

Estimating The Economic Impacts of Potential Major Changes at Stelco Inc.

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Executive Summary

This report provides estimates¹ of the economic implications for the local, provincial and national economies of three alternative outcomes for Stelco's operations: (1) the closing of the Stelco Hamilton operations (including Stelwire) together with that portion of the Stelco Lake Erie operations which is dependent on the Hamilton operations; (2) in addition to outcome (1) the subsequent closing of the remainder of the Stelco Lake Erie operations in Nanticoke and the head office operations in Hamilton; and (3) as an alternative to outcomes (1) and (2), Stelco survives and there is renewed investment in both the Hamilton and Lake Erie operations.

The estimated economic impacts are based upon Stelco data for 2002 and are derived using an input-output model from Statistics Canada and econometric models for Canada and Ontario from the University of Toronto. These impacts are measured in terms of income, jobs and government revenue, and include the direct effects on Stelco employees and company profits, the indirect effects on suppliers to Stelco, and the induced effects created by the spending of incomes and profits.

Outcome 1:

Closure of Stelco Hamilton Operations and a Portion of the Lake Erie Operations

Based on 2002 data, Stelco's operations described in outcome (1) result directly in over 5,800 full-time jobs in Hamilton and Nanticoke, with an associated salary and benefits value of \$417 million. In the event of a closure of these operations, the initial impact of

¹ These estimates are necessarily based upon many simplifying assumptions and the application of broadly based analytical tools. As such they should be viewed as rough orders of magnitude of the potential impacts that could be expected to result. See the detailed report for additional caveats.

the direct job and income losses at Hamilton and Nanticoke will ripple through the remainder of the local economy, and across the rest of Ontario and Canada. As a result, an estimated additional 12,300 jobs will be lost (including over 7,700 in the Hamilton and Nanticoke regions alone) together with \$970 million of income annually (including almost \$580 million in the Hamilton and Nanticoke regions). In aggregate, more than 18,100 jobs, with annual salaries and benefits of approximately \$1.4 billion, are projected to be lost in Canada.

The declines in the local, provincial and national economies attributable to closing the Stelco Hamilton operations would impose revenue losses on all three levels of government totaling over \$800 million annually as the impact on property taxes, income taxes and sales taxes are felt. The estimated loss to Ontario municipalities is almost \$37 million, while the Ontario provincial government stands to lose about \$270 million annually. Federal government revenues could fall by nearly \$380 million. Municipalities in other provinces, as well as the other provincial governments, stand to lose about \$115 million.

The elimination of these Stelco operations could have a negative impact on the overall industrial cluster in Southwestern Ontario of steel, auto and other manufacturing operations of which Stelco is an integral part. This could increase the difficulty of finding a job in the region, especially for those workers more advanced in age and whose skill sets are less readily transferable to other sectors of the economy, thereby adding to the costs to Ontario's social support infrastructure.

***Outcome 2:
Closure of all of Stelco's Integrated Steel Operations***

The estimated economic impacts resulting from outcome (2), namely, the closure of both the remainder of the Stelco Lake Erie operations and Stelco's Hamilton head office operations, together with the closure of those operations discussed above in outcome (1), are of course even more significant.

In this case an estimated 7,069 full-time jobs are affected directly in Hamilton and Nanticoke, with associated wage and benefits of \$521 million. Once these impacts ripple through the remainder of the local economy, and across the rest of Ontario and Canada, a further 17,468 indirect and induced jobs are lost in Canada as a whole, including over 7,000 in the Hamilton area, 3,000 in the Nanticoke region, and over 3,000 in the rest of Ontario. This results in *additional* income loss of over \$1.3 billion annually for the entire country, including over \$500 million in the Hamilton vicinity, \$200 million in the Nanticoke region, and \$210 million in the rest of Ontario. In aggregate, over 24,500 jobs, with annual salaries and benefits of approximately \$1.9 billion, are forecast to be lost in Canada.

The estimated annual revenue losses to all levels of government in this outcome are expected to total over \$1 billion. In Ontario alone the impact is expected to be almost \$50 million lost to municipal governments and over \$350 million to the provincial government. The Federal government is estimated to lose over half a billion dollars in tax revenue annually.

***Outcome 3:
Stelco Survives and Invests in its Integrated Steel Operations***

Outcome (3) describes an alternate vision of Stelco's future, which includes a major restructuring of its operations in Hamilton and Lake Erie. To realize this objective Stelco projects that new investment is required over the next three years totaling \$215 million at its Lake Erie facility and \$388 million at Stelco Hamilton.

Over the three-year construction period the \$603 million of increased investment spending is expected to generate over 8,500 person years of employment and over \$667 million in income, the bulk of which will be felt in the Hamilton and Nanticoke areas. The incremental income to employees and businesses that derives from the extra construction activity is expected to generate revenue gains totaling almost \$480 million for all levels of government.

Introduction

In this report, we estimate the economic impacts of three possible alternative outcomes with respect to Stelco Inc.'s operations in light of Stelco's financial crisis. The alternative outcomes considered include: (1) the closure of Stelco's Hamilton operations together with that portion of Stelco's Lake Erie operations which is dependant on the continuation of the Hamilton plant; (2) the closure of both Stelco's Hamilton plant and head office and the Lake Erie operations in their entirety, and (3) Stelco survives and there is renewed investment in both the Hamilton and Lake Erie operations.

For each of these situations, we provide an assessment of the resulting economic implications for the local, provincial and national economies, measured in terms of income, jobs and implications for government revenues and spending.

It is to be expected that Stelco Inc. employees would feel the greatest impacts resulting from the changes being contemplated. There would also be substantial ripple effects throughout the communities in which they live, as well as in the remainder of the Ontario and even Canadian economies. For example, suppliers to Stelco would feel these, as would other businesses located in Hamilton, Nanticoke and elsewhere that depend on the spending of Stelco employees. There would also be impacts on local governments, whose tax base would be affected, and on the provincial and federal treasuries.

Any analysis of the potential economic impacts of these alternative scenarios for Stelco upon the local community, as well as on the rest of Ontario and Canada, is necessarily a simplification of an extremely complex situation. In general, the analytical methods employed in economic impact estimation, including input-output analysis, multipliers and econometric modeling, can only be expected to provide a reasonable order of magnitude for the key economic impacts that could occur.

In any given situation, a wide variety of factors can affect economic impact estimates. These include the degree of slack in the economy, and the size, location and duration of the "disturbance" whose impacts are to be measured. Further, there is necessarily some uncertainty concerning the reactions of economic agents, especially those of governments, to the effects of the shock. The impact estimation approach we have adopted, which is described in the following section, is intended to combine suitable analytical techniques with appropriate judgments as required, to present a balanced

assessment of the likely economic impacts that would result in each of the alternative Stelco outcomes.

Overview of Our Approach

We apply the same basic analytical methodology to all three outcomes outlined above. We describe it in detail for the first only.

1. Closure of the Stelco Hamilton operations and a portion of the Lake Erie operations:

As an estimate for the future economic impacts of permanently closing the Stelco Hamilton operations, including Stelwire², we use the economic impacts generated by these operations in a recent “typical” past year. Stelco has suggested that the nature and magnitude of the operations in the year 2002 qualifies it as a suitable choice for this purpose.

Based on detailed data from the Stelco Hamilton operations for 2002, we estimate their total economic impacts on the local Hamilton economy, the Province of Ontario and the rest of Canada. To do so we follow a three-step process. First we make use of the data provided by Stelco on employment and expenditures for the Hamilton operations to determine the “direct” economic impact of these operations on the Hamilton regional economy, as well as on the overall provincial economy.

There are close operational and administrative linkages between the Stelco Hamilton and Stelco Lake Erie operations, which in turn are a key component of the Nanticoke economy. About 26% of the value of Stelco Lake Erie output is transferred to Stelco Hamilton.

We also wish to capture as accurately as possible the implications for the Nanticoke economy that derive from this close linkage between the two operations. To do so, we need to estimate the economic impacts of the activity at the Stelco Lake Erie

² It is our understanding that Stelco’s other wholly owned subsidiaries, which have not filed for CCAA, including AltaSteel, Norambar Inc. and Stelfil, could be expected to continue operating and thus have not been included in the measured impacts. The economic impacts of a closure of Stelpipe’s operations, located in Welland, Ontario, have not been considered in this analysis.

operations that are devoted to supplying the Stelco Hamilton operations. We base these estimates on detailed spending data from Stelco for the Nanticoke plant for 2002. Subsequently, in all our estimates of the impacts of the Stelco Hamilton operations we include this pro rata share (based on the 26% of the value of production transferred directly to Stelco Hamilton) of the total impact of the Stelco Lake Erie facility.³

In the second step we estimate the additional ripple effects throughout the local and provincial economies (frequently these are called “indirect” effects) that are created by the Stelco Hamilton operations (and the consequent activity at Stelco Lake Erie) on suppliers to Stelco, and in turn on their suppliers, and so on. To assess the quantum of these indirect impacts on the Ontario economy and the rest of Canada, we use the Statistics Canada Inter-Provincial Input-Output Model. This model describes in detail the inter-industry linkages in the economy. The impacts on the economies of the Hamilton and Nanticoke areas respectively are estimated as a share of the Ontario total.

The spending by consumers and businesses of the incomes and profits that are generated from the direct and indirect impacts described above heightens the impacts further. Because of its design, the Statistics Canada input-output model does not take account of these additional effects; hence a third step is required to capture these so called “induced” economic impacts.

For this purpose we use the University of Toronto’s FOCUS and FOCUS-Ontario macroeconomic models, which include a detailed economic framework of the national and Ontario economies. Once again we apply share arguments to estimate the local Hamilton and Nanticoke area impacts. The total estimated economic impacts for each jurisdiction are the sum of the direct, indirect and induced impacts.

As is customary in these types of studies, increases in output and employment are viewed to be incremental. That is, the basic assumption is that the economy is operating with spare capacity in both labour and capital markets so if Stelco did not spend this money and did not employ their workers then the products that Stelco

³ The remaining 74% of the impacts from the Stelco Lake Erie operation constitute the incremental effects attributed to closing the remainder of the Lake Erie operation, which Stelco sees as a probable consequence of the closure of the Stelco Hamilton operation.

purchases would not be sold to other buyers and the Stelco workers would not be otherwise employed. As well, for the same reason, the extra economic activity generated by Stelco's operations is not assumed to have any impact on monetary policy in Canada.

2. *Closure of all of Stelco's integrated steel operations:*

As we indicated above, Stelco believes that the closure of the Hamilton operations could lead to the closure of the remaining 74% of the Lake Erie production that is not transferred directly to the Stelco Hamilton operation. This would be accompanied by the termination of the head office staff in Hamilton that were unaffected by the closure of the Stelco Hamilton operation. The economic impacts generated by these portions of Stelco's operations in 2002 are added to the impact estimates derived for the Stelco Hamilton facility in the first step of our work.

3. *Stelco survives and invests in its integrated steel operations:*

An alternate vision of Stelco's future includes a substantial restructuring of the existing operations in both Hamilton and Lake Erie. Stelco projects that this would be accompanied by new investment totaling about \$600 million over the next three years. To estimate the economic impacts of this spending, we apply the same basic analytical methodology described above, including the use of the Statistics Canada and University of Toronto models.

In addition to economic impacts, the physical and financial dislocation resulting from the closure of Stelco operations could generate social and other stresses in the communities affected directly. For example, these communities would lose the support Stelco has provided for recreational, artistic and social endeavours. In 2002, Stelco donated roughly \$450,000 to charities and events. Corporate donations to the United Way have been further "leveraged" by donations from the Stelco "employee drive", which totaled over \$450,000. We have made no attempt to quantify all these effects, which is beyond the scope of this work.

Outcome - 1

Closure of the Stelco Hamilton Operations and a Portion of the Lake Erie Operations

(i) Employment and Income Effects

Stelco is a very major employer in Hamilton. In 2002 the company's integrated operations (including Stelwire) in Hamilton employed about 5,450 workers plus over 200 in its head office, making it one of the two largest private sector employers in the city. Employment at Stelco Hamilton is estimated to have accounted for over 1.6% of total employment in the Hamilton CMA in 2002.

In Nanticoke, Stelco's Lake Erie operations, which devote 26% of the value of their production to supplying Stelco Hamilton, employed almost 1,400 people. These operations are by far the largest employer in Haldimand County (and obviously Nanticoke itself), employing almost 6% of the county's labour force.

Both these operations result in very significant stimulus, first for the local economies and then for the rest of Ontario and other parts of Canada as the effects of their activities ripple through the economy. Estimates for the employment and income impacts from the Stelco Hamilton operations, including the related portion of the Stelco Lake Erie operations, are summarized in Table 1 below.

Table 1

Stelco Hamilton and a Portion of Lake Erie Impacts Estimates of Annual Employment and Income Generated

	Direct Jobs	Total Jobs	Direct Income (\$Million)	Total Income (\$Million)
Hamilton	5,454	12,381	\$388.0	\$913.0
Nanticoke	363	1,163	29.1	83.6
Rest of Ontario	0	1,901	0.0	133.3
Rest of Canada	0	2,692	0.0	258.4
TOTAL	5,817	18,137	\$417.1	\$1,388.3

Based on the above estimates, the Stelco Hamilton operations result *directly* in over 5,450 full-time jobs in Hamilton, accounting for over 1.6% of local employment. In 2002 these jobs provided approximately \$388 million in wages, salaries, and supplementary employment income, roughly 2.5% of labour income in the Hamilton community.

Similarly, the portion of the Stelco Lake Erie operation devoted to supplying Stelco Hamilton results directly in about 363 jobs in the Nanticoke region, or roughly 1.6% of Haldimand County's labour force. In 2002 these jobs provided approximately \$29 million in wages, salaries, and supplementary employment income.

In the event of a closure of these Stelco operations, the initial impact of the direct job and income losses at Hamilton and Nanticoke will ripple through the remainder of the local economy, and across the rest of Ontario and Canada, creating additional job and income losses. These so-called "indirect" job losses would occur at firms that supply goods and services to Stelco Hamilton, and at other firms that sell products and services to these suppliers, and so on.

Finally, the loss of the spending of workers' wages and salaries induces additional income and job losses in the economy. These so-called "induced" effects of the closure of Stelco's integrated operations in Hamilton are estimated to be significant, and concentrated most heavily in the local economy.

For Canada as a whole, we estimate that these incremental indirect and induced job losses from the closure would exceed 12,000 jobs, including almost 7,000 in the Hamilton region alone. The Nanticoke region would lose a further 800 jobs, while employment in the rest of Ontario would fall by just over 1,900 jobs.

The decline in employment from these spin-off effects would result in *additional* income losses of over \$970 million for the entire country, including over \$600 million in the Hamilton vicinity, \$50 million in Nanticoke and Haldimand County, and almost \$135 million in the rest of Ontario.

(ii) Impacts on Government Revenues and Expenditure

The declines in the local, provincial and national economies attributable to closing the Stelco Hamilton operations would impose revenue losses on all three levels of government. These are summarized in Table 2 following.

Table 2

**Stelco Hamilton and a Portion of Lake Erie Impacts -
Estimates of Annual Government Revenues**

	(\$Million)
<i>Municipal</i>	
Ontario	\$ 36.9
Rest of Canada	5.4
<i>Provincial</i>	
Ontario	268.8
Rest of Canada	111.7
<i>Federal</i>	378.5
TOTAL	\$ 801.3

Municipal government revenues would be affected due to declines in property and business tax payments. Stelco, one of Hamilton's largest taxpayers, would no longer pay its \$16.5 million in local taxes. Municipal government revenues from business sources would drop a further \$20 million as other businesses in the Hamilton and Nanticoke regions, and elsewhere, experienced profit declines or were forced to shut down due to the loss of spending by Stelco and its employees.

The decline in provincial government revenues would come from several sources. Stelco's Hamilton and Nanticoke operations are estimated to account directly for some \$18.3 million annually in various Ontario provincial taxes and levies (including Employer Health Tax, retail sales tax, capital tax, Worker's Compensation). Personal income and other taxes paid by Stelco employees would be lost. Tax revenues (including personal income tax, employer payroll taxes, corporate tax and retail sales tax collections) also would fall as a result of reduced economic activity and income resulting from the indirect and induced impacts of the closure. We estimate that the decrease in provincial tax collections from all these additional sources would be a further \$250 million in Ontario and over \$110 million for the rest of the provinces in Canada.

Federal revenues also would be affected. Federal taxes and levies paid by Stelco attributable to its Hamilton operations, including the large corporation tax, EI premiums, and GST net of input tax credits, are estimated to be about \$27.8 million. Other federal tax receipts (including personal income taxes, payroll taxes, GST receipts, and federal gasoline, liquor and tobacco tax receipts) would fall in total by

an estimated further \$350 million as a result of the lower levels of employment and income.

In the first year following the Stelco Hamilton closure the Federal treasury would be hit not only by lower revenues but also by the higher costs of increased Employment Insurance (EI) payments for which the former Stelco employees would qualify. We estimate that these EI payments would total over \$110 million for the Hamilton and Nanticoke regions, and roughly \$150 million for the country as a whole.

In subsequent years, municipal and provincial governments may be responsible for increased social assistance costs. (The costs of these programs are shared between the two levels of government). The determinants of eligibility for and the quantum of social assistance are complicated, and the tools that we have applied are not ideally suited to provide a reliable estimate for such costs in the kind of situation that is envisioned here.

In addition, because of a variety of factors we don't expect this cost to be very significant. The Hamilton and Nanticoke regions traditionally have had a relatively low unemployment rate, especially for skilled workers. Many of the workers affected, both directly and indirectly, have been earning above average incomes, so may have some accumulated assets on which to live while seeking another job. The prevalence of two income families in Ontario is another mitigating factor.

The elimination of the Stelco Hamilton operation could have a negative impact on the overall industrial cluster of steel, auto and other manufacturing operations of which it is a part. This could increase the difficulty of finding a job in the region, especially for those workers more advanced in age whose skill sets are less readily transferable to other sectors of the economy.

Roughly 20% of the employees in Hamilton and Nanticoke are over the age of 55. Over 89% of the current Hamilton workforce has over 20 years of service, while 33% have over 30 years of service. For the Lake Erie operation, with its somewhat younger workforce, 69% of employees have over 20 years worth of service and almost 6% have 30 years or more of service. As such, it is quite possible that some of the former Stelco employees could consider early retirement in the event that they are unable to or uninterested in finding another job.

However, how much assistance could be provided to former workers from the Stelco pension plan is uncertain. We are informed that the pension plan is under funded, with total liabilities exceeding plan assets. We have not been provided with adequate data to estimate the extent to which pension income could be available to offset the decline in income from job losses. The Ontario Pension Benefit Guarantee Fund (PBGF) may have to deal with some of the shortfall. It is possible that there also could be reductions to the pension incomes of existing pensioners and reduced pensions (from what they would otherwise have received) for new ones.

Outcome – 2

Closure of all of Stelco’s Integrated Steel Operations

In this section, we incorporate the impacts generated by the remaining 74% of the Stelco Lake Erie operations that are not dedicated to supplying the Stelco Hamilton operations. As we indicated earlier, Stelco believes that after the closure of the Hamilton operations the Lake Erie operations likely would follow suit in due course.

In the tables and discussion below we describe the estimated total impacts generated by the two operations in 2002; the incremental impacts resulting from the inclusion of the remaining operations of Stelco Lake Erie not yet included in the alternative described in the preceding section, can be deduced, if desired, from the differences between the estimates in this section and the preceding one. Because of the similarity of the issues to those already presented above, we abbreviate somewhat the description of our findings.

(i) Employment and Income Effects

As indicated earlier, Stelco is an extremely important employer in Nanticoke and indeed for Haldimand County as a whole. The Lake Erie operations provide a very significant stimulus for the local economy, which then spreads to the rest of Ontario and other parts of Canada as their effects ripple through the economy.

Table 3

**Total Stelco Hamilton and Lake Erie Impacts -
Estimates of Annual Employment and Income Generated**

	Direct Jobs	Total Jobs	Direct Income (\$Million)	Total Income (\$Million)
Hamilton	5,686	12,832	\$410.2	\$950.5
Nanticoke	1,383	4,456	110.6	318.9
Rest of Ontario	0	3,009	0.0	211.1
Rest of Canada	0	4,240	0.0	407.9
TOTAL	7,069	24,537	\$520.8	\$1,888.5

In 2002 the integrated Stelco operations in Hamilton and Lake Erie, along with Stelwire, directly provided 7,069 full-time jobs in Hamilton and Nanticoke. These jobs paid approximately \$521 million in wages, salaries, and supplementary employment income.

The 1,383 full-time jobs at the Stelco Lake Erie operation constituted roughly 6% of the Haldimand County's labour force. Stelco Lake Erie is the county's largest employer, and the approximately \$111 million in wages, salaries, and supplementary employment income provided by these jobs is an extremely important source of income in the area.

Once again, the impacts of the direct jobs and incomes at Hamilton and Nanticoke ripple through the remainder of the local economy, and across the rest of Ontario and Canada, creating additional jobs and incomes. We estimate that a further 17,468 indirect and induced jobs result in Canada as a whole, including over 7,000 in the Hamilton area, 3,000 in the Nanticoke region, and over 3,000 in the rest of Ontario. This results in *additional* income of over \$1.3 billion for the entire country, including over \$500 million in the Hamilton vicinity, \$200 million in Nanticoke and Haldimand County, and \$210 million in the rest of Ontario.

(ii) Impacts on Government Revenues and Expenditures

As in the case of the Stelco Hamilton closure, the elimination of the Stelco Hamilton and Stelco Lake Erie facilities will result in revenue losses for all levels of governments (see Table 4 below). The basic profile of and causes for these losses is identical to that for the first situation.

Table 4

**Total Stelco Hamilton and Lake Erie Impacts -
Estimates of Annual Government Revenues**

	(\$Million)
<i>Municipal</i>	
Ontario	\$48.9
Rest of Canada	8.6
<i>Provincial</i>	
Ontario	350.4
Rest of Canada	159.6
<i>Federal</i>	515.5
TOTAL	\$1,083.0

The combined Stelco operations directly pay municipal governments in Hamilton and Nanticoke about \$21 million in property and business taxes. Municipal governments in Ontario also derive a further \$28 million in revenues from the businesses stimulated by the activity of Stelco's operations and the spending of its employees.

Stelco's Hamilton and Lake Erie operations are estimated to account directly for some \$21.6 million annually in various Ontario provincial taxes and levies. The personal income taxes and other levies paid by Stelco employees, together with the tax revenues that result from the spin-off activities generated by Stelco's operations, are estimated to yield a further \$329 million for the Ontario government, and almost \$160 million for provincial governments in the rest of Canada.

Federal taxes and levies paid by Stelco on its Hamilton and Lake Erie operations are estimated to be about \$41.0 million. In addition, in the event of a closure, personal income taxes, payroll taxes, GST receipts, and federal gasoline, liquor and tobacco tax receipts would fall in total a further \$470 million as a result of the lower levels of employment and income.

As in the case of the closure of the Stelco Hamilton operation, the Federal treasury would be hit in the first year not only by lower revenues but also by the higher costs of increased Employment Insurance (EI) payments for which the former Stelco employees would qualify. We estimate that these EI payments would total over \$135 million for the Hamilton and Nanticoke regions, and roughly \$200 million for the country as a whole.

Despite the somewhat higher employment and income impacts in the current alternative, our findings regarding social assistance costs and the availability of pension income to offset some of the effects of lost employment income remain qualitatively the same as in the case of the closure of the Stelco operations in the first outcome; the description of these matters provided above continues to apply in this case as well.

Outcome - 3

Stelco Survives and Invests in its Integrated Steel Operations

Recall that an alternate vision of Stelco’s future includes a major restructuring of the Stelco operations in Hamilton and Lake Erie. To realize this more favourable outcome Stelco projects that over the next three years it would have to invest \$215 million at its Lake Erie facility and \$388 million at Stelco Hamilton.

Based on a breakdown of this anticipated spending that has been provided to us by Stelco, we apply the same methodology to estimate the impact of the additional \$603 million investment. Because we don’t know the exact timing of this investment over the three-year period (for instance, if most is done in the first eighteen months or last eighteen months), we have evenly spread the investment over the three years.

(i) Employment and Income Effects

Table 5

**Three-Year Impact of Stelco Investment Program -
Estimates of Employment and Income Generated**

	Total PersonYears of Employment	Total Income (\$Million)
Hamilton	4,968	\$387.3
Nanticoke	2,248	165.2
Rest of Ontario	818	64.0
Rest of Canada	541	51.1
TOTAL	8,574	\$ 667.6

We estimate that the investment program would create 4,968 person years of employment in the Hamilton area (that is, the equivalent of 1,656 persons employed

for each of the three years). This includes not only the jobs directly related to the construction projects, which we expect would be well paying, full time positions but also those generated by suppliers and the spending of the incomes earned. Similarly, we estimate that a further 2,248 person years of largely construction-related employment would result from this investment program in the Lake Erie region.

Due to the spin-offs and induced effects from the construction spending, an additional 818 person years of employment would be created in the rest of Ontario and almost 541 person years in the rest of Canada.

The increased employment and economic activity from which it stems generates over \$387 million in income in the Hamilton area, over \$165 million in Nanticoke and the rest of Haldimand County, almost \$64 million in the rest of Ontario and over \$50 million in the rest of Canada over these three years.

(ii) Impacts on Government Revenues and Expenditures

The incremental income to employees and businesses that derives from the extra construction activity will generate revenue gains for all levels of government. These are summarized in Table 6.

Table 6

**Stelco Investment Program -
Estimates of Government Revenues**

	Three Years (\$Million)
<i>Municipal</i>	
Ontario	\$20.7
Rest of Canada	1.5
<i>Provincial</i>	
Ontario	167.6
Rest of Canada	67.3
<i>Federal</i>	220.3
TOTAL	\$ 477.4

Municipal government revenues from business sources are estimated to increase by over \$20 million in Ontario as businesses increase their profits, hire more employees and increase economic activity.

The increase in provincial government revenues would come from several sources. As the wages and salaries paid to construction workers and the increased income to

suppliers filter throughout the provincial and national economies, personal income tax, employer payroll taxes (including Workers' Compensation and the Employer Health Tax), corporate tax and retail sales tax collections would increase by over \$167 million over the three years in Ontario and almost \$70 million in the rest of Canada.

Federal revenues also would rise as a result of the higher levels of employment and income in the economy. Over the three years we estimate that personal income taxes, payroll taxes, GST receipts, and federal gasoline, liquor and tobacco tax receipts would increase by over \$220 million.

The increased economic activity would also allow for lower employment insurance payments by the federal government; we estimate that these would decline by about \$40 million. As in the first two scenarios, we expect that there would be only a modest impact on social assistance payments by provincial and municipal governments, this time reducing their cost.