

APPENDIX

(See p. 2500)

STANDING SENATE COMMITTEE ON NATIONAL FINANCE
 REPORT ON THE ESTIMATES LAID BEFORE PARLIAMENT
 FOR THE FISCAL YEAR ENDING MARCH 31, 1982

June 10, 1981

The Standing Senate Committee on National Finance to which the estimates laid before Parliament for the fiscal year ending March 31, 1982, were referred has in obedience to the order of reference of Monday, March 2, 1981, examined the said estimates, and reports as follows:

The Committee was authorized by the Senate, as recorded in the *Minutes of the Proceedings of the Senate* of March 2, 1981, "to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending March 31, 1982."

The Committee made a general examination of the estimates as tabled, and heard evidence from the following witnesses:

Treasury Board

The Honourable D. J. Johnston, President

Mr. J. L. Manion, Secretary

Mr. L. J. O'Toole, Assistant Secretary Program Branch

Mr. E. R. Stimpson, Director General Budget Co-ordination Group

Department of Finance

Dr. I. A. Stewart, Deputy Minister

Bank of Canada

Mr. G. K. Bouey, Governor

Economic Council of Canada

Dr. D. W. Slater, Chairman

Dr. P. M. Cornell, Senior Policy Advisor

Dr. R. S. Preston, Director, Economic Performance and Outlook Group

as yet unsettled. And inflation has accelerated, as yet unhindered by record high interest rates.

It is not our intention in this report to detail all aspects of the medium term future which we discussed with our witnesses. The proceedings are of course available to anyone so interested. However, one topic so dominated our discussions that we believe it merits inclusion in our report. The topic is inflation.

All of our witnesses stressed the importance of bringing inflation under control, not just as an end in itself but, they argued, because the control of inflation will establish the groundwork for a stronger, more equitable, and manageable economy in the future. In Mr. Bouey's words, "failure to face up to the problem of inflation will compound an economic problem, and increase the economic pain involved in resolving them."

A. Sources of Inflation

The difficulties we face in controlling our present inflation, according to the witnesses, are numerous. While inflation has been symbolized by some as a serpentine spiral, their testimony suggested that a multi-headed hydra might be a more apt symbol in present circumstances.

Demand

According to the Economic Council's analysis, based on medium term considerations the economy is not operating at or even near its potential level, and shortages of certain key materials such as concrete and steel do not seem imminent. However, both Mr. Bouey and Dr. Stewart argued that demand conditions in the Canadian economy are contributing to current inflation.

Dr. Stewart pointed to the strong economic growth in the third and fourth quarters of last year and in the first quarter of this year as evidence of the high level of demand in the economy. The growth, he suggested, was due to the sizeable merchandise trade balance of late last year, and he highlighted extremely tight markets in Western Canada. This Western Canada situation was described as, in part, due to the fact that the present Canadian exchange rate may be inappropriately low compared to the Western Canada competitive position. Dr. Stewart also claimed that the resulting high price and wage increases which have their origin in Western Canada are being translated into inflationary price and wage demands in the rest of the country. This, he suggested, reflects defects in

THE ECONOMIC ENVIRONMENT

As an integral part of our examination of the main estimates, we have again considered the economic environment in which the expenditures will be made. In its report to this House on the Main Estimates for 1980-81, this Committee expressed its concern regarding a number of factors and problems. We were then concerned with the unsettled energy situation, accelerating rates of inflation, continuing government deficits, and feeble productivity performance. Disappointingly, we must report that little has occurred which would cause us to alter significantly our concerns of last year. Productivity has remained moribund. The energy situation is