

8. In the evidence presented to the Committee, there existed a consensus among the witnesses that the Government's move to a position of fiscal constraint is appropriate. The economic indicators suggest that in the fiscal year 1969-70, there will be strong demand-pull inflationary pressures while elements of cost-push inflation remain worrisome. Indications as to the extent of inflation already present are found in the Canadian wholesale price index being 4.4 per cent higher in February 1969 than a year previous, in the consumer price index being 3.7 per cent higher, and in new wage rates negotiated in the fourth quarter of 1968 amounting to a 7.5 per cent increase. Moreover, it is expected that demand will be at least as strong in 1969-70, even though exports are expected to decrease substantially in their rate of growth to 10 per cent as compared to 19.4 per cent in 1968, and imports are expected to increase. This will be offset largely by increases in capital investment, and a continuing high level of consumer spending, and minor increases in inventory accumulation and government expenditures.

9. The Committee has concerned itself with the problem involved in the use of general deflationary measures to restrain aggregate demand because there is excess demand in some areas of Canada while other regions face widespread unemployment. The federal authorities in moving to dampen inflationary pressures in the highly-industrialized areas of Canada run the risk of accentuating unemployment in slow growth areas. Chart 1 showing the unemployment rates of Ontario and Quebec as a proportion of the national average unemployment rate indicates not only that regional disparity is a long-standing phenomenon, but that this disparity with respect to Ontario and Quebec seems to be increasing over the latter part of 1968 and early part of 1969. Your Committee finds this trend disturbing and believes the problem of regional disparity to be the major economic problem of the next decade. Furthermore, it supports Professor Neufeld's hypothesis that regional development programmes should be carried out regardless of the needs of aggregate stabilization policy.

10. The Committee has considered the probable impact of the proposed Federal Government expenditures on the economy, in both their short-term and long-term context: their impact on the short-term cyclical economic environment, and the consequences of monetary fiscal policy in attaining the economic goals of full employment and price stability;

and their impact on the long-term efficiency, or productivity, or average standard of living of the nation. Attached hereto are charts and tables showing the trends of expenditures and revenues. When we look at the charts and tables relating to government expenditures, there appear some important trends. All levels of government expenditures on goods and services have increased only from 17.8 per cent of GNP in 1952 to 19.8 per cent of GNP in 1968, but sub-sectors of this classification show marked change. Federal government expenditures on goods and services until recently declined continuously as a proportion of GNP—from 10.4 per cent in 1952 to 6.6 per cent in 1968; this decline in the Federal Government's share, was due mainly to the decrease in defence expenditures though partially offset by the very marked increase in the 1960's in the non-defence sector. The municipal and provincial expenditures on goods and services have increased from 7.4 per cent of GNP in 1952 to 13.1 per cent in 1968. All levels of government transfer payments have also increased significantly—from 8.1 per cent of GNP in 1952 to 14.1 per cent in 1968. Both of these sectors combined show total expenditures increasing from 26.3 per cent of GNP in 1952 to 34.7 per cent in 1968. A glance at Table 4 will indicate the areas of expenditure responsible for the marked increase of the 1960's. Mr. Bryce's explanation of the increase in Federal Government expenditures can be divided into four areas, and this explanation is applicable to the experience of the provinces and municipalities. First, the government expenditures contain a high percentage of labor cost and are highly responsive to increasing wage and salary levels as well as rising prices. Second, population increases through high birth rates and substantial immigration in the post-war period, and the shift in the composition of the population from rural to urban, have led to increased demands, both quantitative and qualitative, for hospital services, water and sanitation, urban transport, the whole urban infrastructure, education facilities etc. Third, broad changes in social attitudes have led to the Federal Government's acceptance of public responsibility in such areas as higher education, old age security, up-grading the labor level of occupational training, financing research and development in science and technology. And fourth, the Federal Government's responsibility for alleviating regional disparities has developed from equalization of provincial revenue yields to upgrading the basic capital infrastructure