as a result of a greater growth in the labour force than in the level of employment. We still have to cope with the inflation of costs and prices which is threatening to erode our competitive position in world markets. The challenge for policy in 1968, therefore, is to raise productivity, to reduce price pressures and to increase overall growth and employment in the economy.

OUR FISCAL POLICY

This particular combination of circumstances-rising costs and prices, rising interest rates and tighter capital market conditions along with slower growth and higher unemployment-creates a complex of conditions which almost defy rational policymaking. However, the key is to be found in the critical balance between the private and public sectors of the economy. This delicate relationship explains why it is too simple, for example, to assume that the introduction of a national medicare programme, at this time, would be merely a transfer of expenditures by individuals from the private to the public sector.

The point is that governments in Canada are mainly operating on deficits. This means that they are relying on the capital market for borrowing. This pressure has helped to drive up interest rates and to reduce credit available to the private sector for investment in productive activity or basic social requirements such as housing. To raise taxes to finance major programmes such as medicare leaves no alternative but to increase borrowing for other purposes. None of these matters can be treated in isolation; our concern must be for the' total organic operation of the body economic.

In this 1968 Budget, I am proposing a fiscal programme to meet both the aggregate and the particular needs of our economy. In terms of total impact, the Budget will be moderately expansionary. Total expenditures and investments will exceed total revenues to produce a net stimulus to overall demand. This positive fiscal stance will help to maintain steady growth in production and employment in Ontario and will bring our economy closer to its full potential performance.

The 1968 fiscal programme is also tailored to have maximum impact on our price and productivity problems. In preparing our 1968 spending plans, we sought, as far as possible, to give priority to long-run growth programmes, such as education, which increase the productivity and efficiency of the economy.

We have also allocated substantially more funds for housing this year. This will help to relieve the housing bottleneck in our major cities, stimulate the construction industry and reduce price pressures emanating from the shortage of housing and serviced land.

Our policies for 1968 will also help to relieve pressure on prices from such key points as health services. We have postponed medicare, but we are continuing to encourage an expanded output of doctors, dentists and nurses. We believe that increasing the supply of health personnel and extending health services to the needy must have precedence over a universal health insurance scheme.

On the capital investment side, we have delayed $43.5 million of public investment projects. We hope that this will have the way clear for an extension of private investment, particularly in housing. To the extent that this is not so, and if unemployment becomes more serious, then we have a shelf of capital projects ready to inject into the economy. In sum, we have constructed our Budget to promote steady growth and to meet the major problems facing our economy in 1968.

GOVERNMENT EXPENDITURES

The expenditure programme which I am presenting to members today is a programme of priorities. It recognizes that our resources are limited and that we cannot do all the worthwhile things we would like to do. It also recognizes that there are certain essential things which we cannot afford not to do. For these most pressing needs of our growing society-for education, housing, health are local aid-this Budget provides more funds than ever before.

For other requirements, particularly departmental activities, our approach has been a virtual "hold-the-line" Budget. A total of $240 million was trimmed off departmental requests for next year. Outside the stated priority areas, our spending was held to an increase of only $52 million or 6 per cent. Most of this increase was unavoidable because of the normal growth of our inflexible commitments and the increased costs of maintaining existing services.

Education: Of all our activities, education must be given the highest priority. Education is our principal tool for increasing the productive capacity of the economy, for creating a better society and for providing the opportunity to every citizen to develop to his fullest potential.

Our whole educational system has been under severe pressure for some years now as the post-war surge in births and immigration pushes enrolments steadily higher. Our past efforts have accommodated this enrolment pressure at the elementary level. Now, and in the immediate future, we must cope with burgeoning student populations at the secondary and post-secondary levels. At the same time, we must continue to upgrade our standards and to develop new techniques in order to ensure the best possible education programme for our people.

For the past several years, we have concentrated vast resources on the expansion and improvement of Ontario's university system. As a result, our universities have been able to accommodate a student body that has been growing and will continue to grow by 10,000 students a year. In. addition, we have embarked on an ambitious programme to develop colleges of applied arts and technology. These new institutions broaden the range of post-secondary education opportunities and meet particular manpower needs of our economy. The success of these colleges is a source of real gratification and pride. They are now becoming fully operational and enrolments are sky-rocketing. This fall, enrolment in our colleges if applied arts and technology is expected to rise by more than 50 per cent to well over 30,000 students.

These enrolment pressures and the cost pressures associated with our new programmes and improved facilities inevitably demand much larger outlays on education. In the 1968-69 Budget, we recognize the priority of these educational needs. Our programme for next year allocates an additional $201 million to education, or 41 per cent of the total increase in our 1968-69 budgetary expenditure. This includes increases of:

$65 million in legislative grants to school boards, bringing the 1968-69 total to over one-half billion dollars.

$48 million in capital grants for vocational school construction; $40 million in university operating grants, which includes an increase in the basic income unit from $1,320 to $1,450, bringing our total grant to $209 million; $19 million for the operation of our colleges of applied arts and technology; $5 million in the Ontario student awards programme.

In addition to the outlays l have just mentioned, we are budgeting for some $350 million in loans and advances to universities, colleges of applied arts and technology, Ryerson polytechnical institute and the school boards to enable them to meet their critical requirements for new classrooms and facilities. This is made possible by Canada pension plan funds and avoids the uneconomical and expensive system which would be entailed if our school boards and educational institutions had to arrange their own capital financing.

We also plan to raise our share of the capital financing for university construction from 85 per cent to 95 per cent of the total cost of approved projects.

Aid to local government: We continue to be impressed by the severe financial straitjacket on local government with its implication of a rapidly rising property tax burden...1 a straitjacket not unlike that on the provincial government whose revenue sources are also limited. Last year, we received the report of the Ontario committee on taxation-Smith report-which provided an excellent and thorough study of provincial-municipal finance. This report will prove invaluable in our future efforts to improve our tax structure when combined with the federal-provincial negotiations which must take place later this year. The report documented quite clearly areas for possible reform and the need for relief of the municipal taxpayer. Two of the major recommendations, which we have already adopted, will have important financial implications for our own Budget this year.

The basic shelter tax exemption recommended in the report was adopted immediately and this will require a total expenditure of some $150 million in the next fiscal year. This amounts to a very substantial increase our already large financial transfers to local governments. In addition, the Smith committee endorsed, and the government has now met, the repeated requests of the municipalities that we assume the full costs of the administration of justice. This new policy will mean greater efficiency in the administration of justice and provides further assistance to the municipal taxpayer. The greater resources of the provincial government and centralization of responsibility should combine to this end. This new policy will affect the estimates of The Departments of the Attorney General, Reform Institutions and Public Works. The net cost to our government in assuming the costs of the administration of justice is expected to amount to some $18.5 million.

These, along with other changes, will increase our aid to local governments by more than $191 million in 1968-69. This very large commitment to local governments accounts for 39 per cent of the total increase in our budgetary spending in 1968-69.

Health: We have placed major emphasis in this Budget on our programme in the field of health. In particular, we have allocated more funds for health sciences education and research. In order to avert a serious bottleneck in the supply of health manpower, we are continuing to build up our facilities for teaching and training doctors, dentists, nurses and health personnel. This Budget provides $30 million for such health sciences teaching facilities, half of which will eventually be repaid out of the health resources fund. We also propose to increase our grants for the construction of teaching hospitals and for schools to educate hospital personnel. We are again raising the amount of bursary funds available to medical and dental students and other health personnel. Other expenditures on health will also be increased substantially. An additional $15 million is being provided for our mental health programme including over $3 million to expand our services for emotionally disturbed and mentally retarded children. This will bring our total outlay on mental health to $117 million.

Our hospital and medical insurance plans continue to make heavy claims on provincial funds. Costs in these areas of health services have been rising extremely rapidly. In 1967-68, the total cost of operating our hospital insurance plan exceeds $500 million, up over 20 per cent from the year before. Costs of OMSIP have also risen substantially, both because of a higher Ontario medical association fee structure and because of steadily expanding enrolment.

As announced in the Speech from the Throne, the government has decided to increase the benefits provided under both these plans in the coming year. We propose to broaden out-patient benefits and to include ambulance services under the hospital plan. As well, OMSIP's benefits will be extended to include optometric examinations. These addition al benefits, plus steadily mounting costs, will boost next year's expenditures for the hospital plan to about $628 million, while the cost of operating OMSIP is estimated to rise to $129 million in 1968-69, excluding approximately $16 million for recipients of social assistance.

With cost increases of this magnitude in store for next year, we cannot contemplate maintaining premiums at their present levels. For the hospital plan alone, a provincial contribution of over $150 million would be required in the coming fiscal year. Our subsidization of OMSIP would also have to increase markedly. Rather, we are proposing to restore premium income to levels which more closely reflect the true cost of operating these plans. Therefore, for hospital insurance coverage beginning July 1, 1968, the monthly rates will increase to $5.50 for single persons and $11 for families. At the same time, the OMSIP premium schedule will be adjusted nominally to, $5.59, $11.80 and $14.75 per month. These new premium levels will remain in effect for a period of at least two years. Even with these increases in premiums, however, the province will still be required to provide very substantial contributions to finance the hospital and medical insurance plans. For 1968-69, we are appropriating $78 million to support the hospital plan and $37 million to subsidize OMSIP.

Housing: In this Budget, we have recognized that housing merits a top-priority claim on Ontario's finances. To meet our goal of good housing for every citizen, Ontario needs an average of 90,000 new housing units each year from now until 1970.' This will require large-scale expansion of private housing output plus a greatly increased effort in every facet of our public programme.

We have provided the funds to carry out the greatly expanded and accelerated public programme which is required. Our total capital advances to the Ontario housing corporation and the Ontario student housing corporation have been increased more than 30 per cent to over $62 million for 1968-69. This level of spending by our agencies will bring in over $300 million of central mortgage and housing corporation capital financing. Thus, the total housing programme for next year will amount to almost $400 million.
Our plans call for a total investment of $215 million in family and senior citizen housing and over $100 million in student residences and community housing projects. Our new land assembly programme which is designed to increase the supply of serviced land and stabilize housing costs will take up a further $73 million. As well, we intend to press ahead with publicly sponsored urban renewal and to continue to provide sewerage services under The National Housing Act. Altogether, this comprehensive programme adds up to a massive and concerted attack on our housing problems.

SUMMARY OF EXPENDITURES FOR 1968-69

The preceding major increases in expenditures and capital aid plus inescapably higher interest payments on our public debt have made the preparation of this Budget unusually difficult. In order to do all that is urgently required in education, health, housing and local aid, and still contain our total spending and lending within reasonable limits, we have had to exercise rigorous restraint in other areas. This has meant sacrifices and hard choices among other programmes which in themselves are highly worthwhile.

We have restrained our ordinary expenditures in the lower priority fields. Generally speaking, we have budgeted for only minimal increases or no increases at all in most departments. In some areas, we were able to actually cut back from previous levels of spending. As I have mentioned, we have elected to stretch out our public works capital programme by deferring certain projects. Restraint in this area, however, does not mean that our overall capital investments will be lower. We have been able to maintain our highway construction programme at the 1967-68 level, and we are increasing our capital aid for universities, school boards, hospitals and housing. This adds up to high total investment which should stimulate our construction industry.

I should now like to summarize the overall magnitude of our spending and investment programme for next year. Excluding $39 million for sinking fund, our net general expeditures for 1968-69 are estimated at $2,780 million. This is $489 million higher than the expenditure programme for the current year. On top of this, our loans and advances excluding advances to Ontario Hydro-will amount to an estimated $537 million for 196869. This is $79 million higher than the capital aid programme for 1967-68. The table accompanying this statement (see appendix, page 692) shows that we have deliberately concentrated almost all of this additional spending and investment in those areas where we face inexorable growth and where needs are most urgent.

REVENUES AND TAX CHANGES

Let me now turn to the question of how we propose to finance the government's expenditure and investment programme. As I have already indicated, our total budgetary spending is expected to increase by $489 million next year to a total of $2,780 million. On the other hand, our existing tax rates and base can be expected to produce only $2,400 million of revenue. Such a situation would leave an estimated budgetary deficit of $380 million.

In addition to our budgetary expenditures and revenues, we engage, of course, in very substantial non-budgetary transactions. For 1968-69, we plan on non-budgetary outlays of $584 million, largely in the form of loans and advances to school boards, universities, hospitals and to our own corporate agencies and commissions, and an additional $61 million for debt retirements. Offsetting these will be non-budgetary receipts and credits of about $668 million generated through the Canada pension plan, other funds and miscellaneous sources. Thus, non-budgetary transactions will produce a surplus of $23 million which can be applied against the estimated budgetary deficit of $380 million. Our overall financial requirements for 1968-69, therefore, will be in the order of $357 million.

In determining how to finance the requirement of $357 million for 1968-69, we have taken into account a number of important considerations including:

The appropriate mix of taxes and borrowing to exert a moderate expansionary impact on the economy in 1968;

The existing level of public debt and the receptiveness of the capital market ta public issues in the coming year;

The projected budgetary imbalance which is apparently in store for Ontario for some years to come.

Responsible budgeting demands that we raise our revenues to keep pace with the rapid growth in expenditures. Otherwise, we would have to rely excessively on our credit, which would detract from our future borrowing potential and would increase the pressure on an already tight capital market. Obviously, therefore, some tax increase in necessary.

In deciding by how much taxes should be increased in 1968-69, we must remember that a number of tax increases have already occurred or have been proposed. The federal government has increased its liquor and tobacco taxes and has proposed a 3 per cent surtax on personal and corporation income taxes and a speed up in corporation tax collections. Then, too, there are the increases in hospital and medical insurance premiums which 1 have just announced and the changes in LCBO prices effected earlier this year. Altogether, these measures will take over $300 million out of the private sector of the Ontario economy in the coming year. We feel that it would be inappropriate, therefore, to raise our own taxes by much more than $100 million at this time.

We have carefully considered the form of tax increases which are appropriate for the coming year. I have also indicated the intolerable situation, created by inadequate federal-provincial tax-sharing arrangements, in which we find ourselves driven to the regressive tax fields. Given the urgent need for co-ordinated reforms in the crucial areas of personal and corporate income and sales taxation, it would be premature for us to contemplate substantial changes in the use of these fields this year. On the other hand, as the Smith report pointed out, there are elements of our tax system which need to be changed independently of any general tax changes. Here 1 am thinking of our various departmental fees and user charges which should be brought into line with the costs involved in providing these services. As well, there is the question of establishing a proper level of taxation on motor vehicles. At present, automobiles and other vehicles are taxed too lightly in relation to the total costs which they entail for the people of Ontario. Apart from building, maintaining and policing our roads and streets, there are the social costs of pollution and congestion. In addition to these factors, we must always try to ensure that any changes we introduce improve the equity and efficiency of our overall tax system.

With all these considerations in mind, I am proposing the following tax changes:

A 4 per cent increase in tax on cigarettes raising the provincial tax to 6 cents for 20 cigarettes, along with changes for other tobaccos. These changes should yield an addition $36 million in the coming year.

A 2 cent increase per gallon in the tax on gasoline and motor vehicle fuel and a 1 cent increase on aviation fuel. These changes should produce an extra $38 million of revenue in 1968-69.

An increase in the race tracks tax from 6 per cent to 7 per cent, which should yield an additional $2.5 million in the coming year.

All of the above changes will be effective at 12:01 a.m. tomorrow, March 13.

Increase of $5 to $10 in registration fees for cars, effective December l, 1968. This will bring the licence fees to $20, $27.50 and $35 respectively on four, six and eight cylinder cars. An increase in licence fees of $10 for trucks weighing up to three tons, effective March l, 1969. Registration fees for trailers, buses and other trucks to be raised along the same general lines, also effective March l, 1969. Increases in other Department of Transport fees to come into effect during the course of the year, as listed in an appendix to this Budget statement. Altogether these changes should increase our motor vehicle revenues by approximately $23 million in the 1968-69 fiscal year.

Increases in various fees and licences issued by The Departments of Lands and Forests, Financial and Commercial Affairs, and Tourism and Information, to bring these charges closer to the costs of providing the associated services. These changes in minor fees and user charges will come into effect this year and are expected to yield an additional $5 million.

Minor adjustments in several other tax statutes, to remove nuisance features, improve administration and reduce the costs of collection.

In total, this package of tax changes will increase our revenue by approximately $105 million in the 1968-69 fiscal year. The heavier weight of tax on motor vehicles and on tobacco along with the increased user charges and other minor changes will round out our tax base and bring our overall tax system into a better balance. At the same time, our new tax rates are generally in line with those prevailing in other provinces.

I wish to emphasize that the tax changes I have just announced in no way prejudice, or serve as a substitute for, the fundamental provincial-municipal tax reform to which Ontario stands committed. They are designed to meet an immediate need for increased revenues. However, in financing our own requirements and in providing further tax relief to the municipalities, we recognize the limits to the use of the regressive tax fields presently available to us. This is why we must look to major federal-provincial tax sharing adjustments along with our assessment of the recommendations of the Smith report to provide a composite source of sweeping tax reform, To be fully and equitably effective, such reform cannot be accomplished by any single jurisdiction; it demands the joint participation of a levels of government-federal, provincial and municipal.

I should like to review briefly our approach to the implementation of Smith recommendations and the staging of tax reforms in this province. We have invited views on the Smith report from all interested parties and we want the benefit of the advice and comments of our municipalities and local boards. After this first stage of public discussion on the report is concluded in May, the government will present a white paper outlining its general intentions on tax reform. This white paper will then be subject to further review and to full public discussion before our policies are put forward in the form of legislation. By that time, we should also have some idea of federal intentions with regard to tax reform, and we will be well into our re-negotiation of federal-provincial tax-sharing arrangements.

FINANCIAL POSITION FOR 1968-69

The tax increases which I have outlined will reduce our overall financial requirements in 1968-69 to $252 million. This balance must be met by some combination of increases in our public debt and internal financing.

We believe that this level of borrowing and use of liquid reserves is appropriate and desirable for a number of reasons. First, it will make a net contribution by the government to the total effective demand in the economy and thereby help maintain our economic expansion. Second, since a large part of our total expenditures is on capital facilities, it is reasonable and equitable to stretch out the financing of these investments to match the timing of resulting benefits. Third, the use of our liquid reserves as a substitute for new borrowing will reduce our reliance on the capital market next year. In view of the heavy demands on the capital market by other borrowers and the high interest rates now in effect, we believe this represents sound and prudent financing.

To sum up, our fiscal policy for next year is balanced between a modest tax increase and a judicious use of our liquid reserves and our credit. In this way, we are encouraging expansion while at the same time maintaining our high credit standing and keeping our finances in good order.

CONCLUSION

Mr. Speaker, this is a Budget which combines growth with moderation. It provides generously for the most urgent needs of this expanding and prosperous province. It invests huge sums in the human and physical resources upon which our future greatness depends. It seeks to reinforce the economy and to ease the pressure on the municipal taxpayer. Yet it faces up to realities. To control total spending, it applies rigorous restraint in all but the most urgent services. To reduce our demands on the capital market, it curtails investment in public buildings and other lower priority projects. To offset rapidly rising costs, it increases health insurance premiums. To preserve responsible financing, it raises taxes.

Our decisions and our policies alone, however, cannot solve all the problems confronting us today. We share the general concern about the pace at which government spending has been growing and apparently will continue to grow. We also are acutely conscious that costs and prices have been outrunning our productivity and that government deficits have contributed to the inflation which is undermining our ability to compete. What is needed to meet these problems is co-ordinated action by all governments. We must establish priorities for government spending as a whole. We must reform the entire spectrum of taxation. Above all, we must agree on a division of tax fields which will enable each government to finance its responsibilities and commitments effectively.

Finally, Mr. Speaker, let me summarize the major features of this 1968 Budget: Expenditures will rise by $489 million to a total of $2,780 million. Almost all of this increased spending will be concentrated on vital activities such as education, health, and aid to municipalities and municipal taxpayers;

Lending and capital advances will rise by 17 per cent to $537 million. Most of these capital funds will be invested in essential social capital such as schools, universities, housing and hospitals;

Spending on education will rise by $201 million to reach over $1.1 billion;

Financial aid to local governments will increase by more than $191 million, with corresponding relief to municipal taxpayers;

Our investment in housing programmes will increase to $62 million, which will mean a total public investment in housing of about $400 million for the coming year;

Spending on health programmes will rise by $29 million, and there will be continued emphasis on investments in health sciences education and research facilities;

Spending and investment in areas other than education, health, housing and local aid will be held down or out back in order to provide more funds for these four priority fields;

Taxes on cigarettes will be increased by 4 cents on a package of 20 and on gasoline and motor vehicle fuel by 2 cents per gallon, effective immediately. Licence fees for motor vehicles will be raised, and various departmental fees and user charges will be increased, to reflect the costs of providing the associated services. Altogether these tax changes will increase revenues by about $105 million;

Hospital and medical insurance premiums will be raised to levels that reflect the true costs of operating these plans. For coverage effective July 1, 1968, the new monthly rates for hospital insurance will be $5.50 for single persons and $11.00 for families. OMSIP's new premium schedule will be $5.90, $11.80 and $14.75 per month. Even with these increases in premiums, the province will be required to contribute $78 million to support the hospital plan and $37 million to subsidize OMSIP.

Mr. Speaker, the financial problems faced by this government in making a positive contribution to the Ontario of tomorrow are immense. We believe, however, that the investments which we are making in the economic and social development of this province will help to ensure progress and productivity for our people.