|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| ***Province*** | ***Législature*** | ***Session*** | ***Type de discours*** | ***Date du discours*** | ***Locuteur*** | ***Fonction du locuteur*** | ***Parti politique*** |
| Ontario | 28e | 2e | Discours du budget | 4 mars 1969 | Charles MacNaughton | Treasurer and Minister of Economics | Progressive Conservative Party of Ontario |

Mr. Speaker:

The Ontario of the 1970's stands before us in a splendid array of opportunity and challenge. Although man will probably be on the moon by the time we enter that decade, we must continue to seek a good life on the earth. There is surely no part of this planet that offers more and, for that very reason, demands more responsible preparation than Ontario. Governments must, at all times, pioneer a pathway for the people. To a large degree, the engineering plan for that pathway is the government's budget. A modern budget is not simply a bookkeeping statement or a testimony to financial management. It is a deliberate instrument of social and economic guidance; it is part of the very fabric of our society and economy. Consequently, the budget requires deliberate timing, careful selection of and balance among objectives and, above all, purposeful planning on a long-term basis. The placing of a man on the moon is a triumph of technology; the planning of a social and economic environment requires equal skill and firm judgment. Such is the underlying quality which we are seeking in our budgetary and fiscal policy as we prepare for the Ontario of the 1970's.

Nor is this an easy task as demonstrated by one particular issue. In recent years, we have been confronted in the development of public policy with a growing dilemma. I refer to the conflict between the need to provide the public services and facilities required by our society and the difficult problem of containing the tax burden in the face of increasingly restricted revenue-raising capacity. Consequently, I am daily aware of two constant refrains from my critics: those who claim that we spend too much and those who claim that we spend too little. Both cannot be served and I know that the citizens of this province will recognize the importance of maintaining a deliberate balance. The low growth capacity of our revenues obliges us to finance essential increases in expenditures with successive increases in tax rates and a continual widening of the tax base. In the long run, an accumulation of ad hoc changes of this kind, without reference to a coordinated fiscal framework, runs the risk of overloading the tax system and making it economically punitive and socially burdensome. Up to the present time, it has been possible to raise revenues at the provincial level without serious economic and social effects. But, at the municipal level, the pressure to provide essential services has already led to disturbing increases and distortions in property taxation.

In planning our fiscal structure for the 1970's, we have drawn on the considerable body of research undertaken in Ontario over the past six years. I refer, of course, to the impressive work done by The Ontario Committee on Taxation (Smith Committee) and The Select Committee of the Legislature on the Report of the Ontario Committee on Taxation (The Select Committee). The reports of these two committees provided a substantial basis for reform. During the summer and fall of 1968, the Smith and Select Committees' Reports were studied intensively by a task force in the Department of Treasury and Economics, which worked particularly closely with the staffs of the Departments of Revenue and Municipal Affairs.

This task force delineated the Smith and Select Committees' recommendations in terms of their implications for provincial-municipal finance and operations. The task force then provided a comprehensive range of policy options for review by the Government.

We are now prepared for decisive action in the best interests of the Ontario taxpayer. This budget has been specifically designed as a "Fiscal Framework for the Future"; it is a two-part plan to lay the foundations for a modernization of the public finance system in Ontario.

First, it provides a budgetary basis for 1969-70 with emphasis on the continuation of essential provincial services and municipal aid within the limits of our immediate financial manoeuvrability. The first and foremost stage in a program of fiscal reform must be the containment of expenditures. The only way to arrest growing tax burdens and to relieve the pressure on the Province's tax system and debt-raising capacity is to arrest the growth in total public spending. I can assure you that this objective has been pursued rigorously, although not, I trust, slavishly in this budget.

The second part of the budgetary plan involves a blueprint for a longer term program of basic reform in provincial-municipal taxation and finance. The guiding principles are contained in Budget Paper B, which is the white paper on our intentions in this area as promised to the people of this province.

Simply stated, the broad objective is to provide a more equitable and viable financial basis for the development of provincial and municipal operations in future years. Concrete measures will be taken to integrate provincial- municipal tax systems and to permit a more measured and systematic control of the level and distribution of tax burdens. A series of measures will also be advanced to strengthen and modernize the financial and functional structure of the municipal sector of the Ontario governmental scene. Because of the central importance of this fiscal program to the development of public policy in Ontario over the next few years, I propose to read Budget Paper B immediately following my Budget Statement on our expenditure and finance plans for the fiscal year 1969-70.

According to the technique of presentation introduced in 1967, this Budget Statement is supported by two other Budget Papers. Budget Paper A contains a review of the Ontario economy in 1968 and an evaluation of

Ontario's economic prospects for 1969 as a basis for determining the appropriate form of our fiscal policy. Budget Paper C presents the Government's financial statements. These statements contain some additional refinements to the developing format which we have introduced over the course of the past year. Summary of Financial Operations for 1968-69 I should first like to review the financial operations of our Government during the 1968-69 fiscal year. Although the results of this fiscal year are not yet complete, we are confident that our expenditure guidelines and restraint policies will result in our final expenditures falling somewhat below the total spending estimates presented in last year's budget. At this stage, however, we are obliged to present our 1968-69 financial picture on the basis of eight months' actual spending and revenue, along with forecasts for the remaining four months as presented by individual departments and agencies. In recognition of this limitation, the Department of Treasury and

Economics is preparing to introduce new and more sophisticated accounting practices throughout the Government to ensure an immediate flow of financial data to the Department. This should provide a continuing profile of the current financial situation and clearer guidance for cash management and investment decisions. Meanwhile, details on the estimates and our present performance for the current year are contained in Budget Paper C.

The performance of the economy surpassed my expectations at the time of the 1968 budget and our revenues clearly reflect this buoyancy. Although the federal government is expected to reduce payments under the income tax collection agreement by some $22 million as the result of an over-payment in 1967-68, our total net general revenues for the year are estimated at $2,520 million, compared with our forecast of $2,505 million in the last Budget Statement.

Net general expenditures, on the basis of our present information, are expected to reach about $2,787 million compared with the 1968-69 estimate of $2,780 million. As a result, our budgetary deficit in 1968-69 should amount to approximately $267 million. This substantial deficit, notwithstanding restraint and extensive review of all government programs, clearly illustrates the problems facing this Province in its attempt to meet existing priorities and to provide relief to local governments. In recent years, our non-budgetary transactions have been an important factor in helping us to finance budgetary deficits, largely because of the investment funds which we borrow, through debentures, from the proceeds of the Canada Pension Plan. In 1968-69, we estimate the surplus on nonbudgetary transactions at almost $182 million. Allowing for net redemptions of maturing debt at $64 million, we can anticipate a net cash deficit of approximately $149 million compared with our forecast deficit last year of $252 million. As you know, we have been very successful in establishing a first-rate credit standing in the European capital market. As a result, we have met our financing requirements, exclusive of debt retirement, at highly favourable rates and terms in West Germany, while employing our liquid reserves to redeem the major portion of our maturing debt.

The overall result of these financial operations will have the effect of raising our net capital debt by the end of the current fiscal year to $1,718 million. This level of debt remains well within the financial capacity of this province; in fact, it could be retired with only eight months' revenue and represents a per capita debt of only $231.

THE BASIC FRAMEWORK

In laying the groundwork for our fiscal framework for the future, I wish to discuss two factors which have been important in determining the form of our budgetary plan for 1969-70 and our long-term framework for fiscal reform: first, recent developments in federal-provincial financial relations that set the larger governmental framework within which we must work; and second, anticipated economic developments that dictate the speed and manner in which we can move towards our objectives because of the need to exert positive influence on economic activity generally.

Federal-Provincial Developments

You will recall that, in my last Budget Statement, I devoted considerable attention to the need for securing a rational solution to the problem of federal-provincial tax sharing. The chronic imbalance in the distribution of tax capacity between the two levels of government, relative to the division of expenditure responsibilities, is well documented. I warned then that this misallocation of tax capacity must lead to intergovernmental fiscal discord and a breakdown of the Canadian tax structure, characterized by tax competition, uncoordinated tax pyramiding and increasingly oppressive methods of taxation, particularly in the form of rising municipal property tax levels. Consequently, I stressed the need for a constructive and fair-minded review of federal-provincial expenditure requirements and financial capacities, within a total framework of national priorities and taxation control, along the lines promised in the original terms of reference of the Tax Structure Committee in 1964.

It is with considerable disappointment, therefore, that I must report that our efforts to obtain a sensible resolution of the tax-sharing problem have gone unrewarded. At the meetings of Ministers of Finance in November and December, 1968, and during the Constitutional Conference in February of this year, the federal government maintained its refusal to negotiate new tax-sharing arrangements. Indeed, its insistence that each level of government develop its own expenditure priorities and tax policies has been reinforced recently by a series of unilateral expenditure decisions and pre-emptory tax moves without regard for their broader intergovernmental and economic consequences.

Foremost among these moves was the Social Development Tax, imposed in the federal budget of October, 1968. This contravened the spirit of intergovernmental cooperation in two ways. First, direct application of the tax to the taxable income base effectively excluded the provinces from sharing the revenues under the terms of the existing tax collection agreement even though, by common understanding and convention, the personal income tax is a shared-tax field. Second, since the Social Development Tax was clearly designed to finance the federal government's own share of medicare, it displayed a determination to implement federal priorities with little concern for provincial priorities and financial capacities.

Indeed, since the Social Development Tax is the equivalent of an average increase of 9 per cent in personal income taxes, it becomes that much more difficult for the provinces to follow responsibly the federal invitation to raise their own income tax rates, either for the purpose of financing their share of medicare or for meeting the demand of high-priority expenditure requirements.

This absence of cooperation in taxation has been underlined by other developments. For example, the new federal proposals for the taxation of gifts have effects similar to the Social Development Tax in unilaterally securing increased tax revenues from the income-stream area. The federal proposals for changes in the Estate Tax Act were made without consultation concerning the effects on provincial succession duties or without regard for provincial views on the most effective treatment of this jointly occupied tax field. Moreover, the federal government's new taxes on insurance companies have effectively forestalled provincial moves in that area and have ignored the question of how corporate taxation should be developed by both levels of government in order to ensure the best possible economic effects. I might also add that, in respect of taxation reform generally, the provinces have not been apprised of other federal intentions despite the obvious need for intergovernmental consultation. Consequently, we welcome the federal government's decision to revert to the presentation of a white paper on tax reform, which is the practice we are following in Budget Paper B.

Finally, the federal government's otherwise laudatory concern for budgetary restraint has resulted in reduction of payments under various shared-cost programs without regard for the effects on provincial operations. Two examples are particularly important and illustrative. First, its drastic curtailment of funds for the construction of medical training facilities is at variance with the desire to enforce medicare. Second, its decision to delay payments due to the provinces for costs already incurred under the vocational and technical training programs is inconsistent with the spirit of shared-cost programs.

I mention these developments not out of any feeling of rancour, but simply because of their significance for the manner in which we must now attend to the problems of public finance in Ontario. At federal-provincial conferences over the past three years, we have consistently maintained that the federal, provincial and municipal governments are merely parts of the total government sector, and that the orderly development of this sector depends on an integrated approach to taxation reform. Central to coordinated tax reform is the establishment of a viable basis of intergovernmental tax-sharing and agreement on a common set of expenditure priorities in order that total governmental resources may be rationed and applied with maximum economic and social benefit.

The fact that we have not been successful in establishing a basic federal-provincial framework within which we can rationalize provincial municipal financial and operational structures does not diminish the necessity and urgency for reform within our own jurisdiction. However, the short-run budgetary plan and long-run fiscal reform program, which I am outlining for you today, has been affected by two specific factors at the federal-provincial level. First, our inability to obtain a larger share of jointly occupied growth tax fields inevitably affects the speed and means by which we can move at the provincial-municipal level. For example, given the limited range of other tax fields available to us, it directly affects our ability to provide for long-term expenditure growth at the provincial level and to increase our aid to the municipalities. Secondly, although there has not been sufficient progress in federal-provincial relations, we are still responsible for arranging the pattern of provincial-municipal tax reforms in a way that is compatible with interprovincial tax harmony and that allows scope for eventual reform at the federal-provincial level.

For these reasons, we are deliberately putting forward our proposals for tax reform in a manner designed to provide the federal government with an opportunity for coordination and joint implementation. Our own objective is simply to serve the best interests of the Canadian and the Ontario taxpayer. Our earnest hope is for the cooperation of the federal government in a joint and major reconstruction of taxation along the lines which I shall propose. The recent decision to revive the Tax Structure Committee, with an urgent mandate for tax reform, is a source of satisfaction to us, particularly in view of the strong support by the Prime Minister of Canada for review of the spending and taxing powers. Our own tax reform program will be placed in that forum in a spirit of producing reform on an intergovernmental basis to meet the needs of taxpayers first and governments second.

The structure of our fiscal policies must be related to the economic environment. The Ontario economy, at the present time, is prosperous and expanding. Incomes are at record levels, unemployment is relatively low and we have only a modest amount of surplus productive capacity in our industrial system.

Last year, the Ontario economy grew by 8.7 per cent and reached a total output of $27.1 billion. However, price increases accounted for about 3.5 per cent out of the total 8.7 per cent expansion, and this inflationary pressure persisted into 1969. The major sources of growth last year were a notable acceleration in the demand for consumer goods and an extraordinary 50 per cent expansion in our exports of automobiles and parts to the United States. The housing sector picked up rapidly, and investments in new dwellings went ahead by nearly 18 per cent. Most sectors of demand in the economy expanded. The exception was investment by manufacturing and primary industries, which declined for the second year in a row. However, total private and public investment in Ontario still rose by 7 per cent. I am confident that the excess capacity in the industrial sector has been reduced sufficiently in recent months to prepare the way for a new round of investment by manufacturing industries.

Productivity began to rise again during 1968 after showing little change in 1967. Real output per person was up by 2.1 per cent, and this increase no doubt helped to offset some of the strong inflationary currents in the economy. Although the number of jobs rose by 85,000, the labour force rose by 100,000 with a resulting small increase in unemployment. This increase in the labour force amounted to a 3.5 per cent growth rate — one of the largest to be found anywhere among industrial nations. Although such a condition places a constant pressure on our investment resources, both public and private, it is encouraging to see that our provincial economy has been able to meet the larger part of this extraordinary growth in job requirements and that unemployment, although still higher than we would like, has remained relatively low.

This year I am forecasting a further expansion in the provincial economy. Gross Provincial Product should rise by 7.8 per cent to reach a record level of $29.2 billion. The volume of goods and services produced should increase by about 4.5 per cent, and we can expect that inflationary pressures will ease, if only slightly, dropping from last year's 3.5 per cent to 3.3 per cent. Per capita personal income is expected to rise from $2,800 to just under $3,000, a growth of 6.6 per cent, and there will be a small decrease in the level of unemployment as job opportunities increase by 105,000.

In the investment sector, there is every possibility that manufacturing investment will pick up again and show a considerable improvement over last year. In housing, we can look forward to gains in outlays of about 10 per cent. The public sector will probably not be as buoyant this year in its investment requirements, mainly because of the constraints imposed by governments to bring their revenues and expenditures into line. In total, however, these events will make for a more balanced growth in investment, with more emphasis on the private and less emphasis on the public sector.

The outlook for productivity is reasonably encouraging although we cannot expect to repeat last year's gain of 2.1 per cent. Output per employed person will rise by about 0.8 per cent and, if the line can be held on prices, this should help to improve our competitive position in foreign markets.

Despite this healthy condition, there are some serious financial and monetary problems in the economy, which render it particularly sensitive to expansionary spending and tax policies by any of the three levels of government. Two of the most critical problems facing us today are the pressure of serious distortions and shortages in the country's capital markets, and the persistent and eroding force of inflation.

These facts are closely interrelated. As in the past, there are serious obstacles to provincial and municipal governments wishing to float new bond issues in the Canadian capital market. International and domestic monetary conditions have pushed up interest rates. These have fluctuated to such an extent, in response to various crises, that an atmosphere of great uncertainty has prevailed concerning bond prices and yields. To this uncertainty has been added the decline of investor confidence in long-term, fixed-income investments in an inflationary climate.

In Ontario, we have been successful in finding new capital markets abroad and we intend to continue this policy as the need arises, both for our own purposes and for the Ontario Hydro-Electric Power Commission.

By doing so, we will continue to relieve the pressure on domestic capital supplies and make room for other governments and private corporations. I should mention, in particular, that the development of power — so vital to the economy of Ontario — will involve massive capital financing by Ontario Hydro throughout the next decade.

There is little evidence that higher interest rates have significantly raised the level of net personal savings. In fact, at the same time as our capital markets have been drying up, institutional innovations have allowed consumers to acquire record levels of credit for personal consumption. This factor must be acknowledged as one of the many adverse pressures on interest rates and on the supply of capital available for investment purposes.

This inflationary propensity has, of course, been reinforced by the continuing rise in wage and salary rates in both the private and public sectors of the economy.

The origins of inflation at the present time are complex and diffuse. There is no indication of any real shortage of productive facilities, despite shortages of certain social services and housing which tend to force up market prices. Recent price gains appear to have contained many elements of cost pressure, such as higher interest rates, wages and salaries, profit levels, import prices, and changes in the levels of various indirect taxes. However, when inflation persists for long periods of time, there is a real risk that it will become psychologically institutionalized, and based on an erosion of monetary and financial confidence rather than on economic fact.

The Fiscal Policy Framework

Expenditure and taxation policies in this budget have been designed in the face of two factors. The first is the deadlock in federal-provincial financial relations and the consequent constraints on our short-run and long-run revenue-raising capacities. The second is the financial and monetary distortions in the economic environment. I have directed my efforts towards achieving a balanced budget or a small surplus, implying the sacrifice of some essential services in the shortrun.

In considering the economic impact of provincial taxation and spending policies, I have been aware that our gross cash outflows amount to about 12 per cent of the total level of economic activity in the province.

This compels us to measure carefully the impact of our policies on the economy. If we, and other governments, chose to be over-expansionary in our fiscal policies at this time, then the provincial economy would be quickly pushed up against the limits of its productive capacity, and the problems of capital shortage, high interest rates, and inflation would be worsened and most of the expansionary impact lost.

I would strongly urge our municipal partners to follow our example in the exercise of voluntary restraint in spending programs, particularly in the field of education. To the extent that this does not happen, the Ontario Government may be obliged to consider the introduction of machinery such as a budget review board to ensure that the taxpayer is not overly burdened and to guarantee that any further financial aid from the Province to the municipalities finds its way into the hands of the taxpayer.

EXPENDITURES

Let me now turn to our budgetary proposals for 1969-70. On the expenditure side, our policy has been one of severe and deliberate restraint, aimed at cutting back the growth in expenditures in line with anticipated revenue growth. As I have already suggested, this policy is intended to achieve two main objectives. First, it will ensure that our government operations do not contribute to general inflationary pressure and to pressure on the capital market. Second, it will help to bring our provincial finances into a better balance in preparation for the major fiscal reform program which we are about to undertake.

Program of Expenditure Constraint

To achieve our prime objective of containing expenditure growth, we have undertaken the most extensive and intensive examination of expenditure programs in the history of this province. As a first stage, all departments and agencies were instructed to prepare detailed expenditure forecasts for the 5-year period 1968-69 to 1972-73.

These forecasts covered expenditure increases for existing programs, qualitative improvements to existing programs, and new programs, given assumptions for such variables as population change and price increases. The expenditure projections were matched to a comprehensive series of revenue forecasts, on the basis of existing tax rates and various rates of economic growth. Together, these projections provided a profile of the Government's fiscal position over the next five years. I should add that these projections did not include the cost of financing the massive financial transfers to the municipalities which were advocated by the Smith and the Select Committees.

As a very conservative estimate, over $400 million would be required to implement the Committees' recommendations over and above the cost of the reforms already implemented, principally, the Basic Shelter Tax Exemption and the takeover of the administration of justice.

The general result of this 5-year fiscal forecast confirmed and underlined the problem revealed in the 1966 intergovernmental Tax Structure Committee projections, the Smith Committee's projections, as well as those presented in Budget Paper B accompanying last year's Budget Statement.

Total expenditures for existing programs and a limited range of necessary improvements were projected to increase by 74 per cent by 1972-73, while revenues would rise by 40 per cent over the same period. This would increase our budgetary deficits by more than 500 per cent over 1968-69 levels to roughly $1,225 million a year.

Such deficits could only be offset by monumental debt and tax increases. On the debt side, if we accepted the Smith Committee's suggestion that total net debt should be contained within 9 per cent of provincial domestic product, we would be borrowing at a rate of about $325 million a year by 1972-73. Even after increasing our borrowings to the maximum extent, we would still be faced by a residual deficit of nearly $900 million. (Again this figure does not include the cost of any further aid to municipalities.)

To clear this gap would require tax increases equivalent to 24 additional points on the personal income tax or 7 additional points of the retail sales tax. Clearly, tax increases of such dimensions would be intolerable. There is simply no alternative to a severe curtailment of expenditure growth.

As a second stage, early last summer, explicit instructions were issued to all departments and agencies to review critically the objectives, priorities, performance and operational efficiency of all existing programs, as well as new expenditure proposals. These instructions were in two parts. First, all departments were requested to achieve an efficiency improvement in general administrative costs of at least 2 per cent in 1969-70. Second, a set of differential spending limits was devised to be used as guidelines in determining the allowable growth in expenditure for each department or agency. These targets were based on a system of priority rankings for the whole range of government programs. The object of these efficiency targets and priority rankings was to restrain net general expenditures to $3 billion or below.

The severity of this target and the difficulty of achieving it deserves some comment in terms of the structure of government expenditures and the forces determining expenditure growth. As shown in last year's Budget Paper B, there are strong limitations on our expenditure flexibility in the short run. The most controllable components of government spending, administrative and operational costs, constitute only 20 per cent of our total expenditure. The remaining 80 per cent represents statutory obligations and commitments to municipalities, school boards and institutions, as well as transfers to individuals. Significant expenditure reductions, therefore, must inevitably involve restrictions in this broader area and some sacrifice of our vital social objectives.

Given these constraints to flexibility, our austerity program has been remarkably successful. This success must largely be attributed to the skill of Treasury Board and to the cooperative effort of all departments and agencies, many of whom suffered painful restrictions on their programs.

In the four departments of Public Works, Health, Energy and Resources Management, and Provincial Secretary and Citizenship, the approved spending for 1969-70 has been cut below last year's level. In several others, including Highways, Attorney General, Lands and Forests, and Financial and Commercial Affairs, the increase allowed for 1969-70 will barely enable them to meet normal increases in prices and costs. Almost without exception, new programs and program improvements have been deferred, capital expenditures have been restrained, and large administrative reductions have been made. As a result, the expenditure package which I am presenting to you calls for total spending of $2,996 million in 1969-70.

This net general expenditure of $2,996 million for 1969-70 represents an increase of only $209 million or 7.5 per cent over estimated spending for the current year. Let me illustrate how this compares with our expenditure growth in previous years. In 1966-67, our net general expenditure rose by $325 million or 22 per cent over the previous year, in 1967-68 it increased by $473 million or 27 per cent, and in 1968-69 we estimate that spending will rise by $533 million or 24 per cent.

I would like to point out that our achievement in holding expenditures to a 7.5 per cent increase for 1969-70 is considerably better than the federal government's record of 9.5 per cent. Moreover, we have managed to achieve this more rigorous restraint even though our expenditure commitments are inherently faster growing than federal responsibilities and despite the fact that Ontario bears more of the total costs in such shared fields as post-secondary education and Canada Assistance Plan programs than does the federal government. In terms of the expected growth in the economy, therefore, the federal government sector will continue to expand relatively while ours will contract.

In brief, the containment of our expenditures within the $3 billion target will have several salutory and desirable effects. First, by holding the growth in our expenditures below the anticipated growth rate in the Ontario economy, the balance between the private and provincial sectors of the economy will be stabilized for the first time in several years. Second, it represents a positive contribution by Ontario to the combating of present inflationary pressure in the economy and to relief of pressure on the capital market. Finally, it will relieve the burden on our tax system and bring our finances into better balance in preparation for the long-run reform program ahead.

Maintained Emphasis on Priorities

While our primary objective for 1969-70 is to contain expenditure growth, we are also determined to allocate our limited spending in the most desirable way possible. This is not an easy task. In the first place, we have already subjected our lower priority programs to restraint over the past several years. Insofar as they have been stabilized at minimal operating levels, the scope for further savings in these areas, without jeopardizing the programs themselves, is very limited. Secondly, our priority programs — education, health and social services, housing and municipal aid — are the fastest-growing and largest segment of the total budget. In pursuing overall budgetary restraint, therefore, it is impossible to avoid cutting into the expansion and development of these priority areas.

First of all, let me place our spending allocations for the next year in some perspective. Over the past four years Ontario has given its high priority areas — education, health and social services, municipal aid and housing — a strong build-up. Between 1965-66 and 1968-69, our net general expenditures increased at the rate of 24 per cent per year, while annual outlays on education, health and aid to municipalities grew by 30 per cent, 25 per cent and 34 per cent respectively. The proportion of total expenditure going into these priority areas rose from 63 per cent to 71 per cent, while the proportion of spending in lower priority areas declined from 37 per cent to 29 per cent of the total budget. On the loan and investment side, this emphasis on priorities has been even more pronounced. Over the same four years our investment in housing, education and health facilities rose from 53 per cent to 83 per cent of total loans and investments. This deliberate and dramatic shift in the structure of our expenditures and investments over recent years is clearly shown in the accompanying table.

Development of Ontario's Spending and Investment Priorities

The emphasis on priorities has been continued in this budget. Of the $209 million increase in net general expenditures for 1969-70, some $162 million is allocated to education, health and social services and municipal aid. At the same time, we have allowed lower priority programs an increase of only $47 million for next year. Thus, the growth rate in our priority areas is 8.2 per cent, as compared to 5.8 per cent in other areas and 7.5 per cent for net general expenditure as a whole. On the investment side as well, we have been reasonably successful in gearing our program towards the priority areas. Of the $37 million increase in loans and advances for next year, $27 million will go into the priority areas, particularly housing. The accompanying profile of 1969-70 spending and investment illustrates this accomplishment.

We recognize that these are very modest increases for our high-priority areas in comparison with past increases and the urgent needs of this growing province and population. But in many areas we had to make cuts or provide no increases at all. For example, grants for the construction of hospitals were reduced by $13 million, our public works construction program was cut by $4 million, funds for acquisition and development of park lands were cut $2.6 million, grants for construction of community centres were reduced by $250,000 and spending on tourism and information was cut by $155,000. In many other programs spending was virtually frozen at last year's level, including: Ontario Provincial Police, Ontario Water Resources Commission, vocational school construction, and capital grants to farmers. As well, we found it necessary to defer almost all improvements and extensions in existing programs, including some in our high-priority areas. Let me list some program improvements which we have been forced to postpone:

• increase from 70 per cent to 80 per cent in maintenance subsidy for Homes for the Aged;

• increased capital aid to universities and post-secondary institutions;

• expansion of educational television;

• increased research grants to hospitals;

• new Health Resources Fund projects;

• extension of youth, recreation and leadership training programs;

• additional capital grants for psychiatric hospitals and institutions for

emotionally disturbed children;

• intensification of timber management program.

Altogether our rationing measures eliminated approximately $400 million from expenditure estimates to come down to our final expenditure total of $2,996 million. We believe that the final expenditure package that has emerged represents a wise and responsible allocation of our limited public funds.

Summary of Expenditures for 1969-70

To conclude my remarks on expenditure policy, let me summarize the major components of our program for 1969-70. Education. Our program for next year allocates an additional $149 million to education, or 71 per cent of the total increase in our 1969-70 budgetary expenditure. This includes increases of:

• $53 million in assistance to school boards;

• $53 million in support to universities, which includes an increase in the basic income unit from $1,450 to $1,530;

• $11 million for our Colleges of Applied Arts and Technology, and Ryerson Polytechnical Institute;

• $5 million in student awards.

In addition we are budgeting for $175 million in loans to school boards and $170 million in loans to universities, the Colleges of Applied Arts and Technology, and Ryerson Polytechnical Institute.

Health and Social Services.

Spending on health programs will register a decline in 1969-70, as a result of two special factors. First, we have reduced our construction grants for hospitals and, second, we are budgeting a substantially lower amount in 1969-70 for our contribution to the Ontario Hospital Care Insurance Plan. I would point out that this reduced contribution to the hospital insurance plan is possible as a result of a greater measure of support in the current fiscal year under the stabilization process which we established in last year's budget. On the other hand, spending under the Department of Social and Family Services will increase by 12 per cent to a total of $134 million to sustain our present income maintenance, rehabilitation and child care programs.

Housing.

A total of $56 million has been allocated for capital advances to the Ontario Housing Corporation and the Ontario Student Housing Corporation for 1969-70, or triple the volume of housing loans expected to materialize this year. The $19 million advanced to the housing corporations in 1968-69 is well below the amount we provided in last year's budget. As you will appreciate, however, our accomplishments here are not always directly obvious from the dollars and cents in the budget. Because of time lags, and the pattern of financial flows into and out of the housing corporations, the financial resources actually put to work in housing in any year may be significantly higher than indicated by treasury advances. Moreover, the funds Ontario provides draw in a vast amount of CMHC financing to produce a very large overall housing program in this province.

During recent months, we have been active in securing a greater flow of funds for mortgage purposes from financial institutions. I would like to announce that we are now studying the appropriate means and procedures for establishing a capital fund to help fortify the supply of mortgage money for home ownership. Such a fund could assume a form similar to our present crown corporations which administer various non-budgetary loans and advances in other sectors of the economy. We expect to describe the details of any such proposal at a later stage in this Session of the Legislature.

Municipal Aid.

Total general expenditures for support of municipalities will increase by some $25 million or 7 per cent over the 1968-69 level. This relatively modest increase is largely a reflection of the extraordinary increases involved last year in implementing two of the recommendations of the Smith Committee. The Basic Shelter Tax Exemption payments involved some $111 million in additional expenditure in 1968-69 while the takeover of the administration of justice required $33 million.

Summary.

Let me recapitulate the overall magnitude of our spending and investment program for next year. Net general expenditures are estimated at $2,996 million, which is below our $3 billion target and only 7.5 per cent above the program for the current year. Loans and advances will amount to $520 million or $37 million higher than our capital aid program for this year. To allow for even these modest increases in our priority spending areas, severe pruning has been necessary in all other areas. I have already indicated that some programs have suffered absolute cuts, some have been held to no increase and many have been allowed only minimal expansion.

This stringency in net general expenditure has been matched by equal restrain on the loans and advances account. Having pressed our austerity measures to the maximum tolerable limit, we expect other governments and public agencies in this province to exercise similar restraint and husbandry.

FINANCIAL POLICY FOR 1969-70

I shall now turn to our proposals for financing the Government's operations and commitments in 1969-70, and for laying the foundations for our long-run program of taxation reform at the provincial-municipal levels.

Financial Situation

Let me repeat that our restraint policies are becoming increasingly effective. We expect our final 1968-69 results to show considerable improvement over the interim forecast; as a result, we should enter the 1969-70 fiscal year with buoyant liquid reserves.

Total net general expenditures for 1969-70 are estimated at $2,996 million, while our existing revenue sources are expected to yield $2,817 million, if we include some $30 million in delayed receipts due to us from the federal government in respect of post-secondary education adjustment payments for 1967-68. This would result in a budgetary deficit of $179 million. Our non-budgetary sources of finance, including borrowings from the Canada Pension Plan, are expected to yield about $692 million. Total non-budgetary disbursements are estimated at $617 million, leaving a nonbudgetary surplus of only $75 million, significantly less than in the three previous years. When allowance is made for net requirements for debt retirement of almost $65 million, the overall cash requirement to be financed would approximate $169 million in 1969-70.

In deciding how to finance our $179 million budgetary deficit and to raise net cash requirements of $169 million for 1969-70, we have been influenced by four major considerations:

• the state of economic conditions, persistent inflationary tendencies, and the need to avoid government-induced overheating of the economy;

• conditions in the capital market, including anticipated heavy demands, especially from Ontario Hydro and the federal government;

• the state of our liquid reserves;

• our long-term reform plans and the need to start reform on a strong and consolidated basis.

These considerations, taken together, persuaded us to aim for a balanced budget or a small budgetary surplus to avoid the need for borrowing in the public capital market. Debt financing, of course, is appropriate under certain conditions and for certain purposes: for example, it is a means of stimulating the economy during periods of recession, or financing heavy demands for social capital formation to avoid increasing unduly the burden on present taxpayers. Our decision to stay out of the public capital market in 1969-70 is based on two considerations. The first is the need to avoid inflationary demands on the capital markets. The second and most important consideration, however, is that borrowing is not an effective substitute for the steps we must take to strengthen our fundamental fiscal position. We feel strongly that we must immediately strengthen our tax base in order to proceed with our long-term program of increasing the equity and productivity of our tax structure. The objective of a balanced budget or a small budgetary surplus can only be reached by severe spending restraint as already described, combined with increased taxation. I am obliged, therefore, to introduce tax changes this year.

Tax Changes

In determining what tax increases might best be contemplated, we had to allow for a number of important factors.

1. In its October budget, the federal government introduced some significant tax increases which will affect the people of this province during our budget year.

2. Various federal and provincial tax commissions have suggested extensive reforms in the overall tax structure of the country, including intergovernmental finance. As I will explain shortly, we are now ready to propose an extensive program of long-run reform, which we have taken into account in designing our short-term measures.

3. In evaluating alternative tax changes, our objective was to select measures that were economically justifiable as well as equitable. When considering tax changes it is convenient to think in terms of four different groups of taxes: personal income, corporations, commodities, and other taxation.

Personal Income Tax

The personal income tax has a number of features which make it the most attractive tax to increase. As I shall indicate in my program for longterm reform, we hope to make this tax field the core of our whole reform program. In order to do so, it will be necessary to give greater relative weight to this particular tax field in the overall tax structure. Other important characteristics of this tax are its progressive nature and its superior growth potential. Inevitably, this tax will be the key to our ability to develop a more equitable and efficient tax structure.

The federal Minister of Finance pointed out in his October, 1968 budget that there are two provinces which have introduced a higher rate of personal income taxation by adding 5 more points to their 28 point abatement under the tax collection agreement. By implication, he suggests that provinces like Ontario should follow suit to solve their financial problems. Ontario has long argued that such increased provincial taxes are very much in order, not so much through an increased tax burden but rather by uniformly higher abatements. In addition, it is important to note that Saskatchewan and Manitoba introduced their higher rates in connection with the cost of hospital insurance, which in Ontario is financed through premiums — an effective drain on personal incomes.

I have rejected the idea of raising the personal income tax this year for two very important reasons. In the first place, I am very conscious of the substantial move made in this tax field by the federal government in its October budget. As I indicated, the 2 per cent Social Development Tax in Ontario alone will involve an equivalent in income tax terms of $225 million. The federal government has also imposed a temporary surtax of 3 per cent for the 1968 and 1969 taxation years, terminating at the end of 1969.

In the second place, I firmly believe that it is premature to contemplate rate changes in personal and corporation income tax when significant reforms are in prospect. I emphasized this point in last year's Budget Statement because of my conviction of the need for coordinated reforms between the two levels of government. I would like to add that, in Ontario's long-term reform plans, we intend to combine major moves in the personal income tax in harmony with changes elsewhere in the tax structure. This is of the utmost importance if one of our objectives is to control the balance in our tax structure and the relative burden of individual and total taxes.

Corporation Taxes

As I have already implied, I am equally reluctant to consider raising the rates on taxable corporate incomes. In this area, additional considerations such as interprovincial tax levels enter the picture, although some very limited scope might exist if one considers the many natural advantages and the progressive development program of the Province of Ontario. Furthermore, in this tax field, the federal government has also imposed a temporary 3 per cent surtax for the 1968 and 1969 taxation years. However, we do feel that we are fully justified in asking for a greater contribution from the corporate sector in three ways.

1. Income Tax Acceleration. The federal government has enacted a number of amendments to its legislation with the effect of speeding up payments of income tax by corporations. It is our opinion that Ontario's corporate income tax system should conform as closely as possible to that of the federal government, both for the sake of intergovernmental uniformity and corporate convenience.

We propose to introduce the necessary amendment to our Corporations Tax Act to bring us more closely into line with the federal legislation. However, we do not intend to go quite as far as the federal government. We will change our present system of four quarterly payments to six bi-monthly instalments. This acceleration of instalment payments will apply to all corporations whose fiscal years commence after March 15, 1969. The result of this change will be a shift in liquidity between corporations and the Ontario Government, boosting our revenues in 1969-70 by about $42 million.

2. Capital and Place of Business Taxes. I propose to make a number of changes in the capital and place of business taxes. The rate of the capital tax will be raised from 1/20th to 1/1 0th of 1 per cent, with a minimum of $50 per year. These changes will apply to all corporations whose fiscal years end after March 15, 1969. For the transitional period, special provisions will apply.

The new rate will still be relatively modest. I therefore propose that the tax be made payable over and above any obligations which may be incurred for corporation income tax. I would remind you that both the Smith and Select Committees agreed on the removal of the existing waiver provision. In addition, the burden of the above increases in the capital tax will be mitigated because the capital tax can be deducted from taxable income.

In view of these changes, I feel that this is an excellent time to abolish the place of business taxes. The abolition will be effective at the same time as the capital tax changes.

The net effect of these changes will be an increase of about $17 million in our revenues for the coming fiscal year.

3. Sales Tax. The third contribution we will be asking from the corporate sector falls in the area of sales taxation. I will provide the details of the changes in this field under that general heading.

Sales Taxation

Another area in which we are introducing changes is the field of sales taxation. At the present time, we have a retail sales tax of 5 per cent on commodities, with rather generous exemptions compared to other jurisdictions.

We have a 10 per cent hospitals tax relating to amusements, and to entertainment with a tax ceiling of $1. In addition and in lieu of the retail sales tax, we have such special taxes as those on tobacco, gasoline and motor vehicle fuel.

Following the recommendations of the Smith and the Select Comittees to make greater use of the retail sales tax field, we have undertaken much research in these areas. We seriously considered, but ultimately rejected, the idea of removing the exemption for food purchases which would have significantly broadened our tax base. As the Select Committee suggested, this would require offsetting credits in order to remove the regressive aspects of such a change; such a credit mechanism would require a fully operational provincial personal income tax system.

We also gave consideration to the Smith proposal to increase the rate of the retail sales tax. As you know, the Province of Quebec already has a rate of 8 per cent, with many fewer exemptions than Ontario, while two other provinces have a rate of 6 per cent. However, we have decided to refrain from this option until such time as we have fully exploited other avenues in this tax area to which I will refer shortly. We also feel that a major move in the general tax rate in this field should be related directly to possible future offsetting benefits in other tax fields through our long-term reform program.

1. Differential Tax Rates. The approach to retail sales taxation that we have adopted has three parts. The first of these is possibly the most important. We will submit the necessary legislative changes to integrate the present hospitals tax and retail sales tax through the introduction of a system of differential rates under The Retail Sales Tax Act.

We already have differential rates at the present time, consisting of a zero rate for exempted transactions, a 5 per cent rate on all other transactions under The Retail Sales Tax Act, and a 10 per cent rate under The Hospitals Tax Act. It is now our intention to recognize these distinctions more formally, and to expand the range of transactions to which the 10 per cent rate will apply.

Allow me to illustrate for you how we propose to do this in practice:

a. effective April 1, 1969, The Hospitals Tax Act will be repealed and fully integrated with The Retail Sales Tax Act;

b. all transactions under The Hospitals Tax Act will become subject

to the differential rate of 10 per cent under The Retail Sales Tax Act;

c. The Retail Sales Tax Act will be amended to make the integration of the two taxes feasible and to introduce differential rates, thus simplifying the work for the vendors;

d. in addition to the transactions which fall presently under The Hospitals Tax Act, the differential rate of 10 per cent will apply to: — all consumption of liquor, wine and bottled beer, irrespective of entertainment; — all retail sales of liquor, wine and bottled beer; and — all meals, including take-out meals, over $2.50, again regardless of entertainment;

e. under the amended Retail Sales Tax Act, there will be no $1 limit on tax liability as is the case under the present Hospitals Tax Act;

f. in recognition of the rise in prices for meals over the past few years, we will simultaneously amend The Retail Sales Tax Act to remove the present 5 per cent tax on meals over $1.50. In effect, therefore, we will have two rates on meals, a zero rate up to $2.50 and a 10 per cent rate for meals over $2.50. These changes in the hospitals and retail sales tax are anticipated to yield an additional $42 million in 1969-70.

2. Exemptions. The second aspect of retail sales taxation concerns the existing schedule of exemptions. Again, we have studied this area thoroughly. We have reviewed the practices in other jurisdictions and examined the fairness of various options in terms of the overall equitable tax structure which we hope to develop. As a result I now propose to remove the existing exemptions for machinery and equipment used in the production of goods and the provision of taxable services. The existing exemption on machinery for use in farm production will be continued.

I am quite aware that the taxation of production machinery is a major move by this Government, but I hope to explain why, after much consideration, we have decided to do so. We feel that the withdrawal of this exemption will remove a substantial grey area of doubt and administrative inconvenience both for the Government and the private sector.

We also consider this extension of the tax base a fair and equitable one. As you will realize, this additional tax on corporations will become an allowable expense under corporation income tax, which is automatically shared by the federal and provincial governments to the extent of some 40 per cent by the federal government and 12 per cent by the Ontario Government. The effective date for the removal of the above exemption will be April 1, 1969. The tax will apply to all deliveries on or after that date. The expected yield in the next fiscal year is estimated at about $38 million.

3. Services. The third aspect of retail sales taxation, with which we were concerned this year, was the suggestion to extend the base to include services. As you know, the Smith and Select Committees made a number of suggestions on this point. The major source of revenue under this potential area would be in the installing, repairing, cleaning, painting, decorating, and remodelling of tangible personal property. We have decided not to extend the base of the tax in this direction at this time. We feel that any such move must be accompanied by other moves incorporated in our long-term tax reform plans, because of the singular impact on homeowners.

However, we do propose to move into the area of services on a more modest scale by extending the 5 per cent sales tax to hotel and motel accommodation, effective April 1, 1969. In the taxation of transient accommodation, we expect to follow the approach of other jurisdictions. The expected yield in the 1969-70 fiscal year is estimated at $13 million.

4. Other. Lastly, I propose to make a number of small changes to the regulations under The Retail Sales Tax Act. A new regulation will clarify that exhibitors of motion picture films and video tapes are to pay sales tax on rentals, effective April 1, 1969. There will be no limitations with respect to the period of rental. In addition, the taxation on rentals of tangible personal property will be on the basis of the full rentals. The increase in revenue in 1969-70 on account of these changes is estimated at about $2 million.

Tobacco Tax

I would like to mention at this point that I propose to bring our tobacco tax rates on cigarettes directly into line with those already existing in Quebec and Manitoba. This would mean an increase in taxation of 2 cents per package of 20 cigarettes. At this time, we do not contemplate any changes in the tax on cigars and tobacco. The expected additional yield in 1969-70 will be about $16.5 million. The effective date for this change in rates will be at 12:01 tomorrow morning, March 5, 1969.

Gasoline Tax

No major changes are contemplated in the gasoline tax. Our tax rates in this field compare favourably with all provinces east of this province and are only slightly above those in the western provinces. The only change that I propose to make in this tax is the removal of refunds presently allowed for boats and snowmobiles.

This change will mean that the owners of boats, which are in part responsible for polluting our lakes, will contribute to our fight against pollution. The additional cost to the owners will be relatively minimal, and it will involve some administrative savings and additional revenue of almost $1.5 million. The abolition of the rebates will be made effective with respect to gasoline on which the tax has been paid on or after April 1, 1969.

Mining Tax

The mining tax field is the only other area in which we propose to make changes. An announcement has already been made that the processing operations of mines, previously not assessed for local taxes, will become subject to assessment and property taxation for the benefit of mining municipalities in 1970. The mining properties used mainly for obtaining minerals from the ground will remain exempt. The Province will continue to provide mining revenue payments out of the Consolidated

Revenue Fund.

My more immediate proposal is to change the present structure of rates under The Mining Tax Act. We feel that the present mining tax provides the Province with an inadequate return for the consumption of irreplaceable resources. I propose to replace the present rates, which vary up to 12 per cent, with a flat rate of 15 per cent and a total exemption if profits are less than $50,000. Every mining company obtaining a profit in excess of $50,000 will pay on the total profit, including the first $50,000.

I would also point out that the burden of this tax is considerably eased since the tax can be treated as an expense in computing taxable income for the corporation income tax.

We are also considering new approaches under The Mining Tax Act to encourage our mining companies to process minerals in Canada rather than in other countries. As a first step, we are introducing incentives in the form of allowances for pre-production expenses which may be written off against mining profits before taxation.

These changes will apply to all companies whose fiscal year ends after April 1, 1969. The anticipated increase in revenues is estimated at about $8 million in 1969-70.

Summary of Financial Policy for 1969-70

On balance, I believe that this package of tax adjustments is best described as a series of neutral changes in terms of equity and incidence. However, to the extent that the major impact will be felt in the corporate sector, greater balance has been achieved among the broad areas of personal income, corporation and commodity taxes.

The anticipated additional revenue from the preceding tax changes is estimated at about $181 million in the 1969-70 fiscal year. As you will recall, I estimated our budgetary deficit before tax changes at $179 million and our overall cash requirements at $169 million. In other words, the additional revenue from tax changes will more than meet our overall cash requirements and produce a small surplus of almost $2 million in our budgetary transactions.

As a result, our 1969-70 program will be self-financing without any requirement for borrowing in the capital market. Moreover, we will finance the retirement of maturing debt issues without drawing down our liquid reserves.

CONCLUSION

Mr. Speaker, this is a budget which meets many basic requirements. It exercises spending restraint to the utmost. Within this restraint, it recognizes the special needs in our priority areas. This budget faces existing inflationary pressures with determination and exerts a positive influence in the fight to overcome inflation. It keeps the Ontario Government out of the capital market, thereby improving conditions for mortgage financing and for borrowing by the Ontario Hydro, municipalities, school boards and other institutions, both governmental and corporate.

Most important, it will provide the sound basis from which to launch the fiscal reform program to which I have already referred. I would now like to make a detailed presentation to the Legislature of this long-term reform program which appears in Budget Paper B.