

splurge in this new, pre-electoral fiscal year will be disappointed.

As already noted, I am disclosing today, for the third consecutive year, not just the main estimates proposed for federal departments and agencies in fiscal year 1978-79, but the total expenditure framework established by the government for the same period.

Main estimates include budgetary outlays of \$46,476 million, to which must be added net investments and advances of \$1,774 million, for a total of \$48,250 million.

The inclusion in main estimates of several expenditure items of a recurrent nature, which were previously submitted to parliament in supplementary estimates, has enabled us to set realistically the reserves for contingency outlays at \$1,550 million for the rest of the year.

Taking into account the usual lapse of spending authority, total expenditures in 1978-79 for the full year are forecast at \$48,800 million. This amounts to an increase of 9.8 per cent, less than the presently expected increase in the value of the gross national product for the same period. It also means that, in real terms, federal outlays will increase by about 3.5 per cent.

Even though we expect inflation to abate during the next 12 months, the government sector, as all others in the country, will still have to bear cost increases.

I am pleased that the first ministers reached a consensus last week on the need to limit the growth of expenditures by all levels of government to less than the nominal growth rate of the GNP.

Hon. members will recall that the fundamental goal set by the federal government regarding spending restraint was not limited to its own expenditures. On the contrary, it was made quite clear, as the former minister of finance reiterated in his May, 1976, budget speech, that the trend in total spending by all Governments in Canada should not rise more quickly than the trend in the gross national product. This goal has now been endorsed by all levels of government in this country.

There will be some who will choose to emphasize that our spending growth target for 1978-79 is somewhat higher than that one for the current fiscal year. Hon. members will recall that we went out of our way last spring to indicate that the very low percentage increase of 8.2 per cent shown for 1977-78 reflected, to some extent, structural changes in the budgetary system. It reflected not only the government's efforts at restraint, but also changes introduced in financing of a number of well established shared-cost programs with the provinces, particularly the shift in such financing from direct payments to tax transfers.

● (1512)

Had it not been for these one-time, non-repeatable changes in our budgetary system, the percentage increase in 1977-78 outlays would have been about 10 per cent as, indeed, was noted by opposition critics at the time of my tabling of the estimates on February 16 last. Accordingly, the target of 9.8

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per cent adopted for 1978-79 is very much within the spending trends set when the government's restraint program was introduced. Moreover, Mr. Speaker, I repeat that this ceiling is below the trend in nominal GNP growth.

Mr. Stevens: Including inflation?

Mr. Andras: Yes, as the hon. member opposite has said, including inflation, a factor and a formula recognized by all 11 first ministers of this country at their conference the other day as being the appropriate target.

Although federal expenditures will be contributing during the next 12 months to the growth of aggregate demand in Canada, we are not relying on more spending to give a major push to the economy. To the extent that additional short-run stimulus has been judged necessary, the government has acted mainly through tax reductions so that the recovery may be sustained through private sector expansions. Past experience has shown that any attempt to hold the economy up by federal spending alone is in fact self-defeating. Such stimulus is inevitably short-lived and soon leads to a renewal of inflationary pressures.

The government has therefore resisted the urging of some hon. members opposite to increase its expenditures by more than is required to maintain federal services and to sustain the economic recovery. At the same time we have resisted pressure from other quarters to cut savagely federal programs and apply some rigid form of fiscal rigour.

As much as anyone, the government wants the federal public service to be lean and trim, and we are cutting the fat wherever we can, but we are holding our hand whenever we realize that in cutting deeper we would be sticking the knife into somebody else's guts.

Some hon. Members: Oh, oh!

Mr. Andras: I would have liked federal expenditures to grow even less rapidly in the next fiscal year, but I had to recognize that at this time an abrupt retrenchment of federal outlays would have played havoc with provincial finances, would have pulled the rug out from under private consumption, and would have deprived Canadian business of orders which they critically need to raise production and productivity.

To understand why this is so, one must look at what I call the anatomy of federal spending growth. It has been repeatedly pointed out in the past that more than 40 per cent of so-called federal expenditures actually take the form of transfers to provincial governments and individual Canadians.

Over the years the federal treasury has taken on statutory obligations and commitments, duly approved by this parliament, to share in the financing of provincial activities and programs. These transfers are what I would call the provincial dimension of federal spending. This year they will absorb more than \$9.8 billion which, I repeat, are included in our total expenditure plan of \$48.8 billion.

Fiscal payments, particularly equalization grants, can be used to finance the full spectrum of provincial programs.