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## GEARING RESOURCES TO THE ECONOMY

*The following excerpts are from a speech by Prime Minister Pierre Elliott Trudeau to the Canadian Chamber of Commerce in Calgary on October 2:*

...A keynote of the Speech from the Throne was the restraint imposed on government programmes by the rising costs of existing commitments and the limitations on revenues. The truth is that the financial situation which the Government faces over the next few years was not foreseen at the time when many of our present programmes were begun....

The costs of many existing programmes are now rising much faster than government revenues. For example, under present arrangements the cost of federal-provincial programmes for health, welfare and post-secondary education, which are now running at nearly $3.5 billion a year, will more than double over the next four years. There is no prospect that government revenues will grow at this rate.

These statutory payments are determined by a number of factors set out in the legislation: the Government has no choice but to make the payments unless the legislation is modified. For example, payments to provinces under the Hospital Insurance and Diagnostic Act, under the Canada Assistance Plan and for post-secondary education, depend upon the levels of expenditures incurred by the provinces, which the Federal Government must then match. So far as hospitals are concerned the rising costs are mainly due to increases in wages, salaries and the numbers of hospital staff and the growing sophistication and variety of medical technology. The proportion of the population enrolled full-time in post-secondary education is also rising very rapidly. In 1951 it was about 5 per cent; it is now over 15 per cent and still going up. In itself this is unquestionably a desirable development, but the responsible governments must try to reduce controllable costs.

The provinces have also expressed concern about the sharply increasing costs of jointly financed programmes. This whole question will be thoroughly examined at the forthcoming meeting of federal and provincial Ministers and I look forward to their assistance in a constructive approach to the problem of restraining these costs....

If we look at the various methods of financing governments, the limitations are clear. The levels of taxation imposed by all governments in Canada are already high. The difference between tax revenues and expenditures must be made up by borrowing, and the funds available to be borrowed are limited by the realities of the capital markets. These funds represent the savings of Canadians plus the net inflow of foreign capital into Canada. There is, at any given time, a limit on the supplies of available savings and there is no magic way to increase them. If governments, at all levels, borrow a disproportionate share of these savings this reduces the amounts available for productive investment in the private sector of the economy and exerts inflationary pressure on interest rates.

Borrowing abroad has made an important contribution over the years to both governmental and private borrowers in Canada, but too great a reliance on this source can pose particular problems for the Federal Government. Under the arrangements with the International Monetary Fund, the Federal Government is responsible for maintaining the agreed par value of the Canadian currency and it does this by purchases or sales of foreign exchange through the exchange fund. Purchases of foreign exchange, when



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