

ONTARIO



1970

BUDGET

THE HONOURABLE CHARLES MacNAUGHTON
Treasurer and Minister of Economics



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**Presented by the Honourable Charles MacNaughton
Treasurer of Ontario and Minister of Economics
in the Legislative Assembly of Ontario
Tuesday, March 31, 1970**

**ONTARIO DEPARTMENT OF TREASURY AND ECONOMICS
Taxation and Fiscal Policy Branch**

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Table of Contents

BUDGET STATEMENT

Introduction	5
Budget Papers	6
The Basic Framework	6
Ontario's Economic Prospects and Fiscal Policy Requirements	7
Federal-Provincial Fiscal Imbalance	8
Comprehensive Tax Reform	9
Report on Financial Operations for 1969-70	11
Progress Toward Reform	14
Increased Aid to Local Governments	15
Property Tax Relief for Needy Pensioners	16
Reform of Assessment and Property Taxation	17
Reform of Municipal Structure	18
Regional Development	19
Future Directions	19
Expenditures	20
Continuing Expenditure Restraint	20
The Changing Composition of Provincial Spending	22
Highlights of the 1970-71 Expenditure Program	25
Tax Changes	28
Succession Duties	29
Retail Sales Tax	30
Corporations Tax	31
Financial Position for 1970-71	31
Conclusion	33
Appendix — Details of Tax Changes	34

BUDGET PAPERS

A — The Public Sector and Economic Policy	39
B — The Structure of Public Finance in Ontario	63
C — Government Financial Statements	87

BUDGET STATEMENT

Mr. Speaker:

The Government has promised the people of Ontario that its 1970 budget would be balanced, without tax increases. I am pleased to submit to you today a budget that honours this commitment and goes even further toward meeting other important objectives.

This 1970 budget has been constructed in a difficult economic and fiscal environment. In the decade ahead, the continuing potential for economic and social development is unquestionable. However, our immediate legacy from the 1960s is an economy and a public sector in Canada that are fundamentally out of balance. The evidence is abundant:

- the economy is struggling under persistent inflation, tight money and increasing unemployment;
- expectations and appetites are rising far faster than the real resources available to satisfy them;
- the public sector is growing excessively relative to private production, investment and consumption; and,
- the chronic fiscal mismatch of governments is steadily worsening.

The challenge to public policy in the 1970s, therefore, is the restoration of balance and stability in the economy and in the federal system. The achievement of these goals will require long-run strategies to deflate expectations and combat latent inflationary tendencies, to keep the economy operating at full potential, to contain growth in the public sector within the bounds of present taxes, and to achieve a closer matching between the responsibilities of and the resources available to each level of government. Only with concerted government action to meet these requirements can Canada regain the essential balance necessary for real economic progress and true social reform.

The small surplus, which will be proposed in this budget, demonstrates that, in this uncertain period, the Ontario Government is steering a responsible course of moderation and consolidation in the province while contributing, in a constructive manner, toward the achievement of these broad national purposes.

Budget Papers

As in the past three years, this Budget Statement is complemented by three Budget Papers in order to provide a broader perspective on the economic, fiscal and financial policies of the Ontario Government.

I call your attention particularly to Budget Paper B which contains an analysis of the operations and financing of the total government sector within Ontario. It illustrates the fiscal role, in this province, of each of the three levels of government and shows the significant financial interactions among them. It documents the amount of taxes raised by the federal, provincial and municipal governments and shows where this money is spent. Budget Paper B reveals that in 1968-69, for example, the federal government drew off \$1.4 billion in financial resources from Ontario for redistribution to the fiscally weaker provinces. The magnitude of this reallocation, which can be expected to grow annually, indicates the importance of Ontario as a generator of wealth and fiscal resources for the entire country.

Budget Paper A discusses current economic problems and the outlook for 1970, which is the background for the determination of our fiscal policies. It focuses on the problem of inflation and discusses the merits of present stabilization policies. It presents the Government's views on the long-run strategies and changes that are required to achieve price stability without high unemployment, and suggests means of improving federal-provincial policy co-ordination.

Budget Paper C is a comprehensive presentation of the Government's financial statements. The facts and figures for budgetary, non-budgetary and debt transactions which are presented in that paper provide a complete overview of the financial activities of the Ontario Government.

THE BASIC FRAMEWORK

Before proceeding with the details of this budget, I should like to discuss the major developments on the economic and federal-provincial fronts that directly affect the Ontario Government's immediate and longer-run budgetary plans. The first and most immediate factor influencing our 1970 fiscal plans is the performance of the Ontario economy. After nearly a decade of unprecedented growth, our economy is undergoing a significant slowdown while struggling with persistent inflation at the same time. Therefore, our 1970 fiscal policy is intended to provide a moderate, yet positive, thrust to the economy. Second, the matter of tax-sharing reform continues to be of paramount importance. Notwithstanding the widespread recognition

of the totally unsatisfactory distribution of revenue sources, I must report, with regret, that the recent Tax Structure Committee exercise has left us no closer to resolution of the problem of federal-provincial fiscal imbalance. Third, the equally vital and related matter of tax structure reform is a public issue of high priority. In my last budget I set out the Government's proposals for achieving comprehensive and co-ordinated tax reform, both in the provincial-municipal sphere and the federal-provincial shared-tax fields. In the interval, the federal government has brought forward its proposals for reform in these shared-tax areas and encouraged commentary or criticism. In recent weeks, we have asserted our fundamental disagreement with the federal approach to tax reform. We will continue to make proposals for a more acceptable tax system and to suggest means of achieving that goal.

Ontario's Economic Prospects and Fiscal Policy Requirements

As 1970 unfolds it is becoming increasingly evident that the Ontario economy is experiencing a significant slowdown. Growth in production and sales is levelling off, corporate profits are dropping, housing starts are down sharply, and unemployment is rising. Prices, however, are reacting very slowly to this deceleration in economic activity. Consequently, I anticipate that our Gross Provincial Product will rise by only 7 per cent in 1970 — about 3 per cent in volume of output and about 4 per cent in prices. By comparison, output rose by more than 5.0 per cent in 1969 and Gross Provincial Product advanced by 9.6 per cent. The prospects for 1970, therefore, add up to a below-potential performance for the Ontario economy.

This retreat from the buoyant economic advances of the preceding decade is largely the result of stringent monetary and fiscal policies designed to combat inflation. Budget Paper B shows the massive impact of federal fiscal action in Ontario. As I have noted, in the expansionary fiscal year 1968-69, the federal government drew off \$1.4 billion in financial resources from Ontario. Based on the large surplus that the federal government is now running, the current reallocation out of Ontario probably exceeds \$1.8 billion — or more than \$250 from every person in Ontario. Obviously, this creates a huge "fiscal drag" and a strong deflationary bias in the Ontario economy.

The Government of Ontario agrees that price stability must be restored. However, the costs of present federal policies are already very high: fewer new jobs, higher unemployment, lower real growth and reduced productivity. This economic slackening is detrimental not only to Ontario but also to the country as a whole. Certainly any further restraint would be excessive, creating still higher unem-

ployment and little further improvement in prices and costs. Budget Paper A deals with this problem of inflation and public policy in detail. It suggests that we must seek longer-run strategies to prevent wide economic swings in the future. In particular, we must devise better co-ordinating mechanisms among governments and find a way to achieve orderly growth in the public sector. The lesson to be learned from our present difficulties is to avoid excesses, particularly within the public sector; it is these excesses which have been built into the inflationary spiral over many years.

Our fiscal policy for 1970 is designed to provide a moderate expansionary stimulus to the Ontario economy. Given the evidence of economic softening and the uncertainty that continued restrictive fiscal policies will be effective against inflation, we believe that some relaxation of provincial restraint is required. To achieve this positive fiscal impact, while at the same time keeping our finances in balance, we have applied part of our 1969-70 surplus against 1970-71 commitments. We have planned to maintain essential provincial expenditures and to increase our aid to municipalities without raising taxes. In fact, we are reducing taxes in selected areas to provide incentives and to reduce certain burdens. We also intend to refrain from new borrowing for provincial account in order to avoid added pressure on strained capital markets. Finally, we are co-operating with the Prices and Incomes Commission in its efforts to secure voluntary restraint in all sectors of the economy. We believe that such a fiscal program is appropriate in the face of an uncertain economic environment. Should the economic outlook deteriorate in the coming months we stand ready to adjust our policies quickly.

Federal-Provincial Fiscal Imbalance

In 1969, the Tax Structure Committee was reactivated to examine again the balance of fiscal responsibilities and resources of each level of government. Its 1970 report confirms the findings of the original 1966 study, which documented the chronic underfinancing at the provincial-municipal level and the potential fiscal surpluses at the federal level. The new projections show that, by 1971-72, provincial-municipal deficits will be in the order of \$1.8 billion, while the federal government will enjoy a substantial surplus.

The 1970 report reveals the inevitable results of independent financing and unco-ordinated growth in public expenditures. The federal government virtually ignored the 1966 findings and told the provinces "to go out and raise taxes." That is exactly what has happened; property taxes and provincial taxes have been increased regularly to finance fast-growing costs in education, health, trans-

portation and urban development. Meanwhile, the federal government has developed new programs to dispose of its potential surpluses. As a consequence, the total government sector is steadily pre-empting a larger share of the national product. The 1970 report shows that all government expenditures, which took up 29 per cent of Gross National Product in 1964-65, have grown to over 33 per cent in 1969-70 and should reach 35 per cent by 1971-72. In just five years, the public sector has increased its claim on the national product by about 15 per cent. This trend must be halted.

The Government has consistently argued that rapid growth of government expenditures would be the inevitable result of uncoordinated tax programs. Unless the financial requirements at each level of government can be accommodated and harmonized within one integrated system, the public sector will continue to encroach on the economy and the overall tax system will degenerate, with the taxpayer as the ultimate victim.

On the basis of the new Tax Structure Committee findings, Ontario, along with other provinces, recommended that present fiscal arrangements be modified so that the provinces together would have greater revenue at their disposal for 1970-71 and 1971-72, without channelling a greater proportion of national product into the public sector. The federal government was again unwilling to consider new fiscal arrangements, and restated its position that each government should proceed with independent taxing and spending decisions.

Such is the intergovernmental framework within which we must operate for 1970 and, presumably, for subsequent years. The failure to obtain a sensible resolution of federal-provincial tax-sharing problems will inevitably limit the Government's ability to increase aid to municipalities and to maintain essential provincial services.

Comprehensive Tax Reform

Since my last budget, which set out the Province's plan for reform of taxation and government structure in Ontario, the federal government has brought forth its proposals for tax reform. The Ontario Government agrees with some of the federal objectives, particularly, tax relief for low-income families, fairer treatment of wage and salary earners, child care allowances for working mothers, and a fair and equitable form of taxation of capital gains. On the other hand, we have serious reservations about the validity and workability of the federal proposals as a whole. We believe that the federal approach to tax reform is deficient on three major grounds: it increases federal taxes rather than maintaining or reducing them; it is piecemeal rather than

comprehensive; and it will generate adverse rather than positive economic effects.

The federal white paper proposals have been designed to produce a significant increase in federal revenue-raising capacity, a move which we regard as totally retrograde. Given the surplus fiscal resources already available to the federal government and the need to contain public sector growth, federal tax reforms should aim to reduce taxes, not increase them. By contrast with Canada, the recent U.S. tax reform legislation entails a substantial reduction in federal tax revenues and, hence, a reduced federal claim on Gross National Product. We believe Canada should be moving in a similar direction. The best guarantee to taxpayers that there will be some control of government spending is to leave resources in the hands of the people, rather than taking more under the guise of reform. We strongly urge, therefore, that the federal proposals be amended to produce no net revenue gains. This can be achieved by offsetting the ultimate increases which will accrue in the corporation tax field by reductions in federal income tax rates, thereby providing tax relief to low-income families without placing heavier burdens on all other taxpayers.

The federal government is proceeding with reform by introducing changes in one tax field after another: first gift and estate taxes, then insurance company taxes, and now personal and corporate income taxes. Little regard has been shown for the cumulative effect on taxpayers. For example, the piling of capital gains taxes on top of the new estate tax amounts to confiscatory taxation. The piecemeal federal approach also fails to deal with tax reform in the comprehensive way that the Ontario Government advocated in its own white paper. Our mutual goal should be the redistribution of total federal-provincial-municipal tax burdens. The goal of equity demands this comprehensive approach, because it is the property tax, not the income tax, that bears most heavily on low-income families. By ignoring provincial-municipal needs and inhibiting complementary provincial-municipal reforms, the federal government's proposed tax reform is almost certain to be a hollow achievement. Equity gains in the income tax area, achieved in isolation, could well be negated by increased reliance on regressive property taxes and on provincial taxes generally. We urge that the broader requirements of comprehensive tax design and reallocation of tax revenues among governments be accommodated in any federal reform program. Only in this way can government genuinely serve the best interests of taxpayers.

The federal tax reform proposals also contain major drawbacks in terms of their potential economic consequences. I have already set out our views in this regard at the appropriate federal-provincial meetings,

drawing attention to the inflationary bias, and to the adverse effects on small businesses, on private savings and investment, on innovation and risk-taking, and on the long-run growth potential of the economy generally. In addition, the new proposals appear to create an unfavourable climate for Canadian-based international companies. Surely, in the modern age of multi-national corporations, with their advantages of scale, technology and specialization, Canada should be trying to increase its participation in such international economic activity. Our concern in these and other areas led the Government to call for broad-ranging studies of the economic implications of the federal white paper along the lines of those undertaken for the Carter Commission. Such studies would provide a concrete basis for moderating many of the federal reform proposals. We intend to continue to present our ideas on tax reform at future intergovernmental conferences and to press for comprehensive tax reform.

Let me outline briefly the tax reform strategy that we believe is appropriate in Canada to meet the problems and exploit the potential of the 1970s. We start with the fact that there is only one taxpayer for all levels of government. We believe his total tax bill is too high. Moreover, the present federal-provincial-municipal tax systems bearing upon him are haphazard and unco-ordinated. The two essential conditions for reform, therefore, are to arrest the growth in total public expenditures and to rationalize the overall tax structure. Without these conditions, tax reform will be wiped out by the steady encroachment of government and by competition for the tax dollar. Furthermore, we believe that tax reform must preserve a strong economy by fostering opportunity and productivity to achieve long-run growth and development. Unless taxes are redesigned to provide for sound economic growth, the result could be less real gain for all. Our approach, therefore, is to seek co-ordinated tax reforms that contain total tax burdens, that improve overall equity, and that preserve economic incentives—in short, tax reforms that meet the needs of taxpayers first and governments second.

REPORT ON FINANCIAL OPERATIONS FOR 1969-70

I should now like to report on the financial operations of our Government during the 1969-70 fiscal year. Although the results of this fiscal year are not yet complete, I am confident that the interim picture, which I am presenting today, will mirror closely the final results for 1969-70. This confidence is based on the successful development within the Department of Treasury and Economics of a sophisticated Financial Information System and the introduction of

improved financial reporting within the Government generally. The tables in Budget Paper C set out these interim financial figures in full detail for 1969-70, based on actual performance for eleven months and estimates for the final month.

Our budget performance in 1969-70 differs substantially from the original financial plan that I put forward last year. Two factors account for the difference: first, the performance of the economy in 1969; and second, the major new policies introduced by the Government subsequent to my last budget.

The Ontario economy outperformed expectations at the time of the 1969 budget. As you will recall, it was estimated that our Gross Provincial Product would rise by slightly less than 8 per cent in 1969; in fact it rose by 9.6 per cent, an expansion clearly reflected by our revenues. Personal income taxes have produced revenue \$50 million above my original forecast. Corporate taxes are up \$73 million, mainly because 1969-70 receipts include unusually large final settlements for the 1968-69 fiscal year. Post-secondary education adjustment payments, on the other hand, are down \$43 million from last year's budget forecast. This resulted from \$35 million in federal back-payments being received at the end of the 1968-69 fiscal year rather than in 1969-70, as we had anticipated. The largest in-year change on the revenue side, however, arises out of medicare. The Ontario Government's participation in universal medicare since October 1, 1969, has brought into our provincial accounts \$157 million in premium revenues that formerly flowed to private carriers and to OMSIP. In total, therefore, I expect our net general revenues for 1969-70 to reach \$3,292 million, compared with the original forecast of \$2,998 million.

At this moment we expect net general expenditures for 1969-70 to be \$3,266 million, compared with our original target of \$2,996 million. This increase of \$270 million is entirely the result of policy initiatives introduced during the course of the 1969-70 fiscal year. Medicare, of course, is the principal new program. Under OHSIP, all medicare expenditures are incorporated into the provincial accounts, where formerly these outlays were recorded in the accounts of private carriers and of OMSIP. Thus, provincial expenditures on medicare in 1969-70, net of federal payments, rose from \$90 million to \$161 million. Expenditures for 1969-70 also reflect other major in-year policy decisions. For instance, we decided to increase our 1969-70 contribution to the Ontario hospital insurance plan so that hospital premiums would remain at the present level in 1970-71. This decision required an added commitment of \$125 million. We provided an additional \$50 million in support of school boards to prevent steep rises in local mill rates. We also increased by \$34 million our advance payments against 1970-71 legislative grants in order to improve the cash flow to school boards.

Apart from these deliberate changes in expenditure policy, we have managed to hold our net general expenditures to the intended levels. All other provincial expenditures will reach \$2,837 million, which represents a reduction from our target figure. This review of our 1969-70 revenue and expenditure performance is documented in the accompanying table.

BUDGETARY OPERATIONS FOR 1969-70

(\$ million)

	Original Budget Plan	Revised Budget Performance	In-Year Changes
Net General Revenue.....	2,998	3,292 ¹	+ 294
Net General Expenditure.....	2,996	3,266 ¹	+ 270
Budgetary Surplus	2	26	+ 24

Major Changes in Revenues

Personal Income Tax	712	762	+ 50
Corporation Taxes	407	480	+ 73
Post-Secondary Education Adjustment Payments	147	104	- 43
Medicare Premiums	—	157	+ 157
Other Revenues	1,732	1,789	+ 57
	<u>2,998</u>	<u>3,292</u>	<u>+ 294</u>

Major Changes in Expenditure Policy

Medicare Expenditures	90 ²	161 ²	+ 71
Contribution to OHSC.....	59	184	+ 125
Special Education Subsidy	—	50	+ 50
Increased Advance Against 1970-71 Legislative Grants	—	34	+ 34
All Other Expenditures.....	2,847	2,837	- 10
	<u>2,996</u>	<u>3,266</u>	<u>+ 270</u>

¹Incorporates \$10.3 million due to redefinition of net general revenue and reimbursements of expenditure.

²For details, see Introduction to Budget Paper C.

As a result of this revised revenue and expenditure performance, I now anticipate a budgetary surplus of \$26 million in 1969-70, which represents a modest increase over our original plan. Our non-budgetary transactions will also show an improved position. Non-budgetary sources of finance, including borrowings from the Canada Pension Plan and transfers into internal funds, are expected to yield \$906 million while non-budgetary outlays will require \$616 million. The non-budgetary surplus, therefore, should approximate \$290 million. After allowing for net redemptions of maturing debt at \$74 million, we can look forward to an overall cash build-up of \$242 million in 1969-70. The overall result of these financial operations will be to reduce our net

capital debt by the end of the current year to \$1,566 million. This represents a per capita net debt of only \$206, down \$8 per capita from the previous year, and a burden that could be retired with five months' revenue. Two years ago it would have required eight months' revenue.

In concluding this report on our financial operations for the current fiscal year, I wish to stress that several of the budgetary decisions we have taken during 1969-70 will carry over and take effect in 1970-71. This has important fiscal policy implications. For example, most of our additional \$125 million contribution to the hospital insurance plan will move into the spending stream in 1970-71 as the Ontario Hospital Services Commission draws down the reserve for premium stabilization. What we are doing, in essence, is setting aside current funds to meet future obligations. This prudent funding will enable us to attain a financial balance in 1970-71 without increasing taxes, while generating a positive fiscal impact on the economy. In this manner, our fiscal policy objectives will be achieved.

PROGRESS TOWARD REFORM

A year ago, the Government of Ontario embarked upon a long-run program of basic reforms in provincial-municipal taxation and finance. Today, I want to report on our progress toward these reform objectives and to outline how we intend to proceed in the future.

First, let me say that developments on the federal-provincial front have inevitably retarded our fiscal reform timetable. Our inability to secure a reasonable share of the jointly occupied growth tax fields has limited our ability to finance essential municipal reforms. Moreover, the recent federal tax reform proposals will inhibit complementary reforms at the provincial-municipal level. As I have already suggested, the federal government has adopted a unilateral approach to tax reform, whereas we believe a co-ordinated and comprehensive approach by all levels of government is essential. However, this lack of accord and progress at the federal-provincial level will not diminish our determination to achieve maximum reform within our own jurisdiction.

In this budget, the Ontario Government is taking several significant steps toward reform of our existing provincial tax system. Later in this Budget Statement, I will outline major changes in the succession duties and the retail sales tax that we intend to implement. In the areas of personal and corporate income tax, on the other hand, we are not contemplating any major changes until federal-provincial tax structure negotiations are concluded. Let me reiterate that we are prepared to explore fully with the federal government potential ways of

achieving our reform objectives within the framework of the national income tax system. In the corporate area, we will also continue to seek maximum harmonization and consistency within the national tax structure.

In the provincial-municipal sphere, the Government is making substantial progress toward reform. The initiative provided for in this budget, in addition to the new policies announced during 1969, will advance our reform program on four fronts: increased aid to local governments, property tax relief for needy pensioners, reform of assessment and reform of municipal structure.

Increased Aid to Local Governments

One of our principal reform objectives is to increase financial support to local governments in order to reduce the burden of financing that falls upon the regressive property tax. In 1968, we took two major steps in this direction: the takeover of administration of justice and the introduction of basic shelter tax exemption grants, thereby shifting more than \$150 million from the property tax base to the provincial tax base. The 1969 budget committed Ontario to further long-run financial aid to municipalities. In this budget, we are increasing our long-run support to local governments by an additional \$125 million. Let me enumerate these reform steps and indicate the additional costs that they will entail for the Province in 1970-71.

Reform Policy	Cost of Reform in 1970-71
	(\$ million)
• Increase provincial support to school boards from 46 per cent to 51 per cent of total elementary and secondary education costs	86.6
• Assume the costs of property assessment formerly borne by municipalities	20.8
• Increase road construction and maintenance grants to cities and separated towns from 33 1/3 per cent to 50 per cent of expenditures	12.3
• Provide amortization subsidies to municipalities for sewerage projects and water pipelines	1.0
• Increase unconditional aid to existing regional governments	1.7
• Provide assistance to the proposed Muskoka district government	0.4
• Increase university grants to permit partial taxation of university properties by municipalities	2.5
	125.3

The full details of these new provincial policies will be presented to the Members by my colleagues, the Ministers of Education, Municipal Affairs, Highways, and Energy and Resources Management. For my

part, I should like to point out that these provincial actions will have an immediate beneficial impact on municipal taxation and financing in 1970.

The increase in education grants represents the first step toward our target of 60 per cent provincial support by 1972-73. The move to permit municipal taxation of university properties and to provide compensatory grants to universities represents a start toward our goal of broadening the local tax base by removing exemptions. For 1970, university cities will be empowered to tax formerly exempt university properties to the extent of \$25 per full-time student. This interim formula will be changed over to the normal method of taxation once university properties have been properly assessed. The new level and structure of aid to regional governments provides more unconditional assistance to municipalities. The assumption of the costs of property assessment will free municipal resources for other essential local services. The effect of these measures should be to place municipal financing on a sounder basis and relieve the pressure on mill rates.

This budget also recognizes the severe borrowing problems of Ontario municipalities, particularly smaller municipalities. I am satisfied that steps must be taken to enable municipal councils to secure the capital financing necessary to proceed with essential local facilities. Therefore we propose to make available, through the Ontario Municipal Improvement Corporation, \$10 million in capital financing for smaller municipalities. This should be sufficient to supply the 1970 capital requirements of all municipalities in Ontario under 10,000 population. In addition, the Province intends to review the borrowing situation of larger municipalities. Currently, these municipalities are severely restricted by the inflexibility of their serial debentures, and some are finding it difficult to borrow at all. During the present Session, therefore, legislation will be introduced to allow more flexibility in municipal debt issues so that our larger municipalities can compete effectively in the capital markets.

Property Tax Relief for Needy Pensioners

I am proposing in this budget a major new thrust in our tax reform program. Beginning this year, the Government of Ontario will undertake a program of supplementary tax relief to old age pensioners with limited incomes. We plan eventually to provide this type of selective tax relief through personal income tax credits. But given the uncertainty of the federal reform proposals we have decided to proceed on our own. Let me outline the main dimensions of the new program we are proposing.

- The Ontario Government will provide up to \$100 in supplementary tax relief to all elderly citizens or couples who receive the federal Guaranteed Income Supplement and maintain an independent household.
- The supplementary tax relief grants will be in addition to the existing basic shelter grants up to the limit of actual property tax liability. This combined tax relief will eliminate the property tax burden on many elderly householders and reduce it significantly for the rest.
- The supplementary tax relief grants will be available to tenants as well as homeowners, but not to pensioners living in institutions or in subsidized senior citizen housing. Pensioners in these latter categories are already sheltered from rising property tax burdens.
- The supplementary tax relief grants will directly assist almost 200,000 needy pensioners living in their own homes or apartments, at a cost to the Province of approximately \$10 million per year.
- The supplementary tax relief program will be administered directly by the Department of Municipal Affairs.

This new program recognizes that pensioners with little or no outside income have been hardest hit by inflation and are least able to pay rising property taxes and rising rents. The extra \$100 in tax relief will eliminate or reduce the claim of property taxes against the limited incomes of these needy pensioners. It will assist many of our senior citizens to continue living independently and in some dignity in their own homes or apartments.

The new supplementary tax relief grants should substantially reduce the number of applicants for property tax deferral under our Municipal and School Tax Credit plan. Once the new program is in effect, therefore, we intend to eliminate this existing tax loan program.

Reform of Assessment and Property Taxation

As of January 1, 1970, the Province became responsible for the assessment of all real property in Ontario. Over the next four years, we plan to reassess all properties at current value in order to establish a uniform and consistent property tax base across the entire province. This reform of assessment is essential if we are to achieve equity among property owners, among property categories, and among municipalities.

Inevitably, as the process of reassessment proceeds there will be changes in the tax position of individual properties within each municipality. These changes from the existing situation reflect the varying degrees of under-assessment in the past. Thus, reassessment may imply increases in taxation for some properties, but these increases will be balanced by decreases in taxation for other properties. Overall, there will be no increase in total collections of municipal taxes due to reassessment itself; in fact, the revised tax base resulting from reassessed values will be accompanied by corresponding reductions in mill rates.

Reassessment has brought into relief the relationships and relative tax burdens among different classes of property: residential, farm, commercial and industrial. Depending on past assessment practices in a municipality, reassessment may produce shifts in tax burdens among property classes. From the results to date, reassessment appears to shift more of the total tax burden onto residential properties. The Department of Municipal Affairs is studying these effects of reassessment intensively. Once enough municipalities have been reassessed and a clear pattern of tax shifts emerges, the Province will introduce legislation to prevent any major shift of tax burden from commercial to residential properties, or vice versa.

The Government recognizes that the move toward a modern and equitable property tax base may involve financial hardships in some instances. We believe it is necessary and desirable to alleviate such hardships and to cushion the adjustment to a new system of taxation. During this Session, therefore, we will introduce measures to permit a phasing-in of onerous increases in tax burdens. My colleague, the Minister of Municipal Affairs, has already described his intentions; he will elaborate further on the whole program of reassessment and property tax reform next month at Ontario's first Provincial-Municipal Conference.

Reform of Municipal Structure

The Ontario Government's long-run program to reorganize the structure of local government is proceeding in response to municipal desires and needs. We are establishing new regional governments where municipalities have requested broader-based units to cope with common problems. Last year Ottawa-Carleton was established. On January 1, 1970, the Niagara regional government came into being. By 1971, the Muskoka district government will be established. Within each of these new regions, moreover, we are achieving significant consolidation of municipalities. Our proposal for the Muskoka region, for example, will reduce the number of lower-tier municipalities

from twenty-five to six. The Province is supporting municipal consolidation in other areas as well. As a case in point, the cities of Fort William and Port Arthur and parts of the townships of Neebing and Shuniah have recently been joined to create the new municipality of Thunder Bay. In all of these moves, the Province has sought the active participation and co-operation of the citizens and the local governments immediately affected. We intend to adhere to this principle in all future efforts to strengthen local government structure.

Regional Development

Last year, in my Budget Papers, the inter-relationship between the Government's programs of regional government and regional development was described. In the intervening year, steady progress has been made in the regional development program in line with our original timetable. Several specific reports have been made public, including a proposal for the retention and development of the recreational capacity of the Niagara Escarpment, and a framework for development planning in Southwestern Ontario. During the coming months a number of reports will also be made public and comments from interested citizens will be invited on development plans for various regions of the province. The current schedule is to place comprehensive plans before the public in six of the ten economic regions in 1970; the remaining four will be released in 1971.

Future Directions

In concluding this part of my Budget Statement, I should like to discuss briefly the future directions of Ontario's reform program. As I have already asserted, we must proceed systematically toward our goal of complete reassessment. We also must carry forward our reforms of municipal structure. We intend, as well, to continue increasing financial support to local governments up to the maximum limit of our resources. Increased local aid will claim a high priority in future Ontario budgets, just as it has in this budget. During the past year, we have undertaken a comprehensive review of our grant and aid policies with the objective of developing an improved unconditional grant system. In the future we will concentrate on the structure of provincial aid as well as on the level of support. Finally, the Government is embarking upon a series of provincial-municipal conferences focusing on our long-run reform program. These conferences will facilitate exchange of ideas with our municipal partners and fuller understanding of our long-run reform goals. We hope that this co-operative approach will ensure that reform remains a positive and creative force within Ontario.

EXPENDITURES

Let me turn now to our expenditure program for the coming year. Generally, we have sought to hold down spending within the limits of present financial resources. We have made reform our highest priority. Finally, we have prudently pursued our long-term objective of expanding public services to meet the urgent and essential needs of this growing and prosperous province.

Continuing Expenditure Restraint

During 1969-70, the Government followed a policy of severe and deliberate expenditure restraint. As a result, we have succeeded in slowing the rate of growth in our spending, compared with the record of previous years. But this has only been achieved at significant sacrifice, including underachievement of our priorities, postponement of essential service facilities and creation of a backlog of unfulfilled needs. In planning for 1970-71, therefore, we have had to face these delayed expenditure pressures plus normal growth requirements for existing services, along with our large outstanding commitment to reform. The cumulative effect of these pressures for increased spending in 1970-71 has been enormous, making our task of expenditure rationing extremely difficult.

The recent Tax Structure Committee exercise clearly illustrated the magnitude of expenditure claims on this 1970 budget. In our submission to the Tax Structure Committee, we projected 1970-71 expenditures at \$5,037 million and revenues at \$4,690 million, producing a potential deficit of \$347 million. For the particular purposes of that exercise, expenditures and revenues were on a gross basis — including federal transfers on both sides and the gross costs and revenues of the Ontario Hospital Services Commission — whereas we customarily speak of net provincial expenditure and net provincial revenue. Translating the Tax Structure Committee projections into net terms, our expenditures were forecast at \$3,985 million and our revenues at \$3,638 million, still leaving a potential deficit of \$347 million.

The Tax Structure Committee projection of \$3,985 million for expenditures was based on the five-year forecasts prepared by each department and agency of the Government during the summer of 1969. As such, it reflected the outlays needed to maintain existing services, to provide for normal expansion due to population growth, to cover normal price increases and to finance our commitments to local governments. By the year-end, however, many departments had revised their forecasts upward in recognition of increasing unemploy-

ment, rapidly rising prices and higher costs of municipal reform commitments. In short, even the Tax Structure Committee figure of \$3,985 million was an inadequate measure of the spending required to meet the Province's real needs in 1970-71.

Financial considerations make it imperative for the Government to continue its expenditure restraint in 1970-71. In order to avoid tax increases we have cut back our spending as far as possible. Consequently, the expenditure package I am presenting calls for a total outlay of \$3,728 million in 1970-71, a reduction of \$257 million from the projection of the Tax Structure Committee. Together with \$101 million more revenues than originally expected, this expenditure curtailment will permit the Government to attain a financial balance in 1970-71, as is shown in the accompanying table.

Reconciliation of Tax Structure Committee Projections and The Actual 1970-71 Budget

	(\$ million)		
	Expenditure	Revenue	Surplus or (Deficit)
TSC Gross	5,037	4,690	(347)
Less Federal Transfers	770	770	
Less OHSC Premiums	282	282	
TSC Net	3,985	3,638	(347)
Expenditure Cuts and Adjustments since TSC	-257		
Revised revenues since TSC		101*	
1970-71 Budget	3,728	3,739	11

*Includes \$73 million due to speed-up of personal income tax transfers from the federal government.

We have managed to hold 1970-71 expenditures to \$3,728 million by applying strict guidelines to provincial own-account spending. These guidelines limit 1970-71 capital expenditures in nearly every area to 1969-70 levels. Also, direct operating expenditures have been limited to a 6 per cent increase over 1969-70. These restraint guidelines reduced departmental budgets by about \$100 million. In addition, we have funded, over two years, obligations that otherwise would have fallen entirely in 1970-71. It is interesting to note that the federal government adopted a similar practice in funding its new program of assistance to wheat farmers.

On the capital lending side, we have also exercised maximum restraint in this budget. Excluding debentures issued on behalf of the Ontario Hydro-Electric Power Commission, our 1970-71 loans and advances will amount to \$601 million, up from \$533 million in 1969-70. Almost all of this increase in provincial capital financing will go into

areas of urgent need: housing, water and sewerage projects, and loans to municipalities.

Generally, we have designed our spending and lending program for 1970-71 to do all that is urgently required, yet still contain total provincial and municipal outlays. Our increased support to school boards, in particular, has been provided to control total education spending and give real relief to local taxpayers. We are confident that local governments in Ontario will join the Province in drawing up moderate and responsible budgets for 1970.

The Changing Composition of Provincial Spending

Before discussing our specific spending allocations for the next year, I should like to present our provincial expenditures in a different perspective. In my last budget, I documented the Government's long-run emphasis on the priority areas of education, health, housing, and aid to local governments, and showed that these are the fastest-growing and largest segments of the total budget. This year, I want to focus on the dynamics of our expenditure structure from another viewpoint by considering the diminishing proportion of total outlays that the Province spends and invests itself, and the increasing proportion it transfers to other spending units. It is this ongoing shift from own-account spending to transfer payments that makes our task of overall expenditure rationing and restraint so difficult.

Provincial net general expenditures fall into three broad categories: own-account operating expenditures, own-account capital investments and transfer payments. Own-account operating expenditure comprises civil service wages and salaries, and general administration costs. Capital investments consist of expenditures on physical assets such as highway construction, land acquisition and public works projects undertaken directly by provincial departments. Transfer payments include all of the grants, payments and subsidies that the Ontario Government makes available to persons, to institutions and to local governments. In addition to net general expenditures, the Province provides substantial non-budgetary outlays in the form of loans and advances to school boards, hospitals, universities, municipalities and other institutions. These loans and advances represent financial assets rather than physical assets of the Province, though in economic terms their impact is much the same as direct capital formation by provincial departments.

As the accompanying table shows, more and more of our provincial expenditures are being taken up by transfer payments, while own-account spending and investment are diminishing in relative im-

Changing Composition of Ontario's Spending & Investment

	1967-68		1970-71	
	\$ Million	Per Cent of Total	\$ Million	Per Cent of Total
Net General Expenditure				
1. Own-Account Expenditure				
Direct Operating	627	27.7	837	22.4
"Take-Over" Programs	—	—	89	2.4
	627	27.7	926	24.8
2. Capital Investment				
Road Construction	173	7.7	186	5.0
Public Works	46	2.0	47	1.3
Other (Land Purchases, GO, etc.)	35	1.5	44	1.2
	254	11.2	277	7.5
3. Transfer Payments				
To Persons	105	4.6	362	9.7
To Institutions	426	18.8	742	19.9
To Local Authorities	843	37.2	1,403	37.6
To the Business Sector	10	0.5	18	0.5
	1,384	61.1	2,525	67.7
TOTAL NET GENERAL EXPENDITURE	2,265	100.0	3,728	100.0
Loans And Advances				
Education	274	63.6	375	62.4
Water and Sewerage Projects	34	8.0	92	15.3
Housing	14	3.2	35	6.0
Other	109	25.2	99	16.3
	431	100.0	601	100.0
TOTAL LOANS AND ADVANCES	431	100.0	601	100.0
Details Of Transfer Payments				
To Students	22	1.0	43	1.2
To Medical Services	27	1.2	249	6.6
To Welfare Recipients	54	2.3	64	1.7
To Others	2	0.1	6	0.2
Total to Persons	105	4.6	362	9.7
To Universities, CAATS & Ryerson	220	9.8	468	12.6
To Hospitals	139	6.2	176	4.7
To Children's Aid Societies, etc. ...	13	0.5	18	0.5
To Others	54	2.3	80	2.1
Total to Institutions	426	18.8	742	19.9
To Municipalities	246	10.9	460	12.3
To School Boards	583	25.7	919	24.7
To Others	14	0.6	24	0.6
Total to Local Authorities	843	37.2	1,403	37.6
To the Business Sector	10	0.5	18	0.5
TOTAL TRANSFER PAYMENTS	1,384	61.1	2,525	67.7

portance. Over the period 1967-68 through 1970-71, own-account expenditures have declined from 28 per cent to 25 per cent of net general expenditure. Similarly, provincial capital investment has fallen off from 11 per cent to 7 per cent of net general expenditure. Transfer payments, on the other hand, have risen from 61 per cent to 68 per cent of our total budgetary outlays.

The major factors accounting for this dramatic shift in our expenditure structure become clear when one looks at the internal components of each of these broad spending categories. Turning first to the own-account category, it is evident that civil service costs are declining in relative importance as the provincial budget expands. In 1967-68 these direct operating costs took up 28 per cent of total spending, while in 1970-71 they will account for less than 25 per cent of net general expenditure. This trend reflects the achievement of increasing economies of scale, in addition to our own efforts to contain growth in this area to the minimum consistent with effective government operations. Since 1967-68, there have been three significant new charges against own-account spending resulting from our "take-over" of the administration of justice, the municipal assessment and the medicare program. If these expansions in provincial responsibility are excluded, our regular own-account operations would consume only 22 per cent of 1970-71 net general expenditures.

Provincial direct investment is also declining in relative importance as the total budget grows. In 1967-68 capital investment in physical assets amounted to \$254 million or 11 per cent of overall spending; in 1970-71 capital investment will take up \$277 million or only 7 per cent of our net general expenditure. Two factors account for this trend. First, the Government has followed a deliberate policy of holding down public works spending over the past few years as part of its austerity measures. Second, our outlays for new highway construction have levelled off since 1967-68, following the massive build-up of earlier years. However, capital investment in the form of loans and advances has expanded strongly since 1967-68, particularly in the vital areas of education, housing, and water and sewer facilities.

Transfer payments, on the other hand, are consuming an increasing share of our total spending and are causing most of the pressure on the provincial budget. Between 1967-68 and 1970-71 transfer payments have grown from \$1,384 million to \$2,525 million, or from 61 per cent to almost 68 per cent of total provincial expenditures. The introduction of medicare — the net costs of which are shown as transfer payments for medical services — has raised the 1970-71 total transfer payments somewhat. Nevertheless, it is clear that our transfer payment programs are outpacing the growth in provincial

spending as a whole. For example, payments to universities, Colleges of Applied Arts and Technology and Ryerson Polytechnical Institute have more than doubled from \$220 million in 1967-68 to \$468 million in 1970-71. Grants to school boards — including our contribution to teachers' superannuation funds and our vocational construction grants — have risen from \$583 million to \$919 million. Payments to municipalities are up by 87 per cent from \$246 million in 1967-68 to \$460 million in 1970-71. Provincial spending in these areas represents built-in commitments or open-ended programs of financial support. These commitments are growing rapidly and are not amenable to large discretionary changes in the short run. Consequently, we can anticipate that transfer payments will continue to place a heavy strain on the Government's financing capacity.

Highlights of the 1970-71 Expenditure Program

As I have previously indicated, our net general expenditures for 1970-71 will amount to an estimated \$3,728 million. This is \$462 million higher than our spending program in 1969-70. We have allocated the bulk of this overall increase to five departments:

- \$128 million to EDUCATION, largely to increase support to school boards and for expanded operation of our Colleges of Applied Arts and Technology;
- \$110 million to HEALTH — after taking into account the reduced 1970-71 contribution to the hospital insurance plan made possible by our extra contribution in 1969-70 — to provide for operation of medicare over a full fiscal year, to expand our medical teaching facilities and to maintain our mental health program;
- \$65 million to UNIVERSITY AFFAIRS, largely to finance a 6 per cent increase in the basic income unit to bring it up to \$1,650 for 1970-71;
- \$37 million to MUNICIPAL AFFAIRS, to provide increased financial support to municipalities, to assume the costs of municipal assessment, and to finance supplementary tax relief to pensioners; and,
- \$37 million to HIGHWAYS, to maintain our highway construction and maintenance programs, and to underwrite a larger share of road construction and maintenance by cities and separated towns.

The balance of increased expenditure is spread across the departments generally, most of it going to meet normal growth and increased costs of existing services. In addition to our net general

expenditures, we are providing \$601 million in loans and advances for 1970-71, an increase of \$68 million over the current year. This increased capital aid will be allocated to housing, water and sewerage projects, and debt financing for smaller municipalities.

Following the convention of previous years I will table, along with this budget, the Government's 1970-71 Estimates, showing the complete detail of our proposed expenditures by department, program and activity. I would also remind the Members that the significant features and important items of our 1970-71 expenditures are summarized in Budget Paper C, which accompanies this statement. At this time, therefore, I should like to concentrate on the policy highlights of our 1970-71 expenditure program and to outline the new directions and new initiatives proposed by the Government for the coming year.

Reform. Of all of our objectives for 1970-71, we have accorded the highest priority to reform. We have provided for substantially increased financial aid to local governments and have initiated a new program of supplementary tax relief to elderly pensioners with limited incomes. Altogether, these reform measures add \$135 million to the long-term financing load borne by the Province.

Pollution Control. This budget also accelerates the Ontario Government's program for effective pollution control. We are proposing three new expenditure measures to strengthen our campaign for environmental improvement.

First, we intend to initiate a five-year program of tax-expenditure grants to encourage industry to install anti-pollution equipment. These grants will be equivalent to the Ontario retail sales tax paid by industries on approved pollution abatement equipment. As a parallel move, we intend to replace existing sales tax exemptions on anti-pollution equipment purchased by municipalities with tax-equivalent grants. As well, the incentive will be broadened to include water treatment equipment and incinerators, and will be extended to schools, hospitals and universities. These tax-expenditure grants, effective April 1, will be carried out under the Minister of Energy and Resources Management and are expected to cost approximately \$2 million in 1970-71. Second, we are establishing a new program under the Ontario Development Corporation to make loans to small businesses, at favourable interest rates, for the purchase of anti-pollution equipment. In 1970-71 we are allocating \$5 million to the ODC for such anti-pollution loans. Third, the Ontario Water Resources Commission will broaden its program to include capital assistance to small municipalities for sewage treatment plants and water pipelines. In 1970-71, these OWRC capital grants to municipalities will amount to \$5.4 million.

These three expenditure initiatives will be reinforced by a new anti-pollution incentive on the tax side, which I shall outline shortly. In addition, of course, the Province will continue its own large program of direct spending to combat pollution. This represents a co-ordinated package of policies designed to achieve and preserve a clean environment for Ontario citizens.

Ontario Mortgages for Housing. Ontario is keenly aware of the difficulties of many potential homeowners, caused by the extremely tight mortgage market. We are proposing in this budget, therefore, to take direct steps to fortify the supply of mortgage money for home ownership. In 1970-71, we will set up a \$50 million capital fund under the Housing Corporation Limited to provide first and second mortgages to purchasers of new dwellings. This initial allocation of \$50 million will finance approximately 3,000 mortgages. The interest rate on these Ontario mortgages will be the same as the rate for direct loans made by the Central Mortgage and Housing Corporation. The terms will include a maximum loan of 95 per cent of the lending value of the dwelling and repayment periods up to 35 years.

Additional Insured Health Services. As part of its expanding program to provide a high level of health care in Ontario, the Province intends to broaden the benefits available under the Ontario Health Services Insurance Plan. Beginning on July 1, 1970, certain services provided by chiropractors, podiatrists and osteopaths will be eligible as insured service under OHSIP. It will be necessary, however, to prescribe annual limits on these new services. The specific details of this extended coverage will be outlined to the Members by my colleague, the Minister of Health. We anticipate that this enrichment of our health insurance plan will cost approximately \$7 million in a full fiscal year.

Summing up. The four areas which I have just discussed represent the policy highlights of our 1970-71 spending program. Within our total outlay of \$3,728 million for 1970-71 there are, of course, many other important and progressive items. We have increased our spending on day nurseries by 50 per cent, for example, in order to expand this vital service to working mothers. The Government has also recognized the need to re-examine the adequacy of existing welfare and assistance payments. The Department of Social and Family Services is now reviewing our programs in this area. Upon completion of that review, we are prepared to revise our 1970-71 budgetary allocation for these basic income maintenance programs. In other areas as well, we are prepared to be flexible and to revise our budgetary plans as the year progresses, both for the purpose of maintaining the thrust of our priority and reform program and to keep

our fiscal operations finely tuned to changing economic conditions. In all, I believe that the 1970-71 spending program we have drawn up represents a prudent and progressive use of resources available to the Government.

TAX CHANGES

As I have said, there will be no tax increase in the coming fiscal year, either in the form of increased rates on existing taxes, or through the introduction of new taxes. In fact, I shall ask the Members to approve positive measures to provide substantial tax relief to both individuals and industries.

In determining our fiscal policy for 1970-71, we have consciously restricted expenditure growth within the limits of our existing financial capacity, in order to relieve the pressure on the tax system and to avoid further tax increases. As emphasized in our white paper on tax reform last year, we are well aware that the benefits of expenditure increases are in danger of being offset by increases in tax burdens, and that, in a meaningful way, reform must aim to halt tax increases as well as to redistribute tax loads on a more equitable basis. In determining our tax policy for 1970-71, we have been obliged to take the following factors into consideration:

- the national and provincial economies are in a period of extremely delicate balance between reduced and renewed economic growth, with particular signs of a weakening employment situation alongside continued inflation;
- while it is unnecessary and inappropriate to increase taxes at this time, it is equally important that tax reductions and relief should not detract from the viability of the Province's basic tax system in terms of its long-run revenue growth capacity; and,
- the limited capacity for tax relief should be used with maximum effectiveness in terms of achieving increased equity and promoting economic activity.

On the basis of these considerations we intend to recommend selective tax relief in three major areas:

- succession duties;
- retail sales tax on certain production goods; and
- corporation tax relief for environmental pollution control.

Succession Duties

In the white paper reform program described in the 1969 budget the Ontario Government announced its intention to phase out succession duties while introducing a capital gains tax. In the interim, the federal government has published its proposals to introduce capital gains taxation. The federal proposals do not involve compensating changes in estates taxation, which we believe is in critical need of reform in terms of the total taxation of wealth. At this point the federal reform proposals are being subjected to intensive public debate and scrutiny. In addition, only preliminary discussions have taken place on how the Province will participate in the proposed new federal tax system. As a result, it is not possible to discern the outcome in the particular area of estates taxes and succession duties.

The Ontario Government is convinced that it is necessary to introduce immediate relief in this area to ensure progress towards our ultimate reform objectives. We propose, therefore, to present legislation to effect the following changes in respect of deaths occurring after midnight this day, March 31, 1970:

- the exemption for widows will be increased from \$75,000 to \$125,000;
- the present restrictions related to widowers will be removed and the exemption will be \$125,000;
- the exemptions granted to widows and widowers will be extended under certain circumstances to surviving common-law wives and husbands; and,
- in the event of the death or remarriage of an annuitant within four years of the death of the deceased, revaluation of assets is to be permitted, upon application, to take account of the reduced capital value of the annuity.

The proposed changes will provide substantial relief in the succession duties field. The increase in the exemption for widows to \$125,000 recognizes the changes in living costs and will mean that less than one per cent of the estates assessed will involve duty payable by a widow. The granting of the same exemption to widowers and widows will recognize the interdependency of partners in a marriage. Similarly, the reform in respect of common-law spouses will relieve unnecessary hardships and bring the law into line with current social attitudes. These moves are in line with the recommendations of the Ontario Committee on Taxation and the Select Committee of the Legislature.

The impact of the proposed relief for annuitants can best be described by the example of a widow who is the beneficiary under a

pension plan provided by her deceased husband. Under existing law, the value of an annuity is related to the life expectancy of the widow. This may give rise to an excessive duty in the event of the subsequent early death or remarriage of the widow. The proposed amendment will reduce this burden in the event that the annuity is terminated due to the death or remarriage of the widow within four years of the death of her husband.

The anticipated revenue loss resulting from these proposals will be in the order of \$3.0 million in 1970-71, and will increase to about \$4.5 million a year as the new system matures.

Retail Sales Tax

The second area in which we propose to introduce significant tax relief is in the application of the retail sales tax to certain production goods. Our purpose is to assist industry in reducing costs and in improving competitive positions, as well as helping to defuse inflationary pressures on the economy.

In 1969 we extended the retail sales tax to cover production machinery in general. This was a deliberate policy move to strengthen our long-term tax base, to simplify the taxation of business purchases, and to increase the neutrality of taxation among different types of industries. Following intensive analysis of the retail sales tax in this area, we are now prepared to introduce further refinements to improve the economic efficiency of the tax. This covers the removal of the present 5 per cent tax from a number of production tools that are subject to extraordinarily rapid replacement from wear-and-tear, or that have a very short economic life. These exemptions will be particularly helpful to industries in which short-lived production tools account for a high proportion of production costs.

We propose, therefore, to exempt from the retail sales tax the following items when used directly in the manufacturing process:

- tools attached to production machinery that are used for milling, grinding, pressing, and similar purposes;
- explosives; and,
- refractory materials, such as fire bricks and retorts.

The estimated revenue loss from these exemptions is over \$7 million annually. The effective date of implementation will be June 1, 1970.

Corporations Tax

The third area of tax relief relates to the high priority we have given and will continue to give to the problem of bringing all forms of environmental pollution under control. I have already described the three-pronged effort we are making in the expenditures area, involving 5 per cent grants on anti-pollution equipment generally, selective loans to businesses on a needs basis, and the direct outlay of public funds under a number of integrated programs. At this point, however, I wish to announce a fourth move in the tax area that will directly complement those on the expenditure side.

In his budget on March 12, 1970, the federal Minister of Finance announced the extension, for three years, of the special provisions for the accelerated write-off of the capital costs of industrial pollution control equipment. He also announced that these provisions would be extended to include air as well as water pollution control equipment. I should like at this time to thank the federal Minister of Finance on behalf of the Ontario Government and welcome his move as a valuable support of our own efforts. More importantly, we will extend to the end of 1973 the accelerated capital cost write-off provisions for water pollution control equipment under our own corporation income tax system. Similarly, we will make provisions in our own income tax system for air pollution control equipment at the same time that these provisions are enacted under the Income Tax Act (Canada). The joint effect of these federal and provincial initiatives will be to allow firms to depreciate the cost of water and air pollution control equipment in two years. For the Ontario Government the extension of accelerated depreciation will cost about \$2 to \$3 million in loss of corporation tax revenue in 1970-71.

I am confident that this tax move, together with those outlined on the expenditure side, constitutes an effective program to facilitate pollution control. This program will continue to keep Ontario in the front ranks of North American jurisdictions in this high-priority area. I am certain that industry will respond to government aid and support. However, I must emphasize that we also expect industry to accept pollution control as an ordinary cost and responsibility of doing business.

FINANCIAL POSITION FOR 1970-71

I will now summarize our overall budget position for the 1970-71 fiscal year.

Since there will be no tax increases in 1970-71 our revenue yield will depend primarily on the growth performance of the Ontario

economy. As I have already said, the outlook for 1970 is less buoyant than in previous years. Our 1970 fiscal program, however, will generate a moderate but positive reinforcement to economic activity; hence, I am basing my revenue forecast on an expansion of Gross Provincial Product of 7 per cent.

I expect our total revenues to reach \$3,739 million in 1970-71. Revenues from personal income taxes should rise by \$186 million, of which \$73 million represents an anticipated speed-up in the transfer of collections from the federal government to the Province. It might be noted here that, prior to the last meeting of the Tax Structure Committee, we had not expected this once-and-for-all revenue gain from an improved income tax payments flow. I expect the retail sales tax to yield an additional \$42 million in 1970-71, the gasoline tax a further \$18 million, and post-secondary education adjustment payments an increase of \$46 million. However, corporation tax receipts are expected to be \$23 million below the 1969-70 level as a result of several factors, including the anticipated decline in corporate profits and the absence of the once-and-for-all gains from acceleration in 1969. Revenue from all other sources, including medicare premiums for a full fiscal year, will add a further \$178 million, bringing our total revenue increase expected for 1970-71 to \$447 million.

Against our projected revenues of \$3,739 million in 1970-71, we have planned an expenditure program of \$3,728 million, leaving a budgetary surplus of \$11 million for next year. Non-budgetary sources of finance, including borrowings from the Canada Pension Plan, are expected to yield \$806 million, while non-budgetary disbursements should amount to \$743 million, producing a non-budgetary surplus of \$63 million. After allowing for net debt retirements of \$56 million, we should end the 1970-71 year with a small increase in our liquid reserves.

	\$ Million
Net General Revenue	3,739.3
Net General Expenditure	3,728.0
Budgetary Surplus	+ 11.3
Non-Budgetary Surplus	+ 62.5
Net Debt Retirements	- 55.6
Overall Change in Liquid Reserves	+ 18.2

CONCLUSION

Mr. Speaker, I have set before you and the Members a constructive budget which meets the economic and social requirements of 1970 and charts Ontario's course for the years ahead.

- It provides positive stimulus to our weakening economy.
- It holds down spending within the limits of present financial capacity.
- It accords the highest priority to reform and to relief for municipal taxpayers.
- It reduces provincial taxes to provide incentives and to moderate excessive burdens.
- It provides special help to pensioners on limited incomes, who have been hardest hit by inflation.
- It finances a broad package of new policies to improve the quality of the environment.
- It carries forward essential provincial services and investments.

Given the approval of the Members, the program outlined in this budget should enable Ontario to move ahead vigorously into the 1970s and to provide an environment in which our citizens can be proud and happy.

Appendix to Budget Statement
DETAILS OF TAX CHANGES

SUCCESSION DUTY

Changes Effective in Respect of Deaths Occurring After Midnight March 31, 1970:

1. Increase in Widow's and Widower's Exemption

- (a) The exemption for widows will be increased from \$75,000 to \$125,000. The corresponding credit, when duty is payable, will be increased from \$4,743.75 to \$11,500.00.
- (b) The exemption for all widowers will now be \$125,000. The corresponding credit, when duty is payable, will be \$11,500.00.

2. Common-law Wife or Husband

Under certain circumstances, a widow or widower will include a surviving common-law spouse of a deceased person.

3. Revaluation of Assets within Four Years

An amendment will permit a revaluation of assets that at the time of the original assessment could only be valued in accordance with tables of present values of annuities. The revaluation will be permitted upon application, where within four years of the date of death there occurs an event, such as a death or change in marital status of a beneficiary, as a result of which the terminable interest has terminated.

RETAIL SALES TAX

Changes Effective June 1, 1970:

The following production items with a relatively short useful life will be exempt from the 5 per cent retail sales tax when used by manufacturers or producers in the production of goods;

- (a) dies, jigs, fixtures, moulds and patterns used in their manufacture; and tools for use in or attachment to production machinery that is used to work materials by turning, milling, grinding, polishing, drilling, punching, boring, shaping, sheering, pressing or planing;

- (b) explosives;
- (c) fire brick, retorts, plastic refractories, high temperature cement, fire clay and other refractory materials and materials to be used or consumed exclusively in the manufacture thereof.

CORPORATIONS TAX

1. Water Pollution Control Equipment

The provisions for accelerated depreciation allowances for water pollution control equipment will be extended to cover purchases for a further period to December 31, 1973.

2. Air Pollution Control Equipment

Accelerated depreciation allowances for air pollution control equipment will be provided for in the same manner and for the same period as may be provided under the Income Tax Act (Canada).

Budget Papers

Presented by the
Honourable Charles MacNaughton
Treasurer and Minister of Economics
for the information of the
Legislative Assembly of Ontario
in connection with the
Budget for the fiscal year
1970-71

A	The Public Sector and Economic Policy	39
B	The Structure of Public Finance in Ontario	63
C	Government Financial Statements.....	87

The Public Sector and Economic Policy

TABLE OF CONTENTS

I Inflation and Government Policies in 1969	41
The Problem of Inflation	41
Government Policies in 1969	41
II Economic Stabilization Policies in 1970	44
Present Policies of Governments	44
The High Cost of Unemployment	45
Is Inflation Caused by Goods-Producing Industries?	45
International Factors	46
The Regional Aspects	46
III The Structural Problems of Inflation	47
The Growth of the Public Sector	47
Tax "Feed-Back" and Inflationary Cycles	48
Urbanization and Population Growth	49
Costs in the Public Sector	50
The Special Importance of Housing	51
IV Co-ordinating Economic Policy in Canada	51
The Economic Objectives of Federalism	52
The Weakness in Existing Mechanisms of Co-ordination	53
The Importance of the Provincial-Municipal Sector	53
Economic Data Requirements	53
Sectoral Stabilization Policies	54
Co-ordination of Tax Policies	55
Conclusion	57
Appendix: The Economic Outlook	58

THE PUBLIC SECTOR AND ECONOMIC POLICY

This paper is presented by the Ontario Government as a first step to stimulate a broader and more intensive inquiry into the theory and practice of economic policy co-ordination in the Canadian federal system. For the past three years, Budget Paper A has provided a review and outlook for the Ontario economy. In recent months, however, public discussion of economic developments has been sufficiently thorough to make a reiteration of the basic facts unnecessary.¹ This paper will concentrate, therefore, on the larger question of the formation of public policies to reduce inflation and to achieve full employment growth and balanced development of the public and private sectors of the economy. The achievement of these fundamental goals will require new initiatives by governments.

I INFLATION AND GOVERNMENT POLICIES IN 1969

The Problem of Inflation

Like most industrial economies, Canada generated inflationary pressures as it moved towards high levels of economic growth and employment in the late 1960s. The major problem confronting Canadian governments today, however, is the persistence of strong inflation in the face of an economic slowdown, a slowdown caused largely by restrictive monetary and fiscal policies designed to reduce inflation. This apparent inconsistency of persistent inflation in the face of a softening economy indicates the existence of fundamental imbalances in the economy. The aim of this paper, therefore, is first to identify the imbalances which make inflation structurally endemic, and second to raise the question of the design and application of remedial policies.

Government Policies in 1969

In the past year, the federal government's fiscal and monetary policies have been directed almost exclusively toward the containment of inflation. Increases in federal expenditure were reduced below the growth of revenue to produce a budgetary surplus in 1969-70. A further surplus is planned for 1970-71. Credit availability has been limited and interest rates have risen sharply. In mid-1969, the federal government introduced a deferral of depreciation allowances on new commercial

¹The highlights of Ontario's economic performance in 1969 and of the forecast for 1970 are contained in an appendix to this Budget Paper.

buildings in selected urban centres. The extension of this measure into 1970 is designed to reduce the level of construction activity, particularly in metropolitan Toronto.

At the same time, provincial and municipal governments trimmed expenditure growth in 1969-70. The difficulties of raising long-term capital and the constraints of revenue growth emphasized the need to control expenditures and to balance budgets. The net effect at the provincial-municipal level has been a reinforcement of federal fiscal and monetary policy and a deceleration of growth in the public sector.

Definite signs appeared by late 1969 that restrictive policy actions were affecting economic growth across Canada. While Gross Provincial Product in Ontario grew by 9.6 per cent in 1969, the growth rate is not expected to exceed 7.0 per cent in 1970. In Canada as a whole the growth rate is expected to fall from 9.3 per cent in 1969 to 6.8 per cent in 1970. Two difficult problems will continue to confront government economic policy in 1970. First, current monetary and fiscal policies appear to be affecting production and employment as much as prices. Second, the burden of this economic adjustment is occurring with particular severity in eastern Canada in the form of rising unemployment; in addition, there are now definite signs of rising unemployment in Ontario.

Tables 1 and 2 contrast the course of inflation and unemployment in Canada in 1969. On the one hand, Table 1 indicates a modest decline in the rate of inflation in 1969, in terms of changes in implicit GNP prices. The peak period of pressure was in the second quarter of 1969 when the overall level of inflation was equal to an annual rate of 7.5 per cent. By the fourth quarter, however, prices were estimated to be rising less rapidly, although there have been signs of continued inflationary strength in early 1970.

Table 1
Per Cent Changes in GNP Implicit Price Deflator
 (Seasonally Adjusted, Annual Rates)

1968			1969			
II	III	IV	I	II	III	IV
2.8	4.0	3.6	2.9	7.5	4.5	2.2

Source: Dominion Bureau of Statistics, *National Income and Expenditure Accounts*, Ottawa, Catalogue No. 13-001.

On the other hand, Table 2 reveals a worsening in unemployment in 1969. On an annual basis the regional picture is mixed: unemployment has been increasing in Quebec and the Atlantic Provinces,

Table 2
Regional Percentage Unemployment Rates
 (Seasonally Adjusted)

	1968	1969	1969 - Quarterly			
			I	II	III	IV
Atlantic	7.3	7.8	6.5	8.1	8.8	7.8
Quebec	6.5	7.0	6.3	7.0	7.2	7.4
Ontario	3.6	3.2	2.8	3.4	3.1	3.5
Prairies	3.0	3.0	2.6	2.9	3.0	3.3
British Columbia	5.9	5.0	5.0	4.5	5.1	5.4
Canada	4.8	4.7	4.2	4.8	4.9	5.1

Source: Dominion Bureau of Statistics, *The Labour Force*, Ottawa, Catalogue No. 71-001.

holding steady in the Prairie Provinces, and falling in Ontario and British Columbia. In all cases, however, unemployment was higher in the fourth quarter than it was in the first quarter of 1969.

While first-quarter data for 1970 are incomplete, current indicators point to increasing economic weakness this year. For example, the reduction in the rate of economic growth in Ontario to about 7 per cent implies an increase in average unemployment rates from 3.2 per cent in 1969 to over 4 per cent in 1970. Supporting this expectation are anticipated slowdowns in consumer purchases of durables, exports, residential construction and corporate profits. The rate of increase in prices is expected to decline nominally from 4.3 per cent in 1969 to 3.9 per cent in 1970. Such developments in Ontario will be matched by similar trends elsewhere in Canada, particularly in the Prairies, Quebec and the Atlantic Provinces.

In conclusion, Ontario and Canada have entered 1970 in a state of considerable uncertainty, with the economy showing symptoms of the early stages of a recession. In early 1969, by contrast, buoyant employment and persistent inflation presented a clearer set of targets for economic policy. Current expectations pose serious doubts about the wisdom of maintaining the single-purpose thrust of monetary and fiscal policies against inflation.

Governments must reappraise the cost of continued deflationary policies in terms of increased unemployment and below-potential economic growth. Consideration must be given to the implications of further restraint at the provincial-municipal level in terms of the accumulation of serious shortages in essential economic and social services and facilities. It is far from certain that the continued application of broadly restrictive monetary and fiscal policies will be effective

in preventing increased inflationary pressures. These questions suggest the need for a basic re-examination of the ways in which government policy instruments can be used more flexibly and selectively to achieve orderly economic growth without inflation.

II ECONOMIC STABILIZATION POLICIES IN 1970

This section examines the effectiveness of economic stabilization policies in counteracting inflation in Canada today. It underlines the urgent need for a more extensive intergovernmental analysis of existing economic policies. However, the discussion will be confined to the central issues and measures.

Present Policies of Governments

The federal government has stated its remedy for inflation: reduce the growth of aggregate demand even if this means increasing unemployment. In addition, some measures have been devised to have a special restraining influence on the growth regions of Ontario, Alberta and British Columbia. In its diagnosis of the problem, the federal government has maintained that excess demand in the growth regions is causing an inflationary surge in costs and prices that is over-lapping into other regions.

The Ontario Government made a commitment in its 1969 Budget Statement to achieve a surplus in the 1969-70 fiscal year. This policy was adopted because the economy was sufficiently buoyant to absorb anti-inflationary restraints without creating unemployment. For 1970-71 the Ontario budget is holding to a prescription of modified restraint by avoiding inflationary tax increases and new demands on domestic capital. However, it will be moderately expansionary to offset the worsening employment situation.

Budget Paper B examines the role and impact of the fiscal operations of the various levels of government in Ontario. It demonstrates that federal fiscal actions have a built-in tendency to restrain economic growth in Ontario. In times of increased federal restraint this "fiscal drag" in Ontario increases faster than in other regions. For example, in 1968-69, Ontario was subjected to a heavy burden of restraint by federal tax and expenditure policies equivalent to a 6.25 per cent loss of provincial personal incomes. In 1969-70, Ottawa's target of an overall federal surplus withdrew about \$1.8 billion from Ontario businesses and residents which increased the "fiscal drag" to more than 7 per cent of personal incomes. Any further measures of economic tightening could cause increased unemployment and a recession whose repercussions would be felt throughout Canada.

The High Cost of Unemployment

The Ontario Government recognizes that the control of inflation has a high priority among economic policies. However, it does not agree that the objectives and methods of current fiscal and monetary policy are irrefutable. If the federal and provincial governments continue to retard economic growth, Canada could experience both higher unemployment and inflation as in the mid- and late 1950s. The basic strategy of price containment through tight monetary and fiscal policy measures has a number of disadvantages:

- it is economically wasteful because it puts people out of work and limits the nation's growth capacity;
- the less-developed regions suffer most;
- it hits industries indiscriminately and regardless of their direct influence on prices;
- it hurts smaller businesses and raises the cost of doing business;
- it restricts the supply and raises the cost of housing;
- it is accompanied by rising unemployment, hitting hardest at low-income earners and unorganized labour;
- it results in slower growth, lowering capacity utilization and productivity, and raising the unit costs of production;
- even if inflation is cured, the problem of the eroded purchasing power of the fixed-income groups remains unless compensation is provided.

Ontario, with a rapidly growing population and labour force, needs a continuous stream of private and public investment to create new jobs and raise living standards. Any attempt to cure inflation by creating unemployment runs counter to the Ontario Government's objective of keeping unemployment at no more than 3 per cent of the labour force. This is a reasonable economic objective and it is imperative that a more sophisticated strategy than induced unemployment be found to cure inflation. The Ontario Government is not willing to accept the view that unemployment is a just and effective way of solving the problem. The effects will fall on the lowest income-groups in the community. It is inconsistent to propose economic goals of tax equity to help these citizens, while contributing to their loss of livelihood as the price of solving inflation.

Is Inflation Caused by Goods-Producing Industries?

Inflation has not been a severe problem in most of the manufactured goods industries. There is evidence of the moderate price

behaviour in manufacturing industries in the index of consumer prices: durable goods' prices in 1969 rose by only one per cent. Prices of consumer non-durable goods, excluding food, were up by 3.1 per cent, which represented a sharp reduction from the 4.5 per cent of 1968.

The demand for consumer durable goods has weakened in recent months. Unemployment and lay-offs are increasing in those Ontario communities that rely on durable goods industries. The proposed use of consumer credit controls could reduce the already faltering demand for consumer durables. Further restrictive policies aimed at this sector could easily aggravate general recessionary tendencies.

International Factors

The international competitiveness of Canada is not immediately endangered by present inflationary trends. The major cost and price problems have been in goods and services produced largely for domestic consumption, for example, government services, construction, housing, food and personal and business services. It is likely that Canada's trading deficit on current account will be more affected by changes in economic growth here and in the United States, resulting from fiscal and monetary policies, than by an erosion of Canadian price competitiveness. The collapse of Canada's world wheat markets is of more immediate significance to the balance of payments and to regional economic health than price increases of manufactured goods.

The Regional Aspects

Federal policies are designed to deflate the Ontario economy. The recent federal budget extended the deferral of depreciation allowances on new commercial buildings in Ontario cities. Other selective measures included:

- a tighter restriction of federal spending and loan activities in Ontario than in other regions;
- persuasion of the banks to differentiate regionally in their lending policies;
- the proposal to control consumer credit, the impact of which will fall heavily on Ontario manufacturers of durable goods.

In total these policies constitute a broad, unitary-state application of economic policy rather than a co-ordinated, intergovernmental package to increase output and lessen price increases.

The inflexibility of these policies is demonstrated by their inability to resolve the problem of inflation without penalizing economic growth in Ontario, and their further inability to increase output in the under-

employed regions. High levels of unemployment have not stabilized prices in the low-growth regions. This is particularly relevant in the context of the alleged transmission of inflation from Ontario to other regions. Since little is known about inter-regional trade patterns, the assertion can neither be proven nor disproven with certainty.

A number of factors tend to produce uniform inflationary pressures in all regions. Among these are the effects of:

- monetary policy and the level of interest rates;
- the pace-setting wage and salary settlements for employees under federal jurisdiction;
- the steady increases in property taxes and provincial taxes across the country which register directly in price indexes and result in compensatory wage demands.

The use and extension of deferred depreciation allowances to cool off the construction industry must be acknowledged now as a failure. It underestimates the severe restraining effects of monetary policy and the strength and importance of service industry capacity; it has merely emerged as one more cost element in rising construction prices. This kind of device lacks real selectivity because it cannot discriminate according to local priorities. It is not likely to succeed without provincial-municipal economic planning support. The unilateral implementation of this measure and its subsequent failure are indicative of the urgent need for alternative methods of establishing regional economic stabilization policies.

III THE STRUCTURAL PROBLEMS OF INFLATION

This section examines some of the longer term structural problems in the Canadian economy encouraging inflation. Among these are public sector growth, the inflationary effects of tax increases, expansion of the service sector, population pressures, accelerated urbanization, and housing shortages. These longer-term structural forces are typically those which need co-ordinated long-run planning and cannot be effectively handled with short-run economic policies.

The Growth of the Public Sector

The competition between the public and private sectors in the 1960s was accompanied by intense intergovernmental competition for tax fields and unco-ordinated expansion of spending programs. Federal shared-cost programs, such as medicare, were imposed at a time when the public sector was already over-extended and unprepared to supply the required medical manpower inputs. On the finance side, the

federal white paper proposals on tax reform were introduced without consideration of the parallel problems of tax-sharing and integrated federal-provincial and municipal tax-structure reform.²

Public sector command of national economic resources grew from about 31 per cent of Gross National Product in 1960 to almost 35 per cent in 1969. Total government revenues, including Canada Pension Plan funds, increased from \$9.4 billion in 1960 to about \$24.7 billion in 1969, an increase of 164 per cent compared to a growth in Net National Income of 104 per cent.³ This expansion of the public sector was accomplished by bidding away resources from the private sector. This inevitably led to compensatory price and income demands in the economy at large and put pressure on labour costs in the construction and service industries.

Table 3
Expansion of the Public Sector in Canada: Public Sector Expenditures Expressed as a Percentage of Total Gross National Expenditure

	1960	1969
Public Sector Expenditures	%	%
Goods and services	18.6	19.8
Transfers to persons	8.7	11.0
Other payments	6.4	8.0
Total: (i) gross	33.7	38.8
(ii) excluding intergovernmental transfers	30.9	35.1

Source: Dominion Bureau of Statistics, *National Income and Expenditure Accounts* (unrevised), Ottawa, Catalogue Nos. 13-001 and 13-201.

Tax "Feed-Back" and Inflationary Cycles

Governments expanded their share of Gross National Product in the 1960s by raising taxes and incurring frequent deficits. In addition to the normal progressivity of personal income taxes there were increases in income tax rates, social security taxes, medical premiums, retail sales taxes, and property taxes, all of which accelerated the rate of growth of public sector revenues. Table 4 illustrates how the ratio of government tax revenues to personal income rose from 37 to 43 per cent, a structural shift that increased inflationary wage and salary demands.

²Ontario's views on integrated tax reform were set out in "Reform of Taxation and Government Structure in Ontario", *Ontario Budget 1969*, Ontario Department of Treasury and Economics, Taxation and Fiscal Policy Branch.

³Source: Dominion Bureau of Statistics, *National Income and Expenditure Accounts* (unrevised), Ottawa, Catalogue Nos. 13-001 and 13-201.

Table 4
Public Sector Revenues and Personal Income

	1960	1965	1969
1. Personal Income (\$ million)	25,075	35,149	57,002
2. Public Sector Revenues (\$ million)	9,360	14,729	24,745
3. Revenues as Per Cent of Income	37	42	43

Source: Dominion Bureau of Statistics, *National Income and Expenditure Accounts* (unrevised), Ottawa, Catalogue Nos. 13-001 and 13-201, public sector revenues exclude investment income, withholding taxes and federal transfers to the provincial-municipal sector.

Much of this revenue was fed back into the personal income streams, either as direct transfer payments or as benefits in the form of services. The indirect tax increases affected individuals psychologically, and registered statistically as inflation in the Consumer Price Index.⁴

While taxes are a compulsory diversion of personal and business income and savings, the public does not accept this as a non-negotiable fact. Wage, salary and fringe benefit demands, and the competitive bidding for personnel, are sensitive to tax changes for many months after they occur. There is, therefore, a dual aspect to tax changes; in the first round the taxes may register as a decline in personal disposable income; in the second round compensatory wage and salary adjustments occur in response to this reduction in disposable income. Technically, if the market place is relatively fluid, only one tax increase is required to move an inflationary wave through the entire range of goods and services. Taxes are powerful inflation generators because they apply across broad industrial and regional segments of the market rather than in isolated sectors.

Urbanization and Population Growth

During the 1960s the high-growth regions absorbed very large numbers of people. The population of Ontario grew by one-quarter and that of British Columbia by one-third. Table 5 shows the comparative changes for the various regions over the last ten years.

⁴It is a limitation of the present method of registering inflation in official statistics that, if there is an increase in public sector output which is financed by indirect taxes, then components of the Consumer Price Index will automatically increase, regardless of whether the public is "buying" an increased volume of public services with the increased taxes. In other words, if all public sector expansion in the 1960s had been financed by indirect taxes, then official statistics would have registered a significantly larger increase in the Consumer Price Index. On the other hand, if they had been financed entirely by increases in personal income taxes, the direct effect on statistical measures of consumer prices would have been zero, although the indirect effects of compensatory wage claims would have been registered in market prices at a later stage.

Table 5
Regional Population Growth in Canada — 1959-69
 (thousand)

	Population		Change 1969/59	
	1959	1969	(000's)	(%)
Atlantic	1,843	2,012	169	9.1
Quebec	5,024	5,984	960	19.1
Ontario	5,969	7,452	1,483	24.8
Prairies	3,046	3,499	453	14.9
British Columbia	1,567	2,067	500	31.9
Canada	17,483	21,061	3,578	20.5
Ontario as Per Cent of Canada	34.1	35.4	41.4	

Source: Dominion Bureau of Statistics, *Estimated Population of Canada by Province*, Ottawa, Catalogue No. 91-201.

Most of this growth occurred in the large urban centres. In the decade 1956-66 the absolute population of Ontario cities of 100,000 and over increased by 1.35 million persons, whereas the total increase in population in this period was about 1.50 million persons. This continuing concentration of people and economic activities in the larger cities has generated economies of scale in many industries, but it has also produced pressures on the availability of serviced land and land prices, as is evident in the growth of apartments and high-rise office blocks. It has also demanded massive public capital outlays for schools, roads, hospitals, universities, sewage systems, parks, and recreation and conservation areas. This type of growth pressure contributed strongly to price increases over the period.

Costs in the Public Sector

In addition to the inflationary bias of public sector growth, there has also been a rapid rise in unit costs in public services over the past decade. In part, this was a result of the intense competition for skilled personnel between the private and public sectors of the economy. The public sector's requirement for teachers, nurses and professional and managerial skills rose rapidly through the 1960s in response to the need to effectively staff and manage the large number of community service facilities brought into operation. Standards of public service performance and administration were raised and the price for the necessary skills had to be met in order to attract competent staff.

The growth in service industry and public sector employment was one cause of the rapid rise in wages and salaries for these groups. However, there was also a long-run pressure to narrow wage and

salary differentials between the public sector and the commercial sector. Although more restraint in the public sector might have lessened the strength of this movement, there would still have been a catch-up thrust in "service-occupation" salaries which would have occurred regardless of the impact of monetary and fiscal policy.

Inflation in operating costs and lags in the application of new technology have been a particularly severe and difficult problem in the provision of a wide range of public services. It is therefore a high priority of current Ontario Government policy to determine and to implement long-run managerial and technical changes in public services to improve productivity and lower unit costs. The Ontario Government's Productivity Improvement Project utilizes both business and government expertise to achieve these objectives. The establishment of a federal-provincial task force on cost-effectiveness in shared-cost programs is another example of the concern in this area and of the steps being taken to remedy the problem.

The Special Importance of Housing

Wage and salary demands are extremely sensitive to trends in the price of consumer necessities, such as shelter. Rent and the costs of home ownership constitute a large proportion of most family budgets; hence, the effect of inflation on these important costs leads the consumer to adjust his wage demands accordingly.

By 1969 shelter costs were rising at 7.5 per cent a year, which was faster than any other component in the Consumer Price Index. This behaviour resulted from four factors, two of which emanate directly from government policies:

- the high cost and limited availability of mortgage money;
- the dependence of municipal governments on property taxes as a major source of revenue;
- high rates of family and household formation;
- the impact of accelerated urbanization on land prices.

Policies of monetary restraint are counter-productive in curing inflation in this sector because the basic problems are long-term in nature. The housing sector requires co-ordinated public policies at all levels of government to minimize supply bottlenecks, speculative pressures, financing delays and high tax burdens.

IV CO-ORDINATING ECONOMIC POLICY IN CANADA

This section examines some alternatives to existing crisis-oriented economic policies. In particular, it suggests that Canada should aim for steady growth in the public and housing sectors. It also

suggests the need for development of more effective and flexible policies to stabilize the private sector.⁵

The Economic Objectives of Federalism

Canada lacks national economic goals of an explicit order.⁶ Currently economic and social targets are typically embodied in the piecemeal introduction of individual programs, for example, medicare, regional development and tax reform proposals. In this process the overall priorities, the available options, and the very important ramifications for the total public sector are inadequately considered. For example, the substantial build-up of federal government fiscal capacity, as a result of the combination of a high revenue growth capacity and recent tax increases, has not been linked with any revealed strategy of economic objectives. (This build-up would be accelerated by the initial revenue gains and the increased growth capacity of income taxes under the new federal white paper proposals for taxation reform.) Under these circumstances, it is not possible at the present time to develop a co-ordinated set of federal and provincial-municipal priorities within a cohesive policy framework.

The Weakness in Existing Mechanisms of Co-ordination

The difficulty of controlling inflation in Canada illustrates the fundamental weaknesses in federal-provincial co-ordination of economic policy. The Standing Committee on Finance, Trade and Economic Affairs, of the Canadian House of Commons, has made the following two points in reporting on inflationary influences:

. . . the influence of governments at all levels needs to be examined in far greater detail. We noted that there has not been enough collaboration between the federal government and the provinces in discussing their separate spending plans.

The public should be able to expect that future expenditures of governments at all levels will occur only within the context of a set of clearly established priorities based on cost-benefit analyses and that existing expenditures will be perpetuated only if they pass continuing examination that utilizes worthwhile efficiency criteria.⁷

⁵Ontario has advanced various proposals on the development of federal-provincial policy co-ordination at numerous intergovernmental conferences. See, for example, *The Purpose and Objectives of the Tax Structure Committee*, Ontario Department of Treasury and Economics, Taxation and Fiscal Policy Branch, presented to the Continuing Committee on Economic and Fiscal Matters, St. John's, Newfoundland, September 1969.

⁶See Economic Council of Canada, *Sixth Annual Review: Perspective 1975*, Ottawa, September 1969.

⁷Standing Committee on Finance, Trade and Economic Affairs, *Minutes of Proceedings and Evidence*, No. 14, second session, twenty-eighth Parliament, 1969-70.

Current economic and fiscal debates in Canadian federalism are locked in a rigid framework of confrontation. To improve this situation governments must develop basic research into new policy options and approaches. Little progress has been made in this regard since the Rowell-Sirois studies in the late 1930s. New policy systems must be more sensitive to the economic subtleties of federalism, rather than oriented to unitary-state economics. In particular, the growth of provincial and municipal responsibilities and functions must be recognized and accepted as a fact of federal life in Canada.

It is a matter of historical record that existing approaches to economic policies in Canada have been unable to achieve a lasting solution, either to long-run differences in regional growth or to short-term fluctuations in prices and business activity.⁸ A modernized fiscal policy would provide greater recognition of the complexities of inter-regional linkages and a more appropriate balance between the private and public sectors. It would also make provision for long-term technological changes, accelerated urbanization, and the rapid growth of the service industries.

The Importance of the Provincial-Municipal Sector in Policy Co-ordination

The distribution of powers by functional importance is weighted heavily in the direction of the provinces. The provincial-municipal sector accounts for close to 60 per cent of public sector expenditures in Canada, and for about 80 per cent of capital investment by all governments. Ontario accounts for 36 per cent of total provincial-municipal spending and is the source of about 42 per cent of the federal government's revenues. The growing importance of the provincial-municipal sector and the fiscal significance of the high-growth regions should be accompanied by a more important role for the provinces in overall policy formulation.

Economic Data Requirements

The economic data requirements of a co-ordinated fiscal policy extend beyond the present aggregative methods of the Tax Structure Committee.⁹ An urgent need exists to develop the economic data appropriate to a federal system of regional economies, each with unique characteristics and growth problems. The elements of a co-ordinated fiscal policy become ambiguous and unreliable in the absence of sound basic economic data on gross provincial products, regional

⁸For an evaluation of post-war fiscal policy actions, see *Report of the Royal Commission on Taxation*, Ottawa, 1966, Vol. II, Chp. 3.

⁹See *The Purpose and Objectives of the Tax Structure Committee*, Op. cit.

flows-of-funds, the federal government impact in each province, and the inter-regional flows of goods and services. In particular, there is a need for:

- a clearer recognition in federal government statistical gathering operations that Canada is composed of distinct regional economies;
- official economic data showing the impact of federal fiscal and monetary operations in each regional economy;
- a more intensive effort in economic forecasting and analysis at both the national and regional levels, with ample time for all participants to study and discuss the results;
- joint consideration of anticipated monetary policy including the regional implications of changing monetary conditions and the regional aspects of flow-of-funds;
- joint consideration of private and public sector capital needs, public borrowing, debt management and cash reserve policies, and utility financing;
- breakouts of federal revenue and expenditure projections by province, so that provincial economic and fiscal planning can take federal actions into account;
- consideration of the impact of tariff and trade policies on regional economies.

Only with improved economic data of this kind can effective liaison between governments be developed.

Sectoral Stabilization Policies

According to conventional economic theory, the public sector should manipulate its revenues and expenditures to be counter-cyclical. For the most part, this has proven to be an unobtainable goal. Discretionary changes are still cumbersome and likely to generate pro-cyclical, or perverse economic effects.

Many of the difficulties of economic policy-making could be avoided if governments in Canada could agree to a long-run strategy to stabilize public sector growth. Such planned and co-ordinated development of the public sector over the long-run would have to be supplemented by automatic tax and social security stabilizers.

To define and stabilize the rate of growth in the public sector would require intergovernmental agreement on:

- the target share of GNP to be allocated to public sector uses over a period of years;

- a commitment to stable rates of expansion by each jurisdiction;
- an agreed long-term developmental plan with explicit priorities;
- performance targets, relating to cost and service levels in the public sector, to minimize the opportunity costs of public expenditures;
- automatic compensatory payments to the fixed and low-income persons, involving co-ordinated federal-provincial welfare systems;
- a long-range tax co-ordination program to lessen the provincial-municipal sector reliance upon regressive sales and property taxes and to increase their access to income taxes;
- timing and queuing of public sector issues in domestic capital markets.

This type of co-ordination is urgently required, for example, to encourage long-run orderly expansion of the supply of housing. The Canadian Parliamentary Standing Committee on Finance, Trade and Economic Affairs, in its fourteenth report says of the housing sector:

In the Committee's view the housing program should be used to meet the housing needs of the country and should not be used as a device for the stimulation or otherwise of the economy.¹⁰

This statement accords with the Ontario Government's view that housing is a high priority sector and should be incorporated into long-term stabilization plans.

The realization of stable public sector growth would not eliminate the need for counter-cyclical measures, especially where changes in foreign conditions affect Canada's balance of payments and the exchange value of the dollar. Nor would it eliminate the volatility of private investment, consumer durable sales, farm inventories, and foreign trade. It would, however, go a long way towards effectively isolating these problems for special stabilization treatment. There still would be a need to determine priorities in the private sector and thus establish residual trade-offs against public sector programs.

Co-ordination of Tax Policies

The co-ordination of tax policies is one of the most pressing problems of Canadian federalism. The intergovernmental Tax Structure Committee was formed in 1964 for the purpose of projecting the expenditures and revenues of the public sector, and of studying the

¹⁰Standing Committee on Finance, Trade and Economic Affairs, *Minutes of Proceedings and Evidence*, No. 14, second session, twenty-eighth Parliament, 1969-70.

problem of fiscal balance and tax co-ordination. Its activities did not result in any major improvements in federal-provincial tax sharing. Two new ground rules have been established by the federal government since 1966. They are:

- no further increases in fiscal transfers to the provinces;
- the development of the Principle of Equal Access.

Under the first rule, the federal government argues that it cannot consider further increases in abatement of the personal income tax to the provinces because it needs to maintain a commanding majority position in the field for fiscal policy purposes. The Ontario Government has pointed out, however, that federal occupancy is far greater than that required both to meet the growth of its existing expenditure commitments and to change the total federal and provincial income taxes for fiscal policy purposes. This extra occupancy merely serves to provide the federal government with a high-growth revenue capacity to finance the continued introduction of new expenditure programs.¹¹

Under the Principle of Equal Access each level of government is held responsible for raising its own revenues to finance expenditures. These two rules have prevented the development of a co-ordinated and harmonized federal-provincial tax structure in Canada. The federal white paper proposals on taxation reform would worsen the situation by pre-empting the provinces from increased use of income taxes, and by increasing the flow of fiscal resources to the federal government. If the revenues resulting from these proposals are not to be shared with the provinces, then the problem of fiscal imbalance at the provincial-municipal level will be increased and the provision of essential public services will be adversely affected. The major question in tax co-ordination for Canada is how, under a regime of independent taxation, the various governments will move to solve their financing problems without the destruction of a uniform Canadian tax structure.¹²

New approaches to this problem are necessary. There is a need for new conventions within which independent tax actions should take place. Existing intergovernmental finance discussions should be moved beyond the consideration of total revenue and expenditure projections into the following areas:

¹¹See *Alternative Methods of Transferring Federal Tax Revenues to the Provinces*, Ontario Government, August, 1966: presented to the federal-provincial Continuing Committee on Economic and Fiscal Matters, Mont Gabriel, September, 1966.

¹²See *Intergovernmental Finance and Ontario's White Paper on Provincial-Municipal Reform*, Ontario Department of Treasury and Economics, Taxation and Fiscal Policy Branch: presented to federal-provincial Constitutional Committee, Ottawa, June, 1969.

- the wider interprovincial implications of particular tax changes within the total tax framework;
- the economic implications and tax-exporting properties of certain tax policies;
- insight into which taxes are best used for particular types of objectives by federal and provincial-municipal governments;
- the essential requirements for complementary and non-competitive actions.

Conclusion

The foregoing paper has reviewed some of the problems of designing and co-ordinating economic policies appropriate for Canada's diversified economy. It suggests that new initiatives are required to define national objectives and to strengthen Confederation. The paper is offered as an initial contribution by the Government of Ontario to this process.

APPENDIX

THE ECONOMIC OUTLOOK

The Importance of Monetary Policy

Despite the emphasis given to the restraining influence of fiscal policies in recent months, the most powerful depressant to economic growth at the present time is extremely tight monetary policy.

During 1967 and 1968, expansionary financial developments in both Canada and the United States contributed to the inflationary growth of the Canadian economy. However, late in 1968 monetary policy turned sharply restrictive in both countries. Towards the end of 1969, the financial environment in Canada inhibited economic growth and reinforced a marked swing into budgetary surplus by the federal government, with a massive build-up of federal cash balances. This, however, did not prevent the economy from achieving the same rate of increase in real Gross National Product in 1969 (4.8 per cent) as in 1968, although significant signs of softness appeared in the fourth quarter of 1969, especially in business capital spending, residential construction, sales of durable goods and corporate profits. GNP growth in current dollar terms was higher in 1969 (9.3 per cent) than in 1968 (8.9 per cent) due to an increased rate of inflation. By the end of the third quarter of 1969, the restrictive impact on many financial flows was apparent and the total supply of new funds in the economy was 14.2 per cent below the volume supplied in the first nine months of 1968.

The Delayed Impact of Economic Policies

The Ontario economy also displayed uneven growth in the fourth quarter of 1969, as the lagged effects of restrictive monetary and fiscal policies began to take hold. These policies are still working their way through the economy. The weakness in residential construction, the potential softness in automotive exports and the demand for consumer durables, combined with the growing sensitivity of other sectors to the reduced volume of new credit, suggest that further monetary restraint could drive the Ontario economy towards a recession.

Summary Review of 1969

The Ontario economy continued to experience vigorous growth in 1969 despite lengthy mid-year strikes in the mining, manufacturing

and construction industries. The Gross Provincial Product grew by 9.6 per cent in 1969, but 4.2 per cent of the gain was due to price increases. Real output of goods and services increased by 5.2 per cent, a moderate improvement over the 1968 increase of 4.6 per cent.

Most of the gain in output occurred in the first quarter, as a widespread buoyancy of demand gave a strong initial impetus to the economy. Although growth declined sharply in the second quarter as a result of prolonged strikes, it resumed a strong upward trend for the rest of the year. However, in the fourth quarter the impact of deflationary monetary and fiscal policies began to register and the pattern of demand became distinctly uneven. Consumer demand and exports were stronger in the fourth quarter than earlier in the year but business capital spending was weaker and residential construction expenditure declined.

Consumer Demand

Retail sales rose by \$776 million to a record level of \$10.6 billion, 7.7 per cent higher than in 1968. The largest gains were recorded in sales of non-durable goods, particularly by general merchandise and department stores which experienced gains of 16.1 and 11.9 per cent respectively. Among durables, furniture and appliance dealers recorded an 8.3 per cent increase in sales, but pronounced year-end weakness in automobile sales resulted in only a 4.2 per cent gain over 1968. Consumer spending on services rose by 9.5 per cent, largely as a result of price increases.

Private and Public Investment

Total private and public investment rose to \$6.0 billion from \$5.5 billion in 1968, an increase of 9.0 per cent.

The most pronounced gains occurred in residential construction: 81,446 units were started in 1969, an increase of 1.3 per cent. The high level of starts, together with the 60,035 units under construction at the end of 1968, resulted in the completion of 80,236 housing units, of which 48 per cent were apartment units and 39 per cent single family dwellings. The Ontario Housing Corporation was again very active in supplementing the private sector. During the course of the year, OHC recorded 5,210 starts for low income families and senior citizens, up 5.8 per cent from 4,922 starts in 1968. In total, 5,871 new units were completed in 1969, an increase of 33 per cent over those completed in 1968. Total spending on residential construction increased by 20 per cent, but there was a significant reduction in housing activity towards the end of 1969 as tight money made mortgage financing difficult and extremely expensive.

The level of capital spending by government and institutional services, for instance, schools, universities and hospitals, rose by less than one per cent and declined in real terms.

The upsurge of capital spending by the business sector, that got under way late in 1968, continued until mid-year when strikes in major industries delayed and discouraged new investment. Spending on machinery and equipment increased by 7.9 per cent and on non-residential business construction by 9.0 per cent. The areas of most rapid growth were the chemical and primary metals industries.

Foreign Demand

Commodity exports rose to a level of \$6.8 billion, an increase of 14.1 per cent over 1968. The largest gain was recorded in automotive products which increased by 32 per cent. Exports of nickel ore and fabricated nickel declined by 13 per cent and those of fabricated steel products by 22 per cent. Automotive products have become an increasingly important source of export growth since the mid-sixties, and currently constitute Ontario's largest single export commodity.

Employment

Ontario's labour force increased by 98,000 persons to 3,032,000 in 1969, a gain of 3.3 per cent. Labour force growth was most pronounced in the first half of the year and the 106,000 new jobs available in 1969 more than absorbed the increase in the labour force. Consequently, the unemployment rate fell to 3.1 per cent from 3.5 per cent the year before. In the fourth quarter, however, the unemployment rate rose to 3.5 per cent as job opportunities levelled off.

Incomes

Total personal income in Ontario rose from \$22.4 billion in 1968 to \$24.9 billion in 1969, an increase of 11.2 per cent. Personal income per capita in the same period rose 9.0 per cent from \$3,065 to \$3,341. However, rising prices reduced the increase in real terms to 4.3 per cent.

Despite lengthy strikes in the nickel and steel industries, total wages and salaries in the province increased by 12.0 per cent to \$15.6 billion. Wage increases were unusually large; the average hourly wage in manufacturing climbed during the year to \$2.93 from \$2.70, an increase of 8.5 per cent, compared to a 7.3 per cent rise in 1968.

Corporate profits in 1969 rose to an estimated \$3.7 billion, a moderate increase of 5.5 per cent over 1968. They declined sharply in the last quarter of 1969 as a result of slower economic growth and

increasing costs, due in part to high wage settlements and credit restraints.

Prices

Despite fiscal and monetary restraints, rapid price increases continued to plague the economy in 1969. No sector of the economy escaped price advances. For the fifth consecutive year price increases averaged over 3.0 per cent. Housing, non-residential construction, and government expenditure experienced the most severe price increases. However, some lessening in overall price increases had become evident by the end of the year.

The Outlook for 1970

The outlook for the Ontario economy in 1970 is extremely uncertain because of the indefinite position of fiscal and monetary policies throughout the North American continent. Our projections for 1970 assume some relaxation of monetary policy, a certain level of automatic stabilization from fiscal policies, and no serious deterioration in business confidence. If these assumptions prove correct, Canada and Ontario will emerge from the present period of restraint with an undiminished capacity for recovery.

Gross Provincial Product in 1970 is expected to rise to a level of \$34.6 billion, an increase of 7.0 per cent. It is anticipated the rise in volume terms will be about 3.0 per cent and that prices will rise by 3.9 per cent. However, slower growth of new job opportunities relative to the growth of the labour force is expected to increase the unemployment rate from 3.1 per cent in 1969 to 4.1 per cent. Personal spending on non-durables and business capital investment is expected to provide the greatest stimulus to the economy in 1970.

In its budget of March 12, 1970, the federal government adopted a cautiously optimistic view for economic performance in 1970. The reduction in the surplus on a national accounts basis from \$570 million in 1969-70 to \$130 million in 1970-71 will provide a small expansionary push to the economy. However, on balance, the combined fiscal and monetary effects of federal policies are still restrictive. With high levels of cash balances and foreign exchange reserves, Ottawa is in a reasonably strong position to switch to less restraint in fiscal and monetary policies in the near future.

The outlook for 1970 will be determined by the course of inflation and subsequent adjustments to fiscal and monetary policy, which cannot be estimated with certainty at this time. Therefore the projections which follow are based on estimates of the most likely environmental conditions throughout 1970.

THE ONTARIO ECONOMY¹ 1968-70

	1968	1969 ²	1970 ²	68/67	69/68	70/69
	(\$ billion)			(% changes)		
Gross provincial product.....	29.5	32.3	34.6	8.8	9.6	7.0
GPP (constant 1961 dollars)	24.0	25.2	26.0	4.6	5.2	3.0
Prices (1961=100)	123.1	128.3	133.3	4.0	4.2	3.9
Private and public investment	5.5	6.1	6.7	4.9	9.0	10.0
Public	1.3	1.3	1.4	7.4	1.0	5.0
Private	4.2	4.7	5.3	4.2	11.5	12.6
Machinery and equipment	1.9	2.1	2.4	-0.7	7.9	13.3
Construction	2.3	2.6	2.9	8.7	14.5	12.0
Non-residential	1.1	1.2	1.5	-2.5	9.0	23.0
Residential	1.1	1.4	1.4	22.8	20.0	2.0
Retail sales	9.8	10.6	11.3	9.7	7.7	6.7
Imports (Canada)	12.4	14.2	15.6	13.6	14.9	10.0
Exports (Canada)	13.6	14.9	15.6	19.1	9.3	5.0
Exports (Ontario)	6.0	6.8	7.2	28.3	14.1	5.0
Wages and salaries.....	13.9	15.6	16.9	9.3	12.0	8.5
Corporate profits	3.5	3.7	3.7	9.8	5.5	0.0
Personal income	22.4	24.9	26.8	10.2	11.2	7.6
Labour force (000's).....	2,934	3,032	3,124	3.5	3.3	3.0
Employment (000's)	2,830	2,936	2,996	3.1	3.7	2.0
Unemployment (% of labour force)	3.5	3.1	4.1	—	—	—
Productivity	—	—	—	1.5	1.4	1.0
Personal income per capita ..	\$3,065	\$3,341	\$3,504	7.9	9.0	6.0
Housing starts (units)	80,375	81,446	80,000	18.0	1.3	-1.8

¹Gross Provincial Product estimates based upon revised Gross National Product estimates for Canada.

²Estimated Department of Treasury and Economics.

The Structure of Public Finance in Ontario

TABLE OF CONTENTS

I The Total Government Sector in Ontario	65
The Federal Government in Ontario	65
The Provincial Government in Ontario	67
Local Government Authorities in Ontario	69
The Total Government Sector in Ontario	71
Summary	73
II The Federal Role in Interprovincial Equalization	76
Implicit Equalization	76
Summary	80
Appendix: Technical Tables	81

THE STRUCTURE OF PUBLIC FINANCE IN ONTARIO

This paper brings together in a comprehensive framework the fiscal operations of the total government sector in Ontario. It quantifies the amount of revenues raised and spent by each level of government and shows the significant financial interactions among them. In particular, it is intended to place the federal government's role in the province in perspective and to provide insight into the overall fiscal impact of government on the Ontario economy.

Section I of the paper examines the operations and financing of the total government sector within Ontario in 1968-69. It reveals that the federal government drew off \$1.4 billion from Ontario, largely for redistribution to the fiscally weaker provinces. At the same time, the provincial-municipal level of government incurred substantial deficits, a reflection of their chronic underfinancing.

Section II of the paper focuses on the role of the federal government as a redistributor of fiscal resources among the provinces. It discusses the major ways in which financial resources flow from Ontario and other prosperous provinces to the fiscally weaker provinces. Finally, it indicates some of the drawbacks of implicit equalization in interprovincial redistribution.

Continuing analysis of this kind is essential to an improved understanding of the redistributive role of the federal government and the regional economic impact of federal policies. Furthermore, it is a fundamental prerequisite to the development of an improved inter-governmental machinery for fiscal policy co-ordination in Canada.

I THE TOTAL GOVERNMENT SECTOR IN ONTARIO

The Federal Government in Ontario

Revenue. In 1968-69, the federal government raised \$5,265 million in revenue in Ontario, or a total of \$721 per capita. This amounted to 24 per cent of total personal income in the province or 18 per cent of Gross Provincial Product. The most important source of revenue was the dynamic personal income tax. It produced about \$1,675 million¹ plus \$400 million for the associated old age security tax, a total of over \$2 billion. The predominance of this tax field provides the federal government with significant elasticity for its total

¹This amount includes three months' revenue from the 2 per cent social development tax, effective January 1, 1969.

revenue. The corporation income tax was the next most important source at almost \$1 billion, including the earmarked old age security portion. The federal manufacturers' sales tax and other excise taxes yielded about \$815 million.² Further details on federal revenue are shown in a comprehensive table on total government revenue in Ontario (see Table 6).

Expenditure. Total federal expenditure in Ontario during the 1968-69 fiscal year is estimated at \$3,865 million, or \$529 per capita. Relatively little functional detail is available on this expenditure.³ Transfers to provincial and local governments amounted to \$647 million. Interest payments on the public debt are estimated at \$500 million and old age security payments at \$553 million. Payments to persons are a large part of other expenditure, with the remainder being spent on goods and services.

The Federal Surplus in Ontario. Federal revenue and expenditure resulted in a surplus in Ontario of \$1.4 billion, almost \$200 per capita. This is well in excess of the total yield of the municipal property tax, and almost as much as total operating and capital spending by all local school authorities in Ontario.

It is significant that, while running a surplus in Ontario, the federal government ran a deficit in Canada as a whole in 1968-69. Even in a deficit year the federal government withdrew a large amount of purchasing power from Ontario, the equivalent of 6.25 per cent of total personal income.

	Ontario	Canada
	(\$ million)	(\$ million)
Total Federal Revenue	5,265	12,680
Total Federal Expenditure	3,865	12,747
Surplus or (Deficit) ⁴	<u>1,400</u>	<u>(67)</u>

The federal surplus in Ontario is important in two major respects. First, along with the smaller federal surpluses in Alberta and British Columbia, it finances federal aid to other provinces in the form

²Old Age Security Tax Revenue (\$ million)

Personal income tax	400
Corporation income tax	80
Sales tax	<u>200</u>
	<u>680</u>

³In answer to a question by Mr. Balcer in 1964, the then federal Minister of Finance provided a breakdown by province of federal revenue and expenditure. However, no functional detail was given. See Reply of the Minister of Finance to Question No. 741 by Mr. Balcer made order for return Wednesday, July 22, 1964.

⁴On a National Accounts basis.

of equalization grants, shared-cost programs, regional development schemes, and direct transfers to individuals. The extent and form of interprovincial transfers by the federal government are examined in more detail in Section II. Second, the federal surplus in Ontario is important as a measure of the strong deflationary influence exerted on the Ontario economy by the federal government.

Expenditure restraints, combined with increased taxation and buoyant revenues, are estimated to have changed the federal national deficit into a surplus of almost \$600 million in 1969-70.⁵ This dramatic fiscal shift may have resulted in a surplus in Ontario of over \$1,850 million, or 7.4 per cent of estimated personal income, compared to 6.25 per cent the year before. This estimate of "fiscal drag" may be conservative in view of the strong performance of the Ontario economy compared to the rest of Canada.

These results illustrate clearly that the federal fiscal presence in Ontario tends to compensate automatically for inter-regional differences in incomes and economic activity, thereby acting as an important stabilization force in the national economy. The significance of this factor in the design of federal fiscal policy and federal-provincial policy co-ordination has been described in Budget Paper A.

The Provincial Government in Ontario

Revenue. Total provincial government revenue in 1968-69 amounted to \$3,465 million.⁶ The Ontario Government raised \$2,862 million from provincial sources and received \$603 million from the federal government in the form of conditional and unconditional grants. Total collections by the Ontario Government were \$392 per capita, or 13 per cent of total personal income.

The personal income tax accounted for only 18 per cent of gross provincial revenue, commodity taxes for 22 per cent, gasoline, fuel taxes and other motor vehicle revenues for 14 per cent, and corporation taxes for 10 per cent. As a result, the growth potential of provincial government revenue is much smaller than that of the federal government, whose revenue is dominated by the more elastic personal income tax. (See Table 6.)

Federal unconditional grants to the Ontario Government consist primarily of the cost adjustment payments for post-secondary education operating expenditure. In 1968-69, these payments of about \$127 million included \$35 million relating to the previous fiscal year.

⁵On a National Accounts basis.

⁶Table F in the Appendix contains a reconciliation with the Ontario Government's budget and Public Accounts.

Federal conditional grants of \$476 million to the Ontario Government were dominated by federal participation in hospital insurance (\$285 million) and the Canada Assistance Plan (\$120 million).⁷

Table 1
Provincial Government Revenue 1968-69

	<u>\$ Million</u>	<u>\$ Per Capita</u>	<u>% Distribution</u>
Provincial Collections	2,862	391.70	82.6
Federal Unconditional Grants ..	127	17.40	3.7
Federal Conditional Grants	476	65.20	13.7
Total Gross Revenue	<u>3,465</u>	<u>474.30</u>	<u>100.0</u>

Expenditure. Total gross expenditure by the provincial government in 1968-69 amounted to \$3,606 million, or \$494 per capita. On a gross basis, and including all transfers to local government authorities, 31 per cent of total spending was on education, with health accounting for another 27 per cent. Health and education combined thus accounted for 58 per cent of total expenditure.

The most significant aspect of provincial government spending, however, is the magnitude of support to local government authorities. They received \$1,183 million from the provincial government, almost one-third of gross provincial spending. Other provincial government

Table 2
Provincial Government Expenditure 1968-69
 (\$ million)

	<u>Total Gross Expenditure</u>	<u>Transfers to Local Authorities</u>	<u>Provincial Direct Spending</u>
Education	1,106	685	421
Health	957	16	941
Transportation	445	169	276
Welfare	254	112	142
Debt Charges	196	—	196
Unconditional Transfers	166	166	—
Natural Resources	136	12	124
Protection	97	8	89
All Other	249	15	234
Total	<u>3,606</u>	<u>1,183</u>	<u>2,423</u>

⁷Further details on federal grants are shown in the Appendix, Table A.

direct spending amounted to \$2,423 million. Transfers to local governments have been recognized separately and are counted as ultimate expenditure by local governments.

Summary of Provincial Government Transactions. The combined revenue and expenditure position for 1968-69 resulted in a deficit of \$141 million. Debt retirements of \$74 million brought the cash deficiency to a total of \$215 million, before allowing for provincial borrowing and lending operations in the non-budgetary account. This account includes both borrowing from the Canada Pension Plan (\$412 million) and a number of superannuation funds and, lending to universities (\$173 million), school boards (\$180 million), hospitals (\$27 million), and the Ontario Hydro nuclear power generating station (\$19 million). Provincial lending enabled universities and school boards to meet the large requirements for new facilities at considerable savings in cost, and without the problems associated with borrowing in the capital market.

Table 3
Summary of Provincial Budgetary Transactions 1968-69*

	\$ Million	\$ Per Capita
Gross Budgetary Revenue.....	3,465	474.30
Gross Budgetary Expenditure	3,606	493.60
Deficit	<u>(141)</u>	<u>(19.30)</u>

*For reconciliations with published data, see Appendix, Table F.

Local Government Authorities in Ontario

Revenue. An analysis of local government revenue shows dramatically the inadequacy of the property tax in financing municipal and school board expenditure. In per capita terms, the property tax in Ontario is already the highest in the country, yet it accounted for only 46.5 per cent of total local revenue in 1968-69. An additional 4.6 per cent was raised from other local revenue sources. The remaining 48.9 per cent of local revenue came primarily from provincial government grants.⁸ (See Table 6.)

Expenditure. Local government operating and capital expenditure totalled \$2,768 million in 1968-69, or \$378 per capita. More than 50 per cent of this is accounted for by the school authorities.

⁸Further details on provincial grants are provided in the Appendix, Table B.

Table 4
Total Local Government Revenue 1968-69

	<u>\$ Million</u>	<u>\$ Per Capita</u>	<u>% Distribution</u>
Municipal Sources			
Property Tax	1,169	160.00	46.5
Other Revenue	115	15.75	4.6
Provincial Transfers			
Unconditional Transfers	166	22.75	6.6
Conditional Transfers	338	46.30	13.5
Operating Grants to School Boards	566	77.50	22.5
Capital Grants to School Boards	58	7.90	2.3
Contribution to Teachers' Superannuation Fund*	55	7.70	2.2
Federal Transfers			
Payments In Lieu of Taxes, etc.	44	6.00	1.8
Total Gross Revenue	<u>2,511</u>	<u>343.70</u>	<u>100.0</u>

*The provincial government makes direct contributions to this Fund on behalf of local authorities.

Table 5
Total Local Government Expenditure 1968-69*

	<u>\$ Million</u>	<u>\$ Per Capita</u>	<u>% Distribution</u>
Education	1,488	203.70	53.8
Transportation and other Public Works	397	54.35	14.3
Protection	202	27.65	7.3
Health and Sanitation	190	26.00	6.9
Social and Economic Welfare	165	22.60	6.0
General Government	109	14.90	3.9
All Other Municipal Activities	217	29.70	7.8
Total	<u>2,768</u>	<u>378.90</u>	<u>100.0</u>

*Interest payments on debt are not shown separately but are included in the function to which they are related.

Summary of Local Government Transactions. The revenue and expenditure operations of local government generated a deficit of \$257 million, a large proportion being accounted for by school authorities. In addition, debt retirements of \$137 million had to be financed.

Of the resulting overall financing requirement of \$394 million, approximately \$180 million was made available through the Ontario Education Capital Aid Corporation.

The Total Government Sector in Ontario

The total government sector had a significant economic impact on Ontario because of the size of its net financial drain from the provincial economy.⁹ Total revenues collected in the province by all governments in 1968-69 exceeded \$9.4 billion, 42 per cent of total personal income, or 32 per cent of Gross Provincial Product. In comparison, total government spending was about \$8.4 billion, leaving an overall surplus of \$1 billion. As already shown, the federal government diverted a \$1.4 billion surplus to uses outside the province. Provincial and local governments offset this in part with a deficit of \$400 million.

Revenue. Table 6 provides an overview of the major revenue sources for the three levels of government in Ontario. It shows the federal government's predominant share of total government revenue and the degree to which each level of government depends on particular types of taxes, as well as other revenue sources.

Table 6
Total Government Revenue Collections in Ontario 1968-69
(\$ million)

	Federal	Provincial	Local	Total
Personal Income Tax.....	1,675	620	—	2,295
Commodity Taxes.....	615	763	—	1,378
Corporation Taxes.....	905	354	—	1,259
Local Property Tax.....	—	—	1,169	1,169
Old Age Security Taxes.....	680	—	—	680
Gasoline and Other Motor Vehicle Taxes & Levies.....	—	496	—	496
Investment Income.....	330	124	—	454
Other Duties and Taxes.....	310	34	—	344
Customs Duties.....	305	—	—	305
Hospital Insurance Premiums.....	—	270	—	270
Non-tax Revenue.....	—	111	115	226
Unemployment Insurance.....	175	—	—	175
Government Pension Fund.....	170	—	—	170
Estate Tax and Succession Duties	45	90	—	135
Non-resident Taxes.....	80	—	—	80
Miscellaneous Adjustments.....	-25	—	—	-25
Total.....	5,265	2,862	1,284	9,411
Percentage Distribution.....	56.0	30.4	13.6	100.0

⁹This excludes the Canada Pension Plan and such non-budgetary operations as the Central Mortgage and Housing Corporation.

The personal income tax is very important to the growth potential of total government revenue, because of its comparatively high elasticity. Dominance in this field gives the federal government a great advantage over other governments. The federal government retains 73 per cent of the total income tax raised in Ontario,¹⁰ which accounts for 32 per cent of the total federal revenues obtained in the province.¹¹ In contrast, the provincial-local governments receive only the remaining 27 per cent of the income tax yield, which is equal to 15 per cent of their combined revenue.

Table 6 shows the great dependence of local government on the inelastic property tax. The provincial government has reasonably diverse revenue sources, although with a growth potential which is very inferior to that of the personal income tax. Altogether, provincial and local governments raise only 44 per cent of total government revenue collected in Ontario.

Expenditure. In this paper, government expenditure has been determined according to the level of government where the ultimate spending occurred. For example, grants from the federal government for hospital insurance show up as provincial spending, and provincial grants show up as spending by local governments. As a result, the distribution of spending among the three levels of government is markedly different from the distribution of revenue collections.

Table 7 contains a comprehensive picture of total government spending, identified as far as possible by function. It illustrates the importance of education and health at the provincial-municipal level, and of social security and welfare at the federal level. Welfare and social security spending by the federal government is dominated by old age security and family allowance payments.

The financial pressures at the provincial-local level of government are the direct result of the fact that education and health, both rapidly growing functions, account for almost 60 per cent of total spending. Provincial and local governments cannot finance this growth without increasing taxes.

Intergovernmental transfer payments have played a critical role in bringing the provincial-local government sector closer to financial balance. In the absence of all transfer payments the federal government would have run a surplus of over \$2 billion in 1968-69 and the Province would have run a surplus of over \$400 million, while local

¹⁰The basic abatement relationship of 72 and 28 is distorted primarily by the federal social development tax.

¹¹The percentage contribution of personal income tax revenue in total federal revenue is estimated to rise to 36 per cent in 1970-71. See federal *Budget Speech*, Department of Finance, Ottawa, March 12, 1970.

Table 7
Total Government Expenditure in Ontario 1968-69
 (\$ million)

	Federal	Provincial	Local	Total
Education	—	421	1,488	1,909
Health	—	941	190	1,131
Social Security & Welfare	960	142	165	1,267
Debt Charges	500	196	— ¹	696
Transportation and other Local Public Works	—	276	397	673
Protection	—	89	202	291
Natural Resources	—	124	—	124
All Other	1,758 ²	234	326	2,318
Total	3,218	2,423	2,768	8,409
Percentage Distribution	38.3	28.8	32.9	100.0

¹Distributed over other functions.

²Includes expenditure on some specified functions, but details not available.

governments would have been in deficit by \$1.5 billion. After all intergovernmental transfers, the federal government was left with a surplus of \$1.4 billion, the Province was in deficit by \$141 million and the local government deficit had been reduced to \$257 million. Table 8 illustrates the financial positions of the three levels of government in 1968-69 before and after intergovernmental transfers.

Table 8
Total Government Revenue and Expenditure in Ontario 1968-69
 (\$ million)

	Revenue Before Transfers	Total Expen- diture	Surplus or (Deficit)	Net Transfers	Final Surplus or (Deficit)
Federal Government	5,265	3,218	2,047	(647)	1,400
Provincial Government	2,862	2,423	439	(580)	(141)
Local Government	1,284	2,768	(1,484)	1,227	(257)
Total Government Sector	9,411	8,409	1,002		1,002

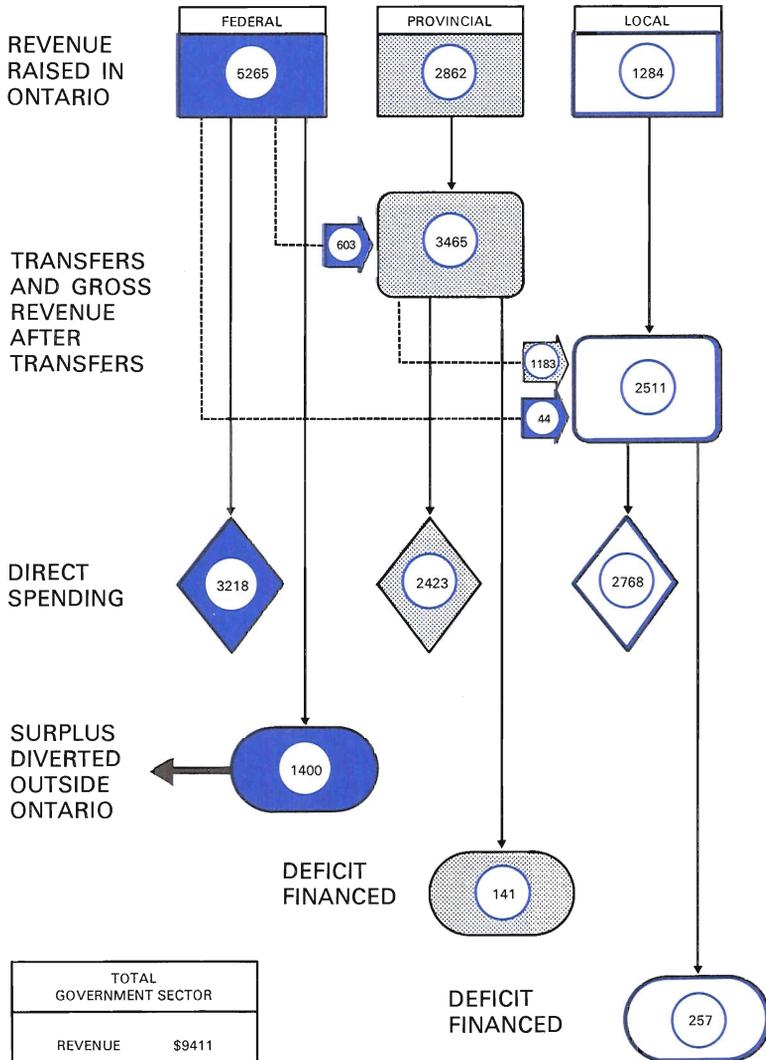
The foregoing analysis shows the major dimensions of total government activity in Ontario, and indicates the financial interaction of the three levels of government. The chart at the conclusion of this

section portrays these fiscal interactions. Four major conclusions can be drawn from this study of total government operations in Ontario.

1. The federal government accounts for only 38 per cent of total spending compared to 56 per cent of total revenue raised in Ontario. Provincial and local governments account for 62 per cent of total spending while raising only 44 per cent of total government revenue.
2. In 1968-69, the federal government ran a surplus of \$1.4 billion in Ontario and the provincial-municipal sector incurred a deficit of \$400 million. The federal government's surpluses are directly related to its redistributive function among the provinces and, as emphasized in Budget Paper A, the size of these surpluses needs to be identified for the purpose of federal-provincial fiscal planning.
3. The federal financial position in Ontario exerts a permanent "fiscal drag" or deflationary impact on the Ontario economy. It is interesting to show how, in the context of recent economic conditions, the total public sector has performed to contain inflationary pressures. In 1969-70, the federal surplus in Ontario increased sharply as the federal government moved into an overall surplus position in Canada. At the same time the Ontario Government successfully achieved a surplus budget, while local governments curtailed their borrowing under restrictive capital market conditions. Therefore, the combined impact of all governments in Ontario was one of massive fiscal restraint, working powerfully to contain inflation.
4. The existing distribution of revenue sources, even after inter-governmental transfers, is seriously out of balance. The provincial and local governments are underfinanced. The bulk of their spending is on functions whose natural growth far outstrips the potential of current revenue sources. This situation leads to chronic pressures for increased taxes and borrowing.

THE GOVERNMENT SECTOR IN ONTARIO

(\$ million)



TOTAL GOVERNMENT SECTOR	
REVENUE	\$9411
SPENDING	8409
SURPLUS	\$1002

1968-69

II THE FEDERAL ROLE IN INTERPROVINCIAL EQUALIZATION

Although this paper is primarily concerned with the total government sector in Ontario, the size of the federal surplus in Ontario emphasizes the importance of the federal redistributive role in Canada.

There are four main ways in which the federal government utilizes the funds it transfers out of Ontario:

- revenue equalization payments
- special Atlantic Provinces Grants
- direct spending policies
- implicit equalization through cost sharing.

The operation of explicit equalization payments is fairly straightforward and well documented.¹² In 1968-69, these payments amounted to about \$566 million. The only provinces not receiving equalization payments were Ontario, British Columbia and Alberta. The special grants to the Atlantic Provinces are included in the above total.

Federal spending policies do not lend themselves to comprehensive analysis because of the absence of regional details, although many examples could be cited. For instance, the federal Fund for Rural Economic Development (FRED) and the 1965 Agricultural and Rural Development Act (ARDA) were oriented toward Prince Edward Island, New Brunswick, Manitoba and Quebec. The new Department of Regional Economic Expansion operates an extensive grant program geared to the less developed regions of eastern Canada. Similarly, departments such as Agriculture, and Fisheries and Forestry are strongly oriented toward particular regions in the country.

Implicit Equalization

Implicit equalization merits special attention in this paper. This form of redistribution is the result of the formulas used in the financ-

¹²For an elaborate explanation of revenue equalization grants, see D. H. Clark, *Fiscal Need and Revenue Equalization Grants*, Canadian Tax Foundation and Institute of Intergovernmental Relations, September, 1969.

ing of certain federal-provincial shared-cost programs. When a formula stipulates fixed per capita grants, or grants based on national average per capita cost, the federal government contributes widely varying proportions of actual program cost in the different provinces. The three significant programs where this form of redistribution occurs are hospital insurance, medicare and post-secondary education.

Hospital Insurance. The sharing formula for this program is based on both actual per capita cost in each province and national average per capita cost. This mixed formula maintains the degree of redistribution at modest levels. Table 9 illustrates the results of the formula for the various provinces. Obviously, these results are out of tune with the revenue equalization payments. Quebec, a major recipient of equalization payments, is slightly undercompensated, while British Columbia is paid in excess of 50 per cent of actual cost.

Medicare. The sharing formula for the medicare program is based on national average per capita cost of the participating provinces. Also, per capita costs in individual provinces differ more widely than in hospital insurance. The resulting distribution pattern is similar to that for explicit revenue equalization payments. Ontario and British Columbia are significantly undercompensated, while the Atlantic Provinces receive payments markedly in excess of the norm. As an illustration of the capricious incidence of the formula, Saskatchewan receives almost 70 per cent of its total cost, while Manitoba receives less than half. Table 10 shows these relationships, based on estimated costs for medicare in all provinces in 1970-71.

Post-Secondary Education. The sharing formula for this program is based on 50 per cent of actual cost or \$15 per capita, escalated at the growth rate of national spending in this area. Each province has selected the option that is to its greatest advantage. In practice this works out in such a way that the high-cost provinces, notably Ontario and Alberta, receive 50 per cent of their operating expenditure on post-secondary education. However, the escalated \$15 option again is a potential medium for significant redistribution. Table 11 illustrates that Newfoundland, New Brunswick and Prince Edward Island are implicitly overcompensated under this program. According to the recent Tax Structure Committee projections, this overcompensation will become more pronounced over a number of years. For instance, by 1970-71 Newfoundland would receive more than 100 per cent of its operating expenditure in post-secondary education from the federal government.

Table 9
Distributional Implications of Hospital Insurance Program 1968-69*

	Federal Grants as Per Cent of Program Cost	Implicit Redistribution	
		Under- payment	Over- payment
		(\$ thousand)	
	(%)		
Newfoundland	56.4	—	1,971
Prince Edward Island	65.4	—	787
Nova Scotia	54.0	—	1,951
New Brunswick	51.8	—	786
Quebec	49.5	2,421	—
Ontario	48.4	9,297	—
Manitoba	52.5	—	1,689
Saskatchewan	51.2	—	829
Alberta	50.1	—	153
British Columbia	52.6	—	3,552
Canada	<u>50.0</u>	<u>11,718</u>	<u>11,718</u>

*For details, see Appendix, Table D.

Table 10
Distributional Implications of Medicare 1970-71*

	Federal Grants as Per Cent of Program Cost	Implicit Redistribution	
		Under- payment	Over- payment
		(\$ thousand)	
	(%)		
Newfoundland	103.7	—	6,709
Prince Edward Island	93.8	—	1,288
Nova Scotia	61.8	—	3,624
New Brunswick	67.0	—	3,948
Quebec	53.2	—	9,082
Ontario	43.9	26,217	—
Manitoba	47.8	1,149	—
Saskatchewan	69.6	—	6,732
Alberta	53.7	—	2,680
British Columbia	44.4	6,697	—
Canada	<u>50.0</u>	<u>34,063</u>	<u>34,063</u>

Table 11

**Distributional Implications of Post-Secondary Education Program
1968-69***

	Federal Transfers as Per Cent of Total Cost	Implicit Overpayment
	(%)	(\$ thousand)
Newfoundland	84.2	3,818
Prince Edward Island	66.5	511
Nova Scotia	50.0	—
New Brunswick	60.0	1,894
Quebec	50.0	—
Ontario	50.0	—
Manitoba	50.0	—
Saskatchewan	50.0	—
Alberta	50.0	—
British Columbia	50.0	—
Canada	<u>51.0</u>	<u>6,223</u>

*For details, see Appendix, Table E.

The foregoing examples of implicit equalization serve to illustrate the weakness of many shared-cost programs.¹³ The redistribution element in these programs greatly reduces the need for additional tax effort in the "have-not" provinces, while the "have" provinces must resort to a significant tax effort to secure the same social benefits. These shared-cost formulas also appear to penalize those provinces that are most advanced in hospital technology and medical innovation, the benefits of which are available to all Canadians.

Revenue equalization payments were developed to offset fiscal disparities among provinces, whereas the basic objective of shared-cost programs is the provision of national minimum standards of service. The present shared-cost formulas ignore the fact that there are cost differences among provinces in providing a uniform standard of service. Consequently, a given amount of federal assistance finances more real services in some provinces than in others. Also, rapid growth provinces, such as British Columbia, Ontario and Alberta, are faced with demands on the public sector for expensive social capital that is not required in the other provinces.

¹³See also George E. Carter, *Canadian Conditional Grants Postwar*, (unpublished doctoral thesis, Clark University) November, 1969; p. 124.

Table 12
**Provincial-Municipal Revenue Before and After
 Federal Transfers 1968-69**
 (\$ per capita)

	Revenue From Own Sources	Unconditional Transfers ¹	Conditional Transfers ²	Total Revenue Including Transfers	Transfers as Per Cent of Total Revenue (%)
Newfoundland	235	169	128	532	55.8
Prince Edward Island	241	147	108	495	51.5
Nova Scotia	283	135	100	518	45.4
New Brunswick	278	133	106	516	46.3
Quebec	457	89	77	623	26.6
Ontario	546	16	65	627	13.2
Manitoba	446	57	80	582	23.5
Saskatchewan	510	42	76	628	18.8
Alberta	574	23	75	672	14.6
British Columbia	545	11	72	629	13.2

¹Primarily Revenue Equalization Payments and Post-Secondary Education Adjustment Payments.

²Primarily Shared-Cost Programs (Hospital Insurance, Canada Assistance Plan, Technical and Vocational Training, Trans-Canada Highway, Atlantic Development Board, ARDA).

Summary

Federal financial transfers have played a key role in minimizing fiscal disparities among the different provinces. Table 12 illustrates the substantial redistribution of financial resources that occurred within our federal system in 1968-69.

Subsequently, all provinces have indicated that they will participate in national medicare and the federal government has embarked on a large-scale program of regional economic expansion. Such recent developments will increase the dimensions and strengthen the pattern of fiscal redistribution within Canada. Indeed, Canada has possibly gone further toward inter-regional equalization than any other western country.

APPENDIX

Table A
**Federal Grants to Provincial-Municipal Governments
in Ontario 1968-69**
(\$ million)

<i>Unconditional</i>	
Post-Secondary Education Adjustment Payment	117.3
Statutory Subsidy	4.6
Share of Tax on Public Utilities	5.5
Payments In Lieu of Taxes	25.3
Other to Municipalities	1.3
	154.0
<i>Conditional</i>	
Hospital Insurance Plan	284.7
Hospital Construction	7.0
Other Health	28.0
Canada Assistance Plan	120.0
Other Welfare	9.2
Technical and Vocational Training	12.3
Resource Development	1.4
Regional Development	5.6
Transportation	3.1
All Other	4.4
Total to Provincial Government.....	475.7
Total to Municipalities.....	17.3
Grand Total to Provincial and Local Governments	647.0

Table B
**Summary of Provincial Grants to Local Authorities
 in Ontario 1968-69**
 (\$ million)

<i>Unconditional</i>	
Residential Property Tax Reduction	110.0
Per Capita Grants	42.1
Mining Municipalities	8.7
Grants In Lieu of Taxes	3.1
Other	2.1
	166.0
 <i>Conditional</i>	
School Board Assistance	566.3
Vocational Schools	57.7
Teachers' Superannuation	54.9
Transportation and Communication	168.8
Social and Economic Welfare	111.5
Health	15.8
Recreation, Home and Community Environment	14.2
Conservation	11.8
Public Safety	8.3
Other	7.6
	1,016.9
 Total Provincial Grants	 1,182.9

Table C
 Distributional Implications of Hospital Insurance 1968-69

(1)	(2)	(3)	(4)	(5)	(6)	(7)	Implicit Redistribution	
Eligible Population ('000)	Total Cost Per Capita (\$)	Total Cost (\$'000)	25% of National Average Per Capita Cost (\$'000)	25% of Actual Provincial Cost (\$'000)	Federal Reimbursement (Cols. 4 + 5) (\$'000)	Federal Grants as Per Cent of Provincial Cost (%)	Under-Payment (\$'000)	Over-Payment (\$'000)
Newfoundland	60.72	30,725	9,653	7,681	17,334	56.4	—	1,971
Prince Edward Island	47.16	5,094	2,060	1,274	3,334	65.4	—	787
Nova Scotia	65.79	48,821	14,156	12,205	26,361	54.0	—	1,951
New Brunswick	71.22	43,940	11,771	10,985	22,756	51.8	—	786
Quebec	77.95	460,981	112,825	115,245	228,070	49.5	2,421	—
Ontario	81.42	591,735	138,636	147,934	286,570	48.4	9,297	—
Manitoba	69.28	66,582	18,334	16,646	34,980	52.5	—	1,689
Saskatchewan	72.84	69,634	18,238	17,408	35,646	51.2	—	829
Alberta	75.91	115,074	28,921	28,769	57,690	50.1	—	153
British Columbia	69.18	137,953	38,041	34,488	72,529	52.6	—	3,552
Canada	76.31	1,570,539	392,635	392,635	785,270	50.0	11,718	11,718

Source: Department of National Health and Welfare, 1969.

Table D
Distributional Implications of Medicare 1970-71

	Population 1970-71 TSC	Per Capita Cost	Source ¹	Total Cost (\$000)	50% of Total Cost (\$000)	Federal Grant Based on 50% of National Average Per Capita Cost (\$000)	Federal Grant as Per Cent of Total Cost (%)	Implicit Redistribution Under- payment (\$000)	Over- payment (\$000)
Newfoundland	521	23.96	TSC	12,483	6,242	12,951	103.7	—	6,709
Prince Edward Island	111	26.51	NHW	2,942	1,471	2,759	93.8	—	1,288
Nova Scotia	765	40.24	NHW	30,784	15,392	19,016	61.8	—	3,624
New Brunswick	627	37.12	NHW	23,274	11,637	15,585	67.0	—	3,948
Quebec	6,046	46.71	TSC ²	282,408	141,204	150,286	53.2	—	9,082
Ontario	7,615	56.60	TSC ³	431,009	215,504	189,287	43.9	26,217	—
Manitoba	988	52.04	TSC	51,416	25,708	24,559	47.8	1,149	—
Saskatchewan	960	35.69	TSC	34,262	17,131	23,863	69.6	—	6,732
Alberta	1,556	46.27	TSC	71,996	35,998	38,678	53.7	—	2,680
British Columbia	2,131	56.00	T&E	119,336	59,668	52,971	44.4	6,697	—
Canada	21,320	49.71		1,059,910	529,955	529,955	50.0	34,063	34,063

¹ TSC: Tax Structure Committee

NHW: Department of National Health and Welfare

T&E: Ontario Department of Treasury and Economics

² 1971-72 TSC projections deflated by 8 per cent

³ TSC projection reduced by \$28 million for administration and increased by \$16 million for salaried physicians.

Table E
**Distributional Implications of Post-Secondary Fiscal Transfers
 1968-69**
 (\$ thousand)

	Total Costs	Total Federal Payment	50% of Actual Cost	Federal Payment as Per Cent of Total Costs	Implicit Overpayment
				(%)	
Newfoundland.....	11,160	9,398	5,580	84.2	3,818
Prince Edward Island..	3,077	2,049	1,538	66.5	511
Nova Scotia.....	39,346	19,673	19,673	50.0	—
New Brunswick.....	19,480	11,634	9,740	60.0	1,894
Quebec.....	266,100	133,050	133,050	50.0	—
Ontario.....	391,400	195,700	195,700	50.0	—
Manitoba.....	43,905	21,953	21,953	50.0	—
Saskatchewan.....	42,708	21,354	21,354	50.0	—
Alberta.....	91,967	45,984	45,983	50.0	—
British Columbia.....	82,931	41,466	41,466	50.0	—
Canada.....	<u>992,074</u>	<u>502,261</u>	<u>496,037</u>	<u>51.0</u>	<u>6,223</u>

Source: Tax Structure Committee and federal Department of Finance.

Table F
Reconciliation of Ontario Government Data 1968-69
 (\$ million)

Revenue	
Net General Revenue per Public Accounts.....	2,595
Add: Interest Earnings	124
Hospital Insurance Premiums	270
	<u>2,989</u>
Deduct: Federal Unconditional Grants.....	127
Provincial Collections (Table 1, Budget Paper B).....	<u>2,862</u>
Expenditure	
Net General Expenditure per Public Accounts.....	2,736
Add: Interest Earnings (netted out in Public Accounts).....	124
Hospital Insurance Premiums.....	270
Federal Conditional Grants.....	476
Gross Provincial Expenditure (Table 2, Budget Paper B)	<u>3,606</u>

Government Financial Statements

TABLE OF CONTENTS

Introduction	89
Tables	
1 Summary of Changes in Liquid Reserves	92
2 Net General Revenue	93
3 Net General Expenditure	95
4 Estimated Net and Gross General Expenditure	99
5 Details of Non-Budgetary Transactions	102
6 Analysis of Expenditure on Physical Assets	104
7 Increase in Gross Debt	105
8 Contingent Liabilities	106
9 Historical Summary of Budgetary Transactions	108
10 Gross and Net Debt	109
11 Government Revenue and Expenditure (1969-70)	110
12 Government Revenue and Expenditure (1970-71)	111
Charts	
1 Relative Importance of Major Sources of Revenue	94
2 Growth of Major Sources of Revenue	94
3 Relative Importance of Major Functions of Expenditure	98
4 Growth of Major Functions of Expenditure	98
5 Total Funded Debt	107
6 Net Debt and Net General Revenue as a Percentage of Provincial Domestic Product	107
7 The Government Dollar (1969-70)	110
8 The Government Dollar (1970-71)	111

INTRODUCTION

This paper consists of a set of tables providing a five-year review of the Government's total operations. A number of significant changes were introduced in recent budgets, but this year's presentation remains essentially the same as in the 1969 budget. One table, appearing in the preceding budget and showing changes in the Province's net debt, has been omitted this year. Changes in the system of accounting have eliminated non-cash accruals, starting in 1967-68; as a result, changes in the net debt of the Province have become identical with the net position on budgetary transactions.

In order to achieve meaningful year-to-year comparisons, an attempt has been made to keep the five-year period in this paper internally consistent. In order to do so and, in particular, to accommodate changes incorporated in 1970-71, a number of changes were required in the data for earlier years. First, a number of functions have been transferred between departments and the necessary adjustments have been made for prior years, as if such transfers took place at the outset of the period in 1966-67. As a result, the data for individual departments do not necessarily correspond with those in the Public Accounts. Second, a new definition has been adopted for net general revenue and reimbursements of expenditure in order to reflect more accurately the nature of the transaction. This improvement tends to restrict the concept of reimbursements of expenditure and reduces the number of items recorded as such in Table C4. The application of this new interpretation back to the fiscal year 1966-67 has the effect of increasing both net general revenue and net general expenditure. Again, this procedure involves a divergence from the Public Accounts. The total increase in net general revenue and net general expenditure for the historical years is \$10.2 million in 1966-67; \$11.1 million in 1967-68; \$9.2 million in 1968-69; and \$10.3 million in 1969-70. The Government's net position on budgetary transactions, of course, remains the same as under the previous system.

Since not all changes shown in the financial statements are self-explanatory, some further details concerning these changes are described in the following commentary.

Revenue

Personal Income Tax. The large increase in 1970-71, in spite of weakening economic conditions, is explained by the inclusion of an additional month's revenue (\$73 million). This is the result of an anticipated acceleration in the transfer of collections from the federal government to the Province.

Corporation Taxes. The 50 per cent increase in 1969-70 was the result of the accelerated payment schedule, an increase in capital taxes and unusually high final settlements for the strong 1968 taxation year. The subsequent decline indicated for 1970-71 reflects a weaker profits picture and the absence of the once-and-for-all gain from acceleration in 1969-70.

Department of Health. The large increases in revenue in 1969-70 and 1970-71 are related to medicare premiums starting October 1, 1969. These OHSIP premiums account for revenues of \$157.5 million in 1969-70 and \$309.6 million in 1970-71.

Department of Justice. The jump in revenue in 1968-69 is associated with the provincial assumption of the administration of justice.

Department of Education. The uneven trend in revenue has resulted from federal shared-cost payments relating to spending in earlier years.

Expenditure

Department of Health. Three special factors have distorted the historical perspective. These factors can be summarized as follows:

- a. the Ontario Medical Services Insurance Plan (OMSIP) was discontinued in the middle of the 1969-70 fiscal year;
- b. the Ontario Health Services Insurance Plan (OHSIP) was introduced in the middle of 1969-70 and many claims relating to this fiscal year will carry over into 1970-71;
- c. the premium stabilization fund of the Ontario Hospital Services Commission (OHSC) was supported with \$125 million in 1969-70, of which \$100 million is expected to be withdrawn during 1970-71.

Comparative Financial Data on Hospital and Health Care Expenditures
(\$ million)

	Budget 1969-70	Interim 1969-70	Estimated 1970-71
OHSC			
Contribution to OHSC.....	59.0	59.0	187.2
Contribution to OHSC Stabilization Fund (Table C5)	—	125.0	(100.0)
Net General Expenditure (Table C3)	<u>59.0</u>	<u>184.0</u>	<u>87.2</u>
Medicare Plan			
OHSIP Claims Costs.....	—	140.0	415.8
OHSIP Administration	—	14.8	27.3
	<u>—</u>	<u>154.8</u>	<u>443.1</u>
Federal Reimbursement	—	(65.0)	(167.4)
Net General Expenditure (Table C3).....	<u>—</u>	<u>89.8</u>	<u>275.7</u>
Health Resources Development	26.0*	20.7	54.1
Salaried Physicians (Shareable Cost)	<u>—</u>	<u>7.9</u>	<u>16.3</u>
Net Cost of Plan.....	<u>—</u>	<u>118.4</u>	<u>346.1</u>
OMSIP			
Provincial Contributions to OMSIP	37.0	29.9	—
Net Contribution from Social and Family Services	16.0	8.1	—
Administration	<u>10.6</u>	<u>4.2</u>	<u>—</u>
Total Net Cost of OMSIP (Table C3)	<u>89.6*</u>	<u>42.2</u>	<u>—</u>

*The total of \$89.6 million for health care expenditures includes \$26.0 million for health resources development. The comparable figure for interim 1969-70 is \$160.6 million (\$118.4 million plus \$42.2 million).

TABLE C1
SUMMARY OF CHANGES¹ IN LIQUID RESERVES RESULTING FROM
BUDGETARY, NON-BUDGETARY AND DEBT TRANSACTIONS

(Thousands of Dollars)

	1966-67	1967-68	1968-69	Interim 1969-70
Budgetary Transactions				
Tax Revenue	1,487,532	1,757,140	2,027,589	2,518,200
Non-Tax Revenue	323,737	400,812	576,797	773,800
Total Net General Revenue..... (See Table C2)	1,811,269	2,157,952	2,604,386	3,292,000
Total Net General Expenditure..... (See Table C3)	1,791,129	2,264,700	2,745,370	3,266,500
Net Budgetary Surplus or (Deficit).....	20,140	(106,748)	(140,984)	25,500
Non-Budgetary Transactions (See Table C5)				
Receipts and Credits:				
Loans and Advances	30,095	38,345	43,610	64,000
Pension Funds, Deposit, Trust and Reserve Accounts	83,286	86,756	144,296	226,900
	113,381	125,101	187,906	290,900
Proceeds from Non-Public Debentures Issued	421,497	488,118	524,309	572,500
Public Issues on Behalf of Ontario Hydro	34,694	125,150	156,300	199,450
Bank Loan	5,000	(5,000)	—	—
Province of Ontario Savings Deposits (Net)	1,288	13,386	10,329	—
Sinking Fund Investments Transferred to Liquid Reserves	—	—	—	43,130
Total Receipts and Credits.....	575,860	746,755	878,844	1,105,980
Disbursements and Charges:				
Loans and Advances	415,191	556,072	622,547	732,050
Pension Funds, Deposit, Trust and Reserve Accounts	54,726	62,389	51,764	83,500
Total Disbursements and Charges	469,917	618,461	674,311	815,550
Non-Budgetary Transactions (Net).....	105,943	128,294	204,533	290,430
Debt Transactions				
Public Debentures Issued.....	—	110,000	104,191	—
Debt Retirements (Net)	(66,149)	(92,045)	(73,703)	(73,600)
Debt Transactions (Net).....	(66,149)	17,955	30,488	(73,600)
Overall Effect on Liquid Reserves	59,934	39,501	94,037	242,330

¹Increase or (Decrease).

NOTE: The provision for Sinking Fund, last made in the 1968-69 fiscal year, has not been included as it does not affect the overall financial position of the Government. Debt retirements (net) combines retirement of debt issues and, until 1968-69 inclusive, net changes in sinking fund investments.

TABLE C2
NET GENERAL REVENUE¹
(Thousands of Dollars)

	1966-67	1967-68	1968-69	Interim 1969-70	Estimated 1970-71
Taxation:					
Income Tax Collection					
Agreement	393,837	551,004	620,476	762,000	948,000
Retail Sales Tax	385,575	435,666	485,588	636,900	679,000
Corporation Taxes	274,500	302,273	332,964	480,000	457,000
Gasoline Tax	266,391	283,221	337,284	358,000	376,000
Succession Duty	57,913	59,638	68,472	72,000	72,500
Share of Federal Estate Tax	19,743	20,628	21,677	26,800	26,000
Motor Vehicle Fuel Tax	18,196	21,527	26,298	29,700	33,000
Tobacco Tax	18,553	18,983	54,220	70,600	72,000
Race Tracks Tax	14,673	15,091	18,999	20,700	23,000
Mines Profits, Acreage, Gas	10,852	16,334	19,820	24,400	32,300
Land Transfer Tax	8,528	10,823	12,567	14,800	16,000
Hospitals Tax	8,127	9,524	10,440	800 ²	—
Security Transfer Tax	3,503	4,835	7,374	7,000	7,000
Logging Tax	1,745	1,662	1,444	1,800	2,000
Income Tax—Public Utilities	1,051	1,576	5,463	8,700	8,500
Other Taxation	4,347	4,231	4,295	4,000	5,000
TOTAL TAX REVENUE	1,487,534	1,757,016	2,027,381	2,518,200	2,757,300
Other Revenue:					
Health	10,079	14,333	14,300	179,900	324,800
Liquor Control Board	133,700	149,142	192,577	182,000	192,400
Treasury & Economics ³	12,371	32,604	132,305	118,600	165,500
Transport	100,343	107,379	132,543	145,000	155,000
Justice	13,425	14,187	40,179	44,300	48,900
Lands & Forests	25,645	28,218	32,025	37,000	43,400
Education	8,047	9,126	1,973	19,900	10,700
Public Works	1,671	2,238	4,343	4,400	8,300
Financial & Commercial					
Affairs	2,959	4,164	5,194	6,200	7,300
Agriculture & Food	1,241	1,932	1,599	4,100	4,800
Highways	2,294	2,838	4,857	4,000	4,100
Correctional Services	3,761	4,021	3,527	3,900	3,400
Tourism & Information	1,666	1,995	1,853	2,400	3,300
Labour	2,064	3,253	2,181	4,900	3,000
Mines (less Taxes re Mines Profits, Acreage, Gas)	1,497	1,938	2,022	2,000	1,900
Other Departments	2,972	23,568	5,527	15,200	5,200
TOTAL OTHER REVENUE	323,735	400,936	577,005	773,800	982,000
TOTAL NET GENERAL REVENUE	1,811,269	2,157,952	2,604,386	3,292,000	3,739,300

¹Combined Net Ordinary Revenue and Net Capital Receipts from Physical Assets.

²Hospitals Tax Act and Retail Sales Tax Act integrated, effective April 1, 1969.

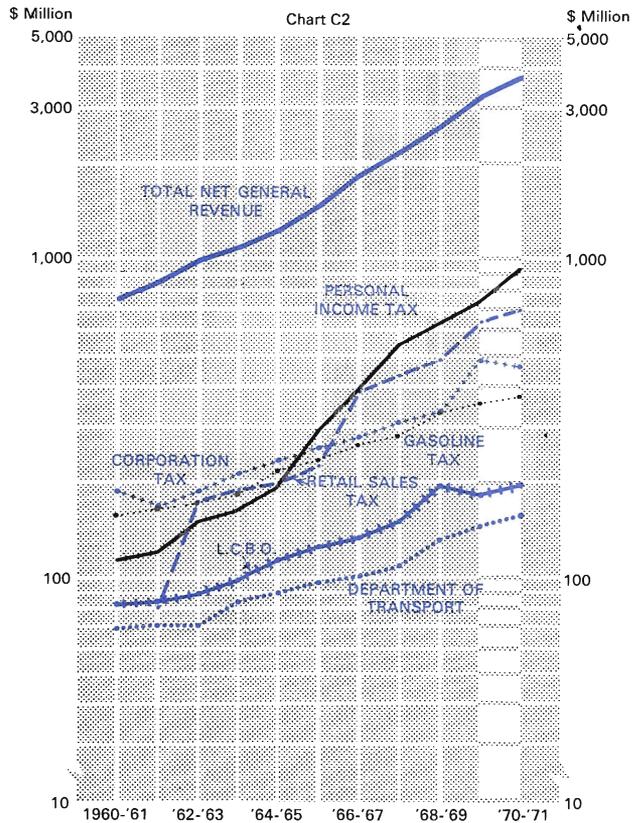
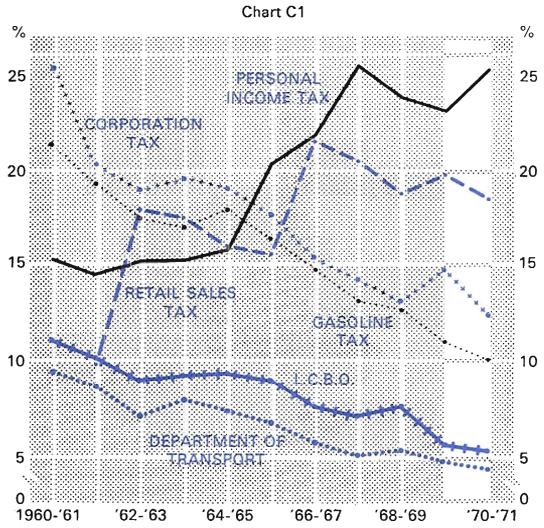
³Details:

Post-Secondary Education Adjustment Payment	—	19,479	117,296 ⁴	104,000	150,000
Water Power Rentals	7,368	8,154	8,243	9,500	10,500
Other	5,003	4,971	6,766	5,100	5,000
Total	12,371	32,604	132,305	118,600	165,500

⁴Includes payment of \$35 million related to 1967-68 spending.

REVENUES

Relative Importance of Major Sources



Growth of Major Sources

TABLE C3
NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY

(Thousands of Dollars)

	1966-67	1967-68	1968-69	Interim 1969-70	Estimated 1970-71
Education					
Assistance to School Boards	394,267	491,041	566,330	712,168	814,800
Constructing and Equipping Additional Vocational Units for School Boards, etc.	43,857	57,600	66,727	49,703	40,000
Teachers' Superannuation Fund, etc.	42,939	47,752	54,952	64,520	67,032
Technical and Technological Institutions	25,603	37,763	53,663	68,315	89,721
Other	48,173	57,658	65,256	80,139	90,884
	<u>554,839</u>	<u>691,814</u>	<u>806,928</u>	<u>974,845</u>	<u>1,102,437</u>
Health					
Contribution to Ontario Hospital Care Insurance Plan	50,000	90,000	97,000	184,000	87,160
Construction Grants to Public Hospitals, Boards, etc.	27,086	37,229	43,047	35,523	70,300
Mental Health Division	90,032	108,571	127,856	141,797	151,740
Medical Services Insurance Plan Health Services Insurance Plan	22,295	42,704	58,039	42,151 ¹	—
Public Health Division	—	—	—	89,798 ²	275,711
Other	20,519	28,838	38,251	52,063	63,720
	16,612	22,246	23,225	22,383	29,241
	<u>226,544</u>	<u>329,588</u>	<u>387,418</u>	<u>567,715</u>	<u>677,872</u>
Highways					
Construction of Roads and Other Capital Projects	189,967	214,988	210,515	224,402	234,832
Municipal Subsidies, Capital	75,432	77,353	82,699	88,100	97,600
Municipal Subsidies, Maintenance	41,955	45,615	49,707	53,000	58,445
GO Transit (Capital and Maintenance)	9,607	8,715	12,788	2,662	7,608
Highway Maintenance, etc.	73,607	76,355	82,932	85,515	92,369
	<u>390,568</u>	<u>423,026</u>	<u>438,641</u>	<u>453,679</u>	<u>490,854</u>
University Affairs					
Grants to Universities and Colleges	96,562	193,844	252,282	314,885	374,665
Student Awards	9,926	21,986	28,403	37,967	43,040
Other	934	1,028	4,212	6,032	6,602
	<u>107,422</u>	<u>216,858</u>	<u>284,897</u>	<u>358,884</u>	<u>424,307</u>
Municipal Affairs					
The Residential Property Tax Reduction Act	—	—	109,957	123,000	136,000
Property Tax Relief for Needy Pensioners	—	—	—	—	10,000
Payments under The Municipal Unconditional Grants Act	28,023	39,775	44,238	45,450	48,031
Other Grants, Subsidies and Payments to Municipalities	18,356	25,816	26,358	26,217	20,746
Other	3,818	4,063	5,601	11,986	28,397
	<u>50,197</u>	<u>69,654</u>	<u>186,154</u>	<u>206,653</u>	<u>243,174</u>

(Cont'd)

TABLE C3 (Cont'd.)

NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY

(Thousands of Dollars)

	1966-67	1967-68	1968-69	Interim 1969-70	Estimated 1970-71
Social & Family Services					
Income Maintenance	62,148	76,511	92,520	93,638	106,256
Rehabilitation and Special Services	1,045	1,458	2,169	2,705	3,301
Child Care	18,928	15,278	18,018	19,990	24,224
	<u>82,121</u>	<u>93,247</u>	<u>112,707</u>	<u>116,333</u>	<u>133,781</u>
Justice					
Ontario Provincial Police.....	29,021	34,630	39,371	48,279	52,269
Contribution to Legal Aid Fund..	35	3,890	7,032	8,146	8,160
Other	17,774	25,571	40,173	43,253	44,701
	<u>46,830</u>	<u>64,091</u>	<u>86,576</u>	<u>99,678</u>	<u>105,130</u>
Public Works					
Construction of Public Buildings, etc.	45,691	47,916	49,433	43,295	49,166
Maintenance and Repairs of Public Buildings, etc.	17,371	20,940	32,683	40,559	49,657
	<u>63,062</u>	<u>68,856</u>	<u>82,116</u>	<u>83,854</u>	<u>98,823</u>
Public Debt—Interest	<u>62,022</u>	<u>64,163</u>	<u>72,293</u>	<u>71,581</u>	<u>74,799</u>
Lands & Forests	<u>43,589</u>	<u>51,879</u>	<u>60,176</u>	<u>63,511</u>	<u>67,729</u>
Treasury & Economics					
Government Contribution to Employee Pension and In- surance Plans	24,694	30,388	32,087	40,702	58,346
Other	3,648	4,517	7,314	7,859	8,521
	<u>28,342</u>	<u>34,905</u>	<u>39,401</u>	<u>48,561</u>	<u>66,867</u>
Agriculture & Food					
Grants for Capital Purposes in Farm Development	—	6,241	6,346	5,750	5,500
Other	30,815	30,160	36,449	43,987	47,635
	<u>30,815</u>	<u>36,401</u>	<u>42,795</u>	<u>49,737</u>	<u>53,135</u>
Correctional Services	<u>25,400</u>	<u>31,541</u>	<u>42,745</u>	<u>48,154</u>	<u>48,029</u>
Energy & Resources					
Management					
Ontario Water Resources Commission	6,203	7,774	9,245	9,346	10,884
Other	10,212	11,704	14,784	16,919	19,520
	<u>16,415</u>	<u>19,478</u>	<u>24,029</u>	<u>26,265</u>	<u>30,404</u>

(Cont'd)

TABLE C3 (Cont'd.)

NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY

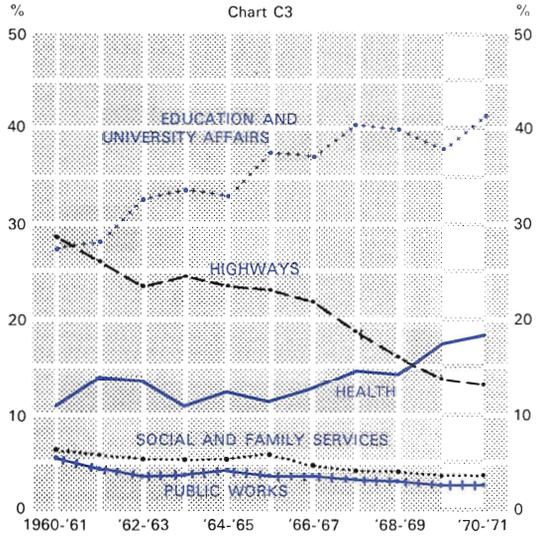
(Thousands of Dollars)

	1966-67	1967-68	1968-69	Interim 1969-70	Estimated 1970-71
Trade & Development					
Ontario (& Student) Housing Corporation	1,460	2,976	4,928	6,747	8,454
Ontario Place Development	—	—	—	5,500	8,500
Universal and International Exhibitions (1967 and 1970) ..	6,893	2,763	1,108	1,365	405
Other	5,670	6,676	7,592	7,785	10,094
	<u>14,023</u>	<u>12,415</u>	<u>13,628</u>	<u>21,397</u>	<u>27,453</u>
Labour	<u>9,752</u>	<u>9,811</u>	<u>12,280</u>	<u>14,043</u>	<u>15,777</u>
Transport	<u>9,135</u>	<u>10,623</u>	<u>12,013</u>	<u>13,093</u>	<u>14,054</u>
Tourism & Information					
Centennial Centre of Science and Technology	1,307	2,089	2,620	4,333	3,482
Other	7,710	9,443	8,827	9,386	9,368
	<u>9,017</u>	<u>11,532</u>	<u>11,447</u>	<u>13,719</u>	<u>12,850</u>
Revenue	<u>7,461</u>	<u>8,232</u>	<u>9,504</u>	<u>10,225</u>	<u>11,239</u>
Mines	<u>3,312</u>	<u>3,810</u>	<u>5,105</u>	<u>6,892</u>	<u>9,865</u>
Provincial Secretary & Citizenship	<u>5,420</u>	<u>5,894</u>	<u>6,168</u>	<u>7,993</u>	<u>8,506</u>
Financial & Commercial Affairs	<u>1,969</u>	<u>3,355</u>	<u>3,908</u>	<u>4,281</u>	<u>4,700</u>
Civil Service	<u>1,443</u>	<u>1,692</u>	<u>2,196</u>	<u>2,631</u>	<u>2,820</u>
Treasury Board	<u>486</u>	<u>747</u>	<u>1,003</u>	<u>1,536</u>	<u>2,010</u>
Provincial Auditor	<u>657</u>	<u>755</u>	<u>850</u>	<u>812</u>	<u>979</u>
Prime Minister	<u>256</u>	<u>300</u>	<u>357</u>	<u>398</u>	<u>384</u>
Lieutenant Governor	<u>32</u>	<u>33</u>	<u>35</u>	<u>39</u>	<u>40</u>
Total Net General Expenditure	<u>1,791,129</u>	<u>2,264,700</u>	<u>2,745,370</u>	<u>3,266,509</u>	<u>3,728,018</u>

¹Six months of OMSIP.²Six months of OHSIP.

EXPENDITURES

Relative Importance of Major Functions



Growth of Major Functions

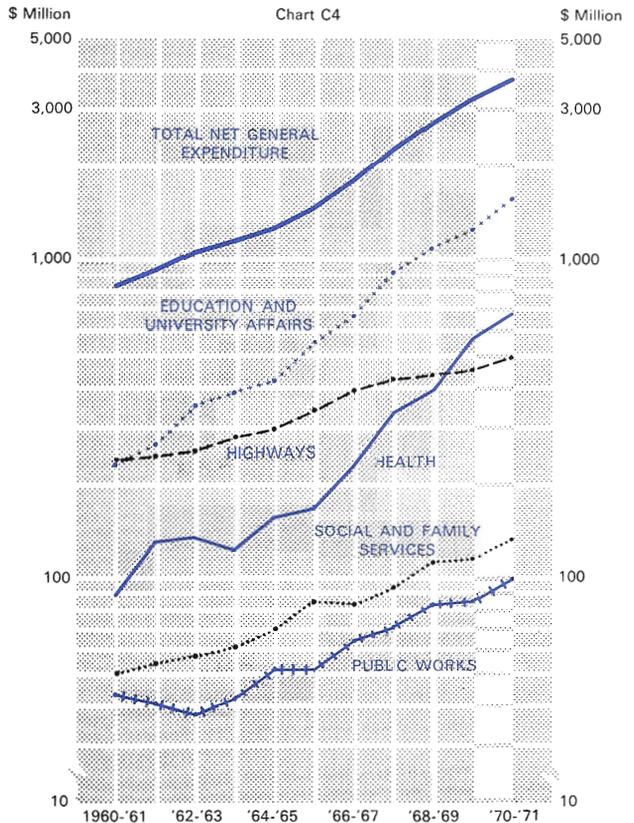


TABLE C4
ESTIMATED NET AND GROSS GENERAL EXPENDITURE, 1970-71
(Thousands of Dollars)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Education				
Formal Education K-13.....	35,995	16	—	36,011
Continuing Education	94,236	25,775	—	120,011
Community Services	10,747	270	—	11,017
Other	961,459	—	—	961,459
	<u>1,102,437</u>	<u>26,061</u>	<u>—</u>	<u>1,128,498</u>
Health				
Departmental Administration	18,862	797	—	19,659
Public Health	63,720	7,720	—	71,440
Mental Health	151,740	200	—	151,940
Health Services Insurance.....	321,317	180,361	—	501,678
Other	122,233	—	—	122,233
	<u>677,872</u>	<u>189,078</u>	<u>—</u>	<u>866,950</u>
Highways				
Road Construction	332,432	7,240	2,760	342,432
Other	158,422	—	—	158,422
	<u>490,854</u>	<u>7,240</u>	<u>2,760</u>	<u>500,854</u>
University Affairs	<u>424,307</u>	<u>—</u>	<u>—</u>	<u>424,307</u>
Social & Family Services				
Departmental Administration	2,292	1,158	—	3,450
Income Maintenance	104,436	115,500	—	219,936
Rehabilitation and Development.....	3,244	3,002	—	6,246
Child Care	23,809	21,855	—	45,664
	<u>133,781</u>	<u>141,515</u>	<u>—</u>	<u>275,296</u>
Public Debt—Interest	<u>74,799</u>	<u>—</u>	<u>230,521</u>	<u>305,320</u>
Municipal Affairs	<u>243,174</u>	<u>—</u>	<u>—</u>	<u>243,174</u>
Justice				
Courts Administration	29,978	—	87	30,065
Official Guardian and Public Trustee.....	340	—	2,304	2,644
Public Safety	4,977	1,047	—	6,024
Other	69,835	—	—	69,835
	<u>105,130</u>	<u>1,047</u>	<u>2,391</u>	<u>108,568</u>

(Cont'd)

TABLE C4 (Cont'd.)
ESTIMATED NET AND GROSS GENERAL EXPENDITURE, 1970-71
 (Thousands of Dollars)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Public Works	98,823	—	—	98,823
Lands & Forests				
Resource Protection and Development	40,337	679	—	41,016
Recreation	21,473	620	—	22,093
Other	5,919	—	—	5,919
	<u>67,729</u>	<u>1,299</u>	<u>—</u>	<u>69,028</u>
Treasury & Economics	66,867	—	—	66,867
Agriculture & Food				
Agricultural Production	19,441	638	—	20,079
Rural Development	10,122	5,662	—	15,784
Agricultural Marketing	6,026	40	—	6,066
Agricultural Education and Research	15,383	15	—	15,398
Other	2,163	—	—	2,163
	<u>53,135</u>	<u>6,355</u>	<u>—</u>	<u>59,490</u>
Correctional Services				
Rehabilitation of Adult Offenders	33,215	60	140	33,415
Rehabilitation of Juveniles	12,518	5	—	12,523
Other	2,296	—	—	2,296
	<u>48,029</u>	<u>65</u>	<u>140</u>	<u>48,234</u>
Energy & Resources Management				
Renewable Resources Management	11,821	742	—	12,563
Management of the Quality and Quantity of Water	5,475	325	—	5,800
Other	13,108	—	—	13,108
	<u>30,404</u>	<u>1,067</u>	<u>—</u>	<u>31,471</u>
Trade & Development	27,453	—	—	27,453
Labour				
Manpower Development	5,470	6,700	—	12,170
Other	10,307	—	—	10,307
	<u>15,777</u>	<u>6,700</u>	<u>—</u>	<u>22,477</u>

(Cont'd)

TABLE C4 (Cont'd.)
ESTIMATED NET AND GROSS GENERAL EXPENDITURE, 1970-71
 (Thousands of Dollars)

	<u>Net General Expenditure</u>	<u>Federal Transfers</u>	<u>Other Allocations</u>	<u>Gross General Expenditure</u>
Transport				
Motor Vehicle Accident Claims Fund....	—	—	1,161	1,161
Other	14,054	—	—	14,054
	<u>14,054</u>	<u>—</u>	<u>1,161</u>	<u>15,215</u>
Tourism & Information				
Tourism	7,852	34	—	7,886
Other	4,998	—	—	4,998
	<u>12,850</u>	<u>34</u>	<u>—</u>	<u>12,884</u>
Revenue				
Province of Ontario Savings Office.....	—	—	1,440	1,440
Other	11,239	—	—	11,239
	<u>11,239</u>	<u>—</u>	<u>1,440</u>	<u>12,679</u>
Mines	<u>9,865</u>	<u>—</u>	<u>—</u>	<u>9,865</u>
Provincial Secretary & Citizenship				
Citizenship	2,095	498	—	2,593
Registrar General	1,271	32	—	1,303
Other	5,140	—	—	5,140
	<u>8,506</u>	<u>530</u>	<u>—</u>	<u>9,036</u>
Financial & Commercial Affairs	<u>4,700</u>	<u>—</u>	<u>—</u>	<u>4,700</u>
Civil Service	<u>2,820</u>	<u>—</u>	<u>—</u>	<u>2,820</u>
Treasury Board	<u>2,010</u>	<u>—</u>	<u>—</u>	<u>2,010</u>
Provincial Auditor	<u>979</u>	<u>—</u>	<u>—</u>	<u>979</u>
Prime Minister	<u>384</u>	<u>—</u>	<u>—</u>	<u>384</u>
Lieutenant Governor	<u>40</u>	<u>—</u>	<u>—</u>	<u>40</u>
TOTAL	<u>3,728,018</u>	<u>380,991</u>	<u>238,413</u>	<u>4,347,422</u>

TABLE C5
DETAILS OF NON-BUDGETARY TRANSACTIONS
(Thousands of Dollars)

	1966-67	1967-68	1968-69	Interim 1969-70	Estimated 1970-71
Receipts and Credits					
PROCEEDS OF NON-PUBLIC DEBENTURE ISSUES:					
Canada Pension Plan.....	332,587	375,902	411,993	445,800	460,000
Municipal Works Assistance Act.....	28,310	32,316	6,216	—	—
Ontario Municipal Employees' Retirement Fund	20,100	24,900	33,100	46,700	55,000
Teachers' Superannuation Fund.....	40,500	55,000	73,000	80,000	90,000
	<u>421,497</u>	<u>488,118</u>	<u>524,309</u>	<u>572,500</u>	<u>605,000</u>
DEBENTURE ISSUES ON BEHALF OF ONTARIO					
HYDRO	34,694	125,150	156,300	199,450	—
BANK LOAN	5,000	(5,000)	—	—	—
SINKING FUND INVESTMENTS					
TRANSFERRED TO LIQUID RESERVES	—	—	—	43,130	—
PROVINCE OF ONTARIO SAVINGS DEPOSITS (Net)	1,288	13,386	10,329	—	—
REPAYMENT OF LOANS AND ADVANCES:					
Ontario Hydro	3,401	5,416	5,092	10,400	1,100
Municipal Works Assistance Act.....	11,471	13,434	6,507	3,800	3,800
Ontario Municipal Improvement Corporation.....	6,900	3,771	3,500	3,600	3,500
Ontario Universities Capital Aid Corporation	1,896	3,286	4,869	7,400	10,200
Ontario Education Capital Aid Corporation.....	715	6,931	14,316	20,200	23,000
Ontario Development Corporation.....	—	—	1,874	1,400	3,400
Ontario Hospitals re Hospital Construction Loans	735	1,026	2,519	4,000	5,700
Other	4,977	4,481	4,933	13,200	10,200
	<u>30,095</u>	<u>38,345</u>	<u>43,610</u>	<u>64,000</u>	<u>60,900</u>
PENSION FUNDS, DEPOSIT, TRUST & RESERVE ACCOUNTS:					
Sales of Vacation-with-Pay Stamps.....	14,100	13,020	9,468	2,800	—
Public Service Superannuation Fund.....	44,895	51,741	59,963	78,400	90,800
Motor Vehicle Accident Claims Fund.....	8,880	8,396	7,946	8,000	7,500
OHSC — Special Account for Premium Stabilization	2,000	—	48,000	125,000	29,000
HIRB — Special Account for OMSIP Premiums Paid in Advance.....	2,284	4,814	6,752	—	—
Ontario Municipal Employees' Retirement Fund....	5,175	6,600	10,222	12,000	12,000
Other	5,952	2,185	1,945	700	500
	<u>83,286</u>	<u>86,756</u>	<u>144,296</u>	<u>226,900</u>	<u>139,800</u>
TOTAL RECEIPTS AND CREDITS.....	<u>575,860</u>	<u>746,755</u>	<u>878,844</u>	<u>1,105,980</u>	<u>805,700</u>

(Cont'd)

TABLE C5 (Cont'd.)
DETAILS OF NON-BUDGETARY TRANSACTIONS
(Thousands of Dollars)

	1966-67	1967-68	1968-69	Interim 1969-70	Estimated 1970-71
Disbursements and Charges					
LOANS AND ADVANCES:					
Ontario Municipal Improvement Corporation.....	1,001	8,525	2,660	5,500	10,000
Ontario (& Student) Housing Corporation	12,600	34,409	15,375	40,200	41,600
Housing Corporation Limited.....	—	—	—	—	50,000
Ontario Universities Capital Aid Corporation.....	93,105	106,309	172,789	170,000	175,000
Ontario Education Capital Aid Corporation.....	166,185	167,555	180,285	200,000	200,000
Ontario Water Resources Commission	20,692	14,070	7,898	30,800	35,000
Ontario Junior Farmer Establishment Loan Corporation	16,210	19,700	21,900	11,300	—
Municipal Works Assistance Act.....	36,609	45,073	8,494	—	—
Loans for Hospital Construction and Capital Financial Assistance	12,993	21,808	26,805	25,800	28,000
Ontario Hydro	34,694	125,150	156,300	199,450	—
Ontario Hydro re Nuclear Powered Generating Station	5,242	7,498	19,097	20,000	25,000
Ontario Development Corporation—Investment ...	7,000	—	—	—	—
Ontario Development Corporation—Advances ...	738	145	4,406	15,100	30,900
Tile Drainage Debentures	2,149	2,565	4,258	5,000	3,300
Ontario Northland Transportation Commission...	3,800	700	—	7,500	—
Other	2,173	2,565	2,280	1,400	1,700
	<u>415,191</u>	<u>556,072</u>	<u>622,547</u>	<u>732,050</u>	<u>600,600</u>
PENSION FUNDS, DEPOSIT, TRUST & RESERVE ACCOUNTS:					
Redemptions of Vacation-with-Pay Stamps.....	13,137	14,196	10,738	7,000	1,500
Public Service Superannuation Fund.....	17,503	17,530	19,780	24,000	24,200
Motor Vehicle Accident Claims Fund.....	5,213	6,451	7,219	7,300	8,300
OHSC — Special Account for Premium Stabilization	13,000	12,000	—	27,000	100,000
HIRB — Special Account for OMSIP Premiums Paid in Advance.....	33	2,284	4,814	6,800	—
Ontario Municipal Employees' Retirement Fund..	4,300	5,175	6,600	10,200	8,400
Other	1,540	4,753	2,613	1,200	200
	<u>54,726</u>	<u>62,389</u>	<u>51,764</u>	<u>83,500</u>	<u>142,600</u>
TOTAL DISBURSEMENTS AND CHARGES	<u>469,917</u>	<u>618,461</u>	<u>674,311</u>	<u>815,550</u>	<u>743,200</u>
SURPLUS ON NON-BUDGETARY TRANSACTIONS	105,943	128,294	204,533	290,430	62,500

TABLE C6
ANALYSIS OF EXPENDITURE ON PHYSICAL ASSETS
 (Thousands of Dollars)

	<u>Interim 1969-70</u>	<u>Estimated 1970-71</u>
Net General Expenditure		
Direct Provincial Expenditure on Physical Assets		
Transportation	205,390	214,697
Provision of Accommodation	43,295	49,166
Other	<u>12,407</u>	<u>16,365</u>
Sub-Total	<u>261,092</u>	<u>280,228</u>
Transfer Payments in Respect of Physical Assets		
Transportation	108,021	122,240
Education	49,703	40,000
Health	36,533	71,400
Other	<u>34,800</u>	<u>35,127</u>
Sub-Total	<u>229,057</u>	<u>268,767</u>
Total Net General Expenditure on Physical Assets	<u>490,149</u>	<u>548,995</u>
Loans and Advances		
Education	370,000	375,000
Industrial Development and Provincial Resources	77,636	91,488
Home and Community Environment	50,754	104,924
Health	<u>25,781</u>	<u>28,000</u>
Total Loans and Advances in respect of Physical Assets	<u>524,171</u>	<u>599,412</u>
 GRAND TOTAL	 <u>1,014,320</u>	 <u>1,148,407</u>

TABLE C7
INCREASE IN GROSS DEBT
(Thousands of Dollars)

	1966-67	1967-68 ¹	1968-69	Interim 1969-70
Gross Debt Increased or (Decreased) by:				
Net Budgetary Transactions (See Table C1).....	(20,140)	106,748	140,984	(25,500)
Cash on Hand and in Banks.....	76,090	71,730	120,412	199,200
Temporary Investments	(16,156)	(34,848)	(25,434)	—
Advances to Crown Corporations (Net) ² :				
Ontario (& Student) Housing Corporation	50,497	34,260	14,971	40,200
Ontario Junior Farmer Establishment Loan Corporation	14,977	19,700	21,900	2,875
Ontario Universities Capital Aid Corporation	91,209	103,023	167,920	162,600
Ontario Education Capital Aid Corporation	165,470	160,624	165,969	179,800
Ontario Municipal Improvement Corporation	—	4,754	(840)	1,900
Ontario Development Corporation.....	—	145	2,531	13,700
Other Corporations	—	100	800	—
Ontario Hydro	36,536	127,232	170,305	209,050
Advances to Ontario Water Resources Commission	20,692	14,070	7,898	30,800
Advances to Ontario Northland Transportation Commission	3,800	700	—	7,500
Loans to Municipalities, Miscellaneous Loans, etc.	37,396	52,768	27,945	19,625
Discount on Debentures issued during year	306	—	—	—
Discount and Exchange on Debentures, written off	(1,885)	—	—	—
Accrued Interest and Discount of Pro- vincial Crown Corporations (Net).....	2,087	—	—	—
Increase in Reserves	(187)	—	—	—
Miscellaneous	218	—	—	—
INCREASE IN GROSS DEBT.....	460,910	661,006	815,361	841,750

¹Changes in the system of accounting have eliminated non-cash accruals commencing year 1967-68.

²Commencing year 1967-68 crown corporations' assets are not reported in the provincial balance sheet; advances to these corporations are shown as a net amount.

TABLE C8
CONTINGENT LIABILITIES
Bonds, etc. Guaranteed by the Province of Ontario
 (Thousands of Dollars)

	As at March 31st			Estimated Dec. 31 1969
	1967	1968	1969	
Ontario Hydro	1,883,252	1,836,823	2,039,192	2,071,274
Agricultural Guarantees	19,350	27,270	24,288	24,300
University of Toronto	19,000	19,000	19,000	7,500
Ontario Northland Transporta- tion Commission	21,535	20,302	18,300	10,300
Provincial Crown Corporations	—	34,980	34,870	33,800
Ontario Food Terminal Board ..	5,000	5,000	6,868	6,900
Development Loans	1,021	881	867	900
Co-operative Associations	643	1,482	1,467	1,500
Niagara Parks Commission.....	525	425	840	900
Miscellaneous	370	419	1,779	1,800
	<u>1,950,696</u>	<u>1,946,582</u>	<u>2,147,471</u>	<u>2,159,174</u>
Less Bonds held by Province ..	<u>(23,333)</u>	<u>(13,331)</u>	<u>(20,733)</u>	<u>(20,000)</u>
TOTAL	<u>1,927,363</u>	<u>1,933,251</u>	<u>2,126,738</u>	<u>2,139,174</u>

Chart C5
**TOTAL FUNDED DEBT AT THE END OF FISCAL YEARS
 1960-61 TO 1969-70**

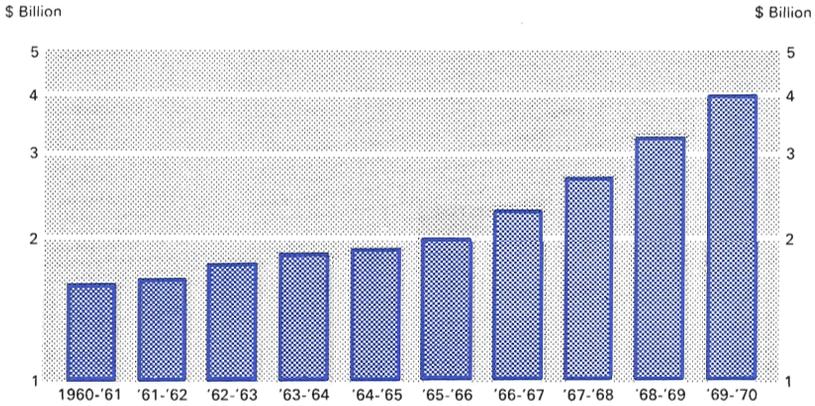


Chart C6
**NET DEBT AND NET GENERAL REVENUE AS A PERCENTAGE OF
 PROVINCIAL DOMESTIC PRODUCT**

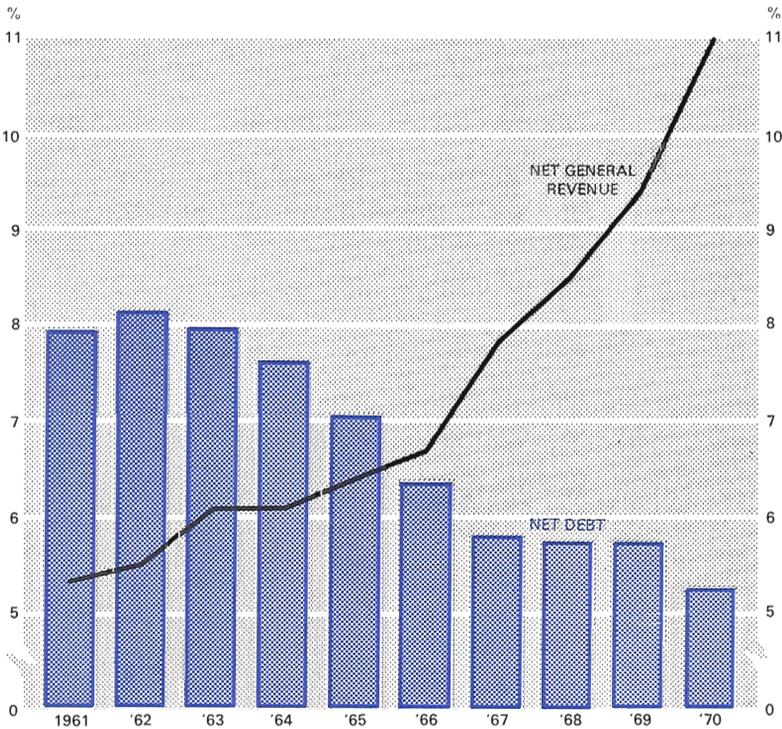


TABLE C9
HISTORICAL SUMMARY OF TOTAL BUDGETARY TRANSACTIONS
 (Thousands of Dollars)

Fiscal Year Ending March 31	Net General Revenue ¹	Net General Expenditure ²	Budgetary Surplus or (Deficit)
1936 ³	67,656	95,856	(28,200)
1940	88,385	117,408	(29,023)
1945	117,377	120,712	(3,335)
1950	229,351	253,748	(24,397)
1955	400,074	431,294	(31,220)
1960	704,885	786,288	(81,403)
1961	741,676	837,757	(96,081)
1962	827,424	941,677	(114,253)
1963	996,525	1,067,542	(71,017)
1964	1,081,380	1,139,246	(57,866)
1965	1,238,981	1,265,534	(26,553)
1966	1,444,246	1,456,198	(11,952)
1967	1,811,269	1,791,129	20,140
1968	2,157,952	2,264,700	(106,748)
1969	2,604,386	2,745,370	(140,984)
1970 (est.)	3,292,000	3,266,500	25,500
1971 (est.)	3,739,300	3,728,000	11,300

¹Net ordinary revenue and capital receipts from physical assets.

²Net ordinary expenditure and capital disbursements on physical assets.

³Introductory year for present fiscal period.

TABLE C10
GROSS AND NET DEBT, SELECTED FISCAL YEARS
(Millions of Dollars)

Fiscal Year Ending March 31	Gross Debt		Revenue-Producing and Realizable Assets					Net Debt			
	Total	Yearly Increase or (Decrease)	Ontario Hydro	O.N.T.C.	Loans and Cash	Total	Yearly Increase or (Decrease)	Total	Yearly Increase or (Decrease)	Population April 1 (000's)	Per Capita Net Debt \$
1945	638.8	20.0	95.5	30.2	28.4	154.1	17.0	482.7	3.0	3,994	120.85
1950	684.0	64.6	70.2	30.2	73.5	174.0	40.3	510.0	24.3	4,456	114.46
1955	1,066.2	30.7	300.0	30.2	75.2	405.4	52.0	660.7	30.7	5,241	126.07
1960	1,642.7	63.6	379.3	30.2	239.6	649.1	29.5	993.6	93.0	6,087	163.23
1961	1,695.5	52.8	359.5	30.2	213.2	602.9	(46.2)	1,092.6	99.0	6,214	175.83
1962	1,885.0	189.5	356.2	30.2	289.5	675.9	73.0	1,209.1	116.5	6,330 ¹	191.01
1963	1,979.4	94.4	351.3	30.2	313.8	695.3	19.4	1,284.1	75.0	6,464 ¹	198.65
1964	2,058.0	78.6	347.3	30.2	335.7	713.2	17.9	1,344.7	60.6	6,607 ¹	203.53
1965	2,218.3	160.3	345.7	30.2	477.0	852.9	139.7	1,365.3	20.6	6,759 ¹	202.00
1966	2,509.0	290.7	393.5	30.2	704.8	1,128.5	275.6	1,380.5	15.2	6,934 ¹	199.09
1967	2,969.9	460.9	430.3	34.0	1,145.1	1,609.4	480.9	1,360.5	(20.0)	7,115 ²	191.22
1967 ³	2,878.8	(91.1)	430.3	34.0	1,070.8	1,535.1	(74.3)	1,343.7	(16.8) ⁴	7,115 ²	188.85
1968	3,539.8	661.0	557.6	34.7	1,497.1	2,089.4	554.3	1,450.5	106.8	7,283 ²	199.16
1969	4,355.2	815.4	727.9	34.7	2,001.1	2,763.7	674.3	1,591.5	141.0	7,425 ²	214.34
1970 (est.)	5,197.0	841.8	937.0	42.2	2,651.8	3,631.0	847.3	1,566.0	(25.5)	7,600 ¹	206.05

¹Estimated by Department of Treasury and Economics.

²Estimated by Dominion Bureau of Statistics.

³Amended April 1, 1967.

⁴This amount results from the revised system of accounting which has eliminated non-cash accruals and reserves and reports net advances to Crown Corporations instead of consolidating net assets.

Note: Due to rounding, figures do not always add to total.

TABLE C11
GOVERNMENT REVENUE AND EXPENDITURE
 (Fiscal Year 1969-70 Interim)

Revenue

Individual Income Tax	\$ 762,000,000
Retail Sales Tax	636,900,000
Corporation Taxes	480,000,000
Gasoline Tax	358,000,000
Liquor Control Board	182,000,000
Medicare Premiums	157,500,000
Other	715,600,000
TOTAL NET GENERAL REVENUE	<u>\$3,292,000,000</u>

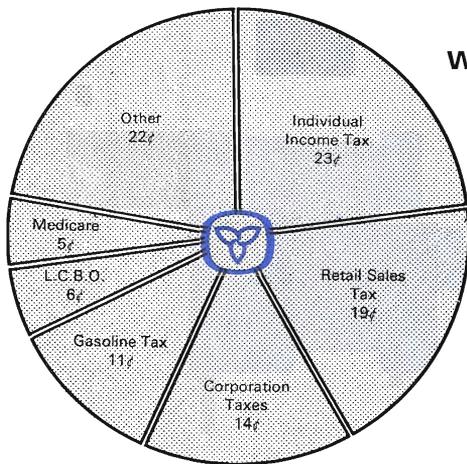
Expenditure

Education	\$1,333,700,000
Health and Social Services	684,000,000
Highways	453,700,000
Other	795,100,000
TOTAL NET GENERAL EXPENDITURE	<u>\$3,266,500,000</u>

Chart C7

THE GOVERNMENT DOLLAR
 (Fiscal Year 1969-70 Interim)

Where it comes from



How it is spent

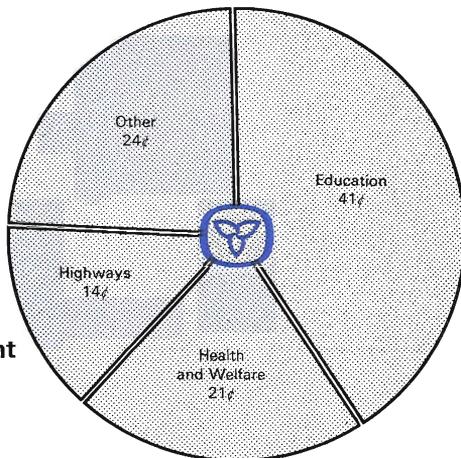


TABLE C12
GOVERNMENT REVENUE AND EXPENDITURE
 (Fiscal Year 1970-71 Estimates)

Revenue

Individual Income Tax	\$ 948,000,000
Retail Sales Tax	679,000,000
Corporation Taxes	457,000,000
Gasoline Tax	376,000,000
Medicare Premiums	310,000,000
Liquor Control Board	192,400,000
Other	776,900,000
TOTAL NET GENERAL REVENUE	<u>\$3,739,300,000</u>

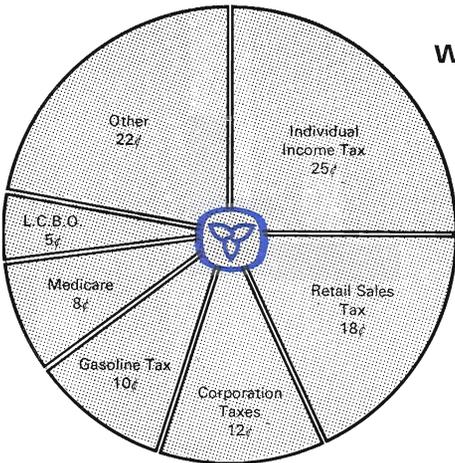
Expenditure

Education	\$1,526,700,000
Health and Social Services	811,700,000
Highways	490,900,000
Other	898,700,000
TOTAL NET GENERAL EXPENDITURE	<u>\$3,728,000,000</u>

Chart C8

THE GOVERNMENT DOLLAR
 (Fiscal Year 1970-71 Estimates)

Where it will come from



How it will be spent

