

Income Tax

Finance (Mr. Chrétien), reiterated to members of the House the steps announced in the budget of March 31 and also described certain subsequent measures the government intended to take vis-à-vis the economy. He referred to—and indeed there has been in recent years—the considerable public attention and discussion devoted to questions of government expenditures and their relationship to the economy. Since this, as the House knows, is precisely the area of my particular responsibilities, I thought I would take the opportunity to share with hon. members some of my thinking on the matter.

In late 1975, the government adopted a very clear policy of expenditure restraint. The policy is that over time federal expenditures will grow in line with—will not exceed—the trend of growth in the gross national product. In effect, this means that, depending upon the response the government deems necessary to deal with particular prevailing economic circumstances, government spending may grow at a rate somewhat less or somewhat greater than the g.n.p. in any given year, but growth trends of federal spending and g.n.p. over any period of time will remain similar.

Since that policy was adopted, each year we have set an expenditure ceiling and growth target very close to the forecast of the growth in gross national product. In 1976-77, the first full fiscal year in which that policy was in effect, the forecast gross national product growth was 13.4 per cent and we set a spending growth ceiling of 14 per cent. We managed to hold actual final expenditure growth that year to only 10 per cent, well below the forecasted g.n.p. growth and the expenditure ceiling. In dollar terms, we said for that year we would contain spending to \$42.15 billion. We completed the year at \$41.1 billion, which was over \$1 billion less than our commitment, a fact that went by relatively unnoticed by most members, and certainly by the media.

At the beginning of the current fiscal year, 1977-78, the g.n.p. growth rate was forecast to be about 11 per cent. Accordingly, we set our expenditure growth rate ceiling at the same figure. Subsequently—March 31, to be precise—we reduced the target to make room for some tax cuts which were committed in the March 31 budget. There have been changing economic circumstances since which have led to very large new demands for funds. I am referring to such things as transfers to the provinces for medicare, for hospital services, hospital insurance, post-secondary education; all under the formula dictated by the established programs financing act which, as hon. members will recall, was renegotiated last fall.

● (1612)

We have had some very heavy demands to meet our commitments in that regard. In spite of such very large and, in some cases, unforeseen requirements, the government is still confident that it can hold total spending growth in 1977-78 to about 8.2 per cent. We expect to hold to our committed ceiling, that ceiling committed last March for this fiscal year, of \$44.45 billion. Taking inflation into account, that will represent an almost zero real growth in expenditures for this fiscal year 1977-78.

At the same time that the government has been taking steps to try to bring our expenditures into line, we have been taking steps to severely restrain expansion of the public service. For the 1976-77 fiscal year, the total growth of authorized man-years within the public service, subject to control by Treasury Board, was held to 1.3 per cent, which was considerably less than the growth rate experienced in prior years. For the fiscal year 1977-78 the growth rate has been reduced to only .6 per cent, or six-tenths of one per cent. In order to maintain such low growth levels in light of many new and important government initiatives requiring new or more staff, thousands of man-years had to be reallocated from other programs.

Two consecutive years of low growth in the public service have resulted in some strains. I firmly believe it is still possible, and certainly still necessary, to accommodate new demands by drawing man-years from other areas which have a lower priority. Therefore, we intend to continue this program of constraint of growth in the federal public service.

Back in 1967, the federal government's total outlays, including transfers to other levels of government, amounted to 16.3 per cent of our gross national product. In 1976 this was slightly more than 20 per cent. Our total expenditure as a federal government was slightly more than 20 per cent of the g.n.p. Ten years ago, the purchase of goods and services, including the salaries of public servants and the cost of materials and supplies—the cost of running the government, as it were—plus the government's capital expenditures, plus the servicing of the public debt, accounted for approximately 50 per cent of our total federal government outlays. In 1976, the comparable figure for the same purposes was only 40 per cent of much greater potential outlays.

The point I am trying to make here is: the cost of running the federal government, including the cost of defence, external affairs, tax collections, the delivery of the various social programs, the operation of the criminal justice system, consumer protection, the servicing of the public debt, and so on, has stayed almost unchanged relative to the capacity of the economy. Moreover, the proportion of spending by the federal government for its own salaries and offices is less than ten years ago. The remaining outlays, which consist of transfers to provincial and local governments and transfers to persons and other subsidies, accounted for about half of the total government outlays in 1967 and grew to approximately 60 per cent of the total outlays in 1976.

The really large growth in federal spending has taken place in those programs which are redistributing income through transfer payments by the federal government, either directly to individuals or indirectly to them through the provincial governments. The policy of the government, and the practice it has worked out, has been to reduce spending for its own operations while simultaneously meeting its commitments to the aged, the unemployed, the sick and the less advantaged regions of the country. We have maintained that policy despite the increasing gap between rising indexed expenditures and much slower growing tax revenues that are indexed to protect taxpayers to some degree against inflation.