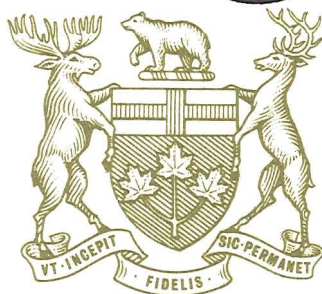


1972 Ontario Budget



The Honourable W. Darcy McKeough, Treasurer of Ontario

1972 Ontario Budget



Presented by the Honourable W. Darcy McKeough,
Treasurer of Ontario
in the Legislative Assembly of Ontario, Tuesday, March 28, 1972

Ministry of Treasury, Economics and Intergovernmental Affairs
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1972 Budget Statement

Mr. Speaker:

The 1972 budget which I am presenting today reflects the confidence of this Government in the strength of our economy and the future of our province. It maintains the momentum of Ontario's actions to restore full employment. It seeks to foster maximum expansion in private sector activity and investment. It purposefully slashes the growth in provincial spending and re-orders our priorities to meet urgent social needs. It increases our financial aid to local government. It accelerates our program of tax reform by redistributing property tax burdens on the basis of ability-to-pay. It preserves responsible financing by raising taxes in selective areas. And it reinforces the new government organization which will lead to more efficient and better public services for our people.

I am confident that the positive fiscal program contained in this budget will commend itself to the Members and the people of Ontario. The substantial, but manageable, deficit which I am proposing will stimulate economic recovery. The rigorous restraint on spending will make room for expansion of private sector activity and curb inflationary forces as the economy moves back to full performance. The reform initiatives will contribute to stronger local governments and a fairer distribution of total tax burdens. This expansionary and progressive overall program stays within the limits of moderation and will help to bring about renewed prosperity and a better life for all Ontario citizens.

Mr. Speaker, as in previous years, my Budget Statement is supported by three important Budget Papers. Budget Paper A discusses the course and impact of the Ontario Government's fiscal policy in 1970 and 1971 and the economic outlook for 1972, as the bases for our fiscal policy in the coming year. Budget Paper B provides full details on the new property tax credit plan to be introduced in 1972. Budget Paper C contains the Government's financial statements, together with an explanation of the improvements we have made to contribute to a fuller understanding of our financial operations.

I Federal-Provincial Relations

In my last Budget Statement, I reported at length on the unsatisfactory course of federal-provincial relations and on the detrimental impact of federal policies on the Ontario economy. In particular, I pointed out that restrictive federal economic policies were driving Ontario's economic growth far below its potential and creating high levels of unemployment, and that the federal tax reform proposals were impractical and unacceptable. Since that time I am gratified to say the situation has improved considerably. The federal government has adopted a positive and expansionary fiscal policy, has cut taxes, and has legislated a greatly modified and more acceptable tax reform bill. As a result, I have been able to construct the 1972 budget with greater confidence in the direction and impact of federal policies.

The past year has been one of intense activity in federal-provincial affairs. In the area of fiscal and financial relations, there were two conferences of First Ministers, three meetings of Ministers of Finance and numerous meetings of officials. Agreement was not reached on constitutional reform and the distribution of powers, nor on improved tax-sharing and a new deal on fiscal arrangements. Progress was made, however, on reform of the tax structure, and the new federal income tax legislation has now been accepted by all provinces. Let me recapitulate the Ontario Government's position on tax reform and fiscal arrangements and outline to the House the approach this Government is taking to achieve basic reforms in these two key aspects of federal-provincial relations.

National Tax Reform

After years of study and debate, a new national income tax system has been legislated and is in operation, thus substantially completing the first stage of tax reform. I am pleased to report that the major contribution of the Ontario Government towards this end is partly reflected in the tax changes that have been enacted. Among the major improvements in the new tax legislation that we worked hard to secure are:

- reduced tax rates to ensure that reform will not result in revenue gains to governments;
- reinstatement of an effective tax incentive for Canadian small businesses;

- abandonment of complex and impractical provisions to integrate personal and corporate taxation; and
- introduction of a simple and competitive capital gains tax.

On the other hand, the new federal legislation falls short of our expectations and our equity and growth objectives in a number of respects. It is not comprehensive reform in that it fails to take into account total federal-provincial-municipal taxes. It ignores completely Canadian families who are too poor to pay income tax. It is generally too complicated for the ordinary taxpayer or small businessman to understand. Its international provisions are too harsh and threaten the desirable expansion of Canadian-based multi-national companies. On that matter, I am hopeful that the federal government recognizes the need to introduce amendments to ensure that Canada's tax law is in tune with international economic realities.

The Ontario Government has already enacted the personal income tax components of the new federal tax legislation. On the corporate side, however, we delayed implementation until our own studies were completed and until we were reasonably confident of the workability and adequacy of the new federal tax provisions. Our analysis confirms that the new federal legislation is cumbersome and intricate, but also that it contains a number of definite improvements over the old law. We recognize as well that Ontario corporations would prefer to operate under a system of uniform rules covering both the federal and Ontario taxes. The practical advantages to our corporations of a uniform federal and provincial system outweigh the disadvantages inherent in the new federal legislation.

Accordingly, the Ontario Government intends to parallel in its Corporations Tax Act the federal changes affecting corporations — retroactive to January 1, 1972 — with the exception of those provisions relating to mining and petroleum companies and to international income. The major changes in mining taxation legislated by the federal government will not take effect for a number of years. In the meantime, Ontario is developing a long-term policy on mining taxation along the lines I described in my 1971 budget. My colleague, the Minister of Revenue, will be bringing forward these major amendments to our corporations tax legislation in the near future. This complementary action by Ontario will complete the implementation of the first stage of national tax reform.

Second Stage of National Tax Reform

Reconstruction of the Canadian tax system must now move into a second stage. As the Carter Report made clear, income taxation constitutes only part of the total tax system, and the remaining parts are also in need of reform. Indirect taxes such as the federal and provincial sales taxes merit particular attention in this second stage of reform because they have a large bearing on individual tax burdens, on economic activity, and on government financing. Our system of capital cost allowances also requires thorough re-examination. In pursuing this second stage of tax reform, however, I believe that one consideration must remain paramount. Whatever changes in indirect taxes and depreciation allowances are made, they should aim to improve the competitiveness of Canadian firms, strengthen our manufacturing and industrial sectors, and promote greater participation by Canadians in our future economic growth.

The clear thrust of tax developments elsewhere in the world, particularly in the European Economic Community and in the United States, is towards liberalization and positive incentives to stimulate business expansion and exports. Canada cannot afford to lag behind. It is imperative, therefore, that this second round of tax reform be pursued within the context of international taxation with the aim of improving the competitive position of the Canadian economy. The Government of Ontario is prepared to co-operate fully with the federal government in developing new tax measures that will achieve this end. Among the options that could be considered are value added taxes similar to those used in Europe and a DISC incentive along the lines adopted by the United States.

It is important that the pitfalls and tensions of the first round of tax reform be avoided during this second stage. In my view, many of the difficulties encountered in overhauling the income tax system, as well as the real shortcomings that remain, can be attributed directly to the unilateral approach to reform adopted by the federal government. Successful tax reform requires full consultation among all the principals involved. I should like to state now, therefore, that the Government of Ontario insists that the provinces be involved directly with the federal government in the development of further tax reform measures, and from the beginning of the process.

Federal-Provincial Fiscal Arrangements

At successive meetings of Finance Ministers over the past year, the Ontario Government joined with the federal government and the other provinces to renegotiate federal-provincial financial arrangements, including tax sharing, cost sharing and equalization. We approached these meetings in the hope that substantial reform of federal-provincial financing could be achieved. Certainly this Government is convinced that basic reforms are vitally necessary if the resources of all governments in Canada are to be utilized to provide the maximum in public services and programs, within realistic levels of taxation. Some progress was made, but I must again report to Members that the results of federal-provincial negotiations fell far short of Ontario's expectations and needs.

Earlier statements of the Ontario Government at federal-provincial conferences have been tabled in this Legislature. In line with this practice, therefore, I am tabling today *Supplementary Papers on Federal-Provincial Finance*, which contain the views presented by Ontario at the February meeting of Finance Ministers in Jasper, Alberta. Without repeating our arguments in detail, let me review briefly the Province's objectives and stance in these fiscal negotiations.

Tax Sharing

On tax sharing, the Ontario Government seeks a fundamental and overdue reform — a new deal which corrects the existing fiscal imbalance in our Canadian federal system and redistributes future revenue growth fairly and reasonably between the two levels of government. Without greater access to elastic tax resources, the provincial-municipal level of government will not be able to discharge its existing expenditure responsibilities, let alone make adequate provision for emerging public priorities. This fact has, once again, been documented in the last projections prepared by the Continuing Committee on Fiscal and Economic Matters.

The federal government has refused up to now to recognize these facts and the inequity of the existing situation. Instead it has counselled the provinces to raise their taxes independently. Ontario has consistently pointed out that such independent taxing provides no real solution to the underlying problem. The provinces and municipalities have already been forced to increase taxes regularly over the past five years to compensate for their inadequate tax capacity. This has driven total tax burdens to a very high level and has compounded the task of reforming the total tax structure. Further independent tax increases,

particularly in the income tax field, would simply increase the already excessive level of total income taxation, and wipe out any lasting benefits of tax reform to taxpayers themselves.

To compound the problem, the new income tax system introduced by the federal government involves a steady erosion in provincial revenue yields over the next five years, and restricts the real ability of the provinces to use the income tax field in future. Under the new income tax system, the provincial share of revenue growth over time will be lower than under the old system; the provincial tax on dividends will decline absolutely; and the provinces will not share at all in the higher revenue elasticity of the reformed income tax structure. In short, once the federal guarantee has expired, the provinces will be forced to increase their income tax rates merely to regain the revenue potential and tax sharing position they formerly enjoyed. This is totally unacceptable to Ontario.

Accordingly, we have advanced in Jasper a two-part plan for reform of tax sharing over the next five years — a plan which is fair, realistic and well within the financial capacity of the federal government to accept. Only with such a solution to tax sharing can we hope to maintain a truly national income tax system in Canada, one which serves the needs of the provinces as well as the federal government.

Cost Sharing

On cost sharing, the Ontario Government is convinced of the need to assume full provincial responsibility for the established shared-cost programs in exchange for fiscal equivalence. As I said in my last budget, such a fundamental restructuring of current arrangements would produce many benefits, with no financial gain or loss to either level of government.

- It would enhance accountability, flexibility and priority-setting at both levels of government.
- It would promote efficiency, eliminate anomalies and greatly simplify intergovernmental finance.
- It would eliminate excessive administrative overhead and bureaucratic machinery at both levels of government.
- It could be achieved for Ontario without disadvantage to any other province that chose to continue in shared-cost programs, as demonstrated by the case of Quebec.

These reasons are all summed up in the basic principle of public finance that the government responsible for spending should also be responsible for raising the necessary revenues. At the present time, Ontario receives some \$1 billion in federal shared-cost contributions, involving 52 individual programs spread among 13 Ontario departments. Against this background of a multiplicity of joint programs and sharing formulas, as well as myriad interdepartmental connections between our two levels of government, there appears to be no other common sense solution.

We are encouraged that the Prime Minister of Canada, in response to Ontario's arguments, stated that the federal government has no objections to the principle of moving to full provincial responsibility and accountability in these spending areas. What must be agreed upon, then, is the appropriate fiscal equivalence, and a practical program-by-program timetable for realizing this desirable reform. We intend to initiate bilateral discussions with the federal government as soon as possible to work out the details for assuming full responsibility for existing shared-cost programs.

Equalization

On equalization, let me reiterate the firm position of the Ontario Government. We agree fully with the continuation and expansion of equalization payments to provinces having an inadequate fiscal base. We support continued efforts to improve the equalization formula in order to make it as consistent and fair as possible. Moreover, we do not believe that any plan of guaranteed income transfers to people would adequately replace equalization transfers to governments as a means of ensuring a reasonable level of public services in all provinces. We are equally convinced, however, that the entire bundle of federal policies to reduce regional disparities and redistribute public resources in Canada has not produced concrete results commensurate with the resources committed.

Ontario has proposed, therefore, that all federal programs for regional redistribution — relocation grants, tax concessions, regional development subsidies, implicit equalization in cost sharing, selective expenditure policies and equalization payments *per se* — should be analyzed and discussed openly to determine their total costs and benefits. In this way, duplication could be eliminated, programs working at cross-purposes could be rationalized, and Canadian taxpayers would be assured that their money was being used effectively to achieve a better regional balance in our Canadian federation.

II Provincial-Municipal Relations

In 1969 my predecessor, the Honourable Charles MacNaughton, tabled in the House the Ontario Government's white paper on provincial-municipal structure and tax reform. In my budget last year, I reported on the substantial progress we had made in implementing this plan. This budget contains major new initiatives in the provincial-municipal sphere.

The Government's reform program will proceed simultaneously on two fronts. First, we will continue our program of taxation and financial reform to reduce the property tax burden and distribute it more equitably among taxpayers. Second, we will establish new regional governments and make other structural changes to modernize our local governments and permit broader-scale planning and improve services. These balanced changes will move us much closer towards realization of the long-run goals that the Ontario Government set for itself in 1969.

Property Tax Credits

The Ontario Government will introduce this year a property tax credit plan which relates the property tax burden borne by each taxpayer in Ontario to his ability to pay, as determined under the personal income tax system. For three years Ontario has pressed the federal government to incorporate a credit against property taxes within the basic income tax system. Now, the federal government has agreed to administer this plan beginning with the 1972 taxation year, and the Ontario Government will finance it for the benefit of Ontario taxpayers. For this positive decision I sincerely thank the Minister of Finance. I would also like to commend the Department of National Revenue which worked closely with us to iron out the administrative and operational details of our property tax credit plan. This is an excellent example of how two levels of government can work together harmoniously.

Our property tax credit plan has one primary objective — to produce a fairer and more progressive distribution of the property tax burden borne by individuals and families in Ontario. It will replace the basic shelter grants that have been in effect since 1968 and deliver relief from the regressive property tax according to individual needs. The specific tax credit formula that will be incorporated in the 1972 income tax form is *\$90 plus 10 per cent of property tax paid minus 1 per cent of taxable income, up to a maximum credit of \$250*. Roomers, boarders and renters as well as homeowners will be eligible for the tax credit, but, unlike the basic shelter grants, tax relief will be confined to the principal residence only and to Ontario citizens only.

Ontario's tax credit will deliver substantially greater tax relief to low-income families and individuals and to pensioners and farmers. The position of middle-income taxpayers will remain more or less unchanged, and high-income taxpayers will face an increase in taxes of about \$70. The total cost of the tax credit plan will be about \$160 million in the first year, or modestly more, as compared to \$158 million in property tax relief had we continued the basic shelter grant program in 1972.

I should like to point out that the Province's two additional programs of special tax relief — the supplementary grants of \$50 to \$100 for needy pensioners and the 25 per cent tax rebates to farmers — will continue unchanged in 1972. Once the tax credit plan has been in operation for a year, however, we hope to be in a position to replace these special programs by enriching and modifying the general property tax credit formula. We are also exploring the possibility of extending our tax credit approach to take account of other provincial taxes, such as the retail sales tax and health premiums. Eventually, this approach may also prove to be an effective vehicle for implementing a guaranteed income to the working poor and replacing the present jungle of welfare and income support programs. The complete details of the Ontario property tax credit plan for 1972 are set out and explained in Budget Paper B accompanying this Budget Statement.

Increased Support to Local Governments

Reform of provincial-municipal finance is again accorded a high priority in this budget. For 1972-73, we have allocated a further \$75 million as increased provincial support to local governments in order to reduce the total weight of financing that falls upon the property tax. This increase in permanent provincial support to local governments consists of \$47 million in grants to school boards, \$16 million in unconditional grants to municipalities and \$12 million in grants for urban transit systems.

The increase in education grants for 1972-73 represents the third step towards our target of 60 per cent provincial support. In 1970-71, the Province raised its support level from 47.9 per cent to 51.5 per cent, and in 1971-72 further increased it to 55.6 per cent. The additional \$47 million we have provided for 1972-73 will serve to increase our support to an estimated 58 per cent. Indeed, I would hope that a higher percentage will be reached when the final figures are in for 1972-73.

The \$12 million in grants for public transit systems will help to maintain the level of transit fares and reinforce municipal priority-setting in favour of public transit systems. The \$16 million increase in unconditional grants will improve the long-run financing position of our municipalities and also achieve a better distribution of our unconditional support among municipalities. The new unconditional grant will be based on a single progressive scale related solely to population as recommended by the Ontario Committee on Taxation. It will also reflect the 1971 Census of population and recognize the costs of providing police services. The full details of these changes will be provided when the requisite legislation is brought forward immediately following this budget.

At this point, I should like to stress the beneficial impact of Ontario's continuing reform program on municipal finance and property taxation. As I have said, our additional reform measures for 1972-73 will shift \$75 million of the total financing burden from local governments to the Province. This is in addition to the permanent financial support to local governments that was provided by the reform measures in the four previous budgets, and the accumulating value over the years of these previous reforms. The costs of every 1 per cent increase in our education support, for example, rise from year to year as total school board spending increases. The costs of other reforms also increase in value in each succeeding year after being implemented. Thus, the total impact in 1972-73 of the Province's long-run reform program is measured by the cost of the reforms implemented in the past four years, the accumulating value of these previous reforms, and the \$75 million in additional reform in this budget.

I can report to Members with some pride, therefore, that Ontario's total reform effort since 1968 has a value to local governments and taxpayers of \$585 million in 1972-73, as shown in the accompanying table. Without this massive and permanent shift in financing from local governments to the Province, property taxes in 1972-73 would have been much higher and/or local services would have been greatly reduced. The Province is firmly committed to this long-run increase in financial support to local governments in order to minimize the pressure on the regressive property tax.

Value to Local Governments and Taxpayers
of Ontario's Reform Policies, 1968-69—1972-73
(\$ million)

Reform Policy:	Value of Reform Policy				
	68-69	69-70	70-71	71-72	72-73
Direct Provincial Relief of Property Tax Burdens ¹	110	124	171	187	195
Increased Provincial Support to School Boards and Municipalities ²	3	37	123	225	320
Assumption of Costs of Property Assessment and Administration of Justice	18	19	41	43	46
Removal of Property Tax Exemptions on Provincial Properties ³	—	—	8	9	10
Special Financial Support to Regional Governments	—	—	3	12	14
Total Value of Reforms	131	180	346	476	585

¹ Includes tax rebates to farmers, supplementary grants to G.I.S. pensioners, and basic shelter grants (property tax credits in 1972-73).

² Includes enriched legislative grants, road grants, unconditional grants, grants to transit systems, sewer and water grants, grants to Metropolitan Conservation Authority and increased mining revenue payments.

³ Includes payment of grants-in-lieu of taxes on post-secondary education properties and provincial parks, and the removal of exemptions on mining facilities.

In addition to the value of our reforms, natural growth increased our basic grants to local governments by \$431 million over the past five years — from \$955 million in 1967 to an estimated \$1,386 million in 1972. Thus Ontario's overall support to local governments in 1972 will amount to \$1,386 million in basic grants plus \$585 million in reform for a total of \$1,971 million. This means that over 50 per cent of local government expenditures in the coming year will be financed by the Ontario Government.

Reform of Local Government

Rapid population growth in Ontario's urban areas is forcing governments to make difficult choices between the quality of our environment and our economic standard of living. A major goal of this Government, therefore, is to accommodate private economic development within the framework of our policies to improve the quality of life in urban and rural Ontario. The measures which this Government is taking to improve the effectiveness of local government organization in Ontario are designed to assist in the achievement of this goal.

These measures are based on three main principles. First, there are simply too many municipalities. The reduction in the number of school boards in the province is a precedent for the kind of rationalization necessary to improve the quality of municipal services. Municipal governments — over 900 of them — cannot be expected to deal effectively with problems that are common to the residents of wider local areas. Second, there are far too many special purpose boards and commissions. They obscure the accountability of councils and impede comprehensive priority setting. Third, decisions made by separated cities or towns and counties affect the same geographic areas and the same people. This problem must be studied carefully to ensure the proper co-ordination of planning decisions.

In applying these principles, I also recognize that the Government of Ontario, by itself, cannot deal effectively with the complex problems of our society. Its partner must be local government, which has a close understanding of local issues.

In the year that I have been Treasurer, I have become more convinced than ever of the need to reform local government structure in Ontario. The purpose of our reform program is to create strong local governments with the capacity to provide effectively for their own needs, and to relate to neighbouring jurisdictions and the Ontario Government on a co-operative and progressive basis. Accordingly we are establishing restructured local governments in Sudbury and in Waterloo this year, and continuing our studies for other areas of the province. This structural reform will enable these areas to develop and implement an effective planning program. It will even out substantially the disparities in the tax bases of the area municipalities within these regions. By pooling their resources, these restructured local governments will be better able to deliver the range of services demanded by our people today.

Reform, however, is not being limited to local governments. The structure of the Ontario Government has recently been modernized. The new Ministry of Treasury, Economics and Intergovernmental Affairs will integrate federal-provincial relations, provincial-municipal relations and regional planning with our general budgetary strategy and economic policy. This in turn should serve to reinforce our reform objectives at the local level.

Provincial and Municipal Land-Use Planning

The present fragmented system of so many decision-makers distorts local decisions and land-use policies, leading to competition for prestigious developments and assessment dollars at the expense of more rational planning and balanced priorities. It is essential that the Province and local government work together in the application of rational land-use policies. The new Ministry will formally link our regional development and local planning strategies, in areas such as the new community in North Pickering, the Niagara Escarpment and the Wasaga Park Community. The Government will be providing \$500,000 a year for the next three years to assist municipal councils to adapt their official plans to the Province's overall strategy for the Toronto-Centred Region. In addition, we will make available provincial personnel to work with municipalities in this undertaking. This reshaping of local government structure and the increase in financial resources will make it possible to assist in the transformation of rural Ontario into urban Ontario in a way that produces the widest possible benefits to all our citizens.

III Ontario's Economic Policy

Mr. Speaker, I turn now to the urgent matter of the economic situation and the measures introduced in this budget to deal with it. When I introduced the Government's revised fiscal plan for 1971-72 on December 13th, I said that our objective was the continuing expansion of the economy and a substantial improvement in the unemployment situation. This remains the overriding goal of our economic policy.

The Problems of Stabilization

One of the most striking lessons of economic stabilization efforts in Canada is that it takes several years to repair the damage caused by a recession and to return to full employment. We are now going through such a period of economic repair and reconstruction. However, the cost of past deflationary policies in terms of lost income and lost opportunities will never be fully recovered.

During the past two years there has been a great deal of public concern for improvement in the quality and management of economic policies in Canada. Therefore, I am pleased to note the change that has occurred in federal policies for economic stabilization, and I hope that we shall never again see a return to an economic philosophy of 'bringing the country to heel'. My view, which is shared by the Senate Committee on Growth, Employment and Price Stability, is that governments can achieve better policy co-ordination to improve economic management, and thus attain high levels of employment at acceptable rates of inflation.

It is not the view of this Government that there are sufficient jobs available if people would only go and look for them. Too many of our citizens have been denied the opportunity to realize their full personal and economic potential because of the lack of jobs and the inadequate rate of economic growth. A genuine full-employment policy must bring the economy back to a state of normalcy, so that the skills and talents of the population can be fully utilized.

Admittedly, the task of regaining full employment is not easy. We recognize that the federal government faces complex policy problems in this regard. However, I would like to repeat now the request Ontario has made at many intergovernmental meetings in the past for fuller consultation in the process of economic policy formulation. Joint policy co-ordination of this kind would produce a total public action to speed economic recovery. For my part, I am quite willing to make available to the federal government all the details of the Ontario Government's short and long-run economic policies. In the past, too little practical information has been exchanged between the federal and provincial governments in such critical matters as employment policies and long-run industrial development programs. I am hopeful that this situation will improve in the months ahead.

The State of the Economy

The economic picture has been improving over the course of the last year. The economy, however, is still performing considerably below its full potential.

In 1971, Ontario's Gross Provincial Product reached \$38.1 billion, an increase of about 9.0 per cent over the \$35.0 billion recorded in 1970. The volume of goods and services produced grew by 5.3 per cent compared to 3.5 per cent in the previous year, while prices on the average were up by 3.4 per cent, which was a small but gratifying improvement over the 4.1 per cent increase registered in 1970. In 1972, I expect GPP to rise by 9.9 per cent to a level of \$41.9 billion. The gain

in the volume of goods and services produced should be in the order of 6.3 per cent while prices are forecast to rise at last year's rate of 3.4 per cent.

I do not expect a quick end to the problem of unemployment. It seems likely to persist through this year and into 1973. To achieve our 3 per cent target we face the difficult and uphill task of absorbing over 70,000 of the persons currently unemployed and of providing new jobs for our rapidly growing labour force. Ontario's population in total is expanding by a little over 2 per cent a year, but our labour force is growing very much faster. In fact, at the beginning of this year, Ontario's labour force was over 5 per cent larger than a year ago, on a seasonally adjusted basis. This is an exceptional rate of growth, even for Ontario. It has significantly affected the progress of stabilization policy and prolonged the period necessary to achieve full employment.

The expansion of new jobs in the last half of 1971, however, was very encouraging. Employment, seasonally adjusted, rose by about 45,000 jobs a quarter, and has pulled ahead of the labour force growth since November. The final quarter of 1971 saw seasonally adjusted employment up 123,000 from last year, and in January and February of this year, the unadjusted data showed an average year-to-year gain of 137,000 jobs. The particularly sharp upswing at year-end and into the first part of 1972 was largely the result of provincial-municipal and federal employment programs, and the expansionary thrust of fiscal actions and monetary policy.

In October and November of last year, unemployment reached the uncomfortable level of 5.6 per cent, seasonally adjusted. Since that time, I am pleased to see that it has dropped steadily to its present seasonally adjusted level of 4.5 per cent. The experience of the past indicates that we should realistically expect month-to-month fluctuations around the basic employment trend. My expectation is that, for the remainder of 1972, economic growth will generate new jobs at a rate of about 30,000 a quarter, seasonally adjusted. Average employment in 1972, therefore, should be up by close to 120,000 from the average for last year. This is a very healthy rate of increase, but I am concerned at the same time by the sheer size of the problem that faces us if the labour force continues to grow at rates in excess of 3.5 per cent a year. Given these basic trends, I am forecasting unemployment in Ontario to average 4.8 per cent in 1972 compared to 5.2 per cent last year.

Ontario's Fiscal Strategy for 1972

In the budget today, I have designed what I believe to be an appropriate fiscal policy to promote growth and employment within the limits of our financial capacity. I am convinced that it is appropriate to keep Ontario's fiscal policy in an expansionary posture and to keep driving towards the 3 per cent unemployment target. Any unemployment figure in excess of 3 per cent is not acceptable to the Ontario Government. We know from experience that the Ontario economy can operate successfully at that level.

It seems clear that Canada is facing a very difficult period for several years ahead unless governments can achieve a correct balance between private and public sector expansion. It is not axiomatic that the only way out of an unemployment problem is through inflated public spending. The private sector is still the dominant part of our economy and I believe it now has to take up the considerable expansionary momentum we have provided and carry it forward. The economy needs a period of controlled fiscal thrust, combined with reasonable ease in credit conditions. This will make room for monetary policy to stimulate the job-creating expansion of consumption and business investment. The urgent need now, therefore, is to maintain the Province's fiscal policy on a steady course and to avoid, at all costs, precipitous actions that would force federal monetary policy into extreme positions and bring about a return to tight credit conditions.

New jobs require capital investment. I would remind Members that every new permanent job in this province requires thousands of dollars of investment in machinery, equipment and construction. Members will recall that, when governments were hit with the tidal wave of the post-war baby boom, they were obliged to step up dramatically their capital investment in education facilities. Now these young people need jobs and housing. It is absolutely essential, therefore, that fiscal and monetary policies recognize this demographic and economic fact. Over the next several years, government policies should be geared to stimulate investment and consumption in the private sector. Only in this way can we create the jobs necessary to absorb the rapid expansion in our labour force.

In developing the Ontario Government's role in this optimum growth strategy, we have sought to accomplish two complementary objectives. First, we have sought to stay within prudent financial limits and to avoid fiscal actions that would jeopardize the Province's long-term budgetary control. Second, we are working to improve the

internal efficiency of government in order to minimize its claim on the economic resources of the province.

The flexible fiscal strategy that the Government has followed in the past two years has involved the full use of our financial capacity. Members will appreciate that, in order to deal with the unemployment problem, our budgetary cycle was accelerated by some six months. The step-up in expenditure levels achieved in 1971-72 amounted to about half the growth in expenditures that otherwise would have occurred in 1972-73. Thus, in this budget, we are moving back to trend on the expenditure side, while maintaining an expansionary overall fiscal thrust.

Ontario's Fiscal Plan (\$ million)

	1971 ¹	1972 ¹
NATIONAL ACCOUNTS BUDGET		
Revenues	5,504	5,961
Expenditures	5,880	6,357
Deficit	-376	-396
FULL-EMPLOYMENT BUDGET ON NATIONAL ACCOUNTS BASIS		
Revenues	5,685	6,152
Expenditures	5,850	6,334
Deficit	-165	-182

¹ Calendar years.

Let me turn briefly now to the full-employment budget, which puts the total government operation on a national accounts basis and therefore provides the best measure of its economic impact. The full-employment deficit will increase from \$165 million in calendar year 1971 to \$182 million in calendar year 1972, largely because of the continuing economic thrust of last year's cuts in taxes, and the new spending plateau achieved by the special employment programs of 1971. This ensures the continuation of a dynamic economic thrust in our fiscal policy. I am also making available this year for the first time a national accounts version of the Government's budgetary operations.

A more detailed explanation of the relationships between the administrative, cash, national accounts and full-employment budgets is contained in Budget Paper A which accompanies this statement.

IV Expenditures

Let me turn now to the Government's expenditure program for 1972-73. We have budgeted for net general expenditures of \$5,051 million in the coming year. This is an increase of only 4.5 per cent over last year's expenditures. It indicates the Government's firm determination to contain the expenditure growth of existing programs in order to permit the maintenance of a balanced fiscal and economic policy within the practical constraints of our financial capacity.

Effective control of government spending requires more than the adoption of short-term efficiency measures. It also depends on the existence of a comprehensive system for the development and ordering of priorities, the allocation of resources on a cost-effectiveness basis, and the co-ordination of the component parts of government. Thus, Mr. Speaker, to begin the outline of expenditures for 1972-73, it is appropriate to direct our attention to the current re-organization of government.

Modernization of Government

If government is to maintain a long-run capacity to deploy its resources effectively and to respond to changing social needs, policies geared to achieve immediate efficiency must be in harmony with a continuing review of the basic effectiveness of the total organization. It is vitally important, therefore, that we develop a comprehensive response to meet the increased responsibilities and workload which society demands from modern government. Following the third interim report of the Cronyn Committee, the Government has introduced legislation to implement Ontario's new structure of government. The new system, which the Management Board is establishing for the Government, goes beyond re-organization and consolidation. It is resulting in a fundamental improvement in the basic processes of policy development, resource allocation and intergovernmental co-ordination, as well as a regrouping of functional and administrative responsibilities.

The creation of two senior Cabinet Committees — the Policy and Priorities Board and the Management Board — ensures overall policy and administrative co-ordination of all government activities. The creation of the three Cabinet policy portfolios in the fields of Justice, Resources Development and Social Development has provided a strong overall framework for co-ordinating new programs and recommending

priorities. It has also improved the organizational basis for co-ordinating the administration of programs and achieving the most effective and least costly methods of meeting our broad economic and social objectives.

The Ministry of Treasury, Economics and Intergovernmental Affairs performs an integrating role in the new government structure. It combines into one Ministry most of the responsibilities of the departments of Municipal Affairs and Treasury and Economics. In particular my Ministry is responsible for:

- fiscal and economic planning, federal-provincial and provincial-municipal financial relations and taxation policy;
- central finance management and accounting policy for the Government;
- co-ordination of policy development and the operation of programs as they relate to both the federal and local governments; and
- regional development, community planning and the strengthening of local government.

I am confident that we have created in our new Ministry a strengthened and integrated capacity for overall economic policy and budget planning, for the reform of provincial-municipal finance and planning, and for the achievement of our long-run objectives in federal-provincial relations. We will also continue to perform an important service and advisory function to the Cabinet and all ministries.

Economic progress today involves more than tax reform or good planning by one level of government. It involves the co-ordination and joint planning by both the federal and provincial governments in terms of long-range strategy. What is abundantly clear is that initiatives in one area of policy, affecting the economy, have implications for a number of other areas. For example, it is not possible to talk about changes in competition policy without considering implications for industrial strategy, nor is it possible to consider either without regard to an evolving position on foreign investment in Canada.

Accordingly, my Ministry will be giving priority attention to the overall aspects of economic policy, both within Ontario and on a federal-provincial basis. Policy positions are being developed on each of these subjects. We are also undertaking a careful review of broad environmental policy, policy bearing on the alternative uses of re-

sources, the provincial role in matters such as energy policy, and the balance between primary, secondary and tertiary economic activities in the province. In particular, the question of growing concern about the balance between economic growth and environmental preservation will be a matter of special attention in the coming year and one which we believe should be treated jointly with our federal counterparts. The Select Committee on Economic and Cultural Nationalism has already provided some suggestions on foreign investment in its first report. In addition, my colleague, the Honourable Allan Lawrence, will be bringing forward recommendations for an Ontario position on the federal Competition Act.

The new Management Board is a particularly important operational part of our financial management system. The effectiveness of this body has already been dramatically demonstrated this year in the construction of our 1972-73 expenditure plan. In this regard I would like to pay particular tribute to the Chairman of the Management Board, the Honourable Charles MacNaughton, and to the other members of the Board. Through their untiring and successful efforts in launching the new system, they have produced a comprehensive expenditure plan within the context of the strictest constraints ever imposed on provincial spending.

Government Costs

Having outlined the broad structural reforms which will promote long-run cost control and efficiency, I want to draw your attention to some further measures which the Management Board is taking to reduce provincial government costs. To begin with, our policy of limiting the growth of the civil service has been highly successful. In 1971-72 complement increases were limited to a growth rate of about two per cent. The only significant change from the original plan was an increase of 327 positions under the Ontario Health Insurance Commission, which was a transfer of positions from private agents and involved no overall increase in expenditure.

The current consolidation of the old departments into a smaller number of new ministries will, in itself, yield administrative efficiencies and reduce pressure for staff increases. In addition, by developing the concept of a complement pool, the Management Board can place greater emphasis on the re-allocation of position vacancies among ministries, rather than simply within ministries. This, together with the highly effective teamwork between the Management Board staff and the interdepartmental task forces implementing the re-organization of Government, has resulted in a small net increase in the authorized size of the civil service for 1972-73. A total of 1,725 new positions have

been approved of which 1,064 will be drawn from the central complement pool. As a result, the net increase in civil service jobs will be only 661 in 1972-73, an increase of less than one per cent.

Public Service Employment in Ontario

	Total	Net Change
Total Number of Positions as of:		
April 1, 1971	70,247	
December 9, 1971	70,773	526
Approved for 1972-73	71,434	661

The Management Board has allocated the largest portion of the new positions to the Ministry of Health for its psychiatric and retardation program. A total of 436 new positions have been approved which will result in a greatly needed improvement in staff-patient ratios. The remainder of the new positions have been distributed among the other ministries and programs, to relieve the pressure of workload increases being carried by present staff and to facilitate the introduction of some new and expanded services.

To further our objectives of cost control and program effectiveness, the Government will be considering additional reports from the Committee on Government Productivity relating to some of the major administrative systems within the provincial government. These will include studies and recommendations for increasing effectiveness in human resource utilization, communications and information, real property management and automatic data processing. Recommendations accepted by the Government will be implemented by the Management Board.

In addition, the Management Board has intensified its scrutiny of expenditures with the objective of recommending to Cabinet the elimination of programs and grants which have outlived their usefulness. This year steps have been taken in this direction with, for example, the elimination of wolf bounties, and the discontinuation of rural hydro power bonuses and community centre grants to larger municipalities.

Composition of 1972-73 Expenditures

I shall now turn to the composition of our 1972-73 spending program. This year we plan to increase net general expenditure by \$216 million which, I repeat, represents only a 4.5 per cent increase over 1971-72. Mr. Speaker, this will be the lowest percentage increase in spending for 19 years. The effectiveness of our policy of expenditure restraint is particularly evident in the direct operating expenditures of our own ministries and agencies. We have held increases in our direct provincial expenditures to only 2.7 per cent. In this way we have been able to devote the bulk of our total resources to increased transfer payments to school boards, municipalities and institutions.

Transfer payments for operating expenses will be increased by \$192 million or 6.1 per cent. As can be seen from the accompanying table, the only major expansion which has been permitted in this area, aside from the increase in general legislative grants, is in health and welfare programs. The increase of \$137 million or 13.3 per cent is largely to cover our new program for nursing and home care benefits, and increased hospital operating costs. Capital expenditures will decrease primarily as a result of the phase-down in the vocational school capital grant program.

On the investment side, loans and advances will increase by \$31 million or 5 per cent. The estimates for 1972-73 clearly indicate the changing nature of provincial investment priorities. Capital funds for the provision of education facilities have been reduced, now that the growth rate in school enrolments has levelled off and our network of community colleges has been substantially completed. This has freed capital resources for other priority areas such as pollution abatement and housing. This year capital loans for the construction of education facilities will decline by \$53 million and the relative share of this sector will decline from 61 to 50 per cent of total loans and advances. In contrast, loans for housing and environment will increase by \$29 million in 1972-73, raising the share of these two items to 30 per cent of all loans and advances.

Detailed information on the composition of the total spending and investment program is displayed in Budget Paper C. Along with this budget, the Government's 1972-73 Estimates have been tabled, showing the complete program and activity details of our expenditures. The Estimates and the tables in Budget Paper C reflect the new ministerial structure resulting from our major re-organization. Comparative figures for previous years are also presented within the context of the new organizational structure. Mr. Speaker, this is an appropriate time for me

to acknowledge the successful efforts of the staff of the Management Board, and their colleagues in the operating departments, for completing the difficult task of converting expenditure data to the new format in the short time available.

Continuing with the expenditure side of the budget, I wish to describe the policy highlights of our employment programs and review some important dimensions in provincial spending.

Composition of Ontario's Expenditures and Investments

	1972-73 Budget	Increases or (Decreases) over 1971-72	
	(\$ million)	(\$ million)	%
Net General Expenditures			
Transfer Payments (operating):			
School Boards	1,135.6	112.6	11.0
Health and Welfare Programs	1,168.8	136.9	13.3
Post-Secondary Institutions	631.0	92.7	17.2
Municipal Transit and Road Maintenance Subsidies	84.0	2.1	2.6
All Other	304.8	(152.8)	(33.4)
	3,324.2	191.5	6.1
Direct Operating Spending	997.8	25.9	2.7
Capital Spending (incl. transfer payments)	583.0	(66.5)	(10.2)
Public Debt — Interest	146.5	64.9	79.5
TOTAL NET GENERAL EXPENDITURES	5,051.5	215.8	4.5
Loans and Advances			
Housing	135.6	12.9	10.5
Environment	62.4	16.5	35.9
Education	326.5	(53.0)	(14.0)
Other	126.5	54.4	75.5
TOTAL LOANS AND ADVANCES	651.0	30.8	5.0

Note: \$53 million of the increase in grants to post-secondary institutions in 1972-73 arises from reduction in the 1971-72 grants to universities resulting from their change in fiscal year-end.

Increasing Employment

Earlier I emphasized that the highest priority of this Government is to achieve full employment in Ontario. Our strong commitment to this goal, and our comprehensive program to achieve it, was extensively documented in my budget presented last December. As outlined at the time, this part of our expenditure program consists of three components: the Municipal Employment Incentive Program, the Ontario Seasonal Employment Program, and a program of accelerated capital works. These three programs require a total expenditure of \$78 million of which \$54 million will be spent in 1971-72. In 1972-73 the balance of \$24 million will be primarily devoted to the continuation of the Municipal Employment Incentive Program and capital works acceleration.

The Members may recall that my December budget stressed the importance we attached to channelling funds through municipalities and other local bodies to capitalize on their ability to implement temporary employment projects. The Government's confidence was well founded. There has been a very strong local response to the Municipal Employment Incentive Program. The allocation of \$35 million to this program has been fully subscribed and applications have been accepted for over 1,600 projects, from 975 municipalities, school boards and other local bodies. The 31,000 temporary jobs created by this program exceed our original estimate. This experience with winter employment programs in 1971-72, and in particular with the Municipal Employment Incentive Program, gives us a strong capacity to deal with a temporary high unemployment situation next winter, should the need arise.

As the Premier announced on March 10, the Government will again provide a large number of temporary summer positions offering students challenging and meaningful employment. This year we expect to hire 12,500 students in regular departmental programs and to expand the number of our highly successful special programs such as SWEEP and the Retardation Student Volunteer Program. The total program for the summer of 1972 will provide employment for 18,500 students at a cost of over \$21 million.

Expenditure Highlights

I should now like to direct attention to some further highlights of our spending programs. Previously I referred to the fact that this year we have given a high spending priority to the field of health. The inclusion of nursing home care within our health insurance system and

the improvement in staff-patient ratios in our psychiatric and retardation program constitute a significant forward step in the delivery of health services to the people of Ontario. Together these changes will cost approximately \$56 million in 1972-73. These substantial improvements have been made in spite of the general reduction in health care premiums and the elimination of premiums for people aged 65 and over. Continuing in the area of social policy, in 1972-73 the Ministry of Health will proceed with the construction of a number of detoxification centres for the treatment of chronic alcoholics. The Ministry of Correctional Services will commence operation of the Oakville Reception Centre which will provide a highly advanced system for the guidance of juvenile offenders. This same Ministry will also undertake a new program for group homes to provide a needed family environment for young people.

Last year the Government established guidelines for school board expenditure in order to reduce spending increases and relieve the burden on local property taxes. At the same time, we further increased our general legislative grants to school boards. This two-part policy has proven successful. Costs have been controlled and the education mill rate has been reduced in many municipalities. Moreover, this has been achieved with positively no reduction in the quality of education in Ontario.

Since education will continue to consume a very large proportion of provincial-municipal financial resources, this Government intends to continue its efforts to keep school board spending to the minimum consistent with quality education. Accordingly, we have established school board spending ceilings again this year. These ceilings have been set for both 1972 and 1973 in order to provide the school boards with an improved basis for forward planning and the achievement of efficiencies. Also, as reported earlier, we have again substantially increased legislative grants to school boards. Along with this increased provincial financial support, our policy of spending guidelines will ensure the continuation in Ontario of the best possible education system with no increase in cost to local taxpayers.

There have been strong cost pressures in the area of post-secondary education over the past several years. At the same time tuition fees have remained substantially unchanged and in some post-secondary institutions no tuition has been charged. The Government believes it is inequitable for taxpayers to bear all of the cost increases in this area; rather, the students who benefit directly should bear a larger part of the costs of their post-secondary education. Therefore, having reviewed the tuition fee structure in all our post-secondary institutions, we recom-

mended increases of about \$100 for our universities and community colleges, and the introduction of tuition fees in our schools of nursing and in teachers' colleges. The revisions in our grant payments will be based on the following basic tuition structure in 1972-73:

- universities and teachers' colleges \$585
- Ryerson Polytechnical Institute \$350
- community colleges and schools of nursing \$250
- agricultural schools and schools for nursing assistants . \$150

These changes will result in increased student financial participation in their own education of about \$23 million, funds that would otherwise have to be raised through taxes. At the same time I would remind the Members that government financial assistance is available to students in need and that we have enriched our summer employment program.

Our spending estimates give increased attention to our social, physical and economic environment. In the field of transportation, municipal transit subsidies will be doubled to \$12 million in 1972-73, GO Transit will be extended to Georgetown, and funds will be provided for two pilot projects in urban transportation. In the field of housing, advances to the Ontario Housing Corporation will be increased by \$14 million to expand construction of public housing units and our support for OHC operations will increase by \$10 million. We are continuing to emphasize employment stimulation in Ontario's slower-growth regions, and assistance to small business for export financing and the installation of pollution control equipment. Accordingly, funds allocated to the Ontario Development Corporation and the Northern Ontario Development Corporation have been set at \$36 million, an increase of \$22 million over the amount of loans made in 1971-72.

Another important objective in the Government's environmental program is the expansion and improvement of recreational opportunities for the people of Ontario. During 1971-72, expenditures for land acquisition and development were increased from \$10 million to \$17 million. In 1972-73, this allocation will be further increased to \$21 million, a 24 per cent increase over the 1971-72 level. These funds will be applied to the development and acquisition of recreational land in special areas such as the Niagara Escarpment, Wasaga Park and Bronte Creek Park, and for the continued expansion and development of provincial parks and Conservation Authority lands.

In the area of pollution control, capital spending for water management will be increased to \$55 million in 1972-73. Portions of these funds are earmarked for the Canada-Ontario agreement which provides for the construction of \$250 million of municipal sewage disposal facilities on the lower Great Lakes. This program will significantly reduce the harmful effects of municipal effluent in Lake Erie and Lake Ontario on the Canadian side. For 1972-73, we estimate that almost \$3 million in tax-expenditure grants will be paid to Ontario corporations to stimulate investment in pollution control equipment. The Ministry of the Environment will also undertake new programs in waste management, involving the collection of abandoned automobiles and the curtailment of litter.

Summary

In summary, Mr. Speaker, I would again emphasize the tight spending constraints which have been imposed on our ministries and agencies this year, and the success which the Management Board has achieved in limiting expenditures. Within this context, obviously, there was not much room for new or enriched programs involving large increases in expenditures. However, by means of highly selective priority determination and resource allocation, and through the achievement of efficiencies in existing programs, the Government is continuing to respond progressively to changing social and economic needs. Reflecting this approach, the expenditure plan for 1972-73 contains provision for new and expanded programs in the fields of health, correctional services, transportation, housing, environment, land acquisition and development, and, most important of all, employment.

V Revenue Changes

The expenditure plan I have just described involves gross budgetary spending of \$6,364 million. Of this amount the Government expects to receive almost \$987 million from the federal government under the various shared-cost programs. Interest earnings on the Government's investments and advances to other public bodies such as Ontario Hydro, universities and school boards will be about \$325 million. This leaves \$5,051 million in net general expenditure to be financed from available revenue sources.

We anticipate that our existing revenue sources will generate \$4,320 million, or only 3.3 per cent more than in the current fiscal year. In other words, the present outlook for budgetary revenue and expenditure would leave a budgetary deficit of \$731 million, compared to \$653 million in the current fiscal year. This deterioration would result in

spite of virtually unprecedented expenditure restraint, with growth in expenditure only slightly in excess of the expected rate of inflation.

On the non-budgetary account, lending programs and repayments of loans will leave the Government with net cash requirements of over \$420 million. In total, therefore, our budgetary and non-budgetary transactions would produce overall net cash requirements in excess of \$1,151 million for 1972-73.

This budgetary deficit and the anticipated total cash requirements would exceed those of the sharply expansionary 1971-72 fiscal plan when total cash requirements amounted to \$1.1 billion. The measure of total cash requirements is important because it reveals the extent to which Government programs require financial action in the form of borrowing and the use of liquid reserves. It sets the major boundaries and limitations to fiscal policy actions. As I have mentioned before, the Government considers it desirable to maintain an expansionary thrust. There are obvious limits, however, beyond which a provincial government cannot afford to go because of its limited revenue and borrowing capacity. Given these financial realities, I concluded that a cash deficiency of \$1,151 million was beyond the limit of the Province's financial manoeuvrability for the coming fiscal year.

Accordingly, the Government set itself a target budgetary deficit of about \$600 million and overall cash requirements as close as possible to \$1 billion. After the Government maximized restraint in its spending programs, I was obliged to look to our revenue sources to reach this objective. Given the target budgetary deficit, I decided to raise at least \$130 million in additional revenue.

In considering options for additional revenue, I did not, of course, want to negate the beneficial economic and social effects of the tax and premium reductions already legislated. I believe this problem has been successfully avoided.

This budget, therefore, contains increases in revenues from fees and licences of \$40 million, from consumption of alcohol and tobacco of \$50 million, from gasoline and motor vehicle fuel of \$30 million, and from other tax changes of \$14 million.

Fees and Licences

We have undertaken a complete review of the structure of fees and licences. Generally speaking, fees are supposed to be charges which bear a reasonable relationship to the administrative or operating costs associated with a service, a control function of government, or a benefit to the user of particular facilities. In our review, we have attempted to restore within reason this relationship.

As the Members will recall, the Smith Committee recommended that motor vehicle revenue should meet a reasonable proportion of the costs associated with the automobile. This relationship was improved in 1968 when motor vehicle registration fees were increased substantially, along with increases in the gasoline and motor vehicle fuel taxes. Since then, however, the relative contribution from motor vehicles has steadily declined. As a result, the revenue from motor vehicles has become insufficient in relation to the total costs which they entail for the people of Ontario.

I am recommending modest increases of \$3 to \$5 for 1973 licence plates for passenger cars. The proposed new fees will be \$23, \$32, and \$40 respectively for four, six and eight cylinder cars. Similarly, I propose that all other vehicle registration fees be increased by approximately ten per cent.

In addition, the Ministry of Transportation and Communications will increase a variety of less important licences and fees, in most cases as an overdue recognition of costs in relation to benefits. Among the latter will be higher tolls on our two Skyways, which even at double their present level will fall short of operating expenditure. Separate mention should also be made of the proposed increase in GO fares to reduce the operating deficit of our otherwise very successful GO transit system. The increased GO fares, valued at an additional \$570,000, will be reflected in lower net expenditure. Altogether, the proposed increases for the Ministry of Transportation and Communications are estimated to increase our revenue by \$31 million.

The present \$1 admission fee for Ontario Place and the Ontario Science Centre is unrealistically low in relation to operating costs. The new fee for Ontario Place has already been announced at \$1.50, which will also be the new standard adult admission fee for the Ontario Science Centre. Various other fees and licences will be raised in such Ministries as Consumer and Commercial Relations, Labour, Agriculture and Food, Education, and Industry and Tourism. As well, there will be increases in fees for our provincial parks. Among these the daily campsite permits will be raised by \$1.00 to \$3.50 without and \$4.00 with hydro. These increases will bring charges closer to the costs of providing the services to which they relate.

In total, higher fees and licences, except those which reduce net spending, will raise an estimated \$40 million in additional revenue. My colleagues, whose ministries are involved, will provide all the necessary details in due course, including actual implementation dates.

Revenue from Alcohol and Tobacco

I also believe it appropriate to gain additional revenue from the consumption of alcoholic beverages and tobacco products. Alcoholic beverages and tobacco products already are a considerable source of revenue to the Government. I would point out, however, that these taxes are essentially avoidable. Moreover, with the exception of a minimal increase in the price of beer in Southern Ontario last year, taxation of alcoholic and tobacco products has not changed since 1969.

Effective April 17, people in Ontario will be paying higher prices for the consumption of beer, spirits and wine. The changes I propose can be summarized briefly as follows:

- the price of a case of 24 bottles of beer will be raised from \$4.65 to \$5.00 (net of deposit) with commensurate changes in the prices of smaller cases of beer and cans;
- the existing sales tax exemption for draught beer will be eliminated, regardless of the quantity in which it is sold or its price;
- spirits and wines will be subject to price increases ranging from about five to ten per cent; spirits will increase by an average of 25¢ to 30¢ for a 25 ounce bottle and wines will be increased by an average of 15¢ to 20¢ for a 26 ounce bottle.

The above changes will increase revenue from alcoholic beverages by an estimated \$38 million in 1972-73. In spite of the increases, the Ontario prices of alcoholic beverages, notably beer, will continue to compare very favourably with those elsewhere in Canada.

Turning to tobacco products, I propose to increase the tobacco tax effective at midnight this day. The tax on cigarettes will be raised by 1.2 cents for 20 cigarettes or 3/10 of one cent per five cigarettes. The last time the tobacco tax was increased in March, 1969, the increase applied only to cigarettes. I propose, therefore, to introduce higher adjustments to the taxation on tobacco and cigars. All increases will apply to tonight's inventories. The additional revenue expected from the higher tobacco tax amounts to about \$12 million.

Gasoline and Motor Vehicle Fuel Taxes

I propose to raise additional revenue from gasoline and motor vehicle fuel taxation. The changes in motor vehicle licence fees that I have announced still leave motor vehicles too lightly taxed in relation to the total costs they entail. Therefore, I am proposing a one cent per gallon increase in the gasoline tax, and a one cent per gallon increase in the motor vehicle fuel tax, effective midnight this day. With regard to the motor vehicle fuel tax, my colleague, the Minister of Revenue, will be tabling a new Act which will improve administration and enforcement of this tax and will include parallel provisions to those contained in the gasoline tax.

These changes in the gasoline and motor vehicle fuel taxes should yield an additional \$30 million in 1972-73.

Other Tax Changes

The land transfer tax has been reviewed a number of times, and this year I have decided to revise the existing two-rate schedule for the first time in six years. The new schedule will be 3/10 of one per cent on the first \$35,000 and 6/10 of one per cent on any transaction value above the first \$35,000. This compares to the present 2/10 of one per cent on the first \$25,000 and 4/10 of one per cent on the value in excess of \$25,000. In raising the limit to which the lower rate applies, the effect on homeowners will be minimal. For instance, on a \$35,000 home the increase in the land transfer tax will amount to only \$15, while on expensive property transactions the transfer tax will rise considerably more. The revised schedule of rates should yield an additional \$4 million in revenue.

We support federal government efforts to encourage the use of Ottawa airport for technical stops by trans-oceanic flights. Such flights, therefore, will no longer be subject to the Ontario aviation fuel tax as of April 1, 1972. I estimate the revenue loss to be negligible because of the limited number of such flights into Ontario at present.

Both the Smith and White Committees considered the policy of remunerating vendors for the collection of taxes and concluded that such remuneration should be discontinued. A large number of jurisdictions have never provided for such remuneration or have discontinued doing so. The main consideration in favour of remuneration is the goodwill of the vendors, but apart from that, it is extremely difficult to devise a rational and equitable system of remuneration. Most jurisdictions look upon the cost of collecting taxes as a legitimate

business expense. I have decided, therefore, to discontinue the system of remuneration in all tax fields where remuneration was provided for. At the same time, we have chosen this occasion to make an allowance for bad debts that may occur in connection with taxable transactions.

This revised policy will apply to the retail sales, gasoline, tobacco, motor vehicle fuel, race tracks, and security transfer taxes. The removal of provision for remuneration, effective with regard to taxes collected after April 30, 1972, should result in additional revenue from these tax fields of about \$10 million in 1972-73.

Changes in Tax Structure

Mr. Speaker, I would like to conclude this section on revenue changes by mentioning briefly a number of amendments to our tax statutes that will be brought forward in the coming months. First, as I have already indicated, we intend to introduce major revisions to our Corporations Tax Act to parallel the new federal income tax legislation, except for those provisions relating to mining, petroleum and international income. Second, minor changes in the paid-up capital tax will be introduced to ensure a more even application and to avoid the possibility of double taxation in particular instances. Third, I propose to abolish the logging tax. This move is fully warranted since the logging tax raises less than \$2 million annually, yet involves substantial administration and has only an insignificant impact on companies because it is fully deductible from corporation income taxes otherwise payable. Fourth, the fire marshal's tax will be abolished and replaced by a small additional levy on the insurance premiums written on property falling into the new property class used by the industry. This new levy of one-half of one per cent is expected to raise the same revenue as the fire marshal's tax but will become part of corporation tax revenue. Full details of these tax structure changes, along with other minor amendments, will be outlined when the Minister of Revenue brings forward the requisite legislation.

Finally, I would like to make a few remarks about the introduction of the Province's new gift tax, related amendments to succession duty legislation, and our immediate plans with regard to the future of death taxation in Ontario.

On December 29, 1971, I announced the Government's intention to introduce a gift tax legislation in the spring of 1972. This legislation is to be based on a model Act to be used by all interested provinces to facilitate administration and collection by the federal government. This legislation will be introduced by my colleague, the Minister of Revenue.

The basic principles of the Ontario gift tax remain the same as in the December 29 announcement. As I said then, there will be an extended meaning of "gift", and tax will be imposed in certain circumstances, but it is not intended to tax transactions involving transfer of property between members of the individual's family provided the value of the consideration received is, in substance, not less than that of the transferred property.

You will be asked to approve this new gift tax legislation as well as amendments to our Succession Duty Act to allow for appropriate credits for gift taxes paid. I also will be withdrawing the temporary provision in our succession duties, by which gifts made after December 31, 1971 and within 15 years of the donor's death would be included in the value of an estate. With our new gift tax, effective January 1, 1972, we no longer require this provision to protect the revenue from succession duties and to have an equitable system of death taxation. The 15-year clause will be replaced by the 5-year clause we had previously in our legislation. These changes will be effective as of January 1, 1972.

It might also be of interest to the Members to know that I have asked the Minister of Revenue to establish a special advisory committee to undertake a thorough examination of the existing Succession Duty Act. This committee will be chaired by Mr. J. Alex Langford, Q.C., who is a well-recognized authority on estate taxation in Canada. We will be asking this committee to advise the Government on a complete revision of the present Act. The committee's terms of reference will include an examination of the relationships between succession duties and the family farm, family businesses and the question of Canadian versus foreign control. The main objectives we seek in drawing up new legislation will be an equitable incidence, a minimum of adverse economic effects and greater simplicity. At the same time, the Government intends to continue its policy of gradually reducing the level of succession duties as the capital gains tax matures.

VI Financial Summary for 1972-73 and Conclusion

On balance, I believe the package of revenue changes I have proposed will be neutral in terms of equity, appropriate in terms of economic impact and positive in terms of provincial financing. The major impact will fall on those who smoke and drink and on the use of private automobiles. By securing a relatively greater contribution from these sources, our overall tax structure will be better balanced and our long-run revenue capacity will be improved.

In total, the revenue changes I have outlined are estimated to raise an additional \$134 million in the coming year, bringing our net general revenue for 1972-73 to \$4,454 million. As you will recall, I estimated our budgetary deficit before these changes at \$731 million and our overall cash requirements at \$1,151 million. The increased revenue will reduce our budgetary deficit to \$597 million and our overall cash requirements to \$1,017 million, meeting the deficit target the Government established for itself and maintaining an appropriate expansionary stimulus to the economy.

1972-73 Financial Position

(\$ million)

	Estimated 1972-73		
	Interim 1971-72	Before Tax Changes	After Tax Changes
Net General Revenue	4,183	4,320	4,454
Net General Expenditure	4,836	5,051	5,051
Budgetary Deficit	-653	-731	-597
Non-Budgetary Deficit	-473	-420	-420
Overall Cash Requirements	-1,126	-1,151	-1,017

The total financing requirements for 1972-73 at \$1,017 million will be lower than in the current year. Canada Pension Plan borrowings plus other internal sources of funds will generate \$800 million leaving \$217 million to be met by a combination of public debentures and the use of liquid reserves. This moderate level of financing will ensure that the Province keeps its finances in good order and maintains its high credit rating. At the same time, I am confident that the balanced and progressive fiscal plan the Government has drawn up will move Ontario towards full employment and greater prosperity.

In conclusion, Mr. Speaker, this is a constructive budget which provides for growth and advancement within the limits of prudent financing. It maintains the momentum of Ontario's expansionary policies to reduce unemployment. It re-establishes an appropriate balance between the costs incurred and the charges levied for particular government services. It accords a high priority to reform and relief for property taxpayers. It recognizes that spending must be contained and priorities re-ordered if we are to deliver the maximum in public services per tax dollar collected. Finally, Mr. Speaker, it is a purposeful declaration of the confidence of this Government in the inherent strength of our economy, the resourcefulness of our citizens and the bright future of this province of opportunity.

Appendix

Details of Tax and Other Revenue Changes

Tobacco Tax

Changes effective midnight March 28, 1972.

1. The tax on cigarettes is increased from 2.0¢ per 5 cigarettes to 2.3¢ per 5 cigarettes.
2. The tax on tobacco is increased from 2.5¢ per ounce or part of an ounce to 2.5¢ per half ounce.
3. The tax on cigars is increased from ½¢ per 5¢ retail price or part thereof to 1¢ on the first 7¢ of retail price, 2¢ on retail prices from 8¢ to 10¢, and, thereafter, 1¢ more for every additional 5¢ range in retail price.
4. Businesses which are collectors of this tax will be required to pay the additional tax on tobacco products in their inventory as of midnight March 28, 1972.
5. Tax collectors appointed as agents of the Minister of Revenue will be rebated in full for taxes remitted on approved bad debts.

Note: The payment of remuneration to vendors collecting tobacco tax will be discontinued on all tax collected on or after May 1, 1972.

Gasoline Tax

Changes effective midnight March 28, 1972.

1. The gasoline tax is raised from 18¢ per gallon to 19¢ per gallon.
2. The refund rate for gasoline used for industrial and similar off-highway purposes will remain at 13¢ per gallon.
3. The tax on aviation fuel will be fully refundable in the case of technical stops by trans-oceanic flights at Ottawa airport.
4. Vendors, including service stations, who hold tax-paid inventories, will be required to pay the additional tax on these inventories as of midnight March 28, 1972.
5. Tax collectors appointed as agents of the Minister of Revenue will be rebated in full for taxes remitted on approved bad debts.

Note: The payment of remuneration to vendors collecting gasoline tax will be discontinued on all tax collected on or after May 1, 1972.

Motor Vehicle Fuel Tax

Changes effective midnight March 28, 1972.

1. The motor vehicle fuel tax is increased from 24¢ per gallon to 25¢ per gallon.
2. Diesel fuel used in internal combustion engines, whether for on or off-highway use, will be subject to this tax on the same basis as gasoline powered engines.
3. Industrial and similar off-highway users of diesel fuel will be entitled to a tax refund of 17¢ per gallon.
4. Tax collectors appointed as agents of the Minister of Revenue will be rebated in full for taxes remitted on approved bad debts.

Note: The payment of remuneration to vendors collecting the motor vehicle fuel tax will be discontinued on all tax collected on or after May 1, 1972.

Retail Sales Tax

1. The existing exemption for draught beer will be removed effective April 17, 1972.
2. The rate of tax on draught beer will be 10 per cent and will apply to draught beer sold at any price.
3. The exemption of books and printed matter will be identical to the exemption provisions of The Excise Tax Act (Canada) effective May 1, 1972.
4. Taxes remitted by vendors on credit sales made on or after May 1, 1972, will be rebated in full or in part if the accounts receivable resulting from such sales prove to be uncollectable.

Note: The payment of remuneration to vendors collecting retail sales tax will be discontinued on all tax collected on or after May 1, 1972.

Land Transfer Tax

Changes effective April 1, 1972.

1. The present low and high rates of tax will be increased from 0.2 and 0.4 per cent respectively to 0.3 and 0.6 per cent.
2. The initial bracket to which the low rate applies will be increased from \$25,000 to \$35,000. The high rate will apply only to the excess value over \$35,000.

Gift Tax

Effective after midnight December 31, 1971.

1. All gifts in excess of certain annual gift tax exemptions will be subject to tax on a progressive scale, depending on the total of gifts made during the year.
2. Exemptions will be provided in the following cases:
 - a) Gifts not exceeding \$2,000 per year to any one donee, but not exceeding \$10,000 per year in the aggregate;
 - b) Absolute and indefeasible gifts made by the donor to his spouse, except a gift made by the creation of a settlement or the transfer of property to a trust;
 - c) Gifts to Canadian charitable organizations;
 - d) Gifts to Her Majesty in right of Canada or a Province or to a Canadian municipality;
 - e) Gifts which take effect on the death of the donor, such as a death bed gift (*donatio mortis causa*).
3. The liability for gift tax will be on the resident donor, or a non-resident donor if the gift comprises real property situated in Ontario.
4. Provision is made for credit for gift tax payable in respect of gifts of real property outside Ontario.
5. Where an individual makes a bona fide disposition of property at its fair market value for the benefit of a close relative and receives in exchange a promissory note or similar obligation that does not provide for the payment of interest, Ontario will continue to follow the policy in respect of such transactions as set forth in *Information Bulletin #47* dated 30 June 1970, issued by the Department of National Revenue.

Succession Duty

Changes effective in respect of death occurring after midnight December 31, 1971.

1. Gifts made within five years (instead of fifteen years) prior to the death of the deceased will be included as property of the deceased passing on his death.

2. The succession duty payable on such gift components of the property of the deceased shall be reduced by the amount of the gift tax paid or payable but not to exceed the amount of succession duty.
3. Where the gift tax paid or payable on a gift exceeds the succession duty otherwise payable a refund of the difference shall be made to the successor.

Security Transfer Tax

1. The payment of commission to collectors will be discontinued on all tax collected on or after May 1, 1972.
2. The sale of security transfer tax stamps will be discontinued on and after May 1, 1972.

Race Tracks Tax

The payment of remuneration to collectors will be discontinued on all tax collected on or after May 1, 1972.

Logging Tax

The Logging Tax Act will be repealed effective with respect to taxation years ending on and after March 31, 1972.

Fire Marshal's Tax

Changes effective January 1, 1972.

1. The tax imposed under The Fire Marshal's Act will be repealed.
2. The fire marshal's tax will be replaced by an amendment to The Corporations Tax Act in the form of an additional $\frac{1}{2}$ of 1 per cent on insurance premiums written on property falling into the new property class as defined in the regulations to The Insurance Act.

Beer, Liquor and Wine Prices

Changes effective April 17, 1972.

1. A new price of \$5.00 will be established for a case of 24 bottles of beer, net of deposit. Commensurate changes will be made to prices of beer sold in other quantities and in cans.
2. The gallonage tax will be increased by 8¢ per gallon to a total of 36¢ per gallon.

3. Prices of spirits will be increased by an average of 25¢ to 30¢ for a 25 ounce bottle.
4. Prices of wines will be increased by an average of 15¢ to 20¢ for a 26 ounce bottle.

Motor Vehicle Registration Fees

1. Passenger Vehicles — effective December 1, 1972.
 - 4 cylinders — fee raised from \$20 to \$23.
 - 6 cylinders — fee raised from \$27.50 to \$32.
 - 8 cylinders — fee raised from \$35 to \$40.
2. Commercial Vehicles — effective March 1, 1973.
 - All fees to be raised by approximately 10 per cent.

Other Changes in Fees and Licences

A substantial number of changes in fees and licences will be introduced by the various ministries. The details of these changes and their effective dates will be announced at a later date.

Individual Income Tax

Amendments to The Income Tax Act will be introduced in the immediate future to incorporate the Ontario property tax credits. For full details on the Ontario property tax credit plan, see Budget Paper B.

Corporations Tax

Major amendments to The Corporations Tax Act will be introduced in 1972 to bring Ontario's legislation into conformity with the new federal income tax provisions. With the exception of the provisions relating to mining and petroleum companies and to international income, Ontario's amended legislation will parallel the federal legislation, retroactive to January 1, 1972. Minor amendments to the paid-up capital tax will also be introduced to ensure a more even application and to avoid the possibility of double taxation in certain circumstances.

Residential Property Tax Reduction Act, 1972

1. The Residential Property Tax Reduction Act will be repealed, effective January 1, 1972.
2. A new Act will be introduced to continue the provision of supplementary tax assistance to needy pensioners in 1972, and to allow for reimbursement to landlords who have made pro rata payments to tenants in respect of the first two months of 1972.

Municipal Unconditional Grants Act

1. Amendments to The Municipal Unconditional Grants Act will be introduced to improve the formula for determining unconditional grant payments to municipalities. The new unconditional grant will be based on a single progressive scale related solely to population, will reflect the 1971 Census of population, and will recognize the costs of providing municipal policing to the extent of \$1.75 per capita.
2. The above changes will be incorporated in the grants to municipalities for 1972.

Regional Municipal Grants Act

1. Amendments to The Regional Municipal Grants Act will be introduced to increase the basic grant to \$8.00 per capita, to increase the regional police grant component by \$1.75 per capita and to reflect the 1971 Census of population.
2. The above changes will be incorporated in the grants to regional municipalities for 1972.

Budget Papers

Presented by the
Honourable W. Darcy McKeough
Treasurer of Ontario
for the information of the
Legislative Assembly of Ontario
for the fiscal year 1972-73

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Budget Paper A

Fiscal Policy Management in Ontario

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Fiscal Policy Management in Ontario

I Introduction

The growth in the size of the provincial-municipal government sector in Canada has resulted inevitably in its involvement in economic stabilization. High levels of unemployment in the past two years have obliged provincial governments to implement costly expansionary fiscal policies.

The Government of Ontario believes that achievement of the basic goals of stabilization policy in Canada requires a modern approach to economic policy management. The Canadian economy is regionally diversified and needs a flexible federal-provincial management system that recognizes this fact. In previous budget papers, the Ontario Government has made a series of proposals on this subject. The budget papers of 1968 and 1969 examined the structure of public finance in Ontario and its implications for budgetary flexibility in the provincial-municipal government sector. In 1970 a broader approach to economic policy management in Canada was advanced with emphasis on the formulation of public policies to deal with inflation. Last year, the Ontario Government adopted full-employment budgeting as an integral part of its stabilization policy management system and recommended its adoption by other governments in Canada.

This paper continues the Ontario Government's examination of problems of fiscal policy management in Canada. It discusses some of the implications of the Ontario Government's evolving stabilization role for federal-provincial fiscal policy co-ordination and describes the parallel development of internal analytic and information systems to assist in the design of stabilization policies. The paper also examines Ontario's fiscal policy in 1970 and 1971 and presents a review of the provincial economy in 1971 together with a forecast for 1972.

II A Stronger Provincial Role in Fiscal Policy

Historically, the short-term stabilization of the economy in Canada has been the responsibility of the federal government because it has within its control the major instruments for economic stabilization. These are monetary policy, the national tax system and the federal government's spending power.¹ Despite the federal government's

¹ For a discussion of responsibility for stabilization policy, see Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", *Ontario Budget 1971* (Toronto: Department of Treasury and Economics, 1971), pp. 40-41.

greater flexibility in the management of economic stabilization policy, the experience of the recent economic slowdown and the current high levels of unemployment has prompted the development of a stronger provincial role in fiscal actions to achieve full employment.²

The importance of the Ontario Government's fiscal policy in the stabilization of the provincial economy during the past two years is evidenced by the expansionary thrust of the 1970 and 1971 Ontario budgets. Chart 1 illustrates this expansionary swing by showing the dramatic decline in the full-employment budget surplus over the 1970-71 period, measured as a percentage of potential Gross Provincial Product.

The full-employment budget surplus is a measure of the difference between revenues and expenditures that would occur if the economy were operating at full capacity.³ The value of the full-employment budget concept is that it uses a consistent benchmark of the performance of the economy, namely that of full employment. Therefore, it removes from the budgetary calculations those changes in revenues and expenditures that are not the result of government decisions but, in fact, happen automatically because of fluctuations around this benchmark. An automatic deficit that arises from a weak economy and depressed revenue growth can easily be misread as a sign of expansionary fiscal policy. The only reliable measure of discretionary fiscal policy actions, therefore, is the year-to-year change in the full-employment surplus or deficit.⁴

As a general rule, the larger the full-employment budget surplus, the more restrictive the fiscal impact of the actual budget. Conversely, the larger the full-employment deficit, the more expansionary the fiscal impact of the actual budget. Thus, of the budgets for 1968 to 1971,

² In particular, see Hon. W. Darcy McKeough, *Ontario Budget 1971, op. cit.*, pp. 9-12, and *Introduction to Supplementary Estimates and Tax Legislation* (Toronto: Department of Treasury and Economics, December, 1971). For a comparison and contrast of federal and Ontario fiscal policy in the past two years, see Bernard Jones and Jill Berringer, "Federal and Ontario Fiscal Policy in 1970 and 1971", *Ontario Economic Review*, IX, 6 (Nov/Dec, 1971), pp. 3-13.

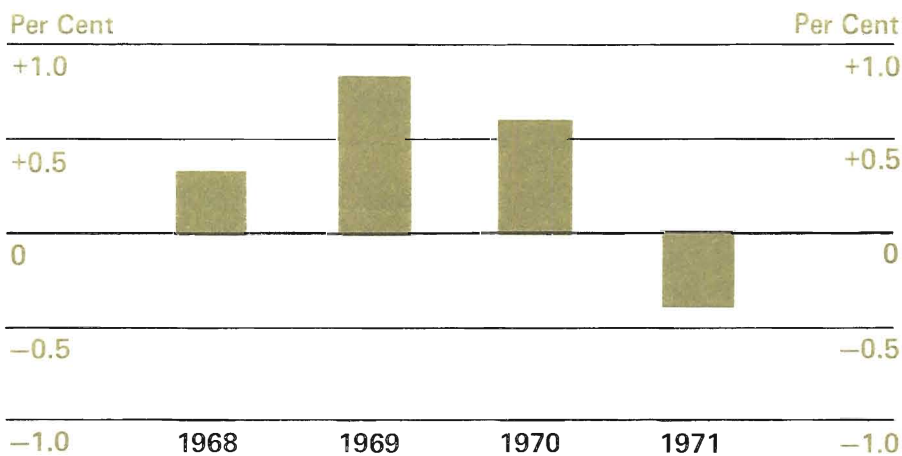
³ For a useful introduction to the use and interpretation of the full-employment budget, see R. Solomon, "A Note on the Full-Employment Budget Surplus", *Review of Economics and Statistics*, XLVI, 1 (February, 1964), pp. 105-108. A detailed theoretical and statistical treatment of the concept is found in M. Levy, *Fiscal Policy, Cycles and Growth*, National Industrial Conference Board, Studies in Business Economics, No. 81 (New York: The Conference Board, 1962).

⁴ Actually, the full-employment budget measures solely the influence of discretionary changes only after allowance is made for the fact that the full-employment surplus tends to rise because of the normal growth of revenues with that of the economy over time.

Chart 1 shows that the 1969 budget was restrictive and the 1971 budget was expansionary in conformity with changing economic conditions. Ontario fiscal policy in 1969 was designed to contain rising inflationary pressures.⁵ However, the Ontario Government foresaw an economic slowdown and rising unemployment for 1970 and fiscal policy was shifted to a mildly expansionary stance with the 1970 Ontario budget.⁶ This expansionary swing was strongly reinforced in 1971 because of the weaker outlook for business investment and exports, and expectations of continued high levels of unemployment. It is clear from the chart that the swing from full-employment surplus in 1970 to full-employment deficit in 1971 represents a sustained expansionary fiscal thrust. A more detailed explanation of the full-employment budget concept follows in Section V which deals with the analysis of Ontario fiscal policy in 1970 and 1971.

Government of Ontario
Full-Employment Budget: Net Position*
as a Per Cent of Potential GPP, 1968-1971

Chart 1



*National Accounts basis, surplus (+) or deficit (-).

⁵ See Hon. Charles MacNaughton, *Ontario Budget 1969* (Toronto: Department of Treasury and Economics, 1969), p. 30.

⁶ See Hon. Charles MacNaughton, *Ontario Budget 1970* (Toronto: Department of Treasury and Economics, 1970), p. 8.

III Federal-Provincial Fiscal Policy Co-ordination

The Ontario Government's experience in the fiscal policy area is symptomatic of problems in other major areas of intergovernmental fiscal and financial arrangements.⁷ The effective planning and co-ordination of federal-provincial fiscal policy is still in the early stages of development. The Government of Ontario, therefore, has designed and implemented discretionary stabilization policies on the basis of its understanding of the needs of the times. The rapid growth in the size and responsibilities of the provincial government sector in Canada has made inevitable the development and strengthening of provincial involvement in stabilization policy management.⁸ The development of provincial capacities and skills in this area, however, raises the problem of how provincial fiscal actions should be co-ordinated with those of the federal government.

Without a clarification of the appropriate role of the provincial-municipal sector in economic stabilization, the achievement of full economic potential is beyond reach. For this reason, the Ontario Government has suggested the formation of a national Joint Economic Committee composed of federal and provincial Ministers of Finance.⁹ The task of the Committee would be to set short and long-term economic and social goals, to examine ways of achieving these goals and to monitor progress in attaining them. Broad agreement on a set of consistent goals is the essential first step toward co-ordinated federal-provincial economic and fiscal policy.¹⁰

⁷For a discussion of economic policy co-ordination in Canada, see Hon. William G. Davis, "Questions on Federal-Provincial Economic Co-operation", Meeting of First Ministers, Ottawa, November 1-2, 1971 (Toronto: Department of the Premier, mimeo.); Hon. W. Darcy McKeough, "The Reconstruction of Economic and Fiscal Policy in Canada", Meeting of Ministers of Finance, Ottawa, November 1-2, 1971 (Toronto: Department of Treasury and Economics, mimeo.).

⁸See Hon. Charles MacNaughton, "The Public Sector and Economic Policy", *Ontario Budget 1970*, *op. cit.* For further details of the growth and composition of the government sector in Canada, see Canadian Tax Foundation, *Provincial and Municipal Finances 1971*, and *The National Finances 1969* (Toronto: Canadian Tax Foundation). For estimates of the relative size of governments in Ontario, see "New Directions in Economic Policy Management in Canada", *op. cit.*

⁹See Hon. William G. Davis, "An Economic Strategy for Ontario", October 14, 1971 (Toronto: Department of the Premier, mimeo.), and Hon. W. Darcy McKeough, "The Reconstruction of Economic and Fiscal Policy in Canada", *op. cit.*

¹⁰The Ontario Government first advanced proposals of this nature in 1945, when Premier Drew proposed the establishment of a Dominion-Provincial Economic Board composed of a permanent body of technical advisers, and a Dominion-Provincial Co-ordinating Committee of First Ministers. See Hon. George Drew, *The Ontario Submission to the Dominion-Provincial Conference, Ottawa, August 6, 1945* (Toronto: King's Printer, 1945).

The Senate Committee on Finance, in its report, *Growth, Employment and Price Stability*, has made a number of important recommendations for policies to achieve full potential and stable economic growth in the Canadian economy.¹¹ In the chapter headed "National Policy-Making in a Regional Country", the Senate Committee suggested greater possibilities for regional fiscal policies than for regionalized monetary policy. Consequently, although acknowledging the strengthening in fiscal policy co-ordination that has been developed through the establishment of a regular series of meetings of federal and provincial finance ministers and officials, the Committee recommends a greater degree of consultation on and co-ordination of federal and provincial fiscal policies. As an important step in this direction, the Committee suggests wider adoption of full-employment budgeting by the federal and provincial governments.

At the present time, the Ontario Government is the only jurisdiction in Canada using the full-employment budgeting technique. The 1971 Ontario budget recommended more extensive use of this technique in intergovernmental analysis of 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.¹²

IV Ontario's Stabilization Policy Management Systems

The budget is the fiscal instrument through which a government's economic stabilization and growth policies are implemented. It is a key economic document because it contains a government's evaluation of the economy's current and prospective performance and describes the fiscal plan for the coming year.¹³ The fiscal plan is a comprehensive economic program involving expenditure, taxation and financing

¹¹ Hon. Douglas D. Everitt and Hon. Hartland de M. Molson, *Growth, Employment and Price Stability*, Report of the Standing Committee on National Finance (Ottawa: Information Canada, 1971).

¹² Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", *op. cit.*, p. 53.

¹³ See R.M. Will, *The Budget as an Economic Document*, Royal Commission on Taxation (Ottawa: Queen's Printer, 1966).

actions. These actions have a significant influence on the economic decisions of the private sector. It is vitally important, therefore, that these decisions be based on the best information and the most modern techniques available. Consequently, the adoption of a positive role in economic stabilization by the Government of Ontario has made essential the development of budgetary and economic support systems for the formulation and management of stabilization policy.

Chart 3 at the end of this section illustrates the kind of information used in fiscal policy decision-making in Ontario. These information systems are required to provide up-to-date readings on the Government's financial position, the state of the economy and its influence on the budget, and the impact on the economy of federal and provincial budgetary changes. This section reviews briefly the development of the systems and their relevance to the design of fiscal policy in Ontario.¹⁴

Financial Support Systems

The internal financial support systems in the Government of Ontario comprise three component parts: financial, budgetary and quantitative tax analysis.

Financial Information System

The first requirement of fiscal policy management is an information system which monitors in-year budgetary performance and provides the basis for revenue and expenditure forecasts. In 1969, the Ontario Department of Treasury and Economics designed and implemented, in co-operation with all government departments, a Financial Information System (FIS). This system is now largely computerized and results in a monthly report that provides:

- a record and analysis of the in-year financial and economic performance of the budget; and
- a revised revenue and expenditure forecast for the current fiscal year as the basis for planning subsequent budgetary actions.

The detailed and current information generated is the key to the management of the Government's total financial operations. It also serves as a basic input into the design of aggregate and specific fiscal policies. The system is now mature and is generating accurate and meaningful information, and an additional long-term program of analysis is under way to maximize the uses of the data output.

¹⁴ The economic and financial information systems of the Government provide information relevant to a variety of policy objectives as well as economic stabilization.

Types of Budgets

The second requirement is for the transformation of financial information (FIS) on budgetary developments and forecasts into a format suitable for economic and fiscal policy analysis. A sub-system has therefore been designed to compute the budget on a national accounts basis. Analysis of changes in the Ontario budget on different conceptual bases is important since no single budget measure can adequately serve the total budgetary process. In addition to computing the administrative, cash and national accounts budgets, the Ontario Treasury is constructing a unified provincial budget as a complement to the national accounts budget in assessing the economic impact of fiscal policy.

The essential distinction between these budget concepts may be described briefly as follows.

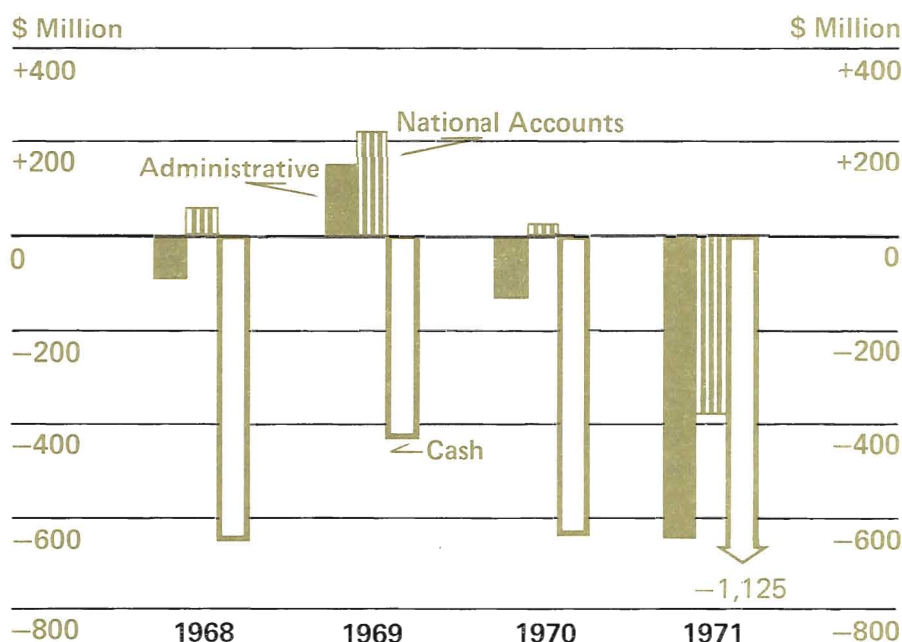
- The *administrative budget* comprises only net general revenues and expenditures. It is comparable to the income and expenditure statement of a private business corporation.
- The *cash budget* comprises budgetary and non-budgetary transactions. It is analogous to a business corporation's sources and uses of funds statement in that it takes account of changes in certain assets and liabilities that arise from the government's role as a financial intermediary as well as the net change in income and expenditure.
- The *national accounts budget* differs from both the administrative and cash budgets in that it (i) is on a gross basis (i.e., it includes reimbursements of expenditure), (ii) excludes purely bookkeeping transactions, and (iii) is measured on an accrual basis rather than a cash basis. The national accounts budget has been designed specifically to facilitate economic analysis of the operations of the government sector and its interactions with other sectors in the economy.
- The *unified budget* is similar to the national accounts budget but broader in coverage in that it includes additional kinds of financial transactions.¹⁵

Chart 2 compares the changes in surpluses or deficits, from 1968 to 1971, on the administrative, cash and national accounts budget bases. Although fluctuating in the same direction, there are marked differ-

¹⁵ For a detailed review of these budget concepts, see President's Commission on Budget Concepts, *Staff Papers and Other Materials Reviewed by the President's Commission* (Washington: U.S. Government Printing Office, October, 1967).

Comparison of Ontario's
Administrative, National Accounts
and Cash Budgets: Net Positions,* 1968-1971

Chart 2



* Administrative and cash budgets on fiscal year basis, surplus (+) or deficit (-).

ences in the magnitudes of the year-to-year swings in the surpluses and deficits of the different budgets. Appendix B provides a reconciliation of the administrative budgets for fiscal 1970-71 and 1971-72 with the national accounts budgets for calendar 1970 and 1971.

Quantitative Tax Analysis

Two computerized quantitative tax analysis systems have been developed for testing the impact of national and provincial tax changes on revenues, incomes, economic growth and stabilization. These systems are:

- the General Income Tax Analyzer (GITAN), which is designed primarily to simulate the incidence and revenue effects of changes in the personal income tax; and

- the Corporation Income Tax Analyzer (CORTAN), which is similarly used to examine the revenue and economic effects of changes in the corporate income tax.

The personal and corporation income taxes are highly important sources of revenue in the provincial budget. In addition, they are the revenue sources most sensitive to fluctuations in the level of economic activity. They accelerate sharply as the economy approaches full employment and decelerate quickly in an economic downturn. This automatic responsiveness to fluctuations in economic activity has a stabilizing effect on the economy. The importance for fiscal policy analysis of being able to measure this automatic effect on budgetary revenues is discussed in Section V.

Economic Support Systems

Because the primary objective of fiscal policy is to smooth out serious and prolonged deviations in the performance of the economy from its potential growth path, a detailed understanding of the structure of the provincial economy and an evaluation of its present and probable future performance is essential. Of prime importance is an understanding of the interactions of the private and public sectors. This kind of information forms the basis for determining fiscal policy objectives and evaluating alternative policies to achieve them. Consequently, in 1968, the Ontario Department of Treasury and Economics initiated a continuing statistical research program to provide detailed analysis and short-term forecasts of the Ontario economy. It comprises three interdependent systems: (i) Ontario Economic Accounts, (ii) econometric models and an input-output table, and (iii) other economic intelligence systems.

Ontario Economic Accounts

National income and expenditure accounts data for the province and its ten economic sub-regions constitute an invaluable tool for quantitative economic analysis. They provide the data base for development of provincial and regional econometric models. To date, annual Ontario Economic Accounts for the period 1947-69 have been developed on two different bases — the “national” and “domestic”. The Gross Provincial Product time series on a domestic basis has been used for the fiscal policy analysis in this paper, in the Ontario budget, and in the building of econometric models of the Ontario economy. The major advantage of the domestic version of GPP is that it more accurately measures the level of economic activity within a province. Consequently, it is more appropriate for the design of provincial fiscal policy. The national set of accounts, on the other hand, is a better

source of information about interprovincial economic relationships.¹⁶ Both the national and domestic versions of the Ontario Economic Accounts have been used as source data in a number of empirical studies to generate background information relevant to fiscal policy management in Ontario.

Econometric Models and the Input-Output Table

Econometric models of the Ontario economy are useful in the budgetary process, in economic forecasting and policy simulation. These features facilitate analysis of the economic impact of Ontario Government expenditure and revenue programs. In addition, they are being developed further to determine the sensitivity of the Ontario economy to influences from the rest of Canada and from international forces. The advantage of the econometric method is that it describes in quantitative form the relationships among the various sectors of the economy and has a great degree of internal consistency. From time to time, however, significant changes occur in the structure of the economy, creating different conditions than prevailed in the historical period from which the model draws its conclusions. These changes require careful assessment on the basis of information provided by a variety of other economic intelligence systems.

The Ontario Input-Output Table, in conjunction with the Ontario Economic Accounts and the econometric models, allows quantitative

¹⁶ The major distinction between the national and domestic Ontario Economic Accounts is that the domestic series includes only the output within the boundaries of Ontario of business corporations resident in the province. The national series, on the other hand, also includes the output which these Ontario corporations generate in other provinces. An Ontario resident corporation with production facilities in other provinces, for example, has expenditures in these provinces in the form of wages and salaries, materials, equipment and so on. It also earns income from sale of its products or services in these provinces. These revenues and expenditures are included in the national series of accounts but are not included in the domestic series. The domestic series, therefore, measures only the revenues and expenditures of corporation activity within Ontario. Similarly, if a business corporation resident in a province other than Ontario generates income arising from the use of its production facilities in Ontario, this income would be included in the national series of accounts of that province. It would not be included, however, in that province's domestic series of accounts since it relates to production in Ontario and is included in the Ontario domestic accounts. Therefore, the domestic accounts are the best measure of economic activity within individual provinces, whereas the accounts on the national basis provide greater detail on interprovincial economic relationships. For a more detailed discussion of the differences between the national and domestic bases of accounting, see M.J. Chari and R.H. Frank, "The Development of Ontario Economic Accounts", *Ontario Economic Review*, VIII, 6 (Nov/Dec, 1970), pp. 5-17, and Patricia S. Fromstein, "Ontario Economic Accounts: A Dual Approach to the Measurement of Provincial Product", *Ontario Economic Review*, IX, 5 (Sept/Oct, 1971), pp. 4-13.

assessment of the impact of alternative economic policies in different sectors of the economy. It provides estimates of the manner in which changes in demand by any sector of the economy spread through the various industries of the province. Therefore, it gives an approximate measure of the effects of government spending on incomes and employment, by type of industry.

Other Economic Intelligence Systems

It is essential in economic forecasting to make an assessment of the impact on the economy of many factors which are frequently very difficult, and sometimes impossible to quantify. Labour strikes, changes in business and consumer confidence, international economic and financial events such as the recent United States economic measures, for example, must be carefully considered in the forecast. A mass of data and opinion about such events is gathered from economists in the private sector, businessmen, financial analysts and officials in other governments, as well as from other econometric models, forecasts and surveys. This information is assembled and used in assessment of economic forecasts. The importance of this procedure cannot be overemphasized.

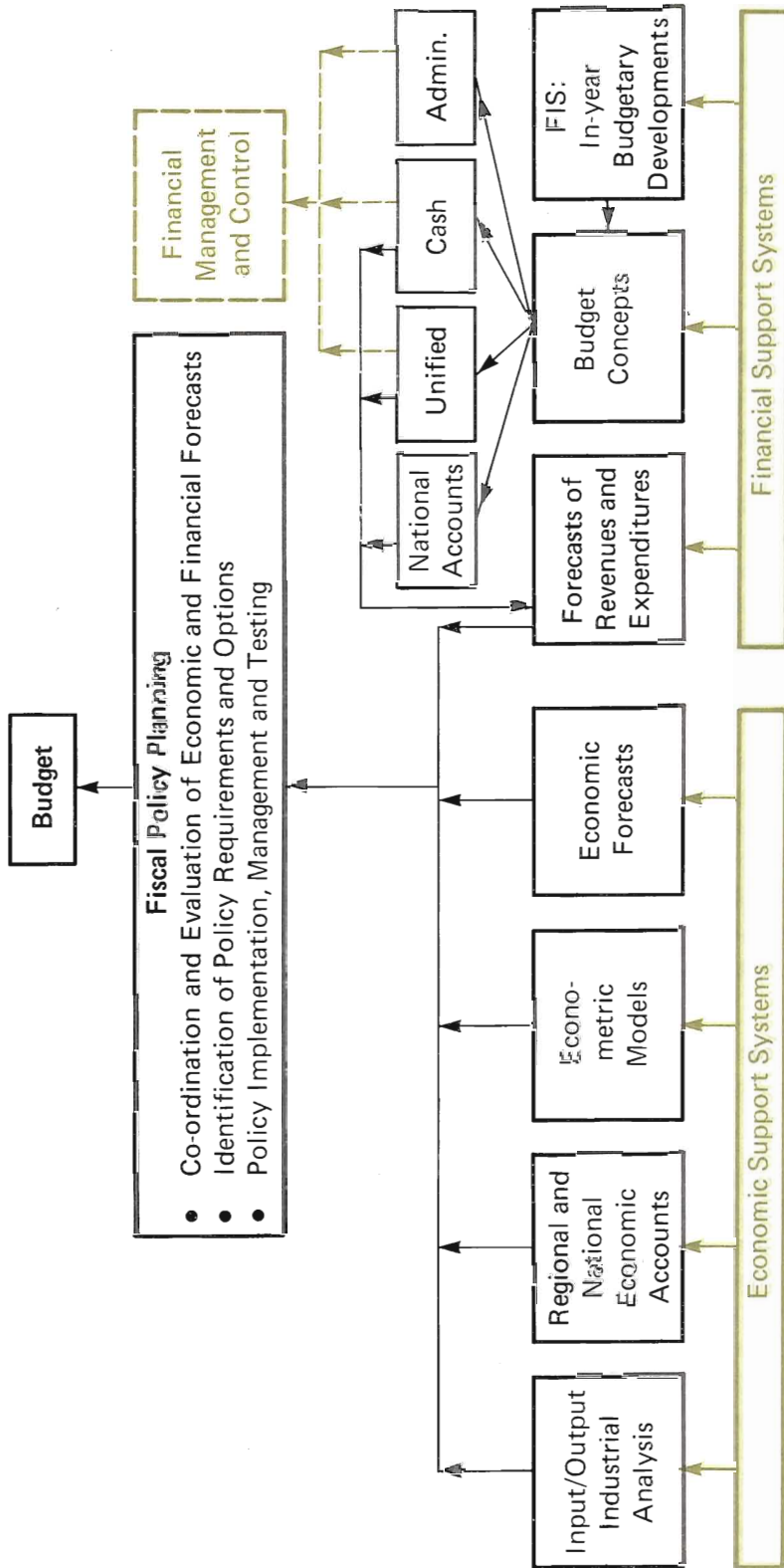
The financing implications of fiscal policy alternatives also require consideration. Accordingly, part of the forecasting function is to provide a review and analysis of the Canadian financial environment. This includes a financial flows analysis of the capital markets and the outlook for the level and term structure of interest rates. Apart from its value as a source of information for the financial management of cash reserves and requirements, it provides the financial counterpart to the forecast of the economy.

The Integration of Financial and Economic Support Systems

The economic analyses and forecasts are generated largely independently of those of the financial systems and they must be integrated into a consistent economic and financial framework for purposes of fiscal policy planning. The economic and financial forecast which comes out of the integration procedure provides the background to the initial fiscal policy framework and the consideration of policy options. Chart 3 illustrates how the financial and economic support systems are used in the formulation of fiscal policy in Ontario. The interaction between the financial and economic support systems is two way. It seeks to trace the impact of fluctuations in the level of economic activity on the revenues and expenditures of the Government, and the impact of changes in revenues and expenditures on the economy. The analysis of Ontario fiscal policy in the next section quantifies this interaction over the past few years.

Ontario's Stabilization Policy Management Systems

Chart 3



V Ontario's Fiscal Policy in 1970 and 1971

The expansionary thrust of the Ontario budgets of 1970 and 1971 was illustrated earlier in Chart 1. This section discusses developments in the Ontario Government's fiscal policy over the period in more detail. It utilizes the full-employment budget system introduced in the 1971 Ontario budget to identify automatic and discretionary fiscal changes, and to examine the impact of the Ontario Government's fiscal policy on the level of aggregate demand in the economy.¹⁷

Automatic and Discretionary Fiscal Changes

Year-to-year changes in the net budget position derive from two types of changes in the expenditure and revenue streams: automatic and discretionary.¹⁸ Automatic changes result directly from fluctuations in the level of economic activity. By contrast, discretionary changes result only from government changes to the budget plan and thus reflect the impact of the budget on the economy. The following examination of automatic and discretionary changes in budgetary revenues and expenditures in recent years demonstrates the importance of separating them for purposes of fiscal policy analysis.

Ontario's actual and full-employment budget positions, on a national accounts basis, are shown in Chart 4 for the period 1968-71. The chart shows that in 1970 both the full-employment and actual budget surpluses declined. The downward swing of \$196 million in the actual surplus considerably overstates the expansionary fiscal impact of the 1970 budget since the reduction in the full-employment surplus was only \$90 million. This is due to the fact that the economy performed well below potential in 1970 and had an automatic depressive influence on the actual surplus through lower revenues and increases in expenditures.

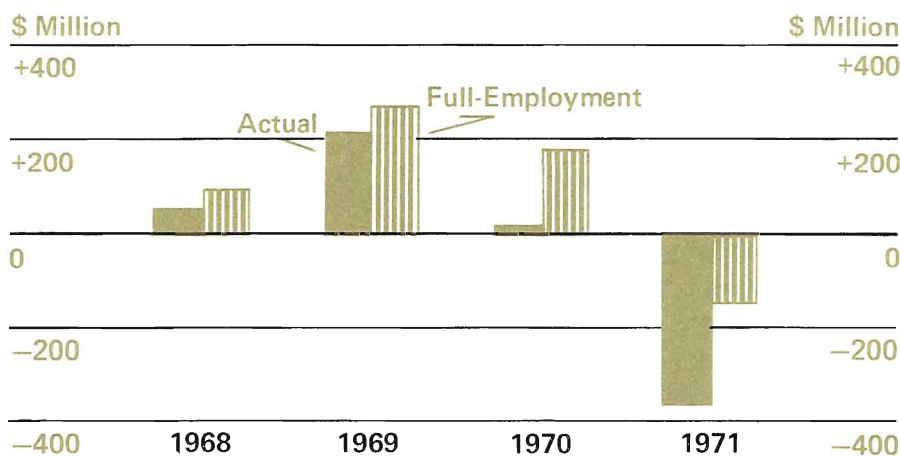
Table 1 breaks out these automatic and discretionary fiscal changes. The automatic budget changes amounting to \$106 million in 1970 were caused by two factors: (i) the gap between actual and potential revenues increased by \$91 million, and (ii) general welfare expenditures increased by \$15 million because of the impact of higher case loads. The weak performance of the economy had a restrictive influence on most major government revenues. Reductions in revenues from the

¹⁷See Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", *op. cit.*

¹⁸This is true for all the more commonly used budget concepts. For purposes of fiscal policy analysis, however, the national accounts budget concept is more appropriate and is used exclusively in this section.

Government of Ontario
Actual and Full-Employment Budgets:
Net Positions,* 1968-1971

Chart 4



*National Accounts basis, surplus (+) or deficit (—).

corporate and personal income taxes and the retail sales tax accounted for the bulk of the increase in the revenue gap. The discretionary changes in 1970 amounted to about \$90 million. The original 1970 budget program provided for a more moderate expansionary fiscal thrust, but as the economic situation worsened the original budget program underwent substantial in-year change to expand its economic impact.

In 1971, with the economy still operating below potential, the downward swing in the full-employment budget was again smaller than that in the actual budget (see Chart 4). The actual budget experienced a swing into deficit of \$396 million, whereas the full-employment position declined from surplus to deficit by \$347 million. The automatic influence amounted to the difference between the changes in these two measures; that is, \$49 million (see Table 1).¹⁹ The influence

¹⁹ Fluctuations in the level of economic activity influence a fairly large number of revenue and expenditure items. However, the major sources of automatic revenue variations are the corporate and personal income taxes and the retail sales tax. On the expenditure side, automatic variations are harder to measure since they are often indirect. For example, although the full-employment budget estimates in this paper include only an adjustment for general welfare expenditures, lower than expected full-time student enrolment at universities and colleges, technical institutes and community colleges in 1971-72 as a result of high levels of unemployment among young people has resulted in a downward revision in expenditures on education of over \$20 million. This is an automatic factor which may come to have destabilizing effects in future years.

Changes in Actual and Full-Employment
Budget Surpluses (+) or Deficits (—),
National Accounts Basis, 1970 and 1971
(\$ million)

Table 1

	1969	1970	1971	70/69	71/70
(a) Full-employment Budget (discretionary influences only)	272	182	—165	— 90	—347
(b) Actual Budget (discretionary and auto- matic influences combined)	216	20	—376	—196	—396
(c) Difference (a)—(b) (automatic influences only)	56	162	211	106	49
(d) Explanation of Automatic Influences:					
(i) Revenue gap increase (+)	55	146	181	91	35
(ii) Expenditure gap increase (+)	1	16	30	15	14
Total	56	162	211	106	49
(e) Full-employment Budget Surplus (+) or Deficit (—) as a Per Cent of Potential GPP	+0.8	+0.5	—0.4	—0.3	—0.9

Source: Estimated, Ontario Treasury.

of the Government's changes in taxes and expenditures amounted to an expansionary thrust of \$347 million.

The discretionary thrust of the original 1971 budget program and its subsequent revision was designed to be strongly expansionary. It contained measures designed primarily to stimulate spending by the private sector of the economy. During the year, however, the budget plan underwent substantial strengthening, largely in the form of increases in expenditures in response to the continued deterioration in the employment situation.²⁰

²⁰ Hon. W. Darcy McKeough, *Introduction to Supplementary Estimates and Tax Legislation, op. cit.*

Federal fiscal policy responded in a similar fashion to the deteriorating employment situation. In June, federal tax changes were introduced which included removal of surtaxes on personal and corporate incomes.²¹ These surtaxes bore most heavily on high-income regions such as Ontario, and their removal was recommended in the 1971 Ontario budget.²² Last October, the federal fiscal plan was reinforced by emergency measures including temporary reductions in the personal and corporate income taxes and substantial increases in expenditures.²³ The cut in federal income taxes had been strongly advocated by Ontario and was immediately matched by an equivalent reduction in Ontario's personal income tax.²⁴

The Fiscal Impact of the Ontario Budget

Discretionary fiscal policy is most important when there is a substantial performance gap in the economy. The above analysis of automatic and discretionary changes reveals that, at such times, changes in the actual surplus or deficit are least reliable as an indicator of the fiscal impact of the budget. The full-employment budget, by contrast, measures the changes in the budget against a consistent full or high-employment benchmark. It provides an unambiguous measure of the budget's net fiscal impact.

The relative net fiscal impact of the Ontario Government over the period 1968-71 is shown in Chart 5. The figures in the chart are the year-to-year changes in the full-employment budget surpluses and deficits shown in Chart 4 measured as a percentage of potential GPP. The zero line in the chart represents an unchanged or "neutral" fiscal impact. This situation occurs when the relative full-employment budget net position remains unchanged. If the relative full-employment surplus increases, its impact is contractionary and this is shown above the zero line. Conversely, if the surplus declines, the impact is expansionary and is shown below the zero line. This explains why the decline in the full-employment surplus between 1969 and 1970 shown above the zero line in Chart 4 appears as an expansionary impact below the zero line in Chart 5.

²¹ Hon. J. Edgar Benson, *Budget Speech* (Ottawa: Department of Finance, June 18, 1971).

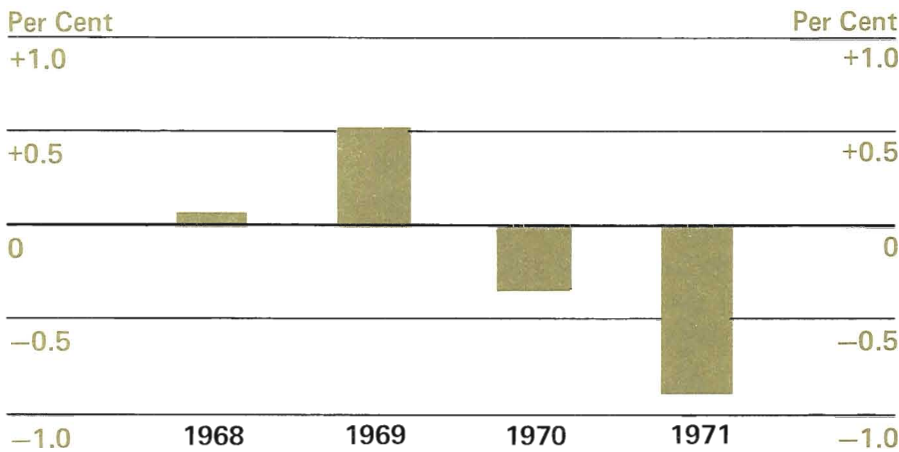
²² Hon. W. Darcy McKeough, *Ontario Budget 1971, op. cit.*, p. 10.

²³ Hon. J. Edgar Benson, *Statement to the House of Commons*, October 14, 1971 (Ottawa: Department of Finance, mimeo.).

²⁴ Hon. William G. Davis, "Statement Concerning the Federal Economic Measures Announced on October 14th" (Toronto: Department of the Premier, mimeo.). Hon. W. Darcy McKeough, *Ontario Budget 1971, op. cit.*, p. 24 and, *Introduction to Supplementary Estimates and Tax Legislation, op. cit.*

Government of Ontario
 Net Fiscal Impact, as a Per Cent
 of Potential GPP,* 1968-1971:
 Contractionary (+) or Expansionary (-)

Chart 5



*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 \$).

In 1971, Ontario's relative full-employment budget position amounted to a deficit of about 0.4 per cent of potential GPP compared with a surplus of about 0.5 per cent in 1970. Its relative expansionary net fiscal impact on the economy, therefore, amounted to about 0.9 per cent in 1971 (see Table 1), three times as large as the 0.3 per cent expansionary impact of 1970. This expansionary thrust of about \$350 million comprised net increases in expenditure of \$250 million and tax cuts of \$100 million.²⁵

²⁵The total increase in full-employment expenditures in 1971 exceeded \$850 million, but only the net increase in expenditures over and above the amount financed by the normal growth in full-employment revenues creates a net fiscal impact. The normal growth in revenues that would have occurred in 1971 due to the growth of population, economic growth and incomes at full employment — with no change to the existing tax system — amounts to about \$620 million. This fiscal "dividend" must be offset by equivalent increases in expenditures or tax

The net fiscal impact described above, that is, the change in the relative full-employment surplus, tells only a part of the story of the overall fiscal impact of the budget. This is because the net infusion or withdrawal of funds from the private sector by the Government has a multiplied effect in the economy. The immediate effect of the increase in expenditures of about \$250 million in 1971, for example, is to add \$250 million to total demand and output in Ontario. This immediate increase generates higher incomes which in turn are largely expended on consumer goods and services, stimulating output in other sectors of the economy, higher incomes, more spending and so on. Some of this multiplied impact of increased spending by the Government of Ontario gives positive stimulus to other provinces. The multiplier impact of this infusion can be measured on a preliminary basis by the econometric models described in Section IV. They indicate that the final impact of the \$250 million increase in government spending in the Ontario economy was to add about \$400 million to GPP in 1971. Thus the total volume of goods and services in the Ontario economy was raised by over 1.0 per cent of GPP.

The fiscal impact of the Ontario Government in 1971 represents by far the strongest year-to-year change since 1957. What is also significant about the size of this expansionary swing, measured relative to the size of the Ontario economy is that it was roughly equivalent to the size of the relative federal swing in the Canadian economy.²⁶ This point underlines the importance of Ontario fiscal policy to the well-being of the provincial economy. It also emphasizes the Ontario budget as a key economic document in the short-term stabilization of the Ontario economy.

reductions to avoid putting too much of the burden of achieving full capacity on private investment. In fact, rising population and increasing demands for government services continually place upward pressure on expenditures. Therefore, in the normal course of events, as was the case in 1971, the fiscal dividend in Ontario is used up in expenditure increases. In 1971, however, expenditures increased by \$200 million more than the fiscal dividend, and in combination with \$100 million in tax reductions produced a net expansionary fiscal impact of about \$330 million. The tax reductions of \$100 million comprised the 5 per cent corporate investment tax credit, 3 per cent personal income tax cut and reduced hospital premiums.

²⁶ See Bernard Jones and Jill Berringer, "Federal and Ontario Fiscal Policy in 1970 and 1971", *op. cit.*

Appendix A

The Ontario Economic Review and Outlook

Review of 1971

In 1971, Ontario's economic performance showed some improvement over the previous year. Gross Provincial Product (GPP) reached a level of \$38.1 billion, an increase of 9.0 per cent from the \$35.0 billion recorded in 1970. The volume of goods and services rose by 5.3 per cent, compared to an increase of 3.5 per cent in the previous year. The rate of price inflation moderated to 3.4 per cent, as against 4.1 per cent in 1970. In 1971 the main areas of strength in the economy were consumer spending and new investment in residential construction, both of which increased strongly under the impact of expansionary fiscal and monetary policies.

Despite stronger real growth in 1971 the economy did not achieve its potential rate of growth. In fact, in volume terms the gap between potential and realized output widened from 3.0 per cent of potential constant dollar GPP in 1970 to about 3.5 per cent in 1971. Parallel with this development, unemployment continued on an upward trend during the first half of the year and averaged 5.2 per cent for the year compared to 4.3 per cent in 1970.

The rate of price inflation in Canada has declined significantly over the past two years. In 1969, consumer prices rose by 4.5 per cent and the implicit GNP deflator by 4.7 per cent. By 1971, these rates had dropped to 2.9 and 3.4 per cent respectively. Excess capacity in the economy, induced by deflationary policies, accounts for only a part of this reduction in the rate of price inflation. The increase in the external value of the Canadian dollar and the effects of the food price war also produced substantial downward pressure on the general price level in the economy in 1971.

The Economy by Sectors, 1971-72

Personal Expenditure

Personal expenditure on goods and services rose sharply to a level of \$21.2 billion in 1971, an increase of 9.1 per cent compared with an increase of 6.7 per cent in the previous year. A high rate of personal savings in 1970 and a marked increase in the availability of consumer credit helped fuel the sharp increase in spending in 1971. Also important, but probably more so this year than last, are the removal of

the federal temporary income surtaxes and the subsequent 3 per cent reduction in both federal and Ontario personal income taxes. Continuation of easy credit policies in 1972 along with the tax cuts and generally strengthened consumer optimism should combine to bring about an increase in personal expenditure in 1972 in the order of 9.5 per cent.

Investment

The level of private and public investment in Ontario increased by 7.0 per cent in 1971, to a level of \$7.3 billion compared to an increase of 8.8 per cent in 1970. Considerable excess capacity in the economy along with the United States measures of August 1971 inhibited business expenditures on plant and equipment. Machinery and equipment investment is estimated to have increased by 3.0 per cent to a level of \$2.9 billion. Increased activity in the housing industry dominated the upsurge in construction investment. Housing starts numbered 89,980 units in 1971, compared with 76,675 units in 1970.

This year the outlook for investment suggests a more balanced growth. Investment in machinery and equipment is forecast to rise by about 6.1 per cent to a level of \$3.1 billion. Corporate profits and liquidity are improving due to improved sales, productivity gains and the lower cost of business credit. The continued strength in personal spending forecast for this year combined with current low inventory levels will encourage inventory accumulation and provide a further boost to business capital spending. Non-residential and residential construction expenditure combined are forecast to reach a level of \$4.7 billion this year, an increase of 6.8 per cent over 1971. Residential construction expenditure will be slightly the stronger of the two, rising by 8.5 per cent to a level of \$1.7 billion. Housing starts are expected to reach 93,000 units in 1972. Construction activity of the Ontario Housing Corporation increased considerably in 1971. Preliminary totals indicate that OHC starts expanded in step with those in the private sector, reaching a level of 20,650 units initiated.

Foreign Trade

Ontario's export growth in 1971 was dampened by a number of external developments. The economic performance of Ontario's major trading partners was sluggish. In particular, the volume of output in the United States economy increased by only 2.7 per cent, an improvement over 1970's performance but nevertheless weak. The high value of the Canadian dollar was a further inhibiting factor. As a result, Ontario's merchandise exports abroad are estimated to have grown by only 6.4 per cent in 1971, compared to 10.4 per cent in 1970.

In 1972, the U.S. economy is expected to stage a strong recovery, with the volume of goods and services increasing at about twice last year's rate. The repeal of the 7 per cent excise tax on automobiles, which appears to have stimulated automobile exports in 1971, may be of further benefit to provincial exports this year. Also, the international currency realignments negotiated in December of 1971 will make Ontario products more competitive in other foreign markets. Consequently, merchandise exports are expected to rise by almost 9.0 per cent in 1972, to a level of \$8.7 billion.

Employment

The labour force increased by 3.8 per cent in 1971 to a level of 3,249,000, an increase of 119,000 over 1970. The level of employment rose by only 83,000 in 1971, however, and the number of persons unemployed increased by 36,000 to a level of 170,000, or 5.2 per cent of the labour force. In 1972, the labour force is expected to increase by 3.4 per cent, or 110,000 persons, to a level of 3,359,000. Employment is forecast to rise more rapidly than labour force, by 3.9 per cent, or 119,000 persons, to a level of 3,198,000. Accordingly, the number of persons unemployed is expected to decline in 1972 to 4.8 per cent of the labour force. Productivity is forecast to rise by 2.4 per cent in 1972, slightly below last year's 2.5 per cent gain, but well above the 1970 increase of 1.5 per cent.

Income

Total personal income in Ontario rose from \$27.4 billion in 1970 to \$30.1 billion in 1971, an increase of 9.9 per cent. In 1972, a gain of 10.0 per cent is forecast to a level of \$33.1 billion. Corporate profits before taxes increased by 12.0 per cent to a level of \$3.9 billion last year, compared with a decline of 6.0 per cent in 1970. This year a gain of 14.0 per cent is forecast to a level of \$4.1 billion.

Summary of the Outlook for 1972

The year 1972 is expected to mark the beginning of a gradual return to full employment. With the lagged impact of current expansionary fiscal and monetary policies, and strengthened foreign demand, the volume of goods and services is forecast to rise in the province by 6.3 per cent. Despite a continued high rate of increase in the labour force of 3.4 per cent, however, the rate of unemployment is expected to average 4.8 per cent for the year.

One of the primary challenges to the restoration of full employment is the generation of a sufficient number of new job opportunities to absorb the unusually rapid growth in the labour force. Between 1969 and 1971, the average annual growth rate of Ontario's labour force was 3.4 per cent, compared to less than 2.0 per cent in the early sixties. Much of this difference is attributable to the changing age distribution of the population over time. Throughout the last decade, the total population has grown at a comparatively constant 2.2 per cent per year. However, the segment of population over 14 years of age, which forms the basis of the work force, has in recent years been rising at a much more rapid rate than in the first half of the sixties. This phenomenon, in concert with increased participation among women and young people, produced a very high increase of 3.8 per cent in the labour force in 1971. The magnitude of the task is demonstrated by the fact that the economy will have to grow at a rate in excess of 7.0 per cent per annum in volume terms to reach the 3 per cent unemployment target by the end of 1975.

The Ontario Economy, 1970-72¹

	1970	1971	1972	70/69	71/70	72/71
	(\$ billion)			(per cent)		
Gross Provincial Product	35.0	38.1	41.9	7.7	9.0	9.9
GPP (constant 1961 dollars)	26.2	27.6	29.3	3.5	5.3	6.3
Prices (1961=100)	133.6	138.1	142.8	4.1	3.4	3.4
Personal expenditure on						
goods and services	19.4	21.2	23.2	6.7	9.1	9.5
Private and public investment	6.9	7.3	7.8	8.8	7.0	6.5
Machinery and equipment	2.8	2.9	3.1	13.2	3.0	6.1
Construction	4.0	4.4	4.7	5.8	9.8	6.8
Non-residential	2.8	2.9	3.1	16.8	5.0	5.8
Residential	1.3	1.5	1.7	-11.1	20.5	8.5
Retail sales	10.8	11.8	12.8	1.9	8.6	8.5
Merchandise exports (Ontario)	7.5	8.0	8.7	10.4	6.4	9.0
Personal income	27.4	30.1	33.1	9.0	9.9	10.0
Corporate profits						
(before taxes)	3.4	3.9	4.1	-6.0	12.0	14.0
Personal income per capita (\$)	3,584	3,852	4,155	6.4	7.5	7.9
Labour force (000's)	3,130	3,249	3,359	3.2	3.8	3.4
Employment (000's)	2,996	3,079	3,198	2.0	2.8	3.9
Unemployment (% of						
labour force)	4.3	5.2	4.8	—	—	—
Productivity	—	—	—	1.5	2.5	2.4
Housing starts (units)	76,675	89,980	93,000	-5.9	17.4	3.3

¹ Estimated, Ontario Treasury; numbers may not add because of rounding.

Appendix B

Reconciliation Between Administrative Budget (Fiscal Year Basis) and National Accounts Budget (Calendar Basis) ¹

	1970-71		1971-72	
	Revenues	Expenditures	Revenues	Expenditures
Net General Revenues and Expenditures: fiscal year basis (per Table C1)	4,046	4,182	4,183	4,836
Add:				
Adjustment of revenues and expenditures to gross basis ²	1,014	1,014	1,188	1,188
Boards and commissions ³	141	150	177	197
Social security funds ⁴	214	141	234	152
Capital consumption allowances	100	100	108	108
Sub-total	1,469	1,405	1,707	1,645
Deduct:				
Intergovernmental transfers ⁵	-171	-190	-221	-246
Revenues and expenditures not applicable to national accounts ⁶	-94	-132	-98	-141
Sub-total	-265	-322	-319	-387
Fiscal-Calendar Adjustment ⁷	-214	-249	-67	-214
National Accounts Revenues and Expenditures: calendar years, 1970 and 1971	5,036	5,016	5,504	5,880

¹ Estimated, Ontario Treasury.

² Mainly federal transfers and other allocations including investment income.

³ Interest earnings and interest payments of boards and commissions. The boards and commissions included are:

Ontario Development Corporation	Ontario Universities Capital
Ontario Education Capital Aid Corporation	Aid Corporation
Ontario (and Student) Housing Corporation	Sheridan Park Corporation
Ontario Junior Farmer Establishment Loan Corporation	Housing Corporation Limited
Ontario Municipal Improvement Corporation	Niagara Parks Commission
	Ontario Research Foundation
	Motor Vehicle Accident Claims Fund

⁴ Contributions and investment income, and pension and benefit payments of the Public Service Superannuation Fund, the Legislative Assembly Retirement Fund and the Workmen's Compension Board.

⁵ The largest items are interest payments by boards and commissions to Treasury and contributions by Treasury to the Public Service Superannuation Fund.

⁶ Purchase and sale of land, and sales of goods and services.

⁷ Including adjustment to replace corporation and personal income tax revenues with corporation tax liabilities and personal income tax assessment.

Budget Paper B

Ontario's Property Tax Credit Plan

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Ontario's Property Tax Credit Plan

I Introduction

Over the past three years, the Government of Ontario has worked towards the goal of incorporating property taxes within the personal income tax system through the mechanism of tax credits. The Ontario Government first declared its intention to connect and co-ordinate income taxes and property taxes via a credit scheme in its 1969 white paper on provincial-municipal reform.¹ The basic shelter grants were initiated in 1968 on the recommendation of the Smith Committee as an interim step in this direction. However, the fairest and most effective method of relieving property tax burdens is to relate them to the ability-to-pay principle which governs personal income taxation. Such an integrated system of personal income and property taxation permits systematic redistribution of both tax burdens and achieves comprehensive reform for all taxpayers, including those too poor to pay income tax.

Throughout the long debate on national tax reform, the tax credit approach was consistently advocated by the Ontario Government as a superior alternative to a system of increased personal exemptions in the delivery of tax relief.² In its extensive studies and recommendations on reform of the national income tax structure, Ontario demonstrated the conceptual and operational superiority of tax credits over increased personal exemptions in terms of equity to taxpayers, lower revenue cost, simplicity and greater flexibility in response to changing needs over time.³

While rejecting the use of selective income tax credits as a means of achieving tax relief for low-income taxpayers on a national basis, the federal government nevertheless agreed in principle to consider implementing provincial tax credits along the lines favoured by Ontario.

¹ See page 94 for all footnotes.

Specifically, in discussing the Ontario Government's white paper on provincial-municipal tax reform, the federal minister of finance noted:

A third purpose of the Ontario proposal is described as making it possible to permit deductions from the provincial income tax by way of credits for property taxes, retail sales taxes and health insurance premiums. Such credits, it is said, might vary with incomes and family circumstances, and might even involve net payments to those whose credits exceed their provincial income tax liability. The introduction of such tax credits would greatly complicate the tax return and collection administration. Nevertheless the government would be prepared to discuss the possibility of carrying out such operations under revised collection agreements.⁴

Immediately following the introduction of the new federal income tax legislation (Bill C-259) in June 1971, the Ontario Government, therefore, proceeded to design a simple tax credit system for the benefit of Ontario taxpayers. The system which has been developed is sufficiently flexible to be adapted easily to other provincial taxes, and should prove to be a useful model for other provinces interested in similar reforms.

The major dimensions of Ontario's tax credit plan were outlined to the federal government in November 1971. The Province also requested that it be incorporated in the Canada-Ontario tax collection agreement.⁵ The administrative and operational details of this Ontario tax credit plan were then discussed extensively by Ontario and federal officials and a number of modifications were worked out.⁶ Upon finalization of these details in February 1972, the Government of Canada agreed to administer Ontario's property tax credit plan and indicated that it would be used as the standard for other provinces. Commencing with the 1972 taxation year, therefore, this tax credit plan will come into effect and Ontario taxpayers will be able to deduct from their 1972 income tax liability an Ontario tax credit for property taxes paid.

The balance of this paper sets out the full details of the Ontario property tax credit plan, its objectives, design, superiority over present provincial tax relief programs and its impact on representative groups of Ontario taxpayers.

II The Ontario Property Tax Credit

Four aspects of the property tax credit plan will be of prime interest to Ontario taxpayers – its objectives, the amount of the credit, who is eligible to receive it, and how it is to be claimed. The following sections discuss in detail these four aspects of the property tax credit to be legislated by Ontario in 1972.

Objectives

The overriding objective of Ontario's property tax credit plan is to achieve a fairer distribution of the burden of property taxes on individuals and families in Ontario. Analysis of the incidence of property taxation in Ontario has confirmed that it is regressive over much of the income scale and extremely so for the lowest income groups.⁷ It should be emphasized that this situation is not peculiar to Ontario. President Nixon stated in January of this year that property taxation was "one of the most oppressive and discriminatory of all taxes, hitting most cruelly at the elderly and the retired". Subsequently, he instructed the Advisory Commission on Intergovernmental Relations to review proposals for federal action.⁸

The Ontario basic shelter grants have partially offset this regressivity by providing a flat amount of relief to all taxpayers on the basis of average municipal taxation. However, this program was not adequate either in terms of vertical or horizontal equity. It did not provide sufficient relief to the lowest income groups, nor did it provide equal treatment to taxpayers in similar economic circumstances.⁹ The clear thrust of permanent reform, therefore, must be to link property tax burdens directly to the ability to pay of each individual and family in Ontario.

The Ontario Government's property tax credit plan aims to achieve this important goal of a more consistent and progressive incidence of property taxation in Ontario. Specifically, it has been designed to meet five objectives.

- To relate the combined burden of income tax and property tax bearing on Ontario residents to their individual ability to pay.
- To reduce the total tax burden on the lowest income families and individuals in Ontario.
- To extend property tax relief to roomers, boarders and others who do not presently benefit from provincial tax relief grants and to eliminate tax relief to non-residents and to taxpayers who can afford to pay.

- To permit better control over the total provincial-municipal tax burden on Ontario taxpayers.
- To establish a flexible and efficient pay-out mechanism as the first step towards the eventual replacement of welfare and subsidy programs with a general income support program.

One further objective of Ontario's plan has been to design a tax credit which is simple for taxpayers to understand and calculate on the income tax form, and efficient for government to administer. This dimension of simplicity is important to ensure maximum participation by Ontario taxpayers and the greatest possible improvement in overall equity. The property tax credit system to be introduced in 1972 meets these requirements, yet it is sufficiently flexible in structure to allow significant modification and enrichment in subsequent years.

Amount of the Property Tax Credit

The amount of property tax credit available to any taxpayer will depend on his ability to pay. Ontario's tax credit system will generate credits which vary according to income, family size and the level of property taxes paid. Thus, each taxpayer will be entitled to a property tax credit which is tailored to his particular economic circumstances.

The specific formula for determining the 1972 property tax credit will be as follows:

- | | |
|-------------------|---|
| <i>Homeowners</i> | • \$90 plus 10 per cent of property tax paid minus 1 per cent of taxable income, up to a maximum credit of \$250. |
| <i>Renters</i> | • \$90 plus 2 per cent of annual rent minus 1 per cent of taxable income, up to a maximum credit of \$250. |

Where the property tax paid is less than \$90, or the annual rent is less than \$450, the tax credit entitlement will be equal to the actual property tax paid or 20 per cent of rent paid, minus 1 per cent of taxable income. This is to ensure that a taxpayer who is resident in Ontario for only a few months in the year or who pays a very low property tax or rent is not unduly bonused.

This design of credit ensures a maximum benefit to low-income families and individuals and a smoothly progressive incidence up the income scale. It means that families who are too poor to pay income

tax will receive a refund of at least \$100 and in most instances significantly more. It means that middle-income taxpayers will receive tax relief which is roughly equal to the basic shelter grant which they formerly enjoyed. Thus, a family of four having an income of \$10,000 and paying \$400 in property tax would be entitled to a tax credit of \$73, as would a single person earning \$7,600 and paying \$150 a month in rent. It also means that high-income families and individuals will receive no benefit from the property tax credit.

Additionally, this tax credit design ensures that all taxpayers in similar economic circumstances will receive equal treatment. At any particular income level, all families of the same size and paying the same property tax will receive an identical property tax credit. As family size increases, or the level of property tax rises, the value of the tax credit also will increase. In this way, the tax credit mechanism provides a marked improvement in terms of horizontal equity, and redistributes the combined property and income tax burden on a much fairer basis.

Eligibility

In general, all taxpayers who are resident in Ontario on December 31 and who file a personal income tax return will be eligible to claim the Ontario property tax credit. Non-residents who formerly received basic shelter grants will no longer benefit, therefore, from Ontario's tax relief provisions. Eligible residents will include those who have died during the year and on whose behalf a 'year of death' return is filed. Only three categories of residents will be excluded from claiming a credit under the plan:

- children under 16 years as of December 31;
- persons under 21 years as of December 31 who live at home and are claimed as dependants for income tax purposes; and
- residents of homes for the aged, charitable homes, nursing homes and similar institutions which are exempt from property taxation.

The Ontario property tax credit plan will embrace roomers and boarders as well as families and individuals who rent and homeowners. The credit will apply, however, only to the principal residence of the taxpayer, not to cottages and second homes. In other words, the credit entitlement will be confined to the place of permanent residency of each family or individual. For families that move, of course, all places of permanent residency in Ontario during the year may be included in

determining the total property tax or rent paid and the amount of tax credit entitlement. The tax credit plan will achieve a broader coverage than the former basic shelter grants in that roomers and boarders will qualify for tax relief, but at the same time it will be more selective in impact by confining relief to the principal residence only.¹⁰ These changes alone will render Ontario's tax relief efforts far more equitable.

Within this framework of broad eligibility, the tax credit legislation will include a number of definitions and rules to prevent abuses and ensure efficient administration. The most important of these is the rule that, in cases where spouses reside in the same principal residence, the property tax credit must be claimed by the spouse having the highest taxable income. This will avoid the possibility of a substantial tax credit being paid to a family in which one spouse has a high income while the other spouse has a low income. A limited number of other special rules will also apply, including the following.

- Public housing tenants and senior citizen tenants will qualify for the tax credit on the basis of the actual rent they pay.
- The amount of property tax that may be claimed as paid by post-secondary students living in college residences will be limited to \$25, the equivalent of provincial grants-in-lieu of taxes.
- Rent will be defined broadly to include the payment for accommodation including heat, light and parking, but excluding any payment for meals or board.

Claiming the Tax Credit

The Ontario property tax credit will be calculated and claimed when taxpayers file their annual personal income tax return. Thus the 1972 property tax credit will be claimed in the 1972 income tax return and the tax relief will be delivered in the form of an income tax refund in the spring of 1973.¹¹ In co-operation with the Department of National Revenue, the Ontario Government will make a special effort to assist those persons who have never filed an income tax return in order to ensure that they get the full benefits to which they are entitled.

The 1972 income tax return to be filed by Ontario taxpayers will include a special form for claiming Ontario's property tax credit. While final details have not yet been worked out with the Department of National Revenue, this separate tax credit form will require only two things of taxpayers:

- a signed declaration of the amount of property tax and/or rent that has been paid in the year; and
- calculation of the amount of tax credit to which the taxpayer is entitled.

Additionally, taxpayers must be prepared to substantiate their declaration of the amount of property tax or rent paid, upon request by the Department of National Revenue. In these instances the taxpayer will be required to produce a receipt showing that he has indeed paid the amount of property tax or rent that he has claimed for the purposes of the tax credit. The Province plans to develop a standard receipt form which will be provided to all households at the end of the year or upon moving, in much the same way that T-4 slips are now provided by employers. In working towards this end, the Ontario Government invites the full participation and co-operation both of municipalities and landlords.

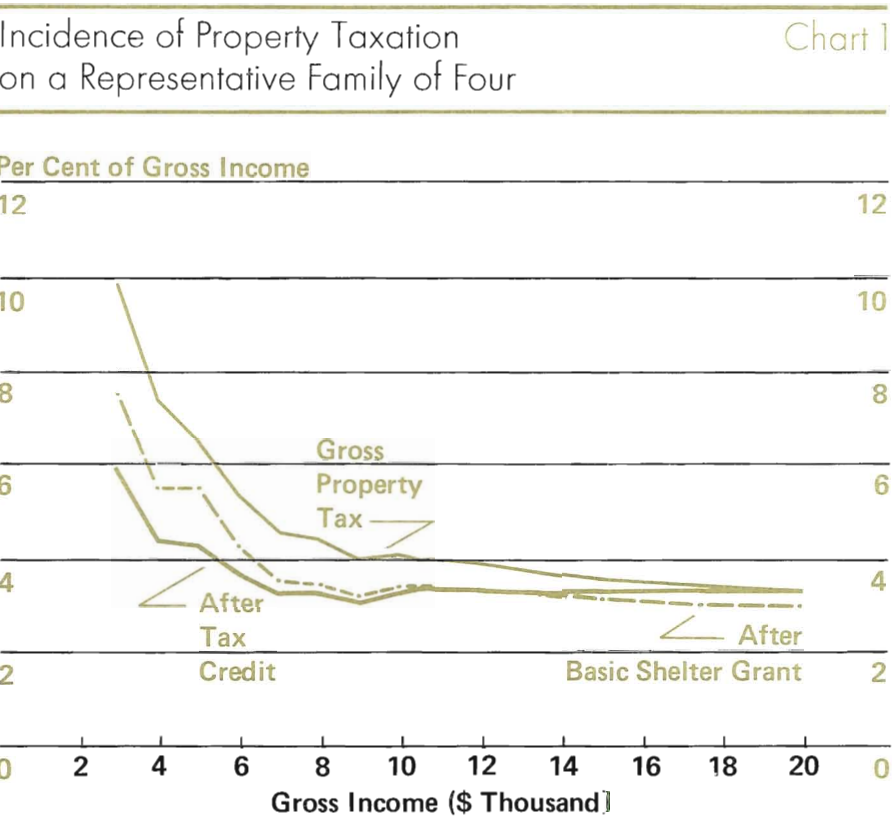
It is recognized that problems in the operation of Ontario's tax credit plan will inevitably emerge in the first year. However, given the simplicity of the tax credit design and its advantages to Ontario taxpayers, such difficulties should quickly work themselves out. In subsequent years the Ontario property tax credit will become a standard part of the taxpayer's annual tax calculation and an institutionalized element in the income tax collection and refund system. Thus tax reform in Ontario will reach beyond the personal income tax to achieve a fairer distribution of property tax burdens and equal treatment of taxpayers in similar economic circumstances.¹²

III Impact of the Property Tax Credit on Ontario Taxpayers

The Ontario Government's tax credit will achieve a substantial redistribution of 1972 property tax burdens. It will provide refunds of \$100 or more to all families and individuals who are too poor to pay income tax and it will provide tax relief to roomers and boarders. It will reduce taxes for individuals and families in the lowest brackets of taxable income and for old age pensioners and farmers. The tax burden on middle-income taxpayers will not change appreciably and the tax burden on high-income taxpayers will increase by about \$70, the amount of the former average basic shelter grant. Taxes will also increase for taxpayers who formerly enjoyed more than one basic shelter grant — such as for a cottage or a second home — whatever their income levels.

The following tables illustrate how the Ontario property tax credit will affect representative taxpaying units at different levels of income and property tax liability. It can be seen that the property tax credit is of maximum value at the bottom end of the income scale and tapers off gradually to zero when income exceeds \$20,000 – \$25,000. The breakeven point at which a typical taxpayer will be no better or no worse off than at present is about \$7,800 for single persons, \$9,400 for couples and \$10,800 for a family with two children.

The progressive impact of the property tax credit is clearly portrayed in Chart 1. This graph shows the value of the tax credit at each income level as a proportion of the gross property tax burden on a representative family. Thus, the tax credit relieves 40 per cent of the gross property tax burden on a family having \$3,000 income versus 20 per cent at \$9,000 income and none of the burden at \$25,000 income. Quite clearly then, linking property taxes to ability to pay produces a fairer and more progressive incidence of the combined burden of property and income taxation in Ontario.



Source: See Table 1.

Impact of Ontario Property Tax Credit
(Family With 2 Children Under 16)

Table 1

Gross Income	Gross Property Tax	Average Basic Shelter Grant	Property Tax Credit	Change in Tax Relief
\$	\$	\$	\$	\$
3,000	300	70	120	+50
4,000	300	70	119	+49
5,000	330	70	113	+43
6,000	330	70	104	+34
7,000	330	70	94	+24
8,000	360	70	88	+18
9,000	370	70	79	+ 9
10,000	420	70	75	+ 5
12,000	480	70	62	— 8
15,000	555	70	42	—28
20,000	680	70	7	—63
25,000	730	70	0	—70

- Notes:
1. The pattern of estimated gross property tax is based schematically on the observed distribution in Guelph as projected to 1972. See Appendix.
 2. Taxable income used in calculating the property tax credit is based on the new levels of personal exemptions, \$100 standard deduction, 3 per cent employment expense deduction and a pension contribution equal to 6 per cent of gross income.
 3. The formula for determining basic shelter relief was \$30 plus 10 per cent of the average municipal tax burden of the previous year.

Impact of Ontario Property Tax Credit (Married Couple)

Table 2

Gross Income	Gross Property Tax	Average Basic Shelter Grant	Property Tax Credit	Change in Tax Relief
\$	\$	\$	\$	\$
3,000	300	70	120	+50
4,000	300	70	113	+43
5,000	330	70	107	+37
6,000	330	70	98	+28
7,000	330	70	88	+18
8,000	360	70	82	+12
9,000	370	70	73	+ 3
10,000	420	70	69	- 1
12,000	480	70	56	-14
15,000	555	70	36	-34
20,000	680	70	0	-70
25,000	730	70	0	-70

- Notes:
1. The pattern of estimated gross property tax is based schematically on the observed distribution in Guelph as projected to 1972. See Appendix.
 2. Taxable income used in calculating the property tax credit is based on the new levels of personal exemptions, \$100 standard deduction, 3 per cent employment expense deduction and a pension contribution equal to 6 per cent of gross income.
 3. The formula for determining basic shelter relief was \$30 plus 10 per cent of the average municipal tax burden of the previous year.

Impact of Ontario Property Tax Credit (Single Person)

Table 3

Gross Income	Gross Property Tax	Average Basic Shelter Grant	Property Tax Credit	Change in Tax Relief
\$	\$	\$	\$	\$
3,000	300	70	109	+39
4,000	300	70	100	+30
5,000	330	70	94	+24
6,000	330	70	84	+14
7,000	330	70	75	+ 5
8,000	360	70	68	— 2
9,000	370	70	60	—10
10,000	420	70	56	—14
12,000	480	70	43	—27
15,000	555	70	22	—48
20,000	680	70	0	—70
25,000	730	70	0	—70

- Notes:
1. The pattern of estimated gross property tax is based schematically on the observed distribution in Guelph as projected to 1972. See Appendix.
 2. Taxable income used in calculating the property tax credit is based on the new levels of personal exemptions, \$100 standard deduction, 3 per cent employment expense deduction and a pension contribution equal to 6 per cent of gross income.
 3. The formula for determining basic shelter relief was \$30 plus 10 per cent of the average municipal tax burden of the previous year.

Impact of Ontario Property Tax Credit

Table 4

(Old Age Pensioner)

Gross Income	Gross Property Tax	Average Basic Shelter Grant	Property Tax Credit	Change in Tax Relief
\$	\$	\$	\$	\$
2,500	280	70	116	+46
3,000	300	70	113	+43
4,000	300	70	103	+33
5,000	330	70	96	+26
6,000	330	70	86	+16
7,000	330	70	76	+ 6
8,000	360	70	69	- 1
9,000	370	70	60	-10
10,000	420	70	55	-15
15,000	555	70	18	-52
20,000	680	70	0	-70

- Notes:
1. The pattern of estimated gross property tax is based schematically on the observed distribution in Guelph as projected to 1972. See Appendix.
 2. Taxable income used in calculating the property tax credit is based on the new level of personal exemption, the \$650 age exemption and the \$100 standard deduction.
 3. The formula for determining basic shelter relief was \$30 plus 10 per cent of the average municipal tax burden of the previous year.

IV Combined Impact of the Tax Credit and Supplementary Tax Relief Programs

The Ontario property tax credit plan will replace the basic shelter grant program which has been in force since 1968. Thus, general relief against 1972 property taxes will be delivered in the form of income tax refunds in early 1973 rather than as property tax reductions or rebates in the fall of 1972. In addition, the two other provincial tax relief programs — the 25 per cent farm tax rebates and the \$50 to \$100 supplementary tax relief grants to needy pensioners — will continue intact for 1972.¹³

Needy Pensioners

The new property tax credit plan will provide larger benefits to G.I.S. pensioners than the basic shelter grant program which it replaces. Under the former shelter grant program, needy pensioners who lived in a separately assessed housing unit received about \$70 in tax relief. Under the property tax credit plan, all G.I.S. pensioners will qualify for general property tax relief — including those that are roomers and boarders — and this tax credit relief will amount to at least \$100 because pensioners who qualify for the guaranteed income supplement have no taxable income.

In addition to the property tax credit, G.I.S. pensioners will continue to benefit from Ontario's \$50 to \$100 supplementary tax relief grants. Thus, an eligible pensioner or pensioner couple paying \$210 in property tax will enjoy a complete refund through the combined benefits of the tax credit and supplementary grants. Virtually all needy pensioners in Ontario, therefore, will be sheltered entirely from the regressive burden of property taxation. Table 5 displays the increase in relief to needy pensioners resulting from the combined tax relief programs.

Tax Relief to G.I.S. Pensioners

Table 5

Gross Property Tax	Former Tax Relief			1972 Tax Relief		
	Basic Shelter Grant	Total Supplementary Assistance	Total	Property Tax Credit	Total Supplementary Assistance	Total
\$	\$	\$	\$	\$	\$	\$
150	70	80	150	105	100	205
200	70	100	170	110	100	210
250	70	100	170	115	100	215
300	70	100	170	120	100	220
350	70	100	170	125	100	225
400	70	100	170	130	100	230

- Notes:
1. Some 300,000 Ontario residents 65 years of age or older receive a guaranteed income supplement (G.I.S.) in addition to the old age pension. Single pensioners qualify for G.I.S. if their private income is below \$1,392 while pensioner couples qualify if their private income is below \$2,448.
 2. Ontario's supplementary assistance was a flat \$50 to all G.I.S. pensioners and up to a further \$50 depending upon net property taxes paid after deduction of basic shelter relief. In 1972 the additional \$50 may be claimed by a single pensioner up to the limit of his gross property tax levy.
 3. The formula for determining the value of basic shelter relief was \$30 plus 10 per cent of average municipal taxes of the previous year.

Farmers

The Ontario property tax credit plan also will generate larger benefits to farmers than the former basic shelter grant program. For the many Ontario farmers who have no income tax liability, the tax credit formula will provide general tax relief in excess of \$100, or at least \$30 more than the basic shelter grant. Most farmers who are liable for income taxation will also enjoy larger benefits since their taxable income is generally very low. On top of this general tax relief farmers will continue to enjoy the special 25 per cent farm tax rebate. Thus, almost all farmers in Ontario will benefit in terms of total tax relief as a result of the property tax credit plan. Table 6 illustrates this increase in benefits available to farmers in 1972 and shows that the property tax burden will be removed almost entirely from our poorest farmers.

While the special tax relief programs for pensioners and farmers will be continued in 1972, the Province would prefer to incorporate this supplementary tax relief within its general tax credit system in subsequent years.¹⁴ Apart from the merits of simplicity and efficiency, such a rationalization would permit fairer treatment among all pensioners, by eliminating the sharp cut-off between those who qualify for the guaranteed income supplement and those who do not. The tax credit formula is sufficiently flexible to allow for extra benefits to particular classes of taxpayers, and this is one of its great advantages. After the tax credit system has been in operation for a year and its impact has been fully analyzed, Ontario hopes to be in a position to enrich and modify the basic tax credit formula as a replacement for these existing programs.

Tax Relief to Farmers

Table 6

Gross Property Tax	Former Tax Relief			1972 Tax Relief		
	Basic Shelter Grant	25% Rebate	Total	Property Tax Credit	25% Rebate	Total
\$	\$	\$	\$	\$	\$	\$
150	70	20	90	105	37	142
200	70	32	102	110	50	160
300	70	58	128	120	75	195
400	70	82	152	130	100	230
500	70	108	178	140	125	265
600	70	132	202	150	150	300
700	70	158	228	160	175	335
1,000	70	232	302	190	250	440

- Notes:
1. This table shows the tax relief provided to farmers who have no taxable income. For farmers whose income is sufficiently high to be liable for income tax, the property tax credit would be reduced accordingly. In 1969, some 38,000 Ontario farmers were liable for income taxation and their average rate of tax was about 13 per cent.
 2. In 1972 the 25 per cent farm tax rebate relates to the gross property tax paid by the farmer. While the basic shelter program was in force, the 25 per cent rebate was based on the net property tax after deduction of the basic shelter grant.
 3. The formula for determining the value of basic shelter relief was \$30 plus 10 per cent of average municipal taxes of the previous year.

V Future Directions

The introduction of tax credits, fully integrated within the personal income tax collection and refund system, will advance materially the Ontario Government's thrust towards comprehensive tax reform. The inclusion of Ontario's property tax credit in the 1972 income tax form will, for the first time, directly link property tax and income tax burdens, relating both to the ability-to-pay principle. This demonstrates that the income tax mechanism can be used as the vehicle for achieving a systematic and more progressive distribution of total tax burdens, not just income tax burdens. The Government of Ontario intends to extend its tax credit approach, therefore, to offset the regressive impact of other taxes as well. In this way, the Province will be able to achieve co-ordinated and comprehensive reform of the total taxes bearing upon Ontario citizens.

Once the property tax credit system is functioning smoothly, Ontario will consider the implementation of a retail sales tax credit. The Province has already explored a number of alternatives towards this end and has outlined one possible retail sales tax formula which would be simple yet effective.¹⁵ This potential design would provide a sales tax credit of \$10 to the taxfiler plus \$10 for each dependant, minus 1 per cent of taxable income. Like the property tax credit, this structure produces maximum benefits to low-income families and gradually tapering relief up the income scale. Thus, along with the existing exemption on food and necessities, such a tax credit would completely shelter our lowest-income families from the burden of the retail sales tax. Ontario is also exploring the possibility of other tax credits to replace health premium assistance and low-income housing subsidies. By means of such tax credits, the total burden of taxes can be lifted from our poorest families and individuals, thereby making real progress towards ensuring them a more decent standard of living.

Equally important, the acceptance of Ontario's tax credit plan by the Government of Canada represents a positive step towards developing a guaranteed income plan for all Canadians. The property tax credit plan will provide valuable experience in using the income tax system as a refund or pay-out mechanism. It will generate much needed information about people who are too poor to pay income tax and will reward them for filing an income tax form. It will offer a realistic approach towards supplementing the income of our working poor. Eventually, it may be adapted as the basic mechanism for underpinning the income of all Canadians and replacing the present myriad of welfare schemes.

VI Summary

The Ontario Government is introducing a property tax credit plan that will relate the property tax burden borne by each taxpayer in Ontario to his particular ability to pay. Commencing with the 1972 taxation year, all individuals and families in Ontario will be able to deduct from their 1972 income tax liability an Ontario tax credit for property taxes paid. The Ontario tax credit will be fully refundable to taxfilers who pay no income tax and to those whose credit entitlement exceeds their personal income tax liability. Ontario's property tax credit plan is estimated to cost the Provincial treasury \$160 million in the first year, or modestly more than the former basic shelter grant program. This plan will bring about a substantial redistribution of tax burdens in favour of low-income families and individuals, pensioners and farmers, at the expense of high-income taxpayers. As such, it represents the first step towards co-ordinated and comprehensive reform of the total federal-provincial-municipal tax burden bearing upon Ontario citizens.

¹ See Hon. Charles MacNaughton, "Reform of Taxation and Government Structure in Ontario", *Ontario Budget 1969* (Toronto: Department of Treasury and Economics, 1969).

² See Hon. W. Darcy McKeough, *Ontario Budget 1971* (Toronto: Department of Treasury and Economics, 1971), p. 7.

³ See Hon. Charles MacNaughton, *Ontario Proposals for Tax Reform in Canada* (Toronto: Department of Treasury and Economics, 1970), pp. 15-17; and Staff Paper, *Effects of Ontario's Personal Income Tax Proposals*, Ontario Studies in Tax Reform 2 (Toronto: Department of Treasury and Economics, 1970), Chapter 4.

⁴ Hon. E.J. Benson, *Proposals for Tax Reform* (Ottawa: Queen's Printer, 1969), p. 83.

⁵ See Hon. W. Darcy McKeough, "Preliminary Outline of a System of Property and Sales Tax Credits for Ontario Taxpayers", Meeting of Ministers of Finance, Ottawa, November 1-2, 1971 (Toronto: Department of Treasury and Economics, mimeo.).

⁶ Altogether five meetings of officials from the Ontario Department of Treasury and Economics and the Department of National Revenue were held between November 1971 and February 1972 and extensive correspondence was exchanged. A major modification to the original Ontario design was the deletion of the sales tax credit in order to keep the Ontario plan as simple as possible in the first year.

⁷ A detailed quantitative study of the incidence of the property tax in a representative Ontario city has been undertaken by the Taxation and Fiscal Policy Branch of the Ontario Treasury. The results of this analysis are summarized in Appendix A. See also the forthcoming Staff Paper, *Analysis of Income and Property Taxes in Guelph* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs).

⁸ See President Richard M. Nixon, *State of the Union Address* (Washington: United States Information Service, January 20, 1972), p. 6.

- ⁹This deficiency in horizontal equity is evident from the fact that the shelter grant paid to any particular taxpayer in 1971 ranged from extremes of \$33 to \$101 depending upon the municipality in which he lived.
- ¹⁰Under the former basic shelter grant program, tax relief was provided only to separately assessed housing units, which ruled out many roomers and boarders.
- ¹¹For the 15 per cent of taxpayers whose deductions-at-source or quarterly instalments are less than their final income tax liability for the year, the property tax credit will take the form of a deduction against the income tax owing.
- ¹²Parallel suggestions for such a remedy have been made in the United States. See J. Pechman, *Fiscal Federalism for the 1970's* (Washington: The Brookings Institution, 1971).
- ¹³Pensioners who qualify for the federal guaranteed income supplement receive from the Ontario Government a supplementary tax relief grant of \$50, plus up to a further \$50 depending upon the amount of property taxes paid.
- ¹⁴These special tax relief programs are estimated to cost \$35.3 million in 1972 — \$16.3 million in farm tax rebates and \$19.0 million in supplementary tax relief to needy pensioners.
- ¹⁵See Hon. W. Darcy McKeough, "Preliminary Outline of a System of Property and Sales Tax Credits for Ontario Taxpayers", *op. cit.*

Appendix

The Incidence of Property Taxation in an Ontario Test Locality

Introduction

In designing a property tax credit scheme, it is critical to identify the relationship between property tax burdens and income. A number of studies have attempted to measure the incidence of taxes levied upon property values.¹ In general, these studies have concluded that the property tax is regressive over most of the income scale. However, the data limitations of these previous studies, and the fact that they related to other jurisdictions meant that they were of limited value for purposes of policy formulation by the Ontario Government. In view of this, the Ontario Treasury undertook a detailed and comprehensive study of the incidence of property taxation by income level in a test location in Ontario. This Ontario study is essentially a quantitative computer analysis, which matches the income and property taxes of over 11,000 taxfilers in Guelph. A forthcoming staff study will provide a full report on the methods and findings of the analysis. This appendix summarizes the principal results available to date.²

Guelph in Perspective

Guelph was used as a test location primarily because property tax information in a readily analyzable form was available for that municipality. This raises the question of whether Guelph, as the test locality, is more or less typical of the situation for Ontario as a whole or whether it is in some respects a special case. Using the following criteria as a basis for comparison, it can be seen that Guelph is indeed reasonably representative of Ontario as a whole and, therefore, a useful basis from which overall conclusions can be drawn.

	1969	
	Guelph	Ontario
Average gross income per taxfiler	\$5,348	\$5,622
Average residential property tax	\$347	\$371
Ratio of residential to total taxable assessment	.609	.604
Ratio of exempt assessment to total assessment	.383 ¹	.216

Source: *1969 Summary of Financial Reports of Municipalities*, Vol. I (Toronto: Department of Municipal Affairs, 1970) and, *Taxation Statistics* (Ottawa: Department of National Revenue, Taxation, 1971).

¹ The high ratio of exempt to total assessment reflects the extensive university and penal reform properties in Guelph.

Results of the Analysis

A computer model was designed for the specific purpose of testing tax credit schemes against the Guelph data base. The model matches over 11,000 income tax records against property tax records, in order to measure the incidence of property tax by income level and to simulate the revenue and incidence impact of alternative tax credit designs. The base year for both the income tax and property tax data was 1968. Results for 1968 were extrapolated to 1972 on the basis of the observed experience in Guelph from 1969 to 1971 in the case of the property tax, and on the basis of province-wide experience in the case of income.

The Guelph analysis confirms that the property tax is significantly regressive. The findings show that property taxes pre-empt a high proportion of gross income for persons earning below \$3,000, and a

decreasing proportion for incomes between \$3,000 and \$6,000. On incomes between \$6,000 and \$12,000 the property tax verges on proportionality, then resumes its regressive pattern above the \$12,000 income range. The regressive burden of the property tax is particularly apparent for two sub-groups of taxpayers — the elderly and young families. These groups exhibit an average property tax burden very close to that of the total population, yet their incomes are significantly below the average for the population as a whole. Table A-1 displays these relationships between the property tax burden and income levels.

Summary of Guelph Results

Table A-1

Gross Income Class	Actual 1968		Projection for 1972	
	Average Gross Property Tax	Average Tax as Percentage of Gross Income	Average Gross Property Tax	Average Tax as Percentage of Gross Income
\$	\$	%	\$	%
3,000 - 3,500	290	9	334	10
3,500 - 4,000	306	8	329	9
4,000 - 4,500	308	7	330	8
4,500 - 5,000	303	6	335	7
5,000 - 5,500	297	6	343	7
5,500 - 6,000	297	5	333	6
6,000 - 6,500	306	5	328	5
6,500 - 7,000	323	5	329	5
7,000 - 7,500	333	5	331	5
7,500 - 8,000	335	4	348	4
8,000 - 8,500	353	4	357	4
8,500 - 9,000	373	4	374	4
9,000 - 9,500	379	4	372	4
9,500 - 10,000	409	4	378	4
10,000 - 12,000	435	4	416	4
12,000 - 15,000	496	4	484	4
15,000 - 20,000	579	3	555	3
20,000 - 25,000	632	3	679	3
25,000 - 50,000	690	2	729	2

Source: Computer analysis of income tax and property tax records for residents of Guelph.

Note: 1968 is the base year for the computer analysis. Projections for 1972 are made assuming that incomes rise as forecast by the Ontario Treasury and property tax burdens increase in line with the actual experience in Guelph from 1968 to 1971 and a trend projection for 1972.

The computer model was also used to compare the impact of Ontario's property tax credit plan versus the former basic shelter grant program.³ Table A-2 shows that the tax credit plan generates a progressive pattern of tax relief in contrast to the basic shelter grant which provided a flat relief payment to all taxpayers. The cost of the property tax credit plan was also estimated for the Guelph sample of taxpayers and was found to be modestly higher than the cost of continuing the basic shelter grant program.

Summary of Guelph Results

Table A-2

Projection for 1972

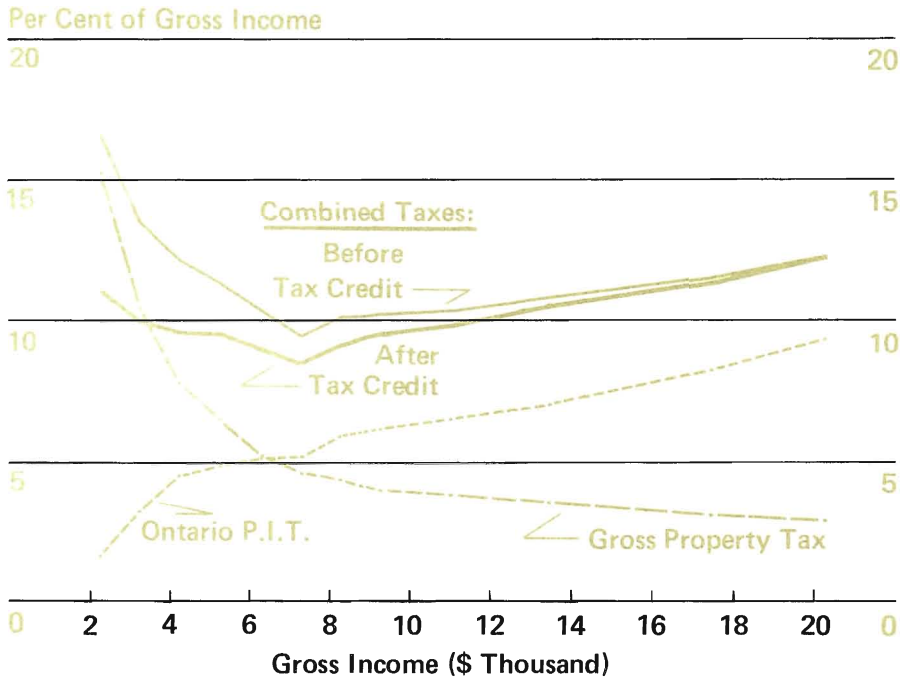
Gross Income Class	Average Gross Property Tax	Basic Shelter Grant	Average Property Tax Credit	Change in Relief
\$	\$	\$	\$	\$
3,000 - 3,500	334	66	114	+48
3,500 - 4,000	329	66	109	+43
4,000 - 4,500	330	66	103	+37
4,500 - 5,000	335	66	99	+33
5,000 - 5,500	343	66	96	+30
5,500 - 6,000	333	66	91	+25
6,000 - 6,500	328	66	86	+20
6,500 - 7,000	329	66	81	+15
7,000 - 7,500	331	66	77	+11
7,500 - 8,000	348	66	74	+ 8
8,000 - 8,500	357	66	72	+ 6
8,500 - 9,000	374	66	68	+ 2
9,000 - 9,500	372	66	63	- 3
9,500 - 10,000	378	66	57	- 9
10,000 - 12,000	416	66	52	-14
12,000 - 15,000	484	66	35	-31
15,000 - 20,000	555	66	13	-53
20,000 - 25,000	679	66	3	-63
25,000 - 50,000	729	66	0	-66

Source: Computer analysis of income tax and property tax records for residents of Guelph.

- Notes:
1. The analysis is undertaken assuming Bill C-259 to have been in effect in both 1968 and 1972.
 2. For purposes of comparison it is assumed that the basic shelter grant formula applies in 1972 and average property tax levies in Guelph increase in line with the actual experience in Guelph from 1968 to 1971 and a trend projection for 1972.

Incidence of Property and Income Taxes in Guelph, as Projected to 1972

Chart A-1



Source: Computer analysis of matched income and assessment roll records for residents of Guelph.

¹ See Dick Netzer, *Economics of the Property Tax*, Studies in Government Finance (Washington: The Brookings Institution, 1966); Margaret Reid, *Housing and Income* (Chicago: University of Chicago Press, 1962); *Report of the Committee of Inquiry into the Impact of Rates on Households* (London: H.M.S.O., 1965); and A.R. Ileric, *Allen and After* (London: The Rating and Valuation Association, 1965).

² See Staff Study, *Analysis of Income and Property Taxes in Guelph* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, forthcoming).

³ The property tax credit formula is \$90 plus 10 per cent of property taxes paid minus 1 per cent of taxable income, up to a maximum credit of \$250.

Budget Paper C

Government Financial Statements

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Government Financial Statements

Changes in Presentation

Starting with the 1968 budget, the Government introduced major changes in the presentation of its financial statements. In subsequent years further improvements and refinements have been added. Each time changes were made, the revisions were shown for five consecutive years on an internally consistent basis. In the present budget, four important changes have been made in the format of the Government's financial statements:

- 1) a revised structure of expenditure to reflect the new organization of ministries;
- 2) the full incorporation of the former Ontario Hospital Services Commission;
- 3) the integration of the hospital premium stabilization account with budgetary transactions; and
- 4) a revised summary financial table to highlight net cash requirements and their financing.

1) The complete restructuring of the Government has obvious implications for the presentation of expenditure data in Tables C3 and C4. It has also imposed limitations on the scope for showing commensurate changes for prior years. In this year's financial statements, the expenditure data are based on the new structure of government as if the change took place on April 1, 1969. This provides comparable data for only four years. It proved impossible to establish realistic data on the new basis for 1968-69 and prior years because of the absence of a complete program structure in those years. The reorganization of the Government strengthens the implementation of an operational Planning-Programming-Budgeting-System (PPBS). A key aspect of this comprehensive restructuring of the Government's operations is the compilation of expenditure data based on the new ministries and policy fields.

2) The establishment of the Ontario Health Insurance Commission brings into the budget and the Department of Health the former Ontario Hospital Services Commission as of April 1, 1972. Previously, this Commission only featured in the budget to the extent that it

required subsidization from the general revenue fund and/or the premium stabilization account. The consolidation of the two health insurance plans in 1972 requires adjustment of the accounts back to 1969-70 to make them directly comparable with 1972-73. The expenditure data shown, therefore, assume the consolidation as effective on April 1, 1969.

3) A related change has been made this year with regard to the treatment of the premium stabilization account in prior years. This account was used in past years to set aside surplus funds in one year to finance part of OHSC deficits in subsequent years. Such funding in past years enabled the Government to stabilize premium levels for two to three year periods. For instance, at the end of 1970-71, this account held a balance of \$105.4 million which was used to finance a large part of the OHSC deficit during 1971-72. The operation of this special account, however, did distort inter-year comparisons. As there will no longer be any funds left in the special account at the end of the current fiscal year, it was decided to eliminate the admittedly distortionary effect of the operation of this account. In other words, the present financial statements show lower budgetary expenditure than previously for the years when funds were put into the stabilization account. Similarly, budgetary expenditure has been increased for the years when there was a net withdrawal from the stabilization account. As a result, the inter-year comparisons of expenditure reflect more accurately the spending trends over the period.

The following table summarizes the effect of including the full OHSC operation in the budget and recording as budgetary spending the net withdrawals from the stabilization account. Both revenue and expenditure are increased by the value of OHSC premiums so that the only change to the budgetary deficit is related to the inclusion of net spending from the stabilization account.

Budgetary Transactions Including the Ontario Hospital Services Commission (\$ million)

	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
Net General Revenue	3,334.0	3,751.6	3,912.6	4,454.1
OHSC Premiums	283.5	294.4	270.6	—
Revised Net General Revenue	3,617.5	4,046.0	4,183.2	4,454.1
Net General Expenditure	3,282.5	3,846.0	4,459.7	5,051.5
Spending netted by OHSC Premiums	283.5	294.4	270.6	—
Spending from Premium Stabilization Account	(98.0)	41.6	105.4	—
Revised Net General Expenditure	3,468.0	4,182.0	4,835.7	5,051.5
Revised Budgetary Surplus or (Deficit)	149.5	(136.0)	(652.5)	(597.4)

4) The last major change involves the form of the summary financial statement (Table C1) and related changes in the detailed statements on non-budgetary receipts (Table C5(a)). In previous budgets, the non-budgetary transactions reflected the Government's role as financial intermediary, *inclusive* of its non-public borrowings (C.P.P. etc.). In this year's statements, such non-public debenture issues are brought down and included with other forms of debt financing. This presentation has the advantage of consolidating debt transactions of all types and separating total debt transactions from all other transactions.

The summary table now highlights the overall cash requirements of the Government in each year, and shows the budgetary and non-budgetary components of these overall requirements. The balance of the table displays the means by which these cash requirements are met. In the case of the budget year, estimates are made of available non-public borrowings, while the remainder will be found through a combination of public debenture issues and the use of liquid reserves.

The above changes have been reflected throughout the financial statements in this budget paper.

The 1971-72 Fiscal Year in Retrospect

During the 1971-72 fiscal year, the Government's fiscal plan was revised significantly. The most important changes from the original budget plan were already reflected in the interim report on fiscal developments contained in the December, 1971 budget. This budget included a great deal of detail on the changes and the background to these changes.

In view of the extensive prior reporting, this introduction will only highlight the latest estimates for the 1971-72 fiscal year. Although this fiscal year is nearly completed some time will still be required before the accounts are fully finalized.

The revisions to the budgetary operations, presented on the new basis inclusive of OHSC, are summarized in the following table. The changes in revenue and expenditure are almost identical to those reported last December, involving an increase in the budgetary deficit of \$132 million.

Budgetary Operations During 1971-72 (\$ million)

	Original Budget Plan	Original Plan including OHSC	Revised Budget Performance	In-Year Changes
Net General Revenue	3,847.0	4,143.0	4,183.2	+40.2
Net General Expenditure	4,262.5	4,663.9	4,835.7	+171.8
Budgetary (Deficit)	(415.5)	(520.9)	(652.5)	+(131.6)

The change in total revenue is dominated by a limited number of revenue sources in which the revisions were substantial. Of these, corporation taxes were the most significant with an upward revision of \$130 million. This very large increase reflects a more buoyant profit picture than originally anticipated, but was caused primarily by the long lag in the cash-flow impact of the 5 per cent investment tax credit. It is now expected that the cost of this credit related to 1971 will be felt largely in the 1972-73 fiscal year. The large drop in health insurance premiums of about \$53 million was the result of the reductions introduced this year. The cost of the premium reductions is estimated at \$127 million in a full year. Lower personal income tax revenue reflects the tax reduction, effective July 1, 1971. Lower revenue from the federal government is related primarily to the lower than estimated cost of post-secondary education. Buoyant consumer spending resulted in higher retail sales tax revenue.

Major Changes in 1971-72 Net General Revenue

(\$ million)

	Original Forecast	Revised Estimate	In-Year Changes
Corporation Taxes	290.0	420.0	+130.0
Premiums — OHIC	613.0	560.2	—52.8
Personal Income Tax	1,050.0	1,022.1	—27.9
Post-Secondary Education Adjustment Payments	176.7	157.2	—19.5
Retail Sales Tax	745.0	760.0	+15.0
All Other Revenue	1,268.3	1,263.7	—4.6
Total Net General Revenue	4,143.0	4,183.2	+40.2

The Government's expenditure plan for 1971-72 underwent major changes during the year, most of which were detailed in the December, 1971 budget. At that time, supplementary estimates were tabled for a total of \$173 million. The emphasis in the in-year revisions was on winter employment stimulation programs, acceleration of capital works, buildings and roads, higher welfare payments, salary revisions, capital grants for farm development, and increased costs of health insurance. The major changes in 1971-72 expenditure policy are detailed in the following table, comparing the originally planned expenditure with the revised estimates for 1971-72. The data are again on the new basis, inclusive of the total operation of the Ontario Hospital Services Commission.

Major Changes in 1971-72 Expenditure Policy

(\$ million)

	Original Budget Plan	Revised Budget Performance	In-Year Changes
Winter Works Program	—	53.5	+53.5
Municipal Subsidies — Road Construction and Maintenance	180.9	200.9	+20.0
Payments under the Health Services Insurance Act	277.7	297.7	+20.0
Capital Grants for Farm Development	6.0	20.2	+14.2
General Welfare Assistance and Family Benefits	105.5	118.0	+12.5
General Legislative Grants — Education	1,014.0	1,023.0	+9.0
Mental Health	190.0	198.1	+8.1
Operation and Construction of Ontario Place	7.5	15.1	+7.6
Land Acquisition and Development	10.0	17.2	+7.2
Provincial General Election	—	5.6	+5.6
Other	2,872.3	2,886.4	+14.1
Total Net General Expenditure	4,663.9	4,835.7	+171.8

A number of changes also occurred during the year on the non-budgetary account. Receipts and credits were \$37.5 million higher than originally anticipated, while disbursements and charges in aggregate were \$2.2 million above the original budget estimate. The small net increase in loans and advances reflects a considerably lower demand for loan funds in the various programs than provided for in the original budget, offset by a \$100 million advance to Ontario Hydro on account of New York borrowing on behalf of Hydro.

As a result, the overall net cash requirements for non-budgetary transactions dropped during the year from \$508.3 million to \$473.0 million, an improvement of \$35.3 million. These financial magnitudes, of course, are based on the revised accounting basis for non-budgetary transactions, which removes non-public borrowings from these transactions.

Summary of 1971-72 Developments on Non-Budgetary Account (\$ million)

	Original Budget Plan	Revised Estimates	In-Year Changes
Receipts and Credits*	258.2	295.7	+37.5
Disbursements and Charges	766.5	768.7	+2.2
Non-Budgetary (Deficit)	(508.3)	(473.0)	-(35.3)

*excluding non-public debenture issues, formerly part of receipts and credits but now included in financing (see Table C1).

The overall budgetary developments during the year, then, resulted in a budgetary deficit of \$653 million and non-budgetary cash requirements of \$473 million, for total cash requirements of \$1,126 million. Table C1 in the following detailed financial statement shows the ways in which these cash requirements were financed, mostly by non-public and public borrowings as well as a modest \$45 million reduction in liquid reserves.

Summary of 1971-72 Budget Performance (\$ million)

	Original Budget Plan	Adjusted Original Plan	Revised Budget Estimates	In-Year Changes
Budgetary (Deficit)	(415.5)	(520.9)	(652.5)	+(131.6)
Non-Budgetary (Deficit)	(613.7)	(508.3)	(473.0)	-(35.3)
Overall Cash Requirements	(1,029.2)	(1,029.2)	(1,125.5)	+(96.3)

Statement of Operational Cash
Requirements and Related Financing
(Thousands of Dollars)

Table C1

	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
Budgetary Transactions				
Total Net General Revenue (See Table C2)	3,617,500	4,045,986	4,183,200	4,454,100
Total Net General Expenditure (See Table C3)	3,467,968	4,182,027	4,835,700	5,051,500
Net Budgetary Surplus or (Deficit)	149,532	(136,041)	(652,500)	(597,400)
Non-Budgetary Transactions (See Table C5)				
Total Receipts and Credits	203,894	225,411	295,700	287,500
Total Disbursements and Charges	791,082	729,600	768,700	707,700
Net Non-Budgetary (Deficit)	(587,188)	(504,189)	(473,000)	(420,200)
NET CASH REQUIREMENTS	(437,656)	(640,230)	(1,125,500)	(1,017,600)
Financing				
Canada Pension Plan	445,777	476,038	498,300	525,000
Teachers' Superannuation Fund	80,000	80,000	170,000	156,100
Municipal Employees' Retirement Fund	46,700	57,600	75,000	93,000
Federal-Provincial Employment Loans	—	—	6,100	26,500
Treasury Bills (Net)	—	—	190,000	—
Public Debenture Issues (Net)	125,830	19,166	141,300	—
Reduction or (Increase) in Liquid Reserves	(260,651)	7,426	44,800	—
Financing to be determined	—	—	—	217,000
TOTAL FINANCING	437,656	640,230	1,125,500	1,017,600

Net General Revenue

(Thousands of Dollars)

Table C2

	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
Taxation				
Income Tax Collection				
Agreement	762,087	991,845	1,022,100	1,160,000
Retail Sales Tax	637,264	674,184	760,000	855,000
Gasoline Tax	361,937	375,778	391,000	427,000
Corporation Taxes	477,174	414,063	420,000	350,000
Tobacco Tax	71,695	75,301	79,500	95,000
Succession Duty	73,182	81,316	74,500	89,500
Motor Vehicle Fuel Tax	29,840	33,334	39,500	50,000
Land Transfer Tax	14,548	11,308	16,000	22,000
Race Tracks Tax	20,873	20,342	19,800	21,000
Mines Profits, Acreage, Gas	24,541	25,442	15,600	16,700
Income Tax — Public Utilities	8,795	10,575	10,500	11,000
Security Transfer Tax	6,962	5,264	6,700	8,000
Share of Federal Estate Tax	26,818	28,383	25,700	6,000
Logging Tax	1,977	1,696	1,000	—
Other Taxation	4,850	4,961	5,100	5,700
TOTAL TAX REVENUE	2,522,543	2,753,792	2,887,000	3,116,900
Other Revenue¹				
Premiums — OHIC	473,181	613,770	560,200	498,000
Fees, Licences and Permits	193,543	198,951	210,200	254,300
Profits from Trading				
Operations — LCBO	178,741	193,209	210,000	247,400
Government of Canada	156,538	191,271	223,300	230,700
Fines and Penalties	25,888	29,700	31,100	35,800
Sales and Rentals	26,541	24,504	25,400	27,300
Royalties	29,859	30,052	24,800	25,200
Miscellaneous	10,666	10,737	11,200	18,500
TOTAL OTHER REVENUE	1,094,957	1,292,194	1,296,200	1,337,200
TOTAL NET GENERAL REVENUE	3,617,500	4,045,986	4,183,200	4,454,100

¹ For further details see Table C2(a).

Details of Other Revenue

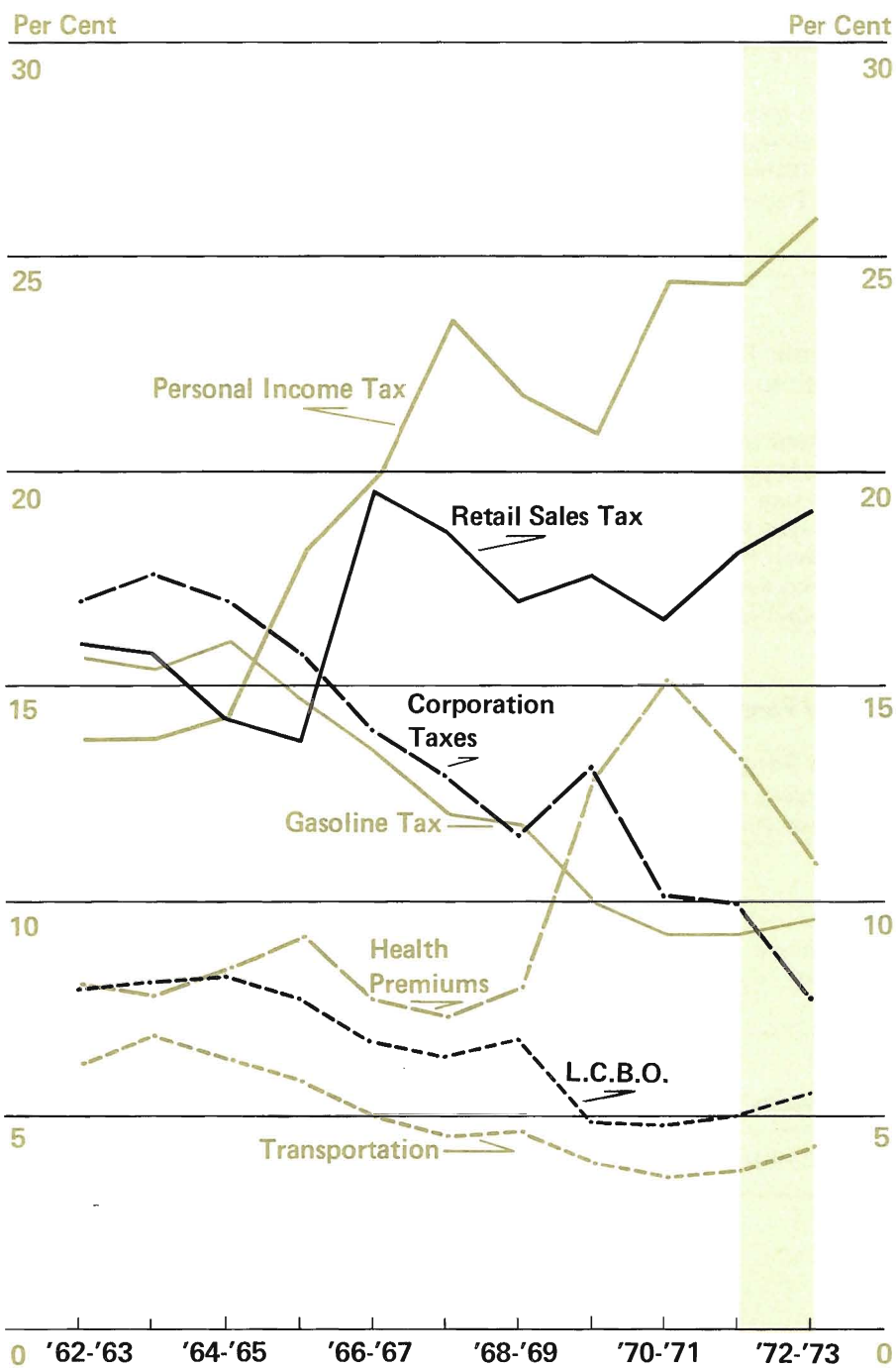
(Thousands of Dollars)

Table C21a1

	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
Premiums — Ontario Health Insurance Commission	473,181	613,770	560,200	498,000
Fees, Licences and Permits				
Vehicle Registrations	129,441	133,975	141,500	163,400
Transport (Other)	15,240	17,334	16,500	28,900
Lands and Forests	13,447	13,299	12,400	14,000
Justice	18,612	17,938	19,900	23,400
Other	16,803	16,405	19,900	24,600
	193,543	198,951	210,200	254,300
Profits from Trading Operations — LCBO	178,741	193,209	210,000	247,400
Government of Canada				
Recovery of Prior Years' Expenditure	46,827	32,001	45,200	33,100
Post-Secondary Education Adjustment Payments	105,014	143,409	157,200	167,700
Second Language Program	—	11,164	15,000	24,000
Annual Subsidies, etc.	4,697	4,697	5,900	5,900
	156,538	191,271	223,300	230,700
Fines and Penalties	25,888	29,700	31,100	35,800
Sales and Rentals				
Goods, Services and Rentals	22,007	21,276	22,600	23,600
Sale of Fixed Assets	4,534	3,228	2,800	3,700
	26,541	24,504	25,400	27,300
Royalties				
Timber Charges	20,135	21,080	14,700	14,100
Water Power	9,074	8,190	9,500	10,300
Other	650	782	600	800
	29,859	30,052	24,800	25,200
Miscellaneous	10,666	10,737	11,200	18,500
TOTAL OTHER REVENUE	1,094,957	1,292,194	1,296,200	1,337,200

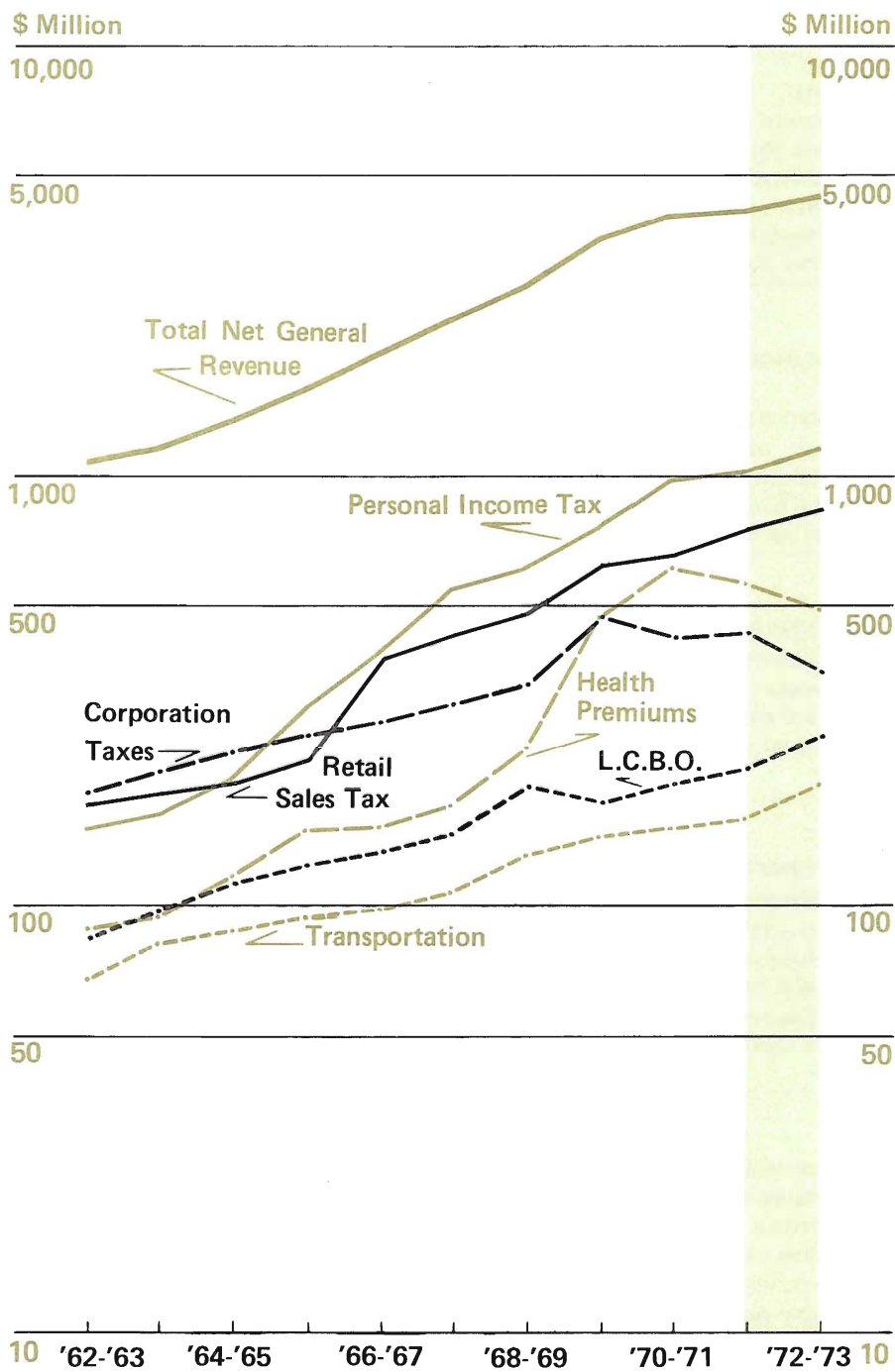
Relative Importance of Major Revenue Sources

Chart C1



Growth of Major
Revenue Sources

Chart C2



Net General Expenditure by Ministerial Responsibility (Thousands of Dollars)

Table C3

	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
Health				
Treatment and Rehabilitation	390,445	443,463	502,214	605,332
Ontario Health Insurance	169,789	303,098	338,121	330,346
Psychiatric and Retardation	149,285	170,623	198,062	218,014
Health Promotion and Disease Prevention	44,098	55,533	63,227	71,895
Ministry Administration	25,257	64,846	56,839	55,182
	778,874	1,037,563	1,158,463	1,280,769
Education				
Assistance to School Authorities	771,065	886,398	1,070,664	1,152,003
Ministry Administration	77,799	76,722	88,855	79,887
Formal Education — K-13	25,846	30,425	33,730	33,288
Special Educational Services for the Handicapped	8,667	9,653	11,493	12,864
	883,377	1,003,198	1,204,742	1,278,042
Colleges and Universities				
Post-Secondary Education Support	437,453	535,612	551,109	642,258
Cultural and General Education Support	21,924	23,932	25,520	28,616
Other	3,288	2,041	3,628	3,498
	462,665	561,585	580,257	674,372
Transportation and Communications				
Construction	318,210	341,406	372,502	370,472
Maintenance	128,844	144,192	171,691	178,243
Ministry Administration	13,429	13,808	16,535	18,305
Vehicles and Drivers	9,072	10,132	10,821	11,439
Public Operations	2,600	4,951	5,686	7,918
Other	1,739	4,787	9,814	3,199
	473,894	519,276	587,049	589,576
Community and Social Services				
Assistance and Rehabilitation Services	99,098	120,186	151,277	168,939
Children's Services	20,628	21,756	29,932	31,815
Community Services	5,759	7,017	9,667	10,069
Ministry Administration	2,444	2,990	2,743	3,862
	127,929	151,949	193,619	214,685

(Continued)

Net General Expenditure
by Ministerial Responsibility
(Thousands of Dollars)

Table C3
(Continued)

	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
Government Services				
Provision of Accommodation	79,227	98,406	124,171	128,927
Payments Services	6,527	19,777	20,784	10,113
Legislative Services	5,084	5,680	12,105	6,471
Supply Services	4,803	4,764	5,694	5,588
Ministry Administration	1,724	1,977	1,923	2,122
	97,365	130,604	164,677	153,221
Public Debt — Interest	60,524	61,164	81,633	146,501
Treasury, Economics and Intergovernmental Affairs				
Finance	187,124	220,013	276,205	122,973
Provincial-Municipal Develop- ment and Services	10,374	13,181	13,949	15,831
Other	3,723	4,911	5,507	6,299
	201,221	238,105	295,661	145,103
Natural Resources				
Land Management	32,223	37,608	48,677	48,145
Outdoor Recreation	20,263	23,468	29,392	28,349
Renewable Resource Development	16,062	17,423	21,086	18,939
Ministry Administration	11,076	12,309	16,335	18,064
Non-Renewable Resource Development	5,890	8,051	10,591	9,485
Northern Affairs	—	448	774	840
	85,514	99,307	126,855	123,822
Revenue				
Municipal Assessment	8,672	26,855	31,871	31,004
Ontario Housing	8,308	14,500	20,013	30,460
Other	11,121	12,556	13,832	14,470
	28,101	53,911	65,716	75,934
Agriculture and Food				
Agricultural Production	20,291	34,303	55,390	39,744
Agricultural Education and Research	15,171	15,352	16,495	15,643
Rural Development	9,673	9,583	6,665	8,253
Agricultural Marketing	5,060	5,779	6,878	8,150
Ministry Administration	1,773	2,243	2,220	2,465
	51,968	67,260	87,648	74,255

(Continued)

Net General Expenditure
by Ministerial Responsibility
(Thousands of Dollars)

Table C3
(Continued)

	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
Solicitor General				
Traffic Law Enforcement	26,409	30,433	32,437	34,387
Criminal and General Law Enforcement	22,922	26,463	28,501	30,471
Public Safety	4,430	4,948	4,988	5,271
Other	2,879	3,198	3,456	4,093
	56,640	65,042	69,382	74,222
Correctional Services				
Rehabilitation of Adult Offenders	35,542	35,275	42,204	42,654
Rehabilitation of Juveniles	12,507	13,702	17,605	20,447
Probation Services	4,325	4,727	5,160	5,487
Ministry Administration	2,638	3,039	3,839	4,235
	55,012	56,743	68,808	72,823
Attorney General				
Courts Administration	23,289	26,810	29,000	30,400
Law Officer of the Crown	8,735	10,886	12,102	12,010
Other	7,754	9,760	11,203	10,471
	39,778	47,456	52,305	52,881
Environment				
Water Management	4,752	7,223	9,571	11,667
Air and Land Pollution Control	3,561	4,034	4,653	5,306
Other	7,765	9,955	10,794	9,633
	16,078	21,212	25,018	26,606
Industry and Tourism				
Industry, Trade and Tourism Development	9,344	10,297	11,221	12,753
Industrial Incentives and Development	1,753	4,867	3,994	5,642
Ontario Place	6,280	14,531	15,059	5,400
Other	2,278	3,408	3,231	2,118
	19,655	33,103	33,505	25,913

(Continued)

Net General Expenditure
by Ministerial Responsibility
(Thousands of Dollars)

Table C3
(Continued)

	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
Consumer and Commercial Relations				
Property Rights	5,539	6,636	7,672	8,283
Commercial Standards	3,886	4,497	4,943	5,538
Other	7,134	8,110	9,272	9,391
	16,559	19,243	21,887	23,212
Labour	7,359	8,618	9,321	9,601
Civil Service Commission	2,471	3,006	3,224	3,557
Management Board	1,596	2,030	3,332	2,517
Cabinet Office	164	209	693	1,634
Provincial Auditor	894	1,056	1,138	1,200
Premier	290	350	715	995
Lieutenant Governor	40	37	41	55
TOTAL	3,467,968	4,182,027	4,835,689	5,051,496

Estimated Net and Gross
General Expenditure, 1972-73
(Thousands of Dollars)

Table C4

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Health				
Treatment and Rehabilitation	605,332	497,796	—	1,103,128
Ontario Health Insurance	330,346	197,200	—	527,546
Psychiatric and Retardation	218,014	—	—	218,014
Health Promotion and Disease Prevention	71,895	7,705	—	79,600
Ministry Administration	55,182	13,200	—	68,382
	1,280,769	715,901	—	1,996,670
Education				
Assistance to School Authorities	1,152,003	—	—	1,152,003
Ministry Administration	79,887	—	—	79,887
Formal Education — K-13	33,288	45	—	33,333
Special Educational Services for the Handicapped	12,864	—	—	12,864
	1,278,042	45	—	1,278,087
Colleges and Universities				
Post-Secondary Education Support	642,258	45,040	—	687,298
Cultural and General Education Support	28,616	—	—	28,616
Other	3,498	200	—	3,698
	674,372	45,240	—	719,612
Transportation and Communications				
Construction	370,472	1,900	2,250	374,622
Maintenance	178,243	—	—	178,243
Ministry Administration	18,305	—	—	18,305
Vehicles and Drivers	11,439	—	—	11,439
Public Operations	7,918	—	—	7,918
Other	3,199	—	—	3,199
	589,576	1,900	2,250	593,726
Community and Social Services				
Assistance and Rehabilitation Services	168,939	183,163	—	352,102
Children's Services	31,815	26,921	—	58,736
Community Services	10,069	542	—	10,611
Ministry Administration	3,862	2,209	—	6,071
	214,685	212,835	—	427,520

(Continued)

Estimated Net and Gross
General Expenditure, 1972-73
(Thousands of Dollars)

Table C4
(Continued)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Government Services				
Provision of Accommodation	128,927	—	—	128,927
Payments Services	10,113	—	—	10,113
Legislative Services	6,471	—	—	6,471
Supply Services	5,588	—	—	5,588
Ministry Administration	2,122	—	—	2,122
	153,221	—	—	153,221
Public Debt — Interest	146,501	—	316,262	462,763
Treasury, Economics and Intergovernmental Affairs				
Finance	122,973	—	—	122,973
Provincial-Municipal Development and Services	15,831	—	—	15,831
Other	6,299	—	—	6,299
	145,103	—	—	145,103
Natural Resources				
Land Management	48,145	—	—	48,145
Outdoor Recreation	28,349	—	—	28,349
Renewable Resource Development	18,939	1,801	—	20,740
Ministry Administration	18,064	—	—	18,064
Non-Renewable Resource Development	9,485	—	—	9,485
Northern Affairs	840	—	—	840
	123,822	1,801	—	125,623
Revenue				
Municipal Assessment	31,004	—	—	31,004
Ontario Housing	30,460	—	—	30,460
Other	14,470	—	1,622	16,092
	75,934	—	1,622	77,556
Agriculture and Food				
Agricultural Production	39,744	791	—	40,535
Agricultural Education and Research	15,643	—	—	15,643
Rural Development	8,253	6,385	—	14,638
Agricultural Marketing	8,150	—	—	8,150
Ministry Administration	2,465	—	—	2,465
	74,255	7,176	—	81,431

(Continued)

Estimated Net and Gross
General Expenditure, 1972-73
(Thousands of Dollars)

Table C4
(Continued)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Solicitor General				
Traffic Law Enforcement	34,387	—	—	34,387
Criminal and General Law Enforcement	30,471	—	—	30,471
Public Safety	5,271	1,068	—	6,339
Other	4,093	84	—	4,177
	74,222	1,152	—	75,374
Correctional Services				
Rehabilitation of Adult Offenders	42,654	65	70	42,789
Rehabilitation of Juveniles	20,447	—	—	20,447
Probation Services	5,487	—	—	5,487
Ministry Administration	4,235	—	—	4,235
	72,823	65	70	72,958
Attorney General				
Courts Administration	30,400	—	135	30,535
Law Officer of the Crown	12,010	—	—	12,010
Other	10,471	—	2,241	12,712
	52,881	—	2,376	55,257
Environment				
Water Management	11,667	890	—	12,557
Air and Land Pollution Control	5,306	—	—	5,306
Other	9,633	—	—	9,633
	26,606	890	—	27,496
Industry and Tourism				
Industry, Trade and Tourism Development	12,753	55	—	12,808
Industrial Incentives and Development	5,642	—	—	5,642
Ontario Place	5,400	—	—	5,400
Other	2,118	—	—	2,118
	25,913	55	—	25,968

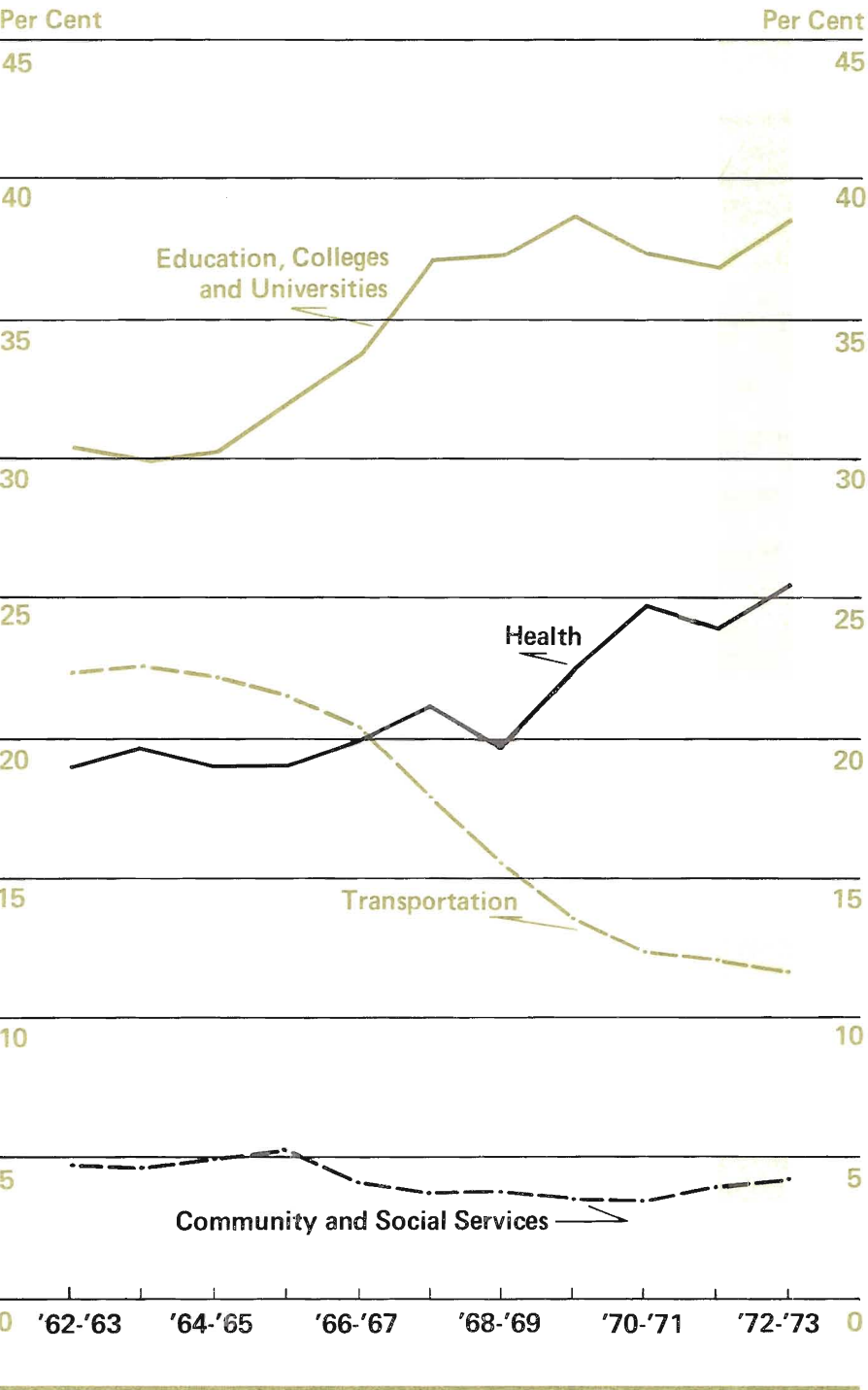
(Continued)

Estimated Net and Gross
General Expenditure, 1972-73
(Thousands of Dollars)

Table C4
(Continued)

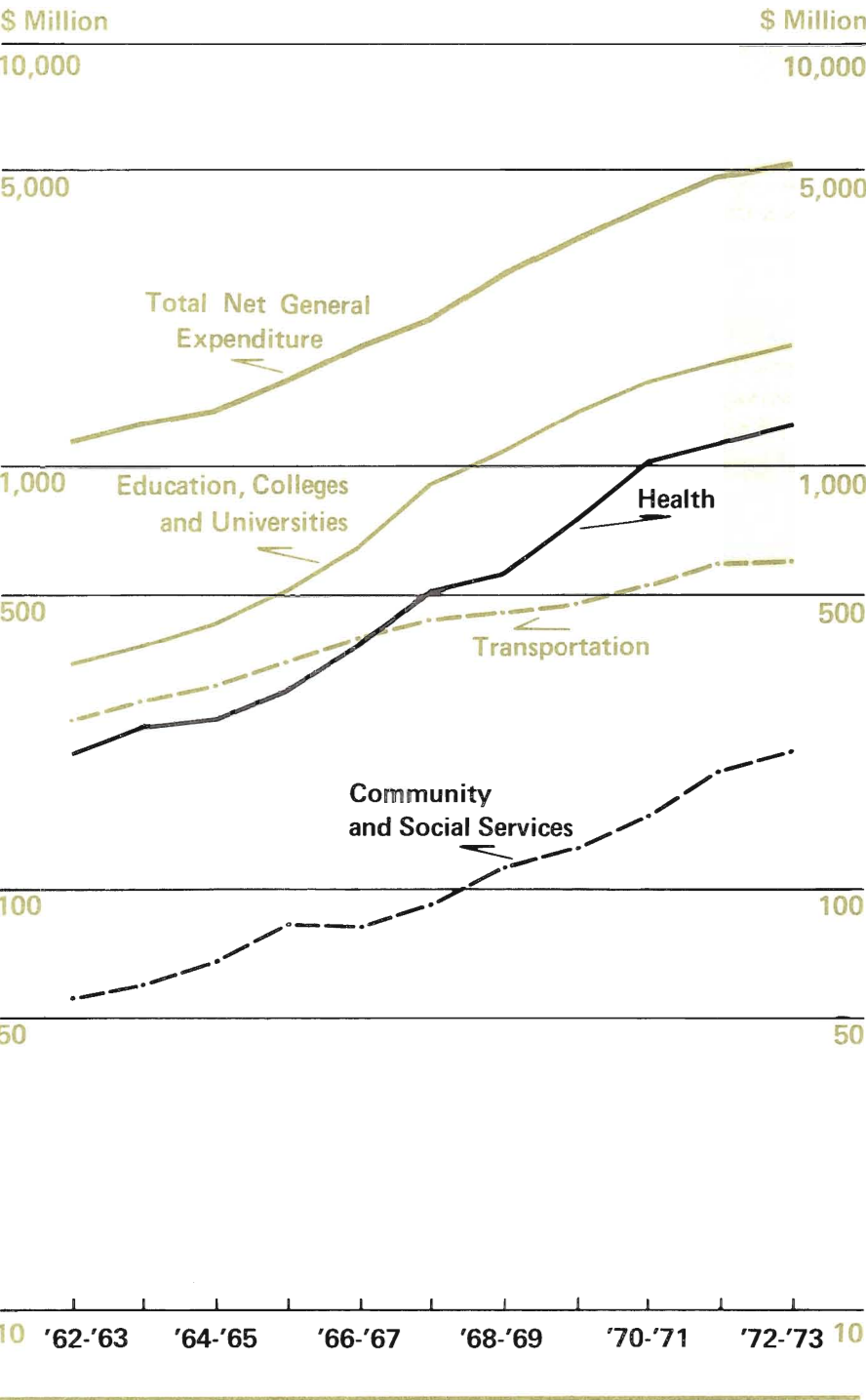
	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Consumer and Commercial Relations				
Property Rights	8,283	—	—	8,283
Commercial Standards	5,538	—	1,316	6,854
Other	9,391	30	—	9,421
	23,212	30	1,316	24,558
Labour	9,601	—	1,259	10,860
Civil Service Commission	3,557	—	—	3,557
Management Board	2,517	—	—	2,517
Cabinet Office	1,634	—	—	1,634
Provincial Auditor	1,200	—	—	1,200
Premier	995	—	—	995
Lieutenant Governor	55	—	—	55
TOTAL	5,051,496	987,090	325,155	6,363,741

Relative Importance of Major Expenditure Functions Chart C3



Growth of Major
Expenditure Functions

Chart C4



Details of Non-Budgetary Transactions

(Thousands of Dollars)

Table C5

Receipts and Credits	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
REPAYMENT OF LOANS				
AND ADVANCES:				
Hydro-Electric Power Commission	10,365	11,154	50,900	37,700
Education Capital Aid Corporation	20,980	28,687	33,600	36,300
Universities Capital Aid Corporation	7,362	10,053	13,000	16,100
Hospital Construction Loans	3,438	4,427	7,400	9,400
Housing Corporations	5,621	3,967	19,100	5,000
Junior Farmer Establishment				
Loan Corporation	7,100	13,200	5,000	4,900
Municipal Works Assistance	3,799	3,959	4,000	4,000
(Northern) and Ontario				
Development Corporation	1,408	1,349	5,800	3,400
Tile Drainage Debentures	1,866	2,295	2,700	3,200
Other	6,852	24,186	8,500	6,200
	68,791	103,277	150,000	126,200
PENSION FUNDS, DEPOSIT, TRUST				
AND RESERVE ACCOUNTS:				
Public Service Superannuation Fund	66,091	86,362	99,000	115,800
Municipal Employees' Retirement Fund	10,100	13,600	16,500	19,500
Motor Vehicle Accident Claims Fund	8,117	8,046	9,100	10,200
Other	5,919	1,627	1,100	800
	90,227	109,635	125,700	146,300
PROVINCE OF ONTARIO				
SAVINGS DEPOSITS (NET)	1,743	12,499	20,000	15,000
SINKING FUND INVESTMENTS				
TRANSFERRED TO LIQUID RESERVES	43,133	—	—	—
Total Receipts and Credits	203,894	225,411	295,700	287,500

(Continued)

Details of Non-Budgetary Transactions

(Thousands of Dollars)

Table C5
(Continued)

Disbursements and Charges	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
LOANS AND ADVANCES:				
Universities Capital Aid Corporation	170,000	174,760	179,500	167,500
Education Capital Aid Corporation	200,550	201,512	200,000	159,000
Hydro-Electric Power Commission	199,450	84,100	100,000	—
Housing Corporation Limited	—	49,490	83,000	82,300
Ontario Water Resources Commission	29,968	38,034	40,000	55,000
Ontario (and Student) Housing Corporation	44,575	44,807	39,700	53,300
(Northern) and Ontario Development Corporation	15,214	14,381	14,200	36,200
Hospital Construction Loans and Assistance	25,779	29,639	38,500	31,500
Federal-Provincial Special Development and Employment Loan Programs	—	—	—	24,000
Hydro-Nuclear Power Generating Station	19,529	23,901	9,500	23,700
Municipal Improvement Corporation	5,158	6,278	8,500	10,000
Tile Drainage Debentures	5,068	5,767	5,900	7,400
Junior Farmer Establishment Loan Corporation	11,000	11,500	—	—
Other	9,428	1,494	1,400	1,100
	735,719	685,663	720,200	651,000
PENSION FUNDS, DEPOSIT, TRUST AND RESERVE ACCOUNTS:				
Public Service Superannuation Fund	23,650	23,495	26,600	31,300
Municipal Employees' Retirement Fund	10,222	10,100	13,600	16,500
Motor Vehicle Accident Claims Fund	7,306	7,513	8,000	8,600
Other	14,185	2,829	300	300
	55,363	43,937	48,500	56,700
Total Disbursements and Charges	791,082	729,600	768,700	707,700

Analysis of Expenditure on Physical Assets

(Thousands of Dollars)

Table C6

	1970-71	Interim 1971-72	Estimated 1972-73
Net General Expenditure			
Direct Expenditure on Physical Assets			
Transportation	210,355	218,561	222,851
Provision of Accommodation	56,251	73,396	71,391
Other	28,937	36,963	28,303
Sub-Total	295,543	328,920	322,545
Transfer Payments in respect of Physical Assets			
Transportation	131,954	152,998	147,111
Education	52,000	47,000	15,500
Health	62,260	56,711	50,059
Other	40,766	63,877	47,795
Sub-Total	286,980	320,586	260,465
Total Net General			
Expenditure on Physical Assets	582,523	649,506	583,010
Loans and Advances			
Education	376,272	379,500	326,500
Industrial Development and Provincial Resources	76,797	63,916	114,900
Home and Community Environment	106,341	137,075	177,264
Health	29,639	38,500	31,500
Total Loans and Advances in respect of Physical Assets	589,049	618,991	650,164
GRAND TOTAL	1,268,497	1,268,497	1,233,174

Increase in Gross Debt (Thousands of Dollars)

Table C7

	1969-70	1970-71	Interim 1971-72	Estimated 1972-73
Gross Debt Increased or (Decreased) by:				
Net Budgetary Transactions (See Table C1)	(149,532)	136,041	652,500	597,400
Cash on Hand and in Banks	156,025	42,417	(44,800)	(217,000)
Temporary Investments	95,044	(52,537)	—	—
Advances to Crown Corporations (Net):				
Ontario Education Capital Aid Corporation	179,569	172,826	166,400	122,700
Ontario Universities Capital Aid Corporation	162,638	164,707	166,500	151,400
Ontario Hydro	208,614	96,846	58,600	(14,000)
Housing Corporation Ltd.	—	49,490	83,000	82,300
Ontario (and Student) Housing Corporation	38,955	40,471	20,600	48,300
(Northern) and Ontario Development Corporation	13,806	13,032	8,400	32,800
Ontario Municipal Improvement Corporation	1,558	1,686	4,900	10,000
Ontario Junior Farmer Establishment Loan Corporation	3,900	(1,700)	(5,000)	(4,900)
Other Corporations	—	(3,270)	(3,400)	(5,100)
Advances to Ontario Water Resources Commission	29,665	37,384	40,000	55,000
Loans to Municipalities, Miscellaneous Loans, etc.	20,764	22,912	30,300	46,300
Advances to Ontario Northland Transportation Commission	7,500	(12,000)	—	—
INCREASE IN GROSS DEBT	768,506	708,305	1,178,000	905,200

Contingent Liabilities

Table C8

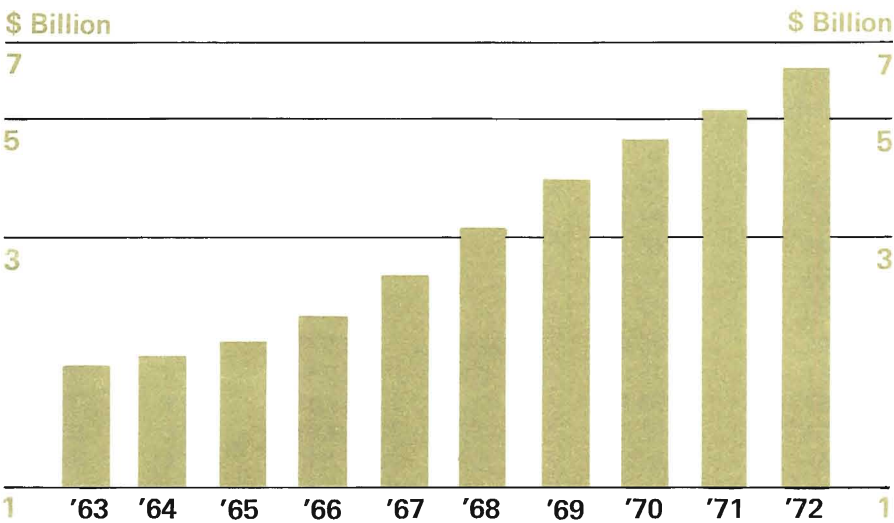
Guaranteed by the
Province of Ontario

(Thousands of Dollars)

	As at March 31		Estimated
	1970	1971	Dec. 31 1971
Ontario Hydro	2,116,716	2,349,932	2,594,875
Agricultural Guarantees	18,714	12,312	10,838
University of Toronto	7,500	—	—
Ontario Northland Transportation Commission	11,010	22,200	24,050
Provincial Crown Corporations	30,104	29,092	28,083
Miscellaneous	11,473	20,743	26,461
	2,195,517	2,434,279	2,684,307
Less Bonds Held by Province	(27,265)	(21,298)	(12,421)
TOTAL	2,168,252	2,412,981	2,671,886

Net Funded Debt* at the end of
Fiscal Years, 1962-63 to 1971-72

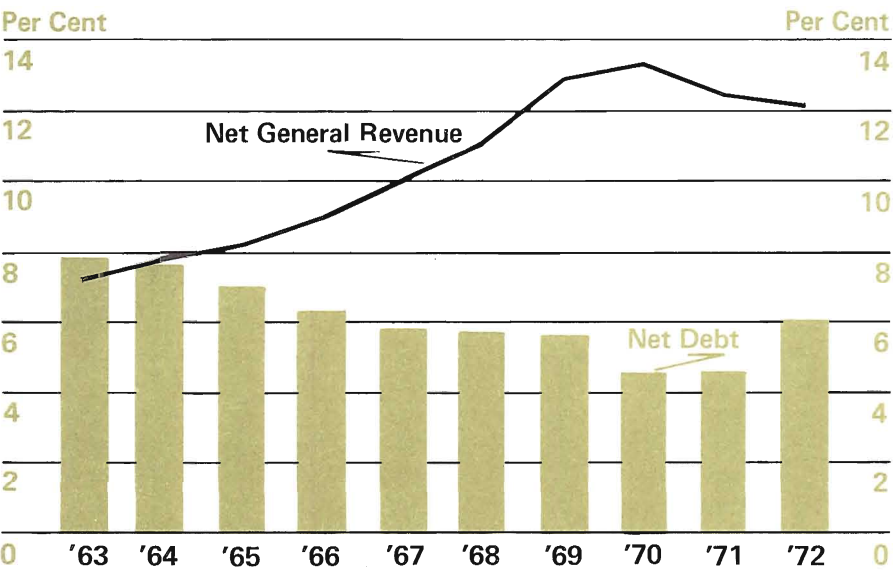
Chart C5



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

Net Debt and Net General Revenue
as a Percentage of Provincial
Domestic Product, 1963 to 1972

Chart C6



Historical Summary of Total Budgetary Transactions

Table C9

Fiscal Year Ending March 31	Net General Revenue ¹		Net General Expenditure ²		Budgetary Surplus or (Deficit)
	Total	Annual Increase	Total	Annual Increase	
	(\$000)	(%)	\$000)	(%)	(\$000)
1936	67,471		94,780		(27,309)
1940	89,110		118,133		(29,023)
1945	118,101		116,144		1,957
1950	231,145		255,542		(24,397)
1955	402,387		433,607		(31,220)
1960	785,651	17.6	864,375	16.8	(78,724)
1961	832,817	6.0	930,578	7.7	(97,761)
1962	920,835	10.6	1,022,885	9.9	(102,050)
1963	1,092,371	18.6	1,145,628	12.0	(53,257)
1964	1,182,813	8.3	1,271,545	11.0	(88,732)
1965	1,362,613	15.2	1,377,262	8.3	(14,649)
1966	1,601,315	17.5	1,601,267	16.3	48
1967	1,965,291	22.7	1,956,151	22.2	9,140
1968	2,329,699	18.5	2,448,447	25.2	(118,748)
1969	2,835,195	21.7	2,928,179	19.6	(92,984)
1970	3,617,500	27.6	3,467,968	18.4	149,532
1971	4,045,986	11.8	4,182,027	20.6	(136,041)
1972(est.)	4,183,200	3.4	4,835,700	15.6	(652,500)
1973(est.)	4,454,100	6.5	5,051,500	4.5	(597,400)

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

(\$ Million)

Table C10

Fiscal Year Ending March 31	Gross Debt		Revenue-Producing and Realizable Assets					Net Debt			
	Total	Yearly Increase or (Decrease)	Ontario Hydro	O.N.T.C.	Loans and Cash	Total	Yearly Increase or (Decrease)	Total	Yearly Increase or (Decrease)	Population April 1 (000's)	Per Capita Net Debt (\$)
1945	637	20	96	30	28	154	17	483	3	3,994	120.86
1950	684	65	70	30	74	174	40	510	24	4,456	114.45
1955	1,066	31	300	30	75	405	—	661	31	5,236	126.18
1960	1,640	61	379	30	240	649	(29)	991	90	6,083	162.90
1961	1,695	55	360	30	213	603	(46)	1,092	101	6,214	175.67
1962	1,872	177	356	30	290	676	73	1,196	104	6,330	188.93
1963	1,948	77	351	30	314	695	19	1,253	57	6,455	194.13
1964	2,058	109	347	30	336	713	18	1,345	92	6,602	203.67
1965	2,206	148	346	30	477	853	140	1,353	9	6,758	200.25
1966	2,485	279	394	30	705	1,129	276	1,357	3	6,926	195.86
1967	2,957	472	430	34	1,145	1,609	481	1,348	(9)	7,115	189.39
1967 ¹	2,866	381	430	34	1,071	1,535	407	1,331	(26)	7,115	187.03
1968	3,539	673	557	35	1,497	2,089	554	1,450	119	7,283	199.01
1969	4,306	767	728	35	2,001	2,764	674	1,542	93	7,425	207.73
1970	5,075	769	937	42	2,703	3,682	918	1,393	(150)	7,611	183.01
1971	5,783	708	1,033	30	3,191	4,254	572	1,529	136	7,795	196.14
1972	6,961	1,178	1,092	30	3,657	4,779	525	2,181	653	7,925 ²	275.26
(est)											
1973	7,866	905	1,078	30	3,979	5,087	308	2,779	597	8,065 ²	344.55
(est)											

¹ 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.

² Estimated by the Department of Treasury and Economics.

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

Government Revenue and Expenditure (Fiscal Year 1971-72 Interim)

Table C11

Revenue

Personal Income Tax	\$1,022,100,000
Retail Sales Tax	760,000,000
Health Insurance Premiums	560,200,000
Corporation Taxes	420,000,000
Gasoline Tax	391,000,000
Liquor Control Board	210,000,000
Other	819,900,000

TOTAL NET GENERAL REVENUE **\$4,183,200,000**

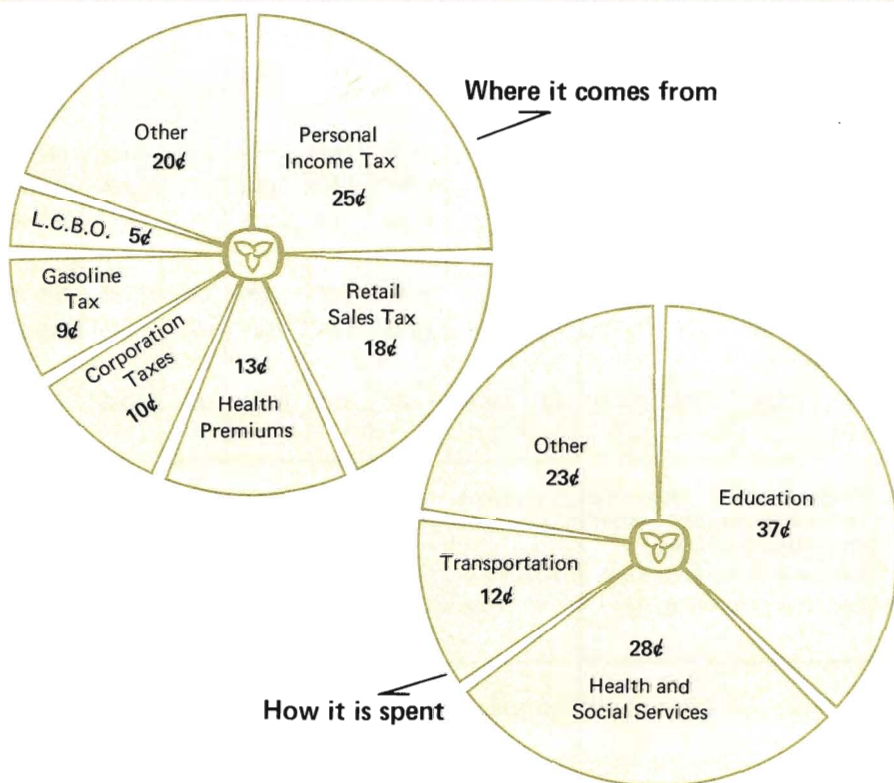
Expenditure

Education, Colleges and Universities	\$1,785,000,000
Health and Social Services	1,352,100,000
Transportation and Communications	587,000,000
Other	1,111,600,000

TOTAL NET GENERAL EXPENDITURE **\$4,835,700,000**

The Government Dollar — Fiscal Year 1971-72 Interim

Chart C7



Government Revenue and Expenditure
(Fiscal Year 1972-73 Estimated)

Table C12

Revenue

Personal Income Tax	\$1,160,000,000
Retail Sales Tax	855,000,000
Health Insurance Premiums	498,000,000
Gasoline Tax	427,000,000
Corporation Taxes	350,000,000
Liquor Control Board	247,400,000
Other	916,700,000

TOTAL NET GENERAL REVENUE **\$4,454,100,000**

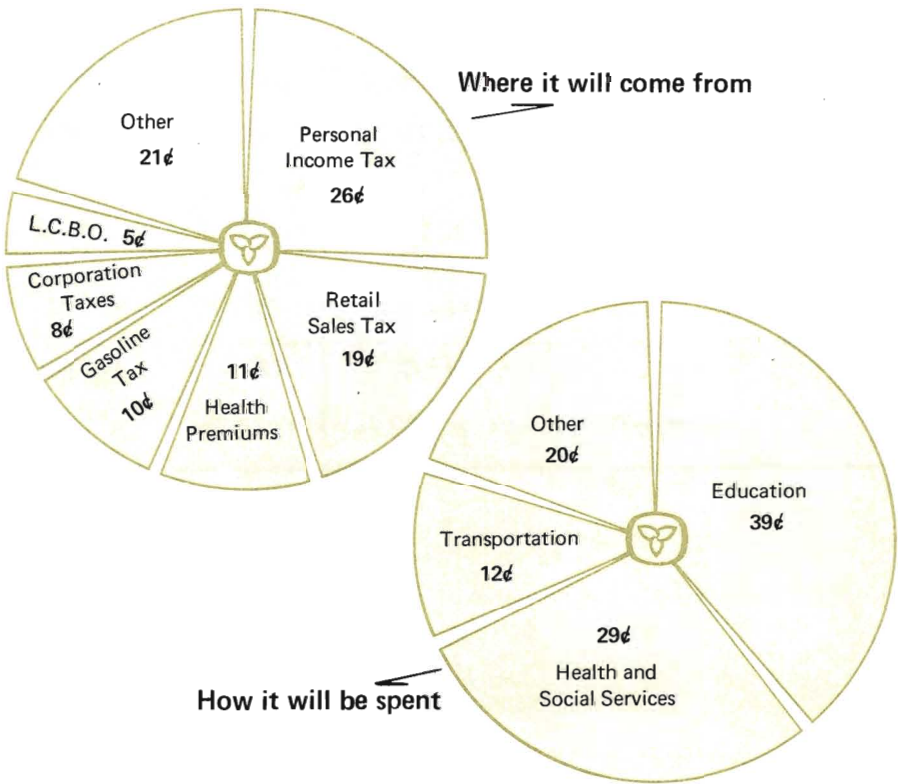
Expenditure

Education, Colleges and Universities	\$1,952,400,000
Health and Social Services	1,495,500,000
Transportation and Communications	589,600,000
Other	1,014,000,000

TOTAL NET GENERAL EXPENDITURE **\$5,051,500,000**

The Government Dollar —
Fiscal Year 1972-73 Estimates

Chart C8



Public Service Employment in Ontario

Table C13

	Complement as of Dec. 9/71	Net Increase in Civil Service Jobs Approved for 1972-73	Approved Complement as of April 1/72
MINISTRY OFFICE			
Lieutenant Governor	—	1	1
Office of the Premier	36	6	42
Cabinet Office (incl. 45 for Policy Field Secretariats)	18	63	81
Management Board	100	7	107
Civil Service Commission	203	5	208
Government Services	2,597	(61)	2,536
Revenue	4,985	(203)	4,782
Treasury, Economics and Intergovernmental Affairs	886	(7)	879
JUSTICE			
Attorney General	2,727	125	2,852
Consumer and Commercial Relations	1,824	(16)	1,808
Correctional Services	4,729	145	4,874
Solicitor General	5,242	220	5,462
RESOURCES DEVELOPMENT			
Agriculture and Food	1,723	(42)	1,681
Environment	1,243	21	1,264
Industry and Tourism	590	23	613
Labour	658	43	701
Natural Resources	4,100	(14)	4,086
Transportation and Communications	12,209	(104)	12,105
SOCIAL DEVELOPMENT			
Colleges and Universities	893	(18)	875
Community and Social Services	1,631	79	1,710
Education	2,780	(101)	2,679
Health	21,599	489	22,088
TOTAL	70,773	661	71,434

Increase in Complement for 1972-73 = 661 or 0.9%.

