1969

budget

ONTARIO

Dept of Treasury and Economics, Taxation and Fiscal Policy Branch

The Honourable Charles MacNaughton
Treasurer and Minister of Economics

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Presented by the Honourable Charles MacNaughton
Treasurer of Ontario and Minister of Economics
in the Legislative Assembly of Ontario
on Tuesday, March 4, 1969, on moving the
House into Committee on Ways and Means.

ONTARIO DEPARTMENT OF TREASURY AND ECONOMICS
Taxation and Fiscal Policy Branch

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BUDGET STATEMENT

Mr. Speaker:

The Ontario of the 1970's stands before us in a splendid array of opportunity and challenge. Although man will probably be on the moon by the time we enter that decade, we must continue to seek a good life on the earth. There is surely no part of this planet that offers more and, for that very reason, demands more responsible preparation than Ontario. Governments must, at all times, pioneer a pathway for the people. To a large degree, the engineering plan for that pathway is the government's budget. A modern budget is not simply a bookkeeping statement or a testimony to financial management. It is a deliberate instrument of social and economic guidance; it is part of the very fabric of our society and economy.

Consequently, the budget requires deliberate timing, careful selection of and balance among objectives and, above all, purposeful planning on a long-term basis. The placing of a man on the moon is a triumph of technology; the planning of a social and economic environment requires equal skill and firm judgment. Such is the underlying quality which we are seeking in our budgetary and fiscal policy as we prepare for the Ontario of the 1970's.

Nor is this an easy task as demonstrated by one particular issue. In recent years, we have been confronted in the development of public policy with a growing dilemma. I refer to the conflict between the need to provide the public services and facilities required by our society and the difficult problem of containing the tax burden in the face of increasingly restricted revenue-raising capacity. Consequently, I am daily aware of two constant refrains from my critics: those who claim that we spend too much and those who claim that we spend too little. Both cannot be served and I know that the citizens of this province will recognize the importance of maintaining a deliberate balance.

The low growth capacity of our revenues obliges us to finance essential increases in expenditures with successive increases in tax rates and a continual widening of the tax base. In the long run, an accumulation of ad hoc changes of this kind, without reference to a coordinated fiscal framework, runs the risk of overloading the tax system and making it economically punitive and socially burdensome. Up to the present time, it has been possible to raise revenues at the provincial level without serious economic and social effects. But, at the municipal level, the pressure to provide essential services has already led to disturbing increases and distortions in property taxation.

In planning our fiscal structure for the 1970's, we have drawn on the considerable body of research undertaken in Ontario over the past six years. I refer, of course, to the impressive work done by The Ontario Committee on Taxation (Smith Committee) and The Select Committee of the Legislature on the Report of the Ontario Committee on Taxation (The Select Committee). The reports of these two committees provided a substantial basis for reform. During the summer and fall of 1968, the Smith and Select Committees' Reports were studied intensively by a task force in the Department of Treasury and Economics, which worked particularly closely with the staffs of the Departments of Revenue and Municipal Affairs. This task force delineated the Smith and Select Committees' recommendations in terms of their implications for provincial-municipal finance and operations. The task force then provided a comprehensive range of policy options for review by the Government.

We are now prepared for decisive action in the best interests of the Ontario taxpayer. This budget has been specifically designed as a "Fiscal Framework for the Future"; it is a two-part plan to lay the foundations for a modernization of the public finance system in Ontario. First, it provides a budgetary basis for 1969-70 with emphasis on the continuation of essential provincial services and municipal aid within the limits of our immediate financial manoeuvrability. The first and foremost stage in a program of fiscal reform must be the containment of expenditures. The only way to arrest growing tax burdens and to relieve the pressure on the Province's tax system and debt-raising capacity is to arrest the growth in total public spending. I can assure you that this objective has been pursued rigorously, although not, I trust, slavishly in this budget.

The second part of the budgetary plan involves a blueprint for a longer-term program of basic reform in provincial-municipal taxation and finance. The guiding principles are contained in Budget Paper B, which is the white paper on our intentions in this area as promised to the people of this province. Simply stated, the broad objective is to provide a more equitable and viable financial basis for the development of provincial and municipal operations in future years. Concrete measures will be taken to integrate provincial-municipal tax systems and to permit a more measured and systematic control of the level and distribution of tax burdens. A series of measures will also be advanced to strengthen and modernize the financial and functional structure of the municipal sector of the Ontario governmental scene. Because of the central importance of this fiscal program to the development of public policy in Ontario over the next few years, I propose to read Budget Paper B immediately following my Budget Statement on our expenditure and finance plans for the fiscal year 1969-70.

According to the technique of presentation introduced in 1967, this Budget Statement is supported by two other Budget Papers. Budget Paper A contains a review of the Ontario economy in 1968 and an evaluation of Ontario's economic prospects for 1969 as a basis for determining the appropriate form of our fiscal policy. Budget Paper C presents the Government's financial statements. These statements contain some additional refinements to the developing format which we have introduced over the course of the past year.

Summary of Financial Operations for 1968-69

I should first like to review the financial operations of our Government during the 1968-69 fiscal year. Although the results of this fiscal year are not yet complete, we are confident that our expenditure guidelines and restraint policies will result in our final expenditures falling somewhat below the total spending estimates presented in last year's budget. At this stage, however, we are obliged to present our 1968-69 financial picture on the basis of eight months' actual spending and revenue, along with forecasts for the remaining four months as presented by individual departments and agencies. In recognition of this limitation, the Department of Treasury and Economics is preparing to introduce new and more sophisticated accounting practices throughout the Government to ensure an immediate flow of financial data to the Department. This should provide a continuing profile of the current financial situation and clearer guidance for cash management and investment decisions. Meanwhile, details on the estimates and our present performance for the current year are contained in Budget Paper C.

The performance of the economy surpassed my expectations at the time of the 1968 budget and our revenues clearly reflect this buoyancy. Although the federal government is expected to reduce payments under the income tax collection agreement by some $22 million as the result of an over-payment in 1967-68, our total net general revenues for the year are estimated at $2,520 million, compared with our forecast of $2,505 million in the last Budget Statement.

Net general expenditures, on the basis of our present information, are expected to reach about $2,787 million compared with the 1968-69 estimate of $2,780 million. As a result, our budgetary deficit in 1968-69 should amount to approximately $267 million. This substantial deficit, notwithstanding restraint and extensive review of all government programs, clearly illustrates the problems facing this Province in its attempt to meet existing priorities and to provide relief to local governments.

In recent years, our non-budgetary transactions have been an important factor in helping us to finance budgetary deficits, largely because of the investment funds which we borrow, through debentures, from the proceeds of the Canada Pension Plan. In 1968-69, we estimate the surplus on non-budgetary transactions at almost $182 million. Allowing for net redemptions of maturing debt at $64 million, we can anticipate a net cash deficit of approximately $149 million compared with our forecast deficit last year of $252 million. As you know, we have been very successful in establishing a first-rate credit standing in the European capital market. As a result, we have met our financing requirements, exclusive of debt retirement, at highly favourable rates and terms in West Germany, while employing our liquid reserves to redeem the major portion of our maturing debt.

The overall result of these financial operations will have the effect of raising our net capital debt by the end of the current fiscal year to $1,718 million. This level of debt remains well within the financial capacity of this province; in fact, it could be retired with only eight months' revenue and represents a per capita debt of only $231.

THE BASIC FRAMEWORK

In laying the groundwork for our fiscal framework for the future, I wish to discuss two factors which have been important in determining the form of our budgetary plan for 1969-70 and our long-term framework for fiscal reform: first, recent developments in federal-provincial financial relations that set the larger governmental framework within which we must work; and second, anticipated economic developments that dictate the speed and manner in which we can move towards our objectives because of the need to exert positive influence on economic activity generally.

Federal-Provincial Developments

You will recall that, in my last Budget Statement, I devoted considerable attention to the need for securing a rational solution to the problem of federal-provincial tax sharing. The chronic imbalance in the distribution of tax capacity between the two levels of government, relative to the division of expenditure responsibilities, is well documented. I warned then that this misallocation of tax capacity must lead to intergovernmental fiscal discord and a breakdown of the Canadian tax structure, characterized by tax competition, uncoordinated tax pyramiding and increasingly oppressive methods of taxation, particularly in the form of rising municipal property tax levels. Consequently, I stressed the need for a constructive and fair-minded review of federal-provincial expenditure requirements and financial capacities, within a total framework of national priorities and taxation control, along the lines promised in the original terms of reference of the Tax Structure Committee in 1964.

It is with considerable disappointment, therefore, that I must report that our efforts to obtain a sensible resolution of the tax-sharing problem have gone unrewarded. At the meetings of Ministers of Finance in November and December, 1968, and during the Constitutional Conference in February of this year, the federal government maintained its refusal to negotiate new tax-sharing arrangements. Indeed, its insistence that each level of government develop its own expenditure priorities and tax policies has been reinforced recently by a series of unilateral expenditure decisions and pre-emptory tax moves without regard for their broader intergovernmental and economic consequences.

Foremost among these moves was the Social Development Tax, imposed in the federal budget of October, 1968. This contravened the spirit of intergovernmental cooperation in two ways. First, direct application of the tax to the taxable income base effectively excluded the provinces from sharing the revenues under the terms of the existing tax collection agreement even though, by common understanding and convention, the personal income tax is a shared-tax field. Second, since the Social Development Tax was clearly designed to finance the federal government's own share of medicare, it displayed a determination to implement federal priorities with little concern for provincial priorities and financial capacities. Indeed, since the Social Development Tax is the equivalent of an average increase of 9 per cent in personal income taxes, it becomes that much more difficult for the provinces to follow responsibly the federal invitation to raise their own income tax rates, either for the purpose of financing their share of medicare or for meeting the demand of high-priority expenditure requirements.

This absence of cooperation in taxation has been underlined by other developments. For example, the new federal proposals for the taxation of gifts have effects similar to the Social Development Tax in unilaterally securing increased tax revenues from the income-stream area. The federal proposals for changes in the Estate Tax Act were made without consultation concerning the effects on provincial succession duties or without regard for provincial views on the most effective treatment of this jointly-occupied tax field. Moreover, the federal government's new taxes on insurance companies have effectively forestalled provincial moves in that area and have ignored the question of how corporate taxation should be developed by both levels of government in order to ensure the best possible economic effects. I might also add that, in respect of taxation reform generally, the provinces have not been apprised of other federal intentions despite the obvious need for intergovernmental consultation. Consequently, we welcome the federal government's decision to revert to the presentation of a white paper on tax reform, which is the practice we are following in Budget Paper B.

Finally, the federal government's otherwise laudatory concern for budgetary restraint has resulted in reduction of payments under various shared-cost programs without regard for the effects on provincial operations. Two examples are particularly important and illustrative. First, its drastic curtailment of funds for the construction of medical training facilities is at variance with the desire to enforce medicare. Second, its decision to delay payments due to the provinces for costs already incurred under the vocational and technical training programs is inconsistent with the spirit of shared-cost programs.

I mention these developments not out of any feeling of rancour, but simply because of their significance for the manner in which we must now attend to the problems of public finance in Ontario. At federal-provincial conferences over the past three years, we have consistently maintained that the federal, provincial and municipal governments are merely parts of the total government sector, and that the orderly development of this sector depends on an integrated approach to taxation reform. Central to coordinated tax reform is the establishment of a viable basis of intergovernmental tax-sharing and agreement on a common set of expenditure priorities in order that total governmental resources may be rationed and applied with maximum economic and social benefit.

The fact that we have not been successful in establishing a basic federal-provincial framework within which we can rationalize provincial-municipal financial and operational structures does not diminish the necessity and urgency for reform within our own jurisdiction. However, the short-run budgetary plan and long-run fiscal reform program, which I am outlining for you today, has been affected by two specific factors at the federal-provincial level. First, our inability to obtain a larger share of jointly occupied growth tax fields inevitably affects the speed and means by which we can move at the provincial-municipal level. For example, given the limited range of other tax fields available to us, it directly affects our ability to provide for long-term expenditure growth at the provincial level and to increase our aid to the municipalities. Secondly, although there has not been sufficient progress in federal-provincial relations, we are still responsible for arranging the pattern of provincial-municipal tax reforms in a way that is compatible with interprovincial tax harmony and that allows scope for eventual reform at the federal-provincial level.

For these reasons, we are deliberately putting forward our proposals for tax reform in a manner designed to provide the federal government with an opportunity for coordination and joint implementation. Our own objective is simply to serve the best interests of the Canadian and the Ontario taxpayer. Our earnest hope is for the cooperation of the federal government in a joint and major reconstruction of taxation along the lines which I shall propose. The recent decision to revive the Tax Structure Committee, with an urgent mandate for tax reform, is a source of satisfaction to us, particularly in view of the strong support by the Prime Minister of Canada for review of the spending and taxing powers. Our own tax reform program will be placed in that forum in a spirit of producing tax reform on an intergovernmental basis to meet the needs of taxpayers first and governments second.

The Ontario Economy in 1968 and 1969

The structure of our fiscal policies must be related to the economic environment. The Ontario economy, at the present time, is prosperous and expanding. Incomes are at record levels, unemployment is relatively low and we have only a modest amount of surplus productive capacity in our industrial system.

Last year, the Ontario economy grew by 8.7 per cent and reached a total output of $27.1 billion. However, price increases accounted for about 3.5 per cent out of the total 8.7 per cent expansion, and this inflationary pressure persisted into 1969. The major sources of growth last year were a notable acceleration in the demand for consumer goods and an extraordinary 50 per cent expansion in our exports of automobiles and parts to the United States. The housing sector picked up rapidly, and investments in new dwellings went ahead by nearly 18 per cent. Most sectors of demand in the economy expanded. The exception was investment by manufacturing and primary industries, which declined for the second year in a row. However, total private and public investment in Ontario still rose by 7 per cent. I am confident that the excess capacity in the industrial sector has been reduced sufficiently in recent months to prepare the way for a new round of investment by manufacturing industries.

Productivity began to rise again during 1968 after showing little change in 1967. Real output per person was up by 2.1 per cent, and this increase no doubt helped to offset some of the strong inflationary currents in the economy. Although the number of jobs rose by 85,000, the labour force rose by 100,000 with a resulting small increase in unemployment. This increase in the labour force amounted to a 3.5 per cent growth rate — one of the largest to be found anywhere among industrial nations. Although such a condition places a constant pressure on our investment resources, both public and private, it is encouraging to see that our provincial economy has been able to meet the larger part of this extraordinary growth in job requirements and that unemployment, although still higher than we would like, has remained relatively low.

This year I am forecasting a further expansion in the provincial economy. Gross Provincial Product should rise by 7.8 per cent to reach a record level of $29.2 billion. The volume of goods and services produced should increase by about 4.5 per cent, and we can expect that inflationary pressures will ease, if only slightly, dropping from last year's 3.5 per cent to 3.3 per cent. Per capita personal income is expected to rise from $2,800 to just under $3,000, a growth of 6.6 per cent, and there will be a small decrease in the level of unemployment as job opportunities increase by 105,000.

In the investment sector, there is every possibility that manufacturing investment will pick up again and show a considerable improvement over last year. In housing, we can look forward to gains in outlays of about 10 per cent. The public sector will probably not be as buoyant this year in its investment requirements, mainly because of the constraints imposed by governments to bring their revenues and expenditures into line. In total, however, these events will make for a more balanced growth in investment, with more emphasis on the private and less emphasis on the public sector. The outlook for productivity is reasonably encouraging although we cannot expect to repeat last year's gain of 2.1 per cent. Output per employed person will rise by about 0.8 per cent and, if the line can be held on prices, this should help to improve our competitive position in foreign markets.

Despite this healthy condition, there are some serious financial and monetary problems in the economy, which render it particularly sensitive to expansionary spending and tax policies by any of the three levels of government. Two of the most critical problems facing us today are the pressure of serious distortions and shortages in the country's capital markets, and the persistent and eroding force of inflation.

These facts are closely interrelated. As in the past, there are serious obstacles to provincial and municipal governments wishing to float new bond issues in the Canadian capital market. International and domestic monetary conditions have pushed up interest rates. These have fluctuated to such an extent, in response to various crises, that an atmosphere of great uncertainty has prevailed concerning bond prices and yields. To this uncertainty has been added the decline of investor confidence in long-term, fixed-income investments in an inflationary climate.

In Ontario, we have been successful in finding new capital markets abroad and we intend to continue this policy as the need arises, both for our own purposes and for the Ontario Hydro-Electric Power Commission. By doing so, we will continue to relieve the pressure on domestic capital supplies and make room for other governments and private corporations. I should mention, in particular, that the development of power — so vital to the economy of Ontario — will involve massive capital financing by Ontario Hydro throughout the next decade.

There is little evidence that higher interest rates have significantly raised the level of net personal savings. In fact, at the same time as our capital markets have been drying up, institutional innovations have allowed consumers to acquire record levels of credit for personal consumption. This factor must be acknowledged as one of the many adverse pressures on interest rates and on the supply of capital available for investment purposes. This inflationary propensity has, of course, been reinforced by the continuing rise in wage and salary rates in both the private and public sectors of the economy.

The origins of inflation at the present time are complex and diffuse. There is no indication of any real shortage of productive facilities, despite shortages of certain social services and housing which tend to force up market prices. Recent price gains appear to have contained many elements of cost pressure, such as higher interest rates, wages and salaries, profit levels, import prices, and changes in the levels of various indirect taxes. However, when inflation persists for long periods of time, there is a real risk that it will become psychologically institutionalized, and based on an erosion of monetary and financial confidence rather than on economic fact.

The Fiscal Policy Framework

Expenditure and taxation policies in this budget have been designed in the face of two factors. The first is the deadlock in federal-provincial financial relations and the consequent constraints on our short-run and long-run revenue-raising capacities. The second is the financial and monetary distortions in the economic environment.

I have directed my efforts towards achieving a balanced budget or a small surplus, implying the sacrifice of some essential services in the short-run. In considering the economic impact of provincial taxation and spending policies, I have been aware that our gross cash outflows amount to about 12 per cent of the total level of economic activity in the province. This compels us to measure carefully the impact of our policies on the economy. If we, and other governments, chose to be over-expansionary in our fiscal policies at this time, then the provincial economy would be quickly pushed up against the limits of its productive capacity, and the problems of capital shortage, high interest rates, and inflation would be worsened and most of the expansionary impact lost.

I would strongly urge our municipal partners to follow our example in the exercise of voluntary restraint in spending programs, particularly in the field of education. To the extent that this does not happen, the Ontario Government may be obliged to consider the introduction of machinery such as a budget review board to ensure that the taxpayer is not overly burdened and to guarantee that any further financial aid from the Province to the municipalities finds its way into the hands of the taxpayer.

EXPENDITURES

Let me now turn to our budgetary proposals for 1969-70. On the expenditure side, our policy has been one of severe and deliberate restraint, aimed at cutting back the growth in expenditures in line with anticipated revenue growth. As I have already suggested, this policy is intended to achieve two main objectives. First, it will ensure that our government operations do not contribute to general inflationary pressure and to pressure on the capital market. Second, it will help to bring our provincial finances into a better balance in preparation for the major fiscal reform program which we are about to undertake.

Program of Expenditure Constraint

To achieve our prime objective of containing expenditure growth, we have undertaken the most extensive and intensive examination of expenditure programs in the history of this province.

As a first stage, all departments and agencies were instructed to prepare detailed expenditure forecasts for the 5-year period 1968-69 to 1972-73. These forecasts covered expenditure increases for existing programs, qualitative improvements to existing programs, and new programs, given assumptions for such variables as population change and price increases. The expenditure projections were matched to a comprehensive series of revenue forecasts, on the basis of existing tax rates and various rates of economic growth. Together, these projections provided a profile of the Government's fiscal position over the next five years. I should add that these projections did not include the cost of financing the massive financial transfers to the municipalities which were advocated by the Smith and the Select Committees. As a very conservative estimate, over $400 million would be required to implement the Committees' recommendations over and above the cost of the reforms already implemented, principally, the Basic Shelter Tax Exemption and the takeover of the administration of justice.

The general result of this 5-year fiscal forecast confirmed and underlined the problem revealed in the 1966 intergovernmental Tax Structure Committee projections, the Smith Committee's projections, as well as those presented in Budget Paper B accompanying last year's Budget Statement. Total expenditures for existing programs and a limited range of necessary improvements were projected to increase by 74 per cent by 1972-73, while revenues would rise by 40 per cent over the same period. This would increase our budgetary deficits by more than 500 per cent over 1968-69 levels to roughly $1,225 million a year.

Such deficits could only be offset by monumental debt and tax increases. On the debt side, if we accepted the Smith Committee's suggestion that total net debt should be contained within 9 per cent of provincial domestic product, we would be borrowing at a rate of about $325 million a year by 1972-73. Even after increasing our borrowings to the maximum extent, we would still be faced by a residual deficit of nearly $900 million. (Again this figure does not include the cost of any further aid to municipalities.) To clear this gap would require tax increases equivalent to 24 additional points on the personal income tax or 7 additional points of the retail sales tax. Clearly, tax increases of such dimensions would be intolerable. There is simply no alternative to a severe curtailment of expenditure growth.

As a second stage, early last summer, explicit instructions were issued to all departments and agencies to review critically the objectives, priorities, performance and operational efficiency of all existing programs, as well as new expenditure proposals. These instructions were in two parts. First, all departments were requested to achieve an efficiency improvement in general administrative costs of at least 2 per cent in 1969-70. Second, a set of differential spending limits was devised to be used as guidelines in determining the allowable growth in expenditure for each department or agency. These targets were based on a system of priority rankings for the whole range of government programs. The object of these efficiency targets and priority rankings was to restrain net general expenditures to $3 billion or below.

The severity of this target and the difficulty of achieving it deserves some comment in terms of the structure of government expenditures and the forces determining expenditure growth. As shown in last year's Budget Paper B, there are strong limitations on our expenditure flexibility in the short run. The most controllable components of government spending, administrative and operational costs, constitute only 20 per cent of our total expenditure. The remaining 80 per cent represents statutory obligations and commitments to municipalities, school boards and institutions, as well as transfers to individuals. Significant expenditure reductions, therefore, must inevitably involve restrictions in this broader area and some sacrifice of our vital social objectives.

Given these constraints to flexibility, our austerity program has been remarkably successful. This success must largely be attributed to the skill of Treasury Board and to the cooperative effort of all departments and agencies, many of whom suffered painful restrictions on their programs. In the four departments of Public Works, Health, Energy and Resources Management, and Provincial Secretary and Citizenship, the approved spending for 1969-70 has been cut below last year's level. In several others, including Highways, Attorney General, Lands and Forests, and Financial and Commercial Affairs, the increase allowed for 1969-70 will barely enable them to meet normal increases in prices and costs. Almost without exception, new programs and program improvements have been deferred, capital expenditures have been restrained, and large administrative reductions have been made. As a result, the expenditure package which I am presenting to you calls for total spending of $2,996 million in 1969-70.

This net general expenditure of $2,996 million for 1969-70 represents an increase of only $209 million or 7.5 per cent over estimated spending for the current year. Let me illustrate how this compares with our expenditure growth in previous years. In 1966-67, our net general expenditure rose by $325 million or 22 per cent over the previous year, in 1967-68 it increased by $473 million or 27 per cent, and in 1968-69 we estimate that spending will rise by $533 million or 24 per cent.

Net General Expenditure

	1965-66	1966-67	1967-68	1968-69	1969-70
			($ Millions)		
	1,456	1,781	2,254	2,787	2,996
Increase over Preceding Year	—	22.3%	26.5%	23.7%	7.5%

I would like to point out that our achievement in holding expenditures to a 7.5 per cent increase for 1969-70 is considerably better than the federal government's record of 9.5 per cent. Moreover, we have managed to achieve this more rigorous restraint even though our expenditure commitments are inherently faster growing than federal responsibilities and despite the fact that Ontario bears more of the total costs in such shared fields as post-secondary education and Canada Assistance Plan programs than does the federal government. In terms of the expected growth in the economy, therefore, the federal government sector will continue to expand relatively while ours will contract.

In brief, the containment of our expenditures within the $3 billion target will have several salutory and desirable effects. First, by holding the growth in our expenditures below the anticipated growth rate in the Ontario economy, the balance between the private and provincial sectors of the economy will be stabilized for the first time in several years. Second, it represents a positive contribution by Ontario to the combating of present inflationary pressure in the economy and to relief of pressure on the capital market. Finally, it will relieve the burden on our tax system and bring our finances into better balance in preparation for the long-run reform program ahead.

Maintained Emphasis on Priorities

While our primary objective for 1969-70 is to contain expenditure growth, we are also determined to allocate our limited spending in the most desirable way possible. This is not an easy task. In the first place, we have already subjected our lower priority programs to restraint over the past several years. Insofar as they have been stabilized at minimal operating levels, the scope for further savings in these areas, without jeopardizing the programs themselves, is very limited. Secondly, our priority programs — education, health and social services, housing and municipal aid — are the fastest-growing and largest segment of the total budget. In pursuing overall budgetary restraint, therefore, it is impossible to avoid cutting into the expansion and development of these priority areas.

First of all, let me place our spending allocations for the next year in some perspective. Over the past four years Ontario has given its high priority areas — education, health and social services, municipal aid and housing — a strong build-up. Between 1965-66 and 1968-69, our net general expenditures increased at the rate of 24 per cent per year, while annual outlays on education, health and aid to municipalities grew by 30 per cent, 25 per cent and 34 per cent respectively. The proportion of total expenditure going into these priority areas rose from 63 per cent to 71 per cent, while the proportion of spending in lower priority areas declined from 37 per cent to 29 per cent of the total budget. On the loan and investment side, this emphasis on priorities has been even more pronounced. Over the same four years our investment in housing, education and health facilities rose from 53 per cent to 83 per cent of total loans and investments. This deliberate and dramatic shift in the structure of our expenditures and investments over recent years is clearly shown in the accompanying table.

Development of Ontario's Spending and Investment Priorities

	Percentage of Net General Expenditure				Average Annual Growth Rate
	1965-66	1966-67	1967-68	1968-69	1965-66 to 1968-69
Priority Areas					
Education	35.2	37.3	40.4	40.4	30.0
Health and Social Services	17.1	17.1	18.5	17.5	25.1
Aid to Local Authorities	10.3	9.4	8.6	12.8	33.7
Total Budgetary Priority Areas	62.6	63.8	67.5	70.7	29.3
Non-Priority Areas	37.4	36.2	32.5	29.3	14.4
Total Net General Expenditure	100.0	100.0	100.0	100.0	24.2

	Percentage of Loans and Advances				Average Annual Growth Rate
	1965-66	1966-67	1967-68	1968-69	1965-66 to 1968-69
Priority Areas					
Education	43.5	68.2	63.5	73.2	58.3
Health	4.6	3.4	5.1	5.6	41.8
Housing	4.5	3.3	8.0	4.0	27.8
Total Priority Areas	52.6	74.9	76.6	82.8	54.8
Non-Priority Areas	47.4	25.1	23.4	17.2	–5.1
Total Loans and Advances	100.0	100.0	100.0	100.0	33.0

The emphasis on priorities has been continued in this budget. Of the $209 million increase in net general expenditures for 1969-70, some $162 million is allocated to education, health and social services and municipal aid. At the same time, we have allowed lower priority programs an increase of only $47 million for next year. Thus, the growth rate in our priority areas is 8.2 per cent, as compared to 5.8 per cent in other areas and 7.5 per cent for net general expenditure as a whole. On the investment side as well, we have been reasonably successful in gearing our program towards the priority areas. Of the $37 million increase in loans and advances for next year, $27 million will go into the priority areas, particularly housing. The accompanying profile of 1969-70 spending and investment illustrates this accomplishment.

Profile of 1969-70 Spending and Investment

	Distribution of 1969-70 Increase	Growth Rate 1969-70 Over 1968-69
	($ Millions)	(%)
Net General Expenditure		
Priority Areas		
Education	149	13.2
Health and Social Services	–12	–2.5
Aid to Local Authorities	25	7.0
Total Budgetary Priority Areas	162	8.2
Non-Priority Areas	47	5.8
Total Net General Expenditure	209	7.5
Loans and Advances		
Priority Areas		
Education	–9	–2.5
Health	–1	–3.7
Housing	37	188.7
Total Priority Areas	27	6.7
Non-Priority Areas	10	12.4
Total Loans and Advances	37	7.7

We recognize that these are very modest increases for our high-priority areas in comparison with past increases and the urgent needs of this growing province and population. But in many areas we had to make cuts or provide no increases at all. For example, grants for the construction of hospitals were reduced by $13 million, our public works construction program was cut by $4 million, funds for acquisition and development of park lands were cut $2.6 million, grants for construction of community centres were reduced by $250,000 and spending on tourism and information was cut by $155,000. In many other programs spending was virtually frozen at last year's level, including: Ontario Provincial Police, Ontario Water Resources Commission, vocational school construction, and capital grants to farmers. As well, we found it necessary to defer almost all improvements and extensions in existing programs, including some in our high-priority areas. Let me list some program improvements which we have been forced to postpone:

- increase from 70 per cent to 80 per cent in maintenance subsidy for Homes for the Aged;

- increased capital aid to universities and post-secondary institutions;
- expansion of educational television;
- increased research grants to hospitals;
- new Health Resources Fund projects;
- extension of youth, recreation and leadership training programs;
- additional capital grants for psychiatric hospitals and institutions for emotionally disturbed children;
- intensification of timber management program.

Altogether our rationing measures eliminated approximately $400 million from expenditure estimates to come down to our final expenditure total of $2,996 million. We believe that the final expenditure package that has emerged represents a wise and responsible allocation of our limited public funds.

Summary of Expenditures for 1969-70

To conclude my remarks on expenditure policy, let me summarize the major components of our program for 1969-70.

Education. Our program for next year allocates an additional $149 million to education, or 71 per cent of the total increase in our 1969-70 budgetary expenditure. This includes increases of:

- $53 million in assistance to school boards;
- $53 million in support to universities, which includes an increase in the basic income unit from $1,450 to $1,530;
- $11 million for our Colleges of Applied Arts and Technology, and Ryerson Polytechnical Institute;
- $5 million in student awards.

In addition we are budgeting for $175 million in loans to school boards and $170 million in loans to universities, the Colleges of Applied Arts and Technology, and Ryerson Polytechnical Institute.

Health and Social Services. Spending on health programs will register a decline in 1969-70, as a result of two special factors. First, we have reduced our construction grants for hospitals and, second, we are budgeting a substantially lower amount in 1969-70 for our contribution to the Ontario Hospital Care Insurance Plan. I would point out that this reduced contribution to the hospital insurance plan is possible as a result of a greater measure of support in the current fiscal year under the stabilization process which we established in last year's budget. On the other hand, spending under the Department of Social and Family Services will increase by 12 per cent to a total of $134 million to sustain our present income maintenance, rehabilitation and child care programs.

Housing. A total of $56 million has been allocated for capital advances to the Ontario Housing Corporation and the Ontario Student Housing Corporation for 1969-70, or triple the volume of housing loans expected to materialize this year. The $19 million advanced to the housing corporations in 1968-69 is well below the amount we provided in last year's budget. As you will appreciate, however, our accomplishments here are not always directly obvious from the dollars and cents in the budget. Because of time lags, and the pattern of financial flows into and out of the housing corporations, the financial resources actually put to work in housing in any year may be significantly higher than indicated by treasury advances. Moreover, the funds Ontario provides draw in a vast amount of CMHC financing to produce a very large overall housing program in this province.

During recent months, we have been active in securing a greater flow of funds for mortgage purposes from financial institutions. I would like to announce that we are now studying the appropriate means and procedures for establishing a capital fund to help fortify the supply of mortgage money for home ownership. Such a fund could assume a form similar to our present crown corporations which administer various non-budgetary loans and advances in other sectors of the economy. We expect to describe the details of any such proposal at a later stage in this Session of the Legislature.

Municipal Aid. Total general expenditures for support of municipalities will increase by some $25 million or 7 per cent over the 1968-69 level. This relatively modest increase is largely a reflection of the extraordinary increases involved last year in implementing two of the recommendations of the Smith Committee. The Basic Shelter Tax Exemption payments involved some $111 million in additional expenditure in 1968-69 while the takeover of the administration of justice required $33 million.

Summary. Let me recapitulate the overall magnitude of our spending and investment program for next year. Net general expenditures are estimated at $2,996 million, which is below our $3 billion target and only 7.5 per cent above the program for the current year. Loans and advances will amount to $520 million or $37 million higher than our capital aid program for this year.

To allow for even these modest increases in our priority spending areas, severe pruning has been necessary in all other areas. I have already indicated that some programs have suffered absolute cuts, some have been held to no increase and many have been allowed only minimal expansion. This stringency in net general expenditure has been matched by equal restraint on the loans and advances account. Having pressed our austerity measures to the maximum tolerable limit, we expect other governments and public agencies in this province to exercise similar restraint and husbandry.

FINANCIAL POLICY FOR 1969-70

I shall now turn to our proposals for financing the Government's operations and commitments in 1969-70, and for laying the foundations for our long-run program of taxation reform at the provincial-municipal levels.

Financial Situation

Let me repeat that our restraint policies are becoming increasingly effective. We expect our final 1968-69 results to show considerable improvement over the interim forecast; as a result, we should enter the 1969-70 fiscal year with buoyant liquid reserves.

Total net general expenditures for 1969-70 are estimated at $2,996 million, while our existing revenue sources are expected to yield $2,817 million, if we include some $30 million in delayed receipts due to us from the federal government in respect of post-secondary education adjustment payments for 1967-68. This would result in a budgetary deficit of $179 million. Our non-budgetary sources of finance, including borrowings from the Canada Pension Plan, are expected to yield about $692 million. Total non-budgetary disbursements are estimated at $617 million, leaving a non-budgetary surplus of only $75 million, significantly less than in the three previous years. When allowance is made for net requirements for debt retirement of almost $65 million, the overall cash requirement to be financed would approximate $169 million in 1969-70.

	$ Millions	
Net General Revenue	2,817.4	
Net General Expenditure	2,996.5	
Budgetary Deficit		–179.1
Non-Budgetary Surplus		+74.8
Net Debt Retirements		–64.6
Overall Cash Requirements		–168.9

In deciding how to finance our $179 million budgetary deficit and to raise net cash requirements of $169 million for 1969-70, we have been influenced by four major considerations:

- the state of economic conditions, persistent inflationary tendencies, and the need to avoid government-induced overheating of the economy;
- conditions in the capital market, including anticipated heavy demands, especially from Ontario Hydro and the federal government;
- the state of our liquid reserves;
- our long-term reform plans and the need to start reform on a strong and consolidated basis.

These considerations, taken together, persuaded us to aim for a balanced budget or a small budgetary surplus to avoid the need for borrowing in the public capital market. Debt financing, of course, is appropriate under certain conditions and for certain purposes: for example, it is a means of stimulating the economy during periods of recession, or financing heavy demands for social capital formation to avoid increasing unduly the burden on present taxpayers. Our decision to stay out of the public capital market in 1969-70 is based on two considerations. The first is the need to avoid inflationary demands on the capital markets. The second and most important consideration, however, is that borrowing is not an effective substitute for the steps we must take to strengthen our fundamental fiscal position. We feel strongly that we must immediately strengthen our tax base in order to proceed with our long-term program of increasing the equity and productivity of our tax structure.

The objective of a balanced budget or a small budgetary surplus can only be reached by severe spending restraint as already described, combined with increased taxation. I am obliged, therefore, to introduce tax changes this year.

Tax Changes

In determining what tax increases might best be contemplated, we had to allow for a number of important factors.

1. In its October budget, the federal government introduced some significant tax increases which will affect the people of this province during our budget year.
2. Various federal and provincial tax commissions have suggested extensive reforms in the overall tax structure of the country, including intergovernmental finance. As I will explain shortly, we are now ready to propose an extensive program of long-run reform, which we have taken into account in designing our short-term measures.
3. In evaluating alternative tax changes, our objective was to select measures that were economically justifiable as well as equitable.

When considering tax changes it is convenient to think in terms of four different groups of taxes: personal income, corporations, commodities, and other taxation.

Personal Income Tax

The personal income tax has a number of features which make it the most attractive tax to increase. As I shall indicate in my program for long-term reform, we hope to make this tax field the core of our whole reform program. In order to do so, it will be necessary to give greater relative weight to this particular tax field in the overall tax structure. Other important characteristics of this tax are its progressive nature and its superior growth potential. Inevitably, this tax will be the key to our ability to develop a more equitable and efficient tax structure.

The federal Minister of Finance pointed out in his October, 1968 budget that there are two provinces which have introduced a higher rate of personal income taxation by adding 5 more points to their 28 point abatement under the tax collection agreement. By implication, he suggests that provinces like Ontario should follow suit to solve their financial problems. Ontario has long argued that such increased provincial taxes are very much in order, not so much through an increased tax burden but rather by uniformly higher abatements. In addition, it is important to note that Saskatchewan and Manitoba introduced their higher rates in connection with the cost of hospital insurance, which in Ontario is financed through premiums — an effective drain on personal incomes.

I have rejected the idea of raising the personal income tax this year for two very important reasons. In the first place, I am very conscious of the substantial move made in this tax field by the federal government in its October budget. As I indicated, the 2 per cent Social Development Tax in Ontario alone will involve an equivalent in income tax terms of $225 million. The federal government has also imposed a temporary surtax of 3 per cent for the 1968 and 1969 taxation years, terminating at the end of 1969.

In the second place, I firmly believe that it is premature to contemplate rate changes in personal and corporation income tax when significant reforms are in prospect. I emphasized this point in last year's Budget Statement because of my conviction of the need for coordinated reforms between the two levels of government. I would like to add that, in Ontario's long-term reform plans, we intend to combine major moves in the personal income tax in harmony with changes elsewhere in the tax structure. This is of the utmost importance if one of our objectives is to control the balance in our tax structure and the relative burden of individual and total taxes.

Corporation Taxes

As I have already implied, I am equally reluctant to consider raising the rates on taxable corporate incomes. In this area, additional considerations such as interprovincial tax levels enter the picture, although some very limited scope might exist if one considers the many natural advantages and the progressive development program of the Province of Ontario. Furthermore, in this tax field, the federal government has also imposed a temporary 3 per cent surtax for the 1968 and 1969 taxation years. However, we do feel that we are fully justified in asking for a greater contribution from the corporate sector in three ways.

1. *Income Tax Acceleration.* The federal government has enacted a number of amendments to its legislation with the effect of speeding up payments of income tax by corporations. It is our opinion that Ontario's corporate income tax system should conform as closely as possible to that of the federal government, both for the sake of intergovernmental uniformity and corporate convenience.

We propose to introduce the necessary amendment to our Corporations Tax Act to bring us more closely into line with the federal legislation. However, we do not intend to go quite as far as the federal government. We will change our present system of four quarterly payments to six bi-monthly instalments. This acceleration of instalment payments will apply to all corporations whose fiscal years commence after March 15, 1969. The result of this change will be a shift in liquidity between corporations and the Ontario Government, boosting our revenues in 1969-70 by about $42 million.

2. *Capital and Place of Business Taxes.* I propose to make a number of changes in the capital and place of business taxes. The rate of the capital tax will be raised from 1/20th to 1/10th of 1 per cent, with a minimum of $50 per year. These changes will apply to all corporations whose fiscal years end after March 15, 1969. For the transitional period, special provisions will apply.

The new rate will still be relatively modest. I therefore propose that the tax be made payable over and above any obligations which may be incurred for corporation income tax. I would remind you that both the Smith and Select Committees agreed on the removal of the existing waiver provision. In addition, the burden of the above increases in the capital tax will be mitigated because the capital tax can be deducted from taxable income.

In view of these changes, I feel that this is an excellent time to abolish the place of business taxes. The abolition will be effective at the same time as the capital tax changes.

The net effect of these changes will be an increase of about $17 million in our revenues for the coming fiscal year.

3. *Sales Tax*. The third contribution we will be asking from the corporate sector falls in the area of sales taxation. I will provide the details of the changes in this field under that general heading.

Sales Taxation

Another area in which we are introducing changes is the field of sales taxation. At the present time, we have a retail sales tax of 5 per cent on commodities, with rather generous exemptions compared to other jurisdictions. We have a 10 per cent hospitals tax relating to amusements, and to entertainment with a tax ceiling of $1. In addition and in lieu of the retail sales tax, we have such special taxes as those on tobacco, gasoline and motor vehicle fuel.

Following the recommendations of the Smith and the Select Comittees to make greater use of the retail sales tax field, we have undertaken much research in these areas. We seriously considered, but ultimately rejected, the idea of removing the exemption for food purchases which would have significantly broadened our tax base. As the Select Committee suggested, this would require offsetting credits in order to remove the regressive aspects of such a change; such a credit mechanism would require a fully operational provincial personal income tax system.

We also gave consideration to the Smith proposal to increase the rate of the retail sales tax. As you know, the Province of Quebec already has a rate of 8 per cent, with many fewer exemptions than Ontario, while two other provinces have a rate of 6 per cent. However, we have decided to refrain from this option until such time as we have fully exploited other avenues in this tax area to which I will refer shortly. We also feel that a major move in the general tax rate in this field should be related directly to possible future offsetting benefits in other tax fields through our long-term reform program.

1. *Differential Tax Rates*. The approach to retail sales taxation that we have adopted has three parts. The first of these is possibly the most important. We will submit the necessary legislative changes to integrate the present hospitals tax and retail sales tax through the introduction of a system of differential rates under The Retail Sales Tax Act.

We already have differential rates at the present time, consisting of a zero rate for exempted transactions, a 5 per cent rate on all other transactions under The Retail Sales Tax Act, and a 10 per cent rate under The Hospitals Tax Act. It is now our intention to recognize these distinctions more formally, and to expand the range of transactions to which the 10 per cent rate will apply.

Allow me to illustrate for you how we propose to do this in practice:

a. effective April 1, 1969, The Hospitals Tax Act will be repealed and fully integrated with The Retail Sales Tax Act;

b. all transactions under The Hospitals Tax Act will become subject to the differential rate of 10 per cent under The Retail Sales Tax Act;

c. The Retail Sales Tax Act will be amended to make the integration of the two taxes feasible and to introduce differential rates, thus simplifying the work for the vendors;

d. in addition to the transactions which fall presently under The Hospitals Tax Act, the differential rate of 10 per cent will apply to:

— all consumption of liquor, wine and bottled beer, irrespective of entertainment;

— all retail sales of liquor, wine and bottled beer; and

— all meals, including take-out meals, over $2.50, again regardless of entertainment;

e. under the amended Retail Sales Tax Act, there will be no $1 limit on tax liability as is the case under the present Hospitals Tax Act;

f. in recognition of the rise in prices for meals over the past few years, we will simultaneously amend The Retail Sales Tax Act to remove the present 5 per cent tax on meals over $1.50. In effect, therefore, we will have two rates on meals, a zero rate up to $2.50 and a 10 per cent rate for meals over $2.50.

These changes in the hospitals and retail sales tax are anticipated to yield an additional $42 million in 1969-70.

2. *Exemptions*. The second aspect of retail sales taxation concerns the existing schedule of exemptions. Again, we have studied this area thoroughly. We have reviewed the practices in other jurisdictions and examined the fairness of various options in terms of the overall equitable tax structure which we hope to develop. As a result I now propose to remove the existing exemptions for machinery and equipment used in the production of goods and the provision of taxable services. The existing exemption on machinery for use in farm production will be continued.

I am quite aware that the taxation of production machinery is a major move by this Government, but I hope to explain why, after much consideration, we have decided to do so. We feel that the withdrawal of this exemption will remove a substantial grey area of doubt and administrative inconvenience both for the Government and the private sector.

We also consider this extension of the tax base a fair and equitable one. As you will realize, this additional tax on corporations will become an allowable expense under corporation income tax, which is automatically shared by the federal and provincial governments to the extent of some 40 per cent by the federal government and 12 per cent by the Ontario Government. The effective date for the removal of the above exemption will be April 1, 1969. The tax will apply to all deliveries on or after that date. The expected yield in the next fiscal year is estimated at about $38 million.

3. *Services*. The third aspect of retail sales taxation, with which we were concerned this year, was the suggestion to extend the base to include services. As you know, the Smith and Select Committees made a number of suggestions on this point. The major source of revenue under this potential area would be in the installing, repairing, cleaning, painting, decorating, and remodelling of tangible personal property. We have decided not to extend the base of the tax in this direction at this time. We feel that any such move must be accompanied by other moves incorporated in our long-term tax reform plans, because of the singular impact on homeowners.

However, we do propose to move into the area of services on a more modest scale by extending the 5 per cent sales tax to hotel and motel accommodation, effective April 1, 1969. In the taxation of transient accommodation, we expect to follow the approach of other jurisdictions. The expected yield in the 1969-70 fiscal year is estimated at $13 million.

4. *Other*. Lastly, I propose to make a number of small changes to the regulations under The Retail Sales Tax Act. A new regulation will clarify that exhibitors of motion picture films and video tapes are to pay sales tax on rentals, effective April 1, 1969. There will be no limitations with respect to the period of rental. In addition, the taxation on rentals of tangible personal property will be on the basis of the full rentals. The increase in revenue in 1969-70 on account of these changes is estimated at about $2 million.

Tobacco Tax

I would like to mention at this point that I propose to bring our tobacco tax rates on cigarettes directly into line with those already existing in Quebec and Manitoba. This would mean an increase in taxation of 2 cents per package of 20 cigarettes. At this time, we do not contemplate any changes in the tax on cigars and tobacco. The expected additional yield in 1969-70 will be about $16.5 million. The effective date for this change in rates will be at 12:01 tomorrow morning, March 5, 1969.

Gasoline Tax

No major changes are contemplated in the gasoline tax. Our tax rates in this field compare favourably with all provinces east of this province and are only slightly above those in the western provinces. The only change that I propose to make in this tax is the removal of refunds presently allowed for boats and snowmobiles.

This change will mean that the owners of boats, which are in part responsible for polluting our lakes, will contribute to our fight against pollution. The additional cost to the owners will be relatively minimal, and it will involve some administrative savings and additional revenue of almost $1.5 million. The abolition of the rebates will be made effective with respect to gasoline on which the tax has been paid on or after April 1, 1969.

Mining Tax

The mining tax field is the only other area in which we propose to make changes. An announcement has already been made that the processing operations of mines, previously not assessed for local taxes, will become subject to assessment and property taxation for the benefit of mining municipalities in 1970. The mining properties used mainly for obtaining minerals from the ground will remain exempt. The Province will continue to provide mining revenue payments out of the Consolidated Revenue Fund.

My more immediate proposal is to change the present structure of rates under The Mining Tax Act. We feel that the present mining tax provides the Province with an inadequate return for the consumption of irreplaceable resources. I propose to replace the present rates, which vary up to 12 per cent, with a flat rate of 15 per cent and a total exemption if profits are less than $50,000. Every mining company obtaining a profit in excess of $50,000 will pay on the total profit, including the first $50,000. I would also point out that the burden of this tax is considerably eased since the tax can be treated as an expense in computing taxable income for the corporation income tax.

We are also considering new approaches under The Mining Tax Act to encourage our mining companies to process minerals in Canada rather than in other countries. As a first step, we are introducing incentives in the form of allowances for pre-production expenses which may be written off against mining profits before taxation.

These changes will apply to all companies whose fiscal year ends after April 1, 1969. The anticipated increase in revenues is estimated at about $8 million in 1969-70.

Summary of Financial Policy for 1969-70

On balance, I believe that this package of tax adjustments is best described as a series of neutral changes in terms of equity and incidence.

However, to the extent that the major impact will be felt in the corporate sector, greater balance has been achieved among the broad areas of personal income, corporation and commodity taxes.

The anticipated additional revenue from the preceding tax changes is estimated at about $181 million in the 1969-70 fiscal year. As you will recall, I estimated our budgetary deficit before tax changes at $179 million and our overall cash requirements at $169 million. In other words, the additional revenue from tax changes will more than meet our overall cash requirements and produce a small surplus of almost $2 million in our budgetary transactions.

As a result, our 1969-70 program will be self-financing without any requirement for borrowing in the capital market. Moreover, we will finance the retirement of maturing debt issues without drawing down our liquid reserves.

CONCLUSION

Mr. Speaker, this is a budget which meets many basic requirements. It exercises spending restraint to the utmost. Within this restraint, it recognizes the special needs in our priority areas. This budget faces existing inflationary pressures with determination and exerts a positive influence in the fight to overcome inflation. It keeps the Ontario Government out of the capital market, thereby improving conditions for mortgage financing and for borrowing by the Ontario Hydro, municipalities, school boards and other institutions, both governmental and corporate. Most important, it will provide the sound basis from which to launch the fiscal reform program to which I have already referred. I would now like to make a detailed presentation to the Legislature of this long-term reform program which appears in Budget Paper B.

Appendix To Budget Statement

DETAILS OF TAX CHANGES

CORPORATION TAXES

1. Acceleration of Instalment Payments:

Change applying to all corporations whose fiscal year commences after March 15, 1969:

Instalments will be paid on a bi-monthly basis with the first instalment due on the 15th day of the third month of the fiscal year for which the tax is payable. The remaining five instalments will be due at intervals of two months thereafter. The first instalment is, therefore, advanced by two months and the last instalment by one month.

2. Capital Tax:

Changes applying to all corporations whose fiscal year ends after March 15, 1969:

(a) Corporations will be liable for capital tax and other special taxes in addition to income tax otherwise payable. Section 12 of The Corporations Tax Act will be repealed.

(b) The rate of capital tax under section 5 of the Act will be increased from 1/20th of 1 per cent to 1/10th of 1 per cent, with a minimum of $50.

(c) The general place of business taxes under section 6 of the Act are repealed.

(d) Subsection 8 of section 6 of the Act, which imposes a minimum tax of $5 on certain corporations, is to be retained as a capital tax and incorporated into section 5 of the Act.

RETAIL SALES TAX

Changes effective April 1, 1969:

1. Transient Accommodation:

A tax of 5 per cent will be imposed on charges for accommodation and lodging, provided that the lodging is for a continuous period of less than one month and provided that the lodging place provides accommodation of more than three units.

2. **Manufacturing Machinery and Apparatus:**

   The exemption for production machinery is removed. In addition, equipment used in the provision of telephone and telegraph services and accommodation will be taxable at 5 per cent.

3. **Rate Differential:**

   The rate will be increased from 5 per cent to 10 per cent on the following: liquor, wine and bottled beer; prepared meals sold at a price over $2.50 whether consumed on or off the premises where sold.

4. **Exempt Meals:**

   The present exemption for prepared meals will be raised from $1.50 or less to $2.50 or less.

5. **Film and Video Tape Rentals:**

   A tax of 5 per cent will be imposed on the charges to theatres and television stations for the use of films and video tapes, excluding those used for educational purposes.

6. **Rental Charges:**

   The charge to a lessee for the rental of tangible personal property will be taxable on the full rental price regardless of the length of the rental period. Previously, tax applied to only a portion of the rental where the rental period was in excess of six days.

TOBACCO TAX

Change effective at 12:01 a.m., March 5, 1969:

The tobacco tax will be increased from 3/10c to 4/10c per cigarette, or from 6c to 8c per package of 20 cigarettes. Businesses which are "collectors" of this tax will be required to pay the additional tax on cigarettes in their inventory as of tonight.

GASOLINE TAX

Change effective April 1, 1969:

Refunds of 13c per gallon for gasoline used in marine craft and snowmobiles will be discontinued for gasoline on which the tax is paid on or after April 1, 1969.

HOSPITALS TAX

Change effective April 1, 1969:

This Act will be repealed because of integration with The Retail Sales Tax Act. The transactions now taxable under The Hospitals Tax Act will become taxable under The Retail Sales Tax Act at the present rate of 10 per cent, but without any maximum.

MINING TAX

Changes applying to all companies whose fiscal year ends after April 1, 1969:

1. The rate of mining tax will be raised to a flat rate of 15 per cent, with a total exemption if profits are less than $50,000. Mining companies obtaining a profit in excess of $50,000 will pay on the total profit, including the first $50,000.
2. The Emergency Gold Mining Assistance payments will not be included in the calculation of profits under The Mining Tax Act.
3. Under certain conditions, provision will be made for the write-off of pre-production expenses against mining profits, as a means of encouraging the processing of minerals in Canada.

Budget Papers

Presented by the
Honourable Charles MacNaughton
Treasurer and Minister of Economics
for the information of the
Legislative Assembly of Ontario
in connection with the
Budget for the fiscal year
1969-70

Budget Paper A

The Ontario Economy

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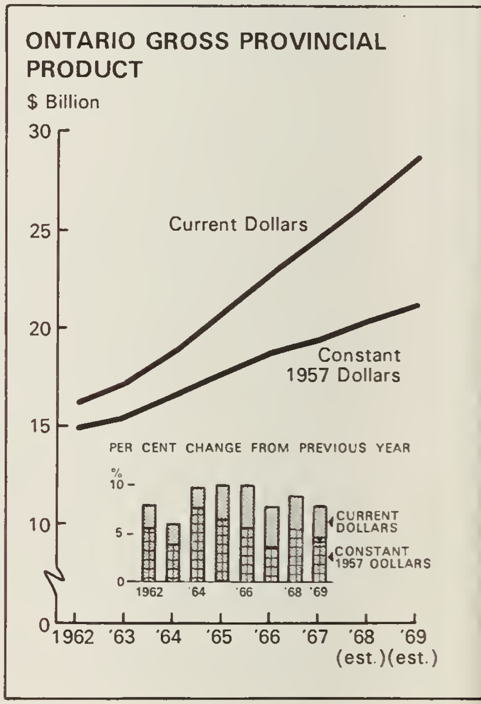
SUMMARY

The Ontario economy is expected to produce a total output of $29.2 billion in 1969, an increase of 7.8 per cent over 1968. The volume of goods and services produced by the economy should expand by 4.5 per cent with prices rising by 3.3 per cent. This compares with an estimated current dollar growth of 8.7 per cent in 1968 when real output increased by 5.2 per cent and prices rose by 3.5 per cent.

Personal income per capita in Ontario grew to $2,806 in 1968, an increase of 6.9 per cent over 1967. Real personal income per capita, after allowing for increases in the cost of living, rose by 2.7 per cent. In 1969 the rate of increase should be 6.6 per cent, with price changes reducing the real rate to 2.7 per cent. Average hourly earnings in Ontario factories in 1968 were $2.70, representing a gain of 7.3 per cent over 1967. The average for this year should be about $2.89 an hour.

Chart A1



The Ontario labour force grew by 100,000 persons in 1968. There were 85,000 new jobs created during the year, although average unemployment rose from 3.1 per cent in 1967 to 3.5 per cent in 1968. This year the labour force should expand by about 103,000 persons and the rate of increase in new job opportunities should be sufficient to reduce average unemployment to 3.4 per cent.

The major sources of new growth in Ontario during 1968 were exports and the demand for consumer goods. In 1969 this emphasis is expected to change as business investment in plant and equipment provides additional strength. Government expenditures at all levels, although continuing to grow, will be less expansionary because of the constraints now being applied to spending in this sector.

Table A1

Ontario's Economic Performance, 1967-1969

	1967	1968	1969	Per Cent Change 68/67	Per Cent Change 69/68
Gross Provincial Product .... ($ Billion)	24.9	27.1	29.2	8.7	7.8
G.P.P. $ 1957 .... ($ Billion)	19.7	20.7	21.7	5.2	4.5
G.P.P. Implicit Price Index	—	—	—	3.5	3.3
Personal Income Per Capita .... ($)	2,624	2,806	2,990	6.9	6.6
Unemployment (Per Cent of Labour Force)	3.1	3.5	3.4	—	—

THE ONTARIO ECONOMY IN 1968

The Ontario economy in 1968 continued to expand vigorously. Output, employment and per capita income reached record levels and productivity improved significantly in manufacturing industries as output recovered quickly from the slowdown of 1967.

While the provincial economy moved forward rapidly during the year, unemployment rose fractionally because the labour force expanded more quickly than job opportunities. However, at 3.5 per cent, unemployment was still relatively low and the provincial economy was operating reasonably close to its full employment level. On the other hand, there was little evidence of a shortage of industrial capacity. The major bottlenecks appeared in the supply of housing, social capital and a broad range of services.

The failure of productivity to increase sufficiently has been a serious concern for economic growth in recent years. Consequently the distinct improvement in productivity and its contribution to total growth was of considerable importance to the provincial economy in 1968.

In 1967 virtually all of the real growth in output was attributable to rising employment. In 1968 an estimated 40 per cent of the gain was due to rising output per employed person, the result of greater capacity utilization associated with the recovery of demand and greater economic buoyancy.

The most fundamental difficulties in the provincial economy were inflation and a restricted supply of capital for both private and public invest-

Table A2

Growth in Ontario's Real Output, 1967-1968

	1967	1968
	Per cent	
Growth in Output Per Person Employed	0.1	2.1
Growth in Employment	3.6	3.1
Total Growth of Real Output	3.7	5.2

ment. The structure of present inflationary pressures is complex. A combination of fluctuations in federal monetary and fiscal policy and rising prices produced profound uncertainty in the capital market and restricted the flow of new funds available for investment. Higher interest rates increased the cost of capital and contributed, in part, to higher product prices, as did continuing wage and salary increases. The move toward higher interest rates was also highlighted by increasing competition among banks and other financial intermediaries for access to the funds of savers. The net effect of this competition has been to bid up effective interest rates on savings deposits, but it has generated very little, if any, additional savings. Thus the move to higher interest rates has been the product of both competition and uncertainty, and no large scale reallocation of savings into investment has occurred.

AGGREGATE DEMAND IN THE ONTARIO ECONOMY

The review and forecast in the sections which follow are presented in terms of the four sources of demand which bear upon the resources of the provincial economy: consumer spending on goods and services; business spending on machinery and equipment, construction and new housing; government spending; and, exports of goods and services from Ontario to other countries.

Table A3

Major Components of Ontario Economic Activity, 1967-1969

		Value			Per Cent Change[1]	
		1967	1968	1969	68/67	69/68
Output						
Manufacturing Shipments	($ Billion)	20.0	21.3	22.8	6.5	7.0
Non-Durables		9.3	9.7	10.3	4.3	6.2
Durables		10.7	11.6	12.5	8.4	7.8
Mining Output	($ Billion)	1.2	1.3	1.5	12.2	10.0
Agricultural Production	($ Billion)	1.2	1.3	1.4	3.5	5.0
Retail Sales	($ Billion)	9.0	9.8	10.6	8.7	8.3
Investment						
Total Private and Public	($ Billion)	5.3	5.6	6.2	7.0	9.9
Machinery and Equipment		2.1	2.1	2.4	1.8	12.0
Construction		3.2	3.5	3.8	10.5	8.6
Non-Residential		2.2	2.4	2.6	7.5	8.0
Residential		0.9	1.1	1.2	17.7	10.0
Housing Starts	(Number)	68,121	80,375	85,000	18.0	5.8
Imports (Canada)	($ Billion)	10.9	12.3	14.0	13.5	13.5
Exports (Canada)	($ Billion)	11.4	13.6	14.5	19.0	7.0

[1]Per cent change calculated from unrounded figures.

Both domestic and foreign demand contributed significantly to the growth of provincial output in 1968. Retail sales and exports to the United States outshone all other sectors of the economy. The strength generated by increased activity, rising incomes and rising corporate profits produced a climate of optimism by year-end giving rise to expectations of renewed business investment activity in 1969. Investment should provide the central driving force for economic growth this year, with private investment assuming a larger share of the total as government outlays reduce their rate of growth below that of earlier years. The consumer sector is expected to increase a little faster than Gross Provincial Product, although not as rapidly as last year. Export growth will again be centred on the automobile industry, but with a rate of growth considerably less than last year's 50 per cent.

CONSUMER DEMAND

Goods

Ontario's retail sales rose by nearly $800 million to a record $9.8 billion, 8.7 per cent higher than in 1967. After two years of little change in sales, motor vehicle dealers experienced close to a 12 per cent annual increase to over $1.6 billion. This, however, was not matched by other major durables; for example, sales by furniture and appliance dealers rose by 7 per cent. Sales of department stores rose by almost 12 per cent and general merchandise stores and automotive service outlets advanced 9 per cent, with food stores close behind. Clothing and shoe stores experienced gains of less than 5 per cent, but men's clothing stores enjoyed a brisk 8 per cent sales increase.

In 1969 total retail sales in the province should rise by 8.3 per cent as population, employment and incomes increase further. Non-durables should grow more rapidly than in 1968, while the demand for durable goods should show a more balanced mix, with greater emphasis on household durables and less on automobiles.

Services

Consumer spending on services increased by about 7 per cent during the year. Rapid increases in the cost of items such as health services, transportation and housing held the level of real increase to between 2.5 and 3 per cent.

It is possible that 1969 will see some easing of price pressures in the service sector. Demand tends to be related closely to population trends and changes in per capita income, with the result that growth in 1969 should be about 6.5 per cent.

PRIVATE AND PUBLIC INVESTMENT

During 1968, total private and public investment in Ontario advanced to $5.6 billion from a level of $5.3 billion in 1967, a gain of 7 per cent in value. Price increases accounted for about half the growth. In two sectors, utilities and housing, investment rose by almost 20 per cent. These two sectors accounted for about 90 per cent of the total increase in private and public capital spending in Ontario in 1968.

The prospects for total private and public investment in Ontario during 1969 indicate that there will be a recovery in the momentum of private investment at the same time as the public sector is operating under tighter constraints in its spending activities. These two trends should lead to a greater emphasis on private investment as a source of new growth during the year. Total investment outlays in Ontario are likely to be of the order of $6.2 billion, an increase of just under 10 per cent over 1968.

Table A4

Private and Public Investment in Ontario, Forecast 1969

	Investment Forecast 1969			Per Cent Change From Previous Year					
	Construction	Machinery and Equipment	Total	Construction		Machinery and Equipment		Total	
	$ Billion			1968	1969	1968	1969	1968	1969
Primary Industries and Construction	0.2	0.3	0.5	–14.7	1.0	–1.7	1.0	–6.5	1.0
Manufacturing	0.3	1.0	1.4	–6.3	9.6	–1.1	15.5	–2.4	14.0
Utilities	0.6	0.6	1.2	29.0	14.2	10.4	17.7	18.6	16.0
Trade, Finance and Commercial Services	0.3	0.3	0.6	–4.2	3.2	5.4	4.8	0.5	4.0
Housing	1.2	—	1.2	17.7	10.0	—	—	17.7	10.0
Institutional Services and Government Departments	1.3	0.1	1.4	10.8	7.0	–8.8	7.0	8.5	7.0
Total	3.8	2.4	6.2	10.5	8.6	1.8	12.0	7.0	9.9

Note: Columns may not add due to rounding.

Business Sector

During the investment boom of 1965-66, the Ontario economy accelerated at unsustainable rates. The slowdown in economic growth that followed in 1967 and early 1968 led to excess productive capacity. For most of 1967 and early 1968, total private investment outlays remained on a plateau. In 1967, the manufacturing, construction and primary industries began a decline in investment spending which persisted into 1968. Among durables, the only area of significant spending on plant and equipment was in primary metals. In non-durable goods, activity was concentrated in foods and beverages, wood products and printing and publishing.

In total, the growth in 1968 occurred mainly in the construction component of investment spending rather than in machinery and equipment. In the latter, the existence of excess capacity held investment spending by business to a modest increase of 2.5 per cent.

During 1968, increases in total demand gradually took up the slack in productive resources. Subsequently there was a sharp improvement in productivity in the goods-producing sector with the result that profit levels rose. By year-end, it was apparent that renewed growth in capital investment was in the offing. Since the demand for goods and services is expected to increase by about 8 per cent in 1969, the derived demand for investment goods such as machinery and equipment is expected to rise considerably.

Total private and public investment in machinery and equipment during 1969 will probably rise by 12 per cent for the year, with expenditures rising to $2.4 billion. Investment in non-residential construction (including non-commercial institutions) is estimated to increase by 8 per cent to reach a total of $2.6 billion.

Housing Investment

Housing activity in Ontario expanded significantly in 1968. The number of starts rost sharply to a record high of 80,375 units, a jump of 18 per cent over 1967. However, the pressure of high levels of demand also led to significant price increases in the cost of both new and used housing.

Table A5

Dwelling Starts in Ontario, 1966-1968

	Number of Units			Per Cent Change	
	1966	1967	1968	67/66	68/67
Urban Ontario[1]	45,714	59,761	69,325	30.7	16.0
Total Ontario	52,355	68,121	80,375	30.1	18.0

[1]Centres of 10,000 population and over.

The high level of starts in 1968, together with the large number of units under construction at the beginning of the year, led to the addition of 68,003 completed units to Ontario's housing stock. At year-end a further 60,035 units were under construction.

Most of the activity is in the construction of multiple dwellings. High land costs and rising mortgage rates have combined to hold down the demand for single family dwellings. In Metropolitan Toronto, where almost half of the province's housing activity took place, three-quarters of the starts were apartment units. Although the supply situation throughout the province was still tight at year-end, the large number of units now under construction indicates some measure of relief for 1969.

Chart A2

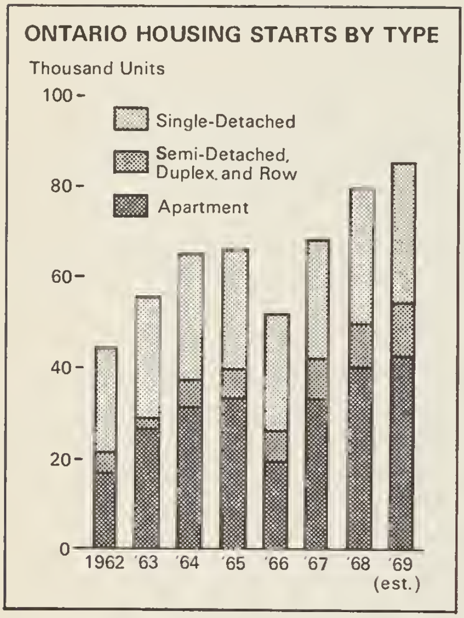
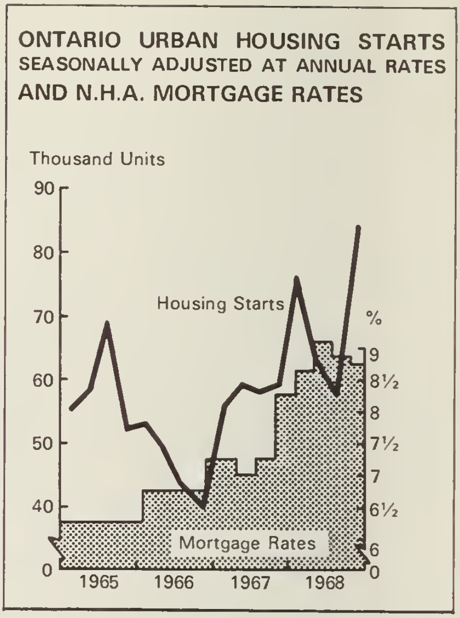


Chart A3



A scarcity of funds rendered housing construction activity uneven throughout the year. Early in the year, starts were at a high level as additional funds, attracted by higher mortgage rates, flowed to this sector. Subsequently a drying up in the flow of private money resulted in a fall-off in loan approvals. However, in the closing months of the year, the Central Mortgage and Housing Corporation pumped more funds into housing through a program of direct loans to merchant builders. This injection was instrumental in pushing housing starts to a new record.

The Ontario Housing Corporation has supplemented the private sector, particularly for senior citizens and low income families. During the course of the year, OHC recorded 4,922 unit starts. The number of units added in 1968 was 4,410 compared with 2,869 in 1967. Preliminary estimates indicate that, with over 7,300 units under construction at year-end, an additional 10,000 completions should be realized in 1969.

Overall developments in housing during 1969 appear less certain. The large number of starts undertaken late in 1968 will undoubtedly lead to a strong first half in 1969 in terms of committed investment. The future flow of federal government funds to direct lending programs is as yet uncertain. Mortgage money is likely to remain in short supply. Owing to these and other factors, increases in Ontario housing starts will probably taper off gradually throughout the year. The number of starts will rise from 80,375 in 1968 to an estimated 85,000 units this year, an increase of approximately 6 per cent. Residential investment expenditures during the year should total $1.2 billion, 10 per cent higher than last year.

Government and Institutional Services

Capital investment in Ontario by all three levels of government and by institutional services, such as schools, universities and hospitals, amounts to nearly one-fifth of all investment activity in the province. In 1968 about one-third of public sector capital investment was in education. Last year public sector investment rose by 8.5 per cent. There was a drop of 8.8 per cent in outlays for machinery and equipment but this was more than offset by a sharp increase of 10.8 per cent in construction expenditure.

During 1968 scarce funds, rising costs and difficult financial conditions hindered social capital programs at all levels of government. For 1969 the total outlook depends upon two factors: first, the success of all levels of government in controlling expenditure increases to match the constraints imposed by the limitations of revenue growth; and second, the rate of price increase in capital goods. The most probable outcome is a decrease in the rate of growth from 8.5 per cent to 7 per cent with some moderation of price pressures to offset this slower growth.

FOREIGN DEMAND

One of the major sources of growth in the provincial economy in 1968 was foreign demand for Ontario manufactured goods and natural resources. The main customer for our products is the United States, where a full-employment economy and supply shortages due to labour unrest stimulated a record demand for Ontario exports.

Automotive exports continued to be the mainstay, registering an increase of 50 per cent during 1968. The continued export growth of Ontario

Chart A4

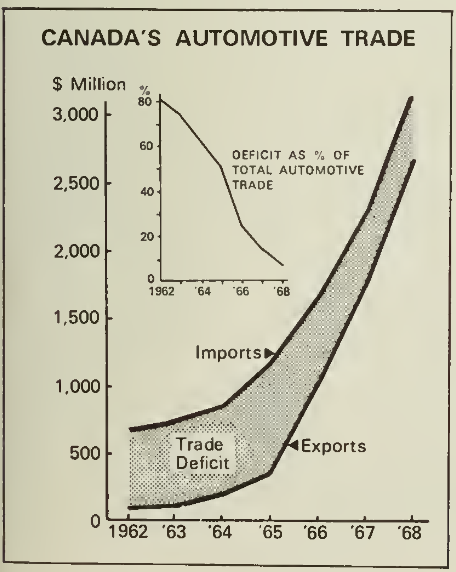
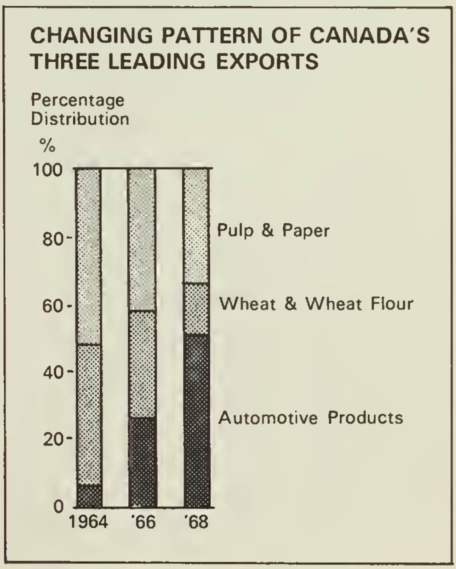


Chart A5



motor vehicles and parts has resulted in a dramatic shift in the structure of Canadian exports. Since 1964, when they accounted for a relatively small share of total Canadian exports, motor vehicles and parts have become the largest single export commodity, surpassing both wheat and pulp and paper.

Ontario exports in 1969 will probably not repeat the exceptional performance of 1968. The outlook for the United States economy indicates a dampening of that country's growth due to fiscal restraint and a continuation of tight credit conditions throughout most of the year. This could, in turn, restrain the rate of increase in Ontario's exports. Last year, because of an anticipated steel industry strike, steel exports soared. At the present time, steel inventories in the United States have returned to normal.

Prospects in other metal industries, while generally good, will not compare with the strike-related gains of last year. In automobiles, continued increases are foreseen, although the rate of increase could be affected by any sharp shift in United States consumer purchases. In total, Ontario's exports should show an increase in 1969 of about 7 per cent.

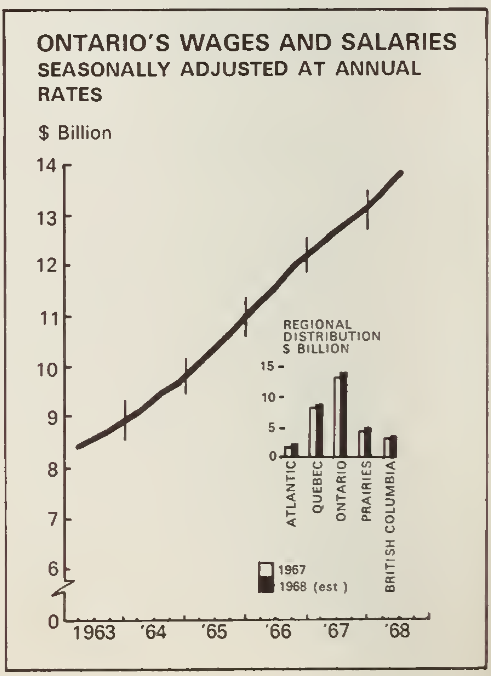
INCOME

Personal Income

In 1968 total personal income in Ontario rose from $18.8 billion to $20.5 billion. Personal income per capita in the same period rose 6.9 per cent from $2,624 to $2,806, but was eroded by a 4.1 per cent increase in the cost of living.

Higher wages and high levels of employment raised total wages and salaries by over a billion dollars. Labour income in manufacturing suffered as a result of strikes early in the year, but finished the year approximately 6 per cent higher. Increases in average hourly earnings in manufacturing intensified last year, rising 7.3 per cent to $2.70 per hour, after having risen just over 6 per cent in 1967. Wage settlements, averaging slightly less than 8 per cent a year, are clearly inflationary in the light of lesser productivity gains. A slight downward movement in the level of settlements has been discernible in recent

Chart A6



months and it is expected that increases in 1969 may be more moderate than in the past.

This year total personal income should increase by about $1.8 billion, a gain of nearly 9 per cent over last year. The outlook for personal income per capita is for continuing growth, with gains of 6.6 per cent in 1969.

Business Income

On the corporate side, the improvement in the business climate was evident as profits rose sharply throughout 1968 and surpassed the former peak of early 1966. Earlier, a squeeze on profits, in part due to a sustained forward thrust in wages and salaries, had reduced their share of total income. By 1968 this situation had changed as capacity utilization improved and the effect of higher prices on earnings took hold.

Corporate profits in Ontario last year rose 15 per cent to an estimated $2.5 billion. Manufacturing, which dominates total corporate profits, rose 20 per cent as primary metals, wood industries and chemicals nearly doubled the profit levels of 1967. There were declines in machinery and metal fabricating industries, where activity has been slower. Outside of manufacturing, the best performances were in mining, finance, insurance and real estate where gains ranged between 20 and 30 per cent.

An expected reduction in the growth of productivity in 1969 should result in a reduction in the rate of growth of corporate profits. Nevertheless, it is expected that the growth will be substantial with an increase of 10 per cent over last year producing total earnings of $2.7 billion.

Table A6

Income in Ontario, 1967-1969

		Value			Per Cent Change[1]	
		1967	1968	1969	68/67	69/68
Wages and Salaries	($ Billion)	12.7	13.8	15.0	8.5	8.5
Corporate Profits	($ Billion)	2.2	2.5	2.7	15.0	10.0
Personal Income	($ Billion)	18.8	20.5	22.3	9.3	8.9
Personal Income Per Capita	($)	2,624	2,806	2,990	6.9	6.6

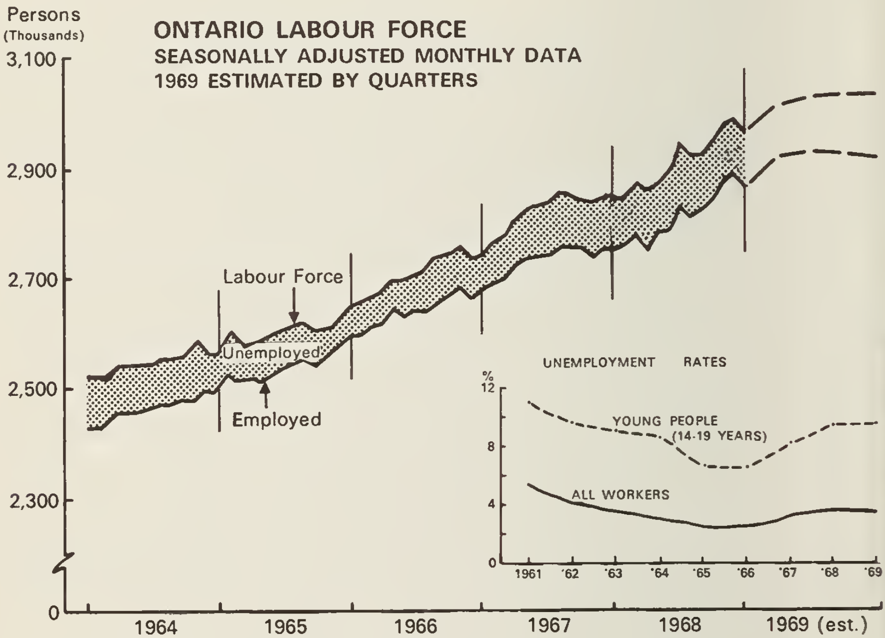
[1]Per cent changes calculated from unrounded figures.

EMPLOYMENT

In 1968, with 85,000 new jobs provided by the expansion of the Ontario economy, the labour force rose by 3.5 per cent to 2,934,000 and employment by 3.1 per cent to 2,830,000. The provincial economy remained quite close to full employment levels although unemployment rose from 3.1 per cent in 1967 to 3.5 per cent last year.

Job opportunities were generally good and the demand for skilled workers and professional and managerial staff remained firm. As the accompanying chart reveals, the major increase in unemployment was among the 14-19 year age group. There were also substantial increases in the number of students seeking summer employment in the past two years.

Chart A7



At the industry level, significant employment increases took place in such non-commercial services as hospitals, education and related services. Recent employment increases have been concentrated in service industries rather than goods-producing industries. An important factor in last year's better productivity performance was the fact that the number of employees in durables manufacturing remained below 1967 levels. Strikes also affected the total employment picture. In the first three months of 1968, close to one million man-days of work were lost in strikes at major automobile plants.

Table A7

Employment in Ontario, 1967-1969

	1967	1968	1969	Per Cent Change 68/67	Per Cent Change 69/68
Labour Force (000's)	2,834	2,934	3,037	3.5	3.5
Employment (000's)	2,745	2,830	2,935	3.1	3.7
Rate of Unemployment (Per Cent of Labour Force)	3.1	3.5	3.4	—	—

Large increases in employment in Ontario in 1969 could lead to slightly lower levels of average unemployment. The labour force will grow by a further 103,000 to reach a level of 3,037,000, and the expansion of economic activity will probably create about 105,000 new jobs, so that average unemployment could drop from 3.5 per cent to 3.4 per cent of the labour force.

PRICES

Price increases occurred over a broad front during 1968 and have continued into this year with little sign of abatement. Current price pressures appear to contain elements of "cost-push" and "demand-pull" since wages, prices and business earnings have all been rising simultaneously.

Table A8

Price Increases in Gross National Expenditure, Canada, 1963-1968

	Per Cent Change From Previous Year					
	1963	1964	1965	1966	1967	1968[1]
Consumer Expenditures	1.4	1.6	2.0	3.4	3.3	3.8
Government Expenditures on Goods and Services	4.1	3.2	5.0	5.9	6.2	5.0
Business Capital Formation	3.1	4.4	4.3	3.8	2.3	2.8
Housing	3.4	5.5	5.0	6.0	7.2	6.9
Exports	1.2	2.0	1.4	3.2	1.7	1.7
Imports	2.9	1.2	0.4	2.0	1.2	2.8
GNE/GNP Price Deflator	1.8	2.6	3.0	4.5	3.9	3.1

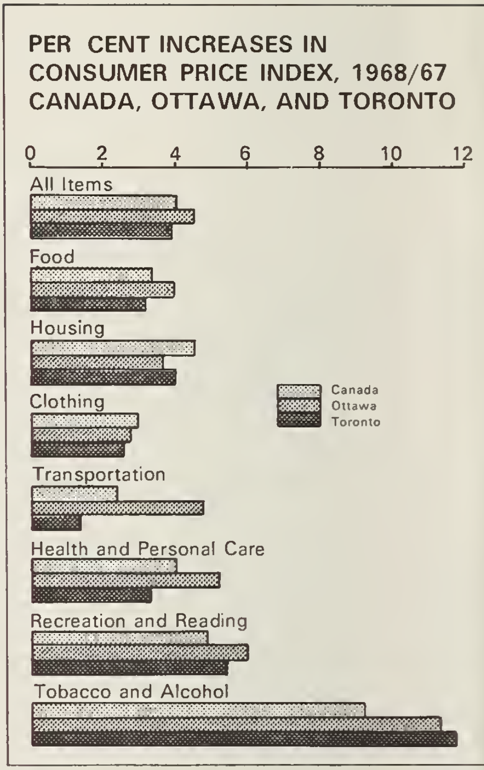
[1]Based on first 9 months of 1967 and 1968.

Two key areas of expenditure, housing and government activity, have both experienced particularly sharp price increases as indicated in table A8.

While an easier monetary policy in the summer of 1968 may have temporarily facilitated some price increases, it was not the sole factor. Throughout the year, large wage increases exerted considerable pressure on the economy. While not as critical as in 1967, when wage gains were considerably larger than productivity improvements, the increases obtained in 1968 were still considerably above those recorded in the 1961-1965 period. To these forces must be added the existence of plentiful supplies of consumer credit, which has supported a steady increase in personal consumption. Another factor was the absence of moderating influences from abroad: in 1967 lower price increases in the United States tended to restrain the prices of Canadian import commodities. Last year, however, general price increases were higher in the United States than in Canada and, in a number of instances, Canadian businesses responded with domestic price rises.

At the consumer level, a steady erosion through 1968 produced a 4.1 per cent increase in the Consumer Price Index for the year. The largest increase took place in the price of tobacco and alcohol, which increased by 9.1 per cent, owing largely to the impact of changes in indirect taxes. Housing and recreational prices each registered increases of nearly 5 per cent.

Chart A8



Regionally in Ontario, Toronto and Ottawa exhibited different trends. Prices in Toronto rose less rapidly than in the country as a whole, while prices in Ottawa rose more rapidly. Toronto's 3.9 per cent increase reflected lower-than-average rises in almost all categories. Ottawa's 4.6 per cent gain included a public transit fare increase and higher food prices.

FINANCE

During the first half of 1968 a rather tight monetary policy, with the bank rate held at 7.5 per cent, was necessary to shore up sagging confidence in the Canadian dollar. From the beginning of July to the end of August, the Canadian bank rate moved down from 7.5 per cent to 6.0 per cent. Throughout the fourth quarter, as price increases became steadily more worrisome, it became apparent that strong inflation was still present in the Canadian economy. This coincided with the realization in the United States that previous tax restraints were not exerting the desired dampening effect. The Federal Reserve System accordingly tightened credit in December and raised the discount rate from 5.25 per cent to 5.5 per cent. The Bank of Canada followed suit by increasing the bank rate to 6.5 per cent and widened the differential with the United States from .75 points to a full percentage point.

Inflation seriously affected the bond market in 1968 as investors moved from bonds and other fixed-income securities into equity investments. From record high levels early in 1968, bond yields declined slightly at mid-year, but renewed fears of inflation and tighter monetary conditions forced yields higher in the fall. While yields on 91 day bills did not quite match the levels of early 1968, yields on long-term securities did in fact establish record highs. These developments, together with growing needs in the private sector for investment capital, have made it increasingly more difficult for governments to draw upon domestic capital market resources.

The current need to reduce the inflationary content of economic growth throughout North America makes it unlikely that the present tight monetary environment will be relaxed appreciably during most of 1969. Capital will be in short supply and interest rates will probably remain at present levels until the latter part of the year when the effects of present policies may have worked to reduce inflationary pressures.

CONCLUSION

In summary, the Ontario economy appears to be heading for a year of substantial growth. While still susceptible to external disruptions, such as further monetary crises or a major slowdown in the United States economy, the provincial economy is currently in a healthy position. Consumer demand is moving upward, wage pressures, while still strong, appear to be easing and price increases may be expected to taper somewhat. The outlook for business capital investment is good despite some tightness in capital markets and the prospects are bright for continuing increases in employment, productivity and profits in Ontario business.

Table A9

Ontario Forecast Summary, 1969

	Per Cent Change From Previous Year	
	1968	1969
Gross Provincial Product	8.7	7.8
Price Increase	3.5	3.3
Real Output	5.2	4.5
Productivity	2.1	0.8
Employment	3.1	3.7
Labour Force	3.5	3.5
Rate of Unemployment (Per Cent of Labour Force)	3.5[1]	3.4[1]
Exports (Canada)	19.0	7.0
Imports (Canada)	13.5	13.5
Retail Sales	8.7	8.3

[1]Actual unemployment rate—not per cent change.

Budget Paper B

The Reform of Taxation and Government Structure in Ontario

Table of Contents

INTRODUCTION

The Government of Ontario is convinced that fundamental fiscal and structural reforms are necessary and urgent in this province. Both the Ontario Committee on Taxation and the Select Committee on Taxation proposed extensive reforms.[1] After examining the reports of these committees and studying thoroughly their recommendations, this Government is now prepared to present its own views in this Budget Paper. In brief, this paper sets out the Government's reform objectives and its long-run plan for achieving those objectives. The plan calls for complementary and concurrent reforms on four fronts: reform of the provincial tax system, reform of provincial aid to local governments, reform of local taxation, and reform of local government structure.

I. REFORM OF THE PROVINCIAL TAX SYSTEM

The Government of Ontario is planning a major redesign and reform of the provincial tax system. This is necessary because the present system is demonstrably deficient in terms of its equity, efficiency, and capacity to raise necessary provincial funds in the years ahead. The program of provincial tax reform will seek to achieve three broad objectives:

- to establish a fairer, more balanced and more revenue-productive system of provincial taxation;
- to connect, in a coordinated manner, the provincial and municipal tax systems to allow control over the level and distribution of overall tax burdens;
- to harmonize and rationalize provincial and federal taxation in Ontario to the maximum extent possible.

The reform plan, which is set out in this Budget Paper, calls for extensive changes in existing provincial taxes. Some of these changes have already been implemented in this budget; others will be brought into effect over a number of years. The plan also suggests trade-offs between the Province and Ottawa in the shared-tax fields. Realization of the intended realignments in the shared-tax fields will depend, of course, on positive reception and reaction by the federal government. The key element in the reform plan, however, is the establishment of a personal income tax

[1]See *Report of the Ontario Committee on Taxation* (Toronto: Queen's Printer, 1967), commonly referred to as the Smith Committee and *The Report of the Select Committee of the Legislature on the Report of the Ontario Committee on Taxation* (Toronto: Government of Ontario, 1968), commonly referred to as the Select Committee.

system for Ontario. This fundamental departure from the present character of provincial taxation is the core around which Ontario's new tax system will be developed.

1. A Provincial Income Tax

The Ontario Government intends to establish its own personal income tax system within the next two years. This move to an independent income tax is necessary to preserve the Province's fiscal integrity and to achieve meaningful tax reform in Ontario.

Three developments have led to this decision: the Province's need for greater access to fast-growing revenue sources in order to maintain its existing programs and undertake essential reforms; the impasse in federal-provincial tax sharing; and the inadequacy of the present income tax abatement system to serve Ontario's long-run finance and reform objectives. The first two of these factors have been extensively studied and debated since 1966. Federal-provincial studies and the Province's own projections provide ample documentation that Ontario needs additional tax room in the personal income tax field merely to carry on its existing programs and existing level of support to municipalities. Ontario's responsibility to carry forward provincial programs on the scale required and to increase municipal support magnifies this need for growth tax revenues. Similarly, the federal government's adamant refusal to contemplate a more realistic sharing of income tax revenues is now an accepted platitude. The third consideration, however, warrants more detailed explanation.

Public discussion has often appeared to suggest that the people of Ontario do not presently pay provincial income tax. In fact, the people of Ontario have been paying a provincial income tax for many years. The present provincial income tax is equal to 28 per cent of the federal basic tax, and is collected by Ottawa and returned to the Province. Moreover, if the federal government were willing to accept our offer whereby the Province would assume complete responsibility for certain shared-cost programs in exchange for an additional 20 points of personal income tax, the two governments would have virtually equal occupancy of this field. In any event, under the present income tax abatement system, Ontario is severely limited in terms of the revenues it can realistically derive from the fast-growing and progressive personal income tax field. In the first place, the federal government has effectively pre-empted any significantly increased provincial effort by its own heavy use of this field in recent years. Secondly, the collection agreements which govern this shared-tax field restrict the provinces to across-the-board rate increases when they want to increase income tax revenues. The federal government, meanwhile, reserves to itself all the scope for raising revenues through changes in the tax base and in the progressive rate structure. At a time when overall income tax rates are already very high, these latter avenues surely are superior to further across-the-board rate increases.

The present system also denies the Province any role in determining the structure and method of income taxation appropriate for Ontario. In this Government's view, the present system is grossly deficient in terms of equity and simplicity. The recent imposition of the retrograde Social Development Tax has seriously compounded these defects. Judging by the federal government's unilateral approach to tax reform, there is no assurance, moreover, that Ontario will have any more of a voice in the upcoming reform of this vital tax area. The present income tax system, therefore, is clearly not working in Ontario's interests, either present or future.

The new personal income tax system, which the Government plans to establish, will have the following features:

- it will aim for greater simplicity and greater progressivity than the present system;
- it will be structured to produce significantly increased revenues and thereby improve the growth potential and the progressivity of Ontario's overall tax mix;
- it will be designed as an integrated personal income tax-tax credit system which coordinates provincial and municipal taxes and allows control over the level and distribution of overall tax burdens;
- it will be both a collection and a payments mechanism, which could eventually be adapted to replace income maintenance programs.

Integration will be achieved through provisions for the deduction of taxes paid by individuals in other provincial and municipal fields from their tax liability under the provincial personal income tax. For example, it will be possible to replace the present Basic Shelter Tax Exemption payments by property tax credits. Such an arrangement would be superior to the present practice in two respects. First, it would channel property tax relief directly back to all taxpayers — homeowners and tenants. Second, the tax credit system offers more scope for redistributing property tax burdens. For example, the property tax credits could be designed to vary with income and family size or could have an upper income cut-off point. Eventually, this form of integration could be extended to incorporate tax credits against payments of retail sales taxes, health insurance premiums, and other provincial taxes which are regressive in impact. An essential adjunct of this integrated personal income tax-tax credit system would be a rebate mechanism to pay refunds to those taxpayers whose total credits exceed their total personal income tax liability. Such a procedure would represent a move toward a positive income supplement or guaranteed income scheme.

To sum up on the personal income tax, Ontario has decided to establish its own system of personal income taxation rather than continuing with the present abatement system. This course of action will allow the Province to raise necessary provincial funds on a fair and efficient basis. It will open up new scope for the systematic integration of overall provincial-municipal taxation in Ontario and lessen the burden of property taxes on those least able to pay. Whether the federal government is willing to continue co-operation in collection under this new system will be a matter for negotiation. Obviously, a single collection agency for both levels of government would be desirable. Recent events in Ottawa suggest that the Department of National Revenue may be replaced by a tax-collection commission. We would suggest that consideration be given to establishing a federal-provincial tax collection commission, as a joint body to serve both levels of government. On the other hand, the absence of such cooperation certainly will not inhibit the implementation of a new income tax system in Ontario.

2. Taxation of Capital Gains

The Ontario Government intends to tax capital gains when it introduces its provincial income tax. The Government believes that capital gains must be brought into the tax system in order to achieve greater equity between taxpayers with equal incomes and among taxpayers at different income levels. It is recognized that taxation of capital gains could reduce private savings and economic growth in Ontario. However, this potential economic disadvantage is far outweighed by the positive improvement in equity and consistency to be gained by taxing capital gains.

It is Ontario's view that capital gains should be taxed on a uniform basis all across Canada. This requires either a fully integrated system of provincial capital gains taxes, a system of federal and provincial capital gains taxes or a purely federal tax, the revenue of which is shared with the provinces. Ontario is prepared to discuss these options with the federal government and the other provinces to ensure that a harmonized overall system is developed. If the federal government is not prepared to tax capital gains (either in concert with the provinces or on behalf of the provinces as well as in its own right), Ontario, nevertheless, intends to go ahead in this field. In this eventuality, Ontario's rates would have to be nominal, at least until such time as other provinces entered the field.

Ontario believes that the United States capital gains tax provides a reasonable model for designing a capital gains tax appropriate to Ontario and to Canada. Thus, the kind of tax that is envisaged would have the following features:

- taxation of gains when they are realized and upon death or emigration;

- deductibility of losses as an offset against capital gains income;
- no discounting of gains to allow for inflationary effects;
- exemption of gains on homes and other specific forms of real property, up to a lifetime limit, with periodic reassessment of this limit;
- distinction between short-run speculative gains and long-run investment gains;
- concessionary rates of tax on long-run gains and, certainly, rates that are no higher than in the United States;
- fair averaging provisions, both forward and backward.

A capital gains tax structured along these lines would minimize adverse economic effects and be administratively workable, while at the same time increasing government revenues and making the overall tax system more equitable.

3. Succession Duties

The new federal Estate Tax Act limits the range for modification and reform in Ontario's succession duties. Ontario strongly believes that these two taxes should remain as compatible and as harmonized as possible. If the Province were to go its own way in developing the death tax field, as Ottawa already has done, the end result could be confiscatory total tax levels, capricious overall tax consequences and a disproportionate allocation of private resources devoted to compliance and evasion. The responsible options left open to Ontario in respect of succession duties, therefore, narrow down to two: retain the provincial tax and bring it into conformity with the new federal tax, or relinquish this tax field to the federal government in exchange for equivalent revenue. Ontario proposes to relinquish its succession duties in exchange for 75 per cent of the revenues that will accrue in Ontario from full application of the new federal Estate Tax Act.

As capital gains taxation becomes fully mature in the years ahead, undue accumulations of wealth will be moderated. In Ontario's view, therefore, the need for taxation of estates will diminish and such taxation should be gradually eliminated. This could be achieved either by the federal government, through increases in its level of exemptions, or by the provinces through forgiveness or refund of their shares of estate tax revenues.

4. Taxation of Gifts

With a provincial income tax, it would be feasible for Ontario to establish a provincial gift tax. There is little rationale for such a gift tax, however, once the Province moves out of the succession duties field. Moreover, a provincial gift tax on top of the new federal gift tax would push rates to punitive levels. Ontario, therefore, does not intend to establish its own gift tax.

The Province strongly contends, however, that gift tax revenues should be shared with the provinces. Since the federal government views gifts primarily as reductions in the size of estates eligible for estate taxes, then it is only fair that the provinces share in gift tax revenues to the same extent that they share in estate tax revenues, which is 75 per cent. Again, integration and harmonization to avoid duplication and excessive taxation is the desirable goal.

5. Corporation Income Tax

Ontario's corporation income tax closely parallels Canada's corporation income tax in terms of structure and design. The Province believes that this conformity must be maintained in future, both for reasons of neutrality and simplicity.

On the side of administration and collection, the Province is considering a major change. The Carter Commission, Smith Committee and Select Committee all recommended that administration and collection of the corporation income tax be turned over to the federal government. This Government is persuaded by the obvious merits of such a step. There is no question that administration and collection of corporation income taxes would be more efficient and certain if handled only by a central authority. Personnel from both the provincial corporation tax and succession duties areas would become available to launch the new provincial income tax administration. Before reaching any final decision to turn over corporation income tax collection to the federal government, however, Ontario must be assured that the interests of corporate taxpayers as well as its own interests, and particularly its revenues, will not suffer.

The sales tax on production machinery and the higher capital taxes announced in this budget will raise Ontario's overall level of taxation on corporations substantially. This increased burden was necessary because the business sector, like all other taxpayers, must carry its fair share of revenue-raising measures. Looking to the future, however, it is apparent that there is little remaining tolerance for further increases in corporate taxation, except perhaps in corporation income tax rates. It must also be recognized that Ontario's rates cannot move far out of line with those in other jurisdictions, both in Canada and abroad, if the province is to remain competitive. Moreover, various studies have supported the contention that such increases are ultimately reflected in the price paid by consumers for goods and services.

6. Mining Taxation

The Government believes that the mining industry has been taxed too lightly in relation to the taxes borne by other industries and sectors of the

Ontario economy. The increase in mining tax announced in this budget aims to correct this defect and to secure for all the people of Ontario the revenues which should logically accrue to them from this province's natural resources.

In addition to establishing a proper level of provincial taxation on mines, the plan for reform in this field calls for municipal taxation of mining properties. Beginning in 1970, mining municipalities will be empowered to levy property tax on smelters and other processing facilities. Assessment of these processing facilities is now under way and scheduled for completion before the end of 1969. When fully in effect, this change will add over $10 million a year to the revenues of mining municipalities. Ultimately, many municipalities in the north will share in this additional fiscal capacity through the formation of regional school boards and regional governments. In the meantime, the Province will continue to make payments to mining municipalities out of its general revenue, though at a reduced level and through a revised formula which includes mining workers engaged in extraction operations only. This new approach to mining taxation will result in net benefits to mining municipalities and in broad benefits to Ontario taxpayers in general.

7. Retail Sales Tax

Ontario's long-run financial needs dictate that the retail sales tax remain a major and growing source of revenue for the Province. Both the Smith Committee and the Select Committee recognized this inescapable reality. The thrust of reform in the sales tax area, therefore, must be to ensure that this additional revenue is raised in the most efficient and equitable manner.

Additional revenue from the retail sales tax can only be obtained by broadening the base and/or raising the rate. In this budget, the retail sales tax base was expanded to include three previously exempt areas: production machinery, hotel and motel accommodation, and movie tape and video tape rentals. This leaves little scope for further expansion of the base except in the area of services and necessities such as food. The Province does not intend to tax food, children's clothing and other necessities, at least until the regressive aspects of such taxation can be deliberately offset by tax credits and refunds under the provincial income tax. Nor does the Province envisage any great expansion in the area of services. The costs of proper administration and collection of the retail sales tax on many services would be high because of the number of vendors involved, while the additional revenues to be gained would be modest. To the extent that Ontario finds it necessary and desirable to derive additional revenue from sales taxation, therefore, it must come primarily through rate increases.

In the present budget the retail sales tax rate on liquor, bottled beer and wine, and meals over $2.50 has been increased to 10 per cent and taxation under The Hospitals Tax Act will be incorporated into The Retail Sales Tax Act. This represents a start in the direction of differential sales tax rates for selected commodities. The Province will continue to explore and develop this avenue before contemplating any general rate increase.

8. Other Provincial Taxes

The 1969 Budget has introduced significant changes in other areas of provincial taxation. The tax on tobacco will be increased, gasoline tax refunds narrowed, and numerous minor changes made to remove nuisance features, reduce collection costs and streamline administration. In the years ahead, Ontario will continue to review and improve its tax policies in these and other provincial fields.

II. REFORM OF PROVINCIAL AID TO LOCAL GOVERNMENTS

The Ontario Government recognizes that the local tax base carries too much of the financing burden for the provincial-municipal sector as a whole. This undue reliance on property taxation is clearly indicated by the continuing financial squeeze on municipalities and the increasing demands for provincial relief. In 1968 the Province undertook two major relief measures suggested by the Smith Committee, the Basic Shelter Tax Exemption payments and the takeover of the administration of justice, shifting approximately $150 million of financing from the local tax base to the provincial tax base. These measures have relieved the pressure on mill rates but do not constitute adequate long-run support. A major reform objective of the Province, therefore, is to increase its financial support for local governments in order to reduce the burden of financing which falls upon the slow-growing and oppressive property tax.

1. Increased Provincial Grants for Education

As a first step, Ontario intends to raise its average level of support for elementary and secondary education to 60 per cent over a three-year period, beginning in 1970-71. Presently, the Province's legislative grants provide about 45 per cent of school board finances. This increase in provincial support of education from 45 to 60 per cent will represent a permanent shift in financing from the local tax base to the provincial tax base. The cost of this shift is estimated to run from $175 million to $250 million annually, by the end of the phase-in period.

The primary purpose of the Province in assuming this increased share of education financing is to permit some compensating reduction in school board levies. In other words, the increase in provincial taxation for school support is expected to be offset substantially by reduced local taxation for school financing. To realize this desirable reduction in local levies, it is imperative that the higher provincial grants be accompanied by restraint in school board spending. In the past, increased provincial grants have been translated almost entirely into higher total expenditures on schools. This need not be the end result in future, however, because enrolments will level off over the next few years. If school boards do not exercise voluntary restraint in spending, this Government will consider establishing machinery, such as a budget review board, to ensure that increased financial aid from the province is passed on to the local taxpayer.

With increased provincial support of school board costs, there is the concomitant requirement of allocating the aggregate grant among the various school boards. Under present arrangements this is handled by the Ontario Foundation Tax Plan formula. This formula will have to be revised in order to generate and distribute the higher level of provincial grants among the new school board units which were established this year.

2. Other Grants to Local Governments

The long-run goal of the Province is to assume a larger share of the financing for other local services as well. This cannot be achieved immediately because the Province simply does not have the financial resources to make increased transfers. As the new provincial tax system begins to produce additional revenues, however, some of these revenues will be transferred to local governments in the form of increased grants and payments. Again, if the end result is simply increased local spending, this will necessitate central review and control measures.

The Government is undertaking a comprehensive review of its grants and aid policies. As the Smith Committee pointed out, some grants are obsolete and others deserve new emphasis, while in aggregate the present system lacks coordination. The Province hopes to correct these imperfections and to develop a rationalized overall support policy. Two changes already mentioned are examples of the kind of improvements that will be sought. The Basic Shelter Tax Exemption payments will be replaced by some form of tax credits and refunds under the provincial personal income tax, and mining revenue payments will be reduced as some mining municipalities begin to collect their own revenues from mines. In redesigning its grants policies, the Province also will seek to provide more of its total support in the form of unconditional grants, thereby allowing local governments greater autonomy in their budgetary allocations.

Reform of the provincial grants system must inevitably be a long-run process. This is particularly so when the Province is working towards fundamental reforms in other related areas such as property assessment and regional government. The regional government program will simplify and assist the reform of provincial grants in two main ways. First, it will reduce the number of grant-receiving units. Second, the equalization which will occur within regions will reduce the need for equalization components in particular provincial grants. Assessment reform will also have a major bearing on the development of an improved grants system. At present the Ontario Government pays out to local governments approximately $1 billion in grants which in one way or another are based on local assessment figures. Uniform and accurate assessment is vital, therefore, for an equitable distribution of these grants among local governments. Given these interrelationships, some time will be required before a fully adequate and coordinated grants policy can be formulated.

III. REFORM OF LOCAL TAXATION

Property taxation in Ontario stands in need of fundamental reform, perhaps more so than any other area. As the Smith Committee and the Select Committee so clearly showed, the present property tax is grossly unfair and inefficient. The proposed provincial actions to reduce the burden of financing that falls on the property tax and to offset its regressivity via personal income tax credits will substantially ameliorate these shortcomings. But reform of property taxation is still necessary and desirable, both in its own right and in order to facilitate and complement reforms in government structure and provincial grants. Therefore, the Government is determined to overhaul the entire system of property taxation and make it as equitable and efficient as possible.

There are four main thrusts to the Province's plan for reform:

- reassessing all real property at current value;
- broadening of the local tax base by removing exemptions;
- achieving a more neutral business assessment rate; and
- determining an appropriate distribution of tax burdens among classes of real property.

Of these, reform of assessment is the most crucial for it is the foundation upon which subsequent reforms in these other areas must be based.

1. Province-Wide Reassessment at Current Value

Current property assessment in Ontario is riddled with inconsistencies and inequities. Many properties are underassessed, some are overassessed and some are not assessed at all. Like properties are assessed at different values both within the same municipality and between municipalities. Moreover, there is no consistency among municipalities in the assessment treatment of particular classes of property. A class of property which enjoys low assessment and therefore a tax advantage relative to other properties in one municipality may be at a relative disadvantage in another municipality. The Ontario Government is convinced that the only way to remove these anomalies and inequities is to reassess all properties in Ontario at current value. It is the Province's aim to bring about uniformity of assessment all across Ontario in order to achieve equity among property owners, among property categories and among municipalities.

To remedy the serious existing problems in assessment, the Smith Committee recommended that Ontario provide more aid and incentives to the municipalities to improve their assessment practices. The Government has doubts that this approach would succeed without a complete change in management practices. It also believes that province-wide reassessment can be achieved much sooner under provincial management than under local administration. Therefore, the Ontario Government has decided to assume full responsibility for the administration of property assessment. This will be done in two stages. On July 1 of this year, the Province will take over the assessment function in Northern Ontario with the exception of the districts of Kenora, Rainy River and Sudbury and the cities of Sault Ste. Marie and Fort William. On January 1, 1970 the remainder of the province will come under provincial jurisdiction.

This changeover will mean the absorption of present municipal assessment personnel by the Department of Municipal Affairs and assumption of present assessment costs by the Province. This will represent a saving to municipalities of approximately $15 million, allowing a corresponding reduction in provincial grants. Following this immediate step, the Province intends to devote increased resources to the assessment function in order to ensure that the administration and quality of assessment is brought up to a proper level by the end of 1975.

Apart from the equity and efficiency considerations, this assessment reform will produce one major benefit to local governments themselves. Proper and systematic assessment will bring onto the rolls many properties that at present are not assessed at all or assessed on only part of their value. This will increase the revenues of the municipal sector and broaden the tax base against which future levies can be raised.

As the process of reassessment proceeds, the Province will consider the need for measures to cushion its impact. Present practices vary so widely that the move to a modern and equitable base is bound to involve financial hardships in some instances. While such hardships must eventually be borne if equity is to be achieved, temporary cushioning would smooth and ease these painful adjustments.

2. Broadening the Local Tax Base

The Government recognizes the desirability of broadening the property tax base by removing present exemptions and partial exemptions. Reform along these lines would have three very beneficial impacts on local finance. First, it would increase the revenue-raising capacity of the local government sector as a whole. Second, it would reduce intermunicipal fiscal disparities. Removal of exemptions would increase the assessment base of municipalities which presently have a high proportion of tax exempt properties much more than it would for municipalities with a low proportion of tax exempt properties. Third, it would shift some of the tax burden within each municipality from presently taxable to presently exempt properties.

The major classes of property that are presently exempt or partially exempt are private properties such as churches and YMCA's, institutional properties such as universities and hospitals, and government properties at the municipal, provincial and federal levels. The Province has already announced that it does not intend to remove the exemption for churches. The status of other private properties is currently under review. As for the other categories of exempt properties, the Province believes it would be premature to eliminate exemptions before proper assessment of these properties has been undertaken all across the province.

In the long run, this Government hopes to be able to pay full local taxes on all the properties of the Province, its agencies and the institutions it supports. The Province's recent move to pay full grants in lieu of taxes on senior citizen housing units represents a modest start in this direction. However, full realization of this objective will not be feasible until revenues become available to finance such reform. This delay, moreover, will permit the Province to consider any relevant findings by the federal-provincial Subcommittee on Intergovernmental Taxation.

3. A More Neutral Business Tax

At present, commercial and industrial properties pay a supplementary business tax as well as a realty tax on their assessed value. This business tax applies different rates of business assessment (that is, different proportions of taxable assessment to total assessment) against different kinds of business; hence, it penalizes some businesses and favours others. As well, the present schedule of rates is replete with categories and definitions which may have been relevant fifty years ago but are totally obsolete and inappropriate today. The Government of Ontario believes that this discriminatory feature of local taxation should be removed. A major reform objective of the Province, therefore, is to establish a more neutral business tax on all commercial and industrial property.

This long-run goal cannot be achieved until all properties, residential as well as commercial-industrial, have been reassessed at current value. Only then will the Province be in a position to measure and evaluate the impact of business assessment rates on different businesses, on different municipalities and on municipal revenues in aggregate. As an interim measure, however, the Province is considering a reduction in the present number of business assessment rates, a narrowing in the present range of rates and a general modernization of the business tax legislation. A transitional reform along these lines would maintain an adequate business tax base during the reassessment period and, at the same time, reduce discrimination between different kinds of business.

4. Distribution of Property Tax Burdens

The local tax reforms already mentioned will work to redistribute property tax burdens in Ontario. For example:

- reassessment will generate major shifts in tax burdens among individual properties, among classes of property and among municipalities;
- to the extent that exemptions from property tax are narrowed, tax burdens will shift from presently taxed to presently exempt properties;
- movement towards a more neutral business tax will redistribute tax burdens among businesses, on a more equitable basis.

In addition, a number of the basic reforms in other areas will have significant impact on property tax burdens. Mine processing facilities will begin to bear property taxes. The increased provincial grants for education will reduce the tax burden on all properties. Regional school boards and regional governments will tend to even out property tax burdens within their respective boundaries. Finally, any personal income tax credits or refunds for property taxes paid will tend to reduce the ultimate burden of residential property taxes on those families and individuals who are least able to pay.

One remaining element of local taxation which affects the weight of tax between residential and commercial-industrial properties is the split mill rate. In principle, the Government favours the abolition of the split mill rate, as was recommended by both the Smith Committee and the Select Committee on Taxation. The Province is not contemplating such a change, however, until reassessment has been completed and the impact on municipal finances can be carefully examined.

Redistribution of property tax burdens could be brought about, of course, by prescribing new norms for various classes of property right from the outset. This is essentially what the Smith Committee and the Select Committee did in setting out new ratios of taxable assessment to total assessment for various classes of property. The Government is convinced, however, that such a policy would be premature and inappropriate. Given the chaotic and discriminatory state of assessment in this province, there can be no reasonable degree of certainty that any desired distribution among property classes would in fact work out in practice. Moreover, the effects in individual municipalities of applying prescribed ratios of taxable assessment to total assessment may be substantially different than the effects for the province as a whole. The Province intends to push on with assessment reform, therefore, before attempting to establish any final distribution of tax burdens.

Within the overall field of property taxation there are some classes of property which merit special tax treatment. Transportation and communication properties, for example, must be considered separately from properties in general. The tax treatment of these special properties is still under review by the Province. Farm properties also require special treatment. Generally, the Government believes that the property tax on working farms should be considerably lower than on non-farm properties, because of the limited ability of working farms to pay taxes out of current income. Therefore, if property taxes on working farms show any significant increase when reassessment is introduced, the Province will consider interim measures to hold the line on farm tax burdens. This does not imply that the Government favours continuous tax concessions to all farms, including farms which are held and sold for land speculation. It simply reflects the Government's view that a capital gains tax is a better means of deriving the appropriate taxation from such farms rather than penalizing working farms with impossible property tax burdens.

IV. REFORM OF LOCAL GOVERNMENT STRUCTURE

Ontario has embarked on a long-run program to reorganize and reform its local government structure. This reform program seeks to achieve five major objectives:

1. a strengthened and modernized system of local government;
2. greater efficiency in the planning, administration and provision of local services;
3. reduction of disparities among local governments in the level of services and taxation;
4. return of powers to local governments from special-purpose boards and commissions;
5. decentralization and regionalization of provincial programs wherever feasible.

The Province is working to realize these objectives by means of three interrelated and complementary policies: the creation of larger school board units, the consolidation of existing local municipalities, and the establishment of a comprehensive system of regional governments.

The school board policy has already been legislated and implemented. As the new county boards of education become fully operational, some very positive results should begin to emerge. Education services in poorer and more remote areas will be upgraded; the property tax burden of school financing will tend to equalize within counties; and there will be a gradual improvement in the planning and provision of elementary and secondary education across the province as a whole.

The Province is also pursuing an active policy of municipal consolidation in order to reduce the total number of municipalities. A large number of local municipalities in Ontario are far too small to be viable units, either on their own, or within the lower tier of a regional system. Therefore, the Government is working towards a target of larger municipalities. This policy in itself will reduce tax imbalances and improve the efficiency of local governments. Normally, municipal consolidation will occur among lower-tier municipalities at the time of the establishment of a regional government. In areas where regional governments are not imminently planned, however, municipal consolidation will be encouraged on its own merits.

1. Regional Government

The key element in the structural reform program is the establishment of a system of regional governments. These new units will be urban-based in character, to enable local government to cope more effectively with the problems and needs of Ontario's increasingly urban and urbanizing society and to provide a broader range of benefits to our rural areas. The new regional units will also operate on a much broader scale, thereby providing the strength and cohesion which is lacking in the present municipal structure. This strength of the new regional units has three dimensions:

- a geographic area large enough for proper physical and economic planning;
- a population large enough to achieve economies of scale in the provision of public services;
- a financial base adequate and diversified enough to support a reasonable level and range of services.

As regional governments are established, the Province expects to see major progress towards its structural reform objectives. Powers presently in the hands of special-purpose bodies can be turned over to the new regional governments or to constituent local municipalities. The overall efficiency of local government should improve. Intermunicipal fiscal disparities, both in terms of the level of services and of taxation, should tend to even out. This equalization will occur because each regional government will provide a standard level of required services within its boundaries and will draw upon the tax base of the region as a whole for its financing.

The regional government policy will complement and support Ontario's other reform programs. Creation of regional governments and reduction in the number of municipalities, for example, will facilitate the development of a rationalized system of provincial aid to local government. Reform of local taxation and the regional government program will be mutually reinforcing; province-wide reassessment will ensure that regional governments are developed from a sound fiscal footing, while the improved assessment balance achieved through regionalization will allow a more equitable distribution of tax burdens among classes of property. In addition, the Province intends to work towards common boundaries for school boards and regional governments.

Regional government will also assume growing significance for the achievement of Ontario's regional economic development policies. The Department of Treasury and Economics and the Department of Municipal Affairs are working closely together to ensure that the two programs are coordinated, complementary, and mutually supporting. The broad provincial plans for orderly growth and development in all regions of the province will provide an umbrella for the land use and environmental planning responsibilities of regional governments. Regional government boundaries will be used as basic "building blocks" in drawing up more uniform administrative boundaries for provincial departments, which is one of the objectives of Ontario's "Design for Development". Both the regional government and regional development programs are based, essentially, on the concept of urban growth points. The concentration of provincial expenditures at these growth points as a means of encouraging economic growth and development in each region will result in an expansion of the local tax base of these growth centres. Regional governments will perform the key role of distributing these fiscal dividends throughout the region as a whole, thereby benefitting the rural areas as well as the urban centres. In addition, inter-regional equalization will occur through the discretionary regional allocation of the Province's budgetary expenditures and the program activities of provincial departments and agencies, under the regional development program.

This Government intends to implement the regional government program on a staged basis, giving priority to those areas of the province where the need for regional government is most immediate. The first full-fledged regional government came into existence in Ottawa-Carleton on January 1, 1969. The second regional government will be established in Lincoln-Welland, effective January 1, 1970. Other areas where attention is being concentrated are: Halton-Peel; East and North of Metro Toronto; Kitchener-Waterloo; Hamilton; Sudbury; and Muskoka. The timing schedule for Ontario's regional development program calls for definition of the growth points in all ten economic regions by the end of 1969 and the formulation of economic development plans throughout 1969 and 1970.

V. SUMMARY AND CONCLUSION

The four reform programs set out in this paper constitute a complete restructuring of provincial and municipal finance in Ontario. The various reform thrusts are interdependent and complementary; they must be regarded as parts of a total plan, a total "Fiscal Framework for the Future". The changes involved in moving towards Ontario's long-term objectives will be far-reaching and pervasive. The Province intends to implement its reforms, therefore, in measured and coordinated steps, all the while retaining maximum flexibility to consider alternative methods and means.

The Province is convinced that major benefits and improvements will result from its package of fiscal and structural reforms. Provincial and municipal taxation will become more equitable, more efficient and more capable of producing the revenues Ontario will need for development and expansion of essential public services in the years ahead. A major burden of financing will be lifted from the slow-growing and oppressive property tax. The strengthening and modernization of local governments will enable them to meet their present problems and to cope more effectively with the emerging needs of Ontario's urban society. Finally, existing disparities in levels of public services and taxation across the province should gradually be levelled out.

This white paper represents the framework of Ontario's reform program. A large number of less prominent recommendations in the reports of the Smith and Select Committees have yet to be fully considered before all the details of the reform program can be completed. These recommendations will continue to be reviewed by the Taxation and Fiscal Policy Branch of the Department of Treasury and Economics for possible implementation.

It must be recognized that this reform program will not be costless or painless. As this budget shows, the first step in the program of fiscal reform must be to contain the growth in public expenditures. But even with continuing restraint, total taxation in Ontario must inevitably increase in the years ahead, unless the fiscal mismatch between the federal and the provincial-municipal sectors is corrected. Redistribution of tax burdens also means additional taxes on some individuals, some properties and some businesses. The Province is convinced, however, that the social and economic costs of maintaining our present system, with all its inequities and defects, would be higher still. Ontario must proceed with fundamental reforms, both because of the intrinsic merits of such reforms themselves, and to provide the basis for constructive and rational development of public finance in this province.

Budget Paper C

Government Financial Statements

INTRODUCTION

This Budget Paper provides a comprehensive presentation of the Government's financial statements. In last year's budget, these statements underwent a major change as explained, in detail, at that time. The 1969 presentation follows the 1968 format, with a limited number of additional refinements and changes. One significant change has been introduced this year, following a review by the Government of its sinking fund policy.

The sinking fund was established originally to make provision for the retirement of the Province's debt in an orderly fashion. As a result of its review, the Government concluded that the previous practice of making annual provisions for the sinking fund was too rigid and formalized, bearing no direct relationship to the operating demands put on the sinking fund. Therefore, the Government has decided to discontinue the annual provision and the formal sinking fund in that form. The underlying purposes of the sinking fund will be better served by incorporating its operations into the Government's overall debt management.

The entire resources of the Government will continue to be used for the orderly retirement of the Province's debt. In other words, the planned allocation of funds for purposes of debt retirement will continue to be the first priority in budgetary planning.

At the end of the 1967-68 fiscal year, the fund was composed of $130 million in investments, the majority of which were Ontario Government issues with the remainder consisting mainly of Government of Canada bonds. With the discontinuation of the formal sinking fund, the Government will have a fluctuating portfolio of securities, the purchase and sale of which are governed by the Financial Administration Act.

In practice, these changes mean that, starting in 1969-70, no formal provision for sinking fund will be made in the financial statements. To achieve consistency in the tables presented in this Budget Paper, the sinking fund for past years is no longer shown separately. The provision for sinking fund was always an internal and offsetting flow of funds, which did not affect the cash requirements of the Government. In Table C1, the net changes in sinking fund investments in past years have been combined with retirements of maturing debt to more clearly reflect the natural link which will exist in future years.

Table C6 differs significantly from its equivalent in last year's presentation. In its new form, this table shows the approximate total magnitude of expenditure on physical assets through:

- direct spending by the Ontario Government;
- transfer payments from the Ontario Government to the local authorities and boards which make the actual outlays on physical assets; and
- loans and advances from the Ontario Government to universities, school boards, the two housing corporations, the O.W.R.C. and the O.D.C., all of which create the ultimate physical assets.

This table, therefore, provides a far more comprehensive picture of the Ontario Government's direct and indirect involvement in the creation of social capital in this province.

The changes in format and presentation of the budget's financial statements last year set the tone for comparable adjustments in the Government's public accounts. As explained extensively in the preface to the *1968 Public Accounts* and the appendix to the *1968 Abridged Financial Report*, both documents adopted the changes introduced in last year's budget. In adopting these changes, additional efforts were made for further simplification and clarification of what had become a very complex system of reporting.

In turn, the other significant change in this year's tables reflects the introduction, for the fiscal year 1967-68, of a different system of accounting, whereby non-cash accruals were eliminated. The elimination of non-cash accruals in the public accounts for 1967-68 has been an important factor in simplifying the presentation in these tables. The effect of this change is clearly shown in Table C8 and, to a lesser extent, in Table C7. Under the new system of accounting, and with the elimination of the sinking fund, Table C8 shows that the annual additions to the net debt are identical to the budgetary deficits.

All other changes are minor. Table C4 provides more detail than last year. A number of items in Table C5 have been given more meaningful descriptions, and the table has been generally simplified. Lastly, Table C10 has been revised by excluding provisions made in past years for sinking fund, thereby placing all years on a comparable basis.

TABLE C1

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

(Thousands of Dollars)

	1965-66	1966-67	1967-68	Interim[2] 1968-69
Budgetary Transactions				
Tax Revenue	1,145,612	1,487,532	1,757,140	1,990,000
Non-Tax Revenue	298,634	313,522	389,731	529,900
Total Net General Revenue (See Table C2)	1,444,246	1,801,054	2,146,871	2,519,900
Total Net General Expenditure (See Table C3)	1,456,198	1,780,914	2,253,619	2,786,900
Budgetary Surplus or (Deficit)	(11,952)	20,140	(106,748)	(267,000)
Non-Budgetary Transactions (See Table C5)				
Receipts and Credits:				
Loans and Advances	22,132	30,095	38,345	44,800
Pension Funds, Deposit, Trust & Reserve Accounts	83,600	83,286	86,756	134,200
	105,732	113,381	125,101	179,000
Proceeds from Non-Public Debentures Issued	121,880	421,497	488,118	522,300
Public Issues on Behalf of Ontario Hydro	48,843	34,694	125,150	156,300
Bank Loan (Net)	—	5,000	(5,000)	—
Province of Ontario Savings Deposits (Net)	(1,080)	1,288	13,386	15,000
Total Receipts & Credits	275,375	575,860	746,755	872,600
Disbursements & Charges:				
Loans and Advances	254,029	415,191	556,072	639,300
Pension Funds, Deposit, Trust & Reserve Accounts	40,070	54,726	62,389	51,700
Total Disbursements and Charges	294,099	469,917	618,461	691,000
Non-Budgetary Transactions (Net)	(18,724)	105,943	128,294	181,600
Debt Transactions				
Public Debentures Issued	196,905	—	110,000	104,300
Debt Retirements (Net)	(129,795)	(66,149)	(92,045)	(64,200)
Debt Transactions (Net)	67,110	(66,149)	17,955	40,100
Overall Effect on Liquid Reserves	36,434	59,934	39,501	(45,300)

[1]*Increase or (Decrease).*

[2]*The data for 1968-69 are derived from actual spending and revenue during the first eight months of the fiscal year, and estimates for the balance of the year as submitted by individual departments. As a result, the indicated effects on liquid reserves are only provisional.*

NOTE: Because the provision for Sinking Fund is an internal use of capital funds which does not affect the overall financial position of the Government, it has not been included in this table. Starting in 1969-70, this provision will no longer be made (see Introduction). The entry of debt retirements (net) combines retirement of maturing debt issues and net changes in sinking fund investments.

TABLE C2

NET GENERAL REVENUE[1]

(Thousands of Dollars)

	1965-66	1966-67	1967-68	Interim 1968-69	Estimated 1969-70
Taxation:					
Income Tax Collection Agreement	292,404	393,837	551,004	598,000	712,000
Retail Sales Tax	220,998	385,575	435,666	484,000	630,500
Corporation Taxes	252,376	274,500	302,273	325,000	407,000
Gasoline Tax	236,829	266,391	283,221	340,000	357,500
Succession Duty	56,968	57,913	59,638	66,000	67,000
Share of Federal Estate Tax	16,838	19,743	20,628	21,000	22,000
Motor Vehicle Fuel Tax	14,678	18,196	21,527	26,000	30,500
Tobacco Tax	2,002	18,553	18,983	54,000	72,500
Race Tracks Tax	12,162	14,673	15,091	19,000	21,000
Mines Profits, Acreage, Gas	15,094	10,852	16,334	17,400	27,000
Land Transfer Tax	6,705	8,528	10,823	12,500	14,000
Hospitals Tax	6,791	8,127	9,524	10,500	1,000[2]
Security Transfer Tax	4,200	3,503	4,835	7,000	7,500
Logging Tax	2,257	1,745	1,662	1,500	1,500
Income Tax — Public Utilities	1,321	1,051	1,576	3,500	3,800
Other Taxation	3,989	4,345	4,355	4,600	4,700
TOTAL TAX REVENUE	1,145,612	1,487,532	1,757,140	1,990,000	2,379,500
Other Revenue:					
Treasury & Economics					
L.C.B.O.	125,200	133,700	149,142	189,000	190,000
Water Power Rentals	6,647	7,368	8,154	8,500	9,000
Post-secondary Education Adjustment Payment	—	—	19,479	83,000	147,000[3]
Other	4,886	5,005	4,847	5,000	5,000
	136,733	146,073	181,622	285,500	351,000
Transport	96,128	100,343	107,379	128,700	139,500
Attorney General	13,065	13,425	15,001	41,700	43,200
Lands & Forests	24,807	25,645	29,980	31,600	36,800
Education	8,590	5,900	6,907	3,600	12,500
Health	4,731	5,178	9,396	5,900	7,700
University Affairs	49	77	347	7,300	5,400
Provincial Secretary & Citizenship	3,444	3,742	4,015	3,900	4,800
Highways	1,901	2,294	4,594	4,400	3,800
Labour	1,775	2,064	3,261	2,700	2,700
Agriculture & Food	1,272	1,241	1,932	1,600	1,800
Mines (less Taxes re Mines Profits, Acreage, Gas)	1,383	1,472	1,903	1,700	1,600
Other Departments	4,756	6,068	23,394[4]	11,300	8,100
TOTAL OTHER REVENUE	298,634	313,522	389,731	529,900	618,900
TOTAL NET GENERAL REVENUE	1,444,246	1,801,054	2,146,871	2,519,900	2,998,400

[1]*Combined Net Ordinary Revenue and Net Capital Receipts from Physical Assets.*

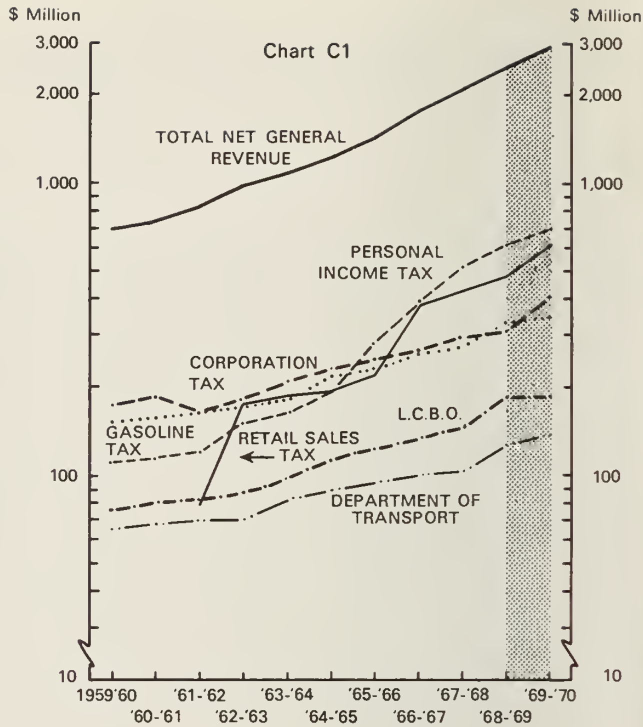
[2]*Hospitals Tax Act and Retail Sales Tax Act will be integrated, effective April 1, 1969. Approximately one month's revenue under The Hospitals Tax Act is expected to fall in the 1969-70 fiscal year.*

[3]*Includes delayed payment of $30 million relating to 1967-68 spending.*

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

REVENUES

Growth of Major Sources



Relative Importance of Major Sources

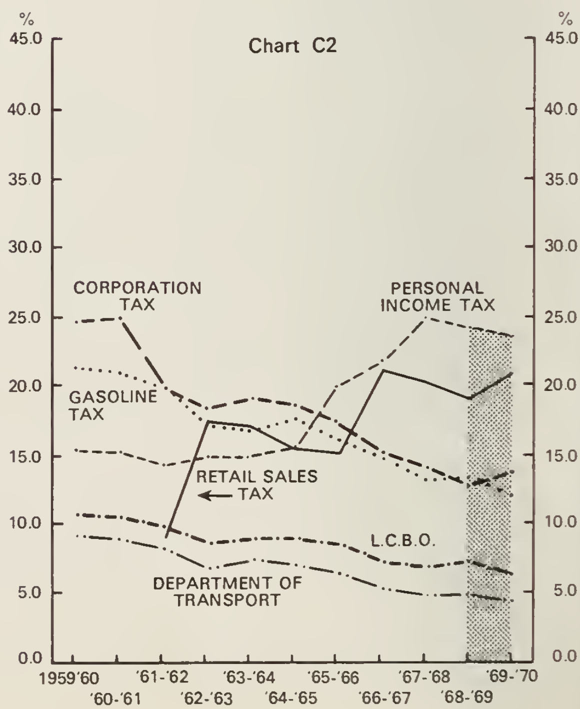


TABLE C3

NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY

(Thousands of Dollars)

	1965-66	1966-67	1967-68	Interim 1968-69	Estimated 1969-70
Education					
Assistance to School Boards	336,962	394,267	491,041	567,940	620,968
Constructing and Equipping Additional Vocational Units for School Boards, etc.	21,243	43,857	57,600	70,390	70,456
Teachers' Superannuation Fund	39,472	42,821	47,752	54,981	63,173
Technical and Technological Institutions	8,268	23,456	35,544	53,920	64,830
Other	31,179	48,788	58,213	68,650	84,715
	437,124	553,189	690,150	815,881	904,142
Highways					
Construction of Roads and Other Capital Projects	173,608	189,967	214,988	215,774	231,547
Municipal Subsidies, Capital	64,940	75,432	77,353	87,800	90,500
Municipal Subsidies, Maintenance	37,701	41,955	45,615	50,000	53,000
GO Transit (Capital and Maintenance)	168	9,607	8,715	13,358	3,479
Highway Maintenance, etc.	59,730	73,607	76,355	87,156	93,135
	336,147	390,568	423,026	454,088	471,661
University Affairs					
Grants to Universities and Colleges	69,087	96,065	194,210	267,259	319,983
Student Awards	6,518	9,926	21,986	34,269	39,715
Other	375	934	1,028	4,318	6,150
	75,980	106,925	217,224	305,846	365,848
Health					
Contribution to Ontario Hospital Care Insurance Plan	50,000	50,000	90,000	97,000	59,000
Construction Grants to Public Hospitals or Boards	11,544	27,086	36,308	42,089	29,411
Mental Health	72,936	85,075	103,543	121,989	131,037
Payments authorized under The Medical Services Insurance Act	—	8,938	25,859	37,000	37,000
Other	29,565	42,143	58,526	69,956	85,031
	164,045	213,242	314,236	368,034	341,479
Municipal Affairs					
The Residential Property Tax Reduction Act[1]	—	—	—	111,000	123,000
Payments under The Municipal Unconditional Grants Act	29,671	28,023	39,775	44,250	44,650
Other Grants, Subsidies and Payments to Municipalities	14,184	18,356	25,816	25,292	22,529
Other	2,962	3,818	4,063	5,311	12,902
	46,817	50,197	69,654	185,853	203,081

[1]*Usually referred to as the Basic Shelter Tax Exemption.*

(Cont'd)

TABLE C3 (Cont'd.)

NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY

(Thousands of Dollars)

	1965-66	1966-67	1967-68	Interim 1968-69	Estimated 1969-70
Social & Family Services					
Income Maintenance	68,059	70,998	86,561	97,262	108,908
Rehabilitation & Special Services	918	1,156	1,694	2,522	3,647
Child Care	15,866	18,719	15,097[2]	19,468	21,038
	84,843	90,873	103,352	119,252	133,593
Public Debt—Interest	63,175	62,022	64,163	76,772	89,871
Attorney General					
Ontario Provincial Police	24,158	29,021	34,630	40,004	40,896
Contribution to Legal Aid Fund	35	35	3,890	6,700	7,400
Other	15,231	18,394	25,673	38,650	40,370
	39,424	47,450	64,193	85,354	88,666
Public Works					
Construction of Public Buildings, etc.	34,730	45,691	47,916	50,586	46,540
Maintenance and Repairs of Public Buildings, etc.	14,838	17,098	20,646	35,364	34,705
	49,568	62,789	68,562	85,950	81,245
Lands & Forests	33,377	43,589	51,879	62,328	63,759
Agriculture & Food					
Grants for Capital Purposes in Farm Development	—	—	6,241	7,000	7,000
Other	24,699	30,815	30,160	37,514	45,350
	24,699	30,815	36,401	44,514	52,350
Treasury & Economics					
Government Contribution to Employee Pension and Insurance Plans	21,351	24,694	30,388	30,519	33,822
Other	3,163	4,134	5,264	8,493	9,558
	24,514	28,828	35,652	39,012	43,380
Correctional Services	19,499	22,523	28,312	37,950	42,271
Energy & Resources Management					
Ontario Water Resources Commission	4,141	6,203	7,774	9,119	9,243
Other	6,937	9,584	10,928	15,538	13,931
	11,078	15,787	18,702	24,657	23,174

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

(Cont'd)

TABLE C3 (Cont'd.)

NET GENERAL EXPENDITURE BY MINISTERIAL RESPONSIBILITY

(Thousands of Dollars)

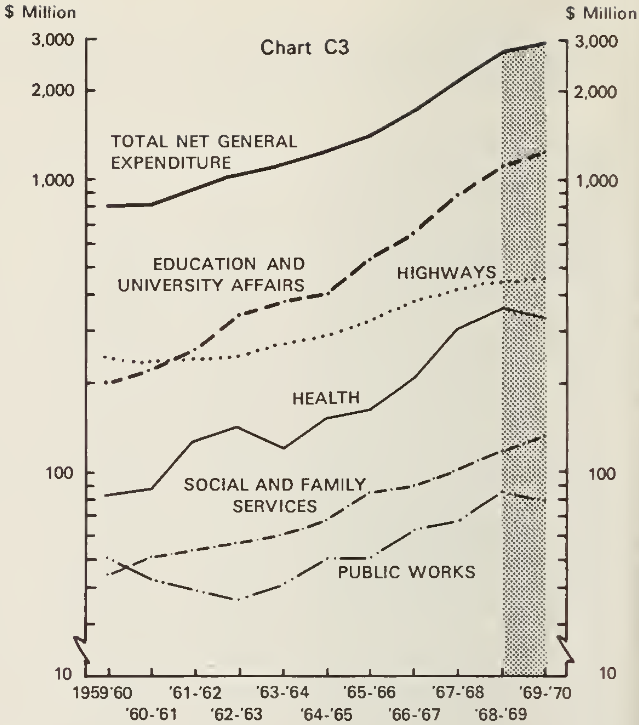
	1965-66	1966-67	1967-68	Interim 1968-69	Estimated 1969-70
Trade & Development					
Ontario (& Student) Housing Corporation	1,198	1,460	2,976	6,142	7,418
Universal and International Exhibitions (1967 and 1970)	1,265	6,893	2,364	1,124	1,140
Other	4,795	5,670	6,676	7,903	10,115
	7,258	14,023	12,016	15,169	18,673
Labour	6,885	9,752	9,811	13,776	15,845
Transport	8,005	9,135	10,623	12,008	13,028
Tourism & Information					
Centennial Centre of Science and Technology	855	1,307	2,089	2,578	3,608
Other	5,283	7,710	9,443	9,023	8,868
	6,138	9,017	11,532	11,601	12,476
Revenue	5,962	7,461	8,232	9,629	10,649
Mines	3,944	3,312	3,812	5,343	6,928
Provincial Secretary & Citizenship	5,696	6,234	6,615	7,023	6,918
Financial & Commercial Affairs	—	795	2,692	3,301	3,392
Civil Service	1,189	1,443	1,692	2,318	2,780
Provincial Auditor	548	657	755	842	888
Prime Minister	236	256	300	338	382
Lieutenant Governor	47	32	33	38	39
Total Net General Expenditure	1,456,198	1,780,914	2,253,619	2,786,877	2,996,518

NOTE: When functions have been transferred between departments, prior years' costs have also been reallocated to facilitate year to year comparison of costs. Consequently, in these cases, departmental totals have been adjusted from those that appear in the Public Accounts. Where new departments have been created, the best possible estimated distribution of costs for prior years has been made.

NOTE: Before incorporation in Table C1, 1968-69 and 1969-70 data from this Table were rounded to the nearest hundred thousand.

EXPENDITURES

Growth of Major Functions



Relative Importance of Major Functions

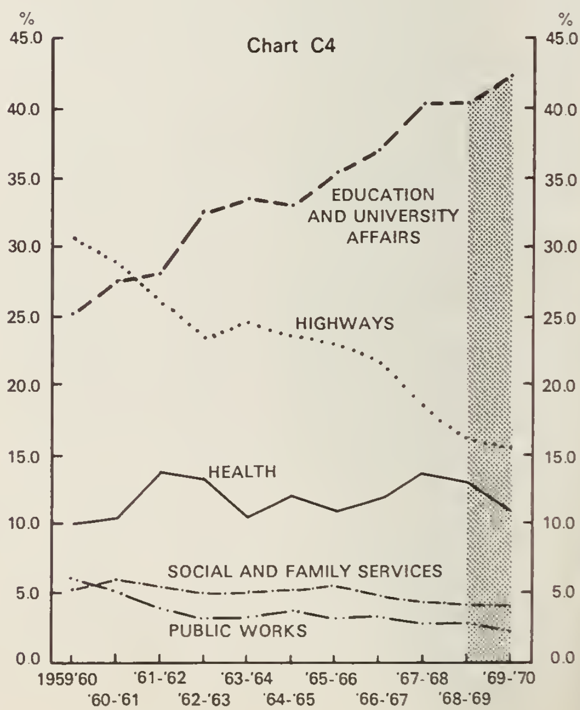


TABLE C4

ESTIMATED NET AND GROSS GENERAL EXPENDITURE, 1969-70

(Thousands of Dollars)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Education				
Departmental Administration	82,144	57	—	82,201
Formal Education K-13	36,116	18	—	36,134
Assistance to School Authorities	699,846	297	—	700,143
Continuing Education	67,540	23,650	3,090	94,280
Community Services	10,035	165	—	10,200
Other	8,461	—	—	8,461
	904,142	24,187	3,090	931,419
Highways				
Road Construction	322,047	8,650	3,006	333,703
Other	149,614	—	—	149,614
	471,661	8,650	3,006	483,317
University Affairs	365,848	—	—	365,848
Health				
Departmental Administration	18,427	959	—	19,386
Public Health	51,322	10,102	1,250	62,674
Mental Health	131,037	1,500	5,000	137,537
Medical Services Insurance	40,927	310	—	41,237
Health Insurance Registration	11,155	350	—	11,505
Ontario Hospital Services	88,611	11,000	—	99,611
	341,479	24,221	6,250	371,950
Municipal Affairs				
Planned Development of Municipalities	7,408	240	—	7,648
Other	195,673	—	—	195,673
	203,081	240	—	203,321
Social & Family Services				
Departmental Administration	2,039	1,086	—	3,125
Income Maintenance	107,246	108,156	—	215,402
Rehabilitation and Special Services	3,592	3,213	—	6,805
Child Care	20,716	18,491	250	39,457
	133,593	130,946	250	264,789
Public Debt—Interest	89,871	—	151,182	241,053

(Cont'd)

TABLE C4 (Cont'd.)

ESTIMATED NET AND GROSS GENERAL EXPENDITURE, 1969-70

(Thousands of Dollars)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Attorney General				
Courts Administration	26,955	—	93	27,048
Official Guardian and Public Trustee	698	—	1,465	2,163
Public Safety	4,289	1,056	—	5,345
Other	56,724	—	—	56,724
	88,666	1,056	1,558	91,280
Public Works	81,245	—	—	81,245
Lands & Forests				
Resource Protection and Development	39,130	618	—	39,748
Recreation	19,293	697	—	19,990
Other	5,336	—	—	5,336
	63,759	1,315	—	65,074
Agriculture & Food				
Agricultural Production	18,980	678	—	19,658
Rural Development	10,074	3,558	—	13,632
Agricultural Marketing	6,160	28	41	6,229
Agricultural Education and Research	15,266	10	—	15,276
Other	1,870	—	—	1,870
	52,350	4,274	41	56,665
Treasury & Economics	43,380	—	—	43,380
Correctional Services				
Rehabilitation of Adult Offenders	28,568	60	4,093	32,721
Rehabilitation of Juveniles	11,719	10	—	11,729
Other	1,984	—	—	1,984
	42,271	70	4,093	46,434
Energy & Resources Management				
Renewable Resources Management	11,166	2,046	—	13,212
Management of the Quality and Quantity of Water	5,111	300	—	5,411
Other	6,897	—	—	6,897
	23,174	2,346	—	25,520
Trade & Development				
Trade and Industrial Development	2,985	—	2	2,987
Other	15,688	—	—	15,688
	18,673	—	2	18,675

(Cont'd)

TABLE C4 (Cont'd.)

ESTIMATED NET AND GROSS GENERAL EXPENDITURE, 1969-70

(Thousands of Dollars)

	Net General Expenditure	Federal Transfers	Other Allocations	Gross General Expenditure
Labour				
Manpower Development	6,156	6,400	—	12,556
Other	9,689	—	—	9,689
	15,845	6,400	—	22,245
Transport				
Motor Vehicle Accident Claims Fund	—	—	1,146	1,146
Other	13,028	—	—	13,028
	13,028	—	1,146	14,174
Tourism & Information				
Tourism	7,516	34	—	7,550
Other	4,960	—	—	4,960
	12,476	34	—	12,510
Revenue				
Province of Ontario Savings Office	—	—	1,352	1,352
Other	10,649	—	—	10,649
	10,649	—	1,352	12,001
Mines	6,928	—	—	6,928
Provincial Secretary & Citizenship				
Citizenship	840	259	—	1,099
Registrar General	1,141	31	—	1,172
Other	4,937	—	—	4,937
	6,918	290	—	7,208
Financial & Commercial Affairs				
Departmental Administration	593	32	—	625
Other	2,799	—	—	2,799
	3,392	32	—	3,424
Civil Service	2,780	—	—	2,780
Provincial Auditor	888	—	—	888
Prime Minister	382	—	—	382
Lieutenant Governor	39	—	—	39
TOTAL	2,996,518	204,061	171,970	3,372,549

TABLE C5
DETAILS OF NON-BUDGETARY TRANSACTIONS
(Thousands of Dollars)

Receipts and Credits	1965-66	1966-67	1967-68	Interim 1968-69	Budget 1969-70
PROCEEDS OF NON-PUBLIC DEBENTURE ISSUES:					
Caneda Pension Plan	20,110	332,587	375,902	410,000	425,000
Municipal Works Assistance Act	30,670	28,310	32,316	6,200	—
Ontario Municipal Employees' Retirement Fund	14,100	20,100	24,900	33,100	39,000
Teachers' Superannuation Fund	57,000	40,500	55,000	73,000	85,000
	121,880	421,497	488,118	522,300	549,000
DEBENTURE ISSUES ON BEHALF OF ONTARIO HYDRO	48,843	34,694	125,150	156,300	—
BANK LOAN	—	5,000	(5,000)	—	—
PROVINCE OF ONTARIO SAVINGS DEPOSITS (Net)	(1,080)	1,288	13,386	15,000	—
REPAYMENT OF LOANS AND ADVANCES:					
Ontario Hydro	3,992	3,401	5,416	5,100	1,100
Municipel Works Assistance Act	10,613	11,471	13,434	6,500	3,800
Ontario Municipal Improvement Corporation	2,582	6,900	3,771	3,500	3,600
Ontario Universities Capital Aid Corporation	630	1,896	3,286	4,800	7,000
Ontario Education Capital Aid Corporation	—	715	6,931	14,300	19,000
Ontario Development Corporation	—	—	—	2,400	4,100
Ontario Hospitals re Hospital Construction Loens	—	735	1,026	3,500	4,100
Other	4,315	4,977	4,481	4,700	5,800
	22,132	30,095	38,345	44,800	48,500
PENSION FUNDS, DEPOSIT, TRUST & RESERVE ACCOUNTS:					
Sales of Vacation-with-Pay Stemps	11,243	14,100	13,020	9,500	2,000
Public Service Superannuation Fund	44,772	44,895	51,741	56,300	63,500
Motor Vehicle Accident Cleims Fund	8,198	8,880	8,396	8,100	9,200
OHSC — Special Account for Premium Stabilizetion	12,000	2,000	—	38,000	—
OMSIP — Special Account for Premium Stabilization	—	—	—	3,200	—
HIRB — Special Account for OMSIP Premiums Peid in Advence	33	2,284	4,814	11,000	11,000
Ontario Municipal Employees' Retirement Fund	4,300	5,175	6,600	7,100	8,100
Other	3,054	5,952	2,185	1,000	500
	83,600	83,286	86,756	134,200	94,300
TOTAL RECEIPTS AND CREDITS	275,375	575,860	746,755	872,600	691,800

TABLE C5 (Cont'd.)

DETAILS OF NON-BUDGETARY TRANSACTIONS

(Thousands of Dollars)

Disbursements and Charges	1965-66	1966-67	1967-68	Interim 1968-69	Budget 1969-70
LOANS AND ADVANCES:					
Ontario Municipal Improvement Corporation	3,000	1,001	8,525	3,000	3,000
Ontario (& Student) Housing Corporation	9,250	12,600	34,409	19,400	56,000
Ontario Universities Capital Aid Corporation	89,239	93,105	106,309	175,700	170,000
Ontario Education Capital Aid Corporation	—	166,185	167,555	178,000	175,000
Ontario Water Resources Commission	8,152	20,692	14,070	11,000	32,000
Ontario Junior Farmer Establishment Loan Corporation	20,900	16,210	19,700	23,100	9,000
Municipal Works Assistance Act	40,733	36,609	45,073	8,500	—
Loans for Hospital Construction and Capital Financial Assistance	9,377	12,993	21,808	26,800	25,800
Ontario Hydro	48,843	34,694	125,150	156,300	—
Ontario Hydro re Nuclear Powered Generating Station	1,800	5,242	7,498	19,100	20,000
Municipality of Metropolitan Toronto	20,000	—	—	—	—
Ontario Development Corporation — Investment	—	7,000	—	—	—
Ontario Development Corporation — Advances	—	738	145	13,200	23,800
Tile Drainage Debentures	1,778	2,149	2,565	3,500	4,100
Ontario Northland Transportation Commission	—	3,800	700	—	—
Other	957	2,173	2,565	1,700	1,500
	254,029	415,191	556,072	639,300	520,200
PENSION FUNDS, DEPOSIT, TRUST & RESERVE ACCOUNTS:					
Redemptions of Vacation-with-Pay Stamps	9,599	13,137	14,196	12,500	7,500
Public Service Superannuation Fund	16,896	17,503	17,530	19,300	20,700
Motor Vehicle Accident Claims Fund	4,103	5,213	6,451	7,100	8,100
OHSC — Special Account for Premium Stabilization	—	13,000	12,000	—	39,000
OMSIP — Special Account for Premium Stabilization	—	—	—	—	3,200
HIRB — Special Account for OMSIP Premiums Paid in Advance	—	33	2,284	4,800	11,000
Ontario Municipal Employees' Retirement Fund	3,400	4,300	5,175	6,600	7,100
Other	6,072	1,540	4,753	1,400	200
	40,070	54,726	62,389	51,700	96,800
TOTAL DISBURSEMENTS & CHARGES	294,099	469,917	618,461	691,000	617,000
(NET REQUIREMENTS TO FINANCE) OR SURPLUS ON NON-BUDGETARY TRANSACTIONS	(18,724)	105,943	128,294	181,600	74,800

TABLE C6

ANALYSIS OF EXPENDITURE ON PHYSICAL ASSETS

(Thousands of Dollars)

	Interim 1968-69	Estimate 1969-70
Net General Expenditure		
Direct Provincial Expenditure on Physical Assets		
Transportation	203,074	208,368
Provision of Accommodation	50,586	46,540
Other	15,137	11,880
Sub-Total	268,797	266,788
Transfer Payments in respect of Physical Assets		
Transportation	111,300	114,434
Education	85,680	84,232
Health	43,008	31,071
Other	37,491	34,666
Sub-Total	277,479	264,403
Total Net General Expenditure on Physical Assets	546,276	531,191
Loans and Advances		
Education	353,712	345,000
Industrial Development and Provincial Resources	66,881	85,148
Home & Community Environment	34,374	63,096
Health	26,806	25,781
Total Loans and Advances in respect of Physical Assets	481,773	519,025
GRAND TOTAL	1,028,049	1,050,216

TABLE C7

INCREASE IN GROSS DEBT

(Thousands of Dollars)

Gross Debt Increased or (Decreased) by:	1965-66	1966-67	1967-68[1]	Interim 1968-69
Net Budgetary Transactions (See Table C1)	11,952	(20,140)	106,748	267,000
Cash on Hand and in Banks	39,639	76,090	71,730	(45,300)
Temporary Investments	(3,205)	(16,156)	(34,848)	—
Advances to Crown Corporations (Net)[2]:				
Ontario (& Student) Housing Corporation	24,635	50,497	34,260	19,246
Ontario Junior Farmer Establishment Loan Corporation	12,297	14,977	19,700	23,100
Ontario Universities Capital Aid Corporation	88,610	91,209	103,023	170,900
Ontario Education Capital Aid Corporation	—	165,470	160,624	163,700
Ontario Municipal Improvement Corporation	—	—	4,754	(500)
Ontario Development Corporation	—	—	145	10,800
Other Corporations	(275)	—	100	(200)
Ontario Hydro	46,650	36,536	127,232	170,300
Advances to Ontario Water Resources Commission	8,152	20,692	14,070	11,000
Advances to Ontario Northland Transportation Commission	—	3,800	700	—
Purchase of Debentures of Municipality of Metropolitan Toronto, less Repayments	19,409	—	—	—
Loans to Municipalities, Miscellaneous Loans, etc.	40,061	37,396	52,768	25,864
Discount on Debentures issued during year	4,253	306	—	—
Discount and Exchange on Debentures, written off	(1,832)	(1,885)	—	—
Accrued Interest and Discount of Provincial Crown Corporations (Net)	—	2,087	—	—
Increase in Reserves	(446)	(187)	—	—
Miscellaneous	829	218	—	—
INCREASE IN GROSS DEBT	290,729	460,910	661,006	815,910

[1]*Changes in the system of accounting have eliminated non-cash accruals commencing year 1967-68.*

[2]*Commencing year 1967-68 crown corporations' assets are not reported in the provincial balance sheet; advances to these corporations are shown as a net amount.*

TABLE C8
CHANGES IN NET DEBT
(Thousands of Dollars)

	1965-66	1966-67	1967-68[1]	Interim 1968-69
Net Debt Increased or (Decreased) by:				
Net Budgetary Transactions (See Table C1)	11,952	(20,140)	106,748	267,000
Discount on Debentures issued during year	4,253	306	—	—
Discount and Exchange on Debentures, written off	(1,832)	(1,885)	—	—
Discount assumed by Ontario Hydro	(1,158)	(306)	—	—
Accrued Interest and Discount of Provincial Crown Corporations (Net)	—	2,087	—	—
Increase in Reserves (Net)	(446)	(187)	—	—
Mortgage assumed on Acquisition of Building	1,964	—	—	—
Miscellaneous	443	117	—	—
INCREASE OR (DECREASE) IN NET DEBT	15,176	(20,008)	106,748	267,000

[1]*Changes in the system of accounting have eliminated non-cash accruals commencing year 1967-68.*

Chart C5

TOTAL FUNDED DEBT AT THE END OF FISCAL YEARS 1959-60 TO 1968-69

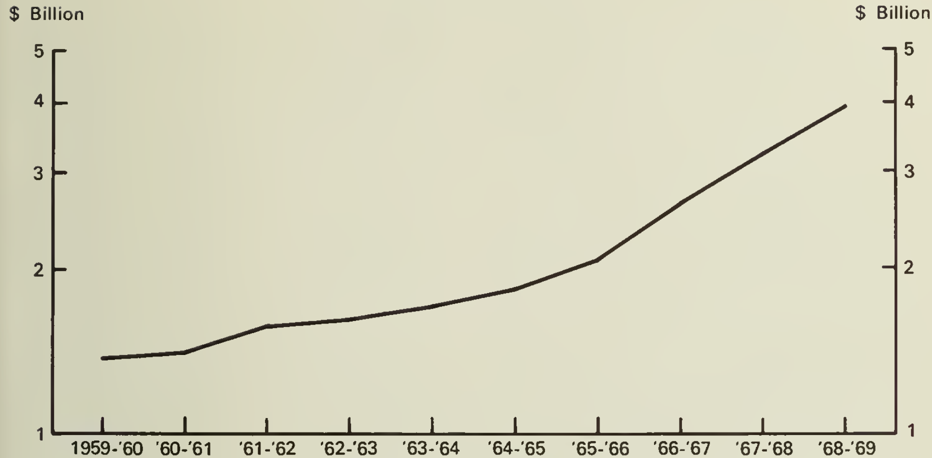


Chart C6

NET DEBT AS A PERCENTAGE OF PROVINCIAL DOMESTIC PRODUCT

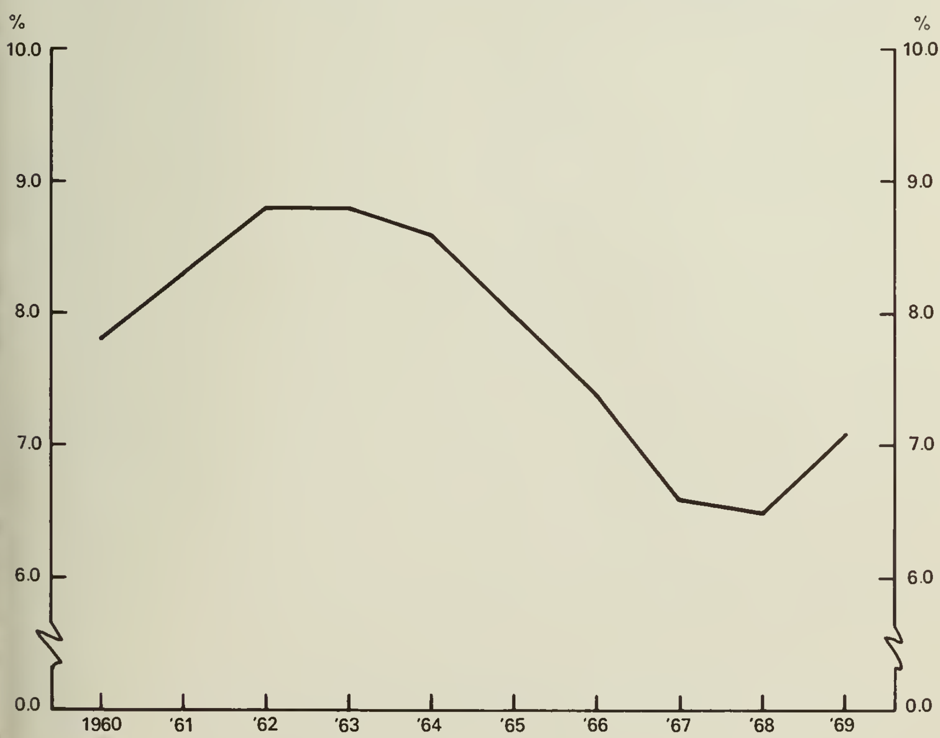


TABLE C9

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

(Thousands of Dollars)

	1966	As at March 31st, 1967	1968	Estimated as at Dec. 31, 1968
Ontario Hydro	1,730,122	1,883,252	1,836,823	1,967,792
Agricultural Guarantees	—	19,350	27,270	26,785
University of Toronto	19,000	19,000	19,000	19,000
Ontario Northland Transportation Commission	17,952	21,535	20,302	18,800
Provincial Crown Corporations	—	—	34,980	31,167
Ontario Food Terminal Board	5,000	5,000	5,000	5,000
Development Loans	1,282	1,021	881	785
Co-operative Associations	1,276	643	1,482	1,487
Niagara Parks Commission	200	525	425	—
Miscellaneous	683	370	419	1,521
	1,775,515	1,950,696	1,946,582	2,072,337
Less Bonds held by Province	(23,333)	(23,333)	(13,331)	(10,831)
TOTAL	1,752,182	1,927,363	1,933,251	2,061,506

TABLE C10

HISTORICAL SUMMARY OF TOTAL BUDGETARY TRANSACTIONS

(Thousands of Dollars)

Fiscal Year Ending March 31	Net General Revenue[1]	Net General Expenditure[2]	Budgetary Surplus or (Deficit)
1936[3]	67,656	95,856	(28,200)
1940	88,385	117,408	(29,023)
1945	117,377	120,712	(3,335)
1950	229,351	253,748	(24,397)
1955	400,074	431,294	(31,220)
1960	704,885	786,288	(81,403)
1961	741,676	837,757	(96,081)
1962	827,424	941,677	(114,253)
1963	996,525	1,067,542	(71,017)
1964	1,081,380	1,139,246	(57,866)
1965	1,238,981	1,265,534	(26,553)
1966	1,444,246	1,456,198	(11,952)
1967	1,801,054	1,780,914	20,140
1968	2,146,871	2,253,619	(106,748)
1969 (est.)	2,519,900	2,786,900	(267,000)
1970 (est.)	2,998,400	2,996,500	1,900

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

TABLE C11

GROSS AND NET DEBT, SELECTED FISCAL YEARS

(Millions of Dollars)

	Gross Debt		Revenue-Producing and Realizable Assets					Net Debt			
Fiscal Year Ending Mar. 31	Total	Yearly Increase or (Decrease)	Ontario Hydro	O.N.T.C.	Loans and Cash	Total	Yearly Increase or (Decrease)	Total	Yearly Increase or (Decrease)	Population April 1 (000's)	Per Capita Net Debt $
1945	636.8	20.0	95.5	30.2	28.4	154.1	17.0	482.7	3.0	3,994	120.85
1950	684.0	64.6	70.2	30.2	73.5	174.0	40.3	510.0	24.3	4,456	114.46
1955	1,066.2	30.7	300.0	30.2	75.2	405.4	52.0	660.7	30.7	5,241	126.07
1960	1,642.7	63.6	379.3	30.2	239.6	649.1	29.5	993.6	93.0	6,087	163.23
1961	1,695.5	52.8	359.5	30.2	213.2	602.9	(46.2)	1,092.6	99.0	6,214	175.83
1962	1,885.0	189.5	356.2	30.2	289.5	675.9	73.0	1,209.1	116.5	6,330[1]	191.01
1963	1,979.4	94.4	351.3	30.2	313.8	695.3	19.4	1,284.1	75.0	6,464[1]	198.65
1964	2,058.0	78.6	347.3	30.2	335.7	713.2	17.9	1,344.7	60.6	6,607[1]	203.53
1965	2,218.3	160.3	345.7	30.2	477.0	852.9	139.7	1,365.3	20.6	6,759[1]	202.00
1966	2,509.0	290.7	393.5	30.2	704.8	1,128.5	275.6	1,380.5	15.2	6,934[1]	199.09
1967	2,969.9	460.9	430.3	34.0	1,145.1	1,609.4	480.9	1,360.5	(20.0)	7,115[2]	191.22
1968[3]	2,878.8	(91.1)	430.3	34.0	1,070.8	1,535.1	(74.3)	1,343.7	(16.8)[4]	7,115[2]	188.85
1968	3,539.8	661.0	557.6	34.7	1,497.1	2,089.4	554.3	1,450.5	106.8	7,283[2]	199.16
1969 (est.)	4,355.7	815.9	727.9	34.7	1,875.6	2,638.2	548.9	1,717.5	267.0	7,422[1]	231.41

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

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

[3]*Amended April 1, 1967.*

[4]*This amount results from the revised system of accounting which has eliminated non-cash accruals and reserves and reports net advances to Crown Corporations instead of consolidating net assets.*

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

TABLE C12

GOVERNMENT REVENUE AND EXPENDITURE

(Fiscal Year 1968-69 Interim)

WHERE THE MONEY COMES FROM — HOW IT IS SPENT

Revenue

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

Individual Income Tax	$ 598,000,000
Retail Sales Tax	484,000,000
Corporation Taxes	325,000,000
Gasoline Tax	340,000,000
Liquor Control Board	189,000,000
Motor Vehicle Licences and Fees	128,700,000
Other	455,200,000
TOTAL NET GENERAL REVENUE	$2,519,900,000

Expenditure

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

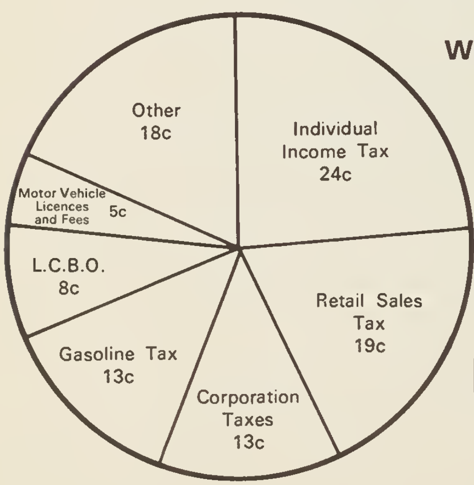
Education	$1,121,727,000
Health and Social Services	487,286,000
Highways	454,088,000
Other	723,766,000
TOTAL NET GENERAL EXPENDITURE	$2,786,877,000

Chart C7

THE GOVERNMENT DOLLAR

(Fiscal Year 1968 Interim)

Where it comes from



How it is spent

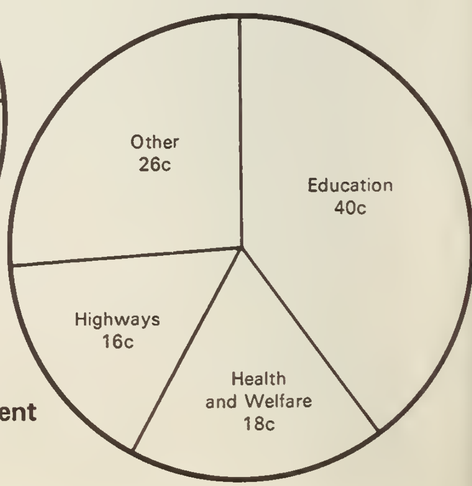


TABLE C13

GOVERNMENT REVENUE AND EXPENDITURE

(Fiscal Year 1969-70 Estimates)

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

Revenue

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

Individual Income Tax	$ 712,000,000
Retail Sales Tax	630,500,000
Corporation Taxes	407,000,000
Gasoline Tax	357,500,000
Liquor Control Board	190,000,000
Motor Vehicle Licences and Fees	139,500,000
Other	561,900,000
TOTAL NET GENERAL REVENUE	$2,998,400,000

Expenditure

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

Education	$1,269,990,000
Health and Social Services	475,072,000
Highways	471,661,000
Other	779,795,000
TOTAL NET GENERAL EXPENDITURE	$2,996,518,000

Chart C8

THE GOVERNMENT DOLLAR

(Fiscal Year 1969 Estimates)