

United States are paying 10 per cent or more for their money, with the return on bonds at an all-time high and the price at an all-time low.

We are now in North America generally and in Canada particularly subject to very, very strong and serious monetary restraint. An economist will tell you that monetary restraint is not effective unless it is coupled with fiscal restraint. Therefore we in committee questioned whether the Government was doing something about fiscal restraint. We find if we examine the Estimates on a national accounts basis, that the Government in 1969/70 is budgeting for a surplus of some \$250 million as opposed to a deficit of \$400 million in the previous year. But, as the chairman has pointed out, this is not so much due to a restraint in expenditures as much as to what economists call tax elasticity. That is to say that if the gross national product of a country increases, as it has been doing very rapidly in Canada, the tax revenues increase in a proportion of 1.2 to 1.

Hon. Mr. Martin: May I ask the honourable senator a question? Does he not think that if the retrenchment program which the Government has already embarked upon, and the retrenchment in the last fiscal year, let alone this year, had not taken place, it would have added a burden which would invalidate or negate his statement?

Hon. Mr. Everett: You must remember we are dealing somewhat with the past in the Finance Committee. I was about to go on to say that the restraint applied is through tax elasticity, and that while the Government has imposed very stringent freezes on expenditures, they have not taken effect yet. I expect that within the next few months they will, and consequently we will have restraint not only through an increase in taxes but through either reduction in expenditures or, what is equally valid, a holding of the line in expenditures. But no matter what the Government does, we have to remember that expenditures at Government level are extremely hard to control.

Dr. Bryce before the committee pointed out that Government expenditures are likely to continue to increase when you consider that government is very labour-intensive—that is to say that a high proportion of the cost of government is labour and that the cost of labour appears to be continually on the increase;—when you consider that we are dealing with a constant population increase, and

when you realize that that population is constantly shifting from rural areas to urban areas and demands more intensive services as soon as they come to urban areas; when you realize that we in conscience have new concepts of public responsibility which cost us money, and when you realize that in this country we have accepted the fact that we must rectify national disparities. So if the Government is able to maintain a level of expenditure with all those enormous forces, and if the Government is able to increase its gross national product and through tax elasticity has a greater income, then it is achieving a fiscal restraint, and I suggest to you that today this Government is beginning to achieve that necessary fiscal restraint.

But when we look at the problem of expenditure we have to wonder if the federal Government is really responsible. If we take the expenditure of governments on goods and services and remove from consideration transfer payments from government to government and from government to citizen, we find that the federal Government expenditures in 1952 were 10.4 per cent of gross national product and they dropped to 6.6 per cent of gross national product in 1968, and that 6.6 per cent includes 2.7 per cent on defence expenditures. The municipal and provincial governments, on the other hand, in their expenditures on goods and services have increased from 7.4 per cent of gross national product in 1952 to 13.1 per cent in 1968. Transfer payments from all governments to citizens, that is transfer payments in effect from those who have to those who have not, have increased from 8.5 per cent of gross national product in 1952 to 14.9 per cent in 1968. This would indicate that the control of fiscal expenditures is largely in the hands of the provinces.

The marked increase in expenditures on goods and services by the provinces contrasts with a decrease in federal Government expenditures. Transfer payments are to a very large extent transfers to provincial governments for expenditures that they have to undertake. As the honourable chairman pointed out the Estimates show an increase of 9 per cent in federal expenditures this year over last year and more than half those expenditures accrue to provincial governments on account of outright grants and shared-cost programs. So there we face a dilemma as a government if we are going to impose fiscal restraint. What are we going to do about provincial spending?