ONTARIO BUDGET 1977

THE HONOURABLE W. DARCY McKEOUGH,
TREASURER OF ONTARIO

1977

THE QUEEN'S SILVER JUBILEE

ONTARIO BUDGET 1977

Presented by the Honourable W. Darcy McKeough,
Treasurer of Ontario
in the Legislative Assembly of Ontario,
Tuesday, April 19, 1977

Ministry of Treasury, Economics and
Intergovernmental Affairs
Fiscal Policy Division

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1977 Ontario Budget

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1977 Budget at a Glance

	1976-77	1977-78	Growth Rates	1977-78 Fiscal Swing
	($ million)		(%)	($ million)
Gross Provincial Product	75,000	84,000	+12.0	
Spending	12,565	13,698	+9.0	
Revenue	11,177	12,621	+12.9	
Cash Requirements	1.388	1,077		−311
Budgetary Deficit	1,279	992		−287

Government in Ontario Takes Less Than in the Rest of Canada

(per cent of GNP)

	1973	1974	1975	1976	Est. 1977
Ontario					
Federal	12.9	13.4	14.4	14.0	14.2
Provincial	10.4	10.6	11.7	11.7	11.6
Local	8.2	7.9	8.4	8.3	8.3
Total	31.5	31.9	34.5	34.0	34.1
Rest of Canada					
Federal	15.0	16.8	18.6	17.7	17.7
Provincial	14.6	15.5	16.8	17.4	17.7
Local	7.8	7.9	8.1	8.0	8.3
Total	37.4	40.2	43.5	43.1	43.7
All of Canada					
Total	35.0	36.8	39.9	39.4	39.8

1977 Budget Statement

Mr. Speaker:

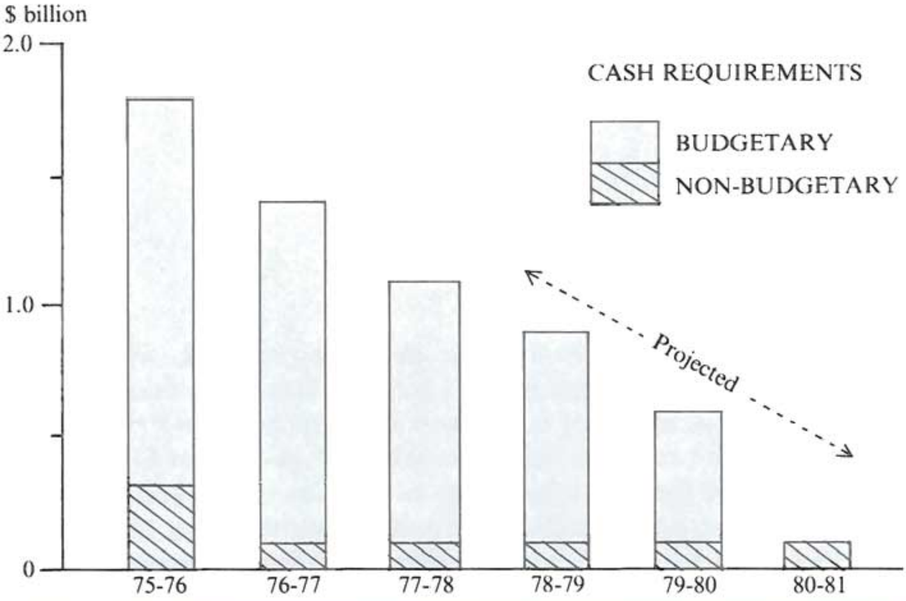
The 1977 Budget, which I am presenting tonight, will reduce Ontario's cash requirements by $311 million. This large reduction will be achieved by constraining the growth in our spending to 9 per cent or $1.1 billion, while revenues will increase by 12.9 per cent or $1.4 billion. This responsible fiscal plan builds upon the gains of last year, uses our finances to maximum benefit and frees up resources for the private sector to ensure the continued prosperity of the Ontario economy.

The Government has instituted tough measures over the past two years to reduce the growth of public spending in Ontario. These measures have been successful. I am pleased to repeat that our 1976-77 spending will actually come in $11 million below the original Estimates, the first time since 1947 that this has been achieved. This demonstrates that government can cut costs, can set priorities and can live within its means.

My colleagues and I believe we must hold firm to this course of spending restraint, not just for 1977 but for the longer run as well. This Budget extends the Government's fiscal planning horizon beyond the traditional single year. It projects the revenue yield we can expect over the next three years without resorting to tax increases. And, it sets out the spending limits we can afford if the budgetary deficit is to be progressively reduced, and ultimately eliminated. Our objective is to have the capacity to balance the Ontario budget by 1980-81. This is not an inflexible commitment: indeed, economic conditions or social needs may make it inappropriate or even impossible to achieve this target by 1980-81. Still, we must make every effort to move steadfastly towards a balanced budget. That will require determined self-discipline and day-to-day resistance against the temptation to spend and to borrow.

Canada needs at this time long-term solutions to the very basic problems that have become impediments to our economic future. To focus exclusively on short-term remedies for fundamental ailments will lead us right back to the position we are in now—a condition of excessive tax and debt burdens for Canada and Canadians, compounded by a further weakening of our ability to match foreign com-

Targeting for a Balanced Budget



petition. Higher tariff barriers and industrial subsidies are not the answer, nor are larger government expenditures. One has to be impressed with the wisdom of one respected politician, who said recently, and I quote:

> "We used to think that you could spend your way out of a recession and increase employment by cutting taxes and boosting Goverment spending. I tell you, in all candor, that that option no longer exists, and that insofar as it ever did exist, it worked only by injecting bigger doses of inflation into the economy followed by higher levels of unemployment as the next step. That is the history of the last twenty years."

Mr. Speaker, that statement was made by someone who is most familiar with the problems of public sector growth, the Rt. Hon. James Callaghan, Prime Minister of Britain's socialist government.

Strategy for the 1980's

Members will be aware that this Government has given its maximum attention to tackling the longer term challenges. We remain convinced that the highest priority has to be allocated to a strategy for the 1980's and that this strategy should embrace, in a comprehensive way, the key aspects of our economic and social life. This is not the time to slide off into makeshift remedies, because they will come back to haunt us and our children for many years. What is needed is a determined effort to tackle the larger structural problems of achieving balanced growth with full employment and price stability.

The basic issue before us is "after controls, what?" If we are to successfully avoid the errors and difficulties of the past, we shall need to address four facts of fundamental importance to our prosperity.

- First, governments must discipline themselves and avoid draining from the economy an unreasonably large portion of national and provincial resources.
- Second, we must improve the climate for investment in Canada.
- Third, we must persuade or influence industry in Ontario and Canada to concentrate its resources in those activities where we are able to compete in international markets.
- Fourth, in the labour market we must de-emphasize the adversary environment of labour-management relations.

Government Restraint

Mr. Speaker, it is no accident that Canada's image as a place to do business has suffered somewhat in other industrial countries. We have badly tilted our economic and fiscal policies towards social over-management and let go the responsibility of encouraging the economic growth that feeds us. In the past ten years, we have seen program after program to redistribute income, which is perfectly valid and necessary. But, we have seen not nearly enough effort at the national level to keep the economy alive and well to generate the income for such redistribution programs. In my judgment, it has been a process of constant leeching on private sector initiatives that has brought us to a condition of virtual non-competitiveness in so many areas of our economy. The answer must lie in self-discipline across the whole public sector.

In the matter of achieving restraint, Ontario's record stands as an example for all governments in Canada. We have every intention of maintaining that posture for the future. It is the only way we can pump resources into the private sector and permit free enterprise to move forward and generate the jobs and incomes we expect and need.

The Climate for Investment

This Government has made investment and free enterprise central concerns in all of its activities. Without profits, there is no investment; without investment, there are no new jobs—no productive and non-inflationary jobs. It is easy to create inflationary employment, but quite another matter to create the conditions for productive jobs that increase the wealth of the nation and its people.

One of Canada's major priorities in marshalling its investment capacities must be that of increasing the level of equity funding in our industries. While I recognize and support the role of internal corporate financing of our large-scale industrial activities, I would like to see government, industry and the financial community take positive steps to substantially increase the role of small investors in our economy. It isn't enough to expect the public to be sensitive to the needs of the business climate in an abstract way. The average citizen needs and deserves to have a much greater opportunity to participate in the rewards of investment and economic growth. Only when more citizens have a direct stake through their own private investments can we hope to develop broadly-based public understanding of the importance of investment and growth in a free economy. In this regard, I am encouraged by the increase in the dividend tax credit announced in the recent federal budget.

Those who believe as a matter of blind faith that all business is bad, never, of course, see any connection between private sector investment and job creation. I think the realities of several years of irresponsible and irrational criticism of everything businessmen do are coming home to us. Unfortunately, as is all too often the case, it is ordinary working people who suffer—those whose jobs rest on investment and healthy industries, not those whose pious rancour has driven investment from the market place.

To assist the process of understanding profits and their essential contribution to the growth process, the Government has established a committee to examine inflation accounting. The recent federal budget acknowledged the importance of this area of concern by introducing some changes in the method of taxing inventories. I welcome this move as a positive contribution, but I think we have to go further and examine in considerable detail the adverse effects of inflation on business investment capabilities and job creation. Therefore, I am asking the Inflation Accounting Committee to look at the recent federal tax changes and to assess their impact on investment in Ontario.

One of the largest single concerns in Canada's economic future is the matter of government's role in financing the retirement incomes of the rapidly growing number of pensioners. Ontario has established programs for supplementing the incomes of the elderly, in response to the difficulties many pensioners were experiencing with price inflation. However, the emergence in the public sector in recent times of indexed pensions at high levels of benefit raises questions concerning the capacity of our economy to withstand the massive financial burdens implicit in these public pensions.

Accordingly, in the Speech from the Throne, the Government has made known its intention to establish a Royal Commission to inquire into this matter. Since pension plans are a major source of investment savings for our economy, it is essential that we have a financially sound pensions framework.

Economic Efficiency

Mr. Speaker, there are many industries in which we enjoy the benefits of world scale and a world level of productive efficiency. However, I am concerned that in a growing number of instances we are being forced out of world markets and are losing our grip on domestic markets. Despite the fact that Canada is an industrial nation, we import far more manufactured products than we export. We have become a capital-intensive economy and I think we may be squandering our precious capital resources by fostering inefficient industries. Ontario's policy remains one of resisting subsidization and feather-bedding. We want healthy, efficient and productive industries, and I am convinced we can have more of them if we can achieve a change in our attitudes towards productivity and profits.

On the matter of the current negotiations in Geneva on international trade and tariff policies, I have to repeat Ontario's concern that the federal government is proceeding on the basis of no known strategy. It is clear that Canadian industries, and Ontario manufacturers, cannot be protected forever by high tariffs, and yet the day of tariff cuts gets closer and closer with no sign from Ottawa that Canada will be ready with adjustment programs which will enable our industries to roll with the punches. I am not in favour of high tariffs. I think we can do better for our consumers, but we need a national policy with some vision of the economic future to help us see where we should be going.

One of the key aspects of a national industrial policy, Mr. Speaker, must be to focus our effort on those industries where Canadians have special skills and talents. As a beginning, I would like to see national policies which make full use of our unique talents in the following areas:

Automobiles: Over 120,000 Canadians earn their incomes in this highly productive industry, so Canada's role and share in the Auto Trade Pact has to be a matter of great concern to us.

Steel: We have developed an efficient industry which deals effectively in world markets as well as being important as a source of growth in the domestic economy. We need to develop more consciously those industries and skills that can build on this industrial base.

Industrial Rationalization: We cannot afford in many instances, with our relatively small market base, to have many firms competing in one sector. For this reason, my colleague the Minister of Industry and Tourism fully supported the recent industrial consolidation of our electrical appliance industry which was achieved through the merger of the major appliance divisions of General Steel Wares and Canadian General Electric to form the Canadian Appliance Manufacturing Company. We need to encourage more of that kind of rationalization. In doing so, we can rely on imports to provide effective price competition to the benefit of consumers and we can take full advantage of the economies of scale which industrial rationalization brings.

Energy and Resources Development: Canadian engineering talents and specialization in the energy and resource industries have made us world famous. We can and should profit more from these attributes and attempt to restore the confidence of investors in these industries. That confidence has been badly shaken in recent years by conflicts over resource taxation, environmental matters and deterrents to foreign investment.

Transportation Policy: There can be no doubt that Canadian transportation costs are critical to the success of the economy. They are too high and the industry is characterized by a lack of effective competition. Government policies have to resolve this issue and the equally important issue of improved investment in transportation facilities.

Agriculture: Is still one of Canada's richest assets: but we badly lack a national policy of income and price stabilization which is fair to both consumers and farmers, and, better still, builds up the base for increased exports.

Small Business: In the Speech from the Throne, the Ontario Government announced a wide range of initiatives to reinforce and guarantee an expanded role for small business in the economy. This is a vital aspect of maintaining a creative and efficient industrial economy. These actions will complement moves to bolster the efficiency of medium and large businesses.

Mr. Speaker, I could name many other examples. It is worth noting that Canada has also achieved a world-wide reputation in other fields where scale and size are important, notably, banking and finance, and, construction and engineering. I do not believe we lack the skills and commercial talents; rather, we seem to lack the will and the policy to fully utilize these talents and ambitions.

The Labour-Management Environment

This Budget continues to meet the challenges in the key areas of government restraint, investment and efficiency. A fourth aspect of our economic life which has to receive more attention in future years is that of moderating the atmosphere of confrontation in labour relations. The Government's intentions were made explicit at the Partnership-for-Prosperity Conference, which was convened and chaired by the Premier, drawing together 150 leaders and commentators from all aspects of Ontario life to discuss the problems of a post-controls economy. At that Conference we released a study paper entitled "Background to Decontrols" which outlined the problems and policy options.

In the Speech from the Throne, the Government put forward its views on the phasing out of controls, and on the kinds of consultative actions that would be necessary for a successful transition to a post-controls phase. We pointed out the need for a clear strategy to hold down inflation in the post-controls era, and the steps we would be taking as our contribution to this process. Budget Paper D which accompanies this Statement deals in some detail with the issues and options of decontrol.

Mr. Speaker, the responses to these four critical issues of national concern will be assembled and studied in a variety of ways. As part of that effort, Ontario is establishing follow-up working groups to the Partnership-for-Prosperity Conference to advise the Government on practical approaches to monitoring the performance of prices, profits, wages and salaries in the post-controls period.

Ontario's Economic Outlook

Following the practice of recent years, I have engaged in extensive pre-Budget discussions with representatives of many sectors of the economy. The advice I have received reflects a considerable range of opinion about economic prospects for 1977 and what constitutes appropriate fiscal policy. Many believe the economy should be stimulated and just as many insist that inflation is still our number one problem. A few have even suggested that Ontario should jump in and do all those things which, in their opinion, the federal budget left undone. I have found these pre-Budget consultations very informative, and I would like to express my appreciation for this useful input.

For 1976 as a whole, despite some difficult obstacles, employment and real incomes continued to expand. I think there is every reason to be optimistic about the outlook for 1977. The United States economy, our own economy, and those of the European Common Market, are all broadly balanced in the direction of expansion. The recent federal budget builds in considerable fiscal stimulation which, as I shall document later, will generate large increases in personal disposable incomes during the year.

The Ontario economy at this time is displaying signs of solid strength in several sectors which will produce positive results in terms of rising incomes and jobs as the year unfolds. For example, there is growing evidence that the large inventory of unsold housing is beginning to move well, and this is having an encouraging effect on the industry. Automobile production is running ten per cent ahead of last year and sales are up more than double that rate.

Investment is beginning to turn around, assuming we maintain a stable and hospitable business environment. Government spending on capital projects in Ontario, including those of Ontario Hydro, will be higher. There are also significant investments in steel and petrochemical projects which, as they come into production, will establish world scale in those industries. These are most encouraging prospects, which will be materially assisted by the drop in the external value of the Canadian dollar over the past four months; it will assist our exports and help tourism in Canada.

I expect lower interest rates to help in the recovery. I have pointed out that each percentage point drop in interest rates saves Canadian consumers, over time, a billion dollars a year. Thus, high interest rates in our economy have to be a continuing concern to all of us. The answer, however, is not to drop interest rates in some arbitrary way. If inflation is not beaten, we cannot have lower interest rates without precipitating a flight of capital from Canada. Therefore, inflation must be a continuing and major concern.

In summary, my expectation for fiscal 1977 is that the annual rate of growth of the Ontario economy will move from four per cent a year in the first half to a rate of six per cent a year by the last half of the year. If prices, profits, wages and salaries get out of line with real productivity gains, however, the ability of the economy to expand will be drastically impaired. The rate of recovery will depend very directly on the restraint all participants in the economic process are prepared to contribute. Excessive demands from any part of the economy will take jobs away from our citizens. That is the simple and absolutely unavoidable fact of our economic life. There is no easy way out, and there can be no exceptions to the effort required of us all.

Built-in Fiscal Stimulus

The federal budget of March 31, 1977, provides needed stimulation to the economy. It reduces corporate and personal income taxes by $1 billion in 1977-78. In addition to these tax cuts, take-home pay of Canadians will rise by about 1 billion dollars in 1977-78 as a result of indexation of the personal income tax. Some $900 million of these federal tax reductions will flow to Ontario businesses and individuals during the 1977-78 fiscal year. Ontario will contribute $130 million on

1977 Federal Tax Reductions
($ million)

	Impact in Canada	Impact in Ontario
Investment Tax Credit	385	150
Inventory Allowance	275	110
Other Corporate Tax Cuts	20	6
Indexing	900	375
$50 Child Credit	275	115
$250 Employment Expense Deduction	115	57
Other Personal Income Tax Cuts	55	23
UIC Premium Reduction	250	110
TOTAL	2,275	946

top of this federal stimulus as its own share of the costs of indexing. In total, therefore, there is already built into the Ontario economy a fiscal stimulus in excess of $1 billion. I would also point out to Members that Ontario residents are now receiving their income tax refunds—including Ontario tax credits—for the 1976 taxation year. I estimate that these payments will further boost purchasing power by well over $500 million immediately.

Mr. Speaker, I think the state of Ottawa's finances which is revealed in the federal budget underscores the wisdom of Ontario's decision, taken two years ago, to constrain spending and reduce the Province's deficit. As a result of past excesses in spending, Ottawa's projected budgetary deficit for 1977-78 is a whopping $7.2 billion. This is an increase of almost $600 million over the previous year. By contrast, we have succeeded—with great determination I might add—in reducing our deficit substantially.

Before I turn to the details of my Budget for 1977, I should briefly like to draw the attention of Members to Budget Paper E which outlines some essential statistics on federal fiscal redistribution in Canada. I think Members will find it an interesting first attempt on our part to distribute the revenue and expenditure of the Government of Canada among the various provinces. I am also tabling an analysis of inter-provincial trade flows and the cost of tariffs to Canadian consumers.

I should caution Members that these are preliminary figures. Canada is seriously lacking in data of this kind, which has hampered reasoned debate on the costs and benefits of Confederation. I, for one, would like to see the federal government put the figures on the table so that all Canadians can see for themselves what every province pays and what it receives in return. While I do not profess to understand the technical aspects of these figures, I am convinced that they show Confederation to be a powerful and protective economic shield for all Canadians.

Expenditure Priorities

I would now like to turn to the Government's expenditure plan for the coming year.

The planned expenditure growth rate of 9.0 per cent for 1977-78 marks the third consecutive year that a reduction in expenditure growth has been achieved. I would like to draw the Members' attention to the fact that Ontario's expenditure growth rate for 1977-78 is one of the lowest among the provinces and is below that of the federal government for the sixth consecutive year.

I am firmly convinced that this progressive reduction in expenditure growth rates is helping to restore a more appropriate balance of public and private sector activities. During this period of expenditure restraint, the Government has substantially reordered its priorities to meet

Federal and Provincial Expenditure Growth Rates for 1977-78
(per cent)

Newfoundland	n.a.
Prince Edward Island	16.0
Nova Scotia	14.8
Quebec	12.6
New Brunswick	11.6
Alberta	11.1
Federal Government	9.8
Saskatchewan	9.8
Ontario	9.0
British Columbia	8.7
Manitoba	7.8

pressing needs. For the information of Members, I have included a table showing expenditure growth rates by policy field which illustrates these changing priorities.

Expenditure Growth Rates by Policy Field 1973-74 to 1977-78
(per cent)

	1973-74	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Social	6.2	17.3	17.3	12.7	10.1
Resources	19.4	27.0	17.9	.8	8.9
Justice	13.6	20.1	20.3	20.5	6.1
General Government	39.7	92.6	(5.5)	8.6	(3.0)
Public Debt	28.4	12.4	23.1	22.6	17.2
Total Expenditure	12.0	24.7	15.1	11.0	9.0

Mr. Speaker, you will recall that on November 23, 1976, I outlined the broad dimensions of the Government's 1977 spending plan. One of our key objectives was to minimize operating costs and overhead expenses, so that more resources could be mobilized for job-creating investment projects. The 1977 spending plan meets this objective. It provides increased funding for the new Northern Affairs Ministry, for water and sewerage investment, the OECA capital program in the North, and it also includes increases for GWA, FBA, and blind and disabled benefits under GAINS.

An important element in the Province's cost-control program is the elimination of unnecessary staffing positions. In 1977-78, the civil service complement will not increase. This means we will hold the reductions achieved over the past two years. We will meet additional manpower requirements in some programs by redistributing our existing human resources. A new system of manpower control will be implemented this year which focuses on overall dollars. Full details will be provided by my colleague, the Chairman of the Management Board.

Assistance to Local Government

The Government's financial assistance to local government for 1977 was announced last September 10th. This was the earliest time ever and fully three months earlier than the previous year. To accomplish this required a great deal of effort and co-operation from all ministries involved. I have received many local expressions of appreciation and assurances that this action helped greatly in local budgeting.

During the present year, the Government expects to transfer some $3.4 billion to local government, or more than triple the amount transferred during the 1969-70 fiscal year. Counting the advance payments we mailed out in early April, our assistance for 1977-78 is up by 12.5 per cent over last year.

Financial Assistance to Local Government

	1969-70	Estimated 1977-78	Compound Annual Growth Rate
	($ million)		(%)
Education	771	1,880	11.8
Other Conditional	179	823	21.0
Total Conditional	950	2,703	14.0
Total Unconditional	45	436	32.8
Total Local Agencies	85	280	16.1
Total Financial Assistance	1,080	3,419	15.5
Provincial Budgetary Revenue	4,401	11,983	13.4

I would like to take this opportunity to remind our local governments that this 12.5 per cent increase in assistance is in no way an indication of the end to the need to restrain spending. As I have said on many occasions, it is critical that we develop a leaner more efficient public sector. There remains ample scope for further shake-out at the local government level. The increases in property taxes in 1976 have eroded some of the benefits of our Provincial actions to stabilize tax burdens. The accompanying table shows that property taxpayers are still relatively better off than in 1970 or 1972, but important ground was lost during 1976 when the average property tax rose to 2.5 per cent of household income. The latter was due exclusively to the increase in education taxes.

As in previous years, I am tabling a separate document today on the Government's financial assistance to local government. As well, I would like to remind Members that two important studies on local government matters—Blair and Mayo—have already been released, and four others—Robarts, Archer, Comay, and Stevenson—will be forthcoming in the next few months. These will be of critical importance

Average Residential Property Taxes per Household, 1970 to 1976

	1970	1975	1976	1976** / 1970	1976 / 1975
	($)	($)	($)	(%)	(%)
Municipal*	181	244	263	9.8	7.8
School Board	180	195	236	7.2	21.0
TOTAL	361	439	499	8.5	13.7
As % of household income	3.2	2.4	2.5		

*Including special charges.
**Compound Annual Growth Rate.

in proceeding with orderly reforms of local government structure and finance.

Job Creation

Within our limited resources for 1977, the Government has placed its highest priority on creating jobs. The job-creating initiatives must be selective and directed where they will have the biggest impact on unemployment.

Before detailing these measures I would like to draw the attention of the Members to Budget Paper A entitled "The Changing Character of Unemployment in Ontario". This paper continues the in-depth analysis of the Ontario labour market begun in Budget Paper D of my 1976 Budget. This 1977 paper indicates that for a variety of reasons the level of unemployment consistent with the provincial economy reaching its full-employment performance has risen significantly since 1971. Unemployment in Ontario has not been below 4 per cent since 1969. Even in 1973 and 1974, during a period of high growth and rapid inflation, unemployment remained above the then accepted full-employment norm. Budget Paper A suggests that the full-employment target for Ontario appropriate to the 1970's is 5.3 per cent, up from 3.0 per cent some years ago. The magnitude of the change may be debated, but similar sentiments have been expressed by the Governor of the Bank of Canada in his recent Annual Report and by the federal Minister of Finance in his recent budget.

Construction Jobs

The major slowdown in non-residential construction in Ontario during this past year has led to disproportionately higher unemployment among construction workers. Unemployment in the construction industry is currently running in excess of 15 per cent. To stimulate jobs and reinforce the vitality of this industry, we will accelerate Provincial capital spending by $75 million in 1977-78. This will generate almost 3,400 additional jobs and will provide a powerful stimulus to the construction industry.

The job-creation package for the construction trades includes the acceleration of road and transit projects, sewage and water treatment plants, plus new funding for repairs and insulation of Government and university buildings, health capital projects, and agricultural infrastructure. Details of these projects and their job-creating potential will be made available by the ministries concerned.

Job Creation

Program	Funding Level	Number of New Jobs
	($ million)	
• Accelerate Road Projects	25.0	1,600
• Agricultural Infrastructure	7.0	560*
• Repairs to University and College Buildings	3.0	80
• Accelerate Water and Sewage Treatment Plants	23.1	522
• Repairs to Government Buildings	2.4	84
• Insulation of Government Buildings	1.1	40
• Health Capital Projects	14.0	470
	75.6	3,356

*Equivalent to 2,096 seasonal jobs.

My colleague, the Minister of Housing, has already announced plans to stimulate the rental housing industry.

I would also like to inform Members that I have authorized Ontario Hydro to accelerate its capital construction program. The Government had limited Hydro's capital borrowing to $1.5 billion annually during 1976, 1977 and 1978, because of our concern about the availability of capital funds. The Province's success in reducing its own financing requirements, however, provides room to prudently expand Hydro's borrowing program to $1.7 billion for 1978. This will allow Hydro to do more construction work this year and next year, thereby improving the employment prospects in this important industry.

I would like to emphasize that no part of this authorized increase in borrowing is to be used by Hydro for operating purposes.

Jobs for Ontario Youth

On the employment front, the most pressing priority is to do something quickly and effectively for our young people. A large part of the high unemployment reported in the first three months of this year falls within the 15-24 age group. I am concerned that these young people have been unfairly saddled with the economic problems that governments in Canada have not been able to resolve. If we have unemployment today, it is because we have an industrial cost structure that results in our industries not being able to compete abroad as they did in the past. And it is precisely because public spending has put Canadian taxes at a level unprecedented in North America that our industries are struggling to compete with productive and efficient industries around the world. For our young people we need two things: first, immediate help; second, the stimulus of a growing economy so that new investment can provide the ongoing economic growth and jobs they need to build their own lives, raise their families and enjoy the same standard of living as we do.

To provide further employment opportunities for youth, the Ontario Government will implement a five-point program in 1977. The Government will:

- expand the regular summer replacement program by 700 positions to a total of 10,000 jobs;
- expand the Experience program by 2,350 jobs to a total of 11,492 jobs;
- increase the Ontario Career Action Program by 1,000 jobs to 2,300 jobs;
- introduce a new program to train 250 young people to assist the elderly and the handicapped to live more comfortably in their homes. Full details of this program will be announced by the Minister of Community and Social Services; and,
- introduce a new Ontario Youth Employment Program to provide employers of young people with a grant of one dollar an hour towards the wages of summer employees. This program is expected to provide a sixteen-week subsidy for up to 20,000 young people at a cost of $10 million. Details of the two new programs are outlined in Appendix B.

Altogether, these youth-oriented programs should provide jobs and introductory training to the labour market for about 45,000 young people, at a cost of $68 million. This represents a funding increase of more than $20 million over last year and better than twice the number of job opportunities for our energetic young people.

Ontario Youth Employment Programs

Program	1976-77 Funding	1976-77 Jobs	1977-78 Funding	1977-78 Jobs
	($ million)		($ million)	
Regular Summer Employment	30.0	9,300	33.0	10,000
Experience	12.0	9,142	15.0	11,492
Ontario Career Action (OCAP)	3.5	1,300	7.4	2,950
Ontario Youth Employment (OYEP)	—	—	10.0	20,000
Youth Care for Senior Citizens	—	—	2.6	250
	45.5	19,742	68.0	44,692

Tax Actions

As I mentioned earlier in my Statement, the recent federal budget will have a significant effect on Ontario's revenue. In total it will cause a reduction of $74 million in this fiscal year—$32 million in personal income tax and $42 million in corporation income tax. The taxpayers of Ontario will benefit directly from the Province's decision to parallel these federal tax measures.

Within the economic objectives which the Government has set for this year, I have decided upon a package of additional tax reductions amounting to $127 million to stimulate important sectors of the economy. I am proposing to balance this total revenue loss of $201 million by tax increases of $209 million in order to meet my financial target.

Personal Income Tax

As a result of the new federal-provincial fiscal arrangements, the Province's personal income tax rate increases to 44 per cent of federal basic income tax for the 1977 taxation year. The 44 per cent rate will ensure that, given the reduced federal base for calculating Ontario tax, the Province will occupy the tax room vacated by the federal government. At the same time, taxpayers will be left virtually unaffected overall. This means that, other than in Alberta, Ontario's personal income tax rate remains the lowest of any province in Canada.

The history of the new arrangements, the mechanics of this transfer of personal income tax room, and the impact on filers are fully documented in Budget Paper B. I am also taking this opportunity to table a staff research paper entitled "The Equity and Revenue Effects in Ontario of Personal Income Tax Reform: 1972-75". This paper, which is number 13 in the Ontario Tax Studies series, examines how reform of the personal income tax has worked in Ontario.

Let me now turn to the tax decreases contained in this Budget.

The new federal-provincial fiscal arrangements have implications for Ontario's personal income tax reduction. To ensure that the majority of Ontario taxfilers who pay no federal tax are also free of Provincial tax, effective for the 1977 taxation year, Ontario income tax will no longer be payable by taxfilers with less than $1,680 taxable income. This enrichment from the 1976 level of $1,540 will remove the Ontario tax liability for an additional 35,000 filers and will cost more than $3 million. In the majority of circumstances it should mean that no Ontario tax will be payable where no federal tax is payable. In some cases, however, the new $50 federal tax credit for children will remove federal tax liability while Ontario liability will remain. In the near future I will be reviewing the viability of incorporating this provision in The Ontario Income Tax Act.

Retail Sales Tax

I am proposing a number of reductions to the retail sales tax, effective midnight this day.

Ontario has, over the past few years, increased the level of the retail sales tax exemption for prepared meals so that residents and visitors alike are able to purchase essential meals free of tax. At the same time, the levels chosen have ensured the continued generation of revenue from the more elaborate, higher-priced dinners. In continuation of this practice, I am proposing a further increase in the level of exemption to \$6. This change ensures that all basic meals will be free of tax, and should result in considerable benefit to the tourist trade since the average vacationing family of four will enjoy a saving of about \$2 a day.

Second, I am proposing to exempt from sales taxation all disposable items purchased by operators of hotels, motels and similar establishments for use in guest rooms. This tax has been an irritant to the trade and its removal will allow the industry to compete more effectively for the tourist and convention dollar.

These two tax actions should be of considerable benefit to Ontario's tourist industry, which is the province's second-largest employer. Together, these moves will cost the Province \$8 million in 1977-78.

Recognizing the importance of conserving energy, the Government last year provided sales tax relief to retail purchasers of thermal insulation materials used for existing residences. To further encourage the conservation of energy, I am proposing an extension of this exemption to include thermal insulation materials for all buildings. In addition, I am proposing that other energy-conserving materials and equipment, for example heat recovery units and solar cells, be added to the list of retail sales tax exemptions. The potential saving on the purchase of a solar energy system is approximately \$200-\$300. I estimate that these new initiatives will provide a total tax saving to consumers of about \$6 million in 1977-78.

I am also proposing that the exemption from sales tax on the price of admission to places of amusement be increased from 75¢ to \$3.00 It is estimated that the tax saving to consumers will be around \$10 million in 1977-78. This measure will simplify the procedures involved in administering this tax. It will also provide relief to the many thousands of charitable and non-profit organizations in Ontario and assist the promotion of public events such as agricultural fairs and exhibits in museums and art galleries.

Incentives to Small Business

Small business continues to be one of the outstanding strengths of the Ontario economy, and the Province has a substantial number of programs and incentives designed to encourage the development of this sector. In keeping with this approach, I am proposing the following incentives to small business:

- increased compensation for tax collection activities;
- simplified capital tax compliance; and,
- the establishment of Venture Investment Corporations.

For tax collected on or after April 1, 1977 the level of compensation provided to retail vendors and appointed tobacco tax collectors will be expanded from 3 per cent to 4 per cent, and the annual maximum will be increased from $500 to $700. This raises current levels by over one-third and means that the tax collection compensation paid to small businesses in Ontario is the highest provided by any province in Canada or any major U.S. state. The cost of this improvement will be approximately $5 million for 1977-78.

I recognize that filling out complex capital tax returns is a nuisance to most owners of small businesses. I therefore propose that, in lieu of the regular capital tax rates, corporations with taxable paid-up capital in Ontario of up to $50,000 pay a flat tax of $50, and corporations with taxable paid-up capital in Ontario in excess of $50,000 and up to $100,000 pay a flat tax of $100. These corporations will receive a tax saving at a cost to the Province of $3 million. The filing of capital tax returns is thus greatly simplified for about 95,000 Ontario corporations.

Members will recall that in the 1976 Budget I introduced legislation, for first reading only, which proposed that special Venture Investment Corporations be established to provide risk capital to small businesses in Ontario. A deferral of corporation income taxes was proposed as an incentive to encourage the deployment of risk capital into these small corporations. The purpose of this legislation was to encourage and facilitate discussion of the concept with the federal government and the private sector. The discussion resulted in a revised version of the VIC legislation being tabled with my November Economic Statement.

The recent federal budget introduced one provision respecting the tax treatment of investments in Venture Investment Corporations. This allows Ontario to proceed with VICS. Therefore, I will introduce tonight The Venture Investment Corporations Registration Act, with the intention of having the system in place and operating before the end of 1977. The complementary tax amendment to The Corporations Tax Act will be introduced later in the year by my colleague the Minister of Revenue; details of this proposal are provided in Appendix A to this Statement.

It is my hope that the VIC program will substantially encourage the development of small business in this province. The capital tax relief for small businesses and the programs recently announced by other ministries, such as the elimination of the annual corporation filing requirement and the expansion of the Ontario Development Corporation services, demonstrate this Government's firm belief in a strong and growing small business sector in this province.

Succession Duties and Gift Taxes

In the past year, the provinces of British Columbia and Saskatchewan have abandoned the succession duty field. As a result, only Manitoba, Quebec and Ontario now levy succession duties and gift taxes. We have reviewed this matter carefully and have concluded that our own statutes should remain in force. They add a valuable degree of equity to the Province's tax structure. However, it is the Government of Ontario's policy to have these taxes paid by those who can best afford to do so. The 1975 Budget went a considerable way towards ensuring this goal by exempting from duty all estates valued at less than $250,000. As a further move towards concentrating the burden of death taxes on large estates, and to allow for the upward valuation in assets which occurs over time, I am proposing that the basic level below which no duty is payable be increased to $300,000, effective in respect of deaths occurring on or after April 20, 1977.

At the same time, the Province of Ontario recognizes its long-term commitment to phase out succession duty when the capital gains tax matures. At the present time, and indeed in the foreseeable future, the level of capital gains revenue will not be adequate replacement for revenue lost by vacating the succession duty field. Therefore, the Government has decided instead to fully remove any element of double taxation by integrating succession duty and capital gains tax through a credit mechanism. I am proposing that, effective in respect of deaths occurring on or after April 20, 1977, capital gains tax arising as a result of death will be eligible to be treated as a credit against succession duty. It is expected this credit mechanism will result in ever-increasing reductions in succession duty over time, as the value of capital assets increases and The Succession Duty Act is amended periodically to recognize the effect of inflation.

In addition, the current requirements of affidavits from all beneficiaries will be replaced by a simplified return submitted by the executor of the estate. The accessibility of beneficiaries to the assets of the estate will also be made easier. As well, the Ministry of Revenue will be offering regional counter-service in respect of succession duties in the near future—which will enable small estates to be processed promptly and have their assets cleared quickly.

To complement these changes to The Succession Duty Act, and to permit the distribution of assets prior to death, The Gift Tax Act is also amended. For 1977 and subsequent years, gifts of up to $10,000 per recipient and $50,000 per donor per year will be exempt from gift tax. This represents a doubling of the allowances which were available for 1976.

It is estimated that these changes to The Succession Duty Act and The Gift Tax Act will cost $8 million in this fiscal year.

The Land Transfer Tax

I am proposing that, effective today, The Land Transfer Tax Act be substantially amended in terms of its tax treatment of non-resident individuals and corporations to encourage productive foreign investment.

Currently, all land transferred to non-residents attracts the high 20 per cent rate of tax. I am proposing to tax only agricultural and recreational land—restricted land—at this high rate. Specifically, any transfer to a non-resident individual or corporation of land that is "zoned" or "assessed" as commercial, industrial or residential is to be taxable at the normal low rate of land transfer tax.

The substantial difference between the new legislation and the existing Act is in the treatment of non-resident industry. The latter forced legitimate industrial or commercial enterprises through a deferral process that, with changing economic conditions, has proven to be unnecessary and inappropriate. The new proposal does away with deferrals where the non-resident transferee is purchasing "unrestricted" land. The procedures for deferrals of tax are carried over from the old Act where the non-resident purchases restricted land for the purpose of commercial, industrial or residential development and resale, or for the purpose of establishing, expanding or relocating an active commercial or industrial enterprise.

The Land Speculation Tax

The Government remains committed to its policy of discouraging non-productive speculative activities. However, I am proposing two necessary changes to The Land Speculation Tax Act.

The current provision for a reduction in taxable value with respect to investment properties completely eliminates tax over a ten-year period. This provision has required a longer than desirable commitment by non-residents who wished to buy investment properties in Ontario. Consequently, a substantial pool of capital normally available to resident developers has dried up. I am therefore proposing to halve the reduction period from ten to five years, by doubling the reduction value to 20 per cent per annum.

A second proposal permits farmers to rent out their farm properties without forfeiting the 10 per cent per annum reduction in taxable value permitted to farm property. Whereas the previous provision deemed the rental period as being an interruption in the farming period, the new provision allows for the rental period to equal three years or less in the ten-year period without loss of the reduction. However, the rental period may not exceed two years immediately prior to disposition. This proposal gives farmers time to decide whether or not to sell their farm properties without opening the door to full-fledged speculation by non bona fide farmers.

In addition to the relaxation of the treatment of farms and investment properties, The Land Speculation Tax Act parallels the changes to The Land Transfer Tax Act. It is my hope that these significant changes to the land transfer and land speculation taxes will further encourage job-creating investment.

I should note my satisfaction that the federal Minister of Finance, in his recent budget, has changed the treatment of capital gains taxation to allow the rollover of capital gains when funds realized from the sale of business and farming assets are reinvested in similar assets.

Long-Term Investment Incentives

In addition to the tax reductions I have just detailed, I am proposing the following long-term measures, in the interests of federal-provincial tax harmony and to maintain Ontario's competitive position.

- Continuation of the manufacturing and processing fast write-off for an indefinite period. This measure will cost the Province approximately $80 million in a full year.
- Paralleling the three per cent inventory valuation adjustment which was announced in the federal government's March 31, 1977 budget, at a cost to the Province in fiscal 1977-78 of $40 million. This is an interim measure at both the federal and Provincial levels pending the recommendations of committees which are now examining the tax aspects of inflation accounting.
- Adopting the federal 25 per cent resource allowance for oil and gas companies and replacing our present automatic depletion system with earned depletion for these companies. In addition, I propose to parallel the incentive for frontier oil and gas exploration announced in the latest federal budget. I estimate that the revenue loss to Ontario of these changes will be about $6 million annually.

The recent federal budget also contained major changes to the taxation of insurance companies. The implications and revenue effects of these changes will have to be carefully examined before any decision could be made concerning Ontario's taxation of this sector, bearing in mind the competitive position of Canadian insurance companies in the United States market.

Mr. Speaker, the cost to the Province of the above tax reductions is $201 million. To offset this revenue loss and keep to the deficit target, I am proposing to raise an approximately equivalent amount through tax increases.

Tobacco Tax

I am proposing to raise additional revenue of $58 million from cigarettes, cigars and cut tobacco.

The tax on cigarettes will be increased by 5 cents per package of 20 cigarettes. The tax on cigars, which is applicable on the retail price, will be doubled. Thus, the tax on a 25¢ cigar will increase from 5¢ to 10¢. The tax on cut tobacco will also be doubled, from 2.5¢ per half ounce on the old "avoirdupois" basis to the equivalent of 5¢ per half ounce on the new "metric" basis.

Motor Vehicle Registration Fees

Government road-related expenditure is growing faster than revenue derived from road users. Consequently, in order to restore a reasonable balance between expenditure and revenue, I am proposing to increase the registration fees for passenger cars, commercial vehicles, motorcycles and buses. Effective for the 1978 registration year, the annual registration fees for passenger cars will be increased as follows:

- 4 cylinders—from $23 to $30
- 6 cylinders—from $32 to $45
- 8 cylinders—from $40 to $60.

Additionally, the fee for passenger cars registered for the first time and equipped with an engine having a displacement in excess of 6,500 cubic centimeters (397 cubic inches) will be $80. The annual registration fee for motorcycles will be increased by $5, while the fee for snowmobiles will remain unchanged.

The annual registration fees for commercial vehicles, farm trucks and buses will be raised by adding a flat $22 to each weight class and by raising these new levels by 9 per cent. In respect of smaller commercial vehicles this measure will adjust the fee to the same level as the fee now proposed for 8 cyclinder passenger cars. A large majority of these small commercial vehicles are equipped with 8 cylinder engines and their weight is also comparable to an 8 cylinder passenger car.

The fee increases will raise $78 million in 1977-78. This new, more progressive fee structure encourages energy conservation.

Reduced Fees in Northern Ontario

In identifying the need to raise registration fees, however, it is also recognized that the operation of a passenger car in Northern Ontario involves substantial costs over and above those experienced in the southern part of the province. These costs are the direct consequence of greater distances travelled, the effect of climatic conditions on mileage, and sometimes higher gasoline prices in the North.

I am therefore pleased to propose that, effective for the 1978 registration year, registration fees be reduced to $10 for all passenger cars and motorcycles registered North of the French River. By this measure, all bona fide residents of the area will receive a saving equivalent to 5¢

per gallon of gasoline, based on an average annual distance travelled of 10,000 miles.

The total saving to Northern Ontario residents is approximately $12 million in 1977-78.

Registration of Sellers and Distributors of Middle Distillate Fuels

To improve taxpayer compliance under The Motor Vehicle Fuel Tax Act, I propose that by July 1 of this year all sellers and distributors of diesel fuel, home heating oil, furnace oil and similar products be registered with the Ministry of Revenue. Users of *taxable* middle distillate fuels will also be registered.

I would like to point out that all of the other provinces have in place systems to minimize avoidance of fuel taxes. I estimate that Ontario's tighter enforcement will generate $10 million in 1977-78.

Environmental Tax

For some time, the Ontario Government has been advocating the use of refillable soft drink containers and seeking ways to discourage the use of non-refillable throwaway containers. The Government has two basic objectives:

- to reduce the volume of solid waste in Ontario; and,
- to conserve energy resources wasted in the production of throwaway convenience containers.

In support of these objectives, the Minister of the Environment has announced a ban on the sale of non-refillable bottles in Ontario, effective April 1, 1978. Cans for carbonated soft drinks are an equally important contributor to the problem, hence action to limit the use of cans is also necessary.

I am proposing that a tax of 5¢ per can be imposed on the consumer who chooses to buy soft drinks in cans, effective June 1, 1977. For ease of administration this tax will be collected at the manufacturers' and importers' level. Inventory will be taken at all levels on that date. The tax will be included in the retail selling price, thus attracting retail sales tax as well.

It is my hope that this environmental tax, which will apply equally to canned carbonated soft drinks manufactured in Ontario or imported into the province, will be combined with a concerted effort on the part of soft drink producers to substantially reduce the proportion of soft drinks sold in cans. Since consumer buying habits do not change overnight, however, the $25 million which is estimated to be collected in the first year will assist in the funding of major environmental projects. Grants will be available to municipalities and citizens groups for the construction and operation of collection and recycling depots. In addition, there will be increased support for municipal reclamation facilities across the province.

Paid-up Capital Tax

Finally, I have decided that the most appropriate way to secure the balance of revenue needed is to increase the paid-up capital tax on large corporations. Accordingly, I am proposing that the paid-up capital tax on corporations be increased by 50 per cent for fiscal years ending after April 19, 1977. The new general rate of capital tax will be $\frac{3}{10}$ of 1 per cent. For banks, the new rate will be $\frac{3}{5}$ of 1 per cent.

I estimate that this increase will generate an additional $68 million gross revenue in a full year and $55 million in the 1977-78 fiscal year.

For corporations paying income tax the burden of this increase is not unduly onerous since the paid-up capital tax is deductible in calculating taxable income. This feature enhances the overall equity of the corporation tax system.

Mr. Speaker, the $209 million in tax increases I have just proposed constitute a fair and balanced package for the people of Ontario.

Revenue Impact of Tax Changes
($ million)

TAX REDUCTIONS	
A. From Paralleling Federal Budget:	
—personal income tax	−32
—corporate income tax	−42
Subtotal	−74
B. Other Tax Cuts:	
—personal income tax	−3
—retail sales tax	−29
—capital tax	−3
—succession duty/gift tax	−8
—corporate income tax	−84
Subtotal	−127
Total Tax Cuts	−201
TAX INCREASES	
—tobacco tax	+58
—vehicle registration fees (net)	+66
—diesel fuel registration	+10
—environmental tax	+25
—capital tax (net)	+50
Total Tax Increases	+209
Net Revenue Effect	+8

Ontario's Financial Strategy for 1977-78

This Budget achieves a pronounced strengthening in the Province's financial health, as reflected in the $311 million improvement in our net cash requirements to a two-year low of $1,077 million. Moreover, the financial plan for 1977 reduces our budgetary deficit from $1,279 million in 1976-77 to $992 million. Non-public borrowing will be more than adequate to meet financing needs.

Ontario's 1977-78 Financial Plan
($ million)

	Interim 1976-77	Estimated 1977-78	Year to Year Swing
Revenue	11,177	12,621	+1,444
Expenditure	12,565	13,698	+1,133
Net Cash Requirements	1,388	1,077	−311
Internal Sources	1,357	1,343	−14
Public Borrowing	Nil	Nil	Nil
Debt Retirements	−272	−73	+199
Debt Financing	1,085	1,270	+185
Impact on Cash Reserves	−303	193	+496

This fiscal plan means that for the second consecutive year *Ontario will not need to borrow in the public capital markets on its own account.* In looking ahead, achievement of a balanced budget by 1980-81 would mean the virtual elimination of the Province's reliance on non-public borrowing as well. This would greatly enhance our fiscal flexibility. It would permit Ontario's surplus non-public funds to be deployed for major private and public investment projects—such as Ontario Hydro—thereby restoring a more appropriate balance between government

Ontario's Fiscal Planning Horizon, 1976-77 to 1980-81
($ billion)

	Actual	Interim	Estimated	Projected		
	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Budgetary Account						
Revenue	9.0	10.5	12.0	13.0	14.2	15.5
Expenditure	10.5	11.8	13.0	13.8	14.7	15.5
Deficit	1.5	1.3	1.0	0.8	0.5	0.0
Non-Budgetary Deficit	0.3	0.1	0.1	0.1	0.1	0.1
Net Cash Requirements	1.8	1.4	1.1	0.9	0.6	0.1
% Increase*						
Budgetary Revenue	—	17.3	13.4	8.2	9.3	9.8
Budgetary Spending	—	12.9	9.5	6.3	6.3	6.0

*See Budget Paper C for details.

and private sector demands on the finite resources of the capital markets. Budget Paper C examines Ontario's revenue growth potential and discusses the implications for expenditures of this balanced budget target.

Conclusion

Mr. Speaker, this 1977 Budget carries forward the sound management of our economic and fiscal resources. It demonstrates clearly the ability of the Government of William G. Davis to effectively manage the affairs of this Province of Ontario. It meets our most immediate and pressing needs by:

- funding a large number of new jobs in the construction industry and for our young people; and,
- proposing a financing plan that reduces the Government's claim on the provincial economy.

As a further expression of our sound management practices, this Budget also addresses the longer term problems of economic policy by establishing a fiscal strategy for balancing the budget by 1980-81. I believe that this responsible strategy will provide the stability and bolster the confidence our economy needs for continued growth and prosperity.

The Government of this Province of Ontario has also demonstrated its concern for those in our society who are less fortunate and who deserve to share fully in the benefits of economic growth and our unparalleled abundance. We have assisted youth; we have provided housing; we have developed a plan of workmen's compensation—admittedly not perfect—but which is better than any other; we have created a system of public services unequalled on this continent. GAINS and a host of social service programs have enhanced the security and dignity of our senior citizens. We have, with some success, spread new economic opportunities to all parts of the province. And we have provided the hospitals, schools, libraries, recreational facilities, day nurseries, and cultural amenities—the quality of life that makes Ontario the envy of our American neighbours.

With this impressive record of leadership and with our grasp of the realities of economic life, I look forward with confidence to the challenges of 1977 and succeeding years.

Appendix A

Details of Tax Changes

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

The Retail Sales Tax Act

Increased Exemption for Prepared Meals

The exemption for prepared meals will be increased to $6.00 from the present level of $5.00.

Effective: April 20, 1977.

Exemption for Energy Conservation Materials and Equipment

The exemption introduced in April, 1976 for thermal insulation materials used exclusively for the insulation of existing residential buildings is now extended to exempt all purchases of such thermal insulation—including urethane foam insulation—used in all buildings.

In addition, the following energy conservation materials and equipment will be exempt from the tax:

- Heat pumps for use principally to provide heat in a heating system of a building.
- Heat recovery units and devices for extracting heat from exhaust air or waste water for recovery of energy.
- Solar cells designed to produce electricity directly from sunlight for charging batteries.
- Solar furnaces, solar panels and tubes specially designed for collecting and converting solar energy into heat for use in solar heating systems.
- Wind generators and windmills for converting wind power to mechanical or electrical energy; pumps and generators specially designed for use directly with such devices.

- Timer-controlled thermostats for heating systems for buildings; automatic timer controls for electrical equipment.
- Wood-burning stoves and wood-burning furnaces.
- Wind deflectors for trucks.

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

Effective: April 20, 1977.

Increased Exemption for Admission to Places of Amusement

The exemption from sales tax on the price of admission to places of amusement will be increased from 75¢ to $3.00.

Details will be provided by the Ministry of Revenue.

Effective: April 20, 1977.

Compensation to Vendors

The amount of compensation provided to each vendor for the collection and remittance of retail sales tax will be increased from 3 per cent of tax collected with a maximum of $500 per annum, to 4 per cent of tax collected with a maximum of $700 per annum. Specific entitlements available to vendors will be as follows:

- For tax collections of $3.00 or less per return, the vendor will be entitled to withhold the full amount of the tax.
- For tax collections exceeding $3.00, the vendor will be entitled to withhold 4 per cent of tax collected or $3.00 per return, whichever is the greater, provided that total entitlements withheld do not exceed $700 in each 12-month period commencing April 1.
- For large vendors with multi-branch organizations, maximum entitlement will be $700 in each 12-month period commencing April 1.

Effective: for tax collected on or after April 1, 1977.

Exemption for Disposable Items Purchased by the Accommodation Industry for Use in Guest Rooms

Certain specified disposable items purchased by hotels, motels, and other similar establishments for use in the provision of taxable transient accommodation are exempt from tax. This exemption includes facial and bathroom tissue, bar soaps, and other related disposable items.

Full details of disposable items to be exempted will be provided by the Ministry of Revenue.

Effective: April 20, 1977.

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

Retail Sales Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M5S 1M1
(416) 965-5772

or

the nearest Retail Sales Tax District Office.

The Tobacco Tax Act

Tax Rate Changes

The following changes will be effective April 20, 1977:

- The tax on *cigarettes* will be increased from 14.2¢ per pack of 20 to 19.2¢ per pack of 20. Other package sizes will be subject to proportional increases.
- The new tax rates applicable to the retail price of *cigars* will be:
  —2¢ if purchased at a retail price of 7¢ or less (the former rate was 1¢);
  —4¢ if purchased at a retail price of more than 7¢ but not more than 10¢ (the former rate was 2¢); and,
  —an additional 2¢ for each 5¢ or part thereof that the retail price exceeds 10¢ (the former additional tax was 1¢).
- The new tax rate on *cut tobacco* will be based on the metric system, and will be set at thirty-five one-hundredths of a cent for each gram of tobacco. This rate is roughly equivalent to 5¢ for every half ounce of tobacco, and compares to a rate of 2.5¢ per half ounce prior to this Budget. Conversion tables from the old system to the new metric system will be provided by the Ministry of Revenue.

Inventories

Businesses, including retailers and wholesalers, will be required to declare their cigarette, cigar and tobacco inventories as of midnight April 19, 1977, and to remit tax on such inventories as directed by the Ministry of Revenue.

Compensation to Tobacco Tax Collectors

The amount of compensation for tobacco tax collection will be increased in line with the new compensation level for vendors who collect retail sales tax. Each tobacco dealer who is an appointed tax collector will receive compensation of 4 per cent of tax collected, with a maximum of $700 per annum.

Effective: for taxes collected on or after April 1, 1977.

All enquiries regarding tobacco tax matters should be directed to:

Gasoline Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1X8
(416) 965-2587

The Environmental Tax

Effective June 1, 1977, a tax of 5¢ will be imposed on each canned carbonated soft drink acquired for consumption or use in Ontario. This tax will be imposed on the purchaser, but, for administrative convenience, it will be collected by the manufacturer or importer.

Retail sales tax will apply to the total price of canned soft drinks inclusive of the environmental tax.

Inventories

All businesses dealing in canned carbonated soft drinks—including bottlers, wholesalers, distributors and retailers—will be required to declare their inventories at June 1, 1977, and to remit the environmental tax on such inventories, as directed by the Ministry of Revenue.

All general enquiries regarding the objectives of The Environmental Tax Act should be directed to:

Information Services Branch
Ministry of the Environment
Parliament Buildings
Queen's Park
Toronto M4V 1P4
(416) 965-7117

All enquiries regarding the implementation and administration of The Environmental Tax Act should be directed to:

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

The Motor Vehicle Fuel Tax Act

All sellers and distributors of middle distillate fuels i.e. diesel fuel, home heating oil, furnace oil, etc., as well as all users of such *taxable* fuels in Ontario, will be required to be registered with the Ministry of Revenue.

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

Effective: July 1, 1977.

All enquiries regarding this change should be directed to:

Gasoline Tax Branch
Ministry of Revenue
Parliament Buildings
Queen's Park
Toronto M7A 1Y3
(416) 965-0299

Motor Vehicle Registration Fees

For the 1978 registration year, the following changes will take effect:

Passenger Vehicles

- Fees in *Southern Ontario* will be increased as follows:
  1. *Passenger cars:*
     4 cylinders (or less)—from \$23 to \$30.
     6 cylinders—from \$32 to \$45.
     8 cylinders (or more)—from \$40 to \$60.
     The registration fee for passenger cars registered for the first time and equipped with an engine having a displacement in excess of 6500 cubic centimeters (397 cubic inches) will be \$80. Once so registered, the car will continue to be subject to this fee.
  2. *Motorcycle* fees will be raised from \$15 to \$20.
  3. The existing *snowmobile* fees will be maintained at \$10.
- Fees in *Northern Ontario* will be reduced to a flat fee of \$10 for all passenger cars and motorcycles.
  Northern Ontario means those parts of Ontario lying north and west of the Mattawa River, Lake Nipissing and the French River and including the District of Manitoulin.

Commercial Vehicles and Buses

The annual registration fees in both Northern and Southern Ontario will be increased as follows:

- for *commercial vehicles*, from the present range of \$33 to \$2,021 to a new range of \$60 to \$2,227;

- for *commercial vehicles owned and used by a farmer*, from the present range of \$41 to \$534 to a new range of \$69 to \$606;
- for *buses* designed and used exclusively for the transportation of passengers, from the present range of \$22 to \$479 to a new range of \$48 to \$546; and,
- for *school buses* operated on a seasonal basis under a contract with a school board, from the present range of \$19 to \$400 to a new range of \$45 to \$460.

Detailed fee schedules for annual and/or shorter terms, and for all classes of motor vehicles will be provided by the Ministry of Transportation and Communications.

All enquiries regarding motor vehicle registration fee changes should be directed to:

Public and Safety Information Branch
Ministry of Transportation and Communications
Parliament Buildings
Queen's Park
Toronto M7A 1Z8
(416) 248-2501

The Income Tax Act

- The rate of Provincial personal income tax for 1977 is converted from 30.5 per cent of federal basic tax to 44 per cent of federal basic tax pursuant to the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977.
- The taxable income level below which no Ontario tax is payable is increased from \$1,534 to \$1,680 for the 1977 and subsequent taxation years.
- The foreign tax credit is amended to parallel changes contained in the Income Tax Amendment Act (Canada), 1976.

All enquiries regarding personal income tax 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

The Land Transfer Tax Act

- The 20 per cent rate of tax on non-residents will not apply to conveyances of:
  - (a) land zoned commercial or industrial by a municipality, or
  - (b) land assessed as
    - (1) commercial or industrial, or
    - (2) residential.
- Developers will continue to be eligible for deferral of tax on the purchase of agricultural and recreational land acquired for development and resale.

Effective: for all transfers of land on or after April 20, 1977.

The Land Speculation Tax Act

- The reduction in taxable value of 10 per cent per annum over ten consecutive years for investment properties becomes a reduction of 20 per cent per annum over five consecutive years.
- The reduction in taxable value for farm properties is broadened. Periods during which the farm was rented by the transferor will now be eligible for the reduction. To qualify, the rental period must not exceed three years in the ten-year period and the property may not be rented for more than two consecutive years immediately prior to transfer.
- Where control of corporations which have more than 50 per cent of their assets in designated land passes to non-residents, the additional 20 per cent tax imposed by this Act will not apply to commercial, industrial or residential land.

Effective: for all dispositions of land on or after April 20, 1977.

All general enquiries regarding the objectives of The Land Transfer Tax Act and The Land Speculation Tax Act 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

All enquiries regarding the implementation and administration of The Land Transfer Tax Act and The Land Speculation Tax Act should be directed to:

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

The Succession Duty Act

Changes effective in respect of deaths occurring on or after April 20, 1977 are as follows:

- The duty-free threshold for estates is raised from $250,000 to $300,000. As well, the additional rate will not apply to receipts by an individual of $300,000 or less.
- Capital gains tax arising from the deemed disposition at death provisions of the Income Tax Act (Canada) may be fully credited against succession duty payable, rather than deducted from aggregate value as a debt of the estate, at the election of the executor.
- There will be a simplified return for estates by the executor in place of the current Affidavit of Value and Relationship.
- The list of property which may be released without consents from the Minister of Revenue is expanded to include such items as property jointly held with spouse, lump sum payments after death, bank term deposits and Guaranteed Investment Certificates (up to $5,000 each), and old age pensions.

The Gift Tax Act

Effective for 1977 and subsequent years, the basic exemption is raised from $5,000 to $10,000 for any one recipient in any one taxation year. Similarly, the annual total of exempt gifts per donor is increased to $50,000 from $25,000.

All enquiries regarding succession duty and gift tax changes should be directed to:

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

The Corporations Tax Act

Paid-Up Capital Tax

- *Rate Increase For Large Corporations*
  —The general rate of capital tax is increased from $\frac{1}{5}$ of 1 per cent to $\frac{3}{10}$ of 1 per cent. The rate for banks is increased from $\frac{2}{5}$ of 1 per cent to $\frac{3}{5}$ of 1 per cent.

  This change applies with respect to the fiscal years of corporations ending after April 19, 1977. For fiscal years that include April 19, 1977, the increase in capital tax that results from the increase in rate will be prorated on the basis of the number of days of that fiscal year that is subsequent to April 19, 1977.

- *Flat Tax For Small Corporations*
  —In lieu of the above regular rates:
    —a tax of $50 will apply to corporations with taxable paid-up capital in Ontario of up to $50,000 at the close of their fiscal years; and,
    —a tax of $100 will apply to corporations with taxable paid-up capital in Ontario in excess of $50,000 and up to $100,000 at the close of their fiscal years.

  This change applies with respect to the fiscal years of corporations ending after April 19, 1977. For fiscal years that include April 19, 1977, the new tax of $50 or $100 will apply to the full fiscal year.

  No change is made to the existing flat taxes of $50 or $5 for special types of corporations.

Oil and Gas Taxation

- The following federal income tax provisions will be paralleled in respect of oil and gas income (including income from oil sands):
  —25 per cent resource allowance;
  —earned depletion system ($1 for every $3 of eligible expenditures, up to a maximum of 25 per cent of resource profits); and,
  —an additional earned depletion entitlement of $66\frac{2}{3}$ per cent of qualifying drilling costs in excess of $5 million incurred between March 31, 1977 and April 1, 1980, as proposed in the federal budget of March 31, 1977 and subject to passage of enabling federal legislation.
- The present automatic depletion allowance will no longer apply in respect of oil and gas income.

These changes will apply with respect to fiscal years of corporations ending after April 19, 1977. For fiscal years that include April 19, 1977, the change in tax payable will be prorated on the basis of the number of days of that fiscal year that is subsequent to April 19, 1977.

Inventory Allowance

As proposed in the federal budget of March 31, 1977 and subject to passage of enabling federal legislation, corporations will be permitted to deduct from their taxable income an amount equal to 3 per cent of the tangible moveable property included in the inventory on hand at the beginning of the year, or such lesser percentage as may be appropriate for taxation years of less than twelve months.

This change will apply with respect to fiscal periods commencing after 1976.

Fast Write-Off for Manufacturing and Processing

The two-year write-off of manufacturing and processing machinery and equipment which was due to expire at the end of 1977 will be continued indefinitely. This extension parallels the federal treatment.

All 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

Venture Investment Corporations

Tax Provisions

- Corporations investing in the equity shares of a registered venture investment corporation (VIC) will be entitled to a deduction from taxable income, for Ontario purposes, equal to 250 per cent of the investment. The eligible deduction, or portion thereof, not used in the year the investment is made will be allowed unlimited carry-forward.
- Upon disposition of the VIC shares, 250 per cent of the receipts from the sale or redemption will be included in the investor's income for that year, up to the amount of the original deduction. Recoveries in excess of the amount originally invested will be taxed in the normal manner as capital gains. Capital losses will not be allowed since the deferred taxes on the loss portion of the investment will not be recovered.
- Venture investment corporations will be subject, in the usual manner, to income and capital taxes.

Enabling tax legislation will be introduced in 1977 following passage of The Venture Investment Corporations Registration Act. A summary of the provisions of the proposed Act follows.

The Venture Investment Corporations Registration Act (to be introduced)

Registration

- A system of registration for venture investment corporations is established under the *Ontario Securities Commission, Ministry of Consumer and Commercial Relations*.
- A corporation incorporated under The Business Corporations Act may be registered as a venture investment corporation by filing a proposal containing prescribed information. A corporation is entitled to registration unless it fails to comply with the provisions of the Act.
- A corporation may be registered as a venture investment corporation only if:
  - (a) the corporation has never previously carried on business;
  - (b) a majority of the directors are resident Canadians;
  - (c) the corporation has objects only,
    - (i) to assist in the development of small business by providing venture capital through the acquisition and holding of shares and notes, bonds, debentures or similar obligations, and,
    - (ii) to provide business and management counselling to small business; and,
  - (d) the corporation has issued and outstanding capital of a value of at least $250,000.

Requisite Value of Shares

A venture investment corporation is required to maintain a minimum value of issued and outstanding capital. The requisite values are:

- $250,000 by the end of its first fiscal year;
- $350,000 by the end of its second fiscal year;
- $500,000 by the end of its third fiscal year; and,
- $750,000 by the end of its fourth and subsequent fiscal years.

Minimum Amounts in Eligible Investments

- A venture investment corporation must maintain in eligible investments:
  - (a) 60 per cent or more of the requisite value of its capital prior to the end of its first fiscal year;
  - (b) 80 per cent or more of the requisite value of its capital prior to the end of its second fiscal year; and,

(c) 80 per cent or more of the requisite value of its capital during the third and subsequent fiscal years.

- A venture investment corporation must at all times maintain in eligible investments 80 per cent or more of the amounts invested in excess of the requisite values.

Eligible Investments

An "eligible investment" is one in which all of the following criteria are met:

(a) the investment is in a small business which meets the asset, profit and employee tests prescribed by regulation;

(b) 90 per cent or more of its assets are located in Ontario and 90 per cent or more of its wages and salaries are paid to residents of Ontario;

(c) the investment is not used by the small business for the purpose of relending, investment in land, or reinvestment outside Canada;

(d) the venture investment corporation must not hold more than 40 per cent of the equity shares of the small business; and,

(e) the small business must meet Canadian control requirements.

Other Provisions

- All investments made by a venture investment corporation must be at arms length of its shareholders, officers and directors. Provision is made to ensure that the venture investment corporation will not be able to invest in a subsidiary, affiliate, related person or holding corporation of itself or of any investor in the venture investment corporation or of any officer or director of the venture investment corporation.
- In lending money to a small business, a venture investment corporation may not require the personal guarantee of, or security from, any individual.
- A venture investment corporation is not permitted to offer its securities to the public.

All enquiries regarding venture investment corporations 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

Appendix B

Ontario Youth Employment Program

Purpose:

1. To create new summer job opportunities for Ontario's unemployed youth.
2. To enable the farming and business communities in Ontario to hire more young people.
3. To provide youth with work experience, and skills to better equip them for full-time participation in the labour market.

Funding:

- This program is funded for up to $10 million. Of this amount, up to one million dollars will be set aside to assist farmers with the harvest.

How the Program Works:

- *One dollar per hour grant* will be provided to eligible employers who create new summer jobs for Ontario youth.
- Employers may receive grants for up to six new summer positions for each operational site.
- Eligible employers include businesses and farms which carried on business in Ontario for at least one year prior to application.
- Excluded from this program are federal, provincial and municipal governments, together with their agencies, boards and commissions.

Effective Date:

- This program is effective May 30 and runs to September 16.

Eligibility:

- Young people, including students, between 15 and 24 years of age who are residents of Ontario are eligible for participation in the program.
- Also included are students, 15 to 24 years of age, who are in full-time attendance at an educational institution outside of Ontario and whose parents have their principal residence in Ontario.

How Young People Apply for Jobs:

- Young people may register with their local Canada Manpower Centre and obtain information on employers approved under this program.

Employer Procedure:

- Employers may obtain application forms from the local Canada Manpower Centre or the local Canada Manpower Centre for Students.
- Employers will be required to submit monthly statements signed by the employer and employee jointly to verify hours and wages.
- Employers will be reimbursed at the end of each four-week period upon submission of the monthly statement.

Audit:

- This program is subject to both ongoing and post audit by the Ontario Government.

Further program information may be obtained by phoning:
The Ontario Youth Secretariat
(416) 965-5627

Community Youth Service for Ontario

Purpose:

1. To provide useful and meaningful work experience to young people through the performance of home support services to senior citizens and physically handicapped adults in Ontario.
2. To assist the most needy elderly and handicapped with home-making and home maintenance and to facilitate the provision of community services.

Funding:

1. Ontario will provide $20 per day towards the wages of each young person hired.
2. Young people who are residents of Ontario are eligible for participation in the program.

How the Program Works:

1. Services will be available in those Ontario municipalities which have a full-time Social Service Administrator.
2. The program will be administered by the Municipal Welfare Consulting Branch of the Ministry of Community and Social Services.

Further program information may be obtained by phoning:
The Ontario Ministry of Community and Social Services
(416) 965-5142

Appendix C

The Ontario Economy, 1975-77

	1975	1976	1977	75/74	76/75	77/76
		($ billion)			(per cent)	
Gross Provincial Product	65.3	75.0	84.0	9.6	14.8	12.0
GPP (constant 1971 dollars)	45.0	47.2	49.4	−1.1	4.9	4.7
Prices						
GNE Deflator (1971 = 100)	145.2	158.9	170.0	10.8	9.4	7.0
Consumer Price Index (1971 = 100)	138.5	148.9	159.9	10.8	7.5	7.4
Private and Public Investment	12.9	13.7	14.2	3.3	6.1	3.6
Machinery and Equipment	5.4	5.6	5.9	14.8	2.4	5.4
Total Construction	7.5	8.2	8.3	5.7	8.8	1.2
Non-Residential	4.9	5.0	5.0	17.2	0.5	1.0
Residential	2.6	3.2	3.3	−11.1	24.9	3.1
Retail Sales	19.2	21.1	23.7	15.8	10.3	12.3
Personal Income	52.9	59.4	66.5	14.4	12.3	12.0
Corporate Profits (before taxes)	8.1	8.0	8.5	−1.1	−1.9	6.3
Population (000s)	8,226	8,331	8,456	1.6	1.3	1.5
Labour Force (000s)	3,857	3,931	4,032	3.9	1.9	2.6
Employment (000s)	3,613	3,689	3,778	1.8	2.1	2.4
Unemployment (% of labour force)	6.3	6.2	6.3	—	—	—
Housing Starts—Units (000s)	80.0	84.7	80.0	−6.5	5.9	−5.5
Exports	19.3	22.0	24.7	3.2	13.9	12.3
Imports	15.3	17.0	18.1	12.5	10.6	6.5

Source: Office of Economic Policy, April 1977.

Budget Papers

Presented for the information of
the Legislative Assembly of Ontario
by the Honourable W. Darcy McKeough,
Treasurer of Ontario and
Minister of Economics and
Intergovernmental Affairs, April 19, 1977

Budget Paper A

The Changing Character of Unemployment in Ontario

Table of Contents

The Changing Character of Unemployment in Ontario

Introduction

Events of the past year, in particular the slow pace of economic recovery, high levels of unemployment and the tightening of the UIC administration, have raised important new questions about the changing nature of unemployment in Ontario. This paper addresses the problem of interpreting the policy significance of the rate of unemployment. It provides a perspective on this question, by examining recent trends and growth prospects for the Ontario labour force, and by assessing the current levels of unemployment against a revised full-employment norm.

I Trends in the Ontario Labour Force

Two major factors determine the rate of increase in the Ontario labour force. The first is the growth and changing age distribution of the working-age population. The second factor is the changing pattern of labour force participation among the principal groups. Labour force participation is itself sensitive to both the current and anticipated performance of the economy.

The unemployment rate in Ontario over the past six years clearly displays the cyclical performance of the economy. In 1971 the unemployment rate averaged 5.3 per cent, then improved steadily over the next three years to about 4 per cent, before climbing again in 1975 and 1976 to over 6 per cent. The Government of Ontario responded to the recessionary forces and rising unemployment rate in 1971 and 1975 with major expansionary actions.[1]

Recent data for the Ontario labour force, from 1971 to 1976, are displayed in Table 1. The table reveals a number of important developments. The working-age population, 15 years of age and over, grew at a fairly constant rate approaching 3 per cent from 1971 through 1974, but fell off to an increase of only 2.3 per cent in 1976. The participation rate also increased steadily from 1971 to 1975, but flattened out in 1976. Taken together, these two developments produced accelerating growth in the Ontario labour force during the early 1970s—from 3.5

[1]Honourable W. Darcy McKeough, *1972 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972) and, Honourable W. Darcy McKeough, *1975 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1975).

Ontario Labour Force Trends — Table 1

	1971	1972	1973	1974	1975	1976
			(per cent increase)			
Working-Age Population						
15 years of age and over	3.0	2.5	2.6	2.9	2.6	2.3
Ontario Labour Force	3.5	3.8	3.8	4.5	3.6	*1.9*
Ontario Employment	2.5	4.3	4.6	4.4	1.5	*2.1*
			(per cent)			
Labour Force Participation	59.5	60.2	60.9	61.8	*64.2*	*64.0*
males	79.5	80.0	80.1	80.4	*80.5*	*79.6*
females	40.2	41.2	42.4	43.8	*48.4*	*48.9*
Unemployment						
total labour force	5.3	4.8	4.1	4.2	*6.3*	*6.2*
males	5.5	5.1	4.0	4.1	*5.4*	*5.1*
females	4.8	4.4	4.1	4.4	*7.8*	*7.8*

Source: Statistics Canada, Labour Force Division.

Notes: 1. Numbers in italics are from the revised Labour Force Survey. The revised survey is not strictly comparable to the survey which it replaces. For a complete description of the two methodologies see, Labour Force Survey Division, Research Paper No. 3—Conceptual, Definitional and Methodological changes in the Labour Force Survey.
2. The population available for labour force participation is the non-institutional population 15 years of age and over.
3. The population estimate is adjusted for 1971 census data.

per cent in 1971 to 4.5 per cent in 1974. In 1975, however, this trend reversed dramatically, and by 1976 labour force growth had slowed to under 2 per cent.

Among women, Ontario labour force growth is particularly striking, and, apart from 1972, it has been double that for males. In 1976, when the overall participation rate fell, the rate of increase of the female labour force was triple that of the male labour force. The rapid rise in the female participation rate has been encouraged by changing social values, more flexible working hours, increased opportunities for child care, and pressures to supplement family income. The rising participation rate throughout the labour force is also influenced by better opportunities for part-time and seasonal work, and improved eligibility for Unemployment Insurance benefits based on part-time employment.

Against the background of decelerating growth in the working-age population and the labour force in Ontario in 1975 and 1976, the projected growth to 1980 of the labour supply in Canada and Ontario is displayed in Table 2.

The working-age population in Ontario, which grew 2.3 per cent in 1976, is expected to increase at about this pace to 1980. Since the participation rate is expected to rise for all groups, however, the labour force increase will be more rapid, at an annual rate of about 2.9 per cent.

Projected Annual Labour Force Growth
1977 to 1980
(per cent)

Table 2

	Ontario	Canada
Total Population	1.5	1.1
Working-Age Population	2.3	2.4
Total Labour Force	2.9	3.2
Primary Labour Force*	2.4	2.8
Secondary Labour Force	3.2	3.4
males, 15 to 24 years of age	2.2	2.2
males, 55 years of age and over	3.0	3.1
females, 15 years of age and over	3.7	4.0

Source: Staff Study, *Long Term Outlook for Labour Force Growth: Canada and Ontario*, Policy Planning Branch, Office of Economic Policy (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1976).

Note: Projection assumes low fertility and annual net migration to Ontario of 50,000.

*Primary labour force is comprised of males, 25 to 54 years of age.

While this is a higher increase in the labour force than recorded in 1976, it is substantially less than the growth rate in recent years. More importantly, the primary labour force—males between 25 and 54 years of age—will grow by about 2.4 per cent a year, compared to the growth in the secondary labour force of 3.2 per cent a year.

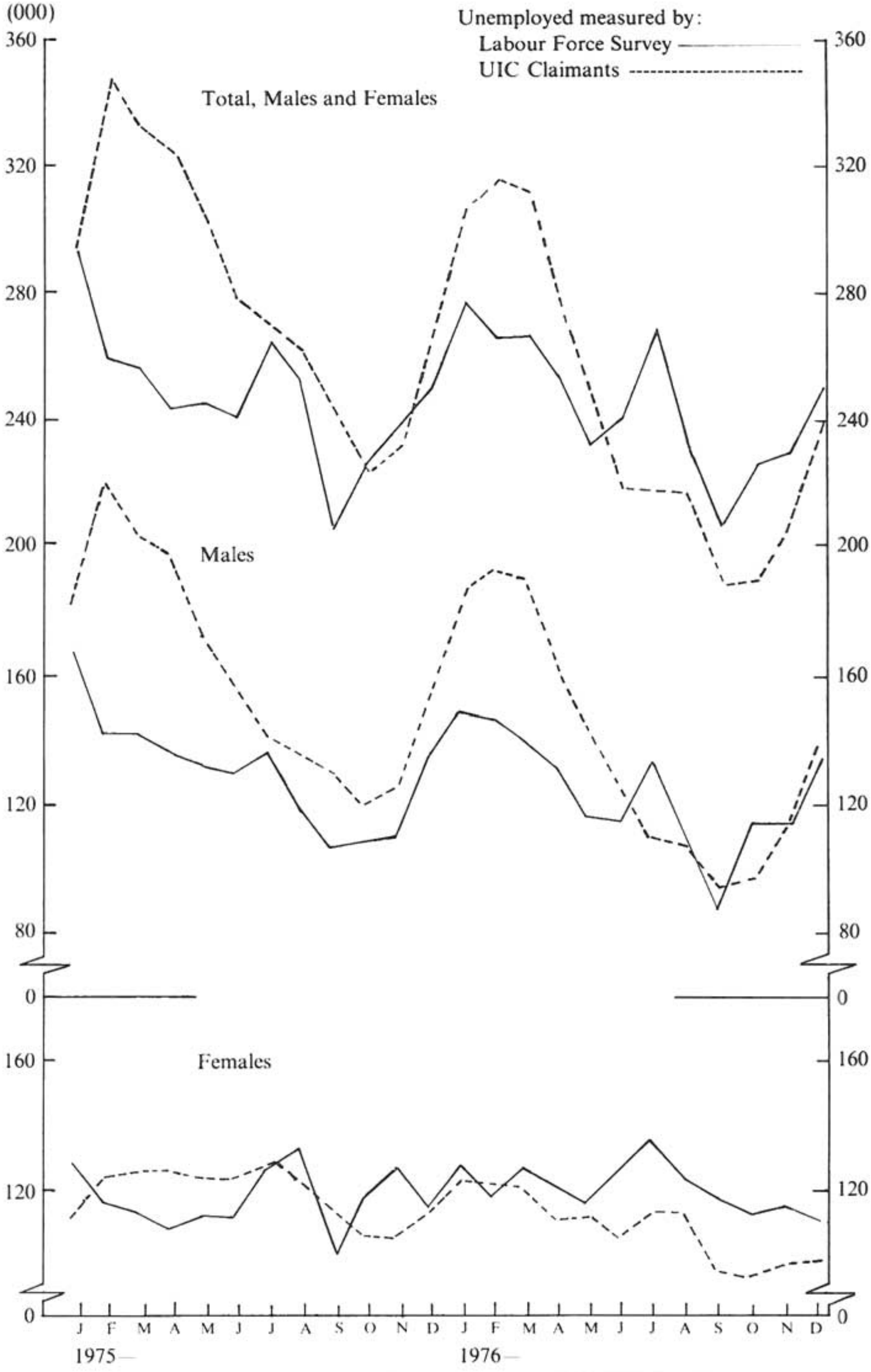
These projections indicate that over the next few years, Ontario's labour force will grow at a slower rate than the labour force for Canada as a whole—2.9 per cent versus 3.2 per cent. This is a complete reversal from past performance, as growth in Ontario's labour force had consistently outpaced that for Canada up to 1974. This slower growth pattern for Ontario will be evident in all segments of the labour force. Ontario's primary labour force is projected to grow at 2.4 per cent annually versus 2.8 per cent for Canada, and the secondary labour force at 3.2 per cent versus 3.4 per cent for Canada.

While unemployment in early 1977 continues at unacceptably high levels and is a source of concern, it is important to address this problem within the context of the next few years. To the extent growth rates in the labour force are tapering off, the longer term outlook may be less serious than the performance in the first three months of 1977 might indicate.

These observations on the changing growth and composition of the Ontario labour force point to some serious pitfalls in the widespread practice of interpreting the unemployment situation solely through changes in the rate of unemployment. The formulation of macroeconomic policies to reduce the rate of unemployment must take this perspective into account. Otherwise, slavish addiction to past practices will continue to impart an inflationary bias to the economy.

Unemployed and UIC Claimants

Chart 1



Source: Statistics Canada: Labour Force Survey, actual unemployment figures; and UIC monthly data.

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

II The Labour Force and Unemployment Insurance Benefits

The comparison of monthly Unemployment Insurance data with Labour Force Survey information is an important additional source of insight into the operation of Ontario's labour market. Accordingly, this section continues the analysis of the Ontario labour market presented in Budget Paper D of the *1976 Ontario Budget*. The Labour Force Survey is based on a sample of respondents in Ontario and the UIC data represent all claimants. However, not all claimants of Unemployment Insurance are enumerated as unemployed for purposes of the Labour Force Survey. The UIC data presented in this paper include only those claimants who are available for employment and exclude those on maternity, sickness, retirement, retraining and supplementary benefits.

Even after allowance for seasonal patterns, the comparison of actual unemployed in Ontario from the Labour Force Survey with regular UIC claimants reveals some significant changes in the relationship between these two series in 1975 and 1976. In 1975, as Chart 1 reveals, total UIC regular claimants exceeded numbers of unemployed as determined by the Labour Force Survey for every month except October and November. By contrast, from June, 1976, UIC regular claimants dropped below the total number of unemployed.

Another piece of evidence which illustrates the changing performance of the Unemployment Insurance system is a comparison of numbers of claimants and beneficiaries. The widening of the gap between these two series is a further indication of the tightened administration of the current system. This relationship is shown in Chart 2.

The marked change in the monthly relationship between UIC regular claimants, beneficiaries and actual unemployed as determined by the Labour Force Survey suggests the need for a major in-depth analysis of the performance of the labour market in the course of the current economic cycle, and an assessment of its implications for the operations of the Unemployment Insurance Commission.

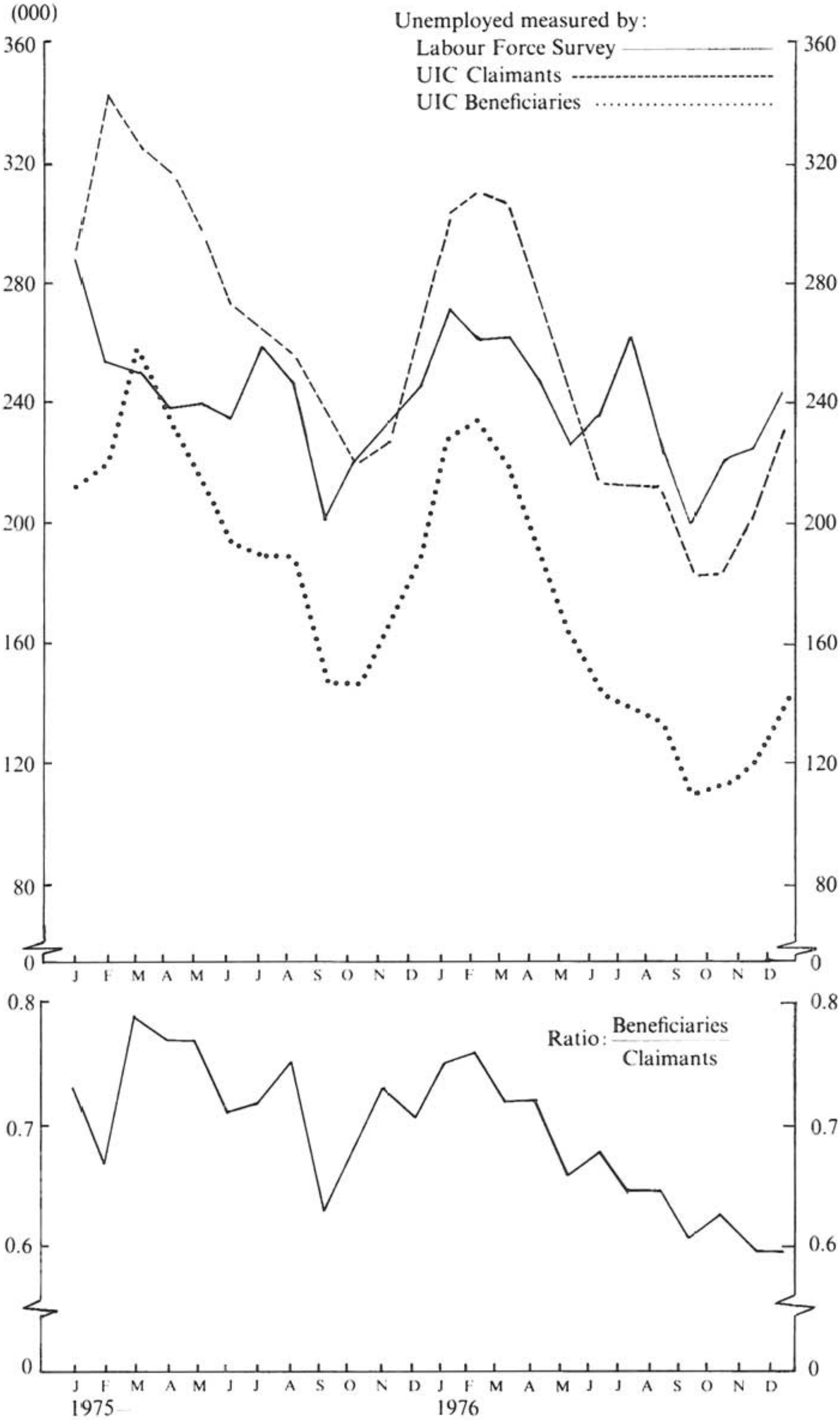
III Youth Employment in Ontario

Unemployment among Ontario youth has not dropped below 7.8 per cent in the last six years. During the 1971 recession it reached 10.2 per cent and it has been 11.2 per cent for the past two years.

In 1976, young people between 15 and 24 years of age represented 25 per cent of the Ontario labour force, and 45 per cent of the unemployed. While unemployment among the total labour force was 6.2 per cent, it was 11.2 per cent among youth in general and 11.4 per cent among young men 15 to 24 years of age. Over the 1971-76 period,

UIC Beneficiary—Claimant Ratio

Chart 2



Source: Statistics Canada: Labour Force Survey, actual unemployment figures; UIC monthly data; and, estimates from Statistics Canada: Statistical Report on the Operation of the Unemployment Insurance Act.

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

Ontario Youth Unemployment Rates
(per cent)

Table 3

	1971	1972	1973	1974	1975	1976
Total Unemployment	5.3	4.8	4.1	4.2	*6.3*	*6.2*
Youth Unemployment						
aged 15-24 years	10.2	9.1	7.9	7.8	*11.2*	*11.2*
Male Youth Unemployment						
aged 15-19 years	15.8	13.8	10.4	10.2	*14.4*	*14.9*
aged 20-24 years	9.2	8.9	7.4	7.0	*9.2*	*8.9*
Female Youth Unemployment						
aged 15-19 years	11.6	9.7	9.0	8.7	*13.9*	*14.4*
aged 20-24 years	5.9	5.7	5.5	6.0	*8.8*	*8.6*

Source: Statistics Canada, Labour Force Division.
Note: Numbers in italics are from the revised Labour Force Survey.

the youth unemployment rate has been consistently almost twice as high as unemployment in the labour force as a whole.

Until 1975, the youth labour force grew more rapidly than the labour force as a whole. For example, in 1974, the youth labour force increased 7.4 per cent while the general labour force increased 4.5 per cent. The trend reversed in 1975, reflecting the integration of the post-war baby boom into the prime-age labour force. The youth labour force is likely to grow more slowly than the general labour force to 1980, even with a steadily rising participation rate.

The changing youth labour force participation rate is the most striking characteristic of the youth labour force and a major source of youth unemployment. The participation rate for youth has begun to increase rapidly in recent years. As Table 4 indicates, with increased coverage of the revised Labour Force Survey in 1975, the formal participation of youth in the labour force has jumped sharply for the

Ontario Youth Labour Force Participation Rates by Age and Sex
(per cent)

Table 4

	1971	1972	1973	1974	1975	1976
Male						
aged 15-19	44.1	47.0	50.5	53.0	*57.1*	*53.2*
aged 20-24	83.1	85.1	84.2	85.4	*84.2*	*84.3*
Female						
aged 15-19	39.5	40.4	42.4	45.9	*51.7*	*51.1*
aged 20-24	60.9	63.1	63.5	66.0	*68.9*	*69.9*

Source: Statistics Canada, Labour Force Division.
Note: Numbers in italics are from the revised Labour Force Survey.

age group between 15 and 19 and has changed more moderately for the age group between 20 and 24.

The persistently high unemployment rate for males between 15 and 19 years of age—new entrants to the labour force—suggests that those without job experience have the greatest difficulty in finding employment. This indicates that youth unemployment must be addressed with special selective policies, particularly those aimed at 15 to 19 year olds.

IV A Re-Assessment of the Full-Employment Norm in Ontario

Recent labour force trends and projections have thrown into question the reliability of the rate of unemployment as a true measure of the extent of the unemployment problem. Certainly, that part of the total unemployment problem which is related to structural—rather than cyclical—factors may be unresponsive to the conventional solution of general economic stimulation. It is essential, therefore, to redefine the high-employment norm, that is, the level of unemployment which would exist even if the economy were operating at full capacity.

Benchmarks for Full Employment

Stagnant economic conditions in the early 1960s initiated a debate regarding the definition of full employment. In the U.S., the Council of Economic Advisers to the President, in its first report in 1961, recommended 4 per cent unemployment as a policy target in that country.[2] The 4 per cent target also shaped Canadian thinking.[3] Although it was often argued that this target was too optimistic for the Canadian economy in view of large regional disparities, the Economic Council of Canada in its First Annual Review in 1964, went a step further and recommended a 3 per cent target.[4] The Ontario economy, less regionally diverse than Canada as a whole, has consistently experienced unemployment of about 70 per cent of the national rate. In the 1960s and early 1970s, full employment in Ontario has been accepted as about 3 per cent unemployment.[5]

In the United States, there is an ongoing process of redefining the

[2]G. L. Perry, "Stabilization Policy and Inflation", in, *Setting National Priorities: The Next Ten Years*, editors, Henry Owen and Charles Schultze (Washington: Brookings Institution, 1976), p. 274.

[3]For example, the TRACE econometric model, developed at the University of Toronto, which has been widely used by both governments and large corporations, incorporated this 4 per cent rate in the calculation of potential output. See, Choudhry, Kotowitz, Sawyer and Winder, *The TRACE Econometric Model* (Toronto: University of Toronto Press, 1972), p. 38.

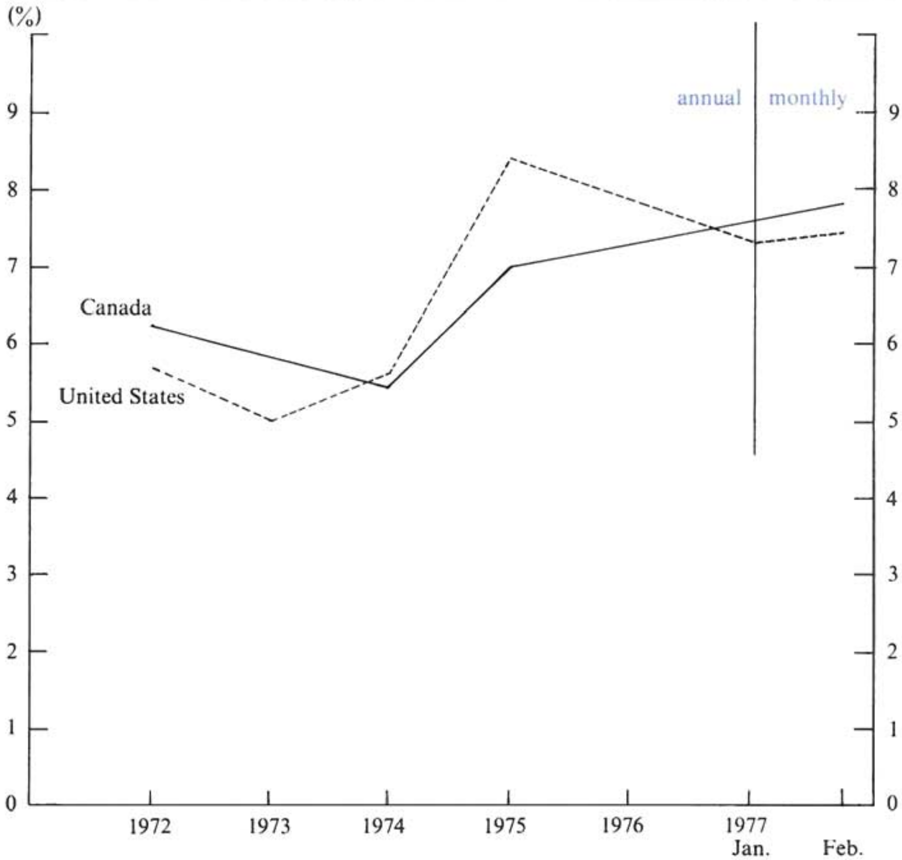
[4]Economic Council of Canada, *First Annual Review: Economic Goals for Canada to 1970* (Ottawa: Queen's Printer, December 1964), p. 38.

[5]Honourable W. Darcy McKeough, "New Directions in Economic Policy Management", Budget Paper A in the *1971 Ontario Budget* (Toronto: Department of Treasury and Economics, 1971), p. 47.

full-employment norm as economic conditions and labour force behaviour change. The Brookings Institution, a strong advocate of fiscal stabilization on the basis of high-employment norms, estimates that the high-employment region is now between 5 and 6 per cent unemployment.[6] The unemployment rate among prime-age males is an alternative indicator of economic performance. It is more stable than the general unemployment rate since it eliminates the influence of the changing composition of the labour force. In the United States, a general consensus among economists has placed the norm for this group at 3 per cent.[7]

U.S. and Canadian unemployment rates are shown in Chart 3. The United States experienced higher unemployment than Canada

Unemployment Rates in Canada and United States Chart 3



Source: Statistics Canada: Labour Force Survey; and, U.S. Government Printing Office: Economic Indicators.

[6] G. L. Perry, *op. cit.*, p. 302.

[7] Forthcoming in, *Setting National Priorities: 1978*, editor Joseph A. Pechman (Washington: Brookings Institution, 1977).

consistently over the last business cycle until early this year, largely a reflection of the proportionately greater amount of automatic and discretionary stabilization action undertaken by governments in Canada. There has, however, been a noticeable upward drift in the unemployment rate in both countries throughout the 1970s. The similarity of this secular rise suggests that a re-assessment and revision of the Canadian full-employment norm, comparable to that which the U.S. rate has undergone, is now appropriate for Canada.

At the present time there is no general consensus about the appropriate high-employment norm in Canada. However, some benchmarks do exist. In 1975, the Economic Council of Canada, in its *Thirteenth Annual Review*, revised its full-employment norm to 4.5 per cent from 3.0 per cent.[8] The federal government has implicitly acknowledged the upward drift of the full-employment norm through the annual revision to the unemployment rate which triggers federal contributions to the Unemployment Insurance fund.[9] On the basis of this formula, the threshold nationally is about 5.6 per cent in 1976, raised from the 4.0 per cent set by legislation in 1971.

The Governor of the Bank of Canada, in the *Annual Report* issued in March this year, acknowledged the changing relationship between labour market tightness and unemployment which has occurred in recent years.

> "Accordingly, while recent measured rates of unemployment are very high by historical standards, it should be noted that any single measure of unemployment that does not make allowance for changing demographic and institutional factors will not be an accurate indicator over time of the degree of slack in labour markets. In particular, it is clear that largely because of the shift in the demographic composition of the work force and the liberalization of unemployment insurance benefits in the early 1970s, the rate of measured unemployment associated with a given degree of labour market tightness is certainly considerably higher now than some years ago."[10]

Higher Non-Cyclical Unemployment

The unemployment rate in Canada has not fallen below 5 per cent since 1969. And, the annual rate in Ontario has not dropped below 4 per cent since that time. Indeed, unemployment high by previous standards occurred even in 1973 and 1974, a period of escalating inflation and higher growth. Research published to date has concluded that deficient aggregate demand has *not* been a major contributory

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[8] Economic Council of Canada, *Thirteenth Annual Review: The Inflation Dilemma* (Ottawa: Supply and Services, Canada, 1976), p. 118.

[9] In a news release, July 8, 1975, The Honourable Robert Andras, Minister in charge of the Unemployment Insurance Commission, announced that the new threshold would be determined by averaging the monthly rates of unemployment for 8 years, ending on June 30 of the years prior to the year for which the calculation is being made.

[10] *Annual Report of the Bank of Canada* (Ottawa: Bank of Canada, 1977), p. 17.

factor to the general rise in unemployment in the 1970s.[11] Deficient aggregate demand was indeed a force in 1971 and has re-emerged as an important factor during the world-wide recession of 1975 and the halting recovery of 1975 and 1976. However, this research also indicates that the path back to full potential performance of the economy will be associated with higher levels of non-cyclical unemployment than existed in the 1960s.

In a modern, dynamic economy there are many sources of unemployment in addition to that caused by deficient aggregate demand. Even under circumstances of high growth and rapid inflation, the following factors contributing to unemployment may not significantly diminish:

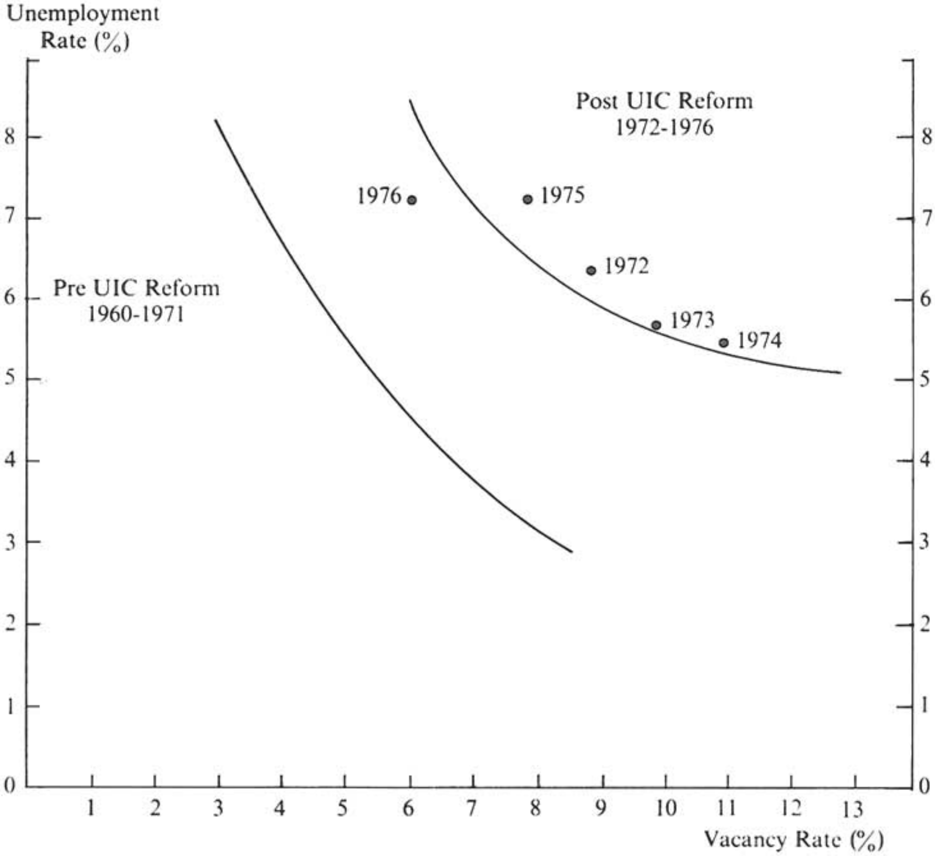
- persons moving from job to job;
- mismatch of skills and location between job seekers and employment opportunities;
- seasonal employment patterns;
- changing work ethic; and,
- the impact of government taxation and transfer policies.

These factors are, however, sensitive to changes in such structural elements of the economy as: technology, the composition of the labour force, institutions and social values. Much of non-cyclical unemployment is both a consequence of social goals and an inevitable part of a healthy economy. Accordingly, the high-employment norm against which policy goals are measured must take this into account.

The simultaneous analysis of unemployment and job vacancy rates is an important tool to assist in distinguishing between cyclical and non-demand-deficient types of unemployment. Unemployment and job vacancies both vary with the level of aggregate demand, the former inversely and the latter directly. Thus, as an increase in aggregate demand lowers unemployment, job vacancies increase and it becomes progressively more difficult to match the smaller pool of available employees with the growing number of positions. Similarly, as aggregate demand falls, unemployment rises and new job creation falls off, the pool of available labour increases and new vacancies decline. This relationship can be represented by a smooth curve, sloping down to the right. When the underlying structure of the economy changes, the number of vacancies associated with a given level of unemployment will change and the curve will shift. This means that with no deterioration in aggregate demand, levels of unemployment associated with any given level of job vacancies will change.

[11] Jean-Michel Cousineau and Christopher Green, "Causes of High Unemployment in Canada: 1970 to 1975", a paper presented at the annual meeting of the Canadian Economics Association, at Quebec City, May, 1976; and Noah M. Meltz and Frank Reid, "The Recent Shift in the Canadian Unemployment-Vacancy Relationship and its Implications for Labour Market Policies" (Toronto: Working Paper of the Centre for Industrial Relations, University of Toronto, 1976).

Unemployment—Vacancy Relationship for Canada, 1960-1976 Chart 4

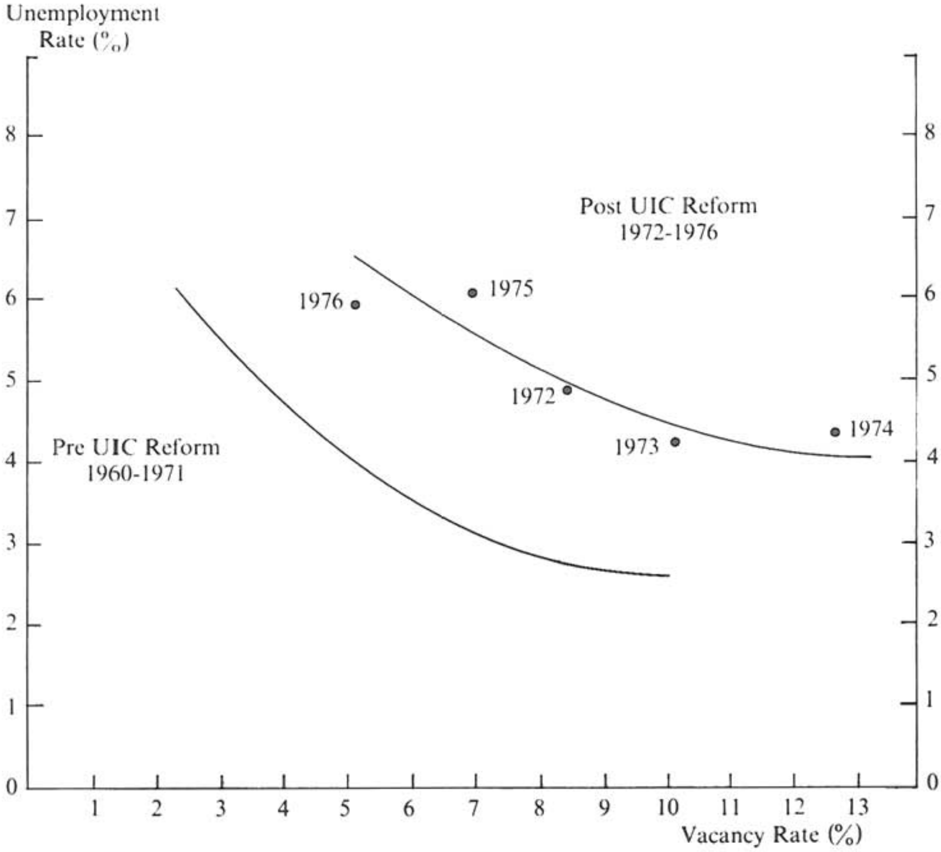


The unemployment-vacancy relationship for Canada (U-V curve) for the years 1960 through 1976 is shown in Chart 4. The corresponding unemployment-vacancy relationship for Ontario is shown in Chart 5. A marked outward shift in the U-V curve is very apparent in 1971 for both Canada and Ontario. While the shift for the Canadian economy as a whole is more dramatic, the shift is very much in evidence for Ontario as well.[12] The occurrence of these shifts in the U-V relationship for Canada and Ontario clearly indicates an increase in the amount of structural, frictional and behavioural unemployment which will exist at any level of aggregate demand.

The analysis of unemployment and job vacancies in Ontario indicates that between 1971 and 1976, the characteristic level of unem-

[12]The Job Vacancy Series has been constructed by the Economic Council of Canada for Canada and Ontario. The series is comprised of the sequential merging of three different series: the Job Vacancy Survey series from Statistics Canada which extends from mid-1970; indices of help wanted advertising developed by the Department of Finance; and, unfilled vacancies registered with the old National Employment Service. These series are merged to provide a continuous quarterly series of estimates for job vacancies from 1950 to 1973.

Unemployment—Vacancy Relationship for Ontario, 1960-1976 Chart 5



ployment associated with a given level of vacancies increased between 2.4 and 2.6 percentage points.[13] Corresponding analysis for Canada indicates that for a given vacancy rate, unemployment has shifted upwards between 2 and 3 percentage points since 1971.[14] These changes clearly show that a major part of the rise in unemployment in the 1970s is attributable to structural, frictional and behavioural changes in the economy, in addition to the re-emergence of deficient aggregate demand in 1975 and 1976.

When these changes are taken fully into account, the appropriate high-employment norm for Ontario in 1977 is raised from the old 3 per cent target to about 5.3 per cent unemployment. The factors leading to this conclusion, which are summarized in Table 5, are:

- +1.1 per cent due to changes in the demographic structure of the labour force, including increased representation of groups traditionally experiencing higher unemployment;

[13]Forthcoming Staff Study, *The Record of Fiscal Policy in Ontario and Canada*, (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs).

[14]Cousineau and Green, *op. cit.*, p. 48; and Meltz and Reid, *op. cit.*, p. 24.

- +1.0 per cent due to the worker preference changes induced by revision to the Unemployment Insurance Act in 1971 and 1972;
- +0.3 per cent due to the broader coverage of the revised Labour Force Survey.

Re-Assessment of the Full-Employment Norm for Ontario — Table 5
(per cent)

Sources of Increased Unemployment	
Full-employment Norm for the 1960s	2.9
Increase due to changed composition and structure of labour force	+1.1
Increase due to revised Unemployment Insurance Act	+1.0
Increase due to revision of the Labour Force Survey in 1975	+0.3
Re-assessed Full-employment Norm	5.3

Source: Forthcoming Staff Study, *The Record of Fiscal Policy in Ontario and Canada*, (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs).

Explanations of Higher Unemployment

Demographic Shifts in the Labour Force

A shift in the composition of the labour force in favour of age and sex groups which typically experience relatively high rates of unemployment will contribute to a rise in the overall unemployment rate. In Ontario, analysis of recent trends indicates that the net effect of expanded coverage in the labour force of workers with marginal job attachment has increased the significance of "casual" unemployment in the province and raised the reported level of unemployment by 1.1 percentage points.

Impact of the Unemployment Insurance System

The revised Unemployment Insurance Act (1971) increased the number of employees covered by Unemployment Insurance by about a third and raised the maximum weekly benefit from $53 to $100. The maximum weekly benefit rate, which is now related to a broad-based Earnings Index, had reached $147 by January 1977.

Clearly, these major benefits have changed behaviour in the following ways.

- Job turnover has increased as the penalty attached to job leaving is reduced.
- The duration of unemployment has increased as higher benefits facilitate the opportunity for extending job search at substantially reduced personal cost.

- The participation rate has increased as the prospect of Unemployment Insurance benefits attracts increased marginal labour force attachment among casual job holders. This has been reinforced by the emergence of the multi-earner family.
- Secondary earners in the family have been induced into the labour market for a short period in order to qualify for subsequent UIC benefits.

Formerly, the costs of remaining unemployed were so high that any type of available employment had to be taken. Now, the prospect of wage income net of the costs of taking employment—including potential re-location, personal employment expenses, and foregone leisure—must be weighed against generous Unemployment Insurance benefits. Employment costs may act to place an unrealistically high minimum on remuneration expected from a job.[15]

One of the major explanations of higher unemployment as reported by the Labour Force Survey is changed worker behaviour induced by generous benefits introduced with the revised Unemployment Insurance Act. According to the Ontario research, this factor alone has added one percentage point to the full-employment norm.

Other Explanations

The C. D. Howe Research Institute and the Economic Council of Canada have suggested that a shortfall in capital investment and the subsequent capacity shortage in relation to the growing supply of labour were responsible for high unemployment during the period 1972 to 1974.[16] High levels of job vacancies in all industries but the labour intensive financial sector suggest that this explanation is inadequate.

Worsening seasonal variability in job availability is another possible explanation of persistently high unemployment. A recent Canadian study on seasonal patterns in the labour market concluded that the degree of seasonal variability in unemployment had not worsened and, in fact, had decreased quite markedly between the early 1960s and 1970s.[17]

[15] The impact of Unemployment Insurance on work incentives is discussed more completely in: Barbara Goldman, "The Changing Nature of Unemployment in Canada", in Judith Maxwell, ed., *Policy Review and Outlook, 1975: Restructuring the Incentive System* (Montreal: C. D. Howe Research Institute, 1975), p. 59 and following; R. A. Jeness, et al, *People and Jobs: A Study of The Canadian Labour Market* (Ottawa: Economic Council of Canada, 1976), p. 151 and following; and, Christopher Green and Jean-Michel Cousineau, *Unemployment in Canada: The Impact of Unemployment Insurance* (Ottawa: Economic Council of Canada, 1976).

[16] Carl Beigie and Judith Maxwell, *The Disappearance of the Status Quo, Policy Review and Outlook: 1974* (Montreal: C. D. Howe Research Institute, 1974); and, Economic Council of Canada, *Eleventh Annual Review: Economic Targets and Social Indicators* (Ottawa: Information Canada, 1974), pp. 49-50.

[17] Donald A. Dawson, Frank T. Denton, Christine H. Feaver, and Leslie Robb, "Seasonal Patterns in the Canadian Labour Force" (Ottawa: Economic Council of Canada, Discussion Paper 38, 1975), p. 103.

Another potential cause of increased unemployment is the need for a lengthier job search. Job opportunities are expanding, information networks are becoming more complex, and there is growing opportunity for interregional mobility as the economy as a whole becomes larger. All of these factors may increase the time and energy which must be devoted to job search and may have produced a slight corresponding increase in unemployment in the last few years. Excessively high expectations among school leavers may also deter job seekers from pursuing appropriate avenues of job search. This is a possible contributing factor but the evidence is not strong.

Worsening structural unemployment may have caused a rise in the full-employment norm across Canada. Although the skill and occupational structure of the labour force has been changing, more flexible education has reduced the obstacles to inter-job mobility. Analysis of cross-sectional job vacancy data for Canada indicates that there has been little increase in the mismatch of jobs and job seekers, whether viewed by skill, location or industry.[18]

Increased employer selectivity of job candidates may have led to higher non-cyclical unemployment. This argument suggests that, whereas the greatest increase in the labour force is among less experienced young people and women, employers are becoming increasingly interested in employing experienced workers with a major job commitment. This preference has been strengthened by increasing costs of training employees and the disruptive costs resulting from employee turnover.

Changing technology and increasing job specialization reinforce this trend. For example, the 1976 unemployment rate for prime age males between 25 and 54 years of age is 3.4 per cent compared to 6.2 per cent for the Ontario labour force as a whole. There is some evidence that this may have been a small contributing factor.[19]

Summary

In summation, it is important to emphasize that much of the increase in voluntary unemployment reflects changing worker preferences and social values. These altered worker preferences mean that a threshold level of unemployment of about 5.3 per cent will persist even under conditions of strong economic growth, rising demand and escalating inflationary forces.

This new pattern of behaviour can exert a positive influence on labour market performance. Over the longer run, it may result in a better match between jobs and job seekers, reduced job turnover and increased worker productivity.

[18] Cousineau and Green, "Causes of High Unemployment in Canada: 1970-1975", *op. cit.*, p. 13 and following.

[19] *Ibid.* p. 30.

Conclusion

It is apparent that the 3 to 4 per cent full-employment norms considered to be consistent with full potential growth in the 1960s are not appropriate to the changed conditions of the 1970s. The findings of this paper suggest that Ontario's high-employment norm be redefined to 5.3 per cent to accord with the new realities of the Ontario labour market. This clearly implies that macro-stabilization policies aimed at stimulating demand will only impact on unemployment levels above this norm. The full-employment norm for Ontario as it has evolved since 1972 and the unemployment rate are plotted in Chart 6.

To reduce the level of unemployment below the 5.3 per cent norm will require more selective policies. Sectoral imbalances such as those which currently exist in the construction trades in Ontario may be corrected by clearly focused government actions. Recent rapid growth in the secondary labour force of young people and women has exceeded

New Full-Employment Norm and Unemployment in Ontario — Chart 6

the capacity of the economy to effectively utilize this important new source of labour force strength. With prospects of a lower rate of increase in Ontario's labour force in general in the years ahead, it becomes increasingly important to assist these members of the secondary labour force to adapt to the changing needs of the economy. The problem is particularly acute among youth, many of whom have had difficulties successfully integrating into the labour market.

The C. D. Howe Research Institute has noted that "job creation programs are one of the few policy options that can help to reduce the trade-off between inflation and unemployment. . . . The potential payoff from an effective manpower policy is high in a labour market hampered by major structural and frictional distortions."[20]

Focused government actions in these selective areas promise the most productive means to alleviate these sources of unemployment without further fueling inflationary forces.

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[20]Barbara Goldman, *New Directions in Manpower Policy* (Montreal: C. D. Howe Research Institute, 1976), p. 81.

Appendix

This appendix presents additional data on Unemployment Insurance claimants in Ontario.

It is important to note that these data represent regular claimants of Unemployment Insurance. The numbers of beneficiaries of Unemployment Insurance are consistently fewer than the number of claimants and the customary gap has widened in 1976. In comparing regular claimants with actual unemployed, it is important to note the circumstances where the definition of a claimant and an unemployed person differ. These differences are summarized as follows.

- The Labour Force Survey relates to paid workers and self-employed workers. Contributors to UIC are restricted to the paid workers category and among paid workers, some may be excluded. For example, among those excluded from UIC benefits are: those in receipt of CPP or QPP retirement pensions; those 70 years of age or older; and, those who earn less than the minimum insurable earnings.
- A new entrant to the labour force seeking a job and unable to find one would be recorded as unemployed and would not be eligible for UIC benefits because he has never had insurable employment.
- The Labour Force Survey would classify an individual as employed who, while receiving UIC benefits, was available for and capable of employment and who worked part-time for earnings not in excess of 25 per cent of the weekly benefit entitlement.
- Monthly tabulations for UIC purposes classify an individual as a claimant even though he may be receiving benefits for as little as two days of the month. For the Labour Force Survey, the reference week is the third week of the month and many short-term unemployed who are UIC claimants are not included.

The total number of Unemployment Insurance claimants in Ontario during 1975 and 1976 is shown in Table A1. This total for men and women is presented separately in Table A2. The unemployment rate by region in Ontario is derived from Unemployment Insurance claimants compared to the estimated working population in each region. This is displayed in Table A3. In assessing the changing level of employment between 1975 and 1976, it is important to bear in mind that the excess of claimants over unemployed as measured by the Labour Force Survey declined in 1976 over 1975. Thus, some of the indicated regional

Unemployment Insurance Claimants in Ontario, 1975 and 1976 — Table A1

	1975	1976
January	290,579	303,540
February	341,609	310,656
March	327,237	306,669
April	319,905	270,785
May	295,708	252,827
June	275,517	217,222
July	266,779	218,379
August	256,713	217,474
September	239,184	186,124
October	221,221	187,198
November	228,033	205,553
December	262,145	235,321

Source: UIC monthly data.

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

Unemployment Insurance Claimants by Sex in Ontario, 1975 and 1976 — Table A2

	Male		Female	
	1975	1976	1975	1976
January	180,027	181,437	110,552	122,103
February	217,892	190,077	123,717	120,579
March	201,849	187,813	125,388	118,856
April	194,776	161,226	125,129	109,559
May	172,450	141,971	123,258	110,856
June	153,538	113,073	121,979	104,149
July	139,945	107,478	126,834	110,901
August	133,767	106,394	122,946	111,080
September	127,549	92,302	111,635	93,822
October	116,709	95,744	104,512	91,454
November	123,437	109,416	104,597	96,137
December	149,720	138,561	112,425	96,760

Source: UIC monthly data.

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

Rate of Unemployment by Region — Table A3

	March		June		September		December	
District Office	1975	1976	1975	1976	1975	1976	1975	1976
Southwestern Ontario								
Niagara	11.8	10.5	8.8	6.4	7.3	6.0	10.0	8.7
London	8.7	6.4	7.1	4.7	5.9	4.3	5.8	5.4
Windsor	12.8	9.2	9.2	5.9	7.6	5.2	9.3	8.2
Waterloo	8.9	5.5	6.8	4.0	5.3	3.6	4.8	4.9
Brantford	8.8	8.2	7.1	4.7	5.0	3.7	7.1	5.8
Chatham	12.7	10.7	8.7	5.2	8.2	5.8	10.3	10.3
Owen Sound	9.7	8.6	6.6	4.8	5.0	4.1	5.7	6.4
Sarnia	7.8	6.9	8.9	4.5	5.4	4.4	5.3	6.3
Guelph	5.4	6.0	5.4	4.7	5.0	4.1	5.0	5.5
Central Ontario								
Barrie	18.3	16.7	13.1	10.3	10.6	9.1	12.2	14.1
Oshawa	8.9	7.6	7.6	5.5	6.4	4.8	6.4	5.8
Peel	9.9	10.1	9.1	6.0	7.9	5.3	7.8	7.0
Hamilton	5.5	5.6	5.2	3.7	4.8	3.4	4.7	4.0
Eastern Ontario								
Ottawa	6.2	5.5	5.8	4.9	6.1	4.7	6.2	4.8
Cornwall	12.8	11.4	9.2	6.9	7.8	6.1	8.5	10.0
Kingston	9.7	9.8	7.5	7.5	6.7	6.6	7.9	9.3
Belleville	12.8	12.2	9.7	7.5	8.1	6.3	9.5	9.1
Peterborough	11.1	12.2	8.8	8.6	8.4	7.8	9.2	10.5
Pembroke	9.4	9.7	6.2	5.6	5.5	4.6	7.5	6.8
Northern Ontario								
Sudbury	7.8	8.4	6.2	4.2	6.0	3.5	6.8	4.6
Timmins	8.6	11.9	8.3	7.9	8.3	6.5	10.7	8.5
Sault Ste. Marie	7.9	10.4	6.5	6.5	5.6	4.8	8.3	8.1
North Bay	9.6	10.1	7.8	6.2	6.7	5.0	7.9	6.4
Thunder Bay	10.0	11.9	7.9	6.6	8.4	4.7	10.8	6.8
Kenora	8.3	14.0	6.2	5.9	4.7	5.0	12.4	7.1
Metro Toronto	7.5	6.6	7.1	5.0	6.2	4.3	6.1	4.5

Source: UIC monthly data and Ontario Treasury estimates.

decline in unemployment shown here is actually a result of tightening of the administration of the Unemployment Insurance system. However, a rise in the indicated rate of regional unemployment is a clearer indication of deteriorating employment conditions. Table A4 presents the percentage change in claimants between 1975 and 1976 for the total claimant population, and for men and women separately. Claimants and unemployed as determined by the Labour Force Survey are compared by age and sex in Chart A1.

Unemployment Insurance Claimants, Percentage Change 1976 over 1975

Table A4

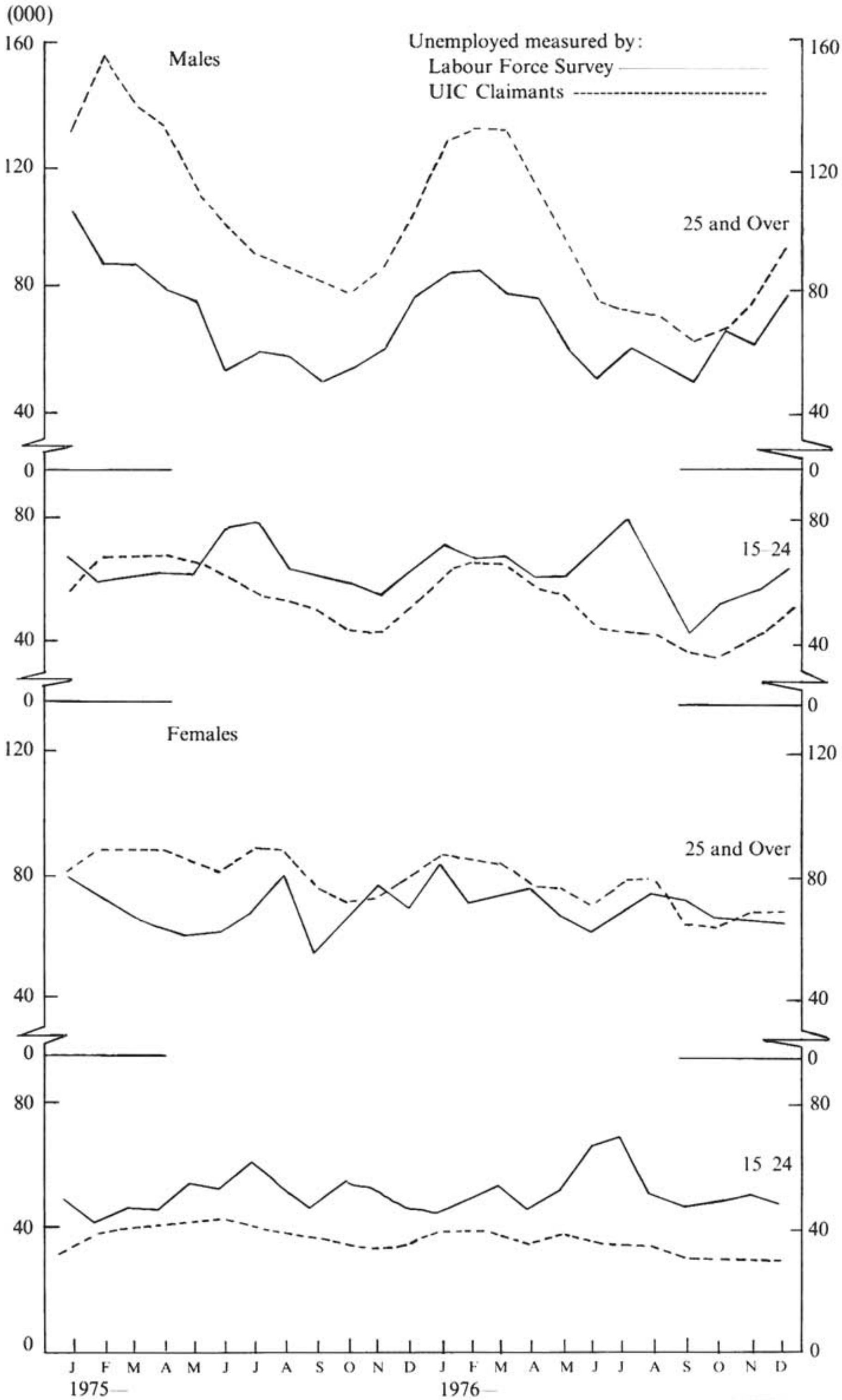
	Total	Male	Female
January	+4.5	+0.8	+10.4
February	−9.1	−12.8	−2.5
March	−6.3	−9.0	−5.2
April	−15.4	−17.2	−12.4
May	−14.5	−17.7	−10.1
June	−21.2	−26.4	−14.6
July	−18.1	−23.2	−12.6
August	−15.3	−20.5	−9.7
September	−22.2	−27.6	−16.0
October	−15.4	−18.0	−12.5
November	−9.9	−11.4	−8.1
December	−10.2	−7.5	−13.9

Source: UIC monthly data.

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

Unemployed and UIC Claimants
(by age group)

Chart A1



Source: Statistics Canada: Labour Force Survey, actual unemployment figures; and UIC monthly data.

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

Budget Paper B

Federal-Provincial Fiscal Reforms

Table of Contents

Federal-Provincial Fiscal Reforms

Introduction

At their historic meeting in December 1976, the First Ministers laid the foundation for the "Federal-Provincial Fiscal Arrangements and Established Programs Financing Act" that was recently passed by the Parliament of Canada. This Act sets out the basic intergovernmental arrangements that will exist for at least the next five years, and as such, testifies to the fact that considerable progress has been made in terms of rationalizing the financial structure of Confederation. Among other things, it incorporates a compromise on the problem of the Revenue Guarantee, provides for an improved equalization formula, and spells out new arrangements which replace the shared-cost programs in the fields of health and post-secondary education. All told, the legislation affects over $12 billion in combined federal and provincial spending.

It is the purpose of this paper to describe the changes that have been brought about. Section I reviews the steps leading to the adoption of the new arrangements, concentrating on the issue of the shared-cost programs. Section II goes on to describe the new arrangements that were agreed upon in December, and Section III explains the mechanics of the resulting tax transfer, showing what it means for Provincial tax rates and representative taxpayers. The paper concludes with a technical appendix detailing the method by which federal contributions to the provinces will be determined commencing April 1, 1977.

I The Process of Reform

The three "established programs" at the centre of discussion in 1976 were Hospital Insurance, Medicare, and Post-Secondary Education.[1] This section reviews the structure of the old arrangements, the problems that were perceived to exist with them, and the steps leading to the new arrangements.

The Established Programs

Under the British North America Act, the provinces have exclusive constitutional jurisdiction over the fields of health and education. During

[1] Federal contributions to the provinces were authorized under the Hospital Insurance and Diagnostic Services Act (1958), the Medical Care Act (1968), and the Federal-Provincial Fiscal Arrangements Act (1967, 1972).

the 'fifties and 'sixties, however, the federal government moved into these areas, at its own initiative, for reasons of "overriding national importance". With regard to health care, the overriding consideration was the perceived need to develop a public system of hospital and medical insurance, providing all Canadians with a "national standard of service". With regard to post-secondary education, it was the perceived need to push supply beyond the point that the provinces could themselves afford. The vehicle chosen for federal involvement was cost sharing rather than increased tax abatements to the provinces.[2] By 1976-77, federal contributions to the three shared-cost programs in question totalled nearly $5.3 billion, or 12.5 per cent of federal budgetary expenditures. An overview is provided in Table 1.

Federal Contributions to Established Programs in 1976-77 — Table 1

	HIDS	PSE	Medicare	Total	Per Capita
		($ million)			($)
Newfoundland	63.2	31.3	23.1	117.6	211
Prince Edward Island	12.0	6.9	5.0	23.9	199
Nova Scotia	95.4	57.5	34.6	187.5	225
New Brunswick	77.6	38.9	28.6	145.1	211
Quebec	729.5	602.0	259.6	1,591.1	255
Ontario	987.0	618.3	346.7	1,952.0	234
Manitoba	122.6	64.2	42.7	229.5	223
Saskatchewan	105.0	57.0	38.9	200.9	215
Alberta	210.5	137.6	75.9	424.0	232
British Columbia	288.7	145.4	103.6	537.7	216
All Provinces	2,691.5	1,759.1	958.8	5,409.3	234

Source: Department of Finance, Government of Canada, November, 1976.

Each program had its own sharing formula. Under the Hospital Insurance Agreements, provinces recovered 25% of their own per capita cost on an approved range of services, plus 25% of the national average per capita cost. Under Medicare, they received a straight 50% of the national average per capita cost. Under the post-secondary arrangements, seven provinces received 50% of their actuals costs while Newfoundland, P.E.I. and New Brunswick recovered somewhat more by virtue of being on a more generous per capita formula.[3] The particular formulas notwithstanding, it is fairly accurate to say that, *overall*, the federal government paid 50% of the provinces' approved operating

[2]Although increased tax abatements were provided in the early 1960s, this approach to redressing the fiscal imbalance between the federal and provincial governments was soon abandoned in favour of expensive new shared-cost programs and enriched equalization grants. See, "Statement of the Hon. Mitchell Sharp to the Federal-Provincial Tax Structure Committee", Sept. 14-15, 1966.

[3]In 1967, these three provinces opted for $15 per capita, cumulatively escalated by the national average rate of increase of post-secondary education spending.

expenditures (at least prior to the ceilings that came into force in the middle 'seventies).[4]

The federal contributions in respect of Hospital Insurance were paid in cash to all provinces except Quebec, which received most of its payment in the form of an additional income tax abatement under the Established Programs (Interim Arrangements) Act.[5] Federal contributions towards Medicare were paid in cash to all provinces. Contributions in respect of post-secondary education were paid in the form of a tax transfer consisting of 4 points of personal income tax (converted in 1972 to 4.357 points of reformed tax) and one point of corporate income tax, plus a cash adjustment payment to bridge the difference between the value of the tax room and the full entitlement. The Quebec and post-secondary arrangements were, in a broad sense, precursors of the new arrangements insofar as they incorporated the idea of a tax-cash split.

Problems and Objectives

The problems with the shared-cost funding mechanism have been extensively examined.

From Ottawa's point of view, there were two major concerns. The first was that the federal government had no effective control over its payouts; it assumed responsibility for 50% of whatever the provinces chose to spend on the approved services. This was a legitimate concern, especially in view of the inflationary problems that beset the international and Canadian economies during the 1970s. In 1974-75, federal contributions to the three programs in question were 17.9 per cent higher than they were in the preceding year, and in 1975-76 they were 18.2 per cent higher than in 1974-75.[6]

The other problem, as seen by the federal government, was that its contributions on a per capita basis were quite different from province to province. The degree of the disparity is revealed in Table 1. This situation arose because certain provinces did not, or could not, spend as

[4]One peculiarity of the HIDS and Medicare formulas was the existence of "implicit equalization". Provinces that were spending above the national average rate per capita, like Ontario, recovered less than 50% of their actual costs, while those that were spending below recovered more than 50%. The three provinces on the per capita formula for post-secondary education were also "implicitly equalized". The term refers to the fact that, under the sharing formulas, certain provinces received differential assistance over and above their explicit equalization payments (which presumably *already* lifted them to a national average fiscal capacity position).

[5]For the period 1972-77, Quebec's HIDS tax abatement was set at 16 unequalized points of federal tax in the province. Quebec still had to file expenditure data, and a cash adjustment was made to ensure that the value of its abatement was neither more nor less than its entitlement.

[6]The 15% growth ceiling on federal contributions to post-secondary education, imposed in 1972, was already constraining these percentages somewhat. The numbers of course reflect the fact that the provinces were also experiencing similar and often unforeseen spending pressures.

much as others on their own account. Disregarding the fact that demand and cost pressures differ from province to province, the federal government took the view that differential per capita contributions were inherently inequitable, and the "levelling" of contributions became, after restraint, its second basic objective.

The provinces' views on the shared-cost arrangement varied considerably. At one end of the spectrum were Ontario, Quebec, and perhaps Alberta. While recognizing the past achievements of cost sharing, Ontario argued that there were serious drawbacks to continuing federal assistance in this form. Ontario's objections could be summarized as follows[7]:

- *Cost sharing causes distortions in provincial priorities.*
  Provinces are tempted to spend in the high cost-shareable forms of service when in fact they should be spending on lower cost but non-shareable alternatives. (This was a particularly serious concern in the area of health care, since about 20 per cent of provincial expenditures on health were not eligible for federal reimbursement).
- *Cost sharing involves too much bureaucracy.*
  Provincial expenditure data has to be compiled in a detailed and specified manner and then checked and approved by federal auditors.
- *There are undue delays in the settlement of accounts.*
  Some provinces have experienced as much as a seven-year delay in the finalization of their post-secondary education claims.
- *Cost sharing causes administrative distortions.*
  The sharing legislation often requires that a particular service be delivered by a particular provincial ministry, when in fact the province would, for its own reasons, prefer it to be delivered by some other ministry.
- *Unilateral changes or withdrawals of federal sharing leave the provinces with an unfair and unexpected burden.*

At the other end of the provincial spectrum were the Atlantic Provinces and Saskatchewan. They recognized that there were indeed problems to resolve, but feared that any departure from 50-50 cost sharing would saddle the provinces with an unfair share of financial risks, and, in addition, lead to a deterioration in national standards of service.

These, then, were the starting points: the federal government's desire to constrain its contributions and level them on a per capita basis, and the provinces' desire to achieve more streamlined arrangements, while at the same time preserving national standards and an "adequate" level of support.

[7]For a discussion of these problems see, Hon. W. Darcy McKeough, *Supplementary Papers on Federal-Provincial Finance* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972); and, Hon. W. Darcy McKeough, *Supplementary Actions to the 1975 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1975).

The Course of the Negotiations

The move to new financial arrangements began in 1970 when the federal government first indicated its concern over escalating contributions and suggested that it would like to restrict the growth of its contributions to the rate of growth of GNP. In the following years, various federal proposals incorporating a lagged GNP escalator were discussed, only to be rejected by the provinces as too risky and financially inadequate.[8] Opting out proposals advanced by Quebec and Ontario were, in turn, dismissed by the federal government. In an attempt to break out of this continuing deadlock, a working committee was established in early 1975 and charged with developing health care cost-saving "targets" as the basis for renewed negotiations. This exercise came to an abrupt conclusion, however, when the federal government brought down its Budget of June 25, 1975, introducing arbitrary ceilings on the growth of its Medicare contributions and serving notice of its intent to terminate the Hospital Insurance Agreements in 1980 (the earliest date possible).

In the meantime, the provinces were becoming increasingly concerned about the future of the Revenue Guarantee. This program had been introduced in 1972 to protect the provinces from the revenue losses stemming from tax reform.[9] Although the Guarantee was scheduled to expire on December 31, 1976, the provinces argued that termination would force them into substantial tax increases, thereby making them the long-run losers under the 1972 reform. They suggested, therefore, that an extension of the program, or an unconditional transfer of tax room, was required. Adding to the emotion surrounding this complicated issue was the fact that, in early 1976, the federal government unilaterally changed the formula under which Guarantee entitlements were calculated; this action deprived the provinces of over $500 million in entitlements for 1976 alone.

A further area of concern was the threat of a permanent federal ceiling on the revenue equalization program, which in 1976-77 transferred $2.2 billion to the less wealthy provinces. An arbitrary feature had already slipped into this program because of unusual revenue developments in oil and natural gas. Various reforms were clearly required before the program could be renewed on April 1, 1977.

It was against this background of shared-cost ceilings and Revenue Guarantee retrenchment that the federal government chose to take a new

[8]Early federal health proposals culminated in the Lalonde-Turner formula, presented to the provinces in May 1973; it was formally rejected by the provinces, after careful evaluation, in the fall of 1974. The Faulkner formula for replacing the post-secondary arrangements was also presented to the provinces in May 1973, only to be rejected immediately.

[9]The consequences of the 1972 tax reform for federal and Ontario revenue are discussed in Ontario Tax Study 13, *The Equity and Revenue Effects in Ontario of Personal Income Tax Reform: 1972-1975* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

initiative in respect of the shared-cost programs. At the Conference of First Ministers in June 1976, the Prime Minister indicated the five principles that would underlie a forthcoming federal proposal.[10]

- The federal government should continue to pay a substantial share of program costs;
- Federal payments should be calculated independently of provincial program expenditures;
- There should be greater equality, in per capita terms, in the federal contributions to the provinces;
- The arrangements for the mature programs should be placed on a more permanent footing; and,
- There should be provision for continuing federal participation in the development of policies of "national significance" in health and post-secondary education.

These principles were fairly broad and, in that sense, could be endorsed by most Premiers.

The principles were subsequently translated into the "Established Programs Financing Proposal" that was presented to the provinces at the Meeting of Ministers of Finance on July 6, 1976. In many respects, this EPF proposal was a logical extension of previous federal offers—the principle of GNP escalation was retained, per capita levelling was retained, and the package continued to consist of tax room plus cash (though the federal government left open the particular mix that was available). Two important departures, however, were the inclusion of post-secondary education contributions into the base, and the allowance of *independent* growth streams for the tax and cash components.[11] Also, the lag in the escalator and the time frame for levelling were modified. No mention was made of a Revenue Guarantee settlement.

In the following months, the provinces met to analyze this proposal, as well as alternatives suggested by a number of provinces.[12] It was subsequently agreed that the provinces would hold out for a transfer of 4 personal income tax points for the Revenue Guarantee, and that they would pursue an EPF agreement in which: half the package would be in tax room; the new tax room would consist of only personal income tax; the tax room would be equalized to the top-province yield; and upward levelling would take place in the first year. Considerable

[10]The Rt. Hon. Pierre Elliott Trudeau, "Established Programs Financing: A Proposal Regarding the Major Shared-Cost Programs in the Fields of Health and Post-Secondary Education", statement tabled at the Federal-Provincial Conference of First Ministers, June 14-15, 1976.

[11]Under the Lalonde-Turner proposal, the tax room was only a *mechanism* for delivering the GNP-determined quantum, so that the cash component would shrink if taxes grew rapidly (as under the PSE arrangement).

[12]Counter proposals were made by Quebec, Ontario, Saskatchewan and New Brunswick. For the Ontario proposal see, Hon. W. Darcy McKeough, *Reforming Fiscal Arrangements and Cost Sharing in Canada* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1976).

accommodations were made in reaching this first-ever consensus on financial arrangements, particularly by the Atlantic Provinces and Saskatchewan, who gave up their long-standing preference for continuing with some kind of cost sharing. The provincial proposal was relayed to the federal government by the Treasurer of Alberta, speaking on behalf of all provinces.[13]

The Meeting of Ministers of Finance on December 6 failed to find a compromise between the federal and consensus proposals, thus effectively passing the matter to the First Ministers for resolution. On December 14, the federal government suggested a number of changes and enrichments to its proposal. To this revised federal offer, the provinces reluctantly agreed, thus setting the stage for the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act of 1977.

II The New Arrangements

Under the new arrangements, the federal government will transfer to the provinces 13.5 points of personal income tax and one point of corporate income tax plus the approximate value of these points in a cash payment.[14] (The tax point transfer incorporates the 4.357 PIT and 1 CIT points that the provinces already have for post-secondary education; the *new* tax room provided, therefore, is 9.143 points of PIT). The tax points are equalized to the national average yield and the cash payments escalate in line with GNP experience. In addition, the federal government will pay, starting in 1977-78, $20 cash per capita in respect of such health-related services as nursing home intermediate care, lower level residential care for adults, the health aspects of home care, and those aspects of ambulatory health services not previously covered under the Hospital Insurance Agreements. This $20 per capita will grow in the same fashion as the other cash payments.

Despite the various provincial attempts to integrate equalization with the discussions on the shared-cost programs and the Revenue Guarantee, it remains separate from the EPF. The number of revenue bases used in the determination of "fiscal capacity" has been expanded to 29 to make the system more representative and to reduce the scope for provinces to influence their own entitlements. The old ceiling on oil and gas revenues has also been revised; henceforth, 50 per cent of all non-renewable natural resource revenues will be subject to equalization,

[13] See Hon. M. Leitch, "Federal-Provincial Financial Arrangements: The Provincial Proposal", statement on behalf of all Provincial Ministers of Finance and Provincial Treasurers, December 6-7, 1976.

[14] The new package incorporates, as partial compensation for the Revenue Guarantee, 1 point of PIT as a tax transfer and the cash value of 1 PIT point in 1976-77 equalized at the national average. The Guarantee settlement was made contingent upon provinces agreeing to terminate their Hospital Insurance Agreements on March 31, 1977 rather than July 15, 1980. By accepting this, the provinces gave up the possibility of collecting the difference between the relatively more generous HIDS stream and the replacement EPF stream.

with the further stipulation that equalization in respect of natural resource revenues should not exceed one-third of total equalization.

The EPF itself is extremely difficult to evaluate in financial terms because of the many complexities and trade-offs involved. At the time of the December Conference, Ontario estimated that the federal government would contribute to all provinces $6.7 billion in 1977-78, whereas it would have contributed $7.1 billion under the Provincial Consensus Proposal. In this sense, the provinces would receive some $400 million less than they wanted in the first year. On the other hand, by extracting a compromise on the Revenue Guarantee, the provinces were successful in getting a better deal than the $6.1 billion that was on the table in June.

The situation with regard to Ontario is portrayed in Table 2. The table shows that, had the new arrangements applied to 1976-77, including the compromise on the Revenue Guarantee, Ontario would have lost almost $150 million. This loss would grow rather rapidly, because of the fast escalation of the full Revenue Guarantee compared to the partial compensation upon its termination. For 1977-78, therefore, the total loss to Ontario could well exceed $200 million.

Financial Implications of the New Fiscal Arrangements for Ontario, 1976-77 Table 2
($ million)

Under Old Arrangements		Under New Arrangements	
HIDS	1,025	13.5 pts. of PIT	991
PSE	592	1 pt. of CIT	70
Medicare	345	Cash Transfer	1,067
Revenue Guarantee	341	Revenue Guarantee	Nil
CAP and Nursing Home Benefits Agreement	120	$20 per capita	149
	2,423		2,277

More important than the numbers are the objectives that have been achieved. For its part, the federal government succeeded in constraining the growth of its program contributions to near-GNP, and will also be making equal per capita cash payments within five years. And, as an important psychological side effect in terms of the battle against inflation, it managed to reduce its 1977 expenditure growth rate by converting sizeable federal expenditures into revenue transfers to the provinces. The provinces gain the increased flexibility that they sought by having the federal contributions detached from provincial spending patterns. The growth of the overall federal contribution leaves them with considerable risk, but they can now adjust their delivery systems, without financial penalty, in order to provide lower cost services. A legislated commitment to national standards is retained, and, on the basis of federal figures, one can expect service level differences between the richer and poorer provinces to decline.[15] The taxpayer position remains neutral and will, hopefully, improve over the longer term because of the improved cost-effectiveness of rationalized delivery systems.

One area of the EPF story remains. It was decided that, for the convenience of the taxpayers, the *new* 9.143 personal income tax points that were to be transferred should be transferred effective January 1, 1977, the start of the taxation year. But for the first three months of 1977, the provinces would continue to receive federal contributions under the old cost-sharing arrangements. Arguing from an accrual concept, the federal government maintained that the provinces were being overpaid by three months worth of tax, and that this sum would have to be recovered. Ontario and several other provinces replied that the new tax points would not actually flow to the provinces until March, so that, from a cash-on-hand viewpoint, the provinces would be overpaid by only one month. Moreover, it was noted that there was no overlap in respect of the points the provinces already had for post-secondary education, or in respect of the point that they received as compensation for the Revenue Guarantee. The amount of money involved in this issue was substantial. But, reflecting the spirit of compromise that had made the EPF possible, the federal and provincial governments agreed to split the difference, a rather complicated recovery formula being included in the Act for this purpose.

The Established Programs Financing Arrangements that have been described in this section took effect on April 1, 1977, and will continue until at least March 31, 1982. They stand as proof that substantial progress can indeed be made in terms of streamlining the relationships between the federal and provincial governments. The federal government achieved its basic objectives, while the provinces achieved the flexibility that they sought. In the process, the accountability of government has been enhanced, for the government that is doing the spending is now more responsible for raising the revenue to finance it. There is great scope for further disentanglement of responsibility in the Canadian Confederation. The success of the 1976 negotiations suggests that a satisfactory resolution can be reached through hard work, constructive criticism, and a willingness to compromise.

III The Implications of the Tax Transfer

This section explains how the tax transfer works and how it will be implemented in Ontario. It also looks at certain structural changes to the income tax system that are required to smooth the transfer of the

[15]The figures show that the Atlantic Provinces, Manitoba, and Saskatchewan all receive a larger percentage "financial difference" than Ontario. While Ontario still disputes the existence of gains on the three programs, due to underestimation of projected provincial spending, the distributional pattern of the alleged gains is significant.

tax room. Finally, the impact of the transfer on individual taxpayers is examined, since the tax transfer is intended to leave the taxpayer without any increase in combined federal and provincial tax.

Mechanics of the Tax Transfer

Under the Tax Collection Agreements, the base on which the provinces levy their personal income tax is the federal tax itself.[16] This base was known as 100 units or "points" of tax. Under the tax transfer, the federal government reduced its tax by 9.143 points, leaving the provinces to take up this vacated tax room by raising their rates.

This reduction in the provincial tax base has implications for the provincial rates, whether or not the vacated tax room is taken up. With a smaller tax base, the provinces need to raise their rates simply to maintain their old level of revenues. Since the old 100 point base was 110.063 per cent of the new base of 90.857 points, the revenue restoration factor for grossing up provincial rates is 1.10063. For example, Ontario would need to levy a rate of 30.5% (its pre-transfer rate) × 1.10063, or 33.57% against the new federal tax *just to maintain the level of revenue that would have been generated by the pre-transfer system.*

Similarly, it is necessary to gross-up the 9.143 points transferred to the provinces by the same factor of 1.10063 to reflect the fact that these points too are applied against a discounted tax base. This converts the 9.143 points vacated by the federal government to an equivalent provincial rate of 10.06%. Looking at Ontario again, the new Provincial tax rate becomes 33.57% + 10.06% for a total of 43.63%.

Table 3 presents in more detail the calculations required to arrive at this new Provincial tax rate. Table 4 shows the same calculation from the perspective of an individual taxpayer.

Under the terms of their Tax Collection Agreements, the provinces are required to round their tax rates to a half or full percentage point. Ontario has chosen to round up from an equivalent rate of 43.63% to an actual rate of 44% of federal tax. The equivalent rates for all the provinces that result from the tax transfer as well as the actual rates announced for 1977 are shown in Table 5.

Related Tax Structure Adjustments

Efficient and effective implementation of the tax transfer necessitates adjustments to certain features of the income tax structure. These adjustments include the rounding of the new federal marginal rates, a change to the dividend tax credit calculation, and a revised federal

[16]Except Quebec which does not have a tax collection agreement but levies a separate income tax directly on taxable income.

Determination of New Ontario Income Tax Rate — Table 3

Present Situation: federal tax (base for Ontario tax) 100.00
Ontario tax rate 30.5%

Step 1: Tax point transfer reduces base to which Ontario tax applies.

present base	100.000
point transfer	−9.143
new base	90.857

Step 2: Ontario has to gross up its present 30.5% rate to compensate for base reduction.

revenue restoration factor: $\frac{100.000}{90.857} = 1.10063$

converted present rate: 30.5% × 1.10063 = 33.569%

Step 3: New tax occupancy is also grossed up to compensate for base reduction.

9.143% × 1.10063 = 10.063%

Result:

converted present rate	33.569%
new tax room	10.063%
new Provincial rate	43.632%

Illustration of the Tax Point Transfer from a Taxpayer's Perspective — Table 4

Example: Consider the case of a taxpayer who pays $1,000 of federal income tax under the old system.

	Pre-Transfer	*Post-Transfer*
Federal Tax	$1,000	$ 908.57
Ontario Tax	$ 305	$ 396.43
Total Tax	$1,305	$1,305.00

Ontario Tax Rate: $\frac{305}{1{,}000} = 30.5\%$

Ontario Tax Rate: $\frac{396.43}{908.57} = 43.63\%$

Provincial Income Tax Rates — Table 5

(per cent)

	1976	Equivalent 1977	Actual 1977
Newfoundland	42.0	56.289	*
Prince Edward Island	36.0	49.686	50.0
Nova Scotia	38.5	52.437	52.5
New Brunswick	41.5	55.739	55.5
Quebec	n.a.	n.a.	n.a.
Ontario	30.5	43.632	44.0
Manitoba	42.5	56.840	*
Saskatchewan	40.0	54.088	58.5
Alberta	26.0	38.680	38.5
British Columbia	32.5	45.834	46.0

n.a. = not applicable.
*rate to be announced.

tax reduction scheme. Obviously, tax implications arise from these adjustments.

In implementing the 9.143 point tax transfer, the federal government did not scale down its marginal rate schedule uniformly by 9.143 per cent. Rather, it rounded to the nearest full percentage point for the sake of taxpayer convenience. The two exceptions are that the lowest marginal rate has been maintained at 6% despite the transfer, and that the 39% rate has been rounded to 36% rather than 35%. The old federal rate schedule and the adjusted federal rate schedule are shown in Table 6.

Federal Tax Rates

Table 6

Taxable Income	Pre-Transfer Rate	Pre-Transfer Rate Reduced by 9.143 Per Cent	Rounded Post-Transfer Rate
($)	(%)	(%)	(%)
0- 710	6	5.45	6
710- 1,419	18	16.35	16
1,419- 2,838	19	17.26	17
2,838- 4,257	20	18.17	18
4,257- 7,095	21	19.07	19
7,095- 9,933	23	20.89	21
9,933-12,771	25	22.71	23
12,771-15,609	27	24.53	25
15,609-19,866	31	28.16	28
19,866-34,056	35	31.79	32
34,056-55,341	39	35.43	36
55,341-85,140	43	39.06	39
85,140+	47	42.70	43

An adjustment is also required with respect to the dividend tax credit. Under the pre-transfer tax system, the dividend tax credit was defined as 80 per cent of the "gross-up" in dividends included in income for tax purposes. With the tax point transfer, maintaining this credit level would imply a larger credit for the same amount of dividend income compared to the current system. Consequently, the credit is reduced to 75 per cent of the gross-up, which is slightly more generous than that required to balance the tax transfer impact. Table 7 compares the dividend tax credit before and after the tax transfer.

A final adjustment occurs with respect to the tax reduction schemes. Both the federal and Ontario governments operate schemes which reduce tax payable. Under the pre-transfer system, the federal reduction was 8 per cent of federal tax payable, with a minimum reduction of $200 and a maximum reduction of $500.

Consistent with the federal decrease in basic tax of 9.143 per cent under the tax point transfer, one might expect that the reduction limits should be scaled down by the same percentage to a minimum of $181.75 and a maximum of $454.28. But the tax reduction scheme needs amending rather than scaling down. This is necessary because part of the vacated tax room into which the Province is moving was sheltered from federal tax under the pre-transfer system by the federal tax reduction scheme. Since this part of the vacated tax room would no longer be sheltered after the transfer if the limits were reduced, it would mean higher total tax payable for taxpayers. To shelter taxfilers as effectively under the new system as under the pre-transfer system, the $200 minimum and $500 maximum have to be maintained and the reduction has to be raised to 8.8 per cent. Again, for simplicity, this reduction is rounded to 9 per cent, with the minimum and maximum maintained at $200 and $500, respectively.

To complement the federal alterations to the tax reduction scheme and ensure that no filers pay Ontario income tax where no federal income tax is paid, the Ontario tax reduction scheme will be enriched to include all filers with up to $1,680 in taxable income (up to $200 in federal tax payable). Under the pre-transfer system, Ontario's tax reduction scheme applied to all filers with up to $1,580 in taxable income. Ontario's complementary action, therefore, will save up to $88 in Ontario tax payable for filers with taxable income between $1,580 and $1,680.

Impact of Tax Transfer on the Dividend Tax Credit — Table 7

(dollars)

Example:

Consider the case of a taxpayer with $750 in dividends from Canadian corporations. This figure is then grossed up by one-third (=$250) to yield taxable dividends of $1,000.

	Pre-Transfer	Post-Transfer
Taxable Dividends	1,000.00	1,000.00
Federal Dividend Tax Credit	200.00	187.50
Ontario Dividend Tax Credit	61.00	82.50
Total Dividend Tax Credit	261.00	270.00

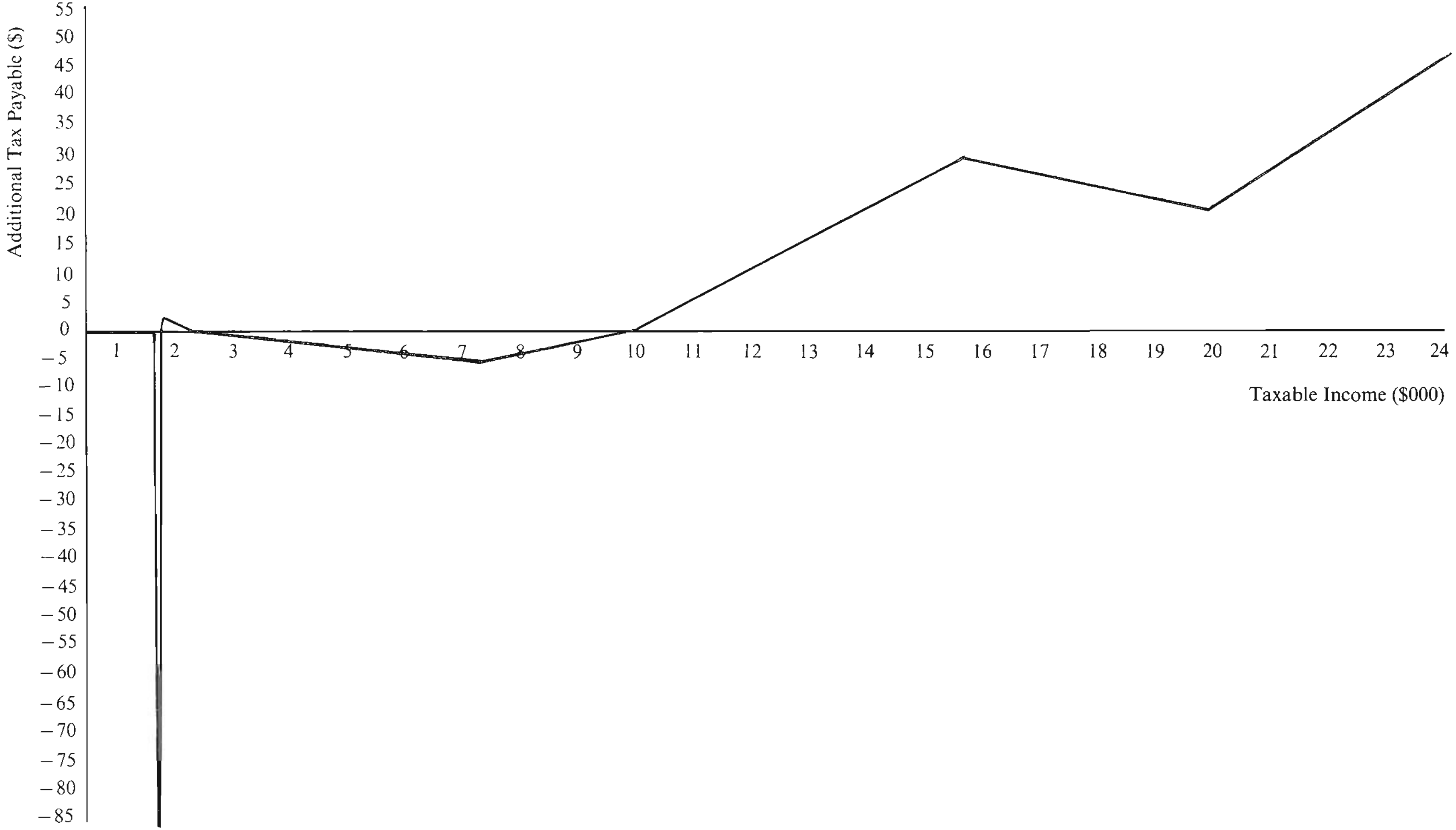
Note: The impact of the transfer on the dividend tax credit is a benefit to the taxpayer of $9 per $1,000 of taxable dividends.

Impact on Taxpayers

The clear intent of the tax point transfer contained in the new fiscal arrangements was that the impact on taxpayers should be as neutral as possible. More of taxpayers' tax dollars would go to the provinces and less would go to the federal government, but the total

Impact of Tax Transfer on Tax Payable

Chart 1



tax burden would remain the same. The transfer achieved this goal, except for slight variations in the magnitude of actual tax payable because of the rounding of tax rates and the changes to the tax reduction schemes and to the dividend tax credit. Chart 1 illustrates the size of the variations involved for the majority of taxpayers.

A general review of the actual impact of the tax point transfer on filers indicates the following features.

- Taxfilers with taxable income below $1,580 will continue to pay no federal or Ontario income tax.
- In addition, taxpayers with taxable income between $1,580 and $1,680 will now pay no tax at all (tax saving of up to $86).
- Taxpayers with taxable income between $1,680 and $2,305 will pay slightly more total tax after the tax point transfer—but in no case exceeding $2.
- Taxpayers with taxable income between $2,305 and $9,815 will pay slightly less total tax after the tax point transfer.
- Taxpayers with taxable income over $9,815 will pay more total tax. The additional tax payable for higher income taxpayers generally increases as income increases, which in turn improves the progressivity of the income tax.

Table 8 indicates the impact of the tax transfer on representative taxpayers. This table shows the very minor effect for low-income taxpayers and the modest increases for all higher income taxpayers. Even for taxpayers with $25,000 income, the maximum increase is less than one-half of one per cent of total tax payable.

Impact of the Tax Point Transfer on Representative Taxpayers

Table 8

(dollars)

Gross Income	Pre-Transfer Federal Tax	Pre-Transfer Ontario Tax	Pre-Transfer Total Tax	Post-Transfer Federal Tax	Post-Transfer Ontario Tax	Post-Transfer Total Tax	Change in Total Tax
Single Taxpayer							
5,000	143.32	104.71	248.03	111.07	136.87	247.95	−0.08
8,000	728.79	283.28	1,012.07	638.29	368.85	1,007.13	−4.94
10,000	1,139.27	408.48	1,547.75	1,009.60	532.22	1,541.82	−5.93
15,000	2,325.81	771.06	3,096.86	2,092.61	1,011.81	3,104.41	7.55
20,000	3,613.71	1,198.02	4,811.73	3,260.98	1,576.74	4,837.72	25.99
25,000	5,124.33	1,698.83	6,823.15	4,618.42	2,233.08	6,851.50	28.35
Married Taxpayer							
5,000	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8,000	320.84	158.85	479.70	269.76	206.69	476.45	−3.25
10,000	719.68	280.50	1,000.18	630.04	365.22	995.26	−4.92
15,000	1,830.55	619.32	2,449.87	1,641.87	810.42	2,452.29	2.42
20,000	3,062.66	1,015.34	4,077.99	2,766.45	1,337.62	4,104.07	26.08
25,000	4,483.55	1,486.39	5,969.94	4,038.93	1,952.89	5,991.82	21.88
Married Taxpayer With Two Children							
5,000	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8,000	156.60	108.76	265.37	122.96	142.10	265.06	−0.31
10,000	540.88	225.97	766.85	468.28	294.04	762.32	−4.53
15,000	1,628.81	557.79	2,186.59	1,456.56	728.89	2,185.45	−1.14
20,000	2,849.03	944.52	3,793.55	2,570.80	1,243.02	3,813.82	20.27
25,000	4,226.89	1,401.30	5,628.19	3,808.80	1,841.62	5,650.42	22.23
Single Pensioner							
5,000	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8,000	314.40	156.89	471.29	263.96	204.14	468.10	−3.19
10,000	724.13	281.86	1,005.99	634.07	366.99	1,001.06	−4.93
15,000	1,841.25	622.58	2,463.83	1,651.71	814.75	2,466.46	2.63
20,000	3,073.29	1,018.86	4,092.15	2,776.18	1,342.33	4,118.51	26.36
25,000	4,497.33	1,490.96	5,988.29	4,051.39	1,958.92	6,010.31	22.02
Married Pensioner							
5,000	0.00	0.00	0.00	0.00	0.00	0.00	0.00
8,000	0.00	0.00	0.00	0.00	0.00	0.00	0.00
10,000	304.40	153.84	458.24	254.96	200.18	455.14	−3.10
15,000	1,364.95	477.31	1,842.26	1,215.65	622.89	1,838.54	−3.72
20,000	2,564.07	850.04	3,414.11	2,309.81	1,116.83	3,426.64	12.53
25,000	3,899.71	1,292.84	5,192.54	3,516.49	1,700.28	5,216.78	24.24

Appendix

Calculating EPF Entitlements

In the interest of equity, the EPF calculations necessarily became complex. As Ontario understands them, the basic calculations, including the Revenue Guarantee settlement, are as follows:

(a) For each province, determine the per capita federal contribution in 1975-76 and escalate this amount by the three-year moving average GNE index to derive values for 1976-77 and all subsequent years.

(b) Determine the 1975-76 national average federal contribution per capita, and escalate it in similar fashion for 1976-77 and all subsequent years.

(c) Translate 50% of the 1976-77 value of (b) into equalized tax points, on the basis of the yield in the two highest yielding provinces, resulting in a transfer of 8.143 *new* tax points in addition to the 4.357 PIT plus 1 CIT points that provinces already have. Add one equalized tax point for the Revenue Guarantee. Allow the tax room to grow at its natural elasticity into 1977-78 and all subsequent years.

(d) Translate the other 50% of the 1976-77 value of (b) into cash per capita. Add to this amount the cash equivalent of one 1976 equalized PIT point per capita at the national average yield. Escalate this total by the GNE index to get the basic cash entitlement for 1977-78 and all subsequent years.

(e) Since some provinces receive less under a tax-cash split than they would under an all-cash arrangement, make a transitional payment to a province if it receives less under (c) and (d) (excluding the Guarantee components) than it would have received under the all-cash entitlement of (b).

(f) Level by gradually eliminating the difference between (a) and (b). For provinces in which (b) exceeds (a), the cash contribution is raised to the national average over 3 years; for provinces in which (a) exceeds (b), the cash contribution is lowered to the national average over 5 years.

(g) Starting in 1977-78, pay to each province $20 per capita in respect of nursing home care, residential care for adults, converted mental hospitals, the health aspects of home care, and those aspects of ambulatory health services not covered under HIDS. Escalate this $20 beyond 1977-78 in the same way as other cash payments.

The following table displays the detailed calculation for Ontario and Newfoundland.

Computing EPF Entitlements[1]

Table 1

($ per capita)

	Nfld.	Ont.	Natl. Avg.
Base Contribution, 1975-76	184.80	207.70	207.60
Escalated by 1.1381, 1976-77	210.30	236.40	236.30[2]
Escalated by 1.1309, 1977-78	237.90	267.30	267.20
Equalized Tax Room[3], 1976-77	98.10	118.70	
Equalized Tax Room, 1977-78	115.40	135.30	
Basic Cash, 1976-77	118.20	118.20	
Escalated by 1.1309, 1977-78	133.60	133.60	
Tax Plus Cash, 1977-78	249.00	268.90	
Transitional Payment[4]	18.20	0.00	
	267.20	268.90[5]	
Levelling, 1977-78	– 19.50[6]	+.08[7]	
Total 1977-78	247.70	268.98	

[1] Excluding Revenue Guarantee element and $20 per capita.

[2] This figure is the basis for the 50-50 split between tax and cash in the two provinces with the highest per capita tax yields.

[3] Value of 12.5 PIT points and 1 CIT point equalized at the national average.

[4] Amount necessary to bring tax plus cash up to the all-cash national average reference point of $267.20 per capita.

[5] Note that Ontario receives a "fiscal dividend" (or negative transition) of $1.70 because the value of its tax room exceeds the value of the basic cash contribution.

[6] Newfoundland is levelled up in 3 steps; in the first year subtract from the cash payments .66 × ($267.20 – $237.90) = $19.50. The actual cash per capita is thus $133.60 + $18.20 – $19.50 = $132.30. Check: $132.30 + $115.40 = $247.70.

[7] Ontario is levelled down in 5 steps; in the first year we add to the cash payments .8 × ($267.30 – $267.20) = $.08. The actual cash per capita is thus $133.60 + $.08 = $133.68. Check: $133.68 + $135.30 = $268.98.

Budget Paper C

"Towards a Balanced Budget"

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"Towards a Balanced Budget"

Introduction

Deliberate expenditure control in the government sector is of central importance to Ontario's long-range fiscal and economic planning. It contributes to the economic stability of the province by restoring a more appropriate public-private sector balance, thus providing a firm base for future growth. The control of expenditure also provides flexibility for changing priorities to meet new needs, and improves the efficiency of the public sector. This paper documents the Government of Ontario's success in reducing its rate of spending and the Province's commitment to expenditure control on a long-term basis.

Section I reviews the performance of the 1976-77 Budget and outlines the constraint measures put in place during the year. Section II sets out the new budget control initiatives for 1977-78. Section III deals with the longer term prospects for revenue growth, and the expenditure constraint benchmarks consistent with regaining a balanced budget capacity by the 1980-81 fiscal year.

I The Gains from Expenditure Constraint in 1976-77

Total spending in 1976-77 was held *below* the $12,576 million in Estimates approved by the Legislature. This testifies to the success of the expenditure control measures announced in the 1976 Budget. The new measures identified program underspending early in the fiscal year, thereby allowing these savings to be redeployed to finance additional spending requirements in high priority areas, such as the operation of public hospitals, and fire fighting in Northern Ontario. Also, these savings allowed the Government to absorb an additional $45 million required for changeover to an accrual payroll system.

In view of the previous quarterly reporting on all major changes in revenues and expenditures in Ontario Finances (including the special March 31 issue), only the highlights of the 1976-77 fiscal year are given here. Table 1 summarizes the in-year adjustments to the original 1976 Budget plan.

The increase in net cash requirements of $158 million resulted solely from the weaker than anticipated growth in budgetary revenues, reflecting the slow pace of economic recovery. The largest downward

1976-77 Budget Performance — Table 1
($ million)

	1976-77 Budget	Interim 1976-77	Change
Spending			
Budgetary Expenditure	11,791	11,846	55
Loans and Advances	680	603	−77
Payments from Special Accounts	105	116	11
Total Spending	12,576	12,565	−11
Revenues			
Budgetary Revenue	10,814	10,567	−247
Repayments of Loans and Advances	185	211	26
Payments into Special Accounts	347	399	52
Total Revenue	11,346	11,177	−169
Net Cash Requirements	1,230	1,388	158

revisions occurred in the personal income tax (revised estimates by the federal government), the retail sales tax, the corporation income tax and the mining profits tax.

Ontario's Expenditure Control Program

The determination of the Government to exercise tighter control over expenditure was first announced in the April 1975 Ontario Budget.[1] Subsequently, a number of specific measures were introduced in the *Supplementary Actions to the 1975 Ontario Budget*.[2] These internal cost reduction measures achieved in-year savings of $265 million in 1975-76, and a civil service complement reduction of over 3,000 positions.[3] In recognition of the value of outside perspective, the Government on June 8, 1975 appointed a group of private sector representatives to The Special Program Review Committee to enquire into the ways and means of restraining Government spending. The Committee's report was issued in November 1975, and contained 184 specific recommendations aimed at fiscal restraint and improved cost effectiveness.[4]

On November 23, 1976, the Government tabled its response to the Special Program Review, indicating its acceptance of the bulk of the recommendations.[5]

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

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

[3]Hon. W. Darcy McKeough, *Ontario Budget 1976* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1976).

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

[5]Hon. W. Darcy McKeough, *Ontario's Response to the Report of the Special Program Review* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1976).

The 1976 Ontario Budget reinforced this constraint policy by implementing:

- a reordering of priorities for 1976-77;
- a further reduction in civil service complement;
- additional internal cost-cutting measures; and,
- a reduction in Hydro's capital spending.

To ensure the implementation of these policies, the Government also introduced the following specific budget control procedures.

- Imposition of a monthly "allotment" system as the basis for a more intensive monitoring of expenditure.
- Implementation of a system of commitment management which ensures pre-approval of all capital expenditure commitments.
- Earlier in-year assessment of open-ended programs to identify signs of expenditure deterioration.

As a result of the successful implementation of the above initiatives during the course of the 1976-77 fiscal year, total spending was held

1976-77 In-Year Expenditure Reprioritization — Table 2

($ million)

Ministry	Authorized In-Year Increases	Constrained Underspending	Net Change
Health	117.0	−48.5	68.5
Treasury	85.0	−39.7	45.3
Natural Resources	22.0	−3.5	18.5
Education	37.6	−23.5	14.1
Agriculture and Food	17.3	−6.0	11.3
Government Services	26.0	−15.5	10.5
Culture and Recreation	13.5	−5.1	8.4
Assembly	4.5		4.5
Solicitor General	3.9		3.9
Attorney General	5.6	−2.3	3.3
Correctional Services	1.4	−.7	.7
Environment	2.3	−1.7	.6
Consumer and Commercial Relations		−5.1	−5.1
Colleges and Universities		−8.1	−8.1
Revenue	.2	−21.7	−21.5
Industry and Tourism		−25.6	−25.6
Transportation and Communications	5.4	−34.4	−29.0
Community and Social Services	5.6	−55.1	−49.5
Housing	4.0	−62.2	−58.2
Other Ministries	1.2	−1.5	−.3
Salary Contingency Fund		−22.3	−22.3
Public Debt Interest	19.2		19.2
Total	371.7	−382.5	−10.8

below the original Budget plan—the first time this has been achieved since 1947. Table 2 shows that total expenditure was reduced by $11 million, as $383 million in identified underspending was captured to offset necessary in-year spending increases of $372 million. As well, civil service complement was cut by a further 1,000 positions.[6]

II The New Budget Control Initiatives for 1977-78

Recent budget measures implemented in Canada, the United Kingdom and the United States reflect a growing desire by governments to achieve better monitoring and more effective management of public spending. This will require a strengthening of public sector accountability and the implementation of new management systems and techniques. These improvements can ensure that essential public services are provided in the most effective manner, generating large future savings to taxpayers.

To ensure that the gains already achieved from imposition of Provincial expenditure controls are not eroded, and to clear the way for progress towards a balanced budget, the 1977 Budget continues the restraint program of the past two years. In 1977, the existing cost control measures will be complemented by the following new management control initiatives:

- strengthening of The Audit Act;
- dollar control of manpower; and,
- a review of zero-base budgeting.

Strengthening The Provincial Audit Act

The Government has introduced in 1977 a strengthened Provincial Audit Act. The revised Act broadens the powers and responsibilities of the Provincial Auditor in order to enhance fiscal accountability and disclosure to the public. It requires the Auditor to report on the economy and efficiency of expenditures, as well as on procedures undertaken by the Ministries to measure effectiveness of programs. Audit coverage is broadened to embrace all transfer payment expenditures and all recipients of public funds.

To ensure the full independence of the Auditor, his budget and staffing requirements will be approved by the Board of Internal Economy and his Report will be tabled in the Legislature by the Speaker.

Dollar Control of Manpower

The expenditure constraints of the past two years have included measures aimed at controlling the growth of the civil service. From 1974

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[6]Hon. W. Darcy McKeough, *Ontario's Economic Strategy for 1977* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977), p. 21.

to the end of the 1975-76 fiscal year, the Government reduced the civil service complement from 70,778 to 67,537. A further target reduction of 1,000 was achieved in the 1976-77 fiscal year.

The Record of Complement Reduction* — Table 3

Fiscal Year		Complement	Cumulative Change
1974		70,778	
1975	• April 2.5% target	−1,741	
	• July reduction	−1,500	−3,241
		67,537	−3,241
1976	• Budget target	−1,000	−1,000
		66,537	−4,241
1977	• Budget plan	no growth	
		66,537	−4,241

*System of complement control to be replaced by dollar control of manpower in 1977-78.

Past controls over complement have been successful. However, they were concentrated entirely on the number of full-time continuous places within the Ontario Government. This resulted in complement control being focused almost entirely on classified staff, with only peripheral and indirect effects on unclassified staff and all other Crown employees.

The Government of Ontario will introduce during the 1977-78 fiscal year a new manpower control system which will apply to all staff paid directly from Ministry payrolls. Under the new system, control will be achieved through the amount of dollars allocated to each Ministry's wages and salaries rather than through its approved complement level. A separate paper describing in detail this system will be presented by the Chairman of Management Board. This revised manpower control policy will provide a more effective control over staffing costs, give reliable information at regular intervals on the mix of staff and their total numbers, and allow ministries the flexibility to make the best use of their manpower resources.

The new information on manpower which has been developed provides figures for all categories of staff paid directly from ministry payrolls.

The result during the period of 22 months since March 1, 1975 was a complement reduction of 4,241 and a reduction of classified staff of

1,898. Thus, the drop in complement reflects both fewer civil servants and elimination of roughly an equivalent number of vacant positions. Both effects are equally important. A comparison of the two systems of manpower accounting is provided in Table 4, while a ministry-by-ministry breakdown of the new system can be found in Table C10.

Summary of Complement and Total Staff Strengths for all Ministries, 1975 to 1977[1] — Table 4

	March 1 1975	March 1 1976	Dec. 31 1976	Dec. 31 1977
OLD SYSTEM				
Total Complement	70,778	67,537	66,537	66,537
Increase Over Previous Year (%)	2.1	−4.6	−6.0	0.0
Other[2]	4,530	4,853	4,817	4,840
NEW SYSTEM				
Classified Staff	65,108	63,883	63,210	*
Unclassified Staff	14,567	15,039	14,811	*
Other Crown Employees	2,859	2,715	2,704	*
Total	82,534	81,637	80,725	*
Increase Over Previous Year (%)	—	−1.1	−2.2	*
Other[2]	4,575	4,699	4,790	*

[1]Excludes staff of the Lieutenant-Governor, Office of the Assembly, Ombudsman and Provincial Auditor.
[2]Includes OPP Uniformed Staff, Security Guards and Environment Plant Operators.
*Management Board will report on the actual staffing performance under the new dollar control system, as of December 31, 1977.

Review of Zero-Base Budgeting

The Government of Ontario is constantly searching for new and more effective management tools. A concept that has attracted considerable attention in the United States is zero-base budgeting (ZBB). In a recent survey of state governments, eleven states were identified that appear to utilize ZBB in their budgeting process.[7] In addition, the U.S. federal government has also announced its intention to utilize ZBB. As applied in most states, zero-base budgeting is an evaluation and review procedure which focuses on the entire expenditure base of a program or activity, rather than on the annual spending increment requested. The purpose is to determine whether each activity warrants continuation at its current level or at a different level, or whether it should be terminated. This approach requires a priority ranking of all programs and activities in successively increasing levels of performance and funding, starting from zero.

[7]The Council of State Governments, *Zero-Base Budgeting in the States* (Lexington, Ky.: 1976).

During the course of the 1977-78 fiscal year, the principles of the ZBB system will be evaluated by Management Board as part of the budgeting process. A decision on the merits of this system will then be made in time for its use in the preparation of the 1979-80 Estimates.

III The Five-Year Deficit Reduction Plan

Long Range Fiscal Planning

The long range projections outlined in this section extend the Government's fiscal planning horizon beyond the single year traditionally dealt with in the Budget. The objective is to document the normal growth that can be expected in Ontario's revenues over the next three years, assuming no changes in tax rates and steady expansion in the provincial economy at 10 per cent per annum. This revenue projection, in turn, establishes a ceiling on the future growth in spending that is consistent with achieving a balanced budget by 1980-81.

Ontario has already achieved a substantial reduction in cash requirements in the 1976-77 fiscal year. A further reduction is planned for 1977-78. This has been achieved both by expenditure constraint and by tax increases. Net cash requirements have been brought down from $1.8 billion in 1975-76—a record high largely due to expansionary tax cuts—to $1.4 billion in 1976-77 and are planned to drop below $1.1 billion for 1977-78. Achievement of a balanced budget by 1980-81 assumes the continuation of this trend. But, it assumes that eventual elimination of the budgetary deficit will be realized via expenditure restraint, not via tax increases.

Ontario's Fiscal Planning Horizon 1976-77 to 1980-81 — Table 5
($ billion)

	Actual	Interim	Estimated	Projected		
	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Budgetary Account						
Revenue	9.0	10.5	12.0	13.0	14.2	15.5
Expenditure	10.5	11.8	13.0	13.8	14.7	15.5
Deficit	1.5	1.3	1.0	0.8	0.5	0.0
Non-Budgetary Deficit	0.3	0.1	0.1	0.1	0.1	0.1
Net Cash Requirements	1.8	1.4	1.1	0.9	0.6	0.1
% Increase (See Tables 7 and 8)						
Budgetary Revenue	—	17.3	13.4	8.2	9.3	9.8
Budgetary Spending	—	12.9	9.5	6.3	6.3	6.0

Table 5 illustrates the progressive reduction in the budgetary deficit throughout the planning period, until it is eliminated in 1980-81. This implies that the Province's operating costs (plus over half its capital projects) will be financed entirely out of current revenues by the end of the period, removing any need to utilize borrowing for this purpose. Non-public sources of borrowing (particularly the CPP) will be more than adequate to fund the remaining capital investment, leaving the Province with a surplus financing capacity for use outside its own operations. The non-budgetary side of the balance sheet maintains a slight deficit during the projection period, reflecting the Government's role as a supplier of financing in the form of repayable loans for capital projects undertaken by various agencies.

Achievement of this balance requires that spending growth over the next three years be held consistently below the growth in revenues.

This three-year timetable for restoring Ontario's capacity to balance its budget is, of course, not a hard and fast plan. Economic conditions and social developments in the next few years may make it difficult, or even inappropriate, to achieve the target by 1980-81. Future weakness in the economy, for example, would automatically increase the deficit as revenues fell below the projected yields. As well, stimulation in the form of tax cuts and selective expenditure increases may be required during the next three years. Such discretionary actions, while necessary, would cause a further departure from the projected path to a balanced budget. The target of a balanced budget by 1980-81 is, nevertheless, an important commitment which will exert a strong influence on spending and financing decisions over the next few years.

Revenue Projections to 1980-81

The revenue growth assumptions are a vitally important part of this balanced budget scenario. Given the target of a diminishing deficit, the allowable expenditure growth in any one given year can be viewed as simply the residual derived from the expected revenue yield for that year.

The most important point to note about the revenue projection for the three-year timetable through 1980-81 is that the overall revenue elasticity will be below 1.0 throughout. This means that revenues will grow more slowly than Gross Provincial Product (GPP).

Table 6 presents a ten-year view of GPP and revenue growth rates, as well as elasticity measures for the major Provincial taxes. It shows that in the projection period, 1978-79 to 1980-81, revenue growth will drop to an average annual rate of 9.1 per cent, compared to the average annual rate of 13.8 per cent for the past seven years. This has obvious implications for the Edmonton Commitment, which links Ontario's support to local governments directly to the growth in the Province's budgetary revenues.

In general terms, budgetary revenue can be divided into two broad categories based on the relationship of a particular revenue item to major economic variables that are likely to affect its growth. The first category consists of revenues which are responsive to growth in the economy—personal income tax, corporate income tax, sales tax and

Summary of Average Annual Growth Rates and Elasticities — Table 6

	7-Year Average 1971-72 to 1977-78	Projected 3-Year Average 1978-79 to 1980-81
GPP (% growth)	13.2	10.0
Revenue (% growth)	13.8	9.1
Elasticities:		
Personal Income Tax	+1.32	+1.30
Corporation Taxes	+1.53	+1.15
Retail Sales Tax	+1.16	+1.00
Other Revenue	+0.75	+0.45
Total	+1.05	+0.91

federal payments which are escalated by GNP. The second category consists of revenues which are not responsive to growth in the economy —such as OHIP premiums which grow in line with population.

In 1977-78, 65 per cent of Ontario's revenue is in the responsive category. This ratio improves steadily over the projection period to 69 per cent in 1980-81, largely due to the growth dividend from the new personal income tax transfer. This improvement in the weight of responsive sources raises the overall revenue growth rate over the period from 8.2 per cent in 1978-79 to 9.8 per cent in 1980-81. The different growth capacities of the various revenues are displayed in Table 7.

Budgetary Revenue as a Per Cent of GPP

Chart 1 illustrates the change that has taken place in the relationship between budgetary revenue and GPP in the years 1966-67 through 1976-77 and plots the trend line to 1980-81.

During the period 1966-67 to 1970-71, budgetary revenue grew rapidly until, in 1970-71, it represented 14.2 per cent of GPP. This large increase is attributable partly to the fiscal dividend accruing from the high elasticity taxes during this period of strong economic growth. As well, there were several major tax increases during the five years.

The trend changed in the 1970-71 to 1977-78 period, with revenue growth only paralleling growth in the economy. There were tax increases in some years and tax reductions in others, but the overall effect on revenues was more or less neutral. Nevertheless, several major changes took place in the tax structure that had a major impact on the growth potential of certain major taxes. The most notable changes were to the personal income tax and retail sales tax. Tax reform in 1972, and indexation of the income tax system in 1974, radically reduced the

Budgetary Revenue Yields and Projections in the Planning Period 1976-77 to 1980-81

Table 7

($ million)

	Interim	Estimated	Projected		
	1976-77	1977-78	1978-79	1979-80	1980-81
Responsive Revenue Sources					
Personal Income Tax	1,782	2,975*	3,395	3,870	4,415
Federal Revenue Guarantee	496	150	50	—	—
Corporation Taxes	1,070	1,366	1,565	1,760	1,970
Federal EPF[1]	—	1,276	1,325	1,485	1,630
Retail Sales Tax	1,810	2,041	2,270	2,500	2,760
Sub-Total	5,158	7,808	8,605	9,615	10,775
Responsive Sources as % of Total Revenue	48.8	65.2	66.4	67.9	69.3
Non-Responsive Revenue Sources					
Other Federal Payments	2,216	671	720	770	830
Other Taxation	916	1,052	1,070	1,100	1,130
OHIP Premiums	790	815	835	855	880
Other Revenue	1,043	1,172	1,220	1,255	1,310
Interest on Investments	444	465	510	565	620
Sub-Total	5,409	4,175	4,355	4,545	4,770
Non-Responsive Sources as % of Total Revenue	51.2	34.8	33.6	32.1	30.7
Total Budgetary Revenue	**10,567**	**11,983**	**12,960**	**14,160**	**15,545**

Revenue Growth Rates

(per cent)

Responsive Revenue Sources	18.4	51.4	10.2	11.7	12.1
Non-Responsive Revenue Sources	16.2	−22.8	4.3	4.4	4.9
Total Budgetary Revenue	17.3**	13.4**	8.2	9.3	9.8

[1]Established Programs Financing—replaces Hospital Insurance, Medical Care and Post-Secondary Agreements effective April 1, 1977. Also includes Extended Health Care Services Agreement.

*Includes new tax transfer.

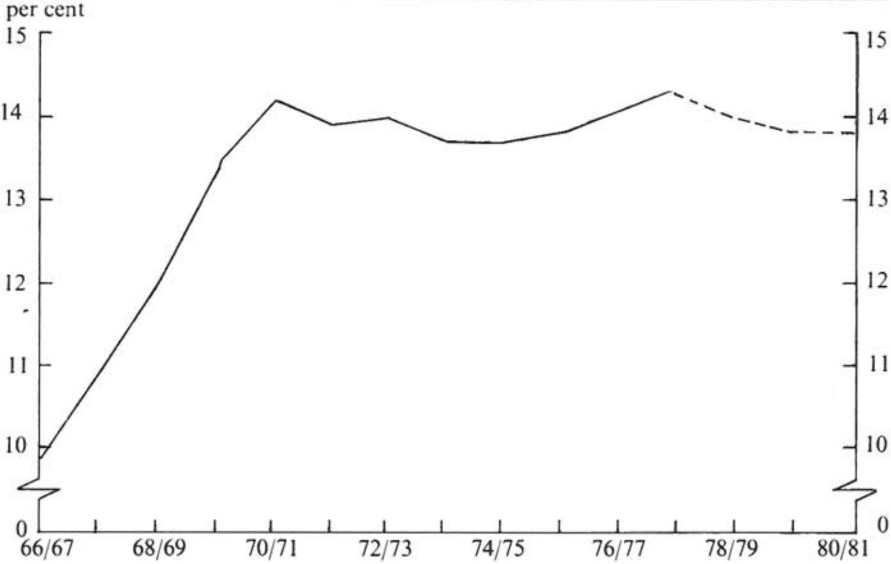
**Includes tax increases.

elasticity of the PIT.[8] In addition, a significant narrowing of the retail sales tax base took place; an example of this is the exemption of production machinery in 1975. Tax increases in the last two years have

[8]The impact of tax reform on the personal income tax in Ontario is analyzed in, Ontario Tax Studies 13, *The Equity and Revenue Effects in Ontario of Personal Income Tax Reform: 1972-1975* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1977).

Budgetary Revenue as a Per Cent of Gross Provincial Product

Chart 1



restored the revenue-to-GPP ratio back to the 14 per cent level recorded in 1970-71.

For the projection period 1978-79 to 1980-81, it is assumed that tax rates will be held constant in contrast to the increases in the past two years. This, along with the termination of the Revenue Guarantee and the phase-out of prior years' shared-cost payments, will generate a low revenue growth rate in the first year of the projection period. In succeeding years, however, the growth rate improves steadily, due largely to the high elasticity of the personal income tax. By 1980-81, Ontario's revenue growth rate will have returned to its former level, matching the growth rate of the economy.

Expenditure Growth Implications

The overall expenditure outlook for the planning period is presented in Table 8. A dichotomy has been drawn between expenditures that are "committed" and those that may be considered as being "controllable".

Public debt interest and pension contribution expenditures are the only truly committed expenditures in the longer run. They are not subject to control in the sense that the Province is legally committed to service its debt obligations and also to maintain its funding of employee pension benefits.

The key points to note are that overall expenditures must grow at below the revenue growth rate if the deficit elimination is to be successfully achieved by 1980-81. And, the main impact of expenditure restraint must necessarily be borne by the controllable portion of expenditures.

Budgetary Expenditure Composition in the Planning Period

Table 8

($ million)

	Interim 1976-77	Estimated 1977-78	Projected 1978-79	1979-80	1980-81
Committed					
• Pension Contributions	331	272	317	366	423
• Public Debt Interest	889	1,042	1,140	1,254	1,332
	1,220	1,314	1,457	1,620	1,755
% Increase		7.7	10.9	11.2	8.3
Controllable					
All Other Spending	10,626	11,661	12,331	13,041	13,790
% Increase	—	9.7	5.8	5.8	5.8
TOTAL	11,846	12,975	13,788	14,661	15,545
% Increase	—	9.5	6.3	6.3	6.0

If this long-term expenditure constraint can be maintained, the public sector will gradually reduce its size in relation to the rest of the provincial economy. This will free up more resources for use by the private sector, and by reducing demand pressure in the economy as a whole, will aid in controlling inflation in future years.

Appendix

Financial Reporting Changes and Classifications

The New Ministry of Northern Affairs

On February 4, 1977, the Honourable William G. Davis announced the creation of a new Ministry of Northern Affairs. The creation of this special Ministry reflects even greater emphasis on the development of Northern Ontario. Northern Affairs Ministry offices will be set up in Northeastern and Northwestern Ontario. Table 9 reflects the transfer of spending functions from other ministries to the Ministry of Northern Affairs. These changes are reflected in Table C3 in the Financial Tables.

Funding for the Ministry of Northern Affairs — Table 9
($ million)

Programs and Projects transferred to Northern Affairs by various Ministries	Interim 1976-77	Estimated 1977-78		
		Carryover	New	Total
Community and Regional Priorities	27	36	17	53
Northern Roads	40	19	24	43
Resource Access Roads	6		7	7
Other	15	13	4	17
Total	88	68	52	120

The Provincial Lottery Trust Account

The Provincial Lottery commenced operations in September 1976, with the first draw taking place on October 31, 1976. As is the case with Wintario, the Provincial is administered by the Ontario Lottery Corporation. The Corporation remits the net proceeds to the Consolidated Revenue Fund where it is accounted for as a non-budgetary trust account item. Outflows from this trust account are to be used for medical research and health-related environmental programs. The Ministries of Health, Environment and Labour are to share in the financing of grants for research projects in their own fields, and each of the ministries will administer its own grants. Cash flow details for the Provincial and Wintario are presented in Tables C11 and C12.

Financial Tables

Statement of Operational Cash Requirements and Related Financing

Table C1

($ million)

	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Budgetary Transactions				
Revenue	8,176	9,010	10,567	11,983
Expenditure	8,722	10,490	11,846	12,975
Budgetary Deficit	546	1,480	1,279	992
Non-Budgetary Transactions				
Lending and Investment Activity				
Receipts	354	203	211	210
Disbursements	1,048	730	603	602
Net increase in lending activity (A)	694	527	392	392
Special Purpose Accounts				
Credits	323	307	399	428
Charges	60	99	116	121
Net increase in special purpose accounts (B)	263	208	283	307
Non-Budgetary Transactions (A-B)	431	319	109	85
NET CASH REQUIREMENTS	**977**	**1,799**	**1,388**	**1,077**
FINANCING				
Non-Public Borrowing				
Proceeds of Loans	1,166	1,236	1,357	1,343
Repayment of Loans	10	6	39	8
Net Non-Public Borrowing	1,156	1,230	1,318	1,335
Public Borrowing				
Proceeds of Loans	—	775	—	—
Repayment of Loans	305	32	233	65
Net Public Borrowing	(305)	743	(233)	(65)
Increase in Liquid Reserves	(126)	174	(303)	193
TOTAL FINANCING	**977**	**1,799**	**1,388**	**1,077**

Budgetary Revenue

Table C2

($ million)

	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Taxation				
Personal Income Tax[1]	1,445	1,571	1,782	2,975
Revenue Guarantee	49	255	496	150
Corporation Taxes:				
Income Tax	750	976	840	996
Capital and Premium Taxes	142	164	188	260
Mining Profits Tax	153	63	42	110
Retail Sales Tax	1,569	1,328	1,810	2,041
Gasoline Tax	493	505	514	525
Motor Vehicle Fuel Tax	79	73	82	104
Tobacco Tax	101	104	154	215
Succession Duty	78	64	62	56
Land Transfer Tax	48	51	52	60
Land Speculation Tax	—	3	6	9
Race Tracks Tax	34	38	42	48
Income Tax—Public Utilities	8	7	5	8
Other Taxation[2]	4	3	(1)	27
	4,953	5,205	6,074	7,584
Other Revenue				
Premiums—OHIP	548	573	790	815
LCBO Profits	248	273	305	331
Vehicle Registration Fees	187	206	218	296
Other Fees and Licences	146	182	204	215
Ontario Lottery Profits	—	42	80	80
Fines and Penalties	42	47	53	60
Royalties	36	40	43	50
Sales and Rentals	83	37	46	45
Utility Service Charges	26	32	35	40
Miscellaneous	34	53	59	52
	1,350	1,485	1,833	1,984
Payments from the Federal Government (See Table C6)	1,517	1,930	2,216	1,947
Interest on Investments	356	390	444	468
TOTAL BUDGETARY REVENUE	**8,176**	**9,010**	**10,567**	**11,983**

[1]Net of tax credits of $306 million, $391 million, $418 million and $422 million for the 1974-75, 1975-76, 1976-77 and 1977-78 fiscal years. 1977-78 figure includes new tax transfer.

[2]1977-78 figure includes new Environmental Tax.

Budgetary Expenditure by Policy Field and Ministerial Responsibility

Table C3

($ million)

	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Social Development Policy				
Health	2,528	2,986	3,430	3,796
Education	1,598	1,776	1,990	2,130
Colleges and Universities	878	1,019	1,160	1,273
Community and Social Services	674	881	954	1,077
Culture and Recreation	74	109	150	166
	5,752	6,771	7,684	8,442
Resources Development Policy				
Transportation and Communications	777	911	923	1,045
Natural Resources	177	200	237	225
Housing	71	192	169	201
Agriculture and Food	113	151	169	172
Environment	58	83	101	104
Industry and Tourism	37	50	58	58
Labour	17	20	20	32
Energy	2	3	4	10
	1,252	1,610	1,681	1,847
Justice Policy				
Correctional Services	101	121	146	154
Solicitor General	106	128	147	147
Attorney General	85	101	121	131
Consumer and Commercial Relations	35	43	65	64
	327	393	479	496
Other Ministries				
Treasury, Economics and Intergovernmental Affairs	338	389	483	420
Government Services	269	288	305	287
Revenue	123	173	199	205
Northern Affairs	51	95	88	120
Assembly	8	30	17	15
Management Board	7	8	8	9
Ombudsman	—	1	3	4
Other	6	7	10	10
	802	991	1,113	1,070
Public Debt—Interest	589	725	889	1,042
Contingency Fund	—	—	—	78
TOTAL BUDGETARY EXPENDITURE	**8,722**	**10,490**	**11,846**	**12,975**

Details of Non-Budgetary Transactions — Table C4

($ million)

RECEIPTS	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Repayments of Loans, Advances and Investments				
Education Capital Aid Corporation	46	51	57	62
Universities Capital Aid Corporation	21	22	24	26
Investment in Environmental Protection	7	17	19	22
Ontario Development Corporations	7	20	17	21
Nuclear Power Generating Station	18	11	19	18
Loans to Public Hospitals	12	14	16	17
Ontario Mortgage Corporation	12	21	24	13
Tile Drainage Debentures	4	5	6	7
Ontario Junior Farmers	—	3	4	7
Municipal Works Assistance	4	6	5	5
Municipal Improvement Corporation	5	5	4	5
Ontario Housing Corporations	208	13	5	3
Ontario Land Corporation	—	4	—	—
Other	10	11	11	4
TOTAL RECEIPTS	**354**	**203**	**211**	**210**

DISBURSEMENTS	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Loans, Advances and Investments				
Investment in Environmental Protection	127	155	146	164
Ontario Mortage Corporation	133	178	180	98
Education Capital Aid Corporation	87	98	77	82
Regional and Municipal Public Works[1]	13	20	31	42
Ontario Development Corporations	45	52	30	40
Ontario Housing Corporations	92	56	36	39
Loans to Public Hospitals	42	33	34	38
Universities Capital Aid Corporation	38	42	33	35
Tile Drainage Debentures	13	16	17	20
Ontario Transportation Development Corporation	—	—	—	18
Municipal Improvement Corporation	7	9	15	8
Ontario Land Corporation	320	22	—	8
Ontario Energy Corporation	100	—	—	5
Winter Capital Projects	17	34	—	—
Ontario Northland Transportation Commission	7	11	—	—
Other	7	4	4	5
TOTAL DISBURSEMENTS	**1,048**	**730**	**603**	**602**
NET INCREASE IN LENDING ACTIVITY	**694**	**527**	**392**	**392**

[1]Formerly included in Ontario Housing Action Program.

Details of Non-Budgetary Transactions — Table C5

($ million)

CREDITS	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Payments into Special Purpose Accounts				
Public Service Superannuation Fund	151	195	242	244
Teachers' Superannuation Adjustment Fund	—	19	39	48
Province of Ontario Savings Deposits (net)	46	53	40	40
The Provincial Lottery	—	—	10	33
Public Service Superannuation Adjustment Fund	—	2	17	28
Motor Vehicle Accident Claims Fund	14	15	23	23
Ontario Energy Corporation	100	—	—	—
Other	12	23	28	12
TOTAL CREDITS	**323**	**307**	**399**	**428**
CHARGES				
Payments from Special Purpose Accounts				
Public Service Superannuation Fund	42	47	53	58
Ontario Energy Corporation	—	28	40	31
Motor Vehicle Accident Claims Fund	12	15	13	15
The Provincial Lottery	—	—	2	11
Other	6	9	8	6
TOTAL CHARGES	**60**	**99**	**116**	**121**
NET INCREASE IN SPECIAL PURPOSE ACCOUNTS	**263**	**208**	**283**	**307**

Federal Government Payments to Ontario — Table C6

($ million)

	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Established Programs Financing[1]	—	—	—	1,106
Hospital Insurance	652	849	1,025	40
Medical Care	275	288	345	25
Post-Secondary Education Payments	143	167	190	15
Extended Health Care Services[2]	—	—	—	170
Canada Assistance Plan	300	444	452	376
Adult Occupational Training	60	71	80	91
Bilingualism Development	27	30	34	31
Economic Development	13	23	21	25
Rehabilitation of Offenders	—	—	15	17
Vocational Rehabilitation	8	11	9	14
Other Federal Payments	39	47	45	37
TOTAL PAYMENTS	**1,517**	**1,930**	**2,216**	**1,947**
Annual Per Cent Increase	19.7	27.2	14.8	(12.1)
Federal Payments as a Per Cent of Ontario Budgetary Revenue	18.6	21.4	21.0	16.2

[1]Replaces Hospital Insurance, Medical Care and Post-Secondary Education Agreements effective April 1, 1977.

[2]Replaces a portion of shared-cost expenses previously paid under the Canada Assistance Plan.

Financing

Table C7

($ million)

	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Non-Public Borrowing				
Canada Pension Plan	702	784	813	850
Teachers' Superannuation Fund	286	197	330	260
Municipal Employees' Retirement Fund	144	156	180	190
CMHC Pollution Control Loans	16	35	34	43
Federal-Provincial Winter Capital Projects Fund	18	64	—	—
Retirements	(10)	(6)	(39)	(8)
Net Non-Public Borrowing	1,156	1,230	1,318	1,335
Public Borrowing				
Treasury Bills (net)	(90)	325	(195)	—
Debenture Issues	—	450	—	—
Debenture Retirements	(215)	(32)	(38)	(65)
Net Public Borrowing	(305)	743	(233)	(65)
Increase in Liquid Reserves	(126)	174	(303)	193
TOTAL FINANCING	**977**	**1,799**	**1,388**	**1,077**

Investment in Physical Assets

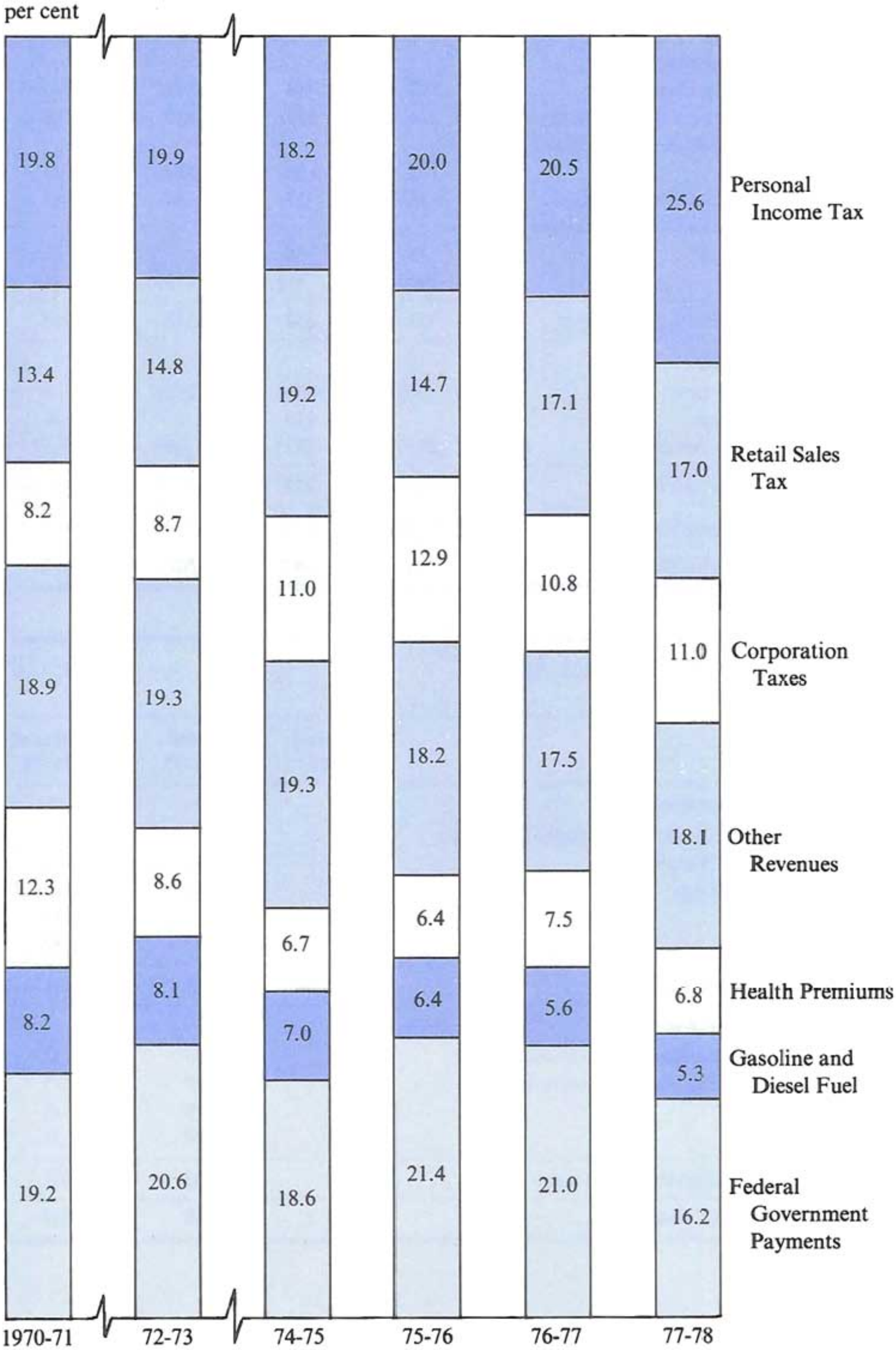
Table C8

($ million)

	Preliminary 1975-76	Interim 1976-77	Estimated 1977-78
Budgetary Investment			
Direct Expenditures and Transfer Payments			
Roads and Transit	474	459	579
Public Buildings	337	254	241
Health	100	87	94
Other	22	35	47
Total Budgetary Investment	933	835	961
Non-Budgetary Investment			
Industrial and Resources Development	222	180	232
Home and Community Environment	335	279	215
Education	140	110	117
Health	33	34	38
Total Non-Budgetary Investment	730	603	602
TOTAL INVESTMENT	**1,663**	**1,438**	**1,563**

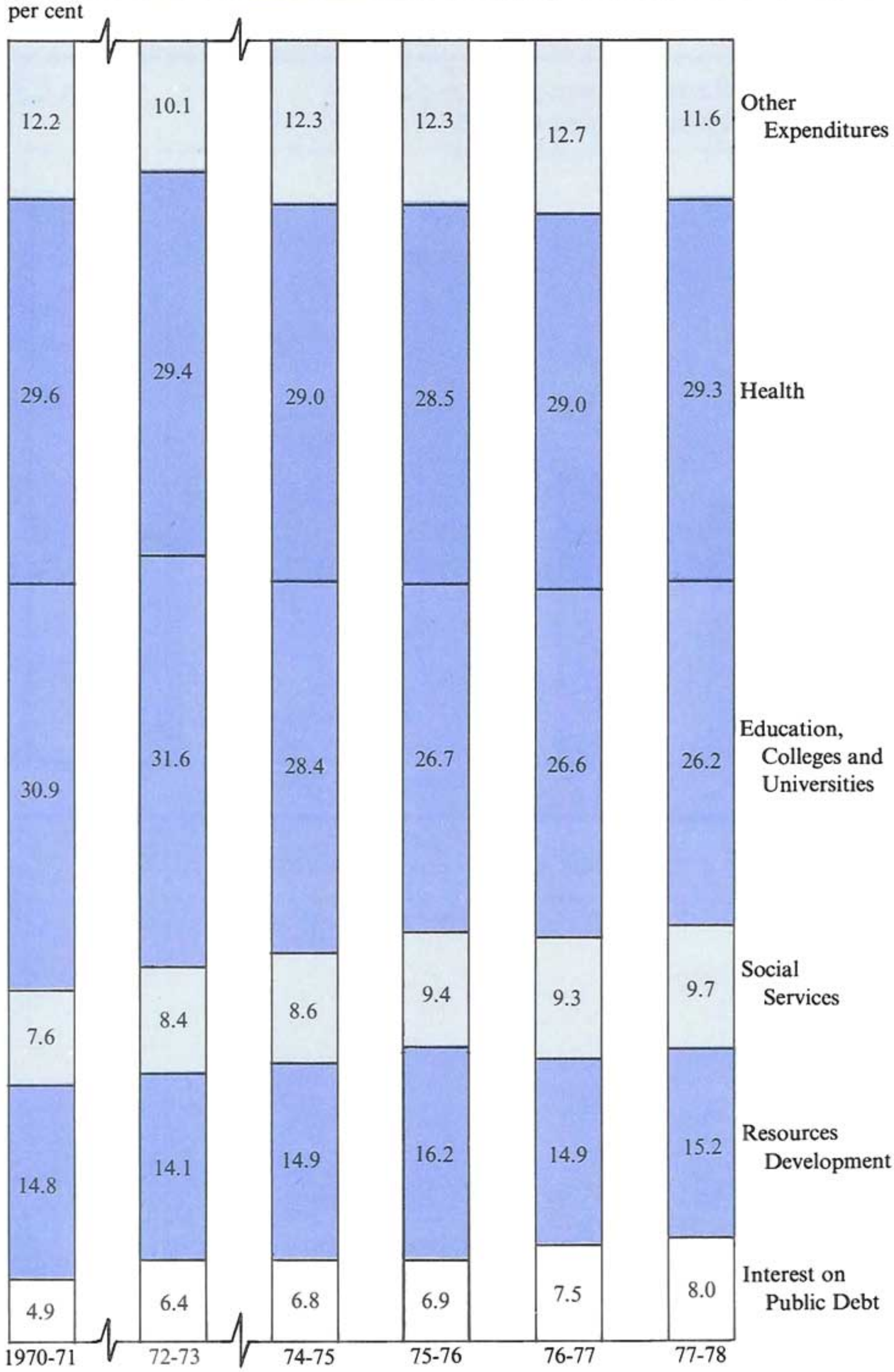
Relative Importance of Major Revenue Sources

Chart C1



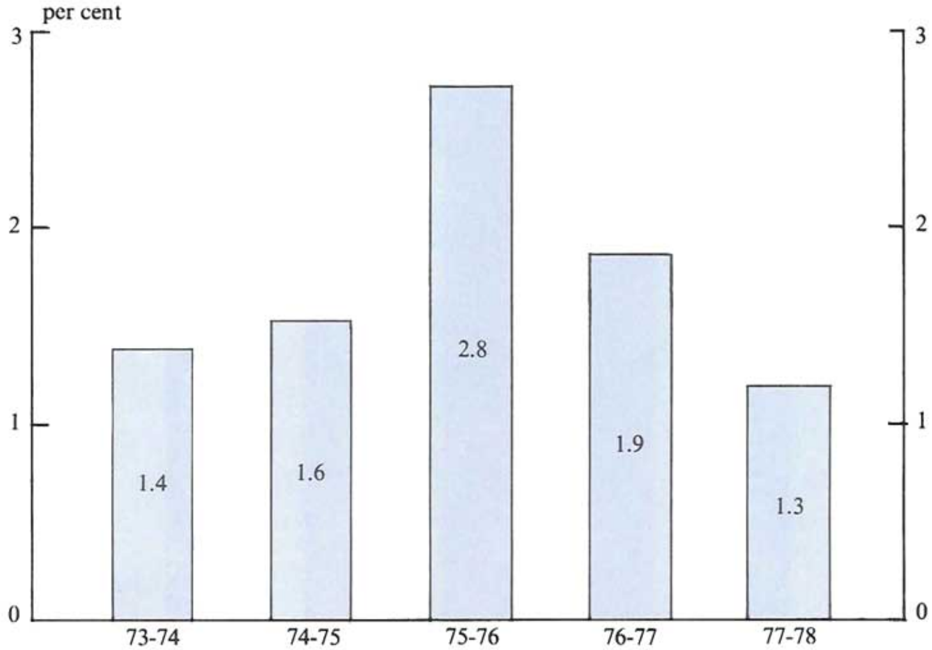
Relative Importance of Major Expenditure Functions

Chart C2



Net Cash Requirements as a Per Cent of Gross Provincial Product, 1973-74 to 1977-78

Chart C3



Ontario Payments to Local Governments and Agencies — Table C9

($ million)

	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Conditional Payments				
Education	1,331	1,575	1,695	1,880
Transportation	330	437	443	509
Social Assistance	134	175	172	188
Culture and Recreation	5	18	16	24
Housing	6	15	21	20
Environment	5	15	19	19
Other	28	55	44	63
	1,839	2,290	2,410	2,703
Unconditional Payments				
General Support	85	79	97	112
Resource Equalization	70	81	88	99
Per Capita—Policing	42	71	109	56
Per Capita—General	63	64	98	42
Northern Ontario Grants	12	18	22	31
Other	25	32	25	27
	297	345	439	367
Payments to Local Agencies				
Homes for the Aged	58	79	84	87
Children's Aid Societies	47	70	77	83
Health Agencies	35	44	51	59
Conservation Authorities	30	33	27	29
Library Boards	16	19	20	22
	186	245	259	280
BASIC FINANCIAL TRANSFERS	**2,322**	**2,880**	**3,108**	**3,350**
Other Assistance				
Teachers' Superannuation Fund	288	237	337	319
Payments-in-lieu of Taxes	42	50	60	69
Tax Compensation Grants	13	14	15	16
Employment Incentives	3	9	19	—
	346	310	431	404
TOTAL FINANCIAL SUPPORT	**2,668**	**3,190**	**3,539**	**3,754**
Growth in Basic Financial Transfers (%)	14.6	24.0	7.9	7.8
Growth in Total Financial Support (%)	18.3	19.6	10.9	6.1

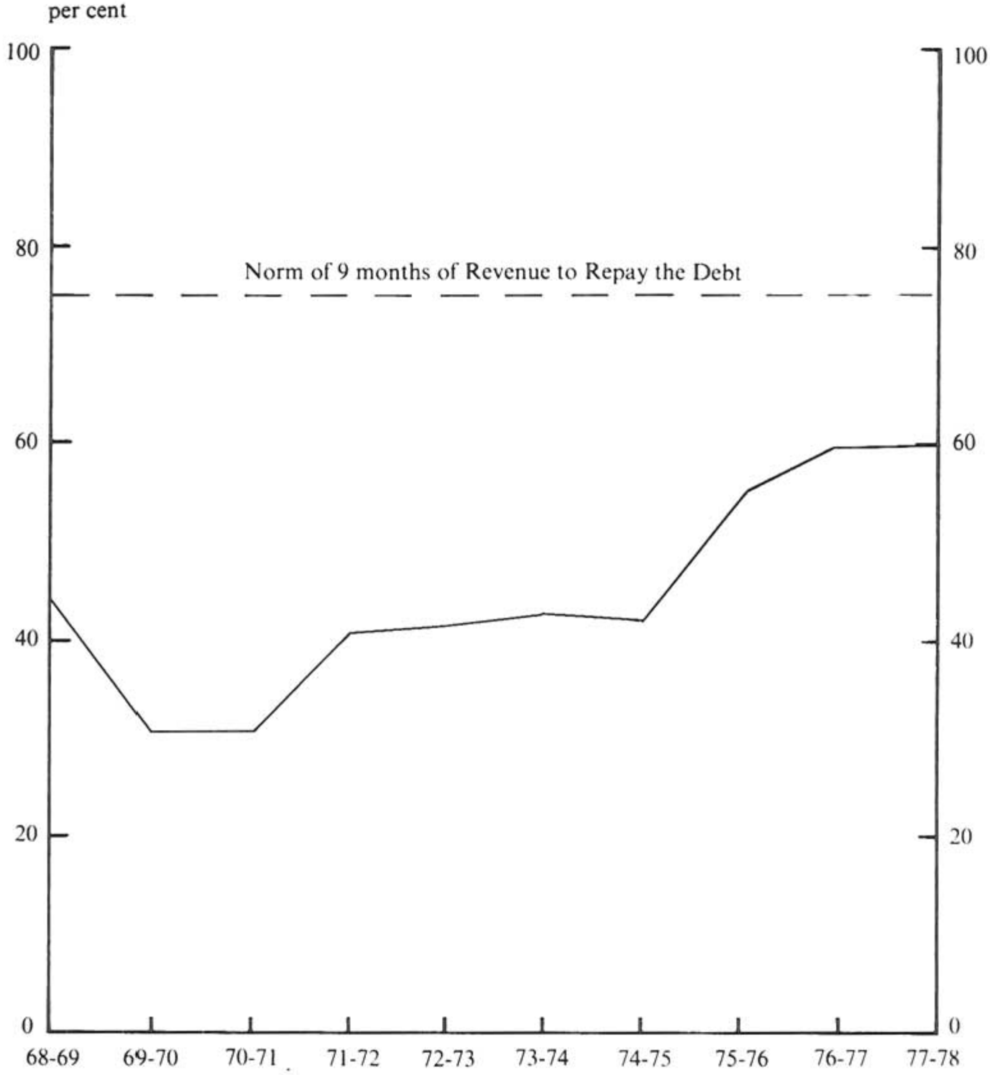
Public Service Strength in Ontario by Category, December 31, 1976[1] — Table C10

Ministry	Classified Staff	Unclassified Staff	Other Crown Employees	Total
Premier	39	23	–	62
Cabinet Office	30	10	–	40
Management Board	81	7	–	88
Civil Service Commission	172	49	23	244
Government Services	2,886	518	–	3,404
Revenue	3,896	120	–	4,016
Treasury	625	211	10	846
Justice Policy	12	–	–	12
Attorney General	3,087	1,678	331	5,096
Consumer and Commercial Relations	1,734	291	75	2,100
Correctional Services	5,238	1,275	157	6,670
Solicitor General	1,458	480	3	1,941
Resources Development Policy	12	17	–	29
Agriculture and Food	1,561	795	–	2,356
Energy	63	17	–	80
Environment	1,345	268	1	1,614
Housing	896	269	1,440	2,605
Industry and Tourism	510	150	–	660
Ontario Development Corporation	194	1	1	196
Labour	748	50	19	817
Natural Resources	3,951	2,741	–	6,692
Transportation and Communications	10,490	2,589	95	13,174
Social Development Policy	21	26	–	47
Colleges and Universities	602	173	3	778
Community and Social Services	8,507	905	18	9,430
Culture and Recreation	545	621	–	1,166
Education	1,703	387	528	2,618
Health	12,804	1,140	–	13,944
Total	63,210	14,811	2,704	80,725
O.P.P. Uniformed Staff and Security Guards	4,183	–	–	4,183
Environment Plant Operators	532	75	–	607

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

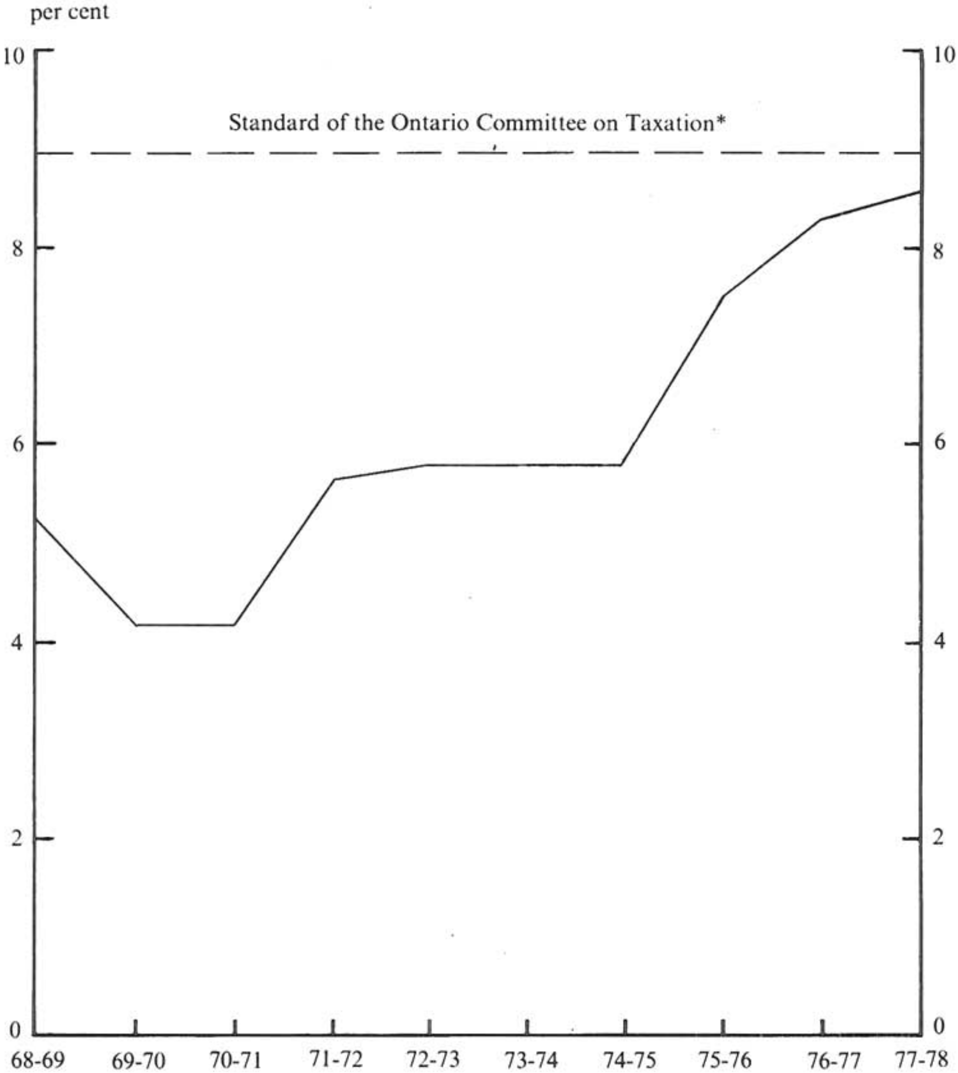
Net Debt as a Per Cent of
Budgetary Revenue, 1968-69 to 1977-78

Chart C4



Net Debt as a Per Cent of
Gross Provincial Product, 1968-69 to 1977-78

Chart C5



*See, *The Ontario Committee on Taxation* (Toronto: Queen's Printer, 1967), Volume I, p. 281.

Ontario Lottery Proceeds

Table C11

($ million)

	Actual 1975-76	Interim 1976-77	Estimated 1977-78
Funds available from prior years	—	38	18
Ontario Lottery Proceeds	42	80	80
	42	118	98
Less—Expenditure on approved projects and overhead costs	4	40	36
Less—Project commitments	—	60	62
Cumulative Funds available	38	18	0

Provincial Lottery Proceeds

Table C12

($ million)

	Interim 1976-77	Estimated 1977-78
Funds available from prior years	—	8
Provincial Lottery Proceeds	10	33
	10	41
Less—Approved spending for health and environmental research	2	11
Cumulative Funds available	8	30

Ten-Year Review

($ million)

Table C13

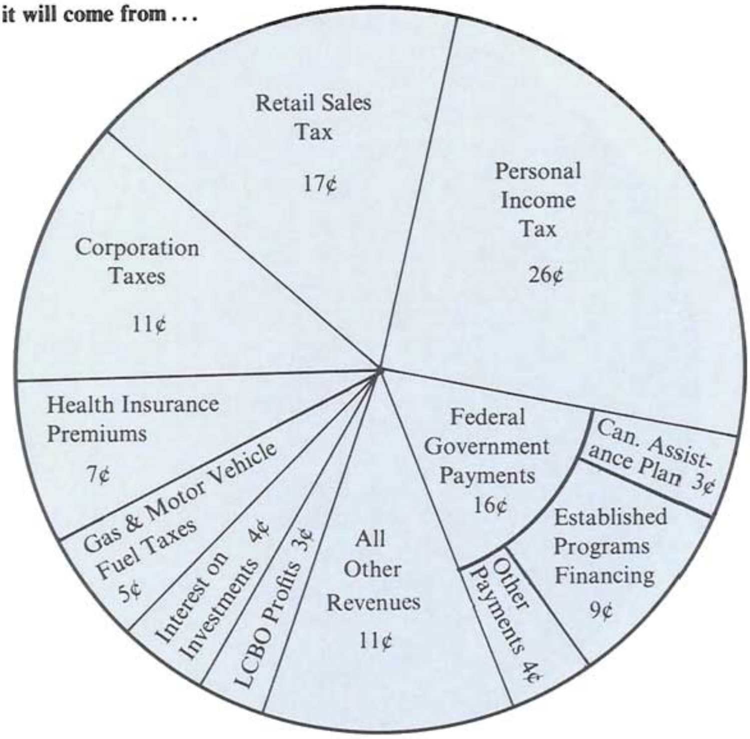
	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	Interim 1976-77	Estimated 1977-78
Budgetary Transactions										
Revenue	3,502	4,360	5,024	5,340	6,046	6,843	8,176	9,010	10,567	11,983
Expenditure	3,595	4,210	5,160	5,965	6,412	7,223	8,722	10,490	11,846	12,975
Surplus or (Deficit)	(93)	150	(136)	(625)	(366)	(380)	(546)	(1,480)	(1,279)	(992)
Financial Position										
Total Liabilities	4,448	5,084	5,795	6,986	8,333	9,390	10,832	13,544	n.a.	n.a.
Total Assets	2,906	3,691	4,266	4,832	5,811	6,488	7,384	8,616		
Net Debt (total liabilities minus total assets)	1,542	1,393	1,529	2,154	2,522	2,902	3,448	4,928	6,207	7,199
Net Debt Per Capita (dollars)	209.52	185.03	199.01	276.09	318.48	359.68	420.50	592.67	735.43	840.42
Net Debt as a Percent of Gross Provincial Product (%)	5.3	4.3	4.3	5.6	5.8	5.8	5.8	7.5	8.3	8.6
Net Debt as a Percent of Budgetary Revenue (%)	44.0	31.9	30.4	40.3	41.7	42.4	42.2	54.7	58.7	60.1
Contingent Liabilities (mainly Ontario Hydro)	**2,127**	**2,168**	**2,413**	**2,781**	**3,030**	**3,330**	**3,843**	**5,027**	**n.a.**	**n.a.**

n.a.—not available.

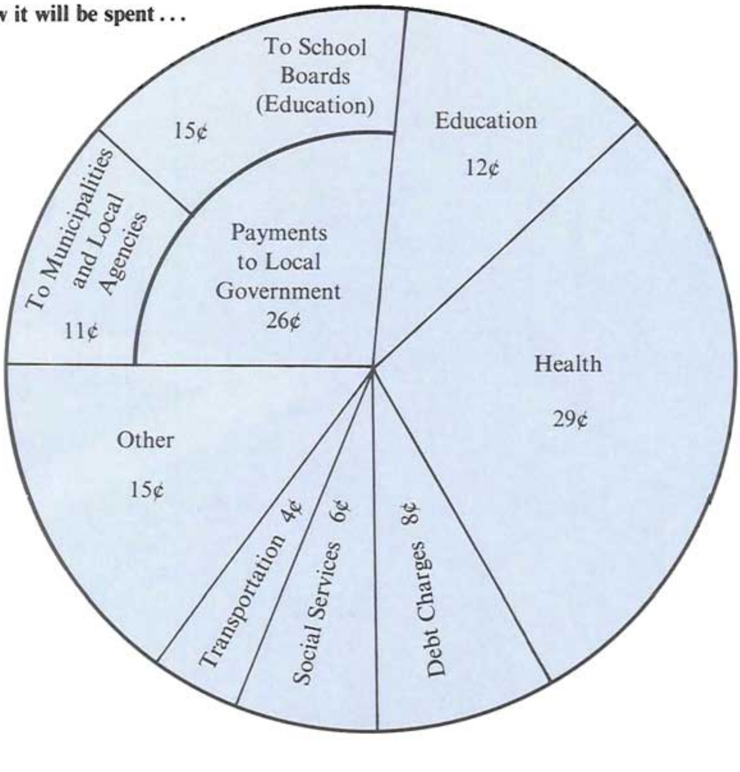
THE BUDGET DOLLAR

Fiscal Year 1977-78 Estimates

Where it will come from . . .

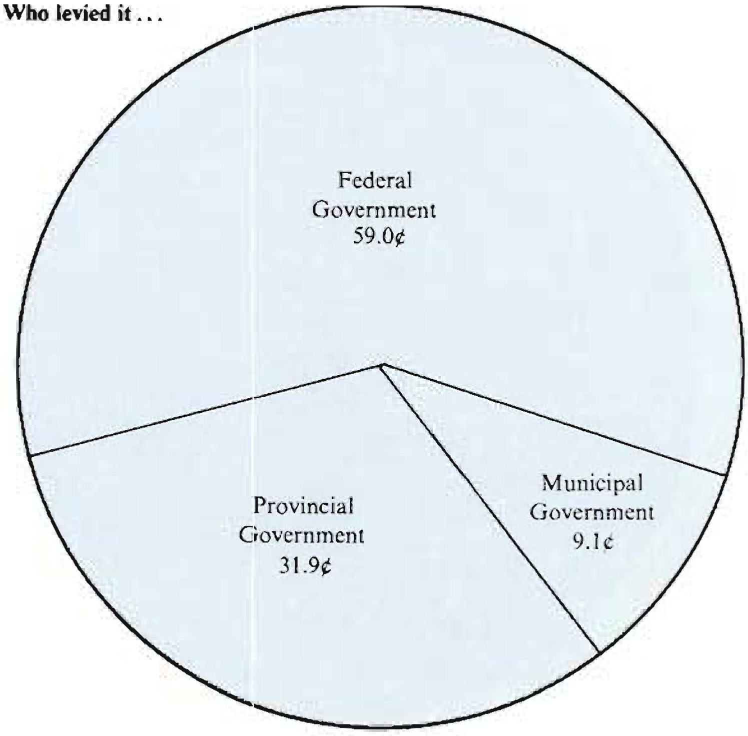


How it will be spent . . .

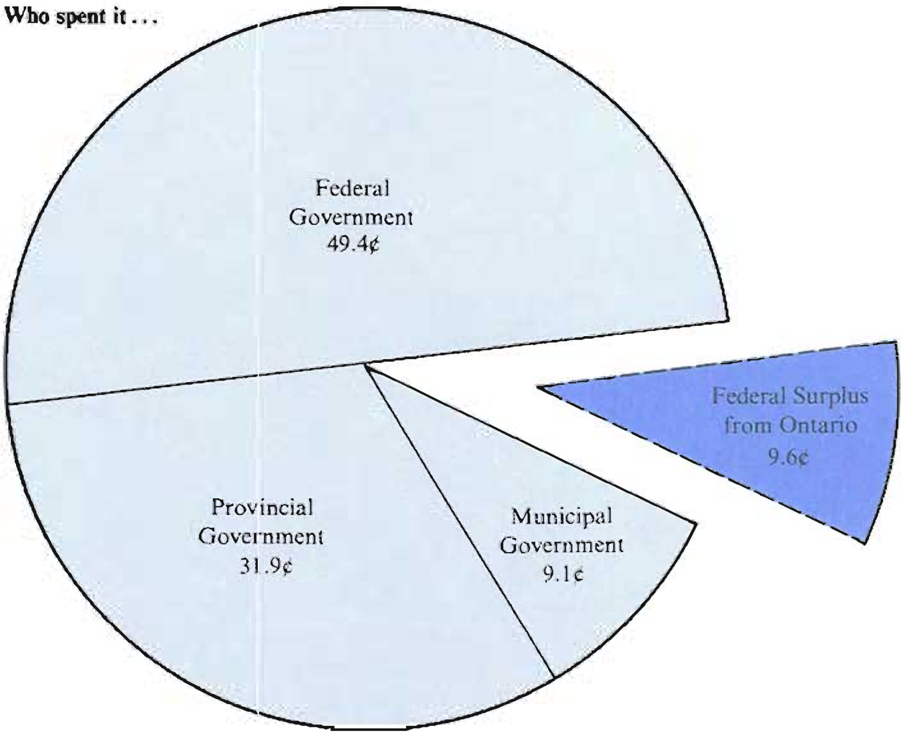


THE TAX DOLLAR IN ONTARIO 1976

Who levied it . . .



Who spent it . . .



Supplementary Budget Papers

Budget Paper D

The Anti-Inflation Program: Decontrol and Post-Control

Table of Contents

The Anti-Inflation Program: Decontrol and Post-Control

Introduction

During 1975 it became increasingly apparent that double-digit inflation and almost four years of accelerating rates of inflation had combined to create expectations in Canadians that could only result in economic and social disorder, unless immediate and bold action was taken. While this inflation had originated in dramatic and sharp increases in the world prices of agricultural goods, raw materials and energy, by 1975 it had clearly taken on a more domestic dimension. Foreign inflation was receding, as evidenced by the declining rates of increase for farm and raw materials prices as well as for imports. Service sector prices, however, reflecting more domestic sources of inflation, continued to accelerate. Meanwhile those groups unable to protect themselves fell increasingly behind in economic terms. This fact, coupled with lower foreign rates of wage and price increases, led to growing concern for both the equity and the international competitiveness of the Canadian economy.

Traditional anti-inflation measures which reduce total domestic spending would not have been immediate enough in terms of their impact on public expectations and confidence, nor would they have been appropriate in light of already slackening foreign demand for Canadian goods. Instead, the response was, in peacetime, an extraordinary economic measure. The Anti-Inflation Program (AIP) was a co-ordinated federal-provincial plan of action designed to contain the domestic sources of inflation and restore public confidence without creating a deliberate further increase in domestic economic slack.

Ontario had called for, and subsequently supported, a national prices and incomes control program on the grounds that it would immediately and directly restrain excessive wage and price increases, protect those without economic power, reduce inflationary expectations, and provide an interim solution to Canada's declining international competitiveness. At the same time, Ontario's position was that such a program should be a co-ordinated federal-provincial effort launched on a national scale in order to achieve maximum effectiveness, ensure equity, and avoid the costs of bureaucratic duplication.

During consultations on the design and implementation of control guidelines, Ontario stressed the need to achieve the maximum anti-inflation effect while maintaining:

- the greatest possible equity in the treatment of all incomes;
- the maximum incentive to achieve productivity increases;
- an environment conducive to investment and job creation; and,
- the minimum administrative burden.

While controls by their nature involve economic costs, inequities and disincentives, focus on the above principles has led to a more equitable and efficient set of guidelines.

This paper is divided into three sections. Section I reviews the economy's inflation performance under the AIP and indicates the moderating effects that weak markets combined with AIP restraints have had on prices, wages and profits. Section II delineates various options for decontrol and evaluates their strengths and weaknesses. The final Section provides a review of Ontario's approach to a decontrol and post-control anti-inflation strategy.

I Performance Under the AIP

Prices

Price performance in Canada has improved markedly since the inception of the AIP. In the year preceding October 1975, the increase in the consumer price index was 10.6 per cent. In the first year under controls the rate of inflation declined to 6.2 per cent. Housing and clothing indices were the only areas failing to show an improvement from the pre AIP period. In recent months, however, even in these sectors, price increases have begun to moderate from their pre AIP rates.

Although not covered by the AIP, declining raw food prices accounted for a major portion of the improved consumer price performance in the first year of the program. More recently, these prices have begun to move up again. Nonetheless, even if food items are excluded, the consumer price index shows a progressively improved performance. In the service sector, which throughout the first year of the program was a major source of inflationary pressure, there have been encouraging indications of abatement in recent months.

In response to market pressure and Anti-Inflation Board (AIB) wage and profit restraint, industry selling price increases have also moderated. Slower rates of increase in non-controlled import prices played a major role in this restraint as well as in the improved consumer price performance. However, the recent decline in the value of the Canadian dollar implies that this favourable effect will be offset by a significant jump in import prices.

Price Movements in Canada, Pre and Post AIP — Table 1
(percentage change, annual rates)

	Oct. 75/74	Oct. 76/75	Feb. 77/Oct. 76
Consumer Price Index			
All Items	10.6	6.2	7.5
All Items Excluding Food	10.2	9.1	6.5
Goods Excluding Food	8.4	6.6	4.7
Services	11.8	11.5	7.7
Food	12.6	−0.9	10.5
Housing	10.4	11.1	7.4
Clothing	4.4	6.2	4.1
Transportation	13.2	9.5	8.4
Health and Personal Care	11.4	7.2	7.5
Recreation, Education and Reading	8.8	5.0	2.6
Tobacco and Alcohol	11.1	7.4	4.4
Industry Selling Price Index			
All Manufacturing	8.4	3.7	4.9

Source: Statistics Canada.

Wages

Workers fared much better in the first year of the AIP than in the preceding twelve months. Real average hourly earnings in manufacturing rose 6 per cent in the first year of controls, compared to an increase of only 1.5 per cent in the previous year. Similarly, total real labour income rose by 9.4 per cent from the fourth quarter 1975 to the fourth quarter 1976, compared to only a 3.8 per cent increase over the previous four quarters. Moreover, labour's share of national income continued to advance under controls, reaching a record level of 57.7 per cent in the fourth quarter of 1976.

Labour Income, Pre and Post AIP — Table 2
(percentage change)

	Fourth Quarter	
	1975/1974	1976/1975
Nominal Labour Income	12.9	15.6
Real Labour Income	3.8	9.4
Consumer Prices*	8.7	5.7

Source: Statistics Canada.
*GNP consumer expenditure price deflator.

Wage settlements have moderated under the Anti-Inflation Program. In 1976, the average base rate wage settlement in Ontario was 11.6 per cent, compared to 13.6 per cent in 1975. This moderating trend has been experienced in all sectors. Accordingly, unit labour costs for the total non-farm sector of the Canadian economy have risen by 8 per cent under the first year of controls compared to 14.8 per cent in the preceding year.

Base Rate Wage Settlements in Ontario by Industry — Table 3
(percentage change)

	1976				Annual		
	IQ	IIQ	IIIQ	IVQ	1974	1975	1976
All Industries	14.3	12.2	12.4	8.6	13.3	13.6	11.6
Manufacturing	11.4	9.8	10.4	5.0	11.0	12.5	8.3
Non-manufacturing	15.8	12.6	12.8	10.7	14.4	14.3	12.7
— Public Sector	16.1	13.6	12.9	10.0	14.4	15.4	12.9
Construction	*	14.2	15.4	*	9.2	15.1	14.3

Source: Ontario Ministry of Labour.
*No construction settlement in period.

Several factors account for the recent trend in wage settlements. Substantial wage "catch-up" has been accomplished, and the significant moderation in consumer price increases has favourably influenced settlement demands. In addition, industrial excess capacity and growing slack in most labour markets have acted to restrain wage demands, and the impact on industry selling prices has sharply reduced the ability of employers to pay higher wages and salaries. These factors have combined with the moderating impact of the Anti-Inflation Program on expectations to produce this encouraging wage trend.

AIB Rulings

As of January 14, 1977, the AIB had received contracts covering approximately 1.4 million employees in both the public and private sectors in Ontario. Contracts covering about 59 per cent of these employees had compensation increases that were below the compensation guidelines. Those in the public sector were, on average, 2 per cent below the guidelines, while those in the private sector were 3 per cent below. The significant volume of settlements below the guidelines suggests that lower rates of inflation and natural market pressures were sufficient to subdue wage increases of those groups without "catch-up" demands.

Table 4 shows that the private sector accounted for approximately 62 per cent of the group that settled above the guidelines. The average proposed increase in the Ontario private sector group ruled on by the AIB was 11.5 per cent, and the approved increases averaged 10.8 per cent, for a rollback of 0.7 per cent. In contrast, the average rollback in the public sector was 4.8 per cent. Thus, in the absence of significant market restraint in the public sector, the AIB moderated settlements while ensuring broad provincial equity in the level of settlements achieved.

If all private and public sector rollbacks are set in relation to all Ontario settlements subjected to AIB review, then the weighted average rollback was only 0.6 percentage points. The overall extent of rollbacks,

Ontario Wage Settlements Under the AIB Table 4
(To January 14, 1977)

Settlement	Number of Employees	Average Increase (%) Negotiated	Guideline	Approved
Public Sector (Filed)	598,065	11.2	10.0	
• Below Guideline	380,660	8.1	10.1	
• Above Guideline	217,405	—	—	
Private Sector (Filed)	844,234	11.7	10.2	
• Below Guideline	491,780	7.5	10.5	
• Above Guideline	352,454	—	—	
Decisions				
• Public Sector	110,770	15.5	10.1	10.7
• Private Sector	159,254	11.5	9.7	10.8

Source: Anti-Inflation Board.

therefore, has been relatively modest, thereby reducing the potential total size of a post-control wage bubble. However, this is not to discount the likelihood of some specific attempts to gain significant post-control "catch-up".

Profits

Weaker domestic markets and stiffer foreign competition on the one hand, and rising costs on the other, have significantly restrained and reduced corporate profits in Canada. Profits fell in 1975 and showed no growth in 1976. Of course, in many industries the decline was from the very high and unsustainable levels achieved in the 1973-1974 period. Nonetheless, the profit performance in 1976 has not been strong, particularly when the impact of inflation on capital replacement costs is considered. In fact, when nominal profits are discounted for the rising cost of capital investment, total after-tax profits in 1976 were more than 21 per cent less than two years earlier.

Canadian Profits and Investment Costs Table 5

	1974	1975	1976
Pre-Tax Corporate Profits ($ billions)	18.8	18.6	18.6
Year-to-Year Change (%)	25.1	−1.1	0.0
Share of GNP (%)	13.0	11.5	10.1
After-Tax Corporate Profits ($ billions)	11.9	11.4	11.5
Year-to-Year Change (%)	19.1	−3.9	0.3
Plant and Equipment Price Deflator (1971 = 100)	129.3	147.4	158.4
Year-to-Year Change (%)	16.5	14.0	7.5

Source: Statistics Canada.

The restraining effect of weak markets and tough import competition (as opposed to price and profit controls) is indicated by the performance of profit margins in the first compliance period. In its first year report, the Anti-Inflation Board documented a significant gap between allowable profit margins and the actual margin achieved by firms subject to the guidelines. For some groups, actual margins were almost 32 per cent below allowable margins. It is estimated that large firms under the AIP achieved profits in the first compliance period about $1.9 billion below allowable levels.

Profit Margins of Firms Reporting to AIB — Table 6

	Type of Industry Profit Reporting*		
	Distribution	Unit Cost	Net Margin
Number of Firms	658	385	1,337
Base Period Profit Margin (%)	4.85	10.08	8.82
First Compliance Year Margin (%)	4.09	9.11	6.02

Source: Anti-Inflation Board.

*The December, 1975 regulations limited the gross and net margins of distributors to 100 per cent of base period margins. Non-distributors were required to limit the amount of profit per unit in the compliance year to that in the base year (unit cost method) or to limit net profit margins to 95 per cent of base period margins (net margin method).

Nevertheless, the AIB has had some restraining effect on profits of certain firms. Excess revenues, earned by firms reporting profit margins above allowable margins, have amounted to $28 million since the program began. The actual extent of profit restraint may be somewhat larger than the amount of excess revenue would imply, although clearly the impact of natural market forces has tended to provide greater restraint on prices and profits than has the AIP.

The existence of substantial excess capacity in the Canadian economy generally, and particularly in mining and manufacturing where operations were about 25 and 15 per cent, respectively, below capacity in 1976, suggests that significant real gains to both labour and capital could be realized without inflationary impact. The key, however, is to gain the full beneficial effects of a strong cyclical improvement in productivity.

II Decontrol

Controls have been called a "wasting asset": the advantages are soon destroyed by the mounting burdens. Controls cannot be a permanent solution to the problems of inflation or international competitiveness. Direct bureaucratic intervention into the market determination of wages, prices or profits creates heavy administrative burdens, and eventually increases both the extent of inequity and the level of uncertainty.

Perhaps the greatest danger in a controls program is that the appropriate time for ending it will be missed. Success in moderating price and wage expectations broadens its appeal and makes abandonment more difficult. Changing economic circumstances may make controls seem a necessary and permanent part of economic activity. For a society that depends on the operation of private, competitive markets for much of its productivity and real income gains, such a possibility could have only destructive implications.

Potential Wage and Price Bubble

The likelihood of a wage and price explosion is the major concern in the period of transition from controls. The experience with control programs in other jurisdictions (for example, Britain and the United States) strongly suggests such a possibility. It has been argued that in these countries income controls succeeded in supressing excessive demands, but once controls were lifted, "natural" economic forces led to the same, or almost the same, wage and price increases that would have ensued without controls. Many have predicted similar circumstances for the Canadian decontrol experience. This possibility depends on three important economic issues:

- the extent of pent-up wage, price and profit pressure that would be released by removal of controls;
- the success of the post-control period in providing an economic environment conducive to any wage-price explosion; and,
- the extent to which market forces alleviate inflationary wage and profit demands in various sectors of the economy.

The evidence is mixed on these issues. Considerable wage "catch-up" has been allowed under the AIP, and the trend has been toward moderating wage settlements. In aggregate, wage rollbacks do not appear to be a major potential source of a post-control wage bubble. Similarly, profits have been well below their target margins. Therefore, slack demand and excess labour and productive capacity are conditions which strongly suggest a continued moderation in wage settlement trends and in profit margin levels.

Prices in the service sector continue to show large increases, however, primarily in response to rising energy costs and the importance of the labour component to total costs. Similarly, food prices have begun to rise, and unstable weather patterns make the future course of these prices highly uncertain. The marked depreciation of the Canadian dollar also will adversely affect consumer price performance as the costs of imported items rise. It should be noted, however, that many of these factors are beyond the control of the AIB. Import costs and raw food costs are unaffected by AIB decisions. Similarly, oil and gas prices are the subject of a separate set of federal-provincial negotiations. Although many of these prices are not subject to control, an unfavourable performance with respect to them could incite a demand for the reimposition of controls and/or potentially excessive wage and profit demands by some protected sectors of the Canadian economy.

These considerations point out the crucial significance of timing in the decontrol process. When controls should end is as important as how they should end. The American experience in 1973 and 1974 is an example of unfortunate timing. The end of the United States' control program coincided with the outbreak of the international inflation in 1973. After attempting a reimposition of full control in 1974, the entire program was finally abandoned late in the same year. Even the much less open American economy could not control the international inflationary pressures that were generated in those years. The lesson for the Canadian experiment must be to end controls once domestic pressures have begun to recede, and before any renewed price pressures develop from the international economy.

The second important aspect of timing for decontrol is that it should occur when consumer price movements are in phase with those of producer selling prices. A major factor in the deterioration of labour-management relations in 1975 reflected the fact that wage demands were accelerating at the same time that market forces were constraining the rise in industry selling prices, thereby limiting the capacity of employers to meet those demands. Thus, a reduction in tension in labour-management relations will be dependent on the timing of decontrol. Only in a period of relative industrial harmony can the Canadian economy hope to restore the conditions for non-inflationary wage and profit gains.

Decontrol Options

The process for decontrol has an equally important role in avoiding a wage/price bubble. The object is to decontrol in a manner that will diffuse any potential wage or price bubble over a longer period of time. There are three basic options for decontrol.

- Allow the AIP to run to its legislated expiry date, December 31, 1978.
- Allow for early, complete termination.
- Design a phase-out process to be implemented during the remaining control period.

There are a number of advantages and disadvantages associated with each option. In addition, the third option has several possible phase-out procedures associated with it.

Expiry on December 31, 1978

The advantage of allowing the AIP to run its full term to expiry at the end of 1978 is to allow the benefits of controls to have full effect, and provide a degree of certainty to its timing and application. Some argue, however, that the AIP should end, or at least begin to wind down, before its legislated life terminates. Primarily this belief has been based on the judgment that the program will have exhausted its major economic benefits before that time and that its costs will correspondingly begin to accelerate. In particular:

- the program will be difficult to operate effectively in the third year. For example, back-end loading of wage settlements and re-assignment of sales contracts will simply delay wage and price increases until the expiry of controls;
- the problem of a potential wage and price bubble will still exist and perhaps be even worsened;
- reluctance to enter controlled agreements would produce industrial unrest, supplies could be withheld from the market and, in general, economic distortions would increase, potentially worsening inflation; and,
- the advantages of discretionary timing of decontrol are lost. It is then a matter of good fortune if domestic and international market conditions are favourable to decontrol.

Early Termination

The second option, early and complete decontrol, has three major economic disadvantages. The most serious risk is a post-control wage or price bubble that would rekindle inflationary expectations. Second, there remain significant price adjustments in food, energy and imported commodities which must be absorbed by the Canadian economy during the next several months. Without the controls program, these adjustments might adversely affect confidence in the economy. Moreover, the AIP has broad public support and the abrupt ending of controls could increase consumer uncertainty, particularly if a small wage or price bubble did ensue. Third, complete decontrol of all sectors mistakenly implies that all are equally subject to competitive restraints that will act to contain excessive wage and price increases.

The economic advantages to early, complete decontrol, however, may be considerable, including:

- administrative simplicity, avoiding the cost of further bureaucratic delay and red tape;
- relative equity in decontrolling everyone simultaneously;
- maximum discretion in timing;
- reduction of uncertainty experienced by some workers and investors; and,
- compatibility with a continued monitoring and consultative body to deal with "excessive" wage or price pressures.

Phased Decontrol

The third option, a phased decontrol process, could avoid the disadvantages of the other two options. In particular, a phase-out may be most effective in diffusing any potential wage or price bubble. To be successful, however, the decontrol of highly pressurized sectors must be phased gradually during the period until the statutory expiry of the AIP in 1978. It should not continue to bottle up these pressures until the statutory end of controls. Some large wage or price increases may have to be accepted.

Depending on its design and implementation, however, a phased decontrol program could also face potential problems. A phase-out process could sharply increase perceived inequalities of treatment under the program; this could raise tensions and accelerate demands by controlled groups at the legislated termination of controls. Second, a phased decontrol process may be more administratively cumbersome than the control process itself, compounding the costs and uncertainties of the original program. Third, unless decontrol started soon, there would be little time lapse between successive decontrol of sectors. Finally, the essence of a phase-out is to take time. The risk, however, is that external or uncontrollable economic circumstances will change in the interim, increasing the public demand for a return to full control. This was the experience in the United States with Phase III of their controls program. As a result, the program was discredited and ultimately abandoned.

The phased decontrol procedure could involve either an automatic release from controls, such as a system which progressively released firms from controls on the basis of their size or reporting chronology, or through a bargaining process, as in the American program where release from controls was earned in return for a *quid pro quo* in price or wage restraint. The advantage of the automatic release is primarily in its avoidance of the costs of further uncertainty and bureaucratic delay. The disadvantage is that it may not be finely tuned to the needs of decontrolling pressurized sectors in a phased manner. It could tend to be indiscriminate in this regard.

The bargaining approach, on the other hand, is an attempt to extract some additional restraint beyond the period of formal decontrol. The amount of bargaining power is restricted by the existing legislated limit to the AIP. Furthermore, the bargaining option could act to keep some groups under control for the duration of the program. Therefore, there is a danger of inadvertently bunching wage or price increases into the post-December 1978 period. Moreover, the bargaining process should not be too onerous, as the reduction in uncertainty and costs from removal of controls must be weighed against those of the bargaining mechanism itself.

A phase-out process, accompanied by bargaining or automatic criteria for decontrol, may also be implemented by the following:

Sector by Sector Decontrol: Controls could be removed on a sector by sector basis, with those industries showing the least price and wage pressures released in the early stages. By an appropriate phase-out in the highly pressurized sectors, including a bargaining process for concessions and commitments, any price or wage bubble can be diffused over time. It is important, however, to recognize that large wage or price adjustments may have to be permitted, although phasing may soften their impact. In practical terms, the decontrol process will have to begin relatively early in order to allow reasonable time between successive decontrol of sectors.

The sector by sector approach has the disadvantage, in some cases, that it is difficult to define an industry or sector, or to find representative spokesmen for labour and management in each. Union leaders often are unable to speak for locals, and industry organizations would likely be unable to commit their members. Furthermore, unions are often not organized on a sector basis and would be caught in a situation where some members were under control and some not. Perceptions of the inequities of the AIP would be greater under these conditions. Bargaining would be complicated by the need for agreement between heterogeneous groups.

Firm by Firm Decontrol: Another possibility for transitional decontrol would be to gradually raise the minimum size for firms subject to controls. Larger firms often act as leaders in their respective markets, and control of these firms alone could restrain price behaviour in the rest of the industry. This would be a return to the original concept of the AIP as a control only on major market participants. However, there is no evidence that larger firms currently exhibit greater potential for post-control wage or price burst. Small firms subject to controls are having more problems staying within the guidelines. Moreover, this approach, like the previous one, increases the inequity of controlling only some groups in the economy. A major advantage of this approach, however, is that it lends itself more readily than the sectoral approach to bargaining for decontrol, especially with respect to profits and prices.

Guideline and Compliance Year Decontrol: An alternative phasing scheme is to decontrol based on guideline years for workers and compliance years (i.e., fiscal years) for corporations. Decontrol begins on a set date, and as current guideline years for workers and compliance years for corporations expire beyond that date, they would be released from the program. Thus, the process of decontrol would extend up to one year following the date selected to begin. The phasing depends critically on the selection of that date. Table 7 shows the distribution of guideline year-ends for workers subject to AIP controls. It is important to note, however, that because many contracts extend for a term in excess of one year, decontrol would imply new contract negotiations for collective agreements only as they terminated after that date. Another advantage of this scheme in avoiding a burst of wage and price demands is that it would also seem to diffuse much of the adverse effect of re-opener clauses that a simple termination of the AIP might encourage.

Distribution of Ends of Guideline Years During the Third Program Year — Table 7

(per cent)

	1977	1978			
	IVQ	IQ	IIQ	IIIQ	Total
Union	35	20	25	20	100
Non-Union	60	20	15	5	100
All Workers	50	20	20	10	100

Source: Anti-Inflation Board.

Table 8 shows the ends of fiscal years (i.e., compliance years) for corporations subject to the AIP controls. The vast majority of affected companies have fiscal years ending in the last quarter of the calendar year. Thus, the timing of the start to decontrol will have important implications for the pace at which decontrol is spread through the economy on both the wage and price sides.

Fiscal Year-Ends of Controlled Companies — Table 8

	Per Cent of Companies Under Control	
Fiscal Year-End	By Month	By Quarter
January	3	
February	2	
March	5	11
April	3	
May	2	
June	4	9
July	3	
August	3	
September	4	10
October	5	
November	3	
December	63	70
Total	100	100

Source: Anti-Inflation Board.

Relaxed Guidelines: A progressive relaxing of guidelines is an approach which would allow a gradual release of wage and price pressures. The relaxed guidelines, however, should no longer be regarded as a target performance for the economy and would be confusing to the public. Also, relaxed guidelines might be viewed as a wage or profit floor rather than a ceiling, and, particularly in the public and other less competitive sectors of the economy, could result in a new round of inflationary increases.

Monitoring Agency

Decontrol could be accompanied by a continuing price, wage and profit monitoring agency. Such an agency might be given a specific set of wage and price guidelines or, modelled after the United States' Council for Wage and Price Stability, it could develop flexible, non-specific criteria to identify excessive wage, price or profit increases. Major companies also might be required to continue to submit advanced warnings of price increases.

The agency could be given the power to delay large wage or price increases until completion of an investigation, or even be permitted the power of rollback. In general, however, if the goal is to reduce direct bureaucratic intervention in the private economy, the deterrent should be limited to the desire to avoid red-tape and adverse publicity. There are also difficult questions of access to information and membership that would have to be resolved. Nonetheless, such an agency would be generally compatible with any of the decontrol options discussed above.

III Ontario's Approach

Ontario's position on decontrol and post-control has been as follows:

- a commitment to complete withdrawal of controls;
- the need for the development of a special approach to future public sector bargaining involving the recognition of the equity and "ability-to-pay" principles, and more disclosure in the arbitration process;
- the establishment of a national public-private sector monitoring agency in the post-control period for wages, prices and profits;
- the need to ensure basic protection for tenants from unjustifiable increases in rental costs, while recognizing the importance of increasing the supply of rental accommodation; and,
- a commitment to extensive consultation between government, industry, labour and all other segments of society to develop a clear strategy for ensuring long-term price stability.

Ontario's position reflects the belief that competition will actively restrain large segments of the private sector from seeking or achieving excessive wage or price gains. It also reflects a concern about the inflationary pressures built up in the public sector in 1975 and their role in setting the pace for wage settlements in other sectors of the economy. The development of more permanent guiding principles for public sector bargaining is required to ensure equitable treatment for all sectors. These principles must reflect the constraints on taxpayers' ability-to-pay as well as equal pay for comparable work and conditions.

In addition, a major Ontario concern has been to avoid a potential wage-price bubble and diminished consumer confidence by implementation of a continuing national wage and price monitoring agency.

One of the advantages of the Anti-Inflation Program is that it has provided a hiatus within which to identify and to consider the even tougher issues of appropriate economic and social policy for Ontario in the post-control period. The first step in this direction was taken by the convening of the Ontario Economic Conference, "Partnership for Prosperity", affirming a commitment to dialogue with various sectors on the problems of decontrol and the post-control era. While there is a wide range of issues relevant to these deliberations, there are nonetheless certain important unifying themes worthy of a separate focus, namely:

- collective bargaining;
- productivity; and,
- conservation and expectations.

Collective Bargaining

The forces of inflation and the circumstances that magnify their most damaging effects will continue to preoccupy public policy in the post-control era. Appropriate monetary policy and the causes and effects of international inflation remain the subjects of serious national concern. However, among those aspects of anti-inflation policy over which the Province has jurisdiction is the provincial legal and institutional framework governing the processes of income determination. There is clearly a need to continue the fight against inflation through an improvement in these processes. There are at least three areas of concern here.

- Labour-management relations in the private sector require public and private initiatives to improve the environment for wage bargaining and to reduce the degree of confrontation and the time lost as a result of strike and lock-out action. Part of the answer will lie in designing contractual forms to overcome the uncertainties and losses due to "extraordinary and unexpected circumstances".
- Public sector collective bargaining procedures must be reviewed to provide greater recognition of the public interest, in terms of the public's willingness and ability to pay, while at the same time ensuring equal pay for equal conditions and requirements when compared to the private sector. These principles will help to ensure that settlements in the public sector do not set an inflationary standard for the rest of the economy.
- The mechanisms for establishing the prices of services of self-employed professionals should be reviewed to determine if these contribute to unrealistic expectations and inflationary excesses.

Productivity

The development of a dynamic, productivity-inducing core in Ontario industry is essential to restoring international competitiveness and increasing real income growth. Improvements in labour-management relations and in containing provincial sources of inflation will make important contributions to these goals. There are, however, other longer-term, structural factors which will impinge on productivity growth, investment and job creation in the post-control Ontario economy. Among the more critical of these are the following:

- increased investment in technologically dynamic industries, and a focus on excellence and high productivity in Ontario's industrial structure;
- the development of a more integrated industrial structure around the province's resource base;
- encouragement to Ontario industry to develop financial and marketing skills necessary to compete more agressively abroad and to take advantage of opportunities in the domestic market;
- the development and growth of domestic enterprise to compete with and to complement multinational business organizations;
- improvement in the efficient operation of labour markets to match skills and training to available jobs;
- improvement in worker productivity through an improvement in the quality of the work experience;
- more consistent application of basic principles of economics to improve financial reporting and the strengthening of sound business decision-making; and,
- reduction in those forms of regulation that restrict entry to, or mergers in, an industry and which reduce economic and social development.

Conservation and Expectations

During the next decade, Ontario will be required to make major gains in the field of conservation, particularly energy conservation, and in the moderation of real income expectations. These themes balance the strategy for the next decade and rationally approach the goal of economic and social well-being from the perspectives of both increasing output and reducing consumption.

Energy conservation will require that government work with the private sector to reduce, in an efficient manner, the energy demands of the Ontario economy, and thereby reduce the heavy cost that developing new energy resources entails. It will necessitate an economically rational approach to energy pricing and investment policy as well as careful consideration of the economic and social implications of alternative energy sources and strategies. The importance of energy policy to the Ontario economy is highlighted by the substantial impact of oil and gas prices on the basic costs of food, heating and transportation to the consumer. Energy also plays a critical role in the cost structure of the extraction, processing and manufacturing industries of our export sector. These facts demand that Ontario consumers make a serious commitment to the efficient use of energy.

Some long-term forecasts, based on changing demographic, technological and resource development patterns, anticipate a slower pace of per capita income growth in the next decade. Considerable strain, therefore, will be placed on the ability of our economic and social institutions to satisfy income and advancement expectations founded in the rapidly growing prosperity of the past decade. Failure to develop public and private solutions to modify expectations may result in renewed outbreaks of inflation and the frustration of unrealized aspirations. Unlike conservation, it is not simply a question of accepting less, but rather one of matching aspirations to abilities and the willingness to work and invest.

Budget Paper E

Federal Fiscal Redistribution Within Canada

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Appendix 3

Appendix 4

Federal Fiscal Redistribution Within Canada

Introduction

An important element in the current debate on the merits of Confederation is the fiscal impact of the Government of Canada upon the different provinces. In 1970, Ontario Treasury measured the fiscal impact of the federal government in the Province of Ontario, and showed the importance of this province as a generator of wealth and fiscal resources for the entire country.[1] Recently, the Government of Quebec published a study designed to demonstrate that the very existence of the federal government has cost Quebecers "the impressive sum of $4.3 billion" over the last 15 years.[2] The Government of Canada subsequently released a paper which took issue with Quebec's methodology and interpretations, and showed that the $4.3 billion was "an entirely fictitious financial imbalance".[3]

Until a comprehensive study is done, the arguments about financial gains and losses from Confederation will continue. This Budget Paper outlines the work Ontario has undertaken on the fiscal redistribution among provinces arising from the revenue and expenditure programs of the federal government and the operations of its Crown Corporations. It confirms that Canada's federal system is working to redistribute resources from the rich to the poorer provinces to the ultimate benefit of all Canadians.

I Three Methods of Measuring Provincial Gains and Losses

There are a number of ways of measuring the fiscal impact of the Government of Canada upon the various provinces. One method is to break down the federal government sector of Gross National Product, as reported in the *National Accounts*, into provincial components in order to show the deficit or surplus attributable to each province in each calendar year. As documented in the recent federal paper, however, the National Accounts method has many deficiencies when used to

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[1] See, The Honourable C. A. MacNaughton, "The Structure of Public Finance in Ontario", *1970 Ontario Budget* (Toronto: Department of Treasury and Economics, 1970).

[2] See, *Quebec Economic Accounts* (Quebec City, Department of Industry, Trade and Commerce, March, 1977).

[3] See, *Preliminary Observations on the Economic Accounts of Quebec* (Ottawa: Federal-Provincial Relations Office, Government of Canada, April 5, 1977).

draw up an interprovincial balance sheet of the federal government's fiscal and economic activities.[4] A better method is to distribute among the provinces the revenue and expenditure of the Government of Canada for each fiscal year, as reported in the *Public Accounts of Canada*. This latter method is a more comprehensive and reliable approach. It accounts for every dollar actually taken in and spent by the Government of Canada; it includes federal expenditure abroad which must be paid for by Canadians; and the numbers are not subject to periodic revision as are the National Accounts data. Whichever method is used, these obviously are tasks for Statistics Canada to ensure that a common methodology is employed and comparable results are obtained.

A third method is to measure the differential capacity to raise federal revenue in each province, using the same rules employed in the *Equalization Formula*. This method covers only the revenue side of the federal government equation, but it has the advantage of using data which is accepted by all provinces as a fair basis for distributing equalization payments. Ontario's findings on fiscal redistribution, under each of these methods, are set out in the following sections.

II Ontario's Surplus Contribution Since 1961 (National Accounts Basis)

Since 1974, Ontario's annual Budget has shown the proportion of the total tax dollar which accrues as a surplus to the federal government from its operations in the province. This net contribution to Canada has been calculated using essentially the national accounts approach, so that it can be taken into account in determining the appropriate Provincial stabilization policy.[5] However, these Ontario estimates incorporate significant improvements on the data compiled by Statistics Canada, such as a realistic distribution of the federal government's indirect taxes.

Table 1, facing, sets out the federal fiscal impact in Ontario from 1961 through 1976, using the national accounts approach. It shows that in every year the federal government collects significantly more in taxes from Ontario than it returns in spending. This federal surplus from Ontario has increased in size during periods of fast economic growth and dropped back in magnitude during periods of recession. Over the entire 16 year period, however, the federal government account within Ontario has generated a cumulative surplus of more than $26 billion for redistribution to other regions of Canada. The Government of Ontario has consistently supported this reallocation of resources, in order to reduce regional disparities and to strengthen Confederation.

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[4] *Ibid.*

[5] See, The Hon. W. D. McKeough, "Fiscal Policy Management in Ontario", *1972 Ontario Budget* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs, 1972).

National Accounts Measure of the Federal Government Sector in Ontario
($ million)

Table 1

	Revenue	Expenditure	Surplus from Ontario
1961	3,044	2,370	674
1962	3,109	2,553	556
1963	3,276	2,627	649
1964	3,751	2,752	999
1965	4,216	2,911	1,305
1966	4,627	3,352	1,275
1967	5,007	3,774	1,233
1968	5,697	4,278	1,419
1969	6,735	4,716	2,019
1970	7,207	5,350	1,857
1971	7,998	6,036	1,962
1972	9,051	6,933	2,118
1973	10,389	7,763	2,626
1974	12,705	9,585	3,120
1975 (est.)	13,519	11,601	1,918
1976 (est.)	15,475	13,049	2,426
Cumulative total	115,806	89,650	26,156

Note: See Appendix 1 for complete details of revenue and expenditure items, data sources and methodology.

III Provincial Distribution of Federal Revenue and Expenditure (Public Accounts Basis)

On July 22, 1964, the Minister of Finance tabled a reply in the House of Commons, which disaggregated the Public Accounts revenue and expenditure of the Government of Canada (for 1961-62) into components for each province. This historic study showed that for every province, except Ontario, the federal account incurred a deficit in that fiscal year. Ontario's research has followed up on that original study in order to update the findings and analyze the long-term trends in fiscal redistribution within Canada.

Ontario's research differs from the original federal study in three important respects—methodology, scope and number of years covered. The methodology Ontario has used seeks to minimize subjective judgements or proxy distributions and is deliberately structured to generate the least favourable results for Ontario. In other words, it generates low federal revenue figures and high federal expenditure figures in Ontario, thereby understating the size of the surplus from Ontario which helps finance federal aid to other provinces. The scope of Ontario's study includes federal Crown Corporations because of the uneven provincial distribution of these important federal activities.[6] Finally, the Ontario research embraces three fiscal years—1961-62, 1968-69, and 1975-76.

- The 1961-62 fiscal year was redone in order to compare Ontario's results with the already published results.
- The 1968-69 fiscal year was selected because the federal budget was close to balance in that year.
- The 1975-76 fiscal year was selected to determine the most up-to-date findings.

The allocation methodology Ontario has followed is set out in Appendix 2. Detailed tables of the federal revenue and expenditure distributions for the three fiscal years and a complete reconciliation with the totals shown in the *Public Accounts of Canada* are provided in Appendix 3.

Ontario's findings, using the public accounts measure of fiscal impact, are summarized in Table 2 below, and in greater detail in Tables 3, 4 and 5. The results for 1961-62 confirm that Ontario generated a large surplus on federal account, but also show a modest surplus accrued in Quebec. By 1968-69, three provinces were generating a surplus on federal account—Ontario, British Columbia and Alberta—while the remaining seven provinces were all net beneficiaries. In 1975-76, Alberta passed Ontario in terms of surplus fiscal generation, largely because of the federal export tax on oil and gas. In that year, the total contribution by the three surplus provinces amounted to almost $3 billion. The deficits on federal account for the remaining provinces,

Public Accounts Surplus or (Deficit) in each Province from Federal Government Activity — Table 2

($ million)

	1961-62	1968-69	1975-76
Newfoundland	(124)	(206)	(666)
Prince Edward Island	(41)	(139)	(230)
Nova Scotia	(310)	(400)	(1,369)
New Brunswick	(203)	(337)	(866)
Quebec	101	(190)	(2,252)
ONTARIO	370	820	1,080
Manitoba	(139)	(209)	(525)
Saskatchewan	(194)	(144)	(305)
Alberta	(135)	2	1,364
British Columbia	(72)	180	503
Yukon and Territories	(26)	(45)	(286)
CANADA	(773)	(668)	(3,552)

[6]The 1961-62 study tabled by the Minister of Finance recognized the importance of including federal Crown Corporations "to provide a complete picture of the federal influence on the economy. . . . " The April 5 federal rebuttal of the Quebec study also pointed out the importance of including federal Crown Corporations in drawing up a realistic financial balance sheet for federal activity in Quebec.

Federal Fiscal Redistribution within Canada, 1961-62 Table 3
($ million)

	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	101	225	(124)
Prince Edward Island	24	65	(41)
Nova Scotia	224	534	(310)
New Brunswick	167	370	(203)
Quebec	1,881	1,780	101
ONTARIO	3,251	2,881	370
Manitoba	380	519	(139)
Saskatchewan	331	525	(194)
Alberta	573	708	(135)
British Columbia	797	869	(72)
Yukon and Territories	19	45	(26)
CANADA	7,748	8,521	(773)

Federal Fiscal Redistribution within Canada, 1968-69 Table 4
($ million)

	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	260	466	(206)
Prince Edward Island	39	178	(139)
Nova Scotia	404	804	(400)
New Brunswick	279	616	(337)
Quebec	3,077	3,267	(190)
ONTARIO	5,985	5,165	820
Manitoba	604	813	(209)
Saskatchewan	525	669	(144)
Alberta	1,100	1,098	2
British Columbia	1,582	1,402	180
Yukon and Territories	49	94	(45)
CANADA	13,904	14,572	(668)

however, had escalated dramatically by 1975-76, reaching $2.2 billion for Quebec and $6.5 billion for all the fiscally weak provinces together. The national oil price subsidy alone accounted for $1.6 billion of this West to East redistribution, while equalization payments accounted for a further $1.9 billion.

The interprovincial redistribution that is achieved through the Government of Canada's fiscal programs and the activities of its Crown Corporations is displayed in another way in Table 6. It shows the percentage of total federal revenue that is collected in each province versus the percentage of total federal expenditure that is spent in each province. In 1975-76, for example, the three surplus provinces—Ontario, British

Federal Fiscal Redistribution within Canada, 1975-76 Table 5
($ million)

	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	576	1,242	(666)
Prince Edward Island	101	331	(230)
Nova Scotia	1,016	2,385	(1,369)
New Brunswick	793	1,659	(866)
Quebec	7,387	9,639	(2,252)
ONTARIO	14,059	12,979	1,080
Manitoba	1,440	1,965	(525)
Saskatchewan	1,467	1,772	(305)
Alberta	4,210	2,846	1,364
British Columbia	4,547	4,044	503
Yukon and Territories	125	411	(286)
CANADA	35,721	39,273	(3,552)

Columbia and Alberta—contributed almost two-thirds of national revenue while receiving back only half of national spending. Quebec, by comparison, accounted for 21 per cent of the total federal revenue but received back almost 25 per cent of total federal spending. This comparison of the shares paid and received by each province highlights the fiscal redistribution that will occur even when the Public Accounts are in balance for Canada as a whole.

Share of Federal Government Revenue and Expenditure in each Province Table 6
(per cent)

	1961-62		1968-69		1975-76	
	Revenue	Expenditure	Revenue	Expenditure	Revenue	Expenditure
Newfoundland	1.3	2.6	1.9	3.2	1.6	3.2
Prince Edward Island	.3	.8	.3	1.2	.3	.8
Nova Scotia	2.9	6.3	2.9	5.5	2.8	6.1
New Brunswick	2.1	4.3	2.0	4.2	2.2	4.2
Quebec	24.3	20.9	22.1*	22.4*	20.7*	24.5*
ONTARIO	42.0	33.8	43.0	35.5	39.4	33.1
Manitoba	4.9	6.1	4.3	5.6	4.0	5.0
Saskatchewan	4.3	6.2	3.8	4.6	4.1	4.5
Alberta	7.4	8.3	7.9	7.5	11.8	7.2
British Columbia	10.3	10.2	11.4	9.6	12.7	10.3
Yukon and Territories	.2	.5	.4	.7	.4	1.1
CANADA	100.0	100.0	100.0	100.0	100.0	100.0

*Reflects the special fiscal arrangements negotiated with Quebec in 1964-65. Under these special arrangements, certain federal spending transfers to Quebec were replaced by a reduced federal income tax in that province.

IV Federal Taxation Capacity in each Province

Perhaps the most accurate and objective method for measuring the revenue side of the federal fiscal equation in each province is provided by the *Equalization Formula*. This method uses data which all provinces have accepted for purposes of calculating equalization payments. It measures the per capita tax base of each province to determine whether there is an excess or a deficiency in relation to the national average. Though the *Equalization Formula* is based on provincial sources of revenue, it is directly relevant to federal tax capacity as well, because in the major tax fields the federal and provincial tax bases are identical or closely comparable. The equalization indicators for such revenue sources as personal income tax, corporate income tax, sales tax, tobacco, fuel and alcohol taxes, therefore, reveal the differential capacity to raise federal revenues in the different provinces.

Table 7 compares the revenue-raising capacity of the federal government in each province, using equalization data for 1975. It confirms that Ontario, Alberta and British Columbia are the only provinces with an above-average tax base, hence the capacity to generate above-average revenue yields to Ottawa. It also shows unequivocally that all of the other seven provinces receiving equalization payments have a below-average federal tax base.[7] In 1975, the federal capacity to raise revenue in Quebec was 16 per cent lower than in the rest of the country.

Per Capita Tax Bases as a Percentage of National Average, 1975 — Table 7

	PIT	CIT	Sales Tax	Fuel Tax	Alcohol	Total Personal and Business Income
Newfoundland	56.18	41.48	77.27	72.36	76.03	51.63
Prince Edward I.	49.59	35.74	62.22	94.92	98.53	51.19
Nova Scotia	68.26	50.53	75.75	90.36	94.12	64.67
New Brunswick	63.91	54.61	88.31	98.05	75.41	64.48
Quebec	89.01	81.84	88.41	97.85	81.08	86.11
Ontario	114.20	122.56	104.86	102.32	105.28	117.06
Manitoba	84.06	84.33	88.65	92.45	109.73	90.58
Saskatchewan	90.07	64.43	98.37	105.54	103.06	81.28
Alberta	109.43	146.54	129.63	117.56	112.13	125.55
British Columbia	116.22	100.99	114.63	95.99	129.89	104.70
National Average	100.00	100.00	100.00	100.00	100.00	100.00

[7]Appendix 4 shows this "deficiency" in four other ways: each province's share of the national tax base versus its share of national population in 1974; provincial per capita revenue in 1966 and 1971; Equalization as a per cent of each province's total revenue in 1971-72; and, total federal transfer payments as a per cent of each province's revenue in 1971-72.

A Decade of Equalization Payments to Quebec — Table 8

	Amount	Per cent of Total Equalization
	($ million)	(%)
1967-68	269	48.7
1968-69	387	54.6
1969-70	431	50.7
1970-71	420	47.5
1971-72	453	48.2
1972-73	532	49.7
1973-74	728	49.1
1974-75	908	53.2
1975-76 (est.)	1,000	53.0
1976-77 (est.)	1,123	52.5
Last 10 years	6,251	

Moreover, this federal revenue-raising deficiency in Quebec has persisted over many decades, as evidenced by the stream of equalization payments to that province shown in Table 8. On the basis of this evidence alone, it is clearly impossible for the Government of Canada to raise a disproportionate share of its revenue in Quebec.

The $6 billion in equalization payments that have flowed into Quebec over the past decade alone represents a rock-bottom and incontrovertible measure of that province's financial gain from Confederation. As the Prime Minister of Canada said at the First Ministers' Conference in Ottawa on November 15, 1971:

> "Clearly, equalization is now a cornerstone of provincial revenues for seven of our ten provinces."
>
> " . . . the system of federal payments to equalize provincial revenues and expenditures has steadily evolved over the past several decades—to the point where our system is probably unequalled in any other federal country".

Under any alternative to Confederation, this immense inter-regional equalization of resources cannot simply be taken for granted.

Conclusion

The preceding pages have set out Ontario's research to date on the fiscal redistribution among provinces that results from the revenue and expenditure operations of the Government of Canada. The *National Accounts* analysis shows that, on its operations in the Province of Ontario, the federal government runs up a large surplus, year-in and year-out. It is difficult to conceive of circumstances, therefore, in which the second largest province in Canada could also generate a federal surplus. Indeed, to conclude that Quebec does not reap large fiscal benefits from Confederation, one must ignore economic realities and define away the true dimensions of federal activity in that province—activity which is paid for by all Canadians.

The *Public Accounts* analysis shows that three provinces—Alberta, British Columbia and Ontario—are net contributors to the national treasury, while the remaining seven provinces are net beneficiaries. It is only through the federal system that this redistribution from contributors to beneficiaries is possible.

Finally, the *Equalization* analysis confirms that a province which has a deficiency in its own revenue-raising capacity, cannot possibly pay more than its fair share of federal taxes. Rather, it is because of the very existence of Equalization, that the fiscally weak provinces have made remarkable progress in raising their standards of public services up to the national average.

Appendix 1

National Accounts Breakdown of Federal Government Revenue and Expenditure in Ontario

Table 1-1

($ million)

	1961	1962	1963	1964	1965	1966	1967	1968	1969
REVENUE									
Direct Taxes, Persons	1,213	1,160	1,212	1,392	1,557	1,696	1,974	2,401	3,045
Direct Taxes, Corporations*	572	564	624	679	735	789	773	952	1,087
Direct Taxes, Non-residents*	49	54	56	60	74	91	96	94	106
Indirect Taxes*	1,028	1,139	1,163	1,375	1,592	1,752	1,818	1,863	1,980
Investment Income*	148	156	182	204	213	250	293	330	453
Capital Consumption Allowance	34	36	39	41	45	49	53	57	64
Total Revenue	3,044	3,109	3,276	3,751	4,216	4,627	5,007	5,697	6,735
EXPENDITURE									
Current Goods and Services	1,005	1,040	1,019	1,095	1,133	1,330	1,434	1,594	1,753
Transfers to Persons	680	702	734	783	812	885	1,040	1,168	1,270
Subsidies	83	101	105	112	114	148	165	169	133
Capital Assistance*	6	13	25	31	30	22	26	27	31
Interest on Public Debt*	271	297	318	340	362	440	478	542	614
Transfers to Other Governments*	203	303	332	302	364	403	493	630	774
Gross Capital Formation	122	97	94	89	96	124	138	148	141
Total Expenditure	2,370	2,553	2,627	2,752	2,911	3,352	3,774	4,278	4,716
SURPLUS(+) or DEFICIT(−)	674	556	649	999	1,305	1,275	1,233	1,419	2,019

	1970	1971	1972	1973	1974	1975	1976	Cumulative 16 Years
REVENUE								
Direct Taxes, Persons	3,493	3,876	4,340	5,038	6,076	6,834	8,111	53,418
Direct Taxes, Corporations*	1,012	1,110	1,305	1,586	2,231	2,278	2,267	18,564
Direct Taxes, Non-residents*	120	124	129	141	194	209	227	1,824
Indirect Taxes*	1,985	2,218	2,495	2,780	3,221	3,161	3,675	33,245
Investment Income*	527	595	696	746	866	901	1,040	7,600
Capital Consumption Allowance	70	75	86	98	117	136	155	1,155
Total Revenue	7,207	7,998	9,051	10,389	12,705	13,519	15,475	115,806
EXPENDITURE								
Current Goods and Services	1,897	2,092	2,332	2,673	3,206	3,516	4,041	31,160
Transfers to Persons	1,446	1,654	2,113	2,351	2,914	3,589	3,858	25,999
Subsidies	118	109	127	175	417	499	428	3,003
Capital Assistance*	34	61	65	82	70	101	113	737
Interest on Public Debt*	728	777	894	1,010	1,195	1,426	1,835	11,527
Transfers to Other Governments*	986	1,153	1,202	1,227	1,453	2,090	2,388	14,303
Gross Capital Formation	141	190	200	245	330	380	386	2,921
Total Expenditure	5,350	6,036	6,933	7,763	9,585	11,601	13,049	89,650
SURPLUS(+) or DEFICIT(−)	1,857	1,962	2,118	2,626	3,120	1,918	2,426	26,156

Source: Statistics Canada unpublished data for 1961-74, except for * items which are more appropriate estimates by the Ontario Treasury. For example, indirect taxes are allocated by the province's proportion of the value of shipments in all manufacturing industries (for excise duties and sales taxes) and by the proportion of retail trade (for import duties), rather than by point of landing. Direct taxes on corporations and non-residents are derived from *Taxation Statistics*. On the expenditure side, interest on the public debt is apportioned by the ratio of GPP to GNP (10-year moving average) and government transfers are from the *Ontario Public Accounts*. Data for 1975 and 1976 are Ontario Treasury estimates made on the same basis as previous years.

Major Differences in Public Accounts and National Accounts Estimates of Federal Government Activity

Public Accounts Basis	*National Accounts Basis*
• Employs current cash/accounting concepts.	• Economic activity measure. Based on international concepts and classifications.

(Both measures exclude purely financial transactions such as loans and advances.)

Public Accounts Basis	*National Accounts Basis*
• Covers all revenue and expenditure reported within the fiscal year.	• Makes adjustment for lags in payments and revenue collections (eg. corporation tax is put on an accrual basis—refunds of prior years' expenditures are excluded).
• Social security fund receipts and payments are included, eg. OAS, UIC. Only CPP excluded.	• Social security funds, except CPP, all included.
• Includes activities of all Crown Corporations, Boards and Agencies.	• Crown Corporations which are business enterprises (eg. CNR, Post Office) are included only to the extent of netting losses against profits.
• Includes sales and purchases of land and buildings.	• Excludes sales and purchases of land and buildings (non-productive activity).
• Includes sales of goods and services.	• Excludes sales of goods and services (counted as spending of private sector).
• No depreciation for fixed assets such as buildings and machinery.	• Includes an estimate for consumption of capital.
• Includes all spending, both domestic and abroad, and all revenue raised in Canada and other countries.	• Includes expenditure and revenue arising from economic activities abroad (eg. return on investments and wages and salaries of military personnel and the consular service).*

*At the national level these transactions are included in the National Accounts estimates but at the provincial level they are excluded.

Preliminary Reconciliation of National Accounts Basis and Public Accounts Basis

Table 1-2

($ million)

	1975-76	
	Canada	Ontario
Total Federal Revenue—Public Accounts Basis	**35,721**	**14,059**
Deduct:		
Crown Corporation revenue	3,809	1,069
Post office revenue	560	233
Return on investments	1,104	450
Other non-tax revenue	229	72
Other revenue	512	185
Corporation income tax: excess of collection over accruals	565	254
Sub-total	6,779	2,263
Add:		
Employer contributions to superannuation funds	691	159
Government investment income:		
Interest on loans, advances and investments	1,174	896
Interest receipts on social insurance and superannuation funds	902	
Remitted profits less covered losses of government business enterprises	136	
Capital consumption allowance	442	141
Miscellaneous	19	7
Sub-total	3,364	1,203
Different methodology for distribution of total to the provinces	—	+995
Total National Accounts Revenue	**32,306**	**13,994**
Total Federal Expenditure—Public Accounts Basis	**39,273**	**12,979**
Deduct:		
Crown Corporation expenditure net of government transfers	3,926	1,605
Post office expenditure	1,030	469
Deficit of government business enterprises	178	73
Reserves and write-offs	49	20
Purchase of land and other existing capital assets	49	20
Budgetary revenue offset against budgetary expenditure	170	69
Adjustment of UIC expenditure to national accounts basis	166	68
Adjustment of government pension payments to national accounts basis	107	44
Budgetary transfers to funds and agencies	2,026	829
Miscellaneous expenditure grossed up	192	78
	7,893	3,275
Add:		
Interest payments netted out	1,256	509
Government contributions to social security and superannuation	1,716	698
Expenditure of government funds and agencies	1,497	612
Capital consumption allowance	442	181
Miscellaneous adjustments	21	9
	4,932	2,009
Different methodology for distribution of total to the provinces	—	+156
Total National Accounts Expenditure	**36,312**	**11,869**

Appendix 2

Methodology for Allocating Major Items of Public Accounts Revenue

FEDERAL OWN ACCOUNT REVENUE

1. Personal Income Tax

   Distributed by province according to *Taxation Statistics (Revenue Canada)*.

2. Corporation Income Tax

   Allocated according to Part IV of the *Regulations to the Income Tax Act* and *Corporation Taxation Statistics (Statistics Canada (S.C.) 61-208)*.

3. General Sales Tax

   Provincial distribution of total retail sales (less personal expenditure on tobacco, alcohol and gasoline) was applied to total federal sales tax revenue (less tax on tobacco, alcohol and gasoline). (Equalization Formula, *Finance Canada; Ontario Treasury estimates; S.C. 63-202, S.C. 45-004, S.C. 68-201E, S.C. 11-003E)*.

4. Taxes on Tobacco

   Calculated by applying provincial distribution of cigarette sales volume to total Canadian tobacco sales multiplied by federal sales tax per unit, and to total revenue from taxes for excise duties and excise taxes *(S.C. 11-003E)*.

5. Taxes on Alcohol

   Allocation for sales tax was based on adjusted cost of sales of provincial liquor authorities *(S.C. 63-202; LCBO 49th Annual Report)*. For excise duties and excise taxes, provincial gallonage sales distribution was multiplied by appropriate rate of tax *(S.C. 68-201E, S.C. 63-202, Commerce Clearing House, Federal Tax Guide, 1975-76)*.

6. Taxes on Gasoline

   Obtained by multiplying provincial sales volume by federal sales tax per gallon (adjusting for increases in price and price freeze periods), and by the 10¢ tax rate for excise taxes *(S.C. 45-004; Commerce Clearing House, Federal Tax Guide, 1974-75, 1975-76)*.

7. Custom Import Duties

   Allocated by personal disposable income index *(S.C. 13-201)*.

8. Employer and Employee Contributions to UIC

   Distributed by provincial percentage of UIC premiums as found in *Taxation Statistics (Revenue Canada)*.

9. Contributions by Federal Government Employees to Public Service Superannuation Fund

   Allocated using number of federal employees per province *(S.C. 72-004)* and size of military personnel *(Department of National Defence)*.

10. Post Office Revenue

    First class mail, and postage stamps allocated by population index *(S.C. 11-002)*. Second to fourth class mail allocated using the index of corporate activity *(S.C. 61-208)*.

11. Other Revenue

    Distributed by employing various indicators—population, personal disposable income, the corporate activity index, etc. *(S.C. 11-002, 13-201, 61-208)*.

CROWN CORPORATIONS

After eliminating "double-counting" in own account revenue and expenditure, Crown Corporation revenue was distributed by the degree of corporate activity in each province, using *Statistics Canada* and *the Annual Report of each Corporation*.

Methodology for Allocating Major Items of Public Accounts Expenditure

FEDERAL OWN ACCOUNT EXPENDITURE

1. Wages and Salaries

   Based on distribution of federal wages and salaries *(S.C. 72-004)* plus breakdown of the location of armed forces personnel *(Department of National Defence)*.

2. Other Personnel Costs

   Calculated on the same distribution as wages and salaries.

3. Information

   Allocated on a per capita basis *(S.C. 11-003)*.

4. Transportation and Communications

   Allocated according to detail in *Public Accounts*.

5. Professional and Special Services

   Adult Training distributed as detailed in *Public Accounts*. Other costs allocated via various methods—population index, distribution of federal employees, etc.

6. Rentals

   Distributed according to detail in *Public Accounts*.

7. Repair and Upkeep

   Distributed according to detail in *Public Accounts*.

8. Materials and Supplies

   Distributed according to detail in *Public Accounts*.

9. Construction and Acquisition of Land, Buildings and Equipment

   Distributed according to detail in *Public Accounts*.

10. Grants and Contributions

    Over 80 per cent distributed as detailed in *Public Accounts* (Fed.-Prov. agreements and transfers to persons). The remainder distributed via various methods such as: native population, fish landings, farm acreage, corporate activity, etc. *(S.C. 11-002 etc.)*.

11. Post Office Expense

    Costs of running postal service broken down into two categories, private use and business use. Private use (first class mail and postage stamps) allocated by population index *(S.C. 11-002)*. Business use (second to fourth class mail) allocated using index of corporate activity *(S.C. 61-208)*.

12. Public Debt Interest

    After eliminating purely internal transactions between federal departments and Crown agencies, the interest costs were basically distributed according to each province's share of the total individual and corporate income derived from holding Canadian securities *(Taxation Statistics, Revenue Canada)*.

13. Unemployment Insurance Payments

    Provincial distribution as itemized in *Statistical Report on Operations of the Unemployment Insurance Act (S.C. 73-001)*.

14. Old Age Security Payments

    Distributed according to detail in *Public Accounts*.

CROWN CORPORATIONS

After eliminating "double-counting" in federal own account revenue and expenditure, Crown Corporation spending was distributed by the degree of corporate activity in each province using *Statistics Canada* and *the Annual Reports of each Corporation*.

Appendix 3

Table 3-1

Fiscal Redistribution within Canada, 1961-62
($ million)

	Federal Own Account			Federal Crown Corporations			Total Federal Sector		
	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	89	204	(115)	12	21	(9)	101	225	(124)
Prince Edward Island	22	62	(40)	2	3	(1)	24	65	(41)
Nova Scotia	187	487	(300)	37	47	(10)	224	534	(310)
New Brunswick	131	326	(195)	36	44	(8)	167	370	(203)
Quebec	1,657	1,534	123	224	246	(22)	1,881	1,780	101
Ontario	2,852	2,458	394	399	423	(24)	3,251	2,881	370
Manitoba	320	442	(122)	60	77	(17)	380	519	(139)
Saskatchewan	230	398	(168)	101	127	(26)	331	525	(194)
Alberta	487	598	(111)	86	110	(24)	573	708	(135)
British Columbia	696	746	(50)	101	123	(22)	797	869	(72)
Yukon and Territories	14	40	(26)	5	5	0	19	45	(26)
TOTAL	6,685	7,295	(610)	1,063	1,226	(163)	7,748	8,521	(773)

Table 3-2

Revenue Allocation for 1961-62
($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Tax Revenue												
Personal Income Tax	20.5	4.1	43.1	30.8	437.0	978.6	94.4	67.7	145.7	225.7	4.1	2,051.7
Corporation Income Tax	18.2	5.2	27.3	22.1	351.6	557.3	57.3	36.5	97.7	126.3	2.6	1,302.1
Income Tax on Dividends and Interest going abroad	1.6	.4	2.4	1.9	30.3	48.1	5.0	3.1	8.4	10.9	.2	112.3
Sales Tax	16.7	4.2	33.4	24.0	268.5	415.8	51.2	41.8	78.3	108.6	2.1	1,044.6
Excise Tax	3.5	.8	8.7	6.4	76.4	99.8	12.9	10.5	18.9	24.3	.3	262.5
Excise Duties	3.8	1.3	10.8	6.9	98.4	145.2	18.4	14.8	26.8	35.7	.7	362.8
Custom Import Duties	8.0	2.1	17.1	12.3	141.1	213.3	25.7	19.2	39.6	55.0	1.1	534.5
Estate Tax	.4	.1	9.1	1.2	16.2	27.1	7.0	1.9	4.0	17.5	.2	84.7
Total Tax Revenue	72.7	18.2	151.9	105.6	1,419.5	2,485.2	271.9	195.5	419.4	604.0	11.3	5,755.2
Non-Tax Revenue												
Return on Investment	2.9	.7	5.8	4.0	55.1	96.4	10.5	7.6	16.3	23.4	.5	223.2
Post Office Revenue	4.1	1.1	6.4	5.3	59.5	82.6	10.1	8.3	15.8	19.9	.4	213.5
Other Non-Tax Revenue	2.9	.7	4.8	4.0	34.6	41.7	6.2	8.7	10.7	12.2	.7	127.2
Contributions to Unemployment Insurance	4.2	.8	8.9	8.0	76.0	111.7	15.4	7.5	17.5	27.4	.4	277.8
Contributions to Superannuation	1.8	.7	9.3	4.1	12.8	34.0	5.5	2.8	6.9	9.0	1.3	88.2
Total Non-Tax Revenue	15.9	4.0	35.2	25.4	238.0	366.4	47.7	34.9	67.2	91.9	3.3	929.9
TOTAL REVENUE	88.6	22.2	187.1	131.0	1,657.5	2,851.6	319.6	230.4	486.6	695.9	14.6	6,685.1

Expenditure Allocation for 1961-62

($ million)

Table 3-3

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Salaries and Wages	25.9	11.1	145.8	66.0	203.4	562.3	86.1	45.0	109.9	148.3	15.5	1,419.3
Professional and Special Services	1.7	.7	8.2	4.1	20.0	31.3	6.4	4.5	7.8	9.9	.6	95.2
Transportation and Communications	2.6	.8	7.4	3.7	17.2	46.1	5.6	3.7	7.2	10.6	2.1	107.0
Information	.6	.1	.9	.7	6.5	7.7	1.2	1.2	1.7	2.0	.1	22.7
Rentals, Repairs and Upkeep	3.4	2.6	31.6	12.9	32.6	81.0	17.2	7.9	19.1	22.4	1.6	232.3
Utilities, Materials and Supplies	5.1	2.1	26.1	12.0	44.4	93.0	15.9	8.8	20.1	25.5	2.2	255.2
Construction and Acquisition— Land, Buildings and Equipment	10.7	10.0	42.2	46.5	120.5	220.2	50.9	38.9	78.4	59.5	7.5	685.3
Unemployment Insurance Payments	19.0	3.3	23.0	20.5	135.8	142.9	21.4	15.0	23.9	50.0		454.8
Old Age Security Payments	11.9	5.2	28.9	21.3	131.7	226.1	38.1	39.6	42.3	79.6	.4	625.1
Superannuation and Pension Payments	1.7	.4	6.3	2.9	10.6	27.0	4.2	3.0	6.0	7.6	1.0	70.7
Public Debt Interest	21.0	5.0	33.6	27.7	241.6	286.9	42.8	42.8	61.2	74.7	1.7	839.0
Grants, Contributions and Transfer Payments	99.5	20.5	132.5	106.9	562.9	725.0	150.5	185.9	218.4	253.9	6.8	2,462.8
Other Expenditure	1.5	.4	2.5	2.1	18.1	21.5	3.2	3.2	4.6	5.6	.1	62.8
Less Expenditure Recovered	(.9)	(.2)	(1.5)	(1.2)	(10.8)	(12.9)	(1.9)	(1.9)	(2.8)	(3.4)	(.1)	(37.6)
TOTAL EXPENDITURE	203.7	62.0	487.5	326.1	1,534.5	2,458.1	441.6	397.6	597.8	746.2	39.5	7,294.6

1961-62 Reconciliation — Table 3-4

($ million)

1. DEFICIT		
Deficit (per Public Accounts)		791.0
Deficit Increases		
• Special Accounts (UIC, OAS, etc.)	1,079.9	
• Crown Corporation Activity	54.5	1,134.4
Deficit Decreases		
• Crown Corporation and Non-Budgetary Transactions	305.9	
• Special Accounts Adjustments	1,010.0	(1,315.9)
Adjusted Deficit		609.5
2. REVENUE		
Total Budgetary Revenue (per Public Accounts)		5,729.6
Add		
• Old Age Security Gross-up	644.0	
• Contributions to UIC	277.8	
• Contributions to Superannuation	88.2	1,010.0
Deduct		
• Crown Corporation and Crown Agency Activity	54.5	(54.5)
Total Adjusted Own Account Revenue		6,685.1
3. EXPENDITURE		
Total Budgetary Expenditure (per Public Accounts)		6,520.6
Add		
• UIC Payments	454.8	
• OAS Payments	625.1	1,079.9
Deduct		
• Government Contributions to Special Accounts (UIC, OAS, etc.)	119.7	
• Crown Corporation and Crown Agency Activity	186.2	(305.9)
Total Adjusted Own Account Expenditure		7,294.6
4. SUMMARY		
Adjusted Own Account Revenue	6,685.1	
Adjusted Own Account Expenditure	7,294.6	
Adjusted Own Account Deficit	609.5	

5. TOTAL GOVERNMENT SECTOR

	Own Account	Crown Corporations	Total
Revenue	6,685.1	1,063.2	7,748.3
Expenditure	7,294.6	1,226.2	8,520.8
Deficit	609.5	163.0	772.5

Fiscal Redistribution within Canada, 1968-69

Table 3-5

($ million)

	Federal Own Account			Federal Crown Corporations			Total Federal Sector		
	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	163	392	(229)	97	74	23	260	466	(206)
Prince Edward Island	37	171	(134)	2	7	(5)	39	178	(139)
Nova Scotia	315	691	(376)	89	113	(24)	404	804	(400)
New Brunswick	238	555	(317)	41	61	(20)	279	616	(337)
Quebec	2,658	2,796	(138)	419	471	(52)	3,077	3,267	(190)
Ontario	5,380	4,458	922	605	707	(102)	5,985	5,165	820
Manitoba	517	672	(155)	87	141	(54)	604	813	(209)
Saskatchewan	422	524	(102)	103	145	(42)	525	669	(144)
Alberta	945	914	31	155	184	(29)	1,100	1,098	2
British Columbia	1,404	1,204	200	178	198	(20)	1,582	1,402	180
Yukon and Territories	35	85	(50)	14	9	5	49	94	(45)
TOTAL	12,114	12,462	(348)	1,790	2,110	(320)	13,904	14,572	(668)

Revenue Allocation for 1968-69

($ million)

Table 3-6

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Tax Revenue												
Personal Income Tax	47.0	8.5	94.0	68.3	773.1	2,097.3	179.4	141.0	324.6	521.1	17.1	4,271.4
Corporation Income Tax	26.6	4.4	39.8	31.0	515.6	1,000.3	86.4	57.5	174.8	270.0	6.6	2,213.0
Income Tax on Dividends and Interest going abroad	2.5	.4	3.7	2.9	47.9	92.9	8.0	5.4	16.2	25.1	.6	205.6
Social Development Tax	.7	.1	1.4	1.0	11.4	30.9	2.6	2.1	4.8	7.7	.3	63.0
Sales Tax	37.3	10.7	72.6	57.6	526.5	802.4	94.7	93.8	172.3	229.6	.4	2,097.9
Excise Tax	5.8	2.1	13.5	10.3	93.8	158.1	15.8	12.6	27.6	38.3		377.9
Excise Duties	6.2	2.3	17.3	13.6	112.0	220.1	23.1	19.2	37.7	56.8	1.0	509.3
Custom Import Duties	12.0	2.7	22.0	16.8	196.4	306.8	35.3	30.9	57.2	79.2	2.4	761.7
Estate Tax	.8	.3	3.1	1.5	24.6	52.9	6.2	4.9	8.9	9.0	.2	112.4
Other Taxes					.1	.1						.2
Total Tax Revenue	138.9	31.5	267.4	203.0	2,301.4	4,761.8	451.5	367.4	824.1	1,236.8	28.6	10,612.4
Non-Tax Revenue												
Return on Investment	4.8	1.1	9.3	7.1	80.5	167.2	15.6	13.0	29.1	43.6	1.1	372.4
Post Office Revenue	6.1	1.1	9.3	7.4	92.3	149.7	15.3	12.4	28.0	40.7	1.0	363.3
Other Non-Tax Revenue	3.8	.8	6.1	4.8	50.1	67.8	8.7	13.7	22.2	19.6	1.5	199.1
Contributions to Unemployment Insurance	7.2	1.4	14.0	10.4	116.7	186.3	19.0	11.8	32.1	52.0	1.3	452.2
Contributions to Superannuation	1.8	1.1	9.4	5.5	16.9	46.9	7.0	3.8	9.2	11.3	1.1	114.0
Total Non-Tax Revenue	23.7	5.5	48.1	35.2	356.5	617.9	65.6	54.7	120.6	167.2	6.0	1,501.0
TOTAL REVENUE	162.6	37.0	315.5	238.2	2,657.9	5,379.7	517.1	422.1	944.7	1,404.0	34.6	12,113.4

Expenditure Allocation for 1968-69

Table 3-7

($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Salaries and Wages	34.5	20.1	182.2	107.6	325.9	979.8	137.7	73.8	180.7	226.9	18.5	2,287.7
Other Personnel Costs	.2	.2	2.0	1.2	2.9	8.7	1.4	.6	1.8	1.8	.1	20.9
Transportation and Communications	4.9	1.6	16.5	8.8	43.7	113.3	12.9	9.6	17.3	26.6	3.4	258.6
Information	.7	.1	1.1	.9	8.3	10.2	1.4	1.3	2.2	2.8	.1	29.1
Professional and Special Services	4.7	8.1	12.4	13.2	79.3	87.1	15.6	11.2	18.7	20.9	.4	271.6
Rentals, Repairs and Upkeep	3.8	3.6	26.0	16.4	39.1	133.7	18.9	5.6	24.2	21.4	3.2	295.9
Utilities, Materials and Supplies	4.6	2.7	22.9	14.1	46.3	109.1	18.0	10.0	24.1	27.6	1.8	281.2
Construction and Acquisition of Land, Buildings and Equipment	21.8	7.6	33.4	43.8	125.4	283.6	38.4	14.1	66.0	64.9	20.2	719.2
Unemployment Insurance Payments	21.6	3.8	20.5	20.5	151.8	136.5	16.8	13.7	18.9	55.1	—	459.2
Old Age Security Payments	32.3	69.3	12.6	52.0	364.1	550.6	88.4	86.9	103.9	180.0	1.2	1,541.3
Superannuation Payments	2.0	1.5	13.4	7.8	21.9	62.4	9.5	4.5	12.3	13.9	1.1	150.3
Public Debt Interest	19.2	7.4	57.7	38.5	294.5	609.8	78.4	69.6	121.4	180.5	3.0	1,480.0
Grants, Contributions and Transfer Payments	233.9	45.0	292.4	229.4	1,219.0	1,327.0	229.4	211.4	314.9	364.4	31.5	4,498.3
Other Expenditure	10.6	2.2	16.3	13.2	126.2	154.9	20.8	20.3	32.7	42.8	1.3	441.3
Less Revenue and Receipts Credited to Votes	(3.0)	(2.3)	(18.3)	(12.0)	(52.1)	(108.4)	(16.2)	(9.1)	(25.3)	(25.5)	(.6)	(272.8)
TOTAL EXPENDITURE	391.8	170.9	691.1	555.4	2,796.3	4,458.3	671.4	523.5	913.8	1,204.1	85.2	12,461.8

1968-69 Reconciliation
($ million)

Table 3-8

1. DEFICIT		
Deficit (per Public Accounts)		576.1
Deficit Increases		
• Special Accounts (UIC, OAS, etc.)	2,000.5	
• Crown Corporation Activity	270.0	2,270.5
Deficit Decreases		
• Crown Corporation and Non-Budgetary Transactions	305.9	
• Special Accounts Adjustments	2,192.3	(2,498.2)
Adjusted Deficit		348.4
2. REVENUE		
Total Budgetary Revenue (per Public Accounts)		10,191.1
Add		
• Old Age Security Gross-up	1,626.1	
• Contributions to UIC	452.2	
• Contributions to Superannuation	114.0	2,192.3
Deduct		
• Crown Corporation and Crown Agency Activity	270.0	(270.0)
Total Adjusted Own Account Revenue		12,113.4
3. EXPENDITURE		
Total Budgetary Expenditure (per Public Accounts)		10,767.2
Add		
• OAS Payments	1,541.3	
• UIC Payments	459.2	2,000.5
Deduct		
• Government contribution to Special Accounts (UIC, OAS, etc.)	289.5	
• Crown Corporation and Crown Agency Activity	16.4	(305.9)
Total Adjusted Expenditure		12,461.8
4. SUMMARY		
Adjusted Own Account Revenue		12,113.4
Adjusted Own Account Expenditure		12,461.8
Adjusted Own Account Deficit		348.4

5. TOTAL GOVERNMENT SECTOR

	Own Account	Crown Corporations	Total
Revenue	12,113.4	1,790.2	13,903.6
Expenditure	12,461.8	2,109.7	14,571.5
Deficit	348.4	319.5	667.9

Fiscal Redistribution within Canada, 1975-76

Table 3-9

($ million)

	Federal Own Account			Federal Crown Corporations			Total Federal Sector		
	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)	Revenue	Expenditure	Surplus or (Deficit)
Newfoundland	458	1,141	(683)	118	101	17	576	1,242	(666)
Prince Edward Island	92	314	(222)	9	17	(8)	101	331	(230)
Nova Scotia	803	2,143	(1,340)	213	242	(29)	1,016	2,385	(1,369)
New Brunswick	650	1,489	(839)	143	170	(27)	793	1,659	(866)
Quebec	6,596	8,723	(2,127)	791	916	(125)	7,387	9,639	(2,252)
Ontario	12,990	11,670	1,320	1,069	1,309	(240)	14,059	12,979	1,080
Manitoba	1,249	1,679	(430)	191	286	(95)	1,440	1,965	(525)
Saskatchewan	1,205	1,437	(232)	262	335	(73)	1,467	1,772	(305)
Alberta	3,817	2,376	1,441	393	470	(77)	4,210	2,846	1,364
British Columbia	3,954	3,436	518	593	608	(15)	4,547	4,044	503
Yukon and Territories	98	382	(284)	27	29	(2)	125	411	(286)
TOTAL	31,912	34,790	(2,878)	3,809	4,483	(674)	35,721	39,273	(3,552)

Revenue Allocation 1975-76 — Table 3-10

($ million)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Tax Revenue												
Personal Income Tax	184.2	35.2	333.1	258.7	2,391.4	5,590.1	507.8	494.3	1,174.1	1,699.5	40.8	12,709.2
Corporation Income Tax	60.1	10.4	99.9	86.4	1,217.5	2,548.9	209.5	134.9	598.5	755.8	26.4	5,748.3
Non-Resident Income Tax	4.8	1.0	8.2	7.2	100.6	210.8	17.3	11.1	49.6	62.5	8.2	481.3
Sales Tax	63.2	11.7	93.1	92.0	860.1	1,338.4	141.0	138.1	342.1	433.2	1.8	3,514.7
Excise Tax	13.5	4.0	27.9	23.1	235.2	308.4	35.8	40.4	79.2	92.8	1.3	861.6
Excise Duties	14.2	4.2	28.8	19.7	198.0	308.9	38.4	33.3	67.5	99.8	2.7	815.5
Custom Import Duties	32.9	7.2	54.6	44.6	459.9	745.8	84.4	82.1	154.9	220.8	—	1,887.2
Oil Export Charge	—	—	—	—	—	1.5	8.9	109.5	915.0	26.8	1.2	1,062.9
Estate Tax	.1	—	.5	.2	2.6	4.9	.5	.4	.9	.7	—	10.8
Miscellaneous Tax	—	—	—	—	.2	.2	—	—	—	.1	—	.5
Total Tax Revenue	373.0	73.7	646.1	531.9	5,465.5	11,057.9	1,043.6	1,044.1	3,381.8	3,392.0	82.4	27,092.0
Non-Tax Revenue												
Return on Investment	15.5	3.3	26.5	22.1	223.0	450.4	41.9	41.9	138.0	138.0	3.2	1,103.8
Postal Revenue	8.5	1.7	13.4	11.3	130.7	233.4	22.1	16.5	53.4	69.4	—	560.4
Other Non-Tax Revenue	5.3	1.9	8.2	6.2	54.2	72.2	9.2	14.3	25.7	27.8	4.2	229.2
Contributions to Unemployment Insurance	34.7	6.7	64.5	49.1	511.6	845.6	87.6	56.4	153.7	240.0	5.7	2,055.6
Contributions to Superannuation	8.9	2.3	25.5	13.7	71.5	145.0	21.3	11.6	24.7	31.8	2.5	358.8
Other Transfers to Revenue	12.3	2.6	18.4	15.3	139.3	185.4	23.0	20.5	39.9	55.4	—	512.1
Total Non-Tax Revenue	85.2	18.5	156.5	117.7	1,130.3	1,932.0	205.1	161.2	435.4	562.4	15.6	4,819.9
TOTAL REVENUE	458.2	92.2	802.6	649.6	6,595.8	12,989.9	1,248.7	1,205.3	3,817.2	3,954.4	98.0	31,911.9

Expenditure Allocation for 1975-76

($ million)

Table 3-11

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Yukon & N.W.T.	Total
Salaries and Wages	86.8	32.9	396.0	156.1	780.1	2,227.3	221.6	150.9	343.0	473.3	42.9	4,910.9
Other Personnel Costs	17.6	9.5	104.8	39.5	165.9	457.7	48.6	32.1	84.1	106.6	8.7	1,075.1
Transportation and Communications	20.4	3.8	48.0	29.5	64.4	149.8	41.8	36.5	67.1	73.4	1.8	536.5
Information	1.8	.4	2.7	2.2	19.9	26.5	3.2	2.9	5.7	7.9	.2	73.4
Professional and Special Services	43.0	8.2	76.8	39.9	224.2	337.9	51.2	36.9	102.3	98.3	5.1	1,023.8
Rentals, Repairs and Upkeep	10.1	2.6	20.1	10.3	111.2	306.3	22.2	9.3	23.3	64.8	15.4	595.6
Utilities, Materials and Supplies	11.2	6.4	83.5	29.6	117.5	287.5	35.6	19.8	59.5	75.2	22.5	748.3
Construction and Acquisition of Land, Buildings and Equipment	27.8	7.6	67.0	58.4	253.7	377.2	60.4	41.9	149.1	111.0	53.6	1,207.7
Unemployment Insurance Payments	168.0	28.2	139.5	162.9	1,152.5	1,009.5	63.0	50.5	90.0	432.1	9.2	3,305.4
Old Age Security Payments	85.2	29.5	170.2	128.8	1,000.4	1,369.3	214.2	205.5	269.9	457.4	3.6	3,934.0
Grants, Contributions and Transfer Payments	626.6	165.1	885.4	745.5	4,164.9	3,947.8	763.4	709.8	995.0	1,173.1	217.7	14,394.3
Public Debt Interest	29.7	13.5	124.1	67.5	572.4	1,109.5	126.9	116.0	203.8	334.8	1.4	2,699.6
Other Expenditure	23.9	8.1	44.8	34.8	273.9	373.6	56.1	53.6	75.1	122.6	1.4	1,067.9
Less Revenue and Receipts Credited to Votes	(11.0)	(2.3)	(19.6)	(15.6)	(177.7)	(309.8)	(29.7)	(29.0)	(91.6)	(94.7)	(1.6)	(782.6)
TOTAL EXPENDITURE	1,141.1	313.5	2,143.3	1,489.4	8,723.3	11,670.1	1,678.5	1,436.7	2,376.3	3,435.8	381.9	34,789.9

1975-76 Reconciliation

Table 3-12

($ million)

1. DEFICIT		
Consolidated Deficit (per Public Accounts)		1,112.9
Deficit Increases		
• CPP Inflows	2,073.3	
• Crown Corporation Activity	870.1	2,943.4
Deficit Decreases		
• CPP Outflows	621.6	
• Crown Corporation Activity	556.7	(1,178.3)
Adjusted Deficit		2,878.0
2. REVENUE		
Consolidated Revenue (per Public Accounts)		34,855.3
Deduct		
• Crown Corporation Activity	870.1	
• CPP Inflows	2,073.3	(2,943.4)
Total Adjusted Revenue		31,911.9
3. EXPENDITURE		
Consolidated Expenditure (per Public Accounts)		35,968.2
Deduct		
• Crown Corporation Activity	556.7	
• CPP Outflows	621.6	(1,178.3)
Total Adjusted Expenditure		34,789.9
4. SUMMARY		
Adjusted Own Account Revenue	31,911.9	
Adjusted Own Account Expenditure	34,789.9	
Adjusted Own Account Deficit	2,878.0	

5. TOTAL GOVERNMENT SECTOR

	Own Account	Crown Corporations	Total
Revenue	31,911.9	3,809.5	35,721.4
Expenditure	34,789.9	4,483.3	39,273.2
Deficit	2,878.0	673.8	3,551.8

Appendix 4

Table 4-1

Provincial Share of Population and Major Tax Bases, 1974

(per cent)

	Nfld.	P.E.I.	N.S.	N.B.	Que.	Ont.
Population as of June 1, 1974	2.422848	0.521386	3.631923	2.955834	27.398189	36.150671
Tax Bases						
1. Assessed federal individual income tax	1.293360	0.254816	2.457715	1.805893	24.156233	42.413285
2. Allocated corporation taxable income	1.018424	0.188190	1.791320	1.676453	22.925579	45.824039
3. Value of sales by retail establishments	1.919420	0.367201	2.910560	2.538713	24.165138	38.073222
4. Motive fuel sales	1.708762	0.492741	3.253383	2.863229	25.818059	37.636018
5. Sales of alcoholic beverages	1.835908	0.514624	3.397025	2.251010	21.961589	38.050692
6. Total personal and business income	1.242302	0.266040	2.303654	1.909918	23.707915	43.336889

	Man.	Sask.	Alta.	B.C.	Seven Recipient Provinces
Population as of June 1, 1974	4.515401	4.050885	7.655009	10.697853	45.496466
Tax Bases					
1. Assessed federal individual income tax	3.731841	3.324211	7.926660	12.635987	37.024068
2. Allocated corporation taxable income	3.866935	2.660959	8.952561	11.095540	34.127860
3. Value of sales by retail establishments	4.212239	3.630969	9.070647	13.111891	39.744240
4. Motive fuel sales	4.201522	4.140793	9.051169	10.834324	42.478489
5. Sales of alcoholic beverages	4.892128	4.179098	8.884269	14.033658	39.031381
6. Total personal and business income	4.095085	3.243317	8.421126	11.473754	36.768231

Source: Data used to calculate final Equalization entitlements for the 1974-75 fiscal year, prepared by the Department of Finance, January 18, 1977.

Comparison of Provincial Per Capita Revenue, before and after Taking Account of Federal Equalization Transfers, 1966-67 and 1971-72

Table 4-2

Province	1966-67 Per Capita Revenue from Own Sources		1971-72 Per Capita Revenue from Own Sources	
	Unequalized Revenue	Equalized Revenue	Unequalized Revenue	Equalized Revenue
	($)	($)	($)	($)
Provinces which do not receive Equalization				
British Columbia	333	333	513	513
Ontario	282	282	507	507
Alberta	314	314	500	500
Group Average	296	296	507	507
Provinces which receive Equalization				
New Brunswick	168	242	373	522
Quebec	237	264	439	513
Newfoundland	154	234	299	509
Prince Edward Island	141	240	279	467
Saskatchewan	267	303	399	458
Manitoba	194	228	402	453
Nova Scotia	147	216	309	432
Group Average	219	257	409	496

Source: Unpublished documentation, submitted to Federal-Provincial Conference of Ministers of Finance and Provincial Treasurers, January 31-February 1, 1972, Department of Finance.

Note: Provinces are listed within each group in descending order of equalized revenue as of 1971-72. Per capita amounts are based on official data of Statistics Canada. Amounts shown for 1971-72 are estimates and exclude equalization adjustments in respect of prior years. Own source revenue data for the Province of Quebec has been adjusted in order to be comparable with that for other provinces. The group averages are weighted by population.

Equalization Transfers as a Per Cent of Gross Revenue from Own Sources, by Province, 1971-72

Table 4-3

Province	Gross Revenue from Own Sources	Federal Equalization Transfers*	Equalization Transfers as Per Cent of Gross Revenue from Own Sources
	($ million)		(%)
Newfoundland	168	110	65
Prince Edward Island	38	21	55
Nova Scotia	280	95	34
New Brunswick	249	94	38
Quebec	2,764	446	16
Ontario	4,291	—	—
Manitoba	425	50	12
Saskatchewan	423	55	13
Alberta	920	—	—
British Columbia	1,160	—	—
Equalization adjustments for previous years (unallocated)	—	140	—
TOTAL	10,718	1,011	9

Source: Unpublished documentation, submitted to Federal-Provincial Conference of Ministers of Finance and Provincial Treasurers, January 31-February 1, 1972, Department of Finance.

Note: All figures in this table are based upon official estimates made by Statistics Canada. The revenue data for the Province of Quebec have been adjusted in order to be comparable with those for other provinces.

*The amounts shown for equalization transfers to individual provinces exclude adjustment payments in respect of previous fiscal years.

Federal Transfer Payments as a Per Cent of Gross General Revenue, by Province, 1971-72 — Table 4-4

Province	Gross General Revenue	Federal Transfer Payments	Federal Transfers as Per Cent of Gross General Revenue
	($ million)		(%)
Newfoundland	410	245	60
Prince Edward Island	90	53	59
Nova Scotia	497	224	45
New Brunswick	466	222	48
Quebec	4,322	1,641	38
Ontario	5,277	1,150	22
Manitoba	626	212	34
Saskatchewan	602	187	31
Alberta	1,175	276	23
British Columbia	1,416	289	20
Total	14,881	4,499	30

Source: Unpublished documentation, submitted to Federal-Provincial Conference of Ministers of Finance and Provincial Treasurers, January 31-February 1, 1972, Department of Finance.

Note: The figures in this table are based upon official estimates made by Statistics Canada. The data for the Province of Quebec have been adjusted in order to be comparable with those for other provinces. The adjustments relate to programs where Quebec receives compensation in a form different from that which is applicable to other provinces.