budget

1968

ONTARIO

Hon. Charles MacNaughton
TREASURER

BUDGET STATEMENT
OF
THE HONOURABLE CHARLES MACNAUGHTON
TREASURER OF ONTARIO
IN THE LEGISLATIVE ASSEMBLY
OF ONTARIO
TUESDAY, MARCH 12, 1968

On Moving the House
into Committee of Ways and Means

also Budget Papers

ONTARIO

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THE HONOURABLE CHARLES MACNAUGHTON

TREASURER OF ONTARIO

IN THE LEGISLATIVE ASSEMBLY OF ONTARIO

TUESDAY, MARCH 12th, 1968

MR. SPEAKER:

In bringing down the Ontario Budget for 1968, my Statement is a serious but, I trust, not a solemn one. The facts which I will present to you are sobering but not, I believe, discouraging. The message I bring to the Members of this Legislature is a preview of the profound changes which lie ahead of us in the Ontario of Tomorrow. It is a reflection of the great strength of our economy and the faith and confidence of the people in the future of this province. It is a declaration that this Government is determined to play a purposeful part in the economic and social development of the province and our people.

This budget is a yardstick of what we can do and how quickly we can do it. It is an affirmation that we must do first things first and lay a foundation upon which growth and development may continue to be based. It is an investment budget — an investment in our people, their economy and their governmental institutions. Finally, it is also a plea for a more rational approach to economic management, to intergovernmental taxation arrangements and to the significant issue of the relationship of the government sector to the private segments of the economy. For such are the economic and financial conditions confronting this nation that honesty, objectivity and surefootedness in our fiscal policy are necessary today as never before. In the process, however, we must not let momentary gloom becloud the rich and buoyant future that lies ahead for this country and this province. Such is the approach which we have taken to this budget and such is our belief in what is to be.

In introducing my first Budget Statement in 1967, I announced our determination to reorganize the budgetary process in order to provide a solid basis for the development of effective provincial economic and fiscal policy. Since that time, three important steps have been taken towards this objective.

First, at the federal-provincial meeting of the Ministers of Finance in January, there was general agreement among the participants on the need to establish effective mechanisms for intergovernmental budgetary consultation. Combined with the work which has begun on the rationalization of federal-provincial tax sharing, this latest development should move us a

step closer to the objective of co-ordinated federal and provincial fiscal policy.

Second, as announced in the Speech from the Throne and elaborated upon by the Prime Minister in this Legislature, we will bring forward legislation to convert the Treasury Department into two distinct organizations: a Department of Finance and Economics and a Department of Provincial Revenue. The core of necessary changes has already been introduced within the present department to bring together, under Finance and Economics, the economic, financial, fiscal, taxation and intergovernmental policy staff. The closest co-operation has been developed between the staff of Finance and Economics and the Treasury Board Secretariat to ensure that policy planning and administrative efficiency are twin tools of good financial management. The specialization which has been developed by our Revenue group in the administration of tax statutes and the collection of revenues will permit the most effective application of effort within the various tax fields.

The third advance concerns the continuing improvement of the budgetary process and of the budget presentation itself along the lines announced last year. Our work on the development and implementation of a program budgeting system is progressing satisfactorily. Furthermore, apart from the emphasis in this Statement on the organization of the Government's vast range of activities within an overriding economic policy framework, the supporting Budget Papers have been developed to provide a clearer and broader perspective of this year's budgetary policy.

This year's Budget Papers are divided into three main parts. The first part contains a comprehensive review of economic developments in 1967 and the prospects for 1968. This assessment forms the basis for our judgment of the required form and direction of economic policy. The second part contains an analysis of the framework within which the annual budget is developed, and deals mainly with the growth of its overall financial capacity and the structure of its commitments to existing programs and other agencies. Finally, within part three, the Government's financial statements have been extensively revised to provide a clear and precise view of the full range of its own budgetary operations and relations with other agencies.

THE INTERGOVERNMENTAL FRAMEWORK

Before setting out the details of this budget, I want to come without delay to a matter of paramount importance — a matter on which the success or failure of governmental financial activity in this nation will turn. I refer to the fact that no government in Canada is an island to itself and failure to recognize this fact and, more important, to act upon it will result in the quite unnecessary failure of all of us to attain our objectives.

The details of this situation are elaborated upon in our second Budget Paper which provides incontrovertible evidence that our fiscal affairs must be viewed in a total governmental framework. Above all, one lesson is clear: the solution to the problem of a growing burden on the municipal taxpayer does not lie with the provincial government alone. Nothing short of comprehensive tax reform and a major redistribution of taxation fields will provide an intelligent solution to this problem.

Where are the inexorable pressures for government expenditure today? In the burgeoning urban communities, on education and transportation and in other fields where services must grow as our population grows — pressures which must be met by provincial and municipal governments.

Who presently has principal access to the growth-fields of taxation — the personal income tax and the corporation income tax? The federal government. Who possesses the regressive tax fields — the retail sales tax and the various consumer taxes? The provincial government. And yet, what does it profit the hard-pressed municipal taxpayer to substitute one regressive tax field for another? Meanwhile, encouraged by the alluring prospect of growing revenues from the progressive tax fields, the federal government is in a position to invent new programs, largely within provincial jurisdiction. Through the shared-cost mechanism, the provincial governments must then resort further to regressive tax fields to finance programs which may not conform to their priorities.

It is evident in budgets of other provincial governments in recent weeks that the situation is endemic. The federal government may well answer, as it did at the last round of Tax Structure Committee negotiations in 1966, that the provinces can increase their use of the personal and corporation income tax fields. But then what is there ever to awaken us from the taxation nightmare? Such a solution is no solution at all to the obvious problem: the fact that there is only one taxpayer for all levels of government and he requires some control over the composite of government expenditures. As this Government stated to the Tax Structure Committee in October 1966, we believe that the federal government can well abate up to 60 per cent of the personal income tax and 33 per cent of the corporation income tax while still retaining adequate leverage for fiscal control. The projections undertaken for the Tax Structure Committee and the Ontario Committee on Taxation indicate that such radical measures will be essential to prevent an ever-widening gap between revenues and expenditures at the provincial-municipal levels of government. The alternative is fiscal discord, a taxation catastrophe and competition between governments for programs, three conditions which are totally unacceptable to our people.

The tax fields presently available to the provinces simply have no growth potential. Further relief to the property taxpayer, which we believe to be essential, will only come with greater access to the progressive

tax fields. This, in turn, will only be achieved as a result of total tax-sharing reform among the three levels of government. It is not just the present problem which we must consider but also what lies ahead. We regard some solution to this issue to be among the nation's top priorities. Whereas this Government has underlined the importance of constitutional change in Canada, its value will be greatly diminished if we do not make adequate provision for financing the responsibilities which presently confront us.

Summary of Financial Operations for 1967-68

It would appear that our financial operations for 1967-68 will turn out to be very close to our expectations in last year's budget. On the basis of eight months' actual and four months' forecast, our net general revenues should amount to $2,112 million. Net general expenditures (excluding provision for sinking fund) will likely run to $2,291 million. Overall, then, our budgetary deficit in 1967-68 will approximate the $162 million which I forecast a year ago. We now estimate that we shall end the current year with a net capital debt of $1,538 million, which is well within the capacity of this growing and prosperous province to carry and which we could retire with only eight months' revenue. As shown in the Budget Papers, the burden of this debt is equivalent to just over $200 per capita or 6.9 per cent of our Provincial Domestic Product and is below the limit suggested by the Ontario Committee on Taxation.

The Economic Situation

The Ontario Budget is an economic as well as a financial plan of action. It sets out a fiscal program based on our assessment of the prospects and requirements for the Ontario economy in the year ahead. Let me review the economic situation, therefore, and outline the main thrust of our budgetary policy for 1968.

I should like to begin by reporting briefly on the performance of the economy last year. The year 1967 was one of solid economic achievement for Ontario but not a year of maximum growth and performance. Like the economies of Canada and the United States, the Ontario economy geared down to a slower rate of growth in 1967. Our Gross Provincial Product rose by 7.8 per cent to reach $24.9 billion, which is slightly higher than I had predicted. The number of jobs increased by 95,000 and there were good gains in exports, tourism, housing and retail sales. On the other hand, our construction and manufacturing sectors operated below their full potential and unemployment edged up. For the second year in a row, our productivity improvement was inadequate and costs and prices increased more than we would have liked. These adverse developments marred our overall performance and put us below our long-term targets for real growth and efficiency.

Barring possible difficulties in international trade and finance, 1968 promises to be a better year for the Ontario economy than 1967. Whereas growth was slowing down at the beginning of 1967, momentum in the economy is now picking up. The recovery in manufacturing evident at the close of 1967 should continue and quicken in 1968. This rising level of activity in the key manufacturing sector will give a much-needed boost to overall productivity. The acceleration of economic activity in the United States and in Europe should result in expanded exports by Ontario industries. Rapid growth in our labour force plus rising personal incomes should also ensure a substantial rise in consumer spending. Construction and business investment, on the other hand, will be slack in 1968, and the outlook for private housing starts is very uncertain. All in all, however, the balance of forces clearly points to continued expansion in 1968. We forecast, therefore, that Ontario's Gross Provincial Product will increase by at least 7 per cent this year and our real output will expand by 4 per cent.

Yet, we should not be satisfied with anything less than full potential. In 1968, we face the same major economic problems as in 1967. Because of the weakness in investment and construction, the Ontario economy will still be operating below its full potential. Overall productivity will be lower than we would like and unemployment may well be higher as a result of a greater growth in the labour force than in the level of employment. We still have to cope with the inflation of costs and prices which is threatening to erode our competitive position in world markets. The challenge for policy in 1968, therefore, is to raise productivity, to reduce price pressures, and to increase overall growth and employment in the economy.

Our Fiscal Policy

This particular combination of circumstances — rising costs and prices, rising interest rates and tighter capital market conditions along with slower growth and higher unemployment — creates a complex of conditions which almost defy rational policy-making. However, the key is to be found in the critical balance between the private and public sectors of the economy. This delicate relationship explains why it is too simple, for example, to assume that the introduction of a national medicare program, at this time, would be merely a transfer of expenditures by individuals from the private to the public sector.

The point is that governments in Canada are mainly operating on deficits. This means that they are relying on the capital market for borrowing. This pressure has helped to drive up interest rates and to reduce credit available to the private sector for investment in productive activity or basic social requirements such as housing. To raise taxes to finance major programs such as medicare leaves no alternative but to increase borrowing for other purposes. None of these matters can be treated in

isolation; our concern must be for the total organic operation of the body economic.

In this 1968 budget, I am proposing a fiscal program to meet both the aggregate and the particular needs of our economy. In terms of total impact, the budget will be moderately expansionary. Total expenditures and investments will exceed total revenues to produce a net stimulus to overall demand. This positive fiscal stance will help to maintain steady growth in production and employment in Ontario and will bring our economy closer to its full potential performance.

The 1968 fiscal program is also tailored to have maximum impact on our price and productivity problems. In preparing our 1968 spending plans, we sought, as far as possible, to give priority to long-run growth programs, such as education, which increase the productivity and efficiency of the economy. We have also allocated substantially more funds for housing this year. This will help to relieve the housing bottleneck in our major cities, stimulate the construction industry and reduce price pressures emanating from the shortage of housing and serviced land. Our policies for 1968 will also help to relieve pressure on prices from such key points as health services. We have postponed medicare, but we are continuing to encourage an expanded output of doctors, dentists and nurses. We believe that increasing the supply of health personnel and extending health services to the needy must have precedence over a universal health insurance scheme.

On the capital investment side, we have delayed $43.5 million of public investment projects. We hope that this will leave the way clear for an extension of private investment, particularly in housing. To the extent that this is not so, and if unemployment becomes more serious, then we have a shelf of capital projects ready to inject into the economy. In sum, we have constructed our budget to promote steady growth and to meet the major problems facing our economy in 1968.

GOVERNMENT EXPENDITURES

The expenditure program which I am presenting to you today is a program of priorities. It recognizes that our resources are limited and that we cannot do all the worthwhile things we would like to do. It also recognizes that there are certain essential things which we cannot afford not to do. For these most pressing needs of our growing society — for education, housing, health and local aid — this budget provides more funds than ever before. For other requirements, particularly departmental activities, our approach has been a virtual "hold-the-line" budget. A total of $240 million was trimmed off departmental requests for next year. Outside the stated priority areas, our spending was held to an increase of only $52 million or

6 per cent. Most of this increase was unavoidable because of the normal growth of our inflexible commitments and the increased costs of maintaining existing services.

Education

Of all our activities, education must be given the highest priority. Education is our principal tool for increasing the productive capacity of the economy, for creating a better society and for providing the opportunity to every citizen to develop to his fullest potential.

Our whole educational system has been under severe pressure for some years now as the post-war surge in births and immigration pushes enrolments steadily higher. Our past efforts have accommodated this enrolment pressure at the elementary level. Now, and in the immediate future, we must cope with burgeoning student populations at the secondary and post-secondary levels. At the same time, we must continue to upgrade our standards and to develop new techniques in order to ensure the best possible education program for our people.

For the past several years, we have concentrated vast resources on the expansion and improvement of Ontario's university system. As a result, our universities have been able to accommodate a student body that has been growing and will continue to grow by 10,000 students a year. In addition, we have embarked on an ambitious program to develop Colleges of Applied Arts and Technology. These new institutions broaden the range of post-secondary education opportunities and meet particular manpower needs of our economy. The success of these colleges is a source of real gratification and pride. They are now becoming fully operational and enrolments are sky-rocketing. This fall, enrolment in our Colleges of Applied Arts and Technology is expected to rise by more than 50 per cent to well over 30,000 students.

These enrolment pressures and the cost pressures associated with our new programs and improved facilities inevitably demand much larger outlays on education. In the 1968-69 budget, we recognize the priority of these educational needs. Our program for next year allocates an additional $201 million to education, or 41 per cent of the total increase in our 1968-69 budgetary expenditure. This includes increases of:

- $65 million in legislative grants to school boards, bringing the 1968-69 total to over one-half billion dollars;
- $48 million in capital grants for vocational school construction;
- $40 million in university operating grants, which includes an increase in the basic income unit from $1,320 to $1,450, bringing our total grant to $209 million;

- $19 million for the operation of our Colleges of Applied Arts and Technology;
- $5 million in the Ontario Student Awards Program.

In addition to the outlays I have just mentioned, we are budgeting for some $350 million in loans and advances to universities, Colleges of Applied Arts and Technology, Ryerson Polytechnical Institute and the school boards to enable them to meet their critical requirements for new classrooms and facilities. This is made possible by Canada Pension Plan funds and avoids the uneconomical and expensive system which would be entailed if our school boards and educational institutions had to arrange their own capital financing. We also plan to raise our share of the capital financing for university construction from 85 per cent to 95 per cent of the total cost of approved projects.

Aid to Local Government

We continue to be impressed by the severe financial strait jacket on local government with its implication of a rapidly rising property tax burden — a strait jacket not unlike that on the provincial government whose revenue sources are also limited. Last year, we received the Report of the Ontario Committee on Taxation (Smith Report) which provided an excellent and thorough study of provincial-municipal finance. This Report will prove invaluable in our future efforts to improve our tax structure when combined with the federal-provincial negotiations which must take place later this year. The Report documented quite clearly areas for possible reform and the need for relief of the municipal taxpayer. Two of the major recommendations, which we have already adopted, will have important financial implications for our own budget this year.

The Basic Shelter Tax Exemption recommended in the Report was adopted immediately and this will require a total expenditure of some $150 million in the next fiscal year. This amounts to a very substantial increase in our already large financial transfers to local governments. In addition, the Smith Committee endorsed, and the Government has now met, the repeated requests of the municipalities that we assume the full costs of the administration of justice. This new policy will mean greater efficiency in the administration of justice and provides further assistance to the municipal taxpayer. The greater resources of the provincial government and centralization of responsibility should combine to this end. This new policy will affect the estimates of the Departments of the Attorney General, Reform Institutions and Public Works. The net cost to our government in assuming the costs of the administration of justice is expected to amount to some $18.5 million.

These, along with other changes, will increase our aid to local governments by more than $191 million in 1968-69. This very large commitment to local governments accounts for 39 per cent of the total increase in our budgetary spending in 1968-69.

Health

We have placed major emphasis in this budget on our programs in the field of health. In particular, we have allocated more funds for health sciences education and research. In order to avert a serious bottleneck in the supply of health manpower, we are continuing to build up our facilities for teaching and training doctors, dentists, nurses and health personnel. This budget provides $30 million for such health sciences teaching facilities, half of which will eventually be repaid out of the Health Resources Fund. We also propose to increase our grants for the construction of teaching hospitals and for schools to educate hospital personnel. We are again raising the amount of bursary funds available to medical and dental students and other health personnel. Other expenditures on health will also be increased substantially. An additional $15 million is being provided for our mental health program including over $3 million to expand our services for emotionally disturbed and mentally retarded children. This will bring our total outlay on mental health to $117 million.

Our hospital and medical insurance plans continue to make heavy claims on provincial funds. Costs in these areas of health services have been rising extremely rapidly. In 1967-68, the total cost of operating our hospital insurance plan exceeds $500 million, up over 20 per cent from the year before. Costs of OMSIP have also risen substantially, both because of a higher Ontario Medical Association fee structure and because of steadily expanding enrolment.

As announced in the Speech from the Throne, the Government has decided to increase the benefits provided under both these plans in the coming year. We propose to broaden out-patient benefits and to include ambulance services under the hospital plan. As well, OMSIP's benefits will be extended to include optometric examinations. These additional benefits, plus steadily mounting costs, will boost next year's expenditures for the hospital plan to about $628 million, while the cost of operating OMSIP is estimated to rise to $129 million in 1968-69, excluding approximately $16 million for recipients of social assistance.

With cost increases of this magnitude in store for next year, we cannot contemplate maintaining premiums at their present levels. For the hospital plan alone, a provincial contribution of over $150 million would be required in the coming fiscal year. Our subsidization of OMSIP would also have to increase markedly. Rather, we are proposing to restore premium income to levels which more closely reflect the true cost of operating these

plans. Therefore, for hospital insurance coverage beginning July 1, 1968, the monthly rates will increase to $5.50 for single persons and $11.00 for families. At the same time, the OMSIP premium schedule will be adjusted nominally to $5.90, $11.80 and $14.75 per month. These new premium levels will remain in effect for a period of at least two years. Even with these increases in premiums, however, the province will still be required to provide very substantial contributions to finance the hospital and medical insurance plans. For 1968-69, we are appropriating $78 million to support the hospital plan and $37 million to subsidize OMSIP.

Housing

In this budget, we have recognized that housing merits a top-priority claim on Ontario's finances. To meet our goal of good housing for every citizen, Ontario needs an average of 90,000 new housing units each year from now until 1970. This will require large-scale expansion of private housing output plus a greatly increased effort in every facet of our public program.

We have provided the funds to carry out the greatly expanded and accelerated public program which is required. Our total capital advances to the Ontario Housing Corporation and the Ontario Student Housing Corporation have been increased more than 30 per cent to over $62 million for 1968-69. This level of spending by our agencies will bring in over $300 million of Central Mortgage and Housing Corporation capital financing. Thus, the total housing program for next year will amount to almost $400 million. Our plans call for a total investment of $215 million in family and senior citizen housing and over $100 million in student residences and community housing projects. Our new land assembly program which is designed to increase the supply of serviced land and stabilize housing costs will take up a further $73 million. As well, we intend to press ahead with publicly sponsored urban renewal and to continue to provide sewerage services under the National Housing Act. Altogether, this comprehensive program adds up to a massive and concerted attack on our housing problems.

Summary of Expenditures for 1968-69

The preceding major increases in expenditures and capital aid plus inescapably higher interest payments on our public debt have made the preparation of this budget unusually difficult. In order to do all that is urgently required in education, health, housing and local aid, and still contain our total spending and lending within reasonable limits, we have had to exercise rigorous restraint in other areas. This has meant sacrifices and hard choices among other programs which in themselves are highly worthwhile.

We have restrained our ordinary expenditures in the lower priority fields. Generally speaking, we have budgeted for only minimal increases or no increases at all in most departments. In some areas, we were able to actually cut back from previous levels of spending. As I have mentioned, we have elected to stretch out our Public Works capital program by deferring certain projects. Restraint in this area, however, does not mean that our overall capital investments will be lower. We have been able to maintain our highway construction program at the 1967-68 level, and we are increasing our capital aid for universities, school boards, hospitals and housing. This adds up to higher total investment which should stimulate our construction industry.

I should now like to summarize the overall magnitude of our spending and investment program for next year. Excluding $39 million for sinking fund, our net general expenditures for 1968-69 are estimated at $2,780 million. This is $489 million higher than the expenditure program for the current year. On top of this, our loans and advances (excluding advances to Ontario Hydro) will amount to an estimated $537 million for 1968-69. This is $79 million higher than the capital aid program for 1967-68. The table accompanying this Statement shows that we have deliberately concentrated almost all of this additional spending and investment in those areas where we face inexorable growth and where needs are most urgent.

THE 1967 AND 1968 BUDGET YEARS COMPARED

($ Million)

	Expenditures		Loans and Advances
Total - 1968 Budget year.....	2,780		537
Total - 1967 Budget year.....	2,291		458
Increase	489		79

DISTRIBUTION OF TOTAL INCREASE

In Expenditures:			
Education Programs	201	=	41.1%
Aid to Local Government ..... (excluding school boards, health agencies, etc.)	191[1]	=	39.1%
Health Programs	29	=	5.9%
Public Debt-Interest	16	=	3.3%
Normal Growth of Other Commitments	52	=	10.6%
	489[1]	=	100.0%
In Loans and Advances:			
Education ..... (Ontario Education Capital Aid Corporation) (Ontario Universities Capital Aid Corporation)	69	=	87%
Housing ..... (Ontario Housing Corporation) (Ontario Student Housing Corporation)	15	=	19%
Health ..... (Loans to hospitals)	5	=	7%
All other loans and advances....	(10)	=	(13)%
	79		100%

[1]*Includes small amount of offsetting revenues, previously collected by local governments, in connection with the takeover of administration of justice costs.*

REVENUES AND TAX CHANGES

Let me now turn to the question of how we propose to finance the Government's expenditure and investment program. As I have already indicated, our total budgetary spending is expected to increase by $489 million next year to a total of $2,780 million. On the other hand, our existing tax rates and base can be expected to produce only $2,400 million of revenue. Such a situation would leave an estimated budgetary deficit of $380 million.

In addition to our budgetary expenditures and revenues, we engage, of course, in very substantial non-budgetary transactions. For 1968-69, we plan on non-budgetary outlays of $584 million, largely in the form of loans and advances to school boards, universities, hospitals and to our own corporate agencies and commissions, and an additional $61 million for debt retirements. Offsetting these will be non-budgetary receipts and credits of about $668 million generated through the Canada Pension Plan, other funds and miscellaneous sources. Thus, non-budgetary transactions will produce a surplus of $23 million which can be applied against the estimated budgetary deficit of $380 million. Our overall financial requirements for 1968-69, therefore, will be in the order of $357 million.

In determining how to finance the requirement of $357 million for 1968-69, we have taken into account a number of important considerations including:

- the appropriate mix of taxes and borrowing to exert a moderate expansionary impact on the economy in 1968;
- the existing level of public debt and the receptiveness of the capital market to public issues in the coming year;
- the projected budgetary imbalance which is apparently in store for Ontario for some years to come.

Responsible budgeting demands that we raise our revenues to keep pace with the rapid growth in expenditures. Otherwise, we would have to rely excessively on our credit, which would detract from our future borrowing potential and would increase the pressure on an already tight capital market. Obviously, therefore, some tax increase is necessary.

In deciding by how much taxes should be increased in 1968-69, we must remember that a number of tax increases have already occurred or have been proposed. The federal government has increased its liquor and tobacco taxes and has proposed a 3 per cent surtax on personal and corporation income taxes and a speed up in corporation tax collections. Then, too, there are the increases in hospital and medical insurance premiums which I have just announced and the changes in LCBO prices effected earlier this year. Altogether, these measures will take over $300 million out of the

private sector of the Ontario economy in the coming year. We feel that it would be inappropriate, therefore, to raise our own taxes by much more than $100 million at this time.

We have carefully considered the form of tax increases which are appropriate for the coming year. I have also indicated the intolerable situation, created by inadequate federal-provincial tax-sharing arrangements, in which we find ourselves driven to the regressive tax fields. Given the urgent need for co-ordinated reforms in the crucial areas of personal and corporate income and sales taxation, it would be premature for us to contemplate substantial changes in the use of these fields this year. On the other hand, as the Smith Report pointed out, there are elements of our tax system which need to be changed independently of any general tax changes. Here I am thinking of our various departmental fees and user charges which should be brought into line with the costs involved in providing these services. As well, there is the question of establishing a proper level of taxation on motor vehicles. At present, automobiles and other vehicles are taxed too lightly in relation to the total costs which they entail for the people of Ontario. Apart from building, maintaining and policing our roads and streets, there are the social costs of pollution and congestion. In addition to these factors, we must always try to ensure that any changes we introduce improve the equity and efficiency of our overall tax system.

With all these considerations in mind, I am proposing the following tax changes:

- A 4 cent increase in tax on cigarettes raising the provincial tax to 6 cents for 20 cigarettes, along with changes for other tobaccos. These changes should yield an additional $36 million in the coming year.

- A 2 cent increase per gallon in the tax on gasoline and motor vehicle fuel and a 1 cent increase on aviation fuel. These changes should produce an extra $38 million of revenue in 1968-69.

- An increase in the Race Tracks Tax from 6 per cent to 7 per cent, which should yield an additional $2.5 million in the coming year.
  All of the above changes will be effective at 12:01 a.m. tomorrow, March 13.

- Increases of $5 to $10 in registration fees for cars, effective December 1, 1968. This will bring the licence fees to $20, $27.50 and $35 respectively on four, six and eight cylinder cars. An increase in licence fees of $10 for trucks weighing up to 3 tons, effective March 1, 1969. Registration fees for trailers, buses and other trucks to be raised along the same general lines, also effective March 1, 1969. Increases in other Department of Transport fees to come into effect during the course of the year, as listed in an appendix to this Budget Statement.

Altogether these changes should increase our motor vehicle revenues by approximately $23 million in the 1968-69 fiscal year.

- Increases in various fees and licences issued by the Departments of Lands and Forests, Financial and Commercial Affairs, and Tourism and Information to bring these charges closer to the costs of providing the associated services. These changes in minor fees and user charges will come into effect this year and are expected to yield an additional $5 million.

- Minor adjustments in several other tax statutes, to remove nuisance features, improve administration and reduce the costs of collection.

In total, this package of tax changes will increase our revenues by approximately $105 million in the 1968-69 fiscal year. The heavier weight of tax on motor vehicles and on tobacco along with the increased user charges and other minor changes will round out our tax base and bring our overall tax system into a better balance. At the same time, our new tax rates are generally in line with those prevailing in other provinces.

I wish to emphasize that the tax changes I have just announced in no way prejudice, or serve as a substitute for, the fundamental provincial-municipal tax reform to which Ontario stands committed. They are designed to meet an immediate need for increased revenues. However, in financing our own requirements and in providing further tax relief to the municipalities, we recognize the limits to the use of the regressive tax fields presently available to us. This is why we must look to major federal-provincial tax-sharing adjustments along with our assessment of the recommendations of the Smith Report to provide a composite source of sweeping tax reform. To be fully and equitably effective, such reform cannot be accomplished by any single jurisdiction; it demands the joint participation of all levels of government — federal, provincial and municipal.

I should like to review briefly our approach to the implementation of Smith recommendations and the staging of tax reforms in this province. We have invited views on the Smith Report from all interested parties and we want the benefit of the advice and comments of our municipalities and local boards. After this first stage of public discussion on the report is concluded in May, the Government will present a white paper outlining its general intentions on tax reform. This white paper will then be subject to further review and to full public discussion before our policies are put forward in the form of legislation. By that time, we should also have some idea of federal intentions with regard to tax reform, and we will be well into our re-negotiation of federal-provincial tax-sharing arrangements.

Financial Position for 1968-69

The tax increases which I have outlined will reduce our overall financial requirements in 1968-69 to $252 million. This balance must be met by some combination of increases in our public debt and internal financing.

We believe that this level of borrowing and use of liquid reserves is appropriate and desirable for a number of reasons. First, it will make a net contribution by the Government to the total effective demand in the economy and thereby help maintain our economic expansion. Second, since a large part of our total expenditures is on capital facilities, it is reasonable and equitable to stretch out the financing of these investments to match the timing of resulting benefits. Third, the use of our liquid reserves as a substitute for new borrowing will reduce our reliance on the capital market next year. In view of the heavy demands on the capital market by other borrowers and the high interest rates now in effect, we believe this represents sound and prudent financing.

To sum up, our fiscal policy for next year is balanced between a modest tax increase and a judicious use of our liquid reserves and our credit. In this way, we are encouraging expansion while at the same time maintaining our high credit standing and keeping our finances in good order.

Conclusion

Mr. Speaker, this is a budget which combines growth with moderation. It provides generously for the most urgent needs of this expanding and prosperous province. It invests huge sums in the human and physical resources upon which our future greatness depends. It seeks to reinforce the economy and to ease the pressure on the municipal taxpayer. Yet it faces up to realities. To control total spending, it applies rigorous restraint in all but the most urgent services. To reduce our demands on the capital market, it curtails investment in public buildings and other lower priority projects. To offset rapidly rising costs, it increases health insurance premiums. To preserve responsible financing, it raises taxes.

Our decisions and our policies alone, however, cannot solve all the problems confronting us today. We share the general concern about the pace at which government spending has been growing and apparently will continue to grow. We also are acutely conscious that costs and prices have been outrunning our productivity and that government deficits have contributed to the inflation which is undermining our ability to compete. What is needed to meet these problems is co-ordinated action by all governments. We must establish priorities for government spending as a whole. We must reform the entire spectrum of taxation. Above all, we must agree on a division of tax fields which will enable each government to finance its responsibilities and commitments effectively.

Finally, Mr. Speaker, let me summarize the major features of this 1968 budget:

- Expenditures will rise by $489 million to a total of $2,780 million. Almost all of this increased spending will be concentrated on vital activities such as education, health, and aid to municipalities and municipal taxpayers.
- Lending and capital advances will rise by 17 per cent to $537 million. Most of these capital funds will be invested in essential social capital such as schools, universities, housing and hospitals.
- Spending on education will rise by $201 million to reach over $1.1 billion.
- Financial aid to local governments will increase by more than $191 million, with corresponding relief to municipal taxpayers.
- Our investment in housing programs will increase to $62 million which will mean a total public investment in housing of about $400 million for the coming year.
- Spending on health programs will rise by $29 million, and there will be continued emphasis on investments in health sciences education and research facilities.
- Spending and investment in areas other than education, health, housing and local aid will be held down or cut back in order to provide more funds for these four priority fields.
- Taxes on cigarettes will be increased by 4 cents on a package of 20, and on gasoline and motor vehicle fuel by 2 cents per gallon, effective immediately. Licence fees for motor vehicles will be raised, and various departmental fees and user charges will be increased, to reflect the costs of providing the associated services. Altogether these tax changes will increase revenues by about $105 million.
- Hospital and medical insurance premiums will be raised to levels that reflect the true costs of operating these plans. For coverage effective July 1, 1968, the new monthly rates for hospital insurance will be $5.50 for single persons and $11.00 for families. OMSIP's new premium schedule will be $5.90, $11.80 and $14.75 per month. Even with these increases in premiums, the province will be required to contribute $78 million to support the hospital plan and $37 million to subsidize OMSIP.

Mr. Speaker, the financial problems faced by this Government in making a positive contribution to the Ontario of Tomorrow are immense. We believe, however, that the investments which we are making in the economic and social development of this province will help to ensure progress and productivity for our people.

APPENDIX TO BUDGET STATEMENT
DETAILS OF TAX AND OTHER REVENUE CHANGES

Tobacco Tax—Increases effective at 12:01 a.m., March 13, 1968:

a. Cigarettes — Tax is raised from 1/10c. to 3/10c. per cigarette, or from 2c. to 6c. per package of 20 cigarettes.

b. Tobacco — Tax is increased from 1 or 2c. per ounce, depending on retail price, to a uniform 2.5c. per ounce.

c. Cigars — Tax is raised from 2/10c. per 5c. retail price to 5/10c. per 5c. retail price.

Note: The rate of remuneration for collection will be reduced from 2.5 per cent to 1 per cent.

Gasoline Tax—Increases effective at 12:01 a.m., March 13, 1968:

a. The gasoline tax is raised from 16c. to 18c. per gallon.

b. The tax on aviation fuel is increased from 2c. to 3c. per gallon.

Note: Full refund of tax will continue for off-highway use of gasoline for farm and commercial fishing purposes. For other off-highway use, the amount to be refunded will remain at 13c. per gallon.

Motor Vehicle Fuel Tax—Increase effective at 12:01 a.m., March 13, 1968:

This tax is raised from 22c. to 24c. per gallon.

Race Tracks Tax—Increase effective at 12:01 a.m., March 13, 1968:

This tax on pari-mutuel betting is increased from 6 to 7 per cent.

Note: The tax of $1.00 per day for each day of a race meeting is being abolished.

Motor Vehicle Registration Fees

a. Passenger and Dual-Purpose Vehicles —
Effective date: December 1, 1968.

4 cylinders	— fee raised from	$15	to $20.00
6 cylinders	— " " "	$20	to $27.50
8 cylinders	— " " "	$25	to $35.00

b. Commercial Vehicles—Effective date: March 1, 1969.

Trucks	— Minimum fee raised	from	$ 20.00 to $ 30.00
	Maximum " " "		$582.00 to $630.00
Trailers	— Minimum " " "		$ 5.00 to $ 5.50
	Maximum " " "		$372.00 to $409.00
Buses	— Minimum " " "		$ 17.50 to $ 19.25
	Maximum " " "		$396.00 to $435.00

Special Vehicle Permits

a. Class "L" Licences — Effective date to be announced.
Fee raised from $9.00 to $20.00.

b. Special Permits for Overweight or Oversize loads — Effective date: January 1, 1969.

Introduction of fee for	one-year permit at	$100.00
" " " "	short-term permit at	$50.00
" " " "	one-trip permit at	$10.00

Other Department of Transport Fees

a. Driver Examination Fees—Effective date to be announced.
Fee for Initial Road Tests—up from $3.00 to $5.00
Fee for Repeat Road Tests—up from $2.00 to $5.00

b. Abstracts of Drivers' Records—Effective date to be announced.
Fee raised from $1.00 to $2.00.

c. Miscellaneous Fees—Effective dates to be announced.
In-transit Markers up from $1.00 to $2.00.
Dealer Plates for cars up from $28.00 to $50.00.
" " " motorcycles up from $15.00 to $25.00.
Replacement Plates up from $1.00 to $2.00.

Park Fees—Effective dates to be announced.

The St. Lawrence Parks Commission will revise its schedule of admission fees for Upper Canada Village, Old Fort Henry, and its parks. For instance, adult admission fees for Upper Canada Village will be raised from $2.00 to $2.50; and a season ticket to the Parks will be $10.00 instead of $5.00. Similarly, a new fee structure will be introduced for all provincial parks operated by the Department of Lands and Forests. (Cont'd)

Resident Angling Licences—Effective date to be announced.

An angling licence will be introduced at a fee of $3.00, excluding any person under 17 years of age.

Resident Hunting Licences—Effective dates to be announced.

a. Small game hunting licences will be raised from $1.00 to $5.00 and the issuing fee from 15c. to 50c.

b. Resident deer and bear hunting licences will be increased from $5.00 to $10.00 with an issuing fee of 75c. for ordinary licences; and farmers' deer and bear licences from $2.00 to $5.00 with an issuing fee of 50c.

c. Resident moose and bear hunting licences will be increased from $10.00 to $15.00.

Ground Rent and Forest Protection Charges—Effective date to be announced.

The Department of Lands and Forests will also increase ground rents from $1.00 to $2.00 and forest protection charges from $12.80 to $25.60 per square mile or fraction thereof of the protective lands in a licensed area.

Financial and Commercial Affairs

Changes in various fee schedules administered by the Department of Financial and Commercial Affairs are to be announced at a later date.

BUDGET PAPERS

presented by

THE HONOURABLE CHARLES MACNAUGHTON
TREASURER OF ONTARIO

for the information of

the Legislative Assembly in connection
with the Budget

for the fiscal year 1968-1969

BUDGET PAPERS

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THE ECONOMIC SETTING

I REVIEW OF 1967

1. The External Economic Environment

The economic situation in Canada and in Ontario is greatly influenced by external economic developments. A heavy reliance on world trade means that the performance of the Canadian and Ontario economies depends a great deal on the performance of our trading partners; this is particularly true in the case of the United States economy. In 1967, the economy of the United States slowed down considerably, ending the year with a gain in real output of only 2.5 per cent. Most of the economies in western Europe were even more sluggish; for example, real growth in Britain, France and Germany was less than 2 per cent. Italy and Japan countered the trend with strong growth records. However, the overall slower rate of growth in the major industrial countries contributed to the reduced momentum evident in the Canadian and Ontario economies last year.

The year 1967 was also a year of major developments in the fields of international trade and finance — events of significance for the future of the Canadian economy. In May, the Kennedy Round tariff negotiations were concluded with agreement being reached on across-the-board tariff cuts averaging 35 per cent. Other notable achievements of the Kennedy Round bargaining sessions included an international anti-dumping code and an agreement on higher maximum and minimum prices for wheat. In September, another significant advance occurred when members of the International Monetary Fund agreed to create new international monetary reserves in the form of Special Drawing Rights. As a supplement to gold and the traditional reserve currencies, this new instrument should improve international liquidity. Canada and Ontario stand to benefit from both of these developments which will contribute to a general expansion of world trade and easier access to foreign markets for our manufactured goods.

On the other side of the coin, there were two major developments last year less favourable for the future. In November the British pound was devalued by 14.3 per cent. The main effects on Canada are likely to be lower exports to, and higher imports from Britain, a fall in revenue from British tourists and probably some increase in immigration from the United Kingdom. The new balance-of-payments controls proposed by the United States on January 1, 1968 could have even more far-reaching effects. The new measures would tend to reduce the flow of U.S. direct investment in Canada, increase repatriation of earnings by American subsidiaries and cut back American tourist spending in Canada. And, as the experience in the early months of 1968 has shown, Canada's own balance-of-payments position would suffer. The recent exemption extended to Canada should serve to alleviate these adverse effects. Nevertheless, it is evident that

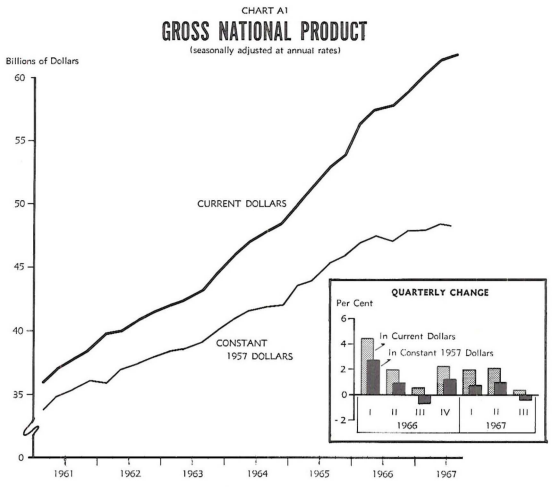
any continuing curb on the inflow of U.S. capital to Canada will tend to retard the growth rate of the Canadian and Ontario economies.

2. Developments in the Canadian Economy

After six years of strong expansion, the Canadian economy slowed to a much more modest pace in 1967. Gross National Product increased by about 7 per cent to a level of $62 billion. Prices, however, accounted for most of this rise, with real output growing by approximately 2.5 per cent. By comparison, in 1966 our Gross National Product in current dollars rose almost 11 per cent and real output grew by nearly 6 per cent.

The tempo of activity was quite uneven during 1967. After opening the year with reduced momentum, the economy experienced a slightly better second quarter, but then lost ground in the third quarter as real output actually declined. Though final results are not yet available for the fourth quarter, the economy appears to have picked up speed again towards the close of 1967. A number of factors accounted for these fluctuations in activity during the year, including the inventory correction at the beginning of the year, the upsurge in housing in the second and third quarters, the gradual levelling-off and then decline in investment as the year progressed, and the strong first quarter and fourth quarter performance of exports. The overall trend in GNP in 1967 and the quarter-to-quarter changes are highlighted in GNP Chart A1.

CHART A1



The main components of total demand exhibited widely differing trends. Consumer spending and exports were the principal sustaining forces in the Canadian economy last year. Through the first nine months, consumer spending rose at the same fast rate as in 1966. Expo undoubtedly contributed to this result. Exports were also remarkably strong, rising 10.5 per cent for the full year 1967. Exports of automotive products more than doubled, while petroleum, natural gas, copper and lumber sales also showed good gains. Wheat sales, on the other hand, fell off sharply. The main source of weakness in total demand in 1967 was capital investment. In the first nine months, spending on capital formation in value terms was only marginally above the level of the previous year and, in volume terms, was down 3 per cent. By comparison, capital formation grew by more than 15 per cent per year during the 1964 to 1966 investment boom. Government spending also moderated in 1967, particularly in terms of the volume of goods and services purchased. These broad changes in the major types of spending are shown in Table A1.

TABLE A1

MAJOR COMPONENTS OF GROSS NATIONAL EXPENDITURE[1]
(Per Cent Change from Previous Year)

	Volume		Price		Value	
	1966	1967[2]	1966	1967[2]	1966	1967[2]
Consumer Expenditure	5.0	5.1	3.5	3.4	8.7	8.5
Government Expenditure on Goods and Services	9.0	2.5	6.9	7.7	16.4	10.3
Business Capital Formation	10.5	-3.1	3.8	3.4	14.7	0.2
Housing	-2.4	-2.8	5.0	5.9	2.5	3.3
Exports	11.5	10.6	3.4	2.2	16.0	12.9
Imports	11.5	7.5	1.8	1.5	15.2	8.9
GNE = GNP	5.9	2.1	4.6	4.4	10.8	6.7

[1]*Dominion Bureau of Statistics, National Accounts, INCOME AND EXPENDITURE, 3rd quarter, 1967.*

[2]*Nine months 1967; over nine months 1966.*

(i) Output and Employment

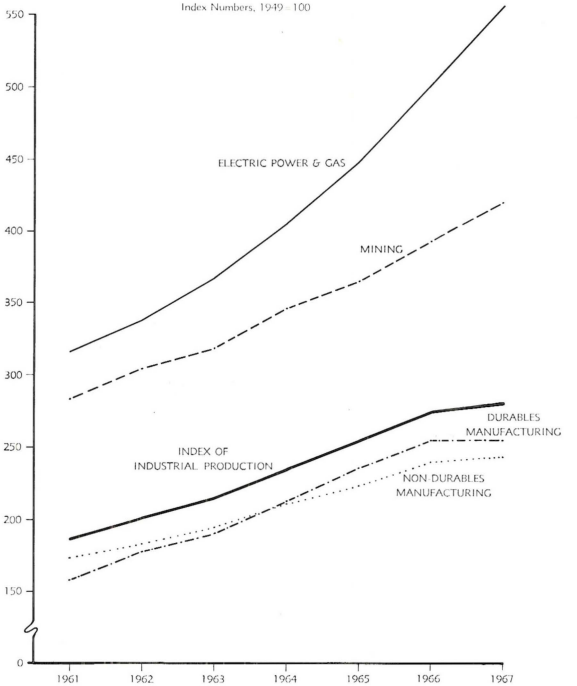
The 2.5 per cent increase in Canada's real output in 1967 represents only about half the pace of the previous six years. This reduced rate of growth was mainly due to a slowdown in industrial production, particularly manufacturing production. In 1967, manufacturing output rose by only 1.1 per cent as compared to a post-war average of nearly 5 per cent. As Chart A2 shows, durables manufacturing barely grew last year while non-durables manufacturing expanded very

modestly. Weakness was particularly evident in the iron and steel industry where total production fell 2 per cent, and in the paper products and electrical apparatus industries. Industrial production, other than manufacturing, held up much better in 1967. Mining output grew by 6.3 per cent and production of electric power and gas expanded by 10.4 per cent.

CHART A2

INDUSTRIAL PRODUCTION – CANADA

Index Numbers, 1949 = 100



The other sectors of the economy also performed reasonably well except for construction. Transportation, trade and finance all expanded their output. Moreover, the services sector continued its steady growth. In construction, there was a sharp drop in activity in 1967 as a result of a number of factors. The decline in business investment meant fewer contracts for new factories, non-residential buildings and plant expansions.

Public contracts were also scarcer once Expo and the numerous centennial projects were completed. And work was delayed on some jobs because of strikes in the construction trades.

The employment picture mirrored these developments in output. Increases in employment were largely concentrated in the services industries and in government. Manufacturing employment showed little change and jobs in construction declined sharply. In total, employment in Canada increased by 3.2 per cent in 1967 to a total of 7.4 million. At the same time, however, the labour force expanded by 3.7 per cent to a level of 7.7 million persons. Consequently, unemployment in Canada rose from a rate of 3.6 per cent in 1966 to 4.1 per cent in 1967.

(ii) Productivity

The disappointing productivity performance in 1967 should be a cause for major attention. Since employment in Canada increased by over 3 per cent while real output rose less than 3 per cent, output per worker or productivity declined last year. This was the first drop in productivity since 1957.

There were two main reasons for the poor productivity showing in 1967. First, aggregate productivity was dragged down by the low rate of productivity growth in key industries such as manufacturing and construction. Normally these cyclically inclined industries make the largest contribution to overall productivity gain. The weakness in demand last year, however, was primarily felt in these industries; this resulted in lower operating rates and less efficient production. The second reason for the overall productivity decline in 1967 was the continued shift in the structure of the economy in favour of the services industries. As Table A2 shows, productivity grows very slowly in the services industries. Thus, when employment grows more rapidly in the services industries than in the goods industries, as in 1967, the effect is a reduction in productivity improvement for the economy as a whole.

As the economy regained momentum towards the close of 1967, productivity improved. Productivity generally rises rapidly in the early stages of an expansion as operating rates pick up and firms use their labour and capital more efficiently. Though the productivity record for the year as a whole was very poor, the improvement towards the end of 1967 could mean a much better performance in 1968.

TABLE A2

PRODUCTIVITY TRENDS IN CANADA[1]

(Per Cent Change from Preceding Year)

	1961	1962	1963	1964	1965	1966[2]
Manufacturing						
Output per man	4.0	4.3	3.8	4.3	4.0	2.0
Output per man-hour	4.5	3.9	3.8	3.7	4.5	2.6
Total Commercial Industries						
Output per man	1.3	4.6	4.0	2.8	3.7	3.6
Output per man-hour	2.9	4.4	4.8	3.1	5.1	4.6
1. Goods Industries						
Output per man	2.4	6.4	5.3	4.1	5.4	5.9
Output per man-hour	3.7	6.5	6.3	4.7	6.4	6.6
2. Services Industries						
Output per man	0.2	2.0	2.5	1.1	1.5	0.7
Output per man-hour	1.2	2.4	3.4	1.6	2.5	2.0

[1] *DBS, AGGREGATE PRODUCTIVITY TRENDS, 1946-66.*
[2] *Last year for which complete data are available.*

(iii) Wages and Prices

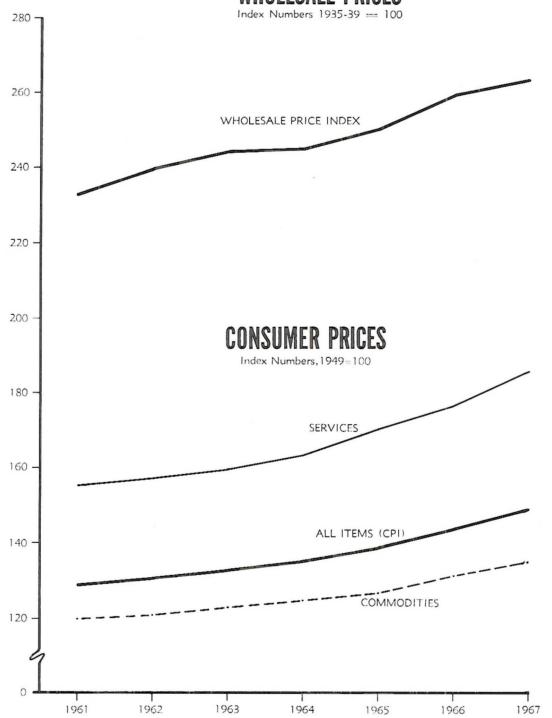
The Canadian economy laboured under strong inflationary pressures in 1967. Despite the slowdown in output and a rising level of unemployment, wages, costs and prices continued to increase sharply during the year. In the first nine months of 1967, the general level of prices in the economy was up by 4.5 per cent, matching the rise for the full year of 1966. Price pressures were extremely strong in the services, government and housing sectors of the economy. In the goods producing sector, including export goods, price increases were much more moderate.

The Consumer Price Index climbed 4.5 per cent in 1967. Steep price rises in a broad range of services accounted for most of this overall cost-of-living increase. As may be seen in Chart A3, prices of services were 5.3 per cent higher last year, while consumer goods prices were up 2.6 per cent. Wholesale prices and industry selling prices also moved upward in 1967. Although the general wholesale price index dropped slightly in November, it rose again in December and ended the year 2.0 per cent higher than at the beginning of 1967.

1967 also produced very large increases in wages and salaries. For the first 10 months, total wages and salaries were ahead by 9.7 per cent, largely reflecting increases in pay. Hourly wages in manufacturing were up 6.6 per cent in October, compared to a year earlier. Major wage settlements in 1967 showed even larger gains. Pay increases negotiated in major collective agreements in Canada last year averaged 8.7 per cent per annum.

With wage and salary increases of this magnitude and little or no compensating increases in productivity, unit labour costs grew rapidly. The push of costs in turn was reflected in the upward trend in prices. The persistence of price pressures and the general expectation that prices would continue to rise prompted the federal government to introduce a program of restraints in the latter part of the year. Monetary policy was tightened,

CHART A3



tax increases were proposed and spending and lending plans for 1968-69 were cut back. These measures were brought in too late to affect the 1967 price and wage performance but should contribute to a moderation of inflationary pressures in 1968.

(iv) Summary

1967 was a year of adjustment for the Canadian economy. After a hectic 1966, in which total demand far outran the real capacity of the economy, it was inevitable that some slowing down would follow. The economy began to lose momentum, in fact, in the latter half of 1966. At the same time, monetary and fiscal policy was tightened in order to combat the severe inflationary pressures that had appeared earlier. Thus, 1967 saw a slackening in economic expansion and a backing off from full employment. This readjustment, however, did not turn into a recession. Real output did manage to grow by approximately 2.5 per cent last year and employment increased by over 3 per cent. On the other hand, productivity fell, and wages, costs and prices continued to increase at excessive rates.

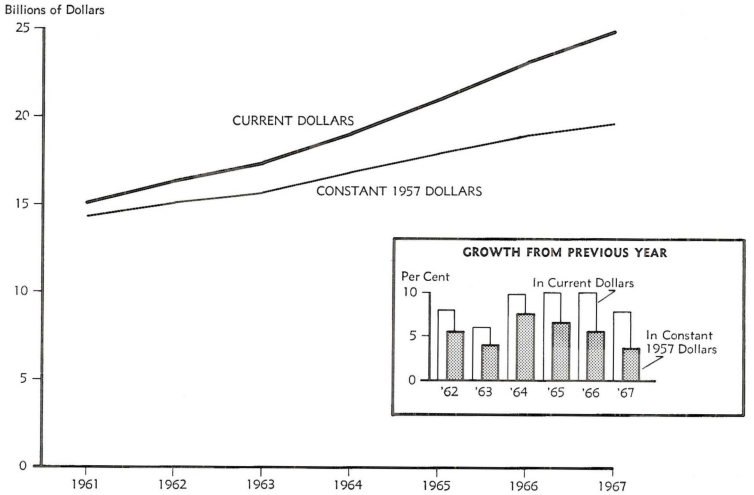
3. Performance of the Ontario Economy

The Ontario economy continued to grow in 1967, but not at the booming pace of the previous three years. Gross Provincial Product — the total value of goods and services produced in Ontario — rose to $24.9 billion in 1967 from $23.1 billion in the previous year. This was a growth rate of 7.8 per cent in terms of current dollars but only 3.7 per cent in terms of constant dollars. In the 1964 to 1966 period, by comparison, GPP grew by 10 per cent a year in current dollars and by 5.5 to 7.5 per cent a year in real terms.

However, there were several strong points in last year's performance. One was exports, particularly automotive exports; in fact, our automotive exports doubled in 1967. Because of the Canada-United States Agreement on Automotive Products, automotive exports are now ten times higher than they were in 1964. This tremendous expansion in the production and export of automotive products has been of immense benefit to Ontario, and has been the major force behind the economic advance since 1965.

CHART A4

ONTARIO GROSS PROVINCIAL PRODUCT

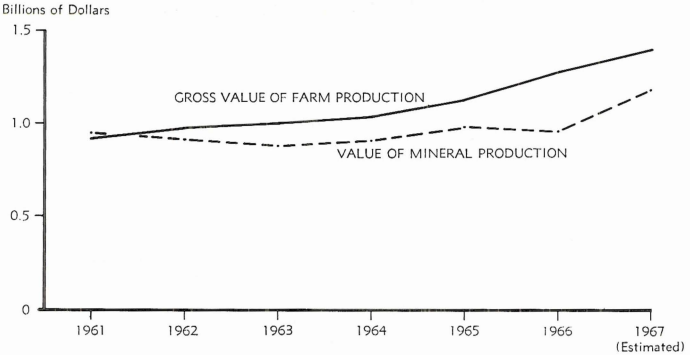


Another source of strength was tourism. With Expo as the drawing card, tourists came to Montreal by the millions, and many spent time travelling in Ontario while en route. Expo also stimulated the trade and transportation industries, which enjoyed large gains during the spring and summer.

Mining and agriculture also experienced good growth in 1967. Output of Ontario's mines rose 24 per cent to a value of $1.2 billion — the first time that mineral production had exceeded the billion dollar mark. Large increases in nickel, copper and zinc production accounted for most of the strength in mining as a whole. Farm production grew by 8 per cent in 1967 to reach an estimated gross value of $1.4 billion. The gain in output was spread over many farm products and prices were generally better than in 1966.

CHART A5

OUTPUT FROM ONTARIO'S MINES AND FARMS



Other sectors of the Ontario economy could not match these gains in mining, agriculture, tourism and exports. The pulp and paper industry, for example, barely managed a 1 per cent increase in output. The newsprint industry suffered from weakening demand and excess capacity. Steel production, primary metals and metals fabricating all dropped below their 1966 levels, and non-residential construction fell off badly. Apart from the auto industry, manufacturing in Ontario reflected the slower pace evident in the rest of Canada. The 1967 increase in value of manufacturing shipments was only 2.7 per cent, compared to nearly 10 per cent in 1966.

(i) Capital Investment

One reason Ontario surpassed Canada as a whole in economic performance during 1967 was the behaviour of capital investment. Last year, capital outlays grew by 6.8 per cent in Ontario, or double the growth rate for all other provinces. But even this 6.8 per cent growth was much below the increases of the previous three years. As Table A3 shows, the major weakness in investment in 1967 was in the manufacturing and construction industries. Investment in new manufacturing plants dropped by 13 per cent in 1967 while outlays for machinery and equipment grew by only 2.3 per cent. In the broad industry groups other than manufacturing, there were some notable increases in capital investment. In the utilities, trade, finance and government sectors, capital outlays increased by as much as 15 per cent over the 1966 levels.

TABLE A3

PRIVATE AND PUBLIC INVESTMENT IN ONTARIO, 1967[1]

	Construction	Machinery and Equipment	Total	Percentage Change 1967 over 1966		
		($ Million)		Const.	Mach.	Total
Primary Industries & Construction	172	309	481	-4.1	1.5	-0.6
Manufacturing	338	998	1,336	-12.9	2.3	-2.0
Utilities	468	456	924	13.4	16.8	15.0
Trade, Finance & Commercial Services	331	285	616	15.3	13.6	14.5
Housing	908	—	908	3.8	—	3.8
Institutional Services & Government	1,061	134	1,195	14.1	10.3	13.7
Total	3,278	2,182	5,460	6.7	6.8	6.8

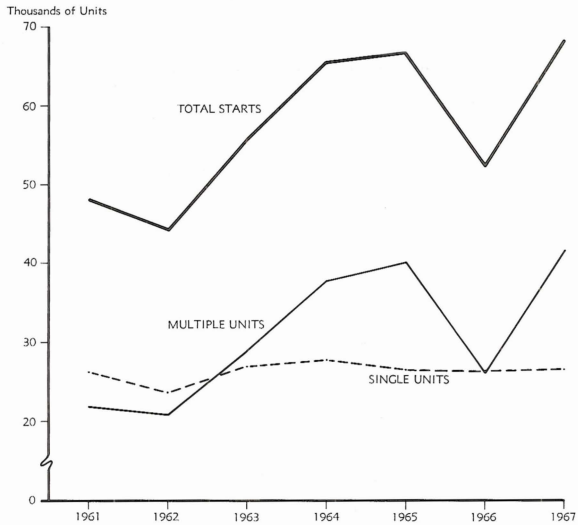
[1]*Based on federal Department of Trade & Commerce, PRIVATE & PUBLIC INVESTMENT, OUTLOOK 1967 However, since the data are mid-year estimates they may overstate the level of investment actually achieved in 1967*

(ii) Housing

Housing has provided the major supply problem in the Ontario economy for the past several years. The revival in housing in 1967, therefore, was a bright spot in Ontario's performance. Total housing starts bounced back from the severe slump of 1966 to reach an all-time high of 68,121 units. As Chart A6 shows, the entire recovery in house building in 1967 occurred in apartments and multiple dwellings. Starts in single family homes only managed to reach 26,595 units, or about the same level that has prevailed over the past five years.

CHART A6

HOUSING STARTS IN ONTARIO

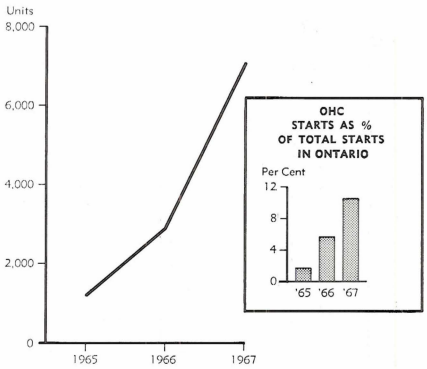


The expanded housing activity in 1967 was largely concentrated in Ontario's major urban centres. Starts in Toronto rose by almost 10,000 units. In Hamilton, starts were up by some 1,300 units. London, Kitchener and Sudbury also showed substantial gains. Windsor, on the other hand, experienced a modest decline. Since Ontario's housing shortage is most acute in these large cities, the 1967 performance on the whole was quite encouraging.

Three factors were mainly responsible for the upturn in housing activity in 1967. An expanded direct lending program by Central Mortgage and Housing Corporation in the spring sparked the revival. Over the year as a whole, CMHC direct loans accounted for some 4,000 more starts in Ontario than in 1966. Federal measures to broaden the mortgage market and increase the flow of funds into residential mortgages also contributed to last year's recovery. The third important factor was the Ontario Housing Corporation. The expanded scale of OHC activity last year was responsible for a large increase in public housing construction. In 1967, the OHC initiated some 7,100 starts of family and senior citizen housing compared to under 3,000 units in 1966. This increasing role of the Ontario Housing Corporation in the total housing market is illustrated in Chart A7.

CHART A7

HOUSING STARTS BY THE ONTARIO HOUSING CORPORATION*



*Excludes purchases of existing dwellings and construction of student residences

(iii) Labour Force and Employment

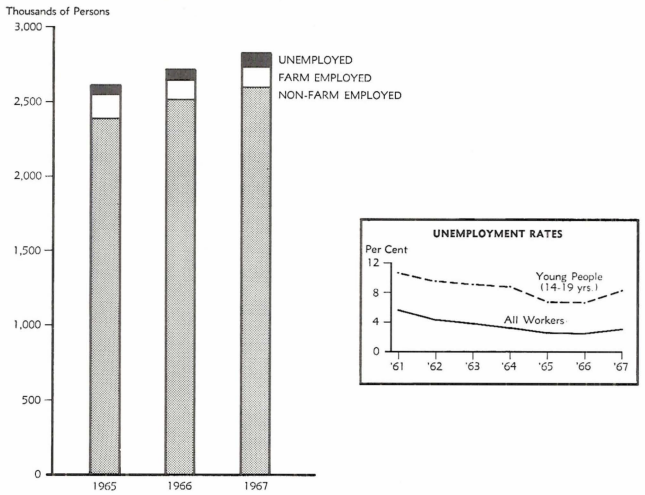
Again in 1967 the Ontario labour force expanded rapidly. The total labour force rose by 115,000 to 2,834,000, a growth of 4.2 per cent. High immigration from abroad, substantial migration from other provinces and increased participation by females contributed to this strong advance in Ontario's manpower resources.

Employment, unfortunately, did not keep pace with the growth in the labour force. The number of people employed rose 3.6 per cent to 2,745,000, up 95,000 from 1966. Most of these additional jobs were in the services industries, retail trade, finance, insurance and real estate. Employment in manufacturing and construction, however, changed very little during the year.

The slackened pace of activity in the economy last year shows up in the unemployment statistics. In 1967 the number of unemployed persons in Ontario rose to 89,000 or 3.1 per cent of the labour force, compared to a rate of 2.5 per cent in 1965 and 1966. As Chart A8 shows, unemployment among young workers also worsened last year.

CHART A8

ONTARIO LABOUR FORCE

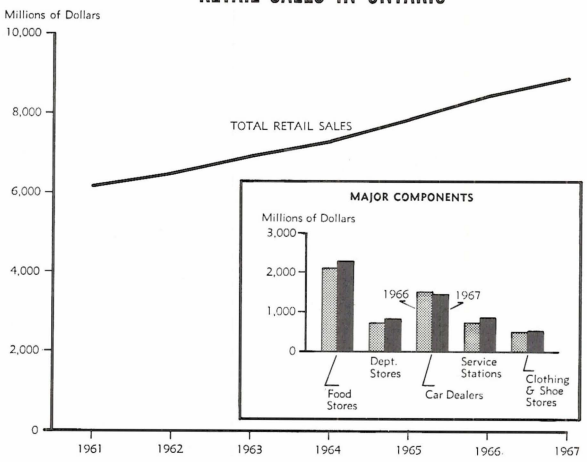


(iv) Retail Sales

Total retail sales held up well in 1967. Retail outlets in Ontario reported sales of approximately $8.9 billion, compared to $8.4 billion in 1966. In view of the soft market for consumer durables and the high savings rate by consumers, the overall gain of 5.1 per cent was quite substantial. The largest percentage gains were recorded by department stores, service stations, fuel, hardware and variety stores. Furniture, appliance and radio dealers experienced smaller gains. The only category showing a decline in sales was car dealers. After merely holding level in 1966, car sales dropped by 1 per cent in 1967. Grocery store sales increased 5.1 per cent. All other food stores increased sales by less than 2 per cent compared with 9 per cent in 1966.

CHART A9

RETAIL SALES IN ONTARIO



(v) Summary

The Ontario economy, like the Canadian and American economies, geared down to a slower rate of growth in 1967. This adjustment in the operating rate of the economy was particularly evident in the performance of manufacturing, construction and business investment. Exports remained buoyant, however, and tourism had its best year ever. Housing was also strong as it rebounded from the slump of 1966. Overall, the Ontario economy managed to expand its real output by 3.7 per cent and increase employment by 3.6 per cent. Thus productivity did not decline in Ontario in 1967, but neither did it increase. Despite a rise in unemployment, wages and prices continued to increase at rates that were clearly inflationary.

II PROSPECTS FOR 1968

1. Outlook for the Canadian Economy

Recent unsettling developments on the international front overshadow domestic considerations in assessing Canada's economic outlook for 1968. As Prime Minister Pearson has said: "There are unhappy signs of difficulties ahead." In the international money and capital markets, an atmosphere of uncertainty prevails as a result of British devaluation, the year-end run on gold, the new U.S.

balance-of-payments controls and the recent Canadian dollar crisis. Last year's progress toward freer trade and increased international liquidity is being threatened by a revival of protectionist sentiment and hints of further controls over international trade and investment. Since Canada is so vulnerable to these external forces, the strength of the economy in 1968 could largely hinge on whether this international situation improves or deteriorates.

Apart from these uncertainties, the prospects for Canada's external trade position seem reasonably favourable in 1968. Without Expo and the centennial celebrations, of course, Canada cannot expect the same exceptional results achieved in 1967. Tourist receipts in particular should return to more normal levels. And it is reasonable to expect some levelling off in exports under the Canada-United States Agreement on Automotive Products. Growth prospects for wheat sales, oil and newsprint exports are also less encouraging. Nevertheless, the outlook for exports as a whole is very good. The U.S. economy has picked up speed again and economic activity has revived in Europe. This resumed momentum in Canada's major markets should boost exports substantially, though perhaps not quite to the target level of $12.3 billion. Imports, on the other hand, again seem likely to trail behind the growth of exports. On balance, therefore, Canada's current account deficit might be expected to return to pre-1967 levels of $1 billion or so.

On the domestic front, the outlook is more promising than in 1967. Growth was slowing down at the beginning of 1967 whereas in 1968 the pace of economic activity is quickening. Industrial production began to swell in the final months of last year after practically no growth in the first half. Corporate profits also showed signs of bouncing back in the fourth quarter. As well, the cost and productivity situation has begun to improve. These favourable trends point to renewed expansion in 1968.

In addition to exports, consumer spending should be a strong sustaining force in 1968. Continued rapid growth in the labour force, rising personal incomes and the high carry-over of savings from 1967 should all combine to push consumer spending higher. Government spending will also continue to rise but at a more moderate rate than in 1967. Business investment, on the other hand, seems to be headed for another flat year. The outlook for housing is uncertain. Public housing starts will certainly rise but private starts may again be dampened if rising interest levels divert funds from the mortgage market. Overall, the outlook is for higher total demand than last year. In 1968, Canada's GNP should rise by 7 per cent, of which 4 per cent will be real output and about 3 per cent price increases.

One problem on the horizon for 1968 is unemployment. In 1967 unemployment in Canada edged up to over 4 per cent of the labour force. The

situation seems bound to worsen in 1968 since employment is expected to rise by 2 per cent while the labour force grows by more than 3 per cent. This slack in the economy may moderate price and wage pressures but it also means that the Canadian economy will be operating considerably below its full potential in 1968.

2. Forecast for Ontario

Like Canada, the Ontario economy is vitally dependent on conditions in international trade and finance. To perform adequately, Ontario requires continued rapid growth in manufacturing exports and large scale capital inflows. Any moves to suffocate world trade and capital movements, therefore, would seriously undermine the growth prospects for 1968.

Assuming that such adverse developments do not occur, Ontario should enjoy a better year in 1968 than in 1967. The Ontario economy can be expected to share in the expansion anticipated for Canada as a whole. In particular, Ontario stands to benefit from expanding exports, rising consumer expenditures across Canada and renewed growth in industrial output. The recovery in manufacturing evident at the close of 1967 should continue and quicken in 1968. At these higher levels of activity, Ontario's productivity performance, particularly in the manufacturing sector, should improve substantially. Other positive factors pointing to higher overall growth in 1968 include: continued rapid growth in the labour force and in immigration, buoyant retail sales and the improved cost and profit picture that began to emerge at the end of 1967.

On the other hand, a number of factors will tend to hold back Ontario's growth. Automobile output and exports cannot be expected to expand as rapidly as in the last three years now that the industry has adjusted to the Canada-United States Agreement on Automotive Products. Ontario can also anticipate a fall in tourist revenues from the record level of last year. Business investment intentions indicate no increase in total investment again this year. Pressure for wage parity and the possibility of industrial strikes could also be inhibiting factors.

Housing is a key element in the 1968 outlook. Towards the close of 1967, housing starts in Ontario weakened markedly. If this trend continues, housing could again become a major drag on the economy. However, there are reasons for optimism. The expanded program of the Ontario Housing Corporation will ensure a substantially higher level of public starts this year. Private starts could also be higher provided an adequate and sustained flow of mortgage funds is available. Present federal borrowing intentions and business investment plans indicate that there will be greater room in the capital market for residential mortgages. In

addition, the flexible NHA rate will enable mortgages to compete more effectively for the available supply of savings.

Summing up all these factors, the Ontario economy should perform somewhat better than last year. Gross Provincial Product should rise by about 7 per cent, with growth in real output amounting to 4 per cent and price increases making up the remaining 3 per cent. Higher employment will account for half the 4 per cent growth in real output and increased productivity for the other half. Since the labour force is expected to grow faster than employment, there could well be a rise in unemployment to perhaps 4 per cent. Table A4 highlights these major elements in the forecast for 1968 and shows the comparison with 1967.

TABLE A4

FORECAST FOR THE ONTARIO ECONOMY

	Percentage Increase	
	1968 / 1967	1967 / 1966
Gross Provincial Product	7.0	7.8
Prices	3.0	4.1
Real Output	4.0	3.7
Productivity	2.0	0.1
Employment	2.0	3.6
Labour Force	3.4	4.2

On balance, therefore, we enter the new fiscal year with the expectation that the Ontario economy will show steady improvement in performance although it is unlikely to operate at full potential.

BUDGET PAPER "B"

THE BUDGETARY FRAMEWORK

This Budget Paper contains a discussion of the framework within which annual budgetary decisions are made and new policies developed. In particular, attention is given to the nature and implications of two constraints to the government's ability to respond to increasing and changing demands for public services and facilities. The first constraint is the capacity of existing tax sources to finance required increases in total expenditures. The second constraint is the difficulty of undertaking radical changes in the structure of established and continuing government programs in any one year.

I THE REVENUE CONSTRAINT TO GROWTH

In recent years it has become apparent that provincial and municipal revenues do not have the growth and capacity to meet rapid increases in required expenditures.[1]

1. Growth of Government Revenues Versus Expenditures

The problem of unbalanced expenditure-revenue growth has been extensively documented in two main studies. First, in preparation for the re-negotiation of federal-provincial financial arrangements in 1966, the Tax Structure Committee (TSC) undertook a comparative analysis of the anticipated growth of federal and provincial-municipal expenditures and revenues for the period 1966-67 to 1971-72. In brief, the result of these projections was that, on the basis of then-existing governmental expenditure programs and tax sources, the combined deficit for all three levels of government would increase during this period. The estimated combined government deficit of $0.9 billion for 1966-67 was projected to increase to $2.1 billion in 1971-72 on the basis of an annual Gross National Product growth rate of 6 per cent over the period, or to $1.4 billion if GNP increased by 7 per cent a year.[2]

The most significant finding of the TSC study, however, concerned the distribution of the total governmental deficit between the federal and provincial-municipal sectors. At the 6 and 7 per cent levels of annual GNP growth, total provincial-municipal deficits were projected to reach $2.4 and $2.1 billion respectively by 1971-72. In contrast to this pattern of mounting provincial-municipal deficits, the federal government was expected to record surpluses throughout the period increasing to $0.3 and $0.7 billion at the 6 and 7 per cent levels of annual GNP growth.

This first view of the imbalance of provincial-municipal expenditure and revenue growth was confirmed by similar projections undertaken by

[1] *The structure and growth of provincial expenditures are examined in detail in part II of this paper.*

[2] *REPORT OF THE TAX STRUCTURE COMMITTEE TO THE FEDERAL-PROVINCIAL CONFERENCE: PROJECTIONS OF GOVERNMENT REVENUES AND EXPENDITURES, October 28, 1966.*

the Ontario Committee on Taxation (Smith Committee) and published in 1967[3] The Committee's projections indicated that anticipated combined provincial and local government budgetary deficits in Ontario would increase from about $116 million in 1967 to over $1 billion in 1975. Over the same period, the study indicated that the provincial government's own budgetary deficit could be expected to increase from $81 million in 1967 to about $900 million in 1975.[4]

It should be emphasized that the TSC and Smith Committee projections cannot be used as definitive quantitative measures of the exact course of expenditure-revenue growth. The obvious difficulty in anticipating future conditions meant that the projections inevitably took the form of extrapolations of past and then-current government operations and economic conditions, modified by certain assumptions concerning the likely behaviour of such key factors as economic growth rates, population changes and price increases.

Interim developments have already rendered these projections partially obsolete. The development of new government programs, greater-than-expected price increases and higher rates of economic growth have caused both expenditures and revenues to increase faster than was originally anticipated. While it is not possible to measure accurately the absolute effects of interim changes, they are unlikely to alter significantly the relative growth of expenditures and revenues. In other words, it can be generally assumed that the TSC and Smith Committee were correct in predicting a continued imbalance in expenditure-revenue growth resulting in greater budgetary deficits at the provincial-municipal level during the foreseeable future.

2. The 'Tax Mix'

The basic reason for expected increases in provincial-municipal deficits is that, compared with the growth of required government expenditures, total revenues tend to grow more sluggishly because of the relatively heavy reliance of these two levels of government on low-growth tax sources.

This problem may be illustrated by experience over the five-year period 1963-64 to 1967-68. Table B1 shows that, during this period, total provincial expenditures and revenues increased at an average annual rate of about 18.6 and 18 per cent respectively. However, it is significant that revenues increased in line with expenditures only as a result of significant increases in provincial tax capacity. The most important of these were the staged increases in federal abatements of the personal income tax field

[3] *REPORT OF THE ONTARIO COMMITTEE ON TAXATION (Toronto: Queen's Printer, 1967).*

[4] *These figures exclude advances through the Ontario Universities Capital Aid Corporation, which were included in the original Smith Committee projections.*

from 17 points in 1963-64 to 28 points in 1967-68. These increased abatements had the effect of increasing the annual average growth rate of provincial income tax revenues during this period to 35 per cent compared with 19 per cent which would otherwise have prevailed. Similarly, the increase in the provincial retail sales tax rate from 3 to 5 per cent in 1966 had the effect of increasing the annual average growth rate of sales tax revenues from 9 to 24 per cent over the five-year period. The result of these tax changes during the period brought the total average annual growth rate of provincial revenues to 18 per cent, compared to a rate of about 10 per cent that would have prevailed without major tax changes during the period.

TABLE B1

SUMMARY OF ONTARIO GOVERNMENT EXPENDITURE AND GROWTH RATES, 1958-59 to 1967-68

	Average Compound Annual Growth Rates		
	1958-59 to 1963-64	1963-64 to 1967-68	1958-59 to 1967-68
	%	%	%
A. Total Net General Expenditure	9.5	18.6	13.4
B. Actual Revenue			
Total Net General Revenue	10.9	18.0	14.0
Personal Income Tax	12.8	35.2[1]	22.3[1]
Retail Sales Tax	—	23.6[2]	—
Corporation Tax	5.7	9.4	7.3
Gasoline Tax	4.7	11.1	7.5
C. Revenue on Basis of 1967-68 Tax Package and Rates throughout Period			
Total Net General Revenue	6.0	10.3	7.9
Personal Income Tax	8.5	19.4	13.2
Retail Sales Tax	5.6	8.8	7.0
Corporation Tax	5.6	7.2	6.3
Gasoline Tax	4.7	5.5	5.1
D. Revenue on Basis of 1958-59 Tax Package and Rates throughout Period			
Total Net General Revenue	5.3	10.0	7.4
Component sources will have identical growth rates to those shown under C, as only the 'tax mix' will alter the growth rates of total revenue.			
E. Provincial Domestic Product	5.3	9.2	7.0

[1] *Reflects increases in federal abatements of the personal income tax field in stages from 17 points in 1963-64 to 28 points in 1967-68, where the total yield of income tax for each year is taken as 100 points.*

[2] *A retail sales tax of 3 per cent was introduced in Ontario in 1961 and was increased to 5 per cent in 1966.*

Two observations are relevant concerning the future growth of provincial revenues. First, it is important to distinguish clearly between the immediate impact of tax changes on revenue flows and subsequent longer-term revenue growth. The tax changes detailed above created a marked upsurge in provincial revenues. But without further and similar changes in tax capacity, government revenues will now increase only as a function of the growth of taxable income and activities. In other words, on the basis of economic growth rates over the past five years, the annual growth rate of personal income tax receipts would settle down to a rate of about 19 per cent, with the growth in total provincial revenues returning to about 10 per cent.

The second observation concerns the critical connection between economic growth and revenue growth. During the past five years, Canada has experienced high and sustained rates of economic growth, which in terms of longer historical perspective may not continue unabated for an indefinite period. For example, while Provincial Domestic Product (PDP) has increased at an annual average rate of 9.2 per cent in the 1963-67 period, the average annual growth rate for the earlier 1958-64 period was only 5.3 per cent. Thus any reduction in the rate of economic growth will be immediately reflected in lower rates of revenue growth. This is particularly so with personal and corporate income tax revenues, both of which are highly sensitive to changing economic conditions.

3. Financing Alternatives

The foregoing review of the provincial 'tax mix' indicates that a continuation of past expenditure growth rates will produce significant increases in provincial-muncipal deficits in general conformity with the TSC and Smith Committee projections outlined in Section 1.

While it is expected that there will be a decline in expenditure growth rates from the unusually high levels recorded in recent years, nevertheless it is questionable whether it will be possible to reduce them by the amount necessary to bring them neatly in line with the growth capacity of now-existing total revenue sources.[5] This question in turn raises the problem of how such deficits can be financed either by increases in tax capacity or by borrowing.

4. Debt Financing

As the Smith Committee pointed out, there are limits to the province's debt capacity if one of the objectives of the province is a high credit rating based on prudent finance. The Smith Committee defines the limit to the province's net debt capacity as 9 per cent of the Provincial

[5] *The introduction of program budgeting as a means for reducing expenditure growth by increasing the efficiency and effectiveness of programs is discussed in part II, section 3 of this paper.*

Domestic Product. While this level need not necessarily be accepted as irrevocable and definitive, it may be used for present purposes as a convenient benchmark in examining the general scope for future increases in debt operations.

Table B2 shows that, while the 9 per cent ratio was almost reached in the early sixties, it was reduced to about 6.6 per cent at the end of the 1966-67 fiscal year. According to Smith's definition, the province's net capital debt capacity theoretically stood at $1.8 billion at the end of 1966-67 and exceeded the actual level of net capital debt by 2.4 per cent of PDP or almost $500 million. This may appear to leave a good margin for debt expansion, but in the face of anticipated expenditure pressures and Smith-projected deficits, this slack would be eliminated fairly quickly. Once the debt to PDP relationship has again reached the limit of 9 per cent, the annual additions to the net capital debt would be severely curtailed and geared to whatever growth is realized in PDP.

TABLE B2

NET CAPITAL DEBT AND PROVINCIAL DOMESTIC PRODUCT, 1963 to 1967

($ Million)

	1962-63	1963-64	1964-65	1965-66	1966-67
Net Capital Debt at Year End	1,284	1,345	1,365	1,381	1,360
Provincial Domestic Product..	14,605	15,600	17,000	18,700	20,500
N.C.D. as % of PDP	8.8	8.6	8.0	7.4	6.6
Theoretical Limit of N.C.D. per Smith Committee (9% of PDP)	1,314	1,404	1,530	1,683	1,845
Favourable Difference between actual and theoretical Net Capital Debt	30	59	165	302	485

If the province were, for example, already at its debt limit at this time, the maximum tolerable increase in the net capital debt during 1968-69 would be about $140 million (Table B3). Assuming a long-term average growth rate in PDP of 7 per cent, the tolerable annual additions to the net capital debt would slowly rise to $170 million in 1971-72 and $210 million in 1974-75. These constraints would compare with the increase in net capital debt, projected by the Smith Committee, of $538 million in 1971-72 and $897 million in 1974-75.[6]

[6]*See explanatory notes to Table B3.*

On the assumption that there will be no further tax increases and that the province will be able to keep deficits down to those projected by the Smith Committee, the previously indicated leeway of $500 million would disappear in 1970-71. During the latter year, net capital debt would reach 9 per cent of PDP. However, given the fact that the province has already introduced the basic shelter tax exemption and assumed the cost of the

TABLE B3

THE IMPLICATIONS OF THE SMITH COMMITTEE'S DEBT CONSTRAINTS

	1967-68	1968-69	1969-70	1970-71	1971-72	1974-75[1]
			($ Million)			
Projected "Tolerable" Net Capital Debt, at 9% of PDP at year ends	2,000	2,138	2,287	2,447	2,619	3,208
Net Capital Debt, actual (67-68) and as projected by Smith, and including cost of Basic Shelter Tax Exemption and Administration of Justice[2]	1,538	1,989	2,534	3,165	3,925	7,005
Projected Net Capital Debt in excess of "tolerable" limit per Smith	—	—	247	718	1,306	3,797
Projected Cumulative Value of 12 additional points of Personal Income Tax if introduced in 1969-70[3]	—	—	319	686	1,108	2,793
Projected N.C.D. in excess of "tolerable" limit after additional 12 points of P.I.T.	—	—	—	32	198	1,004
Additional Annual Revenue required to maintain N.C.D. at 9% of PDP	—	—	—	32	166	325

[1] *Note the discontinuity in the table. For brevity, the years 1972-73 and 1973-74 are omitted.*

[2] *The Smith Committee's projections of increases in actual net capital debt to 1974-75 are:*

(a) Reduced by estimated advances through the Ontario Universities Capital Aid Corporation, which were included in Smith's calculations. See Smith Report, op. cit., p. 214.

(b) Then increased for the estimated costs of the basic shelter tax exemption and administration of justice, because in projecting provincial deficits the Smith Committee did not allow for the cost of the various recommendations of their report. Thus, the annual additions to the net capital debt cited in the preceding page for 1971-72 and 1974-75 of $538 million and $897 million are increased in the table to $760 million and $1,177 million respectively.

[3] *The Smith Committee suggests a staging of additional personal income taxation reaching 8 points in 1968-69, 10 points in 1971-72 and 12 points in 1974-75.*

administration of justice,[7] this critical point will be brought forward by one full year.

Table B3 makes a tentative evaluation of the amount and possible form of additional taxation that would be required to maintain the net capital debt at 9 per cent of PDP. Even if 12 additional points of the personal income tax were introduced in 1969-70, they would be inadequate as early as 1971-72. Allowing the net capital debt ratio to rise to 10 per cent of PDP would result in a tolerable debt by 1974-75 of $3,564 million instead of $3,208 million. Such a condition would make 12 additional points of the personal income tax, if introduced in 1969-70, just adequate.

There is one important reason why the actual path of debt financing will differ from the one projected in Table B3. The table suggests a relatively rapid build-up of the net capital debt, involving levels of debt financing in the early years considerably in excess of what would be considered acceptable by current standards of prudence, good credit ratings and capital market accessibility. This further strengthens the point that the timing of required tax increases must be brought forward.

5. Increased Tax Capacity

The limits to debt increases demonstrate that a large part of future deficits must be financed by increases in provincial tax capacity. This need involves two interrelated problems. The first concerns the type of increased tax capacity required. The second problem relates to how required increases in tax capacity should be achieved.

(i) High Versus Low Growth Tax Fields

The overriding factor to be considered in securing increased tax capacity is the 'natural' growth potential of the yields of different tax sources. Reference has already been made to the inadequacy of the province's tax mix in terms of its relatively heavy reliance on low growth fields. Consequently, if the composite growth rate of total provincial revenues is to be improved, it will be necessary to increase the relative use of those tax fields which display high growth characteristics.

Table B1 provides information on the relative growth of the Ontario Government's main tax sources. The most significant feature of this comparison is the high growth capacity of personal income tax yields compared with that of other sources. In short, as the Smith Committee has emphasized, increased use of the personal income tax field by the province should feature as a significant part of any general move towards increased tax capacity.

(ii) Independent Provincial Verus Joint Federal-Provincial Tax Changes

In general terms, increased provincial tax capacity may be secured in two main ways.

[7] *These were two of the major recommendations of the Smith Committee.*

The first method is commonly referred to as "independent" taxing and would involve Ontario changing the use of its own tax fields without reference to federal or other provinces' taxes. The main problem inherent in independent taxing is the possibility of creating inter-provincial disparities in tax levels which may, in turn, adversely affect the competitiveness or distribution of regional economic activity. With respect to the personal income tax field, for example, any increase in Ontario rates would not only have the effect of raising the absolute level of such taxation in Ontario, but could also have the effect of penalizing income-generating activity in Ontario disproportionately to that in other provinces. A similar problem would, of course, be implicit in any increase in Ontario corporate income tax rates above those in other provinces. In general terms, then, there are clearly limits to any province's independent ability to raise taxes.

The second method of securing increased provincial tax capacity is through combined federal-provincial action in jointly occupied tax fields. This question has two main aspects.

First, where the total level of combined governmental taxation in Canada is inadequate to finance properly the required growth of combined government expenditures, there should be an orderly and comprehensive change in the national tax structure. Federal and provincial tax committees have recently undertaken extensive studies of the existing tax systems. The general conclusion of these reports is that there is an urgent need to develop a new tax system that will raise the funds required for public expenditures in an equitable and economically efficient manner. While there is agreement on the importance of tax reform, relatively little attention has thus far been given to the co-ordination of tax reforms at the federal and provincial-municipal levels. Consequently, there is a need for tax reform with proper recognition of the role of all taxes in a national tax structure, irrespective of whether tax fields are used exclusively or jointly by different levels of government.

The second aspect of joint federal-provincial tax changes relates to the proper distribution of tax capacity between the two levels of government. In other words, apart from the general adequacy of tax revenues in a total governmental sense, each level of government must be given the tax occupancies necessary to finance its responsibilities. In this connection, reference has already been made to the 1966 Tax Structure Committee projections which clearly demonstrate the need for a significant transfer of tax capacity from the federal to the provincial level to match the distribution of projected budgetary deficits.

6. Public Finance and Fiscal Policy

Finally, in considering the need for a reallocation of tax resources, attention must be given to two other important factors.

The first concerns the federal government's ability to regulate economic activity through tax changes. The Ontario Government's views on how the requirements of efficient public finance and fiscal policy can be reconciled were developed in detail during the technical discussions surrounding the negotiations in 1966 and have been publicly expressed in various statements.[8]

Briefly, it is believed that this goal can be best achieved through the development of tax agreements to cover a central package of shared tax fields. First, this would allow the federal government to use a number of economically significant taxes in concerted fashion to achieve policy objectives, without fear of countermanding provincial actions. Secondly, the revenues from this tax system could then be divided between the two levels of government according to their relative expenditure requirements.

The second major consideration concerns the need for balanced growth of the public and private sectors of the economy. This involves the containment of total governmental expenditures within the limits of tolerable levels of taxation and government borrowing. Basic to this is the need for all levels of government in Canada to co-ordinate their expenditures within a commonly agreed system of policy objectives and priorities.

In this connection, encouraging steps have already been taken. At the January meeting of the Ministers of Finance there occurred, for the first time, an extensive discussion of the budgetary plans and problems of the participating governments. These initial exchanges resulted in a common agreement that there is an urgent need to develop effective mechanisms for more rigorous and continued consultation. Such a system should, first, permit the federal government to take fuller account of provincial operations in determining Canada-wide fiscal policy. Second, it should allow provincial policies to be more effectively developed in the context of national patterns.[9] Third, it should provide an objective basis for allocating limited tax resources to allow governments to meet recognized priorities.

[8]*See particularly the Statement by the Prime Minister of Ontario to the Federal-Provincial Tax Structure Committee in September 1966; and the Ontario Treasurer's Statement to the Meeting of Ministers of Finance, January 1968.*

[9]*For a fuller discussion of provincial fiscal policy, see C. L. Barber, THEORY OF FISCAL POLICY AS APPLIED TO A PROVINCE, Ontario Committee on Taxation (Toronto: Queen's Printer, 1968).*

II CONSTRAINTS TO EXPENDITURE FLEXIBILITY

The second component of the annual budgetary framework concerns the government's ability to meet new expenditure demands within the overall limits set by the revenue growth and borrowing capacity. The main constraint to manoeuvrability in this sense is the need to provide for the orderly continuation and growth of established programs. In any given year, a significant proportion of government revenues is thus effectively pre-empted, leaving only a relatively small part to be applied to new priorities. This means that, in a very real sense, priority-setting is an evolutionary process in which new programs are steadily built up and other programs phased out or de-emphasized over the course of several budgets.

1. The Structure of Government Expenditures

A useful insight into the relative inflexibility of provincial expenditures at any given time can be gained from Table B4. This table sketches the structure of government spending in terms of the administrative operations of departments as well as financial commitments to other governments, agencies and individuals.

A number of observations may be made on the flexibility constraints of various components of total expenditure. First, the government's own operations in the form of departmental expenditures are a relatively small part of the total. The civil service overhead (category A in Table B4) accounts for only 20 per cent of the total, with about 12 per cent in the form of wages and salaries. Insofar as the civil service represents the central core of government operations generally, reductions would run the obvious danger of reducing the effectiveness of existing programs and administrative controls. However, it is a continuing goal to keep the growth in this category to a minimum consistent with required efficiencies. Not all wages and salaries are included in this category. For example, a substantial part of highway maintenance, which is another relatively inflexible type of expenditure (shown under category F), consists of salaries and wages. Other expenditures incorporating salaries and wages are highway and public works construction.

TABLE B4

CLASSIFICATION OF ESTIMATED TOTAL BUDGETARY EXPENDITURES, LOANS AND ADVANCES, 1967-68 FISCAL YEAR

	$ Million	Percentage of Total
A. Civil Service Overhead		
Salaries, Wages, Fringe Benefits & Associated Operating Costs (est.)[1]	467	20.4
B. Major Statutory or Contractual Obligations		
Legislative Grants to School Boards, etc.	490	21.4
Unconditional Grants to Municipalities	40	1.7
Teachers' Superannuation	48	2.1
Road Construction & Maintenance Grants	128	5.6
Hospital & Health Grants, etc.	40	1.7
Welfare-type Grants	44	1.9
Other Statutory or Contractual Grants to Municipalities & Local Boards or Institutions	34	1.5
Interest on Public Debt	66	2.9
	890	38.8
C. Major Transfer Payments to Persons		
Payment under Family Benefits Act	44	1.9
Premium Assistance under OHSC, OMSIP[2]	16	.7
Contribution to Legal Aid Fund	4	.2
Scholarships, Bursaries & Research Grants	28	1.2
	92	4.0
D. Major Transfer Payments to Institutions		
Operating Grants to Universities	194	8.5
Operating Grants to CAATS & Ryerson[2]	29	1.3
Other Educational Grants	17	.7
Operating Payments to O(S)HC[2]	4	.2
Other	10	.4
	254	11.1

(Cont'd)

[1] *Excludes salaries and wages included elsewhere in such specific areas as highways construction and maintenance, or capital projects of Public Works.*

[2] *The initials OHSC refer to the Ontario Hospital Services Commission, OMSIP to Ontario Medical Services Insurance Plan, CAATS to Colleges of Applied Arts & Technology, and O(S)HC to Ontario (& Student) Housing Corporation.*

TABLE B4

CLASSIFICATION OF ESTIMATED TOTAL BUDGETARY EXPENDITURES, LOANS AND ADVANCES, 1967-68 FISCAL YEAR (Cont'd)

	$ Million	Percentage of Total
E. Capital Expenditure		
Highways and Roads	190	8.3
Provision of Accommodation	53	2.3
Property Purchases for Roads & Parks	34	1.5
GO Transit	5	.2
Other	2	.1
	284	12.4
F. Other Departmental Expenditure		
Highway & GO Transit Maintenance	66	2.9
Capital Grants for Vocational Schools	59	2.6
Capital Grants for Farm Development	7	.3
Contribution to OHSC	95	4.1
Payments under Medical Insurance Act	25	1.1
All Other	52	2.3
	304	13.3
Total Net General Expenditure, excluding Sinking Fund	2,291	100.0
G. Loans and Advances		
Ontario Education Capital Aid Corporation	175	
Ontario Universities " " "	105	
Hydro-Electric Power Commission — secured advances less discount	123	
Ontario (& Student) Housing Corporation	48	
Municipal Works Assistance — loans and forgiveness	50	
Loans for Hospital Construction and Capital Assistance	22	
Ontario Junior Farmers' Establishment Loan Corporation	22	
Ontario Water Resources Commission	16	
Ontario Municipal Improvement Corporation	9	
All Other	12	
	582	

Departmental capital expenditures on physical assets (category E) represent the provision of essential social capital, of which roads form the major component. These capital expenditures, though essential, are often considered partly flexible in terms of their timing and in the manner in which they are financed. On the latter aspect, depending on the overall fiscal policy requirements of the time, a smaller or larger proportion of these expenditures will usually be financed out of ordinary revenues.[10]

Perhaps the most significant feature of Table B4 is the high proportion of total expenditures allocated to the financial support of local governments, school boards and agencies. The most confining aspect of these payments, making them the least flexible in principle, is the fact that they are primarily statutory or contractual commitments, in large part based on expenditure decisions made at the local level. For instance, the legislative grants to school boards, accounting for some 21 per cent of total budgetary spending, are based on a formula. This formula is regularly revised to ensure that provincial support of rapidly rising school board expenditures is maintained at a sufficiently high level. The Ontario Government has entered these commitments in recognition of local financial constraints and the need to ensure essential expenditures for the maintenance and growth of local services and educational capacity. The expenditures within the relatively inflexible category B commit almost 40 per cent of the provincial budget.

In addition, the provincial government has equally strong commitments to assist in financing higher education. The universities depend on the government for the largest part of their very large and rapidly rising expenditures. In addition, the Colleges of Applied Arts and Technology (CAATS) are entering a phase of rapid expansion and greatly increased cost which will have to be assumed by the government. Entered under category D in the table, these costs already account for 10 per cent of the budget and can be expected to absorb a growing proportion in the near future.[11]

The temporary build-up of Canada Pension Plan funds has enabled the government to make loans and advances to school boards and universities to cope with their tremendous capital expansion requirements. This procedure has, in fact, proven to be vastly more efficient and economical than a situation in which the school boards would have been forced to do their own borrowing in the capital market. As shown in Table B4, some $280 million was made available this way during 1967-68.

[10] *That is, with more or less debt financing according to the need to stimulate total economic activity.*

[11] *See discussion in section 2.*

Table B4, therefore, clearly illustrates the many rigid factors that play a dominant role in the provincial budget. This is not to suggest that the province lacks discretionary powers in these areas, but only that the government has accepted these persistent rigidities and growth areas in its budget in recognition of the essential needs behind each of these programs. Any reduction or even stabilization of total support under programs of this nature would presumably result in higher property taxes and inadequate services at the local level as well as in the universities. Curtailment of support for the latter would probably make university training available to fewer eligible students.

2. The Growth of Expenditures

Table B4 provides a useful cross-section of the provincial expenditure structure in 1967-68. But there is another and more dynamic aspect to the government's commitments to established priorities. This concerns the growth of existing programs. Growth may occur as a program is gradually brought to operational standing over several years, as demand increases due to economic expansion and population growth or as qualitative improvements and extensions are made.

Again, education outlays provide a particularly dramatic example of the impact of economic expansion and population growth. During recent years they have increased at an annual rate of about 25 per cent to the point where they account for over 40 per cent of total provincial expenditure.[12] This occurred as a direct function of the post-war upsurge in birth rates, together with rising costs and rising post-secondary enrolment ratios.

In 1960, births in Ontario reached a peak of 159,000. For more than 20 years they had been increasing steadily from a low of 62,000 in 1937. But while the peak in births occurred about eight years ago, the effect of declining birth rates will not be reflected in lower total enrolments for some time. This is partly because the decline in birth rates has been quite slow, and partly because of increased post-secondary enrolment ratios as well as increased migration from abroad and from other provinces.

A more detailed view of the implications of post-war births for education enrolment up to 1975-76 is provided in Table B5. Total elementary school enrolments can be expected to level off after 1970-71. This pattern

[12] *Excluding assistance through the Ontario Universities Capital Aid Corporation and the Ontario Education Capital Aid Corporation.*

TABLE B5

ANNUAL RATE OF CHANGE IN ENROLMENT IN ONTARIO ELEMENTARY AND SECONDARY SCHOOLS, CAATS AND UNIVERSITIES[1]

(Per Cent)

YEAR	Elementary	Secondary	CAATS		University Full-time		
			Minimal	Probable	Under-graduate	Graduate	Total
1966-67	3.7	8.6	21.3	21.3	16.4	12.7	16.0
1967-68	2.1	3.0	62.7	62.7	15.0	19.1	15.5
Projections							
1968-69	2.0	2.7	28.6	69.8	9.6	11.4[2]	10.1
1969-70	1.3	1.6	23.6	30.3	7.5	11.4	7.9
1970-71	0.8	1.2	7.8	25.1	6.5	6.8	6.5
1971-72	–0.4	0.2	7.2	20.4	5.6	4.8	5.5
1972-73	–0.1	0.4	6.7	17.7	5.2	8.4	5.6
1973-74	–0.3	0.3	5.5	14.8	5.0	2.8	4.8
1974-75	–0.4	0.3	5.2	13.5	2.0	6.2	2.5
1975-76	–0.5	0.2	4.7	11.4	1.6	2.6	1.8

[1] *The enrolment ratios used in calculating the rates of increases in enrolments for the various education levels are as follows: elementary schools at 93.6 per cent of the 5 to 14 year age group; secondary schools at 73 per cent of the 15 to 19 age group; CAATS, at minimum rising from 5.5 per cent of the 18 to 20 age group in 1968 to 10 per cent in 1976, or probably rising from 5.5 per cent in 1968 to the higher ratio of 25 per cent in 1976; university undergraduate rising from 15.1 per cent of the 18 to 21 year age group in 1967-68 to 18 per cent in 1975-76; and university postgraduate enrolment rising from 2.4 per cent of the 21 to 24 age group in 1967-68 to 2.8 per cent in 1975-76.*

[2] *The apparently erratic pattern of enrolment increase rates for graduate students between 1968-69 and 1975-76 reflects the pronounced impact of increased enrolment ratios on a relatively small numerical base.*

will be repeated in delayed fashion at the higher education levels. Much depends, however, on the behaviour of enrolment ratios. At the present time, 15 per cent of 18 to 21 year olds are enrolled as undergraduates and about 2.4 per cent of 21 to 24 year olds as postgraduates. Increases in the complexity of industrial technology are very likely to increase these ratios and offset the effects of the decline in birth rates on total post-secondary enrolment.

The recognition of the need to meet industrial demand for more highly skilled manpower and round out the range of post-secondary education opportunities, resulted in the rapid development of the CAATS system. The outlook for future enrolment is likely to be about a 66 per cent increase in enrolment next year to reach close to 33,000 students as the institutions all move into full operation. If the ratio of student enrolment moves up to 20 per cent of the 18 to 20 year olds by 1975-76 this would then produce

a total enrolment of 88,500 in that year. The Department of Education estimates that about 60 per cent of the grade 12 graduates will continue to the CAATS. If they stayed for an average of two years, there would be about 25 per cent of the 18 to 20 year olds in the CAATS or approximately 110,000 by 1975-76.

Alongside the large increases in education enrolments projected to the mid-1970's, there are also likely to be significant cost increases. The Ontario Institute for Studies in Education estimates that elementary school operating costs will increase by 5.3 per cent a year up to 1975 from a base of $483 per pupil in 1968, while secondary school costs will rise by 6.4 per cent from $1,027 per student. Similarly, university operating costs per student have been increasing at 6 to 8 per cent over the long run. More recently per-student costs have grown at even higher rates; hence it is assumed that unit costs will rise at about 8 per cent per year over the period to 1975-76. Details of the joint impact of projected enrolment and cost increases are given in Table B5. Thus, total operating costs for universities are projected to increase by 185 per cent between 1967-68 and 1975-76, with those of CAATS rising by 277 per cent. Corresponding increases at the elementary and secondary school levels will be less marked at 55 per cent and 99 per cent respectively.

3. Refinement of the Province's Budgetary Process

As mentioned at the outset of this part of the paper, the nature of the government's commitments to establish programs at any given time emphasizes the importance of developing a system that allows orderly changes in expenditure patterns over the course of several budgets. To achieve this objective, the government is refining the province's budgetary process through the introduction of program budgeting. Briefly, the purpose of this system, which is relatively new for governments, is to place increased emphasis on policy objectives so that limited resources are used with maximum effectiveness and efficiency in achieving those objectives.

The Ontario Government's approach to program budgeting is also based on the recognition that government expenditures may have a number of different effects. These may be usefully divided into two groups:

First, program effects are the direct advantages which accrue from achieving the specified objectives of a program. These may be of a social, cultural or economic nature. Some programs are mainly of a social and cultural nature, with secondary economic results of varying importance. Improved education, health and public housing facilities raise social and

TABLE B6

PROJECTED ENROLMENT AND OPERATING COSTS OF VARIOUS EDUCATIONAL STREAMS

	1967-68	1968-69	1975-76	Percentage Increase from 1967-68 to 1975-76
Universities				
Enrolment	79,000	87,000	121,600	53.9
Operating costs per student (increase of 8% a year)	$2,970	$3,237	$5,497	85.1
Total operating costs (million)	$234.6	$281.6	$668.4	184.9
CAATS				
Enrolment[1]	19,437	25,000	44,000	126.4
Enrolment[2]	—	33,000	110,000	—
Operating costs per student (increase of 6.5% a year)	$1,800	$1,917	$2,980	65.6
Total operating costs[1] (million)	$ 35.0	$ 48.0	$132.0	277.3
Total operating costs[2] (million)	—	$ 63.3	$333.0	—
Secondary Schools				
Enrolment	462,300	483,600	559,500	21.0
Operating costs per student (increase of 6.4% a year)	$1,027	$1,093	$1,687	64.3
Total operating costs (million)	$474.8	$528.6	$943.9	98.8
Elementary Schools				
Enrolment	1,392,900	1,421,300	1,426,900	2.4
Operating costs per student (increase of 5.3% a year)[3]	$ 482	$ 508	$ 729	51.2
Total operating costs (million)	$671.4	$722.0	$1,040.2	54.9
Total Post-Secondary Enrolment[1]	98,437	111,900	165,600	68.2
Total Post-Secondary Enrolment[2]	—	119,900	231,600	—
Total Elementary and Secondary Enrolment	1,855,200	1,904,900	1,986,400	7.1

[1] *These figures are based on minimal increases in the CAATS enrolment ratios.*

[2] *The enrolment estimates under[1] may, however, be unrealistic, particularly since only 10 per cent of the relevant age group are assumed to be enrolled by 1975-76. As the text and Table B5 show, much higher enrolment ratios may be expected. Thus the figures under[2] provide a view of the implications of higher enrolment rates for total enrolment.*

[3] *The estimates for cost increases for the various education levels are as follows: elementary schools, 5.3 per cent estimate by OISE based on current operating costs and past cost trends; secondary schools, 6.4 per cent estimate by OISE based on current operating costs and past cost trends; CAATS, 6.5 per cent based on Dept. of Education estimate of current operating costs which are projected to increase at the same rate as for secondary school costs; universities, 8 per cent based on Dept. of University Affairs estimate of current operating costs and past cost trends.*

cultural standards, but also serve to improve the physical skill and mobility qualities of the province's manpower resources to meet technological and industrial change. On the other hand, the effects of some programs are almost entirely economic. Provincial and provincially assisted road expenditures, for example, serve to improve the competitiveness of Ontario industries by increasing efficiency in the movement of goods and services.

Second, apart from the specific economic effects of programs, total government expenditures have an important effect on the overall level of economic activity and employment in the province. This total effect is related to the need for maintaining a proper balance between the growth of the public and private sectors, which was referred to in section I of this paper. This process has two aspects. In the long run, increased government expenditures on public facilities and services are required if they are to meet the demands associated with economic growth in the private sector. In the short run, however, total government expenditures should, so far as possible, complement rather than compete with the demands of industry for economic resources. This is the essence of a counter-cyclical fiscal policy. Thus, increased government expenditures designed to take up unused manpower and other resources will have the effect of maintaining employment and economic growth during periods of relatively slack economic activity. But such increase during periods of buoyant economic activity may have the effect of drawing resources away from the private sector and result in slower rates of industrial growth and increased price pressure.

In recognition of the foregoing broad economic effects of government expenditures, this program budgeting system is being developed in association with a national accounting framework. Thus the Ontario Government hopes to develop basic tools for maximizing expenditures benefits by allowing all programs to be evaluated according to common standards, namely, their effectiveness in terms of specific objectives and their contribution to the overall requirements of the economy. This is a significant change in emphasis from the traditional expenditure evaluation and control which placed primary emphasis on how much money is spent on such items as departmental salaries, travel and maintenance.

The approach to government budgeting now being developed in terms of a system of programs and activities has a number of benefits. First, management has a more appropriate criterion for evaluating the efficiency of resource-use in achieving specified objectives. Second, given program objectives, gaps or overlaps in the component activities or in the range of departmental programs are less likely to occur. Third, as needs and objectives change, programs can be more readily adjusted or discontinued because the relationship between costs and benefits becomes more readily apparent.

Complementing the categorization of expenditures by program and activity is their division into the national accounting categories of wages and salaries, goods and services, transfer payments, loans and interest on public debt. Further sub-grouping into classes of current and capital goods and services, type of transfer payments, for example, clarifies what the economic effects of expenditures are likely to be. The effective relationship between inputs of various kinds and output-efficiency of government produced goods and services can then be analysed. The flow of funds between various parts of the government sector can also be analysed. The contribution by the government sector to real capital formation can be measured more accurately.

Setting the provincial budget in a national accounting framework also makes the total impact of the government sector on the economy as a whole more apparent. The degree of impact can then be assessed and related to the growing demand for social goods and services with which the government is faced.

Departments have made good progress in the task of grouping expenditures by program. All departments are now preparing five-year forecasts in which expenditure estimates will be grouped, both by program and by economic objects. These forecasts will be reviewed in the spring or early summer and become part of the regular budgetary cycle. Once the techniques of program budgeting and the use of a national accounting framework have been tested, they will be increasingly applied in the preparation of the Estimates.

In co-operation with the Department of Civil Service, a training program is being devised to acquaint all levels of management with the concepts and techniques of program budgeting.

To ensure compatibility, the definition of economic objects of expenditure is being undertaken in close co-operation with the Dominion Bureau of Statistics and with reference to the federal expenditures coding system. Placing the provincial budget in a national accounting framework will improve the accuracy of provincial figures in the National Accounts. This in itself is a contribution to more accurate economic and financial analyses of the nation's economy.

The refinement of the province's budgetary process will also contribute to improved priority planning between levels of gevernment. The need for improved intergovernmental priority planning and for co-ordinated fiscal policy has already been discussed in this paper. It is now widely recognized.

In its Fourth Annual Review, The Economic Council of Canada stated " . . . it is essential to have more effective co-operation and co-ordination among the three levels of government in regard to . . . the pace of overall expansion of government spending; the appraisal of purpose, costs versus benefits, and consistency of objectives and results and the setting and reviewing of priorities .... The exchange of statistical and other factual information is absolutely essential for appropriate co-operation and review along these lines; the present exchange of information is not adequate to these needs."[13]

The Smith Committee also pointed out that federal-provincial and inter-provincial fiscal policy planning has now become a vital necessity and that, to achieve it, appropriate technical expertise must be available to governments.[14]

Ontario is the first province to attempt the combined implementation of program budgeting and a national accounting framework. Given the objective of compatibility with the federal expenditures classification, this is already a contribution to the more meaningful exchange of factual information on which co-ordinated fiscal policy decisions must be based. It may also prove to be the initial step towards the nation-wide use of technically compatible figures, so important to the task of achieving co-ordinated fiscal policy planning in a federal state. Given the size of our budget and the significance of our expenditures to the national economy, it is fitting and proper that these measures should have been taken first in Ontario.

[13] *Economic Council of Canada, FOURTH ANNUAL REVIEW (Ottawa: Queen's Printer, 1967), p. 264.*

[14] *THE ONTARIO COMMITTEE ON TAXATION REPORT, Vol. 1 (Toronto: Queen's Printer, 1967), pp. 25 and 72.*

BUDGET PAPER "C"

GOVERNMENT FINANCIAL STATEMENTS

INTRODUCTION

As part of the program for improving the annual budget presentation, the government's financial statements have come under a major review. In their new form, the statements recognize the need of the analyst to view the budget year in an historical perspective without having to consult a number of different tables. To provide a complete overview of all the activities of the government, this year's statements begin with a table showing a comprehensive picture of total budgetary, non-budgetary and debt transactions. The data for 1967-68 are derived from actual spending and revenue during the first eight months of the year, as submitted by individual departments, and estimates for the balance of the year. As a result, the indicated overall effect on liquid reserves is highly provisional. The 1968-69 year is not included in this table as the information available would inevitably be incomplete. While estimates are available for budgetary and non-budgetary transactions, it would not be possible to make estimates of detailed debt transactions and overall developments in liquid reserves.

Table C1 essentially traces through the varying effects of the three major divisions of transactions on the province's liquid reserves. For instance, the table clearly shows that, in the 1966-67 fiscal year, budgetary transactions resulted in only a small drain from liquid reserves when allowance is made for a sizable provision for sinking fund. However, the net cash gain on non-budgetary transactions, in large part boosted by Canada Pension Plan funds, was sufficiently large to facilitate scheduled debt retirements and to provide an overall build-up of liquid reserves without public borrowing. While the effects on liquid reserves are of interest in themselves, the main value of the table is that it brings together, in one glance, essential information on the three major types of transactions.

Total net general revenue, shown in Table C1, is detailed in Table C2, with this table showing a five-year period including the budget year estimates. The concept of net general revenue differs slightly from the traditional net ordinary revenue by the inclusion of a small item, net capital receipts from physical assets, previously shown as part of a separate table called Sale of Land, Buildings, etc. The concepts "gross revenue" and "application of revenue to expenditure" have been dropped in this year's presentation. (This year's statements show the grossing only once, in Table C4, in the case of 1968-69 expenditure estimates.) The revenue table is further highlighted by two charts. Chart C1 shows the growth of a few major revenue sources on semi-logarithmic scale, which allows a comparison and tracing of growth rates of these revenue sources. Chart C2 shows the changing proportion of individual revenue sources in relation to total net general revenue. The charts clearly show the effects of increased tax rates and federal abatements during the period.

Total net general expenditure combines the traditional net ordinary expenditure and net capital disbursements on physical assets. The previous concept of capital disbursements on physical assets is undergoing some change. Attempts are being made to refine the components of a tighter concept of new capital formation and acquisition of assets. To provide some degree of continuity, this year's financial statements contain a Table C6 in which more narrowly defined provincial capital expenditures are listed. For instance, this statement no longer contains provincial grants for municipal road construction. This table merely serves as a provisional supplement to the main financial statements.

A five-year review and detail of net general expenditure is contained in Table C3. This table ties the budgetary estimates to the preceding four years to facilitate comparisons over the full period. The expenditures are listed by ministerial responsibility in order of magnitude as estimated for the budget year. One exception is made by showing separately the public debt, involving debt charges and the provision for sinking fund.

Again, two charts are employed to highlight developments in expenditures. Chart C3 shows the actual path of major expenditures on semi-logarithmic scale to combine insight into actual spending levels and comparative rates of growth. Chart C4 contains a percentage analysis of major spending functions in relation to total net general expenditure. This chart, for example, clearly illustrates the dramatic shift during the 10-year period between spending on highways and education.

Table C4 incorporates an essential bridge between the net expenditures in the budget statements and the departmental estimates ultimately submitted to the Legislature. The table is organized slightly differently from previous "gross statements" in that it singles out the federal participation in a large number of provincial programs. In order to keep the table manageable, not all individual programs are shown separately. The non-federal allocations to gross expenditure are of a miscellaneous character, largely dominated by one single item related to interest on the public debt.

The government's non-budgetary transactions, summarily shown in Table C1, are set out in greater detail in Table C5. This presentation differs from that of past years since it brings together a vast amount of detail, traditionally spread out over a number of tables, such as on capital disbursements, capital receipts and funded debt. The table consists of two main parts. The first part shows all non-budgetary receipts and credits, such as Canada Pension Plan funds and proceeds of other non-public debenture issues, Ontario Hydro issues through the province in non-Canadian capital markets, repayments of past loans and advances and a host of other special funds as well as the provision for sinking fund charged against and shown in the budgetary accounts. The second part displays

disbursements and charges mainly in the form of loans and advances, for example, capital aid corporations, Ontario Housing Corporation, Ontario Water Resources Commission, municipal works assistance and many others. In addition, payments from a number of special funds are set out. The second part of the table concludes with a netting of both parts, resulting in net cash requirements for or net cash surplus on all non-budgetary transactions.

Tables C7 and C8 provide an historical picture of the major increases or decreases in the gross and net capital debt as well as the overall changes in both concepts of debt. Traditionally, only the interim year was shown. The different presentation of the budgetary transactions also resulted in a different form for these tables. Besides, these tables have been simplified in other obvious ways.

As the essential detail in the traditional table on funded debt for the interim year is already contained in Tables C1 and C5, it has been decided to replace this table with a simple graph, Chart C5, showing the trend in the funded debt over the past 10 years.

Table C9, dealing with contingent liabilities, details the totals of the components over a period of years, rather than showing the overall total for one year and the increases or decreases in the components during the year. The table terminates at November 30, 1967 because of great difficulties in estimating the position at the actual end of the fiscal period.

Table C10 replaces the old table showing an historical series for the components of the budget leading up to a surplus or deficit on ordinary account. The new table provides some historical insight in the course of total net general revenue, total net general expenditure after provision for sinking fund and the resulting deficits or surpluses on total budgetary transactions.

The traditional and extensive historical table on gross and net debt and capital debt has been reduced in size by dropping the now irrelevant data on gross and net debt. Table C11 shows essentially the same picture as before, but only for the gross and net capital debt.

TABLE C1
SUMMARY OF CHANGES[1] IN NET LIQUID RESERVES RESULTING FROM BUDGETARY, NON-BUDGETARY AND DEBT TRANSACTIONS

(Thousands of Dollars)

BUDGETARY TRANSACTIONS	1964-65	1965-66	1966-67	Interim[2] 1967-68
Tax Revenue	966,652	1,145,612	1,487,532	1,743,566
Non-Tax Revenue	272,329	298,634	313,522	368,833
Total Net General Revenue (See Table C2)	1,238,981	1,444,246	1,801,054	2,112,399
Total Net General Expenditure including Provision for Sinking Fund (See Table C3)	1,305,534	1,497,698	1,822,914	2,334,482
Net Budgetary Transactions	(66,553)	(53,452)	(21,860)	(222,083)
NON-BUDGETARY TRANSACTIONS (See Table C5)				
Receipts and Credits:				
Loans and Advances	6,160	22,132	30,095	39,679
Special Funds	68,444	81,707	81,336	82,868
Deferred Assets	41,886	43,393	43,950	44,778
	116,490	147,232	155,381	167,325
Proceeds from Non-Public Debentures Issued	52,500	121,880	421,497	487,628
Public Issues on behalf of Ontario Hydro	—	48,843	34,694	123,453
Bank Loan	—	—	5,000	(5,000)
Province of Ontario Savings Deposits (Net)	459	(1,080)	1,288	3,216
Total Receipts and Credits	169,449	316,875	617,860	776,622
Disbursements and Charges:				
Loans and Advances	98,574	254,029	415,191	582,061
Special Funds	26,367	39,652	54,002	54,673
Miscellaneous	370	418	724	132
Total Disbursements and Charges	125,311	294,099	469,917	636,866
Net Non-Budgetary Transactions	44,138	22,776	147,943	139,756
DEBT TRANSACTIONS				
Proceeds from Public Debentures Issued	107,069	196,905	—	108,395
Net Change in Sinking Fund Investments	7,120	14,547	(6,999)	17,000
	114,189	211,452	(6,999)	125,395
Debt Retirements	48,713	144,342	59,150	105,044
Net Debt Transactions	65,476	67,110	(66,149)	20,351
OVERALL EFFECT ON LIQUID RESERVES	43,061	36,434	59,934	(61,976)

[1] *Increase or (decrease).*

[2] *The data for 1967-68 are derived from actual spending and revenue during the first eight months of the fiscal year and estimates for the balance of the year, as submitted by individual departments. As a result, the indicated effects on liquid reserves are only provisional.*

TABLE C2
NET GENERAL REVENUE[1]

(Thousands of Dollars)

	1964-65	1965-66	1966-67	Interim 1967-68	Estimated 1968-69
TAXATION:					
Income Tax Collection Agreement	195,842	292,404	393,837	550,000	650,000
Retail Sales Tax	195,299	220,998	385,575	435,000	475,000
Corporation Taxes	232,543	252,376	274,500	300,000	315,000
Gasoline Tax	221,189	236,829	266,391	280,000	331,000
Succession Duty	48,682	56,968	57,913	57,000	60,000
Share of Federal Estate Tax	15,116	16,838	19,743	20,000	21,000
Motor Vehicle Fuel Tax	12,007	14,678	18,196	21,500	27,000
Tobacco Tax	—	2,002	18,553	19,000	55,500
Race Tracks Tax	9,373	12,162	14,673	14,500	17,500
Mines Profits, Acreage, Gas	14,580	15,094	10,852	14,733	15,300
Land Transfer Tax	5,381	6,705	8,528	10,500	12,500
Hospitals Tax	5,403	6,791	8,127	9,000	11,000
Security Transfer Tax	4,215	4,200	3,503	5,000	5,000
Logging Tax	2,381	2,257	1,745	2,000	1,500
Income Tax — Public Utilities	1,064	1,321	1,051	1,000	4,800
Other Taxation	3,577	3,989	4,345	4,333	4,400
TOTAL TAX REVENUE	966,652	1,145,612	1,487,532	1,743,566	2,006,500
OTHER REVENUE:					
Treasury					
LCBO	113,000	125,200	133,700	150,000	177,000
Water Power Rentals	5,648	6,647	7,368	7,900	8,400
Post-Secondary Education Adjustment Payment	—	—	—	11,000	73,000
Other	5,173	4,886	5,005	4,971	5,000
Total Treasury	123,821	136,733	146,073	173,871	263,400
Transport	88,811	96,128	100,343	101,175	130,000
Lands and Forests	22,602	24,807	25,645	27,248	32,400
Attorney General	11,906	13,065	13,425	14,680	30,800
Education	5,355	8,590	5,900	6,094	4,900
Health	4,670	4,731	5,178	5,476	10,300
Provincial Secretary and Citizenship	3,096	3,444	3,742	3,916	3,800
Highways	2,363	1,901	2,294	2,808	3,600
Mines (less Taxes re Mines Profits, Acreage, Gas)	1,575	1,383	1,472	1,796	1,500
Agriculture and Food	2,397	1,272	1,241	1,852	1,500
Labour	1,459	1,775	2,064	2,014	2,400
Other Departments	4,274	4,805	6,145	27,903[2]	13,600
TOTAL OTHER REVENUE..	272,329	298,634	313,522	368,833	498,200
TOTAL NET GENERAL REVENUE	1,238,981	1,444,246	1,801,054	2,112,399	2,504,700

[1] *Combined net ordinary revenue and net capital receipts from physical assets.*

[2] *Includes federal government payments under the Canada Assistance Plan of $18 million relating to prior year's expenditure.*

CHART C1

GROWTH OF TOTAL AND SELECTED REVENUES 1958-59 TO 1968-69

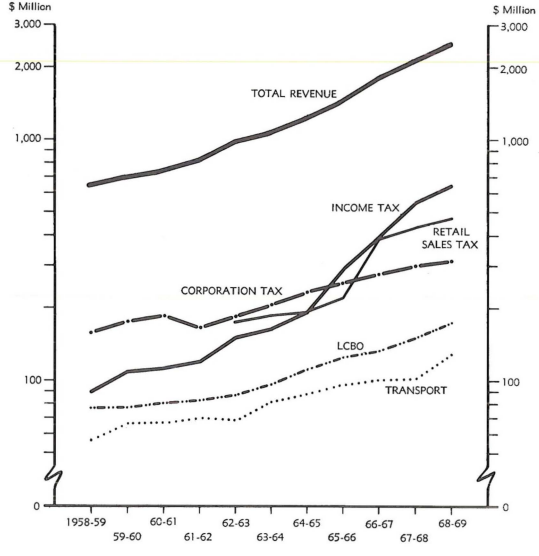


CHART C2

SELECTED SOURCES OF REVENUE AS A PERCENTAGE OF TOTAL REVENUE 1958-59 TO 1968-69

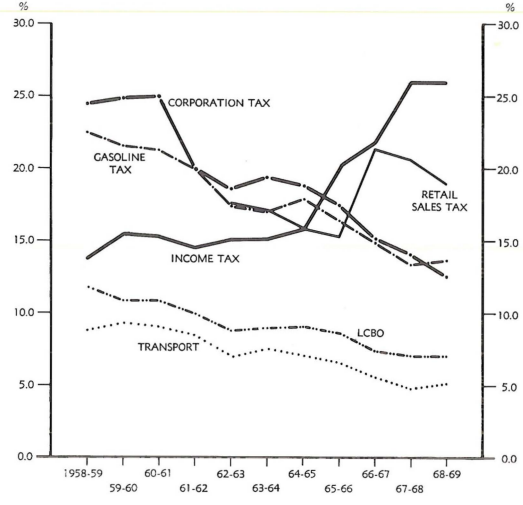


TABLE C3

NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY[1]

(Thousands of Dollars)

	1964-65	1965-66	1966-67	Interim 1967-68	Estimated 1968-69
EDUCATION					
General Legislative Grants	296,096	327,120	383,421	478,365	543,000
To Construct and Equip Additional Vocational Units for School Boards, etc.	8,672	21,243	43,857	64,000	112,056
Teachers' Superannuation Fund	21,996	39,469	42,818	47,750	53,597
Technical and Technological Institutions	5,176	8,268	23,456	35,758	53,977
Grants to Universities; Student Awards	49,933	2,702[2]	—	—	—
Other	34,980	44,718	63,487	77,844	88,277
	416,853	443,520	557,039	703,717	850,907
HIGHWAYS					
Construction of Roads and Other Capital Projects	147,101	173,608	189,967	215,670	221,948
Municipal Subsidies, Capital	63,397	64,940	75,432	82,000	87,800
Municipal Subsidies, Maintenance	33,919	37,701	41,955	46,000	50,000
GO Transit (Capital and Maintenance)	—	168	9,607	9,092	10,376
Highway Maintenance, etc.	54,619	59,730	73,607	79,047	82,219
	299,036	336,147	390,568	431,809	452,343
HEALTH					
Contribution to Ontario Hospital Care Insurance Plan	50,000	50,000	50,000	90,000	78,000
Construction Grants to Public Hospitals or Boards	17,029	11,544	27,086	27,145	37,089
Mental Health Division	64,122	72,936	85,075	102,207	117,350
Payments Authorized under The Medical Services Insurance Act	—	—	8,938	25,000	37,000
Other	23,450	29,565	42,143	59,212	63,176
	154,601	164,045	213,242	303,564	332,615
UNIVERSITY AFFAIRS					
Grants to Universities and Colleges	—	65,393	91,820	193,975	238,725
Student Awards	—	3,816	9,926	25,946	32,086
Other	233	375	1,329	1,797	5,171
	233	69,584	103,075	221,718	275,982
MUNICIPAL AFFAIRS					
Basic Shelter Tax Exemption	—	—	—	—	150,000
Payments under The Municipal Unconditional Grants Act	25,205	29,671	28,023	40,000	44,100

(Cont'd)

TABLE C3 (Cont'd)

NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY[1]

(Thousands of Dollars)

	1964-65	1965-66	1966-67	Interim 1967-68	Estimated 1968-69
Other Grants, Subsidies and Payments to Municipalities	13,651	14,184	18,356	27,775	26,198
Other	2,691	2,962	3,818	4,136	5,027
	41,547	46,817	50,197	71,911	225,325
SOCIAL & FAMILY SERVICES					
Income Maintenance	60,056	68,059	70,998	90,210	97,877
Rehabilitation and Development	713	918	1,156	2,051	3,948
Child Care	8,401	15,866	18,719	15,744[3]	19,373
	69,170	84,843	90,873	108,005	121,198
PUBLIC DEBT					
Interest	62,441	63,175	62,022	66,067	81,803
Provision for Sinking Fund	40,000	41,500	42,000	43,000	39,000
	102,441	104,675	104,022	109,067	120,803
PUBLIC WORKS					
Construction of Public Buildings, etc.	36,993	35,578	46,930	53,219	54,998
Maintenance and Repairs of Public Buildings, etc.	13,782	14,945	17,235	22,422	30,266
	50,775	50,523	64,165	75,641	85,264
ATTORNEY GENERAL					
Ontario Provincial Police	21,259	24,158	29,021	34,675	38,138
Contribution to Legal Aid Fund	20	35	35	3,890	6,700
Other	12,887	15,231	18,394	26,693	36,044
	34,166	39,424	47,450	65,258	80,882
LANDS & FORESTS	30,230	32,422	42,213	52,633	57,335
TREASURY					
Government Contribution to Employee Pension and Insurance Plans	11,646	20,256	24,608	27,885	29,316
Other	8,332	9,520	10,557	12,638	18,482[4]
	19,978	29,776	35,165	40,523	47,798
AGRICULTURE & FOOD					
Grants for Capital Purposes in Farm Development	—	—	—	6,500	10,000
Other	20,482	24,699	30,815	32,134	36,062
	20,482	24,699	30,815	38,634	46,062

(Cont'd)

TABLE C3 (Cont'd)

NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY[1]

(Thousands of Dollars)

	1964-65	1965-66	1966-67	Interim 1967-68	Estimated 1968-69
REFORM INSTITUTIONS	16,884	19,499	22,523	26,717	36,345
ENERGY & RESOURCES MANAGEMENT					
Ontario Water Resources Commission	3,115	4,141	6,203	7,731	8,637
Other	8,355	6,937	9,584	13,010	9,500
	11,470	11,078	15,787	20,741	18,137
ECONOMICS & DEVELOPMENT					
Canadian Universal and International Exhibition 1967	288	1,265	6,893	1,985	—
Other	9,569[5]	6,693	8,254	13,496	14,234[4]
	9,857	7,958	15,147	15,481	14,234
LABOUR	5,087	6,885	9,752	10,417	13,179
TRANSPORT	7,208	8,005	9,135	10,998	12,042
TOURISM & INFORMATION					
Centennial Centre of Science and Technology	350	855	1,307	2,064	2,526
Other	4,653	5,283	7,710	9,532	8,288
	5,003	6,138	9,017	11,596	10,814
PROVINCIAL SECRETARY & CITIZENSHIP	5,180	5,696	6,234	6,686	6,679
MINES	3,545	3,944	3,312	3,847	4,795
FINANCIAL & COMMERCIAL AFFAIRS	—	—	795	2,723	3,048
CIVIL SERVICE	1,013	1,189	1,443	1,730	2,408
PROVINCIAL AUDITOR	534	548	657	759	800
PRIME MINISTER	215	236	256	270	325

(Cont'd)

TABLE C3 (Cont'd)

NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY[1]

(Thousands of Dollars)

	1964-65	1965-66	1966-67	Interim 1967-68	Estimated 1968-69
LIEUTENANT GOVERNOR	26	47	32	37	38
TOTAL NET GENERAL EXPENDITURE INCLUDING PROVISION FOR SINKING FUND	1,305,534	1,497,698	1,822,914	2,334,482	2,819,358

[1]*Combined net ordinary expenditure, including provision of sinking fund, and net capital expenditure on physical assets.*

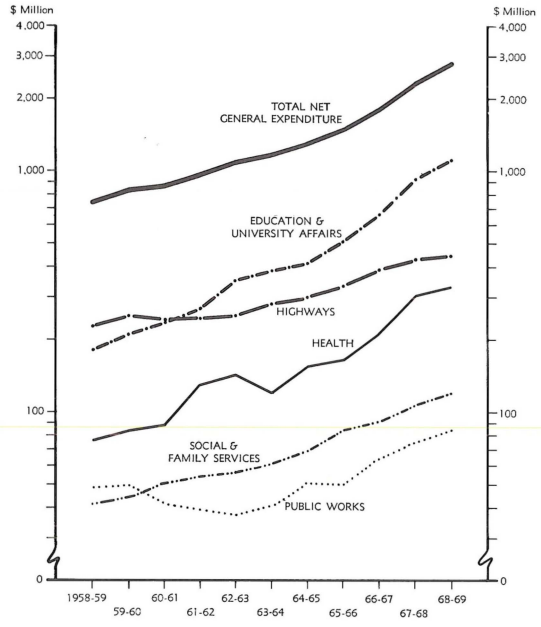
[2]*Function transferred to Department of University Affairs.*

[3]*The gross expenditure for child care increased over the previous year; the lower net expenditure reflects the increase in federal participation through the Canada Assistance Plan.*

[4]*Transfer of staff between Economics and Development and Treasury.*

[5]*Includes special grant of $3.5 million to Ontario Research Foundation re Sheridan Park.*

GROWTH OF TOTAL AND SELECTED EXPENDITURES 1958-59 TO 1968-69



SELECTED EXPENDITURES AS A PERCENTAGE OF TOTAL NET GENERAL EXPENDITURES 1958-59 TO 1968-69

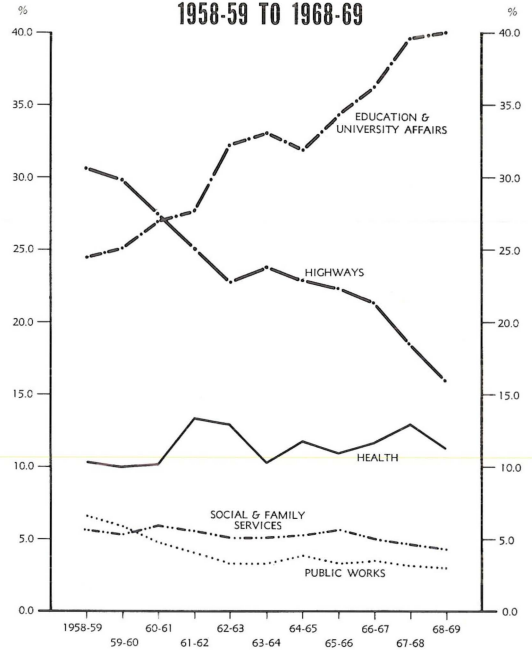


TABLE C4

ESTIMATED NET AND GROSS GENERAL EXPENDITURE,[1] 1968-69

(Thousands of Dollars)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
EDUCATION				
Federal-Provincial Agreements, various programs, services, etc.	4,310	24,840	—	29,150
Other	846,597	617	—	847,214
	850,907	25,457	—	876,364
HIGHWAYS				
Construction - King's Highways and Secondary Highways	147,643	8,031	3,530	159,204
Other	304,700	—	—	304,700
	452,343	8,031	3,530	463,904
HEALTH				
Public Health	35,113	13,447	1,046	49,606
Mental Health	117,350	1,800	5,000	124,150
Grants for construction of hospitals, residences and schools for hospital personnel	37,089	15,000	—	52,089
Other	143,063	740	—	143,803
	332,615	30,987	6,046	369,648
UNIVERSITY AFFAIRS	275,982	10,000	—	285,982
MUNICIPAL AFFAIRS				
Centennial Grants Program	935	935	—	1,870
Winter Works Incentive Program	3,400	7,100	—	10,500
Other	220,990	—	—	220,990
	225,325	8,035	—	233,360
PUBLIC DEBT — INTEREST, ETC.				
Interest	81,803	—	111,289	193,092
Provision for Sinking Fund	39,000	—	—	39,000
	120,803	—	111,289	232,092
SOCIAL & FAMILY SERVICES				
Income Maintenance	97,877	86,124	—	184,001
Rehabilitation and Development	3,948	2,510	—	6,458
Child Care	19,373	17,003	255	36,631
	121,198	105,637	255	227,090
PUBLIC WORKS	85,264	—	—	85,264

(Cont'd)

TABLE C4 (Cont'd)

ESTIMATED NET AND GROSS GENERAL EXPENDITURE,[1] 1968-69

(Thousands of Dollars)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
ATTORNEY GENERAL				
Emergency Measures Branch	311	1,312	—	1,623
Other	80,571	—	1,466	82,037
	80,882	1,312	1,466	83,660
LANDS & FORESTS				
Acquisition of land for parks, etc., and park improvements	8,100	1,200	—	9,300
Other	49,235	1,154	—	50,389
	57,335	2,354	—	59,689
AGRICULTURE & FOOD				
Agricultural and Rural Development Projects	4,569	4,569	—	9,138
Other	41,493	731	—	42,224
	46,062	5,300	—	51,362
TREASURY	47,798	—	1,211	49,009
REFORM INSTITUTIONS	36,345	—	3,860	40,205
ENERGY & RESOURCES MANAGEMENT	18,137	2,800	—	20,937
LABOUR				
Industrial Training	4,602	2,775	—	7,377
Other	8,577	—	—	8,577
	13,179	2,775	—	15,954
ECONOMICS & DEVELOPMENT	14,234	—	—	14,234
TRANSPORT				
Motor Vehicle Accident Claims Fund	—	—	982	982
Other	12,042	—	—	12,042
	12,042	—	982	13,024

(Cont'd)

TABLE C4 (Cont'd)

ESTIMATED NET AND GROSS GENERAL EXPENDITURE,[1] 1968-69

(Thousands of Dollars)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
TOURISM & INFORMATION	10,814	61	—	10,875
PROVINCIAL SECRETARY & CITIZENSHIP	6,679	227	—	6,906
MINES	4,795	—	43	4,838
FINANCIAL & COMMERCIAL AFFAIRS	3,048	160	—	3,208
CIVIL SERVICE	2,408	—	—	2,408
PROVINCIAL AUDITOR	800	—	—	800
PRIME MINISTER	325	—	—	325
LIEUTENANT GOVERNOR	38	—	—	38
TOTAL	2,819,358	203,136	128,682	3,151,176

[1]*Combined ordinary expenditure, including provision for sinking fund, and capital expenditure on physical assets.*

TABLE C5

DETAILS OF NON-BUDGETARY TRANSACTIONS

(Thousands of Dollars)

RECEIPTS AND CREDITS	1964-65	1965-66	1966-67	Interim 1967-68	Estimated 1968-69
PROCEEDS OF NON-PUBLIC DEBENTURE ISSUES:					
Canada Pension Plan	—	20,110	332,587	371,852	400,000
The Municipal Works Assistance Act	5,800	30,670	28,310	35,876	6,000
Ontario Municipal Employees' Retirement Fund	10,700	14,100	20,100	24,900	30,000
Teachers' Superannuation Fund	36,000	57,000	40,500	55,000	60,000
	52,500	121,880	421,497	487,628	496,000
DEBENTURE ISSUES ON BEHALF OF ONTARIO HYDRO	—	48,843	34,694	123,453	—
BANK LOAN	—	—	5,000	(5,000)	—
PROVINCE OF ONTARIO SAVINGS DEPOSITS (Net)	459	(1,080)	1,288	3,216	—
REPAYMENT OF LOANS AND ADVANCES:					
Hydro-Electric Power Commission of Ontario	1,593	3,992	3,401	1,415	1,474
The Municipal Works Assistance Act	—	10,613	11,471	15,150	6,300
Ontario Municipal Improvement Corporation	—	2,582	6,900	5,300	4,800
Ontario Universities Capital Aid Corporation	—	630	1,896	3,285	4,925
Ontario Education Capital Aid Corporation	—	—	715	6,975	11,150
Ontario Development Corporation	—	—	—	1,174	5,819
Other	4,567	4,315	5,712	6,380	8,285
	6,160	22,132	30,095	39,679	42,753
RECEIPTS OF SPECIAL FUNDS:					
Sales of Vacation-with-Pay Stamps	8,621	11,243	14,100	14,300	14,500
Public Service Superannuation Fund	35,814	44,772	44,895	49,784	56,266
Motor Vehicle Accident Claims Fund	4,681	8,198	8,880	8,900	9,100
Ontario Hospital Services Commission Special Account	12,000	12,000	2,000	—	34,000
Ontario Medical Services Insurance Plan	—	33	2,284	3,000	6,000
Education — Special Account	—	—	2,181	—	—
Ontario Municipal Employees' Retirement Fund	1,300	4,300	5,175	5,100	6,600
Ontario Research Foundation re Sheridan Park	3,520	—	—	—	—
Other	2,508	1,161	1,821	1,784	694
	68,444	81,707	81,336	82,868	127,160
DEFERRED ASSETS, ETC.					
Provision for Sinking Fund	40,000	41,500	42,000	43,000	39,000
Other	1,886	1,893	1,950	1,778	1,559
	41,886	43,393	43,950	44,778	40,559
TOTAL RECEIPTS AND CREDITS	169,449	316,875	617,860	776,622	706,472

(Cont'd)

TABLE C5 (Cont'd)

DETAILS OF NON-BUDGETARY TRANSACTIONS

(Thousands of Dollars)

	1964-65	1965-66	1966-67	Interim 1967-68	Estimated 1968-69
DISBURSEMENTS AND CHARGES					
LOANS AND ADVANCES:					
Ontario Muncipal Improvement Corporation	—	—	—	9,000	3,000
Ontario Housing Corporation	1,242	9,250	12,250	41,500	49,763
Ontario Student Housing Corporation	—	—	—	6,000	12,611
Ontario Universities Capital Aid Corporation	45,600	89,239	93,105	104,570	174,000
Ontario Education Capital Aid Corporation	—	—	166,185	175,000	175,000
Ontario Water Resources Commission	7,400	8,152	20,692	15,500	32,000
Ontario Junior Farmers' Establishment Loan Corporation	9,200	20,900	16,210	21,500	24,000
The Municipal Works Assistance Act	5,860	40,733	36,609	50,000	8,007
Loans for Hospital Construction and Capital Financial Assistance	3,079	9,377	12,993	21,612	26,806
Hydro-Electric Power Commission of Ontario	—	48,843	34,694	123,453	—
Nuclear Powered Generating Station	—	1,800	5,242	5,500	9,650
Municipality of Metropolitan Toronto	20,000	20,000	—	—	—
Ontario Development Corporation — Investment	—	—	7,000	—	—
" " " — Advance	—	—	738	2,373	15,480
Ontario Northland Transportation Commission	—	—	3,800	700	—
Other	6,193	5,735	5,673	5,353	6,887
	98,574	254,029	415,191	582,061	537,204
PAYMENTS FROM SPECIAL FUNDS:					
Redemptions of Vacation-with-Pay Stamps	8,666	9,599	13,137	14,000	14,500
Public Service Superannuation Fund	12,083	16,896	17,503	16,760	18,785
Motor Vehicle Accident Claims Fund	3,340	4,103	5,213	6,165	6,482
Ontario Hospital Services Commission—Special Account	—	—	13,000	12,000	1,000
Ontario Municipal Employees' Retirement Fund	—	3,400	4,300	5,175	5,100
Ontario Research Foundation re Sheridan Park	—	3,520	—	—	—
Other	2,278	2,134	849	573	433
	26,367	39,652	54,002	54,673	46,300
MISCELLANEOUS	370	418	724	132	79
TOTAL DISBURSEMENTS AND CHARGES	125,311	294,099	469,917	636,866	583,583
(NET REQUIREMENTS FOR) OR SURPLUS ON NON-BUDGETARY TRANSACTIONS	44,138	22,776	147,943	139,756	122,889

TABLE C6

NET NEW CAPITAL EXPENDITURE[1]

(Thousands of Dollars)

TYPE OF PROJECT	1964-65	1965-66	1966-67	Interim 1967-68	Estimated 1968-69
Highways and Secondary Roads	124,643	143,920	156,942	174,270	177,148
Other Roads	16,596	19,617	19,660	22,295	25,725
GO Transit	—	31	9,282	5,090	6,830
Property Purchases for Highways and Roads	7,507	12,248	14,499	21,000	22,000
Public Buildings and Land Purchases	36,021	34,730	45,691	52,321	53,923
Dams, Docks and Locks	973	848	1,239	898	1,075
Provincial Parks, Construction and Acquisition	917	3,124	5,104	7,565	8,100
TOTAL	186,657	214,518	252,417	283,439	294,801

[1]*Included in net general expenditure.*

TABLE C7

MAJOR INCREASES IN GROSS CAPITAL DEBT

(Thousands of Dollars)

	1964-65	1965-66	1966-67	Interim 1967-68
GROSS CAPITAL DEBT INCREASED OR (DECREASED) BY:				
Net Budgetary Transactions (See Table C1)	66,553	53,452	21,860	222,083
Cash on Hand and in Banks	3,685	39,639	76,090	(61,976)
Temporary Investments	39,376	(3,205)	(16,156)	—
Investments of Crown Corporations (Net):				
Ontario Housing Corporation	988	24,635	50,497	100,668
Ontario Student Housing Corporation	—	—	—	13,630
Ontario Junior Farmers' Establishment Loan Corporation	9,737	12,297	14,977	18,903
Ontario Universities Capital Aid Corporation	45,600	88,610	91,209	97,585
Ontario Education Capital Aid Corporation	—	—	165,470	168,011
Sheridan Park Corporation	2,053	(275)	—	—
Ontario Municipal Improvement Corporation	(2,014)	—	—	2,080
Ontario Development Corporation	—	—	—	1,923
Advances to Hydro-Electric Power Commission of Ontario (Net)	(1,593)	46,650	36,536	123,537
Advances to Ontario Water Resources Commission	7,400	8,152	20,692	15,500
Advances to Ontario Northland Transportation Commission	—	—	3,800	700
Purchase of Debentures of Municipality of Metropolitan Toronto, less Repayments	19,713	19,409	—	—
Loans to Municipalities, Miscellaneous Loans, etc.	8,939	40,061	37,396	55,246
Discount on Debentures issued during year	2,931	4,253	306	3,301
Discount and Exchange on Debentures, written off	(1,733)	(1,832)	(1,885)	(1,764)
Accrued Interest and Discount of Provincial Crown Corporations (Net)	—	—	2,087	77
Increase in Reserves	(708)	(446)	(187)	(1,274)
Provision for Sinking Fund	(40,000)	(41,500)	(42,000)	(43,000)
Miscellaneous	(633)	829	218	533
INCREASE IN GROSS CAPITAL DEBT	160,294	290,729	460,910	715,763

TABLE C8

MAJOR CHANGES IN NET CAPITAL DEBT

(Thousands of Dollars)

	1964-65	1965-66	1966-67	Interim 1967-68
NET CAPITAL DEBT INCREASED OR (DECREASED) BY:				
Net Budgetary Transactions (See Table C1)	66,553	53,452	21,860	222,083
Discount on Debentures issued during year	2,931	4,253	(306)	3,301
Discount and Exchange on Debentures, written off	(1,733)	(1,832)	(1,885)	(1,764)
Discount assumed by the Hydro-Electric Power Commission of Ontario	—	(1,158)	(306)	(1,696)
Accrued Interest and Discount of Provincial Crown Corporations (Net)	—	—	2,087	77
Adjustment to Capital Advances — Ontario Housing Corporation	(6,360)	—	—	—
Increase in Reserves (Net)	(708)	(446)	(187)	(1,274)
Provision for Sinking Fund	(40,000)	(41,500)	(42,000)	(43,000)
Mortgage assumed on Acquisition of Building	—	1,964	—	—
Miscellaneous	(98)	443	117	107
INCREASE OR (DECREASE) IN NET CAPITAL DEBT	20,585	15,176	(20,008)	177,834

CHART C5

TOTAL FUNDED DEBT AT THE END OF FISCAL YEARS 1957-58 TO 1967-68

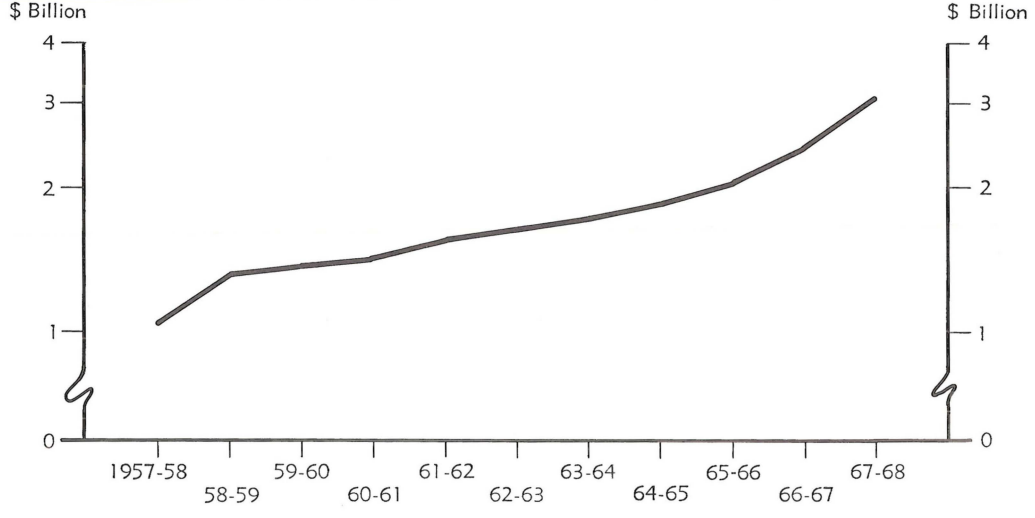


TABLE C9

CONTINGENT LIABILITIES, BONDS, ETC. GUARANTEED BY THE PROVINCE OF ONTARIO

(Thousands of Dollars)

	As at March 31st			Estimated as at
	1965	1966	1967	November 30th, 1967
Power Commission	1,729,428	1,730,122	1,883,252	1,901,281
Agricultural Guarantees	—	—	19,350	20,345
Universities	19,000	19,000	19,000	19,000
Ontario Northland Railway	18,461	17,952	21,535	20,232
Ontario Food Terminal	5,000	5,000	5,000	5,000
Development Loans	1,449	1,282	1,021	914
Co-operative Association	2,572	1,276	643	641
Park Commission	400	200	525	—
Miscellaneous	852	683	370	60
	1,777,162	1,775,515	1,950,696	1,967,473
Less Bonds held in Sinking Fund	(23,333)	(23,333)	(23,333)	(18,333)
TOTAL	1,753,829	1,752,182	1,927,363	1,949,140

TABLE C10

HISTORICAL SUMMARY OF TOTAL BUDGETARY TRANSACTIONS

(Thousands of Dollars)

Fiscal Year Ending March 31	Net General Revenue[1]	Net General Expenditure[2] Including Provision for Sinking Fund	Net Budgetary Transactions[3]
1936[4]	67,656	96,747	(29,091)
1940	88,385	118,447	(30,062)
1945	117,377	126,004	(8,627)
1950	229,351	274,374	(45,023)
1955	400,074	452,830	(52,756)
1960	704,885	817,342	(112,457)
1961	741,676	871,579	(129,903)
1962	827,424	977,479	(150,055)
1963	996,525	1,106,542	(110,017)
1964	1,081,380	1,180,746	(99,366)
1965	1,238,981	1,305,534	(66,553)
1966	1,444,246	1,497,698	(53,452)
1967	1,801,054	1,822,914	(21,860)
1968 (est.)	2,112,399	2,334,482	(222,083)
1969 "	2,504,700	2,819,358	(314,658)

[1] *Net ordinary revenue and capital receipts from physical assets.*
[2] *Net ordinary expenditure and capital disbursements on physical assets.*
[3] *Surplus or (deficit).*
[4] *Introductory year for present fiscal period.*

CHART C6

NET CAPITAL DEBT AS A PERCENTAGE OF PROVINCIAL DOMESTIC PRODUCT

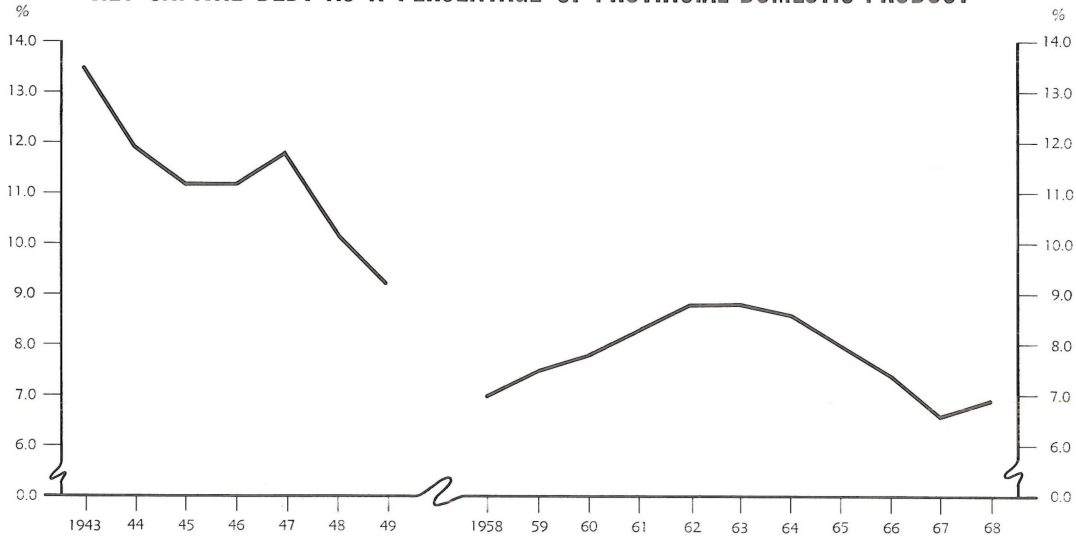


TABLE C11

GROSS AND NET CAPITAL DEBT, SELECTED FISCAL YEARS

(Thousands of Dollars)

Fiscal Year Ending Mar. 31	Gross Capital Debt		Revenue-Producing and Realizable Assets					Net Capital Debt				
	Total	Yearly Increase or (Decrease)	Ontario Hydro	O.N.T.C.	Loans and Cash	Total	Yearly Increase or (Decrease)	Total	Yearly Increase or (Decrease)	Population April 1 (000's)	Per Capita Net Capital Debt ($)	Fiscal Year Ending Mar. 31
1945	636,770	20,036	95,475	30,208	28,411	154,094	16,999	482,676	3,037	3,994	120.85	1945
1950	683,978	64,564	70,209	30,208	73,541	173,958	40,260	510,020	24,304	4,456	114.46	1950
1955	1,066,161	30,677	300,033	30,208	75,195	405,436	52,000	660,725	30,729	5,241	126.07	1955
1960	1,642,672	63,559	379,334	30,208	239,575	649,117	29,464	993,555	93,023	6,087	163.23	1960
1961	1,695,504	52,832	359,490	30,208	213,189	602,887	46,230	1,092,617	99,062	6,214	175.83	1961
1962	1,884,973	189,469	356,168	30,208	289,533	675,909	73,022	1,209,064	116,447	6,330[1]	191.01	1962
1963	1,979,375	94,402	351,298	30,208	313,764	695,270	19,361	1,284,104	75,040	6,464[1]	198.65	1963
1964	2,057,964	78,589	347,265	30,208	335,747	713,220	17,950	1,344,744	60,640	6,607[1]	203.53	1964
1965	2,218,258	160,294	345,673	30,208	477,048	852,929	139,709	1,365,329	20,585	6,759[1]	202.00	1965
1966	2,508,986	290,729	393,481	30,208	704,793	1,128,482	275,553	1,380,505	15,176	6,934[1]	199.09	1966
1967	2,969,896	460,910	430,322	34,008	1,145,069	1,609,399	480,917	1,360,497	(20,008)	7,115[2]	191.22	1967
1968 (est.)	3,685,659	715,763	555,555	34,708	1,557,065	2,147,328	537,929	1,538,331	177,834	7,306[1]	210.56	1968

[1] *Estimated by Treasury Department (Finance and Economics).*

[2] *Estimated by Dominion Bureau of Statistics.*

TABLE C12

GOVERNMENT REVENUE AND EXPENDITURE

(Fiscal Year 1967-68 Estimates)

WHERE THE MONEY COMES FROM — HOW IT IS SPENT

Revenue

Approximately four-fifths of Ontario's revenue comes from six major sources.

Individual Income Tax	$ 550,000,000
Retail Sales Tax	435,000,000
Corporation Taxes	300,000,000
Gasoline Tax	280,000,000
Liquor Control Board	150,000,000
Motor Vehicle Licences and Fees	101,175,000
Other	296,224,000
TOTAL NET GENERAL REVENUE	$2,112,399,000

Expenditure

Approximately three-quarters of Ontario's revenue is spent on three major functions. All other government functions are financed by the remaining quarter.

Education	$ 925,435,000
Health and Welfare	411,569,000
Highways	431,809,000
Other	522,669,000
TOTAL NET GENERAL EXPENDITURE	$2,291,482,000

CHART C7

THE GOVERNMENT DOLLAR

(Fiscal Year 1967 Estimates)

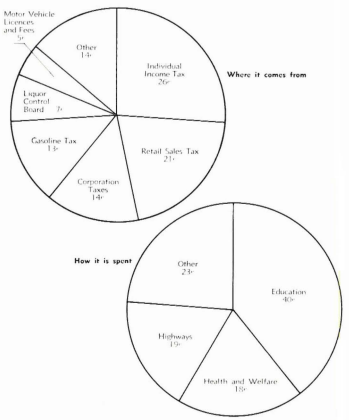


TABLE C13

GOVERNMENT REVENUE AND EXPENDITURE

(Fiscal Year 1968-69 Estimates)

WHERE THE MONEY WILL COME FROM — HOW IT WILL BE SPENT

Revenue

Approximately four-fifths of Ontario's revenue will come from six major sources.

Individual Income Tax	$ 650,000,000
Retail Sales Tax	475,000,000
Corporation Taxes	315,000,000
Gasoline Tax	331,000,000
Liquor Control Board	177,000,000
Motor Vehicle Licences and Fees	130,000,000
Other	426,700,000
TOTAL NET GENERAL REVENUE	$2,504,700,000

Expenditure

Approximately three-quarters of Ontario's revenue will be spent on three major functions. All other government functions will be financed by the remaining quarter.

Education	$1,126,900,000
Health and Welfare	453,813,000
Highways	452,343,000
Other	747,302,000
TOTAL NET GENERAL EXPENDITURE	$2,780,358,000

CHART C5

THE GOVERNMENT DOLLAR

(Fiscal Year 1968 Estimates)