Ontario Budget 1976

The Honourable W. Darcy McKeough, Treasurer of Ontario

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Presented by the Honourable W. Darcy McKeough,
Treasurer of Ontario
in the Legislative Assembly of Ontario,
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Ministry of Treasury, Economics and
Intergovernmental Affairs
Fiscal Policy Division

General enquiries regarding policy in the *Ontario Budget 1976* should be directed to:

Taxation and Fiscal Policy Branch
Ministry of Treasury, Economics and Intergovernmental Affairs
Frost Building, Queen's Park
Toronto, Ontario M7A 1Z2
(416) 965-6869

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Budget Statement

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1976 Budget at a Glance

	1975-76	1976-77	Growth Rates	1976-77 Fiscal Swing
	($ million)		(%)	($ million)
Gross Provincial Product	64,000	73,900	+15.4	
Spending	11,391	12,576	+10.4	
Revenue	9,502	11,346	+19.4	
Cash Requirements	1,889	1,230		−659
Budgetary Deficit	1,570	977		−593

1976 Budget Statement

Mr. Speaker:

The 1976 Budget I am presenting tonight reflects the determination of this Government to keep the Province's finances in good order. It sticks to our plan for slashing the growth in Provincial spending. It reorders priorities, trims government costs and reduces the number of civil servants. And it raises taxes in selective areas. With this plan of purposeful fiscal restraint, Ontario will achieve a large reduction in its cash requirements, maintain its financial integrity, and set an example for others to follow in the fight against inflation.

Reducing the rate of inflation remains the number one objective for economic policy in 1976. The national Anti-Inflation Board has now been in operation for some six months, and I believe it is working. We must persevere to make sure that it continues to be effective. Controls will be necessary until Canada's cost and price performance is brought back into line with that of our trading partners, particularly the United States.

The lesson from 1975 surely must be that Canada cannot escape from the discipline of international economic forces. Continuing high inflation in Canada is our responsibility, hence we must devise our own remedies. One of those remedies must be to reduce government spending rather than borrowing more, or printing more money. The Government of Ontario has made the hard choice to cut back its spending and borrowing, and I am confident the people of Ontario will support that decision.

Before proceeding with the policies and prescriptions of this 1976 Budget, I would like to call attention to the supporting documents to this Statement. My overall Budget presentation includes:

- Appendices detailing the tax changes;
- Six Budget Papers which discuss the economy, health financing, expenditure restraint, the labour market, property tax reform, the auto pact; and
- A separate document on Ontario's financial assistance to local governments.

These papers provide extensive documentation and perspective on the economic, fiscal and financial policies of the Government of Ontario.

Economic Recovery

Mr. Speaker, the Ontario economy ended 1975 on a firm recovery note. Members will recall that a year ago at this time, we were experiencing a significant economic slowdown as the forces of world recession spilled over into Ontario. The Government responded with immediate and powerful fiscal measures. We introduced temporary tax cuts and incentives amounting to almost $600 million to reinforce purchasing power, to encourage home ownership and to stimulate the automobile industry. These 1975 fiscal initiatives worked and they worked well. Sales, production and employment bounced back vigorously in the second half, erasing losses in the first half, and building the momentum for renewed economic expansion in 1976.

Success of 1975 Fiscal Measures

Let me outline the economic returns from our bold stabilization actions in 1975, full details of which are presented in Budget Paper A.

- The temporary reduction in the retail sales tax caused a surge of buying by consumers and businesses, the benefits of which spread rapidly through the economy. Retail trade in Ontario accelerated by 17.8 per cent in the July-December period, nearly double the rate of the first half of the year. For the year as a whole, retail sales in Ontario outperformed the rest of Canada by almost two full percentage points. This major gain not only generated increased production and employment but also created a climate of renewed optimism and confidence.
- The $1,500 grant to first-time homebuyers was an overwhelming success. In its nine-month duration, 90,000 families took advantage of this incentive to acquire their first home. In 1975, first-time buyers accounted for fully 54 per cent of total housing sales as compared to about 30 per cent in a normal year. This large influx of new buyers into the housing market quickly impacted on housing starts. Whereas at mid-year urban housing starts were down by 14,000 units, more than 10,000 of this loss was recovered by the strongest second-half housebuilding performance in Ontario's history. And this resurgence of housing starts continued in the first quarter of 1976.
- The tax rebate on new car purchases also was a runaway success. Nearly 200,000 tax rebates were paid out under this six-month incentive. This direct bonus to private spending turned the car market around in 1975 and propelled it to a record year of sales. Sales in Ontario ended the year up 14 per cent, versus a small decline for the rest of Canada. Production of cars exhibited a similar turnaround in volume and this strong recovery in production has carried over through the first three months of 1976.

Ontario's 1975 Budget Actions Stimulated Economic Recovery

	Ontario 1975		
	January-June (%)	July-December (%)	Full Year (%)
Retail Trade	+9.6	+17.8	+14.0
Urban Housing Starts	−63.8	+33.2	−10.5
Car Sales	−4.5	+35.7	+13.8
Real GPP	−1.5	+3.1	0.0

Mr. Speaker, these are welcome economic facts. They demonstrate the effectiveness of Ontario's expansionary policies. And they prove that direct and immediate incentives to the private sector are the best way to get economic results.

Prospects for 1976

I am forecasting a good year for the Ontario economy in 1976. The internally generated surge of activity in the second half of 1975 has built momentum for continued expansion throughout this year. This will be reinforced by the recovery in the U.S. economy and the strong external demand for our exports. Overall, I expect Ontario's real Gross Provincial Product to grow by 5.3 per cent, a somewhat higher increase than is expected for Canada as a whole. Price increases should moderate to 9 per cent or less, permitting real income gains both to labour and to business.

In 1976, employment is expected to increase by 3.2 per cent or 116,000 new jobs. Parallel expansion in the labour force, however, means that we cannot confidently expect any significant improvement in the unemployment rate. The Province is monitoring this economic indicator closely. For an in-depth analysis of the Ontario labour market, I refer Members to Budget Paper D.

To sum up, Mr. Speaker, the Ontario economy is back on trend. This Budget is based on the underlying strength and growth capacity of our economy during 1976.

Brisk Economic Growth for 1976

Ontario Economy	Percent Increase
Real Output	+5.3
Consumer Prices	+9.0
Gross Provincial Product	+15.4
Exports	+20.0
Personal Income	+14.0
Profits	+15.0
Employment	+116,000 jobs

1976 Fiscal Plan

In the Budget tonight, I have designed what I believe to be an appropriate fiscal policy and a responsible financial plan for the Province. Again this year, I engaged in extensive pre-budget consultations with representatives of the labour, business, consumer, farming, professional and financial sectors of the economy. Their advice and that of various economic research organizations assisted me materially, and for that contribution I would like to express my appreciation.

My conclusion is that the Ontario economy does not require government stimulation at this time. Rather, my colleagues and I believe that the thrust of Provincial policy should be to rely on private sector expansion to generate growth and employment. This does not imply a purely passive role for the Government. It requires an active role in ensuring that the necessary resources flow into private activities and are not usurped by government spending and borrowing. The expenditure policies I will now outline have been designed to accommodate this essential shift of resources into private incomes, profits and investment.

Expenditure Restraint

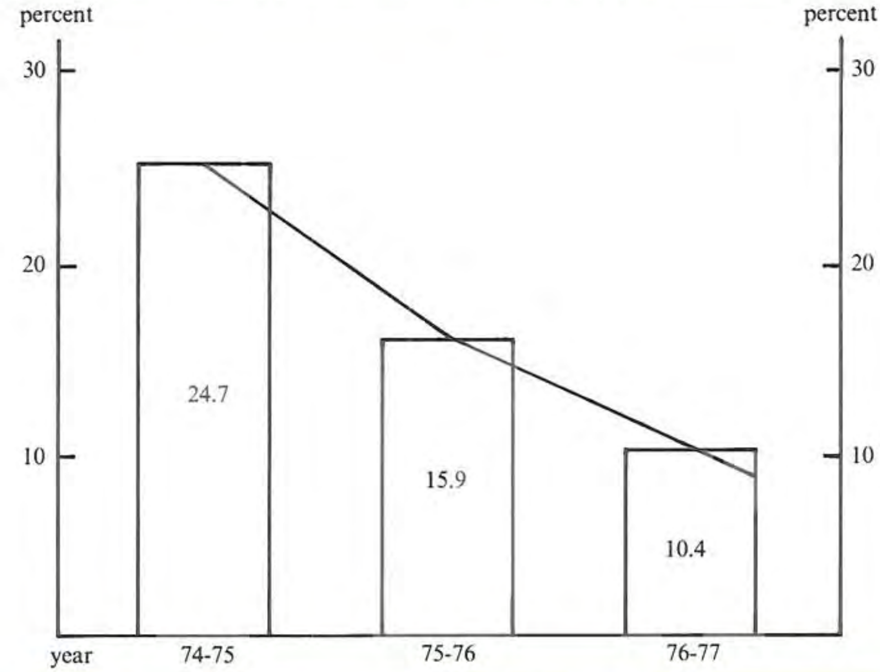
The first element in my 1976 fiscal plan is control of spending.

In October, 1975, the Ontario Government announced that it would limit its expenditure growth for the 1976 fiscal year to 10 per cent. The actual 1976 Estimates to be tabled by the Chairman of the Management Board come within half of one per cent of that objective. Total spending for 1976-77 is held to $12,576 million, which allows for an increase of $1,185 million or only 10.4 per cent over last year's level. This represents a sharp reduction in spending growth, from the 15.9 per cent increase in 1975-76 and the 24.7 per cent increase in 1974-75. Every Minister in the Government knows first-hand what this has meant in terms of the public programs for which he or she is responsible.

There have been loud objections from almost every interest group in the province to this necessary spending restraint. Not unexpectedly, the Government has been commended for restraint in general, but castigated for the specific applications where restraint grips in. However, there can be no escaping a shift in priorities, a trimming of costs and a reduction in staff if spending is to be controlled. This Government has taken these tough decisions because we are convinced that the size of the public sector must be decreased.

Mr. Speaker, the spending policy of this Government provides for the essential needs of our citizens. It also recognizes that new needs are emerging that merit funding. The allocation for the administration of justice has been increased by 19.1 per cent, support to post-secondary education has grown by 15.4 per cent, and spending on social develop-

Ontario Cuts Growth in Spending



ment generally is up by 12.1 per cent. On the other hand, there is an absolute cut in our Provincial roads budget. The savings on our own programs allowed the Province, for example, to increase its contribution to the Spadina subway, from \$38 million in 1975-76 to \$73 million in 1976-77. The Ministry of Housing budget includes a new initiative, the Downtown Revitalization Program. It also extends for one year the OHAP incentive grants and loans to municipalities to increase the supply of serviced land. The 1976 budget of the Ministry of the Attorney General makes provision for the appointment of 46 additional judges and justices of the peace. Mr. Speaker, the Estimates of every Ministry, though restrained, make room for progress and advancement in our range of public services. For a summary of 1976 spending trends and the distribution among programs, I call Members' attention to Budget Paper C accompanying this Statement.

It would be appropriate at this point, however, to state that legislation will be introduced changing the GAINS residency criteria, which is presently five years in Canada. Effective April 7, 1976, new applicants for GAINS must meet the same ten-year residency criterion that is required for federal OAS and GIS benefits.

A key element in Ontario's policy of expenditure control is a further reduction in the number of civil servants on the provincial payroll. We are convinced, and the evidence of the past year confirms, that it does not require a growing bureaucracy to maintain and improve public services. By the end of 1976-77, our complement of civil servants

Ontario Demonstrates that Bureaucracy can be Trimmed

	Civil Service Manpower			
	Government of Ontario[1]		Government of Canada[2]	
	Number	Percent Change	Number	Percent Change
1973	69,325	3.4	288,912	6.7
1974	70,778	2.1	306,557	6.1
1975	69,081	−2.4	322,507	5.2
1976	66,537	−3.7	328,193	1.8
1973-76		−4.0		+13.6

[1]As of April 1, based on complement.
[2]Federal Estimates, based on man-years.

will be reduced to 66,537—a drop of more than 4,200 from the 1974 level. By contrast, since 1973 the federal government will have expanded its bureaucracy by some 39,000 bodies.

Local governments are sharing the burden of restraint in Ontario. Our 1976 Estimates provide for an increase of $225 million in grants to municipalities and school boards, a growth of 7.8 per cent. In previous years, the Province could afford to go over the Edmonton commitment and provided generous increases: $291 million in 1974-75 and $558 million in 1975-76. In retrospect, these large financial transfers from the Province may have stimulated some local spending that wasn't absolutely necessary. I am encouraged, however, that local governments are cooperating with our restraint program and setting realistic budgets.

While on the subject of local government, I would like to inform the Members of two important developments.

First, I propose to establish a committee of provincial and local officials to study the scope for deconditionalization and simplification of Provincial grants. This is in response to requests from individual municipalities, the Municipal Liaison Committee and the Association of Municipalities of Ontario. It is my hope that this committee will be able to report back by this autumn so that our 1977 grant structure can be modified to allow greater freedom for local priority setting.

Second, in Budget Paper E, the Government is advancing proposals on how the property tax structure can be reformed to accommodate reassessed property values. This paper outlines 15 proposals as the foundation of a new property tax system based on reassessed values. It is the Government's desire that there be afforded the widest opportunity to participate in the development of a new tax system. A Commission, including people knowledgeable in municipal and education finance, will be appointed to receive submissions and to make recommendations on the new property tax system. The Government's timetable calls for the Commission to report back this fall, new legislation to be prepared by the spring of 1977, and a new property tax system using market value assessment to be in operation in 1978.

Reducing Cash Requirements

To complement expenditure control, the second element in my 1976 fiscal plan is to increase taxes to reduce the Province's cash requirements.

The expansionary tax cuts we implemented in 1975 necessarily required a sharp increase in our net cash requirements. Though final figures are not yet in, I estimate that net cash requirements reached $1,889 million for 1975-76. This is down $87 million from the $1,976 million estimated in *Ontario Finances* three months ago. The last quarter improvement was due to rigorous in-year spending control enforced by Management Board and to stronger revenue yields at year-end.

The improving economic situation permits the Province to secure a substantial reduction in its cash requirements for the coming year. Holding expenditures to 10.4 per cent while revenues expand at 15.9 per cent would go part way towards this objective. Without tax increases, I estimate our 1976-77 net cash requirements would amount to $1,560 million or $329 million below the 1975-76 level.

I believe a further substantial reduction is desirable. Accordingly, I am proposing a package of tax actions which will raise an additional $330 million in revenues.

100 per cent of the revenues from these tax increases will be applied directly to reduce the Province's cash requirements. Thus, my Budget calls for net cash requirements of only $1,230 million in 1976-77—representing a fiscal swing of some $659 million from the 1975-76 level. I am confident that the Province can achieve this significant improvement in its finances without in any way dampening the buoyant economic expansion now underway.

1976 Budget Plan Achieves $659 Million Fiscal Swing
($ million)

		1976-77	
	1975-76	Before Tax Actions	After Tax Actions
Spending	11,391	12,576	12,576
Revenue	9,502	11,016	11,346
Net Cash Requirements	1,889	1,560	1,230
Reduction in Cash Requirements		−329	−659

Tax Actions

Mr. Speaker, I come now to the vital matter of tax policy. I am proposing a balanced and equitable package of tax changes which will raise $330 million in additional revenue this year. Let me affirm again that none of this additional revenue will be used to finance increased spending; every dollar will be used to reduce our cash requirements.

OHIP Premiums

The Government has embarked on a long-term program to reduce the cost spiral for hospital and medical services, including actions to eliminate surplus hospital beds, rationalize laboratory services and control the volume of laboratory tests. On the medicare side, the Ontario Medical Association has agreed to a fee increase of 8.1 per cent, effective May 1, 1976. The Minister of Health will be bringing forward legislation to ensure that these economies and other constraints on health insurance spending are realized for fiscal 1976-77.

Mr. Speaker, complementary action is also necessary on the financing side. Ontario must take action now to restore an appropriate and equitable balance in the financing of OHIP. I am proposing three complementary measures to achieve this objective: an increase in OHIP premiums, increased charges for semi-private and private accommodation in hospitals, and enriched premium assistance.

The current OHIP premiums of $11 and $22 per month finance only 23 per cent of the costs of insured health services. They yielded $68 per capita in 1975-76, while costs ran in excess of $300 per capita. By contrast, in 1970-71 per capita costs were $162 and premiums amounted to $81 per capita or 50 per cent of costs. To re-establish a better balance between the charges for health services and the costs of those services, I propose to increase OHIP premiums by $5 per month (single) and $10 per month (family) effective May 1, 1976.

Budget Paper B provides a detailed analysis of the trends in health insurance costs and financing. It also shows that Ontario's health premium system contains three large elements of progressivity.

- For most people, the employer pays a large part of the health premium.
- The employer contribution is a taxable benefit under the progressive personal income tax.
- Low-income families, welfare recipients and all pensioners receive free coverage.

At present, 88 per cent of group premiums are paid by employers. Accordingly, the impact of the premium increase on most working individuals and families will be modest. Of the total new revenues of $228 million to be raised through the premium increase, I estimate that $164 million will be paid by employers, $22 million by employees and

Revenue from Health Premiums, 1976-77
($ million)

	Premiums at $11-$22	Premiums at $16-$32	Revenue Increase
Pay Directs	104	146	+42
Employees	55	77	+22
Employers	403	567	+164
Total	562	790	+228

$42 million by pay-direct subscribers such as professionals, businessmen and the self-employed.

The second measure I am proposing strengthens the link between utilization and costs of health services. It involves the per diem charges for semi-private and private accommodation in hospitals. Currently, hospitals levy user-charges on such accommodation averaging $7.50 and $12 per day respectively. Effective May 1, 1976, these charges for privacy will be increased to $11 per day for semi-private rooms and $22 per day for private rooms. This will raise an additional $20 million directly from those people who receive these extra benefits. This extra revenue will be retained by hospitals and offset against their approved operating budgets.

The federal government intends to limit its financial participation in medicare and hospital services, leaving a heavier future burden of financing on the provinces. The OHIP premium increases and the increases in per diem charges I have proposed, in conjunction with the cost-cutting efforts of the Ministry of Health, will ensure that our health insurance plan does not consume an ever-increasing share of the Government's general tax resources.

Broadened Premium Assistance

Mr. Speaker, everyone in Ontario is enrolled in OHIP and is protected for the full range of medical and hospital services. Our premium assistance provisions ensure that the highest quality health care is accessible to all, regardless of income or financial circumstances. Presently, more than 1.4 million persons—including all pensioners, welfare recipients and low-income families—enjoy free premiums, and others are subsidized for half of the premium. Effective immediately, I propose to broaden OHIP premium assistance, to strengthen further this progressive element of our health financing system.

- All persons currently entitled to free coverage will continue to enjoy this benefit when the higher premiums come into effect.
- Free coverage will be extended to single persons having taxable incomes of $1,534 or less, and to families having taxable incomes of $2,000 or less.

People Benefiting from OHIP Premium Assistance

Persons Eligible	1976-77 Old Basis	1976-77 New Basis	Increase
Free Premiums			
Pensioners	828,000	828,000	—
Welfare Recipients	365,000	365,000	—
Low-Income Individuals and Families	213,000	509,000	+296,000
Total	1,406,000	1,702,000	+296,000
Half Premiums			
Single Persons	6,000	15,000	+9,000
Families	25,000	83,000	+58,000
Total	31,000	98,000	+67,000
Grand Total	1,437,000	1,800,000	+363,000

- Half premium rates will be available to single persons having taxable incomes between $1,534 and $2,000, and to families having taxable incomes between $2,000 and $3,000.

This generous enrichment in premium assistance means that an additional 363,000 people, to a total of 1.8 million, will receive free or subsidized OHIP coverage. That's nearly one in four Ontario residents. This enrichment of premium assistance will also lower the premium actually paid by many families, even after the $10 a month increase in the premium rate. For a family of four, for example, the broader assistance criteria will result in a net saving of up to $132 where gross income falls below $8,225 annually. The value of our broadened premium assistance will be no less than $279 million in 1976-77.

Cigarettes and Alcohol

The second area where I propose to secure additional revenue is from tobacco and alcohol.

Effective April 20, 1976, the gallonage tax on beer will be raised by $7\frac{1}{2}$ cents per gallon and the mark-ups on spirits, wine and imported beer will be increased. Mr. Speaker, this will mean approximately 30 cents on a 25 ounce bottle of spirits and 15 cents on a case of 24 bottles of beer. These increases will generate $50 million in additional revenues for 1976-77.

Effective midnight this day, the tax on cigarettes under The Tobacco Tax Act will be increased by 5 cents per package of 20 cigarettes. I estimate this will raise $50 million in 1976-77. In my consideration of the tobacco tax, I have concluded that some compensation for collection costs is warranted. Accordingly, I am also proposing that tobacco tax collectors receive compensation paralleling the vendor remuneration arrangements which apply under The Retail Sales Tax Act.

Insurance Premiums Tax

Mr. Speaker, the insurance premiums tax has remained unchanged at 2 per cent since 1956. Effective midnight this day, I propose to increase the rate to 3 per cent. The additional tax of $\frac{1}{2}$ of 1 per cent applicable to property insurance will continue in effect, over and above the new base rate of 3 per cent. I estimate this measure will generate an additional $20 million in this fiscal year.

Tax Cuts for Small Businesses

Let me turn now to some selective areas where tax cuts will yield positive and concentrated benefits.

I have decided to deploy our limited capacity to finance tax cuts by providing stronger incentives to Ontario's small business corporations. In this province of opportunity the small businessman has a large role to play—as an employer, a supplier of goods and services, and as an innovator.

- *Preferential Tax Rate*—Effective with fiscal years ending after April 6, 1976, the general 12 per cent rate of tax for corporations will be reduced to 9 per cent on income eligible for the federal small business deduction. This preferential tax rate is a simple and straightforward incentive which will be readily understood by small corporations. As well, the benefits will be widely distributed to 50,000 Ontario companies. It will replace our present tax credit provisions which proved to be too complex for many small businesses, and reached only 20,000 companies.

  The new low rate of tax for small business income will cost the Province approximately $30 million in 1976-77, about equal to what the tax credit would have cost. In addition, I am proposing transitional rules allowing small businesses to carry forward for one year unused credits accumulated under the previous incentive. This transition bonus will represent a one-time cost of $8 million.

Small Business Benefits from Reduced Tax Rate

Number of Ontario Corporations Qualifying for the Nine Percent Tax Rate	
Agriculture and Forestry	1,100
Mining and Manufacturing	9,300
Construction and Transportation	7,500
Wholesale and Retail Trade	17,500
Finance and Services	14,600
Total	50,000

- *Exemption from Tax Instalments*—As a second incentive, I intend to increase the tax threshold at which small corporations are required to pay tax by instalments. At present, corporations with estimated tax liability of $300 or more annually are required to pay the tax in six instalments over the course of their fiscal year. I propose that, effective April 7, this limit be increased to $2,000, thereby exempting an additional 25,000 small corporations from the necessity of remitting the tax by instalments. This simplification will cost the Province $2 million annually.
- *Venture Investment Corporations*—In the 1974 Budget, Ontario proposed the creation of Venture Investment Corporations. This proposal was designed to increase the supply of risk capital to small businesses and provide much needed managerial assistance. It involves a tax deferral as an incentive to invest in Venture Investment Corporations, and these new entities in turn would channel the funds into small business ventures.

  In my 1975 Budget, I reaffirmed Ontario's confidence in the VIC concept as a viable instrument for stimulating investment in small businesses. The Province's position is reinforced by the great interest for the proposal which has been shown by the private sector and at least two other provinces. Therefore, I will table legislation tonight for first reading only, providing for the creation of Venture Investment Corporations in Ontario. It is my hope that the interest created by this legislation will prompt the federal government to recognize the merits of the program.
- *Tax Relief for Non-Producing Mines*—I am also proposing changes to the paid-up capital tax to assist Ontario's non-producing mining corporations, effective with fiscal years ending after April 6, 1976. I estimate the revenue loss from this change to be about $1 million.

In summary, these four proposals will substantially assist small business in Ontario by improving after-tax earnings, increasing growth potential and reducing the complexity of tax compliance.

Timber Resource Revenue

I would now like to discuss the status of the Government's review of Crown charges. In announcing the doubling of the Crown dues in the 1974 Budget, the Government stated that this action was an interim measure pending a complete review of this revenue field to be conducted by a task force under the joint direction of the Minister of Natural Resources and the Treasurer. This review has been completed and the *Report of the Timber Revenue Task Force* was made public in December, 1975 for comments by interested parties. The recommendations of the Report and the comments received from the industry are now being considered. The Minister of Natural Resources will be introducing amendments to The Crown Timber Act before the end of 1976 to be effective January 1, 1977.

Other Tax Changes

I am also proposing three changes under The Retail Sales Tax Act to provide relief in selective areas, effective midnight this day. Together, these changes involve an estimated revenue loss of $12 million annually.

- The exemption level on prepared meals will be increased from $4.00 to $5.00.
- Insulation materials used in existing residential units will be exempted.
- The value on which sales tax is calculated for mobile homes will be reduced in order to put them on the same basis as on-site construction.

I also propose to increase the fee for drivers of uninsured motor vehicles, from $60 to $100 per annum, effective December 1, 1976.

Before concluding my discussion of tax actions, I would like to report briefly on progress made toward tax simplification as promised in the 1975 Budget. My colleague, the Minister of Revenue, has identified many areas for streamlining which will be incorporated in upcoming legislation and in improved administrative procedures. Some changes, such as those relating to succession duties have already been announced. Other improvements, such as the lower tax rate and the exemption from tax instalments for small corporations, are contained in the legislation to be introduced tonight.

To summarize, Mr. Speaker, I am proposing tax increases amounting to $353 million, as well as several reductions costing $23 million. The net result will be $330 million of additional revenue in 1976-77. These necessary tax actions along with spending restraint will substantially reduce our cash requirements and strengthen our long-term finances.

Estimated Revenue Effects of Tax Actions
($ million)

Tax Increases	
OHIP Premiums	+228
Cigarettes	+50
Liquor, Wine and Beer	+50
Insurance Premiums	+20
Uninsured Driver Fees	+5
	+353
Tax Cuts	
Small Businesses	−11
Sales Tax	−12
	−23
Net Revenue Impact in 1976-77	+330

A National Economic Policy for Canada

Ontario's fiscal restraint program will make a vital contribution to the attack on inflation. But, our long-run prosperity will depend on our ability to come to grips with other fundamental economic issues. In this regard, Mr. Speaker, I believe that Canada is suffering from an economic malaise which goes deeper than the immediate problem of inflation.

In the last two years, Canada has been confronted with the economic challenges of energy, world recession and inflation. The Government of Ontario has developed direct and positive responses to these issues. But, with the exception of the national Anti-Inflation Program, we have been disappointed by the failure of the federal government to take effective economic leadership. It has failed to develop a realistic national energy policy. Last year it left the burden of economic stimulation policy to Ontario and other provinces, and it has been unable to control its own spending growth.

Mr. Speaker, this failure to come to grips with basic economic issues is disturbing in light of the rapid deterioration in Canada's international competitive position. In manufactured goods, our trading deficit has reached a serious level. Our industrial productivity growth has become dangerously sluggish and important investment decisions are being postponed. This is reducing the nation's potential to ensure an adequate level of employment and income growth for our people.

To confront this situation, we need nothing short of a fresh start on developing a national economic policy for Canada. This must include a recognition that it is the free market economy, not bureaucratic regulation, upon which our present standard of living was achieved and upon which our future economic growth must rely. While I want to reinforce our support for the temporary Anti-Inflation Program, we must also develop a hard strategy for a clean phase-out of the AIB when its goal has been accomplished. Now I would like to propose a basis for the development of a policy for long-term non-inflationary growth. It involves:

- even greater national efforts to cut down the rate of growth in government spending;
- development of a more realistic energy policy; and
- the development of an industrial strategy centred on productivity, and the maintenance of growth in incomes, employment and the quality of our lives.

Cutting Government Spending

First, Mr. Speaker, I would like to deal with efficiency in the public sector. If governments continue to expand faster than the private sector, I see no hope for either controlling inflation or solving other national economic problems. Too many of the talents of the nation are already locked up in government offices. The evidence is clear that our citizens do not want to pay higher taxes to buy more public services. They want higher real incomes and they want value for the taxes they already pay.

For many years, the level of government spending in Ontario has been significantly lower than in the rest of Canada. Our plan to contain Provincial spending to a 10.4 per cent increase in 1976-77 will further improve this performance.

Government in Ontario Takes Less Than in the Rest of Canada
(percent of GNP)

	1972	1973	1974	1975	Est. 1976
Ontario					
Federal	13.0	13.1	13.6	14.8	14.8
Provincial	10.9	10.5	10.8	12.1	12.0
Local	9.0	8.3	8.3	8.8	8.7
Total	32.9	31.9	32.7	35.7	35.5
Rest of Canada					
Federal	15.9	15.3	17.3	19.6	19.8
Provincial	15.2	14.7	15.5	16.7	16.9
Local	8.1	7.7	7.7	8.0	8.1
Total	39.2	37.7	40.5	44.3	44.8
All of Canada					
Total	36.5	35.3	37.3	40.8	40.9

Source: Ontario Treasury estimates, based on National Accounts, excluding intergovernmental transfers.

Looking at federal spending plans, I am quite frankly disillusioned with the national government's commitment to restraint. Federal spending this year will grow at 16 per cent or by an additional \$5.7 billion. If the federal government had held its spending to the same growth rate as Ontario, Canadian taxpayers could have saved almost \$1.9 billion. In Ontario alone, the tax saving would have amounted to more than the \$740 million cost to Ontario consumers of the oil and gas price increases imposed by the federal government last year.

One obvious way in which the federal government could achieve savings is by improving its internal efficiency and reducing the size of its civil service. Earlier in this Statement I compared Ontario's complement reduction program with the continuing increase in the size of the federal civil service. At this point, I think it is interesting to compare the relative efficiency of the two levels of government. While federal budgetary spending is roughly three times that of Ontario, its bureaucracy is five times as large.

It has been lack of fiscal restraint on the part of governments, particularly the federal government, which has made necessary the high interest rate, tight money policy of the Bank of Canada. While I cannot quarrel with the Bank of Canada's monetary policies, I would point out to Members that high interest rates are playing havoc with home-owners, businessmen and farmers. The Minister of Agriculture and Food tells me, for example, that the increase in interest rates has added 4 cents a pound to the price of beef.

Mr. Speaker, there is one further disturbing aspect of this matter of government spending. Put briefly, our growing concern is that among governments in Canada there is a lack of clarity and accountability about who is responsible for what. Competition for the delivery of services leads to needless public confusion, waste and inefficiency and inadequate attention by governments to their basic responsibilities.

As a result, and just as we are doing in our relations with the municipalities, this Government is determined, on the federal-provincial front, to pursue a policy of disentanglement.* From the initiatives of the 1975 Premiers' Conference and the Special Program Review, we shall, in the coming months, be putting forward for intergovernmental discussion specific proposals to merge, transfer, exchange and, yes, even reprivatize public programs and areas of responsibility. Our objective will be to ensure that the taxpayers in our federation are served more efficiently and effectively by all levels of government.

More Realistic Energy Policy

I would like to turn now to the energy issue, the second element in my approach to a national economic policy. Mr. Speaker, some two years ago Canada's First Ministers met to deal with the serious implications of the dramatically changed world energy situation. Since that meeting, Canada has made some progress, but much more needs to be done.

On the plus side, the Sarnia-Montreal pipeline, which will contribute substantially to national oil self-reliance, is expected to be operating this fall. We have made progress in ensuring future energy supplies for Ontario with our participation in the Syncrude project. We are closer to our objective of securing major supplies of Canadian coal for Ontario Hydro and thereby reducing our reliance on foreign sources. On the other hand, there have been disappointments. At best, we are only marginally closer to developing arctic oil and gas than we were three years ago. Also, over the past two years we have been confronted with much more pessimistic predictions of the national deficit in oil trade. And, perhaps most disappointing, Mr. Speaker, has been the upward spiral of oil and gas prices. I need not re-emphasize the vigorous stand which Ontario has taken on this issue.

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*See remarks by the Hon. William G. Davis, Premier of Ontario, to the Association of Municipalities of Ontario, August 6, 1975.

Next month, Canada's First Ministers will again tackle the issue of oil and gas price adjustments. Ontario is concerned that such a meeting could once again produce ill-timed price increases, from which far too much of the revenue will go to governments rather than towards private exploration and development activities. Last year, only 25 per cent of the additional crude oil revenue was turned back for private exploration and development.

I have already emphasized that our major economic priority must be to regain, hold and expand Canada's share of export markets. Yet, further oil and gas price increases, which regretfully are looming on the horizon, could seriously damage our competitive position by moving Canada ahead of the American energy cost structure. The inflationary impact of the last round of price increases is still working its way through our economy. And our exporters are just beginning to win their way back into U.S. markets as the recovery proceeds. Many of our industries are highly sensitive to energy price changes and, in addition, their productivity is lagging behind U.S. levels suggesting that with respect to energy prices they need a competitive edge.

I have included a table in this section of my Statement which shows our energy cost position relative to U.S. industries, before and after a possible price hike. Clearly, Canadian energy policy must be highly sensitive to broader industrial priorities and not further hinder our export efforts at this crucial time.

Oil and Gas Price Hikes Will Damage Canada's Competitive Position

	Current	After Possible $1.50 per barrel Oil Price Increase (Estimated July 1, 1976)
Crude Oil ($ per barrel)		
U.S. Average Price	9.54	10.00
Toronto Price	8.80	10.30
Differential	−74¢	+30¢
Natural Gas* ($ per mcf)		
Price Range in Northeastern U.S.	70 to 99¢	80 to 115¢
Toronto (city gate)	1.25	1.68
Differential	+26 to 55¢	+53 to 88¢

*Canadian natural gas prices indexed at 90 percent heat equivalent to oil.

I would now like to turn to the broader questions of industrial strategy and highlight what I see as the main priorities to ensure long-run productive growth in this country. These include the development of new high technology industries as well as other measures to improve our competitive position, a comprehensive planning strategy for the

Province and the strengthening of our manufacturing base, particularly the auto industry.

Developing New High Technology Industries

Productivity growth through the development of high technology industries is an objective which is actively pursued by the governments of all of the industrial countries of the world and a surprisingly large number of underdeveloped nations. Canada appears to be the exception. We have at the federal level a massive concern for industrial intervention and regulation where there should be a concerted and national drive for scientific and industrial research backed by joint public and private development of emerging high technology industries.

The Canadian market is limited. Exports are crucial to the successful survival of our technology. The competition from other national governments with low-cost loans and subsidies is intense. Frequently, these subsidies and cheap loans are blended with a foreign aid package. What Canada needs is a national effort in developing and marketing Canadian technology.

As an example, Ontario has in the past two years assembled, through the Urban Transportation and Development Corporation and with the cooperation of the Toronto Transit Commission, a first-rate design and development capacity in urban transit systems. We have supported new modes of transit, such as the GO system, and successfully developed and marketed mini-buses and a radically improved streetcar which will be operating on TTC routes next year. What can be done now is to transform this capacity into a national industry, producing national income and employment benefits through its exports to other nations. We urge the federal government to participate with us in such a venture.

Improving Productivity

Turning to the question of our ability to compete in world markets, I am deeply concerned that Canada has moved too quickly to wage and salary parity with the United States in industries where productivity simply does not match the output standards of our major competitor. Unless we can make substantial gains in our productivity performance, Canada's trade balance will continue to deteriorate and inflation will not be contained. Nothing we do, no manipulation of government spending, or taxes, or subsidies, or job-creating programs, can ever escape that simple fact. You cannot sell government programs in the export market.

Capital investment in manufacturing must be increased substantially if we are to achieve necessary increases in productivity. Much has been made of the significant capital investment requirements of the energy and natural resource industries. However, investment in secondary manufacturing has grown very little as a result of inflationary pressures

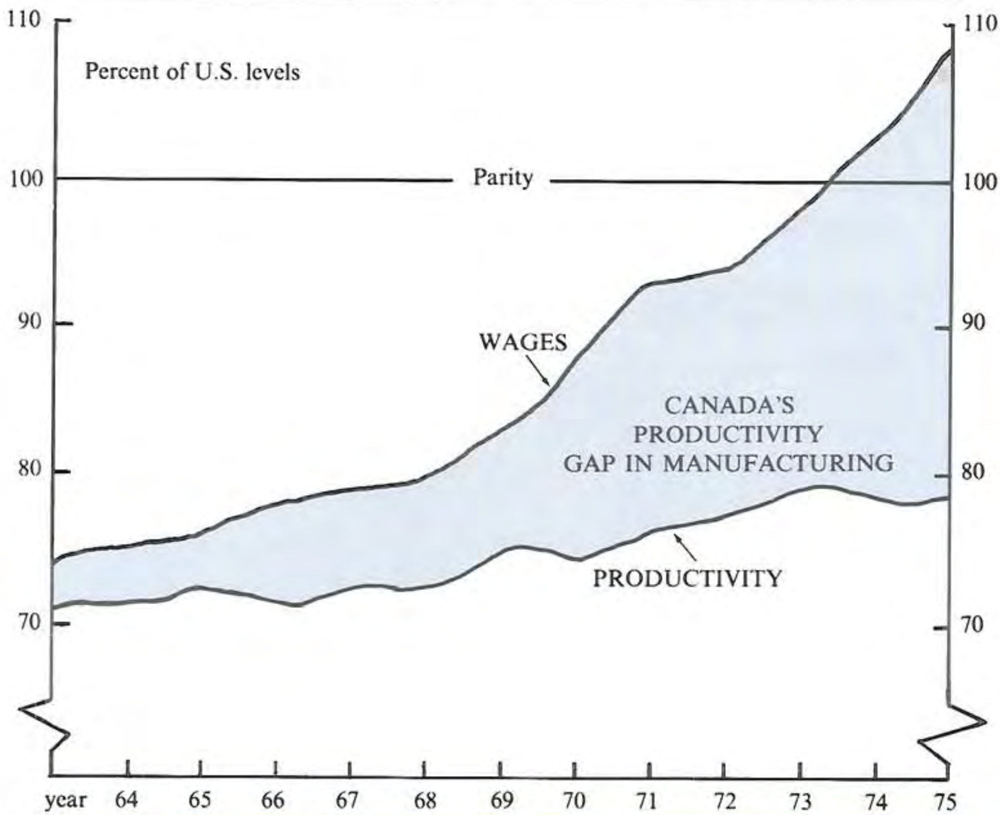
Canada's Manufacturing Trade Balance is Deteriorating
($ million)

	1970	1975
Automotive Products	295	−1,819
Other Manufacturing	−3,067	−8,088
Total End Products	−2,772	−9,907
All Other Trade	5,640	8,097
Total Trade Balance*	2,868	−1,810

*Customs Basis.

and it is my feeling that this lack of investment has also been related to uncertainty about federal economic policies. To confront this problem, Mr. Speaker, I would like to see a national effort in support of applied technology and research, a concerted program to exploit the advantages of scale and size in industry, and a more positive and innovative attitude towards foreign investment and foreign technology which would not sacrifice our independence or our sovereignty.

Growth in Productivity Has Not Kept Pace With Wages



Moreover, we must accept the fact that the international trading environment is changing. The Province has traditionally supported high tariffs for manufactured goods, a policy which has generally operated to the benefit of Canada and Ontario. Unfortunately, some industries have relied on tariffs as a permanent shield from international competition rather than as a transitional measure. The current round of GATT negotiations will provide us with the opportunity to expand foreign markets, but at the same time, it will create the challenge and the necessity to improve productivity at home. I believe we can rely on all elements of the private sector, labour and management alike, to meet this challenge.

Revitalizing the Auto Industry

I spoke earlier of the need to revitalize our manufacturing sector in order to improve our competitive position. In this regard, I believe we must start with the auto industry which supports, directly or indirectly, one in every six jobs in this province.

For eleven years the industry has been operating under the Canada-U.S. Auto Pact. While the Agreement has worked well in facilitating the development of a more efficient, integrated auto industry on both sides of the border, we cannot count on past successes. In our view, fundamental problems have developed. They threaten the long-term viability of both auto assembly and parts manufacturing in Canada and the economic well-being of this Province. An accompanying Budget Paper fully documents three major problems which exist in this industry. They are:

- a widening productivity gap;
- a declining Canadian share of auto assembly; and
- serious losses in Canadian parts production.

Canada's Auto Trade Balance with U.S. is Deteriorating
($ million)

	Assembled Vehicles	Parts	Balance
1972	+1,127	−1,095	+32
1973	+941	−1,393	−452
1974	+888	−1,940	−1,052
1975	+675	−2,477	−1,802

Source: Statistics Canada.

In the course of the past three years, the country has gone from a virtual balance in Canada-U.S. auto trade to a deficit of more than $1.8 billion. Canada's deficit in auto parts trade with the U.S. alone last year amounted to nearly $2.5 billion. Mr. Speaker, this is not just a temporary aberration. It is part of a fundamental shift in industrial activity between the two countries. We cannot be complacent, as so many seem to be, that economic recovery will restore the balance. It is clear that we must stop shying away from this growing problem and take positive action. In Budget Paper F, Ontario advocates a four-part action plan to revive the long-term health of the automobile industry.

Provincial Development Strategy

Mr. Speaker, Ontario must continue to pursue a dynamic strategy for economic growth in future, which includes improvement in the quality of life and careful preservation of our natural resources. Also, all of Ontario must participate in our development to the fullest extent possible. Later this Session, we will be tabling a set of documents which advance an economic and social planning framework for the province as a whole, as well as selected areas.

I would like to conclude this section of my Budget Statement with this thought. The country faces massive economic challenges. I believe these challenges can be met and I have outlined a program for doing just that. But, Mr. Speaker, to be successful, we must be determined and energetic in our creation of a national economic policy for Canada.

Conclusion

Mr. Speaker, I have set before you and the Members a strong and constructive Budget. It provides for non-inflationary growth and private sector expansion in Ontario by controlling the use of public resources. It injects new confidence to sustain the momentum of economic recovery. And it continues the record of sound financial management by the Government of Ontario.

The cornerstone of the Government's fiscal program is expenditure restraint. As I have already said, Ontario's spending for 1976-77 will rise by only 10.4 per cent and we are resolved to stick to this firm limit. I estimate this control on spending, by itself, will generate a $329 million improvement in our financial position. The tax measures I have outlined

Ontario's 1976-77 Financial Plan
($ million)

	Interim 1975-76	Estimated 1976-77	Year to Year Change
Revenues	9,502	11,346	+1,844
Expenditures	11,391	12,576	+1,185
Net Cash Requirements	1,889	1,230	−659
Public Borrowing	743	−37	−780
Internal Sources	1,146	1,267	+121
Financing	1,889	1,230	−659

will improve Ontario's finances by a further $330 million. As a result, cash requirements for 1976-77 will amount to $1,230 million — down $659 million from the 1975-76 level.

It is imperative that governments reduce their borrowing as well as their spending. Governments cannot live on credit indefinitely any more than families can. Nor will future generations be any more able to pay the bills than is the present generation. Moreover, stable growth of the economy depends on increased investment, by big and little businesses alike. No business can finance its essential expansion if governments crowd the financial markets and take all the money.

The Government of Ontario will not, I stress, require any public borrowing in 1976-77.

In conclusion, Mr. Speaker, my Budget is a declaration of confidence. Confidence in the dynamic economy of this province of opportunity. Confidence in Ontario's workers, farmers, enterprises and institutions. And confidence in the solid record of achievement of this Government.

Appendix A

Details of Tax Changes

The purpose of this appendix is to provide a more detailed description of tax changes outlined in the Budget Statement. This is a concise summary and the reader is advised to consult the Statutes for exact information.

The Corporations Tax Act

Reduction of Income Tax Rate for Small Business

- The present Ontario small business tax credit under The Corporations Tax Act will be withdrawn and replaced by a preferential tax rate.
- A tax rate of 9 per cent will apply to the Ontario portion of income which is eligible for the small business deduction under section 125 of the Income Tax Act (Canada).
- This change will be in effect with respect to fiscal years of corporations ending after April 6, 1976.
- Transitional rules will provide that for fiscal years including April 6, 1976, corporations may elect to:
  (a) apply the 12 per cent rate and the present small business tax credit system for the full fiscal year with no further carry forward of unused credits beyond that year; or
  (b) apply the 9 per cent rate to the eligible income for the full fiscal year and claim unused small business tax credits in that year only, to further reduce the tax by a maximum of 3 per cent of eligible income.

Increase in Insurance Premiums Tax Rate

The insurance premiums tax rate will be increased from 2 per cent to 3 per cent effective April 7, 1976. The additional tax of $\frac{1}{2}$ of 1 per cent for premiums on property insurance, within the meaning of The Insurance Act and the regulations made thereunder, will continue to apply.

For the 1976 taxation year, the premiums will be prorated and the higher tax rate applied on the basis of the number of days subsequent to April 6, 1976.

Capital Tax Relief for Non-Producing Mines

Corporations will be allowed to deduct all deferred Canadian mining exploration and development expenses in computing taxable capital for purposes of the paid-up capital tax. This change will apply with respect to corporate fiscal years ending after April 6, 1976. For fiscal years that include April 6, 1976, the decrease in capital tax will be prorated on the basis of the number of days of that fiscal year that is subsequent to April 6, 1976.

Increased Limit for Instalment Payments

The level of tax liability at which corporations are required to pay tax by instalments will be increased to $2,000 from the current $300. Corporations with estimated tax liability of under $2,000 may make only one tax payment, three months after their year-end for small business corporations, and two months after their year-end for all other corporations. This change will apply with respect to tax instalments due after April 6, 1976.

Tax Treatment on the Disposal of Cultural Property

The Corporations Tax Act will be amended to parallel the federal provisions of the Income Tax Act (Canada) relating to the tax incentives designed to encourage the retention of art and other cultural property in Canada.

Further details of these tax changes will be published by the Ministry of Revenue. Enquiries should be directed to:

Corporations Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1Y1
(416) 965-4040

The Tobacco Tax Act

Cigarette Rate Increase

The tax on cigarettes will be increased from 9.2¢ to 14.2¢ per 20 cigarettes. Other package sizes will be subject to proportional increases. This means an increase of ¼¢ per cigarette. The tax rate on other types of tobacco and on cigars is unchanged.

Businesses, including retailers and wholesalers, will be required to declare their cigarette inventories as of midnight April 6, 1976 and to remit tax on such inventories as directed by the Ministry of Revenue.

Effective: April 7, 1976.

Compensation to Tobacco Tax Collectors

Each tobacco dealer who is an appointed tax collector will be provided compensation for his collection activities. The amount of the compensation will be calculated as follows:

- if the tax collected is $2.00 or less per return, the collector is entitled to withold the full amount;
- if the tax collected exceeds $2.00, the collector is entitled to withhold $2.00 or 3 per cent of the tax collected per return, whichever is the greater, provided that the total of such amounts withheld shall not exceed $500 in the Government's fiscal year, that is, April 1 to March 31; and
- collectors of sizeable revenues, with multi-branch organizations, will be entitled to not more than $500 in the Government's fiscal year, that is, April 1 to March 31.

Effective: for remittances due on or after April 1, 1976.

Further enquiries regarding tobacco tax matters should be directed to:

Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1Y3
(416) 965-6352

Increased Revenue from Spirits, Wine and Beer

The gallonage tax on beer will be increased by 7.5¢ per gallon to a total of 46.5¢ per gallon. This will be reflected by a 15¢ increase in the retail selling price of a case of 24 bottles of beer.

Mark-ups, including implied retail sales tax, on spirits, wine and imported beer will be increased by averages of:

- 30¢ per 25 ounce bottle of Canadian spirits;
- 35¢ per 25 ounce bottle of imported spirits;
- 10¢ per 26 ounce bottle of Canadian wine;
- 15¢ per 26 ounce bottle of imported wine; and
- 5¢ per 12 ounce bottle of imported beer.

Proportional increases will be applied to other container and package sizes.

Actual price changes for individual products will be announced by the Liquor Control Board of Ontario.

Effective: April 20, 1976.

Enquiries regarding spirits, wine and beer price increases should be directed to:

Liquor Control Board of Ontario
55 Lakeshore Blvd. E.
Toronto M5E 1A4
(416) 965-0153

The Retail Sales Tax Act

Exemption for Prepared Meals

The exemption for prepared meals will be increased to $5.00 from the present level of $4.00.

Effective: April 7, 1976.

Tax Relief for Thermal Insulation Materials

Sales tax relief will be provided on purchases of the following thermal insulation materials when used for the insulation of existing residences:

- batt or blanket type insulation;
- loose fill insulation;
- rigid insulation; and
- reflective insulation.

Details regarding this measure will be provided by the Ministry of Revenue.

Effective: April 7, 1976.

Reduced Sales Tax on Mobile Homes

New mobile homes which are purchased from a vendor, and which meet all C.S.A. Standards in the Series Z240 and amendments thereto, will be subject to a tax of 7 per cent on a reduced base equal to a standard percentage of the vendor's selling price for the unit. This measure effectively accords to mobile homes a tax treatment equivalent to that experienced in on-site residential construction.

For the purpose of the tax treatment described herein mobile homes meeting the above C.S.A. Standards include units for residential use only.

The method of calculating the reduced tax base, and further information, will be published by the Ministry of Revenue.

Effective: April 7, 1976.

Further enquiries regarding retail sales tax changes should be directed to:

Retail Sales Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1X8
(416) 965-5772

or

Contact the nearest Retail Sales Tax District Office.

Fees for Drivers of Uninsured Motor Vehicles

The fees for drivers of uninsured motor vehicles will be increased from \$60 to \$100 per annum.

Effective: December 1, 1976.

Appendix B

The Ontario Health Insurance Plan

Premiums

1. OHIP premiums will be increased from the current single and family certificate rates of $11.00 and $22.00 per month respectively to $16.00 and $32.00 per month respectively.

   Effective: for premiums due on and after May 1, 1976.

2. All pensioners, social assistance recipients and others currently receiving free OHIP coverage will continue to receive free coverage when the higher premiums come into effect.

Premium Assistance

For 1976, premium assistance will be broadened as follows:

(a) Free Coverage

- single persons having taxable incomes of $1,534 or less;
- families having taxable incomes of $2,000 or less.

(b) Half Rates

- single persons having taxable incomes between $1,534 and $2,000;
- families having taxable incomes between $2,000 and $3,000.

Eligible persons must apply to the Ontario Health Insurance Plan (OHIP) to receive these subsidized premium rates.

Further enquiries regarding the Ontario Health Insurance Plan should be directed to:

Ontario Health Insurance Plan
P.O. Box 1744
Station R
Toronto M6G 2T3
(416) 482-1111

Budget Papers

Presented for the information of
the Legislative Assembly of Ontario
by the Honourable W. Darcy McKeough,
Treasurer of Ontario and
Minister of Economics and
Intergovernmental Affairs, April 6, 1976

Budget Paper A

Economic Recovery in Ontario

Table of Contents

Economic Recovery in Ontario

Introduction

At the beginning of 1975, the international economy was in recession and the Canadian and Ontario economies were headed downwards. To counteract this decline in economic activity, the Government of Ontario implemented strong expansionary fiscal actions. More than $600 million in immediate tax cuts and incentive programs were undertaken to stimulate the economy. By year's end Ontario's economic contraction had proved to be short term, with renewed expansion in the second half of the year erasing earlier losses. Not only was a serious recession averted but a base was built-up for resumed growth in 1976. The stabilization policies of the Ontario Government contributed substantially to this turnaround in the Ontario economy.

Section I of this paper provides a brief overview of international trends in output, employment and prices in 1974 and 1975, to illustrate the recessionary forces which impacted on the Canadian and Ontario economies. Section II documents the expansionary impact of Ontario's major fiscal actions introduced in 1975 to counter these recessionary forces. Section III deals with the current economic outlook and the reasons for renewed buoyancy in the Ontario economy in 1976.

I Recessionary Forces in 1975

The deepening recession in the international economy in 1975 prompted introduction of stimulative measures by many governments. In Canada, the federal government had already adopted a moderately expansionary fiscal stance in November, 1974.[1] However, the significant deterioration which occurred in the economic situation during the early months of 1975 indicated that stronger action was required. The *1975 Ontario Budget* implemented a firmly expansionary fiscal policy in April, mainly through temporary cuts in taxes.[2] At the same time, the Treasurer of Ontario called for appropriate federal actions to ensure recovery in the economy.[3] With the subsequent introduction of the incongruent federal budget in June, the Province was forced to add further stimulation to the economy in the July *Supplementary Actions*.[4]

[1]Hon. John N. Turner, *Budget Statement* (Ottawa: Department of Finance, November, 1974).

[2]Hon. W. Darcy McKeough, *Ontario Budget 1975* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1975).

[3]These related to housing and energy prices. See Hon. W. Darcy McKeough, *Ibid.*, pp. 13-15 and p. A-12.

[4]Hon. W. Darcy McKeough, *Supplementary Actions to the 1975 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1975).

These strong internal support actions by Ontario helped to counteract the external forces of recession and prevent an actual decline in Ontario's Gross Provincial Product.

Most industrial economies experienced a sharp drop in economic activity in 1975. For the U.S. economy, it was the second successive year in which real output declined by 2 per cent. The recession in 1975 was even more severe in the European economies. Only Japan and Canada, of the seven OECD countries shown in Table 1, recorded any gain in real output. Ontario's economic performance dipped below that of Canada's in the first half of 1975, but with a stronger performance in the second half, the Province finished the year without suffering a decline in real output.

Real Growth in OECD Countries — Table 1

(percent change from previous year)

	1974	1975
Japan	−1.8	1.3
Canada	2.8	0.2
United States	−2.1	−2.0
France	3.9	−2.0
United Kingdom	0.1	−2.3
West Germany	0.4	−3.8
Italy	3.2	−4.5
Total OECD	−0.1	−2.0

Source: *Economic Outlook* (Paris: Organization for Economic Co-operation and Development, December, 1975) and most recent data from Canada and the United States.

Unemployment worsened in 1975 in response to the general economic downturn. Table 2 shows that rates of unemployment rose sharply in most major economies. While the absolute rates of unemployment are not necessarily comparable between countries, it is clear from the percentage increases in rates that the rise in unemployment was

Unemployment Rates in OECD Countries — Table 2

	First Half of the Year		Percent Change
	1974	1975	
United States	5.2	8.7	67
Canada	5.4	7.1	31
West Germany	2.2	4.8	118
France	2.0	3.6	80
United Kingdom	2.4	3.4	42
Italy	2.7	3.2	19
Japan	1.3	1.8	38

Source: *Economic Outlook* (Paris: OECD, December, 1975).

Note: These rates are not comparable among countries.

generally substantial and of uneven impact. In this context, the relative increases in Canada's and Ontario's unemployment rates were more moderate. Nevertheless, the level of unemployment in Ontario—at 6 per cent—was high by historical standards.

The build-up in idle productive capacity and the depressed levels of demand in the international economy resulted in a deceleration in the rate of price inflation in 1975. As was the case in 1974, the performance of prices in 1975 varied widely among countries, ranging from a low inflation rate of 5.8 per cent in West Germany to a high of 21.5 per cent in the U.K. Canada's rate of inflation was in the middle of the range for the second consecutive year. Ontario's price performance tends to mirror that of Canada.

Consumer Price Increases in OECD Countries
(percent change from previous year)

Table 3

	1974	1975
West Germany	7.0	5.8
United States	11.0	9.1
Canada	10.9	10.8
France	13.7	11.8
Japan	24.4	12.3
Italy	19.1	16.8
United Kingdom	15.1	21.5
Average	+13.6	+10.0

Source: *Economic Outlook* (Paris: OECD. December, 1975) and most recent data for Canada and the United States.

It is apparent that forces of world recession impinged on Canada and Ontario in 1975, particularly the spillover impact of recession in the U.S. economy. The provincial economy was more vulnerable to these developments because of the weakness in international demand for Ontario's manufactured goods and raw materials. The province weathered these pressures owing in large part to the expansionary measures implemented in the Ontario Government's 1975 Budget.

II The Expansionary Impact of Ontario's Fiscal Actions in 1975

The Government's major stimulation measures were introduced in April in the *1975 Ontario Budget* and subsequently reinforced by the July *Supplementary Actions*. They were designed to be immediate and temporary in effect, focused on sectors most needing stimulus and directed at the expansion of basic productive capacity.

The thrust of Ontario's fiscal policy was to give direct and immediate impetus to private sector spending by temporary tax cuts. The Government rejected the alternative of increasing its own spending because this form of stimulation tends to get locked into the permanent expenditure stream. The Government is committed to a program of expenditure restraint, which is explained in Budget Paper C.

The principal stabilization actions implemented by Ontario in 1975 included:

- reducing the retail sales tax from 7 per cent to 5 per cent, from April 7 to December 31, 1975;
- rebating to consumers the entire sales tax on new car purchases, from July 7 to December 31, 1975; and
- providing a $1,500 grant to first time homebuyers, from April 7 to December 31, 1975.

As a longer term measure to encourage investment and increase productivity, the retail sales tax was also removed from machinery and equipment purchases delivered before December 31, 1977.

The cost of Ontario's stimulation measures is estimated at $590 million in 1975-76, as shown in Table 4. This figure is equivalent to about 1 per cent of Ontario's 1975 Gross Provincial Product and to 31 per cent of the Government's total net cash requirements. In these terms the magnitude of the measures taken was very substantial indeed.

Value of Ontario's Fiscal Actions Table 4
($ million)

Temporary Fiscal Measures	1975-76
Retail Sales Tax Cut	
• to consumers	240
• to business	107
Machinery and Equipment Exemption from Retail Sales Tax	108
First Home Buyer Grant	90*
Rebate of Sales Tax on Automobiles	45*
Total	590

*The original estimate for the First Home Buyer Grant was $55 million and for the rebate of sales tax on automobiles, $24 million.

The design of Ontario's fiscal actions has been commended by an independent source. To quote from the May/June issue of the Canadian Tax Journal:

> "... in particular the recent budget for Ontario, provide(s) a significant stimulus to the economy. Moreover, the stimulus provided in the Ontario budget appears well designed in the following respects.
>
> 1. The measures are tailored to have maximum impact around

the turn of the year, with the effects tapering off as the recovery of the economy gathers strength.

2. With heavy reliance on sales tax reductions, inflationary pressures are temporarily abated.

3. A significant stimulus is provided to investment spending, particularly in 1976, thereby contributing to a lessening of capacity utilization pressures as the recovery proceeds beyond 1976."[5]

The remainder of this section assesses the impact of these temporary measures in terms of the increased economic activity which they created in Ontario.

The Reduction in Retail Sales Tax

The most substantial of the temporary measures introduced in 1975 was the cut in the retail sales tax from 7 per cent to 5 per cent. The reduced rate of tax was effective from April 7 until December 31, when it expired as scheduled. This measure was also the most pervasive in impact, since it benefitted all sectors of the economy. In his Budget Statement, the Treasurer said:

"The benefits of this action will spread rapidly throughout the economy. Initially, it will stimulate spending on cars, stoves, refrigerators, colour televisions and so on. This increased activity will flow into distribution, manufacturing and other industries and generate increased production and jobs."[6]

Professors Wilson and Jump estimated that the reduction in Ontario's retail sales tax plus the homebuyer grants accounted for over one-half of the total combined expansionary impact of tax changes made by all provinces in 1975. They also indicated that the tax reduction (including the exemption for production machinery) reduced the rate of inflation by 0.3 per cent.[7] It should be noted that this independent analysis does not include the additional impact of the tax rebate on new car purchases introduced in July. Neither could it make allowance for the fact that the homebuyer grant program stimulated house buying to such an extent that its value rose to $90 million by year's end.

Table 5 shows how the estimated $347 million in tax savings was distributed among broad sectors of the economy. Clearly, consumers enjoyed the bulk of the benefits and as expected, retail trade in Ontario immediately picked up momentum.

In the January to April period, prior to the sales tax cut, retail trade was more sluggish in Ontario than in the rest of Canada. In the eight

[5]T. A. Wilson and G. V. Jump, "Economic Effects of Provincial Fiscal Policies, 1975-76", *Canadian Tax Journal*, May/June, 1975, p. 260

[6]Hon. W. Darcy McKeough, *Ontario Budget 1975*, *op. cit.*, p. 3.

[7]T. A. Wilson and G. V. Jump, *op. cit.*, p. 259.

Benefit of the Sales Tax Cut, 1975 — Table 5

($ million)

Consumers	240
Industry and Commerce	52
Construction	25
Housing	30
Total	347

months following the tax cut, however, sales picked up and Ontario finished the year ahead of the rest of Canada by almost two full percentage points. This strong response by Ontario consumers is shown in Table 6. It should be noted that part of the gain in retail sales reflects the stimulative impact of the rebate of sales tax on automobiles which became effective in July.

Value of Retail Trade — Table 6

(percent increase)

	Ontario	Rest of Canada
January-April, 1975	9.7	11.5
May-December, 1975	15.7	12.5
1975 over 1974	14.0	12.2

Source: Statistics Canada.

Note: Figures on retail trade include sales taxes paid. Thus, the increase in retail trade with respect to dollars worth of goods traded is biased downward due to the reduction in the retail sales tax rate from 7% to 5%.

Retail sales in Ontario and the rest of Canada are shown by major categories of stores in Table 7. The data is in terms of percentage increases in the first half and the second half of 1975 over the same

Retail Trade by Establishment, 1975 — Table 7

(percent increase)

	Ontario		Rest of Canada		Year	
Selected Stores	First Half	Second Half	First Half	Second Half	Ontario	Rest of Canada
Department	10.1	15.2	11.6	17.1	12.6	14.4
General	11.3	8.6	5.7	7.4	10.0	8.7
Variety	8.8	15.4	6.7	10.0	12.1	11.1
New Motor Vehicles	13.0	43.4	9.4	18.1	28.2	13.8
Men's Clothing	7.6	12.0	7.0	7.0	9.8	7.0
Women's Clothing	14.3	18.1	10.7	14.8	16.2	12.8
Hardware	6.5	13.9	2.8	8.5	10.2	5.7
Household Furniture	8.4	16.5	13.7	28.7	12.5	21.2
Household Appliance	9.6	14.1	1.6	0.4	11.9	6.2
Furniture, TV, Radio	−25.8	15.6	−1.8	1.1	5.1	0.3
All Stores	9.6	17.8	10.6	13.6	14.0	12.2

Source: Statistics Canada.

periods of a year earlier. The recovery in retail sales in Ontario is even more pronounced on this basis, rising from a 9.6 per cent increase in the first half of the year to a gain of 17.8 per cent in the second half. As expected, major gains were made in sales of big ticket consumer durables —especially in comparison to sales in the rest of Canada. These large gains undoubtedly also reflect the indirect impact of Ontario's First Home Buyer Grant program. Motor vehicles and clothing were other areas of substantial strength. Automobile sales were stimulated very strongly by the full rebate of sales tax on new cars.

Tax Rebate on New Car Purchases

Ontario's rebate of retail sales tax on new car purchases, effective July 7 to December 31, 1975, was a direct response to the June federal budget. The federal budget raised oil prices $1.50 per barrel, increased natural gas prices, and placed a 10¢ per gallon excise tax on gasoline sold at the pump. Ontario had already demonstrated in April that a further increase in energy prices would severely retard the anticipated recovery in the Canadian and Ontario economies.[7] Table 8 shows the huge additional cost burden to the Ontario economy of the 1974 and 1975 energy price increases.

Annual Cost to Ontario
of Federal Energy Policies
($ million)

Table 8

	1974 Price and Tax Increases	1975 Price and Tax Increases	Total
Crude Oil	560	300	860
Natural Gas	180	300	480
Excise Tax	—	140	140
Total	740	740	1,480

Source: Ontario Treasury estimates.

The higher energy prices announced in the federal budget came at a time when the North American automobile industry was in a depressed state. Sales were sluggish and production was falling. In the first half of 1975, sales of North American-built cars in Ontario were off 6.1 per cent. Production in Canada was down by 20 per cent over the same period, and industry lay-offs reached as high as 50,000 workers.

The $44 million tax rebate program helped turn the car market around and propel it to a record year of sales in Ontario.[8] Following

[7]Hon. W. Darcy McKeough, *op. cit.*, p. A-18.

[8]The initial cost estimated was $24 million. However, higher than anticipated sales volume and the broadening of the program to include all imports boosted costs substantially.

the introduction of the tax rebate, sales of North American-produced cars in the province rose by 38.1 per cent in the second half of 1975, compared with a drop of 6.1 per cent in the first half. This strong response boosted full year sales in Ontario to nearly 14 per cent above the 1974 level. By contrast, in the rest of Canada, only a modest improvement in sales occurred in the second half of 1975, and sales for the full year were down from 1974 levels.

Sales of Automobiles in Ontario and the Rest of Canada in 1975 — Table 9
(percent change)

	Ontario	Rest of Canada
All Automobiles		
January-June, 1975	−4.5	−6.8
July-December, 1975	+35.7	+7.6
1975 over 1974	+13.8	−0.4
North American Automobiles		
January-June, 1975	−6.1	−7.8
July-December, 1975	+38.1	+8.0
1975 over 1974	+13.8	−0.9

Source: Statistics Canada.

Table 10 shows that the production of cars exhibited a similar turnaround in volume. After a 19 per cent drop in volume in the first six months, production recovered strongly in the final six months to the level achieved in 1974. Employment in the automotive industry recovered strongly, and, by year's end, the lay-off level had been reduced to less than 5,000 workers. It is estimated that the tax rebate program directly resulted in sales and production of 40,000 additional cars in 1975. Roughly half of that number represents activity borrowed from 1976, leaving a true incremental impact of 20,000 cars. This clearly indicates that the incentive succeeded in its objective of temporarily stimulating the automobile market in Ontario, until recovery in the U.S. economy picked up the slack. In the first three months of 1976, automobile production in Canada increased by 22 per cent over levels of a year ago.

Canadian Passenger Car Production — Table 10

	January-June	July-December	Full Year
1974	672,597	516,033	1,188,630
1975	542,868	520,686	1,063,554
75/74	−19.3%	+0.9%	−10.5%

Source: Statistics Canada and Ontario Treasury estimates.

$1,500 Grant for First Home Buyers

Apart from the automobile industry, the other major weak spot in the economy in 1975 was the housing sector. Ontario's $1,500 First Home Buyer Grant was a direct response to this situation.

In the early months of 1975, housing starts were running 58 per cent below 1974 levels. Housing completions were also down substantially. As Table 11 shows, sales of existing homes—based on Ontario Registry Office data for Metro Toronto—declined by 41 per cent in the first six months of 1975 over the same period a year earlier. The pronounced slowdown in the resale market impacted on sales of new homes and the level of inventories of new dwellings surged to 11,541 in February, 1975, double the level of a year earlier.

Ontario Housing Activity — Table 11

	1974	1975	Percent Change
	Jan.-Mar.	Jan.-Mar.	
Housing Starts	15,551	6,569	−58
Completions	20,035	14,862	−26
Inventories (monthly average)	5,834	11,323	+94
Toronto Housing Sales (January-June)	25,220	14,972	−41

Source: 1. Starts and Completions—CMHC.
2. Toronto Housing Sales—Ontario Registry Office data.

Given the weak state of the housing sector in early 1975, extra stimulation was essential. The First Home Buyer Grant of $1,500 was specifically tailored to the existing market conditions. It was designed to:

- restore confidence in the new housing market;
- reduce the inventory of unsold homes;
- encourage trading-up by existing owners;
- lower the effective down payment; and
- assist first-time homebuyers with reduced carrying costs over the first two years.

The grant program was effective from April 7 to December 31, 1975. Qualifying recipients received an initial $1,000 grant upon registration of the purchase and are entitled to a further $250 on each of the following two anniversary dates.

The great success of the program is evident since some 90,000 purchasers took advantage of this incentive to acquire their first home. In 1975, first-time buyers accounted for fully 54 per cent of total housing sales as compared to about 30 per cent in a normal year. Table 12 shows this significant influx of first-time buyers into the market, 27,000 of whom bought a new dwelling.

Home Purchases in Ontario, 1975 — Table 12

	First-Time Buyers	Total Housing Sales
Existing	57,700	106,000
New	27,200	51,188
Total	84,900*	157,188

Source: Estimates based on preliminary Ontario Ministry of Revenue data.

*An additional 5,100 persons received grants either by building their own home or purchasing a mobile home.

As this new demand was felt in the housing market, the inventory of unsold units was rapidly run down and by summer, the impact began to show on housing starts. The strong rebound in housing starts in Ontario is documented in Table 13. Whereas at mid-year, urban starts were down by over 14,000 units, more than 10,000 of this loss was recovered by the dynamic resurgence of starts in the second half. This rebound in housing starts continued in the first quarter of 1976.

Urban Dwelling Starts in Ontario — Table 13

	1974	1975	Percent Change
Jan.-Mar.	15,551	6,569	−58
Apr.-June	24,256	18,843	−22
July-Sept.	18,449	19,135	+4
Oct.-Dec.	13,263	23,097	+74

Source: CMHC.

The homebuyers grant program had no price or income criteria and the results of the program attest to the merit of this simple approach. Of the estimated 85,000 units purchased with the help of the incentive, nearly 80 per cent were under $50,000 in price and only 1 per cent were in the price range of $80,000 and over. The price differential between new and resale units was very narrow and the average price for all homes bought under this incentive was $39,118. Details on the performance of the homebuyer grant program by type of unit, price of qualifying units, and regional distribution are included in Appendix A to this paper.

In retrospect, Ontario's three major fiscal initiatives of 1975 were very successful in terms of desirable economic impact. Not only did sales, production and employment revive, but confidence also improved. As a result, the Ontario economy ended 1975 on a firm recovery path. Section III following discusses the economic prospects for the province in 1976.

III Continued Economic Expansion in 1976

Following the surge of activity in the second half of 1975, Ontario's economy should continue to expand throughout 1976. Real growth in Ontario's Gross Provincial Product is expected to reach 5.3 per cent in 1976, a somewhat higher increase than is expected for Canada as a whole. Export performance is expected to be the leading source of strength in 1976, reinforced by consumer demand. Investment activity in machinery and equipment is currently flat, but is expected to strengthen as corporate profits recover. The outlook is summarized in Table 14.

Exports

Renewed export strength, particularly among products exported to the United States, will be a dynamic source of growth in 1976. Ontario's exports, more depressed than those for Canada as a whole in 1975, will rebound strongly during 1976 to record an estimated 20 per cent increase. Exports of automobiles and transportation equipment as well as resource industry products will show the earliest recovery, with exports of other manufacturers improving later in the year as U.S. consumer demand continues to strengthen.

Imports to Ontario, which grew at 13.5 per cent in 1975, are expected to maintain this rate of growth in 1976. Ontario's strong growth in exports and stable growth of imports should help Canada's trade balance significantly, offsetting the growing deficit on other items such as petroleum.

Consumption

Domestic consumption in Ontario will resume its normal growth in 1976, as consumers adjust to more stable economic circumstances. Retail sales in Ontario surged ahead in the final months of 1975 through the stimulus of the temporary reductions in retail sales tax to generate a 14 per cent growth for the year as a whole. In 1976 retail sales are expected to advance by 12.2 per cent, a reasonably sustainable level of activity.

Investment

New investment activity is not expected to be strong in 1976, reflecting businesses' immediate concerns to restore production levels, rebuild profits and stabilize inventories. Restraint in public sector spending will also slow investment growth, as in the case of Ontario Hydro's construction program. As the recovery progresses through the year, there will be renewed interest in increasing productive capacity.

As well, the temporary sales tax exemption on machinery and equipment purchases will act to stimulate and accelerate investment activity.

Housing starts, which have continued strong in the early months of 1976 should exceed the 1975 performance of 80,000 units. This level of starts is more than adequate to supply the demand from new household formations in Ontario, and is well above the estimated rate of family formation.

Employment

Reflecting the slower growth in Ontario's population and the substantial completion of the transition into the labour force of the post-war baby-boom, Ontario's labour force growth will slow to 3.2 per cent in 1976. This compares with 3.8 per cent in 1975.

In 1976 employment in Ontario is expected to increase by 3.2 per cent or 116,000 new jobs. This is almost double the performance of 63,000 new jobs or a 1.8 per cent increase in employment in 1975. Because of the gradual pace of the economic recovery, unemployment is not expected to improve over the 6.3 per cent level recorded in 1975.

Wages and Prices

Active support for the task of the Anti-Inflation Board by all sectors of the community will slow the growth of consumer prices in Ontario to 9 per cent, down from the 10.2 per cent increase recorded in the Toronto-Ottawa areas in 1975. Basic wage settlements, which peaked in Ontario in the fourth quarter of 1974 at 15.5 per cent, moderated throughout 1975 to 12.9 per cent by the end of the third quarter. More moderate wage settlements in the public sector in Ontario over this period are particularly encouraging. Higher levels of employment and sustainable patterns of wage settlements should yield an increase in personal incomes of about 14 per cent in 1976.

Summary

Resumed growth in the United States and the stabilizing of other major economies should ensure the resumption of normal levels of economic performance in Canada in 1976. With restraint in the government sector and more moderate wage and price increases, Ontario's economic performance in 1976 will be better balanced and more consistent with long-term international competitiveness. This will establish a firm base for sustained economic expansion in the years ahead.

The Ontario Economy, 1974-1976 — Table 14

	1974	1975	1976	74/73	75/74	76/75
		($ billion)			(percent)	
Gross Provincial Product	58.3	64.0	73.9	16.9	9.7	15.4
GPP (constant 1971 dollars)	45.0	45.0	47.4	2.8	—	5.3
Prices						
GNE Deflator (1971 = 100)	129.4	141.9	155.5	13.8	9.7	9.6
Consumer Price Index (1971 = 100)	123.4	136.0	148.2	10.6	10.2	9.0
Private and Public Investment	11.4	13.0	14.5	20.0	14.0	11.5
Machinery and Equipment	4.2	5.0	5.5	22.3	19.0	10.0
Total Construction	7.2	8.0	9.0	18.0	11.1	12.5
Non-Residential	4.3	5.3	6.0	20.0	23.3	13.2
Residential	2.9	2.7	3.0	15.4	−6.9	11.1
Retail Sales	16.6	18.9	21.2	14.2	14.0	12.1
Personal Income	45.0	51.2	58.4	15.5	13.7	14.0
Corporate Profits (before taxes)	8.2	8.0	9.2	27.2	−2.4	15.0
Population (000's)	8,094	8,226	8,346	2.0	1.6	1.5
Labour Force (000's)	*	3,856	3,980	*	*	3.2
Employment (000's)	*	3,613	3,729	*	*	3.2
Unemployment (% of labour force)	*	6.3	6.3	*	—	—
Housing Starts (thousands of units)	85.5	80.0	82.0	−22.6	−6.4	2.5
Exports	17.8	18.6	22.3	17.3	—	20.0
Imports	13.3	14.9	17.0	14.9	13.5	14.0

*Not available on revised labour force base.

Appendix A

The following tables show the impact of the Home Buyer Grant in terms of:

- type of home purchased;
- regional distribution;
- prices of homes purchased; and
- average house prices by region.

This information is based on preliminary estimates from Ontario Ministry of Revenue data.

Type of Home Purchased — Table A-1

Mobile and own-built	5,100
New	27,200
Existing	57,700
Total	90,000

Distribution of Grants by Region — Table A-2

	New	Resale	Total	Percent of Total
Eastern Ontario	5,400	7,700	13,100	14.6
Central Ontario	9,400	15,700	25,100	27.9
Metropolitan Toronto	4,800	14,500	19,300	21.4
Southwestern Ontario	5,300	13,300	18,600	20.7
Northern Ontario	2,200	5,400	7,600	8.4
Not allocated by Region	5,200	1,100	6,300	7.0
All Ontario	32,300	57,700	90,000	100.0

Distribution of First Home Buyer Grants by Price Range — Table A-3

Price of House	Percent	Cumulative Percent
Up to $20,000	9.2	9.2
20,000 to 30,000	18.4	27.6
30,000 to 40,000	28.4	56.0
40,000 to 50,000	23.4	79.4
50,000 to 60,000	12.7	92.1
60,000 to 70,000	4.9	97.0
70,000 to 80,000	1.6	98.6
80,000 and over	1.4	100.0
	100.0	

Average House Prices

Table A-4

	New	Resale
	($)	($)
Eastern Ontario	32,713	33,358
Central Ontario	43,363	40,550
Metropolitan Toronto	47,687	50,972
Southwestern Ontario	35,460	32,721
Northern Ontario	28,009	26,356
All Ontario	39,320	39,005

Budget Paper B

Financing Health Insurance in Ontario

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Financing Health Insurance in Ontario

Introduction

On January 1, 1959, the Government of Ontario, in partnership with the Government of Canada, introduced a universal pre-paid *hospital* insurance plan. Six years later, the Province established a voluntary *medical* insurance plan to cover the 25 per cent of the population not insured through private plans. This mixed system of private and public medical insurance was subsequently replaced by a universal public medicare plan on October 1, 1969, following a prolonged dispute with the federal government over the national medicare legislation.[1] In April, 1972, the hospital insurance system (OHSC) and the medicare system (OHSIP) were amalgamated into a comprehensive health insurance plan, the Ontario Health Insurance Plan (OHIP).

Ontario's health insurance plan has been notably successful in terms of providing benefits to the people of the province. Everyone is enrolled in the insurance plan and is protected for the full range of hospital and medical services, regardless of income, age, occupation or state of health. But this success has not been achieved without cost.

Freely accessible health care has led to increased utilization of health services and a greatly increased flow of resources into the hospital and medical delivery systems. The resultant cost pressure, in conjunction with a decline in the relative importance of premium revenue, has generated a huge financing gap. This budget paper examines these trends in health insurance costs and financing and shows how the premium increase will help to restore financial balance.

I The Problem of Escalating Costs

Over the past five years, expenditure on insured health services has more than doubled, from $1,230 million in 1970-71 to $2,476 million in 1975-76. During the same period, Ontario's Gross Provincial Product grew by 82 per cent and total provincial revenues expanded by 79

[1] This example of federal financial leverage on a Province has been extensively documented. See Hon. W. Darcy McKeough, "Ontario's Experience Under Cost-Sharing", *Supplementary Actions to the 1975 Ontario Budget*, (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, July 1975).

Rising Costs of Insured Health Services

Table 1

($ million)

Year	Spending on Insured Health Services	Gross Provincial Product	Total Provincial Revenues
1970-71	1,230	35,314	5,296
1971-72	1,390	38,212	5,694
1972-73	1,586	43,230	6,294
1973-74	1,703	49,846	7,176
1974-75	2,118	58,270	8,853
1975-76	2,476	64,182	9,482
Growth over 5 years	101%	82%	79%

Note: G.P.P. on a calendar year basis.

per cent. In simple terms, this means that the health insurance plan has consumed a rapidly growing share of the Government's tax revenues and created an ever increasing drain on the Province's economic resources.

Basic hospital and medical services available to everyone account for $2,376 million of the total expenditure of $2,476 million. Extendicare, nursing homes and home care also are insured benefits under OHIP for the aged and infirm. The Province provides $100 million to the financing of these related health services.

A number of factors are responsible for the rapid escalation in health care costs. Some are obvious, such as the increase in the population covered by OHIP and greater use of laboratory tests and services. But these growth factors explain only a minor part of the overall expansion in spending. The root causes of cost escalation are the steady rise in the per diem costs of hospital care and the greatly expanded volume of medical claims. These major forces of expenditure growth are examined in some detail in the following sections.

Hospital Services

Expenditures on insured hospital services have increased from $794 million in 1970-71 to $1,634 million in 1975-76—a rise of 106 per cent over five years. On a per capita basis, the increase in hospital costs is almost as dramatic, from $105 in 1970-71 to $198 in 1975-76. This rate of cost escalation is more than twice the rate of inflation over the same period. These basic trends are set out in Table 2.

Table 3 opposite illustrates the main determinants of the rise in hospital spending since 1970-71. The volume of hospital services has not increased materially: although patient admissions have risen, this has been offset by a diminishing length of stay. The entire cost pressure, therefore, has come from rising unit costs. Expenditure on insured

Insured Services Expenditures—Hospitals — Table 2

Year	Expenditures ($ million)	Insured Population (000's)	Per capita Cost ($)	Consumer Price Index[1] (1971 = 100)
1970-71	794	7,634	105	97.9
1971-72	909	7,823	116	100.0
1972-73	1,014	7,827	131	104.1
1973-74	1,088	7,957	137	116.0
1974-75	1,395	8,112	172	123.4
1975-76	1,634	8,243	198	136.0
Increase over 5 years	106%	8%	89%	39%

[1]Calendar year basis.

services per patient day has increased from $54 in 1970-71 to $112 in 1975-76.

Increased wages and salaries are the main reason for the increase in unit costs. Nurses and other hospital employees have been awarded substantial pay increases over the five year period, raising the average pay per hospital employee from $2.94 per hour in 1970-71 to $5.76 per hour in 1975-76. This represents not only a catch-up for hospital workers but a move ahead of the average industrial wage in Ontario. One-quarter of hospital budgets go into non-wage items such as food and energy, and these cost components have also risen strongly over the past five years.

Sources of Cost Growth—Hospital Services — Table 3

	1970-71	1971-72	1972-73	1973-74	1974-75	Est. 1975-76	Cumulative Change
Volume							
(Number of patient days—millions)	14.6	14.7	14.7	14.3	14.6	14.6	nil
Unit Costs							
(expenditure per patient day—$)	54	63	69	76	96	112	+107%
Total Expenditure ($m)	794	909	1,014	1,088	1,395	1,634	+106%

Major Determinants of Unit Costs

	1970	1971	1972	1973	1974	Est. 1975	Cumulative Change
Number of paid hours (millions)	202	207	211	209	209	210	+4%
Average Pay/Hour $	2.94	3.23	3.51	3.87	4.75	5.76	+96%
Total Wage and Salary Bill[1] ($ million)	593	668	741	808	904	1,209	+104%

[1]EXCLUDES standard fringe benefits equal to approximately 8.5% of wage and salary costs.

Medical Services

Expenditures on insured medical services have risen less rapidly than hospital expenditures. Over the past five years, medical care expenditures increased by 70 per cent, from $436 million in 1970-71 to $742 million in 1975-76. On a per capita basis, costs rose from $58 in the first full year of universal medicare to $90 in 1975-76. Table 4 displays this trend in medicare costs.

Insured Services Expenditures—Practitioners — Table 4

Year	Expenditures ($ million)	Insured Population[1] (000's)	Per Capita Costs ($)	Consumer Price Index[2] (1971 = 100)
1970-71	436	7,483	58	97.9
1971-72	482	7,815	62	100.0
1972-73	541	7,827	69	104.1
1973-74	561	7,957	70	116.0
1974-75	650	8,112	80	123.4
1975-76	742	8,243	90	136.0
Increase over 5 years	70%	10%	55%	39%

[1] Insured population under OHSIP for 1970-71 and 1971-72.

[2] Calendar year basis.

Unlike the hospital sector where unit costs are pushing up total expenditures, in the medical sector it is the volume of services which is driving up spending. The total number of OHIP claims has risen from 32 million in the first full year of medicare to 51 million in 1975-76, a volume increase of 60 per cent. This represents a current utilization rate of one claim every two months for every person in the province, versus one claim every three months five years ago. Table 5 shows the reasons behind this increase in utilization. Clearly, it is a function both of the increase in the number of doctors and practitioners in Ontario, 28 per cent, and of the increased volume of service per practitioner, 26 per cent.

Unit costs of medical services have risen very little over the past five years. While the fee schedule has been revised upward by 17 per cent, the average cost per OHIP claim has only risen by 6 per cent, from $13.63 in 1970-71 to $14.43 in 1975-76. This indicates a change in the mix of services being provided by practitioners such as the trend to more repeat and follow-up visits which have a lower claimable fee.

Controlling Costs

Ontario's health care delivery system has been studied extensively to identify where and how economies can be achieved. The Ministry of Health has embarked on a long-term program to reduce the cost

Sources of Cost Growth—Medical Services — Table 5

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	Cumulative Change
Volume							
OHIP Claims (millions)	32	35	40	44	47	51	+60%
Unit Costs							
Cost per Claim ($)	13.63	13.85	13.42	13.04	13.60	14.43	+6%
Total Expenditure ($ million)	436	482	541	561	650	742	+70%

Determinants of Volume of Claims

	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	Cumulative Change
Number of practitioners	11,700	12,400	13,234	13,826	14,362	14,927	+28%
Claims per practitioner	2,735	2,806	3,023	3,146	3,293	3,437	+26%
Volume of claims (million)	32	35	40	44	47	51	+60%

spiral for hospital and medical services. This includes actions to eliminate surplus hospital beds, to rationalize laboratory facilities, to control the volume of lab tests, to restrict capital financing and to place all hospitals under tight constraints on operating budgets. In 1976, hospital budgets will be limited to increases of 8 per cent for wages and salaries and 10 per cent for other costs. On the medicare side, the Ontario Medical Association has agreed to a fee increase of 8.1 per cent effective May 1, 1976. With this strong cost-cutting program, total expenditures on insured health services are expected to grow by only 12 per cent for fiscal 1976-77, versus the 15 per cent average annual growth rate over the previous five years and the 20 per cent average annual growth rate from 1973-74 to 1975-76.

Complementary action is also necessary on the financing side. Even with a strict regimen of cost control the deficit in health care financing would rise in 1976-77 in the absence of a premium increase. The following section deals with this basic problem of underfinancing.

II The Widening Gap in Financing

Ontario's comprehensive health insurance plan is financed from three sources. About 45 per cent of the funding is in the form of shared-cost reimbursements from the federal government. The remaining

55 per cent is financed by the Province in the form of health premiums and contributions from the Consolidated Revenue Fund.

The financing problem arises because premium revenues grow only by about 2 per cent per year, or roughly the rate at which population increases. Without periodic increases in premium rates, therefore, revenues from this source cover a steadily diminishing share of the total costs. In addition, contributions from the federal government are based on complex formulas involving national average costs, eligible expenditures and the like, and hence barely keep pace with the escalation of costs in Ontario. Moreover, the federal government intends to limit its financial participation in the future by the imposition of ceilings, which in turn will place a heavier burden on Provincial sources of finance.

Over the past five years, the shortfall between health insurance costs and the revenue from the federal government plus premiums has steadily widened. This financing gap was a relatively modest $72 million in 1970-71 when premiums covered 44 per cent of costs. By 1975-76, premiums covered only 23 per cent of costs, leaving a shortfall of $788 million to be made up from the general revenues of the Province. Table 6 and Chart 1 illustrate this increasing claim on the Province's revenue base.

Health Insurance Financing — Table 6

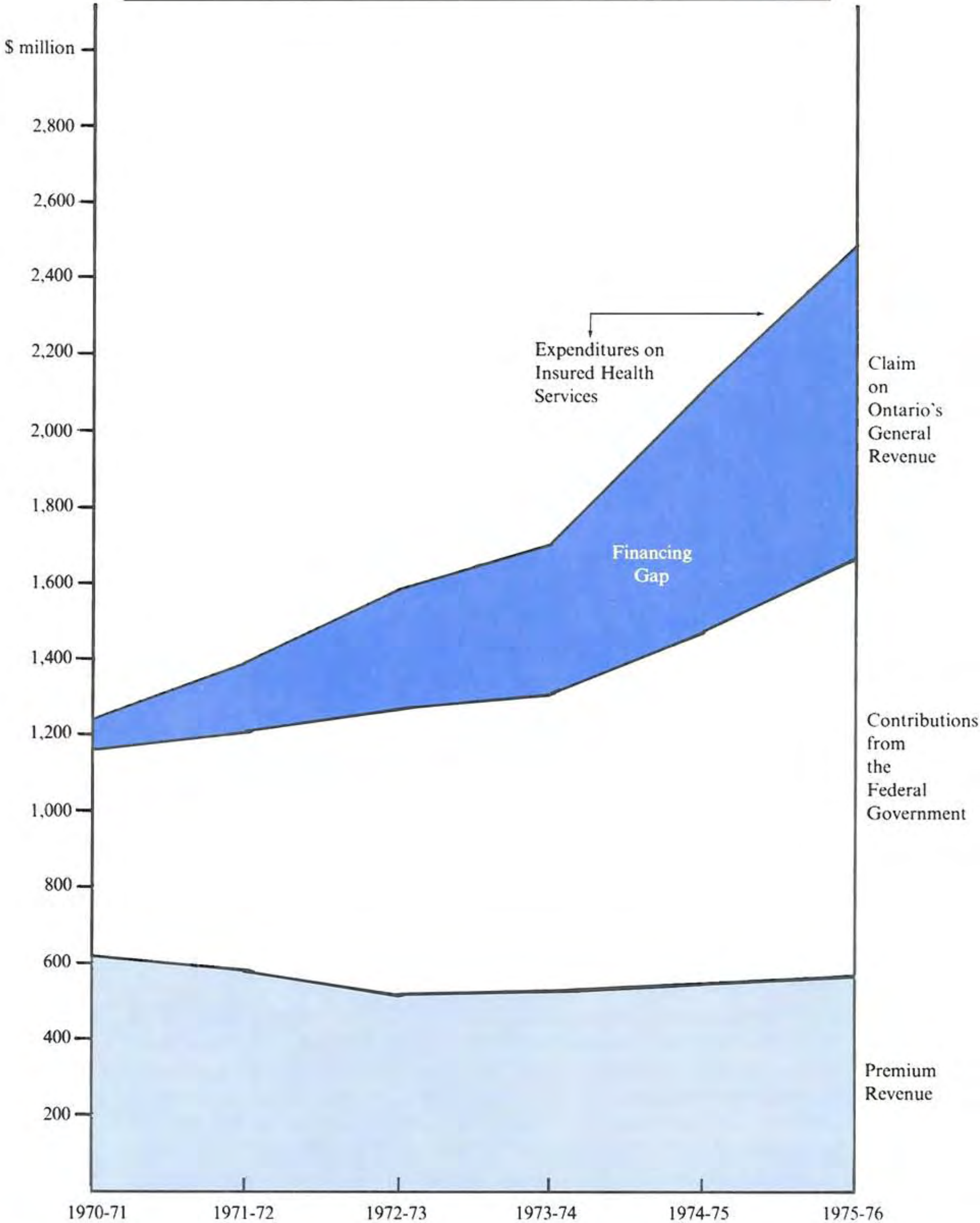
($ million)

Year	Expenditures on Insured Services	Sources of Revenue[1]		
		Premiums	Government of Canada	Ontario's General Revenue
1970-71	1,230	619	539	72
1971-72	1,390	580	625	185
1972-73	1,586	520	746	320
1973-74	1,703	530	777	396
1974-75	2,118	550	927	641
1975-76	2,486	564	1,134	788

[1]A small additional amount of money is generated through per diem charges for private and semi-private hospital care. Part of these funds stays with hospitals to pay interest on capital loans and the balance is used as offset revenue to reduce operating expenditure.

Premiums historically have been a major source of funding, averaging one third of total financing. Despite the declining relative importance of this revenue source in recent years, health premiums remain the only direct link between the user of health services and the costs of providing those services. For this reason alone, it is essential to increase this direct revenue flow from the consumers of health services. Table 7 provides clear evidence of the weakening of this essential link between costs and benefits. In 1975-76, per capita expenditures on insured health services amounted to over $300, of which per capita premiums financed only $68.

The Health Financing Gap — Chart 1



Insured Health Services
Per Capita Expenditure and Per Capita Premium

Table 7

Year	Per Capita Expenditure	Per Capita Premium	Premium as Percent of Expenditure
	($)	($)	
1970-71	162.23	81.10	50%
1971-72	177.75	74.14	42%
1972-73	198.62	66.44	33%
1973-74	214.03	66.61	31%
1974-75	261.09	67.80	26%
1975-76	301.59	68.42	23%

Health insurance premiums have taken up a steadily declining portion of personal income. Table 8 compares the change in per capita premiums to the growth in per capita incomes and to the increase in consumer prices in Ontario. Over the last five years, per capita income has gone up by 68 per cent, prices have increased by 39 per cent but per capita premiums have gone down by 15 per cent.

Per Capita Premium, Per Capita Income
and the Consumer Price Index

Table 8

Year	Per Capita Premium	Per Capita Personal Income	Consumer Price Index (1971 = 100)
	($)	($)	
1970-71	81.10	3,705	97.9
1971-72	74.14	4,006	100.0
1972-73	66.14	4,425	104.1
1973-74	66.61	4,908	116.0
1974-75	67.80	5,559	123.4
1975-76	68.42	6,238	136.0
Change over 5 years	−15%	68%	39%

Who Pays the Premiums

Conventionally, premiums are regarded as a regressive form of taxation. Ontario's health premium system, however, contains three basic elements of progressivity. First, some 20 per cent of the covered population—including pensioners, welfare recipients and low-income families—are entitled to free premiums. A further substantial number are entitled to half premiums. Second, OHIP premiums have been institutionalized as a regular fringe benefit in most collective agreements with the employer paying all or a substantial part of the monthly charge. Third, the premium contribution paid by employers is a taxable benefit under the personal income tax, thereby adding a direct element of progressivity.

Table 9 illustrates the final burden on a representative employee. Two points are noteworthy. The employee's own contribution is quite low—both in absolute terms and in relation to the total OHIP premium. Also, the burden on employees rises modestly as income rises.

The Burden of the OHIP Premium on a Representative Employee—1975 Table 9

FAMILY POLICY ($264/yr.)

Gross Income	Taxable Income	Employer's Share of Premium	Employee's Share of Premium	Employee's Additional Income Tax	Total Burden on Employee
($)	($)	(=88%)	($)	($)	($)
9,000	4,217	232	32	64	96
12,000	7,269	232	32	70	102
15,000	10,269	232	32	76	108
20,000	15,269	232	32	94	126
30,000	25,269	232	32	106	138

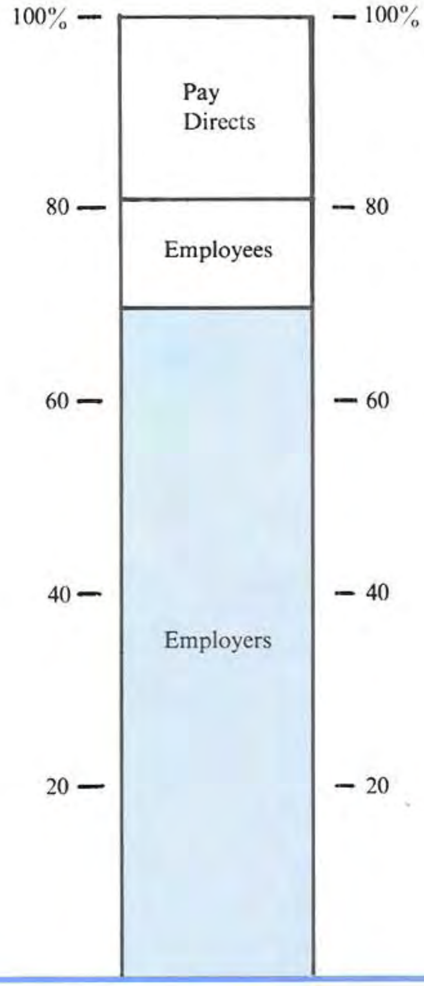
Note: Calculations are based on a family of four with two children under 16, taxable family allowances and 1975 deductions.

The true measure of the equity of any revenue generating mechanism lies not in the apparent structure of the mechanism but in who actually pays the levy. Chart 2 illustrates the burden of premiums in terms of the payments by insured population. The chart clearly shows that in 1975, only 29 per cent of premiums collected were actually paid by individuals. The balance was paid by employers as a taxable fringe benefit. Furthermore, 20 per cent of the population were not required to pay anything for OHIP coverage because of age or income.

The bulk of premium revenue is collected from groups—$459 million out of the total of $564 million in 1975-76. Group coverage is mandatory for any enterprise employing more than 14 people and is optional for any enterprise employing between five and fourteen. Recent surveys of the labour market indicate that approximately 88 per cent of premium revenues from groups is paid by employers as part of fringe benefit packages.[2] This amounts to an estimated $404 million paid by employers, leaving $55 million as the share deducted from employees' take-home pay. Persons paying premiums directly account for the remaining $105 million in revenue and include the self-employed, professionals, family businessmen and farmers.

[2]This proportion has been rising steadily since the creation of OHIP in April 1972. See Hon. W. D. McKeough *Introduction to Supplementary Estimates and Tax Legislation*, (Toronto: Ministry of Treasury and Economics, December, 1971). Also, *Hours, Wages and Related Payments in the Ontario Construction Industry* (Toronto: Ministry of Labour, January, 1975); *Negotiated Wages and Working Conditions in Ontario Hospitals* (Toronto: Ministry of Labour, 1975); *Provisions in Ontario Municipal Agreements* (Toronto: Ministry of Labour, 1975); also unpublished data, Ministry of Labour.

Sources of Premium Revenue, 1975-76 — Chart 2



III Restoring the Balance in Financing

The 1976 Budget takes three complementary actions to preserve equity and restore better balance in health insurance financing. It increases premiums, it broadens premium assistance, and it increases the user charge on semi-private and private hospital accommodation.

Higher OHIP Premiums

Effective May 1, 1976, premium rates will increase by $5 per month for single persons and $10 per month for families. This will raise the annual premiums from $132 to $192 for single persons and from $264 to $384 for families.

It is estimated that this new level of premiums will generate $790 million in revenue, an increase of $228 million over the revenue that would have been received under the previous premium system. In per capita terms, the new premium revenues will amount to $93.95 or about 28 per cent of the per capita cost of insured services in 1976.

Table 10 shows who will actually pay the increased premiums before accounting for the feedback through the personal and corporation income tax systems. Of the total increase of $228 million, some 28 per cent or $64 million will be paid by individuals either on a pay-direct basis or via collective agreements. The balance of $164 million will be paid by employers, most of whom are corporations eligible to write off this cost against the corporation income tax.

Impact of Premium Changes — Table 10

($ million)

	Total Premium Revenue	Increase in Premiums
Pay-direct subscribers	146	+42
Employees	77	+22
Employers	567	+164
Total	790	+228

By writing off as deductions their increased premium payments, corporations will save an estimated $50 million in corporate income tax. This means that the net burden on corporations will rise by $114 million. Similarly, the final burden on individuals, after taking into account the taxability of employer contributions under the personal income tax, will increase to $114 million.

The increase in OHIP premiums will be a point of negotiation in future collective bargaining. Because this is a standard fringe benefit however, it is expected that the present 88 per cent of the premium paid on average by employers will be maintained. This means that employers will pay $106 of the $120 annual increase and the employee share will average only $14 per year. The additional amount paid by employers, of course, will be attributed as a taxable benefit to each employee, thereby adding more weight to this progressive element of the OHIP premium structure. This is shown in Table 11.

Impact of the Premium Increase on a Representative Employee — Table 11

FAMILY POLICY (increase of $120/yr.)

Gross Income	Taxable Income	Employer's Share of Increase	Employee's Share of Increase	Income Tax on Employers Contribution	Total Increase Paid by Employee
($)	($)	($)	($)	($)	($)
9,000	3,762	106	14	28	42
12,000	6,738	106	14	32	46
15,000	9,738	106	14	35	49
20,000	14,738	106	14	43	57
30,000	24,738	106	14	48	62

Enriched Premium Assistance

Effective April 1, 1976, OHIP premium assistance will also be substantially extended. Currently, 1.4 million people receive free or subsidized OHIP coverage. All pensioners and social assistance recipients automatically enjoy free premiums. In addition, all individuals and families with zero taxable income are entitled to free coverage. Premiums at half rates are offered to families having taxable incomes below $2,000, with comparable assistance for single individuals having modest taxable income.

All persons currently entitled to free coverage will continue to enjoy this benefit. Under the broadened premium assistance, however, an additional 296,000 persons will qualify for free coverage. This will be achieved by raising the taxable income criteria from zero to $1,534 for single persons and to $2,000 for families. Partial premium assistance will also be moved up the income scale to embrace single persons with up to $2,000 taxable income and families with up to $3,000 taxable income. With this enrichment of premium assistance, a family of four having a gross income below $8,225 will actually pay a lower OHIP premium, even after the $10 a month increase in the premium rate. These savings will range from $72 to $132 per year for those individuals and families falling within the broader criteria.

The changes in premium assistance mean that in 1976 an estimated 1.8 million people, or almost one person in four in Ontario, will receive free or subsidized OHIP coverage. The value of this premium assistance is no less than $279 million. The breakdown of persons receiving premium assistance and the cost of this assistance is shown in Table 12.

OHIP Premium Assistance, 1976-77 — Table 12

	Persons Benefitting	Value of Premium Assistance
Full Assistance		($ million)
Individuals aged 65 and over	800,000	149
Provincial Welfare Recipients	218,000	29
Municipal Welfare Recipients	147,000	20
Pensioned Veterans	28,000	5
Low Income Individuals and Families	509,000[1]	70
Total Receiving Full Assistance	1,702,000	273
Partial Assistance		
Single	15,000	1
Family	83,000	5
Total Receiving Partial Assistance	98,000	6
Grand Total—all persons receiving premium assistance	1,800,000	279

[1]Under previous premium assistance, 213,000 persons qualified under the zero taxable income criteria.

Increased Per Diem Charges in Hospitals

OHIP benefits cover standard ward accommodation in hospitals. For semi-private or private accommodation, hospitals levy an extra charge averaging \$7.50 and \$12 per day respectively. Effective May 1, 1976, these charges for privacy will be increased to \$11 per day for semi-private rooms and \$22 per day for private rooms. This will raise an additional \$20 million directly from those persons who enjoy these extra benefits. The revenue generated from these user charges will be retained by hospitals and offset against their operating budgets as approved by the Ministry of Health.

Other forms of user charges are also being studied by the Ministry of Health with the objective of strengthening the link between utilization of health services and the cost of providing those services. Among the options considered for 1976 were a flat deterrent fee, a standard deductible amount before coverage under OHIP, and full payment for elective surgery. The increase in OHIP premiums was decided upon in preference to such direct user charges to ensure that everyone continues to enjoy full access to Ontario health services regardless of income, age or state of health.

IV Conclusion

Estimated expenditures on insured health services will reach almost \$2.8 billion in 1976-77. The \$228 million increase in premiums will produce an improved revenue base to finance these expenditures. This will reduce the contribution required from the Province's Consolidated Revenue Fund from \$881 million to \$653 million for 1976-77. It will contribute directly to the reduction in the Province's overall deficit in 1976-77 and ensure a sounder financial base for one of the most comprehensive health care plans in the world.

Premiums will now generate approximately 28 per cent of the total financing of OHIP. This is a more appropriate level than the 23 per cent

Impact of Premium Increase on Health Insurance Financing
($ million)

Table 13

	1976-77 Before Increase	1976-77 After Increase	Percent of Total
Expenditures on Insured Services	2,775	2,775	100
Sources of Financing			
• Premiums	562	790	28
• Federal Government	1,332	1,332	48
• Consolidated Revenue Fund	881	653	24

raised in 1975-76 and is a suitable long-run norm to maintain as health care costs increase in future years.

While a reduction of $228 million in the financing gap is important, it serves to underscore the urgency of the health financing problem. With unilateral actions by the federal government to withdraw from the hospital services agreement and to impose ceilings on medical care transfers, fundamental changes to the delivery of the service may be necessary to control costs. However, the Ontario Government remains committed to the provision of the highest quality health care, accessible to all of Ontario's people.

Appendix B1

Insured Services Under OHIP

Hospital Services	
1959—OHSC	• standard ward accommodation • necessary nursing services in the hospital • diagnostic procedures • drugs prescribed in the hospital • use of operating rooms, delivery rooms, anaesthetic and surgical supplies • services rendered by persons paid by the hospital • emergency out-patient treatment
1964	• out-patient treatment of fractures • radiotherapy—cancer • physiotherapy (including private physiotherapy) • occupational therapy • speech therapy • ambulance services • radiotherapy—non malignant conditions • renal dialysis • dental work in hospitals • temporary prostheses
Medical Services	
1969—OHSIP	• all medically necessary services provided by a physician • 24 specified dental procedures • specified optometry
1970	• health examinations for school children • family planning • cancer detection units • specified chiropracty • specified osteopathy • specified chiropody • specified optometry
Related Health Services	
1972—OHIP	• extended care • nursing homes • home care

Appendix B2

Ontario Health Insurance Plans and Premium Rate History

Insurance Plan History

January 1, 1959—April 1, 1966
- —hospitalization provided (O.H.S.C.)
- —no medical insurance provided by public sector

April 1, 1966—October 1, 1969
- —medical insurance (O.M.S.I.P.) available for social assistance recipients
- —from July 1, 1966, O.M.S.I.P. open for voluntary public participation

October 1, 1969—April 1, 1972
- —official entry by Province into government sponsored medical insurance. Provision of O.H.S.I.P.

April 1, 1972—present
- —health insurance streamlined, with expansion of coverage and a general reduction in premiums (O.H.I.P.).

Premium History

	Single ($)	Couple ($)	Family ($)
1959-1964			
Hospitalization	25.20	50.40	50.40
Medical Services	—	—	—
1964-1966			
Hospitalization	39.00	78.00	78.00
Medical Services	—	—	—
1966-1968			
Hospitalization	39.00	78.00	78.00
Medical Services	60.00	120.00	150.00
1968-1972			
Hospitalization	66.00	132.00	132.00
Medical Services	70.80	141.60	177.00
1972-present			
Hospitalization, Medical Services	132.00	264.00	264.00

Note: Medical Insurance voluntary (O.M.S.I.P.) from 1966 to 1969; compulsory thereafter under O.H.S.I.P.

Appendix B3

Federal Financial Contributions to Ontario's Health Insurance System
($ million)

Fiscal Year	H.I.D.S.A.[1]	M.C.A.[2]	Total
1961-62	104.4	—	104.4
1962-63	118.7	—	118.7
1963-64	136.6	—	136.6
1964-65	151.0	—	151.0
1965-66	169.4	—	169.4
1966-67	193.1	—	193.1
1967-68	231.3	—	231.3
1968-69	279.3	—	279.3
1969-70	318.1	65.0	383.1
1970-71	364.1	174.5	538.6
1971-72	421.6	203.7	625.3
1972-73	521.0	225.0	746.0
1973-74	533.0	244.0	777.0
1974-75	652.0	275.0	927.0
1975-76	846.0	288.0	1,134.0

[1]Hospital Insurance and Diagnostic Services Act (Canada).
[2]Medical Care Act (Canada).

Notes: 1. Figures prior to 1965-66 have been converted from a calendar to a fiscal year.
2. All figures are on a cash-flow basis, i.e., include reimbursements in respect of previous years expenditures. The M.C.A. 1969-70 figure reflects the one-half year federal transfer in respect of the start-up of medical care.

Appendix B4

Average Hourly Wage for Representative Hospital Employees—1975

	Hourly Wage[1]
	($)
Registered Nurse	7.24
Stationary Engineer	6.30
Maintenance-Electrician	6.11
Laboratory Technician	5.82
X-Ray Technician	5.82
Orderly	5.02
Registered Nursing Assistant	4.88
Janitor	4.63
Light Housekeeping	4.12
Average Industrial Wage (Dec. 1975)	5.25[2]

[1]Excludes fringe benefits.
[2]Statistics Canada.

Budget Paper C

Restraining Expenditures

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Restraining Expenditures

Introduction

In 1975, the Ontario Government gave strong fiscal stimulus to the provincial economy. This stimulus was provided primarily through temporary tax reductions to prevent an excessive expansion of Government expenditures. In total, Ontario's necessary fiscal initiatives amounted to $600 million in 1975-76 and accounted for a large part of the increase in the 1975-76 deficit.

The success of this economic support policy is already apparent and the temporary fiscal initiatives have expired as scheduled. The Province has added $330 million to its revenue capacity through tax measures announced in this Budget. To achieve restraint in its demands on the output of the economy, the Government has taken strong action to control the growth of its spending by limiting expenditures to a 10 per cent increase in 1976-77. The strengthened revenue base plus control of expenditure growth has reduced net cash requirements from $1,889 million in 1975-76 to $1,230 million in 1976-77.

This paper highlights the new initiatives that have been taken in reducing the growth rate of Government expenditures. Section I discusses Ontario's initiatives in the context of the national struggle against inflation. Section II details the success of the internal cost-cutting measures enforced in 1975 and outlines the spending limitations established for the 1976 Budget. Section III spells out the new controls which have been implemented to prevent in-year deterioration in expenditure.

I Restraint in a National Context

Ontario has long maintained that excessive government spending is a major inflationary force in Canada.[1] Over the past decade, public sector expenditures have grown at an average rate of 15.1 per cent, compared to a 10.5 per cent average growth in consumer expenditures. Initially, this public expenditure growth was fueled by inflation-generated increases in government revenues. However, this public sector

[1]Hon. C. S. MacNaughton, *Ontario Budget 1970* (Toronto: Ministry of Treasury and Economics, 1970) and Hon. W. Darcy McKeough, *Ontario Budget 1975* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1975).

growth continued even when the economy stopped growing, thereby diverting resources from investment and private incomes. Such excessive public sector expansion must be at the expense of private initiative and a stable economy.

These views were stated firmly in the April 1975 Ontario Budget.[2] In June 1975, the Special Program Review was established to enquire into the ways and means of restraining the cost of government in Ontario.[3] In this context, internal cost-cutting provided all of the flexibility required to finance the additional fiscal measures introduced in the July *Supplementary Actions*.[4]

Ontario has for some time recognized the urgent necessity of federal leadership in combatting inflation. This is essential for those living on fixed incomes or savings, who otherwise would face a declining standard of living, and for the maintenance of a competitive position in international trade by Canadian industry. The steadily worsening price performance in Canada versus that in the U.S.A. made action imperative. On October 14, 1975, the federal government announced a program to reduce the rate of inflation in Canada. The main features of the program were the introduction of national price and income controls in the private sector, agreements with the provinces on public sector controls and restraint in the federal government's expenditures.

Following the announcement of the federal anti-inflation program, Ontario immediately declared its support for a concerted national effort to break the grip of inflation on Canada's economy. On October 30, 1975, the Treasurer presented to the Legislature a detailed outline of the Government's policies in support of the federal initiatives, including a 10 per cent Government expenditure growth target for the 1976-77 fiscal year. Table 1 shows that, in 1975-76, the growth in expenditures

Expenditure Growth Rates by Policy Field, 1972-73 to 1976-77 — Table 1
(percent increase)

	1972-73	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Social Development	7.4	6.1	17.4	17.8	12.1
Resources Development	6.3	21.2	26.2	21.3	4.6
Justice Policy	11.5	13.5	20.1	18.8	19.1
General Government	(20.9)	35.1	97.0	(6.5)	1.2
Public Debt	28.5	28.5	12.3	22.1	21.0
Total	6.1	12.0	24.7	15.9	10.4

[2] Hon. W. D. McKeough, *Ontario Budget 1975* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1975).

[3] *Report of the Special Program Review* (Toronto: Queen's Printer, 1975).

[4] Hon. W. D. McKeough, *Supplementary Actions to the 1975 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1975).

slowed to 15.9 per cent from 24.7 per cent in 1974-75. The Estimates for 1976-77 provide for an increase of only 10.4 per cent, thus reversing the trend towards big government in Ontario. This action goes far beyond the measures taken by the federal government to control its spending.

Since restraint by government alone will not overcome inflation, Ontario has committed itself fully in support of the national price and wage guidelines. On January 13, 1976, Ontario brought its public sector under the national system of controls. The public sector includes direct employees of the Provincial Government and all municipal governments, plus those employed in crown corporations, provincial commissions, school boards, universities and hospital boards. Exclusion of these groups would have eliminated a major employment sector from the controls.

In bringing the Ontario public sector into the national anti-inflation program, the Government of Ontario chose to rely on the federal Anti-Inflation Board (AIB) to implement the guidelines. It did so to prevent duplication in bureaucracy and to ensure consistency in implementation. By using the newly created national board there has been some inevitable delay in the processing of wage and salary agreements. Nevertheless, the national guidelines are already having an impact in Ontario. For example, settlements and arbitration awards to school board employees have been reduced by the AIB. In direct negotiation with the Ontario Government, the Ontario Medical Association has settled for an average 8.1 per cent increase in its fee structure. Management employees in the Ontario Public Service have been limited to increases that range from zero to 8.5 per cent. Clearly these developments augur well for achieving the national goals in Ontario and for restraining government expenditures.

II The Backbone of Provincial Restraint: Changed Priorities and Internal Cost Reductions

The Government's expenditure restraint program has four complementary thrusts:

- Priorities have been re-ordered for 1976-77;
- Civil service complement has been reduced;
- Internal cost-cutting measures have been implemented; and
- Ontario Hydro's capital spending plans have been cut back.

Expenditure Priorities

In an effort to expand and carry forward the thrust of the 1975-76 restraint initiatives, the Government announced in October that it

Provincial Expenditure Trends

Table 2

	Average 1974-75 and 1975-76	Interim 1975-76	1976-77 Ceilings	Interim 1975-76	Estimated 1976-77	Change
	(growth rates per annum (%))			($ million)		
Major Provincial Programs						
Administration of Justice[1]	19.8	18.9	19.1[2]	403	480[2]	77
Health Care	20.7	18.5	13.1	2,828	3,199	371
Grants to Universities, Colleges and Student Aid	15.6	18.0	15.4	826	953	127
Provincial Social Assistance Programs[3]	48.9	38.0	13.9	503	573	70
Environment and Resources Development	30.6	(11.5)	5.8	346	366	20
Agricultural Programs	23.4	37.6	3.1	128	132	4
Civil Service Salaries	20.1	23.1	10.4	1,008	1,113[4]	105
General Government	14.2	(20.7)	5.2	966	1,016	50
Provincial Roads and Communications	13.0	13.0	(6.6)	365	341	(24)
Housing	28.4	46.7	2.1	424	433	9
Interest on Public Debt	17.0	22.1	21.0	719	870	151
Edmonton Commitment						
Payments to Municipalities and Local Agencies	29.8	31.8	6.5	1,300	1,385	85
Payments to Local School Boards	12.2	18.3	8.9	1,575	1,715	140
Total Expenditure	20.2	15.9	10.4	11,391	12,576	1,185

[1] Expenditure levels include civil service salaries and fringe benefits.

[2] Estimate for 1976-77 reflects transfer of LLBO and the Rent Review Board to the Justice Policy Field. It also includes contingency for salary awards in respect to outstanding settlements for 1975-76 and 1976-77.

[3] Includes GAINS program.

[4] 1976-77 Estimate includes contingency for salary awards in respect to outstanding settlements for 1975-76 and 1976-77.

would contain its growth in spending for 1976-77 to a maximum of 10 per cent. This represents a dramatic divergence from the 20 per cent average annual growth rate of the past 2 years and the federal government's projected 1976 spending rate of 16 per cent.

The choice of a 10 per cent ceiling was dictated by the need for the Government to restore a greater measure of control over its finances and to show the way in adhering to the national restraint guidelines. Within this framework choices had to be made between the various demands on Government funds. In the main areas of own-account expenditures, e.g. salaries, general administration and overhead, the Government has been determined to hold a firm line. In program expenditures, priority has been given to support of essential services, thus necessitating an absolute reduction in expenditure in other areas. Table 2 illustrates the major choices that have been made.

Certain program areas will be allowed to grow faster than the 10.4 per cent average. Payments towards post-secondary education will increase 15.4 per cent to accommodate the rapid increase in enrolments. Spending in the justice field will grow by 19.1 per cent in recognition of the demands for improved services in the area of law and order. The 21 per cent increase in interest on the public debt reflects the impact of the Province's increased financing requirements of the past two years.

In 1976-77, the growth in provincial social assistance expenditure will be constrained to inflation plus case load requirements. In recent years, substantial benefit enrichments, in addition to case load increases, have resulted in unusually high growth in this area. Spending on health care will be constrained within an overall growth rate of 13.1 per cent. This lower growth rate will reflect the exercise of internal economies, the strict application of federal wage guidelines on future wage settlements and the imposition by the federal government of a cost-sharing ceiling of 14.5 per cent on items covered under The Medical Care Act.

To provide the funds for the higher growth areas, other lower priority programs have had to be cut back severely. The level of activity in provincial road construction, for example, will be reduced absolutely. The Province's investment in housing will only increase slightly from the high level of support of last year. This will leave the basic job of housing construction and financing to the private sector, while the Province concentrates for its part on low-income housing, servicing of land and assistance in mortgage financing.

Transfers to local governments in 1976 will increase by 7.8 per cent or some $225 million over the previous year's support level. Under the Edmonton Commitment formula, total Provincial transfers to local governments grow at the same rate as Provincial revenues. The 7.8 per cent increase for 1976-77, which is considerably below the expected growth in revenues, takes into account the overpayments on this commitment in prior years. In the past few years, the Province has financed many provincial-municipal programs on the basis of open-ended formulas. Continuation of this practice would not encourage the tough attitude to government spending at the local level that is needed to complement Ontario's own actions.

Civil Service Complement Reduction

A pivotal element of the restraint package has been the Government's continuing commitment towards reducing the civil service complement. Over the 12 month period ending March 31, 1976, the Government's actions have reduced total complement from 70,778 to 67,537. The April 1975 Budget set a target of a 2.5 per cent reduction in complement and the *Supplementary Actions* called for a further reduction of 1,500 positions bringing the total reduction for 1975 to 3,241. An additional reduction of 1,000 complement positions is targeted for 1976, bringing the total to 4,241 as shown in Table 3.

Summary of Civil Service Complement Actions — Table 3

Fiscal Year	Complement	Cumulative Change
1974	70,778	
1975		
• April 2.5% target	−1,741	
• July reduction	−1,500	
1975 total	67,537	−3,241
1976		
• Budget target	−1,000	
1976 total	66,537	−4,241

The Provincial record of manpower restraint compares very favourably with that of the federal government. Table 4 shows that over the past three years, federal manpower has consistently grown faster

Federal and Ontario Civil Service Complement — Table 4

	Government of Canada[1]		Government of Ontario[2]	
	Number	Percent Change	Number	Percent Change
1973	288,912	6.7	69,325	3.4
1974	306,557	6.1	70,778	2.1
1975	322,507	5.2	69,081	−2.4
1976	328,193	1.8	66,537	−3.7
1973-76		+13.6%		−4.0%

[1]Federal Estimates, i.e. man-years.

[2]Complement as of April 1.

than Ontario's complement. *Including the 1976 targets, federal manpower shows a 13.6 per cent increase over four years compared to a reduction of 4 per cent in Ontario.* Manpower restraint by the federal government has only managed to decelerate the growth of their bureaucracy. The Ontario Government has shown that this ever increasing claim by governments on the human resources of society can be reversed.

Internal Cost-Cutting Measures

In 1975-76, internal cost reductions, program cuts and an embargo on unspent funds were introduced with potential savings of $292 million. Table 5 shows that $265 million of these savings have now been realized. This success has reduced the base level of expenditures and has greatly assisted the achievement of a low target level of spending for 1976-77.

Summary of Cost Reductions Achieved in 1975-76 — Table 5
($ million)

Type	Target Savings	Achieved Savings
Internal Cost Reductions	81.9	66.4
Program Cuts	96.1	74.3
Embargo of Funds	114.4	124.5
Total	292.4	265.2

The eight internal cost control measures highlighted in the *Supplementary Actions* were:

1. An immediate freeze on replacement staffing of all internal administrative functions such as information services, systems, planning, records, personnel, accounts and finance. Through normal attrition, this resulted in 1,500 fewer personnel.
2. An immediate moratorium on new or renewed contracts for management consulting and organizational planning.
3. A 10 per cent reduction in data processing budgets.
4. A 10 per cent reduction in direct operating expenditures including spending on travel, communications, supplies, services, furniture and equipment.
5. A reduction in internal planning and design operations which support programs whose real growth has levelled off or declined.
6. A reduction in inventories of supplies and equipment, and improved inventory management.
7. Consolidation and rationalization of regional offices.

8. A review of research, statistical, planning, internal services and administrative units with the objective of reducing the number and size of such units, while improving effectiveness.

As Table 6 shows, targeted savings have been fully realized by the first four measures. The remaining measures continue to have a delayed impact. Detailed studies of internal planning and design operations and of regional offices are underway. Some inventory savings have been made and a complete review of inventory management policy has begun. Measure 8 was incorporated into the work of the Special Program Review Committee. Some of its recommendations have already been implemented; the remainder are still under consideration.

Internal Cost Reductions, 1975-76 — Table 6

($ million)

	1975-76	
	Target Savings	Realized Savings
Measure:		
1. Complement	7.0	5.6
2. Consultants	10.0	10.1
3. Data Processing	2.5	3.9
4. 10% Operating Overhead	44.4	44.3
Sub-Total	63.9	63.9
5. Planning and Design	1.5	*
6. Inventories	10.0	2.5
7. Regional Offices	*	*
8. Research, etc.	6.5	*
Total	81.9	66.4

*Savings to be realized in future years.

In addition to the above internal cost reductions, cuts were made in a number of programs. Table 7 shows that realized savings in the 1975-76 fiscal year were $74.3 million.

To reinforce these program priority decisions, an embargo or "freezing" of underspending was introduced during the 1975-76 fiscal year. Ministries in the past have had the flexibility to accelerate spending in the fourth quarter to the limit of their appropriation. In 1975-76 the Government embargoed these funds as part of its restraint program and thereby ensured additional savings of $124.5 million. The details of authorized embargoes are shown in Table 8.

In summary, the Government's internal economy drive has generated substantial savings of $265 million in 1975-76.

Program Reductions, 1975-76 — Table 7

($ million)

Government Services	
—Land Purchases and Cash Flow Recoveries	16.2
Treasury—Regional Priority Items	11.0
Industry and Tourism	
—Industrial Parks	4.9
—ODC Loans	7.5
Natural Resources	
—Land Purchases	1.4
—Access Roads	.5
—Algonquin Forest Authority	4.5
Transportation and Communications	
—Land Purchases	12.7
Health—Health Resources Development Plan	8.6
Colleges and Universities	.6
Culture and Recreation	6.3
Other	.1
Total Program Reductions	74.3

Authorized Embargoes, 1975-76 — Table 8

($ million)

Ministry		
Environment		8.3
Industry and Tourism		11.3
Government Services		9.9
Housing		
Ontario Mortgage Corporation	30.0	
Housing Action Program	5.4	
Regular Programs	21.9	57.3
Treasury, Economics and Intergovernmental Affairs		7.4
Transportation and Communications		3.1
Health		8.5
Education		3.8
Community and Social Services		6.8
Revenue		1.3
Culture and Recreation		5.7
Labour		.5
Management Board and Cabinet		.5
Natural Resources		.1
Total Authorized Embargoes		124.5

Reduction in Ontario Hydro's Capital Requirements

Ontario Hydro's financial requirements in support of its capital spending program have an important impact on the Government's finances. Borrowing by Hydro in the world capital markets directly affects the Province's own borrowing capacity and financial standing in the investment community. The Province borrows on behalf of Hydro in the U.S. capital market and guarantees the Corporation's debenture issues in Canada and other international markets. Provincial borrowing restraint must therefore be matched by restraint on the part of Ontario Hydro.

In announcing the *Supplementary Actions* the Treasurer called for parallel measures from Ontario Hydro in program cuts and on operating expenses. In response, Hydro cut $1.2 billion from its capital spending and reduced its 1976 operating budget by $50 million. These actions succeeded in reducing Hydro's proposed 1976 rate increase but further action was required to trim borrowing requirements. The Treasurer, in January 1976, requested that $500 million be stripped from Hydro's borrowing in each of the next three years. The Corporation has complied with this request by cutting capital expenditures by $5.2 billion through to 1985.

These additional savings will be made by cancelling the Bruce Heavy Water Plant C, slowing the construction of the Wesleyville, Darlington and other power facilities and by reducing capital spending on lines and transformers. In doing so, some reduction will be made in reserve capacity, but this must take second place to the much larger sacrifices that will result if inflation is not brought under control.

III The New Budget Control System

In 1976-77 the Government will introduce a tighter system of expenditure controls to prevent in-year deterioration of expenditure levels from those announced in the Budget. Under this system, expenditure restraint will become a year-round managerial style rather than just a periodic belt-tightening exercise.

A vigorous upgrading of management controls will be in place to provide early warning of possible deterioration and to institute the flexibility needed to counter it. The new control system has three complementary features:

- imposition of a monthly "allotment" system as the basis for a more intensive monitoring of expenditures;
- implementation of a system of commitment management which will require pre-approval of all capital expenditure commitments; and
- earlier in-year assessment of open-ended programs to locate signs of expenditure deterioration.

The allotment system will require a more extensive and intensive monitoring of expenditures on a monthly basis by the Management Board of Cabinet. The Management Board will monitor funds unspent in each month both to secure in-year savings and to improve cash management flexibility. Ministries will thus be required to tighten-up their management of expenditures and to take early action to avoid overspending. This new control procedure will provide the overall framework for a tighter rein on spending. It will be reinforced by implementation of commitment management and by an early in-year check on open-ended programs.

The new commitment management will enhance the Government's flexibility to postpone or delete programs if fiscal requirements dictate such action. All commitments on capital projects will now be pre-approved by the Management Board to ensure that they accord with the ministry's original Estimates and are compatible with the overall financing policy of the Government. The same procedure will apply to transfer payments where these have the potential to increase operating costs in future years.

Special attention will be paid to open-ended programs since these present the most difficult problems for in-year control. Careful scrutiny is being given by Cabinet to proposals for new programs of this type. For existing programs, the Management Board will undertake an early assessment of their potential for overspending in the current fiscal year so that offsetting savings can be found.

The new budget control system will ensure that the gains that have been made in this Budget in restoring the balance between the private and public sectors will not be eroded.

IV The 1975-76 Fiscal Year in Retrospect

The Government's budgetary strategy for the 1975-76 fiscal year was significantly revised with the introduction of the *Supplementary Actions*. Since July, the in-year performance of the 1975 Budget has been reported in the October, 1975 and January, 1976 issues of *Ontario Finances*. Table 9 summarizes the previously reported estimates including the interim finals for 1975-76. In view of the extensive treatment in this paper of the *Supplementary Actions* and the prior reporting in the *Ontario Finances*, only the highlights of the last quarter of 1975-76 are presented here.

Net cash requirements for 1975-76 are now estimated at $1,889 million, down $87 million from the December 31 estimate. This improvement reflects both an increase in revenues and stability in expenditures since that time.

1975-76 Budget Performance — Table 9

($ million)

	Total Expenditure	Total Revenue	Net Cash Requirements
April Budget	11,028	9,359	1,669
July Supplementary Actions	11,014	9,245	1,769
Ontario Finances			
Sept. 30 estimate	11,382	9,470	1,912
Dec. 31 estimate	11,381	9,405	1,976
Interim Finals	11,391	9,502	1,889
Change Since:			
Dec. 31 estimate	10	97	(87)
April Budget	363	143	220

Total revenue increased $97 million in the fourth quarter mainly due to a $60 million increase in collections from corporation taxes and additional reimbursements under federal cost-sharing agreements.

While total spending estimates have increased by $10 million since December 31, budgetary expenditure and cash outflows from special purpose accounts have decreased by $21 million and $7 million respectively. On the other hand, lending activity increased by $38 million in the fourth quarter, representing additional funding to the Ontario Land Corporation, Ontario Northland Transportation Commission, the Education Capital Aid Corporation and investment in provincial water treatment and pollution control facilities.

The Province completed its 1975-76 financing plan with a $150 million public debenture issue in March. Year-end reserves are now estimated to reach $932 million, or $76 million higher than at the beginning of the fiscal year.

Explanation of Wintario Lottery Cash Flow

The Wintario Lottery is administered by the Ontario Lottery Corporation. The corporation remits the net proceeds of the lottery to

Wintario Lottery Proceeds — Table 10

($ million)

	1975-76 Interim	1976-77 Estimate
Funds available from prior years		32
Profits of Ontario Lottery Corporation	39	60
Total	39	92
Expenditures on approved projects	7	36
Funds available for future projects	32	56

the Treasurer of Ontario. The Ministry of Culture and Recreation administers the granting of those net proceeds for physical fitness, sports, recreational and cultural activities and facilities in Ontario as per the dedication principle stated in Section 9 of The Ontario Lottery Corporation Act. Table 10 displays the status of Wintario funds.

Financial Tables

Statement of Operational Cash Requirements and Related Financing — Table C1

($ million)

	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Budgetary Transactions				
Revenue	6,844	8,176	8,982	10,814
Expenditure	7,223	8,722	10,552	11,791
Budgetary Deficit	379	546	1,570	977
Non-Budgetary Transactions				
Lending and Investment Activity				
Receipts	155	354	200	185
Disbursements	607	1,048	736	680
Net increase in lending activity	452	694	536	495
Special Purpose Accounts				
Credits	178	323	320	347
Charges	55	60	103	105
Net increase in special purpose accounts	(123)	(263)	(217)	(242)
Non-Budgetary Transactions (net)	329	431	319	253
NET CASH REQUIREMENTS	**708**	**977**	**1,889**	**1,230**
FINANCING				
Non-Public Borrowing				
Proceeds of Loans	946	1,166	1,228	1,275
Repayment of Loans	8	10	6	29
Net Non-Public Borrowing	938	1,156	1,222	1,246
Public Borrowing				
Proceeds of Loans	—	—	775	
Repayment of Loans	228	305	32	37
Net Public Borrowing	(228)	(305)	743	(37)
Change in Liquid Reserves	2	(126)	76	(21)
TOTAL FINANCING	**708**	**977**	**1,889**	**1,230**

Budgetary Revenue — Table C2

($ million)

	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Taxation				
Personal Income Tax[1]	1,236	1,445	1,571	1,954
Federal Revenue Guarantee	—	49	256	371
Corporation Taxes:				
Income Tax	530	753	977	935
Capital and Premium Taxes	108	139	160	193
Retail Sales Tax	1,315	1,569	1,325	1,917
Gasoline Tax	477	493	510	530
Motor Vehicle Fuel Tax	70	79	75	85
Mining Profits Tax	47	153	62	100
Tobacco Tax	100	101	102	152
Succession Duty	88	78	64	62
Land Transfer Tax	46	48	52	60
Land Speculation Tax	—	—	3	4
Race Tracks Tax	29	34	38	44
Income Tax Public Utilities	13	8	7	7
Other Taxation	8	4	3	4
	4,067	4,953	5,205	6,418
Other Revenue				
Premiums—OHIP	530	548	564	790
LCBO Profits	280	302	337	399
Vehicle Registration Fees	172	187	214	221
Other Fees and Licences	91	92	95	130
Ontario Lottery Profits	—	—	39	60
Fines and Penalties	37	42	49	55
Royalties	29	36	44	45
Sales and Rentals	32	83	38	35
Utility Service Charges	20	26	28	32
Miscellaneous	28	34	47	43
	1,219	1,350	1,455	1,810
Payments from the Federal Government (See Table C7)	1,267	1,517	1,931	2,171
Interest on Investments	291	356	391	415
TOTAL BUDGETARY REVENUE	**6,844**	**8,176**	**8,982**	**10,814**

[1]Net of tax credits of $182 million, $306 million, $387 million and $420 million for the 1973-74, 1974-75, 1975-76 and 1976-77 fiscal years.

Budgetary Expenditure by Policy Field and Ministerial Responsibility

Table C3

($ million)

	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Social Development Policy				
Health	2,049	2,530	2,993	3,343
Education	1,410	1,598	1,779	1,970
Colleges and Universities	785	878	1,024	1,168
Community and Social Services	542	674	884	985
Culture and Recreation	63	74	118	144
	4,849	5,754	6,798	7,610
Resources Development Policy				
Transportation and Communications	684	812	975	985
Natural Resources	153	184	212	212
Housing	37	71	199	171
Agriculture and Food	105	113	152	158
Environment	45	58	77	97
Industry and Tourism	26	37	51	63
Labour	12	14	17	19
Energy	2	2	4	4
	1,064	1,291	1,687	1,709
Justice Policy				
Solicitor General	90	106	128	129
Correctional Services	86	102	121	128
Attorney General	68	85	100	112
Consumer and Commercial Relations	29	35	42	64
	273	328	391	433
Other Ministries				
Treasury, Economics and Intergovernmental Affairs	261	347	427	464
Government Services	180	269	293	291
Revenue	54	123	175	209
Assembly	7	8	33	13
Management Board	6	7	8	9
Other	4	6	7	12
	512	760	943	998
Public Debt—Interest	525	589	719	870
Contingency for Salary Awards	—	—	14	171[1]
TOTAL BUDGETARY EXPENDITURE	**7,223**	**8,722**	**10,552**	**11,791**

[1]Also includes contingency for retroactive 1975-76 bargaining unit settlements.

Details of Non-Budgetary Transactions — Table C4

($ million)

RECEIPTS	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Repayments of Loans, Advances and Investments				
Education Capital Aid Corporation	42	46	51	52
Universities Capital Aid Corporation	19	21	22	23
Investments in Water Treatment and Pollution Control Facilities	11	7	15	19
Ontario Mortgage Corporation	8	12	23	18
Ontario Development Corporations	9	7	20	17
Loans to Public Hospitals	30	12	14	16
Nuclear Power Generating Station	7	18	11	9
Tile Drainage Debentures	3	4	5	6
Municipal Works Assistance	4	4	5	5
Municipal Improvement Corporation	5	5	5	5
Ontario Junior Farmers	6	5	3	4
Ontario Housing Corporations	6	208	11	3
Ontario Land Corporation	—	—	5	—
Other	5	5	10	8
TOTAL RECEIPTS	**155**	**354**	**200**	**185**
DISBURSEMENTS				
Loans, Advances and Investments				
Ontario Mortgage Corporation	68	133	178	221
Investments in Water Treatment and Pollution Control Facilities	81	127	148	143
Education Capital Aid Corporation	87	88	98	83
Ontario Development Corporations	30	45	54	49
Ontario Housing Corporations	164	92	56	47
Universities Capital Aid Corporation	77	38	42	38
Ontario Housing Action Program		13	24	34
Loans to Public Hospitals	33	42	33	32
Tile Drainage Debentures	8	13	16	13
Winter Capital Projects	1	17	34	10
Municipal Improvement Corporation	4	7	10	8
Ontario Energy Corporation	—	100	—	—
Ontario Land Corporation	—	320	22	—
Ontario Northland Transportation Commission	28	7	11	—
Other	26	6	10	2
TOTAL DISBURSEMENTS	**607**	**1,048**	**736**	**680**
NET INCREASE IN LENDING ACTIVITY	**452**	**694**	**536**	**495**

Details of Non-Budgetary Transactions

Table C5

($ million)

Credits	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Payments into Special Purpose Accounts				
Public Service Superannuation Fund	129	151	208	223
Teachers' Superannuation Adjustment Fund	—	—	20	39
Province of Ontario Savings Deposits (net)	28	46	48	31
Public Service Superannuation Adjustment Fund	—	—	2	21
Motor Vehicle Accident Claims Fund	12	14	17	21
Ontario Energy Corporation		100	—	
Other	9	12	25	12
TOTAL CREDITS	**178**	**323**	**320**	**347**
Charges				
Payments from Special Purpose Accounts				
Public Service Superannuation Fund	38	42	56	52
Ontario Energy Corporation	—	—	29	36
Motor Vehicle Accident Claims Fund	10	12	13	14
Other	7	6	5	3
TOTAL CHARGES	**55**	**60**	**103**	**105**
NET INCREASE IN SPECIAL PURPOSE ACCOUNTS	**123**	**263**	**217**	**242**

Federal Government Payments to Ontario

Table C6

($ million)

	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Hospital Insurance	533	652	846	988
Canada Assistance Plan	207	300	419	447
Medical Care	243	275	288	344
Post-Secondary Education Adjustment Payments	154	143	167	191
Adult Occupational Training	67	61	72	80
Bilingualism Development	21	27	28	30
Economic Development	5	12	26	24
Rehabilitation of Offenders			29	17
Vocational Rehabilitation	7	8	10	12
Transit	—	—	10	1
Other Federal Payments	30	39	36	37
TOTAL PAYMENTS	**1,267**	**1,517**	**1,931**	**2,171**
Annual Percent Increase	1.7	19.7	27.3	12.4
Federal Payments as a Percent of Ontario Revenue	18.5	18.6	21.5	20.1

Financing
($ million)

Table C7

	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Non-Public Borrowing				
Canada Pension Plan	606	702	784	850
Teachers' Superannuation Fund	195	286	197	211
Municipal Employees' Retirement Fund	126	144	152	180
Federal-Provincial Winter Capital Projects Fund	1	18	65	—
CMHC Pollution Control Loans	18	16	30	34
Retirements	(8)	(10)	(6)	(29)
Net Non-Public Borrowing	938	1,156	1,222	1,246
Public Borrowing				
Treasury Bills (net)	(170)	(90)	325	—
Debenture Issues	—	—	450	—
Debenture Retirements	(58)	(215)	(32)	(37)
Net Public Borrowing	(228)	(305)	743	(37)
Change in Liquid Reserves	2	(126)	76	(21)
TOTAL FINANCING	**708**	**977**	**1,889**	**1,230**

Investment in Physical Assets
($ million)

Table C8

	1974-75	Interim 1975-76	Estimated 1976-77
Budgetary Investment			
Direct Expenditures and Transfer Payments:			
Roads and Transit	387	479	475
Public Buildings	143	133	128
Health	53	56	57
Other	124	265	217
Total Budgetary Investment	707	933	877
Non-Budgetary Investment			
Home and Community Environment	596	346	334
Education	126	140	121
Industrial and Resources Development	279	213	192
Health	42	33	32
Total Non-Budgetary Investment	1,043	732	679
TOTAL INVESTMENT	**1,750**	**1,665**	**1,556**

Ontario Payments to Local Governments and Agencies

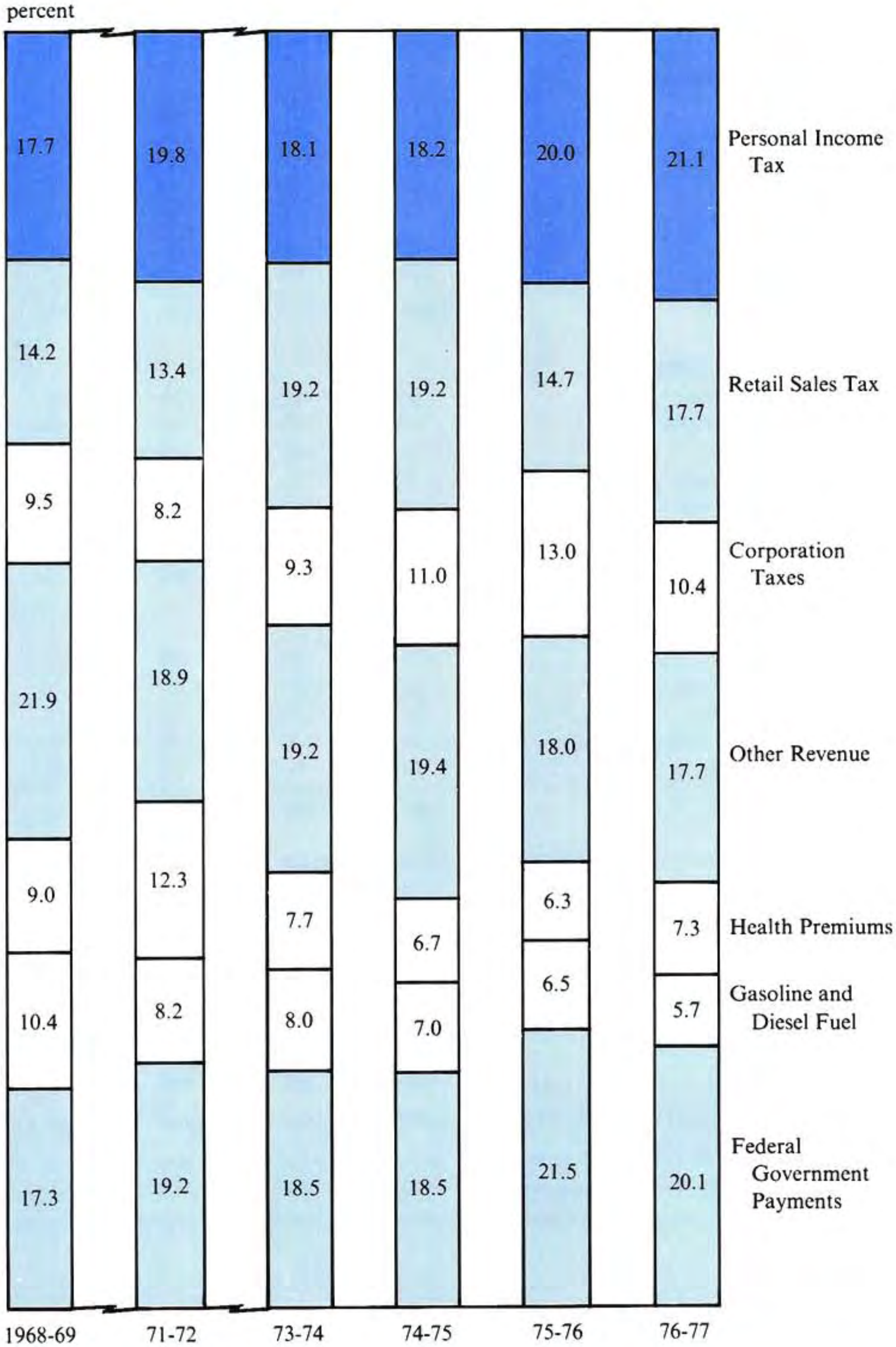
Table C9

($ million)

	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Conditional Payments				
Education	1,251	1,331	1,575	1,715
Transportation	267	330	434	460
Social Assistance	110	131	180	194
Housing	2	6	16	23
Environment	1	5	12	16
Health	9	8	12	15
Other	23	26	65	55
Sub-Total	1,663	1,837	2,294	2,478
Unconditional Payments				
General Support	49	85	79	96
Resource Equalization	56	70	80	90
Police Grants	25	42	71	73
Per Capita Grants	52	63	64	66
Northern Ontario Grants	10	12	18	21
Other	10	25	33	26
Sub-Total	202	297	345	372
Payments to Local Agencies				
Homes for the Aged	50	58	74	82
Children's Aid Societies	42	47	70	77
Health Agencies	25	32	39	43
Conservation Authorities	30	30	34	28
Library Boards	14	16	19	20
Sub-Total	161	183	236	250
BASIC FINANCIAL TRANSFERS	**2,026**	**2,317**	**2,875**	**3,100**
Other Assistance				
Teachers' Superannuation Fund	167	293	260	286
Payments-in-lieu of Taxes	37	42	50	58
Tax Compensation Grants	12	13	14	15
Employment Incentives	13	3	20	7
Sub-Total	229	351	344	366
TOTAL FINANCIAL SUPPORT	**2,255**	**2,668**	**3,219**	**3,466**
Growth in Basic Financial Transfers (%)	13.5	14.4	24.1	7.8
Growth in Total Financial Support (%)	18.0	18.3	20.7	7.7

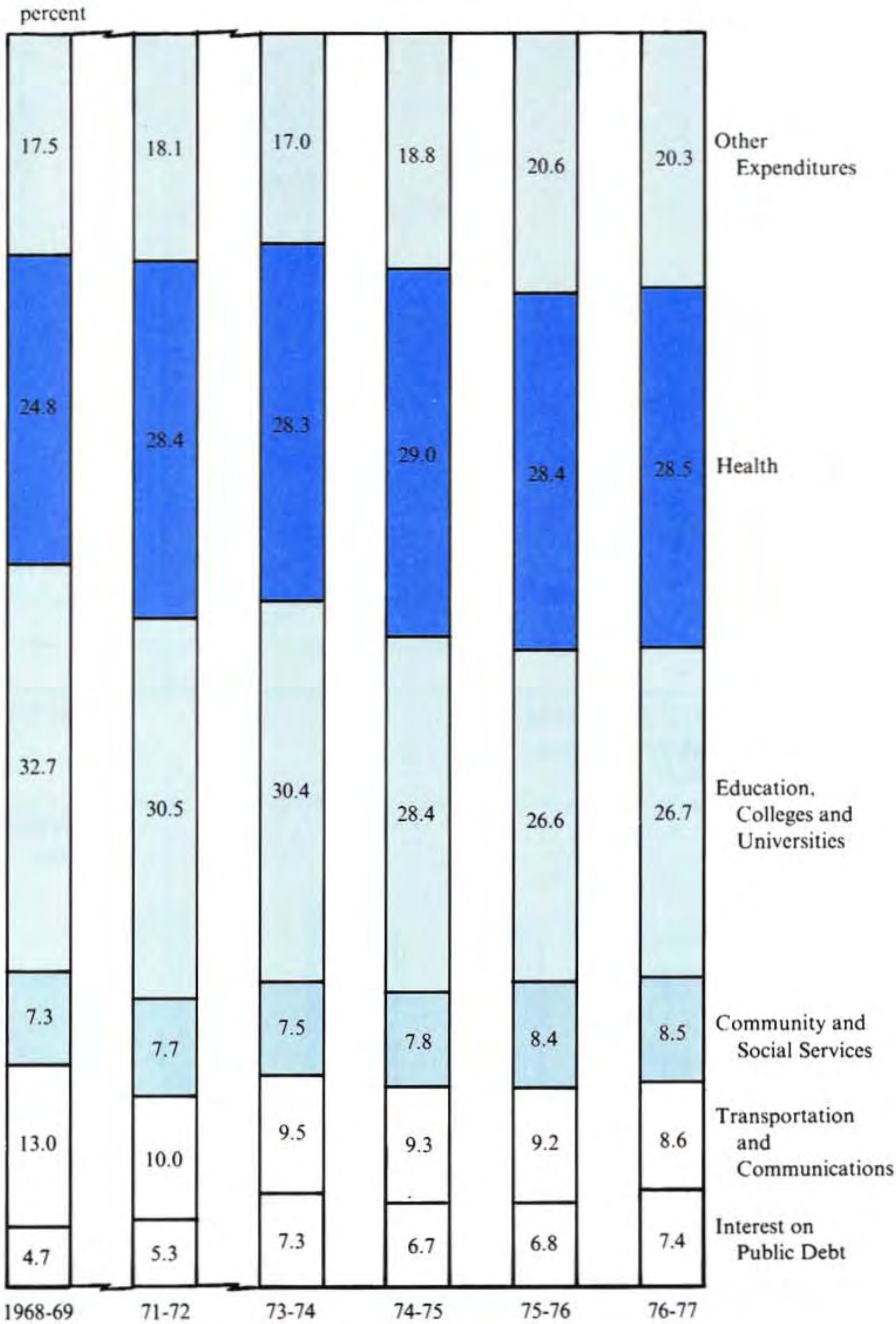
Relative Importance of Major Revenue Sources

Chart C1



Relative Importance of Major Expenditure Functions

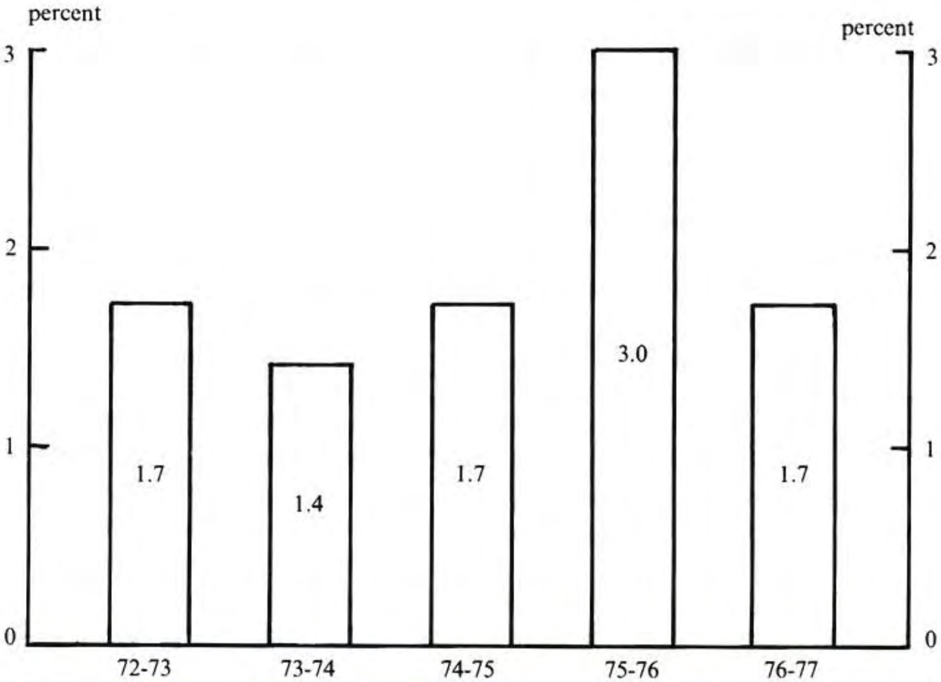
Chart C2



Net Cash Requirements as a Percent of Gross Provincial Product

Chart C3

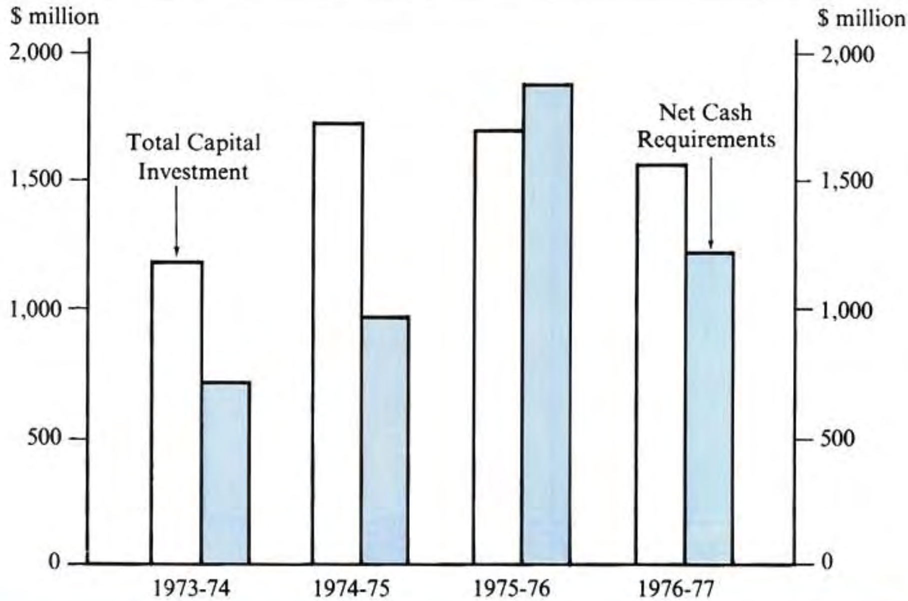
1972-73 to 1976-77



Total Capital Investment and Net Cash Requirements

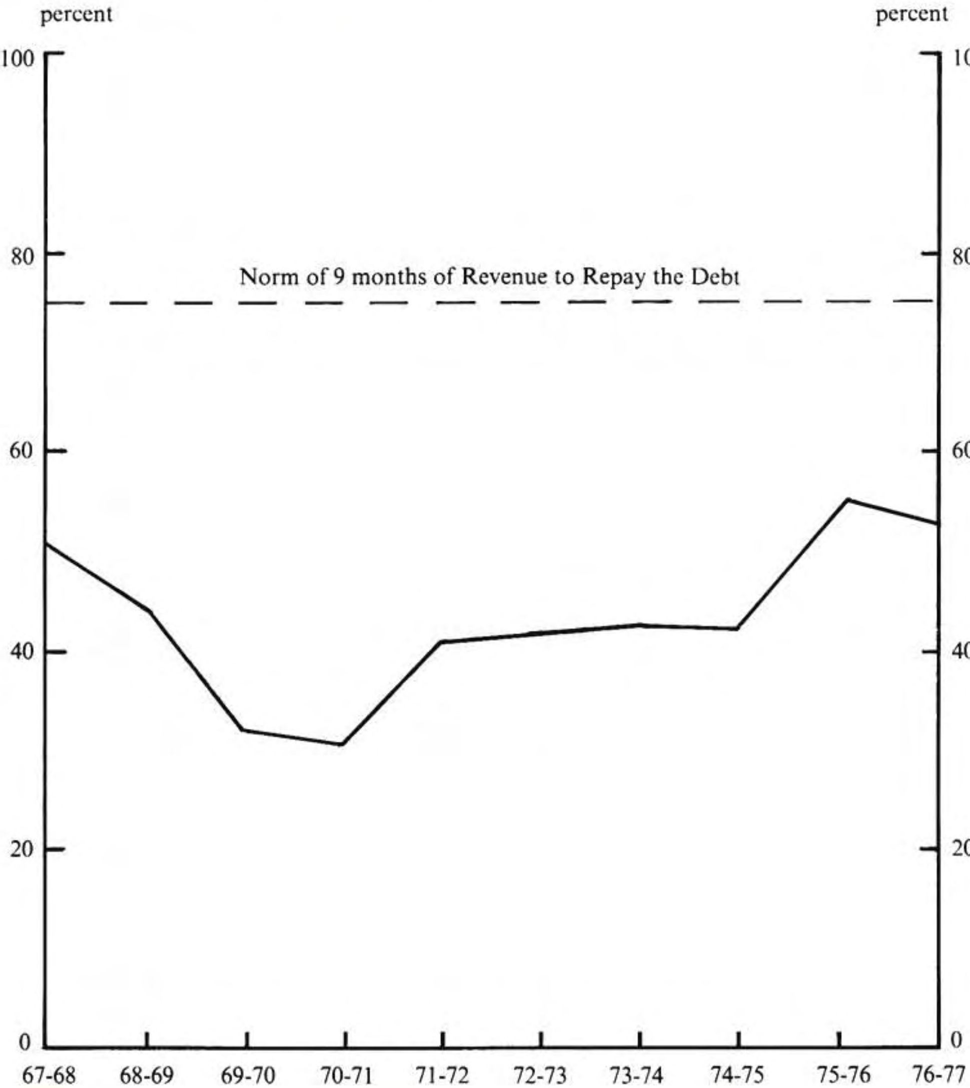
Chart C4

1973-74 to 1976-77



Net Debt as a Percent of Budgetary Revenue
1967-68 to 1976-77

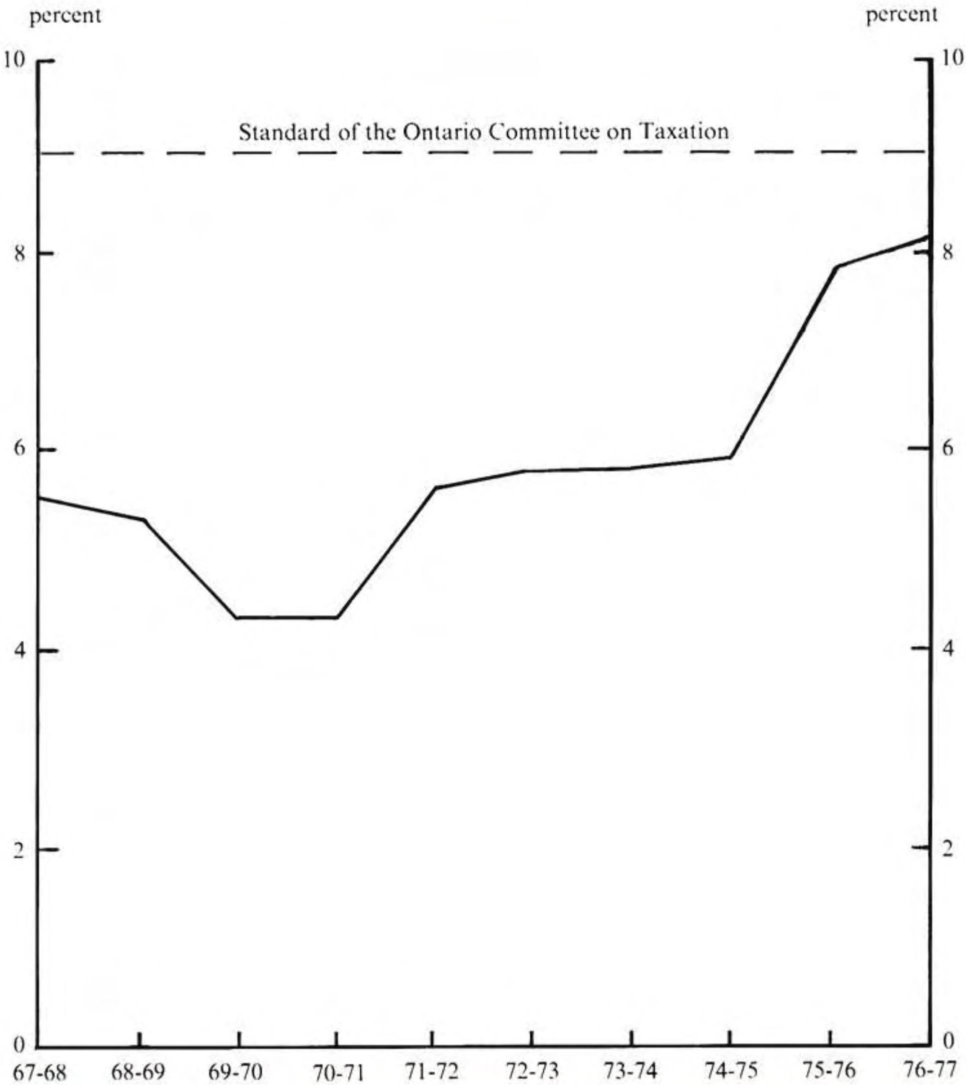
Chart C5



Net Debt as a Percent of Gross Provincial Product

1967-68 to 1976-77

Chart C6



Public Service Complement in Ontario 1973 to 1976[1] Table C10

Ministry	1973	1974	1975	1976
Premier	44	45	47	44
Cabinet Office	44	47	46	39
Management Board	71	78	84	81
Civil Service Commission	231	225	210	182
Government Services	2,764	3,116	3,143	3,028
Revenue	4,082	4,064	3,992	3,962
Treasury	879	823	735	700
Justice Policy	14	14	14	13
Attorney General	3,168	3,284	3,327	3,117
Consumer and Commercial Relations	1,867	1,921	1,876	1,869
Correctional Services	4,923	5,068	5,056	5,164
Solicitor General	1,595	1,570	1,522	1,496
Resources Development Policy	15	15	15	14
Agriculture and Food	1,680	1,668	1,637	1,605
Energy		63	66	71
Environment	1,363	1,490	1,459	1,397
Housing	726	985	981	867
Industry and Tourism	575	586	566	541
Ontario Development Corporation	196	216	214	204
Labour	723	768	767	777
Natural Resources	4,234	4,277	4,182	3,998
Transportation and Communications	12,144	12,171	11,607	11,069
Social Development Policy	24	31	32	31
Colleges and Universities	917	956	674	620
Community and Social Services	1,837	8,999[2]	9,139	8,857
Culture and Recreation			608	561
Education	2,678	2,553	2,439	2,289
Health	22,531	15,745[2]	14,643	13,553
Manpower Contingency Pool				388
Total Complement	69,325	70,778	69,081	66,537
Increase (%)	3.4	2.1	−2.4	−3.7
O.P.P. Uniformed Staff	3,859	3,978	4,133	4,078
Security Guards	59	99	99	140
Environment Plant Operators	448	453	635	650

[1]Excludes staff of the Lieutenant-Governor, Office of the Assembly, Ombudsman and Provincial Auditor.

[2]Increase in Community and Social Services complement and decrease in Health complement was due to transfer of Mental Retardation Program to the Ministry of Community and Social Services.

Ten-Year Review

($ million)

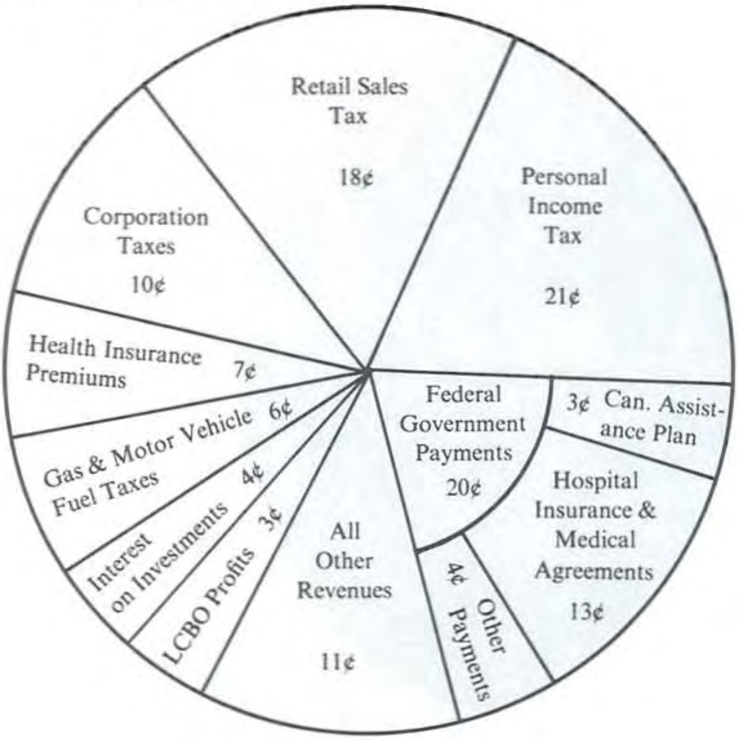
Table C11

	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	Interim 1975-76	Estimated 1976-77
Budgetary Transactions										
Revenue	2,866	3,502	4,360	5,024	5,340	6,046	6,844	8,176	8,982	10,814
Expenditure	2,985	3,595	4,210	5,160	5,965	6,412	7,223	8,722	10,552	11,791
Surplus or (Deficit)	(119)	(93)	150	(136)	(625)	(366)	(379)	(546)	(1,570)	(977)
Financial Position										
Total Liabilities	3,669	4,448	5,084	5,795	6,986	8,333	9,390	10,832	n.a.	n.a.
Total Assets	2,220	2,906	3,691	4,266	4,832	5,811	6,488	7,384		
Net Debt (total liabilities minus total assets)	1,449	1,542	1,393	1,529	2,154	2,522	2,902	3,448	5,018	5,995
Net Debt Per Capita (dollars)	200.26	209.52	185.03	199.01	276.09	318.48	359.68	420.50	602.33	708.29
Net Debt as a Percent of Gross Provincial Product (%)	5.5	5.3	4.3	4.3	5.6	5.9	5.9	6.0	7.8	8.1
Net Debt as a Percent of Budgetary Revenue (%)	50.6	44.0	31.9	30.4	40.3	41.7	42.4	42.2	55.9	55.4
Contingent Liabilities (mainly Ontario Hydro)	**1,933**	**2,127**	**2,168**	**2,413**	**2,781**	**3,030**	**3,330**	**3,843**	**n.a.**	**n.a.**

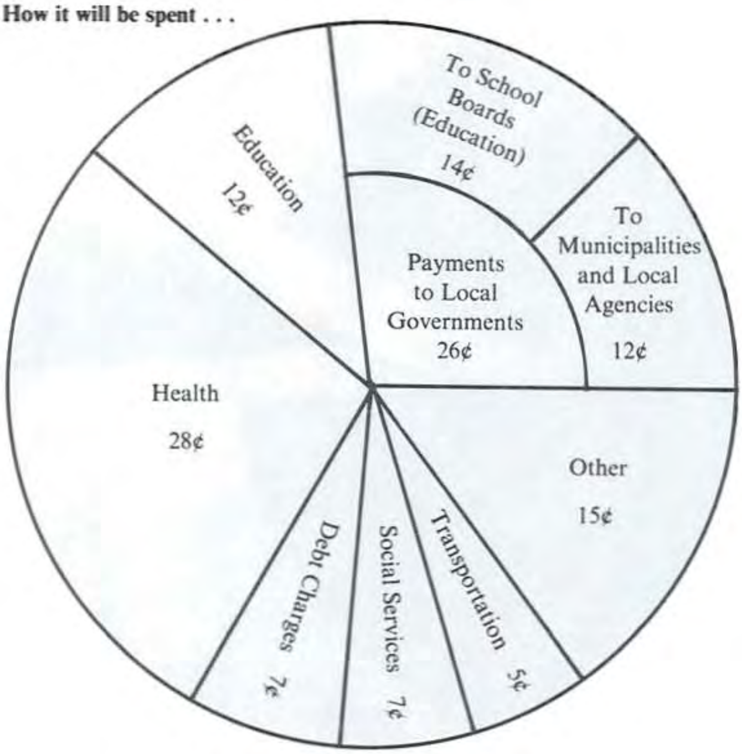
n.a.—not available.

THE BUDGET DOLLAR
Fiscal Year 1976-77 Estimates

Where it will come from . . .

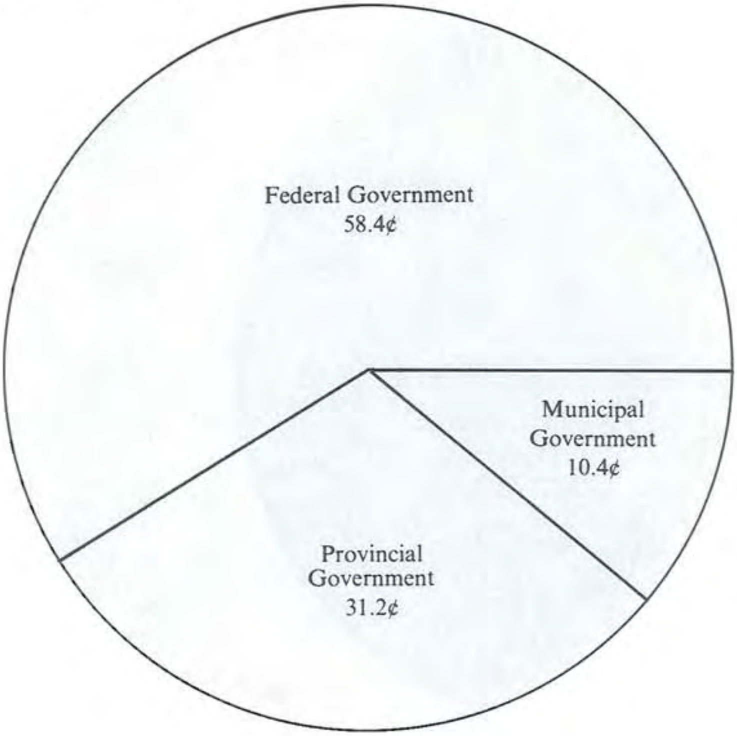


How it will be spent . . .

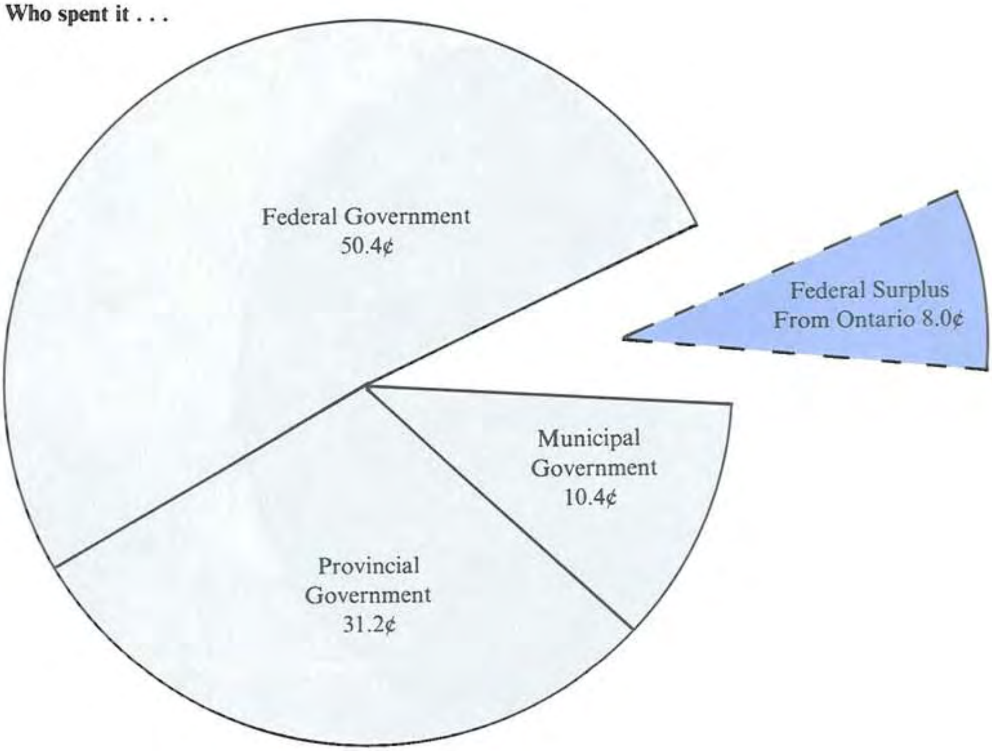


THE TAX DOLLAR IN ONTARIO 1975

Who levied it . . .



Who spent it . . .



Supplementary Budget Papers

Budget Paper D

The Ontario Labour Market, 1975

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The Ontario Labour Market, 1975

Introduction

During 1975, Ontario maintained its relative position among the other provinces in terms of economic performance and employment generation. The unemployment rate for Ontario remained significantly below the rate for Canada. However, the new labour force statistics, which became effective January, 1976, revise upward the rates of unemployment in Ontario and the western provinces relative to the provinces east of Ontario. These new statistics raise important questions about the level and structure of unemployment and the reliability and meaningfulness of the estimates.

As a first step in assessing the situation, this paper examines the performance of the labour market in Ontario during 1975. It first utilizes the labour force statistics on the old survey basis for a general view of the situation and discusses the implications of the changes in the new survey. This is followed by an in-depth analysis of the provincial labour market using data on unemployed beneficiaries of the unemployment insurance program.

I Ontario Labour Force, 1975

In 1975, the labour force in Ontario increased to 3,810,000 from 3,671,000 the year before, an increase of 139,000 or 3.8 per cent. Table 1 shows that over one-half of this increase, or 79,000 persons, was attributable to the growth in the female labour force. The male work force increased at a much slower rate, or by 61,000 persons. With respect to age, three-quarters of the total increase in the provincial labour force was in the primary work force aged 25 years and over. The labour force participation rates shown in Table 1 mirror these developments.

Employment opportunities in Ontario grew by 63,000 jobs in 1975, less than one-half of the increase required to fully absorb the growth of 139,000 in the number of workers. Consequently, the number of unemployed workers increased by 76,000, and the rate of unemployment rose to 6.0 per cent from 4.1 per cent in 1974. All of the increased employment absorbed people in the 25 years and over age group. Young people did not benefit from the growth in employment, and the

Ontario Labour Force, 1974 and 1975 — Table 1
(000's)

	Total	Male	Female	Age 14-24	Age 25+
Labour Force					
1974	3,671	2,352	1,318	925	2,746
1975	3,810	2,413	1,397	957	2,852
Increase	139	61	79	32	106
Employed					
1974	3,518	2,257	1,262	853	2,665
1975	3,581	2,268	1,313	852	2,729
Increase	63	11	51	−1	64
Unemployed					
1974	152	95	57	71	80
1975	228	145	84	105	123
Increase	76	50	27	34	43
Unemployment Rate (%)					
1974	4.1	4.0	4.3	7.7	2.9
1975	6.0	6.0	6.0	11.0	4.3
Participation Rate (%)					
1974	60.7	78.8	43.0	57.0	62.0
1975	61.3	78.6	44.4	57.4	62.7

Source: Statistics Canada.

rate of unemployment for the young increased to 11.0 per cent from 7.7 per cent in 1974.

Table 2 shows that the increase in unemployment in 1975 was widespread across Canada. The rate of unemployment on the old labour force survey basis ranged from a low of 2.9 per cent in Saskatchewan to a high of 18.2 per cent in Newfoundland. However, the results of the new labour force survey have narrowed this range. The implications of the new survey results are discussed in the following section.

Average Unemployment Rates, 1974 and 1975 — Table 2
(percent)

	1974	1975
Canada	5.4	7.1
Newfoundland	15.7	18.2
New Brunswick	9.2	11.5
Nova Scotia	6.7	7.9
Quebec	7.3	8.8
Ontario	4.1	6.0
Manitoba	3.1	3.7
Saskatchewan	2.8	2.9
Alberta	2.7	3.6
British Columbia	6.0	8.3

Source: Statistics Canada.

Revised Labour Force Survey

The new labour force survey, which has been revised to provide a more accurate description of the labour force, has been operative unofficially since the beginning of 1975. At present, the sample size of the survey remains the same at 30,000 households in Canada. It will increase to 55,000 later this year with the size of the Ontario sample increasing from 7,600 to about 10,000.

The changes to the survey significantly affect the size of the labour force, especially the unemployed. The major changes are summarized as follows:

- The civilian labour force includes the non-institutional population 15 years of age and over, as compared with 14 and over under the old system, who were employed or unemployed during the reference week.
- The unemployed are classified as those who were without work in the reference week and were seeking work within the last four weeks. The respondents must now show that they had *actively* been seeking work and were available for work in order to be counted as unemployed. This removes a number of seasonal workers from the ranks of the unemployed.
- Previously, people being laid off for more than 30 days were not counted as members of the labour force and therefore, not considered unemployed if they were not looking for work under the old system. The new survey extends the period to 26 weeks. Thus, many individuals formerly classified as not in the labour force are now shown in the labour force and as unemployed.

Implications for Ontario and Canada

Table 3 shows that on the basis of the revised measurements of labour force, the unemployment rate in Ontario in 1975 was 6.3 per cent

Ontario Labour Force Statistics, 1975 Average (Old and Revised Survey) — Table 3

	Old	Revised
Labour Force (000's)	3,810	3,857
Employed	3,581	3,613
Unemployed	228	244
Unemployment Rate (%)		
Male	6.0	5.4
Female	5.9	7.8
Youth	11.0	11.2
Ontario	6.0	6.3

Source: Statistics Canada.

rather than the 6.0 per cent as measured by the old survey. Many of the "newly found" members of the labour force were women and students, who were also counted as unemployed. Therefore, the unemployment rate for females, in particular, was higher under the new survey. On the other hand, the unemployment rate for males was significantly lower than previously reported.

The overall unemployment rate in Canada was revised downward to 6.9 per cent from 7.1 per cent in 1975. This is mainly due to the removal of many seasonal workers from the unemployed category in the Maritimes and Quebec. As a result, the unemployment rates east of Ontario were revised downward for 1975, as shown in Table 4, while in the west, unemployment rates were revised upward.

Average Unemployment Rates, 1975 — Table 4
(Old and Revised Survey)
(percent)

	Old	Revised
Canada	7.1	6.9
Newfoundland	18.2	14.2
New Brunswick	11.5	9.9
Nova Scotia	7.9	7.8
Prince Edward Island	—	8.2
Quebec	8.8	8.1
Ontario	6.0	6.3
Manitoba	3.7	4.6
Saskatchewan	2.9	2.9
Alberta	3.6	4.1
British Columbia	8.3	8.5

Source: Statistics Canada.

While labour force survey information provides an overview of the Ontario labour market, data on unemployment insurance beneficiaries is available, from which it is possible to obtain a detailed and accurate profile of unemployment in the province. The following section examines this unemployment insurance information for 1975.

II A Profile of the Unemployed in Ontario, 1975

The monthly Unemployment Insurance Commission data differs from the labour force survey information in significant respects. Instead of Ontario sample data based on 7,600 respondents, the U.I.C. data represents the complete universe of all beneficiaries of unemployment insurance as shown in Table 5. A reconciliation between the two data sources is contained in Appendix D1.

This section examines the unemployed in Ontario in 1975 in terms of the following factors:

- seasonality;
- age and sex;
- skills;
- location; and
- duration of unemployment.

An Overview of U.I.C. Unemployed Beneficiaries

Table 5 shows the overall unemployment picture in Ontario for each month of 1975. At the beginning of the year there was a sharp increase in unemployment both as a result of generally slackening economic conditions and the normal seasonal deterioration. By February, the number of unemployed beneficiaries peaked at 341,609, composed of 217,892 males and 123,717 females. While unemployment was at its high for the year, the ratio of unemployed females to males was at its lowest at .57.

Unemployment Insurance Beneficiaries[1] in Ontario, 1975 — Table 5

	Male	Female	Total	Ratio of Females to Males
January	180,027	110,552	290,579	.61
February	217,892	123,717	341,609	.57
March	201,849	125,388	327,237	.62
April	194,776	125,129	319,905	.64
May	172,450	123,258	295,708	.71
June	153,538	121,979	275,517	.79
July	139,945	126,834	266,779	.91
August	133,767	122,946	256,713	.92
September	127,549	111,635	239,184	.88
October	116,709	104,512	221,221	.90
November	123,437	104,597	228,033	.84
December	149,720	112,425	262,145	.75

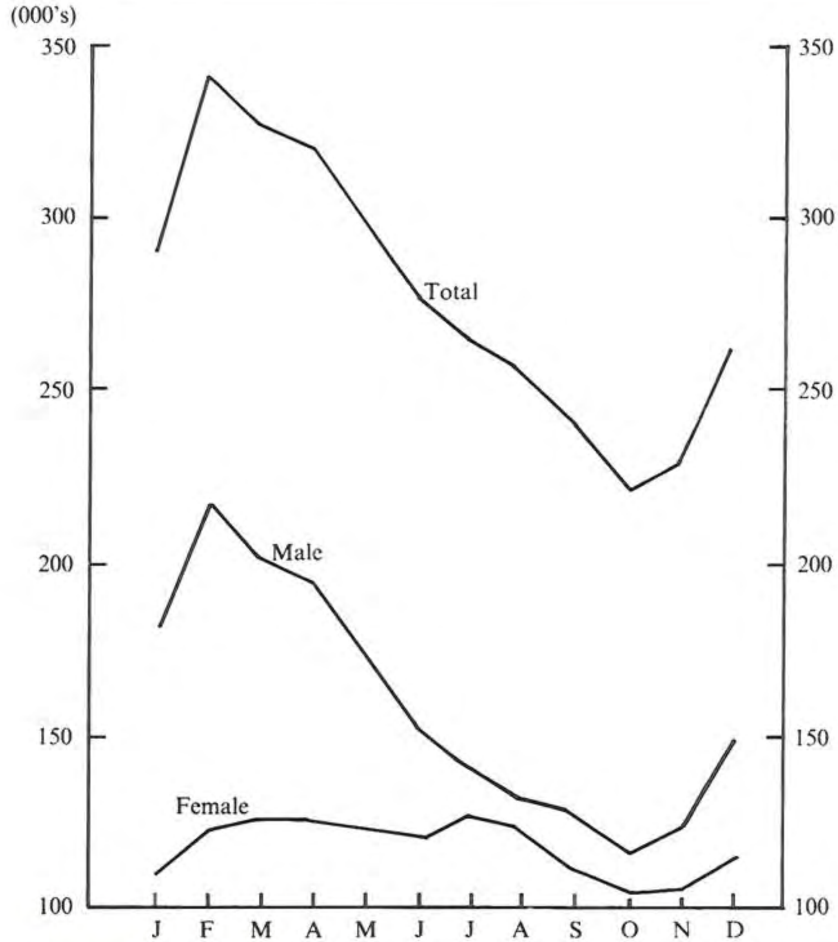
Source: U.I.C. monthly data.

[1] Includes only those claimants who are available for employment, and excludes those on maternity, sickness, retirement, retraining and supplementary benefits.

After February, the overall unemployment level steadily declined until November when the seasonal influence was felt again. The number of unemployed reached its annual low in October at 221,221, which was still 8.7 per cent higher than December 1974.

It is apparent from Table 5 and the chart following that the trend in female unemployment is much less volatile than the trend for males. Between February and October, male unemployment fell by more than 101,000 persons. The swing between the high point and the low point for females, on the other hand, was only 22,000 and month-to-month

Unemployment Insurance Beneficiaries in Ontario, 1975 — Chart 1



Source: U.I.C. monthly data.

variations were also less dramatic. This indicates that the seasonal factor plays a larger role in male unemployment than it does for females. It is also clear that, as the economy picked up steam during the year, male unemployment showed a parallel improvement. Female unemployment, on the other hand, was largely unaffected by the increased job opportunities generated by the economic recovery during the last half of 1975.

The Unemployed by Age and Sex

Table 6 shows that approximately two-thirds of all U.I.C. beneficiaries are in the primary work force, aged 25-64. The balance of beneficiaries are mainly young people aged 14-24. The young pose a continuing problem in the labour market, especially in the summer months when a large number of students are seeking jobs. The group

Unemployment Insurance Beneficiaries by Age and Sex in Ontario, 1975 — Table 6

Age Group	March		June		September		December	
	Male	Female	Male	Female	Male	Female	Male	Female
14-19	23,115	12,606	18,754	12,322	15,606	10,416	15,845	10,119
20-24	43,210	26,440	39,150	29,438	32,664	26,586	32,811	24,156
25-34	51,346	34,822	38,476	34,210	31,993	32,640	37,976	32,346
35-44	32,478	22,618	20,945	20,192	16,690	18,264	22,667	19,320
45-54	26,217	18,417	17,226	16,196	13,852	14,724	19,770	16,333
55-64	19,396	9,101	13,835	8,311	12,143	7,782	15,983	8,921
65 +	6,087	1,384	5,152	1,310	4,601	1,223	4,668	1,230
Total	201,849	125,388	153,538	121,979	127,549	111,635	149,720	112,425

Source: U.I.C. monthly data.

that benefited most from increasing employment opportunities during the summer were aged 35-54, especially males. This development should be expected since individuals in this age group tend to have more obligations to family and financial responsibilities and a greater attachment to the labour force. In addition, these people are generally better skilled. Over the year as a whole, the proportion of unemployed females to unemployed males is lower for the young than it is in the primary work force, averaging 68.8 and 80.4 per cent respectively.

The Unemployed by Skills

Table 7 provides some insight on unemployment from the perspective of different occupations. As expected, construction occupations

Unemployment Insurance Beneficiaries as a Percentage of Labour Force by Selected Occupation in Ontario, 1975 — Table 7

Occupation	March	June	September	December
Professional/Managerial	2.0	2.2	2.6	2.3
Clerical	4.5	4.8	5.4	5.3
Sales	2.8	2.7	2.7	2.4
Services	3.9	3.5	3.5	3.7
Primary Industry	4.7	1.6	1.6	3.9
Processing	7.5	5.7	4.8	5.8
Mach./Prod. Fabricating	7.9	7.1	5.8	5.0
Construction	16.2	8.5	6.0	8.3
Transport Equip. Operating	7.3	4.7	4.2	4.5
Material Handling	11.0	9.8	8.5	7.1
Other Crafts	11.2	8.7	8.5	8.4
All Selected Occupations	7.8	6.2	6.0	6.8

Source: The estimated labour force and employment are from the Special Tabulations of the Labour Force Survey, Statistics Canada.
U.I.C. monthly data.

Note: Labour Force data for March are the sum of employed and unemployed by occupation.

showed the highest rate of unemployment in 1975, and also the greatest seasonal swings. Occupations in processing, transportation, equipment and primary industries — which are heavily weighted to male employees — benefited from the economic recovery as shown by the trend towards decreasing unemployment during the year. Unemployment in professional and managerial occupations was low throughout the year, and this was also true of clerical, sales and service occupations which are predominately female. A comparison of job vacancies with unemployment by occupation is shown in Appendix D2.

The Regional Distribution of the Unemployed

Table 8 shows the regional distribution of unemployment insurance beneficiaries during 1975 in terms of absolute numbers. Table 9 presents the regional breakdown in terms of unemployment rates. From the

Number of Unemployed, by Regions, 1975 — Table 8

District Office	March	June	September	December
Southwestern Ontario				
Niagara	19,622	14,653	12,115	16,621
London	20,197	16,287	13,533	13,341
Windsor	18,887	13,595	11,197	13,606
Waterloo	13,770	10,535	8,257	7,517
Brantford	7,815	6,263	4,384	6,269
Chatham	6,041	4,118	3,913	4,878
Owen Sound	5,304	3,607	2,705	3,126
Sarnia	4,274	4,884	2,975	2,882
Guelph	2,905	2,867	2,696	2,654
Central Ontario				
Barrie	20,142	14,416	11,636	14,069
Oshawa	12,450	10,720	8,988	8,956
Peel	13,067	11,997	10,461	10,261
Hamilton	15,950	14,845	13,792	13,545
Eastern Ontario				
Ottawa	15,047	14,006	14,831	14,985
Cornwall	8,889	6,424	5,451	5,887
Kingston	8,285	6,446	5,781	6,780
Belleville	7,328	5,553	4,647	5,431
Peterborough	7,030	5,583	5,342	5,828
Pembroke	3,965	2,625	2,324	3,161
Northern Ontario				
Sudbury	7,344	5,811	5,663	6,413
Timmins	5,487	5,320	5,342	6,833
Sault Ste. Marie	4,490	3,713	3,195	4,705
North Bay	4,834	3,926	3,362	3,998
Thunder Bay	6,846	5,354	5,748	7,371
Kenora	2,845	2,142	1,604	4,295
Metro Toronto	84,058	79,510	68,935	68,447

Source: U.I.C. monthly data.

data it is clear that there is a wide regional variation within the province in both the numbers of unemployed and unemployment rates. Generally speaking, the more industrialized regions of the province such as Toronto, Oshawa, Hamilton, Sudbury, Ottawa, Waterloo and London experienced the lowest rates of unemployment in 1975. The unemployed in these regions also benefited most from the improvement in the employment situation which occurred during the year. However, with few exceptions the number of unemployed persons declined during the year all across the province.

Rate of Unemployment, by Regions, 1975 — Table 9

District Office	March	June	September	December
Southwestern Ontario				
Niagara	11.8	8.8	7.3	10.0
London	8.7	7.1	5.9	5.8
Windsor	12.8	9.2	7.6	9.3
Waterloo	8.9	6.8	5.3	4.8
Brantford	8.8	7.1	5.0	7.1
Chatham	12.7	8.7	8.2	10.3
Owen Sound	9.7	6.6	5.0	5.7
Sarnia	7.8	8.9	5.4	5.3
Guelph	5.4	5.4	5.0	5.0
Central Ontario				
Barrie	18.3	13.1	10.6	12.2
Oshawa	8.9	7.6	6.4	6.4
Peel	9.9	9.1	7.9	7.8
Hamilton	5.5	5.2	4.8	4.7
Eastern Ontario				
Ottawa	6.2	5.8	6.1	6.2
Cornwall	12.8	9.2	7.8	8.5
Kingston	9.7	7.5	6.7	7.9
Belleville	12.8	9.7	8.1	9.5
Peterborough	11.1	8.8	8.4	9.2
Pembroke	9.4	6.2	5.5	7.5
Northern Ontario				
Sudbury	7.8	6.2	6.0	6.8
Timmins	8.6	8.3	8.3	10.7
Sault Ste. Marie	7.9	6.5	5.6	8.3
North Bay	9.6	7.8	6.7	7.9
Thunder Bay	10.0	7.9	8.4	10.8
Kenora	8.3	6.2	4.7	12.4
Metro Toronto	7.5	7.1	6.2	6.1

Source: U.I.C. monthly data and Ontario Treasury estimates.

Duration of Unemployment

The Unemployment Insurance Commission makes a distinction between those who are minor and major claimants for benefit purposes. A minor attachment claimant is one who has 8 to 19 weeks of insured employment, while those with more than 19 weeks are termed major attachment claimants. Minor claimants can receive benefits for a maximum of 33 weeks, while the major claimant is eligible for 51 weeks of benefits.[1]

Table 10 indicates the distribution of insured weeks by quarter. From the data it appears that the distribution of insured weeks remained relatively stable throughout 1975. The split between minor and major attachments remained fairly constant as well. This suggests that the employment history of those who become unemployed changes very slowly over time.

Insured Weeks of the Unemployed in Ontario, 1975 Table 10

Insured Weeks	March	June	September	December
8-12	39,093	32,966	28,005	35,440
13-19	47,903	42,541	30,703	35,978
20-29	63,646	51,753	40,596	48,620
30-39	53,263	40,403	34,575	37,968
40-51	93,040	83,935	82,814	77,805
52	30,292	23,919	22,491	26,334
Total	327,237	275,517	239,184	262,145
Percent Distribution				
Minor (8-19)	26.6%	27.4%	24.5%	27.2%
Major (20+)	73.4%	72.6%	75.5%	72.8%

Source: U.I.C. monthly data.

Table 11 examines the duration of unemployment, i.e. the number of weeks that claimants continue to draw benefits. The experience during 1975 shows two significant trends. One is the strong influence of seasonality on the duration of benefits. The other feature is the large number of long-term beneficiaries. Looking first at the seasonal factor, the addition of 87,000 unemployed claimants in January, 1975 had the impact of subsequently swelling the 8-15 weeks of benefit category in March. Many of these persons remained unemployed through June and as late as September, thus bulging the 26+ category in these months.

Second, it should have been expected that there would have been a large drop in the number of long-term unemployed as the economy expanded in the second half. Instead, the number of long-term U.I.C. beneficiaries showed only a modest decline. Labour force statistics indicate that only one-third of total unemployment is accounted for by persons unemployed for more than four months. The U.I.C. data, however, indicates that almost half of all U.I.C. beneficiaries in December, 1975 had been unemployed for more than four months. This suggests that long-term unemployment is more of a problem than

[1]If the national unemployment rate is above 5% and the regional unemployment rate exceeds the national unemployment rate by more than 2%, unemployed claimants are entitled to the maximum weeks of benefits.

Duration of Unemployment in Ontario, 1975 — Table 11

Weeks of Benefit	March	June	September	December
0-3	5,590	7,908	6,105	7,700
	(1.7)	(2.9)	(2.6)	(2.9)
4-7	39,890	34,590	28,679	53,068
	(12.2)	(12.6)	(12.0)	(20.2)
8-15	104,452	65,804	58,060	74,183
	(31.9)	(23.9)	(24.3)	(28.3)
16-20	70,558	33,043	31,791	29,427
	(21.6)	(12.0)	(13.3)	(11.2)
21-25	38,311	36,205	29,092	21,984
	(11.7)	(13.1)	(12.2)	(8.4)
26+	68,436	97,967	85,457	75,783
	(20.9)	(35.6)	(35.7)	(29.0)
Total	327,237	275,517	239,184	262,145
	(100.0)	(100.0)	(100.0)	(100.0)

Source: U.I.C. monthly data.

Note: Figures in parentheses are percentages of total.

is evident from the Labour Force Survey. Or, alternatively, it may merely reflect the generous benefit levels, duration of benefits and extent of policing under the U.I.C. system itself.

This point is further elaborated in Table 12, using September, 1975 as a representative month for individuals classified as minor and major attachment claimants. Fifty-three per cent of the minor attachment claimants had received benefits for more than four months and 20 per cent had received benefits for more than six months. Similarly, for major attachment claimants, 62 per cent had received benefits for more than

Cumulative Percentage Distribution of Weeks of Benefit by Sex and Insured Weeks in Ontario, September, 1975 — Table 12

	Weeks of Benefits				
Insured Weeks	26+	25-21	20-16	15-8	7-0
Male					
Minor (8-19)	19.5	35.5	52.0	81.3	100.0
Major (20+)	42.9	52.9	64.2	85.8	100.0
Female					
Minor	20.0	35.3	53.5	81.7	100.0
Major	34.7	45.3	58.7	85.5	100.0
Both Sexes					
Minor	19.7	35.4	52.6	81.5	100.0
Major	38.9	49.2	61.5	85.6	100.0
Total	34.8	46.2	59.6	84.8	100.0

Source: U.I.C. monthly data.

four months and 39 per cent had received benefits for more than six months. For all beneficiaries, 60 per cent received benefits for more than four months and 35 per cent received benefits for more than six months.

III Conclusion

The revised labour force survey which commenced in 1976 presents a more realistic picture of the labour market and unemployment in Ontario than the survey it replaced. The new survey increases the emphasis on females, young people and part-time workers. On the basis of the U.I.C. data presented in the foregoing tables, this new emphasis is appropriate since these groups account for a very large part of total unemployment. Moreover, these groups participate in the labour market in quite an opposite way to the behaviour of workers generally, thus moderating seasonal and cyclical fluctuations in unemployment. On the basis of the 1975 experience at least, these groups continued to receive unemployment insurance benefits as employment conditions improved during the year, leaving the bulk of employment gains to males, older workers and workers permanently attached to the labour force. This raises questions as to the reasons for such behaviour. Does it reflect basic structural dimensions of the Ontario labour market itself or is it simply the end result of a very generous unemployment insurance system?

Appendix D1

Reconciliation Between U.I.C. and Labour Force Data

There are a number of significant differences between unemployment as measured by the Labour Force Survey and by unemployment insurance data. These differences will affect the interpretation of the statistics and, consequently, an elaboration of these differences is essential for a clear understanding of this paper.

Table D1-1 compares the unemployment rate as measured by the two data sources. Both unemployment statistics use the labour force as measured by Statistics Canada as their base calculation. The monthly unemployment rate from U.I.C. data is consistently higher than the Labour Force Survey rate. Over the year, the U.I.C. unemployment rate ranges from 10 to 30 per cent higher than the Labour Force Survey rate.

The major differences are the populations covered in the Labour Force Survey and U.I.C. data and the dissimilarity between a U.I.C. claimant and an unemployed individual. First, the Labour Force Survey is a sampling of 7,600 households, whereas the U.I.C. data consists of

Labour Force and Unemployment Statistics Ontario, 1975 — Table D1-1

		Actual Percent of Unemployed		Seasonally-Adjusted	
	Labour Force	Statistics Canada	U.I.C.	Labour Force	Percent of Unemployed
	('000)			('000)	
January	3,695	7.1	7.9	3,744	6.0
February	3,692	7.1	9.3	3,749	5.6
March	3,722	7.3	8.8	3,766	6.0
April	3,736	6.6	8.6	3,768	6.1
May	3,841	6.1	7.7	3,806	6.3
June	3,941	6.5	7.0	3,817	6.4
July	3,957	5.7	6.7	3,814	6.3
August	3,943	5.2	6.5	3,821	6.2
September	3,784	4.8	6.3	3,845	5.8
October	3,802	4.7	5.8	3,852	5.8
November	3,798	5.1	6.0	3,863	6.0
December	3,804	5.6	6.9	3,841	6.1
1975 Average	3,910	6.0	7.3	3,807	6.0

Source: The Labour Force, Statistics Canada and U.I.C. monthly data.

all unemployment insurance claimants in Ontario. Furthermore, the Labour Force Survey relates to paid workers and self-employed workers. Contributors to U.I.C. are restricted to the paid workers category and not all these are included. For example, those who are in receipt of CPP or QPP retirement pensions, those 70 years of age or older and those who earn less than the minimum insurable earnings are not considered insurable for U.I.C. purposes and hence, are excluded from becoming beneficiaries. As well, a new entrant to the labour force seeking a job and unable to find one could not be a U.I.C. beneficiary since he has never had insurable employment.

In terms of the definition of unemployed there are significant differences. A U.I.C. beneficiary who must be available for and capable of employment may work part-time and remain eligible for benefits as long as his earnings do not exceed 25 per cent of the weekly entitlement. In the Labour Force Survey this person would be considered as employed. As well, beneficiaries who have exhausted their benefit entitlement and are still unemployed would not be included as a U.I.C. beneficiary but would be counted as unemployed in the Labour Force Survey.

Another major difference between the two rates results from the sampling methods employed. For the Labour Force Survey, the reference week is the third week of the month. If the respondent is without work and is seeking work in the reference week, he is considered as unemployed. However, for U.I.C. purposes on the monthly tabulations, a beneficiary only has to receive benefits for one day of the month and he is counted in the monthly tabulation. This greatly increases the upward bias of the U.I.C. unemployment rate.

Table D1-2 gives some indication of the magnitude of this upward bias. Since U.I.C. excludes the self-employed from insuring their earnings, this table only includes paid workers in the labour force base. Comparing these figures to the U.I.C. unemployment rates in the previous table which includes the self-employed in the labour force base, it can be seen that they are consistently higher.

Unemployed as a Percentage of Paid Workers in Ontario, 1975 — Table D1-2

	Paid Workers	Percent of Paid Workers on Unemployed Claims
	('000)	
January	3,116	9.3
February	3,135	10.9
March	3,128	10.5
April	3,161	10.1
May	3,269	9.1
June	3,357	8.2
July	3,397	7.9
August	3,399	7.6
September	3,283	7.3
October	3,308	6.7
November	3,291	6.9
December	3,284	8.0
1975 Average	3,261	8.5

Source: Statistics Canada and U.I.C. monthly data.

Appendix D2

Job Vacancies and Skills of Unemployed in Ontario, 1975

Ratio of Number of Unemployed to Number of Vacancies for Full-Time Jobs by Selected Occupations, 1975

Occupation	Job Vacancies			Ratio of Unemployed to Job Vacancies		
	I Q	II Q	III Q	March	June	Sept.
Managerial, administrative and related	1,400	1,100	700	4	5	8
Natural Science, Engineering and Mathematics	2,000	1,400	1,000	2	3	4
Medicine and Health	1,000	600	1,000	5	9	6
Clerical and related	4,400	4,200	3,800	9	11	12
Sales	1,700	1,200	1,800	9	13	8
Services	2,300	2,900	2,800	11	8	8
Processing	1,100	600	900	15	22	11
Machining and related	1,100	1,500	900	13	9	12
Product Fabricating, Assembling and Repairing	2,400	2,700	3,000	19	14	10
Construction trades	900	1,400	1,400	59	24	16
Transport Equipment Operating	900	600	600	17	18	15
Material Handling	400	300	400	50	56	48
Total Selected	19,600	18,500	18,300	12	11	11

Source: Statistics Canada and U.I.C. monthly data.

Appendix D3

Insurable Earnings and Average Weekly Benefits of the Unemployed in Ontario, 1975

Insurable Earnings of Unemployment Insurance Beneficiaries, 1975

Weekly Insurable Earnings ($)	Number of beneficiaries			
	March	June	September	December
20-96	52,615	60,624	49,692	41,792
	(16.1)	(22.0)	(20.8)	(15.9)
97-184	274,501	210,113	172,522	179,924
	(83.9)	(76.3)	(72.1)	(68.6)
185 and over	121	4,780	16,970	40,429
	(—)	(1.7)	(7.1)	(15.4)
All beneficiaries	327,237	275,517	239,184	262,145
	(100.0)	(100.0)	(100.0)	(100.0)

Average Weekly Unemployment Insurance Benefits, 1975

	March	June	September	December
Male	96.75	95.58	97.69	103.23
Female	68.92	69.90	69.50	75.66
All beneficiaries	86.09	84.21	86.02	91.41

Source: U.I.C. monthly data.

Note: Figures in parentheses are percentages of total.

Appendix D4

Details of Changes in the Unemployment Insurance Act

Unemployment Insurance Act (Old and Revised)

	1975	1976
Contribution Rate (%)		
Employee	1.40	1.65
Employer	1.96	2.31
Maximum Contribution		
Employee ($/Week)	2.59	3.30
($/Year)	134.68	171.60
Employer ($/Week)	3.62	4.62
($/Year)	188.55	240.24
Maximum Insurable Earnings[1]		
Per Week ($)	185.00	200.00
Per Year ($)	9,620.00	10,400.00
Benefit Rate (%)		
With No Dependants	$66\frac{2}{3}$	$66\frac{2}{3}$
With Dependants	75	$66\frac{2}{3}$
Maximum Weekly Benefit ($)	123.33	133.33
Unemployment Threshold	fixed at 4%	average of monthly unemployment rate for 8 years 5.6%
Eligibility		
Age Coverage	14–70	14–65
Advanced Payment	Yes	No
Disqualification Period	3 weeks	6 weeks
New Coverage	—	sponsors of federal government programs such as L.I.P. and L.E.A.P.
Qualifying period for special group[2]	52 weeks	104 weeks

[1]The maximum is calculated by multiplying the maximum insurable earnings for a week in the previous year by the Earnings Index for the year, rounded to the nearest five dollars. The Earnings Index for a year is based on the growth rate of employees' average earnings during the previous year.

[2]Includes inmates, those incapable of work due to sickness, disability or quarantine, workers receiving temporary total Workmen's Compensation payments, claimants on approved training courses.

Budget Paper E

Reform of Property Taxation in Ontario

Table of Contents

Reform of Property Taxation in Ontario

Introduction

Over the past seven years, the Government has restructured both school boards and municipal government units. The financial viability of local government has been substantially strengthened through increased unconditional grants and the system of tax credits. The next stage in the Government's continuing program of local government reform is the reform of the property tax itself.

I Timetable for Reform

Market value assessment will not be used for property taxation until 1978. This is a one-year postponement. Preliminary analyses of the new assessment data indicate that substantial changes to the current property tax system will be necessary to prevent undesirable shifts in tax burdens.

This paper outlines 15 tax proposals which build the foundation of a new property tax system based on reassessed values. These proposals set out what a modern, efficient and equitable property tax system should include. They are not, however, hard and fast rules; they are open for discussion.

The property tax affects everyone in Ontario, directly or indirectly. It is the Government's desire that everyone be given the opportunity to participate in the development of a new tax system. To facilitate discussion of the proposals, a Commission will be appointed to receive submissions and to make recommendations on the new property tax system. The Commission, which will include people knowledgeable in municipal and education finance, will be asked to report to the Government by the fall of 1976 so that legislation can be prepared for the spring of 1977. Preliminary market value data will be available to local governments before the legislation is finalized.

Assessment notices for 1978 taxation will be sent to property taxpayers in the early summer of 1977. This early mailing of notices will enable appeals on the new assessments to be heard during 1977 so that the last revised assessment roll for 1978 taxation will be available in December, 1977. This implementation timetable will help to minimize any transitional disruption in local government financing.

II Background of Reform

Before setting out the proposals of a new property tax system, it is useful to briefly review the background of, and reasons for, market value assessment.

The values upon which taxes are currently levied date as far back as 1940. They are values which were determined by local assessors taking into account factors which were important to each municipality but not necessarily important beyond the boundaries of each. During this period, Ontario experienced rapid urbanization and inequities grew within each municipality as new properties were brought onto the assessment roll and the values of older properties were not updated. Meanwhile, the sharing of costs and responsibilities among municipalities, and between municipalities and the Province, steadily increased in importance. As provincial grants were increased over the years, local and provincial financing became more interrelated. Because the locally-determined property assessment was the base for sharing many costs and determining grant entitlements, deficiencies in local assessment obviously created inequities in provincial-municipal financing.

The Province adopted a system of equalization factors to correct for the variations in local property assessments. At best, however, these factors could correct only in the total sense for different growth patterns and valuation practices. The factors could not account for changes in the values of individual properties.

It was due to these circumstances that the Province assumed the responsibility for the administration of property assessment. The Province was immediately faced with the task of updating the assessments on more than 3.5 million properties in Ontario.

Initially, completion of the reassessment program was planned for December, 1975 for 1976 taxation. However, in a relatively short period of time, the real estate market in Ontario became extremely active with prices rising at unprecedented and unexpected rates. These conditions caused values placed on properties to be hopelessly out of date within several months, making meaningful tax analyses impossible. Therefore, the schedule for the implementation of reassessed values was delayed until the 1977 tax year.

The Province has almost completed the reassessment of all properties in Ontario. It is intended that once market value is established, it will be kept up to date.

The use of property taxation will continue to be the exclusive right of local governments and the main source of their tax revenues. The property tax has proven to be a good tax for the raising of local funds. No other level of government uses property as a tax source. Furthermore, local governments have considerable flexibility in setting mill rates in accordance with their financial requirements. With the introduction of the property tax credit system, which virtually eliminated the regressive features of the tax, the revenue-raising capacity of property taxation has been greatly enhanced.

During this period of reassessment, the Province has also been analysing the effects of the new values on the distribution of taxes among taxpayers and on municipal finance. The development of a compatible property tax system for introduction with market value assessments is fundamental to a pragmatic program of reform. The following proposals applied to reassessed values would further improve the distribution of property taxes and ensure the continued viability of this basic source of local government finance.

III Proposals for Reform

The following proposals for the reform of property taxation in Ontario incorporate the Government's objectives as set out when the Province assumed the responsibility for reassessing all property in Ontario.[1] These objectives, which take into consideration the recommendations of the Ontario Committee on Taxation, the Select Committee of the Legislature and other related studies[2], are:

- to establish an appropriate distribution of tax burdens among classes of real property;
- to achieve a more neutral business assessment rate; and
- to broaden the local tax base by removing exemptions.

1. Taxes on Residences

Residences in Ontario, collectively, will bear a reduced share of property taxes.

Residences presently bear approximately 50 per cent of the total property taxes in Ontario. In order to reduce this share, it appears from preliminary analyses that every residence should be taxed at 50 per cent of market value with all other property taxed at 100 per cent of market value.[3]

This reduction in the share of property taxes will apply to residences in total and not necessarily to each individual residence. Some individual residences are considerably under-assessed when compared with others. To achieve equity among homeowners, therefore, property taxes on such residences will have to rise so that the taxes on others can fall.

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[1]Hon. C. S. MacNaughton, *Ontario Budget 1969* (Toronto: Ministry of Treasury and Economics, 1969).

[2]Report of the Committee on Farm Assessment and Taxation, November, 1969; Report of the Committee on Golf Course Assessment and Taxation, February, 1972; and A Canadian Approach to Minimizing Real Property Tax Exemptions, August, 1974.

[3]These percentages may not necessarily be the final percentages when further analysis is completed.

The reduced share of property taxes on residences in total will be the result of the new tax structure itself. This proposal, however, does not guarantee that property taxes on residences will not rise if mill rate increases are required to finance local government costs.

2. Residential Property Redefined

Residential property will be redefined to include only residences and a reasonable amount of land.

Residences will include single family residences, recreational residences, farmhouses, condominiums, multiple rental residences, student residences, homes for the aged and other similar types of property.

Vacant commercial and industrial property, land, railway rights-of-way, golf courses, lodges, clubs, associations and conservation authorities are currently included in the definition of residential property. These properties will no longer be defined as residential and will be taxed at 100 per cent of market value.

3. Mill Rates

The present practice of levying different mill rates on residential and commercial properties will be discontinued.

The mill rate presently levied on residential property is lower than the mill rate levied on commercial property. It is 15 per cent lower for municipal purposes and 10 per cent lower for school purposes. It is proposed that these different mill rates be replaced by a system of uniform rates levied on different percentages of market value assessment.

Table 1 illustrates that the same results are achieved by taxing different percentages of assessment as are achieved by split mill rates. The new system, however, offers greater tax policy flexibility and administrative simplicity.

Comparison Between a 15% Mill Rate Differential and a 15% Assessment Differential — Table 1

	Residences	Other Realty	Total
Different Mill Rates			
Market Value	$40,000	$40,000	$80,000
Taxable Assessment	$40,000	$40,000	$80,000
Mill Rates	18.38	21.62	
Taxes	$ 735	$ 865	$ 1,600
Different Percentages of Assessment			
Market Value	$40,000	$40,000	$80,000
Taxable Assessment	$34,000	$40,000	$74,000
Mill Rates	21.62	21.62	
Taxes	$ 735	$ 865	$ 1,600

4. Farms and Managed Forests

Farmland, farm buildings, managed forests and farm residences will be assessed at market value. Farmland, farm buildings and managed forests will be taxed at 100 per cent of market value and the taxes will be paid by the Province. Farm residences will be taxed as all other residences at 50 per cent of market value and the taxes will be paid by the owner. There will be provision to recover taxes paid by the Province if the property changes use.

Comparison of the Present and Proposed Methods of Taxing Farm Property — Table 2

(dollars)

			Taxes[1]		
	Market Value	Taxable Assessment	Paid by Owner	Paid by Province	Total
A. Modest Residence					
Present Method					
Residence and lot	30,000				
Farm buildings and farm land	200,000				
	230,000	23,000[2]	1,150	1,150[3]	2,300
Proposed Method					
Residence and lot	30,000	15,000	300		300
Farm buildings and farm land	200,000	200,000		4,000	4,000
B. Expensive Residence					
Present Method					
Residence and lot	200,000				
Farm buildings and farm land	200,000				
	400,000	40,000[2]	2,000	2,000[3]	4,000
Proposed Method					
Residence and lot	200,000	100,000	2,000		2,000
Farm buildings and farm land	200,000	200,000		4,000	4,000
C. No Residence					
Present Method					
Farm buildings and farm land	200,000	20,000[2]	1,000	1,000[3]	2,000
Proposed Method					
Farm buildings and farm land	200,000	200,000		4,000	4,000

[1]The mill rate under the present method is assumed to be 100 mills. The mill rate under the proposed method is assumed to be 20 mills.

[2]The taxable assessment under the present method is assumed to be 10% of market value.

[3]Under the present method the Province rebates 50% of the total taxes on farm residences, farm buildings and farm land.

Farmland, farm buildings and farm residences are currently being assessed on the basis of their value to another farmer. It is proposed that all farm property be assessed at market value and that farm residences be separately assessed from farmland and farm buildings. Farm residences will be taxed, as all other residences, at 50 per cent of market value, with the owner paying the taxes. Farmland, farm buildings and managed forest land will be taxed at 100 per cent of market value, with the taxes paid by the Province. Table 2 compares the present and proposed methods of taxing farm property.

Owners of farmland and managed forests will make application to the treasurer of the municipality in which the property is located to have the tax bill sent to the Province. Eligibility will be based on similar criteria as presently exist for the Farm Tax Reduction and Managed Forest Tax Reduction Programs. The Farm Tax Reduction and Managed Forest Tax Reduction Programs will be replaced by taxation at 100 per cent of market value with the taxes paid by the Province. Changes in the ownership of such property will not affect taxation. However, where the use of farmland or managed forest property is changed to other purposes, the taxes paid by the Province on such property, together with interest, will be recovered for up to ten years prior to the change in use. Table 3 compares the present and proposed costs of recovery of taxes paid by the Province on farmland and farm buildings if such property changes use.

Cost Recovery Under the Present and Proposed Methods — Table 3

Present Method		
10 years taxes paid		
—by the owner ($1,150 × 10)	$11,500	
—by the Province and recoverable ($1,150 × 10 × 1.08)	$16,600	
		$28,100
Proposed Method		
10 years taxes paid		
—by the owner ($300 × 10)	$ 3,000	
—by the Province and recoverable ($4,000 × 10 × 1.08)	$57,600	
		$60,600
Increased Cost		$32,500

Notes: 1. Taxes paid by the Province are recoverable for up to 10 years, together with annual interest at 8%, if the farm is developed for non-farm purposes.

2. Mill rates and market values are assumed to be constant over the 10-year period.

5. Business Assessment

All real property used for the purpose of a business including government administrative facilities will be subject to an additional assessment of 50 per cent of market value for business taxes.

Table 4

A Comparison of the Present and Proposed Taxes on Business

(dollars)

Present Business Assessment Rate	Present Assessment		Proposed Taxable Assessment		Present Taxes[2]			Proposed Taxes[3]			Change in Taxes Increase (Decrease)		
	Realty	Business	Realty[1]	Business	Realty	Business	Total	Realty	Business	Total	Realty	Business	Total
Carparks 25%	10,000	2,500	81,000	40,500	1,200	300	1,500	1,620	810	2,430	420	510	930
Retail Stores 30%	10,000	3,000	63,000	31,500	1,200	360	1,560	1,260	630	1,890	60	270	330
Professional & Retail Chains 50%	10,000	5,000	70,000	35,000	1,200	600	1,800	1,400	700	2,100	200	100	300
Industries 60%	10,000	6,000	45,000	22,500	1,200	720	1,920	900	450	1,350	(300)	(270)	(570)
Financial 75%	10,000	7,500	71,000	35,500	1,200	900	2,100	1,420	710	2,130	220	(190)	30
Wholesale 75%	10,000	7,500	53,000	26,500	1,200	900	2,100	1,060	530	1,590	(140)	(370)	(510)
Distilleries 140%	10,000	14,000	55,000	27,500	1,200	1,680	2,880	1,100	550	1,650	(100)	(1,130)	(1,230)

[1]The changes from present realty assessment to proposed taxable realty assessment reflect actual changes for the different types of businesses. Proposed taxable business assessment is 50% of realty assessment.

[2]The mill rate under the present system is assumed to be 120 mills.

[3]The mill rate under the proposed system is assumed to be 20 mills.

The single rate of 50 per cent for business assessment will replace the current rates of 25 per cent for carparks, 30 per cent for retail stores, 50 per cent for professional offices and retail chains, 60 per cent for industry, 75 per cent for financial and wholesale businesses and 140 per cent for distilleries. The tax on business assessment will continue to be a tax on the occupant rather than on the owner of the property.

With the exception of government administrative facilities, properties presently excluded from business assessment will continue to be excluded. These properties are farms, rental residences, railway rights-of-way and pipelines. Table 4 compares the taxation of businesses under the present and proposed tax systems for selected businesses.

6. Public Property

All public property except residences will be subject to payments in lieu of taxes equal to full taxes at 100 per cent of market value. Public residences will be subject to payments in lieu of taxes equivalent to full taxes at 50 per cent of market value. Public utilities will be subject to business assessment at 50 per cent of market value.

This proposal applies to all public property—provincial, local and federal—with the exception of unpatented lands, cemeteries and highways. Public residences may include such properties as university residences, chronic hospitals and homes for the aged. These payments will replace payments in lieu of taxes on other bases such as acreages, student places and partial mill rates. Provincial grants based on assessment will be affected by the inclusion of assessment on previously exempt properties.

Inclusion of all local public property in the property tax base means that local governments will be taxing their own facilities such as schools and parks. But, since the property tax is levied for upper tier and school board purposes, as well as local municipal purposes, this broadened tax base will permit a fairer distribution of costs and revenues among local government units.

It is hoped that this same principle of full taxation at market value can be applied to federal government properties as well, but this will obviously be an item for negotiation.

7. Exempt Property

As is the present case, churches, cemeteries and property held in trust for a band or body of Indians will be exempt. All other presently exempt property will be taxed at 100 per cent of market value, except residences which will be taxed at 50 per cent of market value.

All non-profit and charitable organizations are presently exempt from property taxes except where they occupy property as a tenant. Through these exemptions, all governments and property taxpayers have been indirectly subsidizing these organizations. In suggesting this proposal, it is felt that direct assistance through grants is preferable to property tax exemption.

8. Phasing-In Tax Reform

A uniform method of phasing-in the new tax system over a period of up to five years will be available to prevent abrupt tax changes.

The introduction of the proposed tax system without a phase-in process may result in large property tax changes for some taxpayers. Therefore, the new tax system will be accompanied by appropriate phase-in procedures.

In the past, it was necessary to phase-in tax changes in reassessed municipalities such as in York and Peel. A method of phase-in, based on tax changes for individual taxpayers was developed, and incorporated all the changes in taxes due to reassessment, including inter-municipal and inter-property redistributions. Other alternatives to that system could be considered.

9. Return of Assessment Rolls

Assessment rolls will be returned and enumeration will be performed every two years to coincide with local government elections.

This is a change from the present practice of returning the assessment rolls and enumerating annually. Assessment changes such as new construction or demolition during the two-year period will be incorporated through supplementary assessments. Provision will be made to record changes in school support.

10. Government Property School Support

Assessment on provincial government property will be pooled and assigned between the public and separate elementary schools in the same proportion as the taxable assessment assigned by the owners and occupants of residences.

Presently the payments in lieu of taxes on provincial government property have been in respect of municipal purposes, that is, excluding school purposes. Because provincial funds are raised from all taxpayers in the province, it is suggested that, when the Province makes payments in lieu of taxes equivalent to full taxes, the public and separate elementary schools should both share the assessment of provincial property. All provincial assessment would support the secondary schools.

Payments in lieu of taxes in respect of federal and municipal property presently include a payment for education. However, none of these funds is credited to the school boards. The proposal suggested for provincial properties should be extended to federal, municipal and other public properties.

11. Shared Costs

Costs shared among municipalities will be shared on the basis of the assessment on which taxes and payments in lieu of taxes are based.

Examples of costs which are shared by municipalities include the costs of school boards, counties, regions, health units and children's aid societies. Presently these costs are shared on a variety of bases such as population, acreages, miles of road and equalized assessment. It is proposed that the sharing of costs among municipalities generally be on the basis of taxable assessment and payment in lieu assessment. This does not preclude agreements between municipalities to share the cost of specific projects on some other basis, for example, the cost of a project under The Conservation Authorities Act.

12. Grants Based on Assessment

Where assessment is to be used to determine the grant to be paid to a municipality, the assessment used will be the assessment on which taxes and payments in lieu of taxes are based.

Education, highway and the resource portion of unconditional grants presently include property assessment as a factor in grant calculations. Where payments in lieu of taxes are not credited to the school board, the applicable assessment is not now included for grant purposes. To the extent that Proposal 10 is adopted, such assessment should be included for education grant purposes.

13. Unorganized Areas

The provisions of The Assessment Act will apply to the assessment of all real property in Ontario, including areas without municipal organization.

The assessment provisions contained in The Statute Labour Act, The Local Roads Board Act and The Provincial Land Tax Act will be repealed.

Limited analysis has been done on the effects of the proposals in areas without municipal organization. The rates of tax to be levied will have to be examined prior to implementation. Taxes in areas without municipal organization will continue to be levied by the school boards and the Province.

14. Grant Supported Bodies

Public bodies which receive provincial grants, such as school boards, will be allowed to include their property tax payments as allowable expenses for grant purposes.

Examples of public bodies which receive provincial grants include boards of education, conservation authorities, hospitals and universities.

Because the grant rates may not be 100 per cent, there may be a net increase in the costs to be raised from other sources.

15. Property Tax Credit

Ontario's property tax credits which relate property taxes to the ability to pay will, if necessary, be strengthened upon implementation of the new system.

IV Preliminary Analysis of Proposed Reforms

Large tax shifts would occur if market value assessment were introduced and applied against the present property tax structure. This simply reflects the fact that the values of different types of properties have changed at different rates. For example, the market value of residences has increased more rapidly than the value of most business properties. Also, the market value of single family residences has increased more rapidly than the market value of multiple rental residences. And the greatest escalation in market value has occurred for vacant lands.

As reassessment has progressed, the impact of potential tax shifts has been analysed by the Province. In particular, the Region of Niagara has been extensively analysed as a test area. On the basis of such an analysis the 15 preceding proposals for changes in the property tax system have been designed to prevent tax shifts which are either undesirable or too rapid to accommodate.

The Region of Niagara contains most of the kinds of property that exist in Ontario, including single family residences, multiple rental residences, farms, commercial, industrial and government properties. Because of this, the Region has been chosen as a test area to analyse first, how market value assessment, using the present system of taxation, would result in large changes in property taxes for different kinds of property, and second, how the proposals for a new tax system would affect property tax distribution.

In this analysis, farm residences and other farm property have been arbitrarily divided and are not assessed at market value as proposed. The tax levy has been increased by the amount of taxes that local governments will have to pay in respect of their own property. The levy has also been adjusted upward to reflect increased taxes on provincial properties and corresponding decreases in provincial grants.

The analysis has been based on the taxation of residences at 50 per cent of market value and all other real property at 100 per cent of market value. Business assessment has been set at 50 per cent of property value. Furthermore, currently exempt government and non-government properties have been taxed at 100 per cent of market value. These percentages have been selected to obtain a distribution of property taxes in the Region of Niagara in keeping with the proposals. These percentages could change as further analyses involving other areas of the province are completed.

The Region of Niagara—Comparison of Tax Levies

Table 5

($ million)

	TAX SYSTEM Present		TAX SYSTEM Proposed
	Year Before Reassessment Tax Levy	Reassessment Tax Levy	Reassessment Tax Levy[4]
Residences	41.9	45.0	31.7
Farms[1]	1.1	1.6	.9
Commercial and Industrial Realty	21.6	17.2	20.4
Commercial and Industrial Business	9.6	7.2	10.3
Federal	.2	.2	1.4
Provincial[2]	2.2	3.2	9.4
Municipal	.3	.3	2.0
School Boards	—	—	6.3
Private Exempt	—	—	4.1
Other[3]	3.9	6.1	9.5
	80.8	80.8	96.0

[1]Farm Residences	.4	.5	.9
Farm Land and Buildings	.7	1.1	—
	1.1	1.6	.9
[2]Payments in Lieu of Taxes	1.1	1.6	5.8
Farm Assistance	1.1	1.6	3.6
	2.2	3.2	9.4

[3]Includes land, vacant commercial and industrial, railway rights-of-way, golf courses, lodges, clubs.

[4]The tax levy under the proposed system is $15.2 million greater than the tax levy under the present system, reflecting the imposition of full taxes and payments in lieu of taxes on previously exempt or partially exempt public properties.

The results of the analysis of the Region of Niagara data are detailed in Table 5. The most significant features are summarized below:

- Using the present tax system along with market value assessment, taxes on residences would increase $3.1 million or 7.4 per cent. Using the proposed tax system in conjunction with market value assessment, taxes on residences decrease by $10.2 million or 24.3 per cent.

- Net taxes on farm properties under the present tax system would increase by $0.5 million or 45.5 per cent. This compares with a decrease of $0.2 million or 18.2 per cent under the proposed tax system. Provincial payments in respect of farm properties would increase by $2.5 million.
- The realty taxes on commercial and industrial properties under the present tax system would decrease by $4.4 million or 20.4 per cent. Under the proposed tax system, this decrease would be only $1.2 million or 5.6 per cent.
- The business tax on commercial and industrial properties under the present tax system would decrease by $2.4 million or 25.0 per cent, but increase by $0.7 million or 7.3 per cent under the proposed tax system.
- Payments in lieu of taxes on federal government property would change very little under the present tax system, but increase $1.2 million under the proposed system which includes the taxation of previously exempt federal property.
- Payments in lieu of taxes and payment of the Farm Tax Reduction by the Province each would increase $0.5 million under the present tax system for a total increased cost to the Province of $1 million. Under the proposed tax system, the increased cost to the Province is $7.2 million. This increase is made up of $2.5 million in farm assistance and $4.7 million in payments in lieu of taxes. The cost to the Province includes payments in lieu of taxes on Ontario Hydro property.
- Payments in lieu of taxes on municipal property would change very little under the present tax system, but would increase $1.7 million under the proposed system.
- Schools are exempt from property taxation under the present tax system. Under the proposed tax system, schools would be taxed. In Niagara, the tax on schools would be $6.3 million.
- Taxes on previously exempt private property would be $4.1 million under the proposed tax system.
- Taxes on other property, which includes vacant land, would increase $2.2 million under the present tax system, as compared to $5.6 million under the proposed tax system.

Budget Paper F

Performance under the Auto Pact: An Ontario Perspective

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Performance under the Auto Pact: An Ontario Perspective

Introduction

The automobile is and will continue to be a basic and important part of family and business life in Ontario. The production of automobiles and parts is the centrepiece of manufacturing activity and employment in Ontario and is a major contributor to the economic well-being of our citizens. Ninety per cent of the Canadian automotive industry is located in Ontario, where it accounts directly for over 12 per cent of wages and, indirectly, for one of every six jobs. The future health of this industry is therefore of vital concern to the Ontario Government.

For eleven years, the Canadian auto industry has been operating under the Canada-U.S. Auto Pact.[1] This has affected significantly the development and orientation of the industry. Beginning in late 1974, recession in the United States caused severe production and employment problems in the North American auto industry. In Canada, this situation was confronted by the Ontario Government in 1975 through a two-stage set of fiscal actions designed to stimulate the industry. The impressive results of this program have been documented in Budget Paper A.

With the short-term recovery of the industry now underway, a number of serious longer term problems in the Canadian industry need to be identified and dealt with. Not the least of these is the assertion in some quarters that Canada is overly benefiting from the Auto Pact.

The purpose of this paper is twofold:

- it documents the Canadian record under the auto agreement; and
- it identifies three fundamental problems which should be dealt with to ensure the long-term viability of the Canadian industry.

The Ontario Government believes that the time is now right for a full review of the facts concerning performance under the Auto Pact and the gains and losses to Canada. This paper presents the first such

[1]Formally called the *Agreement Concerning Automotive Products between the Government of the United States of America and the Government of Canada*, January 16, 1965.

comprehensive Canadian review since 1970.[2] On this basis, governments, producers and labour can ascertain what positive actions must be taken to ensure the economic integrity of this vital domestic industry.

I Canada under the Auto Pact

The automotive industry in Canada has undergone considerable growth since the introduction of the Auto Pact in 1965. This section briefly summarizes the nature and objectives of the Canada-United States agreement and outlines the subsequent trends in output and employment. The analysis shows that, while growth was substantial in the initial period under the Pact, major problems have developed since 1969.

Background

Prior to 1965, the Canadian auto industry consisted of a miniaturized version of the U.S. industry, producing virtually the same model range for a much smaller market. No model was produced in sufficient numbers in Canada to achieve major economies of scale. Labour productivity and wages were low compared to the United States; production costs and retail prices were high. This situation was supported by a high Canadian tariff wall on automobile imports. Certain models were imported from the United States and large quantities of parts were imported for all models.

Canada's unfavourable balance of trade was a matter of considerable concern in the late 1950s and early 1960s. Much of the imbalance was linked directly to Canada's deficit in auto and parts trade with the United States. Based on a mutual desire to reach a lasting accommodation on the auto trade situation, Canada and the United States launched an innovation in sectoral free trade with the signing of the Auto Pact in early 1965.

The Auto Pact resulted in the removal of all tariffs from completed cars, trucks and buses and from original equipment parts shipped between the two countries. Canada accomplished this by according duty-free treatment on specified new motor vehicles and original

[2]The performance of the automotive industry under the Pact has been examined in a detailed study by Carl Beigie, *The Canada-U.S. Automotive Industry and the 1965 Agreement: An Evaluation*, Canadian-American Committee, 1970. A brief overview was prepared by Nick Kristoffy, "The Canadian Automotive Industry and the 1965 Agreement", in the *Ontario Economic Review*, May/June 1973. In addition, the Ontario Ministry of Industry and Tourism has documented auto industry needs and objectives in *Sectoral Analysis: The Automotive and Automotive Parts Industry*, 1975. In the United States, the performance under the Pact is reviewed annually in the *Annual Report of the President to the Congress on the Operations of the Automotive Products Trade Act of 1965*. More recently, a major review of the industry has been produced by the International Trade Commission, *Report on the United States-Canadian Automotive Agreement: Its History, Terms and Impact*, January, 1976.

equipment parts to all automotive manufacturers who had production facilities in Canada at the time of the agreement. In return, the United States removed all duties on specified new and used Canadian vehicles and original equipment automotive parts.

In addition, Canada negotiated a number of safeguards to allow the higher-cost Canadian industry to adjust to the competitive pressures of the larger North American market. The most significant restrictions stated that:

- only "bona fide" Canadian vehicle manufacturers were eligible to import automotive products duty-free; and
- "bona fide" status would be granted only to manufacturers who met certain minimum value added and production-to-sales ratios in Canada.

Additional agreements were reached between the Canadian Government and the major auto producers in the form of "letters of undertaking", which were to ensure a significant growth in Canadian automotive production. It was agreed that the level of value added in Canada would increase by an amount equal to at least 60 per cent of growth in the sales value in Canada on cars and 50 per cent on commercial vehicles. In addition, the manufacturers also were committed to increase value added by a further $260 million by 1968.

Generally, Canada's objectives in entering into this agreement were:

- to improve efficiency and achieve levels of production and employment in line with Canada's share of the North American auto market;
- to improve the balance in automotive trade with the United States; and
- to lower prices for consumers and increase domestic sales.

The balance of this section documents the performance of the industry over the past decade in meeting these objectives.

The Record

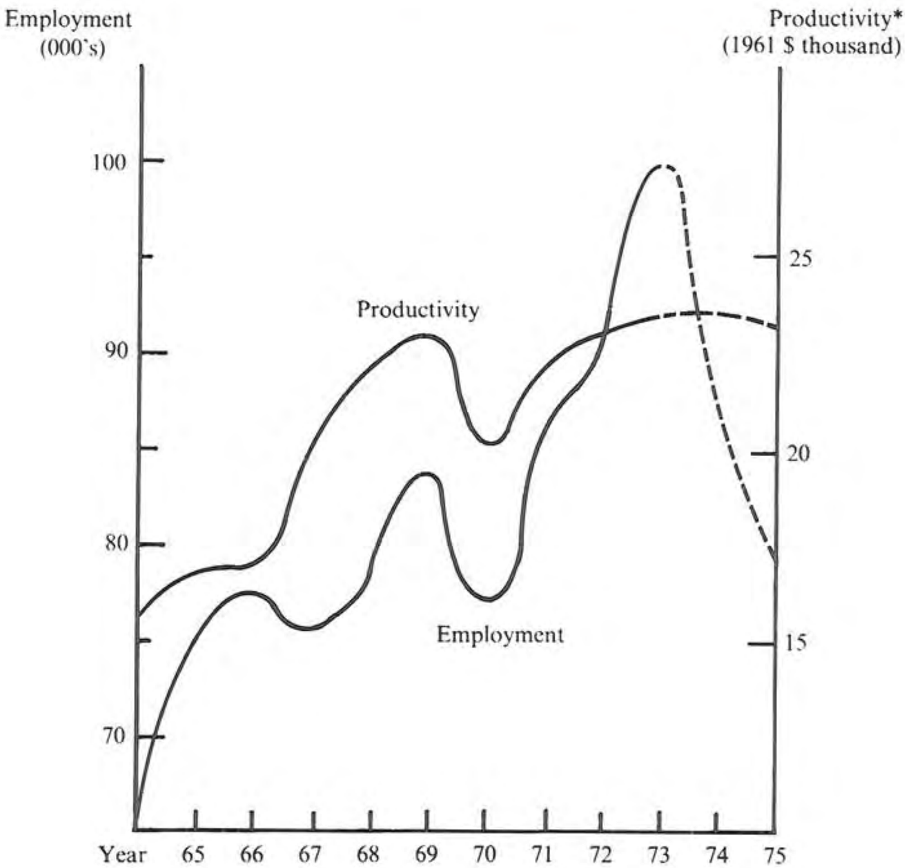
Production and Employment

Assembly and parts manufacturers moved quickly to modernize Canadian production facilities and to take advantage of the opportunities presented by the integrated North American market. During the first five years, as the industry adjusted to the new environment, significant gains were made. However, since the advent of the 1970s, serious problems have emerged and some of these gains have been eroded.

In line with their commitment to strengthen Canadian production facilities and integrate them into the North American market, auto assemblers undertook a major investment program. In real terms capital spending doubled in the four years to 1968 over the level of the early sixties. As a consequence, both assembly employment and productivity rose sharply in this period. By 1969, there were 6,000 more jobs in Canadian assembly operations than there had been five years earlier. Production workers in assembly were some 60 per cent more productive than they had been in 1964, in part resulting from significant capital expansion. Productivity in Canadian assembly operations was approaching the higher U.S. levels, and Canadian wages reflected these improvements.

Throughout this initial period, Canadian parts and accessories producers also took advantage of the opportunities presented by the Pact and enjoyed growth equal to that of the assembly operations. Real investment expenditure in the parts industry in the five years 1965 to 1969 averaged three times higher than the level of the early sixties and was accompanied by a significant improvement in produc-

Canadian Auto Industry Employment and Productivity Chart 1



*Productivity = Real value added per production worker.
Source: Statistics Canada and Ontario Treasury estimates.

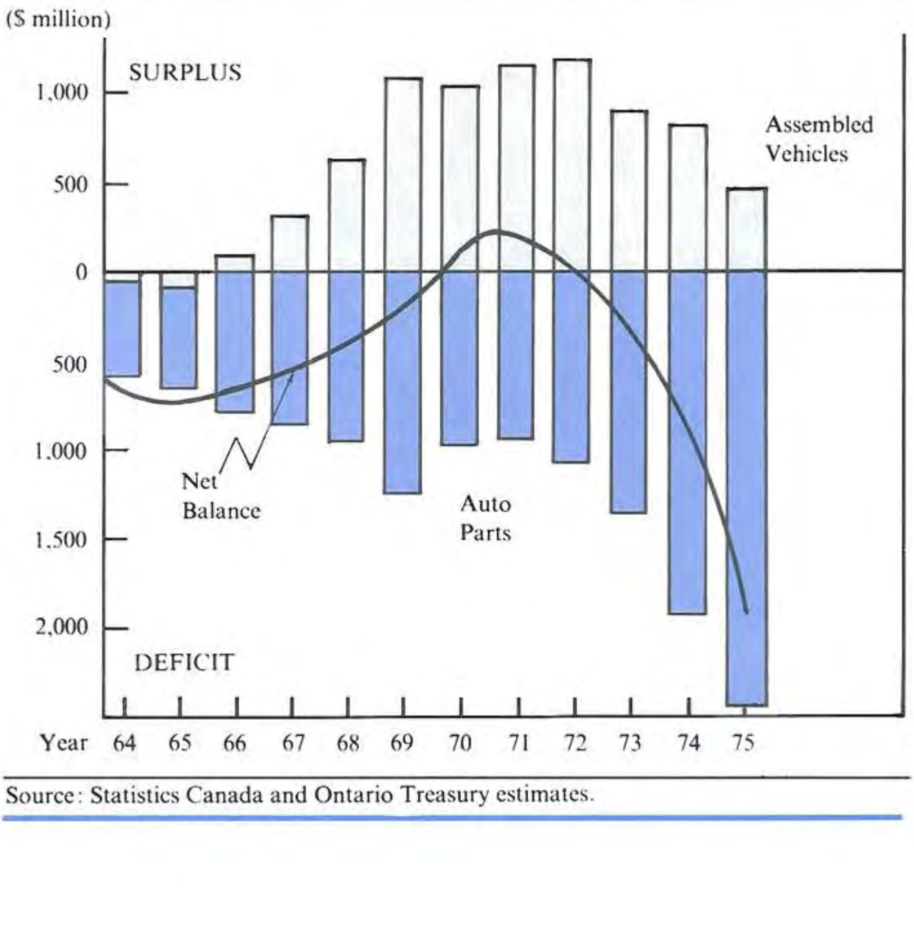
tivity and employment opportunities. Twelve thousand new jobs were created in the parts industry by 1969, and, in that year, this sector accounted for one-half of total employment in the industry. In addition, production workers were some 40 per cent more efficient than they had been in 1964.

While such dramatic productivity improvements in both assembly and parts manufacturing could not be expected to continue indefinitely, slower gains since 1969 have become a matter of serious concern. With respect to the most recent employment trends, the number of jobs in Canada's auto industry has declined significantly from the peak of 100,000 in the record production year of 1973. The subsequent downturn, in part, has been related to the United States recession in late 1974 and 1975, and also reflects a deterioration in Canada's share of auto-related activity.

The Balance of Auto Trade

Integration of the North American market resulted in a substantial increase in trade between Canada and the United States. Canada tended to benefit particularly from the fairly heavy demand for those vehicle models which new Canadian facilities were geared up to provide, and the balance in vehicle trade moved in Canada's favour. At the same

Canada's Trade in Automotive Products with the U.S. Chart 2



Source: Statistics Canada and Ontario Treasury estimates.

time, Canadian parts producers shifted their attention to the U.S. market. In 1975, the value of parts exports to the U.S. equalled 94 per cent of shipments in Canada compared to only 8 per cent in 1964.

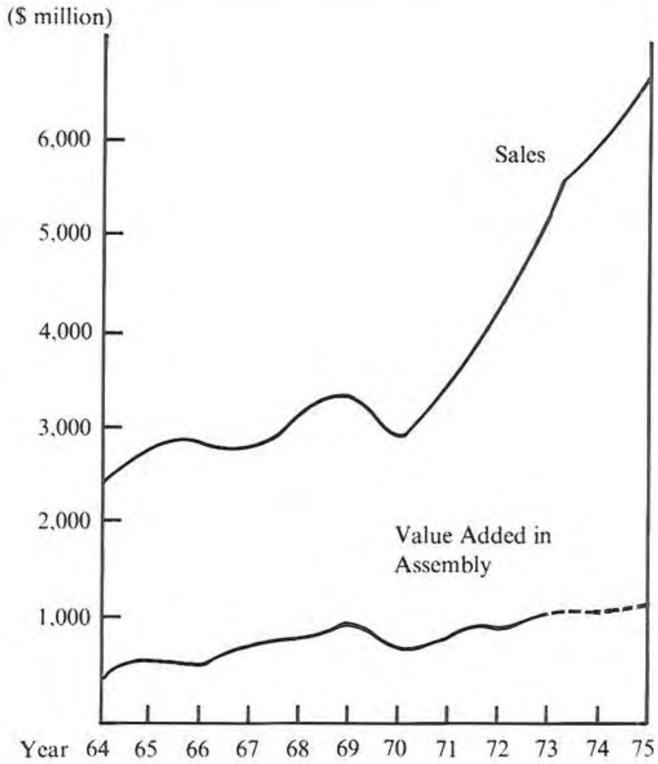
Canada has enjoyed a surplus in its trade of assembled vehicles and the U.S. has experienced a large and growing surplus in parts trade. Overall, however, Canada has had a surplus in only three of the past eleven years. Moreover, a significant imbalance has emerged in recent years, exaggerated in part by shifting market conditions in the two countries. The growing imbalance is a major source of concern. In 1975, Canada's deficit in automotive trade with the U.S. reached $2 billion.

Sales and Prices

An indicator of Canadian performance under the Auto Pact is the trend in domestic sales compared with the level of activity in Canadian production. One of Canada's objectives in the Auto Pact was to increase activity in the domestic assembly industry to a level commensurate with the Canadian vehicle market. The accompanying chart shows that in

Sales and Production (Value Added) of Motor Vehicles in Canada
(current $)

Chart 3



Source: Statistics Canada and Ontario Treasury estimates.

the first five years, activity, as measured by value added, increased in proportion to Canadian sales. Over the past five years, however, the growth of value added in assembly has lagged considerably behind the growth in sales. This has contributed to the increasing deficit in Canada's automotive trade balance.

A major Canadian objective in entering the auto agreement was to lower the cost of vehicles to Canadian consumers. There was at the time a significant price differential between similar vehicle models in the two countries. This was the result of differences in productive efficiency and distribution costs and also reflected differences in taxation policies in the two jurisdictions. One measure of the success of the Pact is seen in the narrowing of the factory price differential for similar cars sold in Canada and the U.S. over the past decade. The most significant improvements have been limited to higher priced models and occurred largely in the early period under the agreement. At the consumer level, of course, higher differentials continue to exist, reflecting in part significant tax differences and some distribution cost differentials.

Price Differentials, Canada vs U.S. — Table 1

(Percent Difference in Factory List Prices)

Year	Medium Priced* (%)	Higher Priced* (%)
1964	9.5	30.7
1970	9.1	13.5
1975	4.8	7.8

*Medium Priced: 4-door 8-cylinder sedan; Higher Priced: 2-door 8-cylinder hardtop.
Source: Annual Reports of the President of the United States.

In general, Canada's objectives in entering into the Auto Pact were substantially realized. The auto industry capitalized on the opportunity to improve its efficiency and expand employment. Trade in automotive products was brought more closely into balance, and the price differential faced by Canadian consumers was reduced substantially. In recent years, however, a number of fundamental problems have emerged in the industry, which will require action if the Auto Pact is to continue to provide the benefits which it has in the past.

II Major Problem Areas

The previous section outlined the broad trends which have been experienced under the Auto Pact since 1964. This section provides a detailed analysis of the major problem areas which are of particular concern to the Ontario Government.

They are:

- the lack of momentum in productivity growth in the industry;
- the allocation of activity in auto assembly between the two countries; and
- the share of the North American market held by Canadian parts manufacturers.

Productivity

The long-run competitiveness of Canadian production facilities is determined by advances in productivity, innovation and investment. Performance in recent years has not been encouraging. There has been virtually no increase in productivity in the Canadian assembly industry since 1969. In the same period, real output per worker in American assembly facilities has increased nearly 19 per cent. In addition, revaluation of the Canadian dollar has had a significant effect on the relative competitiveness of the Canadian industry. As a consequence, the competitive position of Canada's assembly industry has slipped rapidly behind the U.S.

In the parts industry, productivity gains continued through the early years of the seventies and the relative performance of the industry in Canada has improved.

Canadian Productivity Relative to U.S. — Table 2

(Value Added per Production Worker as a Percent of U.S.)

Year	Assembly (%)	Parts (%)
1967	88.8	70.0
1968	81.2	69.0
1969	93.0	74.3
1970	84.0	76.3
1971	69.2	79.6
1972	72.2	83.7
1973	71.4	81.6

Source: Statistics Canada and U.S. Census of Manufactures.

The decline in relative productivity in assembly may be associated with the substantial slowdown in investment activity in the Canadian industry following an initial flurry under the Pact. Real capital spending figures for the industry are presented in Table 3. Significant productivity gains accrued to Canadian assembly operations as a result of the investment in new plant and equipment in the 1965 to 1968 period. Canadian operations benefited from investment in some of the most advanced technology in the industry.

In the subsequent period, however, capital expenditures in the industry, measured in real terms, dropped to less than half the earlier rate, with a corresponding impact on productivity. Capital spending in the parts industry, on the other hand, has remained strong relative to investment in assembly. The increase in capital investment in assembly in 1974 and 1975 is more encouraging, but substantial improvements in Canada's productivity performance will require an extensive period of increased capital spending.

Average Annual Capital Spending, Canadian Assembly and Parts
(1961 $ million)

Table 3

Period	Assembly	Parts
1961-64	27.7	25.7
1965-68	55.5	79.0
1969-73	25.0	71.7
1974-75	45.6	61.4

Source: Statistics Canada.

A comparison of Canadian and U.S. investment levels emphasizes the relationship between capital spending and productivity. Capital spending by Canadian assembly facilities, particularly, has lagged considerably behind U.S. levels in recent years.

Capital Spending, Canada as a Percent of U.S.

Table 4

Year	Assembly (%)	Parts (%)
1967	26.5	11.8
1968	14.6	8.1
1969	8.1	13.9
1970	11.4	29.4
1971	7.1	16.5
1972	3.6	5.1
1973	5.4	7.6

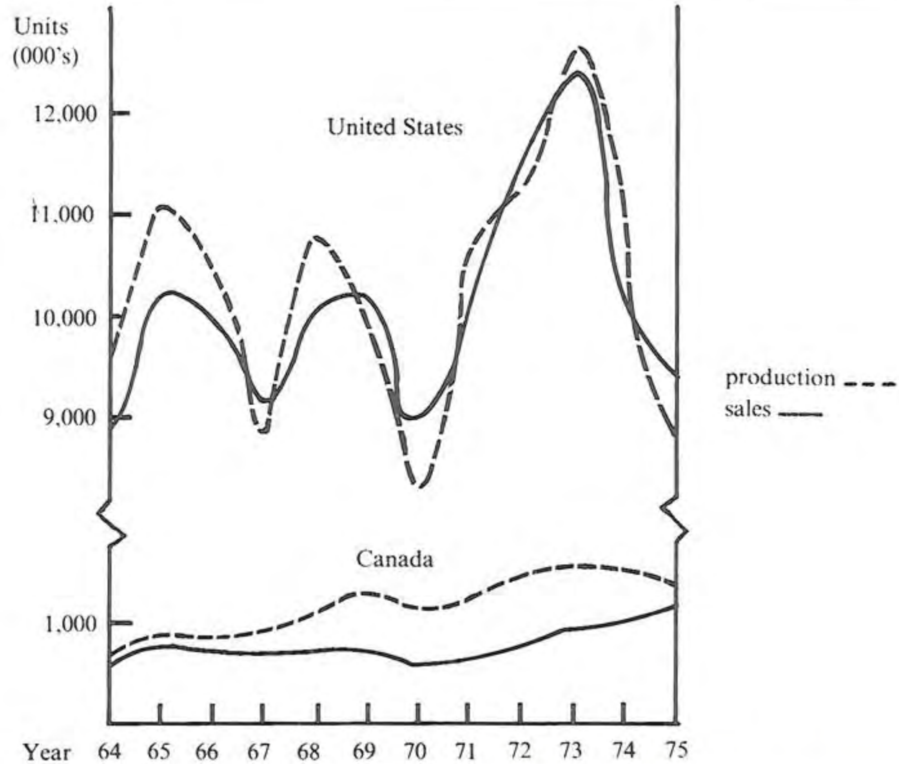
Source: Statistics Canada and U.S. Census of Manufactures.

The Ontario Government employed its limited fiscal capacity to counteract this problem when it exempted machinery and equipment from the retail sales tax for the period April 8, 1975 to December 31, 1976. This measure, designed to provide stimulus to capital spending in all sectors of the economy, will encourage the needed upturn in capital investment in the automobile industry.

Assembly Activity

A second major problem relates to the relative proportion of auto assembly located in Canada. From time to time, data are cited which suggest that, in auto assembly, Canada has been and continues to be the major beneficiary under the Auto Pact arrangements. Commentators in this vein will generally refer to unit production and sales statistics for Canada and the United States. The data suggest that, since 1965, Canada's share of unit production has exceeded its share of unit consumption and that current levels of production in Canada remain in excess of that which could be justified by the size of the domestic market. The following chart shows that in terms of *units*, Canadian production does exceed domestic consumption, although the gap has narrowed.

Production and Sales of Motor Vehicle Units Canada-U.S. — Chart 4



Source: Statistics Canada and Annual Reports of the President of the United States.

This kind of simple comparison ignores two fundamental facts. These facts, which relate to the relative *value* of cars produced in Canada and to the relative *value added* in assembly activity, show that Canada has not been favoured by an inordinate share of assembly production activity.

First, Canadian-produced units tend to be significantly below average in value and thus comparisons on the basis of numbers of units tend to overstate Canada's production. The average unit produced in Canada is valued at about three-quarters the average value of a unit produced in the United States. The value of shipments relative to consumption in Canada, consequently, is more closely aligned than the simple unit comparison suggests.

Average per Unit Value of Vehicles Produced in Canada and U.S. — Table 5

(dollars)

Year	Canada	U.S.	Canada as % of U.S.
1969	2,662	3,631	73.3
1970	2,599	3,504	74.1
1971	2,941	3,820	77.0
1972	2,795	3,761	74.3
1973	3,092	3,963	78.0

Source: Statistics Canada and U.S. Census of Manufactures.

Second, in-plant activity contributes significantly less to the value of shipments in Canada than in the United States. Value added per dollar of shipments in Canadian assembly facilities averaged about one-fifth less than in U.S. plants in the early years of the seventies. In the late sixties, the relative level of value added in Canadian plants was about the same as in the United States. However, Canadian assembly plants now use a higher proportion of externally produced parts, imported largely from the United States.

Value Added in Assembly Facilities, Canada and U.S. — Table 6

	Value Added as Percent of Value of Shipments		
Year	Canada (%)	U.S. (%)	Canada as % of U.S.
1969	26.3	27.2	96.7
1970	22.4	26.5	84.5
1971	23.1	29.0	79.7
1972	22.5	27.5	81.8
1973	21.9	27.2	80.5

Source: Statistics Canada and U.S. Census of Manufactures.

The best measure of the allocation of production to Canadian assembly plants is to relate real activity, as measured by value added, to the level of domestic consumption. Table 7 shows, for example, that in 1969 Canadian assembly plants generated $1,226 of value added activity for every vehicle unit sold in Canada, while the U.S. had $984 of value added activity for each unit sold in the United States. The comparison indicates that, prior to 1973, value added in Canadian assembly was relatively high.

The allocation of assembly activity to Canada, however, was not as overweighted as commonly asserted. The use of value added figures, rather than unit production figures, significantly modifies the Canadian share. Even in the good years Canada did not enjoy the kind of over-production which generally is suggested. *In fact, the reversal in Canada's position since 1973 has become a matter of concern. In that year, Canada's assembly activity, relative to its market size, fell below that of the U.S. and preliminary estimates suggest that this situation has continued, and substantially worsened, through 1974 and 1975.*

Production Activity Relative to Domestic Sales, Canada and U.S. — Table 7
(dollars)

Year	Value Added in Assembly per Unit Sales: Canada	U.S.	Canada as % of U.S.
1969	1,226	984	125
1970	1,111	865	128
1971	1,254	1,162	108
1972	1,188	1,028	116
1973	1,083	1,095	99
1974*	1,155	1,221	95
1975*	1,053	1,244	85

*Ontario Treasury estimates.
Source: Statistics Canada and U.S. International Trade Commission.

Clearly, Canada's position in assembly activity has deteriorated significantly in recent years. As the analysis above has illustrated, the situation has been ignored largely because of a concentration on unit production statistics like those shown in Chart 4, which do not reflect a true picture of the allocation of production activity.

The Growing Deficit in Auto Parts Trade

Integration resulted in a significant improvement in the efficiency and competitiveness of Canadian parts producers, and initially the industry grew significantly relative to domestic parts consumption. In 1964, the value of shipments from Canadian plants was less than half the value of parts consumed in this country. Production was directed almost entirely to the domestic market and, in addition, imports of parts from the U.S. totalled more than $600 million. By 1972, although largely export oriented, Canadian production of parts and accessories equalled more than 90 per cent of the value of domestic consumption. Subsequently, however, Canadian producers lost substantial ground in the North American parts market. In the first half of 1975 the value of parts production in Canada had declined to 55 per cent of domestic consumption.

Canadian Parts Market Table 8
(U.S. $ million)

Year	Value of Production	Value of Consumption	Production as % of Consumption
1964	462	977	47.2
1969	1,453	2,317	62.5
1972	2,066	2,278	90.8
1973	2,276	3,114	71.1
1974	2,203	3,768	58.1
1975 (6 months)	1,076	1,953	55.1

Source: U.S. International Trade Commission.

Part of the cause lies in the extreme dependence of Canadian parts producers on the U.S. market. While auto shipments held up relatively well in Canada, the assembly slowdown in the U.S. has contributed to the imbalance in the allocation of parts activity. The impact of this phenomenon is seen in the significant increase in the trade deficit.

Canada-U.S. Auto Parts Trade Table 9
($ million)

Year	Canadian Imports	Canadian Exports	Balance
1971	2,448	1,496	−952
1972	2,873	1,778	−1,095
1973	3,565	2,172	−1,393
1974	3,893	1,953	−1,940
1975	4,522	2,045	−2,477

Source: Statistics Canada.

However, shifting assembly production patterns are not the sole cause of the dramatic increase in the parts trade deficit. Imports of parts to Canada continued to rise in 1975 despite weakness in Canadian assembly. Canadian parts exports have declined at a faster rate than either U.S. assembly activity or U.S. parts shipments. *Quite clearly, Canadian producer access to the U.S. market has been reduced in recent years, while U.S. parts producers have continued to expand their shipments to the Canadian market.*

A number of reasons have been cited to explain the shift in parts production:

- few new parts plants have been located in Canada and some established ones have been shifted to the United States;
- production of major technologically advanced and growth-oriented components has been allocated to plants in the United States;
- the assembly companies have concentrated their purchasing function in Detroit where parts producers have had to concentrate their marketing;
- there is a shortage of innovation and technology in the Canadian industry;
- a decrease in cost-competitiveness of the Canadian industry and an increase in competition from third-country producers; and
- an increasing use of out-of-plant parts in the assembly process in Canadian facilities.

While afforded duty-free treatment, the auto parts industry was provided with little in the way of formal consideration by the 1965 Auto Pact. However, it was clearly the intention of both countries that the parts industry should participate in the increased productivity, employment and integration facilitated by the agreement. As noted above, the Canadian parts industry initially made tremendous strides in responding to the opportunities presented. However, in recent years the parts industry has been on a downslide of serious proportions. Having oriented itself largely to the U.S. market, it now finds its access to that market significantly hindered. A major implication of this problem is the growing deficit in parts trade which, at almost $2.5 billion in 1975, is large enough to have significant influence on Canada's overall balance of payments. In addition, employment in this industry is declining.

III Conclusion

Action clearly is required to meet the challenges raised by the trends documented in this paper. This concluding section sets out a preliminary strategy to guide the development of policies designed to restore a healthier balance to North American auto and parts production.

Increasing Productivity

Productivity gains in the Canadian industry levelled off some years ago and productivity in Canada is lower than that in the United States. It should be noted that the challenge to improve productivity is more than one of simply modernizing and replacing equipment. It also must incorporate an effective response to energy conservation, environmental objectives and foreign competition. Further, it is unrealistic to expect that the price differential between Canadian and U.S. products will be eliminated completely until output per worker in Canada has matched that of the industry in the United States.

What is needed is a major public assessment and review of the productivity problem in the Canadian industry, an examination of its capital requirements and the development and implementation of a strategy for upgrading productivity. This will require a coordinated approach between management, labour, government and various public groups. The responsibility for initiating this process clearly lies with the Canadian federal government and, for its part, Ontario is prepared to give full cooperation.

Share of Assembly

The analysis has shown that the traditional method of comparing the relative share of auto assembly in Canada and the United States—that is, comparing number of units produced in each country—is misleading. *In fact, far from receiving more than its share, Canada is losing ground.* To reverse this situation, the federal government should open immediate discussions with the auto manufacturers and develop a strategy for ensuring, on a long-term basis, an appropriate level of production in Canada.

Reducing the Parts Deficit

A most serious and immediate problem exists in the Canadian parts industry. The trade deficit is large and growing and the Canadian share of parts production is dropping rapidly. Action should be taken to improve the balance and ensure an adequate level of production activity in Canada. *This will require a commitment from the industry to ensure that opportunities for parts production activity in Canada are broadened, and that overall production in this country is consistent over the long run with the size of the Canadian vehicle market.* To accomplish this objective, the federal government should initiate, in cooperation with Ontario, intensive discussions with the parts industry and the auto manufacturers.

Regular Review

In the past, there has been a widespread belief that this country has benefited excessively in terms of the level of production activity. In part, this confusion arises because there has been too little analysis and limited opportunity for informed public discussion of Canada's role in the North American auto industry. It is regrettable that this paper represents the first substantial assessment of the performance of the Canadian automotive industry under the Auto Pact. *A regular review of the Pact and the performance of the automotive industry in Canada would ensure immediate awareness of problems in the industry* *as they develop*. This review should include a full documentation of the price differential between Canada and the United States. The responsibility for this undertaking lies with the federal government.

In meeting the problems and challenges which have been identified, the Ontario Government does not believe that the Auto Pact necessarily needs to be renegotiated. The Pact itself provides a viable framework for a healthy auto assembly and parts industry in both countries. The adjustments necessary to correct the problems documented in this paper can be made without changing the basic terms of this agreement.

Ontario has demonstrated positively its willingness to help create a more dynamic auto industry in Canada. The 1975 Sales Tax Rebate Program stimulated sales and production. The retail sales tax exemption for production machinery will help to stimulate needed investment in the industry. With its tax actions, Ontario has moved within its jurisdictional limits and constrained fiscal capacity to correct a growing economic problem. Clearly, the initiative must now be taken by the federal government.