the Ontario 1973 Budget

the Honourable John White,
treasurer of Ontario

Ontario

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Presented by the Honourable John White,
Treasurer of Ontario
in the Legislative Assembly of Ontario,
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1973 Budget Statement

Mr. Speaker:

The easiest way for me to deal with this budget would have been to change nothing. The most popular approach to taxes in the short run would be to leave everything as it is. Quite frankly we could do this because our provincial resources have expanded as fast as our curtailed expenditures. But to do nothing about decreasing property taxes would be irresponsible and to do nothing to make the retail sales tax fairer would be cowardly. To do nothing to lower our public debt would be imprudent. I will therefore ask the Legislature to increase certain provincial taxes substantially, permitting offsetting decreases in property taxes and permitting significant increases in tax credits as this mechanism evolves towards a meaningful guaranteed annual income plan. The decrease in public debt will reaffirm my determination to keep Ontario's credit among the best in North America.

The budget which I present today is idealistic and realistic. It portrays Ontario's confidence in the strength of our economy and in its capacity to generate job opportunities and increased incomes for our people. It builds on the success of past expansionary policies. It recognizes that Ontario must create a sound financial base for essential provincial and municipal services in the future. And it accepts the responsibility for raising provincial taxes in the present, as I have said, in order to lower property taxes and to make the retail sales tax system fairer.

In constructing this 1973 Budget, the Ontario Government set itself the following objectives:

- to ensure that the economy continues to move towards full employment;
- to exercise maximum restraint in provincial spending while providing resources for priority programs;

- to give the highest priority to sharing provincial resources with local governments, and to ensure that property taxpayers derive maximum benefits;
- to redistribute tax burdens on the fairest possible basis;
- to encourage wise use of resources;
- to simplify certain taxes;
- to nurture small Canadian businesses;
- to preserve the family farm and decrease upward pressure on food costs;
- to decrease the public debt; and
- to decentralize government in Ontario.

Mr. Speaker, I am convinced that the taxation and reform policies in this budget meet these objectives in a way that is workable and responsible. Before proceeding to describe these measures, let me thank those public servants whose untiring efforts made this budget possible and whose dedication to the well-being of our people satisfies the highest standards of public service. Their undoubted talents, their tireless energy, their intellect and their compassion have made a deep impression on me in recent weeks.

Ontario's Fiscal Policy

I would like to comment on the Government's fiscal plan for 1973 in the context of:

- the state of the economy;
- Ontario's expansionary fiscal policy since 1970 and the considerable financial costs this policy has entailed; and
- federal-provincial fiscal policy co-ordination.

The State of the Economy

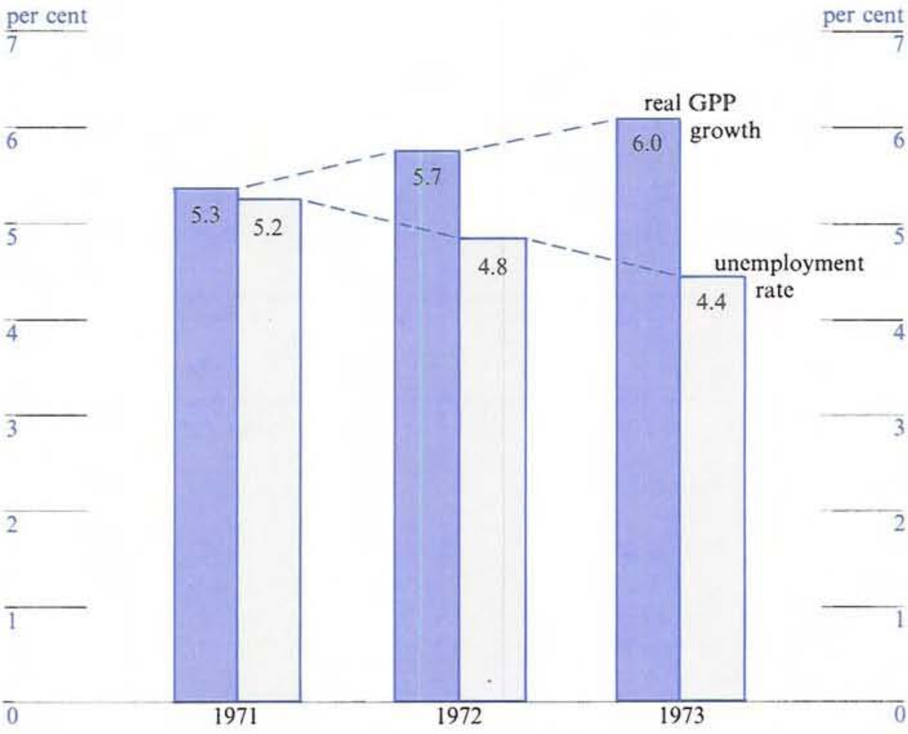
Mr. Speaker, in 1972 the Ontario economy continued to strengthen so that the Gross Provincial Product reached a level of $42 billion, an increase of 10.8 per cent over 1971. In constant dollar terms, the increase was 5.7 per cent, compared with a gain of 5.3 per cent in 1971. As a result of this increased pace of economic activity, a record 140,000 new jobs were created in the province in 1972. This enviable increase in employment of 4.5 per cent was the largest achieved in more than 15 years. Despite the rapid growth of the labour force, the rate of unemployment declined to 4.8 per cent in 1972 from 5.2 per cent a year earlier. In

January of this year, the seasonally adjusted rate of unemployment fell to 4.2 per cent, and in February it declined again to 4.1 per cent, the lowest level since April, 1970.

I am encouraged by the growth in employment in the province. Substantial numbers of new jobs were created in all sectors of the economy, with the exception of the construction industry. For example, 43,000 new jobs were created in manufacturing, another 43,000 in wholesale and retail trade and 45,000 in the service industry. I am confident that this improvement will continue in 1973, and estimate a rise of 11 per cent in Gross Provincial Product—about 6 per cent in real terms—and an average rate of unemployment of 4.4 per cent over the year as a whole.

We can have confidence that we are moving towards fuller employment. Let me repeat, however, the message of my predecessor who stated that any unemployment figure in excess of 3 per cent is unacceptable to this Government. Given the very rapid rate of growth of the labour force in Ontario, the provincial economy must realize an annual rate of real growth of at least 6 per cent to reach this target level of unemployment. We have achieved this kind of performance in the past, and we must do it again.

Real GPP Growth and Unemployment Rate in Ontario



A strong private sector and a high level of investment is essential to rapid economic growth. In the current situation, with housing construction approaching capacity, the critically important element in the private sector is the level of business investment in plant and equipment anticipated for this year. The federal 1973 budget provides a modest boost to consumer spending but no overall net fiscal stimulus. This situation arises because the personal income tax cuts have simply offset the federal government's surplus revenue capacity and its revenue gains from tax reform. Consequently, we must rely on strong business investment and balanced growth of the private sector to create the jobs necessary for our fast growing labour force.

Ontario's Fiscal Plan

During the past three years the Ontario Government has made maximum use of its financial resources to stimulate the economy, and our fiscal policy has played an important role in restoring a high rate of job creation in the province. Budget Paper A shows that since 1970 Ontario's fiscal policy has been flexible, and its impact on the provincial economy has far exceeded that of the federal government in the national economy. As a result we have achieved a faster growth in employment and a greater improvement in unemployment than the country as a whole.

To illustrate the Government's fiscal plan for 1973, Mr. Speaker, I would like to turn to the Province's full-employment budget estimates. These estimates are calculated on a national accounts basis to measure most effectively the budget's economic impact. Given the expenditure program and tax reform measures I am proposing today, the full-employment budget would be in approximate balance in 1973 if the economy were operating at capacity levels of output. Such a balanced full-employment budget represents a neutral fiscal stance, which is realistic given

Ontario's Fiscal Plan
($ million)

	Calendar Year 1972	1973
National Accounts Budget		
Revenues	6,042	6,911
Expenditures	6,355	7,104
Surplus (+) or Deficit (−)	−313	−193
Full-employment Budget on a National Accounts Basis		
Revenues	6,195	7,078
Expenditures	6,332	7,084
Surplus (+) or Deficit (−)	−137	−6

Ontario's financial capacity. The Government has already fully used its financial resources in the current cyclical phase. Continued deficit financing on this scale would weaken our long-term ability to finance essential public services and municipal tax reforms.

Federal-Provincial Fiscal Policy Co-ordination

In his recent budget, the federal Minister of Finance stated that large provinces such as Ontario must be prepared to run substantial deficits to stimulate the economy. For the past three years, this Province has run large cash deficits in order to create new jobs and incomes. Ontario's fiscal policy has substantially reinforced federal action in the national economy.

As I said, the relative stabilization effort of this Government has surpassed that of the federal government. In fact, Mr. Speaker, in every year since 1970, Ontario's net cash requirements as a percentage of gross revenues have substantially exceeded those of the federal government. Thus, the Province has exerted a greater degree of fiscal influence in pursuing the goal of full employment. The cost of this provincial effort is reflected in rising per capita debt.

Consequently, the Government must seek a balance between the allocation of resources for stimulating the economy and for meeting long-term public needs. I think this budget achieves this goal. With the full-employment budget in approximate balance, our fiscal stance will be neutral in 1973. The lagged impact of our past policies will, of course, continue to stimulate the economy. Nevertheless, continued progress toward full employment depends primarily upon the policies of the federal government.

I hope this message is clear. There is no way that Ontario can continue to carry an undue share of deficit financing.

Expenditure

I turn now to a review of the Government's expenditure program for the new fiscal year. May I repeat, Mr. Speaker, that a principal objective of this budget is a new revenue-sharing deal for Ontario municipalities. In the next section of my Statement, I shall outline these measures in detail but first it is appropriate to review the overall provincial expenditure plan. I should explain to the Members that in this budget all expenditure figures are expressed for the first time on a gross basis, rather than on the net basis used in previous budgets. This improvement means that budget figures will now be on the same basis as the expenditure Estimates. A full explanation of this and other accounting changes is contained in Budget Paper C which accompanies this Statement.

In 1973-74 budgetary expenditure including transfers to municipalities will be $7,269 million, an increase of 11.7 per cent over 1972-73. This is a greater increase than last year because of $182 million in new grants to the local governments, making this year's total grants $280 million more than last year's. If these transfers are excluded, the overall rise in provincial spending is less than 9 per cent. In short, our increase in spending will not exceed the 11 per cent rate at which the overall economy is growing.

Mr. Speaker, our expenditure plan for 1973-74 was developed within the framework of the new government structure to reflect three major priorities of the Government. First, our program will continue to provide a high level of public service while containing cost increases through increased program effectiveness and efficiency. Our second objective is to ensure that local governments have the financial capacity to perform effectively without inequitable increases in property tax burdens. Third, we seek to ensure a vital financial capacity within both a short and long run time horizon to meet changing public needs. This capacity must be attained by rigorous spending limitations and by enhanced efficiency.

Control of Spending

I would like to focus briefly on the containment of provincial spending. The point has been made in previous budget statements but it deserves to be emphasized once again. In order to maintain a capacity to establish new priorities and to meet public needs, government must restrain the growth of existing spending programs.

The Ontario Government is very conscious of its responsibility to limit spending growth. It is clear from our record that we have been successful. We have initiated a number of major measures which apply to every Ministry and in particular to health and education programs. Additional measures are being planned which will be announced soon by the Minister of Health.

The success of cost cutting which we have already undertaken is indicated in a number of ways. For example, the growth in expenditures of Ministries in the Social Policy Field, which accounts for 67 per cent of total budgetary spending, has been reduced from an annual growth rate of 14 per cent in 1971-72 to 8.9 per cent in the coming year. This has been achieved with no appreciable decrease in the quality of services provided under the auspices of any Ministry.

Mr. Speaker, it is interesting to compare Ontario's spending record with that of other provinces and the federal government. The accompanying table indicates that Ontario will have one of the lowest increases in budgetary expenditure in 1973-74. It is particularly interesting to compare our expenditure Estimates with those of the federal government, which is increasing its expenditures this year by more than 16 per cent.

Federal and Provincial Spending Plans for 1973-74

	Per Cent Increase
Federal Government	16.4
Atlantic Provinces[1]	13.3
Quebec	9.4
Ontario	11.7
Prairie Provinces	13.3
British Columbia	18.5

Note: 1. Excluding Nova Scotia

Composition of Spending

Control of expenditures allows the Province to respond to changing public needs. One of the best indicators of the ability of the provincial budget to respond to new priorities is the proportion of provincial investment funds devoted to emerging programs. It is the investment account, represented by loans and advances, which should be most sensitive to new priorities and resultant expenditure policies. The accompanying table shows the relative portion of capital investment allocated to education, housing and environment. With the completion of the bulk of needed capital spending in the fields of primary, secondary and post-secondary education, the Government has been able to effect a shift in investment to the fields of housing and urban development and environmental protection. During a four year period, the amount of capital investment in education has declined from 60 to 25 per cent of total investment; investment in public housing and development has increased to take up the largest share at 41 per cent of the total and environmental protection investments have also increased.

Provincial Investments
(loans and advances)

	1970-71 ($ million)	% Share	1973-74 ($ million)	% Share
Education	376.3	61.1	164.4	25.1
Environment	52.5[1]	8.5	81.6	12.5
Housing and Urban Development	94.3	15.3	269.9	41.2
Other	93.0	15.1	138.8	21.2
	616.1	100.0	654.7	100.0

Note: 1. Converted to gross basis for comparison purposes.

As explained recently by the Chairman of the Management Board, the Estimates are being tabled separately this year on the basis of policy fields, and the responsible Ministers will provide a detailed description of expenditure plans when the Estimates are debated. Accordingly, I will confine my remarks to a brief overview of expenditures along with a few highlights before moving on to describe our new approach to provincial-municipal financing.

Composition of Expenditure
($ million)

	1972-73 Interim	1973-74 Budget	Increase	Increase %
Budgetary Expenditure				
Transfer payments (operating)	4,333.3	4,858.5	525.2	12.1
Direct operating spending	1,063.2	1,176.8	113.6	10.7
Capital spending	632.5	657.0	24.5	3.9
Public debt interest	480.3	577.0	96.7	20.1
Total Budgetary Expenditure	6,509.3	7,269.3	760.0	11.7
Loans and Advances	586.1	654.7	68.6	11.7

Budgetary expenditure including transfers will be increased by about $760 million or 11.7 per cent. The bulk of this increase, more than $500 million, will be devoted to increased transfer payments to individuals, local governments and other institutions in order to make our revenue and expenditure system more equitable. The increase caused by the Province's direct operating spending will be slightly more than $100 million which is 10.7 per cent. Increases in capital spending have been curtailed greatly because it is this area which can exert strong influence on future increases in operating spending. We plan, therefore, to limit the increase in capital spending to 3.9 per cent.

Mr. Speaker, some examples of increased expenditures provided for in our 1973 plan are:

- $36 million to the Ministry of Transportation and Communications for municipal transit subsidies, expansion of GO transit and development of new modes of public transportation;
- $66 million additional grants to universities and community colleges to modify the impact of decreased enrolments and increase student support. We have established a value of $1,825 for the basic income unit in 1973-74—up 3.4 per cent from the $1,765 value in 1972-73;
- $15 million additional operating funds for homes for the aged, children's aid societies, children's institutions and day nurseries;
- $35 million in capital loans to municipalities for winter employment capital projects;

- $24 million allocated for student employment, of which $8 million will be devoted to special summer employment programs;
- $39 million to the Ministry of Health to provide improved psychiatric and mental health programs, increase the number of nursing home beds and improve home-care programs.

In summary, Mr. Speaker, I would emphasize the success of the Policy Field Committees and Management Board in developing an effective and comprehensive expenditure program, sensitive to new social priorities, yet developed within strict spending guidelines.

Revenue Sharing with Municipalities

In his 1969 budget, the Hon. Charles MacNaughton presented the Ontario Government's blueprint for provincial-municipal tax reform. In the intervening years, his budgets, and those of the Hon. W. Darcy McKeough, each marked consistent and considerable progress in achieving our long-run objectives. During the period 1967 to 1972, the Ontario Government more than doubled its payments to local governments, agencies and property taxpayers from $955 million to $2 billion. This controlled the growth of property taxes and achieved a fairer distribution of property tax burdens among taxpayers.

It is both an honour and a pleasure, therefore, to be able to increase our aid to local governments this year. In this budget, I shall propose a group of reforms costing over $180 million, which, together with the growth of existing forms of assistance, will bring our total payments to local governments, agencies and taxpayers to $2.4 billion. This represents an increase of more than $400 million in Provincial relief of property taxes between 1972 and 1973.

The Local Government Financial Outlook

In designing our policies for 1973, we have undertaken intensive studies of the financial outlook of local governments. These studies have confirmed again the chronic problem for local government of the low growth potential of the property tax. We estimate this growth for the whole province not to exceed 4 per cent. In contrast, local spending is expected to grow by 8 per cent. As a result, we estimated that local governments would have experienced a deficiency in current financing during 1973 of about $140 million, which would have required an increase in mill rates averaging almost 8 per cent.

The financial outlook for local government is further aggravated by the uneven financial pressures resulting from different demands for services and inequalities in tax capacities. There will be significant variations, therefore, around the anticipated 8 per cent mill rate increase in 1973.

Financing Outlook for Local Government in 1973
Before New Budget Policies
($ million)

	Municipalities	School Boards	Total
Total Spending	2,158	2,200	4,358
Total Revenue, including Provincial Transfers	1,824	2,028	3,852
Net Cash Requirements	334	172	506
New Debt Issues (maximum)	271	95	366
Financing Deficiency	63	77	140
Equivalent Increase in Average Mill Rates	6.1%	9.9%	7.7%

Ontario's 1973 Reform Objectives

The Ontario Government has examined fully the implications of the local fiscal outlook. Consequently, we have decided that there is a need for imaginative and comprehensive reforms which will be of benefit to all property taxpayers. In designing a bold new approach to provincial-municipal finance, we set ourselves a number of objectives:

- to make additional transfers to local governments in excess of the $140 million required to avoid an increase in the average mill rates;
- to distribute these new funds in a way which takes account of different needs and deficiencies in tax capacities;
- to reduce further the problem of tax exemptions for public property;
- to reduce the financial pressures experienced in areas with substantial temporary population, such as resort areas;
- to recognize the unique problems of local governments in Northern Ontario; and
- to recognize separately the financial problems of those local governments which have their own police force.

I suggest to the Members that the revenue-sharing plan in this Budget meets all of these objectives.

There is one final and important objective. The Government believes there is great scope for the consolidation and simplification of the existing conditional grants. However, we feel it is important that the deconditionalization of grants be discussed fully with local government representatives before making changes in this direction. It is my intention to continue discussions with the Provincial-Municipal Liaison Committee, so that progress can be made toward this objective in 1974. In an Appendix to this Statement, I have set out a list of conditional grants which will be considered for deconditionalization.

Consultation with Municipalities

In the past few months the Government has intensified its procedures for consultation with the municipalities. In addition to the regular monthly meetings of the Provincial-Municipal Liaison Committee, a great number of meetings have been held with individual municipalities and counties on a number of issues of general concern to these governments.

As a result, a number of amendments to legislation will be introduced in the near future. Prominent among these are: greater freedom for county councils to determine their own representation; elimination of the requirement that the Minister approve municipal appointments to Joint Planning Boards; and enabling legislation giving municipalities control over the development of particular sites. These amendments are concrete examples of the Government's policy of enhancing the automony of municipalities and broadening the scope for decision making at the local level.

Comprehensive Assistance to Local Government

We have developed a comprehensive plan to attain our objectives. It contains a number of innovations which make it unique. We have called it the Property Tax Stabilization Plan. The main elements of this new reform plan and other forms of assistance are the following:

A Property Tax Stabilization Plan

- a new resource equalization grant;
- a special allowance for temporary population in the resource equalization grant;
- a new general support grant;
- an additional general support grant for all municipalities in Northern Ontario;
- higher grants towards policing costs; and
- the elimination of mining revenue payments which are less than the benefits under the new Plan.

Other Reforms and Additional Assistance

- provincial support of school board costs will be raised to 60 per cent;
- the education mill rate subsidy will be enriched;
- the local tax base will be broadened to include public institutions;

- payments-in-lieu of taxes on public lands will be extended and increased;
- library grants, museum grants and sewerage and water subsidies will be enriched;
- many general welfare assistance recipients will be transferred to the provincial family benefits program; and
- the county road grants system will be simplified and enriched.

In total, the above Plan and enrichments in other assistance are estimated to deliver over $180 million in new financing to local governments. This is well in excess of the $140 million local government deficiency from existing tax levels in 1973. It can be expected, therefore, that municipalities which control their expenditures will be able to decrease property taxes this year.

Ontario's Property Tax Stabilization Plan

By far the most important part of our 1973 reform program is embodied in the Property Tax Stabilization Plan. This five-part plan is designed to provide basic assistance to all municipalities. It contains special recognition of the problems associated with a low tax base and temporary population. It takes account of the unique costs incurred by Northern municipalities. And it incorporates incentives for economies in municipal spending so that savings will be encouraged and passed on to property taxpayers.

A New Resource Equalization Grant

This Government will introduce a Resource Equalization Grant, which closely follows the recommendation of the Select Committee on Taxation. The grant will enable municipalities with below-average taxable assessment to provide improved services without imposing severe burdens on their taxpayers. All municipalities with equalized assessment per capita below $10,000 will be eligible for this particular equalization grant.

A simple example will serve to illustrate clearly how this equalization grant will work. In a case where assessment per capita amounts to only $7,000, a municipality would have a $3,000 or 30 per cent deficiency relative to the $10,000 standard. The equalization grant to this municipality would amount to half of this 30 per cent deficiency times its 1972 municipal levy.

Municipality X

Equalized assessment per capita	$7,000
Assessment deficiency per capita	$3,000
Half of above deficiency (=15% of standard)	$1,500
1972 Municipal net levy	$5,000,000
Resource Equalization Grant in 1973: 15% of $5 million	$ 750,000

We have chosen a standard of $10,000 for equalization purposes, because it is slightly above the average of $9,700 in the province and makes a large number of municipalities eligible. We will pay these grants at half the deficiency percentage to keep the total cost of this new grant within the Province's financial capacity.

The Resource Equalization Grant will contain two additional refinements. First, there will be an allowance for temporary population so that resort areas will have a more appropriate entitlement for equalization grants. Second, a maximum equalization grant rate has been established at 20 per cent of municipal levies to avoid unnecessarily high payments to a limited number of municipalities.

The total cost of the new Resource Equalization Grant in 1973 is estimated at about $57 million. Some 748 Ontario municipalities will be eligible for this equalization grant. In other words, the benefits of this new grant will be widespread, affecting more than 63 per cent of the population and will have greatest impact where financial assistance is most needed.

Estimated Distribution of Resource Equalization Grant[1]

Equalized Assessment Per Capita	Number of Municipalities	Percentage of Total Population	Distribution of Resource Equalization Grant
($)	(Number)	(%)	(%)
1,000-2,000	14	0.2	0.31
2,000-3,000	41	0.6	1.49
3,000-4,000	81	2.0	5.30
4,000-5,000	95	2.5	6.89
5,000-6,000	132	4.0	9.51
6,000-7,000	106	5.0	12.18
7,000-8,000	117	13.6	30.44
8,000-9,000	87	20.2	26.96
9,000-10,000	75	15.1	6.92
	748	63.2	100.00

Note: 1. Based on 1971 municipal data.

Our new Resource Equalization Grant will strengthen the fiscal capacity of all less prosperous municipalities. It will introduce a greater degree of equity in local government financing than existed before.

Its impact will be sufficiently powerful to allow substantial tax reductions, notably in the resource-scarce communities. The equalization grant alone will prevent the mill rate increases that would otherwise occur in many municipalities.

A New General Support Grant

The local government financial outlook also indicated that municipalities in general are facing financing pressures. Resource-rich as well as resource-poor municipalities are faced with potential mill rate increases. To correct the chronic imbalance in local financing, a new approach is required.

The problem of general financing pressures is closely related to local needs, but it is difficult to measure these needs. Therefore we chose municipal levies as an approximate, although admittedly imperfect, measure of local needs. On this basis we have developed a new General Support Grant.

Starting in 1973, Ontario will pay all municipalities a General Support Grant of four per cent of their 1972 municipal levies. We are confident that this four per cent support of the levy, combined with natural growth in assessment, will relieve much of the pressure to increase property tax levels. This grant will be available on the same basis to both upper and lower-tier levels of local government.

We estimate the total cost of the new General Support Grant at \$41 million in 1973. Of this total, some \$22 million will go to our Metropolitan, Regional and District governments and their constituent municipalities. The remainder will go to counties, cities, towns, townships and villages in Ontario.

An Incentive for Municipal Economy

The new Resource Equalization Grant and General Support Grant provide revenue sharing with municipalities of \$100 million. It is this Government's position that the bulk of these new transfers should be of direct benefit to local taxpayers and not be dissipated on unnecessary spending increases. If the new Provincial transfers are to be of lasting benefit, local governments should exercise restraint and economy in their spending.

To encourage municipalities to be prudent, we have designed an incentive in conjunction with the new General Support Grant. As I said, the standard rate for this grant is four per cent of municipal levies. This grant could rise to six per cent, however, if a municipality contains its spending growth rate in 1973 to eight per cent or less. On the other hand, for municipalities that increase their 1973 spending by 12 per cent or more, the support rate will drop to two per cent instead of four per cent. In this way, municipalities can tailor their own budgets to secure maximum support grants from the Province and pass on these benefits to their taxpayers.

Mr. Speaker, the printed copies of this Statement contain a table showing how this incentive will work. In future, we will further refine this approach to our new transfer mechanism in light of our experience, keeping in mind Ontario's basic objectives of containing the total public sector and property tax levels.

Rate of Increase of Expenditure in 1973	Rate of General Support Grant
(%)	(%)
12 and above	2
11	3
10	4
9	5
8 and below	6

A Special Grant for Northern Ontario

Mr. Speaker, I should like to spend a few moments now on the special position of Northern Ontario. The Government has recognized the unique costs that confront our municipalities in the North. These communities have to cope with problems related to severe winters, high transportation costs, unusual geographic features, and lack of certain services—all of which lead to higher costs of municipal services and a higher cost of living to Northern taxpayers. From time to time, we have taken certain steps to alleviate part of these problems and in the case of mining municipalities we have made available mining revenue payments.

In introducing a new revenue-sharing plan, we have recognized the additional needs of Northern Ontario. The Government has decided, therefore, to add to the General Support Grant for all municipalities in Northern Ontario. These municipalities will be eligible for an additional 10 per cent of their municipal levies over and above the four per cent general rate. We estimate the value of this extra support for Northern Ontario municipalities to be about $8.6 million in 1973. The maximum total new assistance in 1973 from the above programs for a municipality in the North would amount to 36 per cent of its 1972 municipal levy (i.e., 20 per cent from the Resource Equalization Grant, 14 per cent from the General Support Grant, and an extra 2 per cent for economy in spending).

For years, mining municipalities—most of which are in Northern Ontario—have enjoyed special recognition for the unusual financial position in which many of them found themselves by virtue of the presence of mining enterprises which could not be easily assessed. In 1971, the program of payments to designated mining municipalities was revised and increased by the introduction of a resource equalization formula. This formula was similar to the general Resource Equalization Grant introduced in this budget. Because of the increased grants to mining municipalities in the form of Resource Equalization and General Support Grants (including additional grants to Northern Ontario), mining revenue payments will be discontinued. Each mining municipality will be more than compensated for the elimination of those payments by the new Property Tax Stabilization Plan.

Grants Towards Policing Costs

To complete the Government's comprehensive plan for reduction of property taxes, I would like to describe the final feature of the Plan. As the Members know, not all municipalities incur the cost of policing in their communities. Where policing is provided, however, the costs put considerable pressure on local budgets. In recognition of this fact, the Government established an unconditional grant of $1.75 per capita last year. We now propose to raise this grant by $1.25 to a total of $3.00 per capita for eligible municipalities. The present grant of $3.25 for regional police forces will be raised by $1.75 to a total of $5.00 per capita. These increases will require additional grants from this Government of over $9 million in the current year.

It might be appropriate for me to stress at this point that we are urging and encouraging municipal governments to put the highest priority on restraint in their spending. The Government expects similar prudence from the boards and agencies which budget independently from local governments and yet are financed by local property taxpayers.

Summary of Property Tax Stabilization Plan

Let me review briefly now what I believe to be a well-balanced and new approach towards property tax reduction and stabilization. I have no illusions that this Plan will prevent mill rate increases everywhere in this province. But to the extent that some increases do occur, they will be significantly modified by our new revenue sharing.

I recognize that this Plan will have a major impact on the 1973 budgeting and financing processes of municipalities. This draws to attention the problems inherent in having different fiscal year ends at the provincial as compared with the municipal level. I should like to invite municipalities and affected institutions, therefore, to comment on the advisability and implications of changing the provincial fiscal year to a calendar year basis.

I think the main point to be made about the Government's comprehensive new plan is that it is balanced and takes account of a great variety of factors which have a bearing on rising property taxes.

- The Plan counters fiscal impairment by providing generous equilization payments.
- It recognizes the general financial imbalance with a general support grant.
- The Plan recognizes the higher costs borne by Northern municipalities and their taxpayers.
- It reduces the adverse impact of temporary population on resort municipalities.
- It meets the differential needs of communities that pay for their own policing.
- And, finally, it rewards economy in budgeting and efficiency in spending by both local and regional governments.

Ontario Property Tax Stabilization Plan
($ million)

Policy	Cost in 1973-74
Resource Equalization Grants	56.7
General Support Grants—General and Northern Ontario	49.7
Increased Grants for Policing Costs	9.3
Elimination of Mining Revenue Payments	(13.0)
Total	102.7

Our $100 million Property Tax Stabilization Plan makes available to municipalities almost three-quarters of their anticipated cash deficit in 1973. I am confident that the overall package will be fair and provide assistance where it is most needed.

Other Reforms and Additional Assistance

In addition to the $100 million for this major initiative, the Government plans to carry forward its ongoing reform program and increase assistance to local governments.

Assistance to School Boards

As the Members will recall, the past few years have brought significant changes to the Provincial support of school boards. Prior to 1970, our support amounted to less than 48 per cent. We have since raised it in three steps to a level of 58 per cent. During the same period, we have introduced spending controls and ceilings to avoid excessive demands on the taxpayers at a time of easing enrolment pressures.

The Government has announced that it will increase Provincial grants to 60 per cent of school board spending in 1973. This concludes our staged increase in support level and fulfills our original pledge to reach this high level by 1973. This major measure will be combined with an enrichment of the mill rate subsidy. The net cost to the Government of this move will be approximately $40 million in the present fiscal year.

Broadening the Local Tax Base

This year the Government is taking another step in the implementation of its policy of bringing provincially owned or supported property into the local tax base. The approach taken for payment of local taxes by universities and community colleges has proven successful and will be expanded and extended to correctional institutions and hospitals.

The following reforms will provide municipalities with an additional $7.8 million in tax revenue in 1973.

- The payment per student for post-secondary institutions will be increased to $50.
- A new payment will be made of $50 per public and provincial psychiatric hospital bed.
- A new payment will be introduced of $50 per resident place in correctional institutions.
- There will be a limit of 25 per cent of the net general levy on the amount a municipality can receive from these extensions of the tax base.
- These extensions of the tax base will be for municipal purposes only.

Payments-in-lieu of Taxes

In recent years, the Government has acquired a great deal of land and will continue to do so for the preservation and development of accessible recreational areas. In a number of municipalities, this policy involves a significant transfer of land into provincial ownership with a corresponding reduction in the local tax base. Therefore, the Government intends to broaden its payments-in-lieu of taxes to cover such land acquisitions.

Assessment and Taxation of Land on Indian Reserves

The Government is offering to provide funds in 1973 to compensate municipalities for the elimination of taxes on tenant-occupied Indian Lands. After extensive study of the law and practice of taxation of leased property on Indian Reserves and of its social and financial implications, the Government believes that this property should be removed from taxation and the Estimates will include this expenditure intention.

Meetings will be organized for the near future with representatives of the Indian Bands and municipalities to discuss how the transition from the taxation to the exemption of property leased to non-Indians can be best achieved. I expect that some Indian Bands and municipalities will want to make agreements for the supply of municipal services on Reserves in return for reasonable payment. Others will want to proceed independently. These practical matters will be resolved in consultation with the people directly concerned in each case.

Other Forms of Assistance

The Government will also make available substantial additional funds to our municipalities in a variety of existing programs. Some of these have already been announced by my colleagues responsible for these programs. Full details on others will be provided during the Estimates debates.

Let me enumerate these other major changes being proposed by the Government:

- *Library Grants*—Various aspects of these grants will be enriched, involving additional grants of about $4.5 million in 1973-74.
- *Transit Assistance*—The Province will make grants of 75 per cent on approved spending on transit vehicles and related facilities at a cost of about $13 million in 1973-74. An increase in the maximum subsidy for transit deficits will cost an additional $2 million in 1973-74.
- *Computer Traffic Control*—The Province has set aside $2.5 million in 1973-74 for assistance towards the cost of traffic signal systems, installation of computer traffic control systems, and municipal studies on intermediate capacity systems and corridors.
- *New Regional Governments*—The Sudbury and Waterloo regional governments will become eligible for $3.2 million in unconditional grants. In addition, they will receive $2.7 million in transitional assistance.
- *Welfare Costs*—The Province will assume about $2.4 million in welfare costs formerly borne by municipalities, through a transfer of certain general welfare assistance recipients to the Province's Family Benefits program.
- *Water and Sewerage*—Eligible municipalities will receive an increase from 50 per cent to 75 per cent in capital subsidies on sewerage and water projects.
- *Museum Grants*—Museum grants will be doubled in 1973-74.

In total, these Provincial commitments will transfer more than $30 million in additional funds to local governments.

Summary of 1973 Provincial-Municipal Reform and Assistance

Mr. Speaker, I would now like to summarize the total Provincial program of new reforms and additional assistance to local governments. As detailed below, the 1973 reform plan involves additional financing of over $180 million to local governments. This reform plan represents an increased emphasis on unconditional transfers to local government. *Moreover, existing per capita unconditional grants will be continued at past rates of funding.*

Overall Net Gains to Local Government—1973
($ million)

Program	Total Transfer
Property Tax Stabilization Plan	102.7
School Board Assistance	40.0
Municipal Taxes on Provincial Property	7.8
Program Enrichment and New Programs	30.5
Payments-in-lieu of Property Taxes	0.5
Total	181.5

These additional transfers far exceed the 1973 financing deficiency of local governments. As a result, I expect that there will be reductions in mill rates in most municipalities. The distribution of our 1973 reform will, of course, provide much greater benefits to some municipalities compared to others. There will be a whole range of mill rate effects with many substantial reductions as well as a limited number of increases. This is as it should be. We have made certain that the greater relief goes where it is most needed.

I would like to put in historical perspective for the Members the magnitude of the Province's efforts to improve local financing. Our financial transfers to local governments have mounted steadily since the provincial-municipal reform program was started in 1969. In 1973, the Government will transfer $1.9 billion to local governments or 48.5 per cent of their total revenue. This compares with $1.3 billion or 41.5 per cent of local revenue in 1970. In addition to this direct assistance to local governments and $260 million to local agencies, the Province will pay $200 million directly to property taxpayers in 1973 in the form of property tax credits and farm tax relief grants. In total then, the Province has assumed some $2.4 billion which would otherwise fall on the property tax. This represents more than 90 per cent of the total yield in 1973-74 of our retail sales and personal income taxes—which are

Ontario's two most important taxes. The $180 million in new financing provided in this budget passes on to local governments more than the equivalent value of one point of our retail sales tax.

Ontario Assistance to Local Government
($ million)

	1970	1971	1972	1973
Property Tax Revenue	1,607	1,663	1,750	1,800
Provincial Assistance	1,295	1,550	1,703	1,935
Other Local Revenue	217	236	240	257
Total Local Revenue	3,119	3,449	3,693	3,992
Property Tax Revenue as % of Local Revenue	51.5	48.2	47.4	45.1
Provincial Assistance as % of Local Revenue	41.5	44.9	46.1	48.5

Tax Measures

Mr. Speaker, let me now describe the ways by which the Government proposes to finance its 1973 spending program, the new Property Tax Stabilization Plan and other reforms. As I have already stated, this budget embodies the fiscal constraints and expenditure imperatives which we must accommodate. Accordingly, the Government has decided to raise certain provincial taxes to decrease property taxes and to improve the incidence of the retail sales tax.

In deciding tax changes for 1973-74, I have considered a number of factors:

- the state of the economy and the appropriate fiscal stance for the Province;
- our long-term financial outlook and reduced revenue growth potential in future;
- the existing level of public debt;
- the need for new revenue sharing with municipalities; and
- simplification of the tax structure.

With these considerations in mind, I concluded that our budgetary deficit must be reduced in 1973-74 to a level of about $400 million.

Expenditure, including the municipal reform plan I have just outlined, requires gross budgetary spending of $7,269 million in 1973-74. Our existing tax rates and base can be expected to generate $6,534 million in revenue. This would leave a budgetary deficit of $735 million, which is more than is prudent at this time. Accordingly, I am proposing tax measures to raise about $330 million in additional revenue at the Provincial level during the 1973-74 fiscal year.

A tax increase of this magnitude means we must look to our major revenue sources—personal income tax, retail sales tax and corporation taxes. I have rejected an increase in the personal income tax for two reasons. First, the federal Minister of Finance explicitly asked the provinces not to increase their use of this tax field in 1973. Now that the federal government has turned back to taxpayers some of the revenues from its surplus income tax capacity and its gains from tax reform, I am reluctant to deny these tax savings to our citizens.

The second and equally important reason, however, is that the February 19 federal budget proposes major structural changes in this tax field—less than two years after the income tax system was thought to be reformed. The latest federal proposals would not only lock the provinces into a decreased progressivity pattern in personal income taxation but also reduce the long-run growth capacity of the income tax field. I am convinced, therefore, that an increase in our income tax rate would be unwise before the implications of these changes are fully understood. A federal-provincial meeting of Finance Ministers is scheduled for early May, at which time Ontario intends to pursue these considerations.

I have also decided not to recommend an increase in corporation income tax. To raise a significant portion of the new revenues required would necessitate an increase in the corporate tax rate which would make Ontario uncompetitive with other jurisdictions. Moreover, the expiration on March 31, 1973 of our 5 per cent investment tax credit means that the income tax liability of many Ontario corporations will automatically be somewhat higher in 1973-74. Finally, I am convinced that we must avoid placing greatly increased tax burdens on our businesses at a time when a high level of investment is needed to improve our international competitiveness and create new jobs. Nevertheless, I am proposing to raise some additional revenue from the corporate sector in the form of the paid-up capital tax. Having exhausted this potential, I must rely upon the retail sales tax to produce the remainder of our revenue requirements.

Let me proceed, therefore, to enumerate the tax measures which I am proposing.

Taxes on Corporations

I have decided that the most appropriate way to secure additional revenues from corporations is to increase the paid-up capital tax, particularly as this can be accompanied by structural reforms in this tax. Accordingly, I am proposing the following changes in the paid-up capital tax, effective with respect to the fiscal years of corporations ending after April 12, 1973.

- The rate of general capital tax will be doubled, from $\frac{1}{10}$ of 1% to $\frac{1}{5}$ of 1%.

- The capital tax base will be broadened to include all bank loans.
- The archaic special taxes on railway, express, telegraph, and pullman car corporations will be repealed. Instead, these corporations will be liable to the general capital tax imposed on ordinary corporations.
- The capital tax on banks will be streamlined by:
  - —redefining the capital tax base to include only that portion of capital used within Ontario;
  - —repealing the office tax on banks; and
  - —imposing a single rate of $\frac{2}{5}$ of 1% on all taxable capital of banks, compared to $\frac{1}{5}$ of 1% on paid-up capital stock and $\frac{1}{10}$ of 1% on the reserve funds.

In addition to increasing revenue these measures will eliminate inconsistencies in treatment of different corporations and simplify the tax application. I estimate that these changes will generate an additional $33 million gross revenue in a full year, and $10 million in the 1973-74 fiscal year. I would also point out that the final burden of these tax increases will be somewhat less, since the capital tax is allowed as a deduction under the federal and provincial corporation income taxes.

I also propose to raise additional revenues from corporations that pay management fees, rents, royalties and similar payments to foreign owners with whom they do not deal at arms length. An amendment to Ontario's Corporations Tax Act will be introduced to achieve this necessary tightening-up which I estimate will produce an additional $5 million in revenue per year.

A number of minor improvements will also be introduced in our Corporations Tax Act and Income Tax Act covering mutual fund corporations, mutual fund trusts, and fraternal societies. These changes will generally parallel federal legislation and will have minimal revenue significance.

Retail Sales Tax

The principal tax source which I have selected to raise additional revenues is the retail sales tax. As shown in Budget Paper B accompanying this Statement, the retail sales tax has a number of positive advantages over other revenue sources. It is an economically responsive tax and automatically generates revenue increments at a faster rate than the annual growth in the economy. A substantial component of the sales tax is highly progressive in that high-income taxpayers tend to consume a relatively large share of those items taxed at the 10 per cent rate. In addition, the exemptions for food, children's clothing and prescription drugs protect low-income families from the main burden of the tax. Finally, the Ontario Committee on Taxation recommended that greater use be made of this tax field when the Province was seeking to augment its basic financial position.

To meet Ontario's need for substantially increased revenues, I propose to increase the retail sales tax rate from 5 per cent to 7 per cent, effective May 1, 1973. While I recognize that this represents a large increase, I would remind Members that all provinces east of Ontario have an equally high or higher sales tax rate. I estimate that this move will produce an additional $280 million in sales tax revenues in 1973-74 and some $340 million in a full fiscal year. I would also emphasize again that our new revenue-sharing deal for municipalities means that more than half of this increased sales tax revenue will be passed through to local governments. Moreover, I am proposing a substantial enrichment in Ontario's tax credit system—which I shall outline later—to ensure that the burden of this tax increase will fall on our more prosperous taxpayers. Members will recall a sales tax credit was recommended by the Select Committee on Taxation, ". . . with the object of improving the equity and efficiency of the provincial sales tax."

Concurrent with the increase in the sales tax rate I am proposing a number of changes in the retail sales tax base to improve its equity and efficiency of administration. Having carefully considered the retail sales tax recommendation of the Royal Commission on Book Publishing, I have decided not to tax magazines and periodicals for the reasons set forth in the Report of The Select Committee on Taxation. While I recognize the constructive nature and good intent of the Royal Commission's recommendation, I continue to be opposed philosophically to taxing the flow of information and knowledge to our citizens.

Meals: First, I am recommending an increase from $2.50 to $4.00 in the exemption for meals served in restaurants. This recognizes that the costs of eating out have risen since 1969 when the $2.50 level was established. The new $4.00 level will improve the equity of the sales tax because it means that breakfast, luncheons and many dinners will now be exempt from tax. It also means that Ontario's exemption will be more generous than the $1.25 to $2.50 levels allowed in most other provinces.

Flowers and Gardening: I am pleased to recommend that all seeds, bulbs, natural flowers, trees, bushes and shrubs be exempted from the sales tax. In the past we have tried to differentiate among these growing things, taxing some and exempting others. I am convinced that the Province can afford the $4 million loss in revenues by exempting all such forms of vegetation, if only because of the beauty they add to our environment. In particular, those citizens who enjoy gardening will appreciate this modest concession to one of the pleasant aspects of our daily lives.

Household Pets: For similar reasons, I propose to eliminate the retail sales tax on the purchase of household pets. Personally, I find it abhorrent to put a tax on these loveable creatures which become, in effect, members of our families.

Special Occasion Permits: At present, when alcoholic beverages are resold under a special occasion permit, the 10 per cent retail sales tax must be collected from the consumer. This has proven expensive to administer and difficult to enforce. Therefore, I propose to repeal the sales tax liability under special occasion permits and replace it with a special levy to be collected in the liquor, wine and brewers' retail stores at the time of purchase. This practical change will decrease the tax burden on those organizations, clubs and groups which have properly collected and remitted sales tax in the past, while ensuring a revenue contribution from those who failed to collect and remit the sales tax in the past. I estimate that this change to a more practical system will produce some $3 million in extra revenue annually.

Taxation of Energy

Even after the increase in retail sales tax, I found it necessary to secure additional revenues to meet the target deficit. Accordingly, I am proposing to apply the retail sales tax to all forms of energy which are presently untaxed in Ontario. This would be a 7 per cent value tax, to be collected primarily under the Retail Sales Tax Act. Because gasoline, diesel fuel, propane and some other energy fuels are already taxed on a unit basis, however, it will be necessary to integrate these existing forms of energy taxation within a comprehensive system. Allow me to illustrate for you how we propose to do this in practice.

- Gasoline, liquid petroleum gases, diesel fuel, furnace oil, kerosene, natural or manufactured gas, coal, coke and electricity used for heating, lighting, cooking and similar purposes will be taxed at 7 per cent of the retail selling price (or 2¢ per gallon in the case of gasoline).

- When these fuels or forms of energy are used directly in manufacturing they will not be subject to tax. This means that the electricity used to operate production machinery will not be taxed while the electricity used for lighting will be taxed. It also means that energy sources which are used in basic production processes—such as natural gas—will be exempt.

- Gasoline, liquid petroleum gases and diesel fuel when used in motor vehicles, road construction equipment, pleasure boats and snowmobiles will continue to be taxed at 19¢ per gallon and 25¢ per gallon respectively.

- Gasoline and diesel fuel operating internal combustion engines used for purposes other than licensed vehicles or manufacturing will be subject to a 7 per cent tax on selling price (or 2¢ per gallon in the case of gasoline). This means that activities such as farming, fishing, tourist camps and railways—formerly receiving full or partial rebates—will now bear a standardized, low effective tax rate.

Because this represents a new approach to energy taxation in Ontario, I propose to delay the effective date of implementing this policy to July 1, 1973. The expected net revenue yield, therefore, is estimated at only $65 million in 1973-74 as compared to $100 million in a full fiscal year.

Let me point out some of the positive benefits of this new tax policy, apart from generating increased revenues. First, diesel fuel used in mining and manufacturing and forestry will now bear no tax as compared to the present 8¢ tax. This represents a substantial tax cut which will lower costs to all users, particularly in Northern Ontario communities largely dependent on this energy source. Second, the taxation of all energy sources used for the same purpose eliminates the bias in favour of formerly untaxed energy sources. Third, by taxing energy, there will be an incentive to prevent waste and to achieve the most efficient utilization of this vital resource. I think it is not too much to hope that pollution will also be diminished somewhat. Finally, let me emphasize again that I am proposing to enrich Ontario's tax credit system. The additional tax credit I am proposing will more than offset the additional costs of heating and lighting on the average residence resulting from this taxation of energy.

Enriched Tax Credits

Members will recall that, in the 1972 budget, Ontario established a new property tax credit plan which relates property taxes to ability to pay via the personal income tax mechanism. Subsequently, Manitoba and Alberta introduced similar schemes to channel tax relief to those individuals and families least able to pay. Ontario taxpayers are now filing their 1972 income tax returns and getting the benefits of this progressive program. We have co-operated closely with the Department of National Revenue to iron out initial difficulties, and have found that the tax credit system is working remarkably smoothly. I expect that $160 million or more in property tax credits will be provided to Ontario taxpayers, either in the form of tax refunds or reduced income tax liability in this year.

Sales Tax Credit

Given this good performance, I am proposing to enrich the benefits distributed through the tax credit mechanism. To ensure that the burden of the tax on energy and the increased sales tax does not fall on our low-income families, I am recommending the introduction of a retail sales tax credit which would provide $90 million of offsetting tax relief. While the mechanics of such a sales tax credit must be arranged with the federal government, I favour a simple tax credit formula equal to 1 per cent of personal exemptions. Based on the 1973 level of exemptions, this would provide a tax credit benefit of $16 to single taxpayers, $30 to a married couple, $36 to a family of four, $48 to a family with six children and so on. By comparison, the 7 per cent tax on energy would amount to $28 per year per household on average, estimating total expenses on home heating and lighting to be $400 per year. Where families choose to economize on heating and lighting costs however, they will be money ahead as a result of this move.

The total value of the retail sales tax credit is estimated to amount to approximately $90 million per year compared to total tax increases of $50 million from energy used for residential heating and lighting. Thus the new sales tax credit will offset the energy tax and the increased sales tax burden on half or more of our families. Budget Paper B illustrates the progressive result of the sales tax credit and the existing property tax credit.

Pensioner Tax Credit

When Ontario's new tax credit system was introduced in last year's budget, my predecessor indicated that the Province would like to substitute tax credits for our supplementary grants to needy pensioners. At present we are paying some $20 million—in the form of $50 and $100 grants—to pensioners in receipt of the federal Guaranteed Income Supplement. Now that the basic tax credit plan has been in operation for a year, I think it is appropriate to make this change. Accordingly, I am recommending a pensioner tax credit of $100 on a sliding scale related to taxable income to taxfilers who are 65 years of age or over. This pensioner tax credit will have a value of $40 million annually, which is $20 million more than our existing grants to needy pensioners which will be ended.

Altogether then, the new tax credits I am proposing will enrich Ontario's tax redistribution plan by $130 million to a total value of $290 million for the 1973 income tax year.

The total tax credit payable under Ontario's enriched plan will be the sum of the property tax credit, sales tax credit and pensioner tax credit less one per cent of taxable income. This ensures a distribution of benefits among Ontario taxpayers on the fairest possible basis. I am confident that this will make our total tax burden more equitable for our people.

Removal of Selected Taxes

Mr. Speaker, I have outlined the tax measures the Government has decided to recommend to strengthen Ontario's basic financial capacity and to ensure a fairer distribution of the total tax burden. Now, let me turn to a number of tax changes which I am proposing for other reasons.

Security Transfer Tax—The Ontario Committee on Taxation regarded the Security Transfer Tax as a "nuisance tax and that it has no relation to benefits received." It said the tax was "not simple, clear or certain" and it proposed the substitution of a retail sales tax on the commissions charged by security dealers and brokers. The Select Committee of the Legislature endorsed this recommendation, subject to implementation of similar taxes in Quebec and British Columbia. The Select Committee recognized that it is impossible to impose either form of tax in Ontario without losing business, unless similar taxes are imposed on all Canadian stock exchanges. Quebec abolished its transfer tax a year ago and there is no similar tax in British Columbia, so Ontario is now alone in taxing security transfers.

A significant loss of trading is evident as a consequence. Statistics show that Toronto's share of the market has fallen to 70.4 per cent in the first quarter of 1973 from 71.3 per cent in the corresponding period last year. A further decline is indicated for March when the share dropped to 69.3 per cent. Even more significant, the value of trading on the Toronto Stock Exchange grew by only 8.7 per cent in the first quarter of 1973 over the first quarter of 1972. By contrast, trading on the Montreal exchanges rose by 35 per cent.

To the extent that this shift in trading is likely to continue as a result of this tax differential, the Security Transfer Tax is self-defeating as a revenue raising instrument. More important, retention of this impost by Ontario would result in a loss of related private sector income and jobs, with consequent reductions in our other revenues such as personal and corporate income taxes. Therefore, I propose to repeal the Security Transfer Tax, effective immediately, to ensure that Ontario retains its position as the major capital market in Canada. The anticipated gross loss in revenues from this source this year is $7 million. Perhaps it is not too much to hope that the removal of this impost will have a positive influence on the acquisition of equity ownership by Canadians.

Highway Tolls and Park Fees—Fees, licences and permits of various kinds are an important element in Ontario's total revenue structure. Following a complete review of these fees in 1972, many were increased to more properly reflect the actual operating costs of the associated service, function or benefit to users. Further review this year has indicated two areas where a change is desirable—tolls on the Burlington Bay and Garden City Skyways and provincial park fees.

I propose to eliminate the tolls on the Burlington Bay and Garden City Skyways, effective July 1. These tolls have proven to be costly and troublesome. They are not in accord with the Government's overall policy of toll-free highways and bridges. This removal should speed up traffic and eliminate irritation to commuters, tourists and truck drivers. I also propose to eliminate camping and day fees in our provincial parks for all Canadian senior citizens, effective tomorrow. This will ensure that our senior citizens can enjoy the serenity of Ontario's public recreation areas at no cost. My colleagues responsible for the Ministries of Transportation and Communications and Natural Resources will provide full details in their Estimates.

Succession Duty Reductions

As you know, Mr. Speaker, it has been the policy of the Ontario Government to withdraw gradually from the Succession Duty field of taxation as capital gains taxation matures. In the 1970 and 1971 budgets we introduced tax changes which eliminated Succession Duties on all but the largest estates. As a result, our revenue yield has declined from $81 million in 1970-71 to an estimated $70 million in 1973-74. During the same period, revenues accruing to the Province from the federal estate tax have gone from $28 million to $2 million for this year.

In this budget, I am proposing measures to continue this policy of phased decreases in Succession Duties. I think this approach is warranted for two reasons. First, our succession duties continue to have an undesirable impact on small businesses, family farms and Canadian ownership. Second, other provinces are vacating this field. In recent months both New Brunswick and Prince Edward Island have announced their intention to eliminate Succession Duties. Quebec has also announced staged reductions in its Succession Duties—a 20 per cent cut effective January 1, 1973 and a further 20 per cent cut effective January 1, 1974.

Last year the Government appointed an Advisory Committee on Succession Duties under the chairmanship of Mr. J. Alex Langford, Q.C. This Committee just completed its report, which has been tabled in the Legislature. On behalf of the Government, I wish to take this opportunity to thank the members of the Committee for their efforts and accomplishment. In the months ahead we intend to review and assess the Committee's recommendations with the view to making improvements in our statute.

In the meantime, Mr. Speaker, the Government intends to proceed with immediate changes in three priority areas—interspousal transfers, family farms and family firms. Let me outline briefly the substance of these changes and the principles upon which they are based. Full details are set out in the Appendix to this Statement dealing with tax changes.

- I propose to eliminate all duty on transfer of assets between spouses. I feel strongly that the accumulation of assets by a couple over their lifetime is a joint effort and that it is unreasonable, upon the death of one partner, to impose a tax on the surviving spouse.
- I also propose to relieve the burden of Succession Duties on bona fide family farms by permitting a disappearing amortization or gradual forgiveness of duty on farm assets over a 25-year period, provided that the farm continues to operate as a family farm. Family farms make an important contribution to the social and economic fabric of this province. Relief from death taxation will help to preserve family farms and their attendant green space as well as ensure continuation of their unique contribution to our society.
- In conjunction with these changes in Succession Duties, the Government also intends to make provision for a once-in-a-lifetime gift of an interest in a family farm by a farmer to his children of up to $50,000 free of gift tax.
- I intend to introduce amendments to alleviate the burden of duty on family firms. The Government considers it imperative that Canadian ownership be encouraged, particularly in family firms which have been created by Canadians. Therefore, I am proposing a choice of alternatives—six years to pay or payment in shares to the Ontario Heritage Foundation. This latter provision is similar to the practice in the United Kingdom where it appears to have worked well. If an election is made to pay in shares, the Government will accept shares in the firm at fair market value, thereby eliminating the need to sell controlling interest in the company in order to satisfy Succession Duty obligations. It is my belief, Mr. Speaker, that these new measures will help retain family firms within the control of Canadians.

This package of succession duty reforms comes into effect after midnight tonight. I estimate the total revenue cost of these necessary and practical reforms to be about $11 million in the 1973-74 fiscal year.

Reduction in Farm Property Taxes

In addition to the relief from gift tax and Succession Duties on family farms the Government has decided to reduce the property taxes borne by farmers. At present, we provide $20 million in grants, offsetting 25 per cent of the total property taxes paid by farmers, or about half of the property taxes applicable to farm lands. This year we are increasing our tax relief grant to 50 per cent of the total property tax burden. This is equivalent to complete exemption from property taxation for all farm land. Concurrent with this additional farm tax relief, the Province intends to tighten the administration of this program to ensure that the benefits go to genuine farmers. Consequently, the increased funding we have provided in the 1973 Estimates amounts to $16 million. This will help Ontario farmers to hold down production costs at a time when food prices are rising rapidly.

Future Policy on Taxation of Resource Industries

Let me conclude this section on tax measures by mentioning briefly the province's policy with respect to taxation of resource industries. This area of taxation has been subject to extensive federal changes in Bill C-259, as well as more recent changes by a number of provinces. Ontario is devoting considerable time to researching this complex area in order to develop its own long-term strategy. In the meantime, we have introduced some minor changes to parallel improvements made in the new federal legislation.

Other federal changes involve major policy considerations and a complete assessment of their potential impact on Ontario mining and petroleum companies. Moreover, these federal changes do not begin to take effect until January 1, 1974. Accordingly, I wish to reiterate that Ontario will bring forward its long-term policy on resource taxation, as well as the necessary amendments to The Corporations Tax Act before the end of 1973. In designing our policy we continue to aim for the objectives set out in the 1971 budget:

- maintain the total tax burden on the mining industry approximately at its present level;
- preserve provincial revenues and revenue growth capacity from the mining industry as a whole;
- provide incentives to encourage new investments in mining and processing in Ontario; and
- compensate for tax shifts which would endanger existing small companies and dependent mining communities.

We are concerned also about the future of our pulp and paper industry. We intend to assess our tax impact on this industry as well as other considerations in determining what provincial assistance might be required and practical.

Summary of Tax Measures

In aggregate, the tax measures I have proposed will generate an estimated $333 million in additional revenues in 1973-74. Of this amount, Ontario is passing on $182 million, or more than the value of one point of our retail sales tax, to local governments. This will greatly strengthen the financial base of Ontario municipalities and create a more balanced and progressive overall revenue structure in this province. In addition, $130 million will be dedicated to retail sales tax and pensioner credits which improve the fairness of the tax system.

Financial Position for 1973-74 and Conclusion

The revenue changes I have described will maintain cash requirements at $836 million, almost the same level as in 1972-73. Our budgetary deficit will be reduced to $402 million, which I believe to be appropriate for the coming year. Moreover, this improvement in the Province's financial position has been achieved at the same time that we have embarked on a bold plan of revenue sharing with local governments. As a result the total provincial-municipal sector in Ontario will now be in a sound financial position to meet public needs and emerging priorities.

1973-74 Financial Position
($ million)

	Interim 1972-73	Estimated 1973-74 Before Tax Changes	Estimated 1973-74 After Tax Changes
Gross Revenue	6,073	6,534	6,867
Gross Expenditure	6,509	7,269	7,269
Budgetary Deficit	−436	−735	−402
Non-Budgetary Deficit	−387	−434	−434
Maximum Cash Requirements	−823	−1,169	−836
Less Suspense Account re North Pickering		144	144
Potential Cash Requirements		−1,025	−692

Total cash requirements of $836 million in 1973-74 are consistent with our decision to adopt a neutral fiscal stance in the economy. It also demonstrates the Government's determination to protect the Province's high credit rating in the capital markets. I point out that this estimate of cash requirements includes $144 million for the North Pickering Community Development project. We have provided this full amount in our Estimates but our net costs could be substantially lower if a satisfactory agreement for CMHC participation can be reached. Final cash requirements for 1973-74, therefore, could be $692 million.

I estimate that our non-public financing will amount to $915 million in the current year. This exceeds our cash requirements by $79 million. It is my intention to use these funds and any unutilized portion of the $144 million North Pickering Suspense Account to reduce the Province's outstanding public debt. In other words, Ontario's public debt will be reduced by between $100 and $200 million in 1973-74.

In conclusion, Mr. Speaker, I ask the Legislature to share my belief that this is a workable and responsible budget which charts a clear course of action for the year ahead.

- It applies stringent restraints on provincial spending.
- It accords the highest priority to sharing resources with local governments.
- It redistributes the burden of taxation to make it fairer.
- It nurtures our rural sector.
- It encourages wise use of resources.
- It assists Canadian entrepreneurs.
- It raises revenues to keep the Province in a sound financial position.
- And it maintains Ontario's reputation for fiscal integrity.

Mr. Speaker, this concludes my Budget Statement and copies with the Budget Papers will now be distributed. Thank you.

Appendix A

Details of Tax Changes

Corporations Taxes

1. Paid-up Capital Tax

(a) The rate of general capital tax is doubled from $\frac{1}{10}$ of 1% to $\frac{1}{5}$ of 1%. This change applies with respect to the fiscal years of corporations ending after April 12, 1973. For fiscal years that include April 12, 1973, the increase in capital tax that results from the increase in rate will be pro-rated on the basis of the number of days of that fiscal year that are subsequent to April 12, 1973.

(b) All bank loans, whether secured or unsecured and whether of a current or capital nature are included in paid-up capital.

This change applies to fiscal years of corporations ending after April 12, 1973.

(c) The special taxes imposed under Part IV of The Corporations Tax Act on banks, railway, express and telegraph corporations, and corporations that operate sleeping or parlour cars upon any railway in Ontario are repealed. These corporations become liable to the general capital tax on ordinary corporations under Part III of the Act.

(d) The rate of the capital tax on banks will be $\frac{2}{5}$ of 1%. This rate will be calculated on the aggregate of the amounts upon which previously a dual rate applied.

(e) The office tax on banks is repealed.

(f) The capital tax base for banks will be that portion of capital employed within Ontario.

Changes (c), (d), (e), and (f) apply with respect to fiscal years of corporations ending after April 12, 1973. For fiscal years that include April 12, 1973 the taxes that would be payable under the old system apply up to that date and the taxes payable under the new system apply thereafter.

2. Payments to Non-Residents

Corporations that pay or credit non-resident persons with amounts that are in consideration for or are on account of a management or administration fee or charge, rents, royalties and other similar payments and rights to the use of motion picture films or films or video tapes used in Canada, will be required to reduce such amounts by $\frac{5}{12}$ in computing income. This provision will apply only where the corporations and non-resident person do not deal with each other at arm's length and the amounts are subject to withholding tax under the Income Tax Act (Canada).

Corporations to which this applies will have to pay a tax of 12% on the amounts disallowed or, in effect, 5% of the full amount so paid or credited.

This provision will apply with respect to amounts paid or credited after April 12, 1973 and will replace the present provision in The Corporations Tax Act which pertains only to the non-deductibility of a management or administration fee or charge.

3. Mutual Fund Corporations

The rate of refund to which mutual fund corporations are entitled is increased from 5% to 6% in order to refund the full amount of capital gains tax paid to Ontario.

This change applies to the 1972 and subsequent fiscal years of these corporations.

Similar treatment will be provided to mutual fund trusts under the Ontario Income Tax Act.

4. Fraternal Societies

Fraternal Societies become liable to the insurance premiums tax with respect to contracts entered into after December 31, 1973.

Retail Sales Tax

1. The basic rate of tax of 5 per cent will be increased to 7 per cent. Persons who have entered into fixed price contracts prior to April 13 may apply for relief from the increased rate. *Effective May 1, 1973.*
2. Exemption is provided on the purchase of seeds and bulbs, natural flowers, shrubs, trees and bushes. *Effective May 1, 1973.*
3. Exemption for prepared meals will be increased to $4.00 from the present level of $2.50. *Effective May 1, 1973.*
4. Household pets such as dogs, cats, parrots and other birds sold as household pets, live fish sold as pets, turtles, mink, fox, rabbits and

other fur-bearing animals sold as pets will be exempted from the tax. *Effective May 1, 1973.*

5. The existing exemptions for electricity, coal, coke, steam, natural and manufactured gas will be removed, and the basic rate of 7 per cent will apply to these items, except when used directly in the process of manufacturing tangible personal property. *Effective July 1, 1973.*

Special Occasion Permit Levy

Changes effective May 1, 1973.

1. Holders of Special Occasion Permits will not be required to collect retail sales tax on their sales, but will continue to pay the tax on their purchases. In lieu of retail sales tax on their sales, they will be required to pay a special levy in addition to the normal licence fee.
2. This special levy will not apply in respect of Special Occasion Permits obtained for wedding receptions or when the liquor obtained thereunder is not for resale.
3. This levy is payable at the time of purchase and is non-refundable.
4. This Special Occasion Permit Levy will be calculated as follows:

	Levy per unit
Spirits	
bottles up to 30 oz.	$1.00
bottles over 30 oz.	$1.50
Wines	
bottles up to 40 oz.	$0.50
bottles 40 oz. to 75 oz.	$1.00
bottles over 75 oz.	$1.50
Beer	
12-12 oz. bottles	$0.50
24-12 oz. bottles	$1.00
Keg—12.5 gallons	$7.00

Gasoline Tax

Changes effective July 1, 1973.

1. Users of gasoline used for heating, lighting or cooking purposes will be subject to an effective tax rate of 2¢ per gallon.
2. Users of gasoline used directly in the process of manufacturing tangible personal property will not be subject to tax.

3. Users of gasoline used in licenced motor vehicles or equipment engaged in road construction or maintenance, pleasure boats or motorized snow vehicles will bear the full rate of tax as heretofore.
4. Users of gasoline used in internal combustion engines for any purpose other than those purposes noted above will be subject to an effective tax rate of 2¢ per gallon.

Motor Vehicle Fuel Tax

Changes effective July 1, 1973.

1. Users of all fuels taxed under this Act such as diesel fuel, stove oil, furnace fuel, kerosene, and liquid petroleum gases used for heating, lighting or cooking will pay a tax at the rate of 7 per cent on the fair market value.
2. Users of fuel oils and liquid petroleum gases used directly in the process of manufacturing tangible personal property will not be subject to tax.
3. Users of fuel oils used in licenced motor vehicles or equipment engaged in road construction or maintenance, pleasure boats or motorized snow vehicles, will pay the full rate of tax as heretofore.
4. Users of fuel oils and liquid petroleum gases used in internal combustion engines for purposes other than those purposes noted above will be subject to a tax at the rate of 7 per cent on the fair market value.
5. Remissions of tax authorized in respect of certain fixed price contracts entered into prior to March 29, 1972 will be discontinued.

Security Transfer Tax

This Act will be repealed effective April 13, 1973.

Tolls

Tolls on the Burlington Skyway and Garden City Skyway will be eliminated effective July 1, 1973.

Park Fees

For Canadian senior citizens aged 65 years and over, the Provincial Park fees for day visitation and for regular camping purposes will be eliminated, effective April 13, 1973.

Succession Duty

Changes effective in respect of death occurring on or after April 13th, 1973.

1. Complete Inter-Spousal Exemption

There will be no succession duty payable with respect to property passing on the death of the deceased to the surviving widow or widower, or in respect of gifts made by the deceased to the spouse during his or her lifetime.

2. Family Farm

All farm lands, buildings, equipment and livestock will be dutiable at their market value, but subject to foregiveness. Relief will be given in the form of a Disappearing Amortization of Duty, i.e., duty will be forgiven over 25 years on the basis of $\frac{1}{25}$ of the principal amount of duty together with interest each year provided certain conditions are met. Among these are:

- the farm must be a working farm;
- the farm must continue to be owned by members of the deceased's family.
- the members of the family must continue to operate the farm as a farming enterprise.
- incorporated farms will qualify for this forgiveness where they meet the conditions.

When the ownership of the farm passes to persons outside of the family or when the land changes from agricultural usage to some other use, the balance of duty and interest then outstanding will become payable.

3. Incorporated Family Business

An election may be made within six months of the death of the deceased, as to the method of payment of duty levied on the values of the deceased's shares in an incorporated business controlled by the deceased and members of his family, provided that the deceased's shares pass to members of his family and that that ownership remains in Canada.

- duty and interest may be paid in equal instalments over the six years following the first anniversary of the death of the deceased, or
- payment equal to the Duty payable may be made by transfer of shares of the business to the Crown at their market value. The Crown will own the shares outright, and while it will offer right

of first refusal to the family, it will be free to sell them at any time at market value.

4. Once-in-a-lifetime Gift

A procedure will be developed to permit a once-in-a-lifetime $50,000 exemption on a gift of an interest in a family farm by a farmer to his children.

Appendix B

Details of the Property Tax Stabilization Plan and Other Municipal Reforms

The Property Tax Stabilization Plan

Per Capita Grant

1. The payments to municipalities under The Municipal Unconditional Grants Act in recognition of the expenditures they are required to make to provide police services will be increased for 1973 from $1.75 per capita to $3.00 per capita based on census population.
2. Similarly, the payments to regional municipalities under The Regional Municipal Grants Act in recognition of police service costs will be increased in 1973:
   - (i) from $1.75 per capita to $3.00 per capita based on the census population of each area municipality providing its own law enforcement; and
   - (ii) from $3.25 per capita to $5.00 per capita based on the census population of the regional municipality where a regional municipal police service is provided.
3. The remaining payments under The Municipal Unconditional Grants Act and The Regional Municipal Grants Act will continue to be calculated in 1973 in the same manner as in 1972.

General Support Grant

1. Every municipality, including county, regional, district, and metropolitan municipalities, in the southern part of the Province will receive in 1973 a payment of between 2 and 6 per cent of their 1972 Net General Dollar Levies, depending upon the rate of increase of their

1973 Gross Revenue Fund Expenditure over that in 1972. The following table shows what the percentage rate of grant would be for selected increases in Gross Expenditure.

Rate of Increase of Gross Revenue Fund Expenditure in 1973	Rate of General Support Grant
(%)	(%)
12 and above	2
11	3
10	4
9	5
8 and below	6

Appropriate allowance will be made in the above expenditure growth rates to account for extraordinary changes in the demand for services as reflected in increases in serviceable assessment in each municipality.

2. Each municipality, including regional municipalities, *in the northern part of the province* will similarly receive in 1973 a payment of between 2 and 6 per cent of their 1972 Net General Dollar Levies depending again on the rate of increase of their Gross Revenue Fund Expenditure, plus an additional 10 per cent of their 1972 Net General Dollar Levies.

3. The northern part of the province refers to that part lying north of the French River, Lake Nipissing and the southern boundaries of West Ferris, East Ferris, Bonfield, Calvin and Papineau Townships, and includes the District of Manitoulin.

4. The southern part of the province refers to the balance of the province.

5. The 1972 Net General Dollar Levy for purposes of the General Support Grant for each city, town, separated town, village, township and improvement district, including those in regional, district and metropolitan municipalities, is the total of the 1972 Net General Municipal Levy, the 1972 special charges or rates where such are levied as a rate on real property assessment, the 1972 local improvement charges, the 1972 sewer rates and sewer service rates where such are collected on the tax roll, the 1972 payments-in-lieu of taxes, the 1973 taxes for hospital, penal institution, natural resource, university and community college properties as described below, the 1972 formula mining revenue payments, and the 1972 portion of the telephone tax adjustment in respect of school taxes for the year.

6. The 1972 Net General Dollar Levy for purposes of the General Support Grant for each county, regional, district and metropolitan

municipality is the total 1972 levy on constituent municipalities, excluding regional, district and metropolitan municipalities' user cost charges on area municipalities and boroughs, such as sewerage and water charges.

7. In the cases of the Regional Municipality of Sudbury, the Regional Municipality of Waterloo, the area municipalities in each and the new City of Timmins, consideration in determining the Net General Dollar Levy will be given to the fact that they did not exist in their current structure in 1972.

Resource Equalization Grant

1. Every city, town, separated town, village, township and improvement district, including those in regional, district and metropolitan municipalities, will receive in 1973 a payment of one-half their relative assessment deficiency times their 1972 Net General Dollar Levies—subject to a maximum of 20 per cent of their 1972 Net General Dollar Levies.
2. For purposes of the Resource Equalization Grant, the 1972 Net General Dollar Levy for each recipient municipality is as defined for the General Support Grant, *plus* the 1972 county, regional, district or metropolitan municipality levy on each.
3. A municipality's assessment deficiency is equal to the amount by which its per capita equalized assessment falls below the approximate provincial average per capita equalized assessment of $10,000. The proportion of the municipality's assessment deficiency to $10,000 is its relative assessment deficiency.
4. For purposes of determining assessment deficiency, a municipality's equalized assessment includes the following:
   (a) 1972 taxable assessment equalized by its 1972 equalization factor, plus
   (b) an equivalent equalized assessment for 1972 payments-in-lieu of property taxes on federal, provincial and other government real properties, 1973 taxes on public hospital, university and community college and correctional institution properties, and 1973 payments-in-lieu of taxes on the natural resource land holdings as described below.
5. Population includes the municipality's 1971 census population as determined by the Regional Municipal Grants Act or the Municipal Unconditional Grants Act plus a deemed temporary population equal to $\frac{1}{3}$ the number by which the municipality's 1971 census population falls below the product of 2.5 times the number of households in 1971.

Municipal Taxes on Provincial Property

1. Each municipality in which is located a College of Applied Arts and Technology or a University will receive a payment in 1973 equal to $50 times the number of full-time students enrolled in each institution, an increase of $25 per student over the 1972 payment except in Guelph, Kingston, Waterloo and Whitney where the increase is $15 per student.

2. Each municipality in which is located a public hospital or a provincial psychiatric hospital will receive a payment in 1973 equal to $50 times the number of rated beds in each hospital.

3. Each municipality in which is located a penal institution will receive a payment in 1973 equal to $50 times the number of resident places.

4. The total of the payments to any municipality for students, hospital beds and resident places in correctional institutions will be limited to 25 per cent of the 1972 Net General Dollar Levy.

5. The current program of payments-in-lieu of taxes in respect of provincial parks properties will be broadened to include certain other provincial land holdings.

Mining Revenue Payments

1. Effective January 1, 1973, subsections 4, 5, 6, 8, 9, 10 and 11 of section 28 of The Assessment Act will be repealed.

2. Effective January 1, 1973, Ontario Regulation 370/72 will be revoked.

3. The effect of these actions will be to terminate mining revenue payments.

4. All previously designated mining municipalities will receive in 1973 a total General Support Grant and Resource Equalization Grant payment *at least 105 per cent* of what they would otherwise have received in 1973 in the form of mining revenue payments.

Special Assistance to New Regional Governments

1. The incorporation of regional government on January 1 of this year in the Sudbury and Waterloo areas will result in an increase in unconditional support from a 1972 range of $5.05 to $6.95 basic per capita grant to a rate of $8.00 per capita for member municipalities in these regions.

2. The introduction of regional police forces in these two new regional municipalities will result in an increase in grant to the new support rate of $5 per capita, replacing the 1972 rate of $1.75 per capita paid to those municipalities with their own police forces or contracts with the Ontario Provincial Police.

3. The municipalities involved are experiencing certain costs of a temporary nature stemming from the transition to regional government; accordingly, they will receive additional assistance from the Province in the form of organization expenditure subsidies and transitional grants, amounting to $2.7 million.

Transportation Grants

1. In 1973, public transit authorities will receive grants of up to 75 per cent of approved expenditure on vehicles and related facilities.
2. For a municipal public transit system, the per passenger component of the formula for determining the maximum operating deficit that is eligible for a 50% subsidy is increased from 2¢ for each revenue paying passenger to 5¢. The other two components of the formula for determining the maximum deficit eligible for subsidy remain at $1 per capita for the first 10,000 of the municipality's population and $3 per capita for the remainder of the municipality's population.
3. In 1973, $2.5 million is set aside for grants to municipalities for traffic signal systems, installation of computer systems for traffic control and municipal studies on intermediate transit capacity systems and corridors, parking and staggered hours.

Public Library Support

1. The 65 cent per capita grant to local, county and Indian Band library systems will be approximately doubled in 1973. For regional library systems, the 35 cent per capita grant and the grant based on area will be substantially increased.
2. More than $400 thousand is being set aside for subsidies toward the provision of bilingual facilities in libraries.

Local Museum Grants

1. The 1972 maximum grant of $1,000 to museums established by municipalities, based upon net operating expenditures and support towards the salaries of curators, is raised to $2,000 in 1973.
2. An additional grant of $1,000 is introduced for museums which stay open for 8 or more months of the year.
3. In 1973, a newly-established local museum will receive a development grant of up to $5,000 for its initial year of operation.

Transfer of Permanently Disabled from General Welfare Assistance to Family Benefits Allowances

1. The transfer of permanently disabled persons from the General Welfare Assistance Act to the Family Benefits Act will result in a reduction in the municipal share of welfare expenditure.

Subsidies for Municipal Water and Sewer Projects

1. Effective April 1, 1973, the grant rate for municipal sewer projects will be increased from 50 per cent to 75 per cent of the gross capital costs in municipalities where total current costs exceed $130 per annum per household.
2. Effective April 1, 1973, the grant rate for municipal water projects will be increased from 50 per cent to 75 per cent of the gross capital costs in municipalities where total current costs exceed $110 per annum per household.
3. Effective April 1, 1973, the Province's revised subsidy policy will be extended to include projects undertaken since 1966 where the current household costs are in excess of the new levels specified for sewerage and water services.

Taxes on Tenant Occupied Indian Land

1. Leased properties on Indian reserves will no longer be subject to municipal real property taxation.
2. Municipalities affected by this policy will be compensated by the Province for the resulting loss of revenues.
3. Municipalities will be given powers to enter into agreements with Indian bands for the provision of services on reserves in return for an appropriate payment.

Grants Proposed for Deconditionalization

Name of Grant	Estimates for 1973-74 ($ thousand)
Arena Program Manager	42
Community Programs of Recreation	1,790
Municipalities Unduly Burdened by Children's Aid Society Costs	80
Library Grants	13,810
Museum Grants	240
Municipal Parks Assistance	422
Municipal Drainage	3
Remedial Works	5
Weed Control	71
Municipal Pound Assistance	70
L.C.B.O. Payments for Enforcement of Liquor Licence and Liquor Control Acts	2,175
Local Planning Activities	160
GRAND TOTAL	**18,868**

Budget Papers

Presented by the
Honourable John White
Treasurer of Ontario
for the information of the
Legislative Assembly of Ontario
for the fiscal year 1973-74

A Federal-Provincial Fiscal Policy and Deficit Sharing

B Ontario's Revenue Structure

C Government Financial Statements

Budget Paper A

Federal-Provincial Fiscal Policy and Deficit Sharing

Table of Contents

Federal-Provincial Fiscal Policy and Deficit Sharing

I Introduction

In previous budget papers, the Ontario Government has advanced a number of proposals for improving stabilization policy in Canada. This year, Budget Paper A is directed at two immediately important questions.

The first question concerns federal fiscal policy since 1969 and its implications for 1973. The federal government's stated intention is to continue to provide stimulus to the economy:

> The government, therefore, believes that in its own fiscal policy it should continue to impart stimulus to the expansion of employment and to the supply of goods and services.[1]

An examination of federal fiscal policy for 1973-74 indicates that it may not be expansionary or reduce unemployment.

The second question concerns Ontario's appropriate share of responsibility in policies for stability and growth in the national economy. The federal government has noted the growth in the relative importance of the provincial-municipal sector in recent years, and has stated:

> But such a division of power also means that provincial governments—and those of the largest provinces in particular—must be prepared to carry an appropriate share of responsibility in policies for stability and growth in the national economy. This naturally means that substantial provincial deficits, as well as federal deficits, may well be appropriate when there is a need to accelerate growth in the economy.[2]

In fact since 1969, Ontario's fiscal impact in the provincial economy has been relatively greater than the federal fiscal impact in the national economy. This considerable fiscal effort by the Ontario Government in support of national policies, however, has involved an undue burden of deficit sharing which cannot be sustained.

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[1]See Hon. John N. Turner, *Budget Speech* (Ottawa: Department of Finance, February 19, 1973), p. 9.

[2]See Hon. John N. Turner, *Budget Speech, op. cit.*, p. 20.

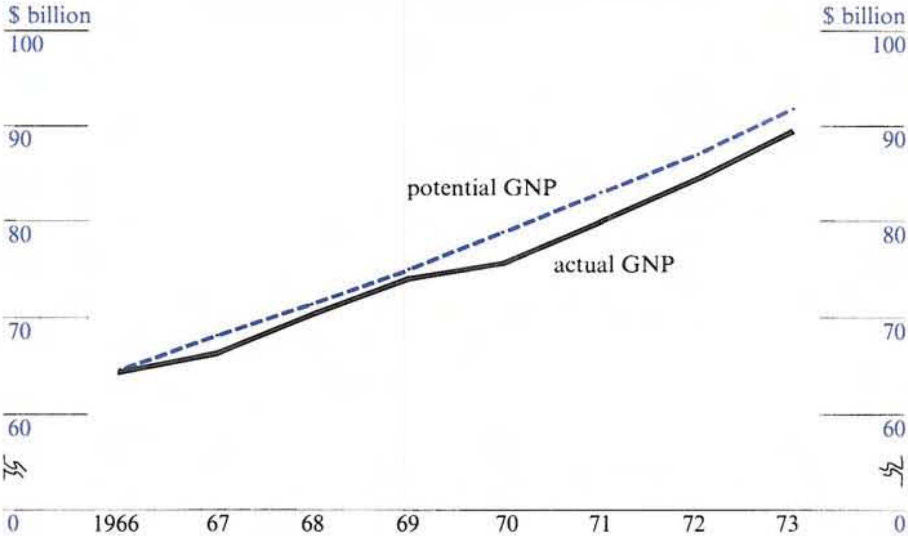
II Federal Fiscal Policy

This section examines the effectiveness of federal fiscal policy in stabilizing the economy. Fiscal policy is an important instrument for economic stabilization. It involves the use of co-ordinated expenditure, taxing and financing actions to develop a budget fiscal plan appropriate to the economic situation. To be effective, fiscal policy must also be used in proper mix with monetary, exchange rate and debt management policies, as well as temporary employment programs.

Since 1968, fiscal and monetary policies in Canada have experienced wide variations. In 1969 and 1970 the primary objective of federal stabilization policy was to decrease the rate of price inflation. During this period, when restrictive policies were in effect, real economic growth diminished and the rate of unemployment rose to its highest level in a decade. Since 1970, the policy mix has shifted to an expansionary stance, but the level of economic activity and the rate of unemployment have not responded satisfactorily under its impact.

The rates of increase in real Gross National Product (GNP) in 1971 and 1972 failed to narrow the gap between actual and potential output (see Chart 1). The loss in potential output was $2.5 billion in

Actual and Potential Economic Growth in the Canadian Economy, 1966-73 — Chart 1
(1967 dollars)



Source: Actual GNP series up to 1972 from Statistics Canada. Actual growth for 1973 estimated by Ontario Treasury at 6 per cent. Potential Growth series based on Economic Council of Canada unpublished estimates which incorporate the revised national accounts data.

1972, and the rate of unemployment was over 6 per cent for the second year in a row. Further, as shown in Table 1, the rate of price inflation is higher now than in 1969. This situation raises serious questions about the conduct of stabilization policy in Canada and, in particular, the prospects for achieving lower levels of unemployment.

Canada GNP in Constant Dollars, Unemployment and Prices, 1968-72 — Table 1

	Real GNP Growth	Unemployment	GNP Price Deflator
	%	%	%
1968	5.8	4.8	3.2
1969	5.2	4.7	4.5
1970	2.5	5.9	4.5
1971	5.5	6.4	3.3
1972	5.5	6.3	4.8

Source: Statistics Canada.

Fiscal Policy and Unemployment

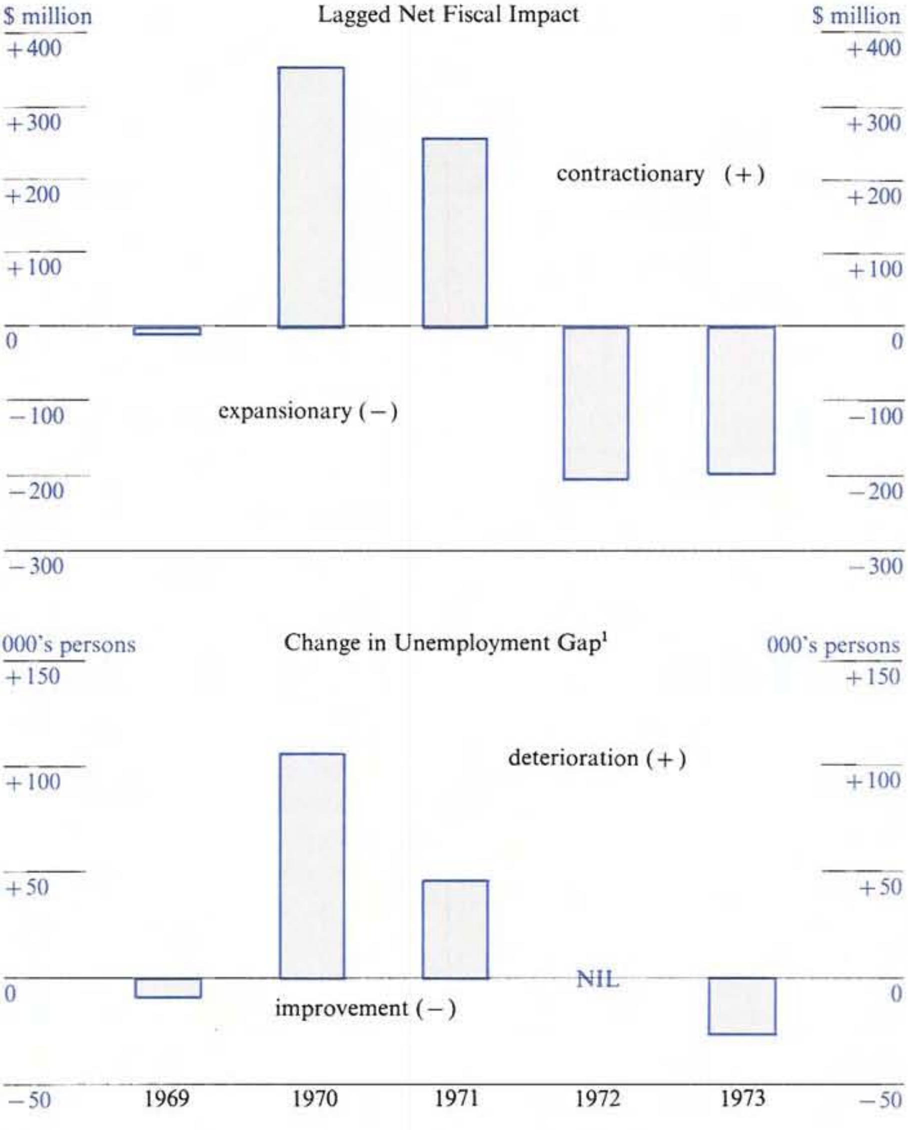
A relationship which has existed since 1969 between federal fiscal policy and unemployment is portrayed in Chart 2. In this chart, changes in the federal government's full-employment surplus are plotted against values of changes in unemployment since 1969.[3] The change in the full-employment surplus is a lagged value to reflect the delayed influence of changes in fiscal policy on the level of unemployment. The unemployment gap is the difference between the actual number of unemployed and a target level for Canada of 3.8 per cent. In reading Chart 2, it should be noted that in 1970 and 1971 the unemployment situation deteriorated. The modest improvement shown for 1973 is an Ontario Treasury estimate.

The chart indicates that changes in fiscal policy during the current period of very high unemployment have had a significant lagged re-

[3]For any given budget plan, the *full-employment budget* is a measure of the revenues, expenditures and surplus or deficit that would occur if the economy were operating at full capacity. The year-to-year change in the full-employment budget surplus measures only discretionary fiscal changes and, therefore, the net fiscal impact of the budget i.e., of fiscal policy on the economy. It abstracts from the automatic influence of the economy on the budget plan itself. See Appendix B for further details. For a brief introduction to use and interpretation of the full-employment budget, see Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", *Ontario Budget 1971* (Toronto: Department of Treasury and Economics, 1971), pp. 39-53, and "Fiscal Policy Management in Ontario", *Ontario Budget 1972* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972), pp. 51-68. See also R. Solomon, "A Note on the Full-Employment Budget Surplus", *Review of Economics and Statistics*, XLVI, 1 (February 1964), pp. 106-108. A detailed theoretical and statistical treatment of the concept is found in M. Levy, *Fiscal Policy, Cycles and Growth*, National Industrial Conference Board, Studies in Business Economics, No. 81, (New York: The Conference Board, 1962).

Federal Fiscal Policy and Unemployment in Canada

Chart 2



Source: Ontario Treasury and Statistics Canada.

Note : 1. The unemployment gap is defined as the number of unemployed in excess of the Economic Council of Canada's full-employment target, i.e. 3.8 per cent. *Changes* in this gap are plotted above, with a widening of the gap indicating a deterioration in the unemployment situation and a narrowing reflecting an improvement. For example, in 1971 the change in the unemployment gap of 47,000 (shown in the chart) was calculated as follows: In 1970 the actual number of unemployed in Canada amounted to 495,000 while target unemployment was 318,000 (3.8 per cent of the labour force). Thus, the unemployment gap in 1970 was 177,000. In 1971, the gap was 224,000 which represents an increase of 47,000 over 1970. The changes in the gap in each year are related to lagged values of the federal net fiscal impact calculated in 1961 dollars.

lationship with the level of unemployment.[4] This also appears to have been the case in the 1958-62 period (not shown in the chart) when unemployment was also at very high levels. There is, of course, no certainty that this relationship would be as significant when unemployment is at substantially lower levels than are currently being experienced, or that it will hold in the future. It does suggest, however, that federal fiscal policy should be used boldly at times of high unemployment.[5]

A measure of the estimated net fiscal impact of alternative budget plans should be a key variable in stabilization policy planning. The impact of other policy instruments, especially monetary policy, is also important. But it is evident from the observed relationship between fiscal policy and unemployment that the full-employment budget could be a useful tool of federal fiscal policy planning. Without the application of this concept, it is difficult to estimate with reasonable accuracy the economic impact of alternative fiscal plans and to effectively mobilize resources to deal with the unemployment problem.

Federal Fiscal Policy, 1969-72

Over the past several years, the federal government's budget surplus measured on a full-employment basis has experienced wide swings. Chart 3 shows that from 1966 to 1968 relatively small full-employment surpluses were recorded. Over this period the economy operated close to capacity levels of output. But in 1969 and 1970 the full-employment budget was in substantial surplus and the economy operated well below capacity. Following a small decline in 1971, the full-employment budget surplus dropped moderately again last year while the pace of economic activity has picked up.

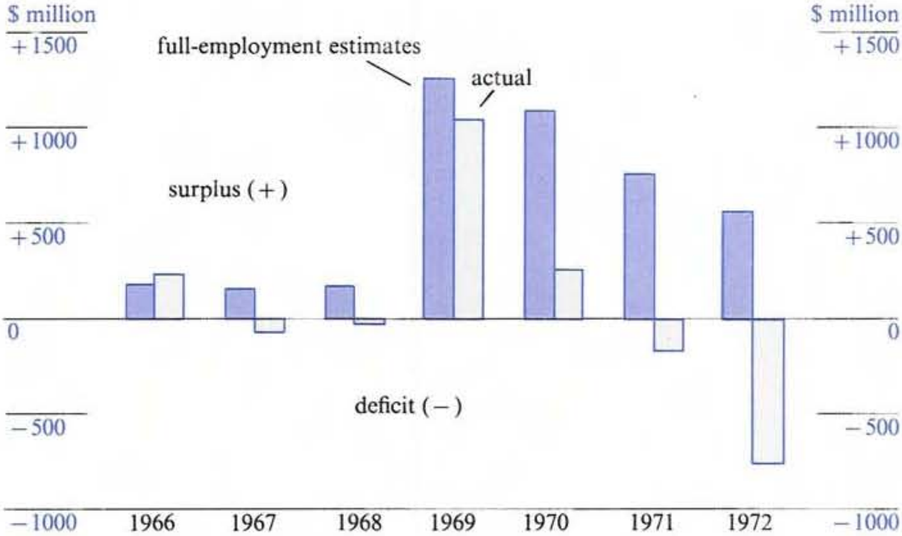
These fiscal swings have been broadly paralleled by monetary developments. Monetary policy became very restrictive in 1969 and the early months of 1970. It was eased in mid-1970 and has remained expansionary since that time. Although it is not possible to be precise about the correct balance of fiscal and monetary policies over the period, it is clear that they experienced swings in the same direction at roughly the same time. It is also evident that the economy reacted sharply at the time when fiscal and monetary policies were both very restrictive, but responded only sluggishly to the subsequent expansionary policy posture. In the current expansionary phase, monetary

[4]Changes in the net fiscal impact have a delayed influence on the level of unemployment because changes in expenditures and taxes have both an immediate and direct impact and a subsequent multiplier effect on the economy. For example, the immediate impact of an increase in expenditures or cut in taxes is to add an equivalent amount to total demand and output in the economy. This immediate increase generates higher incomes which in turn are largely expended on consumer goods and services, increasing jobs and output in other sectors of the economy, higher incomes, more spending, more jobs and so on.

[5]See Arthur M. Okun, *Rules and Roles for Fiscal and Monetary Policy*, reprint 222 (Washington: The Brookings Institution, 1971), p. 68.

Federal Government Surplus (+) or Deficit (−) Actual and Full-Employment Estimates National Accounts Basis

Chart 3



Source: Ontario Treasury.

policy has been very accommodating while the restrictive fiscal policy of 1969 has not yet been fully relaxed.

As a general rule, a larger full-employment budget surplus indicates a more contractionary fiscal policy and a smaller full-employment budget surplus indicates a more expansionary policy. A small full-employment surplus is thought to be an appropriate fiscal policy stance when the economy is operating at full-employment levels of output because it dampens inflationary pressures. In the 1965-68 period the economy was operating close to capacity and inflation was at a lower rate than is currently being experienced. At the present time, with a somewhat higher full-employment surplus position, the rate of price inflation is increasing and unemployment remains at unacceptably high levels. A full-employment deficit is required to reduce the level of unemployment whereas a larger full-employment surplus appears to be warranted to stem inflationary pressures. Consequently, the federal full-employment surplus position in 1972 appears to represent a compromise—at the current high levels of unemployment—between the conflicting goals of full-employment and a lower rate of price inflation. Any improvement in the unemployment situation in 1973, therefore, will depend largely on the lagged effect of past fiscal and monetary policies.

The levels of the federal full-employment surpluses in 1972 and 1973 will have an important bearing on the performance of the economy this year and in 1974. Before an examination of the economic implications of the federal fiscal impact in 1973, a review of federal policy intentions and realizations during the 1970-72 period is presented. This will help explain the relationship between fiscal policy and the sluggish performance of the economy since 1970, and contribute to an assessment of the implications for 1973.

Intentions versus Realizations

The change in the full-employment surplus measures the net fiscal impact of the budget.[6] In the final analysis, it is the economic impact of the budget that determines the success of the fiscal plan in increasing jobs and incomes. The record of fiscal policy must, however, also be evaluated in terms of a comparison of intentions and the actual outcome.

Budget forecasts of revenues and expenditures represent *intentions* and the actual outcome represents *realizations*. A comparison of intentions with realizations can be useful in assessing the appropriateness of the original fiscal plan and explaining deviations from the plan. *Adaptability* in fiscal policy is indicated by in-year and year-to-year changes in the fiscal plan appropriate to changing economic conditions, i.e. by changed intentions.[7] *Flexibility* in fiscal policy is shown by changes in the net fiscal impact, i.e. by changed realizations in line with revised intentions. Table 2 shows intentions and realizations for the federal government as measured by changes in its financial position since 1970-71. They cover the period during which fiscal policy has changed to an expansionary posture.

Since March 1970, eight federal budgets have been introduced. In 1970 the original budget plan was changed twice, in October and December, in response to deteriorating economic conditions. Total cash requirements were increased from \$475 million in March to \$1,570 million in December. The final cash requirements for the year were \$1,182 million, an increase of \$707 million over the original budget plan but substantially below target. Most of this increase can be explained by the swing in the budgetary position shown in Table 2. The in-year swing from a budgetary surplus to deficit resulted almost completely from the automatic influence of the weak performance of the economy on revenues and expenditures. In addition, the net non-budgetary

[6] This is strictly true only after allowances are made for normal growth of the full-employment surplus over time.

[7] The term "adaptability" was first introduced by the federal government in 1970. See Hon. Edgar J. Benson, *Budget Speech* (Ottawa: Department of Finance, December 3, 1970). For a more detailed analysis of federal fiscal policy in 1970 and 1971 as well as a comparison and contrast with Ontario fiscal policy over the same period, see Bernard Jones and Jill Berringer, "Federal and Ontario Fiscal Policy in 1970 and 1971", *Ontario Economic Review*, IX, 6 November/December 1971, pp. 3-13.

deficit fell substantially below target. Consequently, despite substantial changes in the forecast during the year, the actual increase in cash requirements did not significantly expand the fiscal impact of the budget. This is substantiated by Chart 3 which shows only a moderate reduction in the federal full-employment surplus in 1971.

Realizations fell far short of intentions again in 1971-72. Total cash requirements were estimated at $2,100 million in December 1970. This amount was boosted $500 million by October 1971 yet the final figure for the year was $1,675 million, a shortfall of almost $1.0 billion. Once again the net non-budgetary deficit fell well short of target at $1,090 million. Although federal budgetary expenditures reached a higher level than forecasted in October, budgetary revenues were substantially higher than anticipated. The result was that the budgetary deficit turned out to be $585 million compared with the October forecast of $1.0 billion. As Chart 3 shows, there was a small decline in the federal full-employment surplus in 1971, generating a mild expansionary impact.

In short, federal fiscal policy demonstrated considerable *adaptability* in 1970-71 and 1971-72 in responding to changing economic conditions, but has lacked the *flexibility* to translate changed intentions into a significant economic impact in the short run. Had the backlog of unrealized spending in 1971-72 and the previous fiscal year been spent in 1971 and 1972, the multiplier effect would have raised the rate of real economic growth in these years about 1.0 per cent and 0.5 per cent respectively. Consequently, the rates of growth would have been 6.5 and 6.0 in 1971 and 1972 and the performance gap would have narrowed considerably. The relationship between fiscal policy and unemployment shown earlier in Chart 2 suggests that the improvement in unemployment could also have been substantial.[8]

In contrast to previous fiscal years, indications are that the original federal budget forecast for 1972-73 of $2.0 billion in total cash requirements may be close on target. Table 2 shows a shift between budgetary and non-budgetary transactions in the revised forecast with non-budgetary transactions increasing by $450 million and the budgetary deficit decreasing by the same amount. Chart 3 shows a small decline in the federal full-employment surplus for 1972 which represents a moderate expansionary swing from 1971. Paradoxically, although the budget impact is indeed expansionary, this outcome was not a result of the original budget plan.

During 1972-73, the cost of operating the Unemployment Insurance Fund rose dramatically and the federal government was called upon to advance about $900 million to the fund. These unanticipated advances are included in the national accounts, total cash requirements and

[8]The unemployment picture was complicated in 1971-72, however, by drastic changes in the Unemployment Insurance Act. A major effect of the changes in the Act has been to increase dramatically the number of claimants receiving benefits and substantially raise the average weekly benefit.

Government of Canada Financial Position, Fiscal 1970-71 to 1973-74

Table 2

($ million)

	1970-71 Mar. 12/70 Forecast	Oct. 13/70 Forecast	Dec. 3/70 Forecast	Final	1971-72 Dec. 3/70 Forecast	Jun. 18/71 Forecast	Oct. 14/71 Forecast	Final	1972-73 May 8/72 Forecast	Feb. 19/73 Forecast	1973-74 Feb. 19/73 Forecast
Budgetary Transactions:											
Revenues	13,200[1]	13,100	13,035	12,803	n.a.	13,660	13,580	14,145	15,670	16,300	18,000
Expenditures	12,900	13,250	13,355	13,182	n.a.	14,410	14,580	14,730	16,120	16,300	18,975
Surplus (+) or Deficit (−)	+300	−150	−320	−379		−750	−1,000	−585	−450	—	−975
Net Non-Budgetary Deficit (−)	−775	−1,185	−1,250	−803	n.a.	−1,680	−1,600	−1,090	−1,550	−2,000	−1,025
Total Cash Requirements (−) (excluding requirements for foreign exchange transactions)	−475	−1,335	−1,570	−1,182	−2,100	−2,430	−2,600	−1,675	−2,000	−2,000	−2,000

Source: Receiver General for Canada, Public Accounts of Canada, Volume 1, and budget speeches.

Note: 1. Adjusted for the non-imposition of consumer credit controls.
The original forecast estimated a $50 million revenue loss and a budgetary surplus for 1970-71 of $250 million.

2. Figures may not add due to rounding.

full-employment budget estimates. In the absence of these higher than anticipated costs of operating the Unemployment Insurance Fund, federal fiscal policy would not have been expansionary in 1972 *unless offsetting actions to cut taxes or increase expenditures had been taken.* The experience of the previous two fiscal years suggests that even if policy changes had been forthcoming, they might not have been quickly translated into actions to stimulate the economy.

Over the three-year period, therefore, federal fiscal plans were only partially realized. Consequently, federal fiscal policy was a far less effective instrument in stimulating the economy than might otherwise have been the case.

Federal Fiscal Policy in 1973

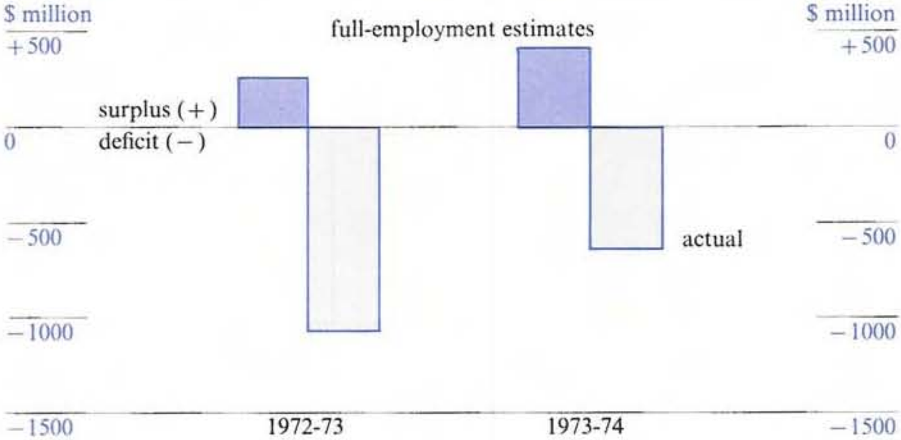
The review of the federal record from 1970 to 1972 has shown that the net fiscal impact of federal policies has fallen consistently short of intentions. In the current year the emphasis on tax cuts will ensure a greater degree of flexibility.

The policy intention of the 1973 federal budget is to impart stimulus to the economy. The Finance Minister said, "The purpose of this budget is—first and foremost—to bring about a substantial reduction in unemployment."[9] Table 2 shows that even after the $1.5 billion net cost of the tax cuts and other measures introduced in the budget, total cash requirements are estimated at a level of $2.0 billion in 1973-74, the same level as in 1972-73.

The estimated full-employment surplus shown in Chart 4 is higher in 1973-74 than in 1972-73, which indicates a small contractionary net fiscal impact. This situation arises because of two factors. First, the budget tax cuts have simply offset the increased fiscal drag resulting from tax reform, and revenues will still rise by 13 per cent after the tax reductions. The $1.3 billion personal income tax cut in fiscal 1973-74 includes the 3 per cent reduction introduced in 1972-73 and still in effect as at budget date. Therefore, the net injection of funds into the economy is only $1.0 billion. Second, on a fiscal year basis, national accounts expenditures will increase by only 9 per cent in 1973-74, compared with an increase of 17 per cent in 1972-73. The major reason for the lower rate of increase in expenditures is a lower rate of growth in transfer payments to persons (including unemployment benefits) which are forecast to increase by 4 per cent compared with 30 per cent in 1972-73. A further consideration concerns the federal corporate tax measures proposed in May 1972. If these measures are not legislated, their retroactive cost will not be incurred. Therefore, the federal full-employment budget surplus for 1973 will increase even further, and produce a greater contractionary impact.

[9]Hon. John N. Turner, *Budget Speech, op. cit.*, p. 1.

Federal Government Surplus (+) or Deficit (−) Actual and Full-Employment Estimates National Accounts Basis | Chart 4



Source: Ontario Treasury. Preliminary actuals for 1972-73 and forecast for 1973-74 obtained from February 1973 federal budget.

Consequently, the substantial reduction in unemployment, which is the prime objective of the federal budget, may not materialize. With unemployment at a very high level and the budget in a full-employment surplus position, the corporate tax measures take on greater significance. A high level of business investment is essential in the current situation since the burden of restoring high levels of employment has clearly been left to the private sector and the provinces. In a period of vigorous investment activity it is appropriate that the business sector drive the expansion. But, given the unsettled international trade and monetary environment, this required investment may not be forthcoming.

III Ontario's Fiscal Policy

The major responsibility for economic stabilization rests in the hands of the federal government. So do the principal policy levers. Because of the rapid growth in the size of the provincial-municipal government sector over the past decade, however, the fiscal impact of this sector has become of growing importance.[10] The lack of flexibility in federal fiscal policy over the past few years has accelerated provincial involvement.[11]

[10]For a full-employment budget analysis of the federal and provincial-municipal sectors in Ontario from 1957 to 1969, see Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", *Ontario Budget 1971*, *op. cit.*, pp. 47-53.

[11]See Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", *Ontario Budget 1971*, *op. cit.*, pp. 47-53. See also Hon. W. Darcy McKeough, "Fiscal Policy Management in Ontario", *Ontario Budget 1972*, *op. cit.*, pp. 51-55.

To contribute to a greater understanding of the Province's economic impact, this section continues the full-employment budget analysis of Ontario's fiscal policy first introduced in the 1971 Budget. It also displays the impact on provincial finances and debt burdens of Ontario's fiscal effort.

Ontario's Fiscal Impact

The Province's full-employment budget position since 1969 is shown in Chart 5. From a relatively large surplus of $379 million in 1969, the full-employment budget moved to a deficit of $137 million in 1972. Thus, Ontario's fiscal policy has been expansionary since 1970. Table 3 gives the details of the automatic and discretionary changes over the period.

Changes in Actual and Full-Employment Budget Surpluses (+) or Deficits (−) National Accounts Basis, 1970-1972[1]

Table 3

($ million)

	1970	1971	1972	Changes 71/70	Changes 72/71
Full-Employment Budget (discretionary influences only)	270	−122	−137	−392	−15
Actual Budget (discretionary and automatic influences combined)	109	−315	−313	−424	2
Difference (automatic influences only):					
(i) Revenue gap	145	163	153	18	−10
(ii) Expenditure gap	16	30	23	14	−7
Total	161	193	176	32	−17

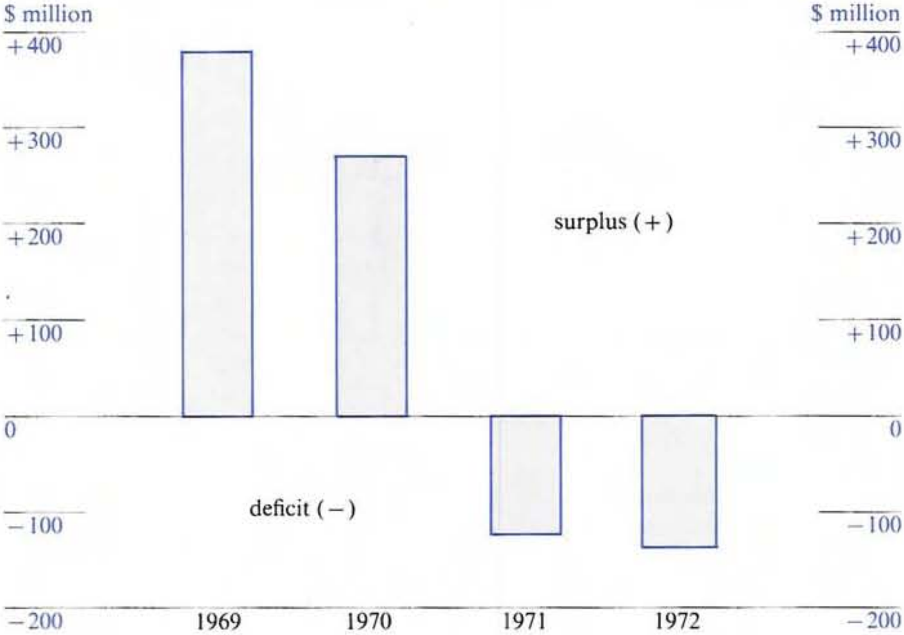
Source: Ontario Treasury.

Note: 1. Since last year, Ontario's national accounts estimates of revenues and expenditures have undergone considerable refinement. The revisions have changed the absolute values of the deficits and surpluses quite substantially but the year-to-year changes are not affected to any significant degree. Ontario's national accounts estimates are now closely comparable with unpublished data prepared by Statistics Canada.

The table shows the actual national accounts budget net position which is comprised of both automatic and discretionary changes. In 1971, the actual deficit of $315 million represented a swing of $424 million from a surplus position in 1970. Discretionary tax cuts and expenditure increases account for $392 million of this change. These were discussed in some detail in last year's budget paper. Despite the

Government of Ontario
Full-Employment Budget Position
National Accounts Basis

Chart 5



Source: Ontario Treasury.

stronger economic performance in 1971 compared with 1970, the economy grew at less than its potential rate of growth in 1971. Thus, the balance of $32 million represents the automatic widening of the revenue and expenditure gaps.

In 1972, the economy grew at a rate marginally above its potential, causing a narrowing in the performance gap and a positive automatic influence on the budget deficit position. Thus, the revenue and expenditure gaps shown in Table 3 declined in 1972. The $15 million discretionary impact last year was the net result of supplementary increases in expenditures partially offset by increases in revenues resulting from a range of tax changes announced in the 1972 Budget.

Comparison of Ontario and Federal Fiscal Impacts, 1969-72

Since 1970, and especially in 1971, Ontario's fiscal policy has strongly reinforced the expansionary influence of federal moves in the national economy. This reinforcing action has been largely concentrated in the provincial economy and has contributed to the faster growth in employment in Ontario than in Canada as a whole, as shown in Table 4.

Between 1969 and 1972 the level of employment in Ontario increased by 9.6 per cent or 283,000 new jobs, compared with the Canada-wide increase of 7.1 per cent. There was unusually rapid growth in the labour force over the period, 11.5 per cent in Ontario compared with 8.9 per cent for Canada. The table shows that by the end of 1972, the unemployment situation had improved to a greater extent in Ontario than in the country as a whole.

Labour Force and Employment Canada and Ontario, 1969-72 — Table 4

(thousands of persons)

	Canada				Ontario			
	Labour Force	Employment	Unemployment	%	Labour Force	Employment	Unemployment	%
1969	8,162	7,780	382	4.7	3,031	2,936	95	3.1
1970	8,374	7,879	495	5.9	3,130	2,996	134	4.3
1971	8,631	8,079	552	6.4	3,249	3,079	170	5.2
1972	8,891	8,329	562	6.3	3,381	3,219	162	4.8
72/69	8.9%	7.1%			11.5%	9.6%		

Source: Statistics Canada

Ontario has made full use of its fiscal policy flexibility since 1970 when the rate of unemployment in the province rose above 4.0 per cent for the first time since 1962. Table 5 shows the relative net fiscal impacts of federal and Ontario policies since 1969. The net fiscal impact is the year-to-year change in the full-employment budget net position. The federal and Ontario fiscal impacts are calculated as percentages of potential GNP and Gross Provincial Product (GPP) respectively to compare their relative economic significance. The table shows that both Ontario and federal fiscal policy became expansionary beginning in 1970. Ontario's expansionary impact in the provincial economy, however, has far exceeded that of the federal government in the whole of Canada.

Federal and Ontario Relative Net Fiscal Impacts Contractionary (+) or Expansionary (−)[1] — Table 5

(per cent)

	1969	1970	1971	1972
Federal	+1.3	−0.3	−0.4	−0.3
Ontario	+0.7	−0.4	−1.1	−0.1

Source: Ontario Treasury.

Note: 1. Changes in the federal and Ontario full-employment budget net positions are expressed as percentages of potential levels of GNP and GPP respectively. These measures capture the importance of the net fiscal impact of the two levels of government in their respective economies.

If, for each year, the dollar value of the net fiscal impact (i.e. net discretionary infusion of funds into the economy) is divided by the number of persons unemployed over target, an estimate of dollars spent per target unemployed person is calculated. Although this is not an indicator of the total resources being mobilized in the economy to reduce unemployment to the target level, it gives some indication of the net *fiscal* effort involved. On this basis, from 1970 to 1972 inclusive, the federal government spent less than $1,600 per annum per target unemployed person in Canada. This low figure may have contributed to the lack of improvement in the unemployment situation. The relationship indicated earlier between fiscal policy and unemployment suggests a high probability that greater fiscal spending would have had a substantial impact on the level of unemployment. The comparative Ontario figure—based on a target unemployment rate of 3 per cent—is twice as large, with just over $3,300 per target unemployed person being injected into the economy on average each year. This relatively greater fiscal effort has contributed to a greater improvement in Ontario's unemployment.

Financial Dimensions of Ontario's Fiscal Effort

To contribute to a more co-ordinated total government sector fiscal impact, all provinces prepared estimates of revenues, expenditures and total cash requirements for 1973-74 based on their 1972-73 tax structures and expenditures. These estimates were presented to the January 19, 1973 Meeting of Finance Ministers in Ottawa. Ontario's submission projected a pre-1973 budget record high cash deficit for the Province of $1.1 billion. This figure amounted to almost one-third of the total Canadian provincial-municipal sector deficit projected for 1973-74. Subsequently, the Minister of Finance brought down his February budget in which the federal government appears to have implicitly assigned Ontario this magnitude of a deficit sharing role in economic stabilization. In fact, Table 6 shows that Ontario's cash requirements as a percentage of total revenue have substantially exceeded federal requirements in each of the past four years.

The considerable provincial fiscal impact over the 1970-72 period has resulted in overall cash requirements of around $1 billion in fiscal 1971-72 and $823 million in 1972-73. In 1973-74, the level of cash requirements will amount to about $836 million. Reflecting these developments, Ontario's cash requirements as a percentage of gross budgetary revenues have risen dramatically from 5.6 per cent in 1969-70 to 18.8 per cent in 1971-72, and under severe expenditure restraint will be reduced to about 14 per cent in 1972-73 and 12 per cent in 1973-74. By comparison, federal cash needs as a percentage of budgetary revenues amounted to 1.5 per cent in 1969-70, 11.9 per cent in 1971-72 and about 12 per cent in 1972-73. Even if federal cash requirements reach the forecast level of

$2.0 billion in 1973-74, they will still amount to a considerably smaller percentage of revenues than Ontario's comparable effort.

Federal and Ontario Cash Requirements As a Per Cent of Budgetary Revenues 1969-70 to 1973-74 — Table 6

	1969-70	1970-71	1971-72	1972-73	1973-74
Federal cash requirements[1]					
($ billion)	0.2	1.2	1.7	2.0	2.0
per cent of gross budgetary revenue	1.5%	9.2%	11.9%	12.3%	11.1%
Ontario cash requirements					
($ billion)	0.2	0.6	1.0	0.8	0.8
per cent of gross budgetary revenue	5.6%	11.1%	18.8%	13.6%	12.2%

Note: 1. Excluding foreign exchange requirements.

Budget Paper C shows that Ontario's net per capita debt has increased sharply in recent years, rising from $210 at March 31, 1969 to an estimated $327 at March 31, 1973. From fiscal 1969-70 to 1972-73 interest payments on debt have increased from 5.7 per cent to 7.9 per cent of gross revenues. In addition, Budget Paper B shows that the structure of Ontario's gross budgetary revenues has changed considerably since 1966 and that the elasticity of revenues with respect to economic activity will in future be somewhat lower. Thus, rising net per capita debt levels and the increasing share of total revenues being taken up by debt charges suggest that deficit burdens of this magnitude cannot be maintained by Ontario. The province has only a "spurt capacity" for conducting stabilization policy and lacks the resources to carry large-scale deficits on a prolonged basis.

IV Conclusion

This paper has reviewed Ontario and federal government fiscal policy over the past several years. It has shown that Ontario's contribution to economic expansion has been considerable and relatively greater than that of the federal government. It has also noted the limitations to Ontario's continuing involvement in short-term economic stabilization without compromising its ability to finance longer-term basic needs.

The provinces can only carry large deficits to stimulate the economy if they are provided with the necessary financial resources and flexibility. Adequate tax sharing remains the key to co-ordinated fiscal policy planning. Instead, the federal government has implicitly assigned Ontario the role of running high deficits, and has itself assumed the role of simply cutting taxes to reduce its fiscal drag.

The paper has shown that the 1973 federal budget will not impart a net expansionary stimulus to the national economy. Despite unanimous provincial views on the need for continued economic expansion, subsequent federal policy has not reflected this view.[12] In this context, Ontario will propose a review of the work of the federal-provincial Continuing Committee of Officials on Fiscal and Economic Matters with a view to improving its effectiveness. In last year's Budget Paper A, Ontario stated:

> Without a clarification of the appropriate role of the provincial-municipal sector in economic stabilization, the achievement of full economic potential is beyond reach. For this reason, the Ontario Government has suggested the formation of a national Joint Economic Committee composed of federal and provincial Ministers of Finance. The task of the Committee would be to set short and long-term economic and social goals, to examine ways of achieving these goals and to monitor progress in attaining them. Broad agreement on a set of consistent goals is the essential first step toward co-ordinated federal-provincial economic and fiscal policy.[13]

This proposal now has even greater validity. The Joint Economic Committee should be a vehicle for the determination of a co-ordinated federal-provincial fiscal policy, with appropriate municipal participation.

As an immediate step, the federal government should be prepared to suggest, in operational terms, how it would foresee the provinces carrying "an appropriate share of responsibility in policies for stability and growth in the national economy" when they are already financially constrained. At a time when the federal government is curtailing provincial revenue growth capacity, how are provinces to both finance their longer term responsibilities and carry an undue burden of deficit sharing to stimulate the economy?

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[12]For Ontario's view, see Hon. John White, *Fiscal Policy Management and Tax Sharing Reform*, Statement to the Meeting of Ministers of Finance, Ottawa, January 18 and 19, 1973.

[13]See Hon W. Darcy McKeough, "Fiscal Policy Management in Ontario", *Ontario Budget 1972*, *op. cit.*, p. 54.

Appendix A

The Ontario Economic Review and Outlook

Review of 1972

Ontario's economic performance improved in 1972, although it fell below expectations. A strong fourth quarter boosted the level of GPP valued at current prices to the $42.1 billion mark, a 10.8 per cent increase over the previous year. GPP in constant 1961 dollars advanced by 5.7 per cent, following a 5.3 per cent gain in 1971. The main areas of strength in the economy during 1972 were consumer spending, residential construction, and investment in machinery and equipment.

The expanding economy produced an unusually large increase in employment opportunities in 1972. The labour force continued to grow at an accelerated pace with the result that the unemployment rate declined only moderately to 4.8 per cent from the ten-year high of 5.2 per cent reached in 1971. After moderating in 1971 the rate of price inflation increased sharply in 1972 with the GNP implicit price index rising by 4.8 per cent, a substantial increase from the 3.3 per cent rise experienced in the previous year. The Consumer Price Index advanced by 4.8 per cent, the largest rate of increase in two decades. Food prices rose particularly fast in 1972, increasing 7.6 per cent over the previous year. Crop shortages over the summer and a general recovery from the artificially low prices of late 1970 and early 1971 contributed to this increase.

The Economy by Sectors, 1972 and 1973

Gross Provincial Product

While the gap between potential and realized output did not widen in 1972, as was the case in the previous two years, a strong upsurge in economic activity is required to significantly reduce the existing slack in the economy. The main text of this paper has shown that the measures introduced in the federal budget will provide no net fiscal stimulus this year. In addition, the provincial budget will be relatively neutral. Despite these developments, real GPP is expected to increase by 6 per cent in 1973. As a result of the lagged impact of expansionary policies, consumer and capital investment spending should provide the major stimulus to growth. No moderation in the rate of price inflation is anticipated, and consequently nominal GPP is expected to reach \$46.8 billion, an 11.1 per cent gain over 1972.

Personal Expenditures

Personal expenditures on goods and services increased substantially in 1972. Retail sales were up sharply, increasing 9.6 per cent over the previous year to a level of \$13.0 billion. Spending on durable goods and services increased considerably as a result of federal and Ontario personal income tax cuts and the easy availability of consumer credit. Automobile sales recorded particularly strong gains. In 1973, retail sales are forecast to rise by 10.5 per cent in current dollars.

Investment

The level of private and public investment advanced strongly in 1972, increasing 8.7 per cent following a 7.2 per cent gain in 1971. Investment in machinery and equipment picked up considerably in delayed response to the earlier increases in consumer spending and exports which resulted in a substantial rise in corporate profits in 1972. Investment in machinery and equipment had declined by 2.8 per cent in 1971. Residential construction continued to grow strongly in 1972 with a 17.3 per cent increase, following the substantial 24.7 per cent gain recorded in 1971. However, nearly half of the 1972 increase was due to inflation. Housing starts were up 14.4 per cent in 1972, following a 17.4 per cent gain in the previous year. Non-residential construction slowed considerably in 1972, recording only a 3.2 per cent increase compared to a 9.3 per cent increase in 1971.

The investment outlook for 1973 is bright. The corporate tax cuts and fast write-off provisions proposed in the 1972 federal budget, if legislated, should give strong impetus to the manufacturing sector in 1973. However, the considerable uncertainty which currently exists is compounded by the unsettled international trade and financial situation. Assuming a favourable outcome on both fronts, total investment is expected to increase by almost 11 per cent in 1973. Since many industries will be approaching full capacity and will thus require additional plant and office space in 1973, non-residential construction in Ontario should recover strongly from 1972, while capital outlays on machinery and equipment are expected to increase by over 13 per cent. With the housing sector operating near full capacity, a decline in growth is expected in 1973 despite the existence of strong demand. Housing starts are expected to advance by 6.9 per cent in 1973 following last year's 14.4 per cent gain.

Foreign Trade

Ontario's export growth showed strong improvement in 1972. Merchandise exports increased by 11 per cent compared to the 7.5 per cent gain recorded in 1971. A 6.5 per cent increase in real output in the United States economy in 1972, following a sluggish 1971 performance, contributed significantly to this growth. Exports to Latin America and Japan were also up from 1971.

Exports should continue to grow strongly in 1973 as Canada's major trading partners are experiencing buoyant economic growth. As well, Canadian products are becoming progressively more competitive in view of the upward revaluations of the Japanese yen and several European currencies as well as the relatively more rapid rate of inflation being experienced in Europe. However, this effect may be offset if the Canadian dollar rises in relation to the U.S. dollar, resulting in loss in competitiveness with respect to U.S. producers.

The Labour Market

The expanding Ontario economy generated 140,000 new jobs in 1972, boosting employment 4.5 per cent in comparison to 2.8 per cent in 1971. While employment growth was substantial, labour force growth also remained strong with the result that the unemployment rate declined moderately to 4.8 per cent. This, however, was a much better improvement than for the country taken as a whole. Despite the recent emphasis of federal fiscal programs to reduce unemployment, the overall employment picture in Canada did not improve. At 6.3 per cent the unemployment rate remained virtually unchanged from 1971.

In Ontario much of the labour force growth in 1972 reflected a notable increase in the participation rate (percentage of the working age population employed or seeking employment) of both men and women. The participation rate of women continued its upward trend and will likely continue to do so for the remainder of the decade. The participation rate of the male labour force also rose during the year, after having fallen steadily over the past ten years. In part this rise has reflected a normal cyclical sensitivity of the male participation rate to improved economic conditions in the province. Rising job opportunities in Ontario have no doubt induced many individuals into the labour force to fill vacancies.

The adoption of a new Unemployment Insurance Act in 1971 has had a significant impact on labour force developments in Ontario over the past year and a half. At the beginning of 1972, most members of the labour force were brought under coverage of the new Unemployment Insurance Act. Many unemployed persons, the majority of whom had only 8 to 29 weeks of employment to their credit, became eligible for regular insurance benefits. As a result, some individuals' desire to seek employment undoubtedly diminished, and since claimants are able to define their own suitable employment under the Act, they were under less pressure to become re-employed in spite of the strong rise in job vacancies associated with improved economic conditions in 1971-72. Further complicating this problem were two additional changes in the Act: the extension of the average benefit period and substantial increases in benefit rates. With the average duration of claims increasing from three to about four months, many beneficiaries were able to delay their search for employment by a month or more thus tending to leave job vacancies open for a longer period. In addition, the substantial increase in the average weekly benefit rate decreased the incentive for becoming re-employed. One effect of these changes was to draw people into the labour force to fill the expanding supply of job vacancies as reflected in the rise of participation rates, particularly of the male labour force.

In 1973, new investment projects in the goods-producing sector should maintain employment growth at a high level, with a 4.3 per cent increase anticipated. The labour force should continue to grow strongly in 1973, with an increase of about 3.8 per cent projected. The net result should be a decline in the unemployment rate to about 4.4 per cent.

Personal Income and Profits

Personal income rose by 12.2 per cent in 1972, with an increase of 12.6 per cent anticipated in 1973. Average weekly earnings in Ontario reached $155 in 1972, up 8.5 per cent from the previous year. Pre-tax corporate profits, which have been in a "catch-up" phase since late 1970, rose sharply in 1972, increasing 15 per cent following a 10.5 per cent rise in 1971. As firms continue to use up excess capacity in 1973, profits should continue to grow strongly, but at a slower rate than last year, with a 12 per cent gain anticipated for the year.

Summary of 1973 Outlook

- GPP in current dollars is expected to increase by 11.1 per cent, with a 6 per cent gain in real GPP anticipated.
- The GNP implicit price index is expected to rise by 4.8 per cent.
- Investment expenditure should advance briskly in 1973, provided that the corporate tax measures are legislated. Investment in machinery and equipment should show particularly strong gains, while non-residential construction is almost certain to rebound strongly.
- With both the labour force and employment expected to continue their vigorous growth in 1973, the unemployment rate should fall to about 4.4 per cent.

The Ontario Economy, 1971-73 — Table A-1

	1971	1972	1973	71/70	72/71	73/72
		($ billion)			(per cent)	
Gross Provincial Product*	38.0	42.1	46.8	8.8	10.8	11.1
GPP (constant 1961 dollars)*	27.6	29.1	30.9	5.3	5.7	6.0
Prices (1961 = 100)	138.0	144.7	151.6	3.3	4.8	4.8
Private and Public Investment	7.4	8.1	8.9	7.2	8.7	10.9
Machinery and Equipment	2.7	3.0	3.4	−2.8	8.7	13.5
Total Construction	4.7	5.1	5.5	14.1	8.6	8.5
Non-residential	3.1	3.2	3.5	9.3	3.2	7.5
Residential	1.6	1.9	2.1	24.7	17.3	10.3
Retail Sales	11.9	13.0	14.4	9.1	9.6	10.5
Merchandise Exports (Ontario)	8.1	9.0	9.9	7.5	11.0	10.0
Personal Income	30.6	34.4	38.7	9.6	12.2	12.6
Corporate Profits (before taxes)*	3.8	4.3	4.9	10.5	15.0	12.0
Personal Income Per Capita ($)	3,967	4,398	4,856	7.5	10.9	10.4
Labour Force (000's)	3,249	3,381	3,510	3.8	4.1	3.8
Employment (000's)	3,079	3,219	3,356	2.8	4.5	4.3
Unemployment (% of labour force)	5.2	4.8	4.4	—	—	—
Housing Starts (thousands of units)	90.0	102.9	110.0	17.4	14.4	6.9

*Not comparable to series in previous budgets as a result of revisions in provincial accounts data.

Note: 1. Estimated, Ontario Treasury; totals may not add due to rounding.

Appendix B

Measuring Fiscal Policy

The Budget is the key source of information about taxing and spending decisions and the government's fiscal plan. It incorporates forecasts of revenues and expenditures, and provides an economic review and outlook. Deviations from the forecast levels of revenues and expenditures may arise from unanticipated fluctuations in the level of economic activity or from changes to the basic fiscal plan. Changes in the fiscal plan reflect *discretionary* taxing and spending initiatives and it is these changes which indicate the budget's net economic impact. To measure the discretionary impact of the budget it is necessary to remove the *automatic* influence of changes in the pace of economic activity on the actual changes in revenues and expenditures. For example, when economic growth falters, the rate of growth in personal income and corporate profits declines and tax revenue growth weakens. Similarly, as the economy slows down expenditures on unemployment and welfare benefits automatically rise. These revenue and expenditure influences tend to reduce budget surpluses or increase budget deficits and *automatically stabilize* the economy. In other words, the weaker the economy, the smaller the bite of the tax system and the larger the infusion of unemployment support funds. To *stimulate* the economy discretionary tax cuts and spending increases are required which will even further increase the deficit.

The Full-Employment Budget

The full-employment budget concept must be used to separate automatic and discretionary budgetary changes. Its superiority in this regard over the conventional national accounts and cash budgets is widely accepted. The United States Government has used the full-employment budget concept for a number of years to evaluate the economic impact of its fiscal policy. The Ontario Government was sufficiently impressed with the value of the concept as a guide to fiscal policy management that this concept was integrated into its budget planning framework in 1971.[14] Ontario recommended the adoption of this technique to the federal government and other provinces, on the

[14]See Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", *Ontario Budget 1971*, *op. cit.*, pp. 39-61.

grounds that it could be useful as an effective base for intergovernmental fiscal policy co-ordination.

The federal government prefers to focus on total cash requirements to explain the economic impact of its fiscal policy:

> The fiscal stance of the government is best expressed by the government's total cash requirement, budgetary and non-budgetary. For several years now, we have followed the practice of determining our fiscal policy on the basis of total cash requirements and, indeed, this is the practice of most modern states in presenting their over-all financial position.[15]

Total cash requirements are indeed an appropriate measure of a government's overall financial position, and particularly useful for debt management operations. Nevertheless, total cash requirements are not a reliable indicator of the net fiscal impact of the Budget in the economy any more than the conventional national accounts budget.

Budgets have to be estimated on a full-employment basis if their fiscal impact is to be determined. The national accounts budget is commonly used for this purpose because it conforms most closely with those activities of government which have a *direct* impact in the economy. The financial or "arms-length" transactions included in total cash requirements have only an *indirect* impact, and the direct impact is measured in those sectors whose spending is financed by these transactions. To use an analogy, a chartered bank may raise funds in the capital markets in order to make loans to businesses and consumers. These are indirect, financial intermediary activities. The real economic impact of the expenditures of businesses and consumers are captured as increased spending in these sectors in the national accounts.[16]

Ontario's National Accounts Budget

Budget Paper A in 1972 compared changes in the surpluses and deficits of Ontario's administrative, cash and national accounts budgets.[17] Appendix B in last year's paper introduced a detailed reconcilation of the administrative and national accounts budgets. Budget Paper C in this year's Budget contains, as usual, details of revenues and expenditures on the administrative and cash budget bases. For the first time for any province a detailed breakdown of revenues and expenditures on the national accounts basis is presented in the accompanying table.

[15]See Hon. John N. Turner, *Budget Speech*, *op. cit.*, p. 6.

[16]For a discussion of a variety of budget concepts and their uses see R. M. Will, *The Budget as an Economic Document*, Royal Commission on Taxation (Ottawa: Queen's Printer, 1966).

[17]See Hon. W. Darcy McKeough, "Fiscal Policy Management in Ontario", *Ontario Budget 1972*, *op. cit.*, pp. 57-58.

Ontario Government Revenues and Expenditures on a National Accounts Basis, 1969-73

Table B-1

($ million)

	1969	1970	1971	1972	1973
Expenditures					
Goods and services:					
Medicare	48	382	473	521	586
Other	1,141	1,325	1,455	1,578	1,730
Transfer payments to:					
Persons	799	914	1,082	1,044	1,215
Business	12	8	69	57	75
Local government	988	1,225	1,534	1,684	1,820
Hospitals	726	791	883	1,008	1,129
Interest on provincial debt	233	288	351	463	549
Total expenditures	3,947	4,933	5,847	6,355	7,104
Revenues					
Direct taxes:					
Persons	998	1,133	1,306	1,508	1,612
Business	380	385	408	456	522
Indirect taxes	1,425	1,568	1,624	1,896	2,387
Other current transfers from persons	508	708	719	629	666
Investment income	225	302	359	400	459
Transfers from other governments[1]	733	946	1,116	1,153	1,265
Total Revenues	4,269	5,042	5,532	6,042	6,911
Surplus or (deficit)	322	109	(315)	(313)	(193)

Source: Ontario Treasury.

Note: 1. Transfers from the federal government with the exception of approximately $3 million per annum of transfers from local governments.

Budget Paper B

Ontario's Revenue Structure

Table of Contents

Ontario's Revenue Structure

I Introduction

The purpose of this Budget Paper is to discuss the revenue structure on which Ontario relies to finance its essential public services and municipal tax reforms. Section II reviews the performance of provincial revenues over the six-year period 1967 to 1972. It examines the composition and growth capacity of Ontario's revenue sources, the use of tax changes to regulate economic activity, and the impact of reforms on the overall incidence of tax burdens. Section III deals with the implications for Ontario's tax system of the tax measures proposed in the February 19 federal budget. The proposed federal changes in personal income taxation—particularly the inflation indexing scheme —will reduce the natural growth capacity and reduce the progressivity of Ontario's revenue structure. Section IV concludes the paper with a brief analysis of the impact on the overall revenue structure of the tax measures introduced in Ontario's 1973 budget. The 1973 combination of tax policies realizes Ontario's twin objectives of improving provincial-municipal financing capacity and achieving a fairer distribution of the total tax burden in Ontario.

II Performance of Ontario's Revenue Structure, 1967-72

Over the past six years major changes have been made in the total federal-provincial tax structure in Ontario. The national personal income tax system in which Ontario participates was revamped by the federal government and now is being extensively altered again.[1] Since 1969, the Ontario Government has introduced a number of significant changes in its own revenue structure and commenced a comprehensive program to reform the property tax used by local governments. This section reviews and examines the performance of Ontario's revenue structure from 1967 to 1972.

[1] Income Tax Act, R.S.C. 1952, c. 148, 95 amended by S.C.: 1970-71-72, c. 63. (Commonly referred to as Bill C-259); and Hon. John N. Turner, *Budget Speech* (Ottawa: Department of Finance, February 19, 1973).

Composition of Ontario's Revenues

Despite numerous federal and provincial actions over the past six years, Ontario's revenue structure has remained remarkably stable in terms of the relative importance of the three major tax sources. Personal income tax revenues accounted for some 20 per cent of total revenues in 1972 compared to 19 per cent in 1967. The retail sales tax generated about 15 per cent of total revenues each year, while corporate tax revenues declined modestly in importance from 10.5 per cent in 1967 to 8.6 per cent in 1972.

This relative stability in the shares of Ontario's three major taxes contrasts sharply with the experience during the period 1963 to 1967. During these preceding five years, the personal income tax and retail sales tax assumed much greater importance and corporate taxation much less importance in the total revenue structure. This shift in the

Percentage Distribution of Ontario Revenues — Table 1
(per cent)

	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
Personal Income Tax	19.1	17.6	17.3	19.5	18.9	19.8
Corporate Taxes	10.5	9.4	10.8	8.1	8.0	8.6
Retail Sales Tax	15.4	14.0	14.5	13.3	14.1	14.7
Health Premiums	6.3	8.9	10.9	12.2	10.7	8.4
Other Taxes	28.0	29.3	25.3	22.9	22.5	22.9
Interest on Investments	3.0	3.5	4.3	4.9	5.4	4.9
Payments from the Federal Government	17.7	17.3	16.9	19.1	20.4	20.7
Total Revenue	100.0	100.0	100.0	100.0	100.0	100.0

Note: The 1970-71 fiscal year was the first full year of operation of Ontario's medicare plan.

Major Sources of Ontario Revenues — Table 2
($ million)

	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73
Personal Income Tax	551	621	762	992	1,022	1,204
Corporate Taxes	302	333	477	414	433	520
Retail Sales Tax	445	496	637	674	759	893
Health Premiums	181	314	478	619	580	512
Other Taxes	809	1,034	1,114	1,164	1,217	1,391
Interest on Investments	87	124	189	249	292	299
Revenue Raised by Ontario	2,375	2,922	3,657	4,112	4,303	4,819
Payments from the Federal Government	510	609	743	968	1,101	1,254
Total Revenue	2,885	3,531	4,400	5,080	5,404	6,073

tax mix occurred as a result of staged increases in the provincial income tax abatement from 17 points in 1963 to 28 points in 1967, and the increase in the retail sales tax rate from 3 to 5 per cent in 1966.[2]

Revenue sources which have grown or diminished in relative importance since 1967 are: health insurance premiums, payments from the federal government, interest on investment, and other revenues (including taxes on gasoline, alcoholic beverages and tobacco). Health insurance premiums peaked at 12 per cent of total revenues in 1970-71 —the first full year of medicare—but have since declined to 8.4 per cent in 1972-73. Payments from the federal government also increased in importance in 1970-71 due to new shared-cost reimbursements for medicare, but have since stabilized at around 20 per cent. Other revenues have declined in relative importance from 28 per cent of total revenues in 1967-68 to about 23 per cent in 1972-73. Interest on investments has built up gradually over the period from 3 per cent to 5 per cent of total revenues.

Growth Capacity

An important dimension of Ontario's revenue structure is its overall growth potential in response to an increasing Gross Provincial Product (GPP). The higher the natural growth rate of provincial revenues, the less the need for increases in tax rates to finance essential provincial programs and to enrich financial transfers to local governments.

The composite growth rate of total provincial revenues is a function of the revenue mix discussed earlier and the natural growth potential of each revenue source. Essentially, Ontario's revenues fall into three growth categories: revenue sources which are responsive, unresponsive, and unrelated to economic growth. The responsive or high-growth revenue sources are personal income tax, retail sales tax and corporate taxes, all of which have grown faster than GPP over the past six years. These high-growth tax sources account for 43 per cent of total provincial revenues in 1972-73. (By comparison, the federal government secures some 75 per cent of its total revenues from the high-growth fields of personal income tax, corporate tax and sales tax.[3]) Included in unresponsive or low-growth revenue sources are taxes on alcoholic beverages, tobacco, gas, and licence fees. These sources account for 23 per cent of total provincial revenues. Revenue sources which are unrelated to economic activity consist of: health insurance premiums, interest on investments, and payments from the federal government. In total these account for 34 per cent of Ontario's revenues.

[2]See Hon. Charles S. MacNaughton, "The Budgetary Framework", *Ontario Budget 1968* (Toronto: Department of Treasury and Economics, 1968).
[3]Hon. John N. Turner, *Budget Speech*, *op. cit.*

	Percentage of Ontario Revenues in 1972-73
1. *Responsive to GPP* (PIT, RST, CIT)	43%
2. *Unresponsive to GPP* (gas, tobacco, fees, alcoholic beverages)	23%
3. *Unrelated to GPP* (health premiums, interest, payments from the federal government)	34%

It is important to distinguish between the *automatic response* of revenues to higher levels of income and the influence of *discretionary tax actions* on the resulting revenue pattern. The following analysis of the revenue components provides further insight into the natural rates of growth and elasticity of Ontario's taxes with respect to changes in GPP.[4]

Personal Income Tax—The personal income tax is not only the largest source of revenue but is also the fastest growing. Over the past five years, personal income tax revenues have increased at an average rate of 18 per cent per year, or double the rate at which the economy has expanded. This tax source has had the highest growth potential with an average elasticity of 1.9 and as such has been the dominant contributor to the natural growth of the total revenue structure.

Personal Income Tax — Table 3

	GPP Growth	Growth in Personal Income	Growth in PIT Revenue	Revenue[1] Elasticity
	%	%	%	
1968-69	9.4	12.2	20.0	2.1
1969-70	9.9	9.0	21.1	2.1
1970-71	7.7	9.9	15.6	2.0
1971-72	8.8	12.5	13.6	1.5
1972-73	10.8	11.5	21.7	2.0
5-Year Average	9.3		18.4	1.9

Note: 1. Elasticity, calculated in simple terms, is the percentage change in the revenue divided by the percentage change in GPP. For example, the elasticity for 1972-73 would be calculated by dividing the 21.7% growth in PIT revenue by the 10.8% growth in GPP generating an elasticity of 2.0.

Retail Sales Tax—Ontario's retail sales tax revenues have grown faster than Gross Provincial Product over the past five years. In every year except 1970-71 when retail sales slumped dramatically, the retail

[4] "Elasticity" is a particularly useful term which can be employed to describe responsiveness to economic activity. Revenue elasticity, as defined for the purposes of the following analysis, is a measure of the growth in a particular revenue source in response to the overall growth in Ontario's GPP. The growth in the revenue source referred to is its "natural" growth, that is, the growth exclusive of any tax changes or payment flows that may affect the value of revenue collected from that source. It is, then, a measure of the response of a tax source to economic activity in the province.

sales tax exhibited a strong elasticity.[5] Based on the average performance since 1968, the natural growth rate in this tax field is almost 12 per cent. Thus the retail sales tax also contributes substantially to the composite growth capacity of Ontario's revenues.

Retail Sales Tax — Table 4

	GPP Growth	Growth in Retail Sales	Growth in RST Revenue	Revenue Elasticity
	%	%	%	
1968-69	9.4	9.7	11.4	1.2
1969-70	9.9	7.7	13.1	1.3
1970-71	7.7	1.9	6.9	0.9
1971-72	8.8	8.6	12.5	1.4
1972-73	10.8	8.5	14.6	1.4
5-Year Average	9.3		11.7	1.2

Corporate Taxes—Ontario's corporate taxes consist of a 12 per cent income tax, plus additional taxes on paid-up capital and on insurance premiums. (The latter two components accounted for 14 per cent of corporate tax revenue in 1972-73 and have exhibited a stable growth pattern.) The corporations income tax is the most erratic of Ontario's revenue sources. Past experience indicates that income tax revenue from corporations varies widely over the business cycle as profits fall off and then recover. Since 1968, total corporate tax revenues have fluctuated between 2 per cent growth in 1970 to 20 per cent growth in 1972. It is clear, however, that this revenue source tends to grow slightly faster than Gross Provincial Product over time.

Corporate Income Tax — Table 5

	GPP Growth	Growth in Corporate Profits	Growth in Corporate Income Tax	Revenue Elasticity
	%	%	%	
1968-69	9.4	9.8	10.1	1.1
1969-70	9.9	5.6	18.4	1.8
1970-71	7.7	-6.0	2.0	.3
1971-72	8.8	10.5	9.3	1.1
1972-73	10.8	15.0	19.9	1.8
5-Year Average	9.3		11.9	1.2

Other Revenues—Ontario receives revenue from a large number of other sources whose aggregate yield grows much more slowly than GPP. The most significant components in this category are: gasoline tax, motor vehicle fuel tax, tobacco tax, LCBO profits, succession duties, and fees and licences. Since 1968 these revenues have grown by

[5]See Orland E. Nelson, "Progressivity of the Ontario Retail Sales Tax", *Canadian Tax Journal*, Vol. 18, No. 5, September/October, 1970.

only 5 per cent per year on the average, thereby depressing the composite growth rate of total provincial revenues.

Other Revenues — Table 6

	Growth in GPP	Growth in Other Revenues	Revenue Elasticity
	%	%	
1968-69	9.4	6.3	.67
1969-70	9.9	4.3	.43
1970-71	7.7	4.9	.64
1971-72	8.8	4.3	.49
1972-73	10.8	6.6	.61
5-Year Average	9.3	5.3	.57

Unrelated Revenues—The remaining 34 per cent of Ontario's total revenues are unrelated to economic activity.

	1972-73 ($ million)
• payments from the federal government	1,254
• health insurance premiums	512
• interest on investments	299

The payments from the federal government are partial reimbursements for expenditures in health, welfare, post-secondary education and other shared-cost programs.[6] Provincial spending is stabilizing in these areas and shifting to other non-shareable areas. Hence these federal payments will diminish in importance as a revenue source. Health insurance premiums exhibit almost no revenue growth over time. This revenue source, therefore, significantly depresses the overall growth potential of Ontario's revenue structure. Interest on investments is a function of the financial operations of the Ontario Government. It is unlikely that this revenue source will contribute more than 5 per cent to total revenues in the future. As a result, it is unlikely that interest will have any large impact upon composite revenue growth.

Summary: Composite Revenue Growth

Combining these five-year growth performances of the various revenue sources, Ontario's composite revenue elasticity is about 1.5. Thus, while Gross Provincial Product has grown at an average rate of 9.3 per cent, the natural growth rate in provincial revenues has been almost 15 per cent. The natural growth in revenues raised by Ontario itself (i.e. excluding payments from the federal government) was somewhat lower at around 13 per cent. The elasticity of the personal income

[6] Staff Paper, *Federal-Provincial Shared-Cost Programs in Ontario*, Ontario Tax Studies 8 (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).

tax and, to a lesser degree, the retail sales tax has more than offset the sluggish growth performance of other revenues and health premiums. Only 43 per cent of revenues grow as fast as the economy. Hence any retardation of the high-growth income tax will severely reduce the long-run growth potential of Ontario's total revenue structure.

Discretionary Tax Actions

Since 1968 Ontario has made a number of discretionary tax changes which have had a significant impact on total revenues and economic activity. In certain years, the change in total revenues collected has also been affected by other factors, notably changes in payment flows from corporations and the federal government, and the shift of medical insurance financing to the public sector. Removing these shift and flow effects on the level of provincial revenues leaves the year-to-year revenue changes attributable solely to provincial tax increases and tax cuts. These discretionary tax actions can then be analyzed in terms of their stabilization impact on the economy.

Discretionary Changes in Ontario Revenues — Table 7

($ million)

	1968-69	1969-70	1970-71	1971-72	1972-73
Tax Increases	236	166		12	132
Tax Cuts		−10	−12	−91	−229
Discretionary Tax Actions	236	156	−12	−79	−97
Revenue Shifts[1]		233	146		
Payment Flows[1]	68	55	97		56
Total Changes	304	444	231	−79	−41

Note: 1. These have no effect on economic activity.

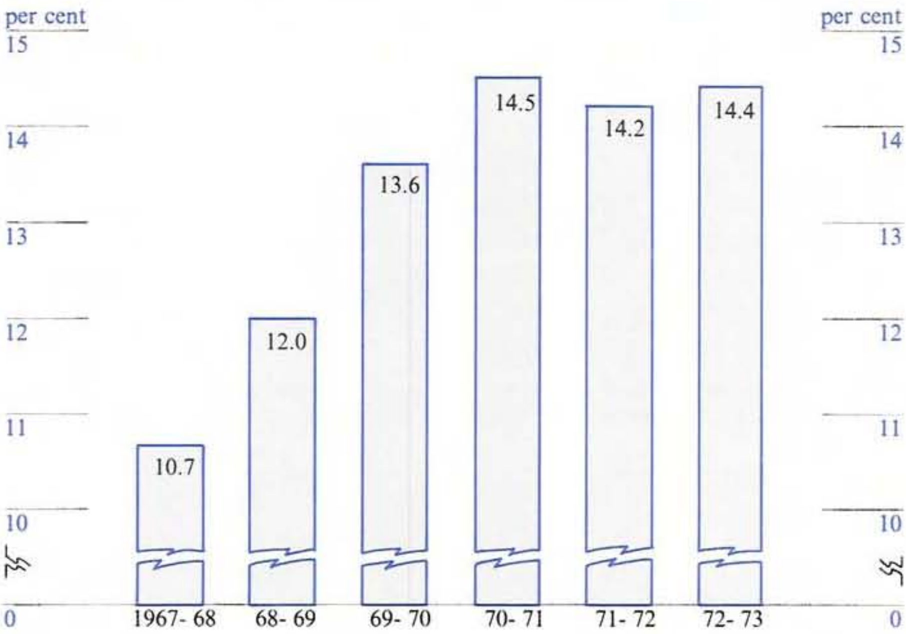
The broad direction of Ontario's discretionary tax actions since 1968-69 can be illustrated in two ways: by relating total revenues to GPP; and by comparing discretionary changes in taxes with changes in unemployment rates.[7] In 1968-69 and 1969-70, the Province increased taxes and as a result revenues rose from around 11 per cent to over 14 per cent of GPP. These were years of relatively strong economic performance and low unemployment, and therefore, an appropriate time to secure increased revenue from the economy. In 1970-71 when economic growth faltered, Ontario's tax posture was neutral. But in 1971-72 and 1972-73 when unemployment was high, the Province undertook sizeable tax cuts including a temporary 5 per cent investment tax credit, a 3 per cent reduction in personal income tax and large-scale

[7] A full analysis of Ontario's fiscal policy performance is provided in the preceding Budget Paper A.

reductions in health insurance premiums. These tax cuts stabilized provincial revenues at around 14 per cent of GPP and were expansionary at a time when fiscal stimulus was required.

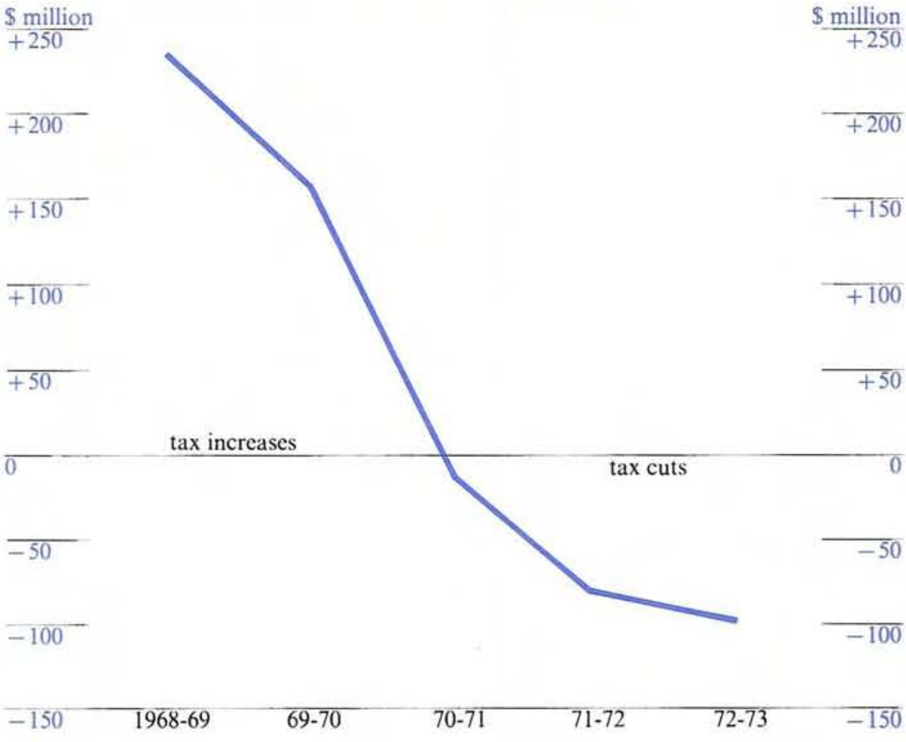
Ontario Revenues as a Percentage of Gross Provincial Product

Chart 1



Ontario Unemployment Performance — Chart 2

Ontario Tax Actions — Chart 2a



Redistribution of Tax Burdens

In its 1969 white paper on tax reform, the Ontario Government established as a long-run objective its aim to reduce the burden of property taxation and to improve the incidence of the provincial tax structure.[8] Since 1969, there have been three major reforms to improve the incidence of Ontario taxation:

- Introduction in 1969 of a 10 per cent retail sales tax on selected items—value in 1973-74 $125 million.
- Reduction in 1972 of health insurance premiums—value in 1973-74 $130 million.[9]
- Introduction in 1972 of the property tax credit—value in 1973-74 $160 million.[10]

These three tax initiatives clearly have produced a fairer distribution of the overall tax burden in Ontario.

The 10 per cent retail sales tax is collected on liquor, beer and wine sold in licensed establishments, on admission fees and on restaurant meals over $4.00. Ontario raised the exemption on prepared meals from $1.50 to $2.50 in the 1969 Budget and further increased it to $4.00 in this Budget in order to focus the impact of this tax on more expensive meals and higher-income groups. Accordingly, the bulk of revenue from this 10 per cent sales tax is derived from individuals and families with high disposable incomes.

The $127 million reduction of health premiums consisted of free coverage for pensioners, reduced rates for all subscribers and more generous premium assistance for low-income families. Moreover, employers were required to maintain at least the same dollar level of premium contributions under the new premium system. Therefore, the entire benefits of the premium cuts were passed on to employees. This combination of policies reduced provincial reliance on a regressive form of taxation and shifted the premium tax burden largely to employers.[11]

The introduction of the Ontario Property Tax Credit Plan directly redistributed tax burdens in favour of low-income families and individuals.[12] The amount of property tax credit available to any tax-

[8]Hon. Charles S. MacNaughton, "Reform of Taxation and Government Structure in Ontario", *Ontario Budget 1969* (Toronto: Department of Treasury and Economics, 1969), p. 54.

[9]Hon. W. Darcy McKeough, *Introduction to Supplementary Estimates and Tax Legislation* (Toronto: Department of Treasury and Economics, December 18, 1971).

[10]The Ontario Property Tax Credit Plan replaced the basic shelter grants introduced in 1968.

[11]In 1972-73, employer contributions accounted for over 65% or $330 million of the $512 million in total premium collections.

[12]In 1968, The Select Committee of the Legislature on Taxation in Ontario recommended a tax credit "recoverable by means of a decrease in personal income tax, whether this be a positive or negative amount", *Taxation in Ontario: A Program for Reform*, Select

payer depends on his ability to pay, as determined by his taxable income.[13] This design ensures a maximum benefit to low-income families and individuals and a smoothly progressive incidence up the income scale. It also means that high-income taxpayers receive no benefit from the property tax credit plan.

These three progressive tax moves have a value of over $400 million in 1973-74. High-income taxpayers have carried the increase in taxes while low-income families and individuals have enjoyed a reduced tax burden. By comparison with these redistributive tax policies, all other provincial tax actions since 1969 amount to only $200 million, many of which have been proportional in impact.

III Implications of the 1973 Federal Budget Measures

The preceding section demonstrated that the personal income tax is the key element in Ontario's total tax structure due to its progressive incidence and high growth capacity. Over the past two years the federal government has made a series of unilateral changes in this joint tax field which have been imposed on the provincial income tax.

The outcome of the tax reform exercise has been to produce a new income tax system which has generated revenue gains to the federal government and revenue losses to the provinces. To quote the federal *Summary of 1971 Tax Reform Legislation*:

> As the new system matures, it will generate more revenue annually than would the existing system had it continued to operate under current rules and rates.[14]

For the provinces, however, this increased revenue productivity of the new income tax structure was more than offset by a reduction in tax-sharing occupancy from a potential 28 per cent to 23 per cent.[15] Federal

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Committee on the Report of the Ontario Committee on Taxation (Toronto: Queen's Printer, 1968), p. 39. For a detailed analysis of the progressive incidence of the Ontario Property Tax Credit Plan, see Hon. W. Darcy McKeough "Ontario's Tax Credit Plan", *Ontario Budget 1972* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972); and Staff Paper, *Analysis of Income and Property Taxes In Guelph*, Ontario Tax Studies 7 (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).

[13] The basic feature of Ontario's tax credit design is the 1% taxable income offset which generates tax relief in inverse ratio to taxable income. Manitoba and Alberta have paralleled this basic formula in the property tax credit programs they have subsequently introduced.

[14] Hon. E. J. Benson, *Summary of 1971 Tax Reform Legislation* (Ottawa: Department of Finance, June, 1971), p. 61.

[15] For a detailed analysis of the provincial loss in tax sharing under the reformed income tax, see, Hon. W. Darcy McKeough, "Supplementary Papers on Federal-Provincial Finance", *Ontario Budget 1972, op. cit.*, and Hon. John White, *Fiscal Policy Management and Tax Sharing Reform*, Meeting of Ministers of Finance, Ottawa, January 18 and 19, 1973 (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1973).

tax cuts since Bill C-259 have tended to cancel out the huge revenue gains to the federal government, but at the same time have doubled up provincial revenue losses. Thus, the provincial revenue position has deteriorated as a result of federal tax reform and subsequent tax changes, forcing provinces to rely on an uncertain federal guarantee merely to secure their former flow of income tax revenues.

Federal Changes in the Personal Income Tax Which Reduce Provincial Revenues — Table 8

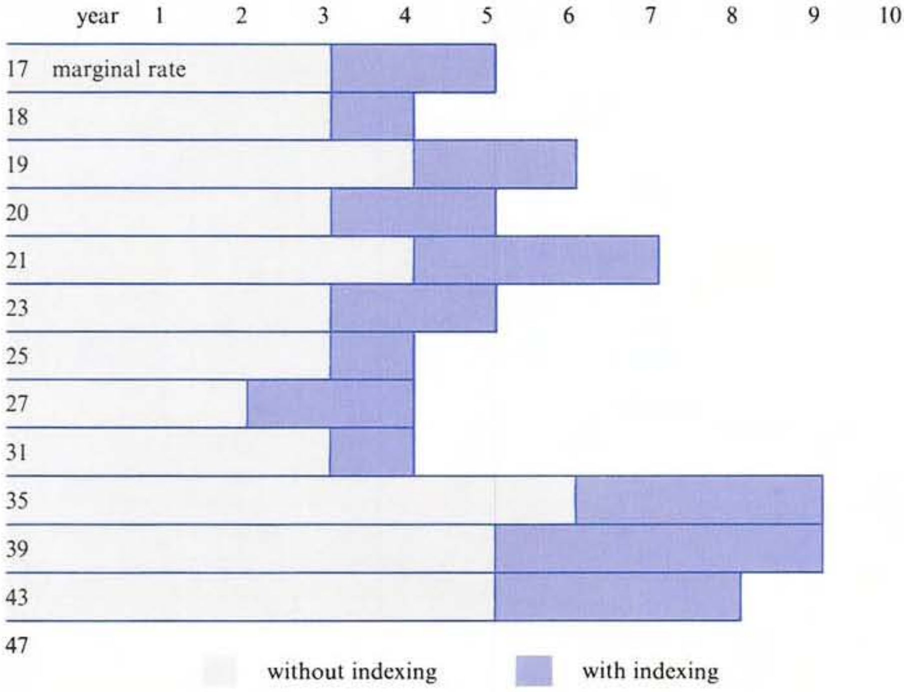
Federal Budgets	
June 1971	—Bill C-259
	—staged reductions in bottom marginal rate, 1973-1976
	—removed tax for persons below $500 taxable income
	—GIS income exempted from tax
May 1972	—aged exemption increased to $1000
	—new $50 per month deduction for students
February 1973	—increased personal exemptions
	—indexing of exemptions and brackets, beginning in 1974 taxation year

Reduced Growth in Income Tax Revenues

The federal budget of February 19, 1973 proposed an indexing scheme to offset the effects of inflation on personal income taxes, beginning with the 1974 taxation year. Essentially, the proposal would escalate exemptions and widen the taxable income brackets each year by the previous year's rate of price inflation. This would keep taxpayers with growing incomes at the same marginal rate for a longer period of time. For example, a taxpayer now at the bottom of the 25 per cent marginal bracket (i.e. taxable income of $7,000) would move into the next highest bracket in three years assuming his income grows at 10 per cent per year. With indexing, this same taxpayer would remain in the 25 per cent bracket for a further year. The following chart shows the indexing effect for all tax brackets. Inflation indexing would also gradually reduce income taxes for persons living on a constant level of income. The end result, therefore, is to depress the automatic revenue growth of the personal income tax.

The indexing method of compensating for inflation proposed in the federal budget also has implications for the overall progressivity of the income tax system. High-income taxpayers would enjoy a greater advantage from indexing as compared with all other taxpayers. But,

Number of Years for an Individual to Move through a Marginal Rate Bracket Without and With the Indexing Scheme — Chart 3



Note: 1. Assumes income grows at 10% per year, inflation indexing at 4% per year, and the individual is at the bottom of his marginal tax bracket.

the income tax structure already contains a number of built-in advantages for the high-income group. Capital gains are taxed at half rates, the dividend tax credit reduces tax on investment income, and income tax can be deferred by means of registered retirement plans. Restricting indexing to wage, salary and pension incomes would appear to be a fairer and less costly way of compensating those taxpayers least able to protect themselves against inflation.

Since Ontario is locked into the basic structure of the federal income tax, indexing would also apply to the provincial income tax. As a result, the natural growth of Ontario's personal income tax would fall dramatically—from an average of 19 per cent to perhaps 14 per cent per year—thereby eroding the growth potential of the total revenue structure. Assuming a 4 per cent inflation rate, the initial effect of the federal indexing scheme would be to reduce Ontario's revenue growth from the personal income tax by $80 million in 1974. The compounding nature of indexing would increase this growth loss with each succeeding year. By 1977, Ontario's income tax revenues would be restricted by some $500 million, $100 million of which is attributable to exemption indexing and $400 million to tax bracket indexing. To recoup a revenue loss of this magnitude would require an increase in Ontario's income tax rate from 30.5 points to 37 points in 1977.

Illustration of Indexing Effect at 4 Per Cent Inflation Each Year — Table 9

Exemptions	1973	1977
Single	$1,600	$1,872
Married	3,000	3,510
Child (under 16)	300	351
(over 16)	550	643

Taxable Income Brackets	1973	1977
	0 – 500	0 – 585
	500 – 1,000	585 – 1,170
	1,000 – 2,000	1,170 – 2,340
	2,000 – 3,000	2,340 – 3,510
	3,000 – 5,000	3,510 – 5,849
	5,000 – 7,000	5,849 – 8,189
	7,000 – 9,000	8,189 – 10,528
	9,000 – 11,000	10,528 – 12,868
	11,000 – 14,000	12,868 – 16,378
	14,000 – 24,000	16,378 – 28,077
	24,000 – 39,000	28,077 – 45,624
	39,000 – 60,000	45,624 – 70,191
	60,000 +	70,191 +

Effects of Indexing on Ontario's Personal Income Tax Revenues in 1977 — Table 10

($ million)

	Without Indexing	With Indexing	Loss to Ontario
Projected PIT Revenues	2,900	2,400	–500
Per Point Yield of Ontario PIT	95	79	–16
Long-Run Growth Capacity	19%	14%	–5%

Source: Ontario Treasury.

Note: 1. Assuming a 10% GPP growth and a 4% increase in prices each year.

Revenue Guarantee

Because of the losses in revenue growth potential confronting the provinces under the new income tax system, the federal revenue guarantee becomes critical to their financial capacity. The *Federal-Provincial Arrangements Act, 1972*, sets out the terms of this federal revenue guarantee.[16] Basically, provinces are guaranteed that any reduction in income tax flows under the new system as compared with

[16]For details see Appendix to this paper.

the system in effect as at December 31, 1972 will be paid to them by the federal government during the five-year period 1972 through 1976. In his 1973 budget, Mr. Turner reaffirms this principle of compensating for provincial revenue losses, but confines the guarantee to Bill C-259, the May 8, 1972 tax changes and the increased exemptions in 1973. No commitment was made to guarantee provinces for the huge losses that would result from inflation indexing. However, Mr. Turner proposes "to consult fully with all provinces about the implications for them of the indexing system for personal income taxes."[17]

The provinces should be fully compensated under the guarantee for the reduced revenue growth implicit in indexing. But even this would provide only temporary relief. After 1977, when the guarantee expires, Ontario and other provinces will face a permanent reduction in their revenue yield and their ability to finance essential public services.

Constraints on Ontario's Use of the Personal Income Tax

In January 1973 the Ontario Government called for a $1 billion income tax cut by the federal government to stimulate the economy and provide tax room for the provinces.[18] Mr. Turner's February budget reduced income taxes by $1.3 billion, thereby returning to taxpayers the excess revenues accruing to the federal government as a result of tax reform. At the same time, however, these tax cuts were designed in a way that limits Ontario's ability to use the personal income tax to secure increased tax resources.

Income Tax Burden on Low Income Taxpayers — Table 11
(dollars)

Single

Year	Gross Income	Ontario Tax	Federal Tax
1972 (old)	2,251	30.50	100
1973 (new)	2,411	30.50	0

Family, two children

Year	Gross Income	Ontario Tax	Federal Tax
1972 (old)	4,261	30.50	100
1973 (new)	4,473	30.50	0

The effect of Mr. Turner's income tax cuts is to eliminate federal income tax on low-income individuals and families but to deny this equity improvement to the provinces. The Income Tax Collection

[17]Hon. John N. Turner, *Budget Speech, op. cit.*
[18]Hon. John White, *Fiscal Policy Management and Tax Sharing Reform, op. cit.*

Agreement requires Ontario to levy its personal income tax against basic federal tax, exclusive of the $100 minimum tax cut introduced in February 1973. Consequently, Ontario is left in the position of taxing low-income families even though these same taxpayers no longer pay any federal income tax. Since the Province can only make an across-the-board change in its tax rate, any increase in Ontario's personal income tax rate would widen this disparity even further. Relegation to the provinces of an inferior income tax structure is a major reason why Ontario has elected not to use the personal income tax in its 1973 tax moves.

Another reason for not using the personal income tax to secure increased tax resources is that Mr. Turner explicitly asked the provinces not to counteract the federal tax cuts in 1973.

> I expect—and in fact I have had some assurance—that the provinces recognize that immediate tax increases on their part could stifle the expansionary thrust of the federal budget at this critical time.
> I hope, therefore, for full cooperation from the provinces in not taking any action to counter the forward thrust of this budget.[19]

In effect the federal budget has preempted Ontario from using its most progressive tax source—the personal income tax—to secure the additional revenues necessary to finance provincial programs and municipal reforms.

IV Ontario's 1973 Tax Changes

Ontario is facing much slower growing revenues than in the past. This reflects the lower rate of growth anticipated in the two most important revenue sources. First, inflation indexing will severely dampen personal income tax growth and this revenue source historically has been the key contributor to Ontario's composite revenue growth. Second, payments from the federal government will decline in importance as a source of financing to Ontario. This results from Ontario's changing expenditure priorities and efforts to control spending on health and education programs.[20]

Impact of the 1973 Tax Changes

Ontario's 1973 tax changes are concentrated in the retail sales tax field. As a result, retail sales tax becomes the equivalent of the personal income tax as the major contributor to overall revenues in fiscal 1973-74. Assuming a full year impact of the tax changes, the retail sales tax would

[19]Hon. John N. Turner, *Budget Speech, op. cit.*

[20]Such tax credits were proposed for Ontario by The Select Committee of the Legislature, *op. cit.*, p. 230.

account for over 20 per cent of total revenues. On the other hand, the enrichment of tax credits under the personal income tax reduces these revenues to 17 per cent of total revenues. Thus, in future years, the retail sales tax will likely become the largest single contributor to Ontario's revenues. This shift in revenue shares means that Ontario's composite revenue growth will be reduced in future years, even though 47 per cent of total revenues will now be responsive to economic growth.

Composition of Ontario Revenues 1973-74 — Table 12

(per cent)

	Before Tax Changes	After Tax Changes
Personal Income Tax	20.1	17.3
Corporate Income Tax	8.9	9.0
Retail Sales Tax	15.1	20.8
Health Premiums	8.0	7.6
Other Taxes	22.4	21.0
Interest on Investments	5.7	5.5
Payments from the Federal Government	19.8	18.8
Gross Revenues	100.0	100.0

Note: 1. Assumes full year impact of tax moves in 1973-74. Personal income tax is reduced by credit schemes.

Ontario's 1973 tax moves are also significant in terms of improving the incidence of the provincial tax structure. Two new tax credits have been added to Ontario's tax credit system and the maximum credit entitlement has been increased, effective for the 1973 taxation year. The new credits consist of a sales tax credit equal to 1 per cent of personal exemptions plus a pensioner tax credit of $100 for all taxfilers 65 years of age and over.[21] Like the property tax credit, these new credits are designed to provide maximum relief to low-income families and individuals. The combined benefits of these three credits are directly related to the ability-to-pay principle as determined by taxable income. The design of the sales tax credit is simple yet provides differential benefits according to marital status, size of family and age. As shown in the following example tables, pensioners with no taxable income will receive almost $250 in total tax relief, while low-income families will receive over $150 in total tax relief.

These enrichments of the Ontario tax credit system will deliver an additional $130 million in tax relief, effective for the 1973 taxation year. The sales tax credit delivers $90 million in tax relief and the pensioner tax credit $40 million in tax relief. The $90 million in sales tax credits compensates for the additional tax burden caused by broadening the sales tax base to include home heating, and offsets the impact of the

[21]The Pensioner Credit will replace the present Ontario Government supplement of between $50 and $100 to low-income old people in Ontario who presently receive the federal Guaranteed Income Supplement.

Illustration of Ontario Tax Relief

Table 13

Married taxfiler with 2 children under 16.
Property tax of $500 or $2500 rent
(dollars)

Taxable Income	Property Tax Credit +	Sales Tax Credit	Less 1% of Taxable Income =	Total Tax Relief
0	140	36	0	176
1,000	140	36	−10	166
2,000	140	36	−20	156
3,000	140	36	−30	146
5,000	140	36	−50	126
10,000	140	36	−100	76
12,000	140	36	−120	36
15,000	140	36	−150	26
17,000	140	36	−170	6
20,000	140	36	−200	0

Illustration of Ontario Tax Relief

Table 14

Single taxfiler 65 years of age.
Property taxes of $300 or $1500 rent.
(dollars)

Taxable Income	Property Tax Credit +	Pensioner Credit +	Sales Tax Credit	Less 1% of Taxable Income =	Total Tax Relief
0	120	100	26	0	246
1,000	120	100	26	−10	236
2,000	120	100	26	−20	226
3,000	120	100	26	−30	216
4,000	120	100	26	−40	206
5,000	120	100	26	−50	196
10,000	120	100	26	−100	146
12,000	120	100	26	−120	126
15,000	120	100	26	−150	96
20,000	120	100	26	−200	46
25,000	120	100	26	−250	0

higher retail sales tax rate on low-income families.[22] With the tax credit mechanism, Ontario has moved in a significant way to redistribute sales tax burdens according to ability to pay. The tax credit method is an effective means of delivering tax relief, and achieves the important objective of a more consistent and progressive incidence of tax burdens.

Conclusion

The 1973 increase in retail sales tax augments the revenue capacity required by Ontario to finance essential public services and municipal tax reforms. At the same time, the expansion of Ontario's tax credits

[22]Fifty million dollars or half of the revenue yield from the taxation of energy in a full year is estimated to derive from residential heating and lighting expenses. This leaves $40 million of the sales tax credit relief to offset the impact on low-income families of the increase to 7% in the RST rate.

Value of Ontario's Tax Credits in 1973 Taxation Year

Table 15

	Value	Per Cent of PIT Revenues
	($ million)	
Property Tax Credit Plan	160	11.0
Retail Sales Tax Credit	90	6.2
Pensioner Credit	40	2.8
	290	20.0

ensures that the burden of this increased taxation does not fall upon those least able to pay. This combination of tax policies realizes Ontario's twin objectives of improving provincial-municipal financing capacity and achieving a fairer distribution of the total tax burden.

Appendix

Excerpts From the Federal-Provincial Fiscal Arrangements Act and Regulations

Federal Provincial Fiscal Arrangements Act, 1972

Part IV

Provincial Tax Revenue Guarantee Payments

Provincial tax revenue guarantee payments

11. Subject to this Act, the Minister may pay to a province, for each fiscal year in the period commencing with the 1st day of April, 1972 and ending with the 31st day of March, 1977, a provincial tax revenue guarantee payment not exceeding the amount computed in accordance with section 12.

Calculation of provincial tax revenue guarantee payment

12. (1) The provincial tax revenue guarantee payment that may be paid to a province for a fiscal year is the amount by which the aggregate of

(a) the total revenue, as determined by the Minister in accordance with the formula prescribed by the regulations, that would be derived by the province from a personal income tax on every individual

. . .

computed in accordance with,

(iii) in the case of the Province of Ontario, the provincial Act, as it applied to the 1971 taxation year of individuals, at the rate of 28%

. . .

(b) the total revenue as determined by the Minister, that would be derived by the province from a corporation income tax on every corporation that maintained a permanent establishment in the province at any time in its taxation year ending in the calendar year that ends in the fiscal year, on its taxable income earned in that taxation year in the province computed in accordance with the federal Act, as it applied to the 1971 taxation year of such corporations, at the rate applicable under the provincial Act to the 1971 taxation year of corporations that maintained a permanent establishment in the province at any time in that taxation year

. . .

exceeds the aggregate of

(d) the total revenue, as determined by the Minister, derived by the province from a personal income tax on every individual

. . .

(e) the total revenue, as determined by the Minister, derived by the province from a corporation income tax on every corporation

. . .

Regulations Made Pursuant to the Federal-Provincial Fiscal Arrangements Act, 1972

Part IV

Provincial Tax Revenue Guarantee Payments

20. (1) In calculating the provincial tax revenue guarantee payment that may be paid to a province for a fiscal year, the formula that is to be used by the Minister in determining, pursuant to paragraph 12 (1) (*a*) of the Act, the total revenue that would be derived by the province from a personal income tax on every individual described in that paragraph computed in accordance with the rate described in that paragraph is,

(*a*) In the case of the Provinces of Newfoundland, New Brunswick, Quebec, Ontario and British Columbia, $R = e^k (y + v)^b$;

. . .

(2) For the purposes of subsection (1),

(*a*) "R" is the total revenue mentioned in that subsection, determined in accordance with the formula, being the personal income tax standardized at the relevant December 31, 1971 rate;

(*b*) "e" is 2.7183;

(*c*) "y" is the adjusted personal income in the province for the calendar year ending in the fiscal year;

(*d*) "v" is the adjusted farm income in the province for the calendar year ending in the fiscal year;

(*e*) "t" is the element of time based on an index of which the base is 100 for the calendar year 1967 and having an annual increment of 1; and

(*f*) "k", "b", "c", "d", and "f" are the exponent values established by a statistical procedure from information prepared by Statistics Canada for the purposes of its annual publication entitled "National Income and Expenditure Accounts" for the calendar years 1962 to 1971 inclusive and which exponent values are set out in the following table:

Table of Exponent Values

	k	b	c	d	f
Newfoundland	−9.8255	1.9652	n.a.	n.a.	n.a.
Prince Edward Island	−14.8756	.7265	n.a.	n.a.	.1236
Nova Scotia	−13.0599	1.1805	n.a.	n.a.	.0809
New Brunswick	−10.2408	1.9989	n.a.	n.a.	n.a.
Quebec	−12.5824	1.9787	n.a.	n.a.	n.a.
Ontario	−11.1614	1.7805	n.a.	n.a.	n.a.
Manitoba	−10.3124	n.a.	1.8877	.0758	n.a.
Saskatchewan	−9.6868	n.a.	1.7702	.1320	n.a.
Alberta	−9.5418	n.a.	1.7108	.0893	n.a.
British Columbia	−9.6492	1.7283	n.a.	n.a.	n.a.

NOTE: n.a. means non-applicable.

Budget Paper C

Government Financial Statements

Table of Contents

Government Financial Statements

Improvements in Presentation

Since 1968 a number of important improvements have been made in the presentation of the Government's financial statements. These changes have been made to:

- simplify the format of the financial tables;
- present an accurate view of the overall magnitude and growth of the provincial budget; and
- provide interpretation and analysis of the Government's financing activities.

The changes introduced this year represent a further major improvement. First, budgetary revenue and expenditure are grossed up to include reimbursement payments from the federal government and interest on investments. Second, a revised treatment of debt transactions on behalf of Ontario Hydro is introduced. Third, the presentation of expenditure is revised to reflect the grouping of Ministries into broad policy fields. Finally, the figures, table formats and language have been made comparable to the maximum possible extent, with those which will appear in the Government's *Expenditure Estimates* and annual *Financial Report*.

These improvements do not alter Ontario's budgetary deficit position or our estimates of the budget's relative economic significance. Gross budgetary revenue and expenditure have been used in Budget Paper A since 1971 to derive national accounts estimates of the fiscal impact of the Budget.

Grossing of Revenue and Expenditure

In past years, budgetary revenue and expenditure have been reported on a net basis. That is, net general revenue and net general expenditure excluded reimbursement payments from the federal government, interest earned on investments and other minor amounts.

On the expenditure side, however, a special table was included to show the details of net and gross expenditure. This year, the gross basis of reporting is used throughout the financial tables. The main advantages are that gross figures more accurately reflect the totality of spending within the Province's jurisdiction and the total revenue resources available to the Province. In the grossing procedure, reimbursements of expenditure and interest earned on investments are added both to budgetary revenue and to budgetary expenditure. Consequently, the net budgetary position is unaffected. This is illustrated in the following table:

Budgetary Account
Illustration of Grossing of Revenue and Expenditure
($ million)

	Interim 1972-73		
	Revenue	Expenditure	Deficit
Net Basis	4,791.4	5,227.6	(436.2)
Add:			
Payments from the federal government previously treated as reimbursements of expenditure	974.0	974.0	—
Interest on Investments	298.7	298.7	—
Other minor recoveries	9.0	9.0	—
Gross Basis	6,073.1	6,509.3	(436.2)

This 1973 Budget Paper also includes a new table (C8) providing a ten-year review of budget performance, plus the balance sheet of provincial assets, liabilities and debt. Because of the change to gross reporting, a reconciliation table (C8a) is included comparing this ten-year review with that which has traditionally been shown in the *Financial Report*.

A further advantage of gross reporting is that the budgetary expenditure figures in the annual budget will correspond with those set out in the *Estimates*. The *Estimates* totals, however, also include non-budgetary disbursements and charges. These transactions continue to be shown separately in the Budget. The following table combines the budgetary and non-budgetary spending components set out in the Budget to arrive at the aggregate expenditure contained in the 1973-74 *Estimates*.

Reconciliation of Expenditure Totals
—Budget and Estimates—
($ million)

Expenditure per	
1973 Budget. . . . . .budgetary expenditure (Table C3)	7,269.3
. . . .plus non-budgetary disbursements (Table C6)	717.8
Total Expenditure per 1973 *Estimates*	7,987.1

Borrowing on Behalf of Ontario Hydro

Debt transactions relating to Ontario Hydro affect the Government's financial position in two ways. First, Hydro debt issues which are guaranteed by the Province are a contingent liability and a note to this effect appears on the Government's balance sheet. Second, borrowing by the Province on behalf of Hydro is recorded as an increase in the provincial debt, offset by a loan to the Power Commission. In past budgets these transactions were shown as public borrowing in Table C1, offset by a non-budgetary advance to the Power Commission in Table C5. This intermediary transaction distorts the presentation of the Province's operational cash needs and related financing for budgetary purposes. Consequently, borrowing by the Government on behalf of Hydro is no longer included in Table C1 and related tables. The effect on net cash requirements of deleting this intermediary borrowing is illustrated in the following table. Full details of these borrowing activities will, of course, continue to be reported in the *Public Accounts* and the *Financial Report*.

Effect of Deleting Debt Transactions on behalf of Ontario Hydro
($ million)

	1970-71	1971-72	Interim 1972-73	Estimated 1973-74
Net Cash Requirements (per previous budget format)	640.3	1,067.7	976.9	836.2
Minus				
Public Debenture Issues on behalf of Hydro	(84.1)	(100.0)	(200.0)	—
Plus				
Public Debenture Retirements on behalf of Hydro	10.0	50.5	46.3	—
Net Cash Requirements (per 1973 Budget format)	566.2	1,018.2	823.2	836.2

Reporting In-Year Budget Performance

During the 1972-73 budget year, the Ontario Government introduced quarterly reporting on its financial position. A new document, entitled *Ontario Finances*, was first published in January 1973, and will be issued in July, October and January of each fiscal year. This report reviews the current state of finances and provides a revised budget forecast along with an analysis of significant in-year changes in fiscal performance. *Ontario Finances* represents a major step forward in public reporting which should be useful and informative to the Legislature, the business and financial community and citizens at large.

The 1972-73 Fiscal Year in Retrospect

As indicated in the January 31, 1973 *Ontario Finances*, a significant improvement has occurred in Ontario's 1972 budget performance. The 1972-73 budgetary deficit is now estimated at $436 million which is an improvement of $161 million from the original budget forecast.

Budgetary Operations During 1972-73
($ million)

	Original 1972 Budget Plan	Revised Estimate January 31 1973	1972 Interim Results
Net General Revenue	4,454.1	4,743.8	4,800.4
Add Reimbursements of Expenditure	1,312.2	1,307.5	1,272.7[1]
Gross Revenue	5,766.3	6,051.3	6,073.1
Net General Expenditure	5,051.5	5,220.3	5,236.6
Add Reimbursements of Expenditure	1,312.2	1,307.5	1,272.7[1]
Gross Expenditure	6,363.7	6,527.8	6,509.3
Budgetary Deficit	(597.4)	(476.5)	(436.2)

[1]Excludes $9 million for sundry reimbursements now reclassified as miscellaneous revenue.

Gross revenue shows an increase of $307 million or 5.3 per cent over the original budget estimate, and a gain of $22 million compared with the January 31 forecast. Revenue from corporation taxes, the personal income tax and the retail sales tax yielded $252 million more than originally anticipated, reflecting the growing buoyancy of the Ontario economy. As well, there was an unexpected payment of $25 million from the federal government in March, 1973, in respect of income tax from public utilities for the 1971 and 1972 fiscal years. Recoveries from Ottawa for shared-cost programs re prior years' spending have also been higher than expected.

Gross expenditure has increased by $146 million or 2.3 per cent above the original budget plan. But this higher figure is $18 million below the January 31 forecast. Supplementary estimates presented to the Legislature last December—amounting to a total of $141 million—account for most of this in-year increase in spending. Additional funds were provided for winter employment programs, capital grants for farmers, health insurance costs and civil service salary revisions. In addition, the prepayment of legislative grants to school boards was enriched.

The deficit on non-budgetary transactions has declined by an estimated $71 million. This was largely the result of a lower level of disbursements. Deliberate moves by the Government to cut back capital spending for educational facilities achieved savings of $52 million from the budget plan. Start-up delays in the federal-provincial winter employment program resulted in postponement of $16 million of advances to local governments until 1973-74. Other major changes include additional outlays on land acquisition for the North Pickering Community Development project and lower outlays for the Housing Corporation Limited.

Summary of 1972-73 Developments on Non-Budgetary Account[1]

($ million)

	Original 1972 Budget Plan	Revised Estimate January 31 1973	1972 Interim Results
Receipts and Credits	249.8	255.3	255.2
Disbursements and Charges	707.7	635.8	642.2
Non-Budgetary Deficit	(457.9)	(380.5)	(387.0)

[1]Excluding financing transactions on behalf of Ontario Hydro.

Statement of Operational Cash Requirements and Related Financing[1]

Table C1

($ million)

	1970-71	1971-72	Interim 1972-73	Estimated 1973-74
Budgetary Transactions				
Revenue	5,080.6	5,402.9	6,073.1	6,867.2
Expenditure	5,216.7	6,027.5	6,509.3	7,269.3
Budgetary Deficit	(136.1)	(624.6)	(436.2)	(402.1)
Non-Budgetary Transactions				
Receipts and Credits	215.4	290.9	255.2	283.7
Disbursements and Charges	645.5	684.5	642.2	717.8[2]
Non-Budgetary Deficit	(430.1)	(393.6)	(387.0)	(434.1)
NET CASH REQUIREMENTS	**566.2**	**1,018.2**	**823.2**	**836.2**
Non-Public Borrowing				
Canada Pension Plan	476.0	498.3	536.4	595.0
Teachers' Superannuation Fund	80.0	172.0	119.5	167.0
Municipal Employees' Retirement Fund	57.6	75.0	91.3	106.4
Federal-Provincial Employment Loans	—	5.7	26.5	—
Federal-Provincial Winter Capital Projects Fund	—	—	—	35.0
CMHC Waste Control Loans	—	—	12.8	16.1
Retirements	(3.9)	(4.0)	(13.5)	(4.2)
	609.7	747.0	773.0	915.3
Public Borrowing				
Treasury Bills (Net)	—	190.0	70.0	—
Debentures	—	100.0	230.0	—
Retirements	(50.9)	(4.2)	(48.0)	(52.0)
	(50.9)	285.8	252.0	(52.0)
Reduction or (Increase) in Liquid Reserves	7.4	(14.6)	(201.8)	(27.1)
TOTAL FINANCING	**566.2**	**1,018.2**	**823.2**	**836.2**

[1]Net cash requirements and total financing exclude the issue and retirement of public debentures by the Province on behalf of Ontario Hydro.

[2]Includes $144 million non-recurring outlay re land purchases for North Pickering Community Development.

Budgetary Revenue

Table C2

($ million)

	1970-71	1971-72	Interim 1972-73	Estimated 1973-74
Taxation				
Personal Income Tax[1]	991.8	1,022.1	1,204.0	1,314.0
Retail Sales Tax	674.2	758.7	893.0	1,315.0
Corporation Income Tax	357.1	369.5	450.0	515.0
Capital and Premium Taxes	57.0	63.4	70.0	82.0
Gasoline Tax	375.8	395.9	423.0	462.0
Motor Vehicle Fuel Tax	33.3	40.0	60.0	78.0
Tobacco Tax	75.3	79.5	97.0	100.0
Succession Duty	81.3	73.2	77.0	59.0
Land Transfer Tax	11.3	16.1	28.0	33.0
Race Tracks Tax	20.3	19.9	24.0	27.0
Mines Profits, Acreage, Gas	25.4	14.0	16.7	20.0
Income Tax—Public Utilities	10.6	10.5	36.0	12.0
Security Transfer Tax	5.3	6.7	8.0	—
Share of Federal Estate Tax	28.4	25.7	7.9	2.0
Other Taxation	6.7	5.9	5.9	2.0
	2,753.8	2,901.1	3,400.5	4,021.0
Other Revenue				
Premiums—OHIP	619.2	579.9	512.0	520.0
Vehicle Registration Fees	134.0	143.8	163.4	180.3
Other Fees and Licences	65.0	67.2	79.5	84.5
LCBO Profits	193.2	219.7	251.5	280.0
Fines and Penalties	29.7	30.5	33.1	36.7
Sales and Rentals	24.5	25.8	26.8	25.7
Royalties	30.0	24.7	24.4	26.1
Miscellaneous[2]	13.8	17.7	28.9	27.8
	1,109.4	1,109.3	1,119.6	1,181.1
Payments from the Federal Government (See Table C4)	968.0	1,101.0	1,254.3	1,290.9
Interest on Investments	249.4	291.5	298.7	374.2
GROSS BUDGETARY REVENUE	**5,080.6**	**5,402.9**	**6,073.1**	**6,867.2**

[1]Net of $160 million for property tax credits in 1973-74.

[2]Includes items which were formerly classified as miscellaneous reimbursements of expenditure.

Budgetary Expenditure by Policy Field and Ministerial Responsibility

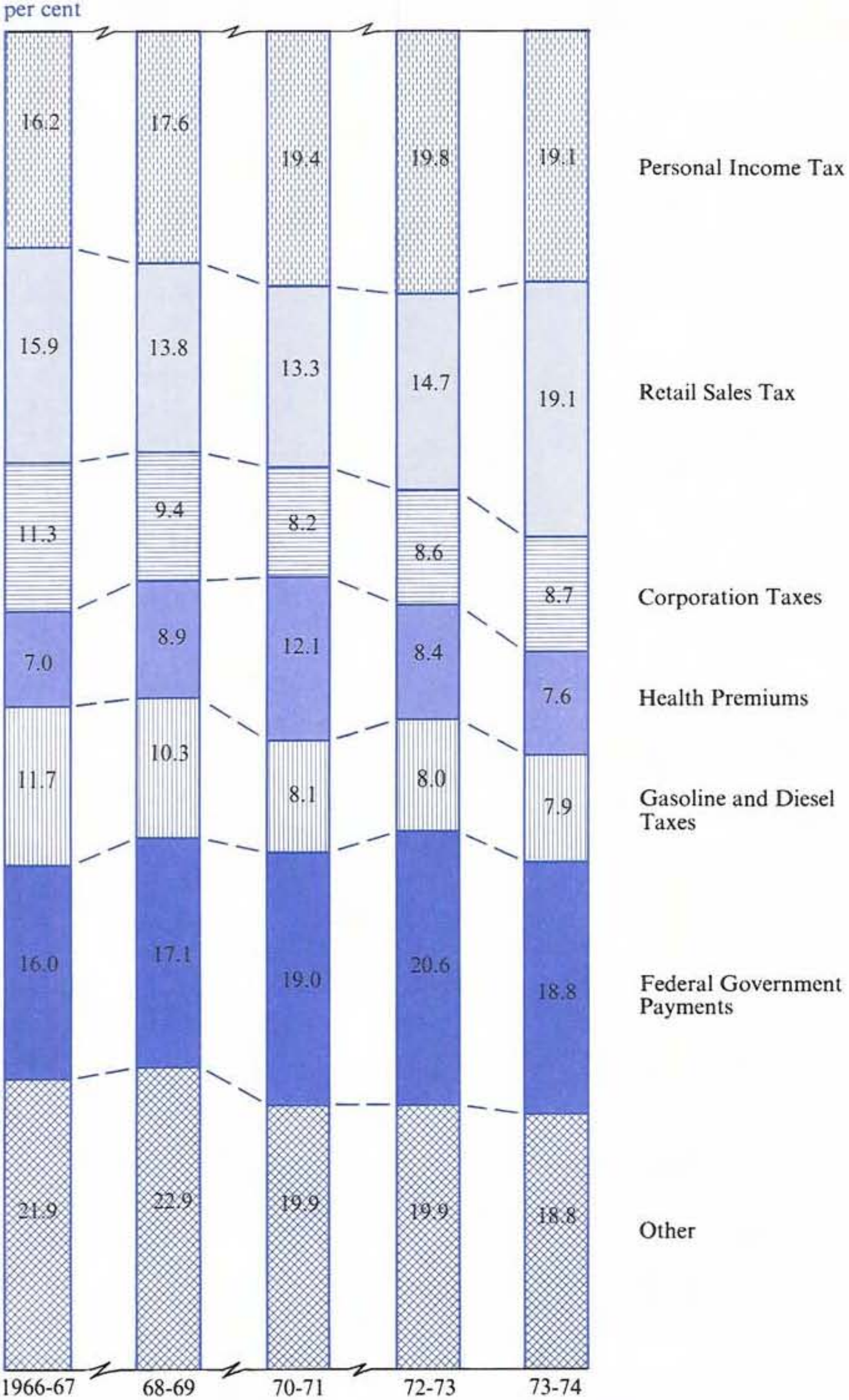
Table C3

($ million)

	1970-71	1971-72	Interim 1972-73	Estimated 1973-74
Social Development Policy:				
Health	1,597.3	1,792.3	2,009.6	2,192.4
Education	1,003.5	1,201.5	1,317.5	1,374.5
Colleges and Universities	597.5	620.1	710.4	807.4
Community and Social Services	316.7	394.3	422.6	483.8
	3,515.0	4,008.2	4,460.1	4,858.1
Resources Development Policy:				
Transportation and Communications	530.9	597.1	604.4	675.9
Natural Resources	101.2	125.8	142.7	151.9
Agriculture and Food	71.8	97.5	97.2	108.4
Environment	21.4	24.9	28.8	49.1
Industry and Tourism	33.1	33.3	22.9	27.6
Labour	8.7	9.2	10.2	12.8
	767.1	887.8	906.2	1,025.7
Justice Policy:				
Solicitor General	66.1	70.5	85.1	87.7
Correctional Services	57.0	67.2	74.9	82.7
Attorney General	50.1	55.7	60.7	65.6
Consumer and Commercial Relations	20.0	22.3	25.1	29.1
	193.2	215.7	245.8	265.1
Other Ministries:				
Government Services	131.7	158.4	167.4	177.7
Treasury, Economics and Intergovernmental Affairs	237.8	294.9	164.7	251.3
Revenue	55.4	63.8	74.4	98.1
Other	5.9	18.1	10.4	16.3
	430.8	535.2	416.9	543.4
Public Debt—Interest	310.6	380.6	480.3	577.0
GROSS BUDGETARY EXPENDITURE	**5,216.7**	**6,027.5**	**6,509.3**	**7,269.3**

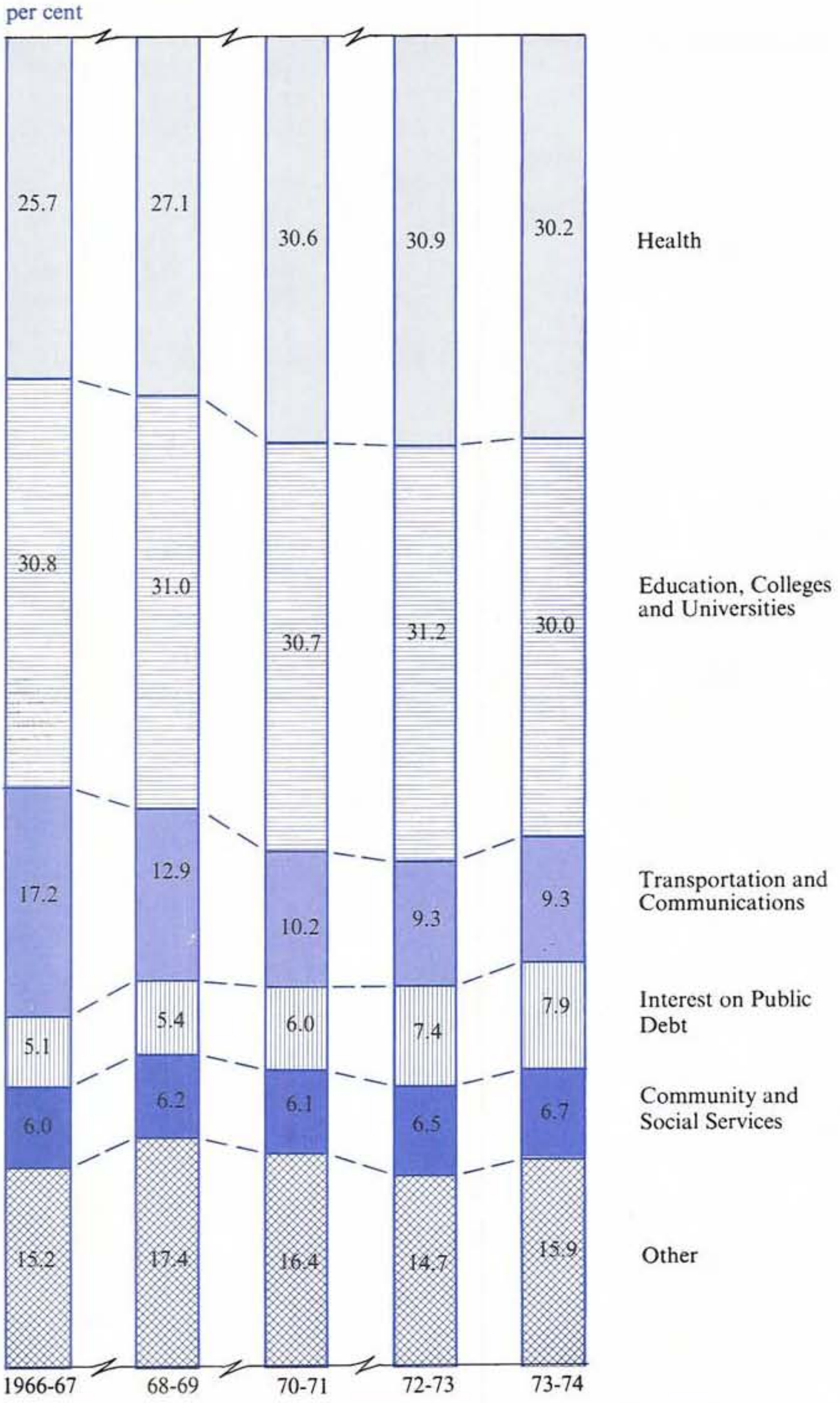
Relative Importance of Major Revenue Sources

Chart 1



Relative Importance of Major Expenditure Functions

Chart 2



Federal Government Payments to Ontario

Table C4

($ million)

	1970-71	1971-72	Interim 1972-73	Estimated 1973-74
Conditional Grants and Payments				
Hospital Insurance Agreement	364.1	422.8	519.9[1]	524.2
Medical Care Agreement	174.5	203.7	225.0	249.7
Canada Assistance Plan	175.5	211.2	214.8	241.4
Post-Secondary Education Adjustment Payments	143.4	157.2	161.7	155.0
Adult Occupational Training Agreement	35.9	42.9	67.0	53.6
Second Language Program	11.2	16.7	17.9	16.0
Health Resources Fund	19.7	16.1	13.2	15.0
Other Shared-Cost Programs	38.8	25.5	28.1	30.2
Miscellaneous	.2	.2	.2	.2
	963.3	1,096.3	1,247.8	1,285.3
Unconditional Payments				
Annual Subsidies	4.6	4.6	6.4	5.5
Common School Fund—Interest	.1	.1	.1	.1
	4.7	4.7	6.5	5.6
TOTAL PAYMENTS	**968.0**	**1,101.0**	**1,254.3**	**1,290.9**
Federal Payments as Percentage of Ontario Gross Revenue	19.1%	20.4%	20.7%	18.8%

[1]Includes $45.4 million of recoveries for prior years' spending.

Ontario Payments to Local Governments and Agencies

Table C5

($ million)

	1970	1971	1972	Estimated 1973[1]
Conditional Payments				
Education	898.5	1,064.5	1,165.7	1,244.5
Health	10.4	10.8	11.6	12.4
Welfare	96.1	131.3	131.8	129.0
Transportation	187.0	227.0	220.0	237.5
Employment incentives	—	7.6	33.4	45.3
Other	29.9	28.2	37.6	45.8
	1,221.9	1,469.4	1,600.1	1,714.5
Unconditional Payments				
Payments in lieu of taxes	19.1	20.7	22.1	31.3[2]
Mining revenue payments	8.8	7.7	9.6	—
Per capita grants	45.4	52.0	69.3	83.0
Basic support grants	—	—	—	49.7
Resource equalization grants	—	—	—	56.7
	73.3	80.4	101.0	220.7
Total Payments to Local Governments	1,295.2	1,549.8	1,701.1	1,935.2
Payments to Special Purpose Agencies[3]	168.1	202.1	214.3	260.1
Total Payments to Local Governments and Agencies	1,463.3	1,751.9	1,915.4	2,195.3
Provincial Payments as a Percentage of Ontario Gross Revenue	28.8%	32.4%	31.5%	32.0%
Provincial Payments to Local Governments as a Percentage of Local Government Revenue	41.5%	44.9%	46.1%	48.5%

[1]Data for payments to local governments excluding education grants are for the fiscal year ending March 31, 1974.

[2]Includes additional property taxes paid in 1973 in respect of hospital, university, college of applied arts and technology properties, and correctional institutions.

[3]Includes agencies such as Children's Aid Societies, conservation authorities, northern district health and welfare units, library boards, and transit authorities. Also includes the cost of the Province's assumption of the school boards' share of teachers' superannuation. Data are for fiscal years ending March 31.

Details of Non-Budgetary Transactions — Table C6

($ million)

Receipts and Credits	1970-71	1971-72	Interim 1972-73	Estimated 1973-74
Repayments of Loans and Advances:				
Education Capital Aid Corporation	28.7	31.3	36.6	42.5
Universities Capital Aid Corporation	10.1	13.0	16.1	18.6
Hospital Construction Loans	4.4	6.1	8.6	11.0
Water Treatment and Waste Control Projects[1]	.6	.5	8.2	9.9
Ontario and Northern Ontario Development Corporations	1.3	5.9	6.0	5.8
Junior Farmer Establishment Loan Corporation	13.2	5.3	5.4	5.1
Hydro-Nuclear Power Generating Station	—	2.4	3.0	5.0
Municipal Works Assistance	4.0	4.0	4.0	4.2
Tile Drainage Debentures	2.3	2.6	3.1	3.6
Municipal Improvement Corporation	4.6	3.9	—	3.3
Housing Corporations	4.0	53.8	2.2	3.0
Other	20.1	3.9	2.4	3.3
	93.3	132.7	95.6	115.3
Pension Funds, Deposit, Trust and Reserve Accounts:				
Public Service Superannuation Fund	86.4	101.7	118.3	127.6
Municipal Employees' Retirement Fund	13.6	15.9	20.2	19.8
Motor Vehicle Accident Claims Fund	8.0	9.2	10.2	10.0
Other	1.6	2.0	.9	1.0
	109.6	128.8	149.6	158.4
Province of Ontario Savings Deposits (Net)	12.5	29.4	10.0	10.0
TOTAL RECEIPTS AND CREDITS	**215.4**	**290.9**	**255.2**	**283.7**

(Continued)

[1]See footnote on opposite page.

Details of Non-Budgetary Transactions

($ million)

Table C6

(continued)

Disbursements and Charges	1970-71	1971-72	Interim 1972-73	Estimated 1973-74
Loans and Advances:				
Education Capital Aid Corporation	201.5	198.3	126.7	99.4
Universities Capital Aid Corporation	174.8	178.8	147.2	65.0
Water Treatment and Waste Control Projects[1]	38.0	45.2	80.5	81.6
Housing Corporation Limited	49.5	93.1	62.0	69.0
Ontario (and Student) Housing Corporations:				
Regular Programs	44.8	41.8	75.2	56.9
Suspense Account—North Pickering Community Development	—	—	—	144.0
Ontario and Northern Ontario Development Corporations	14.4	15.5	20.3	36.2
Federal-Provincial Winter Capital Projects Fund	—	—	—	35.0
Hospital Construction Loans and Assistance	29.6	38.0	31.5	26.9
Federal-Provincial Employment Loans, 1971	—	—	2.0	24.0
Tile Drainage Debentures	5.8	5.9	4.7	7.0
Municipal Improvement Corporation	6.3	7.5	5.3	6.0
Federal-Provincial Development Loans, 1970	—	—	3.5	1.8
Hydro-Nuclear Power Generating Station	23.9	9.5	23.7	—
Other	13.0	1.1	3.5	1.9
	601.6	634.7	586.1	654.7
Pension Funds, Deposit, Trust and Reserve Accounts:				
Public Service Superannuation Fund	23.5	27.2	31.3	34.5
Municipal Employees' Retirement Fund	10.1	13.6	15.9	20.2
Motor Vehicle Accident Claims Fund	7.5	8.0	8.6	8.0
Other	2.8	1.0	.3	.4
	43.9	49.8	56.1	63.1
TOTAL DISBURSEMENTS AND CHARGES	**645.5**	**684.5**	**642.2**	**717.8**

[1]Formerly shown as Ontario Water Resources Commission. Effective April 1, 1972, the Commission's functions were assumed by the Ministry of the Environment. Commencing with the 1972-73 fiscal year, the gross costs of plant construction are shown instead of only the provincial share of these costs. In addition, the contributions by CMHC and municipalities, which were previously netted out, now show either as non-budgetary receipts (Table C6) or as a source of financing (Table C1).

Analysis of Expenditure on Physical Assets — Table C7

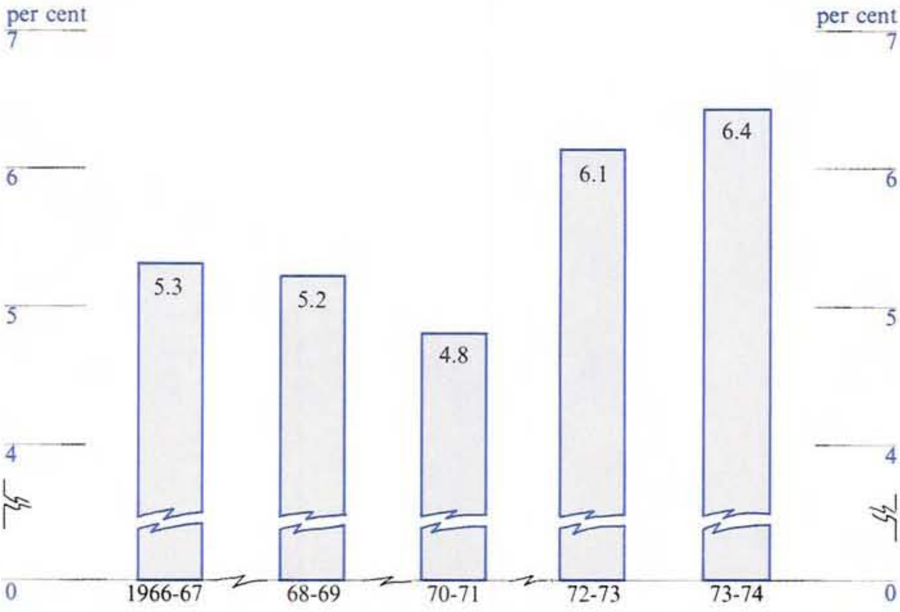
($ million)

	1971-72	Interim 1972-73	Estimated 1973-74
Budgetary Expenditure			
Direct Expenditure on Physical Assets			
Transportation	226.7	235.2	266.9
Provision of Accommodation	75.8	74.3	77.4
Other	37.4	30.1	36.9
	339.9	339.6	381.2
Transfer Payments in Respect of Physical Assets			
Transportation	153.7	148.1	159.3
Education	47.0	14.9	2.5
Health	70.3	55.7	52.9
Other	71.1	74.2	61.1
	342.1	292.9	275.8
Total Budgetary Expenditure on Physical Assets	682.0	632.5	657.0
Loans and Advances			
Education	377.1	273.9	164.4
Industrial Development and Provincial Resources	70.3	124.5	118.5
Home and Community Environment[1]	148.3	152.7	344.2
Health	38.0	31.5	26.9
Total Loans and Advances in Respect of Physical Assets	633.7	582.6	654.0
GRAND TOTAL	**1,315.7**	**1,215.1**	**1,311.0**

[1]Includes $144 million in 1973-74 for non-recurring outlays re land purchases for North Pickering Community Development.

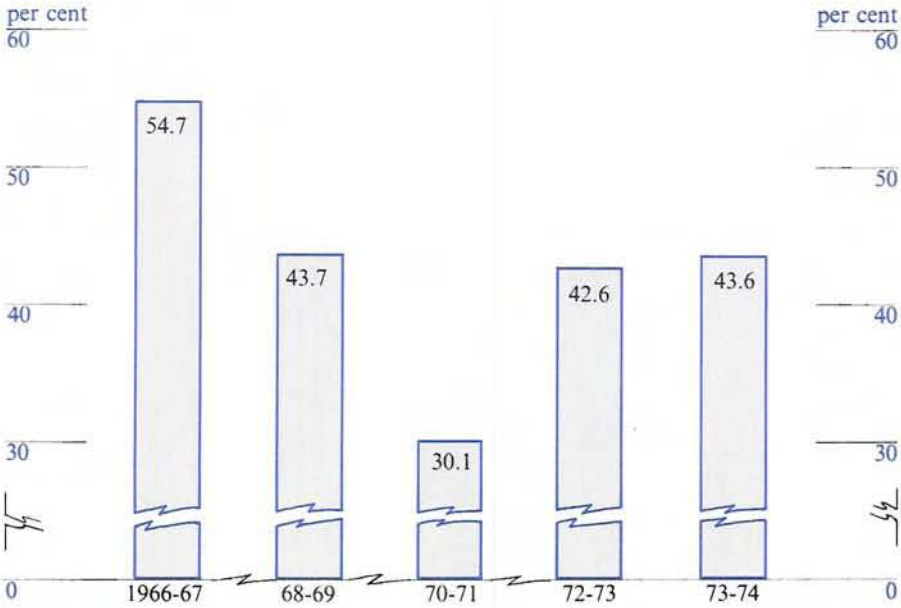
Net Debt at end of Fiscal Year as a Percentage of Gross Provincial Product

Chart 3



Net Debt at end of Fiscal Year as a Percentage of Gross Revenue

Chart 4



Ten-Year Review

($ million)

Table C8

	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	Interim 1972-73	Estimated 1973-74
Budgetary Transactions										
Revenue	1,668.6	1,958.7	2,430.3	2,885.2	3,530.7	4,400.5	5,080.6	5,402.9	6,073.1	6,867.2
Expenditure	1,683.3	1,958.7	2,421.2	3,003.9	3,623.7	4,251.0	5,216.7	6,027.5	6,509.3	7,269.3
Surplus or (Deficit)	(14.7)	—	9.1	(118.7)	(93.0)	149.5	(136.1)	(624.6)	(436.2)	(402.1)
Financial Position										
(a) Liabilities										
Stock and debentures	1,998.1	2,225.7	2,623.0	3,237.2	3,961.3	4,560.4	5,193.2	6,079.8		
Other liabilities	311.1	341.9	390.1	431.9	487.2	523.8	602.0	906.1		
Gross Debt	2,309.2	2,567.6	3,013.1	3,669.1	4,448.5	5,084.2	5,795.2	6,985.9		
(b) Assets									n.a.	n.a.
Cash and temporary investments	166.0	202.4	262.4	299.3	394.3	645.3	635.2	644.0		
Loans, other investments and realizable assets	815.1	1,033.9	1,420.0	1,920.4	2,511.8	3,046.0	3,631.1	4,188.4		
Total Assets[1]	981.1	1,236.3	1,682.4	2,219.7	2,906.1	3,691.3	4,266.3	4,832.4		
(c) Net Debt[2] (Gross debt minus total assets)	1,328.1	1,331.3	1,330.7	1,449.4	1,542.4	1,392.9	1,528.9	2,153.5	2,589.7	2,991.8
Net Debt per capita ($) (Population April 1)	196.52	192.22	187.54	200.03	209.52	185.02	199.00	276.09	326.57	371.19
Net Debt as a Percentage of Gross Provincial Product (%)	6.5	5.9	5.3	5.4	5.2	4.3	4.8	5.7	6.1	6.4
Contingent Liabilities										
Ontario Hydro	1,708.6	1,709.3	1,862.5	1,826.0	2,019.5	2,092.0	2,331.1	2,687.4		
Other	45.2	42.9	64.9	107.3	107.2	76.3	81.9	93.3	n.a.	n.a.
Total Contingent Liabilities	1,753.8	1,752.2	1,927.4	1,933.3	2,126.7	2,168.3	2,413.0	2,780.7		

[1]The costs of acquiring long-term physical assets such as roads and buildings are treated as expenditures in the year of outlay, and are, accordingly, excluded from this classification.

[2]In the years prior to 1971-72 differences between net debt as reported in the *Financial Report* and in this table are explained by the balance of the OHSC Premium Stabilization Account.

n.a.: not available.

Reconciliation of Budgetary Transactions per Table C8 with 1972 Financial Report

Table C8a

($ million)

	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72
A. General Revenue per *1972 Financial Report*	1,293.0	1,517.6	1,933.9	2,404.2	2,935.7	3,770.0	4,420.0	4,703.8
Add:								
Revenue of Ontario Hospital Services Commission Excluded from Public Accounts:								
Premiums and Other Revenue	133.3	150.6	154.7	155.4	271.3	283.6	294.4	277.5
Recoveries from the Federal Government	150.9	169.4	193.1	231.3	279.3	318.1	364.1	421.6
Recoveries from the Federal Government under Shared-Cost Agreements Netted Against Expenditure in the Public Accounts	88.7	114.6	133.8	69.5	5.7	5.7	2.1	—
Other Recoveries Netted Against Expenditure in the Public Accounts	2.7	6.5	14.8	24.8	38.7	23.1	—	—
Revenue per Table C8	**1,668.6**	**1,958.7**	**2,430.3**	**2,885.2**	**3,530.7**	**4,400.5**	**5,080.6**	**5,402.9**
B. General Expenditure per *1972 Financial Report*	1,319.6	1,529.6	1,913.8	2,510.9	3,076.7	3,718.5	4,514.4	5,223.0
Add:								
Spending Netted out by Ontario Hospital Services Commission:								
Premiums and Other Revenue	133.3	150.6	154.7	155.4	271.3	283.6	294.4	277.5
Recoveries from the Federal Government	150.9	169.4	193.1	231.3	279.3	318.1	364.1	421.6
Recoveries from the Federal Government under Shared-Cost Agreements Netted Against Expenditure in the Public Accounts	88.7	114.6	133.8	69.5	5.7	5.7	2.1	—
Other Recoveries Netted Against Expenditure in the Public Accounts	2.7	6.5	14.8	24.8	38.7	23.1	—	—
Spending from OHSC Premium Stabilization and Special Assistance Accounts	(11.9)	(12.0)	11.0	12.0	(48.0)	(98.0)	41.7	105.4
Expenditure per Table C8	**1,683.3**	**1,958.7**	**2,421.2**	**3,003.9**	**3,623.7**	**4,251.0**	**5,216.7**	**6,027.5**

Ontario