

1975 Ontario Budget



The Honourable
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Treasurer of Ontario

Ontario Budget 1975



Presented by the Honourable W. Darcy McKeough,
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in the Legislative Assembly of Ontario,
Monday, April 7, 1975

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Budget Statement

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1975 Budget Statement

Mr. Speaker:

At the outset, I would like to deal briefly with the economic outlook on which the budget plan is based. Along with other major economies, Canada has experienced high rates of inflation for some time, while more recently it has begun to feel the effects of a worldwide weakening in economic growth. The development of policies to meet this twin challenge requires the fullest understanding of current and prospective economic developments in Canada and Ontario, and on the broader international scene.

Consequently, the Government has engaged in extensive consultations with representatives of a wide cross-section of the economy. As part of this dialogue, I met with representatives from industry and commerce, from finance, farming and small business, as well as of consumers, the labour movement, the legal and accounting professions, and independent economic research organizations. I would like to express my appreciation for the contribution they have made.

Without going into the details of these discussions, there was general agreement on two main points: first, that the Ontario economy is basically sound; and second, that the present slow-down is temporary and the economy has good potential for a revival in the near-term future.

I believe—and there is widespread but not unanimous agreement on this—that, with sound policies at all levels of government, with reasonable international recovery, and with responsible conduct by the private sector, we can anticipate an economic upturn in the latter half, and especially in the last quarter, of 1975.

The most commonly expressed concern was that the strength of inflationary pressures constitutes the main threat to Canada's economic stability and international competitiveness in the years ahead.

The budgetary policies I am about to announce articulate this Province's determination to do its part to make the recovery a reality both in the near and long term.

I will list briefly some of these key policies.

- I propose a substantial reduction in the retail sales tax.
- I propose the elimination of the retail sales tax on production machinery and equipment.
- I propose payment of grants to first-time home buyers and other measures to increase the availability of housing in Ontario.

The budget plan involves the use of the Province's resources in a balanced set of general and selective actions which will stimulate the economy immediately and will work to increase investment and productivity. In so doing it will relieve longer-term inflationary pressures. It also provides leadership in combating inflation through the achievement of the Government's social and economic objectives within a framework of overall restraint in the growth of the public sector in Ontario.

Mr. Speaker, I would like to draw the attention of Members to the Appendices and Budget Papers which accompany this Statement. Provincial-local and federal-provincial matters are dealt with in the Appendices, as well as the details of tax and other changes. The economic outlook is discussed in Budget Paper A which also examines the impact on the Ontario economy of increases in natural gas and oil prices. Budget Paper B provides an overview of Provincial and local government spending.

I Reinforcing Incomes and Purchasing Power

I believe the economy needs only temporary stimulation to ensure its recovery to a higher level of performance by the end of 1975. Three areas which most require strengthening are consumer spending, investment and housing. I shall deal first with my proposals to stimulate consumer spending.

All consumers have felt the effects of inflation on their purchasing power and those on fixed or low incomes have had difficulty in making ends meet. The impact of waning consumer confidence has been felt throughout the whole economy. Automobile sales have been slow, and sales of major appliances and home furnishings have been affected by the housing slowdown. Therefore, I am proposing two sets of measures to reinforce incomes and purchasing power.

Sales Tax Cut

To stimulate consumer spending, the basic retail sales tax rate will be reduced from 7 per cent to 5 per cent, effective midnight this day. This tax cut will remain in effect until December 31, 1975.

The benefits of this action will spread rapidly throughout the economy. Initially, it will stimulate spending on cars, stoves, refrigerators, colour televisions and so on. This increased activity will flow into distribution, manufacturing and other industries and generate increased production and jobs. The tax savings to the consumer will be substantial. For example, the saving on the purchase of a new automobile will be about \$100 and on appliances and furnishings for a home up to \$125. The direct benefits to consumers from this tax cut will amount to \$230 million this year.

In addition to benefitting indirectly from increased consumer spending induced by the tax cut, Ontario business will enjoy \$100 million in direct cost reductions on the purchase of taxable items. To supplement this action, I shall propose tonight additional incentives to strengthen business investment and productivity.

Benefits of Sales Tax Cut (\$ million)		
	Consumers	230
	Industry and Commerce	50
	Construction	25
	Housing	25
	Total	330

Increased Income Security

The second set of actions which I am proposing tonight will bolster consumer incomes through selective income tax cuts, enriched guaranteed annual income payments and new health benefits.

Over the past three years, the Ontario Government has implemented major tax relief and income support programs. In 1972, Ontario launched a comprehensive property tax credit system to channel tax relief to those most in need. This was achieved by linking property tax burdens to the ability-to-pay principle of the personal income tax system. In 1973, this program was broadened to include sales tax credits and pensioner tax credits, and in 1974 further enrichments were made to offset the adverse effects of inflation.

- 1972: Value of Ontario tax credits: \$182 million
- 1973: Value of Ontario tax credits: \$305 million
- 1974: Value of Ontario tax credits: \$375 million

Ontario's tax credit system has served as a model for other provinces and is the first major application of the refundable tax credit approach to achieve meaningful tax reform in Canada.

In addition to providing major tax relief, the Government has implemented other selective measures to assist those who are least able to cope with rising costs during this period of high inflation. The Provincial Guaranteed Annual Income System (GAINS) was introduced in July 1974, for those who have reached retirement age and those who are unable to participate actively in the economy due to disability or blindness. Last year, this program delivered over \$84 million in direct financial benefits to more than 300,000 people in Ontario. A complementary program of free prescription drugs was implemented in September 1974, providing \$17 million in benefits to pensioners in Ontario and to all Provincial social assistance recipients.

Mr. Speaker, income guarantees for the elderly and disadvantaged and income protection for low-income taxpayers remains a foremost priority of this Government. Tonight, I shall announce three important measures which will provide increased income support, new health benefits and further tax relief to Ontario citizens.

GAINS

First, I am proposing to raise the Ontario GAINS guarantee to \$240 a month per person effective May 1st. This brings our guaranteed income standard to \$2,880 annually for a single pensioner and to \$5,760 for a married couple. This will increase GAINS payments to 303,000 beneficiaries currently on the program and extend new benefits to an additional 7,000 pensioners. The higher guarantee will deliver an additional \$13 million in benefits, raising the total value of GAINS payments for this fiscal year to \$138 million. As a result, Ontario will

Guaranteed Annual Income Levels for Pensioners in Ontario and Other Provinces, May 1975		
	Single	Married Couple
	(\$)	(\$)
Ontario	2,880	5,760
British Columbia	2,878	5,756
Alberta*	2,820	5,640
Saskatchewan*	2,760	5,239
Manitoba	2,614	5,010
Other Provinces, Federal OAS/GIS Level	2,520	4,807
*Assumes that the Alberta and Saskatchewan programs, announced earlier this year, are in effect by May 1975.		

offer the highest guaranteed annual income to pensioners anywhere in Canada.

Free Drugs

Secondly, Mr. Speaker, I am proposing to extend the free prescription drug program to all pensioners in Ontario, effective August 1, 1975. The Drug Benefit Plan, introduced last September, has made available free of charge nearly 1,400 essential prescription drugs to 340,000 low-income pensioners and to 306,000 social assistance recipients. This program has operated efficiently at a relatively low cost of \$59 per pensioner on an annual basis. Accordingly, I am proposing to extend this program to all Ontario residents aged 65 years and over at an additional cost of \$15 million this year. Ontario's free prescription drug program will benefit one million people, or one out of every eight people in the province.

Beneficiaries of Ontario GAINS and Free Drugs Programs		
	GAINS	Free Drugs
Number of People:		
Elderly	272,000	715,000
Blind and Disabled	38,000	38,000
Other Social Assistance Recipients	—	268,000
	310,000	1,021,000
Total Value in 1975-76 (\$ million)	138.2	46.0

Income Tax Cut

Finally, I am proposing to remove 450,000 people from the Provincial income tax rolls in 1975. As a result of the last federal budget, these people were removed from the federal tax roll yet remained liable for Ontario income tax. I am proposing to eliminate completely the Ontario income tax liability of these individuals in 1975, at a cost of \$11 million.

As a result, a family of four with income of \$6,033 will pay no income tax. Moreover, this same family will receive \$262 in Ontario tax credits.

Above the \$6,033 income level, tax credits will be more than the Ontario income tax liability up to an income level of \$8,275, where the Ontario tax credits will exactly offset provincial income tax. Beyond this tax-free threshold level of \$8,275, the family of four becomes a net taxpaying unit.

Similarly, no income tax will be levied and substantial tax credits will be paid to single individuals having up to \$3,583 income, married couples with up to \$5,323 income, or single pensioners with up to \$5,547 income. Above these income levels, Ontario's tax credits will offset Provincial income tax liability, to produce a tax-free threshold of \$5,570 for a single individual, \$7,480 for a married couple and \$8,890 for a single pensioner. These high tax-free thresholds ensure that Ontario's income tax and tax credit system remains the most generous in Canada.

Mr. Speaker, I would call attention of the Members to two important collateral benefits of this income tax reform. Elimination of the Provincial income tax liability for these 450,000 low-income individuals means that their Ontario tax credit refunds for the 1975 year will automatically increase. Equally significant, by reducing their 1975 taxable income to zero, it means that these people will be entitled to full premium assistance next year under our health insurance plan. This represents a further significant advance in the total equity of Ontario's tax structure.

Net Impact of Ontario's Income Tax and Tax Credit System, 1975				
	Single Individual	Married Couple	Family of Four	Single Pensioner
	(\$)	(\$)	(\$)	(\$)
Annual Income	3,583	5,323	6,033	5,547
Provincial Income Tax	0	0	0	0
Value of Ontario Tax Credits	239	255	262	361
Net Benefit of Ontario's Income Tax System	239 refund	255 refund	262 refund	361 refund
Annual Income	5,570	7,480	8,275	8,890
Provincial Income Tax	173	186	191	266
Value of Ontario Tax Credits	173	186	191	266
Net Impact of Ontario's Income Tax System	0	0	0	0

In summary, the income security measures I have outlined will deliver an additional \$39 million in benefits in the 1975-76 fiscal year. They provide further protection against inflation to low-income families, and help Ontario's elderly citizens to enjoy a reasonable standard of living and freedom from the burden of drug costs in their retirement years.

In total, my proposals to reinforce incomes and purchasing power will cost \$369 million in 1975-76.

II Strengthening Small Business and Farming

Mr. Speaker, I shall now introduce important proposals designed to help the province's small businessmen and farmers. The place of the small business in our economy is an important one. Over half of all Ontario corporations have gross revenue of less than \$100,000. By providing special assistance to nurture the early growth of these small enterprises, we ensure a dynamic and diversified economic base for future generations. The farming community plays an equally important role in our economy and special measures are needed to encourage farming and to maintain food production.

Incentives for Small Business

My new proposals for small business include the enrichment of Ontario's Small Business Tax Credit and a measure to compensate small business for the cost of the collection of the retail sales tax. In addition, the Province will renew its request that the federal government adopt our 1974 Budget proposals concerning Venture Investment Corporations. Federal participation is essential both to ensure that this incentive is sufficiently powerful and to prevent unnecessary differences between the Ontario and federal tax systems.

Small Business Tax Credit

In the 1974 Ontario Budget my predecessor, the Honourable John White, introduced an investment-related income tax credit for Ontario small businesses. Corporations qualifying as small business are able to claim a tax credit equal to 5 per cent of the increase in their invested capital in Ontario to a maximum of \$3,000 annually. I now propose that Ontario double its small business credit limit from \$3,000 to \$6,000 annually. This generous enrichment of the incentive will cost about \$15 million in 1975-76. It will alleviate the burden which inflation is imposing on growing companies.

Compensation for Sales Tax Collection

Mr. Speaker, the Government has received many requests from small business organizations and associations to compensate vendors for the cost of collecting the retail sales tax. I have been persuaded by the merit of the arguments advanced regarding the time-consuming task of collecting, recording and remitting of sales tax by small vendors.

Consequently, I am now proposing the following compensation to all vendors for collection of retail sales tax, effective July 1, 1975:

- 3 per cent of the tax collected per return, and
- maximum compensation of \$500 in each fiscal year.

This should substantially offset collection costs of small business. Vendors with sales of about \$300,000 per year will receive the maximum amount of \$500. The cost of this measure in 1975-76 is estimated at \$11 million.

Tax Simplification

The Government will also make a major effort to streamline and improve its tax administration during the year ahead. Our objectives will be to reduce the costs of compliance, to simplify forms and procedures, to follow wherever possible the federal administration, and to speed up rulings and decisions. These changes, which should be of benefit to large and small business alike, will be carried forward by my colleague, the Minister of Revenue. For my part, I shall propose later in this Statement a number of policy changes which bring Ontario's tax legislation into closer harmony with that of the federal government.

Farm Assistance

In addition to the continuing support provided by the Ministry of Agriculture and Food through several assistance programs, a number of important tax incentives have been introduced over the past four years to assist the farming community. These include:

- substantial reductions in property taxes for farmers through the farm tax rebate;
- forgiveness of succession duties for family farms; and
- reduction in the paid-up capital tax for family farm corporations.

This year my colleagues, the Minister of Agriculture and Food and the Minister of Natural Resources, will be introducing legislation to implement the following new programs to provide support to the farming community.

Cost of Production Guarantee

The Agricultural Products Stabilization Act currently before Parliament will be supplemented as necessary by the Province. We recognize that costs of production, such as fertilizer and energy, are escalating dramatically and that price stabilization measures per se may prove insufficient. Provision has been made in the Estimates of the Ministry of Agriculture and Food for first-year funding of \$20 million.

Property Tax Relief for Tree Farmers

Since 1973, the Government has repaid to Ontario farmers 50 per cent of property taxes on farms. The Government now proposes to make the same rebate available to the owners of managed forests who are resident in Ontario. Fifty per cent of property taxes on forests which meet certain management criteria will be rebated, at a cost of \$2 million in 1975-76.

Succession Duty and Gift Tax

Since 1969, Ontario has successively reduced the burden of succession duties, and in particular has exempted all transfers between spouses. However, in some circumstances succession duties can still be onerous on families operating farms and businesses. To ensure the continuation and growth of our family farms and businesses in Ontario and to allow for the impact of inflation generally, I propose the following improvements to our succession duty and gift tax, effective midnight tonight.

- The basic \$150,000 allowance will be increased to \$250,000 and will become a deduction for all estates.
- The present forgiveness period for family farms will be shortened from 25 years to 10 years.
- The succession duty payable in respect of assets of small family businesses will also be forgiven over 10 years. To qualify for forgiveness of duty, the business must remain in the family and must remain an active business.
- The basic exemption for gift tax will be raised from \$2,000 per recipient and an aggregate of \$10,000 in any one year to \$5,000 per recipient and a total of \$25,000 in any one year. The purpose of this change is to recognize the impact of inflation on asset values and to facilitate the transfer of capital to children and grandchildren—for example for the purpose of a down-payment on a home.
- The once-in-a-lifetime special exemption for farmers under The Gift Tax Act will be raised from \$50,000 to \$75,000.
- Under a new provision, Ontario family businesses will also enjoy a once-in-a-lifetime gift tax exemption of \$75,000.

These reforms will reduce the number of taxable estates and ensure that every taxable estate in Ontario will enjoy tax savings, at a cost of \$8 million annually.

To summarize, Mr. Speaker, the package of measures I have proposed tonight to strengthen small business and farming will provide \$56 million in important benefits.

III Increasing Investment and Productivity

As I have already stated, I am confident that under the impact of the temporary consumer and housing measures proposed in this budget, the economy will be moving to higher levels of activity by the year end. Nevertheless, in the longer term our competitive position in the world economy remains a major problem. Consequently, I am proposing additional measures which are designed to:

- encourage investment and strengthen the productivity of the Ontario economy;

- reduce production costs and enhance the ability of Ontario to compete in export markets; and
- provide protection against a resumption of inflationary forces through increased productive capacity.

The federal government has enacted some long-term measures to assist the manufacturing and processing sectors. Ontario has supported this federal action by extending its fast write-off provisions to the end of 1976. I now propose a further extension of these provisions to the end of 1977 to allow more time to build up essential production capacity. I am also proposing additional incentives to expand investment and productivity in Ontario over the longer term.

Sales Tax Exemption for Production Machinery

Effective immediately, the retail sales tax will be eliminated on purchases of production-related machinery and equipment. The exemption will apply to purchases for the period ending December 31, 1977. To qualify, businesses must meet the following criteria:

- orders for machinery and equipment must be placed on or after April 8, 1975 and before January 1, 1977; and
- delivery must take place on or before December 31, 1977.

This measure will encourage investment, broaden the industrial base and modernize Ontario production facilities.

The construction, manufacturing, mining and logging sectors will experience major cost reductions. Examples of tax savings on important pieces of machinery used in these industries follow.

Examples of Tax Savings on Production Machinery		
	Purchase Cost (\$)	Tax Saving (\$)
A) <i>Construction</i>		
• heavy-duty earth hauler	145,000	10,150
• front-end loader	45,000	3,150
• crawler-type tractor	50,000	3,500
• excavator crane	85,000	5,950
B) <i>Manufacturing</i>		
• mechanical press	30,000	2,100
• winch	40,000	2,800
• air compressor	10,000	700
• grinding machine	15,000	1,050
• lathe	20,000	1,400
C) <i>Mining</i>		
• earth-boring machine	35,000	2,450
• mounted rotary rock drill	83,000	5,810
• ore crusher	24,000	1,680

This bold action will improve the competitive position of Ontario business in both domestic and foreign markets, at an estimated cost of \$410 million over the full term of the program. For the 1975-76 fiscal year \$108 million of revenue will be foregone, even taking into account the new reduced rate. Over 25 per cent of this amount will benefit export-oriented industries. The tax appendix to this Statement sets out the major details of this incentive.

Fuel Cost Reduction

Currently, gasoline and diesel taxes apply on industrial, commercial and institutional uses of these fuels as well as on their use in licensed vehicles. I propose to further reduce costs of production by eliminating the gasoline and diesel fuel taxes on the industrial, commercial and institutional uses immediately. This move will also strengthen the competitive position of industries consuming energy for productive purposes. It will alleviate some of the rising costs experienced through inflation and be of particular benefit to industries in Northern Ontario. This measure will also result in major cost savings to schools, hospitals and other institutions, and simplify our tax administration. The estimated cost of this tax relief is \$19 million in the current fiscal year.

Pollution Control

The extension of The Pollution Abatement Incentive Act proposed by my colleague, the Minister of Environment, and enacted by the Legislature, is designed to stimulate investment in pollution abatement equipment. This measure, which will be in effect for a further one-year period, is expected to provide an additional \$1.5 million in tax-equivalent grants to purchasers of qualifying equipment.

I also propose a two-year extension of the fast write-off on environmental protection equipment to parallel the federal extension. This incentive, which will cost about \$2 million in each of the two years, will encourage industry in the purchase of water and air pollution control equipment. These measures should further extend the basic protection of the environment from the effects of industrial wastes.

Tax Coordination

Mr. Speaker, it is the policy of this Government, on evaluation of federal corporate income tax changes, to maintain consistency between the federal and Provincial tax structures wherever feasible. In some cases, uniformity may benefit the corporate taxpayer by eliminating uncertainty and reducing the costs of compliance. I have studied the changes introduced in the federal budget of last November and I now propose that this Province parallel the following changes.

International Income

In my 1972 Budget I announced that Ontario would not parallel the international provisions of the federal tax reform legislation at that time. Those international provisions were too harsh and threatened the desirable expansion of Canadian-based multinational companies. I expressed the hope that the federal government would recognize the need to moderate these provisions so that our multinational companies would be able to compete in international markets.

The federal government has now recognized the need for changes in its international tax provisions. Recent amendments result in an acceptable set of rules for the taxation of international income and should curtail the use of foreign tax havens. I recognize that the federal legislation is complex. The intent of the new rules and the practical advantages to Ontario corporations, however, have convinced me that Ontario should parallel these provisions in its own legislation.

Acceleration of Corporations Tax Payments

The federal budget moved the due date for the final payment of corporations tax from three months after corporate fiscal year-ends to two months. Small businesses were not affected by this change and can continue to make final payment within the three-month period.

For Ontario tax payment purposes I propose that this federal action be paralleled. This will apply to corporations with year-ends after July 31, 1975 and will result in a forward adjustment in the Province's cash flow of approximately \$100 million.

Other Federal Changes

I am also proposing that Ontario parallel a number of other corporate tax changes contained in recent federal legislation.

- Oil and gas royalties will be disallowed as a deduction for Ontario corporate income tax purposes. I estimate that this measure could produce \$30 million in revenue in this fiscal year.
- The capital cost allowances on new, multiple-unit residential rental buildings started after November 18, 1974 and before December 31, 1975 may be claimed against other income.
- A 15 per cent capital cost allowance will be applied to timber limits, rights, or licences to cut timber, after May 6, 1974.
- The tax-free reserves of large financial institutions will be reduced from $1\frac{1}{2}$ per cent to 1 per cent on eligible assets exceeding \$2 billion, effective January 1, 1975.
- There will be unlimited deduction for scientific research expenditures, and carry forward of any unclaimed amounts.
- Federal provisions relating to corporate reorganizations and rollovers will also be paralleled.

Exceptions

I do not propose to parallel federal moves in two important respects.

The federal government has disallowed carrying costs on land held for development as a deduction against other income. This measure will not accelerate significantly the availability of serviced lots over the short term. Over the longer term, it may hinder careful planning and indeed, ultimately lower supply and increase the final price of such lots.

Ontario will maintain its policy of allowing full deduction of all Canadian exploration and development expenses, as a measure to encourage future expansion of the resource industries. This is in direct contrast to the recent federal changes, which limit the annual deductibility of development expenses to 30 per cent for mining and petroleum companies.

IV Encouraging Home Ownership

Mr. Speaker, you will recall that in 1973 the Ministry of Housing was established to mobilize resources and expand the supply of reasonably-priced housing for Ontario residents. Consequently, over the past two years, the Government has more than tripled its financial support to this Ministry. For 1975-76, the Province's total funding for housing programs and townsite development will amount to \$526 million. Unfortunately, our strong action has not been matched by the federal government. Indeed, it appears to have taken advantage of our increased financing to reduce its own commitment in this area. Over the past two years, CMHC allocations for Ontario have increased by only 7.5 per cent from \$412 million in 1973 to \$443 million in 1975.

My colleague, the Minister of Housing, will be providing full details of Ontario's housing actions. At this time I shall highlight only the major program enrichments for 1975.

Basic Housing Programs

The 1975 budget allocation for the Ontario Housing Action Program grants and loans to municipalities has more than doubled from \$19 million in 1974-75 to a funding level of \$43 million in 1975-76. Advances to the Ontario Mortgage Corporation (OMC) will be increased from \$133 million to \$208 million for OHAP, HOME and socially assisted housing programs.

In conjunction with the above initiatives, the Government will also take steps to broaden the mix of new housing through its Home Ownership Made Easy program (HOME) for moderate income families.

In support of our senior citizens and low-income family households, the Government has augmented its budget in this area by some 57 per cent to a total of \$87 million. With complementary federal financing, this will generate 10,600 new senior citizen and subsidized units for 1975-76. Even if the necessary federal financing is not forthcoming, Ontario pledges to hold to this target.

Increasing Supply

In addition to expanding its basic housing programs, the Government is taking action on other fronts to increase the supply of serviced lots. Capital investment in water and sewer facilities has been increased from \$81 million in 1973-74 to \$138 million in 1975-76. This provides for expansion of sewage and water treatment plants and construction of major trunk lines to service new and growing communities.

Mr. Speaker, this Government accepts the important responsibility of ensuring good housing for all of our people, and we intend to discharge that responsibility. Our Ministries have joined in a concerted effort to assist the Ministry of Housing in tackling the urgent job of expanding the supply of housing. Regional and local municipalities also have a vital role to play in achieving this objective. I recognize that our municipal partners may feel their responsibility is primarily to their residents. But we trust them to take a broader view. We expect they will work with the Ministry of Housing so that the necessary new housing will be provided for our growing population.

\$1,500 Grant for First Home Buyers

In my opinion, the federal program of \$500 grants announced in November 1974 is having only marginal effects in Ontario because of the limited size of the grant, the restriction that the home must be a new home and the unrealistic price criteria. The legislation I will introduce tonight will be considerably more powerful.

Effective tomorrow, Mr. Speaker, anyone purchasing a first home in Ontario will receive a \$1,000 grant from the Province, plus an additional \$250 in each of the two succeeding years for a total grant of \$1,500. This First Home Buyer Grant program will remain in effect until December 31, 1975. It will cover new and used homes and apply regardless of the price of the home or the income of the purchaser. I estimate that this program will pay out \$55 million in grants during the balance of this year.

The major features of Ontario's new First Home Buyer Grant are contained in Appendix B.

Cost Reductions

In addition to the new First Home Buyer Grant program, there will be other spin-off benefits to housing from the sales tax cuts I have already announced. I estimate that the reduction in the retail sales tax to five per cent will itself provide \$25 million in cost savings on building materials used in housing. Moreover, additional benefits will accrue through tax savings on construction equipment, and through increased employment in the building trades.

As mentioned earlier, Ontario has matched the federal capital cost allowance for rental units. In view of the shortage of rental accom-

modation, I strongly urge the federal government to extend this provision beyond 1975. I further urge the federal government to reconsider its decision to disallow carrying costs on land held for development.

Mr. Speaker, the housing industry has demonstrated consistently its ability to expand Ontario's stock to meet the needs of our growing population. At this time, there are signs of a resurgence in the industry. I believe there will be an ample supply of mortgage funds available at somewhat lower rates. These factors, combined with the powerful measures I am introducing in this Budget, will—I am confident—greatly improve the outlook, providing new homes and new jobs. With a comparable degree of federal commitment and municipal support, I expect that 90,000 new units will be started in Ontario this year.

Housing Action Summary (\$ million)	
	1975-76
Home Buyer Grants	55.0
Community Planning	34.6
Housing Action	42.5
Socially Assisted Housing	87.2
HOME	41.2
OMC	207.7
Administration	15.7
Advances for Townsites*	42.0
	<u>525.9</u>
*North Pickering, South Cayuga and Townsend projects, see Table 2, Budget Paper C.	

Regional Planning

Before leaving the subject of housing, Mr. Speaker, let me spend a moment on the important related matters of land use planning, regional development and decentralization of growth in Ontario. These long-run policies will shape the future of our society and will make a major contribution to the quality of life in Ontario in the decades ahead.

We have assembled land for three new towns.

The creation of industrial parks will support our regional planning objectives. The Government of Ontario recognizes the need to diversify industrial development more broadly throughout the province. This will relieve the pressures of growth on the metropolitan areas and expand job opportunities in the slower growth regions. Thirty million dollars has been set aside in 1975-76 for the funding of industrial parks. This will provide for the completion of the Edwardsburgh acquisition and the purchase of land for industrial purposes in Northern and Eastern Ontario in a program to be announced by my colleague the Minister of Industry and Tourism.

Within the next month, we expect to table the interim plan for the Parkway Belt West and the area to be covered by development controls in the Niagara Escarpment planning area. The cost of acquisition of the public-use lands in both the Escarpment and the Parkway Belt is very high. For example, it is estimated that over \$500 million will be necessary for the purchase of such lands in the Parkway Belt West alone.

Before the end of the session I intend to place before the Legislature development plans for Northeastern and Eastern Ontario, together with a planning strategy for the province. These will set out alternatives for our future development. Because the ultimate choices that are made will affect the lives and the livelihoods of many people, the Government seeks the widest possible public response.

V Government Leadership and Restraint

The measures I have just outlined are designed to generate immediate expansion in the private sector of the Ontario economy. Members will note that each of the major measures that I am proposing to stimulate the economy is temporary and is designed to avoid an over-response when the economy regains its customary momentum. I would also stress that this Government has resisted the temptation to take up the current slack in the economy through increased government expenditures. Such a course would have been counter-productive by locking the Province onto a higher spending plateau.

In planning this Budget, I have kept at the centre of my attention the long-run problem of productivity and the role that government spending at all levels has played in the inflation process. I am convinced that one of the root causes of the current inflation problem in Canada is excessive government spending and unnecessary growth in the size and complexity of the public sector. This has shifted an increasing share of our total resources out of private production uses in the economy, and has eroded the taxpayer's hard-earned income.

With this budget, therefore, Ontario continues and extends its tough measures to curb the growth of government.

Controlled Public Sector in Ontario

Mr. Speaker, I am sure that all Members recognize that the high inflation of recent years has had a substantial impact on provincial and local government expenditures. Like the private sector, governments as employers and as purchasers of goods and services have been faced with rapidly rising costs of materials and with escalating wage and salary demands. Nevertheless, we have managed to control the growth in our spending so that the public sector claim on the total output of the Ontario economy has not increased.

In 1971, federal, provincial and local government spending in Ontario accounted for one-third of our Gross Provincial Product. In 1974, the size of the public sector remained at one-third of the economy as a whole. By contrast, the public sector has steadily increased in size for Canada as a whole, rising from 36 per cent of Gross National Product in 1971 to 37.5 per cent in 1974. This record of public sector stability in Ontario versus growth in the rest of Canada is documented in Budget Paper B.

Growth in Public Sector (Government Spending* as a percent of GNP)				
	1971	1972	1973	1974
Ontario	33.3	33.3	32.8	33.2
Rest of Canada	38.0	39.2	38.0	40.5
Total Canada	36.1	36.7	35.9	37.5
*National Accounts basis, excluding intergovernmental transfers.				

1975-76 Expenditure Growth

In the development of the 1975 Budget, a prime objective has been to continue our restraint on expenditure growth. Accordingly, the 1975 expenditure Estimates to be tabled by my colleague, the Chairman of the Management Board, call for a 16.8 per cent increase in budgetary expenditure, and an overall increase in budgetary plus non-budgetary spending of only 12.2 per cent.

I believe that continuing restraint on spending is an obligation for all governments at this time, in order to set an example of responsible leadership to the community at large. In this way, more of our total resources will be available for expansion of private output, and government operations themselves will not contribute to inflationary pressures.

Reduction in Civil Service Complement

The Government's plan of expenditure control concentrates on its own operations and has four main elements:

- Ministries have reviewed their civil service complement to achieve an overall reduction for the Government of 2.5 per cent.
- Ministries will be required to absorb within their 1975-76 Estimates all in-year cost increases resulting solely from inflation.
- All programs are being reviewed with the view to eliminating those, such as the Emergency Measures Organization, which have outlived their usefulness.
- Provincial building projects have been postponed wherever feasible, except in the highest priority areas of housing and environment.

Reduction in civil service complement is a cornerstone of our plan to control government costs and improve operating efficiency. Management Board has reviewed the staffing in all Ministries and has already achieved a reduction in the Government's total complement to 69,221. Therefore, since 1972, the Ontario civil service complement has grown by only 3.2 per cent, which is well below the growth rate in total employment in the province. Over the same period, the federal civil service has grown by almost 19 per cent or substantially faster than the increase in employment in the Canadian economy.

Civil Service Complement				
	Government of Canada*		Government of Ontario	
	Number	Percent Change	Number	Percent Change
1972	257,754		67,071	
1973	272,089	+ 5.6	69,325	+ 3.4
1974	287,518	+ 5.7	70,877	+ 2.2
1975	306,276	+ 6.5	69,221	- 2.3
*Federal Estimates 1974-75 and 1975-76.				

Reducing or even holding the line on civil service growth is not only a practical way to control costs but also a way to release resources to be put to better use in the private sector. The cost savings from Ontario's complement cuts will amount to \$15 million in the first year alone and this measure will produce even greater economies in future years.

Ontario Hydro, all other Provincial agencies and commissions, and local governments are being urged to re-examine their administration, overhead and staffing costs with the objective of achieving comparable savings.

Local Government

Mr. Speaker, I should now like to devote a few moments to the local government sector. In 1974, total spending by local governments in Ontario reached \$5 billion, or about the same level as the total Provincial budget in 1970. The property tax contributed less than \$2 billion of this \$5 billion in local spending, most of the balance being provided by the Province. Increased Provincial financial support, in fact, has been the major factor in insulating ratepayers from the brunt of rapid spending growth by school boards and municipalities.

Present indications are that local spending in 1975 will grow more rapidly than in previous years. I have no illusions, given this kind of spending growth and the limited resources of the Province, that mill rates can continue to be held. Last fall, my predecessor warned local governments that the Province could only increase its aid in line with its own revenue growth. The federal government has the fiscal resources

to relieve the pressure on local government financing, but so far no progress has been made at Tri-Level Conferences to secure new forms of tax sharing to meet the needs of local governments.

For the 1975-76 fiscal year, the Province has reviewed its financial assistance within the context of its revenue-sharing commitment. Last year's transfers fell short of the level dictated by the revenue growth rate ultimately realized. The Ontario Government will honour its revenue-sharing commitment, including the shortfall during 1974-75. As a result, the Province will be able to increase total transfers to local governments and agencies by a total of \$380 million, an increase of 16.3 per cent over the previous year. This contrasts with the 13.2 per cent growth in the Province's own on-going programs. I am including a table which displays how the commitment is fulfilled.

The Revenue-Sharing Commitment (\$ million)			
	1973-74	1974-75	1975-76
Revenue Growth Rate		18.9%	10.3%
Commitment	2,012	2,392	2,638
Actual Transfers	2,012	2,325	2,705
Difference	Nil	-67	+67
Balance	Nil	67	Nil

Much of the increase will go to conditional grant programs, such as school board grants and transportation subsidies. However, there will also be scope for the Province to increase unconditional grants by \$65 million. Tomorrow, I shall table in the Legislature a comprehensive document on Provincial assistance to local governments and taxpayers. This document contains complete details on the 1975-76 revisions to the unconditional grant programs.

There are two major revisions to our 1975-76 unconditional grants package. To maintain high standards of law enforcement, the Province will emphasize the per capita grant towards policing costs. The Government will also enrich its special assistance to Northern municipalities. People in Northern Ontario experience considerably higher costs for many of their requirements. We believe, therefore, that reduced property taxes are the best way to provide compensating benefits to Northern residents. The special Northern grants will increase by almost 42 per cent over last year. As a result, the average residential tax should be \$90 lower in Northern Ontario than in Southern Ontario in 1975.

Mr. Speaker, some local government expenditures are vital to our basic economic development. Other expenditures are less important at this time of escalating mill rates. Therefore, I take this opportunity to urge local governments, both school boards and municipalities, to restrain spending wherever possible. I have asked the Ontario Municipal

Board to review the capital spending applications of the municipalities to see which capital projects can sensibly be deferred.

Some projects, such as sewerage, water, roads and transit are obviously of higher priority than others. Municipalities will need to undertake that kind of works if we are to have the supply of housing lots needed in nearly all parts of the province. As I indicated earlier, this is one of the most important long-term solutions to the cost of housing. Other types of projects, on the other hand, can perhaps be deferred unless they will have an immediate and desirable impact on local construction employment.

I also call on school boards and municipal councils to carefully examine their staffing, overhead and administration expenses. Restructured governments, in particular, should examine closely both complement and salary levels in relation to the changes and reductions in their responsibilities. Given the record of spending over the past four years, shown in Budget Paper B, I believe that regional and local governments can achieve substantial economies in both complement and payroll. Success in such spending restraint delivers dollar-for-dollar benefits to Ontario ratepayers.

Conclusion

Mr. Speaker, the strong fiscal actions I have put before you will cost the Province some \$430 million in this fiscal year. In the absence of these substantial initiatives, our net cash requirements for 1975-76 would have been about \$1.2 billion or only modestly higher than in

Ontario's 1975-76 Financial Plan (\$ million)			
	Interim 1974-75	Estimated 1975-76 Before Tax Actions	After Tax Actions*
Budgetary Revenue	8,135	9,356	8,977
Budgetary Expenditure	8,726	10,137	10,192
Budgetary Deficit	591	781	1,215
Non-Budgetary Deficit	439	458	454
Net Cash Requirements	1,030	1,239	1,669
<i>Method of Financing</i>			
Cash Flows from Pension Plans	1,152		1,125
Rundown of Liquid Assets	182		} 544
Public Borrowing	-304		
	1,030		1,669
*Includes Home Buyer Grants.			

1974-75. In total, therefore, I am estimating our overall cash requirements at \$1,669 million, which is well within the capacity of the Province to finance. Pension funds will generate \$1,125 million of internal financing and the balance will be raised through judicious use of cash reserves and the capital markets.

Our fiscal plan will materially assist Ontario's economic recovery in 1975 and build a sound base for strong expansion in 1976. Given the anticipated upturn in the U.S. economy and appropriate policies by Ottawa, I believe that the Ontario economy will rebound to higher levels of growth by year-end.

In conclusion, this budget sets out a powerful and constructive fiscal plan to counteract slack in the provincial economy without adding to inflationary pressures. It reinforces the inherent strength of our private sector through the controlled use of public resources on both the taxation and expenditure sides.

- It cuts the sales tax during 1975 to increase consumer purchasing power.
- It establishes a \$1,500 home buyers grant to stimulate the housing market in 1975.
- It launches a longer-run incentive to expand investment and productivity and to create new jobs.
- It harmonizes provincial tax legislation with that of the federal government to produce greater certainty and lower compliance costs for Ontario business.
- It raises the guaranteed income of Ontario pensioners and eliminates income tax on low-income families.
- It enriches incentives and support to the small business and farming communities.
- It reduces civil service complement and holds down government spending to facilitate private production, investment and consumption.

I am confident that this budget will be an important factor in restoring Ontario to its accustomed prosperity and in ensuring that all of our people share in that prosperity.

Appendix A

Details of Tax Changes

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

The Retail Sales Tax Act

Reduction in the Basic Rate

The basic rate of tax of 7 per cent will be reduced to 5 per cent for the period ending December 31, 1975. The existing 10 per cent rate on alcoholic beverages, prepared meals valued at over \$4.00 and admission fees will be unchanged.

Effective: April 8, 1975.

Exemption for Machinery and Equipment

Machinery and equipment used in the production of tangible personal property, or used in construction, will be exempt from the tax for the period from April 8, 1975 to December 31, 1977, inclusive, provided that:

- the order for such machinery or equipment has been placed between April 8, 1975 and December 31, 1976, inclusive;
- the delivery takes place on or before December 31, 1977; and
- a written contract between the purchaser and supplier is filed with the Minister of Revenue prior to January 1, 1977 for all such purchases where the value exceeds \$15,000 and the delivery is to take place on or after January 1, 1977 but not later than December 31, 1977.

Machinery and equipment qualifying for exemption will be defined by the Minister of Revenue.

Compensation to Vendors

Compensation will be provided to each vendor for his costs incurred in collecting and remitting retail sales tax under section 9 of the Act.

The compensation will be as follows:

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

Effective: July 1, 1975.

Other Items

1. Religious, charitable, benevolent and non-profit organizations staging live theatrical or musical performances are no longer required to pay tax on the labour and overhead costs involved in the manufacture of stage sets, props and costumes which they produce for their own use. They are, however, required to pay tax on the purchase price paid by them for materials entering into such items produced for own use or to pay tax on the full purchase price or rental of completed props, sets and costumes acquired from suppliers.

Effective: April 8, 1975.

2. Refunds of retail sales tax may be granted for overpayments, payments made in error, payments made for taxable goods exempted on subsequent sale or use, provided that an application is received by the Minister of Revenue within two years of the date of overpayment.

Where claimants are unable to file their claims within the two-year period but can within that period provide evidence of the nature of the claim and adequate justification for the late filing of the claim, the Minister may extend the time for filing but in no case shall such extension exceed six months.

Effective: April 8, 1975.

3. Telephone services are to be defined as:

- local and long distance telephone calls;
- long distance private telephone service;
- wide area telephone service; and
- foreign exchange telephone service.

Effective: July 1, 1975.

4. Returnable milk containers will be exempt from the retail sales tax presently payable by the dairy industry.

Effective: April 8, 1975.

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

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

or

Contact the nearest Retail Sales Tax District Office.

The Corporations Tax Act

Small Business Tax Credit

The Ontario Small Business Tax Credit annual limit of \$3,000 will be doubled to \$6,000 for eligible corporations. This change will apply with respect to active business income earned by corporations after April 7, 1975.

Acceleration of Final Tax Payment by Corporations

The present treatment requiring final payment under The Corporations Tax Act within six months of the corporate year-end will be changed to three months for corporations qualifying for the small business deduction under the Income Tax Act (Canada) and to two months for all other corporations. This will apply to corporations with year-ends after July 31, 1975.

Treatment of Oil and Gas Royalties

Oil and gas royalties and other like payments paid or payable to any jurisdiction will no longer be allowed as a deduction in computing taxable income. This will apply with respect to fiscal years of corporations ending after April 7, 1975. For fiscal years that include April 7, 1975, the change in taxable income will be pro-rated on the basis of the number of days of that fiscal year that are subsequent to April 7, 1975.

Capital Cost Allowances on Multiple-Unit Rental Housing

The capital cost allowances on new, multiple-unit residential rental buildings started between November 18, 1974 and December 31, 1975 may be claimed against any source of income by the first or any subsequent owners of such buildings.

Timber Limits

A 15 per cent capital cost allowance will be permitted for timber limits, rights or licences to cut timber, purchased or renewed after May 6, 1974. Proceeds on the disposition of timber limits will reduce unclaimed capital cost and any excess will be included in income.

Tax-Free Reserves of Financial Institutions

The tax-free reserves of financial institutions will be reduced from $1\frac{1}{2}$ per cent to 1 per cent on eligible assets over \$2 billion.

Effective: January 1, 1975.

Scientific Research Expenditure

A corporation eligible to deduct expenditure for a taxation year in respect of scientific research will be permitted the option to choose to deduct any amount of such expenditure for the year and carry forward the unclaimed amount for deduction in subsequent years. This provision will apply in respect of fiscal years of corporations ending after 1973.

Fast Write-Off Provisions

- *Manufacturing and Processing:* The accelerated capital cost allowance for machinery and equipment used in manufacturing and processing activity will be extended for three years from January 1, 1975 to December 31, 1977.
- *Pollution Control Equipment:* The accelerated capital cost allowances for water and air pollution control equipment will be extended for two years from January 1, 1975 to December 31, 1976.
- *Grain Storage Equipment:* The additional capital cost allowances for grain storage facilities that expired on July 31, 1974 will be reinstated for an indefinite period, commencing August 1, 1974.

International Income, Corporate Reorganizations and Rollovers

Major amendments to The Corporations Tax Act will be introduced to bring Ontario's legislation into conformity with the new federal income tax provisions related to international income, corporate reorganizations and rollovers.

Further enquiries regarding corporations tax changes should be directed to:

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

Personal Income Tax

Effective for the 1975 tax year, persons who pay no federal income tax by virtue of the 8 per cent federal reduction, minimum \$200, will pay no Ontario income tax. Persons relieved from paying Ontario income tax by virtue of this change will not be required to reduce their credits by 2 per cent of any taxable income they may have. These changes will be reflected in the 1975 income tax return and guide.

Further enquiries regarding Ontario Tax Credits, personal income tax, GAINS and free drugs should be directed to:

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

or

Guaranteed Income and Tax
Credit Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 2B3
(416) 965-8470

The Succession Duty Act

- Effective in respect of deaths occurring on or after April 8, 1975, the basic allowance under The Succession Duty Act will be increased from \$150,000 to \$250,000. In addition, this amount will now become a deduction in computing aggregate value for purposes of determining the rate of tax applicable.
- Effective in respect of deaths occurring on or after April 8, 1975, the period of forgiveness of duty in respect of family farms is reduced from 25 years to 10 years.
- Effective in respect of deaths occurring on or after April 8, 1975, succession duty otherwise payable in respect of assets in a family business will be forgivable, as is currently the case for family farms. The forgiveness period will be ten years.

Assets eligible for forgiveness of duty are shares in an eligible corporation. An eligible corporation is defined as an active Canadian company, controlled by one family, and eligible for the small business deduction under the Income Tax Act (Canada) in the year in which the death occurs.

In order to qualify, the assets in the business passing on death must be sufficient to control the company and must pass to members of the deceased's family. Duty will continue to be forgiven as long as the business is controlled by the same family and the firm remains an active commercial business. It is not necessary that the firm continue, by virtue of its size, to be eligible for the small business deduction under the Income Tax Act (Canada).

Where any of these conditions cease to be met, the balance of any duty together with interest becomes due and payable.

- Dependent allowances are not affected by any of these changes and inter-spousal transfers continue to be exempt.

The Gift Tax Act

- Effective for the 1975 and subsequent taxation years, the basic exemption per gift is raised from \$2,000 to \$5,000 for any one recipient in any one taxation year. Similarly, the annual total of exempt gifts is increased to \$25,000 from \$10,000.
- The special once-in-a-lifetime gift exemption for farming assets is increased from \$50,000 to \$75,000.
- A similar provision is introduced in respect of shares in family businesses which qualify for the small business deduction under the Income Tax Act (Canada). The assets must pass to members of a family that controls the corporation and the value of the exemption is \$75,000. This change is effective for the 1975 and subsequent taxation years.

Further enquiries regarding succession duties or gift tax changes should be directed to:

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

or

Succession Duties Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1Y2
(416) 965-1700

The Gasoline Tax Act and The Motor Vehicle Fuel Tax Act

Effective: April 8, 1975.

1. All gasoline and diesel fuel used in vehicles licensed or required to be licensed under The Highway Traffic Act, or in motor boats and motorized snow and all-terrain vehicles used for other than industrial, commercial or institutional purposes will be subject to the full rate of tax.
2. All aviation fuel continues to be taxable at the rate of 3¢ per imperial gallon.
3. Gasoline and diesel fuel used for all purposes other than those specified in paragraphs 1 and 2 will not be taxable. That is:
 - those previously paying no tax, including farmers and commercial fishermen;
 - those using fuels for the purposes of heating and cooking;
 - industrial users (including the manufacturing, mining, forestry, and construction industries);
 - commercial users (including railways);
 - institutional users (including hospitals and schools); or
 - those engaged in the maintenance or construction of roads.

Further enquiries concerning gasoline and motor vehicle fuel taxes should be directed to:

Gasoline Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1X8
(416) 965-6352

Fees for Drivers of Uninsured Motor Vehicles

Uninsured motor vehicle fees will be increased to \$60.00 per annum.

Effective: on a date to be announced by the Minister of Consumer and Commercial Relations.

Appendix B

The Ontario Home Buyers Grant Act, 1975

1. Any individual who purchases or builds a housing unit in Ontario during the period from April 8, 1975 to December 31, 1975 inclusive, is eligible to apply for a grant, provided that the housing unit is his principal residence.
2. As soon as a housing unit in Ontario is purchased or built, an individual may apply to the Minister of Revenue for the payment of a \$1,000 grant.

In each of the two subsequent years, the individual, upon the anniversary of the date of qualification, may apply for supplementary grants of \$250 in each year. These supplementary grants are conditional upon the individual continuing to inhabit the original housing unit as his principal residence.

3. A housing unit is defined as a unit suitable for permanent habitation that provides living, sleeping, eating and food preparation facilities for one family and includes:
 - a house containing not more than two housing units;
 - a condominium;
 - a unit of a co-operative housing corporation; and
 - a mobile home that meets prescribed standards defined by the Canadian Standards Association.
4. A grant will be paid to a qualified person who purchases either a new or used housing unit.
 - There are no price qualifications on the value of the housing unit purchased.
 - The applicant is not required to meet an income test.
5. To qualify for the grant, certain conditions must be met:
 - the applicant must be 18 years of age or over;
 - it must be the first housing unit owned by the applicant, his spouse or co-owner in Ontario;
 - title or possession in the housing unit, as defined in the Regulations, must be taken by the applicant during the period of eligibility from April 8, 1975 to December 31, 1975 inclusive;

- the purchase price must be equal to the fair market value;
- the applicant or any person who holds title with him is eligible for only one grant in respect of any housing unit.

Further enquiries regarding the Ontario Home Buyers Grant should be referred to:

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

or

Guaranteed Income
and Tax Credit Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 2C9
(416) 965-8470

Outside Metropolitan Toronto, ask the operator for Zenith 8-2000.

Appendix C

Sharing Responsibility with Local Governments

The Government of Ontario continues the effort to place a widening range of responsibilities in the hands of the elected municipal council.

Housing

As of April 1, the Ministry of Housing, where requested and feasible, will turn over to regional municipalities the processing and approval of subdivision plans. Almost all regions are currently monitoring Committee of Adjustment decisions and Land Division Committees, a function formerly performed by the Province.

Environment

The Ministry of The Environment has built and operated a great many of the water and sewage treatment facilities in the province. The expenditures for these facilities are well in excess of \$2 billion. This has resulted in the enviable record which Ontario has achieved, with the help of municipalities, in terms of the elimination of pollution in our waters. The Ministry now feels it is appropriate that these functions be increasingly re-assigned to the local governments of the province where requested, and where the necessary capabilities are available within the municipality. The Ministry will be developing procedures and policies to this end.

Health

The Minister of Health has agreed that, as a pilot project, the Regional Municipal Council of Waterloo will take direct responsibility for those matters which traditionally have been the responsibility of the Board of Health. Under another pilot project, the Province is assisting the Regional Municipality of Halton in planning and co-ordinating social services in the community.

Transportation

The Ministry of Transportation and Communications has recently brought in amendments to *The Public Transportation and Highway Improvement Act* which will make it no longer necessary to secure

Ministerial approval for a range of what are essentially local matters. *The Highway Traffic Act* is being examined to identify similar scope for local autonomy.

Law Enforcement

Police services formerly provided by the Ontario Provincial Police have been assumed entirely, not only for the urban areas, but the rural areas as well, by the Regional Municipalities of Waterloo and Sudbury.

Municipal Procedures

Amendments to *The Municipal Act* have recently been enacted which will remove the requirement for Ministerial approval in a number of municipal procedures.

Appendix D

Federal-Provincial Relations

This appendix reviews some of the recent developments and concerns in federal-provincial relations.

Constitution

The Ontario Government participated fully in the Constitutional Review Process and was the first province to endorse the Victoria Charter of June, 1971. The Prime Minister, Mr. Trudeau, has suggested that the federal government and the provinces should renew discussions concerning patriation of the British North America Act. The Ontario Government again pledges its full support and cooperation towards this objective. However, patriation as such does not provide any solution to the more important constitutional issues, such as disentanglement and recasting of federal-provincial spending responsibilities, and more appropriate intergovernmental financing arrangements.

Provincial Income Tax Credits

In 1972, the Ontario Government requested that the federal government allow tax credits under the federal-provincial income tax system. The federal government was most cooperative in permitting Ontario to introduce an effective system to relieve property tax burdens on low-income families. Subsequently, Ontario was able to enrich the Property Tax Credit and further expand its credit program by introducing Sales and Pensioner Tax Credits. The federal government's flexibility in this area permitted provincial objectives to be achieved within the national tax system.

The Revenue Guarantee

With the introduction of federal tax reform in 1972, the federal government provided a guarantee to ensure that no province would receive less revenue than it would have received under the old system. This provided a transition period from 1972 to 1976 for the provinces to adjust to tax reform. Since its inception, the revenue guarantee has been expanded to include most subsequent federal discretionary tax actions, and payments are being made to the mutual advantage of the

federal and provincial governments. Nevertheless, early discussions are imperative to deal with the weakened revenue position that will confront the provinces upon termination of the guarantee.

Intergovernmental Taxation

Another example of coordinated tax action has been the development of a reciprocal taxation policy to ensure that government purchases are taxed the same as all other transactions. Ontario looks forward to successful implementation of a federal-provincial agreement in this area.

Energy

One area of major concern in federal-provincial relations is the dispute between the federal government and the governments of the producing provinces over the taxation of oil and natural gas. The nature and importance of this problem is treated in detail in Budget Paper A, "Ontario's Economic Recovery". The paper demonstrates that, under the new regime of federal-provincial royalties and taxes on natural resources, further price increases would not only aggravate inflationary pressures but also fail to ensure that adequate energy supplies will be forthcoming in the long run.

On its part, Ontario has sought to directly assist the development of energy resources in Canada through participation in the Syncrude project. However, we feel that provinces are not being accorded a sufficient role in this area. For example, the federal government has refused to allow an agency of the Government of Quebec to purchase shares of Panarctic Oils Limited, and has failed to give adequate attention to provincial proposals relating to the financing of heavy water plants. It has also been insensitive to the argument that the onerous foreign ownership restrictions placed on uranium producers will impede the effort to seek and develop new ore bodies. As in other fields, federal policy on energy must recognize provincial needs and responsibilities, as well as the contributions that the provinces have to make.

Housing

Increasing the supply of housing in Ontario is critically important both economically and socially. Continued uncertainty about adequate federal financing is detracting from the delivery of socially-assisted housing in Ontario. It is also affecting the development of such specific projects as North Pickering. (The Budget Statement emphasizes the inadequacy of Central Mortgage and Housing Corporation funding, which has increased by only 7.5 per cent over two years.)

Trade Negotiations

Two areas of major importance are:

- *GATT*—Ontario has had advance discussions with the federal government and will be offering advice on matters of particular concern to the province as the negotiations proceed.
- *AUTO PACT*—Because the automotive industry in the United States is in a depressed condition at present, it is not the appropriate time to propose changes in the Automotive Pact. However, we must achieve a better balance in trade on automobiles and automotive parts. Canada's estimated deficit on the automotive account was slightly over \$1 billion in 1974; only three years in the past ten have shown a surplus. It is therefore important that the federal government, in coordination with the provinces, embark upon a strategic plan to achieve a better balance of trade in this vital industry, as was the original intent of the Auto Pact.

Tri-Level Cooperation

No progress has been made in redressing the basic imbalance in federal-provincial finance due to the failure of the Tax Structure Committee to achieve meaningful reforms in tax sharing since 1966.

At the National Tri-Level Conference in Edmonton, in November 1973, Ontario advanced new proposals to attend to the particular financing problems of local governments. The Ontario Government outlined a new revenue-sharing commitment involving the following:

- The Province would increase its transfers to local governments and agencies at the rate of growth of total Provincial revenue.
- The Province would pass on to local governments the full benefit of any net gains in new unconditional tax sharing by the federal government.

Ontario believes it is time for the federal government to make a similar commitment to provincial governments. Without such a federal financial commitment, the Ontario Government believes that Tri-Level Conferences will remain unproductive.

Shared-Cost Programs

Ontario has argued consistently for the replacement of the mature shared-cost programs by unconditional tax transfers. This would avoid the various problems associated with existing federal-provincial programs, such as the distortion of provincial priorities and the unnecessary

administrative costs. Examples of the continuing complexities and frictions inherent in shared-cost financing are:

- *disagreement over health care financing.*

Last fall, after four years of negotiations, the final federal offer was unanimously rejected by the provinces. Experience has proven that the Lalonde formula would have reduced federal contributions at the expense of the provinces due to inflationary cost increases. At the present time, the federal government is embarking on a detailed examination of provincial health delivery systems with a view to finding minor ways in which the existing legislation can be modified. In Ontario's opinion, the course now being followed is not likely to be very productive. As has been repeatedly stressed by provincial representatives, what is required is not a series of half-measures, but a comprehensive reform of the whole financing system.

- *the federal government's increasingly stringent interpretation of rules and regulations.*

For example, Ontario lost over \$40 million in Extended Care sharing. This was due to the questionable federal ruling which reclaimed contributions already made to Ontario, and the failure of the so-called replacement formula to cover the period from April 1972 to January 1974.

- *withdrawal of federal services to native people.*

It is apparent that the federal government is not devoting sufficient funds to this area, for example capital expenditures for sewerage, housing and electrification. A complementary provincial role cannot be developed until the federal government is prepared to devote the necessary funds to this urgent matter.

Immigration

At the time of the release of the federal Green Paper on Immigration in February 1975, the Prime Minister of Canada proposed, in addition to a review of the Immigration Act and its regulations, joint federal-provincial studies of demographic and land use policies in Canada. While immigration is a federal responsibility, Ontario has a vital interest in the development of new immigration policies because of the implications for rational urban and regional planning in the province.

Premier Davis has replied to the Prime Minister appointing the Provincial Secretary for Social Development and the Provincial Secretary for Resources Development to assume overall responsibility for the demographic and land use studies respectively. He has also requested clarification on objectives and terms of reference of the two reviews because of the nature and scope of the proposals, which have implications for many areas of economic and social development.

Venture Investment Corporations

In the 1974 Ontario Budget Statement, the federal government was invited to adopt the VIC concept with respect to federal income taxes. Despite representations by the Province, the federal government has not shown any interest in this form of incentive for small business financing, thus precluding the introduction of an effective VIC program.

Conclusion

As the above record shows, governments in Canada have been less than successful in achieving harmony in our federal system. If public confidence in our institutions is to continue, there will have to be considerable improvement in this state of affairs. What is required for the year ahead is harder work and a more conciliatory and flexible attitude by all parties involved.

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 1975-76

- A Ontario's Economic Recovery**
- B Review of Provincial and Local
 Government Spending**
- C Ontario Finances**

Budget Paper A

Ontario's Economic Recovery

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Ontario's Economic Recovery

Introduction

This paper reviews economic performance in Ontario in 1974 and examines the outlook for 1975. Section I discusses the international and Canadian economic context, then focuses on the situation and outlook for the Ontario economy in 1975. Section II deals with the stabilization policies of the Ontario and federal governments over the complete economic cycle since 1970. Section III concentrates on oil and natural gas prices and shows that further price rises could significantly retard the anticipated economic recovery during 1975.

I Economic Review

International

Partially cushioned from the shock of rapid increases in world oil prices, the Ontario and Canadian economies remained strong during 1974 in relation to the performance of other major industrial economies. For most advanced economies, the inflationary thrust of higher oil prices was compounded by shortages and higher prices for basic commodities and raw materials. World food prices escalated as a result of generally poor harvests and rising world demand.

The U.S. economy in particular recorded a poor performance with real output declining by 2.2 per cent. Japan and the U.K. also experienced declines in real output along with extremely high inflation rates. The economic performance of Canada and other advanced economies in 1974 is summarized below.¹

Present expectations for the U.S. economy in 1975 indicate a further decline in real Gross National Product of between 3.1 per cent and 3.3 per cent.² Unemployment levels have reached 8.2 per cent in early 1975 and are expected to remain high throughout the year. In this environment, stimulative fiscal measures are in process which should grip in after mid-year and begin to turn the economy around by year-end. The 1975 outlook is somewhat more favourable for other OECD countries though few are expected to record gains in real growth as high as 3 per cent.

¹ *Economic Outlook for 1975* (Paris: Organization for Economic Co-operation and Development, December, 1974.)

² For details of the official U.S. forecast of -3.1 per cent real growth see: President of the United States, *The Budget Message of the President* (Washington: U.S. Office of Budget and Management, 1975.)

Economic Performance in Ontario and Major OECD Countries, 1974

Table 1

	Growth in Real Gross National Product	Consumer Price Increase	Unemployment Rate
	(%)	(%)	(%)
France	4.8	15.2	3.0
Italy	4.8	23.7	2.9
Ontario	3.8	10.6	4.1
Canada	3.7	10.9	5.4
West Germany	0.6	7.3	2.7
United Kingdom	-0.5	18.0	2.7
Japan	-2.0	25.8	1.6
U.S.A.	-2.2	11.0	5.6

Source: Ontario Treasury estimates for Ontario and Canada. U.S. official forecast by the President's Council of Economic Advisers as presented to Congress, February, 1975. Other countries, updated December, 1974 OECD estimates.

Economic Forecast for Canada and the United States, 1975

Table 2

	Growth in Real GNP	Consumer Price Increase	Unemployment Rate
	(%)	(%)	(%)
Canada	2.6	10.0	6.8
U.S.A.	-3.1	11.0	8.1

Source: Ontario Treasury forecast for Canada. U.S. official forecast by the President's Council of Economic Advisers as presented to Congress, February, 1975.

Canada

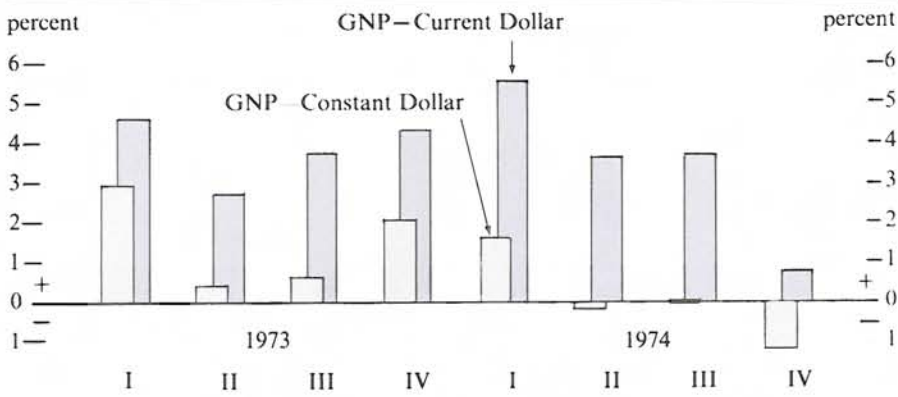
Real growth in Canada's Gross National Product slowed to 3.7 per cent in 1974 from 6.8 per cent in the previous year. Unemployment declined from 5.6 per cent in 1973 to 5.4 per cent, and the national labour force increased by 4.1 per cent. Consumer prices rose by 10.9 per cent, a significantly better performance than in other countries, with the exception of West Germany.

All of the gain in Canada's real GNP was realized in the first quarter of 1974. The second and third quarter performance was flat, while real output declined in the fourth quarter by 1.3 per cent, as weakening external demand impacted on Canada's exports. This gradual deterioration is shown in Chart 1.

The extent of the economic slowdown in Canada can be gauged by reference to the Index of Industrial Production. In 1974 it grew by

Canada's Gross National Product (GNP)
(Quarter-to-Quarter Change)

Chart 1



Source: National Income and Expenditure Accounts.

Note: Data seasonally adjusted.

2.5 per cent compared to an increase of 9.2 per cent in 1973. In the course of the year, the overall gains in industrial production of the first quarter were gradually eroded. A small downturn occurred in April followed by a larger drop in May, partly as a consequence of the \$2.70 per barrel increase in oil prices in Ontario on May 15. A slight recovery in June was followed by a further substantial decline to year-end.

Index of Industrial Production—Canada

Table 3

	Index (1961 = 100)	Percent Change
1970	175.3	1.6
1971	184.2	5.1
1972	196.8	6.8
1973	214.9	9.2
1974	220.2	2.5

Source: Statistics Canada.

Ontario

Record inflation of 10.6 per cent and the substantial increase of unemployment in December marred the relatively favourable performance of the Ontario economy in 1974. Gross Provincial Product grew about 3.8 per cent in real terms and the Ontario labour force increased 4.6 per cent with average unemployment increasing only slightly, from 4.0 per cent in 1973 to 4.1 per cent in 1974. The relative performance of the Canadian and Ontario economies for the years 1970 through 1974 is displayed in Table 4.

Economic Performance—Canada and Ontario
(percent)

Table 4

	Labour Force Increase		Unemployment Rates	
	Canada	Ontario	Canada	Ontario
1970	2.5	3.2	5.9	4.3
1971	3.0	3.8	6.4	5.2
1972	3.0	4.0	6.3	4.8
1973	4.3	3.7	5.6	4.0
1974	4.1	4.6	5.4	4.1

Source: Statistics Canada and Ontario Treasury estimates.

The deepening recession in the U.S. seriously affected Ontario by the last quarter of 1974, dampening the demand for automobile exports and sending unemployment to 4.7 per cent in December and 5.6 per cent by February. Rapid inflation and rising unemployment has been characteristic of the Canadian economy as a whole in this period. The increase in Ontario prices, as indicated by the average movement of the Toronto and Ottawa indices, was 10.6 per cent compared to the 10.9 per cent increase in the Consumer Price Index for Canada.

Labour force productivity in Ontario fell by about one half per cent in 1974. A marked increase in man-days lost due to industrial disputes, delays in deliveries of essential materials and equipment, and the large portion of labour force entering the service sector were among the factors which contributed to the decline in productivity.

There remain, however, sources of continuing underlying strength to the Ontario economy in the areas of consumption, investment and government activity. During 1974, aggregate personal income in Ontario grew by 17.4 per cent compared to the previous year's increase of 13.6 per cent and average weekly earnings advanced by 12.7 per cent to \$187 in December 1974. Despite the eroding effects of inflation, the real disposable income of Ontario residents increased in 1974 and is expected to increase again in 1975. This is in marked contrast to the experience in the United States where real disposable income per capita declined by 3.3 per cent during 1974 and is expected to decline further in 1975. Much of this strength is due to income maintenance actions by Ontario and the federal government to protect lower income groups in the community.

Government stabilization actions have also played a role in maintaining the level of overall activity. Substantial tax cuts bolstered personal incomes in 1974 with further cuts already in effect for 1975.

Private and public investment in Ontario recorded a strong performance in 1974, increasing by 19.8 per cent. Investment in manufacturing provided the major impetus, followed by primary industry and trade. Latest published intentions for Canada show a rise of 13.5

per cent in 1975 with energy utilities showing the largest increases. In Ontario, the increase in utilities investment has been particularly strong. Ontario Hydro alone is planning to invest an additional \$1,350 million in 1975, an increase of 35 per cent over its previous peak year. For the first half of the year, the housing sector will drag down these otherwise encouraging capital intentions.³

The underlying strength of incomes, consumer spending and investment is reinforced by the measures in this Budget. The temporary retail sales tax cut will generate additional consumer spending, particularly on durable commodities. The \$1,500 grant to first-time home buyers combined with easier mortgage financing will strengthen the housing sector and provide spill-over stimulus to the home furnishings and household appliance industries. The temporary removal of sales tax on production machinery will provide underpinning to current investment intentions and encourage acceleration of large scale capital projects. This measure will promote expansion of Ontario's manufacturing capacity and improve the competitive position of industries dependent on exports.

These strengths, however, are challenged by a number of weak spots to which the economy continues to be vulnerable in the months ahead.

These include:

- depressed export demand;
- an unacceptable level of unemployment;
- under performance in the housing sector; and
- high wage and salary settlements and falling productivity, with resultant cost-push inflation.

Ontario's economic recovery depends upon renewed expansion of exports, particularly in the automobile industry. This industry has been hardest hit by the U.S. recession, leading to major shutdowns in Ontario's automobile assembly and parts manufacturing. The reduced operations in this important sector have rippled through the rest of the provincial economy. As the U.S. economy rebounds, Ontario should regain its traditional level of automobile output.

Ontario has traditionally enjoyed a lower level of unemployment than Canada as a whole. The year-end downturn increased Ontario's unemployment rate dramatically from the 4.1 per cent average for 1974 to 5.6 per cent in February 1975. The heaviest concentration of unemployment was in the automobile towns of southwestern Ontario as well as the traditionally high unemployment areas of eastern Ontario. The highest unemployment rate was among persons under 30 years

³*Survey of Current Investment Intentions* (Ottawa: Statistics Canada, 1975.)

of age. The expansionary actions in the 1975 Budget combined with a recovery in automobile activity should ensure that the rate of unemployment gradually improves over the balance of the year.

Although urban housing completions in Ontario finished 6.6 per cent ahead of 1973, the rate of housing starts fell in 1974. During the early months of 1974, house prices in Ontario increased rapidly and new starts advanced strongly. However, following an increase in financing costs and a slower growth in the flow of mortgage funds, housing starts continued to fall into the first two months of 1975. The recent decline in mortgage rates and increased availability of mortgage funds point to recovery in the housing sector in the second half of 1975. Ontario's major initiatives to support housing activity are designed to add momentum to this recovery.

Wage settlements have steadily escalated since the first quarter of 1974. By the last quarter, the average wage increase negotiated in Ontario industries amounted to 15.5 per cent, substantially in excess of the settlements occurring in the United States. Peak settlements were concentrated in the non-manufacturing sector, covering such groups as health employees, government employees and teachers. Continued wage settlements at these levels would set a precedent for all workers and contribute to strong cost-push inflation, thereby seriously undermining Ontario's long-run competitiveness.

In recognition of these weak spots, the Ontario Government has constructed an expansionary fiscal plan for 1975 targeted to have maximum impact in these areas.

Ontario Wage Increases by Industry in 1973 and 1974 Table 5

	All Industries	Manufacturing	Non-Manufacturing	Construction
1973	(%)	(%)	(%)	(%)
IQ	7.7	7.7	7.6	5.2
IIQ	7.8	8.8	7.4	7.5
IIIQ	8.6	8.1	9.2	8.9
IVQ	7.6	6.4	9.1	5.3
1974				
IQ	9.9	11.4	9.5	7.4
IIQ	13.8	10.0	15.8	11.1
IIIQ	14.3	11.5	15.7	8.6
IVQ	15.5	10.9	16.8	6.3

Source: Research Report, *Wage Developments in Collective Bargaining Settlements in Ontario* (Toronto: Ontario Ministry of Labour).

Notes: 1. The percentages are calculated on a compound basis and weighted by employee coverage.
2. Includes collective bargaining settlements covering 200 or more Ontario workers.

II Government Stabilization Policy

Development of an economic recovery program for Ontario has required a careful appraisal of contemporary economic conditions and prospects. This section assesses government response to the current economic slowdown and compares it to the fiscal policy role of the federal and Ontario governments in the previous downturn of 1970-71.

Compared to this earlier period, the fiscal policy stance of the federal government is now more appropriately directed. At that time, a contractionary federal policy necessitated a major stimulative role by the Ontario Government. These previous stabilization actions by Ontario contributed substantially to the strong economic performance in 1972 and 1973.

Ontario's Fiscal Policy

The present weaknesses in the Ontario economy, which threaten to erode the underlying and basic strengths, require that the Ontario Government assume a fiscal policy which provides moderate and short-term stimulation and stabilization. Currently, Ottawa's fiscal policy is moderately expansionary, while the federal government awaits the commencement of fiscal stimulus in the U.S. This indicates the need for immediate supplementary initiatives on the part of the Provincial Government.

The fiscal policy mix set forth in this Budget is designed to be:

- immediate and temporary in its effects;
- focused on sectors most needing stimulus; and
- directed at the expansion of the basic productive capacity required for future non-inflationary growth.

The temporary duration of the tax cuts and the consumption-promoting measures of this Budget are aimed to spark a rapid response on the part of consumers and investors, on the one hand, and to combat further inflationary forces on the other.

The design of the net fiscal impact of this Budget is aided by the full-employment budget concept first introduced into the Ontario budgetary planning process in the 1971 Ontario Budget.⁴ This procedure assesses the impact of automatic and discretionary changes in budgetary revenues and expenditures, and presents the fiscal stance of the Government in relation to the potential performance of the provincial economy.

In Table 6, Ontario's budgetary deficit or surplus is presented on a national accounts basis and a full-employment basis to demonstrate the impact of the Budget on the economy.

⁴Hon. W. Darcy McKeough, "New Directions in Economic Policy Management in Canada", *Ontario Budget 1972* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).

Ontario's Budgetary Impact

Table 6

(\$ million)						
Surplus (+)						
Deficit (—)	1970	1971	1972	1973	1974	1975
National Accounts Basis	+ 106	— 330	— 358	— 204	— 63	— 547
Full-Employment Basis	+ 313	— 81	— 136	— 43	+ 4	— 378

The Ontario economy performed at close to potential during 1974 with actual GPP at \$57.3 billion compared to potential GPP of \$57.8 billion.

In 1975 the national accounts deficit of the Ontario Government is expected to be about \$547 million. This compares with a deficit of \$63 million in 1974. Thus, on a national accounts basis, the fiscal impact or expansionary swing of the 1975 Budget will be in excess of \$450 million.

Another measure of the impact of Ontario's fiscal policy is the swing in the full-employment deficit in relation to Gross Provincial Product at full potential. On this basis, the 1974 fiscal impact was slightly contractionary in response to the inflation problem in the economy. In 1975 there will be an increase in the full-employment deficit in excess of \$375 million. This will generate an expansionary swing equivalent to 0.6 per cent of Gross Provincial Product at full potential.

The net fiscal impact of the 1975 fiscal plan is somewhat less than that for 1971 when Ontario played a leading role in short-run stabilization policy. The net fiscal impact of Ontario budgetary measures at that time amounted to 1.06 per cent of potential GPP, an expansionary thrust comparable to that of the federal government for the country as a whole.⁵

The fiscal impact of Ontario's 1975 measures is appropriate for two reasons. First, the federal government is now providing an underpinning which is more expansionary than 1971. Second, the current problem is of a more temporary nature than in 1971 and the economy is closer to its potential growth path.

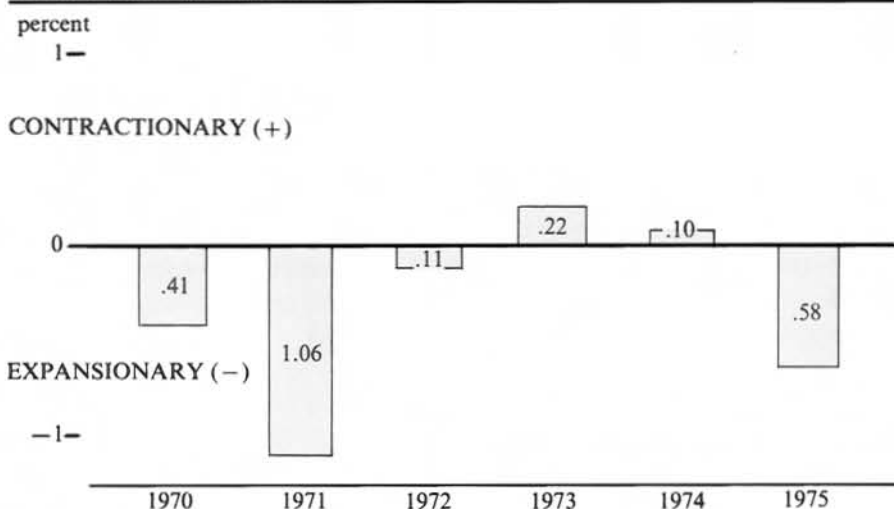
The key considerations to the development of Ontario's short-term economic stabilization program and the accompanying economic forecast are:

- the expectation that the United States economy will turn around the second half of 1975;
- the expansionary thrust of federal fiscal and monetary policy;
- and
- the assumption of stable energy prices during 1975.

⁵Bernard Jones and Jill Berringer, "Federal and Ontario Fiscal Policy in 1970 and 1971", *Ontario Economic Review* (Toronto: Department of Treasury and Economics, 1971) Nov.-Dec. Vol. 9, No. 6, p. 6.

Government of Ontario
Net Fiscal Impact, 1970-1975
(As a per cent of potential GDP)

Chart 2

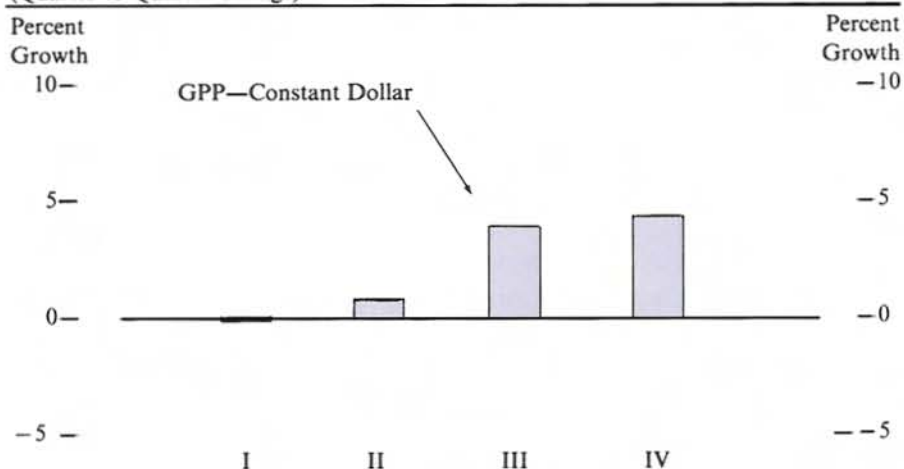


Source: Ontario Treasury estimates.

Note: The net fiscal impact measures the year-to-year change in the relative full-employment surplus.

Projected Path of Economic Recovery
in Ontario in 1975
(Quarter-to-Quarter Change)

Chart 3



Source: Ontario Treasury estimates.

Note: Average for year 2.5%.

The stimulative impact of Ontario's fiscal policy should ensure real growth of 2.5 per cent in 1975. Stable energy prices and responsible wage demands should produce price increases of no more than 9.5

per cent. Unemployment should decline through the year to an average of about 5.4 per cent. The impact of measures to stimulate investment in production machinery and housing should increase new investment by 17.4 per cent and bring housing starts to 90,000 by year-end.

This economic outlook for Ontario is more optimistic than a number of private sector forecasts. Two factors support this optimism: Ontario's own stimulative measures and the increased scale of tax cuts to prime the U.S. economy. These actions could produce 3 per cent real growth in Ontario provided other factors remain favourable. The path of recovery projected for the Ontario economy is expected to start slowly in the second quarter, then steadily pick up momentum in the third and fourth quarters, as shown in Chart 3. Ontario's economic forecast is presented in detail in Appendix A to this paper.

III The Energy Factor

Previous sections of this paper have indicated that the Ontario and Canadian economies are poised for recovery in late 1975. With a turnaround in the U.S. economy and positive federal policies in Canada, the expansionary fiscal measures in Ontario's 1975 Budget will work to ensure that this recovery and growth occurs. A major threat to realization of this economic recovery in 1975, however, is the prospect of a further increase in the domestic price of oil and natural gas.

Impact of 1974 Price Increases

On the international scene, the quadrupling of oil prices over the past two years was the most significant single inflationary shock given to the world economy in decades and it came at a time when severe price pressures were already entrenched in industrial economies. The shock resulted in a massive redistribution of income and wealth to oil-producing countries and depressive effects on real economic activity in most oil importing countries.

In Canada, the 1974 round of domestic oil and natural gas price increases had a substantial effect on the overall Canadian economy. The impact of these increases on the Ontario economy is singled out here for analysis. As of April 1, 1974, the average wellhead price of crude oil increased from \$3.80 per barrel to \$6.50 per barrel. By November, 1974, the average field price of natural gas had doubled from \$0.22 per mcf to \$0.45 per mcf. These energy price increases set off a series of cost and price adjustments which adversely affected all sectors of the provincial economy in 1974. This economic shock has not yet been fully absorbed hence carries over into 1975's economic performance.

The increased cost to Ontario consumers as a direct result of the 1974 oil and natural gas price escalation is very substantial. These price

increases required almost \$400 million in additional outlays for oil and natural gas last year. Even at current price levels, oil and natural gas purchases in 1975 will cost Ontario an additional \$740 million. Since almost all of the province's requirements of these fuels are imported from Western Canada, the direct transfers from the Ontario economy over the two-year period amount to more than \$1.1 billion. Over this short period only a portion would filter back to Ontario.

Increased Costs to Ontario Resulting
from 1974 Oil and Natural Gas Price Increases
(\$ million)

Table 7

Year	Total Oil	Total Natural Gas	Increase in Oil and Natural Gas Costs
1974	360	28	388
1975	559	181	740

Source: Ontario Treasury estimates.

Note: The 1974 increase in prices is applied to eight months of oil consumption and two months of natural gas consumption in 1974 and to full year consumption in 1975.

This massive shift of funds from consumers was a contributing factor to slowing economic performance in Ontario last year, and to the diminished prospects for 1975.

Table 8 contains estimates of the magnitude of economic disturbances in Ontario for 1974 and 1975 resulting from last year's price increases on crude oil and natural gas.

Impact on the Ontario Economy in 1974 and 1975
from 1974 Oil and Natural Gas Price Increases
(\$ million)

Table 8

	1974	1975
<u>Economic Losses</u> (1961 constant dollars)		
Gross Provincial Product	-310	-450
Consumption	-420	-450
Investment	-45	-170
Personal Saving	-80	-50
Employment (000's)	-22	-38
<u>Price Increases</u> (percent)		
Consumer Price Index	+3.5	+2.1
GNE Deflator	+3.0	+1.8

Source: Ontario Treasury estimates.

Note: The sum of reductions in consumption and investment is greater than the reduction in GPP because imports fall.

- Real output of the Ontario economy was reduced by some \$310 million in 1974. In 1975 the reduction will be \$450 million.
- Employment opportunities declined by 22,000 jobs in 1974. In 1975, without other compensating adjustments such as those in this Budget, the decline would be 38,000 jobs.
- Consumer prices escalated 3.5 per cent in 1974 and will rise by a further 2.1 per cent in 1975 as a result of last year's oil and natural gas price increases.

The record of price increases for natural gas used by Ontario consumers is set out in Table 9. It shows that the City Gate price of 47 cents per mcf on August 31, 1973 had risen to 82 cents per mcf by January 1, 1975. This 75 per cent increase in the Toronto City Gate price was almost entirely attributable to substantial increases in the field price effective November 1, 1973 and November 1, 1974. As a result Ontario's natural gas users are now faced with an annual gas bill some \$275 million above the level of twenty months ago.⁶

Record of Price Increases in Ontario
for Natural Gas

Table 9

	Field Price (cents per mcf)	City Gate Price* (cents per mcf)	Annual Increase in Ontario's Gas Bill (\$ million)
August 31, 1973	16	47	—
November 1, 1973	22	54	52
November 1, 1974	45	81	215
January 1, 1975	45	82	8
Increase: Oct. 31/73 to Jan. 1/75	+29	+35	+275
April 1, 1975	45	103 ²	137
November 1, 1975	60 ¹	118	171

*City Gate prices, high load factor, firm service in Southern Ontario. City Gate prices are lower in Northern Ontario due to shorter transportation distances.

¹Estimate of effect of 1974 price arbitration on all Alberta natural gas moving to Ontario.

²Requested increase in transmission charges currently under review by the National Energy Board.

At 82 cents per mcf on January 1, 1975 the natural gas price in Ontario already was 14 cents per mcf higher than the average price in neighbouring American states. Corresponding City Gate prices in Ohio, Michigan, Illinois, New York and Pennsylvania ranged from 63 cents/mcf to 82 cents/mcf for an average price of 68 cents/mcf at January 1, 1975. Price increases are now coming into effect in these jurisdictions, bringing the average price at April 1, 1975 up to the Ontario level. But Ontario users face the prospect of a further round

⁶Statement on Natural Gas, Honourable W. Darcy McKeough, Minister of Energy, to the Rotary Club of Chatham, September 4, 1974.

of substantial increases this year. The second stage of the field price increase negotiated in 1974 alone will add 15 cents/mcf to the Ontario price on November 1, 1975. In addition, an increase in transmission charges has been requested which could add another 21 cents/mcf to the Ontario City Gate price. In total, therefore, Ontario consumers face a 1975 price rise of 36 cents/mcf or almost 45 per cent. This would make domestically produced natural gas much more expensive in Ontario than natural gas in the neighbouring U.S. markets with which Ontario competes.

Comparison of City Gate Prices for Natural Gas: Table 10
Ontario Versus Northeastern U.S.

	At January 1, 1975 (cents/mcf)	Estimated at April 1, 1975 (cents/mcf)
Ohio	73	81
Pennsylvania	82	91
Michigan	70	84
Illinois	63	71
New York	71	93
Average U.S.	68	80
Ontario (Toronto)	82	103*

*Ontario City Gate price is estimated to increase to 118 cents/mcf on November 1, 1975.

The 1974 Tax Climate

During 1974, there were four major changes in the taxation of oil and natural gas for domestic consumption:

- in January, Alberta radically increased its oil royalties;
- the May 6 federal budget increased Ottawa's tax take by \$1.00 per barrel;
- the November 18 federal budget reduced the federal tax share modestly; and
- in December, Alberta reduced its effective tax level modestly.

Apart from the disruption and uncertainty caused by the federal-provincial tax confrontation, oil companies emerged with a cash flow from \$6.50 per barrel oil only marginally above the cash flow from \$3.80 per barrel oil. In other words, almost all of the \$2.70 price increase flowed into government coffers. The tax and royalty structure now in place leaves Canadian companies at a competitive handicap in terms of their ability to finance the exploration and development necessary to expand Canada's energy reserves. This clearly indicates the need to reduce the royalty/tax burden so that companies have adequate cash flow to finance the exploration and development necessary to expand Canada's energy base.

End Result of 1974 Taxation Changes
(per barrel effects)

Table 11

	March 1974	December 1974
	(\$)	(\$)
Crude Oil Price	3.80	6.50
Less: Operating Costs	.50	.50
Production Income	3.30	6.00
Less: Provincial Royalty and Tax	.92	2.64
Federal Tax	.20	1.10
Company Cash Flow	2.18	2.26

Source: Ontario Treasury estimates.

Note: Based on Alberta's royalty structure and corporate tax, and assuming maximum depletion entitlement to companies.

Share of Proceeds from \$2.70 Price Increase

Table 12

	(\$)	(%)
To Provincial Government	1.72	63.7
To Federal Government	.90	33.3
To Company	.08	3.0
	2.70	100.0

Source: Ontario Treasury estimates.

Note: Based on Alberta's royalty structure and corporate tax, and assuming maximum depletion entitlement to companies.

Impact of Further Price Increases

Canada's relative economic stability in 1974 in comparison to the rest of the developed world was substantially due to the maintenance of domestic energy prices below world levels. The comparative advantage of \$6.50 per barrel oil over the past year has provided essential breathing space for the Canadian economy to adjust in a balanced and orderly fashion. Even so, the adverse economic impact has been substantial as documented in the previous section.

A further oil price increase in 1975 would severely retard the anticipated recovery in the Canadian and Ontario economies. The following table illustrates the magnitude of economic losses and price increases in Ontario which would result from each \$1.00 increase in the price of crude oil. These effects would compound losses still being absorbed as a result of the last price increase.

Paradoxically, additional price increases would produce almost no benefits in terms of increasing Canada's long-term supply of oil and natural gas. So long as the current royalty/tax regime continues, almost the entire yield from any price increase will accrue to producing provinces and the federal government, leaving little incentive for companies to maintain exploration and expand proven energy resources.

Impact on the Ontario Economy of
\$1.00 per Barrel Increase in Price of Oil, 1975
(\$ million)

Table 13

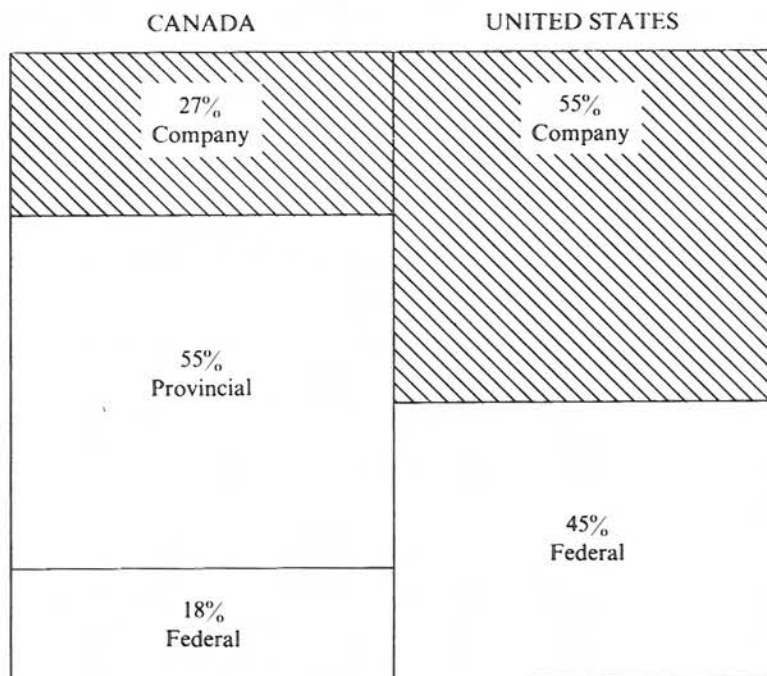
Economic Losses	
(1961 constant dollars)	
Gross Provincial Product	-100
Consumption	-120
Investment	-15
Personal Saving	-22
Employment (000's)	-7.4
Price Increases	
(percent)	
Consumer Price Index	+1.0
GNE Deflator	+0.8

Source: Ontario Treasury estimates.

An increase in price to \$10 per barrel would generate huge new revenues to producing provinces and the federal government, but only a marginal improvement in the cash flow to companies. Thus, even at a price level comparable to that in the U.S., the return to Canadian oil

Relative Shares of Proceeds at \$10.00 per
Barrel Oil in Canada and United States, 1975

Chart 4



Source: Ontario Treasury estimates.

Note: Based on Alberta's royalty structure and corporate tax, and assuming maximum depletion entitlement to companies.

companies would not be adequate to encourage further exploration and development.⁷ An essential prerequisite in oil pricing, therefore, must be to ensure that Canada's royalty/tax structure is reduced to a competitive international norm and redesigned to promote expansion of Canada's energy supplies.

Comparison of Company Cash Flow
at \$10.00 per Barrel Oil, 1975 Table 14

	Canada	United States
	(\$)	(\$)
Crude Oil Price	10.00	10.00
Less: Operating Costs	.50	.80
Production Income	9.50	9.20
Less: Royalty	4.62	1.25
Federal Tax	1.75	2.89
Provincial Tax	.59	—
Company Cash Flow	2.54	5.06

Source: Ontario Treasury estimates.

Note: Based on Alberta's royalty structure and corporate tax, and assuming maximum depletion entitlement to companies.

IV Conclusion

This paper has reviewed Ontario's economic performance in 1974 and examined the strengths and weaknesses evident for 1975. Given the worldwide economic slowdown, particularly the major recession in the U.S., Canada and Ontario cannot aspire to full-employment growth in 1975. Expansionary measures in the U.S., however, should generate renewed momentum by year-end. This upswing along with the stimulative actions in Ontario's 1975 Budget provide the basis for a moderate and balanced recovery. A rise in oil and natural gas prices would jeopardize this return to normal economic performance by late 1975.

⁷See forthcoming Staff Paper on Energy Taxation.

Appendix A

The Ontario Economy 1973-1975

Table A1

	1973	1974	1975	73/72	74/73	75/74
	(\$ billion)			(percent)		
Gross Provincial Product	48.8	57.3	64.5	14.3	17.5	12.6
GPP (constant 1961 dollars)	31.3	32.5	33.3	6.1	3.8	2.5
Prices						
GNE Deflator						
(1961 = 100)	155.7	176.1	193.7	7.6	13.1	10.0
Consumer Price Index						
(1961 = 100)	145.1	160.5	175.7	7.2	10.6	9.5
Private and Public Investment	9.6	11.5	13.5	16.3	19.8	17.4
Machinery and Equipment	3.5	4.3	5.0	17.2	22.9	16.3
Total Construction	6.1	7.2	8.5	15.9	18.0	18.1
Non-Residential	3.5	4.2	5.2	9.5	20.0	23.8
Residential	2.6	3.0	3.3	26.0	15.4	10.0
Retail Sales	14.5	16.4	18.8	11.6	13.1	14.6
Personal Income	38.4	45.1	51.9	13.6	17.4	15.1
Corporate Profits (before taxes)	6.4	8.2	7.9	23.4	28.1	(3.6)
Labour Force (000's)	3,509	3,671	3,810	3.8	4.6	3.8
Employment (000's)	3,366	3,519	3,604	4.6	4.5	2.4
Unemployment						
(% of labour force)	4.0	4.1	5.4	—	—	—
Housing Starts						
(Thousands of units)	110.5	85.5	90.0	14.4	(22.6)	5.3
Exports	10.7	11.9	12.9	20.0	11.2	8.5
Imports	13.2	16.5	20.6	25.2	25.0	24.8

Ontario Hydro Expansion

Table A2

	1970	1971	1972	1973	1974
Electrical Energy Generated by Hydro (kWh billion)	58	63	69	73	76
Expenditures on Fixed Assets (\$ million)					
Generation	318	336	405	558	611
Transportation	69	58	54	54	61
Transmission	65	53	49	57	59
Retail Distribution and Other	59	60	54	73	101
Heavy Water Production Facilities				255	58
	511	507	562	997	890

Capital Construction Intentions (\$ million)	1975	1976-1979
Generation, Transformation, Transmission, Retail Distribution and Other	1,050	7,950
Heavy Water Production Facilities	300	1,400
Total	1,350	9,350

Source: Ontario Hydro.

The Housing Sector in Ontario

Table A3

Housing Starts in Ontario and Canada

	Ontario	Canada
1970	76,675	190,528
1971	89,980	233,653
1972	102,933	249,914
1973	110,536	268,529
1974	85,503	222,123

Housing Starts in Ontario Urban Centres

	1973		1974	
	Units	%	Units	%
Toronto Boroughs	20,308	22	16,272	23
Balance of Greater Toronto	17,389	19	13,308	19
Ottawa	11,951	13	7,327	10
Hamilton	8,708	9	5,968	8
Guelph	972	1	1,776	2
Kitchener	5,054	5	4,085	6
Other Urban Centres	27,829	30	22,783	32
	92,211	100	71,519	100

Housing Completions in Ontario Urban Centres

	1973		1974	
	Units	%	Units	%
Toronto Boroughs	19,785	24	24,779	28
Balance of Greater Toronto	14,916	18	14,669	16
Ottawa	9,097	11	10,653	12
Hamilton	6,504	8	7,519	8
Guelph	739	1	963	1
Kitchener	5,362	6	4,387	5
Other Urban Centres	27,035	32	25,988	29
	83,438	100	88,958	100

Source: Central Mortgage and Housing Corporation: Housing Statistics.

Budget Paper B

Review of Provincial and Local Government Spending

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Review of Provincial and Local Government Spending

Introduction

Recently, sustained high inflation has had a profound impact on Provincial and local government expenditures. Like the private sector, governments as employers and purchasers of goods and services have been faced with rapidly rising costs of materials and escalating wage demands. This paper reviews the spending performance of the Province and local governments over the past four years and illustrates the impact of inflation on government costs.

Section I demonstrates that government spending accounts for a smaller share of Gross National Product in Ontario than it does in the rest of Canada. Section II reviews the changing composition and structure of Ontario's spending since 1970 and shows the impact of recent high inflation. Section III analyzes local government spending since 1970 and illustrates its sensitivity to cost and wage increases. In conclusion, the paper sets out the Ontario Government's target of continued expenditure restraint for the 1975-76 fiscal year.

I Size of the Government Sector in Ontario

Federal, Provincial and local government spending in Ontario accounts for one-third of Gross National Product generated in the province. By comparison, spending by the three levels of government in the rest of Canada takes up 40.5 per cent of Gross National Product. This difference is made possible by the large fiscal surplus accruing to the federal government from its operations in Ontario.¹

Since 1970, the total public sector in Ontario, measured on a National Accounts basis, has not increased in size relative to the economy as a whole. Provincial spending has grown in line with total output, accounting for a stable 11 per cent of GNP. Local government spending has declined from 9.4 per cent of GNP in 1970 to 8.4 per cent in 1974. By contrast, federal spending in Ontario has grown in relative importance from 12.2 per cent of GNP in 1970 to over 14 per cent in 1974. However, the total government sector in Ontario has remained remarkably stable, in sharp contrast to the rising share of GNP being absorbed by government spending in the rest of Canada.

¹The federal surplus for Ontario amounted to \$1.4 billion in 1968-69. See Hon. C. MacNaughton, "The Structure of Public Finance in Ontario", *Ontario Budget 1970* (Toronto: Department of Treasury and Economics, 1970). The federal surplus from Ontario is estimated at \$3.5 billion in 1974-75.

Public Spending as a Percentage of Gross National Product, Ontario and Canada, 1970-1974¹ Table 1

	1970	1971	1972	1973	1974
Ontario					
Federal	12.2	12.5	13.1	13.5	14.1
Provincial	10.5	11.3	11.0	10.5	10.7
Local	9.4	9.5	9.2	8.8	8.4
Total (%)	32.1	33.3	33.3	32.8	33.2
Rest of Canada					
Federal	8.2	8.4	8.2	7.9	8.0
Provincial	13.5	15.0	15.1	14.8	15.3
Local	14.6	14.6	15.9	15.3	17.2
Total (%)	36.3	38.0	39.2	38.0	40.5
All of Canada					
Total (%)	34.6	36.1	36.7	35.9	37.5

Source: Ontario Treasury estimates.

¹National Accounts basis, excluding intergovernmental transfers.

II Review of the Provincial Spending Record

The Ontario Government's policy of restraining expenditures has reduced the growth in budgetary spending to an annual average of 14 per cent over the past four years, as compared with 18 per cent over the past ten years. Within this context of spending restraint, Ontario has maintained its essential public services, increased its support to local governments, and recognized the emerging priorities of a dynamic urban society.

Composition and Structure

The proportion of Ontario's budget allocated to its own direct operating expenditures, such as salaries, diminished over the past four years.² In 1970-71, direct operating expenditure amounted to \$944 million or 18.3 per cent of budgetary expenditures. By 1974-75, this expenditure component amounted to \$1.5 billion or 17.0 per cent of budgetary expenditures. Direct capital expenditure by the Province, such as road construction, has maintained a constant 5 per cent share over the period 1970 to 1974. Transfers to other spending units, such as municipalities, school boards, hospitals and universities, have grown from \$3.7 billion in 1970-71 to \$6.2 billion in 1974-75. These transfer payments for both operating and capital purposes continue to account for 71 per cent of the Province's total budgetary expenditures. Because

²See also Hon. C. MacNaughton, "The Budgetary Framework", *Ontario Budget 1968* (Toronto: Department of Treasury and Economics, 1968).

of the rise of interest rates, debt charges have increased in relative importance from 4.9 per cent of budgetary expenditures in 1970-71 to 6.7 per cent in 1974-75.

Composition of Budgetary Expenditures in Ontario, 1970-71 and 1974-75 Table 2

	1970-71		1974-75	
	(\$ million)	(%)	(\$ million)	(%)
Transfer Payments (Operating)	3,426	66.5	5,916	67.8
Transfer Payments (Capital)	253	4.8	315	3.6
Total Transfers	3,679	71.3	6,231	71.4
Direct Operating Expenditure	944	18.3	1,483	17.0
Direct Capital Expenditure	283	5.5	427	4.9
Total Direct	1,227	23.8	1,910	21.9
Public Debt Interest	254	4.9	586	6.7
Total Budgetary Expenditures	5,160	100.0	8,727	100.0

The major shifts in Ontario's spending priorities over the past four years are reflected in the changing composition of Provincial investments through the non-budgetary account. Investment in housing almost tripled from \$94 million in 1970-71 to \$234 million in 1974-75 and comparable growth occurred in industrial development loans. Capital investment on environment, such as sewer and water projects, doubled from \$62 million in 1970-71 to \$126 million in 1974-75. Following the build-up of education facilities in the 1960's, the need for new schools and universities has tapered off dramatically since 1970. In that year, \$376 million was invested in schools, community colleges and universities. By 1974-75, the requirements of this sector totalled only \$127 million. Similarly, hospital construction showed only modest growth in the last four years following the massive expansion of Ontario's hospital system prior to 1970. This shift in needs and priorities is shown in the following table.

Provincial Investments (Non-Budgetary) Table 3

	1970-71		1974-75	
	(\$ million)	(%)	(\$ million)	(%)
Education	376	63	127	20
Housing and Urban Development	94	16	234	38
Environment	62	10	126	20
Hospital Construction	30	5	40	7
Industrial Development	15	2	46	7
Other	25	4	52	8
Total	602	100	625 ¹	100

¹Excludes \$420 million in assets and advances consolidated in the new Ontario Land Corporation and the Ontario Energy Corporation.

Major Initiatives and Accomplishments

While Ontario has maintained the delivery of essential services in all expenditure areas, successive budgets since 1970 have also financed a number of major initiatives.

● Increased Support to Local Governments

Total Provincial payments to local governments and agencies increased from \$1.4 billion in 1970 to \$2.3 billion in 1974. This growth in transfer payments has allowed municipalities to meet the demands of strong growth pressures, while at the same time holding mill rate increases to a minimum. A significant feature of this support was a shift from conditional to unconditional payments which increased fourfold from \$73 million in 1970-71 to \$295 million in 1974-75.³ Further, the Ontario Government set forth a basic commitment to local governments ensuring them of increased financial support each year commensurate with the growth of Provincial revenues.⁴

● Increased Financing for Public Transit

The Ontario Government has a long-run policy of encouraging the expansion of public transit services and facilities. The objective is to

Ontario Financial Support for Public Transit
1970-71 to 1974-75
(\$ million)

Table 4

	1970-71	1974-75
<i>Local Transit Systems</i>		
Operating Subsidies	—	35.1
Capital Equipment Subsidies	—	20.0
Subway Construction	8.6	26.8
Traffic Computers, etc.	0.6	3.5
Total	9.2	85.4
<i>Provincial Transit Systems</i>		
GO Transit Operations	3.4	12.0
GO Capital Grants	1.5	3.4
Ontario Transportation Development Corporation	—	5.5
Total	4.9	20.9
Total Financial Support	14.1	106.3

³Hon. W. D. McKeough, "Provincial-Municipal Reform: A Progress Report", *Ontario Budget 1971* (Toronto: Department of Treasury and Economics, 1971). See also Hon. John White, *Ontario Budget 1973* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1973), page 20.

⁴This financial support plan was outlined in, Hon. John White, *Public Finance* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1973).

shift emphasis from urban expressways to mass transit systems. In 1970-71, Ontario's financial support for public transit amounted to \$14 million. By 1974-75, it had grown to \$106 million, comprising capital grants to finance 75 per cent of the cost of buses and subways, 50 per cent financing of transit operating deficits, and expansion of the GO Transit system.⁵

● Land Acquisition and New Housing

Over the past four years, the Province has accorded a major priority to the expansion of housing supply and the purchase of land for new town development. Budgetary plus non-budgetary outlays on housing programs have nearly tripled from \$115 million in 1970-71 to \$304 million in 1974-75. In addition, the Government recently established the Ontario Land Corporation as a key vehicle to finance its land acquisition, urban development and housing objectives.⁶ Land assets accumulated since 1970, at a cost of more than \$240 million, were transferred to the new Corporation in 1974-75 and additional funding was provided to complete the Province's acquisition of new townsites and industrial parks.

● Enriched Income Support Programs

Ontario has undertaken major social initiatives over the past two years to protect and enrich the standard of living of its elderly, blind and disabled, and low-income citizens. A Guaranteed Annual Income System (GAINS) was introduced in 1974 to ensure an adequate annual income to all pensioners and blind and disabled persons. The Province's health insurance system was expanded in 1972 to include nursing home and home care services. And a program of free prescription drugs was commenced for all needy pensioners and social assistance recipients in 1974. The GAINS and drug benefit programs delivered over \$100 million in benefits in 1974-75 to more than 300,000 people.⁷ In addition, Ontario pioneered the introduction of income tax credits to relieve the burden of sales and property taxes on the elderly and families with low and modest incomes.⁸ This comprehensive tax credit system provided \$375 million in tax relief for the 1974 taxation year.

⁵Hon. John White, *Ontario Budget 1974* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1974), pp. 9-10.

⁶Hon. John White, *Ibid.*, pp. 13-14.

⁷Hon. John White, *op. cit.*, pp. 2-4.

⁸Hon. W. Darcy McKeough, "Ontario's Property Tax Credit Plan", *Ontario Budget 1972* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972). See also Hon. John White, "Income Security and Tax Reform in Ontario", *Ontario Budget 1974* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1974).

Impact of Inflation on Government Spending

The Government of Ontario, as both a major employer and purchaser of goods and services, has been subjected to the same strong inflationary pressures as the economy as a whole.

Wages and salaries for civil servants account for about 10 per cent of Ontario's budgetary spending. In the past year, wage settlements for Government employees have ranged from a low of 11 per cent increase to a high of 22 per cent. The higher settlements were concentrated among lower paid occupations. This increase in labour costs was a significant factor in the growth of the Province's direct operating expenditure during 1974-75.

Ontario Public Service
Wage Settlements, 1974-75 Table 5

	Percent Increase
Operational Services	21.6
Social Services	17.6
Scientific and Technical Services	11.0
Administrative Services	11.0
General Services	12.0

The cost of purchasing goods and services also reflected the impact of inflation. Almost without exception, the materials, supplies and services used by the Province to operate its programs showed significant price increases. For example, higher oil and gas prices increased vehicle operating costs and road maintenance costs. The doubling of the price of asphalt had a major impact on the cost of road construction. Office supplies, such as paper and typewriters, also went up in price, thereby increasing the cost of the Government's daily operations. Food and drug price increases placed upward pressure on the budgets of health and welfare institutions and agencies. The cost of borrowing increased significantly as well. For example, the average yield on an Ontario

Cost Escalation of
Selected Items, 1973 to 1974 Table 6

	Percent Increase
Fuel Oil	100
Natural Gas	45
Asphalt	105
Steel	31
Explosives	28
Office furniture	67
Typewriters	7
Rents and Leases	10

Government bond was 8.2 per cent in 1973, increasing to 9.8 per cent in 1974.

From these examples, it is clear that the Province, like the private sector, has been forced to adjust its budget to cope with strong inflationary pressures.

III Review of Local Government Spending

Over the period 1970-74, the local sector increased expenditure by 43 per cent, from \$3.5 billion to over \$5.0 billion. The growth of spending by major categories of expenditure is shown in Table 7.

Local Government Expenditure in Ontario
(\$ million) Table 7

	1970	1974	Growth (1974/1970)
MUNICIPAL			(%)
Fire and Police	271	464	71
Roads and Transit	522	828	59
Waste Disposal	171	299	75
Recreation	151	315	109
Health and Social Services	291	434	49
Other	230	333	45
Sub-total	1,636	2,673	63
EDUCATION	1,905	2,366	24
TOTAL EXPENDITURES	3,541	5,039	42

Note: Figures include expenditures of municipalities, school boards, municipal homes for the aged, health units and boards, welfare boards, children's aid societies, conservation authorities and library boards. Municipal enterprises are included only to the extent of operating deficits and debt charges assumed by municipalities.

Growth rates varied widely among different expenditure functions. School boards' spending, including both current and capital, increased 24 per cent, while municipal and local board spending rose 63 per cent. School boards' current spending rose 37 per cent but this was offset by a decrease on the capital side to yield the 24 per cent overall growth rate. Within the municipal sector, the areas of fastest growth were: recreation and cultural services, up 109 per cent; sewage and waste disposal, up 75 per cent; and fire and police protection, up 71 per cent. Even the slowest growing major function, health and social services, grew by 49 per cent.

These different rates of growth indicate a significant change in the pattern of local needs and priorities between 1970 and 1974. This change in the expenditure pattern is illustrated in Chart 1, which shows how much of each local government dollar was spent on the major local functions.

Changing Composition of Local Government Spending

Chart 1

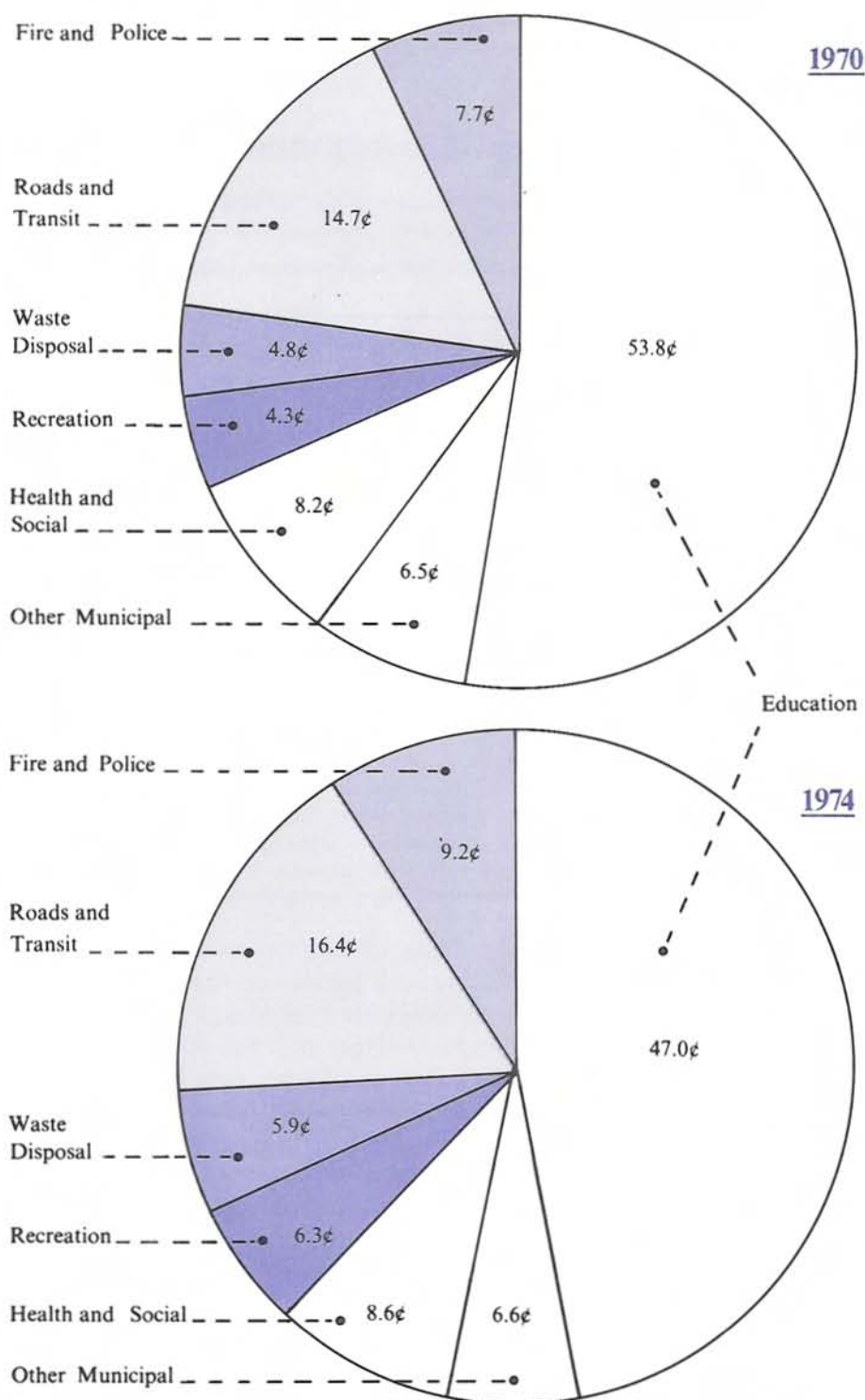


Chart 1 shows a significant decline in the relative importance of school board spending, from 54 cents out of every dollar in 1970 to 47 cents in 1974. Conversely, the municipal sector as a whole increased its share of each local dollar spent from 46 cents to 53 cents. The functions which recorded the largest gains were recreation, which increased from 4.3 cents of each dollar to 6.3 cents, and police and fire protection which increased from 7.7 cents to 9.2 cents out of every dollar of spending in 1974.

These changes in the pattern of local spending partly reflect changes in local government priorities, and partly the effect of Provincial programs. Over the 1970-74 period, Queen's Park's major influence on local expenditures has been to set ceilings on school board spending. The efficacy of these ceilings is amply demonstrated by the fact that school board spending grew only half as fast as the slowest growing function of municipal expenditures.

The relatively modest growth in school board spending must be seen in the context of the decline in numbers of students over the 1970-74 period. The total number of elementary and secondary school students declined by 14,000, even though enrolment was broadened to include junior kindergartens. In contrast, the number of households rose 10 per cent. Municipalities were obliged to increase their services accordingly, while school boards had greater flexibility to contain their expenditure growth.

School Enrolment, 1970 and 1974 Table 8

	1970	1974	Percent Change
Elementary	1,385,307	1,338,378	- 3.4
Secondary	541,416	574,068	6.0
Total	1,926,723	1,912,446	- 0.7

The greatest increases in local sector spending have come in areas where the Province has few major conditional grants. The highest rates of growth occurred in recreation, sewage disposal and fire and police protection. The increase in the relative importance of these functions, therefore, was clearly a reflection of local spending priorities. The Provincial influence on local priorities has steadily declined because the bulk of additional transfers in 1973 and 1974 have been unconditional.

Current and Capital Spending

To examine local sector spending in detail, it is necessary to separate expenditures for current year purposes from those for capital purposes. These details are shown in Table 9.

In both the municipal and education sectors, current expenditures constitute the bulk of total expenditures. However, in the municipal sector, capital spending increased 68 per cent while school board capital spending halved. As a result of the decline in school board capital projects, capital expenditures accounted for only 15 per cent of total local spending in 1974 as compared to 19 per cent in 1970. Although municipal capital outlays grew faster than municipal current spending, the absolute increase in current spending, \$790 million, far exceeded the increase in capital disbursements of \$250 million.

Local Government Current and Capital Expenditures, 1970 and 1974
(\$ million)

Table 9

	1970		1974		Percent Growth (1974/1970)	
	Current	Capital	Current	Capital	Current	Capital
MUNICIPAL						
Fire and Police	256	15	439	25	71	67
Roads and Transit	323	199	517	311	60	56
Waste Disposal	122	49	199	100	63	104
Recreation	122	29	232	83	90	186
Health and Social Services	279	12	420	14	51	17
Other	169	61	253	80	50	31
Sub-total	1,271	365	2,060	613	62	68
EDUCATION	1,605	301	2,204	162	37	-46
TOTAL	2,876	666	4,264	775	48	16

The largest percentage increases in municipal capital spending were in the same functions as the increases in current spending. Recreation capital outlays almost tripled to \$83 million, while expenditures on sewage and waste disposal more than doubled to \$100 million. Health and social services, which showed the least growth in current expenditures, also showed the slowest growth in capital spending. The largest absolute growth in capital expenditure came in roads and transit, which grew by \$112 million to \$311 million in 1974, accounting for over 50 per cent of the capital outlay of the municipal sector in 1974.

The distribution of capital expenditures in the local sector differs substantially from the composition of current spending. As Table 9 shows, capital spending tends to be concentrated in the 'hard services' such as roads, transit and sewers. Capital spending amounted to over 35 per cent of total spending on these functions in 1974, while fire and police accounted for just over 5 per cent. These two latter services are both 'soft services' and labour-intensive rather than capital-intensive.

Detailed Analysis of Current Spending

A comprehensive analysis of local current spending requires a greater level of detail than has been considered up to this point. Chart 2 shows rates of growth for different sub-categories of local sector current spending.

Within the two fastest growing functions, recreation and protection, growth has been consistent among the sub-functions. Parks and recreation spending has increased only marginally faster than library and other cultural expenditures. However, library spending has been influenced by the 113 per cent increase in Provincial grants, while parks and recreation spending has increased almost entirely as a result of local priority setting.

Fire protection has grown more slowly than police and other protective services. Fire and police expenditures, at 71 per cent growth through the period, have far outstripped the 10 per cent growth in households. Local police personnel have increased from 1.5 per thousand persons served in 1970, to 1.7 per thousand in 1974. As a consequence, the complement of local police forces grew 26 per cent while the estimated effective increase in fire fighters, including volunteer personnel, was only 10 per cent.

The most dramatic change in priorities is within the transportation function. Transit spending tripled in response to generous Provincial initiatives and incentives favouring the more efficient public transportation. By comparison, local spending on road construction and maintenance grew much less rapidly.

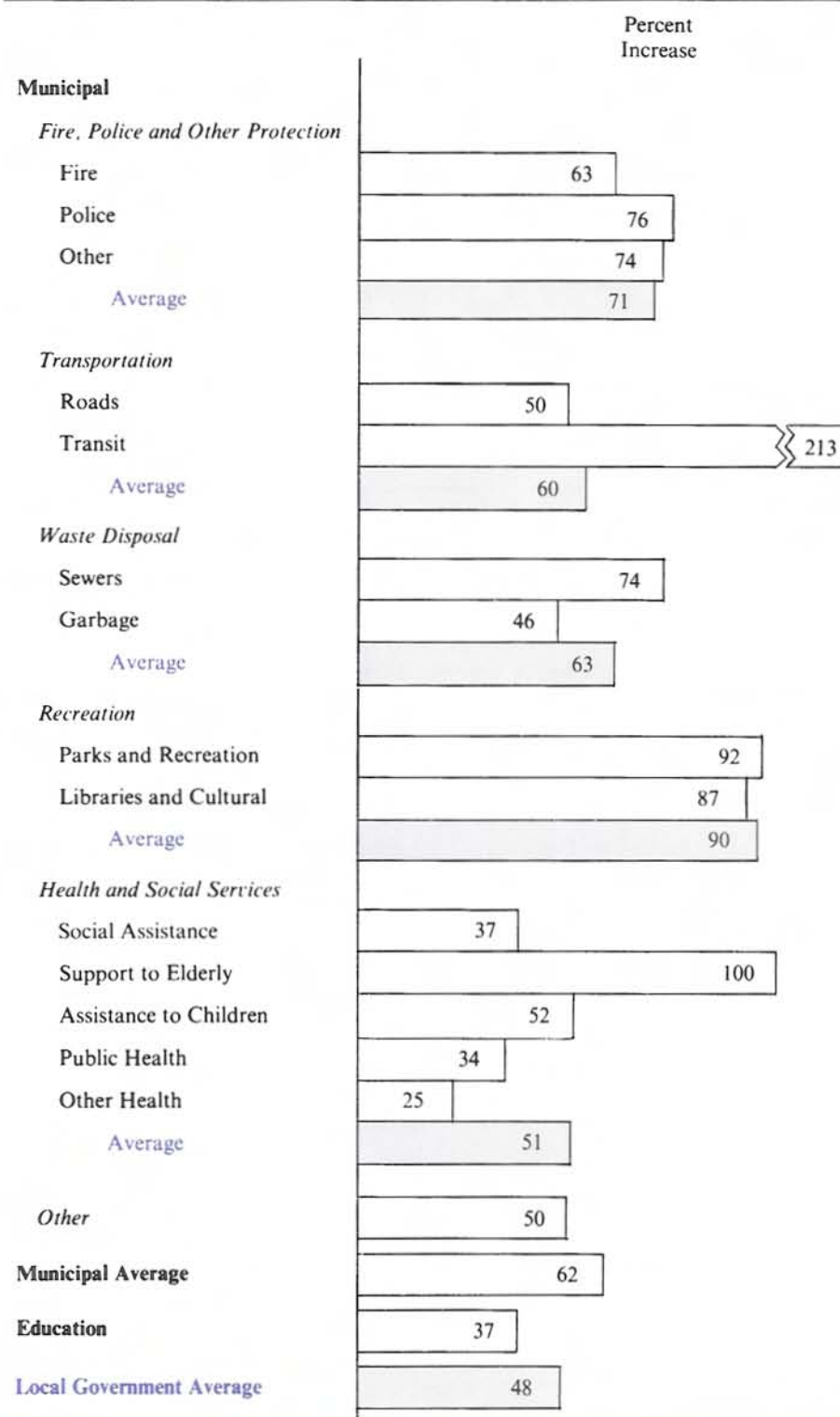
The comparatively low growth in social assistance expenditures relates to a decline in the average number of beneficiaries from 151,000 in 1970 to 120,000 in 1974. Since municipal assistance is generally 'assistance of the last resort', the slow growth in this spending item can be attributed largely to the improvement of the economy and enrichment of other programs of the federal and Provincial governments.

Sewer expenditures increased 75 per cent, while garbage expenditures grew 46 per cent. The higher rate of growth of expenditures on sewers can be attributed to increased concern about the problems of pollution. This concern was expressed in a rapid increase in construction of new facilities by both levels of government. The increase of expenditure on solid waste disposal can be related to the increase in population, the increase in garbage produced and increases in wages in a highly labour-intensive service.

In summary, the rate of local government expenditure growth on each service depends upon many factors, including institutional constraints, local demands and priorities, and the influence of the Province. In some areas, notably transit and child day care, Provincial grants and local needs have combined to produce large expenditure incre-

Growth in Local Government Current
Expenditure, 1970-1974

Chart 2



ments. In other areas, such as the health and social services field, substantial grants by themselves have not resulted in increased spending. Rather, the local sector has decided its own priorities, and has patterned its expenditures accordingly.

Impact of Inflation

Like the Province, local governments have had to contend with inflationary pressures in balancing their budgets. An overview of the major municipal costs and their respective places within the total cost structures in the years 1970 and 1974 is shown in the following tables.

Overview of Municipal Costs
(\$ million)

Table 10

	1970	1974	Percent Increase (1974/1970)
Staff	574	972	69
Goods, Services and Rents	380	675	78
Debt Charges	227	293	29
Transfers to Persons	90	120	33
Land and Improvements	365	613	68
	1,636	2,673	

Shifts in Major Costs, 1970 to 1974

Table 11

	Share of Total Cost 1970	Share of Total Cost 1974
	(%)	(%)
Staff	35	36
Goods and Services	23	25
Debt Charges and Transfers	20	16
Land and Improvements	22	23
	100	100

• Staff Costs

Municipal staff costs, which are the largest single component of total municipal costs, rose nearly \$400 million between 1970 and 1974. Quite clearly then, this is the cost element which requires the greatest scrutiny. The number of people employed is controllable, as evidenced by the Province's 2.5 per cent target reduction in complement in 1975-76.

The key variables in the staff cost picture for both municipalities and school boards are set out in Appendix A. This appendix shows that municipal complements increased 24 per cent and average wages rose 34 per cent. School board complements declined just over 1 per cent

while average wages climbed 39 per cent. Given these increases in complements and average salaries, the effects of each on total staff costs between 1970 and 1974 have been substantial.

Staff Cost Increases, 1970 to 1974
(\$ million)

Table 12

	Municipal	Education	Total
Due to Complement Change	200	(13)	187
Due to Remuneration Increase	198	463	661
Total Increase	398	450	848

Staff cost increases in the municipal sector have resulted as much from salary increases as from complement growth. In view of the expenditure pressures facing municipal governments in 1975, consideration should be given by municipalities to holding the line on both elements. Restricting further complement growth would generate substantial economies over time. Restructured governments, in particular, should examine closely both complement and salary levels in relation to the changes and reductions in their responsibilities.

• Goods and Services

Municipal governments purchase a wide variety of goods and services. In the 1970-74 period, these items collectively increased in cost by \$295 million and rose in significance to 25 per cent of total municipal spending.

While inflation has increased the cost of almost all commodities purchased by local governments, price increases have varied widely. In particular, the costs of fuel, asphalt and sand have risen sharply. The cost of fire vehicles has also increased substantially in comparison to police vehicles. Table 13 displays the magnitude of price increases for a number of items of significant importance in municipal budgets.

Cost Escalation of Selected Goods and Services,
1970 to 1974

Table 13

	Percent Increase (1974/1970)
Fuel Oil	130
Asphalt	163
Sand	68
Gravel	27
Police Vehicles	30
Fire Vehicles	59
Paper	35
Printing	50

IV Continuing Expenditure Constraint in 1975-76

In the development of the 1975-76 budget plan, a prime objective was to restrain expenditure growth. This policy of restraint will ensure that the Government's operations do not contribute to inflationary pressures and will set an example of responsible leadership for all governments to follow.

Ontario's planned budgetary expenditures will increase by only 16.8 per cent for 1975-76. Within this controlled expenditure growth, the Government will maintain its high level of services and continue to respond to changing social and economic needs. By comparison other provinces who have recently tabled their budgets have exhibited higher growth rates in their spending intentions for the 1975-76 fiscal year. For example, the expenditure intentions tabled by British Columbia are up 47 per cent and Saskatchewan's are up 27 per cent.

Federal and Provincial Spending Intentions, 1975-76 **Table 14**
(\$ million)

	1974-75	1975-76	Percent Increase
Ontario	8,726	10,192	16.8
British Columbia	2,173	3,200	47.3
Saskatchewan	899	1,141	26.9
Nova Scotia	766	911	18.9
Manitoba	849	1,009	18.8
Newfoundland	789	926	17.4
Alberta	2,083	2,439	17.1
New Brunswick	833	971	16.6
Federal Government	26,530	29,442*	11.0

*Includes \$1.2 billion for supplementary estimates in 1975-76, as compared to \$4.5 billion in 1974-75.

Ontario's plan of expenditure restraint concentrates on its own operating expenditures. A target reduction of 2.5 per cent in civil service complement has been established for 1975-76. This overall reduction in complement will have the effect of imposing constraint on ministries' staffing levels with a consequent savings to the Province in its Civil Service payroll. The Government is convinced that this economy in manpower will improve its overall productivity with no sacrifice to the range and quality of Government services. Some \$15 million in cost savings from this measure is expected in the first year, with even greater economies in future years.

A second element of Ontario's plan to contain expenditure growth requires that all Ministries absorb in-year cost increases resulting solely from inflation. In addition, the Government has postponed capital projects, where feasible, except in the high-priority areas of

housing, environment and land acquisition. Ontario Hydro and all other Provincial agencies and commissions will be requested to take comparable actions to curb the growth in operating expenditures.

Public Service Complement in Ontario 1972 to 1975¹ Table 15

Ministry	1972	1973	1974	1975
Premier	42	44	45	47
Cabinet Office	81 ²	44	47	46
Management Board	107	71	78	83
Civil Service Commission	208	231	225	210
Government Services	2,537	2,764	3,116	3,143
Housing	706	726	985	981
Revenue	4,076	4,082	4,064	3,992
Treasury	879	879	823	778
Justice Policy	—	14	14	14
Attorney General	2,852	3,168	3,284	3,327
Consumer and Commercial Relations	1,808	1,867	1,921	1,876
Correctional Services	4,874	4,923	5,068	5,056
Solicitor General	1,519	1,595	1,669	1,621
Resources Development Policy	—	15	15	15
Agriculture and Food	1,681	1,680	1,668	1,637
Energy	—	—	63	66
Environment	844	1,363	1,490	1,459
Industry and Tourism	467	575	586	566
Ontario Development Corporation	146	196	216	214
Labour	701	723	768	767
Natural Resources	4,086	4,234	4,277	4,182
Transportation and Communications	12,105	12,144	12,171	11,607
Social Development Policy	—	24	31	30
Colleges and Universities	875	917	956	675
Community and Social Services	1,710	1,837	8,999 ³	9,139
Culture and Recreation	—	—	—	608
Education	2,679	2,678	2,553	2,439
Health	22,088	22,531	15,745 ³	14,643
TOTAL COMPLEMENT	67,071	69,325	70,877	69,221
Increase (%)	1.1	3.4	2.2	-2.3
O.P.P. Uniformed Staff	3,943	3,918	3,978	4,133
Environment Plant Ops.	420	448	453	635

¹Excludes staff of the Lieutenant-Governor, Speaker's Office, and Provincial Auditor.

²Includes Policy Field Secretariats.

³Increase in Community and Social Services complement and decrease in Health complement was due to transfer of Mental Retardation Program to the Ministry of Community and Social Services.

Appendix A

Examples of Cost Increases
on Selected Items Purchased by Government, 1973 to 1974

Table A1

	Percent Change
Institutional Food:	
• Sugar	300
• Skim milk	60
• Flour products, e.g. biscuits	40
Drugs:	
• Butone capsules	118
• Gravol	74
• Penicillin (certain products)	72
• C 222's	85
Construction Materials:	
• Explosives	28
• Calcium chloride	22
• Steel	31
• Fir plywood	19
• Concrete pipe	20
• Fuel oil	100
• Diesel fuel	32
• Natural gas	45
• Cement	13
• Asphalt	105
Office Supplies:	
• Data processing cards	110
• Desks	67
• Electric typewriters	7
• Computer magnetic tape	15
• Stock tab	56
• Photocopy paper	73
Services:	
• Printing costs	15
• Computing	7
• Leased property	10
• Cost of borrowing to the Province	12

Local Government Labour Cost Components

Table A2

		1970	1974	Percent Change (1974/1970)
<i>Municipal</i>				
• Estimated Complement		67,600	83,900	24
• Labour Costs				
—Salaries	(\$000)	529	879	66
—Fringe Benefits	(\$000)	45	93	107
—Total	(\$000)	574	972	69
• Average Salary	(\$)	7,823	10,473	34
<i>Education</i>				
• Estimated Complement*		126,800	125,200	(1)
• Labour Costs				
—Salaries	(\$000)	1,125	1,541	37
—Fringe Benefits**	(\$000)	40	74	85
—Total	(\$000)	1,165	1,615	39
• Average Salary	(\$)	8,872	12,300	39
<i>Total Local Government</i>				
• Estimated Complement		194,400	209,100	8
• Labour Costs				
—Salaries	(\$000)	1,654	2,420	46
—Fringe Benefits**	(\$000)	85	167	97
—Total	(\$000)	1,739	2,587	49
• Average Salary	(\$)	8,508	11,567	36

*Includes non-teaching personnel, e.g. janitors.

**Excludes Ontario's contribution to Teachers' Superannuation Fund.

Budget Paper C

Ontario Finances

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Ontario Finances

Improvements in Presentation

Since 1968 the Government has introduced a number of important changes and improvements to its financial statements. The major purpose of these changes was to simplify the format of the financial tables and provide a more accurate view of the overall magnitude and scope of the Provincial budget.

Further improvements in presentation are being made this year including the separation of interest transactions relating to borrowing by the Province on behalf of Ontario Hydro. An additional statement of operational cash requirements and related financing, including all debt and interest transactions relating to that agency, is provided in Table C1A.

In addition to the above changes, this paper explains the impact on the Government's accounts resulting from the establishment of the Ontario Land Corporation and the Ontario Energy Corporation, and provides the usual review of the past fiscal year.

Borrowing on Behalf of Ontario Hydro

Debt transactions relating to Ontario Hydro affect the Government's financial position in three ways. First, Hydro debt issues in the Canadian and European markets which are guaranteed by the Province are noted as contingent liabilities in the Government's accounts. Second, borrowing by the Province in the U.S. market on behalf of Hydro is recorded as an increase in Provincial debt and offset by a loan to Ontario Hydro. In consideration of such advances, Ontario Hydro delivers to the Province bonds of the same aggregate principal amount and bearing terms identical to those of the market issue. Prior to the 1973 Budget these transactions were shown as public borrowing in Table C1, offset by a non-budgetary advance to Ontario Hydro in Table C5. This intermediary transaction distorted the presentation of the Province's own-account cash needs and related financing for budgetary purposes. Consequently, borrowing by the Government on behalf of Ontario Hydro has been separated from Table C1 and related tables.

Third, the payment of interest on Provincial borrowings on behalf of Ontario Hydro is recorded as budgetary expenditure, balanced by an identical amount in budgetary revenue representing Ontario Hydro's reimbursement to the Province. This "wash" transaction distorts growth rates in provincial expenditure and revenue. The rapid expansion of

Hydro's capital investment and borrowing would have an increasingly distortionary effect in future years. Therefore, interest payments and receipts for borrowings on behalf of Hydro are no longer included in Table C1. This table now more accurately reflects the true dimensions of the Province's own financial operations. Table C1A shows the Province's operations, plus transactions on behalf of Ontario Hydro which are recorded in the Public Accounts.

Summary of Interest Transactions in
Respect of Ontario Hydro Table 1

(\$ million)

	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
Net Cash Requirements (per 1975 Budget format)	744	708	1,030	1,669
Minus:				
Interest Revenue from Ontario Hydro	69	79	98	132
Plus:				
Provincial Interest Expenditure in respect of Hydro	69	79	98	132
Net Cash Requirements (per Public Accounts)	744	708	1,030	1,669

Note: See Table C1A.

New Government Corporations

Legislation was passed in February, 1975 establishing the Ontario Land Corporation (OLC) and the Ontario Energy Corporation (OEC). The creation of these new entities affects the Government's accounts in a number of ways which are explained in this section.

Ontario Land Corporation

In recent years, the Province has been increasingly active in the purchase of land to meet a number of social and economic objectives. Such land-related activities are expected to continue in future years to enable the Province to implement its policies of regional development, urban development, transportation and communications and housing. The Corporation was established with the following objectives:

the promotion of community and industrial development of land in Ontario by the acquisition of land and the disposal of it to persons in the private and government sectors for residential, community, industrial, governmental and commercial developments.¹

¹The Ontario Land Corporation Act, 1974, Statutes of Ontario, 1974, C.134, Section 13.

With the establishment of the Ontario Land Corporation, the Government has advanced \$320 million to the Corporation in 1974-75 for (i) the purchase of existing assets of the North Pickering, South Cayuga, Townsend and Edwardsburgh projects, and (ii) to complete land purchases in 1975-76. Details of these advances are shown in the following table.

Ontario Land Corporation Table 2
(\$ million)

1974-75	Existing Assets	Advances for Project Completion	Total Advances
North Pickering	193	32	225
South Cayuga	26	5	31
Townsend	29	5	34
Edwardsburgh	—	8	8
Industrial Parks	—	22	22
Total	248	72	320

The effect on the Government's accounts of the advance of funds to the Corporation and offsetting purchases from the Government in 1974-75 reflects transfer of title on completed land purchases. The following table shows the impact of these arrangements and of start-up funding on the Government's accounts.

Start-Up Funding for
Ontario Land Corporation and Transfer of Assets Table 3
(\$ million)

	1974-75
Advance to OLC (Table C7)	320
Less:	
Sale of North Pickering Project to OLC (Table C6)	193
Sale of Townsend and South Cayuga Lands to OLC (Table C2)	55
Impact on Provincial Net Cash Requirements	+ 72

Ontario Energy Corporation

To ensure adequate future supplies of energy at reasonable cost, the Government, in addition to supporting Ontario Hydro's capital expansion program, has established the Ontario Energy Corporation. The Government has provided \$100 million in start-up funding for the OEC. The first major investment of the Corporation is a \$100 million commitment to the Syncrude Project. While the timing of payments to Syncrude has not yet been finalized, it is anticipated that the OEC will draw \$5 million in 1974-75, with the balance being held in trust for future years. The following table shows the effect of these financial arrangements on the Government's account.

Start-Up Funding for Ontario Energy Corporation Table 4
(\$ million)

1974-75	
Investment in OEC (Table C7)	100
Less:	
Held in Trust (Table C6)	95
Impact on Provincial Cash Requirements	+ 5
1975-76	
Withdrawal from Trust Account by OEC (Table C7)	+ 25

The 1974-75 Fiscal Year in Retrospect

During the 1974-75 fiscal year, the Government made important changes to its original budget plan. The in-year performance of the 1974 Budget has been reported in the quarterly series *Ontario Finances* starting in July, 1974. In view of the extensive prior reporting, only the highlights of the latest interim estimates for the 1974-75 fiscal year are given here.

Budgetary Operations

A significant improvement has occurred in Ontario's 1974-75 budgetary operations. The budgetary deficit is now expected to be \$34 million below the original budget plan.

Budgetary Operations During 1974-75¹ Table 5
(\$ million)

	Budget Estimate	Interim Estimate	Change from Original Budget
Revenue	7,617	8,135	+ 518
Expenditure	8,242	8,726	+ 484
Budgetary Deficit	625	591	- 34

¹ Excludes interest on Ontario Hydro bonds.

The revised budgetary deficit for 1974-75 reflects substantial off-setting increases in expenditures and revenues. Estimated operating expenditures have increased by \$484 million during the year, primarily as a result of higher wage and salary costs in the health-care sector and increased transfer payments such as GAINS. On the other hand, revenues show a gain of \$518 million from the original forecast because of higher corporation profits and rising prices and incomes.

Non-Budgetary Operations

The Government's non-budgetary operations consist of its lending, investment and trust administration functions, which include financial participation in various crown corporations, agencies and municipalities. *All of these loans and advances are repayable or represent equity holdings supported by the assets of the corporations.* The deficit on non-budgetary account has increased by an estimated \$356 million during 1974-75. The changes from original forecast reflect deliberate moves by the Government to substantially increase provincial investment in housing, land and energy.

Non-Budgetary Operations During 1974-75¹
(\$ million)

Table 6

	Budget Estimate	Interim Estimate	Change from Original Budget
Receipts and Credits	491	667	+ 176
Disbursements and Charges	574	1,106	+ 532
Non-Budgetary Deficit	83	439	+ 356

¹ Excludes financing transactions on behalf of Ontario Hydro.

Management and Reduction of Debt

The 1969 Budget contained the statement that, "The entire resources of the Government will continue to be used for the orderly retirement of the Province's debt. In other words, the planned allocation of funds for the purpose of debt retirement will continue to be a first priority of budgetary planning." In the 1974 Budget, the Province initiated a special debt retirement program with a total potential of \$449 million, to be financed by the use of non-public capital funds and cash reserves released by improvements in cash-flow management. During the course of 1974 the program was given an operating target of \$369 million on the basis of evolving economic conditions, market factors governing the purchase of publicly held debt, and budgetary requirements.

By the end of 1974-75, the Province was in a position to meet the target of \$369 million reduction in publicly held debt. This program comprised \$74 million in scheduled retirements, termination of \$90 million in Treasury Bills, and the cancellation of \$140 million in Ontario bonds. In addition, \$65 million of Ontario bonds is held in portfolio at year end. In 1973-74, the Province achieved a reduction of \$228 million in publicly held debt. Over the past two fiscal years, therefore, the Province has reduced public debt by \$532 million, representing almost one-third of its outstanding publicly held debt. Through these actions, the Government has improved the marketability of Ontario bonds still in the hands of investors, materially assisted Ontario Hydro's

financing operations, lengthened the maturity structure of its outstanding debt and provided a sound basis for financing its requirements in 1975-76.

Financial Statements

Statement of Operational Cash Requirements and Related Financing¹ (\$ million)

Table C1

	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
Budgetary Transactions				
Revenue	6,046	6,843	8,135	8,977
Expenditure	6,412	7,223	8,726	10,192
Budgetary Deficit	366	380	591	1,215
Non-Budgetary Transactions				
Receipts and Credits	248	333	667	382
Disbursements and Charges	626	661	1,106	836
Non-Budgetary Deficit	378	328	439	454
NET CASH REQUIREMENTS	744	708	1,030	1,669
Non-Public Borrowing				
Canada Pension Plan	536	607	702	750
Teachers' Superannuation Fund	120	195	286	201
Municipal Employees' Retirement Fund ²	95	125	142	128
Federal-Provincial Employment Loans	27	—	—	—
Federal-Provincial Winter Capital Projects Fund	—	1	18	33
CMHC Pollution Control Loans	16	18	14	19
Retirements	(14)	(9)	(10)	(6)
	780	937	1,152	1,125
Public Borrowing				
Treasury Bills (Net)	70	(170)	(90)	—
Debentures:				
Issues	230	—	—	—
Retirements	(48)	(58)	(74)	(31)
Other Debt Reduction	—	—	(140)	—
	252	(228)	(304)	(31)
Reduction or [Increase] in Liquid Reserves	[288]	[1]	182	—
Financing to be determined	—	—	—	575
TOTAL FINANCING	744	708	1,030	1,669

¹Excludes all transactions relating to the issue, retirement and servicing of all debentures by the Province on behalf of Ontario Hydro. See Table C1A.

²OMERS interim deposits, pending debenture issue, previously classified as receipts and disbursements now classified as financing.

**Provincial Finances Including
Transactions on Behalf of Hydro**
(\$ million)

Table CIA

	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
1. Budgetary Transactions				
Revenue—per Table C1	6,046	6,843	8,135	8,977
<i>Add:</i> Interest Revenue from loans to Ontario Hydro	69	79	98	132
Total Revenue	6,115	6,922	8,233	9,109
Expenditure—per Table C1	6,412	7,223	8,726	10,192
<i>Add:</i> Interest Expenditure on behalf of Ontario Hydro	69	79	98	132
Total Expenditures	6,481	7,302	8,824	10,324
Budgetary Deficit per Public Accounts and Table C1	366	380	591	1,215
2. Non-Budgetary Transactions				
Receipts and Credits—per Table C1	248	333	667	382
<i>Add:</i> Repayment of loans to Ontario Hydro	46	27	47	—
Total Receipts and Credits	294	360	714	382
Disbursements and Charges— per Table C1	626	661	1,106	836
<i>Add:</i> Loans to Ontario Hydro	200	250	375	—
Total Disbursements and Charges	826	911	1,481	836
Non-Budgetary Deficit ¹ (per Public Accounts)	532	551	767	454
NET CASH REQUIREMENTS	898	931	1,358	1,669
3. Financing				
Total Financing—per Table C1	744	708	1,030	1,669
<i>Less:</i> Provincial Retirement of issues on behalf of Ontario Hydro	(46)	(27)	(47)	—
<i>Add:</i> Provincial Debentures issued for Ontario Hydro purposes	200	250	375	—
TOTAL FINANCING¹ (PER PUBLIC ACCOUNTS)	898	931	1,358	1,669

¹OMERS interim deposits, pending debenture issue, previously classified as receipts and disbursements now classified as financing.

Budgetary Revenue

(\$ million)

Table C2

	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
Taxation				
Personal Income Tax ¹	1,205	1,236	1,442	1,694
Federal Revenue Guarantee	—	—	50	330
Corporation Taxes:				
Income Tax	448	564	731	877
Capital and Premium Taxes	79	74	132	160
Retail Sales Tax	895	1,315	1,570	1,343
Gasoline Tax	427	477	493	510
Motor Vehicle Fuel Tax	60	70	80	71
Mining Profits Tax	17	47	152	130
Tobacco Tax	96	100	103	106
Succession Duty	76	88	75	67
Land Transfer Tax	29	46	49	55
Land Speculation Tax	—	—	—	1
Race Tracks Tax	24	29	34	37
Income Tax—Public Utilities	36	12	8	8
Share of Federal Estate Tax	8	1	1	1
Other Taxation	14	8	3	4
	3,414	4,067	4,923	5,394
Other Revenue				
Premiums—OHIP	520	530	550	564
LCBO Profits	254	280	310	355
Vehicle Registration Fees	170	172	199	209
Other Fees and Licences	81	91	92	91
Fines and Penalties	33	37	44	45
Sales and Rentals	28	32	30	32
Royalties	26	29	39	42
Water Treatment and Pollution				
Control Payments	18	20	21	28
Ontario Lottery	—	—	—	20
Miscellaneous	32	27	85 ²	30
	1,162	1,218	1,370	1,416
Payments from the Federal Government (See Table C4)	1,246	1,267	1,489	1,808
Interest on Investments³	224	291	353	359
TOTAL BUDGETARY REVENUE	6,046	6,843	8,135	8,977

¹Net of tax credits of \$182 million, \$305 million and \$404 million for the 1973-74, 1974-75 and 1975-76 fiscal years. The value of Ontario tax credits to Ontario taxpayers is \$305 million, \$375 million and \$400 million respectively for taxation years 1973, 1974 and 1975.

²Includes \$55 million from the sale of lands to the Ontario Land Corporation.

³Excludes all transactions relating to the servicing of public debentures by the Province on behalf of Ontario Hydro.

Budgetary Expenditure by
Policy Field and Ministerial Responsibility
(\$ million)

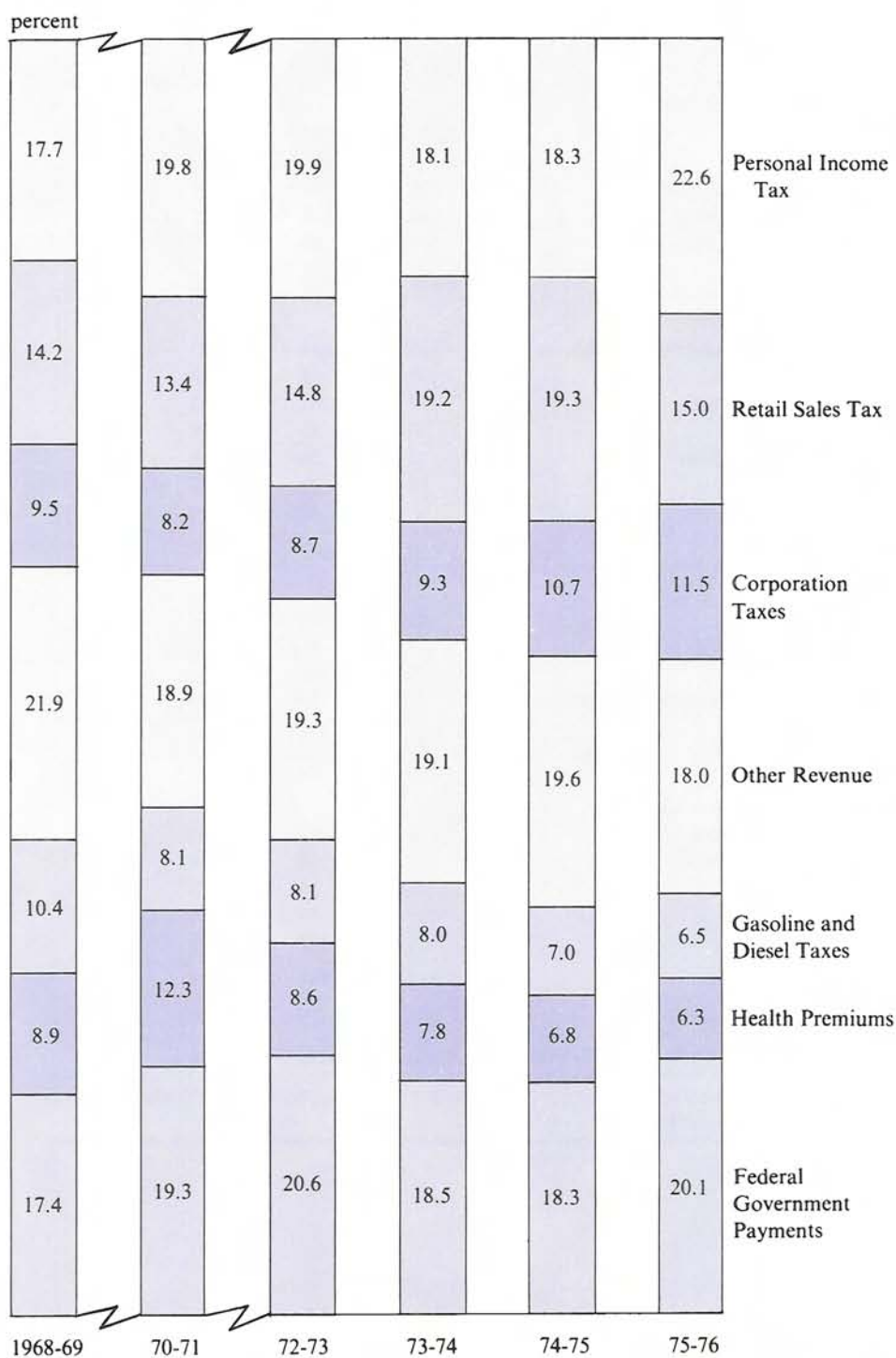
Table C3

	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
Social Development Policy				
Health	1,886	2,047	2,525	2,886
Education	1,316	1,410	1,601	1,710
Colleges and Universities	706	784	880	1,018
Community and Social Services	496	544	674	855
Recreation and Culture	45	64	76	122
	4,449	4,849	5,756	6,591
Resources Development Policy				
Transportation and Communications	598	684	805	954
Natural Resources	136	153	187	211
Agriculture and Food	97	105	114	143
Environment	37	45	58	83
Industry and Tourism	22	26	38	43
Labour	10	12	15	19
Energy	—	2	2	3
	900	1,027	1,219	1,456
Justice Policy				
Solicitor General	83	90	108	117
Correctional Services	73	86	103	117
Attorney General	60	68	86	96
Consumer and Commercial Relations	25	29	35	41
	241	273	332	371
Other Ministries				
Treasury, Economics and Intergovernmental Affairs	158	261	350	429
Government Services	162	180	269	294
Revenue	53	54	123	168
Housing	26	37	70	181
Other	15	17	21	25
	414	549	833	1,097
Public Debt — Interest¹	408	525	586	677
TOTAL BUDGETARY EXPENDITURE	6,412	7,223	8,726	10,192

¹Excludes all transactions relating to the servicing of public debentures by the Province on behalf of Ontario Hydro.

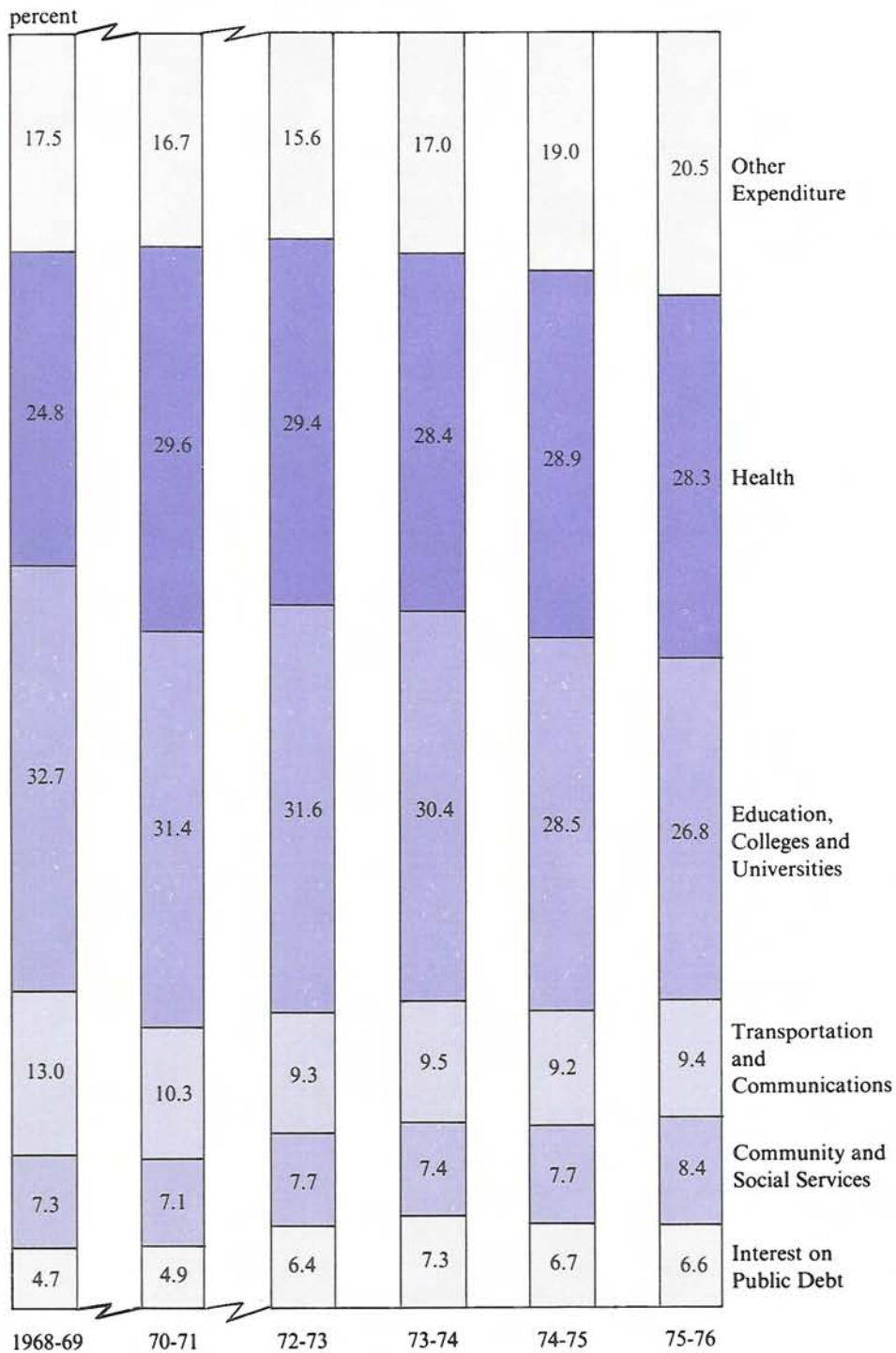
Relative Importance of
Major Revenue Sources

Chart C1



Relative Importance of
Major Expenditure Functions

Chart C2



Federal Government Payments to Ontario

Table C4

(\$ million)

	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
Hospital Insurance Agreement	521	533	652	724
Canada Assistance Plan	210	207	277	401 ¹
Medical Care Agreement	225	243	275	309
Post-Secondary Education Adjustment Payments	162	154	143	170
Adult Occupational Training Agreement	66	67	60	71
Economic Development Agreements	7	5	10	33
Language Programs	18	21	27	28
Vocational Rehabilitation Agreement	4	7	9	12
Transit Agreements	—	—	—	10
Other Federal Payments	33	30	36	50
TOTAL PAYMENTS	1,246	1,267	1,489	1,808
Annual Percent Increase	13.4	1.7	17.5	21.4
Federal Payments as a Percent of Ontario Revenue	20.6	18.5	18.3	20.1

¹Includes \$24 million under The Rehabilitation of Young Offenders Agreement.

**Ontario Payments to Local
Governments and Agencies**
(\$ million)

Table C5

	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
Conditional Payments				
Education	1,184	1,245	1,331	1,500
Transportation	234	267	333	418
Social Assistance	135	117	139	164
Housing	—	—	7	20
Environment	2	1	7	13
Health	10	9	10	13
Other	14	17	23	36
	1,579	1,656	1,850	2,164
Unconditional Payments				
Resource Equalization	—	56	70	78
General Support	—	49	85	66
Northern Ontario Grants	—	10	12	17
Per Capita Grants	48	52	63	64
Police Grants	16	25	42	71
Other	15	9	23	28
	79	201	295	324
Payments to Local Agencies				
Homes for the Aged	35	50	59	67
Children's Aid Societies	40	41	48	65
Health Agencies	21	20	26	35
Conservation Authorities	19	30	31	31
Library Boards	9	14	16	19
	124	155	180	217
BASIC FINANCIAL TRANSFERS	1,782	2,012	2,325	2,705
Other Assistance				
Teachers' Superannuation Fund	73	167	293	235
Payments-in-lieu of Taxes	25	26	29	34
Tax Compensation Grants	—	12	13	14
Employment Incentives	29	13	3	38
	127	218	338	321
TOTAL FINANCIAL SUPPORT	1,909	2,230	2,663	3,026
Growth in Basic Financial Transfers	7.7%	12.9%	15.6%	16.3%
Growth in Total Financial Support	7.1%	16.8%	19.4%	13.6%

Details of Non-Budgetary Transactions

Table C6

(\$ million)

Receipts and Credits	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
Repayments of Loans and Advances				
Education Capital Aid Corporation	37	42	46	51
Universities Capital Aid Corporation	16	19	21	22
Ontario (and Student) Housing Corporations:				
North Pickering Community	—	—	193	—
Regular Programs	6	6	1	1
Water Treatment and Pollution Control				
Facilities	4	11	11	15
Hospital Construction Loans	9	30	13	19
Ontario Development Corporations	7	9	7	10
Ontario Mortgage Corporation	1	8	12	19
Nuclear Power Generating Station	5	7	17	8
Municipal Improvement Corporation	—	5	5	5
Municipal Works Assistance	4	4	4	5
Tile Drainage Debentures	3	3	4	5
Junior Farmer Establishment Loan Corporation	5	6	—	—
Ontario Place Corporation	—	—	5	—
Other	3	4	6	7
	100	154	345	167
Pension Funds, Deposit, Trust and Reserve Accounts				
Public Service Superannuation Fund	119	129	157	166
Motor Vehicle Accident Claims Fund	10	12	14	18
Ontario Energy Corporation	—	—	95	—
Other	6	10	7	10
	135	151	273	194
Province of Ontario Savings Deposits (Net)	13	28	49	21
TOTAL RECEIPTS AND CREDITS	248	333	667	382

Details of Non-Budgetary Transactions

Table C7

(\$ million)

Disbursements and Charges	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
Loans and Advances				
Ontario Land Corporation	—	—	320	—
Ontario Energy Corporation	—	—	100	—
Ontario Mortgage Corporation	62	67	133	208
Ontario (and Student) Housing Corporations:				
North Pickering Community	30	116	46	—
Housing Action Program	—	—	13	28
Regular Programs	45	47	46	67
Water Treatment and Pollution Control				
Facilities	80	81	126	138
Waste Utilization Facilities	—	—	—	10
Education Capital Aid Corporation	126	87	88	92
Universities Capital Aid Corporation	147	77	39	42
Ontario Development Corporations	19	30	46	78
Hospital Construction Loans and				
Assistance	31	33	40	28
Federal-Provincial Winter Capital				
Projects Fund	—	1	18	30
Tile Drainage Debentures	5	8	13	13
Municipal Improvement Corporation	5	4	7	11
Northland Transportation Commission	—	28	7	—
Federal-Provincial Employment Loans	2	16	—	—
Nuclear Power Generating Station	24	—	—	—
Other	7	11	7	7
	583	606	1,049	752
Pension Funds, Deposit, Trust and				
Reserve Accounts				
Public Service Superannuation Fund	31	38	41	47
Motor Vehicle Accident Claims Fund	9	10	11	11
Ontario Energy Corporation	—	—	—	25
Other	3	7	5	1
	43	55	57	84
TOTAL DISBURSEMENTS AND				
CHARGES	626	661	1,106	836

Investment in Physical Assets
(\$ million)

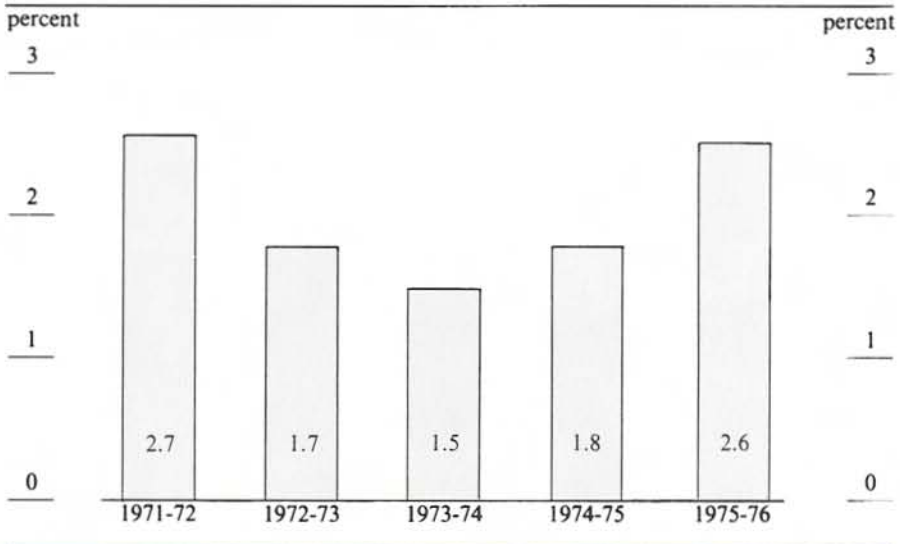
Table C8

	1973-74	Interim 1974-75	Estimated 1975-76
Budgetary Investment			
Direct Expenditure:			
Roads and Transit	176	194	187
Public Buildings	78	144	152
Other	28	89	88
	282	427	427
Transfer Payments:			
Roads and Transit	161	196	280
Health	67	51	63
Other	77	68	171
	305	315	514
Total Budgetary Investment	587	742	941
Non-Budgetary Investment			
Home and Community Environment	263	606	364
Education	164	126	134
Industrial and Resources Development	146	177	226
Health	33	41	28
Total Non-Budgetary Investment	606	950	752
TOTAL INVESTMENT	1,193	1,692	1,693

Net Cash Requirements as a Percent of Gross Provincial Product

Chart C3

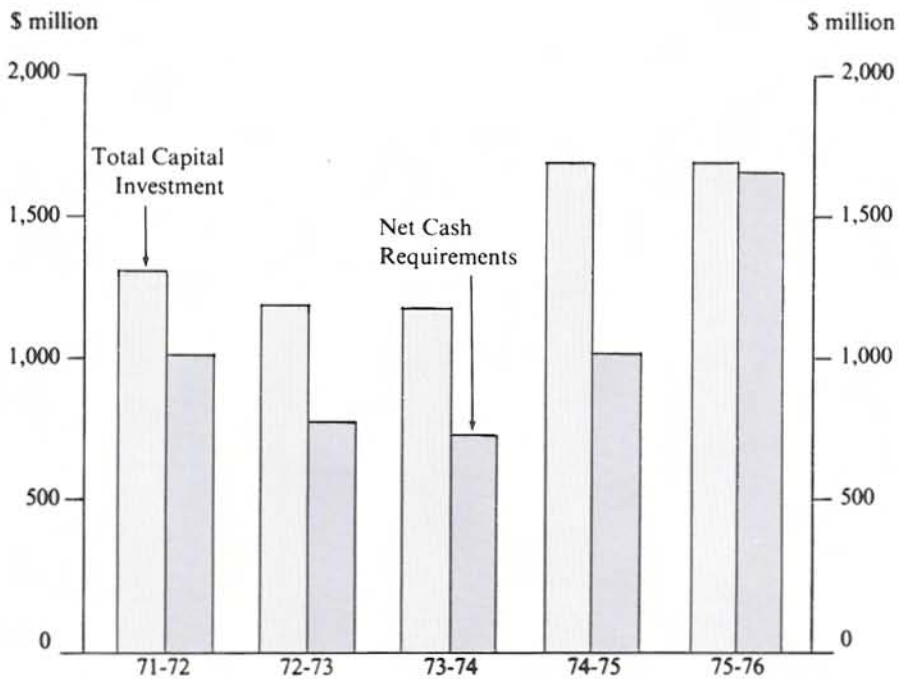
1971-72 to 1975-76



Total Capital Investment and Net Cash Requirements

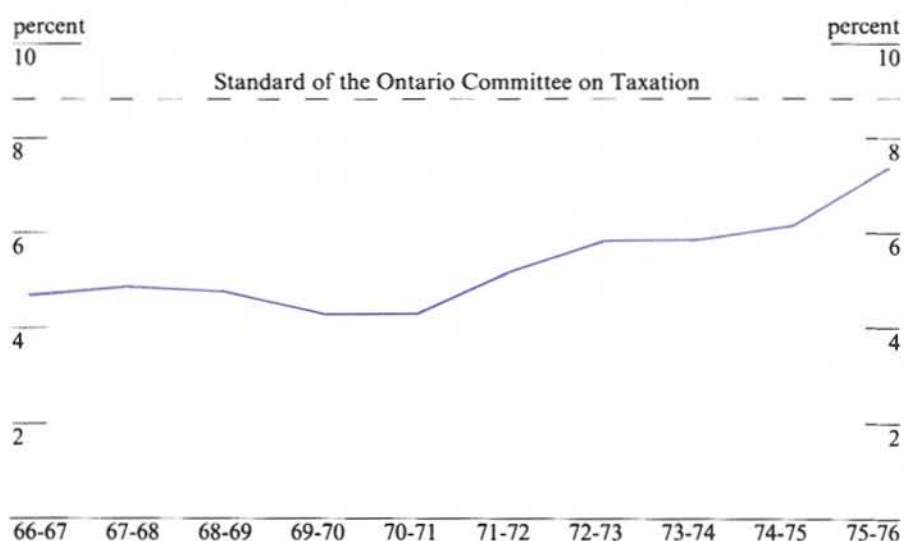
Chart C4

1971-72 to 1975-76



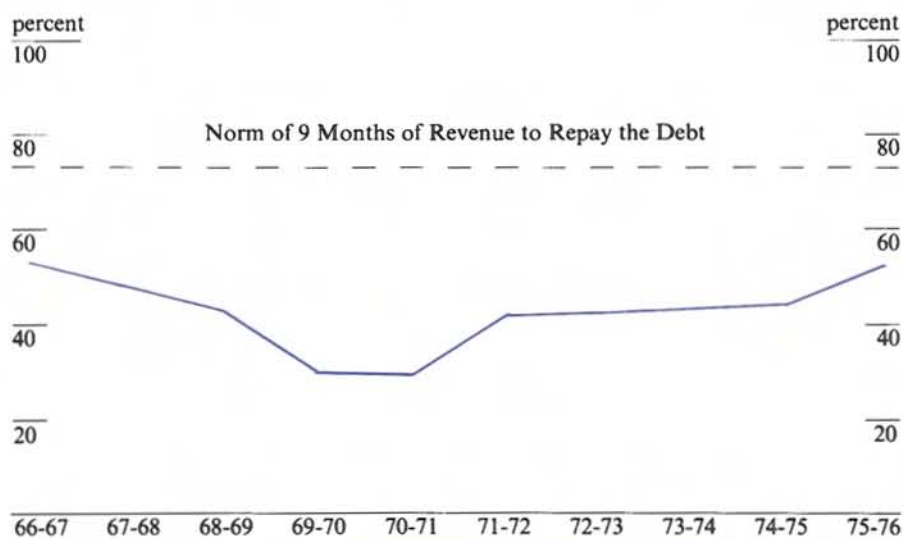
Net Debt as a Percent of
Gross Provincial Product
1966-67 to 1975-76

Chart C5



Net Debt as a Percent of
Budgetary Revenue
1966-67 to 1975-76

Chart C6



Ten-Year Review
(\$ million)

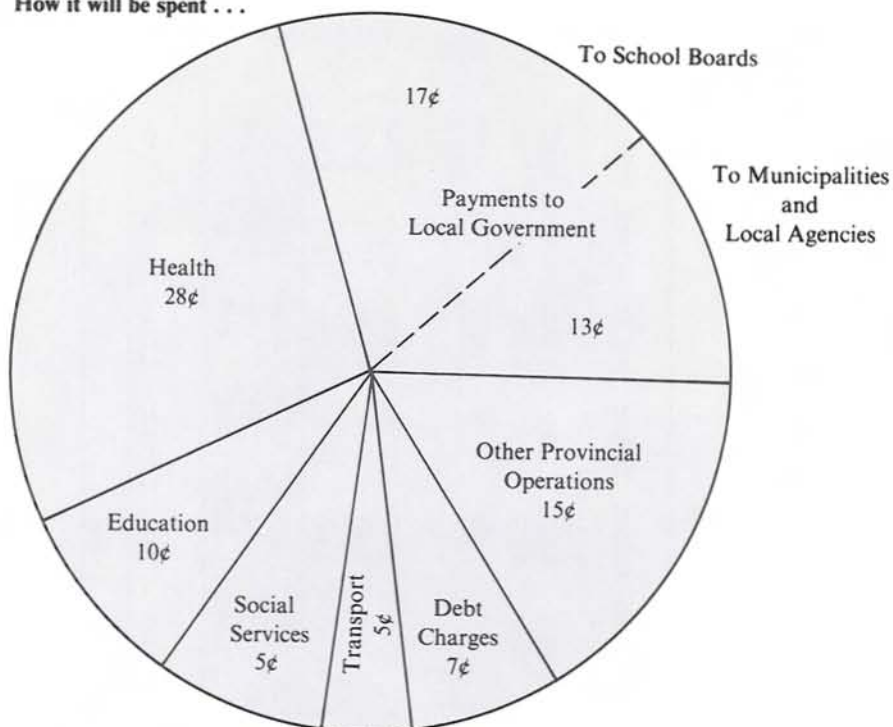
Table C9

	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	Interim 1974-75	Estimated 1975-76
Budgetary Transactions										
Revenue	2,430	2,885	3,531	4,401	5,081	5,403	6,115	6,922	8,233	9,109
Expenditure	2,421	3,004	3,624	4,251	5,217	6,028	6,481	7,302	8,824	10,334
Surplus or (Deficit)	9	(119)	(93)	150	(136)	(625)	(366)	(380)	(591)	(1,215)
Financial Position										
Total Liabilities—Gross Debt	3,013	3,669	4,448	5,084	5,795	6,986	8,333	9,390	n.a.	n.a.
Total Assets	1,682	2,220	2,906	3,691	4,266	4,832	5,811	6,488		
Net Debt (Gross debt minus total assets)	1,331	1,449	1,542	1,393	1,529	2,154	2,522	2,902	3,493	4,708
Net Debt Per Capita (dollars)	187.53	200.25	209.51	185.03	199.00	276.09	318.47	359.74	426.06	565.27
Net Debt as a Percent of Gross Provincial Product (%)	5.4	5.5	5.3	4.3	4.3	5.6	5.9	5.9	6.1	7.3
Net Debt as a Percent of Budgetary Revenue (%)	55.1	50.6	44.0	31.9	30.4	40.3	41.7	42.4	42.9	52.4
Contingent Liabilities										
(mainly Ontario Hydro)	1,927	1,933	2,127	2,168	2,413	2,781	3,030	3,330	n.a.	n.a.

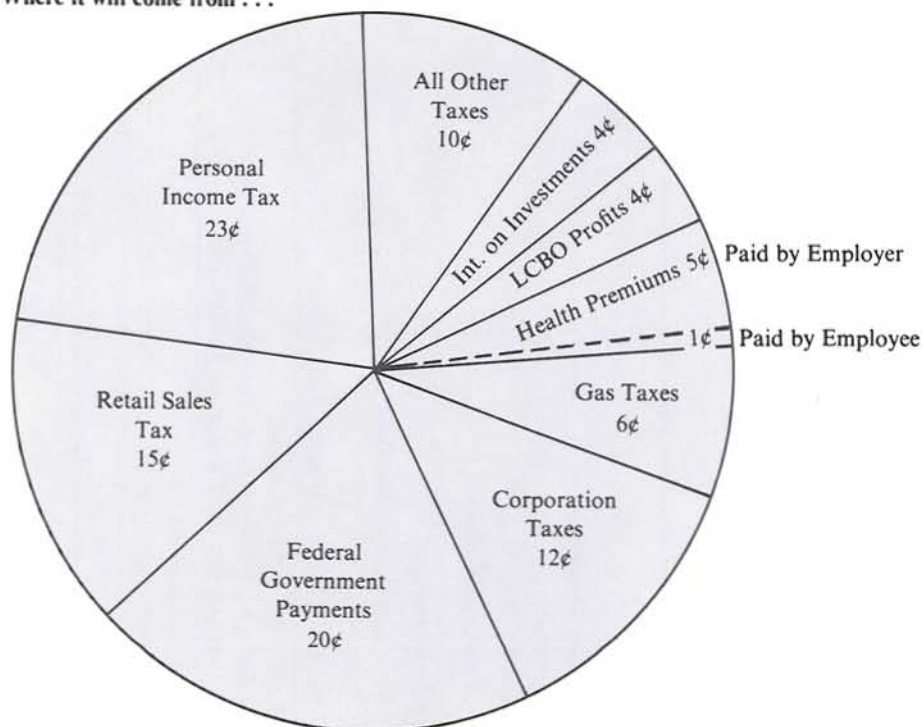
n.a. — not available.

THE BUDGET DOLLAR Fiscal Year 1975-76 Estimates

How it will be spent . . .

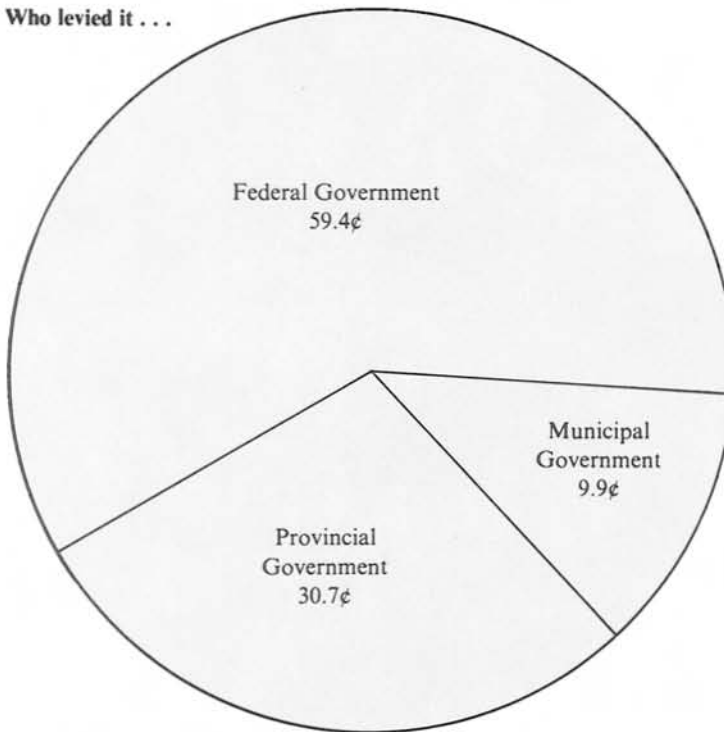


Where it will come from . . .



THE TAX DOLLAR IN ONTARIO 1975

Who levied it . . .



Who spent it . . .

