Fiscal Outlook, 1969-70

I come now to the question of the fiscal outlook for 1969-70, as revised on the basis of the most recent information. In looking ahead last October over a period of eighteen months, I felt it wise to be particularly cautious in budget forecasting. Revenues were put at $11,675 million, and expenditures at $11,670 million, for a nominal surplus of $5 million. However, the buoyancy of the economy and the tax measures introduced in October are now forecast to produce a year-to-year growth of revenues, before any budget changes to be announced tonight, of about $1,870 million bringing them to a fiscal year total of $12,040 million. The yield of income taxes, both individual and corporate, should be particularly strong, offsetting the slower growth of other revenues attributable to such factors as the reduction of tariffs and the cancellation of sales taxes on drugs and production machinery introduced two years ago by my predecessor.

As for expenditures, I am still confident that these will remain within the limit of $11,670 million previously forecast. We will not spend the total amount originally budgeted for medicare since a number of the provinces will be joining in the program later than assumed. In other shared-cost programs, we have had excellent co-operation from the provinces in the forecasting of their expenditures and in their own efforts to contain rising costs, so that the major problems encountered last year are not likely to be repeated. A number of small, but urgently necessary supplementals have to be anticipated, for example, emergency assistance to Newfoundland fishermen, and additional sums for the education and welfare of Indian Canadians. Some over-runs on statutory items are also expected, including advance payments on farm-stored grain and interest costs on loans for students. The largest of these, however—about $39 million—is an increase in equalization payments to Quebec, the Atlantic Provinces and Manitoba, caused mainly by the stronger-than-expected advance in the yields of provincial taxes. The next largest increase over items as originally forecast is in the cost of servicing the public debt, because of higher interest rates. Taking these and other uncertainties into account, it now appears that total expenditures can be held to $11,650 million, which is $20 million less than I provided for in October.

[Mr. Benson.]

As a result, the outlook before any budgetary changes to be announced tonight, is for a substantial surplus of some $390 million. I might note that while the federal budget was essentially balanced in both 1964-65 and 1965-66, under Prime Minister Pearson, the substantial surplus now foreseen will be the first actual surplus realized since the administration of Prime Minister St. Laurent in 1956-57.

Impact of Fiscal Policy

I have given considerable thought to the impact of this prospective surplus, not only upon our finances but also upon the national economy. Obviously, as I shall detail later, it will be of great assistance in enabling us to meet our large extra-budgetary lending programs for housing construction, farm credit, atomic energy and Atlantic power development, export credits and so forth. This is most important at a time when borrowing is very difficult for everyone.

The size of the surplus also accentuates the very sharp swing in the impact of fiscal policy upon the economy. Taken together with the deficit of $566 million experienced in the last fiscal year, the swing amounts to a total of nearly one billion dollars, considerably more than one per cent of the G.N.P. It can be regarded as a very substantial budgetary restraint upon the growth of total demand in the economy, and provides a powerful general check upon the inflationary forces pushing up prices and costs in the economy. A fiscal policy of restraint, as expressed in a surplus of this size, combined with a restrictive monetary policy which the circumstances of North America have made necessary, should be an effective combination to overcome persistent inflationary pressures in our Country. An undue portion of the necessary overall restraint cannot be left to be accomplished only by monetary policy in an economy where a large, continuing flow of savings through the capital market for both private and public investment is of major importance. From every point of view I am convinced that maintaining a strong fiscal position is now essential to check the rise in prices and smooth the way toward more balanced and sustained economic growth.

For these reasons I have given no consideration to a reduction of taxes, attractive as such a prospect might be. On the contrary, so important is it not to relax the fiscal brakes exerted by the present structure of income taxes upon inflationary forces in the economy,