

Bryce presented evidence as to the level of inflation we are now experiencing, (Sp?) the regional distribution of unemployment, and the economic forecast for the fiscal year 1969-70. Within this framework, the consequence for prices and costs of the contribution by the public sector to aggregate demand, was discussed.

(b) The long-term trend of the expenditures of the public sector and of the closely related Crown Corporations in respect to their level and rate of growth, and the efficiency of the present division of GNP between the public and private sectors. Professor Neufeld, Dr. Smith, and Mr. Bryce provided the statistical evidence to be found in Charts 1-3 and Tables 4-14, and discussed the causal relationships underlying the growth of the public sector in the 1960's. In addition, the questions of the need to establish criteria to evaluate the efficiency of government expenditure programmes as to realization of economic and social goals, and of the advisability of ceilings on the national debt, were discussed.

(c) A comparison of the experience of Canada in the 1960's as to the rate of growth of public sector expenditures as a percentage of GNP, with that of her major trading partners, and as to their impact on taxes as a percentage of GNP. Witnesses providing such statistics were Professors Neufeld and Forget, and Dr. Bryce.

(d) A comparison of the personal income tax structure and resultant tax burden on individuals living in Canada, and those living in the United States, with emphasis directed towards its implications for the 'brain drain'. Evidence was heard from Professor Forget.

The remainder of the report considers these areas in order and the Committee offers its views and recommendations within each section.

5. The Estimates of the Federal Government for the 1969-70 fiscal year total \$11,858 million, which is 9.5 per cent higher than those of the 1968-69 fiscal year—a year in which expenditures increased by about 9 per cent. The annual average increase for the eight fiscal years from 1961-62 to 1968-69 was about 10.4 per cent: so the projected increase for 1969-70 is not only higher than for 1968-69, but it is not much lower than the average

annual increase since economic expansion began in the spring of 1961. At the same time the Government has repeated its intentions of achieving a balanced budget in 1969-70 in contrast to an estimated deficit of around \$700 million in 1968-69, and deficits of various sizes in each of the years of the current phase of economic expansion.

6. If we look at the statistics on a National Accounts basis, which is more appropriate for economic purposes, the same picture emerges for the fiscal year 1969-70—a forecast surplus of about \$250 million compared with a deficit of around \$400 million in 1968-69, or a "turn-around" of about \$650 million. We may therefore conclude that the budgetary accounts for 1969-70 seem to contain a deflationary element, but that this influence will emerge not from a slow-down in expenditures but from increased tax revenues. Furthermore, the estimated increase in federal revenues results, not from direct fiscal restraint action by the Government, but from the built-in progressiveness of the income tax structure. Evidence before the Committee was to the effect that for every 1 per cent increase in Gross National Production, there would be an increase of 1.1 per cent to 1.2 per cent in federal revenues.

7. It is the view of the Senate Committee on National Finance that some type of consolidated cash budget statement be presented in future years in order to show cash movements between the Government and other sectors of the economy. This would reflect the extra-budgetary matters as well as budgetary matters and give a more accurate assessment of the impact of the public sector on the economy—especially as to its impact on financial markets, private sector liquidity, and the limitations placed upon monetary policy by the banking system's requirements to finance the government's borrowing needs. The Minister of Finance, in the budget of June 4, 1969, stated that the extra-budgetary requirements, excluding foreign exchange requirements, would add up to \$650 million less the write-off of the \$125 million federal share of the Expo deficit in the fiscal year 1969-70. Mr. Bryce, in his evidence, stated that as these extra-budgetary items are a significant part of the Government's economic activity they should receive greater prominence and scrutiny. The Committee shares this view, and welcomes his assurance that the Department of Finance is investigating more efficient programmes for analysis and control of these items.