1971 BUDGET ONTARIO

The Honourable W. Darcy McKeough
Treasurer of Ontario and Minister of Economics

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Presented by the Honourable W. Darcy McKeough
Treasurer of Ontario and Minister of Economics
in the Legislative Assembly of Ontario
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1971 Budget Statement

Mr. Speaker:

This is the first budget of the new Government of Ontario. Accordingly, it represents a careful review and assessment of all our policies and programs and their effects on the citizens of this province. The budget which I am presenting today is a reflection of those policies and programs in the form of an imaginative and forceful fiscal plan for Ontario. It aims to achieve four major objectives:

- to restore full-employment economic growth in Ontario by encouraging expansion of the activities of the private sector;
- to maintain firm control over public spending in order to contain tax levels and the generation of inflationary pressures;
- to advance provincial-municipal reforms in line with the long-term program we announced in 1969; and
- to ensure the attainment of the other priorities of government policy such as greater Canadian participation in our economic life, preservation and conservation of the environment, and a fulfilling quality of life for all our citizens.

The taxation and expenditure policies in this budget give maximum expression to these objectives. With the approval of the Members and the active co-operation of the total community, I am confident that the fiscal program which the Government has drawn up will move this province ahead towards greater prosperity and a more rewarding life.

Following the practice of past years, I have included three Budget Papers as part of my overall budget presentation for 1971. These papers provide supporting documentation and perspective on the economic, fiscal and reform policies which the Government will continue to advance.

I Report on Confederation

Before proceeding with the policies and details of this budget, I should like to report on the fiscal and economic aspects of federal-provincial affairs and on Ontario's place within the Canadian federation. Over the past several years, two things have become clearly evident. First, the federal government is firmly bent on a course of greater centralization and concentration of power in its own hands. Second, Ontario has been singled out for a reduced role in the building of our nation. Not only is the federal government disregarding the needs of this region, but it is also pursuing policies which are seriously reducing our economic strength.

The evidence of the thrust towards centralized power grows every day. It is most apparent in the vital matter of finance. Not only has the federal government refused to consider further tax sharing (which is an obvious requirement in Canada because the major public problems and expenditure priorities lie at the provincial-municipal level), but it has also effectively pre-empted increased provincial tax effort by its own heavy use of the income tax field. In this connection, you will recall the imposition of the Social Development Tax. Moreover, the federal tax reform proposals overtly provide for an even greater concentration of fiscal resources at the federal level. The initial federal white paper proposals would generate large revenue gains for the federal government, and reduce provincial sharing in capital gains revenues and other base-broadening reforms in the personal income tax field from 28 per cent to 22 per cent.

There has also been a concerted effort by the federal government to squeeze provincial pocket-books by cutting back on its future financial commitments in shared-cost programs. In the field of health insurance, for example, the federal government is advancing new sharing formulas which would work to reduce the maintenance of its financial commitment to these established programs. At the same time, the federal government is attempting to extend its authority and involvement into areas of provincial jurisdiction such as consumer protection and securities regulation, notwithstanding the practical difficulties this will create and the significant progress which has already been made in inter-provincial uniformity and co-ordination.

In the thrust to expand federal primacy, it is also evident that Ontario is marked out for particular attention. Our regional needs have obviously been neglected by the federal government, particularly in such key fields as manpower and regional economic development. More importantly, however, federal economic and fiscal policies have been aimed deliberately at the curtailment of economic growth in this province. The severe deflationary policies of the federal government since 1969 have driven the Ontario economy far below its potential and created unemployment levels that are the highest in a decade. The "temporary" surtaxes on personal and corporate incomes, of which over 50 per cent is collected in Ontario, have been extended rather than removed, while the federal government has initiated selective fiscal measures such as the depreciation penalty on commercial buildings in Toronto and other key urban centres. From this, I can only conclude that the intention seems to be one of reducing regional disparities in Canada by diminishing the economic strength and standard of living of Ontario.

In the face of these centralizing tendencies and the weakening of the Ontario economy, this Government has only one course. We must act positively to protect the interests of our people. Furthermore, we must reconsider, in a fundamental way, Ontario's basic role in Canadian federalism. The Government of Ontario is convinced that national policies detrimental to Ontario are also detrimental to the national interest. We are also convinced that the proper course for Canada in the decades ahead is towards greater decentralization and recognition of regional differences, not towards centralization of power and responsibility in a single omniscient and distant government.

National Tax Reform

National tax reform is the single most important issue facing Canadian federalism today. The decisions made on this vital matter of taxation will determine, in large measure, both the future progress of the Canadian economy and the future direction of federal-provincial relations.

In recognition of this, the Ontario Government has made a large and constructive contribution to the process of national tax reform. Indeed, over the past year, we have advanced a complete alternative program of tax reform which is clearly superior in respect of the two key objectives of equity and economic growth. Our reform proposals are generally supported by a consensus of the provinces, and overwhelmingly by independent observers and tax specialists.

Altogether, Ontario has advanced three policy papers and five supporting studies on national tax reform in the interest of developing the best possible national tax system—a tax system that will provide genuine benefits for Canadian taxpayers, contribute to economic growth and national objectives, and be acceptable to the provinces as well as the federal government.

- Last June, the Government of Ontario presented its general proposals for reform of income taxation in Canada, concentrating particularly on those reforms we regard as essential for a fair distribution of individual income tax burdens.
- We followed this up with a detailed staff study setting out the revenue and incidence effects of Ontario's personal income tax reforms, and showing the advantages of Ontario's selective approach to low-income tax relief.
- Subsequently, the Province developed and proposed a new and effective method of providing tax incentives to small businesses, along with a technical paper outlining how such an incentive system would work in practice.
- Last month, we presented a third major policy paper and supporting technical study showing that integration of personal and corporate income would be impractical and inflexible and should be abandoned as part of national tax reform.
- In addition, we have maintained an ongoing program of quantitative research which has allowed us to analyse the incidence effects and revenue implications both of the federal reform proposals and our own alternative reform recommendations. Our basic research has focused attention on the important matter of the revenue implications of tax reforms, and has provided major technical assistance to the federal government's capacity to quantify the impact of its proposals.

I believe these efforts have been productive. They have raised materially the calibre of the technical underpinning of tax reform design. They have helped to ensure that all Canadians have had the benefit of a broad set of well-developed alternatives to the main federal tax reform proposals. Moreover, the federal government has already responded to many of our particular suggestions by agreeing that there shall be no tax increases as part of tax reform, by acknowledging the small business problem and by modifying its harsh initial proposals for the mining industry. The Commons Committee recommendations also moved strongly in the direction of this Government's reform proposals, particularly in respect of capital gains taxation, retention of tax incentives for economic growth, and the need to maintain an income tax system which can be used by both taxing jurisdictions. But more is still required. In particular, the new federal legislation should incorporate tax credits and selective low-income tax relief measures instead of universal tax exemptions, the integration proposals should be abandoned entirely, the federal surtaxes should be removed and the remaining reforms should be implemented on a priority basis and in manageable stages.

I am optimistic that the federal government will now recognize these requirements and produce final tax reform legislation that is broadly acceptable to the provinces and in the interests of Canadian taxpayers generally. We intend to continue our efforts towards the realization of this goal. However, let me say that, if the essential objectives that we seek are not met or are thwarted by the new federal tax legislation, the Ontario Government is prepared to proceed independently to achieve the maximum in reform for our own taxpayers. The situation demands nothing less.

Federal-Provincial Fiscal Arrangements

Over the past five years, Ontario and other provinces have repeatedly pointed out the fundamental fiscal imbalance in our Canadian federal system. The federal government enjoys a preponderance of elastic tax resources while the provincial governments and their municipal partners face the largest and fastest growing expenditure commitments. This fiscal mismatch has been clearly documented by the Tax Structure Committee, first in 1966 and again in 1970. It has been confirmed by the Economic Council of Canada, by several independent studies and by Ontario's own recent study of revenue growth to 1980. The facts are clear. Under the present division of taxing powers and expenditure responsibilities, the federal government commands vastly larger revenue resources than it needs to finance its expenditure programs. The provincial-municipal sector, by contrast, is chronically underfinanced.

The only sensible solution to this problem of basic fiscal imbalance is to transfer tax resources to the provincial-municipal level where they are needed to finance existing and emerging public priorities. In short, Canadian federalism needs a new deal in tax sharing, a deal which provides all levels of government with tax resources commensurate with their expenditure responsibilities. The Ontario Government will continue to press strongly for this overdue reform. This is what is required to contain total tax levels in Canada, to ease inter-governmental tensions and to reverse the trend towards central domination of the Canadian federation.

Reform of federal-provincial finance requires equally fundamental changes in the related area of shared-cost programs. In fact, the existence of major shared-cost programs demonstrates the essential contradiction in our system—the federal government has the money while the provinces have the responsibilities. In preparation for the renegotiation of the existing shared-cost agreements, the federal government has increasingly been developing various new formula approaches in such fields as health insurance and post-secondary education. While there may be some merit in these formulas themselves, the one obvious feature of them is that they reduce the future federal financial commitment in these established shared-cost programs. If these formulas were implemented, therefore, the provinces would find themselves in an even worse financial predicament, while the federal government would acquire added capacity to invent new programs and to further encroach on other governments' responsibilities.

This Government cannot accept this application of federal leverage on its future budgetary flexibility. Accordingly, I wish to state now our clear intention to assume complete responsibility for the established shared-cost programs in exchange for fiscal equivalence and to resist rigorously the establishment of new shared-cost programs. In the long run this solution will serve all governments better. It will eliminate complex bureaucratic procedures and leave each level of government the full responsibility to plan and finance its own programs within its own framework of priorities.

Reform of the Federal System

Since 1968, the Government of Ontario has participated actively and constructively in federal-provincial meetings to review the constitutional basis of the Canadian federation. What has emerged from these meetings is an awareness that there must be clearer jurisdictional demarcations and a major redistribution of powers to resolve the fiscal and functional problems of our federation. At the heart of the problem, however, lies the financial impasse between the federal government and the provinces. Until there is substantial progress in tax sharing and unless the provinces achieve better financial arrangements with the federal government, I can see major obstacles in the way of any substantial advance in the other aspects of the constitutional review. Without this real reform of inter-governmental finance, other legal and jurisdictional improvements will be largely illusory, contributing little to the real capacity of governments in Canada to solve the day-to-day problems of our citizens.

II Economic Thrust of the 1971 Budget

Mr. Speaker, let me proceed immediately to the first of the priorities in this budget—the policies which we are proposing to reduce unemployment and to restore vigorous economic expansion in Ontario.

The State of the Economy

In early 1970 and again in last year's budget, the Ontario Government warned the federal government that the single-purpose thrust of its policies to reduce inflation would create unacceptably high levels of unemployment throughout Canada. Unhappily, the accuracy of that prediction is now all too clear. Unemployment mounted steadily in 1970 and now stands at 4.9 per cent of the labour force in Ontario and 6.0 per cent nationally. These bald statistics do not, of course, reveal the true human meaning of the situation.

Low-income workers have been particularly hard hit, as have young people and students who find themselves unable to enter the labour force in ways which fully utilize their abilities and training. During this period of forced slowdown, large numbers of older employees have lost their jobs and many of them will find it difficult, if not impossible, to secure equivalent positions when the economy ultimately recovers. The real cost of unemployment to these people has been enormous, not just in terms of lost incomes, but also in terms of human dignity and family security. In addition, there has been a heavy cost to the community at large in lost output and weakened confidence. The Ontario Government did not agree a year ago, and does not agree now, that this deliberate federal policy of high unemployment is a sound and just way to fight inflation.

Recently, the federal government has relaxed its deflationary monetary and fiscal policies and the economy has shown modest signs of recovery. However, the revival of employment is likely to be both slow and delayed so that, unless further expansionary measures are taken, unemployment is likely to remain at high levels throughout 1971. I strongly urge the federal government to introduce further positive measures to reinforce economic expansion and create jobs. Let me say, however, that I do not regard increased federal spending as an appropriate means to this end. Canada's experience over the past few years surely has proven that governments cannot spend the country back to prosperity. Rather, I would recommend the following steps:

- eliminate the federal 3 per cent temporary surtaxes to increase personal and corporate incomes by $250 million across Canada;
- introduce income tax credits to reduce the tax burden on low-income Canadians; and
- take positive measures to reduce long-run interest and mortgage rates, and to lower the exchange value of the Canadian dollar.

Such measures by the federal government would increase consumer purchasing power, stimulate exports and restore business confidence and willingness to invest. As such, they would constitute a national policy for economic revival which would benefit all the regions of Canada, and would provide an overall policy framework within which provincial actions could be developed.

Ontario's Fiscal Policy for 1971

The new Government of Ontario has promised the people of this province that it will combat the current intolerable level of unemployment with every means at its command. Our objective is to reduce unemployment to 3 per cent as quickly as possible. To achieve this target, 150,000 new jobs are needed in Ontario this year. This budget has been designed to commit the maximum resources at our disposal to achieve this goal. However, I must stress again that we cannot hope to do it alone. It is critical that our actions be reinforced by the full use of the major fiscal and monetary policy instruments at the disposal of the Government of Canada.

As we indicated to the House last fall, the Government of Ontario's budgetary operations became increasingly expansionary during the 1970-71 fiscal year in response to deteriorating economic conditions. The original budgetary target for 1970-71 was a modest surplus of $11.3 million. However, in the course of the year, we decided it was appropriate to increase expenditures by advancing the implementation of certain high-priority programs and introducing measures to combat unemployment directly. As a result, the budgetary operations for 1970-71 moved to a final deficit position of $115 million which represents an expansionary swing of $126 million.

To meet our economic objectives, it is necessary that our expansionary policy be continued and increased. Consequently, the budget plan which I am presenting today calls for a deficit of $415 million—an increase in the deficit of $300 million over last year. While a deficit of this magnitude can be expected to exert a significant stimulus to the economy in an aggregate sense, the *composition* of the deficit is also of prime importance. Generally, governments can achieve deficits either through expenditure increases or tax cuts. As I have said, it is the view of this Government that a sound plan for economic recovery in Canada involves more than merely incurring large deficits by indiscriminate increases in spending. Large-scale expenditure increases may appear to be appropriate in recessionary periods, but they can also work to impede economic revival. The expansion of the government sector can be distortionary as the economy moves back to full employment, insofar as it pre-empts economic resources that can be used more productively in the private sector and ultimately results in tax increases. Each of these factors can generate inflationary pressures and precipitate a second wave of restrictive fiscal and monetary policies.

For these reasons, the Government has decided to pursue the alternative route of stimulating the economy primarily by tax reductions, while containing expenditure growth within the limits of our long-term financial capacity. By these means, we plan to increase private economic activity and investment, and to expand employment, without re-activating inflationary pressures.

The Design of Our Fiscal Policy

Our budgetary policy for 1971-72 is based on the use of the full-employment budgeting approach to fiscal policy formulation. This new technique is fully explained in the accompanying Budget Paper A. Full-employment budgeting is particularly relevant to the current economic situation and the problem of fiscal policy co-ordination in the Canadian federal system. Budgetary deficits are commonly understood to be expansionary. However, the full-employment budget adds a new dimension to this conventional approach to fiscal policy formulation. It emphasizes the way in which revenues increase as economic activity revives and exert a "tax drag", thereby slowing down economic expansion, possibly before full employment has been achieved. At the present time, the Ontario economy is operating at about 5 per cent below its full-employment potential, which means that we are losing some $2 billion in potential Gross Provincial Product and about $250 million in potential provincial revenues. As we demonstrated in our 1970 Budget Paper B, the federal government's budgetary operations in Ontario involve a permanent surplus which, first, exerts a continuing contractionary impact on our economy regardless of the level of economic activity, and second, increases rapidly as activity increases.

Our plan for offsetting the slack in the economy and counteracting the federal government's tax drag in Ontario is explained in the accompanying Table. This shows two main actions. First, in line with our objective of controlling the growth of the public sector, our expenditures have been held to a level of $4.26 billion. This closely matches the level of expenditures which would be appropriate for us if the economy were operating at full employment. Second, we have cut taxes in a way which restores the growth potential of our economy. Thus, without any tax cuts our revenues at full employment could be expected to increase to some $4.17 billion, with a resulting deficit of $80 million. However, by cutting taxes, we will reduce the growth potential of revenues at full employment by about $70 million to a total of $4.1 billion, with a resulting deficit of $150 million. Most importantly, however, the tax cuts in this budget are designed to offset part of the fiscal drag of federal revenue growth as the economy reacts to our planned budgetary deficit of $415 million for 1971-72. To the extent that our fiscal policy is successful in reviving economic growth and employment in Ontario, our ultimate budgetary deficit could be reduced.

Ontario's Fiscal Plan for 1971-72

($ million)

1. At Full Employment before Tax Cuts	
Revenues	4,170
Expenditures	4,250[1]
DEFICIT	–80
2. At Full Employment after Tax Cuts	
Revenues	4,100
Expenditures	4,250
DEFICIT	–150
3. Actual Budget Plan	
Net General Revenues	3,847
Net General Expenditures	4,262
BUDGETARY DEFICIT	–415

[1]Net General Expenditures at full employment will be $12 million less than projected actual expenditures largely as a result of lower welfare expenditures as unemployment is reduced.

III Expenditures

The overall policy thrust of this budget is comprised of a set of carefully co-ordinated expenditure and tax actions. On the expenditure side, I am advancing a plan amounting to $4,262 million for 1971-72, which is an increase in spending of 10.7 per cent over the 1970-71 fiscal year. This level of expenditure will allow the continuation of our existing programs, the introduction of several important new programs, and progress towards increasing our financial support to school boards and municipalities.

The expenditure program which I am presenting today is a program of priorities and a plan for the controlled use of public resources. Although there is substantial slack in the provincial economy, the Government has resisted pressures to embark on uncontrolled increases in spending in order to generate an expansionary economic impact. Rather, we have held down our spending to make room for the private sector, to permit expansionary tax reductions, and to stay within the discipline of the normal growth of our revenues. We have exercised a maximum of restraint on cost pressures within the provincial sector itself and requested our local government partners to exercise similar restraint. We have consciously striven to reduce the administrative and overhead components of our expenditure programs, and to increase the delivery of real services. Finally, we have continued to allocate our limited resources towards the most essential needs of our growing society and towards our long-term provincial-municipal reform program.

Control of Public Spending

The Government has tackled the job of controlling public spending in four main ways.

- First, we have introduced expenditure guidelines for school boards in order to relieve the pressure on property taxes and to provide scope for other priority areas of local spending.
- Second, we have imposed strict constraints on the Province's own-account spending and on cost increases within the public service.
- Third, we have begun a basic reorganization of our departmental structure in order to streamline decision-making, re-align program responsibilities and achieve the maximum economy within government itself.
- Fourth, we are evaluating all our programs and grants with a view to eliminating those which may have outlived their original purpose, simplifying wherever possible and generally getting more value for our money.

Education Costs. As the Members are aware, Mr. Speaker, the growing demand for essential services has placed enormous pressure on the financial resources of the Province and its local government partners in recent years. Nowhere has this been more evident than in the field of education. In the past, we have concentrated vast resources on the expansion and improvement of Ontario's school system in order to accommodate burgeoning enrolment and to provide the best possible education program for our young people.

Now, the growth pressure on our elementary and secondary education system is abating. This gives us a real opportunity to stabilize costs and to reduce education levies without any sacrifice in the quality of education in this province.

The school board cost guidelines which we have established this year aim to achieve these desirable objectives. The expenditure ceilings already announced are sufficiently generous to permit every school board to maintain and even improve the content and quality of its service, while preventing excessive increases in overall expenditures. In conjunction with this necessary and desirable control on school board spending, the Province has budgeted for a further large increase in its legislative grants in 1971-72. Over and above the legislative grants to finance last year's 51 per cent support, we have provided an additional $72 million to raise the Province's share of education financing to 55 per cent in 1971-72. I am convinced that these two measures—expenditure control and increased provincial support—will ensure an improved cost performance in the education sector, without any deterioration in quality, and a reduction in school property taxes across the province generally.

Government Costs. The second major policy of restraint which we have pursued is in the area of the Province's own spending, particularly its spending for administration, overhead and public service costs. In the estimates review process, we placed major emphasis on limiting the growth in the size of the civil service. As a result, the Province's civil service complement will increase by only 1.6 per cent in 1971-72. Many departments will operate with no complement increase at all. Where staff additions have been approved, we have given the highest priority to those programs which provide a direct service to the public rather than to those which increase the overhead costs of the Government.

The Department of Correctional Services, for example, has been allowed a complement increase of 192 staff to operate the new Sudbury Training School and two Outward Bound Camps. The largest increase—332 additional complement—was approved for the Department of Health, almost all of whom will be required to staff our hospitals for the mentally retarded, and our new school for retarded children at Picton. Increases in the Department of Justice and the Ontario Provincial Police have been provided to speed up the processing of cases through our courts and to maintain effective policing across the province generally. Increased staff is also required to continue our municipal assessment program, to provide additional services to municipalities in community planning, and to handle the increased welfare caseload arising from high unemployment. The Ontario Housing Corporation has been allocated 93 extra complement to handle the 10,000 additional housing units it will administer in the coming year. These departments account for the bulk of the 1,129 overall increase in staff approved for the new fiscal year. The remainder is distributed among a number of departments in recognition of increasing workloads and the introduction of new services. The accompanying table shows the public service complement for each department as of April 1, 1971, and the minimal increases planned for this year except in those areas of proven need.

Public Service Employment in Ontario

Department	Approved Complement March 31/71	Complement Increase (Decrease) Provided for 1971-72
Agriculture and Food	1,735	(1)
Civil Service	207	(10)
Correctional Services	4,021	192
Education	2,889	76
Energy and Resources Management	399	—
Ontario Water Resources Commission	834	—
Financial and Commercial Affairs	479	4
Health	20,691	332
Ontario Hospital Services Commission	434	9
Highways	10,763	—
Justice	4,077	80
Ontario Provincial Police	4,756	121
Labour	1,232	34
Lands and Forests	3,441	—
Mines and Northern Affairs	457	8
Municipal Affairs	3,460	51
Prime Minister	44	—
Provincial Secretary and Citizenship	418	21
Public Works	2,170	(5)
Revenue	1,471	(26)
Social and Family Services	1,387	45
Tourism and Information	412	13
Centennial Centre	182	19
Trade and Development	275	—
Ontario Development Corporation	127	5
Ontario Housing Corporation	520	93
Transport	1,470	33
Treasury and Economics	543	30
Treasury Board	106	—
University Affairs	118	5
TOTAL	69,118	1,129 = 1.6%

In addition to limiting increases in civil service complement, I am also aiming to contain the increase in wage and salary scales to an average of 5 per cent for 1971-72. This cost control target will minimize the impact of provincial wage settlements as a potential source of inflationary pressure in the economy. To reinforce this measure, the Government is conducting an intensive and thorough investigation of ways and means to improve productivity over the whole spectrum of Ontario's public sector. I am confident that our efforts in these directions will pay off in terms of a more efficient public service, more value for public money spent, and more resources for use by the private sector and by taxpayers themselves.

Government Reorganization. The third means by which the new Government aims to control spending and improve performance is by reforming the structure of government itself. As announced in the Speech from the Throne, we plan major reorganization and rationalization of our departments along modern functional lines to ensure that government remains a positive and responsive instrument of our citizenry. For example, the main branches and agencies in Ontario departments that deal with environmental management, conservation and protection will be brought together into a new Ontario Department of the Environment. Equally important consolidation of functions is planned in the areas of transportation and communications, post-secondary education, and health care insurance. In addition, the Government is implementing the recommendations of its Committee on Government Productivity. These internal reforms and departmental reorganizations are vital for the realization of long-run economies in government and controlled management of the Ontario public sector.

Evaluation of Programs and Grants. Fourth, we are continuing and intensifying our review and evaluation of all programs and grants in terms of their costs, benefits and relative priority. Through our program budgeting system, we are emphasizing policy objectives and least-cost methods of achieving these objectives so that the Province's limited finances are used with maximum effectiveness. This is an immense, long-run task, but one which is imperative if the Government is to achieve maximum economy in expenditure management. One elementary fact must be recognized: if government spending is to be contained, then some existing programs must be cut back or eliminated in order to make room for more urgent priorities. Certainly, we cannot merely add new programs on top of all our existing programs. Rationalization and simplification of our grants to local governments is a major goal of this overall review and evaluation program. As discussed in Budget Paper B, our aim is to eliminate many existing grants, reduce the number of provincial and municipal civil servants occupied in processing grants, and unconditionalize provincial financial transfers to permit greater budget autonomy for our local governments.

Composition of 1971-72 Expenditures and Investment

Having indicated some of the ways in which we are moving to control the growth in basic cost elements in the Government, let me turn now to the composition of our expenditure program for this year. Net general expenditures of $4,262 million have been planned in 1971-72. Of this total program, some $2,666 million will be taken up by transfer payments for operating purposes to other spending units—school boards, municipalities, institutions and people. A further $287 million will be transferred in the form of grants for capital purposes. The Province's own capital program will amount to $300 million and the remaining $1,009 million will be taken up in direct operating costs. In terms of overall structure, therefore, 69 per cent of 1971-72 spending consists of operating and capital transfer payments, 7 per cent is direct capital spending and 24 per cent goes to operate our own provincial programs. This distribution of 1971-72 outlays continues the dynamic shift in our expenditure structure that was documented in the 1970 budget. Transfer payments are taking up a larger and larger share of total expenditures, while our own-account spending and investment are diminishing in relative importance.

Net general expenditures are planned to increase by $411 million or 10.7 per cent in 1971-72. Transfer payments for operating purposes will account for $304 million of this increase, up 12.9 per cent over last year. This large additional commitment is required both to continue our programs of financial support to local governments, institutions and people and to advance our provincial-municipal reform program. Direct provincial spending will increase by $95 million or 10.4 per cent over 1970-71. The bulk of this increase will go to provide better services to the public such as new facilities for emotionally disturbed children, expanded facilities for juvenile offenders, improved police protection, and to meet increased interest costs on our public debt. As I have already said, we instructed our departments to cut administrative and overhead costs rigorously in order to provide scope for this expansion in essential provincial services.

On the investment side, we have placed our major emphasis on loans and advances rather than on direct capital spending and grants. Direct capital spending and capital grants have been increased by only $11 million while loans and advances are up $109 million or 17.9 per cent. These loans and advances to municipalities and school boards, post-secondary education institutions, hospitals and our housing agencies have the same economic impact as direct investment by government departments. I have given emphasis to those areas of capital spending and lending which have a social priority and economic growth impact. Accordingly, the largest increases have been allotted to housing, environmental management, hospital construction and our new program for land acquisition.

The following Table sets out these major dimensions of our expenditure and investment program for 1971-72 and shows where we have allocated our increased resources. I would call your attention, in particular, to the increased resources we are devoting to the broad field of education. In total, our allocation to school boards, universities, community colleges and Ryerson will increase by over $220 million in 1971-72. The bulk of this overall increase is accounted for by legislative grants and by our financing of the colleges of applied arts and technology. Payments to universities will increase by only $9 million, but this arises because of a change in the fiscal year-end of our universities from June 30 to April 30. We have established a value of $1,730 for the basic income unit in 1971-72 and have agreed to increase this measure of support to universities to $1,765 in 1972-73. We have also agreed to increase the weighting of part-time students in the determination of basic income units; the present weighting of 1/6 will be changed to 1/5 over the two years, 1972-73 and 1973-74.

Composition of Ontario's Expenditures and Investment

	1971-72 Budget	Increases Over 1970-71	
	$ million	$ million	%
Net General Expenditures			
Transfer Payments: Operating			
School Boards	1,014.0	179.7	21.5
C.A.A.T.S., Ryerson	121.2	31.9	35.7
Universities and Student Awards	440.7	8.9	2.1
Property Tax Reduction[1]	237.9	17.5	7.9
Municipal Road Maintenance	75.9	13.1	20.9
Major Health and Welfare Programs	595.6	30.5	5.4
Other	181.1	22.7	14.3
	2,666.4	304.3	12.9
Transfer Payments: Capital	287.1	3.5	1.2
Direct Capital Spending	300.3	7.7	2.6
Direct Operating Spending	1,008.6	95.1	10.4
TOTAL NET GENERAL EXPENDITURES	4,262.4	410.6	10.7
Loans and Advances			
Housing	142.2	41.9	41.8
Environmental and Land Management	77.6	31.7	69.1
Education	379.5	3.0	0.8
Other	117.9	32.1	37.4
TOTAL LOANS AND ADVANCES	717.2	108.7	17.9

[1]Residential property tax reduction grants plus farm tax rebates, plus supplementary tax relief to pensioners, plus unconditional grants to municipalities.

The composition of our overall spending and investment program is summarized in Budget Paper C which accompanies this statement. I would also remind Members that the complete details of our expenditure program for next year are shown in the Government's 1971-72 Estimates which I am tabling along with the budget. In passing, it should be noted that the format of the Estimates has been changed substantially in line with the recommendations of the Public Accounts Committee. In the remaining discussion of the expenditure side of this budget, therefore, I should like to focus on the policy highlights of reform and increased employment and to outline the major new dimensions of our program for the future.

Progress Towards Reform

Progress towards reform in provincial-municipal taxation and finance is one of the highest priorities in this budget. We are unequivocally committed to the long-run goal of increasing our financial support to local governments in order to reduce the burden of financing that falls upon the property tax. In this budget, I have allocated a further $78 million towards permanent reform. The bulk of this will serve to increase our financial support to school boards to 55 per cent in 1971-72. In addition, we propose to broaden the local tax base by permitting municipalities to tax the presently exempt properties of our colleges of applied arts and technology, as well as our provincial parklands. We are also providing major assistance to the recently established York Regional Government, the Muskoka District Government and our other regional governments.

While these new reform measures will require $78 million in 1971-72, their costs will grow each year in future as the local expenditure base expands. This is amply demonstrated by looking at the additional cost in 1971-72 of last year's reform move from 46.5 per cent to almost 51 per cent school board support. Because school board spending will increase by some $172 million from 1970 to 1971, the 4 point increase in provincial support implemented in last year's budget costs an additional $7 million in this budget. The costs of our other reforms have also mounted in value in each succeeding year after being implemented and this tendency can be expected to continue in future. The combination of previous reform moves made over the past three years, the accumulating value of these reforms, and the $78 million in additional reforms in this budget, result in a total reform effort by the Province of $461 million in the 1971-72 fiscal year, as shown in Budget Paper B.

Budget Paper B, accompanying this statement, provides a complete progress report on our long-term program of reform in provincial-municipal finance and property taxation. It shows how the Province's reform policies have taken hold since 1968 to alleviate the financial squeeze on local governments and reduce property tax burdens. Property tax increases between 1967 and 1970, for example, decelerated to half their annual rate of growth in 1960-67, and in 1971 we look forward to no increase in education taxes and only a moderate increase in municipal taxes. This great improvement has been due almost entirely to our greatly increased provincial grants. Without this ongoing shift in financing from local governments to the Province, an additional $461 million in property tax revenues would have been required to maintain local services in 1971-72.

Additional Reform Policies in 1971

	Cost of Reform in 1971-72
	($ million)
• Increase provincial support to school boards from 51 per cent to 55 per cent of total elementary and secondary education costs	72.0
• Increase grants to colleges of applied arts and technology to permit taxation by municipalities equal to $25 per full-time student	0.9
• Pay grants in-lieu-of taxes to municipalities in respect of provincial parklands	0.2
• New assistance to regional governments	4.8
• Mining municipalities—net increase in transfer payments to municipalities and school boards as a result of revision of formula	0.4
	78.3

I would call your attention to one particular reform that the Government intends to implement in 1971-72. This concerns the method by which we make payments to mining municipalities. The new formula which we intend to implement will involve a net increase of $400,000 in payments to the municipalities and school boards in mining areas in 1971-72. The payment for municipal purposes will increase by a further $1,250,000 in 1972-73 and, when the new formula is completely operative in 1973-74, the payment will again increase by $1,250,000. Taking into account increased costs, it is anticipated that the additional revenue transferred will exceed $3 million by that time. The new formula will also improve the distribution of these payments by more closely reflecting the fiscal capacities of designated mining municipalities. This program will be, in effect, a first step towards a "needs resources" type of grant system. Consequently, the new formula will relate future payments to both the level of equalized per capita assessment and the level of expenditure for municipal purposes in each municipality. In those municipalities in which less than 10 per cent of the population is directly employed by the mining industry, the payment will also be related to the ratio of resident mining employees to population.

We are also working to implement two further reforms to strengthen the financial base of our municipalities. First, we propose to introduce in January 1972 an improved system of unconditional grants. The new unconditional grant will be designed to eliminate the criticism that the Ontario Committee on Taxation made of this program, particularly the sharp cut-off points based on size of population, and to recognize the cost of providing policing in those municipalities which provide their own services. The additional benefits that will accrue to the municipalities under these reforms will be in the order of $16 million annually, and the Province will ensure that no municipality receives less than it would receive under the existing system.

Second, we propose to accelerate the timing of our payments to municipalities, particularly in the areas of regional government, unconditional grants and highway grants. While this move will not involve any additional cost to the Province, it will help municipalities achieve a better balance between inflows and outflows during the course of the year.

Full details of these new schemes will be announced by the Minister of Municipal Affairs.

Increasing Employment

As I stressed earlier, this Government is committed to the goal of restoring full employment in Ontario. We are convinced, however, that the way to achieve this objective and to achieve it as quickly as possible is by tax cuts which encourage investment and expansion of private sector activity, and not by wholesale expansion of government spending. The expenditure method of tackling unemployment has major drawbacks. There is a substantial lag between the time money is budgeted for expanded programs and the time it is actually spent and begins to work its way through the economy, thereby creating jobs. Moreover, temporary increases in government spending tend to become permanent; they get locked into the program structure and continue long after the original need has vanished. There is a role for expenditures, however, in relieving severe winter unemployment and student unemployment. This budget allocates substantial funds for these specific aspects of the overall unemployment problem.

The Government has already taken steps to ease the immediate unemployment situation. Last fall we established a cabinet committee to develop policies for alleviating winter unemployment. A package of programs which included parks clean-up, removal of diseased elm trees and acceleration of highway construction was quickly assembled and by late January some 1,200 men were employed. This Ontario Seasonal Employment Program was subsequently expanded to provide employment for almost 4,500 men at a cost of $8,750,000 and has now been extended to the end of April. In addition, a special municipal works incentive program was established at a cost of $7.5 million to encourage municipalities to hire additional workers during the period April to June. We expect that this direct and simple grant program will create an additional 7,500 jobs. In total then, Ontario's direct contribution to relieve immediate unemployment has reached over $16 million and should create an estimated 12,000 seasonal jobs.

In contrast to these positive efforts of the Province itself, let me report on the federal loan program for relieving winter unemployment. The federal program was announced in the December 3rd budget, with $17 million allocated as Ontario's share of the national loan fund—hardly a generous amount in relation to the size of our unemployment problem. In fact, at one point after the program and provincial allocation were first announced, Ontario's share was actually reduced to $9.3 million. Moreover, it became quickly apparent to us that the federal loan program was restrictive in respect of eligible projects, ungenerous in respect of the interest rate and repayment terms, and overly complex in its administrative and accounting requirements. We bargained hard to remove the complicated bureaucratic procedures, to restore the original allotment and to extend the repayment term to 25 years. It was not until late January that our allotment of $17 million was confirmed and not until early March that we received a final decision that the repayment term would be 20 years. In any case, the Ontario Government is acting only as a financial intermediary to channel the $17 million in federal loans for approved capital works programs to our municipalities. We have, on our own account, extended the repayment period to 25 years and fixed a maximum interest rate of 7 per cent. The Province will pass on to the municipalities any savings if the actual rate under the federal formula turns out to be lower. Because the federal program is concerned with capital projects and our municipalities have already finalized their capital budgets for 1971, I must state candidly that I do not expect it will have any major employment impact in Ontario until next winter.

In consideration of the problem of student employment, funds have been provided in this budget to expand greatly Ontario's direct efforts to provide job opportunities during the coming summer. Our departments, agencies and commissions themselves will employ 14,000 students, an increase of 3,000 or 27 per cent over the number hired last summer. By contrast, the federal government has announced that it will increase its direct student employment by only 500 to a total of 23,000 this summer. The payroll cost of Ontario's student employment program will exceed $17 million. The Province will also spend about $1 million to provide summer activities and opportunities for young people in various athletic, artistic and social programs. Beyond these steps by the Province itself, we intend to actively encourage the business community and private sector to offer the maximum job opportunities possible for our student population.

New Dimensions

While we have concentrated on cost control, continued reform and employment generation within our ongoing expenditure program, this budget also provides funds for major expansions in priority areas and for new initiatives. In the field of housing, for example, we have doubled our commitment for direct lending; this Provincial financing along with funds from the CMHC will generate a high level of housing starts in 1971 and beyond. We have allocated funds within the highway estimates to provide financial assistance to urban transit systems, which is a real and pressing need in our increasingly urban and mobile society. Similarly, in the area of environmental control we have allocated large additional funds. The capital financing to OWRC alone will increase by 27 per cent to a level of $50 million for the coming year. Along with outlays in operating costs, direct investment, loans and transfer payments, our total environmental management program will amount to $92 million in 1971-72.

Ontario Land Acquisition Corporation. In this budget, I have set aside $20 million for a new land bank program by the Province. This will be the initial funding of the new Ontario Land Acquisition Corporation. Its purpose will be to acquire land for future public use, particularly land in and around our urban centres and recreation areas. With such a land bank program, the Province will be in a better position to implement its policies in the areas of regional development, urban development, recreation, transportation and communications and housing. The Corporation will also serve as the vehicle to co-ordinate land use planning and research as well as the land acquisition programs now undertaken in a number of departments. Over the years the Corporation will require greatly increased finances from the Province as it builds up a large land holding. We intend to set aside the maximum resources possible for this purpose and thereby preserve for future generations of Ontarians an adequate stock of public land in every part of the province.

Regional Development. Though not specifically reflected in budgetary expenditures, regional development is a major consideration in all our spending decisions. The regional development program is one of the important responsibilities of the Treasurer of Ontario and Minister of Economics. Consequently, I intend to ensure that all proposals coming before Cabinet and the Treasury Board with regional implications will be reviewed and assessed in the light of our regional development policies. I will also endeavour to ensure that, in the development of long-run expenditure plans and priorities within individual departments and agencies, the regional component will be clearly identified and stressed. I will also carry forward the work of my predecessor aimed at ensuring that federal expenditures within Ontario complement the Province's planning objectives. The new international airport is a case in point. This large project will have far-reaching effects within Ontario; hence, we have insisted that the location and construction of such an airport must be co-ordinated with provincial development objectives and expenditure programs.

The Toronto-Centred Region is perhaps our largest single regional development priority at the present time. On the basis of favourable public reaction to our development concept and our own follow-up work since last May, the Government has decided to endorse the principles of this basic plan as the guideline for Provincial decision-making in the Toronto-Centred Region. We intend to apply the main elements of the Toronto-Centred Region concept in assessing and deciding on proposals submitted by municipalities. This reaffirmation of Provincial intent should help to resolve a number of outstanding conflicts which have emerged since the Toronto-Centred Region concept was announced. To accelerate provincial planning in the Toronto-Centred Region and in the other regions generally, we have allocated more resources to the Department of Treasury and Economics and other departments.

Nursing Homes as an Insured Health Benefit. I wish to announce that, commencing on April 1, 1972, Ontario will expand further its health care insurance program to cover nursing homes and home care services. An expansion of this dimension requires a lead time of at least nine months to bring new facilities on stream. We are preparing a comprehensive plan for orderly integration of these presently uninsured services into our health insurance program and to develop further, as rapidly as possible, the related program of community home care arrangements. This major extension of our insured services means that Ontario will have one of the most comprehensive health insurance systems anywhere in the world. The benefits flowing from this move are abundant:

- a heavy burden of financing will be lifted from individual families and spread over the population as a whole;
- the demand for active treatment hospital beds will be relieved; and
- many patients will be able to receive care in their own homes and in their own communities.

It should be recognized that the costs of this major improvement in our health insurance system will be high. I estimate the net cost of this extended care to be over $50 million in 1972, rising to $100 million by 1975. This assumes that a fee of $3.50 per day will be charged. There will be some offsetting savings from a reduced need for active treatment beds, but these economies will only appear over a number of years. The federal government has been unwilling, at least up to the present, to assume any share of these increased insurance costs, despite the fact that, in the long run, this co-ordinated and comprehensive program would be more effective and economic than our present arrangements. We hope that the federal government will eventually agree to participate in the financing of these additional services. In the meantime, the Ontario Government is not willing to wait any longer for a federal decision and is prepared to carry the entire financing on its own. My colleague, the Minister of Health, will be announcing the full details of this major provincial initiative.

IV Tax Reductions

I come now to the vital matter of tax policy—the key initiative in this budget to stimulate a revival of economic growth and job opportunities in Ontario. As I stated earlier, the Government of Ontario is convinced that the best way to achieve a powerful economic recovery is by reducing taxes.

In particular, we believe that immediate and significant tax cuts are required in two main areas:

- first, personal income taxes should be cut in order to bolster consumer purchasing power; and
- second, corporate taxation should be reduced in order to restore business confiidence and stimulate investment and economic growth.

Let me say now that I would have liked to reduce personal income taxes, but for several reasons this option is not realistically open to us.

1. Under the terms of the federal-provincial collection agreement, Ontario cannot change its personal income tax rates before January 1, 1972.
2. Moreover, the only type of change we could make is a costly across-the-board decrease in rates. We can not make the less costly selective reductions for low-income groups of the type we think are needed, and which would be in line with our long-run reform proposals.
3. The pressure of Ontario's long-run revenue requirements means that we can only afford to finance a temporary tax cut, whereas a permanent reduction in personal income taxes is required. It would be incongruous for Ontario to cut its income tax rates, while the federal government continues its temporary surtaxes.

For these reasons, therefore, I have decided to concentrate our limited capacity to finance tax cuts on a major move designed to produce a massive stimulus to business investment. Tax cuts in this area can be more appropriately implemented for a limited period; they have the important effect of expanding the economy's productive capacity in ways which relieve inflationary bottlenecks. While we are unable to increase individuals' incomes through direct income tax reductions, several of our actions in the area of municipal finance will have important indirect results to this effect. The control of school board spending, increased municipal and education grants, and increased property tax rebates will work to reduce and contain the impact of property taxes on disposable incomes.

In moving on the investment side, I must emphasize that our measures alone cannot be expected to return the economy to full employment. For this reason, we expect the federal government to add its weight to our policies by implementing complementary tax cuts in its forthcoming budget. In particular, as I have already said, we invite the federal government to complete the pattern of tax cuts by reducing personal and corporate income taxes on a national basis through the elimination of the "temporary" 3 per cent federal surtaxes.

Five Per Cent Investment Tax Credit

I intend to incorporate a major new incentive in the Province's corporation income tax to stimulate business investment and to create new jobs in Ontario. The incentive which I am proposing is a 5 per cent tax credit for investment in machinery and equipment that is purchased after midnight this day, April 26, 1971, and put in place and used in Ontario by March 31, 1973. In other words, for every $100 of investment in machinery and equipment during this period, companies will be eligible to reduce their tax payments to the Province by $5. On a $1 million investment the tax saving would be $50,000; on a $20 million investment program a company could reduce its taxes by $1 million. I expect this measure to be a powerful incentive for business expansion in Ontario; hence, I am anticipating a gross revenue loss of $125 million in corporation income tax in 1971-72 and perhaps an equivalent loss in 1972-73.

This tax credit approach to stimulating investment, economic growth and job opportunities in Ontario has major advantages over alternative measures. It will have an immediate impact because it produces immediate tax savings to companies that invest in economic expansion. It does not reduce the value of basic capital cost allowances. It is simple to understand and administer. It can be implemented and removed without distorting long-run arrangements. It will assist in the modernization of capital stock to increase the long-run productivity of Ontario industry, and help to achieve other social and economic objectives, particularly increased investment in pollution abatement equipment.

This 5 per cent tax credit will be available to every company paying tax or liable to pay corporation income tax to the Ontario Government. It will not be restricted to particular industries or particular sizes of companies, nor will there be upper or lower limits on the amount of investment that will qualify. Machinery and equipment investment will be defined generously to include most types of equipment, new or used, but will exclude leasing arrangements, trucks, cars and buildings. I have excluded trucks and cars on the grounds that no specific incentive is warranted for this type of investment. Buildings have also been excluded because an incentive geared to machinery and equipment investment will stimulate new construction to house these assets in any event. This investment tax credit will also not affect the normal capital cost allowance write-offs by corporations; rather, it is in the nature of a temporary bonus over and above the regular depreciation system. Finally, to ensure that all Ontario corporations can take full advantage of this incentive, loss companies will be allowed one additional year, to April 1, 1974, to generate profits against which the investment tax credit may be deducted.

Fuller details on this tax change are provided in the Appendix following my Budget Statement.

Deduction of Interest on Money Borrowed to Purchase Shares

A major anomaly of present Canadian tax law is that foreign companies enjoy a tax advantage over Canadian companies in bidding to take over other companies. This advantage arises because foreign purchasers, particularly United States corporations, can deduct the interest costs of funds borrowed to purchase shares in other companies, including Canadian companies, whereas a rival Canadian buyer cannot deduct comparable interest costs. This unfortunate and illogical situation has been allowed to continue on the grounds that income from purchase of shares is exempt from tax; hence, there should be no deduction for exempt income. Whatever the validity of this tax principle, this feature of our tax law has undoubtedly been an important factor in the ability of foreign companies to acquire Canadian firms.

The Ontario Government is convinced that the present restrictive rule should be removed immediately. Consequently, I am proposing to amend Ontario's corporation income tax legislation to permit deduction of the interest costs on money borrowed to purchase shares in other companies. This amendment will undoubtedly entail revenue losses. I am convinced, however, that such losses are fully warranted in order to achieve the objective of greater participation by Canadians in the economic development of this province and of Canada as a whole.

In my recent policy paper on the reform of the taxation of corporations and shareholders, I urged the federal government to include this step in its tax reform legislation. I take this opportunity to stress again the common sense and the urgency of such a move. Relaxation of the federal tax law to allow deduction of interest costs, along with the move Ontario is now making in its corporation income tax, would put Canadian companies on a more competitive footing with foreign companies in bidding for shares in Canadian and non-Canadian companies. It would mean, in effect, that potential Canadian buyers would be able to finance acquisitions on the same terms, at least in respect of taxes, as rival foreign buyers; hence, they would presumably enjoy greater success in maintaining Canadian control and participation in Canadian business.

Reduction in Succession Duties

Let me reaffirm the intention of this Government to vacate the succession duties field of taxation. This policy was formulated in 1969, following the introduction by the federal government of a completely revamped Estate Tax Act. We proposed to relinquish the death duties field to the federal government in exchange for 75 per cent of the revenues that accrue in Ontario from full application of the federal estate tax. This would put Ontario in the same position as the seven provinces that have no death duties of their own.

We have decided not to eliminate our succession duties in a single step. There are three sound reasons for such a gradual approach. First, there is the matter of revenue losses. Complete elimination of succession duties would entail a loss of revenues to the Province of more than $25 million a year. Second, the continuation of Ontario's succession duties, along with the half-application of the federal estate tax, will result in lower total taxation in many instances than under the full application of the federal estate tax alone. Third, it is important to establish a connection between estate taxation and capital gains taxation. The Ontario Government believes that death duties should be reduced as capital gains taxation comes into effect. The federal government, by contrast, has not recognized the inter-dependence of these two taxes on wealth and the consequent need to make compensating reductions in estate taxes when a capital gains tax is introduced. It is prudent, therefore, for the Province to retain some presence in the succession duties field until we see what form of capital gains tax is finally legislated and to ensure that the Province participates fairly in the revenues.

Our interim policy, therefore, is to reduce succession duties progressively until the combined succession duties and estate tax revenues generate no more revenue than full application of the federal estate tax alone. To advance another significant step in this budget, I am recommending the following changes in our succession duties legislation in respect of deaths occurring after midnight this day, April 26, 1971:

- the exemptions for widows and widowers will be increased from $125,000 to $250,000;
- the 15 per cent surtax will be eliminated for preferred beneficiaries which include children and grandchildren;
- preferred beneficiaries will not be subject to duty on estates valued up to $100,000, as compared to the present level of $50,000; and
- the exemption for non-commutable annuities will be raised from $1,200 to $10,000 in aggregate.

This package of amendments will effectively eliminate succession duties on the vast majority of estates. I estimate that as a result of these changes, fewer than 5,000 estates per year will be taxable.

The tax burden in the case of transfers to children and grandchildren, and particularly spouses, will be significantly reduced. These changes will drastically reduce the tax burden on farm estates and in most cases make the difference between selling out or continuing to operate a family farm. Family businesses will also benefit because the tax cost of passing on a business to a child or grandchild will be greatly reduced. The pressure to sell out small firms and family businesses either to pay death duties or to avoid such taxes will be alleviated. Since these kinds of businesses are often sold to non-Canadians, this reduction in succession duties should reinforce our efforts to encourage more Canadian control and participation in the Ontario economy. Let me stress that we regard this as a major and positive step in this direction.

I anticipate that these reductions in succession duties will result in a revenue loss of $12 million a year as the revised system matures. The revenue decline in 1971-72 will be somewhat less—perhaps $6 million—because most of the estates processed during 1971-72 would relate to deaths occurring prior to the changes I have just announced.

Equalization of Beer Prices

Beer prices in Northern Ontario are currently about 5 per cent or 26 cents a case higher than in Southern Ontario. This differential pricing policy was established to reflect higher costs of handling and transporting beer in the North. While the economics of supplying beer have not changed, I believe that beer drinkers in the North should not have to pay more than those in the rest of the province. Accordingly, I propose to equalize beer prices in Northern and Southern Ontario effective May 1, 1971.

The mechanism for achieving this equalization of beer prices will be an additional 2 cents on the gallonage tax to be used to reduce Northern beer prices by 11 cents a large case. At the same time, beer prices in Southern Ontario will be increased 15 cents a large case. These two changes will mean that a case of 24 bottles of beer will cost $4.65 everywhere in Ontario, which, Mr. Speaker, is still the lowest price in Canada.

Removal of Fishing Licenses for Residents

At present, Ontario residents must purchase an angling license at a cost of $3.00 per year in order to fish in this province. This license fee was introduced in 1968 as part of a general move to bring user fees more in line with the costs of services provided by the Department of Lands and Forests. While this objective remains generally valid, I would point out that it generates only $1.6 million in revenue, is costly to collect, and is generally a nuisance to fishermen. I propose, therefore, to abolish the resident fishing license, effective retroactively to January 1 of this year. Any residents who have already purchased a 1971 license will be entitled to a refund by sending their license to the Department of Lands and Forests, Queen's Park.

Long-Term Policy on Mining Taxation

Mr. Speaker, I would like to conclude this section on tax changes by discussing Ontario's long-run policy for the taxation of mines. Since the announcement last August of revised federal proposals for the taxation of the mining industry, we have been studying the various proposals to determine the Ontario Government's future policy on mining taxation. This was necessary since the revised federal proposals shifted to the provinces the responsibility for establishing the ultimate tax burden to be borne by the mining industry. I believe it would be premature to make a categorical declaration of provincial policy before final tax reform legislation is brought down by the federal government. Nevertheless, I think it important to set out at this time the objectives and general thrust of our long-term policy in order that Ontario mining companies can take the provincial tax dimension into account in their forward planning and long-term investment decisions.

My department has undertaken an intensive policy review in this complex area. We have devoted particular effort to analysing as fully as possible the potential impact of the revised federal proposals on our mining industry and on Ontario's finances. In undertaking this review, we received the full co-operation of the mining industry in providing essential data and information.

This type of co-operation between government and industry is essential for the development of sound tax policies.

Let me summarize briefly the results of our analysis and the implications for our own mining tax policy.

- The total package of federal mining tax reforms — the original white paper proposals and the revisions announced last August — would not involve any reduction in the total tax burden on the mining industry in Ontario. The reduction of the federal corporate rate from 40 per cent to 25 per cent would be almost or completely offset by reforms widening the tax base: the non-deductibility of provincial mining tax, the change from automatic to earned depletion and the elimination of the three-year exemption.
- The reduction in the federal corporate rate to 25 per cent would not open up major tax room for Ontario to pass benefits on to the mining industry or to take up in increased provincial corporation or mining tax rates. If we simply maintained our existing rates, Ontario would enjoy a modest revenue gain from the base-broadening reforms noted previously while the federal government would suffer an equivalent revenue loss, but the total federal-provincial tax burden on mines would remain about the same as at present.
- The revised federal proposals would involve a marked change in the distribution of the total tax yield among Ontario mining companies. In general, high profit companies and companies able to earn maximum depletion would pay less tax than at present while smaller companies, new companies and companies unable to earn maximum depletion would pay more tax.

These findings have an important bearing on the formulation of our own long-run policy. Not only will the Province have little or no scope to increase its own corporate or mining tax rates without raising the total tax burden on the industry, but it also will face the new problem of evening out or compensating for the shifts in tax burden among companies that will arise under the proposed federal system. With these and other considerations in mind, Ontario intends to pursue a mining tax policy which aims to achieve the following objectives:

In the short run—

- maintain the total tax burden on the mining industry approximately at its present level, at least until the impact of the new tax system can be determined.

In the long run—

- increase mineral processing in Canada. To this end we are prepared to introduce further provincial tax incentives and to use our regulatory powers.
- preserve provincial revenues and revenue growth capacity from the mining industry as a whole.

- ensure a relatively even impact of the new tax system among different mining companies. We intend to compensate for tax shifts which otherwise would provide unwarranted tax reductions to some companies and endanger existing small mines and dependant mining communities.

V Financial Position for 1971-72

Given our taxation and spending policies, I expect Ontario's Gross Provincial Product to reach $38.1 billion, an increase of 8.9 per cent over 1970. On the basis of this forecast total net general revenue is expected to reach $3,847 million. This revenue estimate allows for a gross loss of revenue from the corporate income tax of $125 million, and a further $6 million loss from reduced succession duties. Part of the loss from the corporate income tax will be recovered through the inevitable economic stimulus caused by this major tax decision. Yet, our total 1971-72 revenue will be only $110 million higher than in the previous year.

As I have already indicated our budgetary spending plans for 1971-72 amount to a total of $4,262 million. Our spending and tax policies for the current year constitute a responsible plan with immediate revitalization of the economy as its foremost rationale. The expenditure policies together with the significant tax reduction will generate what I believe to be an appropriate budgetary deficit of $415 million.

This is indeed the largest deficit for Ontario on record but its composition, notably the tax reductions, should be an important factor in bringing the economy towards its potential. As such it should reduce future financing problems of this Government through increased generation of tax revenue. It is a matter of some chagrin that the lion's share of such ultimate gains will go to the federal government because of its predominance in the direct income tax fields.

During the 1971-72 fiscal year we will require $49 million to retire maturing debt issues. Together with our $415 million budgetary deficit this would raise our financing requirements to $464 million. Surplus non-budgetary sources of finance are expected to amount to about $71 million, leaving our overall cash requirements at over $393 million.

	$ million	
Net General Revenue	3,847	
Net General Expenditure	4,262	
Budgetary Deficit		–415
Non-Budgetary Surplus		+ 71
Net Debt Retirements		–49
Overall Cash Requirements		–393

Our Government has been able to avoid any borrowing in the Canadian capital market since February, 1968. This policy has proven particularly valuable as federal monetary policies created tight market conditions and high interest rates, and inflationary demands on capital markets had to be avoided. We feel that the economic outlook for the current year is such that this Government should once again enter the capital market. However, through the judicious use of our liquid reserves and guided by economic and financial developments, we expect to choose both the time and place for our borrowings without adverse effect on capital market conditions, the value of the Canadian dollar or our high credit rating.

VI Conclusion

Mr. Speaker, I have put before you the first budget of the Government of the Honourable William G. Davis. It has been framed in a climate of great economic uncertainty in this province and strong federal-provincial tensions in this country. The 1971 budget faces these challenges with resolve and determination and charts the course for a renewed prosperity in Ontario and a strengthened federalism in Canada.

- It proposes positive new measures to revitalize the economy and restore full employment in Ontario.
- It cuts taxes to stimulate economic expansion and employment.
- It restrains government spending to free greater resources for individual taxpayers and private sector activity and to head off renewed inflation.
- It advances long-term reforms aimed at strengthening local governments and relieving property tax burdens.
- It launches new initiatives to provide a better quality of life for our citizens and to conserve public resources for future generations of our people.
- It encourages increased Canadian ownership and participation in Canadian economic development.
- It rejects unequivocally the trend towards greater federal domination of Canada's tax system and public programs.
- It asserts firmly the central importance of Ontario in building a new confederation.

I am confident that, under the bold fiscal program outlined in this budget, Ontario will realize an even more dynamic and productive future.

Appendix to Budget Statement

Details of Tax Changes

Corporations Tax

1. New 5 Per Cent Investment Tax Credit

- Credit against corporations income tax, otherwise payable, equal to 5 per cent of qualifying investment in machinery and equipment. Incentive available to all corporations paying tax or liable to pay corporations income tax to Ontario.
- Broad definition of machinery and equipment, to be delineated in regulations. Trucks, cars and buildings will be specifically excluded.
- To qualify, machinery and equipment must be purchased, put in place and used in Ontario in the period between April 26, 1971 and March 31, 1973. Any unused credit in the first year may be carried forward to subsequent years to the extent provided for in the legislation, but in no event past March 31, 1973.
- Corporations having a net loss, as defined in the legislation, may carry the credit forward one additional year.

2. Deductibility of Interest

- Corporations will be allowed to deduct from income the interest paid on money borrowed to purchase shares in other corporations.
- This amendment will be effective with regard to such money borrowed during corporate fiscal years ending after April 26, 1971.

Succession Duty

Changes effective in respect of deaths occurring after midnight April 26, 1971:

1. Increase in Widows' and Widowers' Exemption

The exemption for widows and widowers will be increased from $125,000 to $250,000. The corresponding credit, when duty is payable, will be increased from $11,500 to $23,950.

2. Surtax

The existing surtax of 15 per cent will be eliminated for preferred beneficiaries, i.e. father, mother, husband, wife, child, grandchild, grandfather, grandmother, son-in-law, and daughter-in-law.

3. Estates Valued up to $100,000 Will Not Be Subject to Duty Where Property Passes to Preferred Beneficiaries

No duty will be payable in an estate valued up to $100,000 (instead of the present $50,000), where such property passes to preferred beneficiaries.

4. Increase in Exemption for Non-Commutable Pensions and Annuities from the Current $1,200 to $10,000 in Aggregate

The exemption for non-commutable pensions, annuities or periodic payments effected in any manner other than by will or testamentary instrument and paid for by the deceased during his lifetime and paid to the spouse or certain other dependents will be increased from $1,200 per annum to $10,000 per annum in the aggregate.

Equalization of Beer Prices

Changes effective May 1, 1971:

- The existing price differential for beer between Northern and Southern Ontario will be eliminated, by reducing Northern prices.
- A new and uniform price will be established of $4.65 for a case of 24 bottles, net of deposit, with commensurate changes in other quantities sold.
- As part of this policy, the gallonage tax will be raised by 2¢ per gallon.

Resident Fishing Licences

Effective retroactively to January 1, 1971, the resident fishing licence will be abolished.

Budget Papers

Presented by the
Honourable W. Darcy McKeough
Treasurer and Minister of
Economics
for the information of the
Legislative Assembly of Ontario
in connection with the Budget
for the fiscal year 1971-72

A New Directions in Economic Policy Management in Canada 37

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Budget Paper A

New Directions in Economic Policy Management in Canada

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New Directions in Economic Policy Management in Canada

Budget Papers A and B in the 1970 Budget presented an exploration of some major problems in the management of economic policy in Canada.[1] They were a first step towards encouraging more public debate on the adequacy of existing policies, methods and information systems. In particular, they were directed towards the special problems of co-ordinating economic and fiscal policies in the framework of the Canadian federal system.

This paper extends that inquiry further and explores a particular fiscal policy concept, the full-employment budget, as an instrument for public sector management. Although it has been in use in the United States since the early 1960s and has provided an operational basis for tax cuts and fiscal policy strategy, the full-employment budget has not been used for policy formulation in Canada.[2] The concept is used in this paper to examine the impact of the public sector on the Ontario economy and the potential roles of the three levels of government in stabilizing growth in employment, incomes and prices.

I The Management of Economic Policy Today

The Ontario Government's Objectives

In the Budget Statement of 1970, in the supporting Budget Papers, and in various studies on tax reform, tax sharing and fiscal policy co-ordination, the Ontario Government has consistently pressed for a thorough re-examination of the role of public sector growth and management in maintaining a viable economic base for federalism in Canada.[3] Some progress has been made in this respect with the regular meetings of Ministers of Finance and the broadening of the work of various committees of officials. However, there is still no operational federal-provincial capacity to establish common economic objectives and actions.

The overall objective of economic and fiscal policy in Canada is to achieve full employment with high rates of growth in real per capita income, accompanied by low levels of inflation and an equitable distribution of income. The disparities in regional income also require special attention, both in a long-run structural context and in measures to insulate the less-developed areas from recurring federal deflationary policies.

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[1]See Hon. C. S. MacNaughton, *Ontario's Proposals for Fiscal Policy Co-ordination in Canada*, (Toronto: Department of Treasury and Economics, 1970).

[2]The use of this concept in Canada was recommended by the Carter Commission. See *Report of the Royal Commission on Taxation*, (Ottawa, 1966) Volume II, Chapter 3. Also, see President R. M. Nixon, *The Budget of the United States Government, Fiscal Year 1972*, (Washington: U.S. Government Printing Office, 1971).

[3]See Hon. C. S. MacNaughton and Hon. W. Darcy McKeough, *Ontario Proposals for Tax Reform I-III* and, Staff Papers, *Ontario Studies in Tax Reform 1-5*, (Toronto: Department of Treasury and Economics, 1970 and 1971).

The Problem of Control and Co-ordination

The historical record shows that the existing apparatus and methods have frequently been unable to cope with more than one major objective at a time. The economic record of the past two years is particularly discouraging. Inflation has been stemmed temporarily, but as a result Canada has suffered harsh levels of unemployment and disruptions in its key industrial and commercial sectors. The major stabilization moves have brought about the following repercussions:

- a severe liquidity squeeze in the financial and corporate sectors;
- large swings in essential housing investment;
- depressed business income;
- an undercutting of major exports and increased competition from imports with a revalued dollar;
- a decline in business and consumer confidence; and
- higher levels of provincial and municipal debt as revenues decelerated.

Yet, notwithstanding all these economic costs, inflation may again emerge as a serious problem when economic growth resumes.

The periodic, dramatic and crisis-oriented shifts in federal policies between economic expansion and contraction are indicative not so much of flexibility as of a fundamental lack of control and co-ordination in the achievement of objectives.

Although these problems are common to many industrial countries, there can be no doubt that the public sector in Canada has a special need for new policy instruments and economic control systems if the goal of stable growth in a diversified federal state is to be realized. The major policy questions for Canada are still largely unanalyzed. What is the optimum rate of transfer of resources from the private to the public sector and from the high to the low-growth regions? What are the limits and constraints to federal, provincial and municipal roles in stabilization policy? How do the regional economies interact under different economic policy conditions? What modifications have to be made to the conventional surplus-deficit budgeting at the federal level to make it operational for a federal state? How does the public sector influence the rate of inflation? All these vital issues require constant and aggressive inquiry.

The Responsibility for Economic Stabilization Policies

In Canada, the problem of stabilizing the economy—managing the level of aggregate demand so as to minimize the economy's recessionary or inflationary tendencies—has, historically, been a federal government function.[4] The reasons for this are complex, but among the most important are the sup-

[4]In its white paper, *Employment and Income*, (Ottawa: King's Printer, 1945) the federal government accepted the responsibility for economic stabilization. In the white paper, and in recognition of the then newly accepted Keynesian doctrine, it was envisaged that the major stabilizing role was to be played by fiscal policy. However, in the past decade more frequent use has been made of monetary policy for this purpose.

port of federal debt operations by the Bank of Canada, and federal dominance in the field of direct taxation. These two features ensure that the federal government has a large degree of fiscal power and potential flexibility and, consequently, major command over the traditional instruments of stabilization policy.[5]

Provincial governments also have access to the field of direct taxation, but to a far smaller degree. Neither provincial nor municipal governments have any direct influence on the conduct of monetary policy. Nevertheless, over the past decade the provincial-municipal sector has grown rapidly in size and relative economic importance. Provincial occupancy of the direct tax field has increased, and substantial transfers of funds from the federal to provincial governments and from provincial to local governments have become a major means of financing the rising demands for services.[6] It is necessary to examine, therefore, what these changes imply for the different levels of government and their respective roles in the increasingly complex area of national fiscal policy co-ordination.[7]

The Ontario Government has advanced tax reform proposals which are an essential part of its program of economic policy development in that they are designed to assist the achievement of controlled and planned growth in the public sector.[8] Central to the Province's tax reform thrust is the view that tax increases to finance income redistribution can be minimized by the use of selective tax credits rather than by universal exemptions.[9] It is the Ontario Government's view that the implementation of its proposals for national tax reform would encourage private savings and investment and promote the achievement of full-employment growth along with the containment of inflation.

Changes in the Relative Size of Governments in Ontario

The relative sizes of the three levels of government in Ontario have changed in the past fifteen years. These shifts are of particular importance in the development of fiscal policies to attain long-run balanced growth between

[5]Dominance of the direct tax field provides fiscal flexibility because most tax revenues, particularly personal and corporate income taxes, rise and fall automatically with the level of economic activity. On the other hand, very few expenditure items undergo automatic cyclical change. Also, since the Bank of Canada is an arm of the federal government, its monetary policies—which are intertwined with debt management and exchange rate policies—must ultimately be in line with those desired by the federal government. The Bank's monetary policies influence the cost and availability of credit and, consequently, the level of effective demand in the economy.

[6]The increased transfer of financial resources is the keystone to Ontario's provincial-municipal reform program. See Hon. C. S. MacNaughton, "The Reform of Taxation and Government Structure in Ontario", and, "The Structure of Public Finance in Ontario" in *Ontario's Proposals for Fiscal Policy Co-ordination in Canada, op. cit.*

[7]The desirability of a fiscal policy role for the provinces—particularly Ontario and Quebec—is discussed in Clarence L. Barber, *Theory of Fiscal Policy as Applied to a Province,* Ontario Committee on Taxation, (Toronto: Queen's Printer, 1967).

[8]See, for example, Hon. C. S. MacNaughton, *Ontario Proposals for Tax Reform in Canada;* Staff Paper, *Inter-governmental Policy Co-ordination and Finance;* and Staff Paper, *Tax Reform and Revenue Growth to 1980,* Ontario Studies in Tax Reform 4, (Toronto: Department of Treasury and Economics, 1970 and 1971).

[9]See Staff Paper, *Effects of Ontario's Personal Income Tax Proposals,* Ontario Studies in Tax Reform 2, (Toronto: Department of Treasury and Economics, 1970).

the private and public sectors of the economy. On the other hand, they do not provide a reliable measure of the capacity and flexibility of governments to employ economic stabilization policies. The federal government still retains the most powerful and flexible fiscal and economic policy instruments for this purpose. The provincial-municipal sector has been historically under-financed and committed to the provision of many essential services in which short-term expenditure flexibility is limited.[10]

The figures in Table 1 show these relative shifts after netting out inter-governmental transfer payments.[11] The total government sector in Ontario expanded rapidly in the period 1957-69. As a percentage of Gross Provincial Product (GPP) government spending rose from 24.3 per cent in 1957 to 31.4 per cent in 1969. Most of this growth was due to the expansion of provincial-municipal government expenditures from 10.3 per cent to 18.8 per cent of GPP to provide for improved and enlarged public services and facilities in health, education and welfare, including large new programs in hospital and medical care.

Estimated Government Spending in Ontario Excluding Inter-Governmental Transfers

Table 1

Per Cent of Gross Provincial Product

	1957	1969
Federal	14.0	12.6
Provincial-Municipal	10.3	18.8
TOTAL	24.3	31.4

Source: Estimated, Ontario Department of Treasury and Economics.

These broad features of the public sector involvement in the economy form an essential backdrop to the examination of fiscal policy impact. However, the pattern of public sector growth must also be viewed in the context of the various measures of budgetary and economic performance.

The development of the capacity to anticipate the public sector's economic impact is essential to the achievement of national economic goals. Part of this capacity lies in the budgetary concepts employed to measure the record of past economic growth and to estimate the impact of changes in tax and expenditure policies.

[10]For a discussion of expenditure inflexibility at the provincial level and the importance of transfer payments in the provincial budget, see Hon. C. S. MacNaughton, "The Budgetary Framework", *Ontario Budget 1968*, and "The Structure of Public Finance in Ontario", *op. cit.*, (Toronto: Department of Treasury and Economics).

[11]A standard definition of the government sector is elusive and subject to qualification. The definition used here is that employed by the Dominion Bureau of Statistics in its revised national income and expenditure accounts. It excludes Canada Pension Plan receipts and payments and other financial transactions such as loans and advances. The revised national accounts data show the public sector to be larger in size than on the old basis.

Traditionally, the major budgetary concept used for measuring public sector economic impact has been the *federal government surplus or deficit on a national accounts basis.* However, this particular statistical measure does not reflect the wide regional differences in economic performance in Canada and the fiscal significance of the provincial-municipal sector. It also fails to distinguish between *discretionary* and *automatic* changes in the public sector's economic impact and it provides limited operational insight into the relationship between budgetary policies and the attainment of high levels of stable growth. For these reasons, the Ontario Government proposes that an alternative and more flexible concept be explored as a framework for analyzing total public sector economic impact in Canada—*the full-employment budget.* This concept would also appear to be particularly suitable as a framework for the co-ordination of federal-provincial economic actions.

The full-employment budgeting approach is not a complete solution. Rather, it is one measure in the first stage of analysis and its compilation for all regions of Canada would provide a useful, if approximate, policy framework for all governments. At the present time, there is a critical vacuum in public sector statistics and the full-employment budget is the best framework for fiscal policy formation. Estimates of the full-employment budget are shown for all three levels of government in Ontario in later sections of this paper.

II Measuring the Public Sector Impact

The Traditional Approach

Prior to 1964, analysis of fiscal policy in Canada focused primarily on the federal government's administrative and cash budgets. However, in 1964 the federal budget was presented for the first time on a national accounts basis.[12] This was a significant step forward in that budget projections were made consistent with historical national accounts data. It provided a first approximation of the total economic impact of each federal budget and the broad direction of fiscal policy. There has since developed in Canada a rule-of-thumb for fiscal policy which, in its crudest form, says that the economic impact of a federal national accounts budget deficit is expansionary, and that of a surplus contractionary.

Judged only on this basis, Canada would appear to have a good record in economic stabilization policy. However, the recurrent problems of unstable economic growth, fluctuating employment levels and inflation suggest that

[12]The national accounts budget is broader in coverage than the administrative budget. It includes the transactions of social security, administrative and special funds. It also includes inter-governmental transfers but excludes certain intra-governmental transactions. It is on a calendar-year-accrual rather than fiscal-year-cash basis. Its chief advantage is that it is directly linked with the economic accounts for all the other sectors of the economy which, taken together with the government sector, form the Canadian national income and expenditure accounts. These accounts are part of the comprehensive Canadian system of national accounts that provides the conceptual framework and statistical base for economic analysis. A detailed review of these budgetary concepts is contained in R. M. Will, *The Budget as an Economic Document,* Studies of the Royal Commission on Taxation No. 1, (Ottawa: Queen's Printer, 1966).

the contrary is the case.[13] In fact, swings in the government sector surplus or deficit do not adequately measure its impact on the economy.

As the economy moves into periods of slow growth, government revenues falter, welfare and unemployment benefits increase, and the budget unavoidably swings towards a deficit. In periods of rapid growth, revenues accelerate, social security payments slow down and the budget moves towards a surplus position. These built-in or structural features of a budget are in effect, *automatic stabilizers*. They are currently very much in evidence in both federal and provincial budgets in Canada. Ontario's budgetary position in 1970-71 has been significantly affected by slower revenue growth and higher welfare payments, with a consequent move towards a budgetary deficit. It appears that this pattern will continue into 1971-72.

Since the public sector deficit or surplus contains such a large element of automatic adjustment to changing economic conditions, it tends to be self-regulating and, even with no change in tax rates and expenditure policies, will in fact give the appearance of being discretionary, selective and appropriate most of the time.

The key to a finely tuned fiscal policy apparatus is the tax system. The use of crude measures of budgetary surpluses or deficits to predict and maintain a stable rate of economic growth is weak in its diagnostic insights into the complex and volatile behaviour of tax revenues at different levels of employment. There are two basic and powerful thrusts in the flow of tax revenues. First, business incomes are extremely sensitive to the level of unemployment. They rise rapidly as the economy approaches full employment and tend to produce large and accelerating flows of tax revenues. Second, personal incomes are subject to a progressive schedule of tax rates and, as the economy expands, the government sector collects an increasingly larger share of additional earnings. Personal income taxes, therefore, accelerate rapidly as the economy moves into high gear with higher levels of employment and rising incomes.

This acceleration in tax revenues relative to government expenditures as the economy approaches full employment exerts a powerful drag on the private sector's financial resources. *Unless taxes are tuned so that government revenues accelerate to an approximate balance with expenditures at full employment, they become a built-in barrier to the achievement of the full-employment target.*

At the present time the federal government's budget has moved to a deficit position, largely due to the automatic deceleration in revenues brought about by its own policies designed to deflate the economy. However, this budgetary deficit has also been expanded by some increases in expenditures in slow-growth regions and on social security payments. There is still, however, no indication in the federal budgetary analysis of how much tax drag stands in the way of attaining a full-employment economy. Conspicuously absent from federal fiscal policy actions and analysis is an awareness of the regional

[13]The Carter Commission concluded that between 1954 and 1963 "fiscal policy was approximately in the right direction and of the right magnitude about half the time", *Report of the Royal Commission on Taxation*, (Ottawa: Queen's Printer, 1966), page 79.

dimensions of its current tax policies. The Ontario Government has restated its concern that federal income surtaxes should be removed immediately. This financial drain on private sector incomes and on economic growth is worsened each year by the progressively larger bite of income taxes as average earnings increase. In short, it is the Ontario Government's position that the federal government has seriously underestimated the extent to which the economy is over-taxed and the extent to which this over-taxing inhibits the attainment of high levels of employment and stable rates of economic growth.

The New Approach

Over the past decade in the United States, and more recently in Canada, an interest has developed in a new budgetary concept—*the full-employment* or *high-employment budget*.[14] Since this concept gives special emphasis to the identification of the automatic and discretionary components of expenditures and taxes, it overcomes a major limitation of the conventional surplus or deficit measure of government fiscal policy on a national accounts basis. The Ontario Government suggests that more use should be made of this measure in the co-ordination of fiscal policy between governments in Canada. Its major strength is its emphasis on the sensitivity of tax mechanisms and their revenue flows to different rates and levels of economic growth. The Canadian tax system is sufficiently complex that special attention to an analysis of its destabilizing effects on economic growth is an urgent matter of national concern.

This paper provides some preliminary estimates of the potential full-employment performance of the fiscal system in Ontario. It is the Ontario Government's belief that, given adequate federal-provincial co-operation, these estimates could be enhanced to form the basis of an explicit operational framework for more effective fiscal policy co-ordination to the benefit of Canada as a whole.

The full-employment budget is a measure of the government surplus or deficit that would occur if the target of full-employment growth were attained. It provides an approximate measure of the degree to which the growth capacity of the present tax structure would counteract the achievement and maintenance of full employment through the over-generation of government revenues. Tax revenues generally increase faster than Gross National Product. Income taxes in particular tend to accelerate sharply as the full-employment level is approached. Therefore, in aiming for the target of full employment, governments have to set tax rates and expenditure policies in a manner that anticipates their changing behaviour as the economy moves forward. If the tax/expenditure mix is incorrectly tuned, the economy will be unable to move into a balanced fiscal position. There will be either too much tax drag and a shortfall from full employment, or too little revenue and a consequent inflationary surge with over-employment of national economic resources.

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[14]For a useful introductory note on the use and interpretation of the full-employment budget, see R. Solomon, "A Note on the Full-Employment Budget Surplus", *Review of Economics and Statistics*, XLVI (February 1964), pages 105-108. A detailed theoretical and statistical treatment of the concept is found in M. Levy, *Fiscal Policy, Cycles and Growth*, National Industrial Conference Board, Studies in Business Economics, No. 81 (New York: The Conference Board, 1962).

The setting of a finely-tuned tax/expenditure mix from a position of under-employment in the economy is analogous to the problem of calculating the trajectory of a rocket to hit a planet that is itself in orbit. The conventional budgetary surplus or deficit technique is akin to aiming at where the planet is now. The full-employment surplus technique, on the other hand, is similar to calculating where the planet will be after the rocket is launched, and by how much the rocket will over-shoot or under-shoot with a given thrust.

The full-employment budget is developed in four stages:

(a) An estimate is made of the potential full-employment Gross National (or Provincial) Product. This constitutes the target of economic and fiscal policy.

(b) With the economic target of full employment and estimates of the acceleration capacity of taxes, a calculation is made of the tax revenues that would be generated by present tax rates as the economy moves into a full-employment phase.

(c) Government expenditure levels at full employment are calculated, taking into account lower social security and welfare payments as unemployment declines.

(d) The tax revenue and expenditure estimates are brought together to provide a "full-employment budget" surplus or deficit. This measure of the public sector economic impact forms the basis for designing fiscal policies which will achieve the full-employment target.

The full-employment surplus or deficit is a hypothetical number. Changes in this measure indicate the true direction of the government's fiscal impact and give some indication of whether present tax and expenditure policies could cause the economy to either under-shoot or over-shoot the full-employment target.

Under certain conditions, a full-employment surplus or even a deficit may be quite acceptable and desirable. Attention must be given to the powerful and overriding influence of monetary policy and of possible inflationary demands on domestic resources by consumers in export markets. But this does not invalidate the general principle of effective budgetary design that, in order to reach a full-employment target, it is essential to know in advance how tax and expenditure policies will operate as the target level is approached. It is the Ontario Government's view that the present tax/expenditure mix in Ontario makes it extremely difficult to achieve and maintain a desirable target of about 3 per cent unemployment. This is because of the excessive federal revenue drag and the unavoidable increase in this drag as the provincial economy moves towards capacity utilization. For this reason, the Ontario Government has moved in its 1971-72 budget to provide tax incentives to corporations both as a direct stimulus to investment and growth, and as an offset to federal fiscal drag.

In the long-run context, the full-employment budget also provides a guideline for national fiscal policy planning. At full employment the growth of public sector expenditures should not outrun that of revenues. Ontario has previously stated its concern that excessive rates of increase in public spending are inflationary, even if the sector is in budgetary balance. Conversely, a rate of long-term revenue growth in excess of expenditure needs would produce persistent under-employment of economic resources.[15]

The following section presents some preliminary estimates of the full-employment budget positions in Ontario of the total government sector, the federal government, and the combined provincial-municipal sector for the period 1957 to 1969.

III The Full-Employment Budget

The Performance of the Ontario Economy

In examining both the growth and fiscal impact of the government sector, it is essential to measure how well the Ontario economy has performed. To determine this, the actual growth rate of the economy is compared with its full-potential growth rate. The potential rate of economic growth forms the basis for estimating the full-employment budgets discussed in this section.[16]

Chart 1 shows that the Ontario economy in the years 1957-69 experienced three distinctly different patterns of growth:

(a) From 1957 to 1960, the performance of the economy deteriorated rapidly. In 1957, the gap between actual and potential growth was about 1.4 per cent of potential GPP. By 1960, it had increased to 8.3 per cent.

(b) From 1961 to 1964, the gap gradually closed, and by 1965-66 the economy was operating at full capacity.

(c) After 1966, the economy failed to maintain full employment, and by 1969 a gap had again emerged that was equal to 2.5 per cent of potential GPP. In 1971, it is estimated that the gap between actual and potential GPP will have increased to about 5.0 per cent.

The relationship between actual and potential growth over time provides a measure of the "gap" that fiscal and economic policies have aimed at correcting. It also serves as the basis for distinguishing between discretionary and automatic budgetary changes and for estimating the net fiscal impact of the budget. Therefore, it is only on the basis of this relationship that the appropriateness of stabilization policy can properly be judged in terms of the target of full employment.

The Full-Employment Performance of the Total Public Sector in Ontario

The most significant feature of the total public sector's fiscal impact in Ontario is a permanent full-employment surplus, implying a built-in tax drag on the provincial economy. This permanent tax drag is due wholly to the financial operations of the federal government in Ontario.

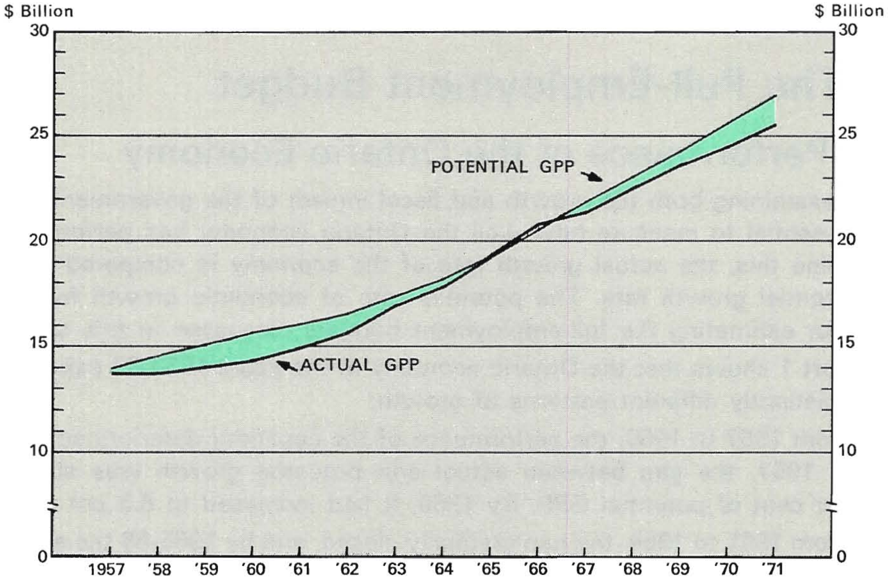
15For a discussion of income tax revenues at full employment through to 1980, see Staff Paper, *Tax Reform and Revenue Growth to 1980*, Ontario Studies in Tax Reform 4, (Toronto: Department of Treasury and Economics, 1971).

16For the purpose of this study, the Ontario economy is assumed to have a long-run potential annual real economic growth rate of approximately 5.5 per cent. Further, this rate of growth is assumed to be consistent with full employment when about 3.0 per cent of the labour force is unemployed.

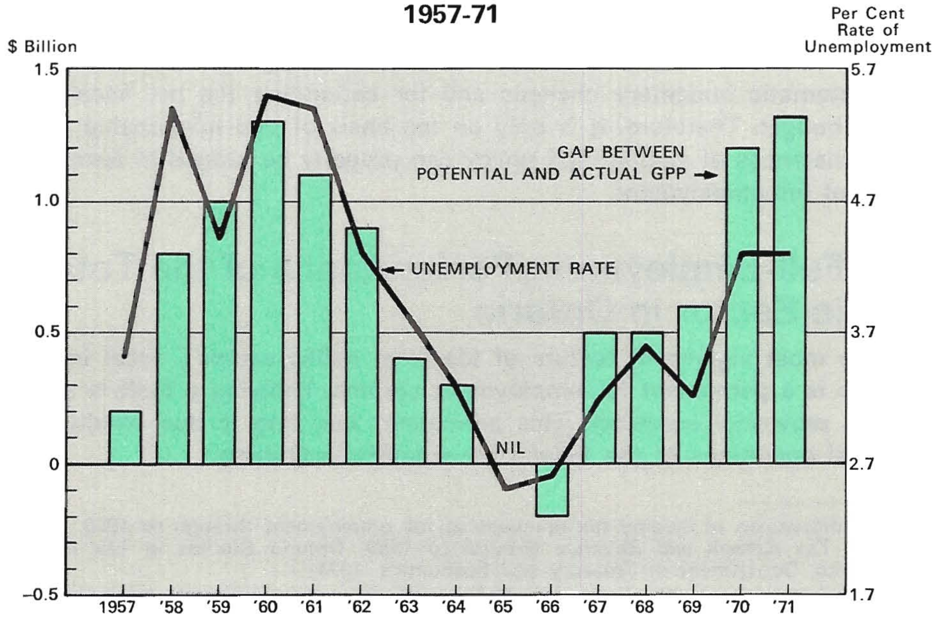
Chart 1

ACTUAL AND POTENTIAL ECONOMIC GROWTH IN THE ONTARIO ECONOMY, 1957-71

(1957 Dollars)



UNEMPLOYMENT RATE AND THE GAP BETWEEN ACTUAL AND POTENTIAL ECONOMIC GROWTH, 1957-71



In recent years, the total public sector surplus rose rapidly, from $0.4 billion in 1966 to $1.6 billion in 1969 (see Appendix A, Tables A-2 and A-3). The net fiscal impact was contractionary and unemployment began to rise significantly. The sharp increase in the 1969 full-employment surplus was followed by a particularly rapid upward thrust in unemployment in 1970. These developments should also be considered in the context of monetary policy which was used aggressively towards the end of the period to reduce domestic demand after being expansionary in 1967 and 1968.

The capacity of the Ontario economy to continue to grow under the weight of some permanent degree of tax drag raises a substantial issue for economic policy co-ordination in Canada. There are clearly limits to the level of surplus tax generation that is compatible with stable full employment. Such a maximum level should be one which, given normal credit conditions, allows full employment in Ontario and provides an adequate flow of tax revenues to finance both the provincial-municipal sector and federal redistribution policies. The maintenance of full employment in Ontario with rising income levels also has considerable significance for the objective of bringing slow-growth provinces up to a high national norm through federal equalization payments and regional development programs.

The Federal Government in Ontario

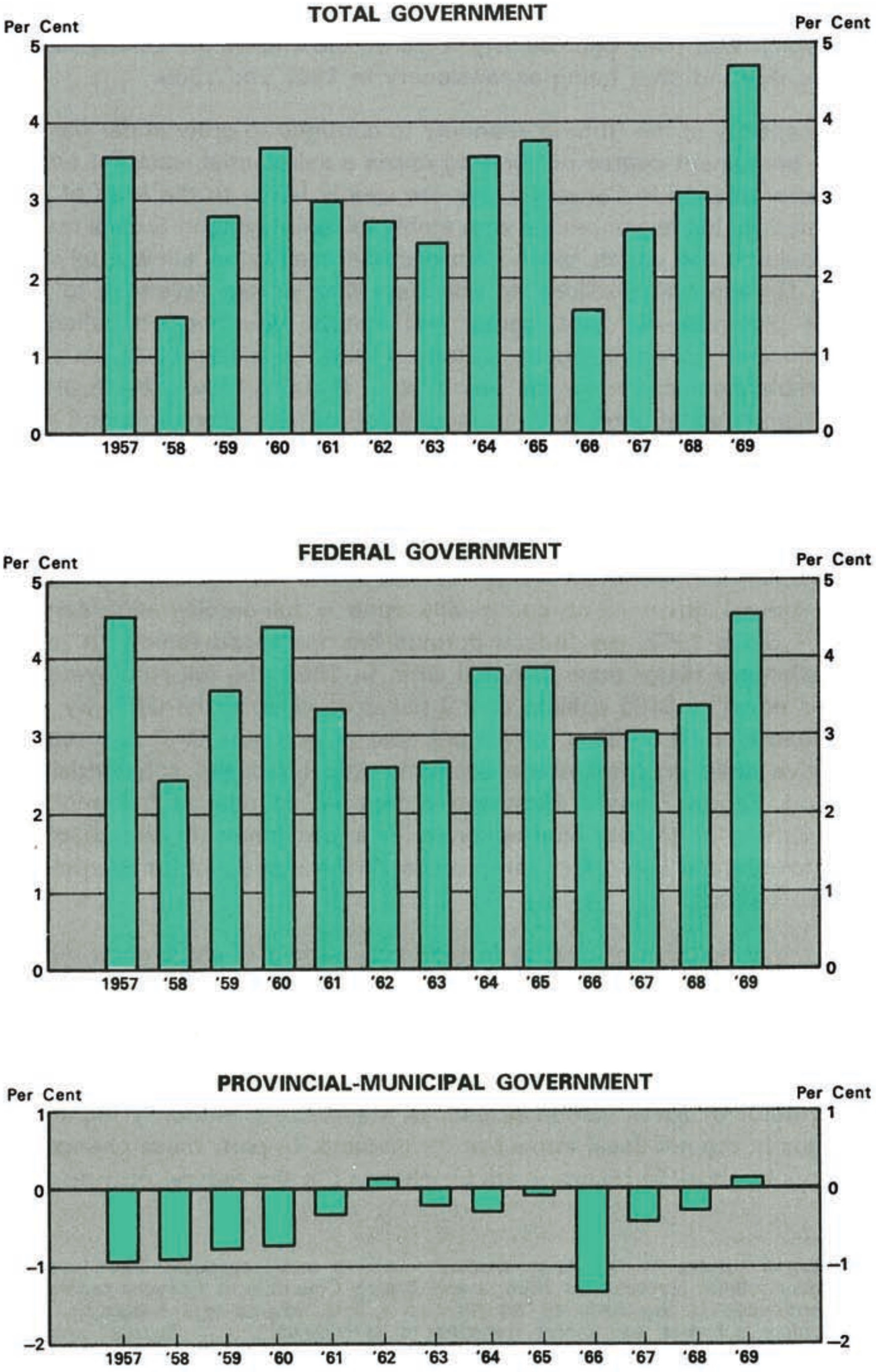
The federal government continually runs a full-employment surplus in Ontario.[17] Since 1962, the federal surplus has increased rapidly. It has also grown relatively faster than potential GPP. In 1962, the full-employment surplus was equal to $466 million, or 2.6 per cent of potential GPP. By 1969 it had increased to $1.5 billion, or 4.5 per cent of potential GPP. Consequently, the relative drain on the Ontario economy was increased substantially over the period. Charts 2 and 3 show the change in the relative full-employment surplus as well as the net contractionary or expansionary fiscal impact of the federal government in Ontario and provide similar measures for the provincial-municipal sector.

The major sources of change in the fiscal impact of the federal budget in Ontario over the 1957-69 period are summarized in Table A-4. This table shows that, particularly since 1962, discretionary changes in federal tax policies have been a more important source of the central government's fiscal impact than discretionary changes in expenditures. The federal government's twin role as a redistributor of fiscal resources and as a stabilizing authority are reflected in changes in the net fiscal impact of its budgets. In part, these changes have been brought about in recent years by changes in the federal-provincial fiscal

[17]"The federal surplus in Ontario is important in two major respects. First, along with the smaller federal surpluses in Alberta and British Columbia, it finances federal aid to other provinces in the form of equalization grants, shared-cost programs, regional development schemes and direct transfers to individuals . . . . Second, the federal surplus in Ontario is important as a measure of the strong deflationary influence exerted on the Ontario economy by the federal government." "The Structure of Public Finance in Ontario", in *Ontario's Proposals for Fiscal Policy Co-ordination in Canada, op. cit.*, pages 66-67.

Chart 2

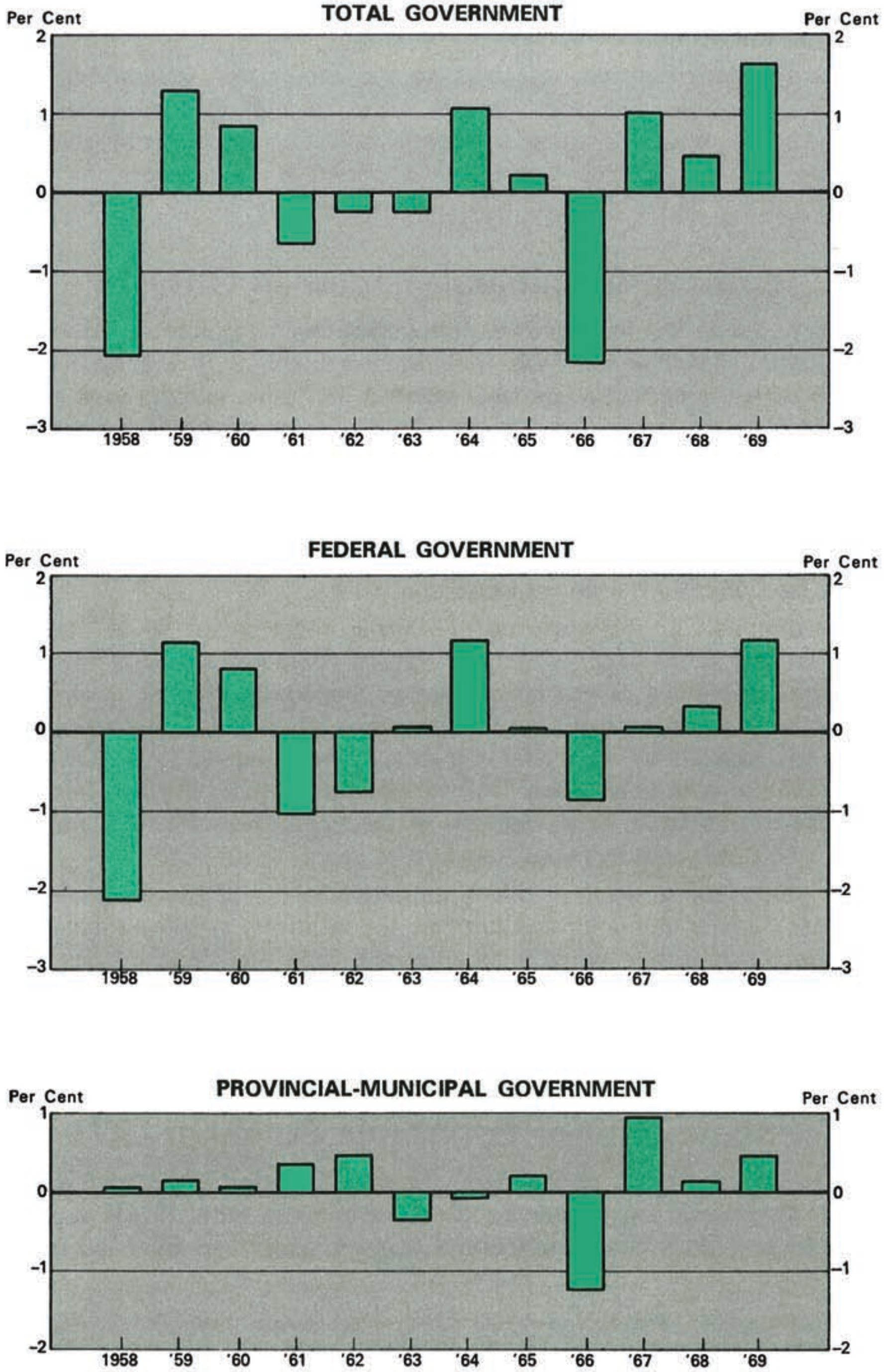
RELATIVE FULL EMPLOYMENT SURPLUS* GOVERNMENT SECTOR IN ONTARIO, 1957-69



*Full employment surplus expressed as a percentage of potential GPP.

Chart 3

RELATIVE NET FISCAL IMPACT*
GOVERNMENT SECTOR IN ONTARIO, 1958-69
Contractionary (+) or Expansionary (–)



*Calculated in three steps: (1) The full-employment surplus is calculated to be the same percentage of GPP as in the previous year (this measure "neutralizes" the surplus, i.e. it has the same relative impact as the year before), (2) the "neutralized" full-employment surplus estimated in step 1 is subtracted from the actual full-employment surplus to yield the net fiscal impact, and (3) the net fiscal impact is expressed as a percentage of potential GPP (current $).

arrangements which are not directly related to short-run stabilization policy.[18] The table also shows increases in the federal fiscal dividend over time with the growth in the economy. Under normal circumstances, unless this dividend is used up in the form of tax reductions or increases in expenditures by the federal government in Ontario, or is offset by other federal policies, it exerts a drag on the economy.[19]

It is also important to note that, to the extent that federal fiscal policy has been inflexible and poorly-timed, great reliance has necessarily been placed on monetary and other economic policies for short-run stabilization purposes. This has become increasingly apparent in recent years and presents a serious threat to the ultimate effectiveness of fiscal policy in Canada.

The Provincial-Municipal Sector in Ontario

In contrast to the large federal full-employment surpluses in Ontario, the provincial-municipal sector was in a full-employment deficit position from 1957-68 with the exception of 1962 when a negligible surplus was recorded, and in 1969 when another small surplus was generated as inflation accelerated revenue flows. Table A-2 shows that, whereas the federal surplus has ranged from a low of 2.4 per cent of potential GPP in 1958 to a high of 4.5 per cent in 1969, the provincial-municipal surplus never exceeded the 0.2 per cent reached in 1969. In 1957 and 1966, however, the sector's deficit amounted to 1.0 per cent and 1.4 per cent of potential GPP.

The direction of the provincial-municipal sector's net fiscal impact has paralleled that of the federal sector in recent years and, in view of the overwhelming dominance of the latter sector's impact over most of the period, has not been perverse in terms of short-term economic stabilization policy. In only two years, 1966 and 1967, did the provincial-municipal sector's impact exceed 0.5 per cent of potential GPP whereas the federal sector's impact was in excess of this figure in all but four of the years from 1957-69 and was in excess of 1.0 per cent in five of the twelve years.

The relentless upward pressure of provincial-municipal expenditures on fiscal resources is demonstrated both by the relatively small net fiscal impact of the sector at a time when it experienced rapid economic growth, and by the fact that it has been almost continuously in deficit. Table A-5 shows the substantial automatic and discretionary increases in revenues and expenditures over the period.

The Implications for Economic Policy in 1971-72

A continuing high level of federal tax drag in Ontario is certain to persist in 1971-72. Federal fiscal policies in recent budgets have aimed at reducing economic growth in the province and have concentrated their expansionary

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[18]For more details on inter-governmental transfers see below, Table A-1 in Appendix A, and "The Structure of Public Finance in Ontario", *op. cit.*. See also Canadian Tax Foundation, *Provincial Finances 1969*, and *The National Finances 1969*, (Toronto: Canadian Tax Foundation, 1969).

[19]For a discussion of how fiscal dividends can be used to finance tax reductions, low-income tax relief, social security development and inter-governmental finance, see *Tax Reform and Revenue Growth to 1980*, *op. cit.*, Chapter 1.

aspects in other regions of Canada. The persistence and growth of this tax drag in Ontario are serious obstacles to the resumption of normal growth and the attainment of full employment. The seriousness of this fiscal constriction is worsened by persistent uncertainties in long-term capital markets and the economic losses from a high exchange value of the Canadian dollar.

The Ontario budget for 1971-72 is designed around a full-employment budgetary deficit as an offset to the federal government's excessive tax drag and is a positive move towards the achievement of full employment. If full employment is to be regained at minimum social cost, the federal government should also assume a more positive stance throughout Canada and use the weight of its fiscal and monetary policies to re-activate the economy to full-employment growth rates. It should:

- continue to pursue an expansionary monetary policy;
- work to lower the external value of the dollar;
- bring Canadian long-term interest rates closer to parity with those in the United States; and
- remove the income surtaxes.

In the longer term, Ontario would like to see more extensive inter-governmental analysis of full-employment budgets in Canada. The sheer size and complexity of the public sector command over financial and economic resources in Canada require constant improvements in the precision of fiscal policy design. The full-employment budget is operationally a more sophisticated instrument than the conventional national accounts budget and could be a valuable aid in achieving Canada's full economic potential.

Appendix A

Government Sector in Ontario National Accounts Surplus(+) or Deficit(−) Before and After Inter-Governmental Transfers

Table A-1

($ million)

	1957	1963	1969
Before Transfers:			
Federal	610	720	2,172
Provincial-Municipal	–181	–395	–874
Total	429	325	1,298
After Transfers:			
Federal	579	399	1,344
Provincial-Municipal	–150	–74	–46
Total	429	325	1,298
Difference:			
Federal	–31	–321	–828
Provincial-Municipal	31	321	828
Total	0	0	0

Source: Estimated, Department of Treasury and Economics.

Table A-2

Full-Employment Surplus and Net Fiscal Impact Government Sector in Ontario, 1957-69[1]

($ million)

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Federal Government:													
Full-employment Surplus(+) or Deficit(–)	635	362	568	734	574	466	511	794	866	742	842	1,021	1,515
— as a per cent of potential GPP	4.5	2.4	3.6	4.4	3.3	2.6	2.7	3.8	3.8	3.0	3.0	3.4	4.5
Net Fiscal Impact:													
Contractionary(+) or Expansionary(–)	—	–314	184	134	–182	–135	14	243	3	–224	20	106	389
— as a per cent of potential GPP	—	–2.1	1.2	0.8	–1.1	–0.8	0.1	1.2	0.0	–0.9	0.1	0.4	1.2
Provincial-Municipal Government:													
Full-employment Surplus(+) or Deficit(–)	–136	–137	–125	–121	–59	24	–41	–62	–21	–343	–117	–89	52
— as a per cent of potential GPP	–1.0	–0.9	–0.8	–0.7	–0.3	0.1	–0.2	–0.3	–0.1	–1.4	–0.4	–0.3	0.2
Net Fiscal Impact:													
Contractionary(+) or Expansionary(–)	—	7	20	11	66	86	–67	–18	46	–320	263	38	150
— as a per cent of potential GPP	—	0.0	0.1	0.1	0.4	0.5	–0.3	–0.1	0.2	–1.3	0.9	0.1	0.5
Total Government:													
Full-employment Surplus(+) or Deficit(–)	499	225	443	613	515	490	470	732	845	399	725	932	1,567
— as a per cent of potential GPP	3.6	1.5	2.8	3.7	3.0	2.7	2.4	3.5	3.8	1.6	2.6	3.1	4.7
Net Fiscal Impact:													
Contractionary(+) or Expansionary(–)	—	–306	205	145	–116	–49	–52	225	50	–544	283	144	539
— as a per cent of potential GPP	—	–2.1	1.3	0.9	–0.7	–0.3	–0.3	1.1	0.2	–2.2	1.0	0.5	1.6

Source: See Tables which follow. For an explanation of Net Fiscal Impact see Chart 3, footnote.

Net Fiscal Impact of Total Government Sector in Ontario, 1957-69[1] — Table A-3

($ million)

	(a)	(b)	(c)	(d)		(e)	
Calendar Year	Full-Employment Surplus	Neutralized Full-Employment Surplus[2]	Net Impact Contractionary(+) or Expansionary(–) (a)–(b)	Automatic Year-to-Year Changes[3] Revenues	Expenditures	Discretionary Year-to-Year Increase(+) or Decrease(–)[4] Revenues	Expenditures
1957	499	—	—	—	—	—	—
1958	225	531	–306	264	232	–150	156
1959	443	238	205	254	241	463	258
1960	613	468	145	281	256	78	–67
1961	515	631	–116	158	140	119	235
1962	490	539	–49	259	235	312	361
1963	470	522	–52	409	377	–46	6
1964	732	507	225	508	471	–40	–265
1965	845	795	50	606	543	261	211
1966	399	943	–544	906	808	–62	482
1967	725	442	283	934	891	352	69
1968	932	788	144	860	797	679	535
1969	1,567	1,028	539	1,180	1,084	879	340

[1]Estimated, Department of Treasury and Economics.

[2]The full-employment surplus calculated to be the same percentage of potential GPP as in the previous year, i.e. unchanged relative full-employment surplus.

[3]The automatic growth in full-employment revenues and expenditures required to keep the relative full-employment surplus constant from one year to the next (both revenues and expenditures grow proportionately to potential GPP). The automatic growth in revenues is called the "fiscal dividend".

[4]Total changes in full-employment revenues and expenditures less automatic changes. Discretionary changes are defined as those that bring about a change in the fiscal impact, i.e. they represent a change in the budget program.

Net Fiscal Impact of Federal Government in Ontario, 1957-69[1]

Table A-4

($ million)

Calendar Year	(a) Full-Employment Surplus	(b) Neutralized Full-Employment Surplus[2]	(c) Net Impact Contractionary(+) or Expansionary(–) (a)–(b)	(d) Automatic Year-to-Year Changes[3] Revenues		(e) Discretionary Year-to-Year Increase(+) or Decrease(–)[4] Revenues	
				Revenues	Expenditures	Revenues	Expenditures
1957	635	—	—	—	—	—	—
1958	362	676	–314	165	124	–260	54
1959	568	384	184	150	128	215	31
1960	734	600	134	162	130	16	–118
1961	574	756	–182	91	69	–37	145
1962	466	601	–135	143	116	–150	–15
1963	511	497	14	204	173	–82	–96
1964	794	551	243	249	209	158	–85
1965	866	863	3	313	244	–9	–12
1966	742	966	–224	451	351	–110	114
1967	842	822	20	456	376	8	–12
1968	1,021	915	106	406	333	225	119
1969	1,515	1,126	389	548	443	536	147

[1] Estimated, Department of Treasury and Economics.

[2] The full-employment surplus calculated to be the same percentage of potential GPP as in the previous year, i.e. unchanged relative full-employment surplus.

[3] The automatic growth in full-employment revenues and expenditures required to keep the relative full-employment surplus constant from one year to the next (both revenues and expenditures grow proportionately to potential GPP). The automatic growth in revenues is called the "fiscal dividend".

[4] Total changes in full-employment revenues and expenditures less automatic changes. Discretionary changes are defined as those that bring about a change in the fiscal impact, i.e. they represent a change in the budget program.

Net Fiscal Impact of Provincial-Municipal Government in Ontario, 1957-69[1]

Table A-5

($ million)

Calendar Year	(a) Full-Employment Surplus	(b) Neutralized Full-Employment Surplus[2]	(c) Net Impact Contractionary(+) or Expansionary(–) (a)–(b)	(d) Automatic Year-to-Year Changes[3] Revenues	Expenditures	(e) Discretionary Year-to-Year Increase(+) or Decrease(–)[4] Revenues	Expenditures
1957	–136	—	—	—	—	—	—
1958	–137	–144	7	98	106	111	104
1959	–125	–145	20	105	113	247	227
1960	–121	–132	11	119	126	62	51
1961	–59	–125	66	68	72	155	89
1962	24	–62	86	116	119	462	376
1963	–41	26	–67	205	203	36	103
1964	–62	–44	–18	259	262	–198	–180
1965	–21	–67	46	293	298	270	224
1966	–343	–23	–320	455	457	48	368
1967	–117	–380	263	478	515	344	81
1968	–89	–127	38	454	464	454	416
1969	52	–98	150	633	642	342	192

[1]Estimated, Department of Treasury and Economics.

[2]The full-employment surplus calculated to be the same percentage of potential GPP as in the previous year, i.e. unchanged relative full-employment surplus.

[3]The automatic growth in full-employment revenues and expenditures required to keep the relative full-employment surplus constant from one year to the next (both revenues and expenditures grow proportionately to potential GPP). The automatic growth in revenues is called the "fiscal dividend".

[4]Total changes in full-employment revenues and expenditures less automatic changes. Discretionary changes are defined as those that bring about a change in the fiscal impact, i.e. they represent a change in the budget program.

Appendix B

The Ontario Economic Outlook

Review of 1970

Ontario's Gross Provincial Product reached a level of $35.0 billion in 1970, an increase of 7.7 per cent over the $32.5 billion recorded a year earlier. Under the impact of deflationary fiscal and monetary policies the rate of increase in 1970 was smaller than the 9.9 per cent gain in 1969. The slow-down was most pronounced in volume terms as real economic growth increased by only 3.5 per cent compared with 5.0 per cent the year before. The rate of increase in the price level eased to 4.1 per cent against 4.7 per cent in 1969.

The slow-down in the rate of growth of the Ontario economy resulted in a substantial increase in unemployment from 95,000 in 1969 (3.1 per cent of the labour force) to 162,000 by the end of 1970 (5.1 per cent of the labour force). Major areas of weakness in the economy in 1970 were housing and consumer spending—especially on consumer durables such as automobiles. The main stimulus to the economy came from exports, government expenditures and industrial investment.

Although the quarter-to-quarter increases in GPP in the first three quarters of 1970 were rather small, the trend was upwards and the year ended with a large gain in the fourth quarter. In the fourth quarter, consumer spending, government expenditures and housing recorded strong increases. However, business fixed capital formation and non-farm inventories were notably weaker than in the previous quarter as were imports.

Consumer Demand

Retail sales increased by only 1.9 per cent in 1970 to a level of $10.9 billion. This compares with a 7.7 per cent increase achieved in 1969. In volume terms, the level of retail sales actually declined in 1970. Sales of durable goods were weakest, with automobile sales declining 12.9 per cent and furniture and appliance dealers' sales down 2.9 per cent. Service stations and garages, grocery and combination stores, and department stores experienced increases in sales of 8.4 per cent, 7.1 per cent and 4.2 per cent respectively.

Private and Public Investment

The level of total private and public investment rose to $6.9 billion in 1970 from $6.3 billion in 1969, an increase of 8.7 per cent. This increase compares with an increase of 13.1 per cent in 1969. Residential construction which rose by 20.4 per cent in 1969 actually declined by 11.2 per cent in 1970. This large swing typifies the sector's vulnerability to stop-go stabilization policies. Investment in machinery and equipment rose 13.2 per cent compared to 18.5

per cent in 1969, and non-residential construction increased by 15.8 per cent compared with 4.3 per cent the year before.

Residential construction also experienced a pronounced in-year fluctuation in 1970. At mid-year cumulative housing starts in Ontario were down 38.4 per cent over the previous year but by the end of the year were down only 5.9 per cent. Housing starts of 76,675 units were registered in 1970 compared with 81,466 units in 1969. Ontario Housing Corporation provided substantial support to the housing sector, almost tripling its number of starts in 1970 over 1969. In 1970, OHC starts numbered 20,555 and were equivalent to 26.8 per cent of all housing starts in Ontario. In 1969, the 7,368 units started by OHC represented 9.0 per cent of the total. In 1970, starts of low-income and public housing increased substantially—especially the former—but starts of student housing declined.

Foreign Demand

Commodity exports from Ontario rose to a level of $7.7 billion, a 13.0 per cent increase over 1969. Raw materials were the major source of strength, although gains were made in a wide variety of commodities. Imports declined in 1970 with the greatest decline in automobiles and parts as a result of weak automobile sales and, later in the year, the effects of strike activity.

Employment

In 1970, the labour force increased by 99,000 persons to 3,130,000, an increase of 3.3 per cent. However, employment opportunities increased by only 60,000 over the year, a gain of 2.0 per cent compared with 3.7 per cent in 1969. Consequently, the number of unemployed increased by 39,000 and the unemployment rate increased from 3.1 to 4.3 per cent.

Income

Total personal income in Ontario rose from $25.1 billion in 1969 to $27.1 billion in 1970, an increase of 8.0 per cent compared with a 12.2 per cent gain the year before. The increase in wages and salaries per employee was 7.6 per cent in 1970, somewhat higher than the combined increases in productivity per worker and prices.

Corporate profits declined by 6.0 per cent to a level of $3.5 billion in 1970, compared with a gain of about 6.0 per cent in 1969. Costs rose and sales declined as the economy slowed down but inflationary expectations kept wages and other costs very high.

Prices

The rate of price inflation declined in 1970 over 1969, but the increase of 4.1 per cent in the GNP implicit price deflator still represents a continuation of the high rate of inflation that has been experienced for the past five years. Significantly, the rate of increase decelerated during the year due largely to a more moderate rate of increase in prices of consumer goods and services, exports and imports. The appreciation of the Canadian dollar in the foreign exchange market since May, 1970 has, of course, been reflected in a reduction in import prices.

The Outlook for 1971

The resumption of growth indicated by the performance of the economy in the fourth quarter of 1970 is expected to continue through 1971. The continuation of economic recovery is vulnerable on many fronts. Consequently, the Ontario budget has been planned to provide a major expansionary stimulus. Taking Ontario's growth-creating policy into account the GPP is expected to increase by 8.9 per cent in 1971 to $38.1 billion. The gain in volume terms of over 5 per cent will be significantly greater than in 1970 and the rate of price inflation is expected to be 3.5 per cent, down from 4.1 per cent in 1970. New job openings will increase faster this year than in 1970, and further improvement in the unemployment situation will occur with an expansionary Provincial budget.

Almost 100,000 new jobs must be created in 1971 to absorb the normal increase in the labour force. However, to reduce the unemployment rate to 3.0 per cent or less will require the creation of almost 150,000 new jobs. The Ontario 1971-72 budget is designed to provide maximum stimulus to the economy and to move unemployment down towards the 3 per cent level by early 1972. However, its full impact will be determined by the degree to which federal policies create a favourable financial environment and encourage a reduction in the external value of the Canadian dollar.

The Ontario Economy, 1969-71

	1969	1970[1]	1971[1]	69/68	70/69	71/70
		($ billion)			(per cent)	
Gross provincial product	32.5	35.0	38.1	9.9	7.7	8.9
GPP (constant 1961 dollars)	25.3	26.2	27.6	5.0	3.5	5.2
Prices (1961=100)	128.3	133.6	138.3	4.7	4.1	3.5
Private and public investment[2]	6.3	6.9	7.5	13.1	8.7	8.8
Machinery and equipment	2.5	2.8	2.9	18.5	13.2	2.9
Construction	3.8	4.0	4.6	9.8	5.8	13.0
Non-residential	2.4	2.8	3.0	4.3	15.8	9.4
Residential	1.4	1.3	1.5	20.4	–11.2	20.8
Retail sales	10.7	10.9	11.4	7.7	1.9	5.5
Imports (Canada)	14.2	13.9	15.3	14.9	–1.9	10.0
Exports (Canada)	15.0	16.8	18.0	10.0	12.6	7.0
Exports (Ontario)	6.8	7.7	8.2	14.1	13.0	7.0
Wages and salaries	17.2	18.9	20.9	12.6	9.8	10.5
Corporate profits (before taxes)	3.7	3.5	3.8	5.6	–6.0	8.0
Personal income	25.1	27.1	29.5	12.2	8.0	8.9
Labour force (000's)	3,031	3,130	3,233	3.3	3.3	3.3
Employment (000's)	2,936	2,996	3,094	3.7	2.0	3.3
Unemployment (% of labour force)	3.1	4.3	4.3	—	—	—
Productivity	—	—	—	1.4	1.5	1.9
Personal income per capita	$3,369	$3,550	$3,794	10.0	5.4	6.9
Housing starts (units)	81,446	76,675	88,000	1.3	–5.9	14.7

[1]Estimated, Department of Treasury and Economics.

[2]Dominion Bureau of Statistics, *Private and Public Investment in Canada, Outlook 1971*, cat. no. 61-205, (Ottawa: Queen's Printer, April, 1971). Figures may not add due to rounding.

Budget Paper B

Provincial-Municipal Reform: A Progress Report

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APPENDIX 81

Provincial-Municipal Reform: A Progress Report

I Introduction

Increasing demands for social and economic services and facilities in recent years have strained severely the financial resources of the provincial and local governments. To meet these pressures, the Government presented a comprehensive plan for controlling the level and distribution of provincial-municipal tax burdens in its white paper of 1969.[1] This plan involved a series of complementary actions across the broad spectrum of federal-provincial-municipal taxation and finance.[2] At the provincial-municipal level, it was designed to meet three main objectives.

- Relieve the growing pressure on the property tax by increasing grant support to municipalities and school boards, removing property tax exemptions and taking over the local government responsibilities for the administration of justice and assessment.
- Improve the progressivity of the provincial-local tax structure directly by the introduction of tax rebates to residential property owners, followed by selective relief to needy pensioners and farmers; and indirectly by increasing grants, thus financing a larger proportion of local government expenditures through the more progressive provincial tax system.
- Re-organize and consolidate local governments to provide them with an effective capacity for planning, to reduce disparities in tax bases between municipalities, and to improve effectiveness in the delivery of municipal services.

By 1970-71 the value to local governments of the Province's reform measures had grown to an equivalent of $352 million a year. The amount of $352 million comprises $172 million in property tax rebates, $131.7 million in increased grants, $41.1 million in reduced local expenditure responsibilities and $7.5 million generated by the removal of property tax exemptions on university properties and mineral processing facilities. In addition, natural growth increased basic grants by $951 million from $329 million in 1960 to $1,280 million in 1970. The value of both the reform measures and the basic grant system will, of course, continue to grow each year. In 1971-72 the value of the reform package alone will increase to $461 million.

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[1] Hon. C. S. MacNaughton, "The Reform of Taxation and Government Structure in Ontario", *Ontario Budget 1969*, Budget Paper B, (Toronto: Department of Treasury and Economics). This white paper followed the extensive examination of provincial-municipal finance in the *Report of the Ontario Committee on Taxation*, (Toronto: Queen's Printer, 1967) and Select Committee of the Legislature, *Taxation in Ontario: A Program for Reform*, (Toronto: Queen's Printer, 1968).

[2] Ontario's views on federal-provincial tax reform are developed further in Hon. C. S. MacNaughton, *Ontario Proposals for Tax Reform in Canada*, and Staff Paper, *Effects of Ontario's Personal Income Tax Proposals*, Ontario Studies in Tax Reform 2, (Toronto: Department of Treasury and Economics, 1970 and 1971). The connection between federal-provincial and provincial-municipal tax reform is discussed further in Section IV, below.

These reforms have had two important effects. First, they have slowed the annual increase in property taxes in the period 1967-70 to almost half the rate for the first seven years of the decade. Second, they have reduced property tax burdens on residential taxpayers, especially needy pensioners and farmers, relative to commercial and industrial properties, thus increasing the overall progressivity of the provincial-local tax system. This Budget Paper describes in more detail and quantifies these two important effects. In addition, it discusses future directions and policies of Ontario's provincial-municipal reform program.

II Provincial-Local Finance, 1960-70

This section describes the growth and composition of local government expenditures during the 1960s and the steadily increasing role played by provincial grants in financing those expenditures as a result of Ontario's reform program. The change in the structure of finance has resulted in a marked slow-down in the upward trend of property tax levies and rates between 1967 and 1970. Also included in this section is a brief analysis of the value of the total reform package in reducing potential tax levies and rates. Finally, to put the growth of property taxes in an economic and financial perspective, they are compared with Ontario's Gross Provincial Product and provincial-local revenues in Ontario and other provinces.

Structure and Expansion of Local Expenditures

In the past decade local government expenditures more than tripled from $1,147 million to an estimated $3,480 million. Expenditures include both current operating costs and capital expenditures incurred by local governments. A breakdown of these expenditures between the two main spending

Local Government Expenditures for Selected Years[1] — Table 1

($ million)

Year	School Board Expenditures	Municipal Expenditures	Total Local Government Expenditures
1960	522	625	1,147
1967	1,278	1,123	2,401
1968	1,510	1,280	2,790
1969	1,714	1,354	3,068
1970 (est.)	1,950	1,530	3,480
Increase in Expenditures 1960-70	1,428	905	2,333
Share of Total Increase	61%	39%	100%

Source: See Appendix, Table A.

[1]Expenditures include current operating costs plus capital expenditures.

units of local government—school boards and municipalities—is shown in Table 1.[3] School board expenditures increased about 2.7 times while municipal expenditures increased 1.4 times over the decade. Sixty-one per cent of the $2,333 million increase in local expenditures was accounted for by school board expenditures.

This expenditure growth is the result of dramatic changes in a few key cost and demand components. Growth in school board expenditures reflects primarily increases in the average salary of teachers, capital expenditures and enrolment increases.[4] The major components of increases in municipal expenditures were public works (mainly road construction and maintenance), protection to persons and property, and social assistance.[5]

Financing Local Government Expansion

Local government expenditures, as shown in Table 2, increased by $2,333 million between 1960 and 1970. Ontario Government grants have financed 54 per cent of the increase. A further 36 per cent has been financed by increases in net property tax levies[6] and the other 10 per cent through miscellaneous revenues and borrowing.

The impact of the reform program which started in 1968 is reflected in the growing importance of grants. In the 1967-70 period, 58 per cent of the increase in expenditures was financed by grants as compared with only 50 per cent in the period 1960-67. Nine per cent of the expenditure increase in the 1967-70 period was financed by borrowing which was facilitated in large measure by the Ontario Education Capital Aid Corporation, the Ontario Municipal Improvement Corporation, and the Ontario Water Resources Commission. As grants and borrowing assumed increasing importance, the role of

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[3]Included in the municipal category are expenditures of conservation authorities and children's aid societies. Excluded are expenditures of municipal enterprises such as electric and water utilities whose annual expenditures were estimated to be in excess of $500 million during the early 1960s.

[4]Between 1960 and 1968 the relative contributions to increases in school board expenditures were as follows:

Increase in average salary (including superannuation) of teachers	25%
Capital expenditures	21%
Enrolment increases	19%
Plant operation, supplies, administration, etc.	18%
Decrease in pupil/teacher ratio	9%
Transportation and interest	8%
Total Increase in School Board Expenditures, 1960-68	100%

[5]Between 1960 and 1969 the relative contributions to increases in municipal expenditures were as follows:

Public works (roads etc.)	26%
Protection to persons and property	20%
Social welfare	16%
Sanitation and waste removal	10%
General government	8%
Interest charges	6%
Health	2%
All Other	12%
Total Increase in Municipal Expenditures, 1960-69	100%

[6]Net property taxes equal taxes levied by local governments less Ontario Government tax rebates.

Increases in Annual Expenditures, Revenues and Borrowing of Local Government

Table 2

	1960-70		1960-67		1967-70	
	($ million)	(%)	($ million)	(%)	($ million)	(%)
Tax Levies	843	36	560	45	283	26
Other Revenue	169	7	94	7	75	7
Grants	1,254	54	626	50	628	58
Borrowing[1]	67	3	–26	–2	93	9
Expenditures	2,333	100	1,254	100	1,079	100

Source: See Appendix, Table A.

[1]Due to year-to-year fluctuations, increases do not reflect true trends in borrowing.

Notes: Data in this table are based on the assumption that all Ontario Government tax rebates are allocated to school boards and municipalities in proportion to their respective 1969 gross tax levies.

Totals may not add due to rounding.

property tax levies in financing expenditure increases declined from 45 per cent in the earlier period to 26 per cent in the later period.

The increasing importance of grants is clearly illustrated in Table 3 and Chart 1. The Province's support of local government expenditures over the decade increased from 28.7 per cent in 1960-61 to 39.8 per cent in 1967-68. By 1970-71 provincial grants had reached a level of 45.5 per cent of local government expenditures. Support to municipalities increased most dramatically in the 1967-70 period.

Provincial-Local Grants Expressed as a Percentage of Local Government Expenditures, Selected Years

Table 3

	1960-61	1967-68	1970-71[3]
	per cent		
School Board Grants[1]/Expenditures	33.9	48.3	53.2
Municipal Grants[2]/Expenditures	24.4	30.0	35.6
Total Grants/Expenditures	28.7	39.8	45.5

Source: See Appendix, Table A.

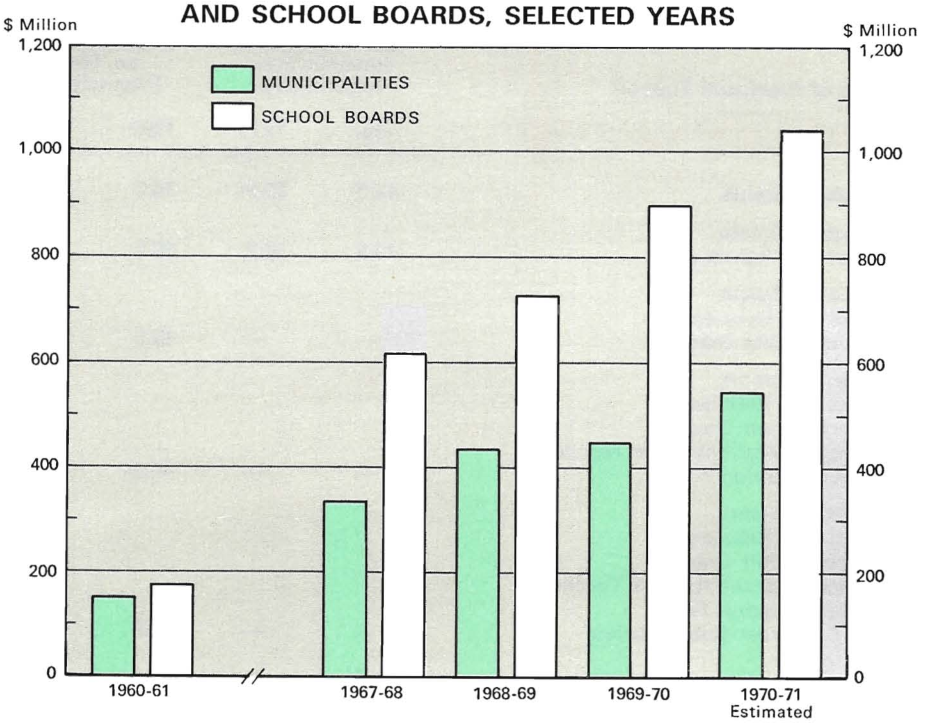
[1]Includes 52 per cent of the residential property tax rebates and tax rebates to farmers and pensioners.

[2]Includes 48 per cent of the residential property tax rebates and tax rebates to farmers and pensioners.

[3]Estimated.

Chart 1

PROVINCIAL GOVERNMENT GRANTS TO MUNICIPALITIES AND SCHOOL BOARDS, SELECTED YEARS



Source: *Ontario Public Accounts,* 1961-1970 (Toronto: Queen's Printer).

During the same period, the Province also achieved a steady improvement in its degree of support of school board expenditures. On the standard basis, support to school boards increased from 43.9 per cent to 50.8 per cent in the 1967-70 period. It should be noted that this percentage increase differs from that shown in Table 3 where the calculation includes capital expenditures in the base and vocational school grants plus the Province's contribution to the teachers' superannuation fund in the amount of support. Moreover, the grants data in Table 3 are for fiscal years ending March 31, whereas the standard basis uses calendar year data. Table 4 illustrates the increases in school board support in the 1967-70 period using various measures of provincial grants and school board expenditures. On the broadest definition of provincial support and school board expenditures, the Province's level of support rose from 46.8 per cent in 1967 to 54.3 per cent in 1970. Whichever measure is used, however, it is apparent that the Province's support has increased substantially since 1967.

Various Measures of Provincial Support of School Board Expenditures, 1967-70 — Table 4

Definition of Provincial Support	Support Based on Revenue Fund Expenditures		Support Based on Total Expenditures	
	1967	1970	1967	1970
	per cent			
1. Legislative Grants	43.9[1]	50.8[1]	36.0	43.4
2. Legislative Grants 52% of Tax Rebates	43.9	56.2	36.0	48.1
3. Legislative Grants 52% of Tax Rebates Vocational Unit Grants	—	—	42.9	50.7
4. Legislative Grants 52% of Tax Rebates Vocational Unit Grants Provincial Contribution to Teachers' Superannuation Fund	—	—	46.7[2]	54.0[2]
5. Legislative Grants 52% of Tax Rebates Vocational Unit Grants Provincial Contribution to Teachers' Superannuation Fund OECAC Interest Subsidization	—	—	46.8	54.3

Source: *Public Accounts of Ontario*, (Toronto: Queen's Printer, 1967, 1970). Unpublished data.

[1]Standard basis for measuring school board support.

[2]Except for the fact that grants are for calendar year, data are comparable to those in Table 3.

Growth in Property Tax Bases, Rates and Levies

The other main financing component of local government expenditures is the property tax. During the 1960s net property taxes grew by 148 per cent from $571 million to $1,414 million.[7] This growth includes a relatively greater increase in school property taxes. In fact, net school taxes grew by 184 per cent whereas municipal net taxes grew by 118 per cent.

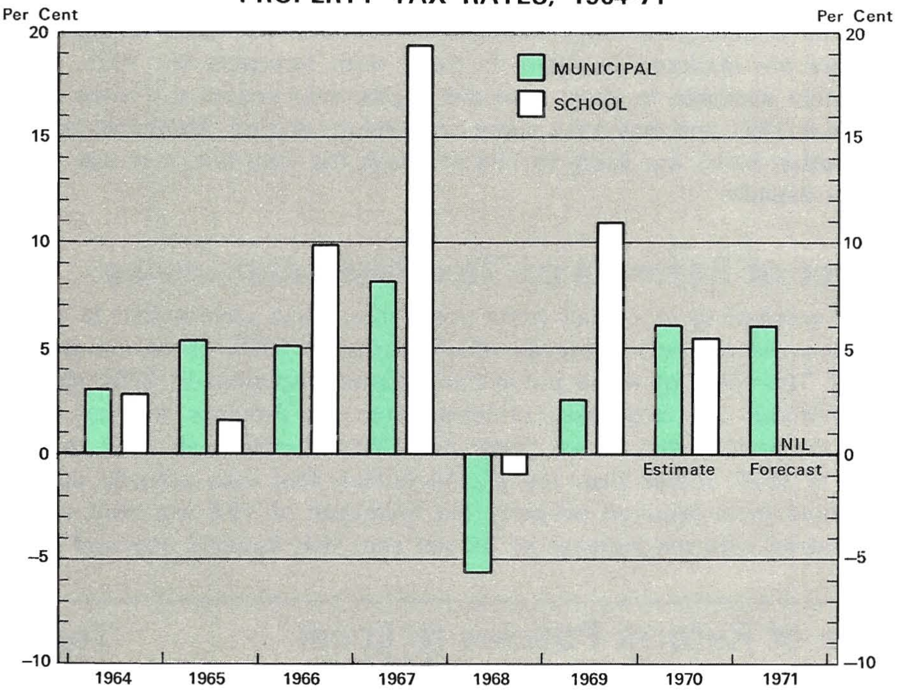
It was pointed out earlier how property taxes declined in importance relative to grants in the 1967-70 period. The significance of this decline is seen in Table 5 where it is shown that the rate of growth of property tax revenues decelerated from 10.3 per cent annually during the 1960-67 period to 7.7 per cent annually in the past three years. When this decline is translated into effective tax rates, the change is even more dramatic.[8] From 1960 to 1967, local effective tax rates rose on average by 5.4 per cent annually;

[7]Net property taxes equal taxes levied by local governments less Ontario Government tax rebates.

[8]By effective tax rate is meant the ratio of net property tax paid by the taxpayer to his taxable assessment. See footnote to Table 5 for the assumptions made in deriving these tax rates.

Chart 2

ANNUAL PERCENTAGE CHANGES IN NET PROPERTY TAX RATES, 1964-71



Source: See Table 5.

Annual Average Growth Rates in Effective Net Property Tax Revenues and Rates — Table 5

	Compound Annual Growth Rate (per cent) 1960-67	1967-70
Municipal Tax Rates	4.4	0.9
School Tax Rates	6.6	5.1
Total Tax Rates	5.4	3.0
Net Property Tax Revenues	10.3	7.7

Source: Ontario Department of Municipal Affairs, *Summary of Financial Reports of Municipalities* and *1971 Municipal Directory*, (Toronto: Queen's Printer, various years).

Note: Effective tax rate is the ratio of net property tax paid by the taxpayer to his taxable assessment. In deriving the growth in effective tax rates, a number of simplifying assumptions have been made. First, the increase in tax revenues as a result of natural growth in the assessment base has been excluded. Second, only one tax rate has been assumed for school purposes and one rate for general municipal purposes. In fact, there are two official mill rates, one for commercial and one for residential property. Third, the 1970 property tax rebates have been assumed to benefit all taxpayers, whereas in fact they have accrued only to residential property owners, farmers or needy pensioners. Finally, no account is taken of the mix of residential, farm and commercial properties—all of whose tax bases bear different relationships to tax levies because they are generally assessed at significantly different proportions of market value. Nevertheless, Table 5 indicates the general drift in tax rates over the decade. It should also be noted that increases in the effective tax rates of individual municipalities and school boards will vary widely around these average increases.

in the past three years, 1967-70, this trend decelerated to 3.0 per cent annually. Slower growth in municipal tax rates accounted for most of this overall improvement, although school tax rates have also decelerated since 1967. The annual percentage changes in effective tax rates facing Ontario taxpayers are depicted in Chart 2, along with forecasts for 1971. On the information available to date, it would appear that school tax rates will not increase in 1971 and may even show an absolute decline. Municipal tax rates, on the other hand, are likely to rise at about the long-term average rate for the past decade.

Impact of Reforms on Tax Rates and Levies

The quickening in overall grant support to local government is a direct result of provincial reform moves which started in 1968. These are shown in Table 6. The value of these provincial reforms amounted to $352 million in 1970. Without this large shift of funds from the Province to local governments, tax levies would have grown from $1,131 million in 1967 to $1,766 million in 1970, rather than the $1,414 million that was actually collected. This would have required property tax increases of 10.9 per cent per year as compared with the increase of 3.0 per cent that actually occurred.

Value of Reform Policies to Local Government, 1968-69—1971-72 — Table 6

($ million)

	Value of Reform Policy			
Reform Policy	68-69	69-70	70-71	71-72
Residential Property Tax Reduction	109.9	123.8	141.5	150.0
Tax Rebates to Needy Pensioners	—	—	14.5	18.0
Tax Rebates to Farmers	—	—	16.0	16.5
Increased Percentage Support of School Board Expenditures[1]	2.7	37.4	114.2	197.3
Increased Road Grants	—	—	14.5	18.2
Amortization Subsidies to Municipalities for Sewerage Projects and Water Pipelines	—	—	0.9	0.9
Increased Support for Reformed Municipal Governments	—	—	2.1	6.8
Reformed Mining Revenue Payments	—	—	—	0.4
Reformed Unconditional Grants	—	—	—	—
Metro Toronto Conservation Authority	—	—	—	1.0
Assumption of Administration of Justice[2]	18.0	19.2	20.3	21.3
Assumption of the Costs of Property Assessment[2]	—	—	20.8	22.1
Removal of Exemption on University Properties	—	—	2.5	2.8
Removal of Exemption on Mineral Processing Facilities	—	—	5.0	5.0
Removal of Exemption on Properties of CAATS	—	—	—	0.9
Removal of Exemption on Provincial Park Properties	—	—	—	0.2
Total Value of Reforms in Reducing Financial Burdens on Local Governments	130.6	180.4	352.3	461.4

[1]The value of reform is only that amount of grant attributable to raising the Province's level of support above the 1967 level of 44 per cent. Calendar year data.

[2]Based on the assumption that municipalities would not have substantially increased expenditures on the administration of justice and assessment had they retained these responsibilities.

Property Tax Growth in Perspective

The rapid growth in property tax levies is more meaningful when put in the context of society's ability to pay taxes, as measured by Ontario's Gross Provincial Product (GPP). Between 1960-61 and 1967-68 local revenues grew slightly faster than GPP, increasing from a ratio of 4.2 per cent to 4.6 per cent. Following the Province's reform program, however, the ratio of local revenues to GPP has dropped back to 4.4 per cent in 1970. This decline again reflects the increasing ascendancy of provincial grants over property taxes in financing local government expenditures and the relative decline in local tax revenues. Local revenues were approximately 48 per cent of total provincial-local own-account revenues in 1960-61, but this proportion has been consistently reduced until, in 1969-70, it reached 29 per cent.

The increased level of support to the local sector has been financed by the greater use of the provincial tax system. Table 7 shows that provincial tax revenues have grown from 4.7 per cent of GPP in 1960-61 to 10.6 per cent in 1969-70. In 1970 provincial transfers to the local sector represented approximately 4.5 per cent of GPP, of which more than 1 per cent or $352 million is directly attributable to the reform program. This significant shift of the financing burden away from the property tax base and toward alternative revenue sources reflects the Ontario Government's desire to enhance the overall progressivity of the provincial-local tax structure. Over 40 per cent of the Province's revenues are derived from the personal income and general sales taxes, both of which have been shown in separate studies to be progressive as applied in Ontario.[9]

Inter-Provincial Comparisons. An interesting comparison of the relative importance of local taxes as a source of revenue for the ten provinces is given in Table 8. Two main developments are shown.

- First, local per capita revenues increased significantly in each of the provinces during the 1960s.
- Second, these local revenues declined as a proportion of total provincial-local revenues in each of the provinces.[10]

Among all provinces, Ontario recorded the second lowest increase in local per capita taxes during the period, and by far the lowest increase among the central and western provinces.[11] Although Ontario had the highest level of local taxes in 1960 and experienced the greatest expenditure pressures associated with industrial and urban expansion, by 1969 its local per capita tax level was among the lowest in the central and western provinces.

[9]For a discussion of the progressivity of provincial vis-a-vis municipal taxes, see J. A. Johnson, *Incidence of Government Revenues and Expenditures*, Ontario Committee on Taxation, (Toronto: Queen's Printer, 1967), also O. E. Nelson "Progressivity of the Ontario Retail Sales Tax", *Canadian Tax Journal*, (Sept.-Oct. 1970).

[10]The inter-provincial fluctuations in provincial-local revenues are dependent on total provincial expenditures, relative tax bases, tax rates, and substantial federal equalization payments. The per capita own-account provincial-local revenue shown in the Table tends to be lower for those provinces receiving federal equalization payments than it would have been in the absence of such assistance.

[11]In 1967, New Brunswick abandoned poll and personal property taxes when the province took over the major functions of local governments: health, welfare, justice and education. As a result, it recorded the smallest increase in local per capita taxes.

Provincial and Local Government Revenues in Relation to Gross Provincial Product

Table 7

($ million)

	1960-61	1964-65	1965-66	1966-67	1967-68	1968-69	1969-70
Own-Account Local Revenues	648.7	884.5	965.8	1,070.5	1,242.9	1,267.7	1,435.3
Own-Account Provincial Government Revenues	715.1	1,346.4	1,591.2	1,962.8	2,310.0	2,747.0	3,460.1
Total Provincial-Local Revenues	1,363.8	2,230.9	2,557.0	3,033.3	3,552.9	4,014.7	4,895.4
Ratio of Local Revenues to Total Provincial-Local Revenues	47.6%	39.7%	37.8%	35.3%	35.0%	31.6%	29.3%
Ratio of Local Revenues to Gross Provincial Product	4.2%	4.4%	4.3%	4.2%	4.6%	4.3%	4.4%
Ratio of Provincial Government Revenues to Gross Provincial Product	4.7%	6.6%	7.1%	7.7%	8.5%	9.3%	10.6%

Source: Tax Structure Committee, *Government Revenues and Expenditures 1960-61 to 1971-72*, mimeo. Unpublished data from the Ontario Department of Treasury and Economics.

Note: Own-account revenues are those revenues levied by the government in question.

Inter-Provincial Comparison of Local and Total Provincial Sector Revenues[1]

Table 8

	1960-61			1969-70			
	Per Capita Property Tax and Other Own-Account Local Revenues	Per Capita Own-Account Provincial-Local Revenues	Local Revenue as a Proportion of Provincial-Local Revenues	Per Capita Property Tax and Other Own-Account Local Revenues	Per Capita Own-Account Provincial-Local Revenues	Local Revenue as a Proportion of Provincial-Local Revenues	Increases in Local Per Capita Taxes over the Period 1960-61 to 1969-70
	$	$	%	$	$	%	%
Newfoundland	11	71	15.5	29	264	11.0	164
P.E.I.	26	104	25.0	61	270	22.6	135
Nova Scotia	55	123	44.7	109	367	29.7	98
New Brunswick	52	137	38.0	75	359	20.9	44
Quebec	83	193	43.0	168	510[2]	32.9[2]	102
Ontario	106	223	47.5	188	641	29.3	77
Manitoba	85	154	55.2	157	513	30.6	85
Saskatchewan	104	220	47.3	205	560	36.6	97
Alberta	105	248	42.3	202	651	31.0	92
British Columbia	101	251	40.2	192	680	28.2	90

Source: Tax Structure Committee, *Government Revenues and Expenditures 1960-61 to 1971-72*, mimeo.

[1]Provincial property and business assessment taxes included in local revenues where applicable.

[2]Assuming a Quebec basic abatement for personal income taxation of 28% rather than 50%.

III Target Groups in Local Taxation

The Province's reforms are also aimed at reducing the regressivity of the provincial-local tax system through the introduction of property tax rebates. This section begins with a general description of the property tax structure as it existed in Ontario in the 1960s and then analyzes the differential tax burdens upon various classes of real estate and the changes in their relative positions over time. The contribution of tax rebates to the reduction in relative tax burdens on residential property owners and farmers is also analyzed.

The Property Tax Structure

There are really two main property taxes—the tax levied on real property (and, by implication, on the owner) and the business tax (which is levied on businessmen who are occupants of real property). There are also a variety of properties which are assessed but exempt from taxation.

The Property Tax Base. Property classes are distinguishable either as a result of being taxed at different mill rates or as a result of being assessed at significantly different proportions of market value. Thus there are two main property classes: the residential property class which is taxed at the low residential mill rate and the non-residential property class which is taxed at the higher commercial mill rate. The former class has three constituent sub-classes: homes, apartments and farms. The latter class also has three constituent sub-classes: industrial (manufacturing), commercial, and "special". "Special" properties comprise certain transportation and communication properties which are partially assessed according to statutory rates and constraints. The other five sub-classes are generally assessed, on average, at significantly different proportions of market value within a municipality. Moreover, identical sub-classes have been generally assessed at differing proportions of market value among municipalities.

The Business Tax Base. In addition to the general property tax, the occupant of a commercial or industrial property is further assessed for purposes of business taxation at some proportion of the property's normal taxable assessment. The proportion varies from 140 per cent for distillers to 25 per cent for car park operators.[12]

Tax Rates. The residential mill rate in Metropolitan Toronto and the regional municipalities is statutorily set at 15 per cent less than that applicable to commercial and industrial properties. In other parts of the province the residential and farm mill rates are reduced by the value of the municipal unconditional grant. In all areas farm and residential mill rates for school purposes are set at a level 10 per cent below the commercial mill rate. The resulting difference between commercial and residential mill rates is called the split mill rate.

Exemption from Property Tax Liability. Local fiscal capacity is reduced to the extent that a significant number of properties are granted exemption from

[12] 150 per cent and 10 per cent respectively prior to the *1968/69 Assessment Act.*

the liability to make payment of taxes and are not liable to compensating payments-in-lieu of taxes. Such properties can be classified according to title of ownership as federal, provincial, local, or private. In the past, it has been general assessment practice to ignore or at best provide only a token assessed value for these properties. Thus, an accurate estimate of the extent of the loss to the local tax base from this source is precluded until province-wide reassessment has been completed.

Payments-in-Lieu of Property Taxes. The potential revenue loss is to some extent offset as a result of the payment of grants-in-lieu of prescribed local taxes by the federal and provincial governments upon crown and crown agency properties. Payments-in-lieu of taxes by the Ontario Government and Ontario Hydro in 1969 amounted to roughly $20 million.

Relative Tax Burdens on Property Classes, 1960-69

The impacts upon relative tax burdens of varying assessed value/market value ratios, business taxation and split mill rates are shown in the Appendix, Table C. The assessment/market value ratios for the municipalities included in the sample indicate that homes and farms have traditionally been assessed at a lower proportion of market value than commercial, industrial and apartment properties, the latter two classes of property having been assessed at approximately two-and-one-half times the rate upon farms and more than half as much again as the rate upon homeowners. When combined with the imposition of a business tax and a split mill rate, the tax burden upon commercial and industrial properties is significantly greater than the respective burdens upon homeowners and farmers. Indeed, the relative burden upon industrial properties would appear to have been four times that faced by a farmer.

Change in Relative Tax Burdens, 1960-69

The average assessment/market value ratios for each of the main property classes for 1969 and the relative tax burdens are shown in the Appendix, Table D. This shows that the ranking of property classes according to assessment/market value ratios remains virtually unchanged when compared with the earlier period, with the exception that apartment properties are now assessed at a rate slightly below that attributed to commercial properties. On the other hand, all classes now appear on the average to be assessed at a significantly lower proportion of market value, with the ratios for the residential and apartment classes showing the greatest declines.

A summary comparison of the relative tax burdens upon the various property classes for the period 1960-63 and the year 1969 is provided in Table 9.[13] Even apart from the impact of the basic shelter exemption introduced in 1968, it can be concluded that the relative tax burdens upon homeowners, apartment owners and farmers have been reduced relative to

[13]For derivation see Appendix, Tables C and D.

commercial/industrial properties over the nine-year period as a result of greater than proportionate reductions in their ratios of assessments to market values. When the impacts of the residential property tax relief and farm tax reduction programs are included, the shift of the relative property tax burden away from residences and farms is even more dramatic. The relative burdens upon homeowners and farmers are less than one-third and one-sixth, respectively, of the burden upon industrial property.

The program of selective property tax relief for needy pensioners, as introduced in 1970, reduces the burden upon these taxpayers by a further amount.

Indices of Relative Tax Burdens — Table 9

Property Class	1960-63	1969 Assuming No Reforms	1969 After Residential Property Tax Reduction Program	1969 After Farm Tax Reduction Program[1]
Commercial	75	81	81	81
Industrial	100	100	100	100
Residential	41	32	27	27
Apartment	66	51	44	44
Farm	26	23	19	14

Source: See Appendix, Tables C and D.

[1]Assuming the Farm Tax Reduction Program had been implemented in 1969.

IV Future Directions

There are three main thrusts to the future development of the Province's reform in provincial-local finance: increasing provincial support of local governments, consolidation and simplification of the grant system, and the securing of a more progressive provincial-local tax system.

Increasing Provincial Support

The Government has already announced its commitment to increase its level of support of school board expenditures to 60 per cent. However, the costs of moving to 60 per cent and beyond are enormous. To have reached 75 per cent support in 1970, for example, would have required an additional $425 million of provincial funds. To finance this amount would have required an additional 5 points on the personal income tax plus an increase in retail sales tax from 5 to 7 per cent.[14] These facts indicate clearly the extent to which the Province's ability to finance a greater share of local expenditures will be constrained if it is to hold the line on tax rates and fails to secure increased personal or corporate income tax abatements from the federal government. Sixty per cent support is a reasonable objective for the immediate future but it may be too low in the longer run. The Province will certainly consider the possibility of providing even greater support when finances become available.

The Province is also continuing to remove property tax exemptions as a means of increasing its financial support to municipal governments. In 1970 it introduced compensating grants of $25 per student to universities to enable them to begin to pay local taxes. As a further development of this policy municipalities will be allowed, in 1971, to tax properties of community colleges and provincial park land.

Consolidation and Simplification of the Grant System

Except in the case of those services where there is a strong provincial involvement and where provincial priorities must be maintained, the Province intends to reduce the number of conditional grants. The purpose of this policy is to enable municipalities to spend on the basis of their own priorities and to ensure that they have sufficient fiscal capacity to do so. In this context the present collection of conditional grants (listed in the Appendix, Table B) will be carefully reviewed to eliminate as many as possible and replace them with increased unconditional transfers to local government.

This reduction in the number of conditional grants will simplify the provincial-local grant system for local administrators. It will also generate significant savings as salaries and overhead costs related to the administration of grants are eliminated. Further, the Province will also continue the process of simplifying individual grants—as it has done this year with library grants. In addition to these measures, the Province is implementing a common reporting system for provincial, local government and local enterprise expenditures to enhance public understanding of the provincial-municipal segment of the government sector.

Towards a Progressive Local Tax Structure

The development of Ontario's property tax rebate system, together with the complementary rebates to farmers and pensioners, has increased the progressivity of property taxation in two main ways. First, along with increased municipal and education grants, the rebates have worked to control the absolute level of property taxation. Second, the rebates have improved the

[14]To the extent that school property taxes on corporations are reduced, and corporate taxable income consequently increases, corporate income tax revenues will rise. However, the largest part of this revenue gain will accrue to the federal government. Nevertheless, it is estimated that the Province would have gained roughly $25 million in corporation taxes by moving to a 75 per cent support position in 1970. This assumes that the increased support level results in lower school property taxes rather than increased school board expenditures.

progressivity of property taxation by more closely relating net property taxes to ability-to-pay.[15]

As a further stage, however, Ontario's tax reform policy involves relating property tax burdens directly to ability-to-pay through selective credits in the personal income tax system. The Ontario Government's proposals for the use of personal income tax credits in controlling the incidence of property tax burdens were advanced as an integral part of the 1969 white paper on provincial-municipal tax reform. Under the present federal-provincial collection agreement, whereby the provincial income tax is collected by the federal government, the Province does not have the right to implement selective personal income tax credits. In its 1969 white paper on tax reform the federal government admitted the possibility of allowing Ontario to introduce income tax credits to offset the burden of other provincial and municipal taxes.[16] In response to the federal white paper, the Ontario Government has developed a series of proposals as part of the discussion of national tax reform.[17] These proposals enumerate in detail the types of tax credits envisaged by the Ontario Government, both to make the income tax system itself more equitable and to integrate the main forms of federal, provincial and municipal taxes.

[15]For a discussion of how property taxes have been related to income (i.e. ability-to-pay) in Ontario, see J. A. Johnson, *The Incidence of Government Revenues and Expenditures, op. cit.*

[16]Hon. E. J. Benson, *Proposals for Tax Reform*, (Ottawa: Queen's Printer, 1969), Chapter 7.

[17]Hon. C. S. MacNaughton, *Ontario Proposals for Tax Reform in Canada, op. cit.*, and Staff Paper, *Effects of Ontario's Personal Income Tax Proposals, op. cit.*

Appendix

Selected Statistics on Financing Local Government

Table A

($ million)

	1960-61	1967-68	1970-71[1]
School Boards			
Grants	176.7	617.7	1,038.2
Net Tax Revenues	260.3	555.8	738.0
Other Revenues	11.5	26.0	53.2
Borrowing[2]	73.5	78.7	120.6
Expenditures	522.0	1,278.2	1,950.0
Municipalities			
Grants	152.4	337.3	545.1
Net Tax Revenues	310.3	575.2	675.9
Other Revenues	88.1	167.2	215.0
Borrowing[2]	73.8	43.0	94.0
Expenditures	624.6	1,122.7	1,530.0

Source: Ontario Department of Education, *Report of the Minister of Education, Ontario,* (Toronto: Queen's Printer, 1960-69).

Ontario Department of Municipal Affairs, *Summary of Financial Reports of Municipalities,* (Toronto: Queen's Printer, 1960-69).

Dominion Bureau of Statistics, *Local Government Finance,* cat. no. 68-204, (Ottawa: Queen's Printer, 1960-67).

Public Accounts of Ontario, (Toronto: Queen's Printer, 1961-70).

Unpublished data from Department of Education and the Department of Municipal Affairs.

[1]Estimated.

[2]New borrowing less repayments.

Notes: Grants data are for fiscal years ending March 31 whereas net tax revenues, borrowing and expenditures are estimated for calendar years.

Included in other revenues of school boards are the differences between calendar year and fiscal year grants. For example, school board grants for 1970 were $10.7 million greater than school board grants for 1970-71 and this amount is included in other revenues. Such adjustments are necessary to balance calendar year data on expenditures with net tax revenues and borrowing.

Ontario Government tax rebates are allocated to school boards and municipalities in proportion to their gross tax levies.

Provincial-Local Conditional Grants, 1970-71

(Thousands of Dollars)

Table B

	Value of Grant to All Municipalities 1970-71[1]
Agriculture	
Warble Fly Control Act	44
Weed Control Act	72
Community Centres Act	1,600
ARDA, Drainage	500[2]
Education	
Legislative Grants:	
Ordinary grants including CPP; Extraordinary grants; Education mill rate subsidy; Cost of education of retarded children; Isolate boards; Boards on tax-exempt land	832,304
Constructing and Equipping Vocational Units	52,000
Employer Contribution to Teachers' Superannuation Fund	63,839
Library Grants	7,670
Department of Education Act:	
Arena program managers	30
Community programs of recreation	1,350
Energy and Resources Management	
Conservation Authorities Act:	
Acquisition and development of land; Flood control projects; Flood control engineering study; Recreational development in conservation areas; Reservoirs; Administration grant	11,271
Parks Assistance Act	200
Health	
The Public Health Act:	
Oral diabetic insulin	94
Diagnostic laboratory grants	63
Health units; Boards of health	19,300[3]
Venereal Disease Prevention Act	13
Highways	
Highway Improvement Act:	
Road construction and maintenance; Bridges and culverts	172,280
Connecting links	12,970
Sidewalks on King's Highways	80
Development roads	22,975
Grants to local road boards and statute labour boards in unorganized territory	2,350
Traffic and planning studies	1,345

(Continued)

Provincial-Local Conditional Grants, 1970-71

(Thousands of Dollars)

Table B
(Continued)

	Value of Grant to All Municipalities 1970-71[1]
Justice	
Registry Act:	
Clarification of boundaries	20
Emergency Measures Act	910
Lands and Forests	
Forestry Act	215
Wolf and Bear Bounty Act	70
Municipal Affairs	
Planning Act:	
Urban renewal	5,000
Survey, design, supervision and maintenance	135
Drainage Act	3,500
Municipal Unconditional Grants Act:	
Indigent hospitalization	2,689
Public Works	
Aid Remedial Works	25
Municipal Drainage	4
Social and Family Services	
General Welfare Assistance Act:	
General assistance: food and clothing; shelter; fuel; special diets; pre-added budgets; nursing homes; hostels; foster children; utilities; household supplies; Special assistance; Supplementary aid	86,984
Administration costs	2,200
District Welfare Administration Boards Act[4]	—
Child Welfare Act:	
Children's aid societies: operating costs; capital grants; children of unmarried mothers; children from unorganized territory; child welfare — extra assistance	36,981
Day Nurseries Act	2,775
Homemakers and Nurses Services Act	1,390

(Continued)

Provincial-Local Conditional Grants, 1970-71

(Thousands of Dollars)

Table B
(Continued)

	Value of Grant to All Municipalities 1970-71[1]
Social and Family Services (Cont'd.)	
Homes for the Aged Act:	
Maintenance of homes for the aged Acquisition or alteration Capital grants Private-home care Residents from unorganized territory	20,000
Elderly Persons Centres Act	125
Miscellaneous Grants	20
Tourism and Information	
Establishment and Maintenance of Museums	96
Trade and Development	
Elderly Persons Housing Aid Act	350
Total	1,365,839

Source: Ontario Department of Municipal Affairs, *Provincial Assistance to Municipalities, Boards and Commissions,* mimeo (Toronto: Queen's Printer, 1970); also preliminary estimates of departments.

[1]Includes federal share of grants; all amounts are either preliminary or estimated.

[2]Excludes some drainage grants financed entirely by Ontario and some shared by the federal government.

[3]Excludes $250 thousand in grants for community health facilities.

[4]Included in administration.

The Local Tax Structure, 1960-63

Table C

Property Class	Assessment as Per Cent of Market Value	Average Business Assessment[1]	Average Mill Rates (1962)			Implied Average Equalized Mill Rates			Index of Relative Tax Burdens[2]
	(median)	(per cent)	Municipal	School	Total	Municipal	School	Total	(Industrial = 100)
Commercial	36	45	38	31	69	13.7	11.1	24.8	75[2]
Industrial	48	45	38	31	69	18.2	14.9	33.1	100[2]
Residential	32	NIL	34	28	62	10.9	8.9	19.8	41
Apartment	51	NIL	34	28	62	17.3	14.3	31.6	66
Farm	20	NIL	34	28	62	8.7	7.1	12.4	26

Source: *Report of Ontario Committee on Taxation, Vol. II, op. cit.*

[1]Assumed average rate for all types of businesses.

[2]Relative tax burdens include the burden of the business tax.

The Local Tax Structure, 1969

Table D

Property Class	Assessment as Per Cent of Market Value	Average Business Assessment[1]	Average Mill Rates (1969)			Implied Average Equalized Mill Rates			Index of Relative Tax Burdens[2] (A) Assuming No Reforms	(B) Following Residential Property Tax Reduction	(C) Following Farm Tax Reduction Program[3]
	(median)	(per cent)	Municipal	School	Total	Municipal	School	Total	(Industrial = 100)		
Commercial	35	38	44	48	92	15.5	16.7	32.2	81	81	81
Industrial	43	38	44	48	92	19.0	20.6	39.6	100	100	100
Residential	21	NIL	39	43	82	8.2	9.0	17.2	32	27	27
Apartment	34	NIL	39	43	82	13.4	14.5	27.9	51	44	44
Farm	15	NIL	39	43	82	5.9	6.4	12.3	23	19	14

Source: Department of Municipal Affairs, equalization data. Department of Municipal Affairs, *Summary of Financial Reports of Municipalities 1969*, (Toronto: Queen's Printer, 1970).

[1]Assumed average for all types of business.

[2]Relative tax burdens on "Commercial" and "Industrial" include the burden of the business tax.

[3]Assuming the farm tax reduction program had been implemented in 1969 rather than 1970.

Budget Paper C

Government Financial Statements

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Government Financial Statements

Introduction

The 1970-71 Fiscal Year in Retrospect

As the year progressed, the Government made important changes to its original budget plan. The 1970 budget had pointed to the probability of weakening economic conditions; therefore, it was designed to have a mildly expansionary effect. In the face of disappointingly late federal recognition of the actual course of economic events, the Government decided to strengthen further the expansionary nature of its budget. Total net general expenditure was increased by $124 million over the original estimates. At the same time, total budgetary revenue remained within $2 million of the original forecast. Corporation income tax fell relatively far short of the forecast. This setback was largely offset by higher revenues from the personal income tax, because of adjustments for prior years under the collection agreement with the federal government and the advance of a full month of 1971 tax collections. As a result, the Government reinforced its already expansionary budget by an additional swing in its budgetary transactions of $126 million.

Budgetary Operations during 1970-71
($ million)

	Original Budget Plan	Revised Budget Performance	In-Year Changes
Net General Revenue	3,739.3	3,737.3	(2.0)
Net General Expenditure	3,728.0	3,851.8	123.8
Budgetary Surplus (Deficit)	11.3	(114.5)	(125.8)

In terms of timing, the expansionary effects of the budget were heavily concentrated in the winter and early spring months, when unemployment was most severe and the Government's social policies were of the greatest benefit. The nature of the expenditure changes during the year clearly reflects the Government's concern for those groups in society which are least protected against the hardships of a temporary economic downturn.

Construction activity and employment were given a boost through accelerated public works projects, a significant increase in vocational school construction, and special winter employment programs.

The special needs of farmers arising from high property taxes were recognized and alleviated in the form of property tax rebates. Significantly increased relief was provided by means of additional benefits in the form of special property tax reduction grants for pensioners, extended medicare coverage, and public housing subsidies. In fact, during the past year a substantial number of new public housing units were added to the Province's rapidly growing stock of public housing. As a result, a large number of additional families were able to acquire comfortable accommodation in spite of financial adversity.

The Province's program of mental health received a large infusion of extra funds during the year to finance salary increases for its growing number of highly trained and devoted staff.

The rise in the cost of the Ontario Provincial Police was associated with salary increases and special circumstances which prevailed during the year and resulted in a large amount of overtime.

The increase in general welfare assistance was directly related to the increase in the number of people qualifying during a period of high unemployment.

Major Changes in 1970-71 Expenditure Policy

($ million)

	Original Budget Plan	Revised Budget Performance	In-Year Changes
Property Tax Reduction (incl. farmers)	146.0	172.0	26.0
Extended Medicare Benefits and Increased Utilization	248.4	270.8	22.4
Vocational School Construction	40.0	52.0	12.0
General Welfare Assistance	21.6	32.5	10.9
General Legislative Grants	811.7	823.7	12.0
Winter Employment Program	—	4.7	4.7
Ontario Housing Subsidies	6.0	11.9	5.9
Mental Health	160.5	170.5	10.0
Legal Aid	8.2	10.2	2.0
Ontario Provincial Police	55.8	59.0	3.2
Public Works—Acceleration of Construction	44.0	48.3	4.3
All Other Expenditure	2,185.8	2,196.2	10.4
TOTAL NET GENERAL EXPENDITURE	3,728.0	3,851.8	123.8

Considerably higher non-budgetary receipts and lower financial requirements of the Hospital Services Commission made it possible to obtain a much larger surplus on non-budgetary transactions than originally anticipated.

Major Changes in 1970-71 Non-Budgetary Transactions

($ million)

	Original Budget Plan	Revised Budget Performance	In-Year Changes
Receipts and Credits			
Canada Pension Plan Receipts	460.0	476.0	16.0
Repayments:			
Education Capital Aid Corporation	23.0	28.7	5.7
Ontario Junior Farmer Loan Corporation	4.5	13.2	8.7
Ontario Northland Railway	—	12.0	12.0
Ontario Hydro	1.1	11.2	10.1
Ontario Housing Corporation	—	4.8	4.8
Province of Ontario Savings Office	—	7.7	7.7
All Other Receipts and Credits	317.1	305.9	–11.2
Total Receipts*	805.7	859.5	+53.8
Disbursements and Charges			
Loans and Advances:			
Ontario Housing Corporation	41.6	50.3	8.7
Ontario Water Resources Commission	35.0	39.5	4.5
Ontario Development Corporation	30.9	13.3	–17.6
Tile Drainage	3.3	6.0	2.7
Hospital Construction	28.0	29.6	1.6
OHSC Special Account	100.0	67.0	–33.0
All Other	504.4	514.2	9.8
Total Disbursements*	743.2	719.9	–23.3
Surplus on Non-Budgetary Transactions	62.5	139.6	+77.1

*Excludes offsetting borrowings on behalf of Ontario Hydro.

The $140 million surplus on non-budgetary transactions significantly eased the financial impact of the $115 million budgetary deficit and kept overall cash requirements down to $40 million after allowing for about $65 million in redemptions of maturing debt issues. These relationships are more clearly displayed in the following Summary Table and again in Table C1.

Summary of 1970-71 Budget Performance
($ million)

	Original Budget Plan	Revised Budget Performance	In-Year Changes
Budgetary Surplus (Deficit)	11.3	(114.5)	(125.8)
Non-Budgetary Surplus	62.5	139.6	77.1
Debt Retirements	(55.6)	(64.9)	(9.3)
Overall Change in Liquid Reserves	+18.2	–39.8	–58.0

This Budget Paper contains a complete set of financial statements on the Government's operations during the previous four years and its budget plan for 1971-72. All data are presented on an internally consistent basis, with data for previous years having been adjusted, to whatever extent necessary, to make them directly comparable with those for 1971-72. For instance, there have been organizational changes during the period, a more precise definition for reimbursements has been adopted and, most recently, employer-financed fringe benefits such as C.P.P. and P.S.S.F. contributions have been reallocated from Treasury and Economics to individual departments. The latter adjustment has enabled the Government to determine more accurately the actual cost of individual programs. As a result of these adjustments, the data for individual departments do not entirely correspond with those in the Public Accounts.

One further improvement in the financial statements has been added to those introduced in the past three budgets. The statement on the Province's net general revenue (Table C2) has been amended. Formerly all non-taxation revenue was shown on a departmental basis. That presentation provided only limited insight into the actual sources of revenue. In its amended form, this Table shows the sources of other revenue in a more commonly used breakdown. Furthermore, additional details on the broad categories of other revenue are shown separately in Table C2(a).

Summary of Changes[1] in Liquid Reserves Resulting From Budgetary, Non-Budgetary and Debt Transactions

Table C1

(Thousands of Dollars)

	1967-68	1968-69	1969-70	Interim 1970-71
Budgetary Transactions				
Tax Revenue	1,757,012	2,027,375	2,522,543	2,753,400
Non-Tax Revenue	400,941	577,011	788,343	983,900
Total Net General Revenue (See Table C2)	2,157,953	2,604,386	3,310,886	3,737,300
Total Net General Expenditure (See Table C3)	2,264,701	2,745,370	3,259,354	3,851,800
Net Budgetary Surplus or (Deficit)	(106,748)	(140,984)	51,532	(114,500)
Non-Budgetary Transactions (See Table C5)				
Receipts and Credits:				
Loans and Advances	38,345	43,610	68,791	102,800
Pension Funds, Deposit, Trust and Reserve Accounts	86,756	144,296	215,227	135,400
	125,101	187,906	284,018	238,200
Proceeds from Non-Public Debentures Issued	488,118	524,309	572,477	613,600
Public Issues on Behalf of Ontario Hydro	125,150	156,300	199,450	84,100
Bank Loan	(5,000)	—	—	—
Province of Ontario Savings Deposits (Net)	13,386	10,329	1,743	7,700
Sinking Fund Investments Transferred to Liquid Reserves	—	—	43,133	—
Total Receipts and Credits	746,755	878,844	1,100,821	943,600
Disbursements and Charges:				
Loans and Advances	556,072	622,547	735,719	692,700
Pension Funds, Deposit, Trust and Reserve Accounts	62,389	51,764	82,363	111,300
Total Disbursements and Charges	618,461	674,311	818,082	804,000
Net Non-Budgetary Transactions	128,294	204,533	282,739	139,600
Debt Transactions				
Public Debentures Issued	110,000	104,191	—	—
Debt Retirements (Net)	(92,045)	(73,703)	(73,620)	(64,900)
Net Debt Transactions	17,955	30,488	(73,620)	(64,900)
Overall Effect on Liquid Reserves	39,501	94,037	260,651	(39,800)

[1]*Increase or (Decrease).*

Net General Revenue

Table C2

(Thousands of Dollars)

	1967-68	1968-69	1969-70	Interim 1970-71	Estimated 1971-72
Taxation					
Income Tax Collection Agreement	551,004	620,476	762,087	991,800	1,050,000
Retail Sales Tax	435,666	485,587	637,264	673,500	745,000
Gasoline Tax	283,221	337,284	361,937	375,800	395,000
Corporation Taxes	302,273	332,964	477,174	414,100	290,000
Tobacco Tax	18,983	54,220	71,695	75,300	78,500
Succession Duty	59,638	68,472	73,182	81,300	70,000
Motor Vehicle Fuel Tax	21,527	26,298	29,840	33,400	36,500
Share of Federal Estate Tax	20,628	21,677	26,818	28,400	28,000
Mines Profits, Acreage, Gas	16,334	19,820	24,541	25,700	24,500
Race Tracks Tax	15,091	18,999	20,873	20,300	22,000
Land Transfer Tax	10,823	12,567	14,548	11,300	13,000
Income Tax—Public Utilities	1,576	5,463	8,795	10,600	9,500
Security Transfer Tax	4,835	7,374	6,962	5,300	6,000
Logging Tax	1,662	1,444	1,977	1,700	1,800
Hospitals Tax	9,524	10,439	838	—	—
Other Taxation	4,227	4,291	4,012	4,900	4,800
TOTAL TAX REVENUE	1,757,012	2,027,375	2,522,543	2,753,400	2,774,600
Other Revenue[1]					
Government of Canada	55,267	124,925	156,538	187,000	244,100
Premiums—OHSIP	—	—	167,713	309,600	317,300
Profits from Trading Operations—LCBO	149,142	192,577	178,741	192,500	201,500
Fees, Licences and Permits	137,660	175,128	193,543	200,500	214,200
Royalties	25,615	27,256	29,859	31,400	26,700
Fines and Penalties	5,074	22,335	25,511	29,200	33,400
Sales and Rentals	20,722	25,006	27,019	25,000	26,500
Miscellaneous	7,461	9,784	9,419	8,700	8,700
TOTAL OTHER REVENUE	400,941	577,011	788,343	983,900	1,072,400
Total Net General Revenue	2,157,953	2,604,386	3,310,886	3,737,300	3,847,000

[1]*For further details see Table C2 (a).*

Details of Other Revenue

(Thousands of Dollars)

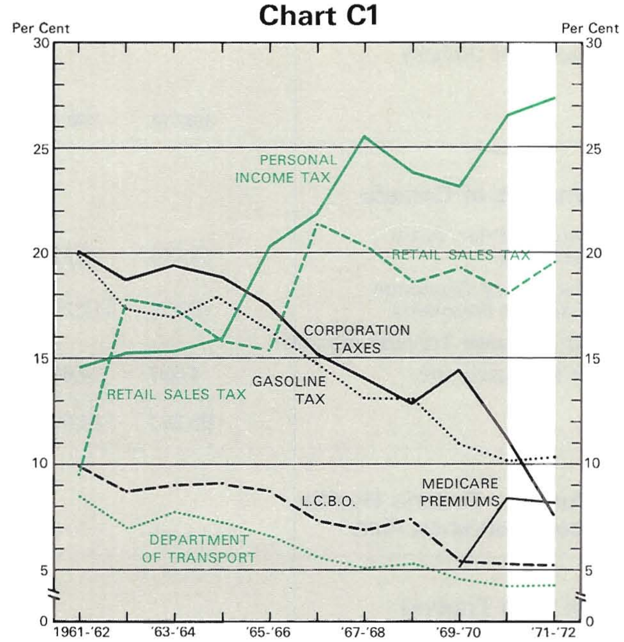
Table C2 (a)

	1967-68	1968-69	1969-70	Interim 1970-71	Estimated 1971-72
Government of Canada					
Recovery of Prior Years' Expenditure	31,091	2,932	46,827	25,900	46,500
Post-Secondary Education Adjustment Payments	19,479	117,296	105,014	145,200	176,700
Second Language Training Program	—	—	—	11,200	15,000
Annual Subsidies, etc.	4,697	4,697	4,697	4,700	5,900
	55,267	124,925	156,538	187,000	244,100
Premiums — Ontario Health Services Insurance Plan	—	—	167,713	309,600	317,300
Profits from Trading Operations — LCBO	149,142	192,577	178,741	192,500	201,500
Fees, Licences and Permits					
Vehicle Registrations	92,530	118,802	129,441	136,500	145,000
Transport (Other)	11,909	13,741	15,240	15,500	16,500
Lands and Forests	8,617	10,646	13,447	13,400	12,300
Justice	11,932	17,652	18,612	17,800	19,800
Other	12,672	14,287	16,803	17,300	20,600
	137,660	175,128	193,543	200,500	214,200
Royalties					
Timber Charges	16,828	18,377	20,135	20,800	15,000
Water Power	8,155	8,243	9,074	10,000	11,000
Other	632	636	650	600	700
	25,615	27,256	29,859	31,400	26,700
Fines and Penalties	5,074	22,335	25,511	29,200	33,400
Sales and Rentals					
Goods, Services and Rentals	18,861	19,117	22,485	21,800	22,500
Sale of Fixed Assets	1,861	5,889	4,534	3,200	4,000
	20,722	25,006	27,019	25,000	26,500
Miscellaneous	7,461	9,784	9,419	8,700	8,700
Total Other Revenue	400,941	577,011	788,343	983,900	1,072,400

REVENUES

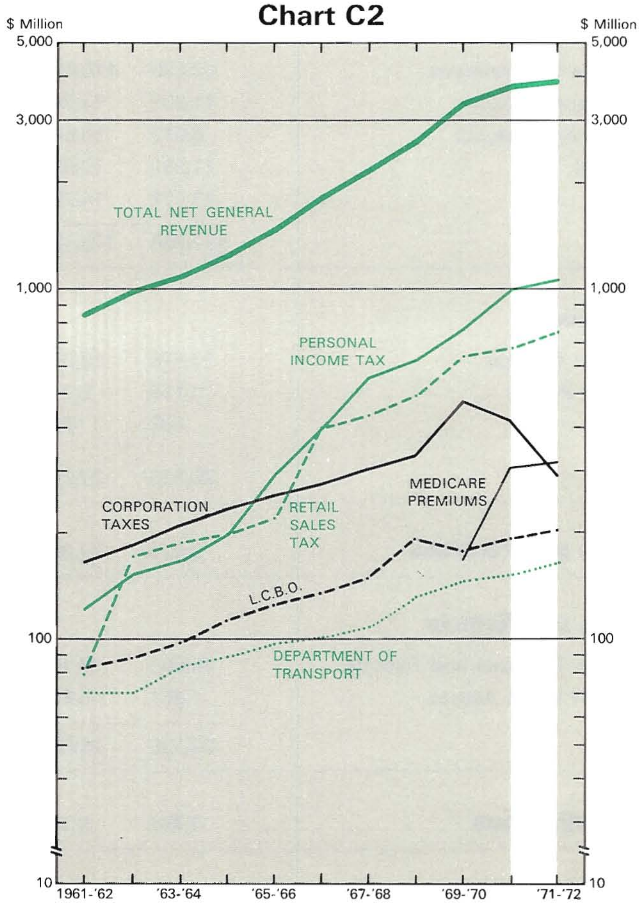
Relative Importance of Major Sources

Chart C1



Growth of Major Sources

Chart C2



Net General Expenditure by Ministerial Responsibility

Table C3

(Thousands of Dollars)

	1967-68	1968-69	1969-70	Interim 1970-71	Estimated 1971-72
Education					
Assistance to School Boards	491,041	566,330	719,725	834,329	1,014,000
Constructing and Equipping Additional Vocational Units for School Boards, etc.	57,600	66,726	50,678	52,000	45,000
Teachers' Superannuation Fund, etc.	47,752	54,952	64,487	63,839	73,029
Colleges of Applied Arts and Technology, etc.	37,790	53,696	68,699	90,972	123,999
Other	55,067	62,266	70,462	82,005	87,162
	689,250	803,970	974,051	1,123,145	1,343,190
Health					
Contribution to Ontario Hospital Care Insurance Plan	90,000	97,000	183,500	86,900	76,481
Construction Grants to Public Hospitals, Boards, etc.	38,370	43,047	22,738	54,300	58,200
Mental Health Program	113,882	133,963	149,584	170,500	189,954
Medical/Health Services Insurance Plan	43,003	58,499	142,784	300,412	309,748
Public Health Program	29,290	38,905	51,150	63,835	72,051
Other	21,242	23,452	22,204	27,723	30,868
	335,787	394,866	571,960	703,670	737,302
Highways					
Construction of Roads and Other Capital Projects	217,082	212,788	229,595	238,077	248,300
Municipal Subsidies, Capital	77,353	82,699	87,788	100,900	105,000
Municipal Subsidies, Maintenance	45,615	49,707	52,725	62,780	75,900
GO Transit (Capital and Maintenance)	8,720	12,796	2,515	5,123	5,067
Highway Maintenance, etc.	79,265	86,263	88,317	97,700	101,716
	428,035	444,253	460,940	504,580	535,983
University Affairs					
Grants to Universities and Colleges	197,457	256,323	319,686	383,103	383,778
Student Awards	21,986	28,403	36,680	43,239	51,088
Other	1,452	4,654	6,359	7,533	8,977
	220,895	289,380	362,725	433,875	443,843
Municipal Affairs					
The Residential Property Tax Reduction Act:					
Main Benefit	—	109,957	123,846	141,500	150,000
Supplementary Benefit	—	—	—	14,500	18,000
Municipal Unconditional Grants	39,775	44,238	45,337	27,381	27,250
Regional Municipal Grants	—	—	—	20,812	26,100
Other Grants, Subsidies and Payments to Municipalities	25,816	26,358	25,965	24,399	32,189
Other	4,259	5,853	14,285	34,346	43,094
	69,850	186,406	209,433	262,938	296,633

(Continued)

Net General Expenditure by Ministerial Responsibility

(Thousands of Dollars)

Table C3
(Continued)

	1967-68	1968-69	1969-70	Interim 1970-71	Estimated 1971-72
Social and Family Services					
The Family Benefits Act	39,689	46,090	49,497	60,080	68,108
The General Welfare Assistance Act	14,277	20,872	23,152	32,470	37,363
The Child Welfare Act	10,105	13,546	15,612	16,453	17,987
Other	29,688	32,849	33,784	34,525	43,728
	93,759	113,357	122,045	143,528	167,186
Justice					
Ontario Provincial Police	36,460	41,469	50,898	59,014	61,181
Contribution to Legal Aid Fund	3,890	7,032	8,146	10,222	10,865
Other	26,812	42,010	46,478	53,785	56,271
	67,162	90,511	105,522	123,021	128,317
Public Works					
Provision of Accommodation Program	65,996	77,499	79,923	99,893	108,486
Other	3,587	5,463	5,826	6,254	6,957
	69,583	82,962	85,749	106,147	115,443
Public Debt — Interest	64,163	72,293	60,524	62,307	81,590
Lands and Forests	53,276	61,855	63,568	74,916	77,408
Agriculture and Food					
Farm Development Capital Grants	6,241	6,346	5,643	4,000	6,000
Farm Tax Rebate	—	—	—	16,000	16,500
Other	30,767	37,185	44,117	44,730	47,516
	37,008	43,531	49,760	64,730	70,016
Correctional Services	32,821	44,504	50,687	52,637	57,755
Trade and Development					
Ontario Housing Program	2,976	4,928	8,683	14,398	16,093
Ontario Place	—	—	4,921	14,072	7,490
Industrial Incentives and Development Program	567	801	1,002	2,312	4,160
Other	9,053	8,028	8,750	11,525	9,183
	12,596	13,757	23,356	42,307	36,926
Energy and Resources Management					
Ontario Water Resources Commission	7,774	9,245	9,587	11,963	13,218
Other	10,903	14,097	16,345	20,741	23,682
	18,677	23,342	25,932	32,704	36,900

(Continued)

Net General Expenditure by Ministerial Responsibility

(Thousands of Dollars)

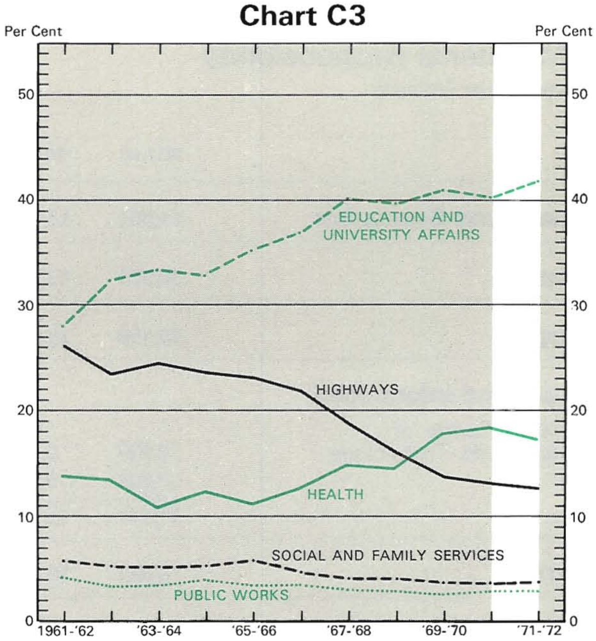
Table C3

(Continued)

	1967-68	1968-69	1969-70	Interim 1970-71	Estimated 1971-72
Treasury and Economics	11,951	12,067	13,738	27,811	30,639
Labour	10,751	13,364	15,643	18,467	19,000
Transport	11,110	12,562	13,777	15,564	17,264
Tourism and Information					
Centennial Centre of Science and Technology	2,137	2,687	4,202	3,423	3,832
Other	9,604	9,012	9,241	10,336	11,478
	11,741	11,699	13,443	13,759	15,310
Revenue	8,681	10,019	10,994	12,237	13,889
Mines and Northern Affairs	4,393	5,631	7,400	11,972	12,474
Provincial Secretary and Citizenship	6,025	6,310	8,197	9,262	10,685
Financial and Commercial Affairs	3,496	4,074	4,489	5,466	5,887
Treasury Board	792	1,066	1,661	2,094	3,692
Civil Service	1,747	2,278	2,406	3,045	3,229
Provincial Auditor	803	902	894	1,074	1,200
Prime Minister	315	375	420	547	684
Lieutenant Governor	34	36	40	41	40
Total Net General Expenditure	2,264,701	2,745,370	3,259,354	3,851,844	4,262,485

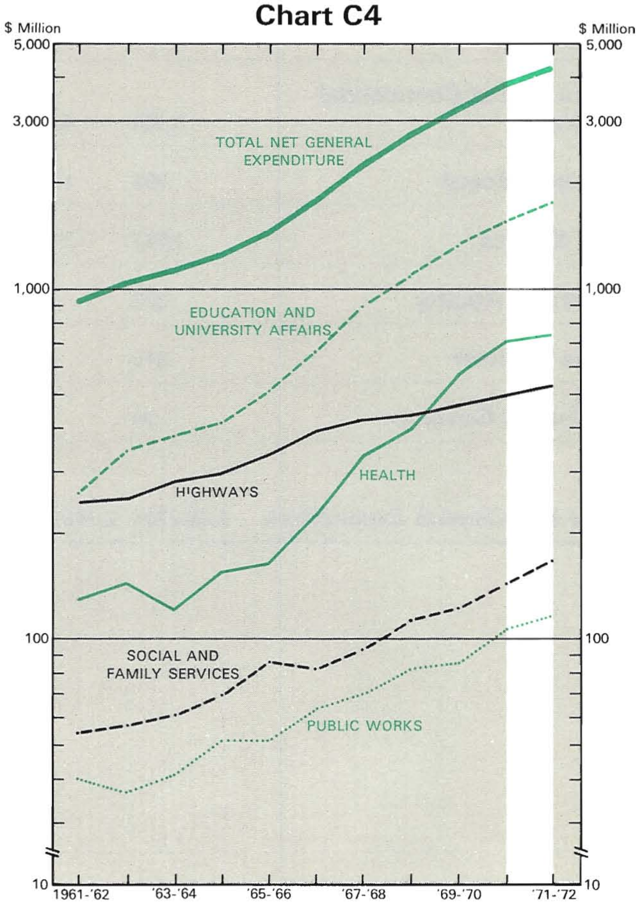
EXPENDITURES

Chart C3



Relative Importance of Major Functions

Chart C4



Growth of Major Functions

Estimated Net and Gross General Expenditure, 1971-72

Table C4

(Thousands of Dollars)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Education				
Formal Education K-13	40,064	29	—	40,093
Continuing Education	128,711	34,088	—	162,799
Community Services	12,528	30	—	12,558
Other	1,161,887	—	—	1,161,887
	1,343,190	34,147	—	1,377,337
Health				
Departmental Administration	19,615	405	—	20,020
Public Health	72,051	4,800	—	76,851
Mental Health	189,954	120	—	190,074
Health Services Insurance	344,044	205,450	—	549,494
Other	111,638	—	—	111,638
	737,302	210,775	—	948,077
Highways				
Road Construction	353,300	4,200	2,500	360,000
Other	182,683	—	—	182,683
	535,983	4,200	2,500	542,683
University Affairs	443,843	—	—	443,843
Public Debt — Interest	81,590	—	276,979	358,569
Social and Family Services				
Departmental Administration	2,771	1,561	—	4,332
Social Development	137,864	162,860	—	300,724
Children's Services	26,551	23,354	—	49,905
	167,186	187,775	—	354,961
Municipal Affairs	296,633	—	—	296,633
Justice				
Courts Administration	27,668	—	113	27,781
Guardian and Trustee Services	459	—	2,373	2,832
Public Safety	5,981	1,083	—	7,064
Other	94,209	—	—	94,209
	128,317	1,083	2,486	131,886
Public Works	115,443	—	—	115,443
Lands and Forests				
Resource Protection and Development	44,662	310	—	44,972
Recreation	24,726	100	—	24,826
Other	8,020	—	—	8,020
	77,408	410	—	77,818

(Continued)

Estimated Net and Gross General Expenditure, 1971-72

(Thousands of Dollars)

Table C4
(Continued)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Agriculture and Food				
Agricultural Production	35,745	674	—	36,419
Rural Development	6,986	6,873	—	13,859
Agricultural Education and Research	15,982	16	—	15,998
Other	11,303	—	—	11,303
	70,016	7,563	—	77,579
Correctional Services				
Rehabilitation of Adult Offenders	37,784	55	80	37,919
Other	19,971	—	—	19,971
	57,755	55	80	57,890
Energy and Resources Management				
Renewable Resources Management	14,504	950	—	15,454
Management of the Quality and Quantity of Water	7,222	325	—	7,547
Other	15,174	—	—	15,174
	36,900	1,275	—	38,175
Trade and Development	36,926	—	—	36,926
Treasury and Economics	30,639	—	—	30,639
Labour				
Manpower Development	5,807	6,900	—	12,707
Other	13,193	—	—	13,193
	19,000	6,900	—	25,900
Transport				
Motor Vehicle Accident Claims	—	—	1,269	1,269
Other	17,264	—	—	17,264
	17,264	—	1,269	18,533
Revenue				
Province of Ontario Savings Office	—	—	1,548	1,548
Other	13,889	—	—	13,889
	13,889	—	1,548	15,437
Tourism and Information	15,310	—	—	15,310
Mines and Northern Affairs	12,474	—	—	12,474

(Continued)

Estimated Net and Gross General Expenditure, 1971-72

(Thousands of Dollars)

Table C4
(Continued)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Provincial Secretary and Citizenship				
Community Services	2,998	273	—	3,271
Registrar General	1,481	29	—	1,510
Other	6,206	—	—	6,206
	10,685	302	—	10,987
Financial and Commercial Affairs	5,887	—	—	5,887
Treasury Board	3,692	—	—	3,692
Civil Service	3,229	—	—	3,229
Provincial Auditor	1,200	—	—	1,200
Prime Minister	684	—	—	684
Lieutenant Governor	40	—	—	40
TOTAL	4,262,485	454,485	284,862	5,001,832

Details of Non-Budgetary Transactions

Table C5

(Thousands of Dollars)

Receipts and Credits	1967-68	1968-69	1969-70	Interim 1970-71	Estimated 1971-72
PROCEEDS OF NON-PUBLIC DEBENTURE ISSUES:					
Canada Pension Plan	375,902	411,993	445,777	476,000	500,000
Teachers' Superannuation Fund	55,000	73,000	80,000	80,000	90,000
Municipal Employees' Retirement Fund	24,900	33,100	46,700	57,600	77,400
Federal-Provincial Special Development Loans	—	—	—	—	17,000
Municipal Works Assistance	32,316	6,216	—	—	—
	488,118	524,309	572,477	613,600	684,400
REPAYMENT OF LOANS AND ADVANCES:					
Hydro-Electric Power Commission	5,416	5,092	10,365	11,200	41,600
Education Capital Aid Corporation	6,931	14,316	20,980	28,700	35,000
Universities Capital Aid Corporation	3,286	4,869	7,362	10,200	12,200
Hospital Construction Loans	1,026	2,519	3,438	4,400	7,400
Junior Farmer Establishment Loan Corporation	—	—	7,100	13,200	5,000
Municipal Works Assistance	13,434	6,507	3,799	4,000	4,000
Municipal Improvement Corporation	3,771	3,500	3,600	3,500	3,600
Ontario Development Corporation	—	1,874	1,408	1,300	3,000
Tile Drainage Debentures	1,367	1,551	1,866	2,300	2,800
Housing Corporations	149	404	5,621	4,800	5,000
Other	2,965	2,978	3,252	19,200	3,300
	38,345	43,610	68,791	102,800	122,900
PENSION FUNDS, DEPOSIT, TRUST AND RESERVE ACCOUNTS:					
Public Service Superannuation Fund	51,741	59,963	66,091	87,900	99,000
Municipal Employees' Retirement Fund	6,600	10,222	10,100	13,600	16,500
Motor Vehicle Accident Claims Fund	8,396	7,946	8,117	8,000	8,700
OHSC—Premium Stabilization Account	—	48,000	125,000	25,400	—
Sales of Vacation-with-Pay Stamps	13,020	9,467	2,790	—	—
HIRB—Special Account (Advance Premiums)	4,814	6,752	—	—	—
Other	2,185	1,946	3,129	500	500
	86,756	144,296	215,227	135,400	124,700
DEBENTURE ISSUES ON BEHALF OF ONTARIO HYDRO	125,150	156,300	199,450	84,100	n.a.
PROVINCE OF ONTARIO SAVINGS DEPOSITS (Net)	13,386	10,329	1,743	7,700	10,600
SINKING FUND INVESTMENTS TRANSFERRED TO LIQUID RESERVES	—	—	43,133	—	—
BANK LOAN	(5,000)	—	—	—	—
Total Receipts and Credits	746,755	878,844	1,100,821	943,600	942,600

(Continued)

Details of Non-Budgetary Transactions

(Thousands of Dollars)

Table C5
(Continued)

Disbursements and Charges	1967-68	1968-69	1969-70	Interim 1970-71	Estimated 1971-72
LOANS AND ADVANCES:					
Education Capital Aid Corporation	167,555	180,285	200,550	201,500	200,000
Hydro-Electric Power Commission	125,150	156,300	199,450	84,100	n.a.
Universities Capital Aid Corporation	106,309	172,789	170,000	175,000	179,500
Housing Corporation Ltd.	—	—	—	50,000	93,100
Ontario Water Resources Commission	14,070	7,898	29,968	39,500	50,000
Ontario (and Student) Housing Corporation	34,409	15,375	44,575	50,300	49,100
Hospital Construction Loans and Assistance	21,808	26,805	25,779	29,600	41,500
(Northern) and Ontario Development Corporation	145	4,406	15,214	13,300	36,200
Ontario Land Acquisition Corporation	—	—	—	—	20,000
Federal-Provincial Special Development Loans	—	—	—	—	17,000
Hydro Nuclear Power Generating Station	7,498	19,097	19,529	23,800	12,000
Municipal Improvement Corporation	8,525	2,660	5,158	6,500	10,000
Tile Drainage Debentures	2,565	4,258	5,068	6,000	7,400
Junior Farmer Establishment Loan Corporation	19,700	21,900	11,000	11,500	—
Municipal Works Assistance	45,073	8,494	—	—	—
Other	3,265	2,280	9,428	1,600	1,400
	556,072	622,547	735,719	692,700	717,200
PENSION FUNDS, DEPOSIT, TRUST AND RESERVE ACCOUNTS:					
OHSC—Premium Stabilization Account	12,000	—	27,000	67,000	105,400
Public Service Superannuation Fund	17,530	19,780	23,650	24,200	26,600
Municipal Employees' Retirement Fund	5,175	6,600	10,222	10,100	13,600
Motor Vehicle Accident Claims Fund	6,451	7,219	7,306	8,300	8,800
HIRB—Special Account (Advance Premiums)	2,284	4,814	6,752	—	—
Vacation-with-Pay Stamps Redemptions	14,196	10,738	6,688	100	—
Other	4,753	2,613	745	1,600	300
	62,389	51,764	82,363	111,300	154,700
Total Disbursements and Charges	618,461	674,311	818,082	804,000	871,900
Surplus on Non-Budgetary Transactions	128,294	204,533	282,739	139,600	70,700

Analysis of Expenditure on Physical Assets

Table C6

(Thousands of Dollars)

	Interim 1970-71	Estimated 1971-72
Net General Expenditure		
Direct Provincial Expenditure on Physical Assets		
Transportation	203,012	215,116
Provision of Accommodation	54,277	60,007
Other	35,320	25,217
Sub-Total	292,609	300,340
Transfer Payments in Respect of Physical Assets		
Transportation	137,280	139,216
Education	52,000	45,000
Health	55,428	59,613
Other	38,935	43,277
Sub-Total	283,643	287,106
Total Net General Expenditure on Physical Assets	576,252	587,446
Loans and Advances		
Education	376,512	379,500
Industrial Development and Provincial Resources	77,039	118,406
Home and Community Environment	112,773	176,604
Health	29,641	41,500
Total Loans and Advances in Respect of Physical Assets	595,965	716,010
Grand Total	1,172,217	1,303,456

Increase in Gross Debt

Table C7

(Thousands of Dollars)

	1967-68	1968-69	1969-70	Interim 1970-71
Gross Debt Increased or (Decreased) by:				
Net Budgetary Transactions (See Table C1)	106,748	140,984	(51,532)	114,500
Cash on Hand and in Banks	71,730	120,412	156,025	(69,841)
Temporary Investments	(34,848)	(25,434)	95,044	30,041
Advances to Crown Corporations (Net):				
Ontario Education Capital Aid Corporation	160,624	165,969	179,569	172,800
Ontario Universities Capital Aid Corporation	103,023	167,920	162,638	164,800
Ontario Hydro	127,232	170,305	208,614	96,700
Housing Corporation Ltd.	(275)	425	—	50,000
Ontario (and Student) Housing Corporation	34,260	14,971	38,955	45,500
Ontario Development Corporation	145	2,531	13,806	12,000
Ontario Municipal Improvement Corporation	4,754	(840)	1,558	3,000
Other Corporations	100	800	—	—
Ontario Junior Farmer Establishment Loan Corporation	19,700	21,900	3,900	(1,700)
Advances to Ontario Water Resources Commission	14,070	7,898	29,665	39,500
Loans to Municipalities, Miscellaneous Loans, etc.	53,043	27,520	20,764	19,300
Advances to Ontario Northland Transportation Commission	700	—	7,500	(12,000)
Increase in Gross Debt	661,006	815,361	866,506	664,600

Contingent Liabilities

Table C8

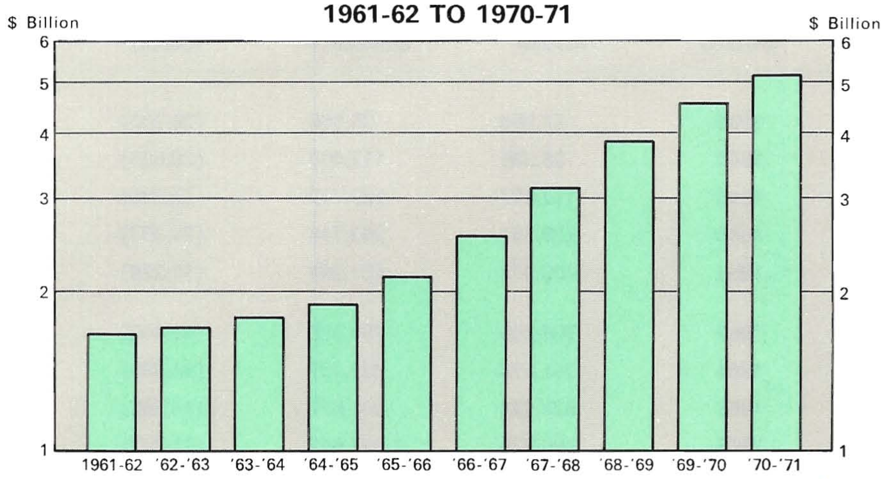
Bonds, etc. Guaranteed by the Province of Ontario

(Thousands of Dollars)

	As at March 31			Estimated Dec. 31
	1968	1969	1970	1970
Ontario Hydro	1,836,823	2,039,192	2,116,716	2,275,956
Agricultural Guarantees	27,270	24,288	18,714	13,031
University of Toronto	19,000	19,000	7,500	—
Ontario Northland Transportation Commission	20,302	18,300	11,010	23,000
Provincial Crown Corporations	34,980	34,870	30,104	29,111
Ontario Food Terminal Board	5,000	6,868	7,144	7,329
Development Loans	881	867	840	761
Co-operative Associations	1,482	1,467	11	13
Niagara Parks Commission	425	840	667	144
Miscellaneous	419	1,779	2,811	3,027
	1,946,582	2,147,471	2,195,517	2,352,372
Less Bonds Held by Province	(13,331)	(20,733)	(27,265)	(20,898)
Total	1,933,251	2,126,738	2,168,252	2,331,474

Chart C5

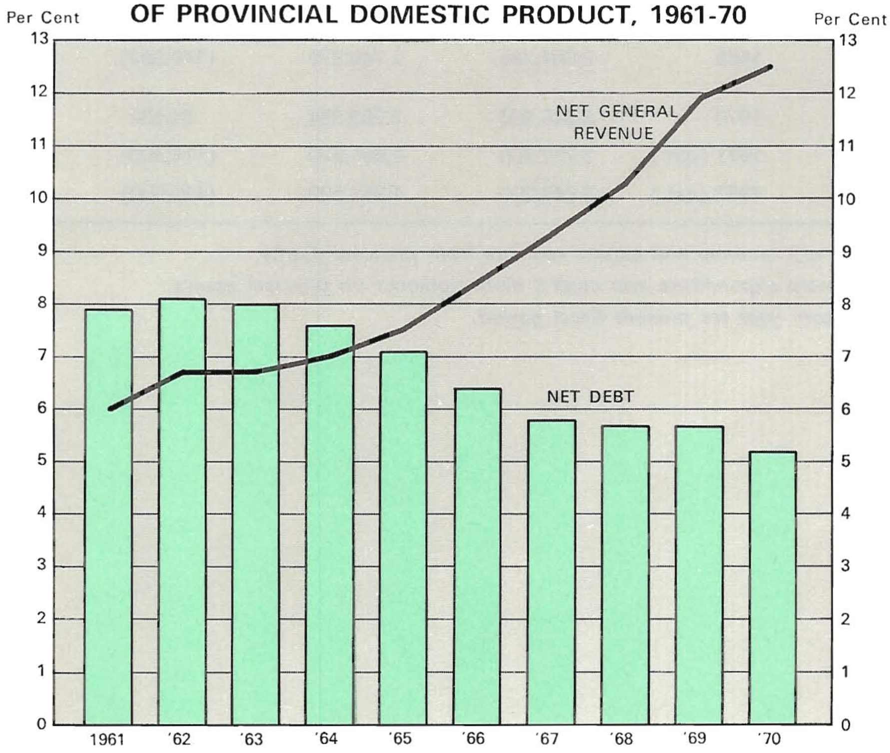
NET FUNDED DEBT* AT THE END OF FISCAL YEARS 1961-62 TO 1970-71



*Gross funded debt less Ontario debentures held as investments by the Province.

Chart C6

NET DEBT AND NET GENERAL REVENUE AS A PERCENTAGE OF PROVINCIAL DOMESTIC PRODUCT, 1961-70



Historical Summary of Total Budgetary Transactions

Table C9

(Thousands of Dollars)

Fiscal Year Ending March 31	Net General Revenue[1]	Net General Expenditure[2]	Budgetary Surplus or (Deficit)
1936[3]	67,656	95,856	(28,200)
1940	88,385	117,408	(29,023)
1945	117,377	120,712	(3,335)
1950	229,351	253,748	(24,397)
1955	400,074	431,294	(31,220)
1960	704,885	786,288	(81,403)
1961	741,676	837,757	(96,081)
1962	827,424	941,677	(114,253)
1963	996,525	1,067,542	(71,017)
1964	1,081,380	1,139,246	(57,866)
1965	1,238,981	1,265,534	(26,553)
1966	1,444,246	1,456,198	(11,952)
1967	1,811,269	1,791,129	20,140
1968	2,157,953	2,264,701	(106,748)
1969	2,604,386	2,745,370	(140,984)
1970	3,310,886	3,259,354	51,532
1971 (est.)	3,737,300	3,851,800	(114,500)
1972 (est.)	3,847,000	4,262,500	(415,500)

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

[2]*Net ordinary expenditure and capital disbursements on physical assets.*

[3]*Introductory year for present fiscal period.*

Gross and Net Debt, Selected Fiscal Years

Table C10

($ million)

Fiscal Year Ending March 31	Gross Debt: Total	Gross Debt: Yearly Increase or (Decrease)	Revenue-Producing and Realizable Assets: Ontario Hydro	O.N.T.C.	Loans and Cash	Total	Yearly Increase or (Decrease)	Net Debt: Total	Yearly Increase or (Decrease)	Population April 1 (000's)	Per Capita Net Debt ($)
1945	636.8	20.0	95.5	30.2	28.4	154.1	17.0	482.7	3.0	3,994	120.85
1950	684.0	64.6	70.2	30.2	73.5	174.0	40.3	510.0	24.3	4,456	114.46
1955	1,066.2	30.7	300.0	30.2	75.2	405.4	52.0	660.7	30.7	5,236	126.18
1960	1,642.7	63.6	379.3	30.2	239.6	649.1	29.5	993.6	93.0	6,083	163.34
1961	1,695.5	52.8	359.5	30.2	213.2	602.9	(46.2)	1,092.6	99.0	6,214	175.83
1962	1,885.0	189.5	356.2	30.2	289.5	675.9	73.0	1,209.1	116.5	6,330	191.01
1963	1,979.4	94.4	351.3	30.2	313.8	695.3	19.4	1,284.1	75.0	6,455	198.93
1964	2,058.0	78.6	347.3	30.2	335.7	713.2	17.9	1,344.7	60.6	6,602	203.68
1965	2,218.3	160.3	345.7	30.2	477.0	852.9	139.7	1,365.3	20.6	6,758	202.03
1966	2,509.0	290.7	393.5	30.2	704.8	1,128.5	275.6	1,380.5	15.2	6,926	199.32
1967	2,969.9	460.9	430.3	34.0	1,145.1	1,609.4	480.9	1,360.5	(20.0)	7,115	191.22
1967[2]	2,878.8	369.8	430.3	34.0	1,070.8	1,535.1	406.6	1,343.7	(36.8)	7,115	188.85
1968	3,539.8	661.0	557.6	34.7	1,497.1	2,089.4	554.3	1,450.4	106.7	7,283	199.16
1969	4,355.2	815.4	727.9	34.7	2,001.1	2,763.7	674.3	1,591.4	141.0	7,425	214.34
1970	5,221.7	866.5	936.5	42.2	2,703.1	3,681.8	918.1	1,539.9	(51.5)	7,611	202.33
1971 (est.)	5,886.3	664.6	1,033.2	30.2	3,168.5	4,231.9	550.1	1,654.4	114.5	7,800[1]	212.10

[1]*Estimated by Department of Treasury and Economics.*

[2]*Amended April 1, 1967, to reflect the revised system of accounting which has eliminated non-cash accruals and reserves and reports net advances to Crown Corporations instead of consolidating net assets.*

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

Government Revenue and Expenditure — Table C11

(Fiscal Year 1970-71 Interim)

Revenue

Individual Income Tax	$ 991,800,000
Retail Sales Tax	673,500,000
Corporation Taxes	414,100,000
Gasoline Tax	375,800,000
Medicare Premiums	309,600,000
Liquor Control Board	192,500,000
Other	780,000,000
TOTAL NET GENERAL REVENUE	$3,737,300,000

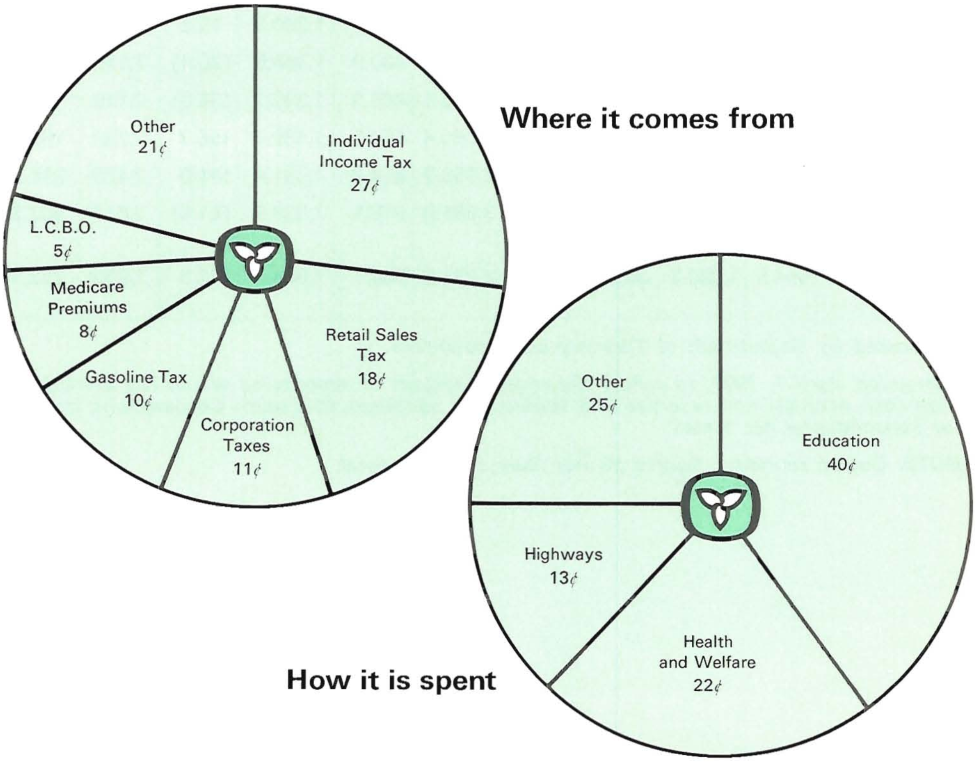
Expenditure

Education	$1,557,000,000
Health and Social Services	847,200,000
Highways	504,600,000
Other	943,000,000
TOTAL NET GENERAL EXPENDITURE	$3,851,800,000

Chart C7

THE GOVERNMENT DOLLAR

(Fiscal Year 1970-71 Interim)



Government Revenue and Expenditure — Table C12

(Fiscal Year 1971-72 Estimated)

Revenue

Individual Income Tax	$1,050,000,000
Retail Sales Tax	745,000,000
Gasoline Tax	395,000,000
Medicare Premiums	317,300,000
Corporation Taxes	290,000,000
Liquor Control Board	201,500,000
Other	848,200,000
TOTAL NET GENERAL REVENUE	$3,847,000,000

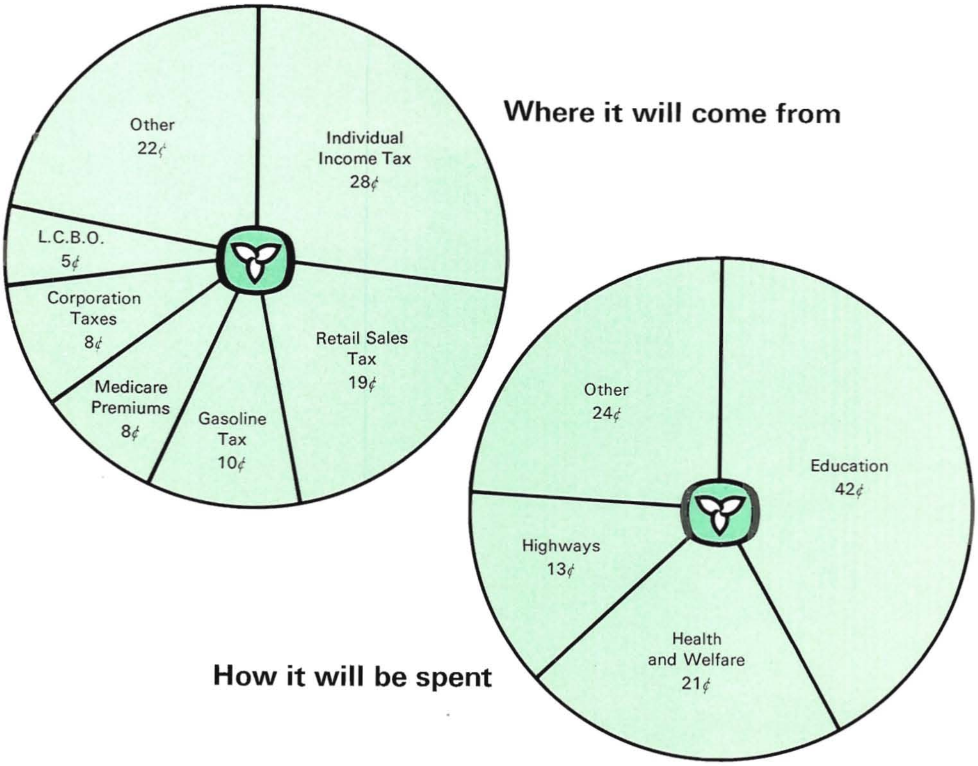
Expenditure

Education	$1,787,000,000
Health and Social Services	904,500,000
Highways	536,000,000
Other	1,035,000,000
TOTAL NET GENERAL EXPENDITURE	$4,262,500,000

Chart C8

THE GOVERNMENT DOLLAR

(Fiscal Year 1971-72 Estimates)



ONTARIO
PROVINCE OF OPPORTUNITY