

Text of Address

The text of the address, exclusive of the preamble, which the Hon. M. F. Hepburn, Premier and Provincial Treasurer, delivered yesterday in the Legislature, in the presentation of his fifth Budget, follows:

Continuing the policy of this government to endeavor to ameliorate the difficulties which confront the municipalities, I am able to report that we have benefited the municipalities by a sum of over eleven million dollars during the fiscal year which ends tomorrow. This statement will be understood when I inform the House that this has been brought about by assuming their share of:

Mothers' allowances\$2,263,800
 Old-age pensions and pensions for the blind 1,194,500
 x-Cost of sanatorium treatment re tuberculosis (1).. 1,300,000
 Through increasing subsidy to townships from 40 per cent to 50 per cent of amount expended on road work .. 624,000
 By relieving counties of the 20 per cent share of the cost of provincial highways 3,026,000
 By one-mill subsidy..... 2,950,000

\$11,358,300

x—This saving was effective from July 1, 1938—a period of nine months.

Public Accounts for 1938

It will be within the memory of the members of this House that in the budget brought down on March 18 of last year I reported that the surplus of ordinary revenue over ordinary expenditure exceeded the sum of three million dollars. This was a moderate and modest estimate of the surplus for the year. The public accounts of the Province of Ontario for the year ended March 31, 1938, have been placed in your hands and on reference to page 9 you will observe that the net ordinary revenue for the fiscal year which ended March 31, 1938, amounted to \$86,052,792.88.

Expenditures, before providing for unemployment direct relief, amounted to \$71,446,910, leaving a surplus before providing for unemployment direct relief and the administration thereof of \$14,605,882.88. Inasmuch, however, as it has been the policy of this government to charge the cost of unemployment direct relief and the administration thereof against the ordinary revenue of the current year, we deducted the cost of this item, which amounted to \$9,996,164.35. In the result, we were able to report a surplus for the fiscal year ended March 31, 1938, of, not three million dollars, but \$4,609,718.53.

Public Financing

It has been found desirable during this fiscal year for the government to issue and sell debentures to the public in order to provide for the large capital expenditures entailed in the program of highway construction and hospital extension.

Debentures of a par value of \$15,000,000 were issued on Nov. 1, 1938, bearing a coupon rate of 3 per cent and repayable in twelve years; with a provision for redemption on Nov. 1, 1947, or on any subsequent interest date, at the option of the government. The price at which the debentures were sold has resulted in an effective cost for interest of 3.36 per cent.

On Dec. 15, 1938, an issue of debentures was made of a par value of \$16,500,000, bearing a coupon rate of 3 per cent and maturing in eleven years; a redemption privilege enabling the government, at its option, to redeem the debentures on Dec. 15, 1945, or on any interest date thereafter. In the sale of these debentures an effective cost for interest of 3.08 per cent has been obtained.

Apart from the two public issues already described, the province, in accordance with statutory requirements, has issued debentures to the amount of \$1,300,000, bearing interest at the rate of 4¼ per cent per annum, and has received in payment therefor an equivalent sum of money from the Teachers' and Inspectors' Superannuation Fund.

Power Commission

The Hydro-Electric Power Commission of Ontario issued on Aug. 1, 1938, debentures of a par value of \$12,500,000 repayable in ten years and containing a callable clause for redemption on Aug. 1, 1946, or on any subsequent interest date. These debentures, while not a direct obligation of the Province of Ontario and in no way connected with the financing of provincial capital expenditures, have an influence on our borrowings, as they are guaranteed by the Province of Ontario. They were sold to produce an interest cost of 3.24 per cent.

Treasury Bills

Outstanding treasury bills amounting to \$60,000,000, all payable in the lawful money of Canada and bearing rates of interest ranging from 1¼ per cent to 1.65 per cent, will be listed in detail in the statement customarily supplied in the printed copy of the address.

Financing by treasury bills, with maturities varying from one to three years, rather than by using long-term issues, has been continued, and this government again derives great advantage from this policy. According to our information, all indications point to a period of cheap money ahead in this country and lead me to conclude that before a sound basis is found upon which business may be stabilized, interest rates must descend to still lower levels.

The soundness of the government's policy of adhering to short-term maturities for financing its obligations, by which it has been possible to take advantage of interest rates of less than one-half those which applied upon previous borrowings, continues to be demonstrated in the prevailing trend toward lower interest rates.

The shortsightedness exhibited by former administration in permitting the issue of bonds redeemable both as to principal and interest, and at the option of the holder, in New York, sterling or Canadian funds has at the same time brought advantage to the bondholder and avoidable hardship to the Ontario taxpayer, against whom the discrimination has been considerably accentuated by the political and financial uncertainties now obtaining in Europe.

Problems of Treasurer

The problems that confront a Provincial Treasurer, and the anxiety that accompanies all his efforts to arrange payment of accruing obligations under exchange conditions most unfavorable to this province will be understood and appreciated by those familiar with the fluctuations of foreign exchange during the year under review. The unpredictable trends and fluctuations in foreign exchange during recent years have presented a problem of tremendous proportions to the large financial interests in the United States, with which those interests have been only partially able to cope, but former governments of the Province of Ontario have befriended them in their difficulties; these financial interests have had easy access to the major portion of the \$230,000,000 of Province of Ontario bonds payable, at the option of the holder, in Canadian, New York or sterling funds, and have been able to purchase and sell these securities without difficulty as a hedge in their foreign exchange transactions.

The time is rapidly approaching when the Province of Ontario will have the unenviable distinction, unique in the English-speaking world, of being obligated for payments of principal and interest in any one of three currencies, at the behest of the holder—with the inevitable assurance that payment will be demanded in the currency most costly to the provincial purse. Following is a summary, presented in this connection, of the cost to the Government and the Hydro-Electric Power Commission of foreign exchange for the fiscal periods 1932 to 1939:

Fiscal Year Ended	Total Exchange
October 31, 1932.....	\$4,047,311.48
" 1933.....	2,112,417.57
" 1934.....	878,798.24
March 31, 1935.....	261.25
" 1936.....	238,754.07
" 1937.....	177,686.04
" 1938.....	218,396.04
" 1939 (estimated)	199,664.84
	\$7,873,289.53

Unhappy Experience

The foregoing summary indicates the unhappy experience of the province during the past few years in regard to its foreign exchange problems. The future threatens a similarly gloomy picture. American exchange during the financial crisis of 1932-1933 reached a premium of over 20 per cent. If such condition should again occur during the fiscal year ending March 31, 1945, when we have over \$31,000,000 to meet in the highest of these exchange markets, the province will be called upon to pay in exchange a sum of over \$6,000,000. I have had prepared a summary showing the interest and principal maturities of Province of Ontario bonds payable in Canada, London or New York, at the holders' option. The grand total of principal and interest on which abnormal exchange rates apply, reaches the colossal sum of \$407,840,515, and I propose to include the complete summary in the printed copy of this address.

Ontario's Credit Abroad

Notwithstanding the unfavorable conditions to which I have just alluded, by completely reversing the financial policy pursued by our predecessor, we have been able to cope with this situation thus far. Our borrowings have always been repayable only in lawful money of Canada. We have had a succession of balanced budgets and tax reductions and these evidences of sound government are today responsible for the fact that the credit of the Province of Ontario enjoys a most enviable position in the money markets of the world. No better indication of the esteem in which our credit is held abroad could be furnished than was given by the impressive manner in which the inscribed stock of the Province of Ontario was held by investors during the crisis last September. At that time British War Loan fell from 102½ to 93, and undoubtedly the reason that the price did not sink lower was that the London Stock Exchange fixed a minimum price of 93 and 93¼.

During the dark days of Sept. 26, 27 and 28, 1938, trading in war loans was active and large blocks changed hands. While, of course, the amount of inscribed stock representing obligations of the Province of Ontario is confined to some three millions of dollars, it is nevertheless worthy of note that practically none of this inscribed stock was offered. In fact, although the Bank of