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First Session—Twenty-eighth Parliament

1968

# THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING COMMITTEE

ON

## FINANCE

The Honourable T. D'ARCY LEONARD, *Chairman*

No. 1

*First Proceedings on The Estimates and the Revised Estimates*  
laid before Parliament for the fiscal year ending 31st March, 1969.

THURSDAY, OCTOBER 17th, 1968

WITNESSES:

*Treasury Board:* S. S. Reisman, Secretary. S. Cloutier, Assistant  
Secretary, Program Branch.

*Addendum:* Minutes of meeting of October 10th, 1968.

ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1968





First Session—Twenty-eighth Parliament

1988

# THE STANDING COMMITTEE ON FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable H. de M. Molson, *Deputy Chairman*

## The Honourable Senators:

- |                                   |   |
|-----------------------------------|---|
| Aird                              | Hays                                      |
| Aseltine                          | Isnor                                     |
| Beaubien ( <i>Bedford</i> )       | Kinley                                    |
| Beaubien ( <i>Provencher</i> )    | Leonard                                   |
| Bélisle                           | MacKenzie                                 |
| Benidickson                       | Méthot                                    |
| Burchill                          | Molson                                    |
| Choquette                         | O'Leary ( <i>Antigonish-Guysborough</i> ) |
| Connolly ( <i>Halifax North</i> ) | Paterson                                  |
| Connolly ( <i>Ottawa West</i> )   | Pearson                                   |
| Croll                             | Phillips                                  |
| Denis                             | Quart                                     |
| Desruisseaux                      | Rattenbury                                |
| Dessureault                       | Roebuck                                   |
| Everett                           | Savoie                                    |
| Farris                            | Smith ( <i>Queens-Shelburne</i> )         |
| Gélinas                           | Thorvaldson                               |
| Giguère                           | Vaillancourt                              |
| Grosart                           | Welch                                     |
| Haig                              | Willis                                    |
| Hayden                            | Yuzyk—(42).                               |

*Ex officio members:* Flynn and Martin.

WITNESSES:

Treasurer: S. S. ... Secretary: S. ...

Abundant: Minutes of meeting of October 10th, 1988.

MINUTE PROCEEDINGS  
ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Tuesday, October 1, 1968:

"With leave of the Senate, the Standing Committee on Finance met

The Honourable Senator Martin, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates and the Revised Estimates laid before Parliament for the fiscal year ending 31st March, 1969, in advance of Bills based on the said Estimates and Revised Estimates reaching the Senate;

That the Committee be empowered to send for persons, papers and records, to print its proceedings upon the said Estimates and Revised Estimates and to sit during adjournments of the Senate; and

That the papers and evidence received and taken on the Estimates for the fiscal year ending 31st March, 1969, in the preceding session be referred to the Committee.

The question being put on the motion, it was—

Resolved in the affirmative."

Robert Fortier,  
Clerk of the Senate.

After discussion it was agreed that the Standing Committee on Finance determine the feasibility of examining the Minutes of the Proceedings of the Department of Government.

Resolved that these Minutes be included in the first printed Proceedings of the Committee.

At 10:25 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
Clerk of the Committee

Tuesday, October 1st, 1968  
(3)

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10:00 a.m.

Present: The Honourable Senators Leonard (Montreal), Beaubien (Quebec), Connolly (Ottawa West), Cook, Flynn, Gagnon, Grosart, Haig, Lamer, Kinley, MacKenzie, Meighan, Mulcahy, O'Leary (Antigonish-Carleton Place), Pearson, Rattenbury, Smith (Quebec—The Lakes), Thériault and Yuzuk. (18)





## MINUTES OF PROCEEDINGS

THURSDAY, October 10th, 1968.

(1)

Pursuant to Rule and notice the Standing Committee on Finance met this day at 10.00 a.m.

*Present:* The Honourable Senators Aseltine, Beaubien (*Bedford*), Croll, Desruisseaux, Flynn, Grosart, Hays, Isnor, Kinley, Leonard, Methot, Molson, O'Leary, (*Antigonish-Guysborough*), Paterson, Rattenbury, Smith (*Queens-Shelburne*) and Willis—(17).

Upon motion, the Honourable Senator Leonard was elected *Chairman*.

Upon motion, the Honourable Senator Molson was elected *Deputy Chairman*.

After discussion and upon motion, a Steering Committee was appointed composed of the Honourable Senators Leonard (*Chairman*), Beaubien (*Bedford*), Haig, Molson and Smith (*Queens-Shelburne*)—(5).

After discussion it was agreed that the Committee would meet whenever possible at 10.00 a.m. on Thursday of each week.

It was agreed that a letter be sent to all Senators inviting them to submit their suggestions and/or questions to the Chairman who would direct same to the Steering Committee.

After discussion it was agreed that the Steering Committee would determine the feasibility of examining the Estimates of any one particular Department of Government.

*Resolved* that these Minutes be included in the first printed Proceedings of the Committee.

At 10.25 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
*Clerk of the Committee.*

THURSDAY, October 17th, 1968.

(2)

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.00 a.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Beaubien (*Bedford*), Connolly (*Ottawa West*), Croll, Flynn, Giguere, Grosart, Haig, Isnor, Kinley, MacKenzie, Methot, Molson, O'Leary (*Antigonish-Guysborough*), Pearson, Rattenbury, Smith (*Queens-Shelburne*), Thorvaldson and Yuzyk. (19)

The Estimates and the Revised Estimates laid before Parliament for the fiscal year ending 31st March, 1969, were considered.

The following witnesses were heard:

*Treasury Board:*

S. S. Reisman, Secretary.

S. Cloutier, Assistant Secretary, Program Branch.

After discussion, it was agreed that the question of the audit of Federal-Provincial programs be deferred until the appearance of the Auditor General before the Committee.

Mr. Reisman undertook to supply, at a later date, answers to some of the questions put this day.

At 11.25 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,

Clerk of the Committee.

At 10.25 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
Clerk of the Committee.

THURSDAY, October 17th, 1968.

(2)



## THE SENATE

### STANDING COMMITTEE ON FINANCE

#### EVIDENCE

Ottawa, Thursday, October 17, 1968

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1969, met this day at 10 a.m.

**Senator T. D'Arcy Leonard** (*Chairman*) in the Chair.

**The Chairman:** Honourable senators, it is 10 o'clock. We have a quorum. The business for the meeting today is our first consideration of the revised Estimates for the year ending March 31, 1969. Honourable senators will recall that the original Estimates were referred to the committee earlier this year. Some meetings were held in dealing with the original Estimates then Parliament dissolved and a new Parliament was elected. At this session revised Estimates have been filed and have been referred to this committee.

Also, probably since the last meeting of the committee, since the changing of the Parliament, a change has taken place in the personnel of the Treasury Board. Dr. George Davidson had been Secretary for a number of years. He was very well known to this committee. He had been of great help to the committee. He was one of our chief witnesses in dealing with the Estimates and with the financial affairs represented by the Estimates. Dr. Davidson, as you know, was made the President of the Canadian Broadcasting Corporation.

In Dr. Davidson's place Mr. S. S. Reisman was appointed Secretary of the Treasury Board. We have Mr. Reisman with us today. It is his first appearance before this committee as Secretary of the Treasury Board, although it is quite likely that over a career that has extended in the Public Service of Canada for some years he will have been before a Senate committee, this or some other committee, at one time or another. In any

event, on your behalf I wish to welcome Mr. Reisman to the committee and to assure him that he will have our co-operation. In turn, I am sure we are going to get a good deal of helpful information from him.

Mr. Reisman has with him Mr. Cloutier, who is the Assistant Secretary of the Treasury Board and who has been before the committee on previous occasions. We also have back with us Mr. Glashan. I may be just a little rusty as to Mr. Glashan's exact title, but he is one of the senior officers of the Treasury Board.

I do not know that there are any other preliminary matters, beyond welcoming these gentlemen, and if it is your pleasure I will ask Mr. Reisman to speak to us in connection with the revised Estimates. He will probably want to deal with them in general, but he is available to us for any questioning on them.

Is there anything else before Mr. Reisman proceeds? Mr. Reisman, would you mind speaking to us about this matter, then?

**Mr. S. S. Reisman, Secretary of the Treasury Board:** Thank you very much, Mr. Chairman. I am rather new at this game. You not only have the Revised Estimates but, as you have indicated, you really have a revised secretariat of the board as well. But I am sure that as we move along through this business I will get a better feel of what it is you want to know, Mr. Chairman, and I will try, with the help of my staff—and I will certainly need that help—to try to answer whatever questions need answering and to clarify whatever issues need clarification. We will do that at least to the best of our ability.

The procedure in respect of Estimates this year is rather unique. It has happened only once before as far as I am aware—that two separate sets of Estimates have been tabled. You will recall that during February and early March the country was experiencing



certain financial difficulties mainly on the international side. At that time a major policy statement was made by the then Minister of Finance, Mr. Sharp, indicating a number of important steps that would be taken to deal with the financial situation, including a further paring down of expenditures, at least in the area where the executive was in a position to deal with expenditures.

He undertook that a revised set of estimates would be tabled as soon as possible, but because of the events with which you are completely familiar, that "as soon as possible" did not occur until several weeks ago. The Revised Estimates which were tabled by the Honourable C. M. Drury were able to take into account the cut-back in the controllable expenditures in the amount of some \$80 million, and also brought up to date certain other developments that had taken place between March and September in the form of changes in those expenditures that are not subject to voting by parliament, but which are provided for in the statutes. He also introduced certain other changes to bring up to date expenditure decisions other than the statutory changes and those which arose from the cut-backs.

In a real sense, I suppose, the Revised Estimates for this year include some of those expenditure changes which would, in a normal year, be contained in supplementary estimates. This, of course, does not mean that there will not be supplementary estimates, but hopefully it does mean that the supplementary estimates will be more moderate than they might be in a normal year.

Now, I do not know in how much detail you would like me to go into this. Perhaps I should mention that the Revised Estimates of expenditures are significantly higher than the original estimates. In the main, the increases occurred on the statutory side and they are largely in the area of those joint programs, or open-ended programs, as we sometimes refer to them, of the federal and provincial governments in the areas of hospital and diagnostic services, post-secondary education and the Canada Assistance Act. Those are the areas where the various substantial increases took place. There are also some significant increases in debt charges; the cost of servicing the public debt. This is related to the upper movement of interest rates. There were two important items which were not provided for in the original estimates, but which figured significantly in the Revised Estimates,

and they relate, again, to statutory items. They are, first, the election which, as you know, cost a significant amount of money and, second, the first charges under the medicare program for British Columbia and Saskatchewan. Significant payments were required to be made this fiscal year.

**Senator Pearson:** Can you tell us how much the Revised Estimates were?

**Mr. Reisman:** Senator Pearson, the details of these charges are contained in the Estimates book. The charge for medicare for the fiscal year 1968-1969 is in the order of \$35 million. As far as the election is concerned, I believe the figure is, if my memory is correct, just slightly over \$14 million.

**The Chairman:** Perhaps Senator Pearson would like that broken down into the two provinces.

**Senator Pearson:** Yes.

**The Chairman:** Could you break it down?

**Mr. Reisman:** The printed estimates do not show the break-down between provinces, but I will get this information for you and submit it to the committee.

**The Chairman:** That is satisfactory.

**Senator MacKenzie:** May I ask a question? Do you know whether an agreement has been reached between the provinces and the federal authorities on the 1-S Formula on which the 50 per cent cost of higher education or post-education? I had in mind, sir, that there are a number of items that could be in or out under that general heading of post-secondary education and I have found in the provinces and here also that it has not only been very difficult, but, to the best of my knowledge, no firm agreement has been reached on that.

**Mr. Reisman:** Senator MacKenzie, you are quite right in indicating that the question of what is or is not included under this program, which entitles provinces to payments from the federal side for programs operated by the provinces, is complicated and there was a long period of negotiation and discussion in connection with this matter. But I think it is correct to say that these consultations have been completed and the results of these consultations are incorporated in regulations, spelling out very clearly and very specifically what may be included and what may not be included in calculating benefits under this program.



I do not have a copy of the regulations with me, but if it is your wish, sir, I can make one available, or if you would like further discussion or information about how that issue was resolved—

**Senator MacKenzie:** If that information could be made available I would appreciate it. I have one further question. It has been suggested that the federal courts are considering changing that arrangement or revising it. I take it you would not be in a position yet to elaborate on that idea.

**Mr. Reisman:** No, I think the normal practice before committees of this kind, is that for policy issues, you would wish a minister of the Crown to give evidence. Perhaps I can say, and of course this is public information, that the Prime Minister and other ministers of the Crown have made reference to the fact that these open-ended programs are costing the provinces and the federal Government more than was anticipated when they were first entered into, and that it would be desirable to have some discussion about those programs. No doubt discussion will be taking place, but that is about as far as I can go.

**Senator MacKenzie:** Could you give us, for the record, the estimated cost for this fiscal year of this program?

**Mr. Reisman:** Yes, I can give you that.

**Senator MacKenzie:** I do not need it now.

**Mr. Reisman:** I can give it to you. As far as cash payments from the Department of the Secretary of State to the provinces in respect of the fiscal year 1968-1969, the figure is \$227 million.

**Senator MacKenzie:** Then there is the tax transfer as well.

**Mr. Reisman:** There are the tax points as well.

**Senator Pearson:** The tax what?

**Mr. Reisman:** The federal share of the cost of post-secondary education under this program is made in a number of ways. First, there are tax points that are made available to the provinces and that provides a substantial income.

Now, if the tax points do not produce a figure as prescribed under the act, which is roughly equivalent to half the operating cost of post secondary education, there is then a cash payment made by the Department of the

Secretary of State to bring the total assistance to a particular province up to roughly that 50 per cent level. Therefore, you have a combination of aids of which the cash payment is only one. As far as the Estimates are concerned, all you see are the cash payments.

**Senator MacKenzie:** You do not see the loss to the federal Government of tax points, which is quite substantial.

**Mr. Reisman:** Which is very substantial, depending upon the province.

**Senator MacKenzie:** I have one further question. Am I right in assuming that as far as the federal Government is concerned this money paid out on this 50 per cent basis without strings attached can be used for any purpose that the province cares to use it for?

**Mr. Reisman:** I had better reflect on that question a moment, sir, and perhaps you will permit me also to consult with my staff.

**Senator MacKenzie:** It is supposed to be used for post-secondary education, and I understand this is rather a delicate question within the provinces and in the universities.

**Mr. Reisman:** If I may, Senator MacKenzie, I think I can put it fairly in this way: that the payments made to the provinces are based on audited statements of the cost in the particular province of post-secondary education as defined in the regulations. It takes in the universities, medical schools and some of the post-secondary technical schools, and so on, and payment is made in respect of charges actually incurred by the provinces for those purposes, which means they receive these funds from us whether in terms of cash payments or tax points, and they go into the revenues of the province.

**Senator MacKenzie:** They have incurred it for the previous year, but they don't have to put their 50 per cent into that. You see, part of the expenditure made by universities comes out of fees and endowments, so that while technically or normally all of this 50 per cent contribution by federal authorities should go there, and I hope in the majority of cases it does, I think it is a fact that it is free money after you have handed it over and is at the discretion of the provinces.

**Senator Croll:** If I understood you correctly, it is audited payments whereby a certain number of dollars has been paid out.



**Senator MacKenzie:** Yes, they are audited expenses or expenses incurred by the institution, but the revenue of the institution comes from more sources than the provincial Government and the provincial Government does not have to match the federal contribution. It can rely on the fact that fees and so forth are additional.

**The Chairman:** I think the specific case that Senator MacKenzie might have in mind is with respect to denominational universities.

**Senator MacKenzie:** I do know there is a real question in the minds of a number of people in a number of provinces as to whether this arrangement is not perhaps relieving the provinces to a greater or lesser degree of their responsibilities in this field.

**Senator Croll:** What you are saying in effect is that they don't give the federal Government any credit for the revenues they receive. That is what you are saying in effect, but the federal Government has always been a sucker.

**Senator Connolly (Ottawa West):** I would like to ask a question of Mr. Reisman. Do the regulations provide for taking into account the sources of revenue that the universities have on their own before the 50 per cent is calculated?

**Mr. Reisman:** That is a very precise question, Senator Connolly, and I wish I could answer it as precisely as you asked it. I know the regulations say quite a lot about how fees that are collected by the provinces are treated for the purpose of calculating the federal payment. There is a fairly complicated formula and my recollection is that fees are in fact deducted before calculating the federal share of the program, but I think you will get a better answer and a more precise answer when we submit to the committee a copy of the regulations.

Perhaps I might also add that when you get into the intricate details of any programs that are the responsibility of a department of government, you will be better served by a witness from the department in question. Mr. Steele is the Under-Secretary of State and I believe that as of this date he is still with us.

**Senator Croll:** In open-ended contracts, you spoke of the Canada Assistance Act, medicare and education.

**Mr. Reisman:** And hospital and diagnostic services.

**Senator Croll:** Is there anything else?

**Mr. Reisman:** No, I think that is pretty well it.

**Senator Rattenbury:** It is not a requirement of federal grants for educational purposes that technical training be incorporated in all new buildings?

**Mr. Reisman:** There is a distinction to be drawn between the type of technical training we speak of. If the technical training is provided in a post-secondary institution, then it forms part of this program. But as you know there are other very large and important programs for vocational training and technical training and other types of training for adults operated by the Department of Manpower and Immigration under the occupational training for adults program.

**Senator Rattenbury:** But those are separate institutions for training fishermen and people like that.

**Mr. Reisman:** Or for people who want to upgrade their skills. These are largely institutions operated by the provinces.

**Senator Rattenbury:** What about high schools being built?

**Mr. Reisman:** They do not qualify under this program. They are regarded as secondary rather than post-secondary institutions. However, if we talk about places like the Ryerson Institute in Toronto or the Eastern Ontario Institute of Technology here in Ottawa, these do qualify.

**The Chairman:** I see Senator Molson wishes to ask a question, but before that, Mr. Reisman, you gave a figure of \$227 million for the provinces for post-secondary education. But the figure on page 447 is \$275 million. Is there a reconciliation?

**Mr. Reisman:** Yes, there is a conciliation. The difference, which I think is \$48 million, is in respect of the previous fiscal year where the program outran the estimated cost and so an adjustment payment will have to be made in respect of that fiscal year.

**Senator Molson:** Before we leave the subject of the provincial contributions to post-secondary education, in addition to the matter of fees which has been referred to, could we also have drawn to our attention the method of dealing with endowment income and research grants, both of which figure in some



university budgets to quite a substantial extent. These are important as another substantial source of income.

**Mr. Reisman:** Yes, senator. I believe that the matter of endowment and related income is also dealt with in the regulations. If it is, it will be covered in the material we submit; if it is not, we will submit separate information for you.

**Senator Connolly (Ottawa West):** With regard to research grants, are they not paid directly to the university rather than to the provinces?

**Mr. Reisman:** Yes, you are quite right if you are thinking of research grants under the very large program operated by National Research Council. There you will find payments are made directly to the university and then the university distributes them between individual recipients and individual graduate students who engage in particular lines of research. I think you will find that certain programs operated by other agencies and departments of government involving research grants are also handled in that way.

**Senator Grosart:** Mr. Reisman, it has been my understanding that in these open-ended matching federal-provincial grants the basis of the federal matching was, or has been, or is, the actual expenditure out of the provincial treasury. Is that so, or is it not?

**Mr. Reisman:** I think that puts it rather more simply than is actually the situation. The federal share is based on a formula spelled out in the regulations. By and large, I think one can say that your description of it is basically right; but it is a little more complicated than that, for the reason that fees are treated in a particular way, endowments and research grants are treated in a particular way, and I doubt if you will get a precise 50 per cent equivalence of actual cash disbursements from a province, but it comes to something reasonably close to that.

**Senator Grosart:** Are these qualifications in the post-secondary school grants an exception to the general practice followed in other grants?

**Mr. Reisman:** No.

**Senator Thorvaldson:** Mr. Chairman, this relates, I think, to what the senator was talking about. The federal Government having embarked on the various programs,

shared cost programs such as the Assistance Act and in regard to universities, has the federal Government no control over the escalation of the money that is required for payments under these projects?

I ask this question in relation to the statements you see appearing in every weekday journal and that you hear over the radio now, and so on, to the effect that the great increases in expenditures contained in the revised Estimates are largely occasioned by these shared cost programs. Are these absolutely open-ended programs, and is it the fact that the federal funds flow out without any legislative authority, subject to this, that they are open-ended and consequently there are great increases, apparently, without control of Parliament?

**Mr. Reisman:** The answer to you, I think, can be quite straightforward. These are, indeed, open-ended programs, and the legislation providing for the federal participation in these programs indicates the basis upon which the federal Government will share in their cost. If you examine them in detail you will find they are open-ended, that the only control over them is exercised by the provinces themselves who operate the programs. Once costs have been incurred you apply the formula as spelled out in the regulations, and you pay your shot. So, the answer to you is that they are open-ended.

**Senator Thorvaldson:** Is it correct, then, to say that funds raised by taxes by the Government of Canada incurred in these programs are now dependent upon the legislation we have in Queen's Park, British Columbia, Manitoba, and so on; and that we have abandoned the principle that Parliament has control of these funds?

**Mr. Reisman:** No, I do not think that is correct, sir. The disbursements by the federal Government in respect of these programs are controlled by legislation adopted by the Parliament of Canada. While it is true that the legislation does not use precise figures, or set precise limits, it does in fact lay out the basis upon which the federal Government will participate. Parliament examined this and Parliament adopted this legislation, and that is the basis upon which the federal Government participates.

**Senator Thorvaldson:** That is quite right, but may I say this, that I think you have just remarked that, nevertheless, our escalation in



these payments was dependent upon whether there was escalation or de-escalation by the provinces in these programs.

**Mr. Reisman:** That is entirely correct. If you take as an example the costs for post-secondary education, the controlling figures are the costs of operating the universities and the post-secondary institutions. A formula is applied to them, whatever that figure may be, and the federal share is based on those actual costs permitted by the formula. These things can rise very rapidly and, in fact, they have risen very rapidly, as the figures will indicate.

**Senator Thorvaldson:** I want it understood that I do not blame anyone but ourselves. I recognize what we as a Parliament have done, and I am just wondering why we did it.

I think it is most valuable to have you here to explain these things to us in detail, because they looked fine when we passed the bills, and we were all involved in passing these acts and entering into these projects, but I just want to suggest that we are involved in a vicious circle here, the end of which we do not see, and that perhaps we should give a great deal of thought to where we go on these open-ended programs in the future.

**Senator Rattenbury:** Once we arrive at a certain standard of education right across Canada, for educational requirements, then there will be, more or less, a slow down and levelling off process in comparison with the rise in population.

**The Chairman:** That may depend on whether a larger percentage of our population is going to be at university.

**Senator Croll:** In view of what Senator Thorvaldson has said, one of the great debates in this country over a period of years, particularly, has been on Medicare and what it is likely to cost, and Parliament had that before it; education and what is likely to cost, hospitalization—all these things—and they were faced with it as we were, and we said, "This we need and this we will pay for, as long as the province pays its share." It was debated and debated most thoroughly in the country, and the country understands it.

**Senator Thorvaldson:** I would quite agree with you, but the question is: Did we do the right thing?

**Senator Croll:** Well, your party was involved as much as our party; we both had a share in it.

**Senator Grosart:** Some years ago there was some concern expressed over the fact there was no federal audit in the area of the winter works program. To what extent is there a federal audit of the figures presented by the provinces as claims for federal matching grants?

**Mr. Reisman:** This is a question which I would like to be able to answer, and that I should be able to answer. Max Henderson would certainly be able to give you the precise detail on it.

My understanding on it is this; that the audit arrangements vary with the programs. In some cases the Auditor General accepts the provincial data; in other cases he will conduct an independent audit. I think it is largely a matter of his own judgment in some cases, and I understand that if he wishes to make an audit, because he has some basis for wishing to make an audit, he can do so. After I leave this committee I will check that, and if I am wrong in the answer I gave you I will correct it.

**The Chairman:** Also it has been our custom in the past to have Mr. Henderson appear before this committee at some time before we conclude our sittings. We can make a note of that point, for when Mr. Henderson comes before us.

**Senator Grosart:** Yes, thank you, that answers my question.

**The Chairman:** Are there any other questions? We have pretty well been discussing only one aspect of the Estimates, namely, this aspect of post-secondary education. Of course, there are a good many other things involved. If we have dealt with that point perhaps Mr. Reisman has some other comments he wants to make about the revised Estimates in general.

**Mr. Reisman:** I had not completed my opening remarks, sir. All I need add is that apart from the decreases which were made in the controllable items, and the increases which we have spoken about in the statutory items, there are included in the revised Estimates a number of changes in respect of essential requirements totaling \$33 million for which Parliament will be asked to appropriate funds. These include—perhaps I should



enumerate them, because there are not that many.

There is an anticipated operating loss of the Farm Credit Corporation during the current fiscal year of \$1.4 million.

There is a payment to the United States Mint, for coin production to meet the high demand for coinage in Canada, of \$210,000.

There is an additional provision for the Treasury Board Contingencies Fund, for anticipated Public Service salary adjustments arising out of collective bargaining, of \$25 million.

And there is an addition to the original provision for the Government's share of the premiums for the Group Surgical-Medical Insurance Plan, required as a result of the participation in Medicare by fewer provinces than expected, of \$6,218,000.

When we take all of these changes into account the total budgetary expenditures for 1968-69 reach a figure of \$10.671 billion.

If you look through the revised Estimates you will see there is a section on loans. The Estimates do not include all the loans and advances, but they include those that require the approval of Parliament, and there are several very large items there dealing mainly with our international financial commitments in respect of international aid, and there is another—and a very large one—in respect of an international program to support the pound sterling. Canada is one of the countries rendering support for the pound sterling.

That is about all I want to say by way of general introduction. Perhaps we could go on now with questions.

**Senator Thorvaldson:** Mr. Chairman, may I ask a question with respect to our international financial commitments including our support of the pound sterling and also in regard to our program in respect of international aid? Are the amounts required for those items raised by loans? I thought that international aid was a budgetary matter.

**Mr. Reisman:** They are both, Senator Thorvaldson. There are a number of programs in which the federal Government participates in respect of international aid, and some of these programs take the form of grants and these, of course, are handled through the normal items providing for budgetary outlays for grants. And there are other programs that involve loans. Some loans are at a rate of interest that reflects the market rate, and others are at what we call...

**The Chairman:** They are soft loans.

**Mr. Reisman:** Thank you very much, Mr. Chairman. Yes, they are soft loans.

**Senator Thorvaldson:** I was under the misapprehension that all of these sums were raised by way of loans, but I can see now that the direct grants are budgetary items.

**Mr. Reisman:** That is right.

**Senator Connolly (Ottawa West):** The contribution to UNICEF is a grant, is it not?

**Mr. Reisman:** Yes, the contribution to UNICEF would be a grant. The contribution to the United Nations Development Fund would be a grant. But, the contribution, say, to the International Development Association, which is associated with the International Bank for Reconstruction and Development, is a loan. The figure that I referred to here of \$81 million is in fact a contribution to the International Development Association, and is a loan.

**Senator Thorvaldson:** Can you give us the total amount of the items involved in these loans to such organizations as the International Development Association? I am referring to these aid items.

**Mr. Reisman:** The total loan figure that is included in the Estimates, and that requires a vote by Parliament, is \$684 million. If you will look at page 577 of the Revised Estimates under the general heading of "Loans, Investments and Advances" you will find a figure for the 1968-69 fiscal year of \$106 million under the External Aid Office, and this is special loan assistance to developing countries. Then there is this additional figure to which we referred, and which appears also on that page under the Department of Finance of \$81 million-odd.

So, the total figure for this current fiscal year for development assistance by way of loans is \$187 million.

**Senator Thorvaldson:** Thank you. Have you a figure for the moneys expended by way of loans in respect of matters such as that of protecting the pound sterling.

**Mr. Reisman:** Yes. If I understand your question correctly, you are asking for the figure of loans by the Government of Canada under the program to help support the pound sterling. The figure which is contained also at page 577 under "Loans, Investments and Advances" is \$107.3 million. This takes the form, I might say, of a commitment by Cana-



da to an account in the Bank for International Settlements, which may, in certain circumstances, be drawn upon. It is a sort of support fund...

**Senator Connolly (Ottawa West):** A stand-by.

**Mr. Reisman:** It is a stand-by. Thank you very much, Senator Connolly. That is exactly what it is. It is a stand-by. If my memory is correct, none of that has yet been drawn down, and would only be drawn down in the event of certain circumstances.

**Senator Connolly (Ottawa West):** Well, it is drawn down at attractive interest rates, is it not? Is the interest rate an attractive one?

**Mr. Reisman:** Yes, the project itself was worked out in detail by participating countries. They have some very detailed rules about when it can be drawn down, and if it is drawn down how it is to be repaid and at what rates of interest. It is a fairly complicated formula. I might say too that this does not involve a cash drain on Canadian resources. If it were drawn upon it would come out of our international exchange reserves, and when it is repaid it would replenish those international exchange reserves.

**Senator Thorvaldson:** Is not that a loan?

**Mr. Reisman:** It is very definitely a loan, carrying definite rates of interest. It is really a supplement to the other techniques that are used for maintaining international financial stability. You have the International Monetary Fund; you have your own exchange reserves; and on occasion you have these other arrangements. You may recall that when Canada got into international financial difficulties, first in 1962 and then again a few years ago, we drew down on our I.M.F. credits. We borrowed from the United States Federal Reserve, and in various other ways other countries helped us get through this difficulty. We, in turn, help other countries when they get into difficulty, as part of international financial co-operative arrangements.

**Senator Pearson:** Do they draw on a pro rata basis from the different countries that support the I.M.F.?

**Mr. Reisman:** That is right, sir.

**Senator Thorvaldson:** I just want to point out in that respect that when we got into those difficulties in 1962, and then more recently, none of those matters were charge-

able to revenue, except of course, interest charges on loans. Would that be right?

**Mr. Reisman:** That is correct, sir.

**Senator Grosart:** I should like to ask three short general questions. First of all, when you refer to an \$80 million cut-back this year, what was the cut-back from?

**Mr. Reisman:** The figure I used was a \$80 million cut-back in respect of controllable expenditures; that is, expenditures which are to be voted by Parliament for this fiscal year. This was a cut-back from the figures which appeared in the main Estimates in respect of departments and agencies. If you have the revised Estimates in front of you, on pages 6A and 6C there is a full detail of precisely where this \$80 million was obtained by department and agency.

**Senator Grosart:** What was the cut-back from the departmental estimates?

**Mr. Reisman:** Just under \$80 million; \$79 odd million.

**Senator Grosart:** I mean the proposed spending by departments. Could you discuss this figure quite generally?

**Mr. Reisman:** Let us take as an example the Department of Agriculture. You will observe that the original 1968-69 estimates for that department provided for \$278 million, and the reduction announced on March 6 was a figure of \$2.29 million. For the Department of Energy Mines and Resources there was a \$1.9 million cut-back from the \$113 million in the original estimates.

**Senator Grosart:** I do not quite follow. On page 6A for agriculture you have the figure of \$278 million and the revised estimate of \$255 million. That was the figure you gave.

**Mr. Reisman:** Yes. There are two adjustments which need to be made to the original figure of \$278 million. One adjustment is the \$2.2 million arising from the cut-back in March, and the other adjustment of \$20.7 million arises from the reorganization the Prime Minister announced several months ago. I believe that what was involved here was the move of the P.F.R.A., the Prairie Farm Rehabilitation Administration, from the Department of Agriculture to the new Department of Regional Affairs, which in the move took that piece of the budget with them.



**Senator Grosart:** So the departmental figures in the Estimates and the Revised Estimates are not necessarily comparable because they are not necessarily the same components in the department. Is that correct?

**Mr. Reisman:** That is correct, sir. What we try to do on pages 6A, 6B, 6C and 6D is to spell out precisely how to reconcile the original Estimates with the Revised Estimates arising from a number of factors. It arises from, first the cut-back of the \$80 million; secondly, the upward movement in the statutory items; thirdly, the changes arising from the reorganization; fourthly, certain adjustments for necessary expenditures which the Government decided to incur, which I outlined to you in detail, running to a figure of \$33 million. All that is contained on these pages so that you can make a full reconciliation.

**Senator Grosart:** What is the percentage of the total Estimates that is statutory and controllable, to use your word? Just the percentage. I do not need the exact figures.

**Mr. Reisman:** I would say between 60 per cent and 65 per cent are controllable. Let me give you the actual figure. Of a total of \$10.6 billion, \$4.8 billion are authorized by statute and the rest, \$5.7 billion, requires to be voted.

**Senator Connolly (Ottawa West):** You used to put these on the sheets that could be passed round to senators at the time the appropriation bills were before the house. I think that is a good practice because it allows senators to see, first of all the statutory items and the amounts, and secondly the controllable expenditures and the amounts, and then the amounts by departments. I think that was a helpful device for senators listening to a speech that had box car figures in it of necessity.

**Senator Grosart:** I would hope that in the department you will be able to find a better word than "controllable", because the natural assumption is that the others are uncontrollable. My last question is: would you care to relate the figures in the Estimates to the Government cash requirements this year?

**Mr. Reisman:** I am afraid I cannot do that for you. It would not arise from our estimates of expenditures. The way responsibilities are allocated between agencies and departments, it is the Department of Finance which concerns itself with management of the cash

position, the consolidated revenue fund, and I would not have that information. If you were interested in that I am sure the Department of Finance would be happy to provide a witness to give you all that detail.

**Senator Grosart:** It is really the most important figure a nation has to consider.

**Mr. Reisman:** It is an important figure, sir, but I myself have always felt, although it is a personal view, that what you spend and do not get back is really more significant than what you advance in the way of loan or advance and earn interest on and get back. The cash position reflects both those, and no doubt the cash position is a very significant element in the management of government finances, because you must raise money. I do not know whether I would care to attribute relative importance to these.

**Senator Thorvaldson:** I should like to ask one question on this item while we are dealing with pages 6A, 6B, 6C and 6D. On each page you have reductions and increases, and one heading is "Arising from Reorganization". Could you tell us briefly what you mean by "Reorganization"?

**Mr. Reisman:** We mean something very specific here. You will recall the Prime Minister announced several months ago some basic reorganization in the apparatus of government. He announced that the Department of Industry and the Department of Trade and Commerce would be merged into one department; that there would be a new Department of Communications which would take on certain elements and activities of work formerly done by other departments; that there would be certain transfers of functions from one department to another, so that the Department of Forestry and Rural Development was split, with forestry joining Fisheries and rural development becoming a component of the new Department of Regional Affairs. When we use the term here "arising from reorganization" we are referring explicitly and specifically to that reorganization announced by the Prime Minister and for which there will be a composite reorganization bill presented to Parliament in the near future.

**Senator MacKenzie:** What is the share that the federal Government pays to the provinces in respect of Medicare?

**Mr. Reisman:** It is 50 per cent. That is the magic figure in the program.



**Senator MacKenzie:** I take it that the estimates of expenditure for this year for Saskatchewan and British Columbia are, in a sense, intelligent guesses—in that you have not yet exact figures. Until the end of the financial year of those provinces, you will not be able to get an exact figure.

**Mr. Reisman:** I think that is a fair observation. They are estimates. In some cases, estimates can be reasonably precise; in other cases, they are not much more than an informed, intelligent, educated guess.

**Senator MacKenzie:** In both provinces, medical services in one form or another affect it. There has been an extension in British Columbia. Saskatchewan carries on much of what has been done in the past, other than the fact that they will get a contribution from the federal fund.

**Mr. Reisman:** You are quite right, sir. Because the estimates for Medicare relate to two provinces that have had experience with this program, and because we base ourselves very largely on their submissions to us, or to the department concerned and then to us, I would hope that these figures are reasonably accurate.

**Senator MacKenzie:** Later on you will get the exact figures?

**Mr. Reisman:** Yes, we will.

**Senator O'Leary (Antigonish-Guysborough):** Mr. Reisman, would you mind covering, perhaps in a little more detail, that \$6 million item? We are in the Medicare field again.

**Mr. Reisman:** As you know, in respect of the public service, the federal Government makes a contribution to the premiums for group surgical medical insurance. It is roughly half and half; the civil servant pays half and the Government pays half.

The arrangements that have been emerging from collective bargaining are that, as Medicare comes into effect, the governmental group surgical medical insurance plan will be withdrawn and, to the extent that that is withdrawn, the federal share will not have to be paid directly to this plan, because the civil servant, like any other citizen, will be entitled to benefits under the more universal Medicare plan.

When these original estimates were put together, a judgment was needed as to how widespread would be the adoption of the Medicare program by the respective prov-

inces. As it turned out, only two provinces had put the plan into effect by the time we came to make up the Revised Estimates. When the original Estimates were made up, the judgment was made that more than two provinces would be in it. This meant that the federal contribution to the public service group surgical medical plan required more inputs than originally anticipated and that explains the \$6 million figure.

**Senator O'Leary (Antigonish-Guysborough):** I think I understand that part of it. Perhaps my supplementary question is more important. This \$6 million was spent, in other words, because of anticipation that was not realized in respect of Medicare?

**Mr. Reisman:** Yes.

**Senator O'Leary (Antigonish-Guysborough):** Then, for a period of, I have forgotten how many months, there was a reduction in premiums to the public service and I presume it was this reduction in premiums that brought about this figure that we have here?

**Mr. Reisman:** No, I do not think so, sir. I think that is a different figure. Would you explain that, Mr. Cloutier?

**Mr. Cloutier:** As I remember the detail on this, the premiums for the surgical medical plan are examined periodically to make sure they are in actuarial balance, and the premiums were raised a few years ago in order to re-establish that actuarial balance. It occurred, as I remember it, that in the spring of 1967, the fund from which this plan is administered showed a healthy surplus and at that point—again we are going back to the winter of 1966-67—the expectation towards Medicare was that it would start within a relatively few months. The staff associations, which participated in the management of this plan, raised the observation that really this surplus arose out of too high contributions by their memberships and in view of the eventual, I would not say “demise”, but “contraction”, of the surgical medical plan upon the coming into effect of Medicare, that surplus really belonged in part to the employees who had contributed to that fund, and to the Government.

After consultations, which were rather protracted, between the staff associations and the representatives of the Government, the decision was made to decrease premiums for a period, as I recall, of five or six months, so as to re-establish the proper balance, or at least



to re-establish the fund at a level which would be consistent with the expected expenditures out of the fund. The end of that period coincided just about completely with the expected date of the introduction of Medicare.

Had Medicare come in in full bloom at that point, the rates would probably have remained somewhere at the level at which they were, because the coverage which would have continued to be provided under the surgical medical plan would have been at a lower level than before and requiring lesser contributions.

But what happened was, of course, that at that point Medicare did not come in, and the same coverage as before had to be continued, and at that point the rates of contribution by the employees and by the Government were re-established, as I recall it, sir, not quite as high as they were—

**Senator O'Leary (Antigonish-Guysborough):** A little higher.

**Mr. Cloutier:** A little higher. That is quite possible. My memory is quite hazy on this; but the rate at which it was established or re-established was calculated to maintain the actuarial balance in that fund.

**Senator O'Leary (Antigonish-Guysborough):** I do not see why you disagreed with my statement that this reduction in premiums was made at the time in anticipation of expenditures which did not come about, so this \$6 million is going towards making up that decreased premium for that period. That is why we have it.

**Mr. Cloutier:** The decrease in premium was calculated—

**Senator O'Leary (Antigonish-Guysborough):**—on the state of the fund at that time.

**Mr. Cloutier:** But to use up the surplus that existed in the fund over a period of five or six months, as I recall.

**The Chairman:** And now place it on a self-carrying basis?

**Mr. Reisman:** You have a figure of \$6.2 million here. There may be some small figure in it related to the alteration of the premiums, but the major figure—I would, say almost the total—is related to the fact that payments are being made into the group surgical medical plan in respect of public servants living in provinces that have not yet adopted Medicare.

**Senator O'Leary (Antigonish-Guysborough):** I would accept that. The main portion of this \$6 million is not in for that other purpose that was mentioned. I did not think so but I did not know what portion. That is the large portion.

**Mr. Cloutier:** You are quite right, senator.

**Senator Kinley:** There is one question about education. Sometimes we compare with other countries as to the amount we spend on research. In the Estimates we are talking about this morning, there is reference to so much being paid to universities. My question is, how much does industry contribute or do, in research, in Canada?

I think industry does a lot but that it is disguised in the income tax payments and dealt with in that way. It would not be in the Estimates, would it? You have no knowledge of how much industry pays in respect of research?

**Mr. Reisman:** I think that is quite right, sir. The figures are available for the expenditures by industry for research and development, but they would not appear in the Estimates.

**Senator Kinley:** It is a feature of income tax, and it is disguised in that they do not give credit for what they do. That is the point.

**Mr. Reisman:** Something does appear. If you want to know about those programs operated by the federal Government to support research and development in industry you can find some clues in these Estimates. For example, if you look at the Estimates relating to the Department of Industry you will find that there are at least four programs which involve payments by way of subventions or by way of support to industry to engage in research and development. They are all listed here. There are, of course, many other programs. For example, Atomic Energy of Canada Limited, through its contracting arrangements, enables industry to conduct a very substantial level of research and development at the federal expense, because the contract is paid for through a federal agency. This gets pretty complicated to listen to, but I expect that Senator Lamontagne's committee on scientific research has had a good deal of that evidence submitted to it.

**Senator Kinley:** I have had some experience in this, and I wanted to get that on the record so that it would be generally known



what industry does contribute to research in this country.

There is another question about medicare that is very interesting. Everybody is talking about medicare but nobody seems to know how much it is going to cost the country. I think, if we look, we will find that organized industry generally in Canada has social services equal to or even better in some cases than medicare. We are getting into the field of the needy in medicare and perhaps it gets us down to this matter that we are talking about so much now: "politicking." After all, we are only shifting from, for the most part, insurance control to Government control, and it is going to come to the point where everybody will be in the same boat. You know that in industry they have to go hunting for their business, but with medicare you do not. And when you do not have to go hunting for your business the cost should be lower.

The only experience of medicare that I know of is in Saskatchewan where they have tried both methods, and it would be very interesting to know what they have done. I think it would be well, Mr. Chairman, if we could have an analysis of how much more this is going to cost the people of Canada. For my purposes, unless our unions think that anything extra belongs to them instead of coming back to the country, I would say that we do not worry much about it because we do not think it will be any higher, or much higher, and it will take in the needy people of Canada who are not in the picture now. There is a real need there. So I think, Mr. Chairman, that at a future meeting we might analyse this medicare to see what it is really going to cost the people of Canada in taxes over and above the money they pay now. That is all I have to say about that.

**Mr. Reisman:** Perhaps I can make one or two observations. First, in connection with next year's Estimates, which will likely come down some time in February, there will be an estimate for the cost of medicare for the next fiscal year which will be a good deal more interesting and, I hope, more complete than what you have before you now. I say that because more provinces will be in it.

**Senator Kinley:** You have got \$35 million here, you said at the start.

**Mr. Reisman:** That is right.

**Senator Kinley:** In your Estimates?

**Mr. Reisman:** That only affects two provinces: British Columbia and Saskatchewan.

**Senator Kinley:** Those are the two that came in.

**Mr. Reisman:** That is right. By the time we get to next year's Estimates there will be a good deal more information and, I expect, a much higher figure. Perhaps this committee will wish to examine that in some detail then, and perhaps it will be able to determine what the relative costs were of handling medicare services by this device than by the previous arrangement.

**Senator Kinley:** It will be interesting to know how much it is going to cost British Columbia and how much Saskatchewan will have to pay and how much extra it is going to cost industry. Thank you.

**The Chairman:** Are there any other questions? Senator Grosart?

**Senator Grosart:** I will yield to Senator Isnor.

**The Chairman:** There is no desire to cut the questions off. It is only as a matter of courtesy that I call your attention to the fact that the Standing Committee on Transport and Communications has scheduled a meeting at 11.30 in this room and that we do generally try to suit their convenience. Of course, so far as this committee is concerned, we are a continuing committee and we will be continuing to discuss these matters.

Now, Senator Grosart yields to Senator Isnor.

**Senator Isnor:** Mr. Chairman, because of the general public's interest in our net deficit or surplus each year, as the case may be, I was wondering if we could have a table put on record showing the interest rates for each year covering a period of perhaps five years for each year and showing the net cost as to our net payments.

**Mr. Reisman:** I believe we can provide that. As I understand it, what you would like to see for the past five years is the level of the public debt and the total interest payments in respect of that debt, from which can be established what the average interest rate is on the public debt. If I am not mistaken, those figures are published in the public accounts.

**Senator Isnor:** Just for one year, though.

**Mr. Reisman:** For one year at a time, yes. I can see no difficulty in making those figures available for the five years. We will put them together and submit them to the committee.



**Senator Isnor:** Can we be given those when they are supplied, Mr. Chairman? The second request I had was for information concerning the increase of all salaries for the same period.

**The Chairman:** In total volume, senator?

**Senator Isnor:** The total volume of salary increases, yes.

**Mr. Reisman:** I want to make sure that I understand your question, Senator Isnor. What I understand you would like to know is what part of federal expenditures have been allocated to the payment of salaries for the past five years.

**Senator Isnor:** Yes.

**Mr. Reisman:** We will make that available, sir.

**Senator Isnor:** That will show the increases for each year.

**Mr. Reisman:** Yes. It will not show increases in rates but it will show the absolute increases from one year to the next.

**Senator Isnor:** The gross increases.

**Mr. Reisman:** Gross, yes.

**The Chairman:** It should, then, I take it, Senator Isnor, be related to the number of employees.

**Senator Isnor:** Well, that would be an added feature.

**The Chairman:** We already have in the Estimates each year, senator, a statement showing the total staff and total wages paid, and it is a matter of bringing those together.

**Senator Isnor:** We have that information for one year only.

**Mr. Reisman:** Yes. We will make that available for the five years, sir.

**Senator Isnor:** Thank you.

**The Chairman:** Thank you, Senator Isnor. Senator Grosart.

**Senator Grosart:** I would like to ask if Mr. Reisman will be back at our next meeting.

**The Chairman:** I cannot say as to the next meeting, but we would certainly welcome him at any time and we will see what his plans are and what our own plans are.

**Senator Grosart:** In due course I would like to ask some specific questions about departmental estimates. Perhaps I could start with the National Arts Centre. It appears to have the distinction of being one of the eight expenditures for departments and services that are asking for less money this year. It is asking for a mere \$1 million. What is the total expenditure to date on the National Arts Centre?

**Mr. Reisman:** I would prefer, sir, if you will allow me to take that question on notice and submit an answer in writing. I do not have that information in front of me and I do not think we would get that answer out of the Estimates for this year, because, as you know, expenditures have been incurred over a period of four or five years or perhaps even longer. I am sure we can get a detail on that for you. If I am not mistaken, I saw a detail cross my desk on that just the other day.

**Mr. Cloutier:** It is available.

**Mr. Reisman:** It is available.

**Senator Grosart:** My question arises out of this figure of \$1 million for this year, which does not give me the picture I would like to have of the National Arts Centre.

**Mr. Reisman:** It seems quite modest.

**Senator Grosart:** The second question relates to the C.B.C. Concerning their methods of bookkeeping, are we still giving the C.B.C. money to pay back interest on so-called loans?

**Mr. Reisman:** Yes, we are, sir.

**Senator Grosart:** Is there any consideration being given to making the C.B.C. accounting a little more realistic with respect to so-called loans?

**Mr. Reisman:** I would not like to comment on the relative realism of the different techniques of accounting, but I can tell you that an examination is underway right at this time in connection with the accounting methods and financial techniques for handling the C.B.C. budget.

**Senator Grosart:** Is there a particular reason for segregating the department's operating expenditures and the capital expenditures in the Estimates?

**Mr. Reisman:** Well, if I am not mistaken, this is required by parliament, but quite apart from that it is a breakdown that does

have significance. If the distinction were not made we would probably get questions such as, can you tell us how much is for capital and how much is for operating.

**Senator Grosart:** That, of course, is a specific question; whether these so-called loans to the C.B.C. should be carried as loans. It seems unrealistic to me, as they are never going to be paid back. It raises the whole question of the presentation of the Estimates because we have been told over and over again by our predecessor that a very definite attempt has been made to make the presentation of the Estimates a little more understandable to the average person. I believe this is happening

**The Chairman:** Perhaps we should have Dr. Davidson back with his new hat on.

**Mr. Reisman:** I was going to say that from the experience he gained as Secretary of the Board, he is a very formidable figure as President of the C.B.C. and I am sure you would find him a very interesting witness with respect to this specific question.

**The Chairman:** Are there any other questions? I am sure on your behalf you would like me to convey our thanks to Mr. Reisman and to Dr. Davidson, who had to leave. We could not have had anyone better to take his place than Mr. Reisman, and if he would be good enough to come back again before us when we need his services, I am sure he will be very welcomed, as he has been very welcome. Thank you.

**Mr. Reisman:** Thank you very much, Mr. Chairman.

The committee adjourned.





First Session—Twenty-eighth Parliament

1968

# THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING COMMITTEE

ON

## FINANCE

---

The Honourable T. D'ARCY LEONARD, *Chairman*

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No. 2

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THURSDAY, NOVEMBER 21st, 1968

*Second Proceedings on The Estimates, Revised Estimates  
and Supplementary Estimates (A),*

laid before Parliament for the fiscal year ending 31st March, 1969.

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WITNESSES:

A. M. Henderson, Auditor General of Canada; H. E. Hayes, Director,  
Office of the Auditor General.

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1968

THE STANDING COMMITTEE ON FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable H. de M. Molson, *Deputy Chairman*

The Honourable Senators:

Aird	Hays
Aseltine	Isnor
Beaubien ( <i>Bedford</i> )	Kinley
Beaubien ( <i>Provencher</i> )	Leonard
Bélisle	MacKenzie
Benidickson	Méthot
Burchill	Molson
Choquette	O'Leary ( <i>Antigonish-Guysborough</i> )
Connolly ( <i>Halifax North</i> )	Paterson
Connolly ( <i>Ottawa West</i> )	Pearson
Croll	Phillips
Denis	Quart
Desruisseaux	Rattenbury
Dessureault	Roebuck
Everett	Savoie
Farris	Smith ( <i>Queens-Shelburne</i> )
Gélinas	Thorvaldson
Giguère	Vaillancourt
Grosart	Welch
Haig	Willis
Hayden	Yuzyk—(42).

*Ex officio members:* Flynn and Martin.

WITNESSES:

A. M. Henderson, Auditor General of Canada; H. E. Hayes, Director  
Office of the Auditor General.

ROGER DUNNELL, PRES.  
QUEBEC PRINTING AND CONTROLLER OF STATIONERY  
OTTAWA, 1952

11-2288400



## ORDERS OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Tuesday, October 1, 1968:

“With leave of the Senate,

The Honourable Senator Martin, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates and the Revised Estimates laid before Parliament for the fiscal year ending 31st March, 1969, in advance of Bills based on the said Estimates and Revised Estimates reaching the Senate;

That the Committee be empowered to send for persons, papers and records, to print its proceedings upon the said Estimates and Revised Estimates and to sit during adjournments of the Senate; and

That the papers and evidence received and taken on the Estimates for the fiscal year ending 31st March, 1969, in the preceding session be referred to the Committee.

The question being put on the motion, it was—  
Resolved in the affirmative.”

Extract from the Minutes of the Proceedings of the Senate, Tuesday, November 19th, 1968:

With leave of the Senate,

The Honourable Senator Martin, P.C., moved, seconded by the Honourable Senator McDonald:

That the Standing Committee on Finance be authorized to examine and report upon the expenditures set out in the Supplementary Estimates (A) laid before Parliament for the fiscal year ending the 31st March, 1969; and

That the Committee be empowered to send for persons, papers and records and to print its proceedings upon the said Supplementary Estimates (A).

The question being put on the motion, it was—  
Resolved in the affirmative.

ROBERT FORTIER,  
Clerk of the Senate.





## MINUTES OF PROCEEDINGS

THURSDAY, November 21st, 1968.

(3)

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 10.00 a.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Asetline, Beaubien (*Bedford*), Connolly (*Ottawa West*), Croll, Desruisseaux, Everett, Giguère, Grosart, Haig, Isnor, Molson, Roebuck, Thorvaldson, Welch and Willis. (16)

The Estimates, Revised Estimates and Supplementary Estimates (A), laid before Parliament for the fiscal year ending 31st March, 1969, were considered.

The following witnesses were heard:

A. M. Henderson, Auditor General of Canada.

H. E. Hayes, Director, Office of the Auditor General.

Several aspects of the Estimates were discussed, particularly the cost-shared programs and the proposed new form of the Estimates.

At 11.00 a.m. the Committee adjourned to the call of the Chairman.

*ATTEST:*

Frank A. Jackson,  
*Clerk of the Committee.*





## THE SENATE

### STANDING COMMITTEE ON FINANCE

#### EVIDENCE

Ottawa, Thursday, November 21, 1968.

The Standing Committee on Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1969, met this day at 9.30 a.m.

**Senator T. D'Arcy Leonard (Chairman)** in the Chair.

**The Chairman:** Honourable senators, it is 9.30 and we have a quorum. I call the meeting to order.

It is not necessary for me to introduce to you our witness today. We have with us Mr. A. M. Henderson, the Auditor General, also known as the "watch dog" of the public's money. We welcome him back. As Auditor General he has, of course, responsibility for reporting upon the expenditures and the public accounts, but, in addition, he is also very much concerned with the Estimates, and it is the Estimates, of course, that have been referred rather than the public accounts. Before I ask Mr. Henderson to proceed to make his statement I should mention that he has with him Mr. Harold Hayes, from his office.

I call the attention of the committee to the fact that the Senate this week referred to us Supplementary Estimates (A), so that in addition to the Revised Estimates we have also Supplementary Estimates (A) before us. However, those supplementary Estimates amount to only \$84,000, which is quite a welcome change from the amounts usually contained in supplementary estimates.

**Senator Grosart:** It is an all-time record.

**The Chairman:** Yes, and they are concerned mostly with the Estimates of the Clerk of the House of Commons, which represent some \$81,000 out of a total of \$84,000. Although we have no specific evidence on the point yet, I am inclined to think that this refers to additional staff being taken on in the House of Commons in connection with their committee work, which is being expanded and extended. This is something that I think the Senate will have to consider in due course.

With those opening remarks, and unless some senator has another suggestion to make, I would like now to ask Mr. Henderson if he would speak to the committee.

**Mr. A. M. Henderson, Auditor General:** Thank you, Mr. Chairman. I should like, first of all, to introduce one of my directors, Mr. Harold Hayes, C.A., who is with me today, and who is largely responsible for putting many of these notes on this subject together. I hope that I may be permitted to ask him to reply to some of the questions.

Once again, honourable senators, it is a particular pleasure for me to come before you today. I notice that this committee has had only one meeting this session, which was held rather more than a month ago—on October 17, I think, Mr. Chairman—when you were looking over the main Estimates for 1968-69 and the Revised Estimates for the same year which were tabled on September 25 last.

The Public Accounts Committee of the House of Commons itself has held only two meetings during this first session of the 28th Parliament. The first was held on November 7, and the second on Tuesday last, November 19. You may be interested to know that at its meeting this morning at 11 o'clock this committee will be hearing the President of the Treasury Board present his new Estimates proposals. As you know, these are designed to present the Estimates of the departments on a program and activity basis with a view to having this ultimately replace the present objects of expenditure basis.

This is, of course, of particular interest to me—very considerable interest, in fact—because if the proposals are approved by the committee they will necessitate changes in many of the accounting procedures, as well as in a number of the resulting financial statements because it is the form of the estimates which determines in very large measure how the subsequent accounting for the expenditure is reported in the Public Accounts.

I presume the President of the Treasury Board will be before this committee in due course.



In the area of my own work I would like to point out to you that my 1966 and 1967 reports to the House of Commons have not yet been considered by its Public Accounts Committee. They were both referred to the committee again by the house on October 29. In my capacity as the adviser to this committee I faced the prospect of tackling these two years right at this time with considerable trepidation. These are rather difficult days for the audit office, not only because of the heavy work load we are handling—which, may I say, includes the United Nations audit round the world—but also because we are in the midst of preparing my 1968 report for the House of Commons, a task which will occupy us full time until at least the middle of January next year at the very earliest, and probably later than that.

As you know, we continue to be short staffed, and seriously so at the senior level. The fact that three of my directors shortly go on retirement does not help this. I therefore suggested to the Public Accounts Committee that, instead of endeavouring to tackle not only certain paragraphs that they left outstanding in my 1964 and 1965 reports, as well as my full reports for 1966 and 1967, the committee might cut its losses and delay its examination of any of my reports until I submit my 1968 one to the house. In order to facilitate this I said I would take special pains with the 1968 report to update all of the situations which have continued in 1964, 1965, 1966 and 1967, so that reference can be made when the committee is discussing each paragraph in my 1968 report to the previous years' detail.

I explained to them very clearly that this procedure would of course mean they would not cover what we might describe as the "single occasion" situation contained in the reports of these years unless time should permit, but that they would have the advantage of tackling the next report when it is freshly off the press and tabled in the house. The Public Accounts Committee has now decided to adopt this course of action, so that at the present time it is confining itself to examining the follow-up report I gave it on November 7 which sets forth the 50 odd recommendations made over the past two years by the committee which have not yet been implemented or dealt with by executive action.

I mention this background because I have been and continue to be very interested in the progress made by your Finance Committee in seeking to pursue its study of government finances and accounting, and also because of the fact that, I think last January, the Public Accounts of Canada for 1967 were referred to this committee. I think it was on March 27 that the assistant government house leader, on moving second

reading of Appropriation Bill No. 7, said that an important point remained, namely that of dealing with the Auditor General's report which had been tabled with the interim supply bill and the main Estimates. He said that while the Estimates were referred to the Standing Committee on Finance, for one reason or another the Auditor General's report was not. In his opinion the committee had jurisdiction to discuss the Estimates and appropriation bill for protection of the taxpayers' money, and he thought it could also look into how the money is spent by departments and agencies of the Government by referring to the report of the Auditor General.

It seems that the last time the Auditor General's report was referred to a committee of the Senate was in 1919. The house leader went on to say he hoped I might be asked to come before the Finance Committee, when it could deal with this problem. About a month after this took place one of the senators, I noticed, complained that my report was always addressed to the House of Commons without any reference to the Senate or to Parliament. I would hasten to explain here that this is simply because the report is submitted pursuant to the requirements of section 70 of the Financial Administration Act, and no mention is made in that Act under Part VII that the Auditor General has any responsibility to transmit his report to the Senate.

However, I may tell you that one of the recommendations of the Public Accounts Committee made in 1966, which is now being brought forward by the committee members, based on discussions as recently as the last meeting, has to do with the desirability of there being a separate act of Parliament designed to spell out the independence of the Auditor General on a clearer and more workmanlike basis. I suggest to you that this might be the place where this particular commission could be rectified, and I shall watch that as the discussions proceed on the present draft, which the Public Accounts Committee commissioned me and my legal advisers to prepare. This was done and completed in February, 1967. When it comes up I would certainly hope it might be discussed right here in this committee.

One matter that came up at your last meeting, which you will probably wish to discuss with me this morning, had to do with shared cost programs. I have some notes on this and will be happy to speak about it. However, before doing so perhaps I should speak about some things connected with the Estimates, because I believe this is really your prime concern, Mr. Chairman. As I have said before, you may wish to discuss first the form and content of the Estimates and review the basic



principles behind the Estimates and the Government's proposed spending, and its presentation to Parliament and the people.

It seems to me that parliamentary approval, like approval of any proposed spending by the people who have to pay for it, should be before the expenditure is made. I think the importance of this is demonstrated by the present discussions going on in the various House of Commons committees now studying the Estimates. In this connection you may want to refer to the outstanding recommendations of the Public Accounts Committee which are contained in Appendix I of my 1967 report, which you have. In item 54 at the foot of page 245, you will note that the committee considered it

... unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and interim supply would not be required so extensively. It feels that the rules could and should be changed in this regard in order not only to strengthen parliamentary control of public funds but to give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities.

This is one of the 50 or so recommendations on which there has never been a response or action. Perhaps this is something that will come when these new rules of the house are brought forward for discussion, but this was the committee's own view of the matter.

Estimates of the size of those of our country—which, I do not have to tell you, have more than doubled in the last five or six years—should in my view always be laid before Parliament in the clearest possible manner. I should like to give you what I think are four good basic reasons for this, although there are plenty of others that I am sure you would want to add.

One is the direct relation of the proposed spending to the taxes which have to be levied to pay for it. The second is the complex nature of so many of today's big spending programs and the administrative procedures surrounding them. The third is the mounting pressures and demands today on the time of Parliament. Finally there is the fact that as representatives of the people, parliamentarians called upon to approve such Estimates can scarcely be expected to be trained in interpreting all the financial complexities and consequences which exist in so many of today's vast government undertakings.

It seems to me that considerations such as these impose special, or if you like additional, responsibilities on the executive government to present its spending Estimates clearly and concisely and as fully descriptive as possible, all other things being equal. I think this is one of the tests you will want to apply to the proposals being put forward by the Treasury Board to change the form of the Estimates to a program and activity basis.

I have repeatedly been stressing in my reports to the House of Commons the importance of these points, including the importance of the Estimates being presented to Parliament in the clearest manner possible so that Parliament may have a maximum of information, not a minimum, but a maximum in its exercise of controlling public expenditure. On this point you may be interested to note there are two recommendations of the Public Accounts Committee which have been awaiting implementation by the Executive for nearly five years. One of these calls for brief notes to be given in the Estimates or in the details of services explaining the proposed major increases being called for in the size of establishments.

In view of the growth already referred to in many of these establishments, the cost of which, as you would know, is one of the largest single items of public expenditure today, I believe that such brief explanatory notes would be of material assistance to the members of the House of Commons and the Senate in understanding the reasons for the large increases in this type of expenditure which have taken place over the past several years. In its report, the committee asked that where there was a significant increase—say 5 per cent or more—in the number of employees, there be inserted a sentence or two at the bottom of the page explaining the reason for the increase.

The other recommendation the committee made was that supporting financial information of crown corporations and other public instrumentalities should be shown in the details of services so as to inform the House and the Senate with respect to the nature of the fiscal requirements of the crown corporations and other agencies requiring financing by parliamentary appropriation. A classic example of that as contained in the Estimates—and I have discussed this before on this committee, Mr. Chairman—was the boxcar figure of the C.B.C. which made a single appearance on an Estimates page. The question was: could they not have put down the broad or general areas of spending, perhaps on a comparative basis, showing how the hundred odd million sought was reached?

I am happy to tell you it is my understanding that the President of the Treasury Board will have something to say on this point when he



appears before the Public Accounts Committee later this morning. I am not aware if he has anything to say in regard to explaining the increases in staff, but I am told he is going to say that the crown corporations will be tabling this information in future when they come to Parliament for an appropriation, which is the basis which I think we discussed in this committee. So it is rather like going to your banker. You must show him why you want the money and give him a reasonable breakdown. So, for those corporations requiring appropriations in the future, I hope you will see this information in the Estimates new book. This will then have been one of our achievements.

It might be helpful if I bring your attention to some notes I have on the question of the Estimates dealt with in my reports in the last two years. Although the particulars are available in these reports, perhaps I can just briefly summarize the points, leaving you to refer to the precise notes later if you wish to do so. These points are important in any consideration and discussion of parliamentary control of public money.

—The first of these is paragraph 48 of my 1966 report. You do not have the 1966 one, Mr. Chairman. The point does not come up in 1967 because there was no election. This report deals with the all-important subject of the Governor General's special warrants. You will probably have one in next year's report with respect to the 1968 election. As you will perhaps recall, section 28 of the Financial Administration Act provides for urgent expenditure not otherwise provided for while Parliament is not in session. Subsection (1) of this act is quite specific:

Where a payment is urgently required for the public good when parliament is not in session and there is no other appropriation pursuant to which the payment may be made...

In this note I discussed and showed what made up a total of some \$920 million which was provided for by five special warrants following the dissolution of Parliament on September 8, 1965, in readiness for the 1965 election.

The Treasury Board did instruct the departments that each vote and class of payments would require special consideration in light of section 28 of the Financial Administration Act. The Board also advised the departments to review and take into account criticisms which I had made in my Reports on this subject since 1963. The Board's general instructions were supplemented by specific guidelines for determining items which might properly be provided for by special warrant and the appropriate amount to be provided in each special warrant for each acceptable item. Unfortunately

these guidelines were not always followed in the preparation of the special warrants and in this note I list a number of items provided for which did not meet the test of being "urgently required for the public good" as required by section 28 of the Act. For example, the special warrants, in two cases, provided a total of over \$4,100,000 for advances to Atomic Energy of Canada Limited to finance certain construction. The fact of the matter was that the advances were not only not required because interim supply had already provided over \$7 million, but some \$400,000 of that amount remained unspent six months later. This whole problem was first drawn to attention in 1962 and it was when he appeared before the Public Accounts Committee in 1965 that the Secretary of the Treasury Board, our good friend Dr. George Davidson, undertook to consider the desirability of enlarging on the special Governor General's warrant provision in the Financial Administration Act in order to clarify its application. He said he would study the whole situation. However, in a quick review of this on Tuesday, it appeared that nothing has been done, and the Public Accounts Committee is thinking of forming a subcommittee to try to wrestle with the problem itself.

This is a very old piece of legislation which could very well do with being subjected to a thoroughgoing discussion in order to bring things more up to date.

I might refer now to paragraph 54 of the 1967 report, which you have in front of you and this is pertinent in view of the proposals which you are going to be asked to consider with respect to the new program budgeting put forward by the Treasury Board.

This paragraph 54 of my 1967 Report deals with the revised vote pattern. This has to do with proposals made by the Treasury Board for introduction into the main Estimates of 1964-65 which were approved by the Public Accounts Committee subject to certain improvements which I had suggested to them, which the Treasury Board staff agreed to carry out. As the examples show in this case, the vote pattern actually adopted differed in a number of instances from the pattern which had been considered by the committee.

In this note, I am continuing to give details of the more important variations, along with examples of transfers of funds between services. This would not have been possible under the previous vote pattern and therefore is a weakening of parliamentary control.

**Senator Grosart:** Mr. Henderson, what is the meaning of "services" in that context—the transfer between services?



**Mr. Henderson:** The army, navy, air force—is that the National Defence vote?

**Senator Grosart:** Yes.

**Mr. Henderson:** Yes. That particular vote to which I am referring is so large nowadays, that in 1966-67 this single vote constituted something like 18 per cent of the country's total spending—in one vote.

In 1967, under paragraph 55, I referred at some length to the contingencies vote. The wording of this vote has changed over the years. It used to be Finance Vote No. 15, which we discussed on more than one occasion, Mr. Chairman, in this committee.

However, in the Estimates you have before you now, the vote appears under the departmental heading Treasury Board Vote No. 5. I think you are familiar with it. The purpose of this vote is to deal with miscellaneous minor or unforeseen expenses and to supplement other votes. One of the principal reasons why other votes need supplementing is unexpected salary requirements resulting from general salary increases or the filling of vacancies in the establishment faster than anticipated. By having such a vote available, the Treasury Board is able to instruct departments to provide in their Estimates only for known requirements and not to include any cushion against unexpected obligations. Under normal conditions the amount required is not large but over the past four years the annual provision has been substantial. In 1964-65 it was \$46 million; in 1965-66 it was \$71 million; in 1966-67 it was \$110 million; and 1967-68 it was \$45 million.

The Public Accounts Committee expressed concern that such large amounts were placed in the hands of the Executive for the supplementing of the appropriations, and recommended to the House of Commons in March 1967 that, while it did not believe there should be any change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas—for example, salary increases—once this determination is completed and the individual departmental needs established, the committee believes the additional amount required by each department should be made the subject of a supplementary Estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner—so that you have a chance to consider it.

I am also concerned about practices being followed which simply supplement parliamentary appropriations. In other words, parliamentary control over expenditure is weakened when appropriations containing provision for the spending of revenue

received during the year may be supplemented, without parliamentary authority, when the revenue received is in excess of the revenue estimated.

A number of cases were cited, the principal example being the Department of National Defence appropriations—the one to which Senator Grosart referred.

The wording here provided authority to spend revenue received during the year from the sale of military clothing, assistance rendered to the United Nations, and charges made pursuant to regulations under the National Defence Act. The estimated amount of this revenue together with the estimated amount recoverable from repayment for material supplied or services rendered was shown in the Estimates as \$60 million, the amount appropriated being the net of the estimated expenditure and estimated revenue. The revenue credited to the vote during the year and completely expended exceeded this, with the result that the departmental appropriation was supplemented by this amount.

It continues to be my view that to restore parliamentary control expenditure in these cases, three figures, namely estimated gross expenditure, estimated revenue and net amount appropriated, should appear in the appropriation wording itself and the amount of revenue used to supplement the net amount appropriated should be limited to the amount of estimated revenue shown in the appropriation.

There is generally no disagreement with this, but unfortunately there is no action to support it yet.

**Senator Everett:** Mr. Henderson, an example is given here of the defence services. Does that just refer to one of the three items listed?

**Mr. Henderson:** Yes.

We come now, Mr. Chairman to the shared cost programs. I have some material here in readiness to deal with any questions which members may have on that, and I would be happy to do so.

If I deal may with Senator Everett's question, at the bottom of page 23 of the 1967 report you will find the wording of these appropriations. Could I have the question again?

**Senator Everett:** It refers to defence services, and I wondered if that was the net of all three items mentioned above; that is, sale to military personnel, assistance rendered to the United Nations and charges made.

**Mr. Henderson:** They were given the right under this vote to spend what they could recover from these sources.

**Senator Everett:** Right.



**Mr. Henderson:** And they exceeded the amount that was shown in the supporting details, but of course they went on spending because of the wording of the vote, whereas I feel they should come back to the house, when they exceed in spending, so it can be discussed.

**Senator Everett:** You are saying that that was \$1.3 million?

**Mr. Henderson:** In this case \$1,309,000 was the excess. The figure is not large or important, perhaps, but the principle we are dealing with is, because this is also in a number of other departments as well, such as the Veterans' Affairs.

**Senator Everett:** That is the result of not properly estimating.

**Mr. Henderson:** It is difficult to estimate revenue, I must say in fairness, but if they put the three figures in you would have something to stay with.

**Senator Molson:** National parks would come in there.

**Mr. Henderson:** Yes. Now, we will take a look at the shared cost programs and, if you will look up my 1967 report, paragraph 165 on page 96, you will be quite interested in light of the discussion you had with the Treasury Board officials when they were before you. You will see that I have a paragraph there dealing with federal-provincial shared-cost programs, and I would direct your attention first of all to the second paragraph, which is the kind of thing I have been saying.

In our 1966 Report...we expressed the belief that it would be informative to the House if a detailed summary of the numerous federal-provincial shared-cost programs were more readily available, which would show the federal share of the costs on an annual and cumulative basis, and suggested that this be shown as an appendix in the Public Accounts.

There has never been any action here because there has never been any Public Accounts Committee to consider it. I keep bringing it forward each year. There should be some place where there is a summary of all these shared-cost programs. In the absence of such a place, I give it here, and this is the only place you will find it.

You will notice that whereas in 1965-66 there were 87 such programs at a cost of \$916,037,000, in 1966-67 there were 97 programs at a cost of \$1,139,882,000. You may wonder what the figure is going to be for 1967-68? We happen to be working on that right now and I can tell you that there are some 95 programs and that the cost will be \$1,328,000,000. It continues to go up.

On page 97 you may see the listing by departments of the major programs costing more than \$10 million. This is the bulk of it here. We shall be giving a similar listing of the performance during 1967-68 when my next report comes out.

According to some hasty notes I put together on this, there are some 14 departments, agencies and Crown corporations responsible for the initiation of these, or under whose aegis they take place. You might be interested in knowing who they are and perhaps the number of programs they administer would be of interest to you. Actually, they are all of a different type as you go along. In some cases they are just for one province; in some cases they are for five provinces; in some cases they are for all provinces and in some cases they are fixed money—the federal amount is fixed. In other cases you have the open ended variety such as the Minister of Finance was talking about.

So I am rather in your hands, Mr. Chairman, on that.

Perhaps this gives you a bird's-eye view of this situation.

**The Chairman:** I believe Senator Grosart had something to ask you about that.

**Senator Grosart:** How many of these programs are open ended programs of the type that the Minister of Finance was talking about?

**Mr. Henderson:** The short answer, Senator Grosart, is that there are probably six or eight of the largest ones in that area.

**The Chairman:** Have you any idea of the total volume, for example, in your 1966-67 report?

**Mr. Henderson:** If you look at the list on page 97 you will see that one is hospital insurance and diagnostic services, which has gone up from approximately \$318 million to roughly \$396 million, and in 1968 it will be over \$400 million.

**The Chairman:** I believe a good deal of technical and vocational training is on a shared-cost basis, is it not?

**Mr. Henderson:** That was roughly \$219 million in 1966-67. It appears to have gone down for 1967-68; it is \$204 million now. The Canada Assistance Plan payments just got started in 1966-67. This new arrangement is perhaps the worst one because although it is only \$10,496,000 for 1966-67, it will be \$226 million in 1967-68.

**Senator Molson:** The opting out of Quebec in these programs in a sense distorts these figures, does it not?

**Mr. Henderson:** As I say in the paragraph immediately below those figures, the expenditures



shown are direct costs only and do not include any administrative expenses incurred by the federal Government. The total expenditures do not include tax abatements and tax equalization payments.

**Senator Connolly (Ottawa West):** I should know the answer to this question, but are most of these programs statutory or are they budgetary?

**Mr. Henderson:** Most of them are statutory, Senator Connolly. That is another problem the minister faces in trying to tie down the cost, you see.

**Senator Connolly (Ottawa West):** Yes.

**Mr. Henderson:** There is another large point you might like to note under the Secretary of State, and that is post secondary education, which comes in this year as \$108 million.

**Senator Grosart:** Mr. Henderson, in how many of these large programs is there no federal accounting of the provincial figures?

**Mr. Henderson:** That varies. Before the payments are made by Canada the agreements generally provide that the provincial auditor of the province is to sign it, and attest to its correctness, and it is paid on that basis. In a number of cases the Audit Services Branch of the Comptroller of the Treasury, or my own office—we try to spread the work between us—will go into the techniques employed by the provincial auditor, and in some cases where he is not able to give it adequate coverage we will do it. There are very few cases where it is just paid cold, so to speak. The basis is the agreement that Canada has entered into which has a proviso in it that it is to keep the books open. The winter works program is one of these, as you know.

**Senator Grosart:** That is one I was thinking of.

**Mr. Henderson:** You know what I have had to say to the house on that. We have discussed it in this committee. Unemployment assistance is another.

With respect to Unemployment Assistance, I have been saying for years that the act is so ambiguous that it is impossible either to see equity in the payments or for us to check them properly. We are hoping something will take place in the Canada Assistance direction. This is just getting started, and I will have something to say about that in my report this year.

It might give you some idea, if I were to give a rundown of the Department of Health and Welfare. Old Age Assistance is audited by the provincial auditors. It is audited by National Health and Welfare and checked by them, and audited by my office. The Comptroller of the Treasury does not come into that. The same

situation prevails with blind persons' allowances, disabled persons' allowances, and unemployment assistance. Four of us are trying to check it, in my case unsuccessfully. But the provincial auditors look to see what the provincial Government should have out of it. With welfare grants the situation is the same except that for some reason or other the Department of National Health and Welfare does not operate on that. Fitness and Energy Sports—there are three of us checking that. Hospital Insurance, the same; Health Grants, the same; Hospital Construction Grants, the same; Health Resources, the same; Mental Retardation Grants, Disabled Persons' Advisory Services, and Blind Persons' Treatment.

**The Chairman:** What will be the situation with respect to medicare?

**Mr. Henderson:** That will depend on the regulations. I do not think anything has been established on that.

**Senator Thorvaldson:** Looking at the figure for unemployment assistance of \$143 million in 1966-67, I take it that that is entirely outside the unemployment insurance fund?

**Mr. Henderson:** Yes. This has proven a difficult matter. There is a very substantial discussion of this in this report, if you are interested in it. You have the situation where there is a large number of chronic unemployables. We face a problem there.

**Senator Thorvaldson:** This expenditure is not involved in the regular unemployment insurance?

**Mr. Henderson:** It is quite separate from unemployment insurance fund administration.

**Senator Connolly (Ottawa West):** Could the witness say what the level of the unemployment insurance fund is approximately? How does it stand?

**Mr. Henderson:** That would necessitate reference to the March 31, 1968 figures and subsequently and I do not have that with me. I have only my 1967 report, that is up to March 31, 1967. The full picture of it is there up to that point. How it stands today would have to be obtained. There have been questions in the house on this, but I am afraid my memory is not good at this stage.

**Senator Grosart:** Following up my earlier question, are you satisfied that in the audit machinery there is adequate protection in the area of interpretation of the statutes under which cost-sharing is established?

**Mr. Henderson:** Yes.



**Senator Grosart:** I am speaking particularly of the winter works situation where there is a question of interpretation of the statute as to whether any particular project was a winter work within the meaning of the statute. I think there was some evidence that certain things have gone far outside the statute.

**Mr. Henderson:** Where that has taken place I have dealt with the matter in my report to the house. In the case of the winter works program, as a result of what I had to say and evidence given before this committee—I think Mr. Jean Marchand came before this committee at the time, and I think the deputy minister came before the Public Accounts Committee—a very genuine effort was made to clear that situation up. We have made quite a bit of headway, but we have not cleared it up completely. The provinces are claiming certain things for winter works projects which Canada is not prepared to accept. We will have more to say about this in my forthcoming report to the house. But at least we have sought to pinpoint the situation, and I can only hope that action will be taken to stop these abuses.

**Senator Connolly (Ottawa West):** In all of these shared cost programs, is the only protection the federal authority has the signature of the provincial auditor? Or do you or the Comptroller of the Treasury or your officials make checks themselves?

**Mr. Henderson:** We make checks ourselves providing the covering agreement has given us that right of access. Not all of them have. But most of them do now. But we are familiar with the standards—the work standards and so forth of the provincial auditors. I am in quite close touch with them all, and generally speaking we find that they do a pretty good job. There is one case now which is concerning me quite a bit because I find there was some misunderstanding as to what the responsibilities were, and as a result nobody seems to have done anything, and this has concerned me because of a backlog. However, the performance generally is satisfactory.

**Senator Connolly (Ottawa West):** Generally speaking, do you suppose it is right to say that the administration of these programs is in the hands of the provincial authorities and really all the federal authority does, subject to the certificate of the provincial auditor, is to pay? Is that so?

**Mr. Henderson:** Yes.

**The Chairman:** There may be other questions, but in the meantime I thought I should call the attention of the committee to the fact that they

all should have these forms of revised estimates which are supplied by way of illustration only and which show how it is proposed to be done to set out the estimates. Perhaps some members of the committee have studied these. I suggest that all the members of the committee should, and that we record the fact that we have them before us, and I think it would be appropriate to ask Mr. Henderson to make some comment.

**Senator Molson:** Could we ask who prepared the examples, Mr. Chairman?

**Mr. Henderson:** With regard to these drafts, in the first instance the figures would have been prepared by the department. You have the Solicitor General, and I think, Indian Affairs. They would be prepared by the departments under the guidance of Treasury Board and in accordance with the manuals, and so forth, which Treasury Board has issued. Then Treasury Board has had them printed up in this format and distributed as examples, to show the pattern in which they are going to come.

**Senator Molson:** I think it is terribly unimportant, and I do not want to nit-pick, but I think one is the Solicitor General's department, and I looked at it very quickly, and it seems to me they had the thousands in the wrong place and they are talking in millions when it should be thousands.

**Mr. Henderson:** I have not seen that one myself. This only came to me on Tuesday, and I have not had much opportunity of seeing it, though we have been familiar with the project for some time.

**Senator Connolly (Ottawa West):** In any event, the Treasury Board itself has the authority to give directions as to the form in which the Estimates shall appear. I take it you recommend, or the Public Accounts Committee makes recommendations, and if they are accepted then it is within the authority of Treasury Board, under the Financial Administration Act, to make such changes in the form in which the Estimates appear as may seem to be desirable.

**Mr. Henderson:** The successive Ministers of Finance, and now Presidents of Treasury Board, wish to have the approval of the Public Accounts Committee of their proposed format. The last time round on this was in 1963, when the Public Accounts Committee formed a subcommittee—that is what I referred to in my talk to you—because they did not always adhere to their undertaking in the subsequent years.

That is what has concerned me, this whole question of how far the people who approve the



money are prepared to go in the type of explanation they are to be satisfied with. I think that there are very important principles at stake here. For example, I do not know whether you have Indian Affairs in front of you ...?

**The Chairman:** No, I do not think we have, unless some other members have. I think all we have are Solicitor General and Department of Insurance.

**Senator Everett:** Indian Affairs came in this morning.

**The Chairman:** I think some of the members have not received these as yet, but we will see that they get them.

**Mr. Henderson:** In a nutshell, Mr. Chairman, the sort of thing you have here, the Indian program, as it is described in this one, is \$135 million. The description of the vote covering that \$135 million is extremely lengthy, taking up about one-third of a page, in which the various things to be included thereunder are a matter of six or eight words, as the case may be, and then there is a semicolon.

You are interested in knowing what additional information you are getting, what are the activities of that \$135 million. All I have been able to find are four short headings: Administration; Development; Education; Indian Annuities and miscellaneous pension (Statutory).

I would have thought it would have been better to put a cost on each one. That is a great deal of money, and it says.

Expenses of the program, including expenditures on buildings, works, land and equipment on other than federal property;

If that amount could have been broken down it would have been more satisfactory.

Then the next one.

grants and contributions;

We might want more detail on that.

special payments, including those specified in the sub-vote titles in the Estimates;

They go right on down, and it is a vast array of descriptive material. If that were done, you would be able to form a better judgment and ask more pointed questions in your discussion.

**The Chairman:** Is the point really that in cutting down the number of votes what is important information is also being left out? Is that the point really?

**Mr. Henderson:** In trying to keep this simple, I would have thought that for an item of \$135 million you would want to know what the \$135

million is to cover and have it suitably broken down. It would be beyond my competence to approve \$135 million unless I knew something of what was in it.

As a result of what is proposed here—let me sketch this back for you. In 1963, when Treasury Board came to the Public Accounts Committee of the House, one of their points was that Glasco had said that we had in Canada 450-odd votes. It was thought we should cut them back, more like the British practice, so as a result of that operation in 1963 we came down to 236 votes. This proposal today is going to reduce that number by something like 100 more. You will be down to 136 votes, so that it is just 136 votes you will be asked to pass.

I must concern myself, on behalf of the members of the House of Commons and, I would hope, on behalf of the members of the Senate, in this, because I want to find the answer. On the surface, it looks like a lessening of parliamentary control. Are you prepared to surrender to the Executive 100 opportunities for discussion of items and to allow the money to be grouped into 136 items?

I think that is a valid question when you realize, with the spending of today, that this reduction, which is over 50 per cent, is to take place despite the fact the revised main Estimates for 1962-63—that is six years ago—totalled \$6 billion, and the Revised Main Estimates for 1968-69 are over \$10 billion. That is an increase of about 70 per cent. Are you satisfied to see the number of votes reduced from 236 to 136? That is really the question, is it not?

**Senator Molson:** Was not the program intended at some time to set forth the Estimates in a way so that it might be much easier to understand what the actual programs being carried out were and how effectively they were being carried out? Was not that the purpose of the revised form?

**Mr. Henderson:** To achieve accountability; in other words, to hold people responsible.

**The Chairman:** Yes.

**Senator Molson:** Yes.

**Mr. Henderson:** I do not disagree at all with this concept.

**Senator Molson:** Is it being achieved?

**Mr. Henderson:** It has not got started yet. In the first place, one of the first steps towards achieving this responsibility is to delegate the spending authority to the departments, but no action has been taken yet—nor in the areas of



pre-audit and commitment control. The departments are staffed up, but nothing has been done yet. I think it is proposed to do it, but to do so will necessitate a change in the Financial Administration Act. That is how you are ultimately going to achieve your accountability. I am vitally concerned with this because, of course, it is going to increase my work. They have already asked me to be prepared to increase the scope of my external audit, as is quite proper. Dr. Davidson originally suggested this to me some years ago, and I am holding myself in readiness for when it takes place. But, the Financial Administration Act will have to be amended because it imposes on the Comptroller of the Treasury very definite responsibilities for this pre-audit work and commitment control. Unless and until that is done, the department will not have the authority.

**Senator Connolly (Ottawa West):** Subject to your general comments as you have made them, Mr. Henderson, do you think, generally speaking, that the idea of reducing the number of items in the Estimates, in view of the increasing load of work that Parliament has to face—

**Mr. Henderson:** I beg your pardon, senator. In view of the—what?

**Senator Connolly (Ottawa West):** Considering the increasing load of work that Parliament faces, do you think the cutting down of the number of items in the Estimates is a valid step?

**Mr. Henderson:** I would want to look closely at what is going to take place before I answer that question. We have this, but—

**Senator Connolly (Ottawa West):** I prefaced my remarks by asking whether you thought this was a valid step subject to the comments you have already made about getting further detail.

**Mr. Henderson:** Well, I think Senator Molson puts his finger on it when he speaks of the importance of accountability. All of these steps have to move together. I think there is a field for very great improvement in the description of the spending and the setting up of the Estimates, so as to give Parliament adequate information. Personally, I favour maximum information, if you know what I mean. I do not mean a lot of paper, or anything like that, but a maximum disclosure. There must be this in fairness to the people who are charged with the responsibility of approval, and who in turn must account to the taxpayers.

This may make things much easier administratively for the executive, but I suggest to you that that should not be the purpose. I think their function is to service Parliament in this area.

**Senator Molson:** Are some of the departments undergoing the organizational changes that will be required if they proceed to the accountability we are speaking of, as I understand they plan to? I am referring to the program of description and accountability, and so on. Are departments being reorganized at this moment to achieve that purpose?

**Mr. Henderson:** Indeed they are. I believe I am correct in saying that this is in a fairly advanced stage. There have been employed senior financial advisers in many of the departments—senior financial officers along the lines that the Glassco Commission recommended. Management consultants have been brought in in order to assist. There is direction in that.

I would also suggest to you that it is costing a good deal of money too. That is one of the reasons why our overhead—as you know, I have been speaking in my reports each year about the mounting cost of overhead, and this is something to which I think one has to direct attention.

You know, I said last year:

It will be recalled that when the Royal Commission concluded its work in 1962-63 the cost of administrative overhead approximated \$1,000 million.

That is just administrative overhead in terms of staff needs and office costs—nothing else. It is the housekeeping. I went on to say:

The comparable figure presently estimated for 1967-68. . .

and this was last year

. . . is \$1,594 million, an increase of almost 60 per cent during the past five years.

Then, because I thought it was important that Parliament should know, for some years now I have been putting in Appendix 2 in order to show the number of employees authorized for departments, Crown corporations and other instrumentalities, and I pointed out that they had increased by over 18,000 during the last year, bringing the total increase up to nearly 40,000 people.

**Senator Thorvaldson:** Did you say 4,000 or 40,000?

**Mr. Henderson:** There were 40,000 more people on the payroll since the year ending in 1963. So, it is pretty hard, it seems to me, to say just where these savings are coming from in the implementation of those recommendations.

**Senator Thorvaldson:** From what page were you reading, Mr. Henderson?

**Mr. Henderson:** I think this is on pages 5 and 6 of my report—yes, it is at the bottom of page 5, and



the top of page 6, under the heading of "Findings of the Royal Commission on Government Organization". Over the long haul I presume, in an organization like this, you will recoup. That is the ultimate objective. But, you have to spend money in order to save money.

**Senator Molson:** That is what I was going to ask you about. If these changes are put into effect is there any prospect that the savings will offset these additional costs in the intervening years?

**Mr. Henderson:** I do not think we are going to know that, Senator Molson, until the years have rolled by.

**Senator Molson:** I did ask not whether you would know it; I asked whether there was any prospect.

**Mr. Henderson:** Well, there is always hope.

**Senator Isnor:** Mr. Chairman, may I go back to a statement made by Mr. Henderson in reference to cost-sharing projects. I am in accord with his thinking that these should be definitely shown in the Estimates. I feel also that it should be the responsibility of someone with authority to okay the projects as coming within the scope of the federal-provincial scheme before they are undertaken. Is there any such responsibility at the present time, Mr. Henderson?

**Mr. Henderson:** There is our ministerial responsibility. The minister at the head of each of the departments is responsible for its programs. You have, under our Government organization here, and the principles of ministerial responsibility, Central Mortgage and Housing Corporation administering one, the Department of Health and Welfare, the Department of Manpower and Immigration, Emergency Measures, and so forth.

**Senator Isnor:** No, those are not the projects I had in mind.

**Mr. Henderson:** That is the old Department of Labour.

**Senator Isnor:** I beg your pardon?

**Mr. Henderson:** It is the Department of Manpower and Immigration now, is it not? It used to be the Department of Citizenship and Immigration.

**The Chairman:** Your point is that before some particular municipal work can go ahead there should be some specific approval from the federal Government?

**Senator Isnor:** That is right, Mr. Chairman.

**Mr. Henderson:** That is something that is rather hard for me to comment on, Senator Isnor, because that is part of the policy, shall we say, of the minister responsible for the negotiations. I think it makes complete sense, but it may be that the provinces are not prepared to go that far. I am not in a position really to be of much help to you on that.

**The Chairman:** From a factual standpoint, has he that power of discretion now?

**Mr. Henderson:** I would think so, because so many of these arrangements are subjected to a contract between the parties—a working contract under which the auditing is defined, and also the powers of the parties.

**Senator Isnor:** In private business certainly someone has to okay any expenditure to be made, no matter of what nature.

**Mr. Henderson:** Perhaps your point would be answered if in the case of those shared-cost programs which are open-ended, or which must be open-ended, that fact might be indicated by having those words set out in parenthesis, and so on. If that were the case you would know from the Estimates that that is a possible contingent liability. Perhaps a disclosure like that would be helpful.

**Senator Isnor:** That is so, but I am thinking that some provinces take advantage of these programs...

**Mr. Henderson:** Well, I suppose...

**Senator Isnor:** ...and make fairly huge expenditures on cost-shared winter projects so as to help alleviate their unemployment situation. I was wondering as to whether there should not be definite responsibility on the part of a province, and particularly the federal Government. Is that clear to you, Mr. Chairman? I think you have the same thought, that some responsibility should be placed on the federal Government.

**The Chairman:** It may be it is the kind of question we ought to be directing towards the ministers rather than Mr. Henderson, who can speak only about what he finds when the money has been spent.

**Senator Isnor:** I have some faith in Mr. Henderson in putting his finger on these points.

**Mr. Henderson:** It might be that Mr. Hayes could explain how some of these projects began.

**Mr. H. E. Hayes, Director, Auditor General's Office:** The sole purpose of the program is to create employment and it is up to the municipalities to originate the project, so the impetus is given at that



level. Then the federal under its agreements with the provincial governments undertakes to share in the cost of the labour, because this is the purpose of the program, to stimulate employment. This is really some of the problem areas because many of these people who get on payrolls for these projects may not necessarily be out of work or anything like that, so then they are not ones whom the project was to assist in the municipality. This is the area we find difficult. Once we have brought this to the attention of the department, it has to attempt to remedy the situation, and it is a cat and mouse act more or less to find a loophole which we attempt to plug up but it is not really until after the end of the year that we know this. For example, we are in 1968-69, and it would not be until 1969-70 that we would have any idea of the abuses or actual costs of the program undertaken during that preceding winter. You cannot really estimate their costs because you do not know the circumstances in the municipalities where these projects are starting up. This is the difficulty one experiences; there is no control over them.

**Senator Isnor:** I follow you to that point. My concern is that there should be some responsibility; there should be some finger pointed at who gives the final O.K. for that project.

**Mr. Henderson:** It is sometimes very hard to find the answer to every question. One can find it in business, but it is hard in government to find where this takes place.

**Senator Isnor:** Well, that is the best we can do.

**Senator Thorvaldson:** I intended to ask a question on the growth of the establishment. We heard a while ago that it had grown by about 40,000 in the last five years and I wanted to ask Mr. Henderson if there was a continuing pattern of growth. However, I think I have found my answer to that question at the bottom of page 5. I was going to ask Mr. Henderson whether this growth had stopped or whether it was continuing, and if it was continuing whether it was at a slower rate or a faster rate than in, say, 1962, 1963 and 1964. I find this passage at the bottom of page 5:

Some explanation of this can be found in Appendix 2 which shows that the number of employees authorized for departments, Crown corporations and other instrumentalities at March 13, 1967 had increased by 18,788 over the past year.

I take it that perhaps for 1967 and 1968 the growth has been continuing. Would that be correct?

**Mr. Henderson:** I happen to be dealing with that in connection with my forthcoming report to the house. If my memory serves me aright, the

increase continued through March 31, 1968. I think the increase in the number of employees in departments is of the order of 10,000.

**Senator Everett:** I should like to mention accountability. You mentioned the C.B.C. and the problem we have with the bulk amount which is put into the Estimates. Could you tell me whether for Crown corporations you generally receive in the Estimates more, the same, or less detail than in the general departmental estimates?

**Mr. Henderson:** You say "receive". Who receives it?

**Senator Everett:** In the Estimates themselves, not you. As I understand it, we are concerned about the number of votes being reduced but the information and detail given within those votes being increased. I am wondering whether in your mind the detail given by Crown corporations is adequate.

**Mr. Henderson:** No. You could not very well reduce the C.B.C. detail because there is only one figure on the page.

**Senator Everett:** I am referring to the other Crown corporations. Are they just as bad?

**Mr. Henderson:** Yes. The theory is that if a Crown corporation has to come to the Government for an appropriation, then in asking people to vote money for its deficit it should disclose the reasons why it wants it, in the same way that a business would have to disclose such information to its bankers if it wanted to borrow money. As Mr. Hayes has just pointed out to me, a great deal depends on the management of the corporations. You will find that the National Film Board gives more detail. I think they need \$9 million or \$10 million a year usually. The question is therefore raised why the other Crown corporations could not conform.

As I mentioned, I understand that this morning the minister is prepared to say that that is going to be put in in the future, the broad general areas of their spending, so that you will know how it compares.

**Senator Everett:** They are really separate entities with their own budget staff and their own accounting staff.

**Mr. Henderson:** That is right.

**Senator Everett:** They more than any other department or arm of government should be able to give detailed estimates of their expenses, and they should be showing the way for other departments of government. We should be able to look at the C.B.C. or the National Film Board or any of



the crown corporations and say, "there is the standard that each department generally should try to imitate."

**Mr. Henderson:** You are absolutely right, Senator Everett. They have by and large very competent staffs and enjoy this freedom from much of the red tape that surrounds government departments. When they prepare their Estimates for their cash requirements for the Treasury Board, they file everything in very considerable detail.

**Senator Everett:** Does it follow that one of the things that Parliament should do is to put a great deal of pressure on the corporations to give this sort of information in its Estimates as a means of establishing the sort of norm that should be imitated by all departments of government?

**Mr. Henderson:** I think so. I think actually all crown corporations should come under parliamentary review before a Committee on Estimates, for example, so that questions can be asked about them. At least we are accomplishing something if those that have to come for money to cover their deficits have to disclose their figures. That is a step forward, but many of the Crown corporations we have would, I think, benefit today from discussions in committee.

**Senator Everett:** If Parliament went to these corporations and said, "We want more information disclosed," they would have sufficient staff and organization to quite adequately give this information.

**Mr. Henderson:** You will find this confirmed if you look in the Crown corporation section of my 1967 report where the affairs of all Crown corporations are shown. I audit practically all of them. You will find some quite interesting descriptions about each one, the earnings, the reason the earnings are up or down and how they are doing and what they are spending. Uniformly, they have pretty good accounting statements and details.

**Senator Everett:** Outside of the National Film Board you are disappointed in the way—

**Mr. Henderson:** They naturally will only give what they are asked for and they will plead perhaps in some cases that they are giving information for the benefit of their competitors, but I do not think Parliament would ever ask a crown corporation to table information that was going to hurt the national interest or endanger the position of its investment. It should be possible to explain in some brief fashion why the money is needed.

**Senator Everett:** Thank you.

**Senator Molson:** I just wanted to ask the Auditor General why the sums voted for the Trans-Canada Highway are not decreasing at a faster rate? I would have thought that program was very well advanced, yet even in this year's Estimates I think there is still \$45 million.

**Mr. Henderson:** That is a specific question and I would have to get the answer. I cannot answer that offhand except to say that the processing of accounts and that type of thing is lengthy, and there may be some items of settlement in dispute. We can easily get that information for you and send it to your office.

**Senator Molson:** Thank you very much. I would just like to ask if the record could be changed with regard to an earlier comment of mine in speaking about these examples of new forms for the Estimates. I referred to the Solicitor General's Department. My reference should have been to the Department of Insurance.

**The Chairman:** I think we might put it clearly on the record now. This is one case where the chartered accountants have it on the lawyers.

**Senator Molson:** I am glad to hear that admission from the Chairman.

**The Chairman:** Senator Molson has noted that on page 7 of the illustration of the revised Estimates of the Department of Insurance that the heading of the table is "Thousands of Dollars", but the first item for salaries and wages would indicate that the department pays a bill of \$212 million, which is obviously incorrect, and the table carries that through. So really the wording "Thousands of Dollars" should not be there.

**Mr. Henderson:** I was only given Indian Affairs.

**The Chairman:** It would be just as well for us to call that to their attention.

Honourable senators, we are still open for questions, but I would mention that Mr. Henderson has a meeting of the Public Accounts Committee at or about 11 o'clock. Unless there is something someone particularly wants to ask at the present time, there are no further questions. He is always available to come back to us.

**Senator Isnor:** We always learn something from Mr. Henderson.

**The Chairman:** Yes, and we are always glad to hear from him. Are there any other questions.

I think that probably in connection with the next meeting I would like to ask the President of the Treasury Board to come before us. He is appearing before the Public Accounts Committee on this matter of the new forms and I think we should ask him to come before us. Is that agreeable?

Hon. Senators: Agreed.

Senator Grosart: May I ask if any progress has been made on a decision to call certain departments before us for detailed discussion?

The Chairman: Not as I understand at the present time.

The committee adjourned.





First Session—Twenty-eighth Parliament

1968

**THE SENATE OF CANADA**

**PROCEEDINGS**

**OF THE**

**STANDING COMMITTEE**

**ON**

**FINANCE**

---

The Honourable T. D'ARCY LEONARD, *Chairman*

---

No. 3

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WEDNESDAY, NOVEMBER 27th, 1968

*Third proceedings on The Estimates and the Revised Estimates laid before Parliament for the fiscal year ending 31st March, 1969.*

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WITNESSES:

**TREASURY BOARD:**

The Honourable Charles M. Drury, President.

S. S. Reisman, Secretary.

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**APPENDIX**

"A"—Statement by the Honourable Charles M. Drury to the Public Accounts Committee of the House of Commons.

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ROGER DUHAMEL, F.R.S.C.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1968

# THE SENATE OF CANADA

## PROCEEDINGS

### THE STANDING COMMITTEE ON FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable H. de M. Molson, *Deputy Chairman*

The Honourable Senators:

Aird	Farris	Paterson
Aseltine	Gélinas	Pearson
Beaubien ( <i>Bedford</i> )	Giguère	Phillips
Beaubien ( <i>Provencher</i> )	Grosart	Quart
Bélisle	Haig	Rattenbury
Benidickson	Hayden	Roebuck
Burchill	Hays	Savoie
Choquette	Isnor	Smith ( <i>Queens- Shelburne</i> )
Connolly ( <i>Halifax North</i> )	Kinley	Thorvaldson
Connolly ( <i>Ottawa West</i> ),	Leonard	Vaillancourt
Croll	MacKenzie	Vaillancourt
Denis	Méthot	Welch
Desruisseaux	Molson	Willis
Dessureault	O'Leary ( <i>Antigonish- Guysborough</i> )	Yuzyk—(42).
Everett		

*Ex officio members:* Flynn and Martin.

WITNESSES:

TREASURY BOARD:

The Honourable Charles M. Denny, *President*,  
S. S. Reisman, *Secretary*.

APPENDIX

"A"—Statement by the Honourable Charles M. Denny to the Public  
Accounts Committee of the House of Commons.



MINUTES OF PROCEEDINGS

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Tuesday, October 1, 1968:

“With leave of the Senate,

The Honourable Senator Martin, P.C., moved, seconded by the Honourable Senator Beaubien (*Provencher*):

That the Standing Committee on Finance be authorized to examine and report upon the expenditures proposed by the Estimates and the Revised Estimates laid before Parliament for the fiscal year ending 31st March, 1969, in advance of Bills based on the said Estimates and Revised Estimates reaching the Senate;

That the Committee be empowered to send for persons, papers and records, to print its proceedings upon the said Estimates and Revised Estimates and to sit during adjournments of the Senate; and

That the papers and evidence received and taken on the Estimates for the fiscal year ending 31st March, 1969, in the preceding session be referred to the Committee.

The question being put on the motion, it was—  
Resolved in the affirmative.”

Robert Fortier,  
Clerk of the Senate.





# MINUTES OF PROCEEDINGS

WEDNESDAY, November 27th, 1968.

(4)

Pursuant to adjournment and notice the Standing Committee on Finance met this day at 11.30 a.m.

*Present:* The Honourable Senators Leonard, (*Chairman*), Aseltine, Burchill, Connolly (*Halifax North*), Dessureault, Everett, Gelin, Haig, Methot, Molson, Pearson, Quart and Smith (*Queens-Shelburne*). (13).

The proposed new form of the Estimates as set out in the sample Illustrations were discussed at length.

The following witnesses were heard:

*Treasury Board:*

The Honourable Charles M. Drury, President. S. Reisman, Secretary.

Upon Motion, it was *Resolved* to print as Appendix "A" the statement made by Mr. Drury to the Public Accounts Committee of the House of Commons.

At 12.35 a.m. the Committee adjourned to the call of the Chairman.

**ATTEST:**

Frank A. Jackson,  
*Clerk of the Committee.*





## THE SENATE

### STANDING COMMITTEE ON FINANCE

#### EVIDENCE

Ottawa, Wednesday, November 27, 1968.

The Standing Committee on Finance, to which were referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1969, met this day at 11.30 a.m.

**Senator T. D'Arcy Leonard** (*Chairman*) in the Chair.

**The Chairman:** Honourable senators, I am very glad on your behalf to welcome the President of the Treasury Board, the Honourable C. M. Drury, as our witness today. Mr. Drury has been before us on other occasions, but in a different capacity. I think this is the first time we have had an opportunity to welcome him as President of the Treasury Board.

We are continuing our consideration of the Revised Estimates for 1968-69, referred to us by the Senate. I think all honourable senators have before them the illustrations of the suggested new form of the Estimates for the Department of Indian Affairs, the Department of the Solicitor General, and the Department of Insurance. Perhaps you have also before you the statement to which the minister will speak. If it is your pleasure, I will ask him to proceed.

**Hon. Senators:** Agreed.

**Honourable C. M. Drury, President, Treasury Board:** Mr. Chairman, honourable senators, it is a pleasure to be back with the committee again. If I might impose on it, I would like these proceedings this morning to be rather in the nature of an educational program than the summoning of a witness to give evidence; and if I appear to be lecturing or instructing, I hope you will forgive me.

By way of background, let me say that there were quite significant and substantial recommendations made by the Glassco Commission, designed to make the process, the technique of fiscal and financial control within Government, within an executive branch,

rather more meaningful than perhaps it had been on a system related to more leisurely and less complex times.

The changes were sufficiently substantial to take some time to bring about and we are now in the process really of doing so.

One of the fundamental changes is that departments and agencies of Government will look at their work, their operations, in terms of specific programs, in financial terms, and account for their operations in this way on a program basis.

In the past, we have tried to look at the department as a whole and have it account for its activities in terms of so-called standard objects of expenditure.

While it is interesting, perhaps, to know that one department is spending more on electricity than another, unless you know what the electricity is being used for, it is a little hard to say intelligently whether it is being effectively used or not. Therefore, instead of looking at such items, instead of taking very homely objects such as electricity or pencils and looking at them, department by department, under these heads, we have invited them to divide up into specific programs and attribute to each of those programs all the costs. Then, by looking at their work in terms of programs, we may be in a better position to measure the accomplishment and the utility or perhaps, in some cases, the futility of some of those programs and either enlarge, change or abandon them. It is for this purpose that this new form of Estimates is being proposed.

As I say, the object is to display to Parliament, the controlling body, the activities and operations of a department, or indeed of the Government, in terms of programs where there is a delineation of the objective to be sought by the program, the means being used to carry it out and some indication of the progress being made. This, I think, will pro-



vide an occasion for Parliament to understand better what is being done and how. It will also give the departments themselves an opportunity to take a more realistic and harder look at their own success or lack of it in achieving the objectives.

Now, you have received copies of a long statement which was presented but not read to the Commons Public Accounts Committee. It describes in some detail what I have been endeavouring to indicate to you briefly and also provides a description of the proposed new form of Estimates.

Mr. Chairman if you will turn to page 12 of that statement, I will start from there. If at the same time in this instructional lecture you could look at the revised Estimates 1968-69 for Indian Affairs and Northern Development marked "illustration only," that is the one I will be dealing with.

**The Chairman:** Perhaps a convenient way of dealing with this would be to put in the statement as an appendix. I do not imagine you want to read the whole of this submission to which you referred. Would it be in order to suggest that we might have the whole statement which is before you printed as an appendix to our proceedings today, and then we can deal with specific parts of it by questions.

**Senator Pearson:** I so move.

**Hon. Senators:** Agreed.

**Hon. Mr. Drury:** Do you wish me to describe the booklet or answer questions?

**The Chairman:** Just go ahead as you planned.

**Hon. Mr. Drury:** Briefly, then, we have done this organization of the approach to our accountability on a program basis progressively through departments. Some are more advanced than others in doing this. We started out with four departments, namely, Agriculture, Northern Affairs and National Resources, Transport and Veterans Affairs. Then we had another five departments, namely, the Dominion Bureau of Statistics, Indian Affairs and Northern Development, which you have in front of you, Insurance, Manpower and Immigration and Royal Canadian Mounted Police. They all have not only been able to put forward their estimates in the classical form, in the Blue Book, but have also done so in this new form that you have in front of you.

We hope that by the next fiscal year, 1970-71, all the departments will be presenting their estimates in this form contained in a booklet or as modified by the suggestions and advice we get from your committee, sir, and from the Public Accounts Committee of the House of Commons.

**Senator Pearson:** These booklets will all be separate. There will be one for each department?

**Hon. Mr. Drury:** This is one item on which we have not yet reached a decision. The Estimates are now printed and bound in only one single volume. Thus, anybody who wants one item has to have recourse to a very large volume. Because of the increase in information being proposed here, the Blue Book, if it were bound in the same way as in the past, would be quite a lot thicker, considerably more expensive and much larger. Consideration has been given to binding or producing all these pamphlets separately and distinctly for each department, which would be more convenient for anyone interested in only his own department, but we have also given thought to binding them together, which, although producing a rather large volume, does limit the number of volumes.

There is also the linguistic problem. Should the Estimates, as are the new statutes and bills, be bound in a bilingual form in each pamphlet or should there be separate pamphlets for both English and French? The samples you have before you now are separate pamphlets for English and French. This is another feature on which we would welcome the advice of the committee, because, after all, the purpose of this is to be of use to the users, and you gentlemen are the users.

**Senator Aseltine:** I certainly appreciate it more in this form.

**Hon. Mr. Drury:** In the pamphlet form?

**Senator Molson:** Has any thought been given to a looseleaf form, Mr. Minister? Has that been contemplated also? The pamphlets could be incorporated in a binder.

**Senator Pearson:** Yes. Each pamphlet would be separate but could be contained in a looseleaf binder.

**Hon. Mr. Drury:** That might be appropriate for Members of Parliament, but it is very expensive.

**Senator Molson:** There is that.



**Hon. Mr. Drury:** If the pamphlets were generally in looseleaf form it would be very expensive. The Government might, however, punch holes in these pamphlets and let the individual user provide his own binder.

**The Chairman:** We do that sometimes now, in any event.

**Hon. Mr. Drury:** If you look at the new samples, Mr. Chairman, you will notice that on page 3 a foreword appears outlining in general terms some of the features proposed which I have been endeavouring to indicate to you orally. This is rather more succinct and more lucid as an outline of what is being sought to be accomplished.

On page 5, and I am still referring to the pamphlet on Indian Affairs, there appears for the first time an outline of the objectives, a statement of the departmental objectives divided up into the four programs of the departments.

In the present Estimates these statements of objectives, if they are made or given at all, are given by the minister orally in the House or before this committee. But henceforth we would hope that, for all to see, there would be a distinct statement of objectives being sought and the means of achieving them actually spelled out in the Estimates themselves.

Page 6 is the layout of the administration program. This gives rise to a bit of a problem in that it is hardly a program in itself. The administration of the department and the description of the program objectives given at the bottom of page 6 obviously would be the same for every department of Government. One wonders whether it is necessary in a large bound volume to reprint the same thing 26 or 28 times. We have not quite resolved that problem either.

However, while program objectives do not quite fit the administration program, if you will look at page 12, and I will deal mostly with the Indian Affairs program now, you will see that page 12 provides the objectives of this program in narrative form. A further elaboration, called a program explanation, dividing it into its generality and into the so-called activities of the program is also given.

I think you would agree that for those who have access only to the printed Estimates themselves, this is a much more comprehensive outline of what the departments are all

about than the present Blue Book which provides a series of numbers without any words.

Generally speaking, each departmental program shows one Vote for each of the categories administration, capital and grants. That is, there is one Vote for administration, one Vote for capital and one Vote for grants. The purpose of this change is to provide Parliament with a better appreciation of the cost of any given program and the elements which went into its make-up.

In line with the concepts of program budgeting and responsibility accounting under which each program is considered as a unit, made up of these three different elements, we are proposing to take the next logical step in the development of a rational vote structure and to consolidate into a single vote the three votes presently being shown for each program, the three votes being administration, capital and grants. This would permit Parliament to review more readily each departmental program in the light of its total cost and would give members a firm basis for a more complete discussion of each particular program. The total cost of each program would of course continue to be broken down in the Estimates details into its main elements of administration, capital and grants.

Together with this, we also propose that non-budgetary requirements, that is loans, investments and advances, be shown with the appropriate program. Now if you will look at the Indian program on page 12, you will see how this treatment is reflected in the Estimates for this program.

This change in the vote structure would result in a reduction of some 100 vote items from the current 236, had it been applied to the Estimates for 1968-69.

The Estimate for each program is displayed by activity, which is a subdivision of the total program, broken down into the usual categories of operating requirements, capital requirements and grants, and, where applicable, into non-budgetary requirements. Against the operating requirements for each, there is shown the proposed man-years of employment allocated for each activity. The number of man-years for each activity is shown in the table at the top of page 12 under the heading "Activity". The proposed man-years for 1968-69 are 705 for administration, 769 for development and 2,084 for education. This distributes, in terms of man-years, the effort put into the subdivision of the program for various activities.



There is also added to the estimate of the cash requirement for each program the value of services received from the department itself or from other departments.

In the case of the Indian program illustrated on page 12 of the sample new form, the value of services provided by other departments includes accommodation provided by public works. This includes only the cost of all office accommodation for which the Department of Public Works is responsible. For specialized accommodation such as laboratories, warehouses, schools, hospitals et cetera, the cost is shown against the entry "accommodation provided by this department"; accounting and cheque issue services provided by the Comptroller of the Treasury; contributions by the Government as an employer to the Superannuation Account, the Canada Pension Plan Account and the Quebec Pension Plan Account; the Government's share, as an employer, of Group Surgical Medical Insurance Premiums; the Government's share of employee compensation payments; and the carrying of franked mail by the Post Office Department. I suggest that this should assist Parliament in assessing the total cost of the various programs that are being described.

There are some programs which receive more in the way of assistance from other Government departments than others, but in all cases by adding these in we are able to get a rather more accurate picture of the total amount of resources devoted to each program. In addition, for each program we propose to provide a table showing the total cost of the program by standard object of expenditure, again broken down into the three main elements of administration, capital and grants. In this connection I refer you to page 14 which is to some degree a repeat of what is currently shown in the blue book as of today, that is a breakdown in relation to the program of these standard objects of expenditure.

Below that is a table showing the details of the manpower allocation and utilization which is a break-out of the item I mentioned earlier, the proposed man-years for one year. The manpower utilization allocation follows for three fiscal years the direction or the totals of manpower allocations broken down into the three principal categories of classification. This I think will be much more illuminating than the present system of showing tables of the numbers of people by class or the establishments therefor for only two fiscal years.

One important feature I think, of this table is the figure shown for the allowable strength at year-end and this is shown for both the current and the new year.

Now if you turn to page 15 there is provided a sample of the new form of Estimates showing under the heading of "activities" the construction and acquisition projects with a total estimated cost regardless of the year of expenditure in excess of \$250,000 for each of the activities. What is new in this table is that one is able to get a total picture in respect of each program showing not only current expenditures but also the total cost of each of the particular items.

By way of example the total cost of Indian Housing is given—the total estimated cost—and a figure given of expenditure to 1967-68 for what is proposed in the Estimates for the current year 1968-69, which indicates fairly clearly the total size of the progress made to date and what is needed to completion. In the case of Indian housing—"Miscellaneous Projects Carried Over"—it is quite clear that that is about finished, but new projects totaling \$12,494,000 have not yet started.

Under the heading "Education" one can get an idea of the progress being made in providing educational facilities.

**Senator Molson:** Mr. Chairman, referring to that table, the statement we were just considering: the items "New Projects" are, in many cases, quite large. I suppose it is impossible to give in what areas they would occur. Presumably, they are projects under consideration, and it is impossible to say more than put them under that heading, is this the case?

**Hon. Mr. Drury:** Well, Mr. Chairman, all this information is available, and the question is how can it most satisfactorily or conveniently be provided. One could go on listing each of the new projects in detail, but with every additional item you put in your increase the size of this particular document, and what we have tried to do is to strike a balance.

I would be glad of the view of the potential users of this document as to the areas in which more information is needed or where there appears to be too much. But one should bear in mind all the time that the more information that is provided in this particular printed form, the more expensive it is and, in some ways, the less handy it is for the user.



In fact, the details of new projects are obviously known to the minister, and the proposal would be that information sought by Parliament would be provided by the minister in response to questions in a parliamentary committee or, if the case arises, on the floor of the House.

**The Chairman:** That figure of \$1,250,000 for new projects, under education, is over and past the Estimates for 1968-69, to the extent they will go ahead and they will be in the Estimates for 1969-70, will they not? That is a figure that represents something still in the planning stage, and does not represent Estimates for expenditures for the current year, am I correct in that?

**Hon. Mr. Drury:** There are no expenditures being made in the current year, that is correct, sir.

**The Chairman:** The figure in the proposed Estimate for 1968-69 covers what is intended to be spent this current year on new projects, in addition to those listed; but, then again, you are, in effect, saying, in giving us this information, that you may expect in the Estimates for 1969-70 that they will contain details as to some new projects which at present are only in the planning stage and do not involve expenditures in the current years?

**Hon. Mr. Drury:** That is right.

**Senator Molson:** I think the minister's point is very well taken, as to where do you stop in listing things. I was not really quarrelling with it; I was just saying that in some cases the new projects loom very large in comparison with the actual estimated costs of specific projects.

**The Chairman:** As long as we have this information in the Estimates for any committee hearing, we can say, "What have you in the planning stage now for which you are suggesting it may cost a year from now \$1,250,000?" To try to put that into the sort of future, 1969-70, would not be practicable.

**Senator Molson:** I think the point is very well taken, Mr. Chairman.

**Hon. Mr. Drury:** Bearing in mind the distinction, if the committee would turn to page 16, between grants and contributions, we would propose that for each program—and this is under the heading "Indian Program"—there be a detailed delineation or exposé of

the amounts and purposes of all the grants and all the contributions.

**Senator Molson:** It is difficult to pass the first item without question, Mr. Chairman. What is the Skookum Jim Memorial Hall in Whitehorse?

**Hon. Mr. Drury:** This is called for "illustration only".

**Senator Molson:** Thank you.

**Hon. Mr. Drury:** I really do not know what the answer to that is. It would appear we are in for \$1,200 a year for some time.

I might just point out—and I think that perhaps the committee is aware of the distinction between "grants" and "contributions"—that under this particular terminology a grant is an unconditional payment or a payment by the Government for the purposes and subject to the conditions laid down by Parliament in the granting statute or the granting authority. Contributions, however, are payments made by the Government arising out of agreements made either with the provinces or with other agencies, as authorized by parliamentary statute, and the statute in this case does not provide for the amount of the payment, but does merely authorize the Government to enter into an agreement which calls for payments and which establishes some of the parameters of the agreement. That is the distinction between grants and contributions.

**Senator Gélinas:** May I ask a question, Mr. Chairman. Under "Contributions" is the item "Cash payments for general assistance to Indians" amounting to \$15,969,000. "General Assistance", what is that in a few words?

**Hon. Mr. Drury:** Well, with respect to this item and the immediately preceding one, there are a number of statutes of which one of interest provides a parliamentary authorization for the federal Government to enter into agreements with the provincial governments for financial assistance to Indians. The federal Government makes an agreement with each provincial government outlining the conditions under which assistance will be given and administered by the provinces, and this provides the amount of money to be paid in execution of these agreements.

**Senator Gélinas:** Thank you.

**Hon. Mr. Drury:** In most cases the assistance is provided directly to the Indians



through the Indian Affairs Branch, where the federal Government assumes complete responsibility. In other cases the assistance is provided through the provinces to Indians in the provinces.

I do not think, Mr. Chairman, I have much to add to this description, but I would be glad to answer any questions. I emphasize again that this is a proposal by the Treasury Board for a new form of estimates, and we do not feel dogmatic in any way about it. The intention is to provide to members of the House of Commons a rather better and more informative description of the purposes for which money is needed, and the means by which those purposes will be achieved. If suggestions can be given as to improvement in this, then we would be most grateful to have them.

**Senator Aseltine:** I think it would be agreeable so far as clarity, and help in giving us information, is concerned. I am wondering about the effect on the departments. Will it create more efficiency?

**Hon. Mr. Drury:** It will create more efficiency in two ways. In those rare cases in which there may be an intention to do so they will find it rather more difficult to confuse and befuddle members of Parliament. Because here it is explained clearly instead of there being a whole lot of numbers which can be juggled around in any way you like. Secondly—and I think this is quite important—it will require them to look at themselves rather differently; to look at their operations in terms of a large overall objective rather than concentrating on a niggling petty detail. I think this will contribute to more efficiency.

**Senator Molson:** Mr. Chairman, may I ask if with program accounting will come departmental accountability? Have we made progress at that stage within these departments? Are they getting into shape for accepting the responsibilities inferred by these changes?

**Hon. Mr. Drury:** We have made a lot of progress in this field in establishing the machinery, which involves both procedure and personal competence to take on this new responsibility. It is proposed to introduce this with the measure to be placed before Parliament providing for the re-organization of Government departments. The Government re-organization bill will provide statutory authority for introducing this new accountability

and delegation of authority to departments, and we would hope—

**Senator Molson:** Is there any date foreseen for that move?

**Hon. Mr. Drury:** The timing of the introduction of the bill is early in the new calendar year. The application of this delegation will not be universal, but will be gradual in the light of the ability of a department to take over these new responsibilities. They are not all equally ready. Some are more so than others, and we will start with those which are in the best position to assume and discharge this responsibility, and then gradually move on. This is somewhat the same approach that has been followed in relation to the centralization of the purchasing functions in one department. It has been taken over step by step. This takes longer but I think probably it is productive of less error and less inefficiency than an endeavour to introduce it universally at one fell swoop.

**Senator Pearson:** Are all departments working towards this now?

**Hon. Mr. Drury:** All departments are, and I am glad to say that a number of them are ready.

**The Chairman:** Mr. Minister, it appears that we are going to have more information—certainly more in volume—than we have had in the past, and I should like to ask you what has been left out from the information we get at the moment. Perhaps we can find this out for ourselves by studying it, but perhaps you can provide the answer more conveniently for us. What have we in the Blue Book that is not now in these illustration booklets, and which is of consequence, or even, perhaps, not of great consequence? What kind of information is being left out, and which is now being made available?

**Hon. Mr. Drury:** Well, I would hope, Mr. Chairman, that nothing of significance has been left out. Quite a lot more has been added. One of the things that has been left out is—perhaps I could refer you to page 196 of the Blue Book. I am not sure how many senators have a copy of this, but at the bottom of page 196 is a table with which I think you are all familiar. Under the heading of "Departmental Administration" this appears: "Salaried Positions: Executive, Scientific and Professional", and then follows a listing of the numbers of officers by salary range, and this is for the whole departmental administra-



tion. It has not been our experience that this discloses very much real information.

If one turns to page 198 one sees that half the page is taken up by a similar listing for another branch. At page 199 again half a page is taken up by such information as: "1 Senior Officer 2 (\$18,500-\$23,500); 3 (\$14,000-\$16,000); 11 (\$12,000-\$14,000)", and so on.

Instead of all this information being shown in this way, the manpower tables allocating them to programs rather than to whole departments will be a little more meaningful. But, that particular bit of information is not contained, and it is something that occupies throughout the Estimates a great many lines of print. This will be one of the substantial savings in space, or savings in print, which allows the provision of more pertinent information.

**The Chairman:** This means a cutting down of the number of votes. When a vote is called, or is under consideration, the vote will be for the same sum of money, presumably, than the aggregate of the votes that it replaces, but the information that was formerly in three, four, or five votes, and which is now supplanted by one vote, will still be under the heading of one vote, apart from the type of thing you have mentioned? That is, there will be greater detail per vote, where a vote supplants what previously was under the heading of more votes?

**Hon. Mr. Drury:** Well, the system of votes really was a classification of the accounts by the so-called standard objects of expenditure which—and I think I detect some measure of agreement—has not been too meaningful. We would propose to classify the expenditures in terms of programs and group in each program the standard objects of expenditure. It does not make much sense to have a vote under the heading "Program, Northern Affairs Administration", then under the heading "Indian Program" another vote for administration, then under "Northern Program" another vote for administration. We would rather have a vote covering individual programs.

**The Chairman:** It may be presented in a different form or under a different heading, but nothing significant in connection with the information previously available has been left out?

**Hon. Mr. Drury:** We think not and hope not.

**The Chairman:** How much of the new form is likely to be in the 1969-70 Estimates?

**Hon. Mr. Drury:** For 1969-70 it would be planned to present the Estimates for, if you like, official use in the old or blue book form with minor modifications, but also on an illustration basis like this to present all the estimates for all the departments in the new form so that Parliament will have available both forms. The following year we would hope to go on to only the new form and abandon the old.

**Senator Burchill:** Are there many of the Glassco Report recommendations not yet implemented?

**Hon. Mr. Drury:** Practically none. When I say "practically", I think the number not dealt with—that is, on which no conclusion has been reached either to accept as they stand and implement, modify and implement, or reject—is 60 out of 294. In spite of the allegation made to the contrary, I think that successive governments have taken the Glassco Report and its recommendations to heart and given quite an extraordinary degree, in terms of royal commission reports generally, of action to them. I would say in a general sense that Glassco has now either been implemented or is in the process of being implemented. This is, in effect, one of them. It has taken us some time to get round to this, but we are here.

**Senator Smith (Queens-Shelburne):** I should like to ask a question on that. What is our experience in dealing with the Glassco Commission Report? How does it compare with the experience of the American people in dealing with their Hoover Commission Report some years back? Do our people know whether we have been able to adopt or adapt more of the Glassco Commission recommendations than the total adopted recommendations of the Hoover Commission some years ago in the United States? It was held up to us at one time as a model for Canada to follow and I wondered whether we had exceeded our American friends or fallen short of our expectations.

**Hon. Mr. Drury:** I do not know.

**Mr. S. S. Reisman, Secretary of the Treasury Board:** I do not think we can answer that, sir. We have not made a comparison between the degrees of progress of the Glassco and Hoover Commissions recommendations. What we can say is that there is not



really very much of real substance left out of the Glassco recommendations that have not been implemented or are not now under very active consideration for early action, so if the Americans have done as well as we have they have done pretty well.

**Senator Smith (Queens-Shelburne):** That is my impression too. I was reading some reference to the Hoover Commission not very long ago and I concluded, on the basis I had to form conclusions, that the Hoover Commission did not really get into the changes that we have made in this country. It is a great tribute, of course, to the late Mr. Glassco that his recommendations were acceptable. It is not the general experience of royal commissions to have all their recommendations adopted.

**The Chairman:** Mr. Minister, this may perhaps be a digression from what we have been discussing, but I believe some senators think that too much money has been spent upstairs on a committee room of the Senate similar to this. Looking back over the Estimates of 1968-69 I see there was an estimate of \$500,000 for Centre Block improvements, which I assume covered a great many other things. When you, as President of the Treasury Board, get an item of \$500,000 for improvements for the Centre Block, is that broken down, for example, to cover improvements to a committee room of the Senate so that we can have some idea what it will cost?

**Hon. Mr. Drury:** I do not think that under the new form this would be in the printed Estimates. One would have to direct questions to the Minister of Public Works to find out precisely what it covered.

**The Chairman:** Before the Treasury Board approved the \$500,000, I assume they would have the items?

**Hon. Mr. Drury:** They would have a general description of the items, yes. If before the Estimates are printed the Treasury Board examines or purports to examine in considerable detail each particular room the Govern-

ment or one of its agencies was going to modify we would never get the Estimates printed. This would be a responsibility vested in the departments and they would be answerable for it.

**Senator Molson:** I should just like to call the attention of the minister to the new sheet on the Insurance Department, where there is a slight error in that the total estimates appear to be \$1,000,467,000. The heading "thousands of dollars" has slipped out of place.

**Hon. Mr. Drury:** I remember someone once asking me, "What is a million?" I will not fall into that trap.

**Senator Molson:** This is a billion.

**Mr. Drury:** This shows the usefulness, Mr. Chairman, of submitting our proposals to a committee like this, to have the mistakes corrected. I hope there will be other suggestions. It is important.

**The Chairman:** Are there any other questions?

**Senator Molson:** It is becoming more and more important.

**The Chairman:** If there are no further questions, honourable senators, on your behalf I would like to thank the Mr. Drury, Mr. Reisman and Mr. Cloutier, and other members of the staff. I am very grateful to you, Mr. Minister, for coming before us and giving us this information. It is certainly going to be of use to us from now on in dealing with the Estimates. Thank you very much.

**Mr. Drury:** I look forward to receiving suggestions as to whether or not we have got generally the right answers. I am grateful for this opportunity to appear and be able to explain them.

**The Chairman:** Thank you very much. The meeting is adjourned.

The committee adjourned.



## APPENDIX "A"

Statement by  
The Honourable C. M. Drury  
President of the Treasury Board  
to the Public Accounts Committee  
relating to  
a revised form of Estimates  
Thursday, November 21, 1968

Mr. Chairman, members of the Committee, I am happy to have the opportunity to be here this morning to review briefly with the Public Accounts Committee the changes that have occurred in the form of Estimates in the past few years and to present you with proposals for further changes that are designed to assist Parliament in its consideration of Governmental expenditure plans.

As committee members no doubt know, the Financial Administration Act vests in the Treasury Board, in the name of the Queen's Privy Council for Canada, authority to deal among other things with matters relating to financial management, Estimates and the review of annual and longer term expenditure plans and programs of departments. The Estimates Blue Book is a *reflection* of this responsibility.

The Estimates in a very real sense provide the basis for financial management in the Government service. Because the Public Accounts Committee is very much concerned with this function, it has been the practice to seek its concurrence for any change in Estimates presentation. After its deliberations are completed the Committee may recommend to the House changes that it, in its review of departmental spending, views as desirable. It also makes recommendations with regard to changes that are brought before it from time to time by the Treasury Board.

This Committee has not dealt with changes in the form of Estimates for some time. I therefore thought that I would recall to members that as result of the deliberations of this Committee in 1963, the number of votes in the Estimates was reduced from some 550 to 220 as recommended in the Committee's report to the House at that time. The primary reason for that change was related to the need to bring together under one heading the different elements that constitute a departmental program. This purpose, generally

speaking, was achieved by setting up one administration, one capital and one grants vote for each departmental program. This resulted in a more rational presentation of activities within each Departmental structure, but it was only the beginning of what was to become an exhaustive study of how best to achieve better departmental control over existing operations, to improve governmental assessment and control over both new and existing programs, and to provide more meaningful information on public expenditures to Parliament.

Since that time, and following the recommendations made by the Royal Commission on Government Organization, the Treasury Board staff has been engaged in a fundamental review of its expenditure control role in the context of its position as a central planning agency, in cooperation with all departments and agencies. As a result, the orientation of the Treasury Board has changed, as the Royal Commission envisaged, from an Agency primarily concerned with keeping the lid on expenditures through highly centralized and detailed control mechanisms, to a forward looking planning body which promotes the effectiveness of departmental programs through expert analysis of expenditure proposals in terms of both possible alternatives and the objectives of the Government. Within the constraints prescribed by the Government, the Treasury Board is then able to set goals and propose allocation of resources on the basis of priorities and the forecasted availability of funds.

I would now like to deal with a number of changes that we are proposing for future Estimates presentation as well as with certain changes that we are incorporating in the 1969-70 Blue Book now under preparation. Committee members should note that the changes being made to the current form Blue Book, that is the book that will display the



estimates for 1969-70, fall into two categories: those of a purely presentational character; and those featuring an element of control.

Before I review the changes for 1969-70 I might mention that the Revised Estimates for 1968-69 which were tabled in the House on September 25 reflect a change that was introduced earlier this year in the original Estimates tabled on February 12. I refer to new standard objects of expenditure that are designed to serve the needs of internal accounting procedures and a national accounts presentation. This new system was developed by an inter-departmental committee which was asked to determine the coding procedures that would be compatible with these needs, while retaining the existing level of information for publication in the Blue Book.

The inter-departmental committee made recommendations on the restructuring of the standard object classification and this restructuring was subsequently approved by the Treasury Board. The new system consists of 13 standard objects in place of the traditional 34 standard and special objects which have appeared in Estimates until now. The new system is adaptable to whatever object classification individual departments adopt for internal purposes, because each of the 13 new standard objects can be further broken down into reporting objects and economic objects that can be used for expenditure accounting purposes by departments and for the provision of information needed for the presentation of expenditures on the National Accounts basis.

With regard to the 1969-70 Blue Book, we would have preferred to present you with proposals for changes earlier this year, but since events prevented us from appearing before you until now, and since they could not have been implemented in the 1969-70 Estimates if the necessary instructions had not been issued to the departments and agencies of Government before this September, the Treasury Board reviewed these changes very carefully last summer and authorized the issuing of the necessary instructions.

### 1. *Expenditure Coding*

Having briefly explained the new system of standard object classification which is incorporated in the Revised Estimates for 1968-69 we plan to extend the implementation of the system by consolidating in single line entries, under new descriptive titles, the entries that

appear separately in these Estimates. For example, the "Traveling and Removal Expenses", and the "Telephone and Telegrams" which are both shown as standard object (2) in the Revised Estimates would be grouped under the heading "Transportation and Communications" as standard object (2).

I might add that this change will reduce the length of the Blue Book by some 27 pages. However, the more detailed information which heretofore appeared in Estimates will continue to be available at the departmental level and can be provided to Parliamentary Committees or the House during Estimates consideration.

### 2. *Supporting Financial Information for Certain Crown corporations*

It is now the custom in Canadian Estimates to give much less detail for votes containing provision for the requirements of agency and proprietary Crown corporations than is given for the requirements of departments and departmental corporations. This treatment is a reflection of the different expenditure control relationship which Parliament has prescribed should exist between the Treasury Board and Crown corporations. It is also a reflection of the requirement that the budgets of Crown corporations be tabled separately in the House of Commons.

As you are well aware, the Public Accounts Committee has in past years endorsed recommendations made by the Auditor General that supporting financial information be given in Estimates for Crown corporations requiring appropriations. At the request of the Public Accounts Committee, the Treasury Board undertook to consult with the heads of these Crown corporations regarding the provision of such supporting information. Earlier this year, we wrote to a number of Crown corporations expressing the views of the Public Accounts Committee and asked them to consider how they could best respond to your Committee's wishes.

I am pleased to report that, as a result of these consultations, we will include in the printed Estimates for 1969-70 a statement of income and expenditure in support of Crown corporation operating requirements funded through Estimates and an indication of proposed capital expenditure where these are funded through Estimates. This change, I am certain, will be most welcome by your Committee.



### 3. Elimination of Salary Ranges

We propose to eliminate the various salary ranges now appearing in the Estimates and indicate instead the numbers of continuing full-time employees in each major occupational category. The kind of detail now provided is rather meaningless since there are continuous changes between ranges in the course of the year as a result of economic salary revisions and the reclassification of staff.

The inclusion of numbers of employees in each category should provide a better appreciation of the type of personnel engaged in carrying out the purposes of individual programs.

I might say that this change would result in a reduction of some 70 pages in the current Blue Book. In this case also, should more detailed information be required during Estimates consideration it would be made available by the Departments concerned. We propose of course, to retain the Manpower Allocation and Utilization Summary which now appears at the end of the current Blue Book.

### 4. Clarification of Grants and Contributions

As members of the Committee are no doubt aware, it is an accepted principle of Parliamentary practice that the making of outright grants is a prerogative of Parliament. This is reflected in Canadian Estimates in such vote titles as "Grants and Contributions as detailed in the Estimates."

However, the situation is now such that we do not have any rational distinction between outright subsidies on the one hand (such as the grant to the Boy Scouts as shown on page 445 of the Revised Estimates for 1968-69) and payments made by the Federal Government in pursuit of programs already authorized by legislation. For example, the Occupational Training of Adults' Act authorizes payments by the Government for several purposes, such as for training allowances and for capital assistance. These payments are made pursuant to agreements entered into with the Provinces, under the authority of legislation. The agreements always call for the auditing of accounts to be presented by the recipients of the payments. Present vote titles however (such as Manpower and Immigration, Vote 10, at page 304 of the Revised Estimates for 1968-69), do not allow the transfer of an excess provision that might arise under one agreement to meet a deficiency arising under a

different agreement. Such excesses or deficiencies may occur as a result of the difficulty of forecasting with precision at the time of the printing of the Estimates, levels of anticipated expenditures which depend entirely upon the extent of participation in the program in question. To achieve such a transfer of funds, it is now necessary to include an item in Supplementary Estimates, regardless of the fact that authority to enter into the agreement already exists and that sufficient funds may be available within the vote as a whole.

On the other hand, there are vote wordings which permit the transfer between contributions without the requirement for a Supplementary Estimates. An example of this is shown at page 104 of the Revised Estimates for 1968-69 where the wording of Vote 50 for Energy, Mines and Resources allows transfers between the ten contributions that are presently listed pursuant to the Canada Water Conservation Assistance Act.

We propose that restrictive vote titles be used only in those cases where no Parliamentary authority for the expenditure exists and where no accounting or auditing is made of the expenditure in question. Under this change, Parliament would retain its fundamental right of determining grants that are clearly unconditional disbursements, and the Government would have added flexibility in carrying out the wishes of Parliament and making payments required as a result of agreements authorized pursuant to Acts of Parliament. In no case of course would the total of a Vote in the Estimates for grants and contributions be exceeded without further Parliamentary action.

Having dealt with changes for the fiscal years 1968-69 and 1969-70, we now have further changes to propose for the Estimates for 1970-71.

The Committee will recall that the Royal Commission on Government Organization recommended that:

1. the form of the Estimates be revised so that the votes more clearly describe the purpose of expenditures, that more comparable and complete supporting information be provided, and that unnecessary detail be eliminated;

2. departmental Estimates be prepared on the basis of programs and activity and not only by standard objects of expenditure.



One of the first steps taken by the Government following the receipt of the Glassco report was to engage management consultants who were given the task of proposing expenditure control and financial management procedures for four departments. These departments were Agriculture, Northern Affairs and National Resources, Transport, and Veterans Affairs. As a result of these studies, there arose proposals to change the form of Estimates presentation designed to better reflect the new concepts of financial management, as recommended by the Glassco Commission, and to provide Parliament with the kind of information necessary for a meaningful review and discussion of governmental activity.

Subsequently, five departments (Dominion Bureau of Statistics, Indian Affairs and Northern Development, Insurance, Manpower and Immigration and Royal Canadian Mounted Police) submitted their 1967-68 Main Estimates in the suggested new form as well as in the traditional form. After further refinements, and I might say at this point that we are continually refining the presentational aspect of this proposed new form, twenty six departments and agencies were able to submit their Estimates for 1968-69 to the Treasury Board in both the current form and the proposed new form. Finally, I expect that for the 1969-70 Estimates, most departments and agencies will be in a position to submit their Estimates in both forms.

Several booklets were distributed this morning to illustrate the Estimates for 1968-69 in the suggested new form for the departments of Insurance, Indian Affairs and Northern Development, and for Solicitor General. The current form of Estimates for the Department of Indian Affairs and Northern Development was also distributed to permit comparison between the two forms. You may wish to refer to these as I review briefly the proposed new form of Estimates, which reflects the changes I have already mentioned as well as several additional new features.

If Committee members will look at their sample new form for the Department of Indian Affairs and Northern Development, they will note that a foreword appears on page 3 which outlines in general terms some of the features that are proposed to be included. With this in mind, perhaps the Committee will now permit me to discuss in more detail some of these new features.

(a) Members will note that on page 5 there appears a statement of departmental objectives which are explained in terms of the four programs of the department.

(b) On page 6, where a detailed breakdown of the Administration Program begins, you will note the statement of the program objectives followed by a narrative description of the Program itself outlined in terms of those objectives. The Program is broken down into a number of activities that are the means by which the objectives, as set out, are to be achieved. This approach is designed to assist Members of Parliament in identifying the purpose of the Administration Program, thereby aiding in their examination of the expenditures proposed under it.

This same approach for each of the other three programs is followed throughout the sample (at pages 12, 20 and 30). In this regard, I might remind the Committee that the current form of estimates does not include any narrative material concerning the department nor, for that matter, any of its programs to activities.

(c) As I reviewed the vote structure appearing in the current Estimates, I recalled to the Committee that it had agreed in 1963, to reduce the number of votes in the Estimates, so that generally speaking, each departmental program would show one Vote for each of the categories administration, capital and grants. The purpose of that change was to provide Parliament with a better appreciation of the cost of any given program and the elements which went into its makeup.

In line with the concepts of program budgeting and responsibility accounting under which each program is considered as a unit, made up of these three different elements, we are proposing to take the next logical step in the development of a rational vote structure and to consolidate into a single vote the three votes presently being shown for each program. This would permit Members of Parliament to review more readily each departmental program in the light of its total cost and would give members a firm basis for a more complete discussion of each particular program. The total cost of each program would of course continue to be broken down in the Estimates details into its main elements of administration, capital and grants.

Together with this, we also propose that non-budgetary requirements (that is loans, investments and advances) be shown with the appropriate program. Pages 10, 12, and 13 of



the sample new form of Estimates for Indian Affairs and Northern Development illustrate how this treatment would be reflected in the Estimates for the Indian Program of that department.

This change in the vote structure, if it commends itself to your Committee would have resulted in a reduction of some 100 Vote items from the current 236, had it been applied to the Estimates for 1968-69.

(d) The Estimate for each program is displayed by activities broken down into the usual categories of operating requirements, capital requirements and grants and, where applicable, into non-budgetary requirements. Against the operating requirements for each, there is shown the proposed man-years of employment allocated for each activity. (pages 6, 12, 20 and 30 of the sample).

The indication of manpower utilization in this manner should allow members of Parliament and the public to relate more effectively than is possible at present to a given activity the number of employees engaged in that activity.

(e) There is also added to the estimate of the cash requirement for each program the value of services received from the department itself or from other departments.

In the case of the Indian Program illustrated on page 12 of the sample new form, the value of services provided by other departments includes: accommodation provided by Public Works; (this includes only the cost of office accommodation for which the Department of Public Works is responsible. For specialized accommodation such as laboratories, warehouses, schools, hospitals, etc., the cost is shown against the entry "Accommodation provided by this Department"); accounting and cheque issue services provided by the Comptroller of the Treasury; contributions by the Government as an employer to the Superannuation account, the Canada Pension Plan account and the Quebec Pension Plan account; the Government's share, as an employer, of Group Surgical Medical Insurance premiums; the Government's share of employee compensation payments; and the carrying of franked mail by the Post Office Department. This should assist Members of Parliament in assessing the total cost of the various programs.

In the current Blue Book, the value of services received free of charge from other department is provided for the total depart-

ment only. Page 196 of the current form sample in front of you illustrates this point.

(f) For each program, we propose to provide a table showing the total cost of the program by standard object of expenditure, again broken down into the three main elements of Administration, Capital and Grants. pages 7, 14, 23 and 32 of the sample new form).

(g) Details of the manpower allocation among the major occupational categories (and its utilization) are shown for each program as the committee can see at pages 8, 14, 23 and 32 of the sample new form of Estimates. The total man-year utilization in the first column of the table is of course identical to the total shown against the activity breakdown on the program, which I just mentioned. One important feature of this table is the allowable strength at year-end figure which is shown for both the current and new years. In addition, a three-year comparison of staff numbers is offered instead of the two-year comparison in the current form. The Manpower Allocation and Utilization Summary appearing at the end of the current Blue Book would of course be retained.

(h) Members will also note at pages 15, 24 and 33 of the sample new form of Estimates that construction and acquisition projects with a total estimated cost—regardless of the year of expenditure—in excess of \$250,000, are shown in a separate table for each program.

(i) Having in mind the principles which I described earlier in relation to grants and contributions, where I outlined the distinction to be made between outright subsidies and payments made pursuant to agreements, we propose that for each program there be a listing of each grant and of each contribution that is to be made under the program. An example of this is shown at page 26 of the sample.

Having reviewed the main features of the proposed new form of Estimates, it is evident, I believe, that the program approach to Estimates presentation is the fundamental concept that emerges. Perhaps I might recapitulate by stating what is a program and what is an activity. A program is a group of departmental activities authorized by legislation or authority emanating from legislation, that is directed to the achievement of a definite objective. The activities are the varied means employed in carrying out the program. Bearing this in mind, the program structure



must be carefully designed to assist in the resource allocation decisions made by the Government. The programs of a department are the headings under which that department makes its request for funds and under which requirements can best be justified and the benefits forecast.

It might be appropriate at this point, Mr. Chairman, to outline briefly to the Committee, the process through which Estimates are prepared for presentation to Parliament.

In recent years, the Treasury Board has developed a two-stage approach to the examination of departmental expenditure plans. First, there is the review during the summer months of departmental 5-year forecasts of Estimates requirements, on the basis of which targets are set for the following fiscal year. Secondly, there is the traditional detailed Estimates review in the late autumn and early winter.

During the review of program forecasts, the Treasury Board considers this information against the background of overall government priorities and the most recent estimates of the total funds that are likely to be available throughout the 5-year period. This review is the occasion where the Treasury Board, following discussion and consultation with departments, sets financial and manpower targets for each program for the subsequent fiscal year. Eventually, when the system is more refined, it is proposed that this would be the occasion for Treasury Board to grant broad approval in principle for the department's long-term plans for each program.

Following the program review, the second phase of Estimates preparation and review for the subsequent fiscal year begins. With the approval in principle of their plans for each program, and against the financial and manpower targets that have been set for each program, departments are asked to develop their detailed operational plans for the next fiscal year—establishing recognized goals for each centre of budgetary responsibility and allocating the necessary funds within individual programs.

The Board's review of the Main Estimates submissions consists of an examination of departmental proposals, and of their detailed

plans to confirm that they are in line with previously approved targets, and the government's expenditure policy for the forthcoming fiscal year. In addition, the Board reviews at this time the departments' detailed costing of the operational plans for each program for the new year.

The product of this second phase is the Book of Estimates. The Estimates for 1969-70 will of course be produced in the present form, incorporating the changes that I mentioned earlier. In addition, we expect to be in a position next Spring to provide Parliamentary Committees that will be considering departmental Estimates, with Estimates booklets similar to those that have been distributed to you today. We believe that these booklets will permit a more informed examination of departmental Estimates by the Committees. From the discussions of your committee and from the examination of Estimates by Parliamentary committees next Spring, I would expect that there will emerge suggestions for further refinements which could be incorporated into the Estimates for 1970-71.

In 1970-71, then, Estimates would be prepared and presented to Parliament in the new form only. It would be our intention to produce them both in booklet form for each department as well as in the form of a complete volume containing the Estimates of all departments and agencies.

I want to conclude, Mr. Chairman, and members of the committee, by re-emphasizing what I said at the beginning of my remarks. The Blue Book of Estimates constitutes the framework for Parliamentary control and the examination of Departmental expenditure plans. The primary objective of the proposals that I have presented to you is designed to facilitate your task in carrying out your responsibilities as Members of Parliament. At the same time, they are designed to serve better the needs for more effective Government Administration.

I know Committee members will want to express their views and reactions to these proposals. My officials and I are at your disposal and we would be willing to provide you with all the assistance we are able to.

Thank you.





First Session—Twenty-eighth Parliament

1968-69

# THE SENATE OF CANADA

PROCEEDINGS

OF THE  
SENATE COMMITTEE

ON

# NATIONAL FINANCE

The Honourable T. D'ARCY LEONARD, *Chairman*

No. 4

THURSDAY, FEBRUARY 27th, 1969

*Complete Proceedings on Supplementary Estimates (B),  
laid before Parliament for the fiscal year ending March 31st, 1969.*

WITNESSES:

*Treasury Board: S. S. Reisman, Secretary. J. G. Glashan, Director,  
Estimates and Supply Procedures Division.*

THE QUEEN'S PRINTER, OTTAWA, 1969

## THE SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

### The Honourable Senators:

Beaubien	Grosart	McDonald
Benidickson	Hays	McLean
Bourget	Isnor	Nichol
Bourque	Irvine	Paterson
Desruisseaux	Kinley	Pearson
Dessureault	Laird	Phillips ( <i>Rigaud</i> )
Everett	Leonard	Phillips ( <i>Prince</i> )
*Flynn	MacDonald ( <i>Queens</i> )	O'Leary ( <i>Antigonish-</i> <i>Guysborough</i> )
Fournier ( <i>Madawaska-</i> <i>Restigouche</i> )	*Martin	O'Leary ( <i>Carleton</i> )
Gelinas	Methot	Sparrow
	Molson	Walker—(30).

\**Ex officio members:* Flynn and Martin

(Quorum 7)



MINUTES OF THE PROCEEDINGS  
ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Tuesday, February 25th, 1969:

Pursuant to adjournment and notice the Senate Committee on National Finance met this day at

“With leave of the Senate,

The Honourable Senator Martin, P.C., moved, seconded by the Honourable Senator Langlois:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures set out in the Supplementary Estimates (B) laid before Parliament for the fiscal year ending 31st March, 1969.

The question being put on the motion, it was—  
Resolved in the affirmative.”

*Treasury Board: S. S. Reisman, Secretary, and J. G. Gahan, Director, Estimates and Supply Procedures Division.*

Upon motion, it was *Resolved* to report that the Committee reviewed Supplementary Estimates “B”, but that certain items contained therein be dropped from the Senate.

Robert Fortier,  
*Clerk of the Senate.*

The Honourable Senator Everett inquired into the possibility of obtaining a list of claims in excess of \$100,000 which had been written off by the Department of National Revenue.

Mr. Reisman undertook to supply an answer for Senator Everett.

Mr. Reisman undertook to supply an answer to the Honourable Senator Grosart's question respecting items in Supplementary Estimates “B”, which were referred to as “items amending existing legislation”.

The Honourable Senator Beaubien suggested that the Committee inquire into Federal and State taxation policies in the United States of America and study any relevant figures published by the Organization for Economic Co-operation.

Senator Beaubien's suggestion was referred to the Steering Committee for further consideration.

At 12:40 p.m. the Committee adjourned until Thursday, March 6th, 1969 at 11:00 a.m.

ATTEST:

Frank A. Jackson,  
*Clerk of the Committee.*





## MINUTES OF PROCEEDINGS

Thursday, February 27th, 1969.

(7)

Pursuant to adjournment and notice the Senate Committee on National Finance met this day at 11:00 a.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Beaubien, Bourque, Desruisseaux, Dessureault, Everett, Gelinas, Grosart, Irvine, Laird, McLean, Nichol, Pearson, Phillips (*Rigaud*), O'Leary (*Anti-Guys*), Sparrow, and Walker—(17).

Supplementary Estimates "B" for the fiscal year ending 31st March, 1969, were examined and the following witnesses were heard:

*Treasury Board:* S. S. Reisman, Secretary; and J. G. Glashan, Director, Estimates and Supply Procedures Division.

Upon motion, it was *Resolved* to report that the Committee recommend Supplementary Estimates "B", but that certain items contained therein be drawn to the attention of the Senate.

The Honourable Senator Everett inquired into the possibility of obtaining a list of claims in excess of \$100,000 which had been written off by the Department of National Revenue.

Mr. Reisman undertook to supply an answer to Senator Everett.

Mr. Reisman undertook to supply an answer to the Honourable Senator Grosart's question respecting items in Supplementary Estimates "B", which were referred to as 'items amending existing legislation'.

The Honourable Senator Beaubien suggested that the Committee inquire into Federal and State taxation policies in the United States of America and study any relevant figures published by the Organization for Economic Co-operation.

Senator Beaubien's suggestion was referred to the Steering Committee for further consideration.

At 12:40 p.m. the Committee adjourned until Thursday, March 6th, 1969 at 11:00 a.m.

**ATTEST:**

Frank A. Jackson,  
*Clerk of the Committee.*





## THE SENATE

### COMMITTEE ON NATIONAL FINANCE

#### EVIDENCE

Thursday, February 27, 1969.

The Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, met this day at 11 a.m.

Senator T. D'Arcy Leonard (*Chairman*) in the Chair.

**The Chairman:** Honourable senators, I hear eleven o'clock striking and it is our tradition to start promptly. We are glad to welcome back again to the committee Mr. S. S. Reisman, Secretary of the Treasury Board. With him are Mr. J. G. Glashan and Mr. G. A. Berger from the Treasury Board.

The committee has had referred to it by the Senate, the Estimates for 1969-70 and the supplementary Estimates(B) for 1968-69. Subject to your own views, I suggest that, as the appropriation bill based on the supplementary estimates will in all probability reach us before any bill on the 1969-70 estimates, we should start today to deal with the supplementary Estimates (B). Mr. Reisman is prepared to do that. I doubt whether we will be able to in one sitting get through supplementary Estimates (B) and also the 1969-70 Estimates, but we will do as much as we can today and then we will carry on probably next Thursday with what is left over.

Is it agreeable that we proceed in that way?

Hon. Senators: Agreed.

**The Chairman:** I think we might start by asking Mr. Reisman whether he wants to make any preliminary statement or whether he just wants to plunge right in and start with item 1. You will probably find that a number of these items, particularly the dollar items, will fall into one or more patterns that may need individual explanation.

Have you a preliminary statement, Mr. Reisman?

**Mr. S. S. Reisman, Secretary of the Treasury Board:** Mr. Chairman, I do have a general statement, if that is your wish.

**The Chairman:** If that is agreeable, we will have the questions afterwards.

**Mr. Reisman:** Mr. Chairman and honourable senators, these supplementary Estimates, which you have before you, are the final supplementary Estimates for the fiscal year 1968-69. As usual, they contain both budgetary items, loans, investments and advances. The former category, which amounts to \$152 million, is just under the amount indicated for budgetary items when the main Estimates for 1969-70 were tabled a few weeks ago. This brings the total budgetary Estimates for 1968-69 to \$10,823 million.

The loans, investments and advances included in these supplementary Estimates total just over \$70 million. The difference between this amount and the \$36 million indicated for such items in the Main Estimates for 1969-70 is accounted for by three items, the need for which was not evident at the time the main Estimates for 1969-70 were printed. These items are, first, loans to Eldorado Nuclear Limited in the amount of \$22 million. This is a fall-back item as it is likely that the corporation's requirements will be met through direct borrowing from private financial institutions. You will find this item on page 26 of the supplementary Estimates (B).

The second item is loans of up to \$6 million to assist the ground fish industry. This can also be found on page 26. At an earlier stage it appeared that this requirement would require a budgetary item, but the Government has decided that its objectives in this respect will be pursued by means of loans rather than grants.

**Senator Beaubien:** You say, "loans". Are you supposed to get it back?

**Mr. Reisman:** That is right, sir. It is regarded as an investment. Perhaps, when we get into the detail of this, I can give a fuller explanation later, but, if you prefer, I could interrupt my remarks now to do that.

**The Chairman:** Suppose we let Mr. Reisman finish his presentation.



**Mr. Reisman:** The third is an item on page 28 creating a \$7 million revolving fund for the Canadian Government Printing Bureau. This item is not new as it will replace the Bureau's existing statutory revolving fund, the authority for which will lapse with the passage of Bill C-173, the Government Organization Bill. The new revolving fund will reflect the need for increased working capital. So that it is a somewhat larger figure than the figure of the old revolving fund which will lapse.

I would like to draw to the attention of the committee, Mr. Chairman, a new feature in these supplementary Estimates, namely, the use of funds available from other appropriations previously approved by Parliament to meet other requirements within the same ministry. As honourable senators are aware, the past practice had been to vote additional moneys to meet all requirements that could not be met from the same vote. I draw your attention, for example, to the first item in these supplementary Estimates, vote 10b for agriculture on page 2, in which you will notice that the gross requirement of \$1,216,400 has been offset completely by funds available in another vote of that ministry. The amount of \$1, of course, is necessary to bring the item before Parliament and to obtain the approval of Parliament for the transfer. We believe that this approach reflects more accurately the net additional requirements of the Government than past supplementary Estimates practice.

As I mentioned earlier, Mr. Chairman, the budgetary requirements in these supplementary Estimates total approximately \$152 million. The committee will note that about two-thirds of this total is sought for one vote, the Treasury Board contingencies vote, to be found on page 23. This is, of course, a very large sum. It represents our assessment of the demand to be made upon the Treasury as a result of the completion of the collective bargaining negotiations now underway in the Public Service. As it is not possible to assess this requirement on a vote-by-vote basis, much as we would like to, the Government proposes that the funds be provided centrally in this contingencies vote and that allotments from this vote be made to supplement the votes of individual departments and agencies as their requirements are determined following the conclusion of individual collective bargaining agreements.

May I point out, Mr. Chairman, an unusual feature of this proposed appropriation. The amounts involved are, as I have said, substantial, and collective bargaining is a process in which no employer should allow the particular accounting system under which he operates to put him under undue pressure of time. It is proposed, therefore, that Parliament grant this appropriation, worded in such a way as to allow payments owing in respect of the 1968-69 or prior years to be made and recorded up to April 30 next in the Public Accounts for 1968-69 under the title of the department requiring the money and that the

unexpended balance on that date remain available for salary adjustment payments that, in view of the need to close the books for the year 1968-69 at the end of April, would not be distributed among departments. I should like to emphasize that payments from this vote will be confined to amounts owing in respect of services rendered in 1968-69 and prior years.

Finally, I should add that the amounts requested under the contingencies vote will provide only for the costs of salary revisions arising out of collective bargaining. Other additional salary requirements are provided for in several departmental votes contained in these Estimates.

Now, Mr. Chairman, this is all I have to say by way of general introduction, but no doubt honourable senators will want to raise some questions, and my staff and I would be pleased to answer to the best of our ability. If there are questions asked that go beyond our capabilities, it may be that you will want to invite the individual departments whose Estimates are involved.

**Senator Grosart:** Mr. Chairman, my first comment on the supplementary Estimates (B) would be to congratulate the Treasury Board on a rather greater measure of disclosure than we have had in the past. My second comment would be that I still do not regard it as adequate disclosure. There are a great many one-dollar votes in these supplementaries, perhaps the largest total of votes in the supplementary Estimates. I recognize the fact that the majority of these are transfers within a department from one vote to another.

The total saving, if I may put it that way—that is, the total amount that does not have to be added to the request for funds departmentally—is about \$50 million, so I congratulate the Treasury Board on finding \$50 million within the estimated votes. I wonder if I could ask Mr. Reisman if the reason for this is that the Treasury Board has said to departments who come asking for money, "You find it!"

**Mr. Reisman:** That is a fair assumption, senator. Increasingly, in a tight situation, we have said to departments, if proposals for expenditures come up which have not been foreseen, "Go through your books and find some place where you can reduce, cut or postpone, and find the money you need for these more urgent things." I think these dollar items are, indeed, a reflection of that process.

**Senator Grosart:** While that is certainly most welcome it is also slightly disturbing because one wonders, looking back over earlier years, if the same attitude by Treasury Board might have saved a good many hundreds of millions of dollars. For example, Agriculture Vote 65 seems to have taken quite a beating; and Votes 10b, 15b, 17b, 20b, 25b, 30b,



and 35b are all cases where money has been transferred from Vote 65. Vote 65, in the original Estimates, was a vote to the Canadian Livestock Feed Board.

Is it a correct assumption that the original estimate of the requirements of the Canadian Livestock Feed Board was so far out that all this money was made available, or did some situation intervene in the meantime to make it available? I take it is just one example of the situation we find throughout the Estimates.

**Mr. Reisman:** I cannot answer that question in the kind of detail requested. What I can tell you is that when we invite departments to find moneys in their votes to meet these urgent requirements which form the subject of supplementaries, we try to leave it to the department to determine what its own priorities are and where it can best, in light of its total situation, find the monies. In fact, some monies have been found from the Canadian Livestock Feed Board vote. You are asking whether perhaps they padded the figures originally. I doubt that very much.

The note I have on the subject is that funds are available within the vote for the 1968-69 portion of the new expenditures. Expenditures are expected to be \$18 million rather than the \$21,600,000 voted, because feed grain crops in Ontario have been larger than expected and the number of animals to be fed is somewhat lower than anticipated, and so it has made it possible for them to find some funds there.

**Senator Grosart:** This raises the question as to whether people who were looking with rising expectations to the expenditures by the Canadian Livestock Feed Board are fully aware of this diminution of Parliament's grant for their purposes, and if they would approve.

This brings me to the earlier question of disclosure. Again, I would seriously suggest that in presenting even supplementary Estimates these explanations should be given. I do not care if it is a mimeographed sheet, but if I were to go through all these supplementary votes I would ask an information question on each one of them. Obviously, we have not the time this morning.

There are votes in here, for example, where there is a transfer of money voted for transfers to the provinces which has been taken away. There is external aid money.

If I refer, for example, to Vote 1b, on page 6, of External Affairs, some external aid money has been transferred. In Vote 2b, Finance, on page 8, money intended originally for grants to provinces has been transferred to another use. Again, on page 8, in Vote 15b, money originally appropriated—not merely estimated, because they are referring to an Appropriation Act here—money appropriated for expend-

itures in regard to international commissions and the international expenditures to provinces and municipalities. That is Fisheries and Forestry, Vote 15b.

What I am suggesting to you, Mr. Reisman, is that it would be helpful if, in future, there were explanations given as to why, when the provinces tell us they are looking for more money, do we find money appropriated for the provinces, for transfers to the provinces, still available. I am not saying there is anything wrong. I am a great believer in the principle of disclosure by business firms, and I think this applies particularly to the Government. I know there is a great effort being made to make the Estimates more meaningful, and I am urging that particularly in every one-dollar vote and every vote setting aside amounts under the Financial Administration Act, in every vote that extends the purpose of an existing act—and there are examples of these here—there should be an explanation, and you should say, "The present act does not provide for this. Here is why it should be provided . . ."

I am suggesting to you that this would be very helpful, even if a mimeographed sheet were put before us explaining the reasons for this in detail, because, as far as I know, the information you are prepared to give us here is not otherwise available. I would like to go through every vote today and ask for this information, but the sensible alternative, it seems to me, is to have you provide it in advance.

**The Chairman:** Then you would do away with the committee!

**Senator Grosart:** Then we would have even more to argue about, Mr. Chairman!

**Mr. Reisman:** If I may make a comment on that, Mr. Chairman, it is that, clearly, the more the material which is made available, the clearer and more lucid the presentation of these supplementaries will be.

I do have in this black book, prepared by the staff of the Board, an explanation of every single item in the supplementaries and, in particular, the so-called dollar items, whether they are transfers of moneys or a change in the statute. So that if members of Parliament or honourable senators wish explanations, we can give an explanation, or try to give an explanation, of every single one of these items.

The suggestion has been made: "Why wait for questions? Why do you not make the explanation at the time of tabling the Estimates, or at the time they are looked at in committee?" Obviously, there cannot be anything in principle to object to in that suggestion, other than, I suppose, the cost. It would not be a huge cost, but it would be an additional cost. It would involve compilation, printing or mimeographing, and distribution, and it would add to



the volume of paper that confronts honourable senators every day. If this suggestion is examined by the committee, and is made by the committee, then I am sure the Treasury Board would want to take a very good close, but sympathetic, look at it with a view to trying to meet it. That is, if it is your wish. But, it does involve additional money. It involves staff, and that kind of thing, and we are trying, at least in respect of paper work, to keep this down to a minimum. If we are to provide a good example to the departments and agencies then we ourselves must not expand, except where desirable and necessary, the volume of material produced. This is the only comment I have on that.

**Senator Grosart:** I have other questions, but I will pass for the moment.

**The Chairman:** Senator Everett, you had a question? We will not forget the point you have raised, Senator Grosart.

**Senator Everett:** I should like to refer to your statement on the Department of Agriculture. I may be wrong, but I got the feeling that in that particular case the money was not required by the department due to crop circumstances, and, therefore, the department decided to come up with a new item which would sop up that money, it having already been appropriated I am interested in that philosophy. I can understand it if the Treasury Board is saying to the department: "Here is an undertaking which you are proposing. Perhaps you can find a lower priority project and transfer the money allocated to it, to the high priority project which you now have in mind." I can understand that, but what I am concerned about is the fact that once they have the money and they do not use it, they then dream up another program—that is unfair, because they probably have many programs, but nevertheless, they are going to sop up that money come hell or high water.

**Mr. Reisman:** Mr. Chairman, that is a very pointed and excellent question, and one that I should really try to answer. I shall try to answer it by way of explaining how the scrutiny system operates in respect of proposals for expenditures, particularly in the supplementaries.

I am sure that this a process that has taken place in the past with greater or lesser thrust, but I can tell you in the present circumstances every proposal for expenditure, and in particular proposals for expenditures in supplementaries which have not have been foreseen, are really given a very thorough scrutiny, not only by the staff of the board but, if they are significant items, by the Board ministers. Very many are turned down on the ground that a case of urgency or compelling need has not been made. So, they must first get by that first hurdle. If something to which there is some urgency attached, or for

which there is a particular need, avises the staff of the board, and then the ministers of the Board, have to be convinced that that is so. That is the first hurdle.

The second hurdle is where we say to the department: "Well, if you feel that this is so vital, and you have obviously convinced the Board that it is, what in your program is less vital?" There may be occasions where something that is less vital arises because they have made a wrong estimate about the crop conditions, say, or other circumstances, such as in the item that has been described, in which case that item would normally have lapsed some money to the extent that conditions in the market place were not fully foreseen. The question arises as to whether, as a technique for handling supplementary Estimates where you have an urgent item and you have another item where a lapse would otherwise occur, this is a useful device for transferring what otherwise would have been lapsed into this new and more urgent item. This is what is being proposed. I suppose what I am trying to say it that the fact that there is some money in an item which would otherwise lapse in whole or in part is never used as a reason for allowing a proposal for another expenditure.

**Senator Everett:** I suppose if you take a very harsh attitude to expenditures that are not required you may well find that they are made just to use the money, or the tendency to do that might be there. I suppose it is better in the long run to recognize, since they have the appropriation and if the item has a high enough priority, that it should be used in any event. Is that your philosophy?

**Mr. Reisman:** I think you can describe it in that way, sir.

**The Chairman:** May I ask you a question, Mr. Reisman? Are there any of the \$1 items that are in effect a statutory change?

**Mr. Reisman:** Yes, sir, there is a number of these \$1 items. Perhaps I can give you an example. On page 29 under "Loans, Investments and Advances" you have a series of items for Central Mortgage and Housing Corporation. There are four \$1 items, the purpose of which is to amend clauses in the relevant statute, the National Housing Act. You will observe that in each case the proposal would have the effect of amending the National Housing Act by raising the commitment limits from one figure to another figure under the respective sections of that act. They do, in fact, amend the statute. There is no question about that.

**Senator Grosart:** Is it not a fact, Mr. Reisman, that every one of these authorizations to transfer monies from one vote to another is, in effects, an amendment of the Financial Administration Act?



**Mr. Reisman:** I do not think they are amendments of the Financial Administration Act. They are amendments to the Appropriation Act for the relevant fiscal period, because these Estimates are, in fact, legislation. When Parliament passes them, each of these items is a piece of legislation. The \$1 items which are designed to transfer money from one vote to another in fact amend a piece of legislation contained in a previous appropriation act, but they do not amend the Financial Administration Act.

**Senator Grosart:** But does it not also mean that the Financial Administration Act which, as I understand it, prohibits the transfer of appropriated funds from one vote to another, but allows it within a vote, is contravened. These items allow the transfer of money from one vote to another so they are, in effect, amendments of the Financial Administration Act.

There is one question I would like to ask you, and it is: In view of the very high number of exceptions made to that rule would you suggest that that prohibition against the transfer from vote to vote is anachronistic?

**Mr. Reisman:** First, it may be a matter of understanding, but I do not see how these \$1 items that transfer money are an amendment of the Financial Administration Act. They may, as you suggest, be an indication that that particular requirement of the Financial Administration Act imposes stringent requirements of a kind that makes this necessary, but it is not an amendment as such. The amendment from a purely legal point of view, if I may suggest, is to an Appropriation Act. Your second point, sir, is: does it reveal that there is something wrong with the provision in the Financial Administration Act? This is a very interesting point and it gets you into the problem of how much flexibility Parliament wishes to allow with the Financial Administration Act. Under the new system of the presentation of the Estimates, which will take effect beginning in the 1970-1971 fiscal year, a proposal has been made to reduce the number of voted items and to have sub-items so that transfers may be made within an item.

**Senator Grosart:** Which I understand is one of the purposes of that reform.

**Mr. Reisman:** And that reform would, in fact, make it less necessary to have these dollar items transferring moneys from one vote to another, because what now appears as votes would show up as sub-votes or activities under a vote where transfer would be permitted under the present terms of the Financial Administration Act.

**Senator Everett:** Within the vote itself?

**Mr. Reisman:** Just within the area of the vote itself, and I might say that when this was discussed in the Public Accounts Committee of the Commons there was really quite a debate around this. A number of members thought this provided too much flexibility and others thought it did not provide enough flexibility, an imbalance, if I am not mistaken. The committee made some modification or proposed some modifications to the suggestions that came from the department by way of requiring a larger number of votes than the department proposed. This being the compromise between flexibility which is the administrative problems and the need to go back to Parliament to get authority and some compromise.

**Senator Beaubien:** Mr. Reisman, could you give us some good news where a little money was saved for the taxpayer some place? It seems awfully depressing to listen when one department cannot spend as much as they think they need and somebody else gobbles it up and spends it. When you consider they were up 15 per cent last year, 14 per cent the year before, and have doubled in 10 years it seems terrible to sit here and vote more and more money, \$105 million—I am wondering whether anything was done to save any money?

**Mr. Reisman:** We cannot find the money the provinces and the municipalities are spending, and the federals are having a terrible time getting, the money.

**Senator Beaubien:** Was anything done to save any money?

**Mr. Reisman:** Well, sir, I do not know whether I can attempt to answer that question. It is major policy but perhaps I can reveal a piece of information that I think is relevant to your question and permissible for a public servant to give.

In respect of the 1969-70 Estimates, which are the first full year's Estimates that I have been involved in as a Secretary of the Treasury Board, the total requests from the departments and agencies which came in originally in their program review was something like \$1.5 billion higher than what was eventually incorporated in the main Estimates that were presented to Parliament some weeks ago—a billion and a half. Now, I can tell you, sir, that it took blood, sweat and tears to work those proposals down by \$1.5 billion. I am not going to comment whether that was enough nor try to comment whether more could or should have been done. This is a matter of policy which ministers have to deal with, and I am sure if you want to pursue this, the ministers would appear and answer questions of that kind.



Senator Grosart: Mr. Chairman, on your question as to whether there are amendments, Mr. Reisman has given us one example. I point out there are a good many but there is an extraordinary one on page 16 under Vote 15b of Public Works where there is an exception sought from a basic provision.

...no contract may be entered into for new construction with an estimated total cost of \$50,000 or more unless the project is individually listed in the details of the Estimates.

Here is a provision that there may not be contracts of this kind entered into unless it is in the details of the Estimates. Of course, this is not in the details of the Estimates. So here we are saying that regardless of the very wise provision that there should be limitation on such contracts there, it must be listed in the Estimates.

The Chairman: Are you suggesting that this Labrador City for which the money is required is not listed in the Estimates?

Senator Grosart: That is right.

The Chairman: In these Estimates?

Senator Grosart: All the amounts. The Labrador City, Port Coquitlam and on page 17, Pinkney's Point, Sillery and so on are all in excess of the \$50,000 prohibition.

The Chairman: But they are listed in these Estimates. This is the listing right in front of you.

Senator Grosart: No, I take it that, because this comes from the original Estimates, this is a basic requirement. I may be wrong, but this seems to be a basic requirement and what we are seeking here is an exemption from that basic requirement because these items are over \$50,000. Is that correct?

Mr. Glashan: No, sir, that is not correct. This is the same kind of proviso we have in the main Estimates for these votes. It is your safeguard really. It is upon necessity to list for you each project whose total cost exceeds \$50,000.

The Chairman: It does not matter if the item appears in the main supplementary Estimates. If more than \$50,000 it must appear in one or the other.

Senator Grosart: That is clear to me. Estimates here refer to any estimates, not the main Estimates.

Mr. Reisman: Yes, sir.

The Chairman: If I come back to the statutory amendment, I take it that in the case of the National

Housing Act, these are figures that must automatically be increased as the size of the operation, Central Mortgage and Housing Corporation, increases. Is that not so?

Mr. Reisman: That is correct.

The Chairman: There is one that looks like a statutory amendment and I would like to have it explained. That is in connection with the Canadian Livestock Feed Board, the last item on page 4.

Freight assistance on Western Feed Grains. . .

Those words have been put in from other regions. Does that mean in the regional statute or in the statute that freight assistance only was designed for certain regions and that this carries the assistance to other regions?

Mr. Reisman: That is right, sir. My recollection, sir, is that the original statute was very broad and did not limit the regions, but that, subsequently, the particular wording of the items in the Estimates limited this program to the movement of western seed grains to eastern Canada, and it is now through a revision in the wording that it is designed to broaden it again to permit this program to apply to the movement of grains for other reasons.

I have a fairly lengthy explanation here, which I could read to you, sir, if you wish.

The Chairman: The main thing I want to know is whether the statute limited it to the western provinces so that this, in effect, amends the statute by extending the regions, or whether it was that our original vote was limiting the amount of money but that the statute enabled other regions to be brought into it.

Mr. Reisman: My understanding, sir, is that it is the latter situation.

The Chairman: It is not really an amendment of the statute but an amendment of the vote.

Mr. Reisman: It is an amendment of a previous vote, yes.

The Chairman: Thank you.

Senator Grosart: Mr. Chairman, on the same item, authority is asked to ratify payments already made. I merely comment that this is the kind of explanation I would like to see in the White Paper, and I suggest that a statement saying why it is necessary now to ratify payments made in 1967-68 would be good. I am not questioning it, but I would like to know.

Mr. Reisman: That is exactly what happened.



**Senator Grosart:** Perhaps you can give the answer now.

**Mr. Reisman:** That is exactly what happened. In this case payments were made that were not authorized by an item due to an error, and what is being asked of Parliament here is to make legal provision for that payment that was originally made illegally. It is just as simple as that.

**Senator Walker:** Under "Treasury Board", on page 23, Vote 5b, there is the heading "Contingencies". How much of that \$105 million would be voted for anticipated increases in salaries which have not yet been granted, keeping in mind that part of it might be retroactive. What part of it would be in anticipation of retroactive increases? I ask this, because you can appreciate how difficult this could be for the civil servants, for instance, if they were to see \$105 million had been granted for their increases and the increases had not yet been found. If that situation occurred, everything would be up for grabs, would it not? I think they are anyway.

**Mr. Reisman:** Well, sir, as you know, Parliament enacted several years ago to provide for collective bargaining in the Public Service . . .

**Senator Walker:** Yes, I know.

**Mr. Reisman:** And by statute it named the Treasury Board as the employer in these collective bargaining negotiations. Now, we are currently engaged in negotiations with perhaps more than a score of unions—not of unions, but of groups that have been designated under the Public Service Staff Relations Act for bargaining purposes. Most of them are either in the Public Service Alliance of Canada or in the Professional Institute of Canada. These bargaining groups are largely formed under that umbrella, and they are engaged in negotiations.

We have completed quite a large number of agreements, and a pattern is beginning to form. These negotiations have concerned themselves with salary adjustments dating back for a number of years. This is because the whole process of collective bargaining is new in the Public Service and the statute itself indicated a timetable by which these negotiations were to take place at least during the initial period, and a pattern is beginning to develop out of the agreements already signed, providing for retroactive pay in some cases as far back as the fiscal period of 1966. But for the most part it covers the year 1967 and the year 1968, years in which no adjustments had been made in salary or only interim adjustments were made.

I should indicate to this committee that the process of bargaining has not gone forward as rapidly as anticipated. Partly this was because it took rather

longer than was anticipated in the legislation to get certification for unions. In fact, some of them have not yet been certified. There are jurisdictional disputes between different groups wanting to represent categories of employees. In some cases negotiations are very tough so that when you sit down at the table it takes months to deal with a wide range of requests on salary and related fringe and other matters, conditions of employment.

This contingency vote has been calculated to reflect as best we are able to what we expect to be the results of these negotiations, having in mind the pattern which is already emerging from what has happened up to date. As you know, these increases have averaged 5½, 6½ and even in some cases 7 per cent annually. I think there is some evidence that the thing is tapering off a little.

I do not think it is any secret, I think the unions know, that the Treasury Board is trying in negotiations to get those rates of increase tapering downward. But, as you know, what happens in the Public Service, if one looks at the major factors that enter into the consideration of what is appropriate adjustment, or, in other words, when the employer has to consider what is a reasonable proposition to put on the table in collective bargaining, you have a good close look at what is happening out in the private sector for comparable groups. I do not believe that the agreements we have entered into go beyond what has taken place in the private sector. I would not want to say that it does not go as far as the private sector, because all that would do is to invite people at the bargaining table to press harder.

But I can tell you that the Treasury Board negotiators behave in as hard-nosed a manner as any negotiators I have seen anywhere in the private sector. So it takes a long time to complete some of these agreements.

**Senator Walker:** This gives moral courage to the bargainners on behalf of the civil servants, this \$105 million set aside in anticipation that their efforts are going to be successful, and that they are going to be paid. It is almost a guideline to increases, is it not?

**Mr. Reisman:** I do not think so, sir. I put it this way, Senator Walker . . .

**Senator Walker:** They are aware of this.

**Mr. Reisman:** The point is precisely that, in handling this in a contingency vote rather than breaking it down to individual departments and agencies, we have kept it rather indeterminate. Had we taken this \$105 million which is our best estimate of what will be required to cover 1968-69 and former period, and had we divided that between the departments and agencies, it would have been a ready-made target for the employee side in the negotiations. They would



have know exactly what to shoot for. But this relates to a rather indeterminate number and a rather indeterminate group, and it reveals very little to the individual bargaining units. The purpose is to do just that. It is not to reveal too much, in that sense.

**Senator Walker:** The result is, then that each group tries to get as big a grab as it can out of the \$105 million.

**The Chairman:** I do not want to cut this off. I just want to let the committee know that I have Senator McLean next on my list and then Senator Everett and then Senator Nichol. Do you wish to continue, Senator Walker?

**Senator Walker:** No, that is fine. I think Mr. Reisman has answered my question.

**Senator McLean:** On page 26 of the supplementary Estimates (B), under the general heading "Loans, Investments and Advances," there is an item under "Fisheries and Forestry," given as Vote L32b. That vote reads as follows:

*Vote L32b*—Loans in the current and subsequent fiscal years and in accordance with terms and conditions to be prescribed by the Governor in Council to assist processors of ground-fish in Canada, which, as determined by the Fisheries Prices Support Board, are unable to obtain sufficient financing on reasonable terms from other sources, to maintain raw fish prices, i.e. prices to primary producers, at the 1966-1968 level . . . \$6,000,000

Now, is this money a loan or is it a grant? Is it a loan which is returned with interest or is it a grant to the processors? What relation has this support to the announcement made last week by the Department of Fisheries with reference to the east coast groundfish industry.

**Mr. Reisman:** This particular \$6 million, as I understand it, sir, is for the purpose of enabling the Fisheries Prices Support Board to go into the market place and to purchase frozen groundfish and to withhold it from the market, with a view to encouraging the price to move upwards to a price that more closely reflects reasonable costs and the situation in the market place as of a year or two ago.

As honourable senators know, there has been rather a bad decline in the price of groundfish—codfish, mainly, codfish fillets—to the detriment of fishermen in eastern Canada and, particularly, in Newfoundland. The Strange situation is that the prices, in the main market for these frozen fillets, at the retail level, have been rising, and rising rather

quickly, and this suggests there is something wrong at the initial marketing end. While Canadian fishermen and processors are getting less for their groundfish than they did two years ago, the retailers are getting considerably more for the same fish. This suggests that the marketing system, whereby a large number of suppliers face in the market place a small number of big buyers, has driven the prices down. I gather that competition from European countries has also been a factor in this, where they had the effect of offering supplies at a time when the buyers would take advantage of it and drive the price down, and then pick up a rather bigger margin in their disposals.

I gather that the Department of Fisheries, after examining the situation and considering how best to help the fishing industry and in choosing between a straight handout, which is a sort of income support to the fishermen, or a system whereby you intervene in the market place by taking some of the supplies off the market at a critical time, from the point of view of the taxpayer and a healthier industry, the judgment was made that it would be better to enter into the market and take off supplies at these critical periods and let the price move back to a more reasonable level, and then reintroduce them into the market.

If all goes well, this \$6 million will be spent for supplies of fish to be injected into the market after the price moves upwards. If that occurs, there will be no loss. If it does not, and the Fisheries Prices Support Board incurs a loss, then in one of the future Estimates items the Department of Fisheries will include an item making up the loss of the Board in the form of a straight appropriation. It is hoped that this money will come back and that there will not be a cost to the taxpayer.

A question was asked as to whether interest would be covered. I am afraid I do not know the answer to that, and I would like to consult my colleagues whether provision is made for the Fisheries Prices Support Board to do some bookkeeping on their rate of interest.

Honourable senators, I believe there is. I believe that when an advance is made to an organization like the Fisheries Prices Support Board it is made on the basis of the cost of borrowing to the Government for medium-term bonds, plus some small charge for administration.

**Senator McLean:** As you know, 90 per cent of the east coast ground fish, frozen, are sold in the United States.

**Mr. Reisman:** That is right, sir.

**Senator McLean:** Unless Norway, Poland, Greenland and Iceland are in accordance with our depart-



ment, then the department could find themselves with a hell of a lot of fish on their hands. I have had talks with the department on that. If they can get to work with them, then, fine; but, if not, the United States buyers can say, "Go ahead and buy your fish." They could buy all the east coast production. \$6 million, to me, looks like a very small amount if they run into trouble.

**Mr. Reisman:** If I might make an additional comment on this, a considerable proportion of the groundfish produced in Canada is handled through processors who are themselves part of an integrated operation, and they have much better control of prices at which these fish trade. A rather smaller proportion are independent processors who must go into the market place and face an arm's length purchase. Therefore, \$6 million would be looked at in relation to that aspect rather than a total production.

A second situation is—and it is quite a fancy game—if you intervene in the right place at the right time, small interventions can have quite significant effects. I agree with you that a good deal will depend on the behaviour of the overseas suppliers.

**Senator McLean:** Thank you.

**Mr. Reisman:** I think there is some evidence they are also unhappy about the price and, in a sense, Canada, in taking this action, is giving a lead. If co-operation is forthcoming, the price advance could be quick and significant. If these people simply take advantage of the fact Canada is withholding, the conclusion will not be as satisfactory.

**Senator McLean:** On the east coast you have three or four very large producers—Booth Bay Fisheries, Gordon-Pew Limited, O'Donnel-Usen Fisheries—and they conduct these fish right to retail in the United States. Probably it does not matter to them what they charge as a book entry in Canada for their fish. That is the point you have to watch. They could sell to the American houses at any price they wanted, because it is only a book entry, because they control the retail end.

**Mr. Reisman:** I hope the Department of Fisheries look at the minutes of this committee meeting and extract some good ideas from them as to how to handle their operation.

**Senator McLean:** I have spoken to them several times already.

**Senator Everett:** I see that under Vote 5b, which Senator Walker mentioned, one of the reasons for treating it that way is to get the expenditure in the fiscal year in which, it will eventually be an expense. The Income Tax Act, as I understand it, does not

permit a business to set up reserves for contingencies. Seeing the Government has now decided to adopt this method of accounting, I hope you will speak to the Minister of Finance and ask him if there will be the same provision made for us poor businessmen!

Going on from there, I hope I do not offend you with a naive question. The loan account, which totals for the year, \$754 million, appears to me to be an authorization which may or may not be used, as opposed to \$10 billion of actual estimates which will be spent. Is there a statement showing the situation at any particular time of the year in respect of those loans. Can we see how much has been expended and how much has been repaid, and where the loan account stands at any particular time? I ask that question while realizing that it may be a naive one.

**Mr. Reisman:** It is a question I should be able to answer. I can say this, that as far as the Treasury Board is concerned we do not publish periodic reports in the course of a year to indicate this state of the loans account or the state of the appropriations account. The final accounting turns up in the Public Accounts, after the event. The Department of Finance does from time to time issue statements as to what is happening in respect to revenues and expenditures, drawing attention to extraordinary developments. Of course, the budget statement of the Minister of Finance—and in recent years there have been more than one a year—contains a fairly full indication of what has been taking place. That information is in the White Paper as well as the budget statement itself. But, whether those releases deal precisely with the point you raise, I am not in a position to say.

**Senator Everett:** The loans authorized are, in effect, an asset on the Canadian Government's balance sheet, and at any one time we should be able to find out which of those loans is outstanding and what the repayment situation is, and how short we are of the total authorization. It seems to me that loans contribute to the inflationary forces. I am just wondering whether it would be worthwhile to give consideration to having an annual statement of the loan account of the Government of Canada.

**Mr. Reisman:** The Public Accounts contains that. The Public Accounts of Canada have the full detail on an annual basis. I thought you were referring to periodic reports during the year.

**Senator Everett:** No.

**Mr. Reisman:** That information can be found in the Public Accounts.

**Senator Everett:** I covered myself by saying that it was probably a naive question.



**Senator Nichol:** I should like to ask Mr. Reisman a general question, following on Senator Beaubien's question as to whether there is any way in which money is ever saved. Of the total governmental expenditures in Canada it is my impression that about one third is federal, and about two-thirds are combined provincial and municipal. My first question is: Is that about right? My second question—and I am not asking you to comment on the control methods or budgetary techniques of other levels of government in Canada—is: Are there figures to show expenditures incurred by the federal government, the provincial governments and the municipal governments, and if so, how do they relate? If those figures are available, how does the federal government's performance compare with that of other jurisdictions in terms of its control of rising costs? I ask this question in a very broad sense.

**Mr. Reisman:** On your question, sir, as to whether this proportion of one third to two thirds is about right, I suppose what can be said is that this has been a shifting picture over the course of the last fifty years. I think if you go back over that period you will find that the federal budget was a much higher proportion of the total than it is today. I suspect what has been happening is that the fields of responsibility which are essentially provincial and municipal and municipal have been regarded by the elected representatives of the people at all levels of government as more urgent, namely, education, health and highways, which have been taking increasing amounts of the total pie. I think this explains the shift. If I were asked to make a guess I would expect that that shift will continue, with the provinces and municipalities expending an increasing proportion of the total as time goes by.

In reply to your question as to how we are doing when compared with other levels of government, I would say that we are doing better.

**Senator Nichol:** That is why I asked that question.

**Mr. Reisman:** We are doing better, I think, in terms of the annual rates of increase. I think if you look back over the last number of years, or over the past decade, you will see that there seems to have been a more effective restraint at the federal level than at the other levels of government in the rates of annual increase of public expenditures. There may be very good reasons for this, and in making that comment and using the term "better" I did not mean it in the sense of more approbrium . . .

**Senator Nichol:** I am speaking of performance statistically, and not morally.

**Mr. Reisman:** Yes, statistically.

**Senator Grosart:** Mr. Chairman, with your permission, I would like to put on the record the specific items in the supplementary estimates which ask for authority to do something, notwithstanding the provisions of some other act. On my reading they are as follows:

Page	Department	Vote
6	External Affairs	1b
7	External Affairs	15b
10	Indian Affairs	5b
21	Transport	57b
21	Transport	60b
26	Finance	L27b
27	Indian Affairs	L35b

Then, here are the authorizations requested to extend the purpose of present acts:

Page	Department	Vote
13	Manpower and Immigration	15b
19	Supply and Services	15b
23	Transport	5b
24	Treasury Board	10b
25	Veterans Affairs	30b
27	National Revenue	L83b

It is my hope that some time in our deliberations, we will come back to a discussion of those, but I put them on the record at this time because you, Mr. Chairman, did ask the question originally as to what authorizations there were requested here that in effect amend or set aside the provisions of existing statutes.

I should like also to ask Mr. Reisman about the request at several places in the supplementaries for the authorization of a revolving fund. I think I know the purpose of that. Is it correct to say that this is an authorization requested for an exemption from the general provision that funds appropriated under any vote must be returned to the Receiver General if they are not expended by the end of the fiscal year? Whether that is so or not, under the new look of the Estimates is it contemplated to allow every department a revolving fund to get over what I have said may be a problem in that anybody seeking a grant of money from a department is quite often told to get the request in at about the end of the eleventh month because the department may have some money left over, and that is when there is the best chance of getting some? In view of that I am wondering whether it would not be wise to allow each department a minimum revolving fund.

**Mr. Reisman:** Well, sir, the question really is whether the revolving fund is a technique for getting around the lapses of voted items. We are using re-



volving funds increasingly. I think you are correct, senator, in referring to the fact that this is a method which we see more of now than we used to, but I would like it to be very clear why in the mind of the Treasury Board the revolving fund system is one that is worth using in some circumstances.

We encourage the use of revolving funds only in respect of those activities which are designed to pay for themselves or where the Treasury Board is encouraging the departments to run those activities on a self-financing basis. A good example of this is the Passport Division of the Department of External Affairs. In the past they would seek an appropriation to pay for the staff, equipment and whatever else they needed, and this would show up as an expenditure. Whatever fees they obtained from the issuance of passports would then be handed in to the Receiver General of Canada and would turn up in the Consolidated Revenue Fund. Well, for some years we have been encouraging the Department of External Affairs—and we finally brought it to a head this last year—to realize the desirability of running the Passport Office the way a business is run. What does it cost to handle that operation and what is a reasonable fee to be charged for the issuance of passports? After all, why should the taxpayer generally pay for people who want passports in order to travel? Let us handle this on the basis of the people that want that service to pay for it on a reasonable basis.

This has, in fact, been done and in order to have that operate as a good clean business operation they are given a revolving fund and are permitted to make inputs into it in terms of their sales and in terms of their services, and withdraw from it to pay for personnel, rent and other things that they need in order to render the service. There will be an accounting, and this will be revealed. Hopefully, the Estimates will be defined in such a way that the public at large and Parliament in particular will know what is happening in respect to that service. Are you losing money, are you making money, are you operating efficiently, and so on, and this is what the revolving will do.

**Senator Everett:** Where will the accounting appear when the fund is made up again?

**Mr. Reisman:** We are proposing that in the annual Estimates there will be sections dealing with these revolving funds for which there will be a balance sheet, as well as a profit and loss, and the works, so you will know exactly what is happening in respect to it. There are many other instances where this sort of system can be applied.

We are having discussions with the Department of Energy, Mines and Resources in respect of their mapping service, where they produce maps and make them available to the public or to industries who need them. We have encouraged them to handle that on a

user-charge basis and not make this a charge against the taxpayer. That is really the purpose of the revolving fund, and it is not to try to avoid lapses.

On lapses, traditionally, the figure of lapsing year over year has been in the order of about 2 per cent. This is an interesting point, because one might have expected that in periods of financial stringency, where departments and agencies are being pressed very firmly, the lapsing might have declined, but we find that there has been a pattern where roughly 2 per cent has been maintained.

**Senator Walker:** The principle, again, is that Parliament should control the purse strings. You have to be very careful in extending.

**Senator Grosart:** How would that principle apply to Vote L83b, which is on page 27, "National Revenue". Do they sell uniforms?

**Mr. Reisman:** That is a type of revolving fund that relates to the bulk purchase of stores. It is not the kind of revolving fund where they hope or expect to balance their books. It is to ease administratively the problem of that department in respect of the purchase of the material it requires to handle this operation.

**Senator Grosart:** This is a separate type of category of revolving fund.

**Mr. Reisman:** Yes.

**Senator Phillips (Rigaud):** Mr. Reisman, I am warning you as a lawyer that I am about to put a leading question to you. As an employer in terms of the Treasury Board, would you like to tell us whether the Treasury Board ever feels the twinge of conscience because it is bound to fiscal policies and they are greatly responsible to the inflationary trend in this country?

**Senator Walker:** Tell him that is a good question.

**Mr. Reisman:** I want to tell you, sir, my staff and I lose a lot of sleep, but not because of pangs of conscience, but only because there are times we feel perhaps we have not been as successful as we ought to be; however, we do try.

**The Chairman:** I come back to Senator Grosart's questions in which he outlined certain items. It was my thought that as there is a possibility the Appropriation Bill based on these supplementary Estimates might reach the Senate before we had another meeting of the committee, that in some way we should report to the Senate on these Estimates. Consequently, I am wondering how we should deal with what you have in mind, Senator Grosart, about these particular items to which you have referred. Do you wish to leave it that Mr. Reisman will supply us with



an explanation of those items you mentioned or do you wish to simply leave it that we speak on the Appropriation Bill in connection with them? I would like to see us report if we can today that we have examined, pursuant to the order of the Senate, these Estimates and commend them to the Senate or whatever you wish to say in connection with them.

**Senator Grosart:** I have two answers, Mr. Chairman. One is that if in the wisdom of the steering committee it is useful to draw the attention of the Senate to these particular items merely by naming them, I would be very happy.

**Senator Walker:** To do what?

**Senator Grosart:** To have them included, just the statement that there are these "notwithstanding items" and these authorizations to extend the purposes of acts. I say in your wisdom if you think it is important enough to include them in the report of the committee—

**The Chairman:** We should do more than we have done so far. We should have the explanation of these items given to us by the Treasury Board; otherwise, we are making a statement and leaving it still in the air. I would suggest that we would ask Mr. Reisman to furnish us with a written explanation of each of those items, and our report would indicate that we called attention to them and received an explanation from the Treasury Board, and then the adequacy of the explanation could be dealt with in any debate on that report or on the Appropriation Bill.

**Senator Grosart:** I would agree entirely. I was drawing attention to these matters and my original suggestion was that in future, if it is feasible, we should have these explanations in advance.

**The Chairman:** May we then count on getting something from the Treasury Board at your early convenience dealing with those particular items that Senator Grosart called attention to?

**Mr. Reisman:** Yes, sir, we will do that and submit it as quickly as we can.

**Senator Phillips (Rigaud):** May I put a question on behalf of Senator Gélinas who had to leave? Would you be good enough to turn to page 8, Vote 46b, with respect to the Exchange Fund Account, \$553,393. Senator Gélinas would be interested in knowing, Mr. Reisman, why there appears such a delay between the time of the loss and the time of its appearing before Parliament now, in that it would be likely that the amount of loss would be clearly established.

**Mr. Reisman:** I am sure I have an explanation here, sir, which I will read to you as soon as I find it.

**The Chairman:** While you are looking that up, Mr. Reisman, perhaps Senator Bourque might ask his question.

**Senator Bourque:** My question is in relation to Vote 6b at the bottom of page 23. While the item there is only concerned with \$1,614,637, it does form part of the total \$7,267,768.60. My main question concerns page 24 where it says that debts due to Her Majesty are to be written off as a charge to expenditure. If I understand that correctly, that is a book entry.

**The Chairman:** We will get the answer to that when Mr. Reisman is ready to deal with it.

**Mr. Reisman:** May I read this explanation to Senator Phillips (Rigaud) now, sir? I am not sure it will answer precisely your question but it will throw some light on it. This amount is required to restore the surplus account in the Exchange Fund at the end of 1966 to the level of \$30,300,000 established by the Minister of Finance with the concurrence of the Public Accounts Committee. The 1964 profits of \$1,449,000 and 1965 profits of \$1,406,000 were transferred to the Consolidated Revenue Fund during 1966. A loss of \$533,000 was incurred which brought the account below the agreed level. The purpose of this is to restore the account.

**Senator Phillips (Rigaud):** I understand. Thank you very much.

**Senator Beaubien:** You do not need to restore it, if there is a profit, in other words.

**Mr. Reisman:** That is right, sir.

**The Chairman:** I do not know if you were able to catch Senator Bourque's question.

**Senator Bourque:** I would simply direct Mr. Reisman's attention to page 24, Mr. Chairman.

**The Chairman:** Yes. Really, the question was whether these were just book items.

**Senator Bourque:** It refers to debts due to Her Majesty needing to be written off as a charge to expenditure. I believe those are book entries which total \$1,614,636.17.

**Mr. Reisman:** The explanation I have, sir, is that Parliamentary authority is required to write off these debts and claims because the Government is limited to deletion of amounts of \$1,000 each under Section 23 of the Financial Administration Act. The first category in this vote consists of debts due to the Crown, and, since these items were originally authorized as loans,



the amounts written off must be shown as budgetary charges. They total approximately \$1,614,000 and they comprise a list of various items. Essentially, these are losses, and because they are losses in respect of items which originally appeared as investments, you need an appropriation to cover them. If a loss is a very small figure, under \$1,000, there is provision in the Financial Administration Act to wipe such a loss off the books without seeking special Parliamentary authority. But where a loss exceeds that figure, you need Parliamentary authority to indicate that a loss has been incurred and that it is wiped off the books.

**Senator Bourque:** What do you have to say as to item (b) "Claims by Her Majesty to be written off that have not been carried in the Statement of Assets and Liabilities"? These are actual debts that were not paid to the Government, I understand. Is that right?

**Mr. Reisman:** That is right.

**Senator Bourque:** It seems to me that with respect to national revenue, customs and excise, the sum of \$1,547,748 is rather large when you consider that it averages out to approximately \$5,840 per case. Perhaps there is one case of \$100,000 and another one of \$1,200, but when you consider that the average is \$5,840, it seems quite high to me. And then, if you look at national revenue, taxation, totalling \$3,918,070.37, the average there is \$8,706.

**Mr. Reisman:** Yes?

**Senator Bourque:** That seems a very high amount that we are losing there. There should be some way of putting an end to that, because it seems that when we have items of \$8,706, it seems high. Generally the income tax division is very much on the job. It seems to me that that is a big loss. That is what it averages to. It may be a few dollars more or less.

**The Chairman:** I think the question that arises here, Senator Bourque, is what is the situation with respect to disclosure of the particular items of the debts or claims as distinct from the aggregate amounts. This I do not know and I do not know whether Mr. Reisman does.

**Mr. Reisman:** I can provide a little bit of detail, but you know there are a vast number of these cases. Let me give you a few indications of what is involved here. Let us look at the Department of National Revenue, taxation. Deceased, no estate, 37 cases running to \$316,000. Untraceable—they cannot locate the party who has the obligation, 94 cases running to \$284,000. Indigent—they just have not got anything, 51 cases running to \$357,000. No longer residing in Canada, 35 cases running to \$366,000. Corporations inoperative and without any assets, 151 cases running to \$2,053,000. Undis-

charged bankrupt corporation, no assets and trustee discharged, 82 cases running to \$540,000.

Included in the above table are two cases each exceeding \$200,000, on which further details are attached and which I can give you if you care to hear them.

So you see that in the business of collecting taxes in either the Income Tax Department or the Customs and Excise Department, there are just thousands of cases where there is a very hard time collecting, and these are the reasons why these are being written off.

**Senator Bourque:** Considering the number of cases and the average amount, it did seem rather high; but when you get the explanation, it does alter the situation a bit.

**Senator Phillips (Rigaud):** Does that mean that the Department of National Revenue works on an accrual basis and that issuance of assessments are on an accounts receivable basis as distinguished from being on a cash basis, when it issues assessments?

**Mr. Reisman:** No. I asked my staff that very question at the last meeting of the Treasury Board, and I will admit to you that I did not get a full answer. The answer, sir, as I understand it, is it does not; that is, that when an assessment is issued it does not become an account receivable to the credit of the Receiver General. That does not become a Receiver General account receivable until an assessment has been made and obligation accepted and arrangements made for payment over a period.

**Senator Phillips (Rigaud):** But the law provides that the issuance of an assessment constitutes a liability in law against the taxpayer, and that interest accrues from the time of the issuance of the assessment. You can only have a write-off of an account receivable on the assumption that there is such a debt. The position is contradictory. The Income Tax Act says quite the contrary, that the issuance of the assessment constitutes a debt.

**Mr. Reisman:** The nature of the question, Mr. Chairman, indicates that obviously the honourable senator knows much more about that than I do, so I will beg off. What we will try to do is to get an answer for you from the experts and submit it to you in writing.

**Senator Phillips (Rigaud):** I would like to suggest clearly that in the treatment of the supplementary Estimates there is a variation, I think, on a strict point of law, having regard to the Income Tax Act.

**Mr. Reisman:** We will have a look at that, sir.



**Senator Everett:** This is a supplementary question Mr. Chairman. Is it possible to obtain a list of the claims written off by the Department of National Revenue which exceeded \$100,000, and the reasons for those claims being written off?

I know that information regarding personal or corporate taxation is privileged. However, I wonder if the details of written-off claims are still privileged under the Act?

**Mr. Reisman:** I take it that you would like to have information, if it is not privileged, in respect of the name of the company or the individual, or simply a sort of summary?

**Senator Everett:** I thought it would be interesting to consider all amounts above \$100,000, to see what went wrong and what happened to create these losses. As I recall, there was one claim in the hundreds of thousands. I cannot remember exactly how much it was, but it was a rather substantial claim and there were, perhaps, half a dozen over \$100,000.

**Mr. Reisman:** We will inquire into it.

It may be that in cases of this kind you might want to have before you even the minister or officials from the Department of National Revenue, but we will have a look at it and provide some kind of answer—either that in the view of the department it is privileged, or, if it is not, where and how you could obtain that information.

**Senator Grosart:** May I make one observation? It will be interesting, if that information is made available, to have a description of the reasons. For example, I think the one Senator Everett is referring to was a bankruptcy. It will be interesting to have the reasons why they were written off.

**Mr. Reisman:** Very well.

**The Chairman:** Is it in order, as far as the committee is concerned, then—in anticipation of the fact we may not have further meeting of the committee before the Appropriation Bill based on these estimates reaches the Senate—to report to the Senate that the committee has considered the bill, that we call the attention of the Senate to certain items in which references were made to statutes, by way either of exemption from statutes or amendments of statutes, and that we would ask for and obtain explanations in connection with those items? Is it agreed that should be the substance of our report to the Senate? Is that agreeable, or have you any other suggestions?

**Hon. Senators:** Agreed.

**The Chairman:** That still leaves us, on that basis, with the main Estimates for 1969-70 which we have

not yet touched, and unless some committee member is anxious to get on with that now, I would suggest we leave them to our next meeting. In that connection, normally we would meet next Thursday and normally, if we were starting with our consideration of these Estimates, we would have Mr. Reisman or officials of Treasury Board before us. However, it so happens that we are in conflict with ourselves in that connection. The Science Policy Committee has arranged for Mr. Reisman to appear before it next Thursday, so Mr. Reisman can hardly be in two places at one time. Following up the suggestion made by Senator Beaubien (Bedford) in the chamber the other night that we should be looking into not only the Estimates themselves, but also into the economic effects of the expenditures represented by the Estimates, not only from the standpoint of pressure on prices and costs, but also from the standpoint of the level of taxation and the matter Senator Nichol raised, the question of the increase in expenditures relative to the other Government bodies in Canada and the general level of taxation resulting therefrom in Canada, with some relationship to the levels of taxation in other countries, I can only say that at the moment I am in touch with potential witnesses who might be helpful to us in that connection, and I will try to arrange for them to come before us in due course.

**Senator Beaubien:** Should I make a motion on this, Mr. Chairman?

**The Chairman:** Just as you like.

**Senator Beaubien:** I would like to move that the committee make a further study of the level of taxation in the States of New York, Massachusetts, Illinois and California, and also that it be empowered to look into any relevant figures which are published by the Organization for Economic Co-operation and Development, so that we can have a chance to compare their tax burden to our own.

Should I add something about calling witnesses and sitting during adjournments of the Senate, Mr. Chairman?

**The Chairman:** No, you do not need to do that. We have the power to call witnesses, and so on.

The only thing that is bothering me is what kind of evidence we would get with respect to the states, because that would then involve municipal expenditures in the states. You mentioned New York State. Do you have in mind that we would have to consider the municipal expenditures?

**Senator Beaubien:** I thought we should confine ourselves more to federal and state taxation. If you go into municipal taxation, it is so terribly complex that I think we should only look at the state and federal taxation.



**The Chairman:** That is why I raised the question. Committee can obtain, and having it brought before the committee in due course.

**Senator Beaubien:** We would only get a partial answer, but if we go to a level of what cities charge for water—I do not think we need that.

**Hon. Senators:** Agreed.

**The Chairman:** We will follow up on that by seeing what information the Chairman and the Steering

Is there any other business to come before the meeting before we adjourn? If not, I will thank Mr. Reisman, Mr. Glashan and Mr. Berger again for their co-operation. We shall look forward to having them back with us at some future time.

The committee adjourned.

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First Session—Twenty-eighth Parliament  
February 12th, 1969: Senate, Wednesday,  
1968-69

# THE SENATE OF CANADA

PROCEEDINGS  
OF THE  
SENATE COMMITTEE

ON  
NATIONAL FINANCE

The Honourable T. D'ARCY LEONARD, *Chairman*

No. 5

THURSDAY, MARCH 6th, 1969

*Complete Proceedings on Revised Supplementary Estimates (B),  
laid before Parliament for the fiscal year ending March 31st, 1969.*

*and*

*First Proceedings on the Estimates laid before Parliament for  
the fiscal year ending March 31st, 1970.*

#### WITNESSES:

*Treasury Board: S. Cloutier, Assistant Secretary.*

#### APPENDIX:

"A"—Explanation of one (\$1) items and legislative items contained  
in Supplementary Estimates (B), 1968-69.

#### REPORT OF THE COMMITTEE

THE QUEEN'S PRINTER, OTTAWA, 1969



First Session—Twenty-eighth Parliament  
1983-84

THE SENATE OF CANADA  
THE SENATE COMMITTEE ON  
NATIONAL FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

- |   |   |
|---|---|
| Beaubien                                  | Leonard                                   |
| Benidickson                               | MacDonald ( <i>Queens</i> )               |
| Bourget                                   | *Martin                                   |
| Bourque                                   | Methot                                    |
| Desruisseaux                              | Molson                                    |
| Dessureault                               | McDonald                                  |
| Everett                                   | McLean                                    |
| *Flynn                                    | Nichol                                    |
| Fournier ( <i>Madawaska-Restigouche</i> ) | Paterson                                  |
| Gelinas                                   | Pearson                                   |
| Grosart                                   | Phillips ( <i>Rigaud</i> )                |
| Hays                                      | Phillips ( <i>Prince</i> )                |
| Isnor                                     | O'Leary ( <i>Antigonish-Guysborough</i> ) |
| Irvine                                    | O'Leary ( <i>Carleton</i> )               |
| Kinley                                    | Sparrow                                   |
| Laird                                     | Walker—(30)                               |

\**Ex officio* members: Flynn and Martin

(Quorum 7)

WITNESSES:

Treasury Board, S. Cloutier, Assistant Secretary

APPENDIX:

"A"—Explanation of one (\$1) items and legislative items contained in Supplementary Estimates (B), 1983-84.

REPORT OF THE COMMITTEE



MINUTE ORDERS OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, February 12th, 1969:

“With leave of the Senate,

The Honourable Senator McDonald, moved, seconded by the Honourable Senator Langlois:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, in advance of Bills based upon the said Estimates reaching the Senate; and

That the Committee have power to engage the services of such counsel and technical, clerical and other personnel as may be necessary for the purpose of the inquiry; and

That the Committee have power to sit during adjournments of the Senate.

The question being put on the motion, it was—

Resolved in the affirmative.”

Extract from the Minutes of the Proceedings of the Senate, Wednesday, March 5th, 1969:

“With leave of the Senate,

The Honourable Senator Martin, P.C., moved, seconded by the Honourable Senator McDonald:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures set out in the Revised Supplementary Estimate (B) laid before Parliament for the fiscal year ending 31st March, 1969.

The question being put on the motion, it was—

Resolved in the affirmative.”

ROBERT FORTIER,  
*Clerk of the Senate.*

Frank A. Jackson,  
*Clerk of the Committee.*





## MINUTES OF PROCEEDINGS

THURSDAY, March 6th, 1969.

(8)

At 11.00 a.m. this day the Senate Committee on National Finance met to consider the Revised Supplementary Estimate (B), laid before Parliament for the fiscal year ending March 31st, 1969, and the Estimates laid before Parliament for the fiscal year ending March 31st, 1970.

*Present:* The Honourable Senators Leonard (*Chairman*), Beaubien, Bourque, Desruisseaux, Gélinas, Grosart, Isnor, Irvine, Laird, MacDonald (*Queens*), McDonald, McLean, Pearson, Phillips (*Rigaud*), O'Leary (*Anti-gonish-Guysborough*) and Walker. (16).

*Present, but not of the Committee:* The Honourable Senators Argue, Haig and Macdonald (*Cape Breton*). (3)

After discussion, it was agreed that the Honourable Senator Phillips (*Rigaud*) be appointed a member of the Steering Committee and that he be *Acting Chairman* during the absence of the Chairman.

Upon motion of the Honourable Senator Beaubien, it was Resolved that the Chairman have power to engage a research assistant and to set the terms of his duties and remuneration.

Revised Supplementary Estimate (B), was considered.

After explanation by the witness, and upon motion, it was *Resolved* to report on the said Supplementary Estimates.

*NOTE:* The full text appears in the Report of the Committee immediately following these Minutes.

The Committee then proceeded to the examination of the Estimates, 1969-70.

The Chairman informed the Committee that Dr. George F. Davidson, President of the C.B.C. would be the witness at the next meeting.

At 12.20 p.m. the Committee adjourned until Thursday, March 13th, 1969, at 9.30 a.m.

ATTEST:

Frank A. Jackson,  
*Clerk of the Committee.*

REPORT OF THE COMMITTEE

THURSDAY, March 6th, 1969.

By Orders of the Senate respectively made on Tuesday, February 25th, 1969, and Wednesday, March 5th, 1969, the Senate Committee on National Finance was directed to examine and report upon the expenditures set out in the Supplementary Estimates "B" and Revised Supplementary Estimate "B", laid before Parliament for the fiscal year ending March 31st, 1969.

Your Committee has examined the said Supplementary Estimates "B" and Revised Supplementary Estimate "B", and heard evidence from the Secretary of the Treasury Board and members of his staff thereon and reports as follows:

1. These are the fiscal Estimates for the fiscal year 1968-69 and bring the total of all Estimates for the year to the sum of \$10,822,797,126 and the total of all Loans, Investments, and Advances to \$754,918,126.
2. Your Committee has noted with approval that for the current year the Supplementary Estimates, in number or in total amount, have been less than for many years. This is a step in the right direction which we hope will be maintained in the years to come.
3. The said Supplementary Estimates "B" contained over forty (40) items of one dollar (\$1) each, and your Committee asked for explanations of these items individually. The explanations have been received from which it appears that these items fall into three categories;
  - (a) Items authorizing transfers within Votes previously approved by Parliament.
  - (b) Items authorizing transfers from Votes previously approved by Parliament.
  - (c) Items which are legislative in nature.

While the Committee has not approved of the general practice involved in these one dollar (\$1) items, and particularly of those involving statutory amendments, it accepted the explanations with respect to such individual items contained in the said Supplementary Estimates "B" and Revised Supplementary Estimate "B". These explanations will be appended to the printed proceedings of the Committee.

All which is respectfully submitted.

T. D'ARCY LEONARD,  
Chairman.



## THE SENATE COMMITTEE ON NATIONAL FINANCE

### EVIDENCE

Ottawa, Thursday, March 6, 1969

The Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, met this day at 11 a.m.

**Senator T. D'Arcy Leonard (Chairman)** in the Chair.

**The Chairman:** Before we proceed with the main business of today's meeting there are some housekeeping items to be dealt with. First, Senator Donald Smith was for many years on the old Finance Committee—and its steering committee. I would suggest that Senator Lazarus Phillips might take his place on the steering committee, if that is agreeable.

**Hon. Senators:** Agreed.

**The Chairman:** The second matter is that I shall be away for the next three meetings. I have taken the liberty of asking Senator Phillips (Rigaud) if he would be acting chairman in my absence, and I would ask the committee if they will endorse that invitation.

**Hon. Senators:** Agreed.

**The Chairman:** Thank you very much, and thank you very much, Senator Phillips, for agreeing to do so.

Over a period of time I have been considering whether we should not have a research assistant for this committee. With the additional work we are doing and with the suggestion agreed to last week, put forth by Senator Louis Beaubien, we are engaged in a study of the level of taxation and I think it becomes more important that we have a research assistant. I have been making some investigations and inquiries, and I think we may very well have somebody in mind. In view of the fact that I shall be absent I should like to be able to complete the definitive terms with somebody before I go away. This may require you giving me something in the order of a blank cheque, but I should like you, if you are willing to do so, to authorize the engaging

of a research assistant for the committee on terms to be settled by the chairman of the committee.

**Senator Beaubien:** I so move.

**Hon. Senators:** Agreed.

**The Chairman:** Is there any discussion? It will not be for too long a period of time, but as long as we are engaged on these special studies I think we must have somebody to work with us. If there is no discussion on this, is it your pleasure to adopt the motion?

**Hon. Senators:** Agreed.

**The Chairman:** Last week we agreed on a report to the Senate dealing with Supplementary Estimates (B). There was some wording to be put in dealing with the dollar items at the suggestion of Senator Grosart. The report would have gone in before now with this kind of wording, the rest of the report dealing simply with the figures:

The said Supplementary Estimates (B) contained over 40 items of \$1 each, and your committee asked for explanations of these items individually. The explanations have been received...

and actually they are on the table here now, for each individual \$1 item...

from which it appears that these items fall into three categories:

(a) Items authorizing the transfers within Votes previously approved by Parliament.

(b) Items authorizing transfers from Votes previously approved by Parliament.

(c) Items which are legislative in nature. While the committee has not approved of the general practice involved in these dollar items, and particularly of those involving statutory amendments, it accepted the explanations with respect to such individual items contained in the said Supplementary Estimates (B).



This was the form of the report as drafted. The report was held up because there was filed an amendment to Supplementary Estimates (B), Vote 12b, under the heading of "Labour Standards and Benefits." Vote 12b as it read in Supplementary Estimates provided for certain payments of compensation

to employees of the Cape Breton Development Corporation who incurred silicosis as a result of employment in the coal mines now operated by the Corporation prior to their acquisition, as if the injury were incurred subsequent to their acquisition by the Corporation.

The revision of that, which came in this week, uses after the word "Corporation" the words "and other persons". That is the change that has been made this week. It does not seem to affect particularly the principles set out in the item. The amount is estimated to be of the order of a liability of about \$1 million spread over whatever period of time may be required for compensation payments. It relates, of course, to the taking over of DOSCO, and the principle was the same as in the time as it came before us last week. It may be, however, that some further explanation of this item should be required before we put in this report, because yesterday the Senate referred the Revised Estimate (B) to us. Perhaps Mr. Cloutier would wish to add something on this.

**Mr. S. Cloutier, Assistant Secretary, Treasury Board:** Subsequent to the preparation and tabling of Supplementary Estimate (B) it became evident that the people who were meant to be covered by this vote were not all at present employees of DREVO. The number of persons affected by silicosis was 81, and there are now only 16, I believe, who are still employees of DOSCO; the other 65 are no longer employees of DOSCO, but they did contract silicosis while employed in the mines previously owned and operated by DOSCO, so the authorities required to allow payments to be made to all these 81 persons under the Government Employees Compensation Act.

**Senator Grosart:** I should like to make two comments. One is on the report. I wonder, Mr. Chairman, if you would think it wise to put in the two words "as factual" after "accepted", in the statement that we have accepted the explanation of the \$1 items. There seems to be a contradiction between the qualifier which you used and the word "accepted". I should like to say "accepted as factual" not "accepted the principle".

**The Chairman:** I am in the hands of the committee. The point in my mind is that it may well be we do not think it right as a general practice to have statutory amendments made through the use of Supplementary Estimates, but when we have examined into a particular item and are satisfied it is a proper thing to do, then we should say that, or else we should say we do not think it is a proper thing to do.

That is why I say we still have our reservations about the general principle about putting any statutory amendments through, but having, for example, in this one we are dealing with at the very moment. If that explanation is not satisfactory we should perhaps do something more about it, but the bill will be in this afternoon. We either have to vote for the bill in continuing that item or we have to say we are against it. I think as far as the items are concerned themselves, we should take a stand, either we accept them or we do not accept them.

**Senator Grosart:** Mr. Chairman, as a member of the committee I am in a difficult position of not having seen the explanations of the \$1 items. It is a little difficult to say that I accept the explanations when I have not seen them.

**The Chairman:** I understood the decision last week was that we were not going to go into all the 50-odd items. We were expressing ourselves that this was something we still did not like in principle, but if we have to go into every individual item—the witnesses were there and they are still here.

**Senator Beaubien:** Mr. Chairman, if Senator Grosart could have the little black book with the explanations it might assist him.

**The Chairman:** He can have them all. He is also quite free to speak on the report and express his own views. I think we should in some way or another register some opinion on this.

**Senator Grosart:** I think you have rendered an opinion, Mr. Chairman, and I am not objecting to that, but the reason I suggested we have these explanations was just to avoid going through all 50 in committee, seriatim, one after the other. I selected a group which we put on our record and I asked to have explanations.

Now, perhaps we could have the explanations appended to our proceedings.



**The Chairman:** I think that is a satisfactory solution to it. Is it agreeable to have these explanations attached to the proceedings of this meeting?

**Hon. Senators:** Agreed.

**The Chairman:** It simply says that we have accepted the explanations, and are not pursuing it further.

**Senator Grosart:** I am prepared to accept that, Mr. Chairman. The reason I raised the question is the fact that we have raised it in this committee over the years. It has at last got some action in the Commons. They are discussing the matter and I think this committee is entitled to credit for the fact that we have drawn attention to this. In the committee's last report and again in this report I think we have accomplished something if we have stirred up the Public Service to examine this device. Perhaps I could comment in the same...

**The Chairman:** Perhaps. Let me just then try and finalize this. Would you like, in addition to our appending the explanations to the minutes of today's proceedings, state that in the order we accepted the explanations which have been attached to the minutes of our proceedings? Is that agreeable?

**Senator Grosart:** Mr. Chairman, I would like to speak to vote 12b. I agree of course with the principle and what 12b will do. However, we have the wording "to authorize in the current and subsequent fiscal years payment," and so on. Here we are, I think, amending an act for subsequent years. I wonder how long this supplementary item would continue to be the authorization for Government action. Here is an example. Perhaps I could call the attention of the committee to the *Canada Gazette*, Part II of February 26, 1969. There is a reference to an Appropriation Act No. 5, 1955. Leaving out the formalities, it is as follows:

His Excellency the Governor General in Council, on the recommendation of the Minister of Fisheries, pursuant to Vote 540 of Appropriation Act No. 5, 1955, is pleased hereby—

So here is a case where we have exactly the same kind of appropriation item. In this case, carrying on for 14 years as the authority. In the meantime, no amendment to the Act and no amendment to regularize this other than to

carry on year after year. Now, this item is exactly the same. I will ask Mr. Cloutier if he thinks this is a good principle.

Secondly, should, in a case like this, the Act not be amended in the regular way to incorporate what is in effect an amendment in an appropriation act 14 years ago?

**Mr. Cloutier:** Mr. Chairman, it is my understanding that the Revised Statutes of Canada, when they are revised, would bring into the main bodies of the statutes these various amendments that are approved by Parliament through the \$1 votes.

On the other hand, I am not in a position to assure the committee that this is the case in every instance. The basis on which these \$1 items are put into the Estimates are that they do not change the substance or the principle or the objective of the legislation itself. They merely extend its application to individual cases or, in other instances, they raise limits that have been placed in prior legislation. They are put to Parliament in the form of \$1 items for those two reasons, and also because the only other way would be to have them come to Parliament in the form of separate bills, thereby requiring on the both sides of Parliament three readings and individual treatment, and so on.

With the rather heavy schedule of legislation now before Parliament this, in a way, is a procedure to obtain parliamentary approval through a more streamlined approach which makes smaller claims upon parliamentary time.

**Senator Grosart:** I agree with that. I am not objecting to all \$1 items. I return to my question as to whether, in the period of 14 years, there was not time to have dealt with this, in this particular case, Appropriation Act No. 5, 1955. If there was not time, should not there have been the will or the effort to have the amendment made so it does not run on for 14 years on this basis? I am not a lawyer, but I wonder what the position a lawyer would be if a client came and asked him, if certain people were eligible under the act and he looked up the act and said no.

**Mr. Cloutier:** I can only agree it is certainly untidy to leave the situation for 14 years, and that a preferable approach would be to have a separate amendment to the Act itself. As I have indicated, it is a question of time.

**The Chairman:** Is that particular item in our 1969-70 Estimates? I wonder if we could make special reference to it?



**Senator Grosart:** My reference was to an order in council published, as it is required to be, in Part II of the *Canada Gazette*.

**The Chairman:** It is not actually right in our Estimates?

**Senator Grosart:** I was using it as an example of a parallel case to vote 12b.

**The Chairman:** Honourable senators, is it agreed that we have finished with Revised Supplementary Estimate (B) on the basis that we have discussed the report and the amendments made to it? Is that agreeable? Are there any further comments on Revised Supplementary Estimate (B)?

**Hon. Senators:** Agreed.

**The Chairman:** Honourable senators, we proceed now to the main Estimates of 1969-70. This is our first examination of those Estimates in this committee. We have with us Mr. S. Cloutier, Assistant Secretary of the Treasury Board and Mr. J. G. Glashan is with us again. I presume you would wish that we hear Mr. Cloutier's statement now and proceed in the usual fashion then.

**Hon. Senators:** Agreed.

**Mr. Cloutier:** Mr. Chairman and honourable senators:

The budgetary Estimates for 1969-70 total \$11,858 million. Normal lapsing would bring expenditures based on these Estimates down to something below the \$11,670 million figure projected by the Minister of Finance in his Budget Speech last October. The 1969-70 budgetary Estimates of \$11,858 million compare with total 1968-69 Estimates of \$10,823 million. The increase between years is, therefore, \$1,029 million. Of this increase, approximately \$860 million relate to statutory items and the balance, about \$170 million, to items requiring annual appropriations.

It should be recalled that the Minister of Finance has mentioned on several occasions that expenditures could easily vary from the projection of \$11,670 million by about 1% either way. In this connection I should point out that while these Estimates were being printed, the provincial Governments were asked to provide us with more up-to-date forecasts of their expenditures under the Canada Assistance Plan, the Hospital Insurance and Diagnostic Services Act, and for Post-secondary Education. These latest forecasts confirm

the validity of the total amount included in the Estimates tabled today for these programs. It is not possible for me to be more definite in this report since not all provincial treasurers have presented their own 1969-70 Estimates to their legislatures.

There may be a need, as in the past, for supplementary estimates in the course of the year to meet urgent and unforeseen requirements. As the President of the Treasury Board stated when he tabled the main Estimates for 1969-70 in the House of Commons, the Government is determined that such supplementary estimates, if any, will be kept to a minimum and held to figures consistent with the declared objective of a balanced budget.

The Estimates make provision for the expenditures required under programs for which statutory authority has already been granted by specific Acts of Parliament, such as the large programs mentioned earlier as well as Medicare and public debt charges, or resulting from formal agreements with the provinces such as those relating to occupational training of adults and regional development. It should be noted that in respect of Medicare, as indicated in the Budget Speech, provision has been made on the basis of participation by all the provinces for the full year.

Apart from these outlays, which are not readily manageable in the short term at least, the Estimates for 1969-70 provide the required funds for the Government to carry out its current defence commitments, and reflect the decision of the Government to give priority to a number of specific areas of activity within an overall framework of budgetary restraint.

Increased allocations have been made to programs for the efficient growth of the economy; to measures that contribute to raising the level of industrial technology, research and development and improving productivity; to programs for the support of research in the universities, and to water research programs.

Growth has also been provided in programs essential to the strengthening of national unity; to the reduction of regional disparities; to the improvement of the situation of Indians and Eskimos; and to the expansion of our external aid.

Finally, provision has been made to meet the increasing needs of Parliament and essential funds have been allowed for the protec-



tion of persons and property, towards the acquisition of a communications satellite, and for postal operations.

A careful scrutiny was carried out of the manpower requirements of the various departments and agencies of the Public Service with the result, shown at page 476 of the Estimates Blue Book, that the overall manpower allocation for the year 1969-70 shows a decrease of 9,332 man-years from the levels authorized in the current year. The program of restraint on the overall size of the Public Service which was announced by the Government in March, 1968, will be continued in 1969-70.

The considerations outlined above are reflected in the major elements of increase in the 1969-70 Estimates over those of the current year. About 83% of the overall increase is made up of the requirements for programs authorized by existing legislation such as:

	Million
Medicare .....	\$ 335
Superannuation—Civil and RCMP	154
Public Debt Charges .....	130
Fiscal Transfers to the Provinces .	101
Hospital Insurance Payments ....	65
Post-Secondary Education Payments	53
Superannuation—Defence .....	51
Canada Assistance Plan .....	48

In the category of programs for which annual appropriations of Parliament are required and which account for \$6,185 million or 52% of the total, the major elements of increases are:

	Million
Defence Services .....	\$ 51
Regional Economic Expansion Contributions .....	46
Federal Government Accommodation .....	35
Adult Occupational Training .....	34
Indian, Eskimo and Northern Development Programs .....	33
External Aid (excluding Loans) ...	18
Broadcasting .....	15
Grants for Scientific and Social Research .....	14
Postal Services .....	13
Industrial Development Assistance .	7
Water Research Programs .....	5

The foregoing amounts relating to budgetary expenditures do not include loans, investments and advances on non-budgetary account, for which parliamentary approval is

also being sought, in the amount of \$614 million in the 1969-70 Estimates.

The corresponding amount in total estimates for 1968-69 is \$755 million. Similarly, the budgetary expenditures set forth in the preceding paragraphs do not include the forecast expenditures for old age security payments. These payments, amounting to an estimated \$1,760 million in 1969-70 as compared to \$1,581 million in 1968-69, are carried separately from the budgetary expenditures provided for in the estimates as a statutory charge against the Old Age Security Fund to which are credited the special taxes levied for this purpose.

I should also point out a few presentational changes which have been introduced in the 1969-70 Blue Book of estimates. For the first time we are providing details of the estimates requirements of Crown Corporations. Further, we have simplified the presentation of manpower detail and introduced a new standard expenditure coding system.

Finally, honourable senators have by now received copies of booklets setting forth the 1969-70 estimates for each department or ministry in the form which was discussed with you when we last appeared before this committee. I trust that these booklets will be of assistance to you in your examination of the 1969-70 estimates.

Mr. Chairman, I will be pleased to attempt to answer any questions that honourable senators have.

**The Chairman:** Thank you very much, Mr. Cloutier. Now, who would like to lead off?

**Senator Pearson:** Mr. Cloutier, do you have a list of the departments that show a decrease in their estimates this year rather than an increase?

**Mr. Cloutier:** This would be available at page 4 of the Blue Book where you have a total listing of all departments and agencies showing the change between the year 1968-69 and 1969-70. The departments and agencies that show a decrease are the following; the Department of Agriculture, \$4,975,775 which is practically \$5 million. Then the Canadian Livestock Feed Board decrease is shown as \$18,300. The International Joint Commission shows a decrease of \$2,400. The Department of Fisheries and Forestry shows a decrease of \$554,300. The amounts required for the offices of the Governor General and the Lieutenant Governors decreased by \$72,500. Then we come to Defence Construction (1951) Limited



where the decrease is \$100,000. There is a decrease of \$2,500 for the Public Service Staff Relations Board; a decrease of \$13,884,500 for the Chief Electoral Officer; and the Representation Commissioner will require \$35,000 less in the new year. The Department of Supply and Services have estimates lower than those of the current year by \$4,323,190; and Canadian Arsenals Limited shows a decrease of \$200. The Department of Transport shows a budgetary decrease of \$7,010,300 and the Canadian Transportation Commission shows a decrease of \$10,231,746. The National Harbours Board shows a decrease of \$580,000 and the St. Lawrence Seaway Authority shows a decrease of \$228,000. The Department of Veterans Affairs shows a decrease of \$4,663,900.

**Senator Pearson:** Can you tell me why there is a reduction in the Department of Transport?

**Mr. Cloutier:** I did make it clear at the time that the decrease was a budgetary decrease. The expansion of the airports in Montreal and Toronto is being financed out of loans which were approved or which are now before Parliament in the Supplementary Estimates B for 1968-69.

**Senator Grosart:** Mr. Cloutier, of the \$335 million that is provided for Medicare, can you give us the total amount that would cover those provinces who have already indicated that they will participate?

**Mr. Cloutier:** Could I ask your leave to submit this information in writing. I do not have it in front of me now and I do not have it in mind. I should point out that the \$335 million merely relates to the increase over the total provision of \$35 million for 1968-69, so that the total provision in the estimates for 1969-70 is \$370 million.

**Senator Grosart:** I would like to have that because it may be a cushion.

**The Chairman:** Mr. Cloutier, in addition to supplying to the committee, would you see that a copy is made available to Senator Grosart?

**Mr. Cloutier:** Certainly.

**Senator Grosart:** My second question deals with the estimate of the total last year of open-end shared-cost programs with the provinces.

**The Chairman:** Do you mean 1968-69?

**Senator Grosart:** Yes, because obviously it can only be estimated for this year. Let me put it this way; I would be interested in knowing what it might amount to in 1969-70, but the only guide to that is what it was in 1968-69.

**Mr. Cloutier:** I have the information as to what it is expected to be for 1969-70 before me. I am afraid I haven't got the figures for 1968-69.

**Senator Grosart:** The "expected" will be better.

**Mr. Cloutier:** The total cost to the federal government for the three open-end shared cost programs to which you refer amount to \$2.7 billion. It is made up in the following way, \$882 million for hospital insurance, \$495 million for Canada Assistance Plan, and \$628 million for post secondary education. These payments are the total cash given to the provinces made up partly of cash payments and partly of tax abatements. Would you like to have further details?

**Senator Grosart:** Very much.

**Mr. Cloutier:** In relation to hospital insurance where the total is \$882 million, and I am rounding off the estimate, for the Department of National Health and Welfare it contains a provision of \$625 million. The cash payment which is provided for in the estimates of the Department of Finance amounts to about \$65 million and the tax abatement related to this program amounts to \$195 million. The cash payment appearing in the Department of Finance and the tax abatement relate to the Province of Quebec only under this program.

The Estimates indicate that if the Canada Assistance Plan earns an amount of \$300 million in the estimates of National Health and Welfare and an amount of \$145 million or \$146 million in the Department of Finance with respect to Quebec again, the tax abatement relating to Quebec is in the order of \$54 million to \$55 million.

Under post-secondary education, the payments to all the provinces are on the same basis and the total, as I indicated earlier, is in the order of \$628 million. The estimates of the department of the Secretary of State include an amount of \$325 million to \$328 million as a cash payment, and the value of the tax abatement and the equalization payment is of the order of \$299 million or \$300 million. There is a part of this \$299 million,



the part relating to the equalization payment, which appears in the Estimates and my immediate recollection is that it is in the order of \$21 million or \$25 million.

**Senator Grosart:** Is the \$614 million figure for loans, investments and advances, a total figure of all loans, investments and advances?

**Mr. Cloutier:** No, sir. I should like to point out that this includes only those loans, investments and advances that require to be appropriated annually by Parliament. There are a number of other loans which are made pursuant to specific legislation. The legislation will authorize the Minister of Finance to advance moneys up to a certain maximum to various agencies.

**Senator Grosart:** What do they amount to in relation to the \$614 million?

**Mr. Cloutier:** I am afraid I have not got that information, sir.

**Senator Grosart:** What instrumentalities of government are involved?

**Mr. Cloutier:** You would have, for instance, the Central Mortgage and Housing Corporation, the Farm Credit Corporation, advances to the C.N.R.?

**Senator Grosart:** And Air Canada through the C.N.R.?

**Mr. Cloutier:** Air Canada through the C.N.R., that is right. These are the large ones. I cannot bring to mind the others at the moment.

**Senator Grosart:** So the \$614 million is not a realistic figure as far as the effect on the cash flow situation of the Government is concerned?

**Mr. Cloutier:** It is not, sir.

**Senator Grosart:** How are they accounted for? Where do we find them?

**Mr. Cloutier:** These are found in the Public Accounts of Canada.

**Senator Grosart:** They are not in the Estimates?

**Mr. Cloutier:** They are not in the Estimates, sir.

**Senator Grosart:** Why? Other statutory demands are in the Estimates. Why are these not in the Estimates?

**Mr. Cloutier:** I think the reason for this must be historical. I can find no other reason than this. While the statutory expenditures of a budgetary nature have to be taken into account in arriving at the overall deficit or surplus, these do not affect the surplus and they simply do not appear. We would hope over the next few years to so refine our presentation of the Estimates that we would in one document indicate the best estimates of those loans as well, in exactly the same way as we do for statutory budgetary expenditures.

**Senator Grosart:** But these items would affect the cash requirements of the Government?

**Mr. Cloutier:** Yes.

**Senator Grosart:** Which are coming to be more and more an important factor in public finance.

**Mr. Cloutier:** You are entirely right, sir.

**Senator Grosart:** Are they not added up anywhere at the moment?

**Mr. Cloutier:** Yes, they are added up.

**Senator Grosart:** In the Public Accounts are they totalled as such, or do we have to look through the various agencies and institutions?

**Mr. Cloutier:** I would think these would appear in the budgetary papers. I would think so, when the Minister of Finance gives an indication of his overall cash requirements.

**Senator Grosart:** In the papers, but not in the Public Accounts in one spot?

**Mr. Cloutier:** I do not know for a fact they do appear in one spot in the Public Accounts.

**Senator Grosart:** You have given us the output figure for the old age security program. How does that relate to the receipts, and what is the status of the fund at the moment?

**Mr. Cloutier:** I do not think I could give an answer on the status of the fund at this moment, but you will find the detail at page 255 of the Blue Book. Incidentally, in prior years this information appeared on the summary sheet. This year, the number of entries having grown a little longer, we have had to put this information together with the date of



the Department of Health and Welfare on page 255. We have not got the revenue here, I think.

**Senator Grosart:** That was my question. How do these figures relate to input. This is output. It is not a realistic figure in that sense, although this is kept apart from your budgetary statement. I would like to know now or later.

**Mr. Cloutier:** Could we supply you with this information?

**Senator Grosart:** What is the net profit or loss in the year?

**Mr. Cloutier:** The revenue indicated in the budget papers for the old age security was \$1,625 million for 1968-69. The figure for 1968-69 is shown at page 1693 of the House of Commons *Debates* for October 22, 1968 as \$1,625 million. This would relate to the estimated expenditures from that fund for the year 1968-69 of \$1,581 million, showing an estimated surplus for that year of some \$44 million.

**Senator Grosart:** When you are providing us with those other figures, Mr. Cloutier, could you give us the present standing of that fund?

**Mr. Cloutier:** We will endeavour to do so, sir.

**Senator Grosart:** Mr. Chairman, the Minister of Finance in Washington the other night gave the position of other western industrial nations in terms of a percentage of GNP that is required for all governments. In other words, he suggested that for Canada it was about 35 per cent at the moment. We also have a figure of 17.5 in our own report, which is an estimate of the percentage of GNP required for all federal purposes. That is going up or down?

**Mr. Cloutier:** Actually, sir, if I can speak from memory, I have not got the precise figures before me, but it has been rather stationary over the last 10 years. I think that early in the sixties, it was around 17. It dipped around 1964 and 1965 to maybe 15. It is back up to approximately 17. We could provide you with this comparison, the actual facts and the percentage.

**Senator Grosart:** Could you also provide the provincial and municipal amounts? There is a shot taken at it in the budget papers, but it is not too clear.

**Mr. Cloutier:** This might take a little longer. If you do not mind receiving your information in two bites.

**The Chairman:** We will be certainly getting that through our research assistants or in our studies. In the meantime, we will see what the Treasury Board can turn out.

**Mr. Cloutier:** We might have to do it in two bites, so you do not wait too long for it.

**Senator Grosart:** That is all, Mr. Chairman.

**The Chairman:** Next question, please.

**Senator Phillips (Rigaud):** Mr. Cloutier, how does the Government deal with the subject matter of the loans that are not included in the estimates that appear on page 4? When you have such expenditures, say to Canadian National or Air Canada is the loan offset immediately by accounts receivables and do the national accounts so balance out?

**Mr. Cloutier:** The loans to the CNR are authorized by an act of Parliament every year.

**Senator Phillips (Rigaud):** When we speak of a balanced budget in terms of approximately \$11 billion and leaving out the question of Old Age Security Fund for the moment—assuming that is more or less in balance—but dealing with the particular loans of large amounts, having regard to cash flow, this money must come from Government borrowing, does it not?

**Mr. Cloutier:** That is right.

**Senator Phillips (Rigaud):** It comes from Government borrowing. We have a national debt. Do they constitute simply uncollectible accounts receivable, which have resulted in increasing our national debt?

**Mr. Cloutier:** I would not say all loans authorized by statute are by definition uncollectible, but none of these loans, advances or investments are taken into account in arriving at a budgetary figure.

**Senator Phillips (Rigaud):** That I appreciate, but when we are preparing, say, when the accountant has his assets and liabilities, as page 1 of a balance sheet and page 2 usually dealing with revenues and expenditures, in effect we are dealing with revenues and expenditures which are part of the normal balance sheet in terms of the commercial operation. Part I constitutes an asset and liability approach to the balance sheet. How do



we deal with the subject matter of loans not dealt with in the Estimates.

**Mr. Cloutier:** They appear as receivables.

**Senator Phillips (Rigaud):** That is the question I asked. In order to balance out our national accounts.

**Mr. Cloutier:** Yes, exactly. They appear as receivables.

**Senator Phillips (Rigaud):** So you have a gross debt and a net debt.

**Mr. Cloutier:** Exactly.

**Senator Phillips (Rigaud):** Do we ever write off these loans?

**Mr. Cloutier:** When loans have to be written off they are usually written off either directly to the net debt or through Estimates items.

**Senator Phillips (Rigaud):** I see. When you write them off you have to bring them into the accounts by way of a budgetary appropriation.

**Mr. Cloutier:** That is right or through direct write-off to the net debt.

**Senator Phillips (Rigaud):** Or through a direct write-off.

**Mr. Cloutier:** That is right. If I may refer to the Supplementary Estimates (B) there is included in here under the Treasury Board an item. This is page 24 of this Supplementary Estimates (B). There is an item here requesting Parliament's authority to write off some debts due to the Crown. The amounts that have to be written off are \$1,614,000. These are loans that have become uncollectible and loans that were carried on the balance sheet.

**Senator Phillips (Rigaud):** While I have you on that and dealing with supplementary Estimates, I might here put a question briefly, which has been answered here but in the form which I do not follow. I am a little puzzled—in the Supplementary Estimates (B) when it deals with the subject matter of loans that are written off in respect of the Customs Excise Division and again more particularly under the Income Tax Act. An explanation was given in respect to the Income Tax Act that there were amounts assessed against taxpayers which were not collectible because of bankruptcies and people leaving the province and the like. I know under the Income Tax Act an assessment is automatically a debt of

the taxpayer, subject to appeal, but I have always assumed that the assessments in their totality, which run into billions on occasion, do not constitute accounts receivable and offset by a reserve and seeing that these assets are not taken into the accounts. I could not figure out in the supplementary Estimates how you could have a write-off in respect to such debts. I was told by a previous witness that he was also puzzled.

**Mr. Cloutier:** The problem here, sir, is that the accounts of Canada are kept on what is called a modified cash basis.

**Senator Phillips (Rigaud):** I know of an accrual or cash, but I have not heard of a modified cash basis.

**Mr. Cloutier:** That is because it is not strictly cash. There are a few modifications that make it more of an accrual basis, but not quite. The main feature is that if on a cash basis you would record in the given year all payments up to the end of that year and then you would stop, whereas the modified cash basis means that you may make payments during the month of April relating to operations of the past year and charge for the old year so that it is the main explanation of what modified cash basis means.

Now, in National Revenue the department of course has to keep a set of books in relation to what is owing by the taxpayer and these are the accounts receivable that you are referring to and which comprise the second part of the vote that I refer to in the Supplementary Estimates (B). These amounts—when the assessments are made by the National Revenue—their tax role people record that amount as receivable, but it is not taken in as revenue until the cash is actually received. When the cash is received, then it becomes revenue and we are back in business, but as long as the cash is not received it is merely a memorandum entry with respect to the accounts of Canada and the Financial Administration Act. Section 70, I think it is, authorizes the Governor in Council to write off uncollected debts under \$1,000, and it does not deal specifically with uncollected debts over \$1,000. This is why every year we have to have in the Estimates a request for authority to write off, to delete from the memo books of account, if you wish, those uncollected debts.

**Senator Phillips (Rigaud):** If the assessment debts of the taxpayers do not get into the revenue account of the Crown until there is



payment, then how could you possibly have an account receivable that is subject to write-off? In fact you say there are journal entries in the Department of Revenue in respect of these assessments, and then the act works to bring them into the national accounts.

But you have not got a debt outstanding at any particular time in so far as national accounts are concerned and I still find it hard to understand how you can write off uncollected debts under the act when the cash only comes into the national total on receipt.

**Mr. Cloutier:** The write-off is not from the national accounts of Canada but it is from the memo books of account of the department.

**Senator Phillips (Rigaud):** Do the memo books of account of the department reflect themselves in our budget Estimates?

**Mr. Cloutier:** No, sir.

**Senator Phillips (Rigaud):** Then how can they form part of our supplementary Estimates by virtue of write-off? I am not trying to be troublesome, I am trying to understand this.

**Mr. Cloutier:** I had much the same questions when I ran across this.

**Senator Phillips (Rigaud):** There you are. The previous witness had the same trouble.

**Mr. Cloutier:** I am attempting to give you an explanation that I sought and obtained. If you look at the detail on page 24 of this item you will see that the total amount written off is \$7,267,000 and that is made up of two groups—one of debts due to Her Majesty to be written off as a charge to expenditure, in the amount of \$1,614,000. Now, the amount appropriated is that amount, it is \$1,614,000, but it does not make any budgetary charge for the balance of \$5,653,000. To some back to a concern which Senator Grosart has had a number of times, this is a legislative item, whereas the Financial Administration Act provides for the write-off of these memo entries up to \$1,000 there is no provision for any more, and rather than just keep these notes in the books eternally, you legislate through the Estimates to write them off.

**Senator Phillips (Rigaud):** I simply want to say to you what when you are through with your programs and pressures with the Estimates, some day I would go over to the Department of Finance for an instruction course on this. I mean this in all seriousness,

as one who likes to understand the method of bookkeeping. To me it is a very difficult and puzzling item.

**Mr. Cloutier:** I am sure that we would be very pleased to provide the information.

**Senator Phillips (Rigaud):** As a matter of fact, the previous witness before us stated that when it was first put to him he was somewhat puzzled.

**The Chairman:** I should have said earlier that the list of the items over \$100 that have been written off, showing the individual circumstances and names, has been supplied to us, since last week, and they are in the material on our desk.

I think the way to deal with it is perhaps not to print that list but simply to say that the information is in the hands of the committee and is available to anyone who wants to have a look at it. This gives all the circumstances with respect to every case over \$100,000.

**Senator Grosart:** Could Mr. Cloutier summarize them for us, Mr. Chairman? How many are bankruptcies, and so on?

**Mr. Cloutier:** I could do that.

**Senator Grosart:** Without the names.

**Mr. Cloutier:** I have not got the names, anyway. The figures are as follows:

(7) DNR (Customs)—

Category	Number	Amount
Bankruptcy	129	\$725,180.54
Out of business— no assets	131	805,082.30
Indigent debtor	1	1,505.52
Debtor outside Canada	1	3,791.48
Deceased debtor	1	2,066.39
Enforceable debt cannot be readily established	2	10,121.93

(8) DNR (Taxation)

Deceased no estate	37	316,182.41
Untraceable	94	283,957.04
Indigent	51	357,636.04
Not residing in Canada	35	366,523.41
Corporation inoperative and without assets	151	2,053,038.37
Undischarged Bankrupt corporation, no assets and Trustee discharged	82	540,733.14

**Senator Grosart:** There is a fair number of ways to defeat the income tax.



**Mr. Cloutier:** Yes, you can go bankrupt, or get lost, or become indigent, or skip the country, or you can die. There was one case of a person who died.

**Senator Desruisseaux:** In the case of interest on loans, do you compute the interest also, in the bookkeeping.

**Mr. Cloutier:** Yes. This is revenue receivable. All loans are subject to the conditions under the legislation that authorizes them. Some legislation fixes the rate of interest, in other cases it is provided that the Governor in Council shall fix the rate of interest. I think there may be some cases where the Minister of Finance fixes the rate of interest. This is carried as a receivable.

**Senator Phillips (Rigaud):** None are related to the prime rate, are they?

**Mr. Cloutier:** An increasing number are related to the current rates paid by the Government, plus a per cent or a fraction to take care of administrative costs. I believe that there is legislation before Parliament—it may have gone through, I am not sure—which seeks to remove the statutory rate set by previous legislation in order to allow the Governor in Council to keep a floating rate.

**Senator Desruisseaux:** What per cent or proportion approximately would be on this arrangement?

**The Chairman:** The going rate?

**Senator Desruisseaux:** Yes, just the percentage.

**Mr. Cloutier:** I would guess, and it would be a mere guess, that it would be a major part of it now.

**Senator Desruisseaux:** The major part.

**Mr. Cloutier:** Yes, a good hunk of it was in the Farm Credit Corporation and this is a piece of legislation I was referring to where the statutory ceiling—which I believe was 5 per cent—has been raised. It may be before Parliament now. Farm machinery is in the same case, I would say, practically the totality.

There are soft loans made to the underdeveloped countries which are subsidized loans, of course.

**Senator Phillips (Rigaud):** In respect of loans which are not dealt with in the Estimates and are referred to originally by Sena-

tor Grosart and which we dealt with, is there a uniform policy in the Department of Finance to determine when such loans and to what extent they may be written off, or is it a matter of Government policy in respect of any particular loan.

**Mr. Cloutier:** I am afraid, sir, I do not know the answer to that.

**Senator Grosart:** Could I ask this question; in the report of this committee to the Senate we estimate the percentage increase of expenditures year by year. For example, the figure for 1967 was 13.7 and for 1968 it was 14.2. My figure for 1968-1969, and this is my own arithmetic, is 10.01 and for 1969-1970 is 9.14.

**The Chairman:** Perhaps I should interpolate at this point that these are actual expenditures and not estimates. They vary therefore from the changes in the Estimates, and they do include, of course, the Old Age Security Fund.

**Senator Grosart:** I have worked out these figures including the Old Age Security Fund.

**The Chairman:** For 1969?

**Senator Grosart:** And for 1970.

**The Chairman:** Assuming the estimates represent the expenditures...

**Senator Grosart:** We always assume that.

**The Chairman:** These are actual expenditures, but they do vary.

**Mr. Cloutier:** My own quick back of the envelope calculations this morning as I was reviewing the papers I would bring along with me suggest that on the basis of the total Estimates only the increase between 1968-69 and 1969-70 on the budgetary account is 9.5 per cent. It is an increase of something over \$1 billion on \$10,823 million. This overall increase of about \$1,030 million is broken up between the statutory items and the items to be voted, and again my quick calculations indicate an increase in the statutory items such as open-end program and all other statutory programs in the order of 17.8 per cent whereas the increase in items to be voted, which are more readily manageable, is in order of 2.8 per cent only.

**Senator Grosart:** So my figure of 9.14 per cent total increase this year is about right when the Old Age Security Fund is included.



**Mr. Cloutier:** I have not done that particular calculation.

**The Chairman:** Are there any further questions?

We can have Treasury Board officers before us at almost any time because they have been so very co-operative. Nevertheless we are grateful to Mr. Cloutier and to Mr. Glashan for being with us this morning.

You will recall that I said in the Senate yesterday that at our next meeting we would have as a witness Dr. Davidson, now head of the CBC. In his case we will be dealing with those items in the Estimates for 1969-70 concerned with CBC operations. The following week is open and then on March 27 we expect to have Professor Neufeld as our witness dealing particularly with the effect of expenditures on the economy of the country. He will discuss, for example, the effect of total demand and relevant pressures on prices and possibly also with the matter of the level of taxation and its effect on the economy.

Senator Argue asked if it would be possible to have the Department of Agriculture before us, and if it is agreeable to you I think it would be a good idea. Perhaps rather than going into all the Estimates for that department there are some aspects of it, for example the dairy and livestock board, to which we could usefully devote some time. This will probably be after Easter.

**Senator Pearson:** Could we make a point of studying the question of FRED in agriculture?

**The Chairman:** If those who are interested will let us know ahead of time, we will be sure to get witnesses who are ready and prepared to give the information we want.

**Senator Phillips (Rigaud):** Speaking as a new member of the committee, is it the prac-

tice of the committee to have a representative of each department to deal with particular matters in the Estimates or is it dealt with in a general way?

**The Chairman:** The decision has been in the past not to go into individual Estimates or individual departments. That is done in the House of Commons Committees. Every single department has its Estimates referred to a committee where they are studied in detail. If we were to do that it would result in duplication. We study them in bulk, but of course any particular item of any department is still open to us for consideration. Our consideration of the CBC expenditures is a case in point. In dealing with questions relating to agriculture it would be a case of having responsible officials before us of whom we can ask questions relating to particular matters. Our study is conducted on broad general terms and goes further than simply looking at the figures here. It can go into the entire economic background.

The Clerk of the Committee, Mr. Jackson, has just called my attention to the fact that next week we shall be meeting at 9.30 instead of at 11 a.m. The reason for this is that Dr. Davidson is to be our witness and he has an engagement later in the morning, and guaranteed to him, and I am passing this on to the Acting Chairman, that he would be out of here by 11 o'clock. Now, the committee on Transport and Communications ordinarily sits at 9.30 on Thursdays, but I have arranged with Senator Thorvaldson, the Chairman of that committee, to reverse our times on that occasion.

**Senator Phillips (Rigaud):** You are introducing me to a form of closure!

The committee adjourned.



## National Finance

### APPENDIX "A"

#### EXPLANATIONS OF ONE-DOLLAR ITEMS AND LEGISLATIVE ITEMS IN SUPPLEMENTARY ESTIMATES (B), 1968-69

Presented at the request of the Senate Standing Committee on National Finance by the Secretary of the Treasury Board.

#### SUMMARY

##### A. *One-dollar Items*

1. Items authorizing transfers within votes previously approved by Parliament.
2. Items authorizing transfers from votes previously approved by Parliament.
3. Items which are legislative in nature.

##### B. *Items exceeding one-dollar*

1. Items for which the requirements are met in part by transfer from votes previously approved by Parliament.
2. Items containing features which are legislative in nature.







## Senate Committee

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### ENERGY, MINES AND RESOURCES

Page 6

Vote 50b

*Explanation:*

When the 1968-69 Revised Estimates were prepared the last estimate available of Canada's  $\frac{1}{3}$  share of the costs of this Council was \$80,000. It has now been determined that Canada's share of the 1968-69 costs will amount to \$83,916.

*Offset:*

The additional requirement can be met from anticipated lapses under this vote in the category of "Miscellaneous other projects" under contributions to the Provinces for the construction of dams.

### EXTERNAL AFFAIRS

Page 7

Vote 15b

*This Supp. contains three requirements:*

- (A) *Contributions to International Institute for the Unification of private law—\$5,880*

*Explanation:*

This is Canada's contribution as a member of this Institute which has its headquarters in Rome. Included are two calendar year contributions due on January 1, 1968 and January 1, 1969.

*Offset:*

This requirement can be completely offset by lapsing funds within the provision of this vote in the Revised Estimates.

- (B) *Payments to the United States Government for Gut Dam Claims—\$374,500*

*Explanation:*

By agreement with the United States through Lake Ontario Claims Tribunal, this payment will settle all claims by United States citizens in respect to possible damage to property resulting from the change in water levels due to the building of the Gut Dam in 1903-04, in the Prescott-Ogdensburg section of the St. Lawrence River. These claims have been studied by a Canada-United States Tribunal for some years.

An amount of \$90,000 in External Affairs Vote 15 of 1968-69 Revised Main Estimates described as "Payment to

the Lake Ontario Claims Tribunal, United States and Canada" was the Canadian portion of the costs of the Tribunal. The work of the Tribunal having been completed, this amount will lapse.

*Offset:*

The total requirement can be made available from lapsing funds in this vote.

- (C) *Gifts to Countries attaining Independence*

*Explanation:*

This requirement is for the customary independence gifts to Guyana and Barbados.

*Offset:*

The full requirement can be made available from lapsing funds within the vote.

### FISHERIES AND FORESTRY

Page 9

Vote 40b

*Explanation:*

*Grant to British Columbia Festival of Forestry Organization*

Since 1966 the Festival of Forestry, Vancouver, B.C. has become a major program promoting the very important role of Forestry in British Columbia and in Canada.

One of the major undertakings of the 1967 Festival was the Forestry Graduate Congress for which 33 graduate forestry students from 26 universities in 16 Pacific Rim countries were brought to British Columbia for a study of Canadian Forestry methods, research and our forestry people. The Graduate Congress was deemed a great success by the B.C. forest industry, the students themselves and the Festival Advisory Committee. Treasury Board authorized the Department to pay an amount of \$30,000 for the costs of return transportation of the 1967 Graduates to British Columbia.

The Festival Advisory Committee is planning an annual Graduate Congress, as part of each year's Festival of Forestry, so that graduate students from Forestry Faculties of the world can be brought to Canada on a rotation basis from a different area each year.

In 1968 the Festival will invite about 35 graduates from Northern Europe including



## National Finance

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### FISHERIES AND FORESTRY (Continued)

Page 9 Vote 40b  
selected graduates from the Eastern United States and from the four Canadian universities. The Festival will pay the costs for the graduates while in British Columbia.

Because graduates returning to their countries will pass on to many hundreds of teachers, other students and their people, the achievements of Canada in the forest industry and thereby help the cause of Canadian Forestry, it is proposed to grant financial assistance to the Festival of Forestry in the amount of \$15,000 to help pay the cost of return air travel to Vancouver for the 1968 Graduates.

#### Offset:

This requirement can be completely offset by anticipated lapses within this vote.

### INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

Page 10 Vote 20b

(A) *Contribution towards Community Hall*  
—\$4,100

#### Explanation:

This amount is required to meet a claim by the Government of the Northwest Territories for work done in 1967-68. Under the financial agreement with that Government the contributions it makes towards the construction of community halls are reimbursed by the Federal Government on the basis of ethnic origin of the local population.

#### Offset:

This requirement can be offset from funds that would otherwise lapse in the vote.

(B) *Contribution towards Firefighting Facilities and Equipment*—\$27,600

#### Explanation:

These funds are required to pay a claim by the Northwest Territories Government for reimbursement for the construction of a fire hall at Cambridge Bay.

The construction was carried out during the period ended in 1968 under an agreement which called for the costs of such facilities to be shared by the Federal Government on the basis of the amount of federal property in the settlement concerned in relation to the total property in need of fire protection.

#### Offset:

Funds are available from minor lapses within the vote.

### INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

Page 11 Vote 35b

#### Explanation:

*Grant to the National and Provincial Parks Association of Canada*—\$12,450

The Association's purpose is to promote the benefits and to ensure the protection of our National and Provincial Parks so that they may remain unimpaired for future generations. The Association, in conjunction with the University of Calgary, held a conference on the theme "The National Parks—Today and Tomorrow".

The grant represents the contribution of the National Parks Branch towards the cost of holding the conference.

*Grant to the British Columbia Waterfowl Society*—\$16,000

The Society has requested financial assistance in the further development of the Reifel Refuge for water fowl near Roberts Bank, B.C. With the development of Roberts Bank as a deep-water port and the subsequent loss of adjacent waterfowl areas, it is essential that the Reifel Refuge be preserved and further developed as a stopping-off place for migratory birds.

The British Columbia Waterfowl Society is a non-profit organization which is wholly dependent on public donations and government grants in order to carry out its work.

#### Offset:

Funds are available from general lapses within the vote.



Senate Committee

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LABOUR

Page 12

Vote 20b

Explanation:

It will be recalled that Parliament authorized a program whereby bonuses of \$500 per house were paid in respect of houses constructed during the winter months for several years, the last of which was the winter of 1965-66.

This Supplementary Estimates is required to cover the payment of \$60,000 representing approved residual claims under this program.

Offset:

The \$60,000 can be completely offset from funds that would otherwise lapse within this vote.

PUBLIC WORKS

Page 16

Vote 15b

Explanation:

(A) Newfoundland

Labrador City—Housing for Federal Government Employees \$80,000

Proposed Work

To construct one (1) four-bedroom house and one (1) three-bedroom house at Labrador City, Newfoundland, on sites to be deeded to the Crown by Iron Ore Company of Canada for a nominal sum of \$1.00 each.

Total Estimated Cost \$80,000

Necessity

These houses are required for the Postmaster and Assistant Postmaster, and their families. The four-bedroom house is estimated to cost \$45,000 and the three-bedroom house \$35,000. Considering location and difficulty of procuring labour and materials, estimated prices are fair and reasonable.

From time of taking up appointments both employees and their families were being accommodated in trailer homes. As at December 1, 1967, the Iron Ore Company of Canada leased to the Postmaster at \$154.00 monthly a three-bedroom bungalow on the explicit understanding that it be vacated by September 1, 1968. The Assistant Postmaster, with a family of six, has remained in a trailer home 40 feet x 10 feet under trying conditions.

In August 1967, the Post Office Department was advised that all trailer owners in the Town of Labrador City would not, effective August 31, 1967, be permitted to sell their trailers if they move from the town, and after that date, Iron Ore Company of Canada would not permit purchase or erection on their property of any more trailers with a view of eventual removal of all present trailers from the City.

Iron Ore Company of Canada will not sell any of their houses to the Crown, nor would they enter into a build-to-lease arrangement. No interested other parties were located who would undertake a similar or other arrangement. There are no vacant houses to rent.

Treasury Board granted authority to enter into a contract for the construction of the two houses. Work is currently under way and is expected to be completed before March 31, 1969.

(B) British Columbia

Port Coquitlam—Public Building—Addition and Improvements \$108,000

Proposed Work

To construct an addition of 3,060 square feet to the existing Public Building at Port Coquitlam, British Columbia, and air treatment of the whole building.

Total Estimated Cost \$108,000

Necessity

As the result of a study on future population growth trend, the Post Office Department requested an extension of some 3,000 square feet to provide for more efficient operation and to provide space for expansion during the next ten years.

The work includes an addition of 45 feet x 68 feet, enlarged loading facilities at the rear of the building, general renovations to tie in the existing building to the addition and air treatment of the whole building.

A contract for this work was awarded under authority of the Treasury Board.

Offset:

These two items can be completely offset by anticipated lapses within this vote arising from normal construction delays in other projects.



## National Finance

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### PUBLIC WORKS

Page 17

Vote 30B

#### Explanation:

- (A) *Pinkney's Point, Nova Scotia—Wharf Repairs* \$75,000

This wharf was severely damaged by fire in December of 1967. Because the inhabitants of the area were left without adequate wharfage facilities the repairs were begun and expenditures charged to the Fire Losses Replacement Account provided by Parliament for such circumstances.

An investigation is underway to determine whether action can be taken to obtain restitution for these expenditures?

#### Offset:

Funds are available from anticipated lapses within the vote.

#### Explanation:

- (B) *Sillery, Quebec—Harbour Improvements* \$72,400

This payment is made in accordance with the "marina" policy of the Department, whereby assistance is given for the construction of this type of tourist facility, provided the capital expenditures by the local entrepreneur match or exceed the Federal expenditure.

This payment is in respect of the marina at Sillery, Quebec, for the Quebec Yacht Club. The projects undertaken con-

sist of the construction of two breakwaters and the necessary dredging.

Total Federal expenditures amount to \$238,630. The total investment of the Quebec Yacht Club is \$260,000. In addition the Club has undertaken to invest an additional \$89,000 over the next three years.

Similar assistance has been made in many locations elsewhere in the country.

#### Offset:

This requirement can be completely offset from funds that would otherwise lapse within the vote.

### SOLICITOR GENERAL

Page 18

Vote 1b

#### Explanation:

This item is for a post-graduate university scholarship program for students in the social sciences which, in essence, provides for ten scholarships per year at \$2,500 each including a proviso that a commitment be given by the recipient to enter employment in the Department of the Solicitor General, the Parole Board, or the Penitentiary Service on the basis of a year's employment for each year of assistance after graduation.

#### Offset:

This item can be completely offset within this vote by a reordering of priorities within the vote.





National Finance

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Provision is made in the Main Estimates each year for the estimated amount required to record the account but a grant of this kind by its nature is discretionary. It is estimated that the amount will be \$1,000,000. The Ontario market for sugar beets is estimated to be \$1,000,000. The Ontario market for sugar beets is estimated to be \$1,000,000. The Ontario market for sugar beets is estimated to be \$1,000,000.

ONE-DOLLAR ITEMS AUTHORIZING TRANSFERS FROM VOTES PREVIOUSLY APPROVED BY PARLIAMENT.

The Ontario market for sugar beets is estimated to be \$1,000,000. The Ontario market for sugar beets is estimated to be \$1,000,000. The Ontario market for sugar beets is estimated to be \$1,000,000.

AGRICULTURE

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Senate Committee

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AGRICULTURE

Page 2 10b

Explanation:

To provide for payments of progress claims on the construction of the combined Office Laboratory Building at Harrow, Ontario. The completion date has been considerably advanced.

	Million
Paid in previous year .....	\$ 0.3
Required in 1968-69 (including this Supp) .....	3.5
Estimated carryover to 1969-70 ...	0.2
	—
Total .....	\$ 4.0
	—

Offset:

Funds will be made available to the extent of \$1.0 million by re-phasing some construction projects, notably those at Laval and Morden, Manitoba, and to the extent of \$1.2 million from funds that are expected to lapse in Vote 65—Canadian Livestock Feed Board—Freight Assistance on Western Feed Grains.

AGRICULTURE

Page 2 15b

Explanation:

Widespread unfavourable weather conditions with excessive moisture and extensive frost damage have resulted in the need for increased inspection of the 1968 Prairie crop involving additional travelling expenses and inspectors.

Offset:

- The additional requirement of \$191,000 can be wholly met from potential lapses in—
- Vote 20—Animal and Animal Products
- Vote 45—Health of Animals—Grants and Contributions
- Vote 65—Freight Assistance on Western Feed Grains

AGRICULTURE

Page 2 17b

Explanation:

(A) Agricultural Commodities Stabilization Account—\$902,000

This sub-vote provides for the loss on the purchase and sales program and for deficiency payments in respect of dairy products, potatoes, wool, and sugar beets.

Provision is made in the Main Estimates each year for the estimated amount required to recoup the account but a program of this kind by its nature is very difficult to estimate accurately in advance. It is usual, therefore, to include in Supplementary Estimates a small amount such as this, which is in fact a reflection of an underestimate of the carry-over from 1967-68.

(B) Compensation to Sugar Beets Producers—\$1,000,000

The Ontario market for sugar beets was terminated earlier this year when the one sugar beet refinery at Chatham ceased operation. An assistance program was considered necessary to enable Ontario farmers to change their production patterns. Assistance will be given at a rate of \$60.00 an acre for some 16,600 acres which had been planted in 1967.

Offset:

The additional requirement has been completely offset from lapsing funds within this Vote and from Vote 65—Freight Assistance on Western Feed Grains.

AGRICULTURE

Page 3 20b

Explanation:

This sub-vote provides for the expenses of supervising race track betting. The total expenditures are more than covered by the revenue consisting of one-half of 1% of the amounts wagered.

This Supp is required to cover expenditures necessary as a result of the authorizing of additional racing days at the Blue Bonnet, Rideau Carleton and Connaught Park race-ways.

Offset:

The net requirement can be met from funds, which would otherwise lapse, from Vote 65—Freight Assistance on Western Feed Grains.



## National Finance

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### AGRICULTURE

Page 3	25b
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*Explanation:*

By arrangement with the Provinces the Federal Government contributes under the first of the two grants listed in the Estimates 50% of the expenditures on four eligible 4-H Club activities. The increase in this first item is required as a result of increased participation by the Clubs in provincial competitions and in leadership training as well as unanticipated expenditures on special Centennial projects undertaken in 1967-68 and claimed in 1968-69.

The second item in the Estimates is for the Federal Government's 50% share of the contributions to this Council, the other half being borne by the Provinces. The contribution has been re-assessed with the result that \$23,000 should be provided for this purpose instead of \$21,000.

*Offset:*

The additional requirement is completely offset by lapses in this and the other two votes mentioned in the Vote title; Vote 1—Departmental Administration and Vote 65—Freight Assistance on Western Feed Grains.

### AGRICULTURE

Page 3	30b
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*Explanation:*

Required as a result of acceleration in the construction schedule for the decontamination and inspection station at Port aux Basques in Newfoundland. The total estimated cost of the project is \$1,021,800. It is expected that expenditures during 1968-69 will be \$572,000.

*Offset:*

The net additional requirement of \$108,000 is available as a result of anticipated lapsing in Votes 50 and 51—Board of Grain Commissioners and Vote 65—Freight Assistance on Western Feed Grains.

### AGRICULTURE

Page 4	45b
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*Explanation:*

The purposes of this grant are to alleviate financial loss suffered by farmers and to induce them to report suspected rabies infection.

The increased incidence of infection in the current year will require federal expenditures of \$56,000, of which \$21,000 was provided in the Revised Estimates, compared to the previous three year average of \$31,000.

*Offset:*

The additional requirements can be made available from anticipated lapses within this Vote.

### AGRICULTURE

Page 4	65b
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*Explanation:*

The wording of Vote 65 in the 1968-69 Revised Estimates—"Freight Assistance on Western Feed Grains"—restricts payments to grain shipments originating in Western Canada. The proposed change would extend authority to make payments in respect of feed grains from other regions.

This policy was inaugurated in 1941 to enable Eastern Canada and British Columbia livestock producers to develop their livestock operations. This program initially subsidized transportation costs on feed grains. In 1963 it was expanded to include the subsidization of storage costs. The program is administered by the Canadian Livestock Feed Board established in 1966 by the Livestock Feed Assistance Act.

Equalization of feed grain prices is attained through the payment of a substantial portion of the transportation costs from the basic source of supply, predominantly western Canada, to demand areas in Eastern Canada and British Columbia.

The Livestock Feed Assistance Act specifies "feed grains" as wheat, oats and barley and such other grain and grain products as may be designated by regulation. Regulations have been approved to designate rye, grain corn, wheat bran, wheat shorts, wheat middling No. 1 feed screenings, and sample Food Grain as feed grains under the Act.

It is now proposed to authorize freight assistance for Ontario wheat shipped to Eastern Canada other than Ontario, and Ontario corn shipped to Eastern Canada other than Ontario and Quebec and to authorize payment of a freight differential equal to the extra costs of transporting imported grain corn from the port of unload when it is not possible to unload the corn at Quebec City.



## Senate Committee

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

### AGRICULTURE (Continued)

Page 4 65b

This item will also ratify payment of \$99,-288 paid in the last fiscal year in respect of shipping of Ontario wheat and corn during the previous fiscal year.

#### Offset:

Funds are available within the vote for the 1968-69 portion of new expenditures. Expenditures are expected to be \$18,000,000 rather than the \$21,600,000 voted because feed grain crops in Ontario have been larger than expected and the number of animals to be fed is lower than anticipated.

### COMMUNICATIONS

Page 5 10b

#### Explanation:

The Government has entered into agreements with the Canadian National Railway Company whereby the Crown will pay to the Company the difference between revenues and expenses arising from the operation and maintenance of certain telecommunications facilities in the North. Vote 10 of the Revised 1968-69 Estimates provides \$263,000 for this purpose. The latest Company estimates received by the department show that an additional payment of \$108,000 will be required because of a shortfall in anticipated revenues from the systems and an increase in cost of operation and maintenance.

#### Offset:

Complete offsets are available from anticipated lapses within this vote and within Vote 1—Administration.

### ENERGY, MINES AND RESOURCES

Page 6 75b

#### Explanation:

Provision for the Coal Board was made in the 1968-69 Revised Estimates for less than a full year's requirement because of the uncertainty at that time concerning the organization of the tasks carried out by the Coal Board. It is, therefore, necessary to provide for the balance of the Board's requirements to

the end of the current fiscal year. There are, in addition to salaries, small requirements for telephones and telegrams and for the printing of the 1966-67 annual report at a later date than anticipated.

#### Offset:

The full additional requirement can be met from funds expected to lapse in Vote 40 of Energy, Mines and Resources' Estimates—water and co-ordination of renewable resources programs—administration, operation and maintenance.

### EXTERNAL AFFAIRS

Page 6 1b

#### Explanation:

Additional requirements in this Vote are as follows:

#### (a) Allowances—

Unforeseen costs due to higher rents abroad and increased cost of educational allowances.

#### (b) Removal and Home Leave Expenses—

This requirement results from an unexpected increase on freight on shipment of personal effects and from under estimate.

#### (c) Other Travelling Expenses—

The Department's share of the Ministerial Mission to Latin America.

#### (d) Telephone, Telegrams and other Communication Services—

Additional unforeseen costs were incurred during the year related to political crises such as the one in Czechoslovakia.

#### (e) Office Stationery, Supplies and Equipment—

Additional supplies required by the Passport Office owing to a 22% increase in the rate of passport issue.

This increase, incidentally, will result in an increase in the Passport Office revenue of some \$240,000.

#### Offset:

The entire additional requirements can be covered by funds expected to lapse in Vote 15—assessments, grants, contributions and other payments to International Organizations.



## National Finance

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

### EXTERNAL AFFAIRS

Page 7 30b

*Explanation:*

\$34,500 is required for travelling expenses, representing the department's share of the Ministerial Mission to Latin America and a minor under-estimate of field staff travel. \$50,100 is for Professional Services and is due to hiring by contract of personnel in place of recruitment for the service and for policy review studies. Minor furniture and telephone amounts totalling \$18,000 are due to staff growth.

*Offset:*

The requirement is completely offset by an anticipated lapse in Vote 35—Economic, Technical, Educational and Other Assistance.

### FINANCE

Page 8 2b

*Explanation:*

This item is required to honour the Government's commitment to match the monies donated to the Institute by private industry and other sources.

*Offset:*

The requirement is completely offset by anticipated lapses in Vote 15—Grants to Provinces—Municipal Services in respect of real estate taxes imposed or levied on Federal Property for services ordinarily provided by municipalities.

### FISHERIES AND FORESTRY

Page 8 15b

*Explanation:*

(A) Educational Work in Fisheries Techniques and Cooperation in Producing and Selling Among Fishermen.

This item provides for assistance to Universities for the payment of salaries and expenses of field office staff engaged in effective educational programs for the fishermen of their area.

Although it was expected that a financial reduction in level of assistance could be made from \$185,000 to \$120,000 in this activity in comparison with the 1967-68

and 1966-67 level, the review of desirable contributions has established that in fact no retrenchment is possible if extent of educational programs available to the fishermen of all areas is to be maintained at a satisfactory standard. Under the circumstances there is no alternative but to restore the amount of total assistance to the 1967-68 level by an addition of \$65,000 in Supplementary Estimates.

(B) Payment of Assistance to Producers of Salted Fish on Products Designated by the Governor in Council.

This item provides for assistance to producers of designated salted fish products in the amount of fifty per cent of the laid down cost of salt used in their production.

This program has now been cancelled and this item is for the payment of claims carried over from prior years.

(C) Assistance in the Construction of Fishing Vessels.

This Vote provides for the subsidization of the construction of fishing vessels of efficient and modern design. This subsidy was inaugurated during the Second World War under authority of the War Measures Act.

As a result of rising prices in ship-building and of unforeseen requirements, actual new vessel costs are proving to be greater than anticipated when the amounts of subsidies which form the basis of the Revised Estimates total of \$1,700,000 were approved. Consequently the subsidy requirements have increased proportionately and a further amount of \$50,000 will be needed to honour existing commitments.

(D) The *Fishermen's Indemnity Plan* is a scheme designed to provide insurance coverage for fishing vessels and gear including lobster traps. There are three accounts, viz:

(a) the fishing vessel indemnity account;



## Senate Committee

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### FISHERIES AND FORESTRY (Continued)

Page 8 15b

- (b) the lobster trap indemnity account;
- (c) the fixed gear and shore installations indemnity account.

Only the latter two are deficient this year. The lobster trap plan is being studied by the department with a view to establishing it on an actuarially sound basis. The fishing gear and shore installations plan is being phased out because of cost compared to benefits but existing policies will continue to be honoured.

#### Offset:

These items are completely offset by anticipated lapses within this vote, Vote 5—Fisheries Management and Development—Operation and Maintenance and Vote 10—Fisheries Management and Development—construction.

### INDUSTRY AND TRADE AND COMMERCE

Page 11 38b

#### Explanation:

As implied in the wording of this vote, it is intended to offer concessional credit terms to facilitate sales of wheat and flour to developing countries at interest rates of not less than 2 per cent on terms of up to 10 years maturity. A Supplementary Estimate in the amount of \$1,000,000 is required to finance costs in the current fiscal year.

#### Offset:

This item can be completely offset by anticipated lapses in Vote 10 entitled "To advance the technological capability of Canadian Industry by supporting related civil (non defence) development projects".

### LABOUR

Page 11 5b

#### Explanation:

This item is required to meet expenses in 1968-69 of the operations of the Industrial Inquiry Commission established pursuant to section 56 of the Industrial Relations and Disputes Investigation Acts, by P.C. 1968-385 dated February 29, 1968, to investigate and

report on certain matters and conditions giving rise to labour unrest at the Ports of Montreal, Trois-Rivières and Quebec.

#### Offset:

This item can be completely offset by anticipated lapses in Vote 20—Research and Development—Grants—payment of Transitional Assistance Benefits to workers in automotive manufacturing and parts industries.

### MANPOWER AND IMMIGRATION

Page 13 6b

#### Explanation:

Payments to Provinces for Municipal Winter Works Incentive Program—\$500,000

Provision was made in the 1967-68 Estimates of \$25,000,000 for payments under the 1967 Winter Works Program in which the Federal Government assumed one-half, in some areas 60 per cent, of the labour costs involved.

It is evident from the reports from the Provinces that total requirements for the 1967 Program, together with the claims approved for earlier winter works programs, will total \$25,500,000.

An additional \$500,000 is therefore sought in this Supplementary Estimate.

#### Offset:

The requirements for this item can be completely offset by anticipated lapses in Vote 5—Administration.

### MANPOWER AND IMMIGRATION

Page 13 10b

#### Explanation:

(A) Payments under Agreements Entered into with Provinces—Capital Assistance in the Provision of Training Facilities—\$19,700,000

A decision to limit expenditures for capital assistance to \$80,000,000 resulted in considerable controversy with the Provinces regarding amounts outstanding and current plans for such work. In an attempt to partially solve the problem the Department proposed to adjust its occupational training program and transfer



**National Finance**

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

**MANPOWER AND IMMIGRATION**  
(Continued)

Page 13 10b

\$18,840,000 to capital assistance and provide \$2,110,000 from within this vote.

(B) Payments to Provinces—Payment of Undischarged Commitments for Technical and Vocational Training—\$1,250,000

202,000

\$1,880,000

An item in Supplementary Estimates (C) 1967-68 authorized payments to Provinces pursuant to Section 22 of the Adult Occupational Training Act for costs incurred up to July 31, 1968, for occupational training related to the phasing-out of assistance under former Technical and Vocational Training Agreements. The item provided for payments to be made in the 1967-68 and 1968-69 fiscal years. With the exception of \$3,000,000 the item lapsed at the end of fiscal year 1967-68.

This Supplementary Estimate is required for the payment of undischarged commitments in excess of the \$3,000,000 available for spending in the current fiscal year.

*Offset:*

These two items can be completely offset by a lapse of \$2,109,999 within this vote and by a reduction of \$18,840,000 in Vote 5—Grants—Purchase of Training under the Occupational Training Act.

**MANPOWER AND IMMIGRATION**

Page 14 25b

*Explanation:*

Under the former Technical and Vocational Training Assistance Act provision was made for payments to Provinces for assistance in Manpower Training Research projects. Some portion of the payments was normally held back until the approved projects were completed to the satisfaction of the Minister.

The Adult Occupational Training Act makes similar provision but does not provide for the payment of undischarged commitments under former agreements.

Claims are now being held covering most of the outstanding projects but it is considered prudent to provide for late claims in fiscal 1968-69 and 1969-70. Funds to cover the need are available in the Revised Estimates and

the necessary change in vote wording is therefore covered by a \$1 item.

(f) Miscellaneous requirements, including the additional costs due to Medicare not becoming effective in most provinces during 1968-69

*Offset:*

This item can be completely offset by anticipated lapses in Vote 41—Family assistance to children of immigrants and settlers.

**NATIONAL HEALTH AND WELFARE**

Page 14 20b

*Explanation:*

An increase of \$1,880,000 is required to provide medical and hospital services to Indians and Eskimos. The additional need arises from:

(a) Increases in Hospital per diem rates for tuberculosis cases and mental cases  
\$811,000

(b) Hospital co-insurance premiums (not included in the 1968-69 Estimates) being implemented in Saskatchewan and Alberta  
\$357,000

(c) Increases in professional fees  
\$352,000

(d) Medicare becoming effective in Saskatchewan on January 1, 1969, involved a prepayment  
\$123,000

(e) Consultants costs not in original Estimates  
\$35,000

**NATIONAL HEALTH AND WELFARE**

Page 15 40b

*Explanation:*

The purpose of this grant is to supplement other grants to the Canadian Welfare Council for the purpose of assisting the Council in the construction of necessary enlargements to their headquarters building in the City of Ottawa.



Senate Committee

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

NATIONAL HEALTH AND WELFARE

(Continued)

Page 15 40b

The present headquarters structure was erected in 1956 and is already over-populated to the extent of some thirty to thirty-five per cent. During the months in which study has been given to the matter of enlargement, it has developed that the minimum useful addition will cost an estimated \$525,000. A canvass of all sources of funds during the past two years has indicated that if assistance to the extent of \$125,000 could be given now by the Government of Canada an immediate start could be made on this urgent program.

Offset:

This item 2 can be completely offset by anticipated lapses in Vote 10—Health Insurance and Resources—General Health Grants to the Provinces, the Northwest Territories and the Yukon Territory.

PUBLIC WORKS

Page 16 20b

Explanation:

(A) Contribution to Cost of Protection on Courtenay River, B.C.

The City would undertake to do the work of repairing damage due to erosion or replacing retaining walls and the Department to pay 50 per cent of the cost of the work up to a maximum of \$75,000 and also would agree that all the Department's responsibility, including financial, would cease as each part or all of the protection is repaired or replaced, or a total contribution of \$75,000 has been made or after March 31, 1975, whichever is the earliest.

The protection of these river banks would not normally be considered a Federal responsibility now but since it was, in fact, accepted in the past, there is some responsibility to contribute to the replacement conditional upon it being recognized as the final responsibility of the Department.

(B) Special Marine Works Program

It became evident early in 1968-69 that funds available for Harbour and River

Works were not sufficient to meet requirements. Consequently, the Department requested Treasury Board approval to proceed with an expanded program, subject to offsetting the expenditure incurred elsewhere in the total 1968-69 funds approved. Treasury Board approved this proposal in June, and the related works have been undertaken. The amount requested is \$325,000.

Province	No. of Projects	Total Cost
Ontario .....	7	\$ 60,000
Quebec .....	3	55,000
P.E.I. ....	6	27,000
New Brunswick ....	4	18,000
Newfoundland .....	17	215,000
Nova Scotia .....	13	185,000
	50	\$560,000

Difference between the total program cost (\$560,000) and this Supp (\$325,000) was met from within the Revised Estimates, 1968-69.

Offset:

These two items can be completely offset by anticipated lapses within this vote resulting from delays to projects in the Quebec Region caused by severe storms.

PUBLIC WORKS

Page 16 25b

Explanation:

This item provides for replacement, renovations and overhaul of equipment as follows:

(1) The renovation of Dredge No. 422 in the Atlantic Region	\$50,000
(2) Major engine overhaul for Dredge No. 322 in the Pacific Region	75,000
(3) Replacement of a worn-out bulldozer	50,000
(4) Replacement of a worn-out crane	25,000
	<hr/> \$200,000 <hr/>



National Finance

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

PUBLIC WORKS (Continued)

Page 16 25b

Offset:

This item can be completely offset from anticipated normal lapses in Vote 30—Harbours and Rivers Engineering Services—Construction.

SUPPLY AND SERVICE

Page 19 7b

Explanation:

This item is to reimburse the revolving fund in two respects:

(a) for the loss sustained in selling 24 pounds of raw quartz at the current market price, which is substantially below the price paid in 1951 for it;

(b) for the value of a considerable quantity of hexachlorethane acquired in 1956 and 1959 which has since deteriorated to the point where it would be uneconomical to reclaim it. This material deteriorates naturally at the rate of 1% per year. The material will be disposed of by the Crown Assets Disposal Corporation.

The latest estimated value of the revolving fund inventory was \$6,359,000 as at January 31, 1969.

Offset:

The requirement can be completely offset by funds that would otherwise lapse in Vote 5—Supply—Administration, which provides for the services formerly carried out by the Department of Defence Production.

SUPPLY AND SERVICES

Page 19 8b

Explanation:

As is usual with revolving funds this item is submitted to permit reimbursement of the fund for inventory losses, for stationery which has become obsolete, and for machine repair parts which have been on hand for many years and have been assessed as

obsolete. These parts will, of course, be disposed of through the Crown Assets Disposal Corporation.

The estimated value of the Supply Service Revolving Fund inventory was \$4,409,000 as at January 31, 1969.

Offset:

The entire requirement can be offset by funds which would otherwise lapse from Vote 5—Supply—Administration, which covers essentially the services formerly provided by the Department of Defence Production.

SUPPLY AND SERVICES

Page 19 16b

Explanation:

The Central Data Processing Service Bureau charges all of its operating expenditures to this Account, bills departments for the work it does for them, and credits the receipts to the revolving fund established by Parliament for the purpose.

As with any operation of this kind there are periodic major increases in capacity which often cannot be fully utilized immediately. This was the case with this Bureau in December, 1967, at which time a second computer was installed. Although the capacity cannot be fully utilized, the expenses of maintaining it must be met. It is not unusual in such circumstances, therefore, to incur an operating loss in the year in which the capacity is increased.

This Supplementary Estimate is to reimburse the Revolving Fund in the amount of \$128,600, the amount deemed not suitable for carryover into future years to be recovered in bills to the customers.

Offset:

The entire requirement can be offset from the estimated amount that will lapse in Supply and Services, Vote 5—Supply, which is the appropriation covering generally the services formerly provided by the Department of Defence Production.



Senate Committee

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

TRANSPORT

Page 20 Vote 3b

Explanation:

It is customary to continually review the state of the stock of stores and material purchased from revolving funds of this kind and to include in Estimates credits to the fund equal to the value of stores and materials which have become obsolete or unserviceable, lost or destroyed.

The latest review of the stock on charge to this fund indicates that stock to the extent of \$299,889 should be written off. This stock consists chiefly of ancillary parts which have to be declared obsolete because the parent equipment has been retired from service.

The latest estimated value of the revolving fund inventory was \$10,440,255.00 as of November 1, 1968.

Offset:

The requirement can be completely offset from funds in Vote 1—Departmental Administration, that would otherwise lapse.

TRANSPORT

Page 21 Vote 40b

Explanation:

Commitments made for these projects, which consist of the creation of or improvements to local airports, during 1965-66 were made in the amount of \$3,000,000 but expenditures only totalled \$2,064,529. Thus, while commitments have been contained within the desired \$1,000,000 annual level, the delay in carrying out the projects had created a peaking of cash requirements.

Offset:

This item can be completely offset by anticipated lapses within this vote and in Vote 35—Air Services—Construction (including national airports).

TRANSPORT

Page 21 Vote 65b

Explanation:

Provision is made in this vote for the payment of subsidies in the operation of Coastal Steamship Services on both coasts. These services are operated by local companies or individuals except in the case of the New-

foundland Coastal Steamship Services, which are operated by Canadian National Railways. Provision is made in the Main Estimates each year for the estimated subsidy which will be required. In most cases additional amounts required, as reflected in this Supplementary Estimate, are the result of wage increases approved during the year.

Offset:

The additional gross requirement of \$1,241,796 can be completely offset from funds that would otherwise lapse in Vote 50 and 55 which provide for Administration Expenses and subsidies to Air Carriers under the title Canadian Transport Commission.

TRANSPORT

Page 22 Vote 75b

Explanation:

Provision is made in this vote for a portion of the 1967 deficit and the whole of the 1968 deficit incurred in the operation of the Jacques Cartier Bridge in Montreal Harbour.

This Supplementary Estimate consists of an additional \$39,502 for the 1967 deficit and an additional \$11,598 for the 1968 deficit.

The expenditures and revenues involved in these two years are as follows:

Year	Expenditures	Revenues	Deficit
1967	\$ 695,415	\$ 129,313	\$ 566,102
1968	567,485	125,887	441,598
			<hr/>
			\$1,007,700

To be met from:

1967-68 Appropriations	\$ 526,600
1968-69 Revised Estimates	430,000
This Supp.	51,100
	<hr/>
	\$1,007,700

Offset:

The additional requirement can be met completely from funds that would otherwise lapse in Vote 80—Provision for the construction of retaining walls along the banks of the St. Charles River in Quebec.



## National Finance

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

Page 23 TRANSPORT Vote 77b

*Explanation:*

The provision requested in this Supplementary Estimate is for the 1968 deficit in the operation of Halifax Harbour and the 1968 deficit and the balance of the 1967 deficit in the operation of Saint John Harbour. This is the first time that an appropriation has been sought from Parliament for a deficit in the operation of Halifax Harbour. An appropria-

tion was sought for a deficit in the operation of the Saint John Harbour in Supplementary Estimate (C) 1967-68. The expenditures and revenues giving rise to the deficits are shown on the table below.

*Offset:*

This requirement can be completely offset by funds that would otherwise lapse in Vote 80—Provision for the construction of retaining walls along the banks of the St. Charles River in Quebec.

		1968					
		Expenditures	Revenues	Deficit	Expenditures	Revenues	Deficit
Halifax . . . .		2,740,800	2,167,300	573,500			
Saint John . .		1,158,987	992,218	166,769	1,237,513	938,382	299,131
				740,269			299,131
Less: Appropriated—1967-68 . . . . .				—			240,000
Required this Supplementary . . . . .				740,269			59,131

Page 25 VETERANS AFFAIRS Vote 30b

*Explanation:*

Provision was made in the Revised Estimates for payments to doctors for services to Veteran patients on the premise that medicare plans would be operative in the current fiscal year. It was expected, therefore, that the Federal share of these Veteran patient costs would be made from the provision for medicare payments in the Estimates of the Department of National Health and Welfare. Because only two provinces have introduced medicare plans during the fiscal year, the reduction anticipated for expenditures in this vote did not materialize. It is, therefore, expected that an additional \$920,000 will be required in the current fiscal year for medicare expenses incurred for and by Veteran patients.

Page 25 VETERANS AFFAIRS Vote 35b

*Explanation:*

This sum is required in connection with the construction of a new wing of Ste. Anne's Hospital in Ste. Anne de Bellevue. Provision was made in the Revised Estimates for this project in the amount of \$3,350,000 but the work is progressing much faster than was anticipated.

The new wing was begun in May 1968, and is expected to be completed next year at an estimated total cost of \$15,900,000, including a number of preparatory site services such as additional sewers, fire alarm systems and grading etc. It is expected that an additional \$750,000 will be required to meet progress claims for the balance of the year. Of this total, \$150,000 can be provided from within this vote.

*Offset:*

This item can be completely offset by anticipated lapses in Vote 10—War Veterans allowances.





ESTIMATES DEPARTMENT

TRANSPORT  
Office (London) Transport  
£1,000,000,000 required to buy the equip-

ment will, of course, be provided in the form of the proceeds from the sale of the fund to finance the railway. It is estimated that the proceeds from the sale of the fund will be £1,000,000,000. The Railway Act limits the amount of assets to be taken from the railway. The amount to be taken from the railway is £1,000,000,000 which would mean £1 million in the case of the London and South-Eastern Railway. The amount to be taken from the railway is £1 million in the case of the London and South-Eastern Railway. The amount to be taken from the railway is £1 million in the case of the London and South-Eastern Railway.

ONE DOLLAR ITEMS WHICH ARE LEGISLATIVE IN NATURE

The General Department of Roads proposes to construct grade separations to eliminate these obstructions and has made representations to the various authorities concerned. The amount to be taken from the railway is £1 million in the case of the London and South-Eastern Railway. The amount to be taken from the railway is £1 million in the case of the London and South-Eastern Railway. The amount to be taken from the railway is £1 million in the case of the London and South-Eastern Railway.

TRANSPORT  
£1,000,000,000 required to buy the equip-

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ESTIMATES DEPARTMENT

LABOUR  
£1,000,000,000 required to buy the equip-

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LABOUR  
£1,000,000,000 required to buy the equip-

TRANSPORT  
£1,000,000,000 required to buy the equip-

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Senate Committee

ESTIMATES DEPARTMENT

VOTE

ESTIMATES DEPARTMENT

VOTE

LABOUR

Page 12

Vote 12b

Explanation:

At the time of the take-over of the Cape Breton coal mines by the Cape Breton Development Corporation from the Dominion Steel and Coal Company compensation was being paid to 81 persons suffering from silicosis resulting from their employment in the coal mines. The monthly compensation for these cases amounts to something like \$8,000. Prior to the take-over the Nova Scotia Workmen's Compensation Board, which paid the compensation, financed the payment of it out of yearly assessments from the industry. DOSCO was by far the major contributor.

Since the take-over by the Cape Breton Development Corporation the Nova Scotia Workmen's Compensation Board does not receive any revenue from assessments to finance the compensation.

It is recommended that these compensation claims be regarded as part of the general liabilities of the coal mines acquired by the Cape Breton Development Corporation and that provision be made accordingly to assume the cost of present and future compensation to be paid for disability caused by silicosis. The contingent liability with respect to these claims has been calculated at \$1,100,000 with current annual outlays at about \$90,000.

Note: The wording of this vote was amended by Supplementary Estimates (B) (Revised) tabled on February 28, 1969.

SUPPLY AND SERVICES

Page 19

Vote 15b

Explanation:

This item is sought to give the Department authority required in order to make new rental arrangements for its computer equipment. The Department recommends that it be empowered to exercise its option to purchase this equipment as provided for in its rental contract. When title to the equipment is secured by the Department it will sell the equipment to a third party at the same price under a lease-back agreement. No physical relocation of the equipment will occur. The net gain to the Department is an estimated annual saving of \$400,000 in its operating costs.

Offset:

The \$4,000,000 required to buy the equipment will, of course, be provided in the form of the proceeds from the sale to the third party.

TRANSPORT

Page 21

Vote 57b

Explanation:

The Railway Act limits the amount of assistance to be given for any one railway crossing to \$500,000, which would mean \$1 million in the case of the crossings at Dorval and Dorion since there is a double railway line at each location.

The situation at these crossings is unique in Canada in that the streets concerned are crossed by two double-track mainlines which parallel a principal highway. Both crossings have had a bad record of accidents and are a continuous potential danger in spite of the best type of automatic protection and the employment of policemen and watchmen during heavy traffic hours.

The Quebec Department of Roads proposes to construct grade separations to eliminate these crossings and has made representations for a more substantial contribution from the Railway Grade Crossing Fund, which is described in the explanation given below for Vote 60b.

It is recommended that in view of the unusual circumstances, contributions to each of these crossings of \$1,600,000 rather than \$1 million be approved.

TRANSPORT

Page 21

Vote 60b

Explanation:

Section 265 of the Railway Act provides for the establishment of a fund known as the Railway Grade Crossing Fund, from which is paid the Federal Government's share of the cost of reconstruction, improvement or removal of level railway crossings at highways.

The Railway Act authorizes credits of \$5,000,000 per annum to the Railway Grade Crossing Fund. In addition in recent years this amount has been supplemented to the extent of \$10,000,000 per annum by annual appropriation. Notwithstanding the commitment level authorized by Parliament the rate



## National Finance

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

### TRANSPORT (Continued)

Page 21 Vote 60b

at which these commitments can be discharged is limited by the amount of funds provided for this purpose (\$5 million by statutory item and \$10 million annual appropriation). Based on the present level of funds available it would take four years for the commitment level of \$55.9 million to turn over.

The Canadian Transport Commission is authorized to make payments out of this Fund towards the cost of such works. In the case of a crossing at rail level the amount is the aggregate of 80% of the cost of the work or \$500,000 whichever is the lesser, and 80% of the cost of relocation. In the case of reconstruction and improvement of a grade separation the amount is the aggregate of 50% of the cost of the work, or \$250,000 whichever is the lesser, and 50% of the cost of relocation.

The commitment level authorized by Parliament in the Estimates represents the value of the total Federal share relating to orders which have already been issued by the Canadian Transport Commission approving the construction of crossings, and applications pending from road authorities which it is expected will receive favourable consideration.

In 1968 (prior to these Supps) the authorized commitments amounted to \$44,967,000 (i.e., if all the work were completed tomorrow the cost to the fund would be \$44,967,000). As a result of the increase in the number and value of applications for financial assistance under this program it has been requested that the commitment authority be increased by \$7,000,000 to \$55,967,000.

### FINANCE

Page 26 Vote L27b

#### Explanation:

The Canada Student Loans Act authorizes the Government to guarantee repayment of the principal and to pay the interest while the borrowers are full-time students, on loans made by banks and designated credit unions. These loans are made on the basis of "certificates of eligibility" issued by the Province. The Act fixes a maximum that may be lent to

a student during one academic year at \$1,000 and a maximum of \$5,000 to any one student during his entire post-secondary education.

The demand for student loans continues to rise at the rate of close to 25% annually. The maximum amount of loans by the Provinces to which the Act will apply is fixed by the Act for each year. The original total of \$40 million has been raised on two occasions. The last of these allowed a total of \$58 million, as the basic loan provision allocated to the Provinces plus a further \$11.6 million expressed as 20% of the basic loan provision, to be allocated by the Minister of Finance. The Act also allows the annual escalation of the basic loan provision by the same percentage as that by which the 18-24 age group increases.

Without the vote here sought the total basic loan provision would be \$69 million for the loan year beginning in 1968.

Indications from the provinces are that a basic loan provision of \$80 million will be required for the loan year beginning in 1968 and \$100,000,000 for the loan year beginning in 1969.

This Vote would allow such totals and would increase the percentage of them that could be authorized by the Minister of Finance as additional loan authority from 20% to 21% per annum for the 1968 loan year and from 21% to 30% for the 1969 loan year. The resulting overall loan limitations would be:

for the 1968 loan year—\$ 96.8 million  
for the 1969 loan year—\$130.0 million.

### INDIAN AFFAIRS AND NORTHERN DEVELOPMENT

Page 27 Vote L35b

#### Explanation:

These loans are made in accordance with the provision of Section 69 of the Indian Act which authorizes loans to Indians to assist them in engaging in business undertakings. The authorized total of \$2,400,000 for this purpose has already been committed and an additional \$250,000 is requested to cover anticipated loan applications for the remainder of the current fiscal year. It is expected that the bulk of the additional authority will be used in connection with the British Columbia Fishermen's Assistance Program.



Senate Committee

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

TRANSPORT  
Page 29 Vote L116b

*Explanation:*

Section 22 of the National Housing Act as amended authorizes loans by the Central Mortgage and Housing Corporation for housing in the amount of \$4,600,000,000. As has been done in the past, it is intended, by means of this Supplementary item, to authorize an additional sum of \$600,000,000 to cover anticipated lending requirements up to March 31, 1970.

Commitments approved up to December, 1967, totalled \$3,873,000. A further \$496,000,000 has been loaned during 1968. It is expected that some \$831,000,000 will be required between now and March 31, 1970. The sum of these amounts is \$5,200,000,000 or \$600,000,000 in excess of the current authority of \$4,600,000,000.

TRANSPORT  
Page 29 Vote L117b

*Explanation:*

Section 36C of the National Housing Act authorizes advances exceeding \$350,000,000 to Central Mortgage and Housing Corporation so that it may make loans for the purpose of student housing projects.

This Supplementary Estimate is required to authorize the loaning of an additional loan of \$125,000,000 to cover the demand anticipated for student housing projects between now and March 31, 1970. These loans are made to provinces (or their agents), municipalities (or their agents), hospitals, school boards, universities or colleges, cooperative associations or charitable corporations.

TRANSPORT  
Page 29 Vote 118b

*Explanation:*

The National Housing Act authorizes the Central Mortgage and Housing Corporation to issue an insurance policy in respect of mortgage loans that are insurable under the provisions of that Act. The total amount of loans in respect of which insurance may be issued is fixed by Section 13 of the Act at \$9,500,000,000.

Authority is sought in this item to ensure an additional \$1,500,000,000 of loans to meet the anticipated demand to March 31, 1970. Loans insured to the end of December 1967 totalled \$8,330,000,000. An additional \$1,100,000,000 was insured during the calendar year 1968. It is expected that insurance will be sought for an additional \$1,570,000,000 worth of loans between now and March 31, 1970. The total of the foregoing amounts is \$11,000,000,000 or \$1,500,000,000 more than the currently authorized total.

TRANSPORT  
Page 29 Vote L119b

*Explanation:*

Under Section 26 of the National Housing Act the Central Mortgage and Housing Corporation's liability for guaranteed home improvement loans and guaranteed home extension loans is fixed at \$500,000,000. The loan commitments made to the end of the calendar year 1968 totalled \$490,000,000. It is expected that an additional \$60,000,000 will be required between now and March 31, 1970. The foregoing amounts total \$550,000,000 or \$50,000,000 more than the currently authorized total.

TREASURY BOARD  
Page 23 Vote 6b

*Explanation:*

Parliamentary authority is required to write off these debts and claims because the Government is limited by Section 23 of the Financial Administration Act to the deletion of amounts up to \$1,000 each.

(A) The first category in this vote consists of debts due the Crown. Since these items were originally authorized as loans the amounts written off must be shown as budgetary charges rather than \$1. They total \$1,614,636.17 and comprise:

(1) Indian Affairs and Northern Development—30 minor items covering reimbursable assistance to Indians who were unable to repay the Department and 1 item of \$130,000 representing the outstanding principal of a loan to the Banff Recreational Centre in 1961 to build a curling rink. The curling rink did not prove to be a viable enterprise and did not have sufficient revenue to cover operating costs and loan repayment. Conse-



## National Finance

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

### TREASURY BOARD (Continued)

Page 23

Vote 6b

quently it was sold and the proceeds were applied to repayment of the loan, leaving a balance of \$130,000 for write-off consideration. Unpaid interest on the loan is included under "claims" in part B below.

(2) National Defence—the item of \$1,405,738.19 represents 50% of the outstanding principal as of December 31, 1968 on Oromocto debentures which were issued to finance municipal services at Camp Gagetown. This write-off is part of the revised arrangements to pay normal grants to the Town in lieu of taxes for municipal services, commencing in 1969, plus a reducing special transitional grant each year from 1969-1973.

(3) Veterans Affairs—3 minor Veterans Land Act loans which were uncollectable.

B. It is not necessary to vote the amount of these claims because they have already been recorded as budgetary charges in past years, in the case of overpayments, or represent revenues foregone rather than expenditures.

(1) Defence Production—1 item of \$1,005 representing an overpayment caused by difficulty in computing UK tax returns.

(2) Finance (Comptroller of the Treasury)—4 retirement annuity overpayments made in error.

(3) Indian Affairs and Northern Development—3 uncollectable accounts receivable, including \$63,981.68 interest owed by the Banff Recreational Centre referred to in part A above.

(4) Labour—1 item representing annuity overpayments, and not recoverable.

(5) Manpower—\$14,585.93 in student aid loans during World War II.

(6) National Defence—8 items of overpayment of pension, pay and allowances.

(7) National Revenue (Customs)—

Category	Number	Amount
Bankruptcy	129	\$725,180.54
Out of business—no assets	131	805,082.30
Indigent debtor	1	1,505.52
Debtor outside Canada	1	3,791.48
Deceased debtor	1	2,066.39
Enforceable debt cannot be readily established	2	10,121.93

(8) National Revenue (Taxation)—

Deceased no estate	37	316,182.41
Untraceable	94	283,957.04
Indigent	51	357,636.00
Not residing in Canada	35	366,523.41
Corporation inoperative and without assets	151	2,053,038.37
Undischarged bankrupt corporation, no assets and trustee discharged	82	540,733.14

9) Royal Canadian Mounted Police—3 cases of damage to police vehicles and related medical expenses; 1 case of overpayment of allowances.

10) Transport—3 cases of charges for services and 1 case of unauthorized expenses incurred by employee needing psychiatric treatment.











## National Finance

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

### INDIAN AFFAIRS AND NORTHERN DEVELOPMENT (Continued)

Page 10 Vote 5b

**Offset:**

To meet this requirement some \$2,800,000 is available as follows:

Vote 10—Indian Affairs—Construction—\$200,000 from a reordering of priorities resulting in the cancellation of small projects.

Vote 35—Conservation Program—Operation and Maintenance—from \$350,000 in anticipated lapses and \$50,000 from the re-scheduling of publications.

Vote 40—Conservation—Construction—\$1,650,000 from a reordering of priorities resulting in the reduction in land acquisition, and \$550,000 in lapses due to late contract awards and adverse weather conditions.

(B) Education \$2,000,000.

**Explanation:**

This requirement is to meet a carry-over of tuition fee accounts on behalf of Indian pupils, and as a result of increases in provincial rates for these fees which are paid on behalf of Indian pupils attending non-federal schools.

### MANPOWER AND IMMIGRATION

Page 13 Vote 15b

**Explanation:**

There are three elements in this vote:

(a) The Czech Refugee program for which no funds were specifically provided in the Revised Estimates. The total program is now expected to involve some 11,800 persons and some \$11,000,000, of which the 1968-69 costs are expected to be \$8,600,000.

(b) Expenditures for emergency assistance to regular immigrants which has been heavier than anticipated. The latest analysis indicates a further requirement of \$600,000.

(c) The word "recoverable", has been added to the title of this Vote. For many years the Department has provided assistance to immigrants, in some instances on a recoverable basis. Although it has been considered that the present vote wording provides adequate authority some apprehension has been expressed. In order to make the authority abundantly clear, the additional word has been included.

Total—\$9,200,000.

**Offset:**

The item can be offset by (1) anticipated lapses in Vote 20—Program Development—Administration (\$890,000) and (2) a reduction of \$2,110,000 in Vote 5—Purchase of training under the Occupational Training Act.

### REGIONAL DEVELOPMENT

Page 17 Vote 10b

**Explanation:**

(A) Contributions to the Provinces \$6,000,000.  
This item represents outstanding provincial claims for the Federal contributions under various ARDA projects.

The 1968-69 estimates provided \$18 million for payments to the Provinces under the terms of the Federal-Provincial Rural Development Agreements (1965-70). Claims expected from the Provinces are in excess of this amount. A further \$6 million is proposed to permit the payment of some of the outstanding claims in the year in which they are approved rather than carry them over to 1969-70.

(B) Other payments (ARDA) \$700,000.

This represents expenses in connection with the pre-planning of the Prince Edward Island plan for the period October 1, 1968 to March 31, 1969. When the 1968-69 estimates were made it was assumed that a FRED agreement with Prince Edward Island would be signed before October 1.

(C) Payments in Accordance with Agreements \$1.

This is a wording change to permit the Minister of Forestry and Rural Development to sign these agreements pending his designation as Minister of Regional Economic Expansion and to clarify the

Senate Committee

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

REGIONAL DEVELOPMENT (Continued)  
Page 17 Vote 10b

situation in respect of one agreement already entered under the former title.

Offset:

Partial offsets are available from anticipated lapses within this vote (\$2,750,000) and from Vote 5—Construction (\$140,000).

SECRETARY OF STATE

Page 18 Vote 1b

Explanation:

Provision is requested in this Supplementary Vote for:

(a) Relatively small grants to arts and cultural service organizations; namely, the Canadian Folk Arts Council, the Province of Ontario Council for the Arts, the Canadian Museums Association and the Associated Councils of the Arts.

(b) A grant in the amount of \$59,600 to the Association of Universities and Colleges of Canada as financial assistance toward a three-year study of financing in the field of post-secondary education. This is the third and final grant for this study.

(c) \$185,000 for the establishment of a task force on educational broadcasting which will make a study of and advise the Government on educational broadcasting. It is expected that this study will cover a period of six months ending June 30, next. Authority is, therefore, sought

for payments in the next fiscal year from this \$185,000.

(d) Provision in the amount of \$190,000 for the expenses incidental to closing out the affairs of the Centennial Commission. It will be recalled that this Commission ceased to exist on April 1, and that the Secretary of State has been authorized to perform all of the acts necessary in connection with the closing out of the Commission's affairs.

Offset:

To meet the gross requirement of \$488,940 transfers totalling \$127,000 can be made available from funds which would otherwise lapse in Vote 5—Citizenship, Administration, Operation and Maintenance and Vote 10—Translation Bureau.

TRANSPORT

Page 20 Vote 20b

Explanation:

(a) The \$1,000,000 item relating to ferry terminals is intended to provide better parking and ticketing facilities at Borden, P.E.I. and Cape Tormentine, New Brunswick.

(b) The \$750,000 car ferry item covers increased construction costs for the "John Hamilton Grey" in accordance with the contract. The work is now completed.

Offset:

These items can be completely offset by anticipated lapses in Vote 10—Marine Services—Construction.





Senate Committee

ESTIMATES DEPARTMENT VOTE ESTIMATES DEPARTMENT VOTE

ENERGY, MINES AND RESOURCES

Page 26 Vote L3b

Explanation:

These loans are required to meet the cash requirement of Eldorado Nuclear Limited between now and March 31, 1970. Eldorado will not be generating sufficient cash income to finance its operating and capital requirements. The reason is that it does not propose to make any sales of uranium for immediate delivery, because current prices are too low. Instead, it proposed to negotiate firm uranium sales contracts for future delivery in 1972 or 1973, and borrow money by discounting these contracts at reasonable rates of interest; in other words, Eldorado would borrow either from the Government or from other institutions, using these forward contracts as backing. The borrowings would be on terms and conditions to be approved by the Governor in Council.

This item will also provide the necessary authority for Eldorado Nuclear Limited to borrow funds in its own name.

SOLICITOR GENERAL

Page 28 Vote L103b

Explanation:

The purpose of this item is to authorize the making of loans to parolees to assist them in their rehabilitation. It is also intended to authorize an account within the Consolidated Revenue Fund to which it is intended to credit the amounts repaid, which will then be available for additional loans. Provision is also sought for the Minister to forgive the repayment of all or part of the loan should circumstances warrant such action, for example, in the case of the death of a recipient.

There has been in existence since 1963 authority for such loans but there was no authority for re-lending repayments nor for the forgiveness of any portion of these loans.

TREASURY BOARD

Page 24 Vote 10b

Explanation:

There are three requirements in this Vote:

- a) Additional Costs of Group Surgical-Medical Insurance Plan—\$35,000

The original estimate of \$12,918,000 reflected the expectation that members resi-

dent in British Columbia would become participants in B.C. Medicare and retain supplementary benefits only under the Federal Group Surgical-Medical Insurance Plan which would have resulted in a reduction of premiums payable by the Government in respect of these persons. Arrangements were made for the temporary continuation of the full Group Surgical-Medical Insurance Plan for British Columbia residents and, although it was first anticipated that this arrangement would continue for a few months only, in October, 1968, a further temporary continuation of the full plan was agreed upon. The result is that the Government's contribution will be greater than anticipated.

- b) Benefit Plans for Locally-Engaged Employees—\$14,000

This sub-vote provides funds to enable employees serving outside Canada to receive pension and other benefits similar to those available to employees covered by the Public Service Superannuation Act.

A number of changes have been made during the fiscal year in the plans provided for in this vote which have resulted in increased Government contributions:

- 1. On August 1, 1968, higher benefits were approved for the U.S. Insurance Plan at an estimated cost of \$800.
2. On January 1, 1969, a Health Insurance Plan for U.S. Locally-Engaged Employees was started and the Government contribution is to be charged to this vote in the estimated amount of \$2,400. It is this feature that constitutes the legislative change sought in this Vote.
3. Several new offices of the Canadian Government were opened in the U.S.A. increasing the membership in the U.S. Plans and costing approximately \$500.

4. In 1965 the Treasury Board approved a policy of purchasing additional annuity credits each year for members of the U.S. Pension Plan so long as the total Government contribution for the fiscal year does not exceed the total employee contribution. It would be in accordance with this policy to make such an additional purchase in this year. The



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TREASURY BOARD (Continued)

Page 24

Vote 10b

experience of the pension plan this year indicates that the employee contribution will exceed the Government's contribution and a further \$4,500 is needed to increase the Government's contribution.

5. An amendment to the non-contributory plan has provided some additional benefits to persons situated in countries where extreme inflation has occurred. These have cost approximately \$1,000 in addition to approximately \$4,800 in lump sum payments.

c) *Additional Employer Contributions to Unemployment Insurance Fund—\$155,000*

The effect of the changes in the Unemployment Insurance Act respecting contribution levels and the freeze on staff

was underestimated by the additional amount now requested. The legislative changes raised the contributor income ceiling to \$7,800 per annum.

SUPPLEMENTARY ESTIMATES (B),  
1968-69

Answer to question by Senator Phillips (*Rigaud*) on accounting treatment of assessments by Department of National Revenue under Income Tax Act.

"The advice given by the Department is that an assessment is set up as an account receivable as of the date of the assessment regardless of any notice of objection or appeal, this being in accordance with Section 51(1) the Income Tax Act."

The Honourable LAZARUS PHILLIPS, Acting Chairman

No. 6

THURSDAY, MAY 23, 1969

Second Proceedings on The Estimates

laid before Parliament for the fiscal year ending 31st March, 1970

WITNESS

Dr. Geo. F. Davidson, President, Canadian Broadcasting Corporation







First Session—Twenty-eighth Parliament  
1968-69

**THE SENATE OF CANADA**  
**PROCEEDINGS**  
**OF THE**  
**STANDING SENATE COMMITTEE**  
**ON**  
**NATIONAL FINANCE**

The Honourable LAZARUS PHILLIPS, *Acting Chairman*

No. 6

THURSDAY, MARCH 13th, 1969

*Second Proceedings on The Estimates*

laid before Parliament for the fiscal year ending 31st March, 1970.

WITNESS:

Dr. Geo. F. Davidson, President, Canadian Broadcasting Corporation.

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Beaubien	Grosart	McDonald
Benidickson	Hays	McLean
Bourget	Isnor	Nichol
Bourque	Irvine	Paterson
Desruisseaux	Kinley	Pearson
Dessureault	Laird	Phillips ( <i>Rigaud</i> )
Everett	Leonard	Phillips ( <i>Prince</i> )
*Flynn	MacDonald ( <i>Queens</i> )	O'Leary ( <i>Antigonish-</i> <i>Guysborough</i> )
Fournier ( <i>Madawaska-</i> <i>Restigouche</i> )	*Martin	O'Leary ( <i>Carleton</i> )
Gelinas	Methot	Sparrow
	Molson	Walker—(30).

\**Ex officio members:* Flynn and Martin

(Quorum 7)

THURSDAY, MARCH 13th, 1969

WITNESS

Dr. Geo. F. Davidson, President, Canadian Broadcasting Corporation.



## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, February 12th, 1969:

“With leave of the Senate,

The Honourable Senator McDonald, moved, seconded by the Honourable Senator Langlois:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, in advance of Bills based upon the said Estimates reaching the Senate; and

That the Committee have power to engage the services of such counsel and technical, clerical and other personnel as may be necessary for the purpose of the inquiry; and

That the Committee have power to sit during adjournments of the Senate.

The question being put on the motion, it was—

Resolved in the affirmative.”

ROBERT FORTIER,  
*Clerk of the Senate.*

Frank A. Jackson,  
*Clerk of the Committee*





## MINUTES OF PROCEEDINGS

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

THURSDAY, March 13th, 1969.

(9)

At 9.30 a.m. this day the Standing Senate Committee on National Finance met to consider the Estimates laid before Parliament for the fiscal year ending March 31st, 1970.

*Present:* The Honourable Senators Phillips (*Rigaud*) *Acting Chairman*, Desruisseaux, Grosart, Hays, Isnor, Irvine, Kinley, Laird, McLean, Pearson and Sparrow. (11).

*Present, but not of the Committee:* The honourable Senators Haig and Smith. (2)

The following witness was heard:

*The Canadian Broadcasting Corporation:* Dr. Geo. F. Davidson, President.

It was suggested that, if possible, Dr. Davidson appear again before the Committee at a later date.

At 11.00 a.m. the Committee adjourned to the call of the Acting Chairman.

**ATTEST:**

Frank A. Jackson,  
*Clerk of the Committee.*





## THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

### EVIDENCE

Ottawa, Thursday, March 13, 1969

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, met this day at 9.30 a.m.

Senator Lazarus Phillips (*Acting Chairman*) in the Chair.

**Acting Chairman:** Honourable senators, we have a quorum and we will call the meeting to order.

As you know, in the absence of our chairman, Senator Leonard, and in the absence of Senator Hartland Molson who is vice-chairman, I am privileged to be your chairman for this meeting. As this is the first time for me to chair this committee I ask your indulgence.

We have as a witness today a gentleman who is not unknown on the national scene, Dr. George S. Davidson, President of the CBC. I am not sure whether we should congratulate him on his appointment to this position or commiserate with him. With him is Mr. V. F. Davies, Vice-President, Finance of CBC and Mr. Ron Fraser.

You may remember that when Senator Leonard chaired the last meeting he indicated that Dr. Davidson would be obliged to leave us on account of an important prior appointment by 11 o'clock this morning. That is why I am calling this meeting to order immediately. I am afraid that something akin to closure will have to be applied by approximately two minutes before 11.

Honourable senators, you have before you the estimates for the fiscal year ending March 31, 1970, and I think you will find the pertinent material for the subject matter we are to discuss this morning at page 355. Those of you who have received these booklets covering the individual departments will find the details connected with the Canadian Broadcasting Corporation estimates on page 46.

Dr. Davidson, will you be good enough to join us? Perhaps we can now hear from you with regard to these estimates.

**Dr. G. F. Davidson, President Canadian Broadcasting Corporation:** Mr. Chairman, and honourable senators, it is a pleasure and privilege for me to appear once again before the Senate Committee on Finance before which I have, as you said, Mr. Chairman, appeared previously in another capacity. I would like to say that I did make an appearance a year ago before a special committee of the Senate set up to review the provisions of the then broadcasting bill which was being examined by the Senate.

I think I have learned something about the problems of broadcasting in the intervening year, but I am not sure that I have learned anything about the answers to the problems we encounter from time to time. Be that as I may, I am happy to appear before you this morning with my colleagues to give you a brief picture of the requirements for the corporation for the year 1969-1970 and to answer as best we can any questions that members of the senate committee may have in their minds.

Perhaps I should say in anticipation that Mr. Laurent Picard who was appointed the same day as I was, February 1st, 1968, as executive vice-president of the corporation is on his way here and will join with me in replying to questions that may be put by members of the committee.

You have referred to the fact that the Blue Book of estimates contains certain references to the requirements of the Canadian Broadcasting Corporation as approved by Treasury Board and as presented to the house by the government for the year 1969-70. There are one or two features of the format in which these Estimates now appear on which I would like to comment briefly, if I may, because they relate to some of the work that was done during the period I was Secretary of the Treasury Board. I think members of the present committee who heard my testimony in previous years will recognize that there are now coming into being some of the changes I had anticipated when I appeared previously before the Senate Finance Committee.

The Estimates of the Secretary of State's department on page 347 of the Blue Book contain, in very brief form, the legal wording which will appear in the appropriation bill for CBC operating requirements; it



is on the basis of that legal wording that the vote of Parliament will be passed so far as our operating estimates are concerned. You will see there that we have stated a requirement this year of \$166 million, the details of which appear on page 355, compared to \$151,100,000 for the year just ending.

In addition to that, you will find, Mr. Chairman and ladies and gentlemen, on page 466, in the Loans, Investments and Advances section of the Estimates book, a vote numbered L145, which represents the second vote that will have to be approved by Parliament. It shows there that we have a loans requirement for \$30 million in 1969-70, compared to \$25 million in the current year.

**The Acting Chairman:** That is at what page, Dr. Davidson?

**Dr. Davidson:** This appears at the bottom of page 466, and you will find the details of that loans requirement running over on to page 467.

If you will take the trouble to compare the form in which these estimated requirements are presented this year, compared to previous years, I think you will find that the estimates now contain a good deal more detail as to the reasons for the corporation's operating and loan requirements than in any previous year. In previous years all the members of Parliament received, so far as the Blue Book of Estimates was concerned, was the simple statement contained on page 347, which was repeated under "Details." Now, if you turn to page 355 you will see at least the beginning—and I say it is only a beginning—of an attempt that we are making, following along certain suggestions made to us by the Auditor General, to break down the requirements of the corporation on the operating side into at least a number of major headings, so that you will begin to see what the skeleton is of the composite requirements of the corporation's operating activities.

If you will just jump ahead for a moment and look at the bottom of page 466 and at page 467, again you will see under "(Further Details)" that we have inserted, for the first time, some admittedly still elemental breakdowns showing the capital requirements under a number of headings; "Extension of Broadcasting Services: . . ." "Additions and Replacements to Plant and Facilities: . . ."; and each one is broken down under "Television" and "Radio" sub-headings. Then, "Ordinary Capital and Improvements to Owned Properties"; and then, most important of all, "Consolidation of Plant and Facilities", where you will see almost half of our capital budget listed, being an operating requirement for commencement of the Montreal consolidation in the year 1969-70.

Honourable senators, I promise that this is the last time I will ask you to turn back, but if you will look back to page 355 you will see that we have tried to make a distinction between the production

and distribution of our programs under a variety of headings. First of all, there is the actual cost of producing programs. Then the cost of distributing them across the country through the networks—that is the microwave charges, essentially. Then you have the station transmission costs, and those are the costs of operating local stations in Vancouver, Winnipeg, Halifax, and so on: They receive a proportion of their programming by microwave from Montreal and Toronto, but they also have to operate the local station, and it is the local station operating costs that are included under the heading "Station Transmission". "International Service" refers to the service of broadcasting to 11 countries over 26 different frequencies in a great variety of languages—to Europe, including eastern Europe, Africa, Latin America and Asia. In previous years this was the subject of a separate vote. This year it has been absorbed into the main vote of the Canadian Broadcasting Corporation.

I would draw your attention next to the capital loan financing. We have an arrangement—which I am sure some members of the Senate committee will wish to comment on—by which we are required to borrow our funds for capital purposes from the Government, and to repay those capital loans out of our operating budget. This results in a process that I call "chasing your tail around a tree," because the only effect of this is that in order to pay back the lender in respect of both the principal and the interest on the funds we borrow, we have to have the lender give us in the operating budget that much more money; and I can tell you, as we see our capital requirements developing over the next few years, with the Montreal consolidation involving a plant of some \$66 million and consolidation requirements looming in Toronto, Vancouver, Winnipeg and Halifax,—we can see our capital loan requirements escalating very substantially over the next few years. This means that the item called "Capital Loan Financing", the repayment of and interest on that capital, will be going up by leaps and bounds, and the result will be, I suggest to you, honourable senators, a major distortion of the picture so far as the operating budget of the corporation is concerned in the next few years.

**The Acting Chairman:** Would it be in order, for the guidance, certainly of myself and maybe of some other honourable senators here, if I were to ask what is the philosophy in the distinction between "Capital Loan Financing" and "Loans, Investments and Advances" that are treated separately? I am referring to the \$30 million Loans, Investments and Advances as distinct from that being capital loan financing which involve repayment.

**Dr. Davidson:** The \$30 million of loans is what I am referring to. This is what we borrow from the Govern-



ment on a schedule that involves us paying it back over a period of years, and because we are borrowing \$30 million additional next year, having borrowed \$25 million this year, our repayment schedule increases. We are now being charged current interest rates and, consequently, you see the jump in loans financing from \$8 million to \$11 million between 1968-69 and 1969-70.

**The Acting Chairman:** So they are really related?

**Dr. Davidson:** Yes, they are definitely related. One is the amount of money required to amortize the cumulative total of loans.

We next have a heading "General Administration/Engineering" which covers the administration headquarters of the corporation located in Ottawa and the engineering headquarters of the corporation located in Montreal. You will see that this results in a total gross expenditure, calculated on a basis that includes depreciation, rising from \$190 million in the current year to an estimated \$206.5 million in the year to come.

Since Parliament does not provide in its appropriations for depreciation charges, we deduct the depreciation charges. We deduct finally the amount of money we expect to receive by way of commercial revenues, and you will see that we are estimating an increase in commercial revenues, rising from \$29.8 million to \$31.1 million in the course of the two-year period. Our selling charges are shown above, and they have to be netted off from the revenue charges.

In summing up I would say, sir, that there are three principal reasons for the increased requirements in our operating budget for the year 1969-70. The first and principal reason is in the increased salary and wage costs arising, as I am sure everyone will appreciate, from the increased wages we have to pay as a result of our collective agreements with the unions. Certainly better than 75 per cent of the work force of the Canadian Broadcasting Corporation is unionized, and we face the same problem that any business organization or any other Crown corporation faces in meeting these annual increases in our wage bill. This, as I recall it, involves increases of the order of \$8.3 million out of the \$14 million approximately which is our increased requirement for 1969-70.

The second major increase is very clearly in front of your noses. If you look at the capital loan financing you will see an increase in this item of \$3 million which, so far as we are concerned, is completely unavoidable, and for which provision has to be made.

The final major item is what we call delayed impact—the delayed impact of carrying in the full year 1969-70 the operational costs of new facilities which were brought on-stream only half way through 1968-69. To give you a specific example, we acquired a new television station in Charlottetown, Prince

Edward Island in the middle of the year 1968-69. Since we acquired it in the middle of the year 1968-69 we have in our 1968-69 budget to provide for only one-half of the operating costs of that station for the fiscal year 1968-69. However, the fact that we have acquired that station in the middle of the year has a delayed impact, and it will cost us, therefore, twice as much in dollars to provide for that station's operation for the full 12-months period of 1969-70—that is, twice what we had to spend in 1968-69. So, the third major item of expense is the delayed impact expense of the coming on-stream of new facilities in 1968-69 which did not require a full year's budget this year, but which will require a full year's budget next year.

**Senator Isnor:** What does that amount to?

**Dr. Davidson:** I could not give you the precise figure on that, but the remaining balance after the two items I have already mentioned is \$3 million, and most of that \$3 million is due to what I have referred to as delayed impact. I am told that the specific figure is \$1.8 million. This means that we have something over \$1 million for all of the additional miscellaneous costs, of which I might give you a particular example.

When the National Arts Centre becomes operative here in Ottawa there will be a National Arts Centre orchestra. The Corporation will be dealing with that orchestra in the same way that it deals with other orchestras that play serious music across the country. We will be purchasing programs and services from that orchestra, and we have made provision in our year's estimates for something in the order of \$100,000 in anticipation of that additional program requirement.

**Senator Isnor:** Would you enlarge on your advertising revenue? What increase do you expect from—

**Dr. Davidson:** —Advertising?

**Senator Isnor:** Yes.

**Dr. Davidson:** We expect to get additional revenues for ourselves, Senator Isnor, rising from \$29,773,000 in 1968-69 to \$31,146,000 in 1969-70. That is revenue to ourselves. You do appreciate that the Canadian Broadcasting Corporation's total network involves not only what we call our O and O stations—our owned and operated stations—but also a much larger number of affiliated stations which are privately owned stations affiliated to the Corporation. When we sell advertising over our total nationwide network we will be selling advertising over those stations as well as our own stations. The consequence is that the advertising revenue that we gross is substantially higher than \$31 million. It is something of the order of \$40 million, as I recall, but we have to net off that the payments we make to the private stations that are affiliated with us for their services, and also payments to the agencies.



**Senator Haig:** You buy time on their stations.

**Dr. Davidson:** No, we sell time on their stations.

**Senator McLean:** If a local station is transmitting a CBC program, and during a break it puts on a half minute advertisement, does the CBC get a portion of the revenue from that?

**Dr. Davidson:** If it is a local advertisement then that is a local sale by the local station. Could I just follow that through by saying that if we put on a network program—let me think of one; perhaps you can think of one, and thus prevent my getting into trouble by mentioning a particular program.

**Senator Smith:** Don Messer's program is very popular.

**Dr. Davidson:** Very well, let us take Don Messer. If we sell on a network basis then that means that a national agency buys sponsorship or time on every station on which that program is shown all across the country. We will charge a rate based on our nationwide audience to that advertiser, but because part of our audience is attributable to the participation of the affiliated stations, they are entitled to get a portion of the total advertising revenue we get from the nationwide sale. It is the nationwide sales rather than the local sales that are involved in the sharing of advertising revenues, and we net that off from this figure before we put it in the printed estimates.

**Senator Grosart:** Dr. Davidson, perhaps it would be helpful if you explained the O and O stations in relation to the others in quantitative terms.

**Dr. Davidson:** I should know this exactly. I hope I can get some help from my colleagues.

**Senator Grosart:** That is, in which cities do you have O and O stations?

**Dr. Davidson:** My recollection is that we have either nine or eleven O and O television stations. I am told that we have 14. They are, from east to west, one in St. John's, Newfoundland; one in Corner Brook, Newfoundland; a new one now in Charlottetown; one in Halifax; none in New Brunswick—I am talking about television stations now—one in Quebec; one French in Montreal and one English in Montreal; one English and one French in Ottawa; one in Toronto; one in Winnipeg; and a French language station in St. Boniface that is not tied to the network but which is fed taped programs that are sent out to it; none in Saskatchewan; one in Edmonton; and one in Vancouver.

**Senator Grosart:** And how many affiliates do you have?

**Dr. Davidson:** My recollection is that we have 34, but I would have to check the accuracy of that figure. We have 39 affiliated stations, 30 in English and 9 in French.

I might as well put this correctly on the record. We have eleven English owned and operated television stations, and five French, for a total of 16 owned and operated stations.

Then, in addition to that, we have 76 auxiliary stations. These are re-broadcasters of various kinds which merely relay programs that are produced and initiated elsewhere.

**Senator Grosart:** They are wholly owned by the CBC?

**Dr. Davidson:** They are wholly owned by the CBC. Then, in addition, there are 39 affiliate stations, 30 English and 9 French, which are privately owned. They in turn have 105 auxiliary extensions.

On the radio side, we have 25 owned and operated English radio stations, six owned and operated French radio stations, seven FM stations and five short-wave stations. The English stations have 163 auxiliary units extending the range of their programs; the French have 39 auxiliary units. On the affiliate side, we have 60 English affiliates and 33 French affiliates. Here I think is a significant point: there is only one auxiliary extension of the 60 English affiliates and none for the French, emphasizing the fact that on the radio the stations with which we affiliate are essentially local stations serving a very local community, whereas on our English and French radio, and on both private and public television, the tendency in television is to try to extend coverage through auxiliary units, re-broadcasting over a larger area.

**Senator Grosart:** On average, what percentage of the time on air of the affiliates is supplied by CBC programming?

**Dr. Davidson:** Between 40 and 50 per cent, Mr. Fraser our Vice-President (Corporate Affairs) advises me. They will range, however, up to 90 per cent, or even higher in some stations, and to something lower than that, probably not less than 30 or 40 per cent. The French stations are 75 to 80 per cent; the English stations are down to less than 50 per cent.

**Senator Grosart:** Why would the French stations carry a higher percentage of CBC programming?

**Dr. Davidson:** Because the French stations have nowhere else to go, if I may put it that way, for program material, or very few alternatives that are commercially within their means. They cannot produce themselves. Production, as you well know, is a very expensive proposition. They have a limited



number of alternative markets to which they have access for program material; they have no American cultural avalanche waiting to be dumped across the border.

**The Acting Chairman:** Did you say "cultural"?

**Dr. Davidson:** I said "avalanche".

**The Acting Chairman:** I thought you said "cultural".

**Dr. Davidson:** I also said "dumped", so there are two pejorative words for the one complimentary reference. I do not mean to be uncomplimentary to American program material, because we use enough of it, or too much of it, ourselves.

**Senator Grosart:** There are high and low cultures.

**Dr. Davidson:** I can say that it is formidable competition in terms of its attractiveness and packaging, not only to American audiences but also to Canadian audiences. I wish we had some way to immunize our Canadian audiences in a manner that would make them less attracted to the kind of American programs we are so ready to criticize and condemn as being not worth having.

**The Acting Chairman:** Perhaps we could have a cultural ditch as they have military ditches.

**Senator Grosart:** I should like to get this background, if I may. What is the total audience delivered by your owned and operated stations compared to the total audience, on average . . . I know it is difficult to come up with exact figure . . . delivered by the affiliates?

**Dr. Davidson:** We would have to get that for you, senator. I am quite sure it is in our annual report and I will ask my colleagues to check it and possibly give you the answer before the end of the meeting.

**Senator Grosart:** Thank you. I have some other questions, Mr. Chairman, but I will pass for now.

**The Acting Chairman:** I think it as well to complete your questions, senator.

**Senator Grosart:** I was about to pass on to Dr. Davidson the compliments of Senator Beaubien, who had looked forward to meeting him here today.

**Dr. Davidson:** I reciprocate them, Senator Grosart. I can only say I would have greatly preferred meeting Senator Beaubien where he is now rather than meeting him where I am now! I understand he is in Jamaica.

**Senator Grosart:** I understand he is. He very much regrets that he is not able to be here, because he wanted to correct some impressions, with your help.

**Dr. Davidson:** I will be glad to help him correct the impressions.

**Senator Grosart:** Perhaps you would speak for a moment to some of the questions he asked in the Senate.

**Dr. Davidson:** Yes, sir. I know he asked the questions, and I submit, with great respect, that we answered the questions.

**Senator Grosart:** I do not want to put words in his mouth, but he suggests that the answers might have been fuller to meet his expectations. He may have had rising expectations.

**Dr. Davidson:** I would say, with great respect, that we answered the questions that were asked. We did not answer the questions that were not asked. I would give you as an example the first question, which appears in the Senate *Hansard* for March 5, 1969. Senator Beaubien said:

The first question I asked was:

How many hours did Mr. René Lévesque speak on the CBC radio during the current year 1968?

The answer to that question reads:

Alone or in discussion with others—

This includes panel discussions—

Mr. Lévesque's appearances on the CBC radio networks totalled approximately three hours during 1968.

He asked how many hours we gave him, as close as we could, the answer. We did not give him what he criticized us for not giving him; we did not give him all of the detail he later decided he wanted. I say this with the greatest respect to Senator Beaubien, and I would say the same thing to him if he was sitting here today. He goes on later to say:

Honourable senators, I am not satisfied with those answers.

I will come to this later.

I want a detailed account of the times Mr. Lévesque was on radio or television.

If he had asked for a detailed account of the times Mr. Lévesque was on radio or television we would have given him a detailed account. When he asked for the number of hours we gave him the number of



hours, and I submit, with great respect, that we answered the question that was put. Senator Beaubien then says:

I want to know on what programs he appeared. If he puts that question on the Order Paper and asks for the programs on which Mr. Lévesque appeared, it is our duty to furnish that information; but it is not our duty—I say this again with great respect—to read the minds of honourable senators or honourable members of the House of Commons and try to go beyond the questions put to us.

If I may go back to the other questions, Senator Beaubien said:

Then I asked if René Lévesque was paid anything, and the answer is, "No".

A simple question, and it is a straightforward, honest and complete answer. He went on:

I asked if he had paid anything, and the answer is "No".

The same applies to that. Senator Beaubien went on:

Then I asked how many hours during 1968 Mr. Lévesque had appeared on CBC television, and the answer is:

Alone or in discussion with others, Mr. Lévesque's appearances on the CBC television networks totalled approximately four hours during 1968.

Up to that point I think, with great respect, there is no question that we have answered fully and completely the questions that were put to us by Senator Beaubien.

"Then they said that Mr. Lévesque had not been paid anything. When I asked whether he or his sponsors had paid to the CBC for his television appearances I was told that they charged nothing and the programs on which Mr. Lévesque appeared were not made available to sponsors."

I think there is a little bit of confusion here because the final questions, as I recall, which were asked by Senator Beaubien, were how much would have been charged on a commercial basis for this time if Mr. Lévesque had been treated as an advertiser and had been required to pay the commercial rates.

Senator Grosart: And had the money.

Dr. Davidson: Our answer to that was simply this and I shall repeat it. On our own public affairs and news programs we do not entertain advertising. There is no such thing as how much it would cost to buy

time on our news or public affairs programs and therefore we do not give an answer to that question. I am not prepared to equate for example the commercial charges that we would charge to an advertising agency or commercial company on an entertainment program and say that those are the rates that we would charge on a news and public affairs program.

Our news and public affairs programs are not for sale, and we make no charges for time on news and public affairs programs. We deal with Mr. Lévesque on the same basis in that regard as we would deal with any other public figure.

Senator Grosart: Thank you very much on behalf of Senator Beaubien for putting that answer on the record. I wonder, Mr. Chairman, if I might suggest to Dr. Davidson, in view of his understanding of the broader concept of Senator Beaubien's questions, as indicated by his reprise that he consider answering the second set of questions in a memo to Senator Beaubien?

Dr. Davidson: I would be very glad to do more than that, Senator Grosart. I would be very pleased to present and have attached to this committee's proceedings, if you wish, a tabulation which would show the further detail of time periods and programs that were requested. I would have to say that I must maintain the same position with respect to any attempt to calculate commercial charges for the time periods when Lévesque appeared on CBC radio or television.

Senator Grosart: Would you append your rate card?

Dr. Davidson: Well, it is a public document. I have no objection to answering your request to file as part of the committee's proceedings, as a separate request, our commercial rate card.

Senator Grosart: I think this will satisfy Senator Beaubien, because he did want to relate the time that was given to Mr. Lévesque to the normal costs and there is in your rate card an indication of what that time would cost; not necessarily on that particular segment of your program, but time is time.

Dr. Davidson: It would depend entirely upon what time of day it is, senator, as you well know,—and on whether it is a local station, etc. However, I cannot figure out the rate card. If you or Senator Beaubien can, you are most welcome to the information the rate card contains.

Incidentally, the rate card is no—there are all sorts of complications. One is the time period in question, the calendar year 1968, in which two rate cards apply because our rate card changes. The rate cards change September 1. Do you want us to provide two rate cards?



**Senator Grosart:** Either one will do, because I do not think there is a very significant change.

**Dr. Davidson:** We will be glad to table in response to your request, Senator Grosart, the rate card we have been operating on since September 1, 1968.

**Senator Smith:** You mean more than tabled, you mean part of the record.

**Dr. Davidson:** I mean to file it with the clerk and if you wish to print it as part of the proceedings that would serve the purpose.

**Senator Hays:** In regard to that question, probably at the same time you would also present the percentages of time that are given to public affairs programs during the day.

**Dr. Davidson:** Perhaps not during the day, Senator Hays, but over a longer period of time.

**Senator Hays:** I think this would be well to do at this time.

**Dr. Davidson:** I would just like to read, if I may Mr. Chairman, into the record. . .

**The Chairman:** Dr. Davidson, before you do so there were senators that wished to place a few questions. They may have some bearing upon what you wish to say. Would Senator Hays—

**Senator Hays:** I just had that one question.

**The Chairman:** Would the senators await putting questions until after Dr. Davidson proceeds?

**Senator Hays:** I have some other questions.

**The Chairman:** We will suspend putting the questions until after Dr. Davidson proceeds.

**Dr. Davidson:** I would like to read into the record very briefly the time periods that are involved in the exposure of Mr. Lévesque on radio and television. One gets the impression from reading some of the criticism that he is on morning, noon and night.

On February 1, 1968, he appeared for seven and a half minutes and appeared again on French radio on April 9 for nine minutes and April 22 for three minutes. On June 29 he had extended exposure of 15 minutes, September 18, two minutes, November 25, four minutes for a total of 40½ minutes of public affairs programming in the course of a year.

**Senator Haig:** Is this a local individual appearance, or a panel?

**Dr. Davidson:** I cannot be completely certain of that, Senator Haig.

**Mr. Fraser:** It would not be a panel normally. It would be a four or five-minute slice of his own time.

**Dr. Davidson:** It would be with an interviewer in which he was responding to questions and it would be sharing this time probably with one single interviewer. He had 40½ minutes in the course of a year. He was also involved in news programming for forty-eight and a half minutes as well as the public affairs programming, for an over-all total of one hour and 27 minutes on French radio.

On English radio he appeared on February 12 for 10 minutes, five minutes on April 22, five minutes October 14 for a total of 20 minutes on public affairs. Those three appearances were on a program called "Five Nights a Week at This Time," which I believe is a local English language radio program over our local CBM station in Montreal and not national.

**Senator Desruisseaux:** In order to clarify, Dr. Davidson, when you say appear, does it mean that he was actually talking over television or is it a full program?

**Dr. Davidson:** No, he was physically present on the screen, Senator Desruisseaux. That is my understanding, certainly of public affairs. I think this is correct also of the news, but I would not be as certain of that. These are listed in my memorandum as René Lévesque appearances, and I would interpret that as meaning he was actually before the camera and speaking directly, either in a public affairs program or in an insert in the news.

On French television he appeared for a full 30-minute interview February 1, 1968. He appeared again for seven minutes February 12, one and a half minutes March 13, four minutes April 22, six minutes June 9, six minutes July 31, three and a half minutes September 6, four and a half minutes September 24, 30 minutes—a half hour interview—October 15, for a total of one hour, 32½ minutes on public affairs programming with the French network.

In addition to that he appeared on the news programs which are distinct from public affairs and they totalled one hour, 21½ minutes.

**Senator Smith:** Is that French?

**Dr. Davidson:** French. A total of two hours, 54 minutes of French TV. On English TV, he appeared on April 21, two minutes; October 15, "20 Million Questions" was 30 minutes, which gave a total of 32 minutes Public Affairs.



It was not possible for us to identify precisely the extent of English network news coverage. That last reference, Senator Haig, to "20 Million Questions" is a program you are familiar with and it would indicate what we mean by saying that he appeared for 30 minutes on a public affairs program. It might be with one interviewer or a panel.

**Senator Grosart:** Would it be too much to ask for you to append to our proceedings similar figures for, shall we say, the Cabinet minister, the federal Cabinet ministers from Quebec, so we might have a contrast in exposure time?

**Dr. Davidson:** You say would it be too much trouble? It would be very considerable trouble, Senator Grosart. Nothing is too much trouble to accommodate honourable senators, but if I am put into a position where I am going to be successively asked to provide the exposure time of every leading political figure in Canada, whether controversial or non-controversial, the CBC is going to require a larger budget than we are asking for at the present time.

**Senator Grosart:** That was not what I was asking, Dr. Davidson. We are dealing with a specific matter which has been raised in the Senate. As a matter of fact, your appearance here is at the request, I understand, of the senator who raised the matter. I understand that it would help him to get a balanced view of the matter we are discussing, if we had this comparison.

I would like to leave it to you, as to how far you would go. I restricted my question deliberately to the federal cabinet ministers from Quebec, and I think this would be a comparison that might help Senator Beaubien make up his mind as to the validity of your programming in this respect. So I would amend my question and say "would you do it"?

**Dr. Davidson:** I would be most reluctant, I would say, to undertake that, unless it were the wish of the committee as a whole that I should do it. For example, the federal election took place in 1968. I know perfectly well that if we go through our records and produce information as to the precise number of minutes that were devoted to every French-speaking cabinet minister, federal, during that period, we will have the same request from other political parties to do the same with their leading political figures, and so on. I can see the request being extended on from there.

If the Senate Committee wishes me to do it, I will do it and if it requests me to do it, I am a servant of the committee and I will do it. But I must say I do not consider it a request which it would be reasonable for me to meet, without putting to honourable members of the committee what I consider to be the very valid

objections to proceeding on this line so far as just a grab bag of public figures is concerned.

**Senator Grosart:** Then may I ask you to take my suggestion on behalf of Senator Beaubien into consideration and respond if on reflection you feel it may help—and I think it would help the CBC's position on this matter—if you feel it would help—I am not going to insist.

**The Acting Chairman:** As I understand the matter, it is left to the discretion of Dr. Davidson to determine how he will deal with the question as put.

**Senator Hays:** Is it all right to ask a few questions? This is in connection with the position of the Corporation.

I would like to know, Dr. Davidson, what are the five-year projections in so far as costs are concerned of the Canadian Broadcasting Corporation, that is net to the taxpayer, and also what the cost of similar corporations is. I do not think this would entail a lot of work. I refer to those in Britain, France, Italy, U.S.A. and Japan. Also, what is the assessment per capita? your operation now is getting up to around \$8.50 per capita in Canada, per year.

**Dr. Davidson:** \$7.90 or two point two cents a day per person.

**Senator Hays:** It depends on how you relate it, how it sounds.

**Dr. Davidson:** I prefer that sound.

**Senator Hays:** It could be eighty dollars in ten years. This information is not difficult to get. Then, in your opinion, or in the opinion of the CBC, what is a proper assessment for this sort of organization in so far as the people are concerned?

**Dr. Davidson:** Senator Hays, we would be very glad to assemble what information we can on this. With respect to the final portion of your question, I would have to say that, as you will recall, there have been proposals for what has been called "formula financing" under consideration by the Government for some time. The Fowler committee recommended, and a number of other committees have recommended, that the CBC be put on a basis of a formula which would assure it a given budget over a five-year period. Those provisions were taken out of the bill when it went through the House of Commons. There are discussions taking place and I would find it difficult, I think, to reveal at this stage what kind of per capita amount we would think would be involved in any financing formula, because in due course, if the Government intends to proceed with this legislation, it will bring forth its own ideas on the subject.



**Senator Hays:** In getting figures from Britain, France and so on, that will be some guide.

**Dr. Davidson:** there is no problem in getting figures from Britain, France and so on. I am merely referring to our own five-year forecast. The Treasury board—we have submitted it to the Treasury Board—has not as a matter of policy decided what they intend to do as regards the publication of forecasts of expenditure required of individual agencies or departments of Government over a five-year period.

The best I think I can do is to provide you with figures showing the growth pattern of the Corporation over the last several years and also the growth pattern of the broadcasting entities in the countries that you have referred to over a similar period of time, with some information as to how those countries finance their broadcasting operations.

This will give you, I think, some perspective of what is the likely growth pattern of the Corporation for the years ahead and how we compare with those other countries.

Could I merely say this, however. To compare the Canadian Broadcasting Corporation's problems with those of, let us say, the United Kingdom or Japan or New Zealand, is really like comparing an elephant to a Siamese cat.

**Senator Hays:** Not in the payment of dollars.

**Dr. Davidson:** Yes, sir, with great respect, because we have to cover a country which stretches 4,000 miles from the Atlantic to the Pacific, we have to broadcast in seven different time zones, we have to provide television programs in English and French, we have a substantially higher wage scale, as everybody well knows, than the British or the French or the New Zealanders or anybody else except the United States of America. We are moving, rightly or wrongly, into colour broadcasting, progressively, whereas if you go to the United Kingdom you will find that colour broadcasting, I think, is not at all there or, if it is at all there, it is to a very limited extent.

There are very substantial elements of cost which are inevitable in our circumstances. There is the bilingual nature of our country, which imposes on us expenditures which do not exist for the French ORTF of the British Broadcasting Corporation or the Australians or the Americans. There is the fact that we broadcast over seven different time zones; there is no other country in the world with that position, with the exception of the Soviet Union, in the matter of having to broadcast in seven different time zones to cover its population.

We have the longest microwave network in the world and we have to have it because we have to bring the

national broadcasting services to all the people of Canada. There are these tremendous differences of scales, which I mention not for the purpose of providing an advance alibi but for the purpose of trying to put into perspective how relatively meaningless these figures are that try to compare the cost of operating a television network in Japan for example with the cost of operating a television network in Canada.

If you have one television station in New Zealand, or two at the most, you can pump out your programming and spray every last bit of the territory there.

**Senator Hays:** You may have only two stations but you also have only two and a half million people to pay for them.

**Dr. Davidson:** That is correct, but to put up two stations in New Zealand is a relatively economic enterprise compared to the number of stations needed in Canada to serve over 21 million people covering half a continent.

**Senator Hays:** Just on another point, newspapers have a certain code of ethics that determine what they will do. For example, some newspapers say they will not publish news concerning suicides and that sort of thing. Does the CBC have a code of ethics and, if so, how far does the CBC go along that line?

**Dr. Davidson:** The corporation has developed over the years, Senator Hays, what we call policy papers on a variety of aspects of broadcasting. We have a policy paper, for example, on controversial broadcasting: What are the principles on which we should broadcast controversial matters? This paper on controversial broadcasting was adopted by the Board of Broadcast Governors several years ago and was published not as a directive but a guide in respect of controversial broadcasting for the broadcasting industry as a whole, both public and private.

We also have, for example, a policy document on good taste in broadcasting and one on violence in children's programs; and we are in the process of reviewing and revising all of the policy papers that we have developed over the years for the guidance of our producers and our directors in matters such as you have in mind: General questions of good taste, public affairs broadcasting policies and objectives.

**Senator Hays:** Are these privileged documents?

**Dr. Davidson:** Some of these documents have already, I understand, been tabled before a parliamentary committee at the time of the "Seven Days" hearings back in 1966.

**Senator Hays:** Does this apply to American programs that are coming in?



**Dr. Davidson:** Yes, it is supposed to.

**Senator Hays:** In the same way that the National Film Board says that this or that can or cannot be shown?

**Dr. Davidson:** No. We do not exercise any censorship. However, our policy document on good taste would be applicable in our own selection of a United States-made program. For example, if we review a children's series produced in the United States, which we are thinking of buying, and find that it contravenes our standards as set out in our policy document, we apply those standards and reject the U.S. program. We have revised substantially our position on violence in United States programming over the last six months in particular.

**Senator Hays:** And you look at this code of ethics as a pretty important part now of your function.

**Dr. Davidson:** We attach so much significance to it, Senator Hays, that on the recommendation that we have made as a management to the Board of Directors of the corporation they have now directed that we conduct a complete review and up-dating of all of our program policy papers. The first of our revised policy papers will go before the next meeting of the Board of Directors in Toronto this month. We will then progressively review and revise all of our position papers.

**Senator Hays:** For instance, the incident with Gordon Sinclair would be something that would be just taboo as far as anyone is concerned.

**Dr. Davidson:** So far as the policy position is concerned.

**Senator Hays:** These things are hard to handle.

**Dr. Davidson:** I deplore them as much as or more than anybody, because I am on the receiving end of all the repercussions of such lapses. But, certainly, a program document laying down the canons of good taste for broadcasting for the corporation is applicable to all the programs that we take responsibility for, and the system of supervision and direction should be such as to catch a lapse in good taste such as was referred to by Senator Hays.

**Senator Haig:** Was that program not taped?

**Dr. Davidson:** I do not know.

**Senator Haig:** Because, if it were taped, you could cut out that part of it.

**Dr. Davidson:** Whether it was taped or not, it would be difficult to cut out that part. As you know, these

interviews are done in 15-minute packages. But, if it was in fact taped, it would have been and should have been possible to have eliminated that interview completely, thrown out the interview with Elaine Tanner, and substituted an interview with some other interesting public figure.

**Senator Grossart:** Have you, as a matter of fact, declined to bring in a American high rated program because of its high violence content?

**Dr. Davidson:** Oh, yes. In our review last year of U.S. programming we dropped a number of programs that we had previously had on. We dropped one program that was objected to very strongly by the German community, that is, Hogan's Heroes. We dropped that last year. We dropped a second program, High Chaparral, and, without going into further details, we reviewed and rejected a number of new American programs because of the high violence content. We got caught, I have to say, on one or two programs that we would have rejected had we been able to see the full sequence. But one is never able to see the full sequence; all you see is a number of pilot programs and you make your decision based upon what you think the quality of those pilot programs is.

**Senator Grosart:** Do you have on your staff a sociologist to advise you whether to reject or to receive such programs?

**Dr. Davidson:** We would have to call in, in a consultative capacity, a psychologist or a sociologist for determination of any borderline questions. As a matter of policy, we would be prepared to do that.

Before leaving this line of questioning, may I just say that you will recognize I am sure that so far as violence is concerned, our main problem is with our American imported programs, and not so much with the Canadian products.

**Senator McLean:** Dr. Davidson, I understand from the remarks you have made and the list you have given of CBC television stations across Canada that there are two stations in Newfoundland, one in Halifax and one in Prince Edward Island, with another being built, but none in New Brunswick. Is there any reason why there are no television stations in New Brunswick?

**Dr. Davidson:** I know what the reasons are, but none of them are good. However, I will follow that up immediately by telling you that before the end of this month we expect to complete the purchase of a property in Moncton, on which we now have an option and which will be the first production centre, initially of French language but also in our plans for English language production.



**Senator McLean:** Would that cover all the French area in New Brunswick by having it in Moncton?

**Dr. Davidson:** Having it in Moncton with rebroadcasting stations, it is perfectly capable in technical terms of covering all of the province.

**Senator McLean:** That is the bottom part of the province.

**Dr. Davidson:** The northern part of the province, so far as the French language is concerned, is covered by rebroadcasters coming down from the south shore. But it would be our intention, and I cannot give any specific time limit for this, to use our Moncton production centre as the mother station from which we would radiate programs to all the French language communities in the Maritime provinces. It will be our only French language Maritime production centre, but there will be other rebroadcasting stations, Halifax, Yarmouth, Boisdale and there is one already at Cheticamp. The purpose of the production centre would be to supplement the French network coming from Montreal, which some people have criticized as being too Quebec oriented, with some maritime flavoured programs dealing with specific affairs in that area. In other words we will be adding an Acadian flavour to our Quebec flavouring.

**Senator McLean:** I would think an English-speaking station would be appreciated in the southern part of the province too.

**Dr. Davidson:** We applied for a licence to establish a station and it was not accepted by the Canadian Radio Television Commission. They have suggested rather that we provide production facilities and, through a very complicated, but ingenious arrangement which has been worked out, that we put our programs on affiliated private stations. Those are stations that are affiliated to us, without ourselves owning or operating at this stage a television station of our own in the English language in the Province of New Brunswick. We are hoping that we will be able to convert the Moncton establishment into a combined English-French television production and transmission centre.

**Senator McLean:** You would still have to go through a local station in the southern part of the province for the programming out of Moncton or would that be directed all over the province?

**Dr. Davidson:** It would go through Moncton.

**Senator McLean:** What radius would that reach?

**Dr. Davidson:** You can add rebroadcasters in different parts of the province and you can relay from

Moncton to your rebroadcasters and from the rebroadcasters to the remotest home in any part of New Brunswick.

**Senator McLean:** You would cover St. John and the surrounding area?

**Dr. Davidson:** We already cover English language broadcasting in the St. John area with CHSJ which is an affiliate of ours. Where we have gone in with an affiliate station we do not go in with a rebroadcaster.

**Senator Smith:** May I add here that I think this subject is quite important to Senator McLean. I have the same observation to make about the St. John station. I am horrified, and that is the word I want to use, at the kind of news broadcasting that comes from CHSJ St. John. Having had the opportunity of listening to Halifax or Ottawa CBC stations I am just horrified by the type of news that comes from this station with which you are affiliated. I think there should be some way to write in to the terms that the news broadcasts must reach certain standards, and I am very serious about that.

**Dr. Davidson:** In a case like this we are not really masters of the situation. We extend our services through affiliate stations which are licensed by the CRTC and the Commission grants licences to these stations conditional upon their undertaking to accept a certain amount of CBC programming. We negotiate agreements with the affiliate stations and they are then supposed to accept the programming which we supply to them which, as Mr. Fraser mentioned a moment ago, is 40 to 50 per cent in the case of English stations. But we have no responsibility for the programs that they themselves put on in their own time. We would have to accept criticism of any CBC content which is heard on the St. John station, but we cannot be held responsible for local programming at all.

**Senator Kinley:** I want to ask a few fundamental questions, the answers to which are known to us, but I would like to have them placed on the record so that the virtues of your service will be better appreciated. Before doing that, I want to congratulate Dr. Davidson on his achievement in the Public Service of Canada. He is a Nova Scotian and an example of the exports we make to the rest of Canada. If you take a look at history you will find there is considerable wisdom down in Nova Scotia. We may not become millionaires down there, but I think we live well and have a happy life.

Now I want to ask how much does the individual pay for these services he gets from radio and television in Canada?

**Dr. Davidson:** Well, as I have said on other occasions, every Canadian pays 2 cents a day.



**Senator Kinley:** But how much is the individual responsible for? You said it was 2 cents a day, is that right?

**Dr. Davidson:** That is what the cost is to the individual tax payer.

**Senator Kinley:** But what is the individual required to pay directly for a service he gets from your radio and television?

**Dr. Davidson:** Nothing, except through general taxation.

**Senator Kinley:** Have you ever figured out how much it costs per family? Your radio is on from morning until night and is the best service the housewife has to make her life pleasant. I would like to know how much it costs the people for what they are getting.

**Dr. Davidson:** Our calculation is that the cost per individual is something less than \$8 a year; the cost per family is calculated as somewhere around \$30 per year per family.

**Senator Kinley:** But that is not paid directly to you. It is paid through taxes. Therefore the poor man pays nothing; the man who pays no taxes pays nothing for this service.

Now I want to congratulate you on your Sunday service. I think your Sunday service is excellent but I think you are wrong in having commercials on Sunday. I think it is a technical evasion of the Lord's Day Observance Act. We know that the provinces have control over the act and that the Attorney General must agree to bring any prosecutions. In that way we are able to get away with this in Canada. I think that it is important that you should keep the Sunday records clean. There are children and everybody listening on Sundays. I hope that this "Seven Days" business that shocked the whole of Canada will never be repeated. We should keep ourselves decent—at least in public! We are told now that there are places where people are not always decent, but I think we should be decent in public, if we can, because our example counts for something. The people of Canada were greatly shocked by this "Seven Days" program, especially on Sundays.

I have nothing more to say, except that I expect that you, with your Nova Scotia background, will give us as good service in the future as we have had in the past, and we are glad to see you here for the first time.

**Senator Laird:** Dr. Davidson, will the advent of educational television affect your corporation in two respects: firstly, programming; and, secondly, cost structure?

**Dr. Davidson:** It depends, of course, on what the ultimate decision is as to educational television programming. The indications are, in view of the bill the Government has recently introduced into the other place, that the Government intends to propose the establishment of a separate crown corporation to own or to provide the facilities to the provinces, on which the provinces will be able to program their school broadcasting programs. I prefer to call this at the moment, Senator Laird, school broadcasting rather than educational television, because the definition which is contained in the bill which has been introduced in the House of Commons is a fairly strict one, which seems to indicate that in the Government's view the proposed new agency should deal exclusively with school broadcasting, as such. If the Government decides it is going to set up a separate crown corporation to deal exclusively with school broadcasting, or to provide facilities for that, the question arises in my mind as to whether the CBC should continue to provide the facilities for school broadcasting and expend the money it does on it, which at the present time is over \$1 million a year, and several hundred hours of program time are dedicated to formal broadcasting into the school rooms in the different provinces of Canada. We would regret having to discontinue that service to the provinces, but at the same time it would be difficult to justify continuing an over-lapping service if the high policy decision is that school broadcasting belongs with another agency. It will have some impact on our position because, among other things, if we were to remove school broadcasting from our program schedules tomorrow, we would be in difficulty on the 55 per cent Canadian content rule which we have to live by. It would therefore have quite considerable repercussions on our position as a corporation, and we are trying to assess this at the present time in light of the new Government legislation.

**Senator Desruisseaux:** Dr. Davidson, in the past there has been some criticism of the number of employees the CBC has in certain places and the necessity for some of them. On page 355 we find the number is increasing again. I would like to have your comments on this.

**Dr. Davidson:** Could I just direct your attention, Senator Desruisseaux . . .

**Senator Desruisseaux:** It is on the left-hand side of page 355.

**Dr. Davidson:** The numbers shown here indicate, Senator Desruisseaux, that while the positions that we call strength positions, that is the formal positions on the establishment, are increasing by only 19, the total man-years are declining by 267. What that really means is that we may be having to establish a number of positions for seasonal periods, but if you hire a man for four months, it takes three of those hirings to



make one man-year. Therefore, our total manpower utilization will be down, according to these figures, rather than up.

**Senator Desrussieux:** Would that account for a lot?

**Dr. Davidson:** That is 267 man years. Without knowing precisely how many of these are seasonally employed, I would not really know how to answer that particular question. I can say to you, quite frankly, that we have considered it as our responsibility to abide by the Government's own policy with respect to departmental establishments and to maintain a freeze on our manpower position. Our position, as of today, is less than it was a year ago, and it will be no higher next year, except to the extent that the acquisition of a television station in Charlottetown and the acquisition of a television station, French-language, in Moncton make it absolutely necessary for us to add additional positions to service those additional facilities. I think I can assure you that we are concerned about our numbers. We are very much concerned about the criticism that we hear constantly from every source that the CBC is over-staffed, and, while I could regale you with all sorts of reasons which go part way to justifying that, it is a continuing matter of concern to us.

I had a very dramatic lesson on this yesterday. I met with my officers yesterday to discuss what would be the operating requirements for the new Moncton set-up, and I was told it would require an additional number of persons over and above those we have there now. I was concerned about the additional number of persons required, but I was concerned even more about the fact that when the Moncton station gets into operation, its objective will be to produce 4½ hours of local programming a week—news, public affairs, magazine type programs—and the rest will be network coming down from Montreal for distribution through the French-speaking areas.

The problem of opening up a station and then having to engage personnel with the limited objective of programming for 4 1/2 hours a week—which is all we can afford at the present time and all that we can really produce with the talent, resources and material available—is a very difficult one because it really means we are going to have to employ people full time in order to get them. Union rules require us to bring a man on for an eight-hour day, for instance, instead of using him for two or three hours a day; and, therefore, we have a substantial amount of over-capacity in terms of what we could produce with that same number of men and women at the Moncton station if we had an unrestricted capacity to produce all the programs we wanted to. This is a very real problem that faces us in Charlottetown and everywhere else, and it adds up, in a frightening kind of logic, which I reject, to the proposition that it would be more efficient and economical for us to produce everything in Toronto and

Montreal and pump it out over the pipeline across the country. We reject that because the mandate that is given to us by the Broadcasting Act requires us to develop local production resources and to produce regional programming; and because we have to spread our production resources over the whole country we find ourselves in a situation where we do have over-capacity, as far as manpower is concerned, arising out of circumstances over which I think we have a limited amount of control.

**Senator Desrussieux:** Dr. Davidson, have you any way of comparing the operation of the Canadian Broadcasting Corporation with similar operations in the United Kingdom and the U.S.A. If so, it might be good to have that information on the record.

**Dr. Davidson:** We have made a variety of examinations of this, Senator Desrussieux, certainly so far as the United Kingdom is concerned. Their wage levels are lower than ours, but we have reports which indicate that, in terms of man hours of productivity, our productivity per man unit is higher than in the United Kingdom, the ORTF, or the U.S. networks. This was examined by Stevenson & Kellogg, Management Consultants at the time that the Fowler Committee was examining the CBC operation. I am referring to the last time that the Fowler Committee was set up. I have not seen the reports themselves, but I asked for this information as a result of our last board meeting discussion. I understand that the Stevenson & Kellogg report indicates that in terms of man hour productivity our efficiency or effectiveness per man hour compares favourably with that of the American, the British, and the French networks. I shall have to see that report myself before I take the responsibility of putting those words in my own mouth. I want to make clear to you, sir, and the other members of the committee, that I am only reporting on what I am advised is the conclusion of the Stevenson & Kellogg report.

**The Acting Chairman:** Dr. Davidson, we promised to release you at 11 o'clock, but in order to complete the record for the present I would like to put a question, which is similar to Senator Desrussieux's but slightly different, to you.

You may not have the material at this stage, but would you consider the submission of a schedule comparing the operations of the CBC with the operations of the three American networks—the NBC, the Columbia Broadcasting System, and the ABC—from the point of view of comparing expenditures generally with revenues? One appreciates that we have special problems in Canada, to which you have just referred, and full allowance will be made by every citizen of Canada in an analysis of such figures.



I think it would be very helpful indeed if you would make that comparison in the format which you have been good enough to introduce in the last year, as reflected at page 355 of the Estimates. I for one, Dr. Davidson, am particularly interested in the ratio of expenditures to revenue overall. To the extent that you can break down, not the revenues, but the expenditures on a reasonably comparable basis, it would be very helpful. I am not making a formal request that you do this, but it would be very helpful to this committee if such a comparable schedule could be introduced.

Do you wish to put a question, Senator Isnor? I remind you that we must adjourn very soon.

**Senator Isnor:** I realize that we must let Dr. Davidson get away by 11 o'clock.

Dr. Davidson, you referred to increased advertising revenues. Have you taken into consideration the effect the obtaining of that increased revenue will have on the listening public?

**Dr. Davidson:** I do not quite understand your question, senator.

**Senator Isnor:** We hear many complaints today about private stations carrying too much advertising, because it takes away from the interest in the program, and now you propose to increase your business. . .

**Dr. Davidson:** The income comes largely from an increase in rates because of the larger viewing audience, and because of the general increase in the costs of providing services.

I would just point out that the CRTC regulations permit as many as six minutes of advertising per half hour in any program. I believe that the private stations in many cases go the limit, and put out six minutes of advertising in every half hour program. We hold back on that. By comparison, our total advertising in the half hour does not ever extend beyond four minutes.

**Senator Grosart:** Before we adjourn, Mr. Chairman. . .

**Senator Isnor:** I should like to pursue that further.

**The Chairman:** I am sorry, but we do not have the time today.

**Senator Isnor:** Senator Grosart stepped in with his questions on a previous occasion, and. . .

**Senator Grosart:** I was going to suggest that because we have not dealt with the details of the Estimates—and for understandable reasons—we ask Dr. Davidson and his colleagues to come back at some convenient time. I say that because this is the first time we have actually undertaken an examination in detail of the Estimates of a department or agency. I suggest it would be an omission on the part of the committee if it did not do that, and I would hope that it can be arranged for Dr. Davidson to come back so that we can examine such important matters as capital loan financing, and so on.

**The Chairman:** Subject to such an understanding, may we adjourn our deliberations today?

**Hon. Senators:** Agreed.

The committee adjourned.

















First Session—Twenty-eighth Parliament

1968-69

# THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

# NATIONAL FINANCE

The Honourable LAZARUS PHILLIPS, *Acting Chairman*

No. 7

WEDNESDAY, MARCH 26th, 1969

*Complete Proceedings on Bill C-172,*

intituled:

“An Act to amend the Financial Administration Act”.

WITNESSES:

*Treasury Board:* W. B. Brittain, Acting Assistant Secretary.  
E. W. Jay, Financial Management Adviser.

REPORT OF THE COMMITTEE

THE QUEEN'S PRINTER, OTTAWA, 1969



First Session—Twenty-eighth Parliament

1968-69

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Beaubien	Hays	McLean
Benidickson	Isnor	Nichol
Bourget	Irvine	Paterson
Bourque	Kinley	Pearson
Desruisseaux	Laird	Phillips ( <i>Rigaud</i> )
Dessureault	Leonard	Phillips ( <i>Prince</i> )
Everett	MacDonald ( <i>Queens</i> )	O'Leary ( <i>Antigonish-Guysborough</i> )
*Flynn	*Martin	O'Leary ( <i>Carleton</i> )
Fournier ( <i>Madawaska-Restigouche</i> )	Methot	Sparrow
Gelinas	Molson	Walker—(30).
Grosart	McDonald	

\**Ex officio* members: Flynn and Martin

(Quorum 7)

WEDNESDAY, MARCH 26th, 1969

Complete Proceedings on Bill C-172,

included:

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E. W. Jay, Financial Management Adviser.

REPORT OF THE COMMITTEE



MINUTES ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, March 26, 1969:

"Pursuant to the Order of the Day, the Senate resumed the debate on the motion of the Honourable Senator Robichaud, P.C., seconded by the Honourable Senator Bourque, for the second reading of the Bill C-172, intituled: "An Act to amend the Financial Administration Act".

After debate, and—

The question being put on the motion, it was—

Resolved in the affirmative.

The Bill was then read the second time.

The Honourable Senator Robichaud, P.C., moved, seconded by the Honourable Senator Macnaughton, P.C., that the Bill be referred to the Standing Senate Committee on National Finance.

The question being put on the motion, it was—

Resolved in the affirmative."

ROBERT FORTIER,  
*Clerk of the Senate.*

ATTEST





## MINUTES OF PROCEEDINGS

WEDNESDAY, March 26th, 1969.

(10)

At 3.30 p.m. this day the Standing Senate Committee on National Finance met to consider the following Bill:

*Bill C-172, "An Act to amend the Financial Administration Act".*

*Present:* The Honourable Senators Lazarus Phillips (*Acting Chairman*), Beaubien, Bourque, Desruisseaux, Dessureault, Flynn, Fournier (*Madawaska-Restigouche*), Hays, Isnor, Irvine, Kinley, Laird, McLean, Pearson, O'Leary (*Antigonish-Guysborough*), and Sparrow. (16)

*Present, but not of the Committee:* The Honourable Senators Burchill and Haig. (2)

*In attendance:* E. Russell Hopkins, Law Clerk and Parliamentary Counsel.

The following witnesses were heard:

*Treasury Board:*

W. B. Brittain, Acting Assistant Secretary.

E. W. Jay, Financial Management Adviser.

Upon motion, it was *Resolved*, to report the said Bill without amendment.

At 4.35 p.m. the Committee adjourned to the call of the Chairman.

**ATTEST:**

Frank A. Jackson,  
*Clerk of the Committee.*

REPORT OF THE COMMITTEE

WEDNESDAY, March 26th, 1969.

The Standing Senate Committee on National Finance to which was referred the Bill C-172, intituled: "An Act to amend the Financial Administration Act", has in obedience to the order of reference of March 26th, 1969, examined the said Bill and now reports the same without amendment.

All which is respectfully submitted.

LAZARUS PHILLIPS,  
Acting Chairman.

Members: Hon. Senators Lazarus Phillips (Acting Chairman), Hon. Senators Desnoyers, Fournier (Madame), Hays, Kinney, Laird, McLean, Pearson, O'Leary (Antigonish-Guyborough), and Sparrow. (16)

Present, but not of the Committee: The Honourable Senators Hutchill and Hays. (2)

In attendance: E. Russell Hopkins, Law Clerk and Parliamentary Counsel.

The following witnesses were heard:

Treasury Board:  
W. B. Brittain, Acting Assistant Secretary.  
K. W. Jay, Financial Management Advisor.

Upon motion, it was resolved, to report the said Bill without amendment.

At 4:35 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
Clerk of the Committee.



## THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

### EVIDENCE

Ottawa, Wednesday, March 26, 1969

The Standing Senate Committee on National Finance, to which was referred Bill C-172, to amend the Financial Administration Act, met this day at 3.30 p.m.

**Senator Lazarus Phillips (Acting Chairman)** in the Chair.

**The Acting Chairman:** Honourable senators, we are here to consider Bill C-172, to amend the Financial Administration Act. I am advised by Mr. Hopkins, our Law Clerk and Parliamentary Counsel, that there was one amendment in the other place to this bill. A copy of this amendment is being distributed now to all honourable senators. The bill, with that amendment, constitutes the bill presently before us.

We have the pleasure of having with us two representatives from the Management Improvement Branch of the Treasury Board, Mr. W. Brittain, the Acting Assistant Secretary, and Mr. Eric Jay, Financial Management Advisor.

Following our usual procedure, Mr. Brittain, will you be good enough to thread us through the intricacies of this bill.

**Mr. W. B. Brittain (Acting Assistant Secretary, Management Improvement Branch, Treasury Board):** I will do my best.

**The Acting Chairman:** Thank you very much. Possibly you would point out the really basic sections which call for our attention.

**Mr. Brittain:** Do you wish me to go through the bill clause by clause?

**The Acting Chairman:** No. We would prefer, if you would be good enough, to start by giving us a general survey and the philosophy behind the changes being made. Then possibly you might point out the major clauses and reply to any questions which honourable senators may wish to put to you.

**Mr. Brittain:** Mr. Chairman and honourable senators, the major purpose of this amendment can be described as the implementation of the last and one of the most basic recommendations made by the Royal Commission on Government Organization, which is to transfer responsibility in the field of financial management to departments, or to make departments more fully responsible for the financial management of their own affairs, to place responsibility squarely on departments, on deputy heads of departments, so that they not only have the ability and the freedom to manage effectively but they also can be held fully accountable for the financial management in their department.

This is accomplished by the major amendment proposed in the bill which concerns the transfer of pre-audit and commitment control to departments, and the abolition of the office of the Comptroller of the Treasury.

With the abolition of the office of Comptroller of the Treasury, the control aspects of that job are transferred to departments. What I might call the service aspects of the job are transferred to the Department of Supply and Services where the office of the Receiver General assumes these particular responsibilities formerly held by the Controller of the Treasury.

**The Acting Chairman:** Who is to be the Receiver General?

**Mr. Brittain:** The Receiver General, Mr. Chairman, would be the Minister of Supply and Services, and the Deputy Receiver General would be the Deputy Minister of Supply and Services, and provision for these positions is made in the Department of Supply and Services bill rather than in this act.

The duties of the Receiver General are, of course, outlined and defined in this bill and in the Financial Administration Act.

There are two other effects which I think I should mention with respect to the transfer of this responsibility to the departments. The transfer has the effect of reducing or doing



away with the fragmentation of control which exists at the present time as between departments and the central agency. It has great potential for cost reduction through the elimination or eradication of duplication of services.

The control functions to which I have been referring are to a great extent duplicated as between the Comptroller of the Treasury and the departments. I am referring specifically to present audit and commitment control. The departments, inevitably, will be concerned that the accounts which they process for payment have been adequately verified before they forward them for payment. The role of the Comptroller, then, is to verify again the work that the department has done. It is in fact another check, an outside check, on the department's own audit function or verification function.

This, sir, I believe, is the main change or main amendment which is proposed in this bill.

**The Acting Chairman:** May I put a question to you before honourable senators do? Are we talking about more efficient control of expenditures in certification subsequent to the commitment for such expenditure, or in the process are we revising the procedure before commitments are made by the various departments, notwithstanding the fact that there may be appropriations therefor? Do I make myself clear?

**Mr. Brittain:** I believe so, sir. The financial management systems in Government departments have been quite drastically overhauled in their totality during the period since publication of the Glassco Report; and, in fact, we feel that this administrative reform has reached the stage now where this type of change proposed in this bill can be made. Specifically, this amendment suggests that departments can verify their own accounts and ensure that there is no violation of the Appropriation Act, that they are in accordance with the Appropriation Act and that it is appropriate that they should be paid, without the necessity for some other office to do practically the same thing before the account is paid.

**The Acting Chairman:** So it is really a control of payment after the commitment for the expenditure?

**Mr. Brittain:** Very definitely, Mr. Chairman.

**Senator Pearson:** Mr. Chairman, do I understand that, having practically absorbed the Glassco Report now in these departments, you are in a position to carry out your own financing, et cetera, without additional personnel?

**Mr. Brittain:** Mr. Chairman, on the matter of personnel, there has been, since the publication of the Glassco Report, a very significant build-up of financial management personnel in departments. That is a build-up in strength and a very considerable up-grading in quality and calibre. In fact, in the beginning it was necessary to go outside of Government services for the senior financial officers of most departments.

**Senator Pearson:** As a result of this bill, you will not have to have any increase now in personnel?

**Mr. Brittain:** No, sir. The reverse, Mr. Chairman, will be true. There will be a reduction to the extent that there is now duplication in this verification process.

**Senator Pearson:** I see. In the various departments, you mean.

**Mr. Brittain:** That is correct.

**Senator Fournier (Madawaska-Restigouche):** Mr. Chairman, when transfers are made, will there be any saving in the cost of administration to the taxpayers of Canada?

**Mr. Brittain:** There will be very considerable annual savings, not just one time savings, but savings that will be realized year after year essentially through the reduction in staff requirements. It is quite impossible for us to tell at this time or to quantify the savings. It will not be possible for us to do this until we have completed a study which is now under way to determine what the specific needs of the department are. It is inevitable however, that the savings will be very, very substantial.

**Senator Fournier (Madawaska-Restigouche):** Do you anticipate any lay-offs throughout the administration?

**Mr. Brittain:** This is a very difficult question to answer because we do not know the numbers we are dealing with. As you know, Mr. Chairman, there is a freeze on government departments at the present time, and there is a very considerable attrition rate among government employees through resignations, retirement and this type of thing.



**The Acting Chairman:** Is that freeze in the form of a cold war between the personnel and the government?

**Mr. Brittain:** This is a freeze on establishments or a freeze on staff, I should say. Perhaps the most I can say at this time is that there will be a large number of positions which will become surplus to requirements. As to whether a large number of lay-offs will occur, that is a question I cannot answer. It is somewhat theoretical at the moment. However, the same question has been asked of the President of the Treasury Board and his response in general was that he would expect and hope it would be possible to absorb otherwise redundant personnel through the process I mentioned, attribution, to other departments.

**Senator Fournier (Madawaska-Restigouche):** Can you have savings without lay-offs?

**Mr. Brittain:** Yes, sir, you can have savings without lay-offs. Take for example if there is a vacant position for an accounting type of person in the Department of Agriculture and if there is a position which has become redundant as a result of this transfer in the office of the Comptroller of the Treasury, and that person can fill the position in the Department of Agriculture, we can strike out that one position and the employee will not have to be fired.

**Senator Fournier (Madawaska-Restigouche):** But when you cut off one like that that position is still there.

**The Acting Chairman:** But the one cut off might be due to the normal retirement age having been attained, for example.

**Mr. Brittain:** I was referring to a vacancy which currently exists in the Department or which might currently exist in the Department of Agriculture as an example. As the chairman said there may have been a retirement, a death, a transfer or something like that which creates a vacant position which continues to be needed. We then transfer the body over to the position in the Comptroller's office.

**The Acting Chairman:** Any other questions?

**Senator Hays:** Will you take an example and pilot it through, all the way through under the new act and under the old act so that we may see what the difference is.

**Mr. Brittain:** An example?

**The Acting Chairman:** I think the senator would like a specific instance of this.

**Mr. Brittain:** With respect to pre-audit or the whole thing?

**Senator Hays:** The whole thing—that is when you go through Treasury Board.

**Mr. Brittain:** Mr. Chairman, I would require a more specific or precise question than that. I am not trying to evade the honourable senator's question but there are so many different things involved in the amendments that are in themselves not related.

**Senator Hays:** Well, I would like just one sample item. Can you give us an example under the new set-up where you would pilot it through until payment was made and that sort of thing?

**Mr. Brittain:** Let us consider, Mr. Chairman, the entry into a contract, or the proposed entry into a contract for the purchase of goods. At the present time the Comptroller of the Treasury has responsibility for commitment control and pre-audit. The responsibility for commitment control passes to the department, if this bill passes and this legislation is enacted. The department then has the responsibility, when they enter into a commitment. In this case it might be a hospital at Inuvik, and it would make an entry in their commitment control records they are in fact setting aside \$200 for some supplies. This order ultimately is filled and a contract is entered into or a purchase order is issued to the supplier. The goods are received, and within the Department of National Health and Welfare the departmental accounting and financial staff will examine the invoice that may be received from the hospital and ensure that it has been properly processed, that there is an indication the goods were received in accordance with the contract, that the payment would be lawful and in accordance with the vote, and a number of other procedures in the pre-audit process such as arithmetical accuracy and conformity with all the departmental rules and regulations which may apply. A cheque requisition would then be prepared and signed in the department, and sent to the Receiver General for cheque issue. The Receiver General would determine that the requisition was signed by an officer who has been authorized by the minister of the department to send such requisition for cheque issue. If this is the case, he then



issues a cheque to the supplier. Concurrently, there will be operating in that department an operational audit function performed by...

**Senator Hays:** We are still in the Department of National Health and Welfare?

**Mr. Brittain:** Yes—an audit function performed by a group of people operating independently of the line operations in the department, and reporting to a deputy head or an assistant deputy head, checking on the work of the people in the line operation, to ensure that they are doing their work effectively. Concurrently, the Auditor General is examining the expenditures and other transactions in a department.

**Mr. Hopkins:** Independently?

**Mr. Brittain:** Yes, independently.

**Senator Hays:** How much does it cost to pay out a \$5 cheque?

**Senator Fournier (Madawaska-Restigouche):** \$10!

**Senator Beaubien:** At least!

**Mr. Brittain:** I could not say how much it costs.

**Senator Hays:** When I buy something I look at the invoice, make out a cheque and mail it. We sure do have some checks on this thing. Under the old system were there more?

**Mr. Brittain:** Under the old system there were more. Mr. Chairman, we are talking now of delegation of authority, or transfer of responsibility, for pre-audit. This delegation is moving down the line in departments as they become capable of handling this type of responsibility. I think the question is a very good one, but I hesitate to answer it because I do not have a precise figure. However, I understand exactly the point you are making. The cost of issuing a five dollar cheque can be very high. This will certainly reduce the cost of issuing that cheque, whatever the cost may be at the moment.

**Senator Hays:** How did it work under the old system?

**Mr. Brittain:** Under the old system, we must consider essentially the role of the Comptroller of the Treasury, Mr. Chairman. The Comptroller of the Treasury has a staff of some 5,400 officers, 1,100 of whom are engaged in pre-audit and commitment control. There are many of these people in Ottawa, but they are

scattered throughout the country in regional offices of the Comptroller of the Treasury. If you go back to our example of the contract for the supply of goods and services, whereas under the old system the hospital up at Inuvik would enter this commitment into its commitment records—which it did anyway under the old system because any self-respecting accountant will keep written records, whether he is required to by law or not—the purchase order for the supply of goods would have to be certified with respect to commitment control by the office of the Comptroller of the Treasury before it could be issued to a supplier, and then, when it came to the point where a cheque was required to be issued to the supplier after receipt of the goods, the same office of the Comptroller of the Treasury would verify the account before the cheque would be issued, the department already having verified that same account essentially for the same purpose. So, we are cutting out that step.

**Senator Hays:** Yes, I see. I do not want to embarrass the department because I know it has a great deal of work to do, but if possible, Mr. Chairman, I should like to know what the cost of issuing a cheque is.

**The Acting Chairman:** I know, senator, as I think you do, from experience with the operation of large corporations, that the cost of issuing a cheque for small amounts is sometimes in excess of the face amount of the cheque.

**Senator Hays:** Let us consider a cheque for \$100,000, then, if that is more helpful. I am still interested in knowing what it costs to issue it, and also the time involved in issuing it.

**Mr. Brittain:** I must say that I fully appreciate the honourable senator's interest in this subject because the matter of the costs of processing paper is of great concern to all of us, but to determine the cost of issuing a cheque would be quite difficult. Cheques are issued for many different purposes. They are issued in many different circumstances. For instance, the cost of the issue of a cheque for goods and services received at Inuvik might be quite different from the cost of issuing a cheque in payment for something I take into supply here in Ottawa. There is a difference in the cost of issuing a cheque for the performance of a large contract for the Department of National Defence which might run into millions of dollars, and the cost of issuing a



salary cheque, for example. I believe that the information, unless it were obtained for all of these different types of cheques, would not be very meaningful.

**Senator Hays:** What about the time factor?

**Mr. Brittain:** I cannot quantify the time factor in comparing the present situation with the new situation. I can merely say that the time factor should be reduced. Again, the time factor varies with geography and the nature of the payment involved. For example, before a requisition can be made for a cheque, for many very large payments a comprehensive cost audit must be performed to make certain that the amount is what it should be. This necessitates going into a supplier's plant, a manufacturer's plant, going through his books, looking at his cost records and this kind of thing.

**The Acting Chairman:** Does that answer your question?

**Senator Hays:** No, it does not answer it, but I will have to be satisfied. I am still curious about this, because this is the reason for the whole bill, is it not, to have some checks on the time factor and the cost factor? I thought it would be nice to know what the savings were.

**Senator Kinley:** What is included in the cost of issuing a cheque? It is administering the account.

**Mr. Brittain:** I think the honourable senator has really answered his own question.

**Senator Kinley:** I was asking for the record. I knew.

**Senator O'Leary (Antigonish-Guysborough):** Mr. Brittain indicated that the Minister of Supply and Services would replace the Comptroller of the Treasury and that there would be a Deputy Minister of Services. Did he intend to say that? Will there also be a Deputy Minister of Supply?

**Mr. Brittain:** That is correct.

**Senator O'Leary (Antigonish-Guysborough):** So there will be two deputy ministers.

**Senator Flynn:** Why is authority given to the Minister of Supply and Services to act as Receiver General, and not to the Minister of National Revenue, for instance?

**Mr. Brittain:** The Minister of Finance is Receiver General at this time. The function

of the Receiver General at present is essentially one of receiving public money and banking public money. The additional functions which will be performed by the Receiver General that are proposed in the bill are rather numerous and are all of a service nature.

I should explain that the base for the service function in the Department of Supply and Service would be the present office of the Comptroller of the Treasury. If any honourable senators have seen the computer operations of the Comptroller of the Treasury they would realize this is a mammoth operation with tremendous computing power. It is able to provide a very wide range of data processing services to departments, much of which flows directly from the service function in the sense of providing management reports and all types of financial and accounting reports, as well as material for fiscal accounts and the preparation of public accounts.

**The Acting Chairman:** Does that mean that the Minister of Finance sheds his title now as Receiver General?

**Mr. Brittain:** Yes, Mr. Chairman, he does, as does the Deputy Receiver General who is the Deputy Minister for Finance.

**Senator Flynn:** In short, the equipment of the Department of Supply and Services is the one in which the Receiver General needs to operate; is that it?

**Mr. Brittain:** No.

**Senator Isnor:** Mr. Chairman, did I understand the witness to say that there would now be an internal audit and also an outside audit?

**Mr. Brittain:** Mr. Chairman, I believe that in summary what I said was there would be internal audits, and there exists the external audit of the Auditor General.

**Senator Isnor:** Did you use the term "outside"?

**Mr. Brittain:** Outside each department.

**Senator Desruisseaux:** This is in accordance with the recommendation of the Glassco Report?

**Mr. Brittain:** It is directly in accordance with the Glassco Report, word for word practically.

**Senator Kinley:** That puts more responsibility on the deputy minister, does it not?

**Mr. Brittain:** Yes, it certainly does.



**Senator Kinley:** I think that sounds good.

**The Acting Chairman:** Would you be good enough to proceed. We may have exhausted this aspect of the bill. Are there any other aspects in broad categories you would like to explain?

**Mr. Brittain:** Mr. Chairman, there is another revision of the bill which I feel is significant. It has to do with arranged charges for services which will make it possible to keep the charges for services rendered by Government departments more or less current, if that is Government policy. At the present time this responsibility or this whole field of charge for services is rather fragmented. There are fees embodied and legislation which is very difficult to change for obvious reasons. Fees and charges for services are set by the Governor in Council and departments. There is no assurance under the present system that these are updated or at least looked at regularly, that there is responsibility on departmental management in this whole field. The purpose of the amendment in this bill is to try to overcome that situation. It is the intention that full charges will be made where it is considered by the Government appropriate to do so. There may be times when the Government does not consider it appropriate to make a full charge, but the policy would be that full costs would be recovered where there are services rendered. This amendment, then, will permit the Treasury Board to require departments to continually review and update their charges and to recover full costs unless policy of Government dictates otherwise. This will not only increase revenue but will also reduce the administrative cost of processing a change, say, in parking meter charges at an airport—which can be quite cumbersome under the present legislation. Under this legislation, these parking charges can be changed much more expeditiously, with much less paper, with much less time required and with fewer people involved through the various levels of Government.

**The Acting Chairman:** I think that is a very important amendment.

**Senator Flynn:** Will this relate to the issuance of letters patent, the issuance of passports and other things?

**Mr. Brittain:** Yes, Mr. Chairman, it does.

**The Acting Chairman:** Does the Clerk of the House of Commons and the Clerk of the Senate, for the purposes of this bill, have the

status of deputy minister? Is that dealt with in terms of controls?

**Mr. Brittain:** I believe that is correct.

**Senator Desruisseaux:** Would that cover private bills, for instance, in the Senate, as to the costs?

**Senator Flynn:** That is up to the Senate.

**The Acting Chairman:** Is it the practice of Government to provide for the prepayment of bills and in the process thereby benefit, as do merchants at large, or is it the practice not so to do?

**Mr. Brittain:** The prepayment of bills?

**The Acting Chairman:** With corresponding dollar benefits to the Crown.

**Senator Kinley:** It is according to the contract.

**The Acting Chairman:** There is not always a contract when you buy commodities and that sort of thing, but there is provision in private business, either by usage or by terms of the invoice, for prepayment. I am wondering whether any Government departments, which after appropriation may have money to credit in the bank, do or do not avail themselves of prepayment terms. Having regard to the huge amount of money being spent, I thought it might be of interest to know whether such a practice is being followed.

**Mr. Brittain:** Generally the requirement is, in section 32 of the act as it now stands, that no payment will be made for the performance of work, for the supply of goods or the rendering of services, whether under contract or not, unless it is certified that the work has been performed, the goods supplied or the services rendered, as the case may be.

Section 32(b), states, however, that where payment is to be made before the completion of the work, the delivery of the goods or the rendering of the service, as the case may be, the payment is in accordance with the contract.

**The Acting Chairman:** Yes. That is not quite my question. I am wondering whether the Government avails itself of a source of income that business people avail themselves of, in the private segment of our economy, that is, credit for prepayment. I have a feeling that the Crown does not avail itself of the opportunity, whereas merchants generally do.



**Mr. Brittain:** As I understand the situation you are describing, Mr. Chairman, I would say that, except for the section which I read, section 32(b), in the act, such a prepayment would be in contravention of the act.

**The Acting Chairman:** I invite you, in any event, to consider this situation, as I would think that with the hundreds of millions of dollars which are being spent, there would be a source of revenue to the Crown there, one of which others are availing themselves.

**Mr. Brittain:** Mr. Chairman, there was a case, the details of which, unfortunately, I cannot recall at the moment but which illustrates the point I was making. It was a situation where money was transferred to the United States account for payment in advance of the time. I believe the payment had to do with aircraft. The Government got good value in terms of the interest they received on the money. The Auditor General made an observation on this and, although I cannot recall all the details or even the year, I do recall very well that the Government department was taken to task for this practice. I doubt if it has happened again.

**The Acting Chairman:** I find it difficult to understand why the Crown should be taken to task for making an attempt to save money.

**Senator Desruisseaux:** Mr. Chairman, with respect to Part VIII B on pages 11 and 12 of the bill, and specifically section 88H (2), does that mean that you would be sending off accounts receivable to collection agencies that would act and prosecute on behalf of the Government on their own?

**Mr. Brittain:** Mr. Chairman, if I could speak to the main purpose first of this proposed amendment, which, in fact, would be in addition to the act, it is to assign to subcontractors and suppliers of prime contractors the right of the Crown to sue in event of the bankruptcy of the prime contractor, which has not been possible in the past. This is the main purpose of this proposed amendment.

**Senator Desruisseaux:** It does not mean that you could sell your receivables, or whatever they are, to a collection agency?

**Mr. Brittain:** No, sir, it does not mean that.

**Senator Desruisseaux:** Thank you.

**Senator Kinley:** Does it protect the subcontractor?

**Mr. Brittain:** Yes, sir. It gives him protection that he has not had before. It is somewhat analogous to the provincial mechanics lien legislation.

**Senator Kinley:** I know. But that is in every Government contract. They must pay their debts before you pay them.

**Mr. Brittain:** This is in connection with the bonds; this section deals with the labour and material payment bonds.

**Senator Kinley:** Yes.

**Mr. Brittain:** And the contract is entered into obviously between the Crown and the prime contractor. The prime contractor then enters into contracts with his subcontractors and not with the Crown.

**Senator Kinley:** But the Crown says to him that he must pay his subcontractors before they will pay him. He must send the Crown a certificate. I know that sometimes they come and ask you to sign that it is paid when it is not, so that they can get the money and give it to you afterwards.

**Mr. Brittain:** Yes. However, the prime contractor can go bankrupt without having paid in full the amounts he owes to his subcontractors and to his suppliers. The bond is the protection which is available, then, to cover that situation.

**Senator Kinley:** Will that prevail against a bank's lien? The bank has a lien on the contractor.

**Mr. Brittain:** I am sorry, Mr. Chairman, but I wonder if the senator could expand on his question.

**Senator Kinley:** Most of them have a lien under section 88, you know. So, if they go bankrupt and cannot pay those liens, what do you do then? Do you not protect the account in its entirety with regard to its merit against subcontractors and contractors? I think the Government does, does it not?

**Mr. Brittain:** The bond protects them.

**Senator Kinley:** The bond for service—the bond they register for the completion of the work.

**Mr. Brittain:** That is a performance bond. This is a labour and material payment bond designed to protect the subcontractor and the supplier. That is specifically for that purpose.

**Senator Kinley:** I think that is alright now.



**The Acting Chairman:** Honourable senators, any other questions?

**Senator Kinley:** Just what is this amendment?

**The Acting Chairman:** Mr. Brittain, will you be good enough to explain the amendment put through in the other place which brings the bill up to date.

**Mr. Brittain:** The amendment, Mr. Chairman, is not an amendment of substance. The wording which had been originally proposed in the bill was such that members of the other place felt it did not adequately describe the situation and proposed that this should be done. So the additional wording was added to the existing section of the act to include "or payable under any other contractual arrangement prior to the end of that year," since there are commitments or payments arising out of situations other than work performed, goods received or services rendered in that fiscal year.

An example of this which has been used previously is the case of a writer's contract where it is the practice of the writer to require a down payment of 25 per cent—I believe that is what it is—on the signing of the contract, and that was not covered under the terms of the act as it now stands, and so in this one small area where an account is received in the 30-day period following the end of the fiscal year when we can accrue these expenses—this is one type and there are one or two others—it cannot be paid, so this part of the act was so worded that it is not possible. It was felt in the House that the amendment did not describe the situation adequately and that it left room for doubt, so the amendment was amended in this form.

**Senator Flynn:** And it is now included?

**The Acting Chairman:** It is now included in the bill.

**Senator Flynn:** In the text we have the text of the amendment is incorporated. But I cannot find out where it is.

**The Acting Chairman:** Is it page 9, section 35 lines 13 and 14.

**Senator Flynn:** The addition we have is "As passed by the House of Commons".

**Mr. E. Russell Hopkins, Law Clerk and Parliament Counsel:** The copies we distributed were first reading copies, in the first instance.

**Senator Flynn:** This one is correct then?

**Mr. Hopkins:** If it is "As passed by the House of Commons", yes.

**Senator Flynn:** There is a difference, however. There is a comma instead of the word "or" in line 4:

for work performed, goods received or services rendered.

In the amendment which has been distributed it reads:

payable for work performed or goods received or services rendered.

There is a comma in the text instead of the word "or".

**Mr. Hopkins:** That is correct, Senator Flynn. If you have the bill "As passed by the House of Commons", that will be it.

**Senator Flynn:** We do not need that at all then?

**Mr. Hopkins:** No, not now.

**Senator Flynn:** It serves only to confuse us.

**Senator Kinley:** Regarding:

"fiscal year" means the period beginning on the first day of April in one year and ending on the thirty-first day of March in the next year;

this question was asked in the house! At what time of day?

**Mr. Brittain:** Midnight, sir.

**Senator Kinley:** Sure. A day means a day, surely?

**The Acting Chairman:** Honourable Senators, are you ready for the question?

**Hon. Senators:** Agreed.

**The Acting Chairman:** Shall I report the bill without amendment?

**Hon. Senators:** Agreed.

The committee adjourned.











First Session—Twenty-eighth Parliament

1968-69

# THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

# NATIONAL FINANCE

The Honourable LAZARUS PHILLIPS, *Acting Chairman*

No. 8

THURSDAY, MARCH 27th, 1969

### *Third Proceedings on The Estimates*

laid before Parliament for the fiscal year ending 31st March, 1970.

WITNESS:

E. P. Neufeld, Professor of Economics, University of Toronto.

APPENDIX:

“A”—Statement by Professor Neufeld, and charts I to V inclusive, attached thereto.

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Beaubien	Grosart	McDonald
Benidickson	Hays	McLean
Bourget	Isnor	Nichol
Bourque	Irvine	Paterson
Desruisseaux	Kinley	Pearson
Dessureault	Laird	Phillips ( <i>Rigaud</i> )
Everett	Leonard	Phillips ( <i>Prince</i> )
*Flynn	MacDonald ( <i>Queens</i> )	O'Leary ( <i>Antigonish-</i> <i>Guysborough</i> )
Fournier ( <i>Madawaska-</i> <i>Restigouche</i> )	*Martin	O'Leary ( <i>Carleton</i> )
Gelinas	Methot	Sparrow
	Molson	Walker—(30).

\**Ex officio members:* Flynn and Martin

(Quorum 7)



ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, February 12th, 1969:

“With leave of the Senate,  
The Honourable Senator McDonald, moved, seconded by the Honourable Senator Langlois:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, in advance of Bills based upon the said Estimates reaching the Senate; and

That the Committee have power to engage the services of such counsel and technical, clerical and other personnel as may be necessary for the purpose of the inquiry; and

That the Committee have power to sit during adjournments of the Senate.

The question being put on the motion, it was—

Resolved in the affirmative.”

ROBERT FORTIER,  
*Clerk of the Senate.*





THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

MINUTES OF PROCEEDINGS

EVIDENCE

Thursday, March 27th, 1969.

(11)

At 11.00 a.m. this day the Standing Senate Committee on National Finance met to consider the following:

*The Estimates* laid before Parliament for the fiscal year ending March 31st, 1970.

Present: The Honourable Senators Phillips (*Rigaud*) Acting Chairman, Beaubien, Bourque, Desruisseaux, Fournier (*Madawaska-Restigouche*), Hays, Isnor, Irvine, Laird, McLean, Nichol, Pearson, O'Leary (*Antigonish-Guysborough*), and Sparrow. (14)

The following witness was heard:

E. P. Neufeld, Professor of Economics, University of Toronto.

Upon motion, Resolved to print Professor Neufeld's statement as Appendix "A" to these proceedings.

It was suggested that Professor Neufeld might return at some later date to give further evidence.

At 12.30 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
Clerk of the Committee.





## THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

### EVIDENCE

Ottawa, Thursday, March 27, 1969.

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, met this day at 11 a.m.

Senator Lazarus Phillips (*Acting Chairman*) in the Chair.

**The Acting Chairman:** Honourable senators, we will call our committee meeting to order. As you know, in the absence of our genial and able Chairman, Senator Leonard, I am your Acting Chairman. Prior to leaving Ottawa a short while ago, Senator Leonard was in touch with Professor E. P. Neufeld of the Department of Political Economy of the University of Toronto. It was felt that the academic standing of Professor Neufeld was such that his views and observations on certain matters in relation to the Estimates, which we are considering for the fiscal year ending March 31, 1970, would be of great value and instruction to us. We have Professor Neufeld with us this morning.

Would you be good enough, Professor Neufeld, to address us on the particular aspects of the Estimates in their effect on certain segments of the economy which you feel call for special study? Thank you.

**Professor E. P. Neufeld, Professor of Economics, University of Toronto:** Honourable senators, it is an honour for me to appear as a witness before this committee, the National Finance Committee of the Senate. The Chairman of the committee, Senator Leonard, asked whether I would consider particularly the effect of proposed federal government expenditures on various aspects of the economy, including total demand, pressure on costs and prices, and the level of taxation. This I am pleased to do. I realize, however, that the subject justifies more attention than I have been able to direct to it in the short period available to me.

It seems to me that, from an economic point of view, government expenditures should be appraised in two ways: Their impact on the short-term, cyclical economic environment, including particularly employment and price levels, or inflation; and their

impact on the long-term efficiency or productivity or average standard of living of the nation. I will organize my comments accordingly.

The main expenditure Estimates of the federal Government for the 1969-70 fiscal year total \$11,858 million, which is 9.5 per cent higher than those in the 1968-69 fiscal year—a year in which expenditures increased by about 9 per cent. The annual average increase for the eight fiscal years from 1961-62 to 1968-69 was about 10.4 per cent: so the projected increase for 1969-70 is not only higher than for 1968-69 but is not much lower than the average annual increase since economic expansion began in the spring of 1961. At the same time, the Government has repeated its intention of achieving a balanced budget in 1969-70, in contrast to an estimated deficit of around \$700 million in 1968-69 and to deficits of various sizes in each of the years of the current phase of economic expansion.

If we examine the statistics on a national accounts basis, which is more appropriate for economic purposes, much the same general picture emerges for the year 1969-70—a forecast surplus of about \$250 million compared with a deficit of around \$400 million in 1968-69, or a “turn-around” of about \$700 million. So we may conclude that the budgetary accounts for 1969-70 seem to contain a fair sized deflationary element, but that this influence will emerge not from a slow down in expenditures but rather from increased tax revenues. The question that emerges at this point is whether or not such a trend is an appropriate one. To answer this question requires first a glance at current economic conditions in Canada.

There seems to me one piece of statistical evidence at present that is of particular relevance to our discussion, namely, the rate of unemployment in Ontario. Chart 1, which is the first of the charts at the back of the memorandum shows this rate for the period 1953 to January 1969. That is the most recent figure available for unemployment in Ontario. It should be noted that there has been a relatively steady decline in Ontario unemployment since May 1968, when it stood at 4.1 per cent, and that there was a sharp decline in January 1969 to 2.7 per cent from 3.3 per cent in December 1968. Furthermore, the January 2.7 per cent figure was almost down to



the lowest annual average rate attained in the 1961-1968 period, which was 2.5 per cent. Ignoring for the moment any forecast as to whether this low rate of unemployment and high rate of employment will continue in Ontario—a region accounting for about 37 per cent of the Canadian labour force—taken at face value it means that that province has suddenly returned to a position of relative full employment for the first time since late 1966. This in turn means that any sudden acceleration in aggregate national expenditure, whether induced by the government sector, the private sector or both, would pose the threat of a return of “demand-pull” inflation. Since “cost-push” inflation seems still to be a worrisome problem, the prospect of the two forces being combined is not a pleasant one for those concerned with controlling inflation. It may be recalled that in February 1969, Canadian wholesale prices stood 4.4 per cent higher than a year ago, and consumer prices 3.7 per cent higher, and that new wage rates negotiated in the 4th quarter of 1968 amounted to a 7.5 per cent per annum increase. This is an indication of the magnitude of the inflationary trend that has recently existed. It is true that the latter two figures, the increase in consumer prices and the increase in wage rates, suggest a slight easing of price and cost forces from what they previously had been, but it is only a slight easing.

What then are the prospects for a continuation of the high Ontario employment rate of January? The February figures for Canada as a whole, it may be noted, were as strong as the January ones. It seems to me that the prospects are for continued economic expansion. Consider first capital spending. Since 1953 residential construction, to take one important part of capital spending, has accounted on the average for about 4.4 per cent of GNP, but in 1966, 1967, and 1968 the figures were 3.7 per cent, 3.8 per cent and 4.1 per cent—so trend bias seems to be on the side of expansion. Furthermore, housing starts are running at record levels. The same kind of pattern exists in business capital spending, and soon to be published investment data—to be published in the next week or two—are likely to show some expansion for 1969. The unusually strong increase in exports in 1968 is not likely to be repeated in 1969; but at the same time it may be that the “deflationary” move to a larger trade deficit, that began in mid-1968, has just about run its course. While the rate of consumer savings seems to have declined slightly in 1968, it is still relatively high and argues against any significant reduction in consumer spending. Inventories too were not excessive in late 1968 and some expansion of them is likely in 1969.

Now, what does this mean? It would seem to me that government policy at present must assume that there will be strong economic expansion in 1969. It

is true that the slow down in exports, and the apparent absence of serious industrial capacity shortages with its moderating influence on capital spending plans, may keep that expansion orderly. But at present, with unemployment very low in large sections of the country, with inflationary forces from past expansion still in evidence, and with major sectors poised for further expansion, it would seem inappropriate to compromise in any way the deflationary nature of the 1969-70 federal revenue and expenditure estimates.

It should however be recognized that the problem of regional unemployment remains a serious one in Canada, and seems recently to have become worse. I would like to refer for a moment to Chart II which shows the unemployment rates for Quebec and Ontario as a proportion of the national unemployment rates. In January 1969 the unemployment rate in Ontario was only 63 per cent of the national rate, a lower figure than at any time for at least 15 years, using annual average data. The Quebec experience is quite different. The unemployment rate there was 51 per cent higher than the national rate in January 1969, a higher figure than at any time over at least 15 years, using annual average data. I say 15 years because I did not look further back. I refer to this important development in order to make the point that Canada continues to be faced in 1969 with a serious problem of regional unemployment and that such unemployment cannot be removed through an expansionary fiscal and monetary policy on the national level. To attempt to do so would probably have the effect of creating serious inflationary conditions in the regions of high employment in Canada. I would add in parentheses that I see this recent development as one of the most serious policy problems facing the country in 1969.

**The Acting Chairman:** I agree with you. From what we see on the national scene it is impossible to introduce a national policy. What would be helpful to Quebec in Chart II would be harmful to Ontario in Chart I.

**Professor Neufeld:** I wish now to comment on some longer term issues with respect to the levels of government expenditures. Chart III shows federal and provincial and municipal expenditures on goods and services as a proportion of gross national product; and Chart IV shows federal expenditures as a proportion of total government expenditures on goods and services.

An examination of these two charts leads to the following points: (a) in 1967 and 1968 government expenditures on goods and services accounted for about 20 per cent of GNP—a record figure for the post-war years; (b) federal government expenditures



have been declining quite persistently as a proportion of GNP until recently, standing at 6.6 per cent in the third quarter of 1968, while provincial and municipal expenditures were 13.2 per cent of GNP in the third quarter of 1968 and more than offset the relative decline in federal expenditures; (c) federal government expenditures accounted for about 34 per cent of total government expenditures on goods and services in 1968, compared with 46 per cent only a decade earlier.

These trends raise the question as to whether the high levels of government expenditures, and their accompanying taxation levels, create problems for long-term economic prosperity. Presumably increases in government expenditures are designed to achieve both social and economic objectives. In some cases the achievement of social objectives may conflict with economic objectives, and an appropriate "trade-off" must be sought—as, for example, in the case of creating regional employment by generating capital expenditures in regions of relatively low productivity; in some cases it may be that social and economic objectives are attained by the same expenditure—as would be the case if expenditures on education and health were to improve the efficiency of the labour force; in some cases government expenditures may contribute only to achieving economic objectives.

Since it is reasonable to believe that some government expenditures will enhance and others reduce national productivity and some will help achieve desirable social objectives, and others not, it is of limited usefulness to approach the matter of government expenditures in a doctrinaire fashion. There is no simple guide to determine whether government expenditures are too high or too low. Nor are international comparisons very useful because of greatly differing social conditions and institutional arrangements, but Chart V shows that Canada has lower tax levels than some other countries.

If you will take a glance at Chart V, it shows the total tax payments as a percentage of GNP for various countries, and they include taxes at local as well as national levels. You will see that Canada is at the lower end of the tax burden structure, if you wish to use that phrase. Other countries I could have included, such as The Netherlands and the Scandinavian countries, would also be in the higher range and not in the lower range; they would be in the sort of 35 to 40 per cent range.

**Senator Desruisseaux:** May I ask where these statistics were procured, Dr. Neufeld?

**Professor Neufeld:** They were procured from OECD material, except the Canadian ones, which come from the National Accounts Income and Expenditure.

I caution against reading too much into these comparisons because of obvious problems as to what you define as taxes in various countries, but for want of better information this gives us a reasonable impression of relative tax levels, and it does show that in this respect, Canada would not appear to be out of line with other countries.

**Senator O'Leary (Antigonish-Guysborough):** Professor, would you have the names of a couple that are higher?

**Professor Neufeld:** A couple that are higher would include France . . .

**Senator O'Leary (Antigonish-Guysborough):** Sorry, I meant, lower.

**Professor Neufeld:** Of the ones I examined—and there were only three or four others I looked at, apart from the ones shown here—none of them was lower.

**Senator Hays:** Professor Neufeld, when Dr. Deutsch was here on behalf of the Economic Council, he gave us a different set of figures—and it was not so long ago. I think that he showed Canada as 34 per cent and the United States at 26 per cent at that time, including the Viet Nam war.

**Professor Neufeld:** These are 1966 figures. I am not sure what would be the case right now, nor do I recall exactly the definition of "taxation" Dr. Deutsch used. Since 1966 there have been tax changes: we have seen the introduction of a number of tax increases at the provincial level, including recently; and we have also seen the introduction of the additional personal income tax; and I am not sure what year Dr. Deutsch used. I used 1966 because I could not get statistics for the European countries after that.

**Senator Hays:** I think this was in the Fourth Report of the Economic Council.

**Professor Neufeld:** I just cannot recall exactly the nature of the statistics he used. The statistics I used were essentially simply the total taxes collected at the federal, provincial, or state, and local levels as a proportion of the GNP.

**Senator Hays:** This is what you tied it to?

**Professor Neufeld:** Yes.

**Senator Beaubien:** What was the GNP for, say, 1966, 1967, 1968? Have you those figures?

**Professor Neufeld:** In Canada?



Senator Beaubien: Yes.

Professor Neufeld: In 1966 it was \$58,120 million; in 1967, \$62,068 million; and in the first quarter of 1968 it was \$65,088 million, the second quarter, \$66,288 million, and the third quarter \$67,628 million.

Senator Beaubien: So 1968 might be running around \$67 billion, on the average?

Professor Neufeld: Yes. What worries me about government . . .

The Acting Chairman: Excuse me, Professor Neufeld. What bothers me regarding Chart V, in taking Canada's percentage of taxation of 26 per cent of the Gross National Product, I think you mentioned a figure in 1966 of approximately \$68 billion.

Professor Neufeld: \$58 billion.

The Acting Chairman: So, if you take 26 per cent of \$58 billion, which is your chart figure, and compare that with the federal, provincial and municipal appropriations, it would appear to me the tax level is considerably greater than the totality of 26 per cent you have here in your chart.

Professor Neufeld: You are now looking at the 1968-69 estimates, whereas the tax levels used in 1966, in an absolute sense, were quite a lot lower than they are this year.

The Acting Chairman: You say it would go as low as 26 per cent of the \$58 billion?

Professor Neufeld: Yes, in 1966.

The Acting Chairman: Thank you.

Professor Neufeld: What worries me about government expenditures is that even though they involve a significant portion of the nation's output, governments in Canada seem to have made exceedingly little progress in determining whether or not the nation is getting value for its money. Inefficiency or waste in government spending may take two forms. The first—and I am including here something which is not included in the memorandum—is waste in executing specific projects or procedures of the kind that the Auditor General concerns himself with, and the second is waste in the sense of inadequate economic and social benefits derived from given programs. While the first is important and fully justifies the Auditor General's suggesting that a management study should determine the reasons for its persistence, it is very likely that the second is by far the costliest one for the nation.

The time has come for governments to move out of the stone age in the matter of measuring and analyzing the economic and social benefits of Government expenditures, and in establishing a rational list of spending priorities. To take just one example—and I emphasize this merely as an example I take at random: What evidence is there that the present system of family allowances in Canada is the most efficient system for achieving desired social objectives? Even worse, who knows what the social objectives are that the system is supposed to be achieving?

In the absence of detailed information with respect to the objectives of and criteria for performance relating to major government spending commitments, there remains the worry that the nation may be mishandling its scarce resources in the government sector. The persistent increase in the relative size of provincial and municipal government expenditures, as well as of the existence of joint federal and provincial programs, makes it apparent that efficiency criteria relating to government spending programs should be established at all levels of government.

I would summarize my points as follows:

- (1) The recent decline in unemployment in Ontario makes it prudent to be on guard for a return of the forces of "demand-pull" inflation.
- (2) Such a possibility is particularly worrying since the forces of "cost-push" inflation emanating from past expansion have not yet spent themselves.
- (3) A sector by sector analysis of the economy does suggest that economic expansion will dominate the year 1969.
- (4) Because of the preceding three points it seems appropriate for fiscal policy to be directed toward restraint.
- (5) The projected government surplus, on a national accounts basis, for 1969-70, following the 1968-69 deficit, does constitute a move toward restraint. The restraint seems to be coming from an increase in revenues and not from any significant slow-down in expenditures. I should like to add that I really am not sure how much expenditures on a national accounts basis are going to slow down in 1969-70. I may be incorrect in my view as to how the move towards a surplus will be split between increased revenues and a decreased rate of expenditure. The magnitude of the restraint would seem at present to be appropriate, although after the substantial errors made in projecting 1968-69 expenditures an element of uncertainty must still exist over the reliability of the government's projections.
- (6) There has been a persistent absolute and relative increase in total Canadian Government expenditures, with a relative shift away from federal Government spending.



(7) The sheer size of government expenditures makes it essential that their economic and social impact be understood and measured, in order to determine whether or not that sector is making wise use of the nation's resources.

(8) At present it is exceedingly difficult to feel confident that the public sector is allocating its resources in a way that maximizes social and economic benefits.

**The Acting Chairman:** Thank you, Professor Neufeld. To start the ball rolling I should like to put two questions to you. This will give the members of the committee an opportunity of digesting this very important memorandum, and thus be in a position of putting questions to you.

My first question is: Do you entertain any views on the desirability of applying a statutory limit on the national debt? My second question is: Do you think it feasible that national expenditures be restricted by statute having regard to the gross national product?

**Professor Neufeld:** I do not think a very good purpose would be served in placing a limit on the size of the national debt, for two reasons. First of all, it presupposes that a certain volume of government expenditure financed by debt is obviously the appropriate one. Secondly, it suggests that Parliament wishes to tie its hands with respect to spending decisions.

**The Acting Chairman:** May I interrupt you on one point? I should have preceded my remarks by making the statement: short of war or a national emergency that has been declared by Parliament; these two limitations should apply.

**Professor Neufeld:** What worries me about pre-determining what the size of the debt should be is that it does not constitute an economically sensible criterion for the level of government activity. One has to recognize that there are certain areas of government activity that only government can execute; and furthermore, that some of those areas of activity are very important for increasing the economic efficiency of the nation. I would prefer an approach that attempts to measure the benefits derived from government expenditures, and tries to compare whether or not the nation would be better off to have left those resources in the private sector, to an approach that prejudices this issue. I think that placing a limit on the size of the debt would tend to prejudice the issue.

The same sort of generalization would apply to placing a limit on the size of government expenditures with respect to the GNP. It presupposes there is something right about a certain relative size of

government activity and something wrong about another size. What worries me is that the criterion chosen—that is, a certain proportion of production—would not seem to make any particular objective sense. It might well be, for example, that right now the government sector is too large, or it might be that it is too small. I think the economists would be inclined to say we should compare what the nation is getting out of the government expenditure with what it would get out of those expenditures if left in the hands of individuals, in the hands of the people, and see whether we would not be better off or worse off with a higher or level of government expenditure. I think this kind of scrutiny of government spending plans and programs is one that would lead to objective answers.

**Senator Hays:** Assuming the national debt is in the neighbourhood of \$16 billion—I may be wrong—what percentage of federal expenditures are now used to service the national debt, and what were the figures four or five years ago? If you have those figures, how important is it to pay off a surplus? What are the inflationary trends throughout the years? If it were static it would seem to me that it might take care of itself percentage-wise.

**Professor Neufeld:** As far as the proportion of expenditures accounted for by public debt charges is concerned, I think in 1969-70 the total projected is to be \$1,604,000,000 out of a total of \$11,858,000,000.

**Senator Hays:** Around ten per cent?

**Professor Neufeld:** Yes. I think that ratio has been rising because of the increase in interest rates.

**Senator Hays:** Has the percentage not also been decreasing over the years?

**Professor Neufeld:** Yes, over a long period of years it has been decreasing. At the end of the Second World War . . .

**Senator Hays:** But in the last eight years?

**Professor Neufeld:** I have not made those comparisons. I do not know whether it has or not.

**Senator Hays:** Even on your \$58 billion in 1966, on your percentage it was \$7 billion.

**Professor Neufeld:** In 1968-69 the interest on the debt was \$1,474,000,000 out of \$10,826,000,000. I just have not worked out the percentages that way. They have been declining over a long period of time. What happened in the last few years I am not sure.



**Senator Hays:** In your opinion, what is the proper amount of inflation this country could conceivably have without it being detrimental?

**Professor Neufeld:** The rate of inflation? The rate of price increases?

**Senator Hays:** Over the years, taking one year with another. We have always had inflation, and when we had deflation we were in lots of trouble.

**Professor Neufeld:** I think that we have had excessive inflation over the last three or four years, and this inflation rate has been well in excess of three per cent per annum for several years, including this last year. For Canada one thing is certain, and that is that it cannot permit its inflation rate to exceed the rate of inflation in the United States. In the period 1958 to the present the rate of inflation has been higher than that of the United States, although from about 1967 onwards we have had about the same rate of inflation as in the United States. That is the first generalization we can make, that we are in considerable trouble if we have a rate of inflation persistently in excess of that of the United States.

**Senator Hays:** Can you tie a figure to that?

**Professor Neufeld:** Over which period?

**Senator Hays:** The period you are referring to.

**Professor Neufeld:** From 1958 to 1968, if my memory is correct, our wholesale prices rose about nine per cent or nine and a half per cent more than those in the United States, and our consumer prices by about three per cent more than those in the United States over the last decade. In terms of per cent per annum increases in prices, I think we have to devise a policy that will keep our inflation below three per cent per annum.

**Senator Hays:** In your opinion, by what percentage can inflation rise and still leave us competitive in foreign markets? We are fairly competitive now. We are one of the largest exporters of goods and services in the world.

**Professor Neufeld:** I think the important point is, of course, that we cannot permit our inflation to exceed that of our major trading partners. Again, over the last decade, if you compare Canadian inflation with that of most western European countries, you will find that the performance has been pretty satisfactory. However, if you compare our rate of inflation of the last year or two with that of western European countries you will find that there were some countries that had less inflation than we did and some that had more. In other words, I think in this last period we have got to the point where

we are inflating more than some countries, and therefore inflating to an extent that should worry us.

**Senator Hays:** One more question, Mr. Chairman. What would the percentage of labour or wages contribute to the increased cost of expenditures in federal, municipal and provincial governments?

**Professor Neufeld:** The figures I looked at were the per cent per annum wage increases negotiated in major contracts in 1968. This does not confine it to the government sector, but this suggested that wages were rising at about 7½ per cent per annum at the end of 1968.

**Senator Hays:** This is both in the government and the private sector?

**Professor Neufeld:** I think this section includes—I would not wish to be dogmatic about this—the government sector.

**Senator Hays:** Has the private sector increased their wage rates higher than the government sector?

**Professor Neufeld:** In the absence of this sort of statistic for the government sector, at least in the sense that I have not looked at them, I am not sure that this is the case. Traditionally the government sector usually lags behind the private sector.

**Senator Hays:** Mr. Chairman, would it be possible for this committee to have information such as the increase in wages in the government and private sectors and what the percentages are?

**The Acting Chairman:** Would you like this information?

**Senator Hays:** If it is possible.

**The Acting Chairman:** I would imagine so. If the committee asks the professor to prepare this for us, it will form part of these proceedings when it is received. Is that agreeable to honourable senators?

**Senator Hays:** It is hoped that before the sitting closes today, the Chair will entertain a motion to incorporate into the minutes the report as prepared by Professor Neufeld in the schedules. Therefore, if such a motion passes, the material to be obtained will supplement the report.

**The Acting Chairman:** I think we overlooked one point. Would we cover a particular period or confine the study to a particular number of years, Senator Hays?

**Senator Hays:** We could go back to the expansion of 1961.



**The Acting Chairman:** It just occurred to me that we did not fix a time period. All right, then, it will run from 1961 to 1968?

**Senator Beaubien:** Professor Neufeld, on page 5 of your report under (c) you say that federal government expenditures accounted for about 34 per cent of total government expenditures on goods and services in 1968. If the government lends money to, say, the CBC, is that included as an expenditure on goods and services?

**Professor Neufeld:** No; loans are excluded. The statistics could have compared the total expenditures including transfer payments. I thought that it might be more useful to look at it from this point of view. I think the same trend is indicated by figures that include all transfer payments and expenditures on goods and services and loans and advances.

**Senator Beaubien:** Professor Neufeld, if the Government lends \$30 million to the CBC or whatever it is, it is certainly making an expenditure because it is not going to get it back. It is put under a different heading for goodness knows what reason. On your Chart V you show Canada total tax payments as percentage of GNP. Is that the total tax of all the provinces?

**Professor Neufeld:** Yes.

**Senator Beaubien:** Professor Neufeld, has not the federal Government always, on its own, spent about 20 per cent of the GNP and never less?

**Professor Neufeld:** I should explain that. That is not correct, actually. Chart IV gives you a look at federal expenditures on goods and services as a proportion of total Government expenditures. Chart III shows government expenditures on goods and services as a proportion of GNP, and the most recent figure is just over 6½ per cent.

**Senator Beaubien:** You have estimated the GNP as about \$67 million this year. We know that the federal government is spending \$13 billion. That is roughly 20 per cent. You are taking over what they pay to the provinces.

**Professor Neufeld:** No, I emphasize that Chart III is for expenditures on goods and services. That is on a national accounts basis.

**Senator Beaubien:** That does not include all government spendings.

**Professor Neufeld:** If you are interested in the impact of government activity on the demand for output, on inflation, then you must, for example, confine yourself to expenditures on goods and ser-

vices. There may be other problems for which it would be better to use the other definition. If we are talking about the impact of expenditures on the nation's economy, with emphasis on inflation and employment, then the relevant figure is that of expenditures on goods and services. I would like to explain on Chart V.

**The Acting Chairman:** May I interrupt and support Senator Beaubien on that line of approach. Surely the level of taxation relates itself to the inflationary or deflationary trends, as the case may be; therefore, the total budgetary estimate has a direct bearing on the submatter of inflation, whereas, as I follow your thinking, you are confining the concept to goods and services.

**Professor Neufeld:** Well, I have done both, in a sense. Take, for example, Chart V which shows total tax payments as a proportion of GNP. That gives you an impression of the total tax burden.

**Senator Beaubien:** Professor Neufeld, you say that in Chart V that 26 per cent of the GNP is being spent by all levels of government.

**Professor Neufeld:** In 1966.

**Senator Beaubien:** I think this year the federal government is spending roughly 20 per cent of GNP. You also say on page 5 that the federal government expenditures accounted for about 34 per cent of the total. So, if the federal government is spending 20 per cent, and in 1968 it was 34 per cent of the total expenditures on the three levels, I do not see how we end up in any one year with 26 per cent of the whole.

**Professor Neufeld:** In 1968-69, if you wish to make a projection of GNP a reasonable one, the levels of expenditures which were \$10.8 billion were not 20 per cent of the GNP.

**The Acting Chairman:** They were not very much less. What was the GNP in 1968?

**Senator Beaubien:** Are you taking in all the supplementary Estimates and loans and so on?

**Professor Neufeld:** Yes, the total budgetary Estimates.

**Senator Beaubien:** Does that include the loans that are giving to the CBC, \$23 million? And, if they are going to spend it on a 27-storey building on a 10-acre lot on Dorchester Street in Montreal, do you mean to say that is not expenditure by the government?



**Professor Neufeld:** I think we have to be sure precisely what kind of problem we are talking about. If we are asking the question, what impact is government expenditure likely to have on the nation, within the context of a general economy, where other sectors are also having an impact, then we have to have a rather precise definition of what we mean by the government sector.

**Senator Beaubien:** That would be something the same as that of all the other crown corporations.

**Professor Neufeld:** I used the accepted official definition of what constitutes the government sector. The appropriate figure to use is expenditures by governments on goods and services. You exclude expenditures on the part, say, of business crown corporations, for by definition they are included in the business sector.

**Senator Hays:** It may be this would clarify it, Mr. Chairman. What did the provincial and municipal governments spend? If the federal government spent \$13 billion, what did the provincial and municipal governments spend?

**Professor Neufeld:** The estimates for provincial governments are not available.

**Senator Hays:** But in your percentage, you would have to have those figures.

**Professor Neufeld:** I have a lot of them here. I wish now that I had known you would be interested, because it would have been very easy to prepare other statistics.

I took the provincial and municipal expenditures as a proportion of GNP—the expenditures on goods and services as a proportion of GNP—and, as you can see on Chart 3, the split between federal and provincial expenditures on goods and services, is roughly the federal about 6½ per cent, and the provincial-municipal about 13½ per cent.

**Senator Beaubien:** Double.

**Professor Neufeld:** I emphasize that this is expenditures on goods and services, as a proportion of GNP. That is important. I would argue that this is the appropriate way of looking at it.

**Senator Beaubien:** Professor Neufeld, we are more interested in what we have to provide in taxes. We are federal and also live in the province and we also live in the city. In 1967, you show the federal government expenditures as about, say, 7 per cent; and in 1967 the GNP was \$62 billion. So 7 per cent would be about \$4,340,000. The federal government 1967 spent three times—not three times but about

\$8 billion—and according to this, it would be \$4 billion.

**Professor Neufeld:** I have the back figures, the actual figures of federal government expenditures.

**Senator Beaubien:** What do you show it for 1967?

**Professor Neufeld:** On a national account basis. I emphasized that this is national accounts basis.

**Senator Beaubien:** What does that mean, “national accounts basis”?

**Professor Neufeld:** Expenditure on goods and services.

**Senator Beaubien:** Surely it is total expenditures we are interested in. Is that total expenditure? What are you taking off there? What was the budget that year? It must have been \$8 billion?

**Professor Neufeld:** I think we will not clarify our thinking on this issue until we are sure what sort of impact of government spending we are discussing. If we are discussing the impact of government expenditures on the demand for output, that is, on inflation, then we have to use one definition. If we are talking about the impact of government expenditures as they influence absolute tax levels—some sort of concept of tax burden—then we have to use another definition.

I have concentrated on discussing the impact of government expenditures on inflation. I can only say that it is my strong opinion that for this purpose we have to look at the impact of government expenditures on the demand for the nation's output, and that is the impact of government expenditures on goods and services.

**Senator Beaubien:** Professor Neufeld, I think you are harping on the same thing again. Let us say that the CBC builds a huge plant in Montreal at a cost of, say, \$30 million. How is that any different from the federal government spending the same amount on two or three destroyers? It is exactly the same thing as far as the economy is concerned. The \$30 million is going to be pumped in there, and that is going to go to every sector,—every area of Canada is going to get a certain amount of work. It will be going into the highly technical people. There will be something like four streets and 27 storeys high. What is the difference?

**Professor Neufeld:** May I make the distinction that the national accounts definition of what constitutes the public sector, and what is not, is a rather complex one. I would have to look at their very complex definition to see whether they have included the



CBC in the government sector or not. Business crown corporations such as Polymer and so on I know are in the private sector. But I cannot tell you in advance whether in fact their definition has put the CBC in the government sector or not.

**Senator Beaubien:** Polymer makes money, so it would not be.

**Senator Hays:** You get the gross national product of all goods and services at every level. The total amount of sharing programs that go to the provinces are also counted, and your expenditures are in the sharing programs, in the federal-provincial, as well. Is this not so? In computing your GNP?

**Professor Neufeld:** The definition basically is, my definition of what is meant by government sector. Much of this is straightforward. If you get into the marginal area, say where you have a crown corporation, the statisticians have to decide whether they should put a profit-making crown corporation in the private sector—and so it goes.

**Senator Beaubien:** Referring to Chart 3, government expenditures as a proportion of gross national product, what do you make the total government expenditures in 1966? You gave us the GNP; we have that.

**Professor Neufeld:** The total government expenditures on goods and services, or including other expenditures?

**Senator Beaubien:** All of what we have to pay in our taxes.

**Professor Neufeld:** As I say, I wish I had known that there would be this interest in that sort of discussion, because I have the figures easily available at home. I do not have them right here.

**Senator Beaubien:** Your Chart 5, definitely says that tax payments are percentage of GNP.

**Professor Neufeld:** But I do not have the work sheets which outline the figures. It is very difficult to anticipate in advance the exact information you would like to have. It is unfortunate that I do not have it here.

**The Acting Chairman:** We may bring you back.

**Professor Neufeld:** I can provide it without any difficulty at all.

**Senator Desruisseaux:** Mr. Chairman, does the percentage that Professor Neufeld arrived at include school taxes, which are sometimes two or three times the municipal taxes?

**Professor Neufeld:** Yes, sir.

**Senator O'Leary (Antigonish-Guysborough):** Mr. Chairman, may I address Professor Neufeld directly?

Professor Neufeld, I believe you appeared before the Special Joint Committee of the Senate and House of Commons on Consumer Credit in 1966 or early 1967.

**Professor Neufeld:** Yes, sir.

**Senator O'Leary (Antigonish-Guysborough):** Did you appear more than once?

**Professor Neufeld:** I appeared once.

**Senator O'Leary (Antigonish-Guysborough):** I was recalling to memory some of your remarks at that time. I note that your approach today is a bit different, and for a purpose I can understand; I note that you use the province of Ontario—at least it is one of your reasons for using it—to substantiate the figure that you quoted of 37 per cent of the labour force being involved there.

Now, I want to take the national picture and ask you, for example, if you would compare in your opinion, by way of a general statement, three factors since the fall of 1966 up to the present time. I do not want you to give me figures, but just a general statement. You said today that we must guard against an apparent return of demand-pull inflation. I would like you to comment just a bit more on that. You said cost-push inflation was still with us. I would like you to compare those two and, thirdly, how much do you feel that the rather high national unemployment figure has contributed towards controlling the demand-pull inflation which you fear may be arising again now.

**Professor Neufeld:** First of all, your first question is related to the statement that I made that it seems that there may be a return of a threat of demand-pull inflation. I make this point because, when a major area of the country, such as Ontario, gets down to 2.7 per cent unemployment, and when we recall that the lowest on an annual average basis that they got down to in the period 1961-1968 was 2.5 per cent unemployment, and when we also recall that in that period, when the lowest it got to was 2.5 per cent, we had quite a bit of inflation, I think it is reasonable to say that this 2.7 per cent unemployment rate constitutes a level of relative full employment. When a nation gets to a point of relative full employment, its flow of goods and services available begins to be limited by capacity.

**Senator O'Leary (Antigonish-Guysborough):** Do you not mean a large section of the nation, rather than the nation itself?



**Professor Neufeld:** That is right; when a large section of the nation gets to that level, then the supply of goods is limited by the absence of spare capacity and the absence of surplus labour force.

So, I raise the point principally because I think this has been a very recent development and one that has not yet attracted a great deal of attention. We had this big drop in unemployment in January of this year. In December it was still 3.3 per cent and in one month it dropped down to 2.7 per cent and that is why I say it is prudent in 1969 to consider whether or not we are going to have to face a problem of demand-pull inflation. On the second question of cost-push inflation being still with us, I think what I am saying here is quite in line with what I said to the Prices Commission in this respect. I think I was one of the first to suggest publicly the seriousness of the problem of cost-push inflation and to recommend that there should be some sort of review machinery. Government now, many months later has a proposal to form a prices and income commission which is designed to try to do something about the problem of cost-push inflation.

**The Acting Chairman:** Is that not to be an advisory and analytical committee without executive or administrative authority?

**Professor Neufeld:** That is right.

**The Acting Chairman:** Therefore it would be ineffective in terms of curbing the situation.

**Professor Neufeld:** That depends on one's opinion of what causes cost-push inflation. If it is caused partly by an absence of the force of public opinion on price-setting mechanisms and wage-setting mechanisms, one might argue that the formation of that commission could lead to better performance.

**Senator Hays:** Are you saying that when you have very few unemployed, wages go up and costs go up and so on and that this is the cause of inflation?

**Professor Neufeld:** When we talk about cost-push inflation we are really talking about the possibility that something may happen which tends to push costs up and which in turn induces—

**Senator Hays:** But you are talking about wages going up and costs going up later.

**Professor Neufeld:** Well, there are two or three other things that govern costs as well as wages. That is why I prefer the term "cost-push" rather than "wage-push". Wages are not the only things that cause an increase in costs.

**Senator Hays:** Are you saying then that we should have a certain percentage of unemployed?

**Professor Neufeld:** That relates to the third part of the question asked and if you will permit me, I would like to deal with the second part before I come to that. My feeling is that when you have an increase in contractual wage rates toward the latter part of 1968 that were greatly in excess of productivity increases and since in recent months we have seen some price developments which seem to have improved profit margins, then there would seem to me to be a possibility that on this occasion we will not have got rid of all the cost pressures on prices before we have the resurgence of demand pressure on prices. This is the point I was making.

Coming to the third part of the question, whether high national employment will control inflation or to what extent it will control inflation, there is by no means a clear-cut answer. Economists have done a great deal of work trying to determine the relationship between unemployment and inflation, and they have generally found it to be the case that periods of high unemployment are periods of low inflation, and periods of high inflation are periods of low unemployment. However, when you try to be more specific than that and say what rate of price inflation can accommodate what rate of unemployment that is where an area of uncertainty begins to emerge.

Take the year 1968: we had an unemployment rate persistently in excess of 4 per cent per annum; we had an inflation rate of about 4 per cent per annum, depending on the index you use; and it would seem to me this constitutes a rather disappointing trade-off between unemployment and inflation. I think it would be very unfortunate indeed for this nation if we had to tolerate unemployment of, say, 4 per cent and still have 4 per cent inflation.

So, all I can say in answer to that third part of your question, sir, is that there seems to be a relationship between unemployment and inflation, and the most recent experience suggests that this relationship has been a very worrying one for Canada, because it has resulted in too much unemployment and too much inflation.

**Senator Pearson:** You have two distinct regions: Quebec and the Maritimes; Ontario and the west. In Ontario and the west you have a fair amount of employment, and inflation is out in the west and not in the east. This is the problem the federal Government has to contend with, with these two distinct regions.

**Professor Neufeld:** I should emphasize why I raised that particular point outlined in Chart II, and that is the fact that you seem in the last while to have had an increase in the Quebec unemployment ratio as a proportion of the national unemployment ratio. The



specific reason I raised this was not to point out that unemployment in Quebec is higher than the national average, because that has been a very common pattern for a long time; but rather to suggest it has been getting worse. The point I make is that if it has been getting worse and we still try to drive the economy down to the same low unemployment rate as in the past, we will probably cause a worse inflation problem than in the past. I may say it is a development of the very last few months. This deterioration in January, which seems to have persisted in February, had not really existed prior to that. Therefore, I think it is worth while being aware of this in 1969.

**Senator Desruisseaux:** All the Atlantic provinces are in somewhat the same position as Quebec in the case of unemployment. It is five of the ten provinces—half of Canada.

**Professor Neufeld:** The element of deterioration recently has been greatest in Quebec. It is true the Maritimes always have had a higher average unemployment rate than the rest of the country. However, they have not seen in the last few months this deterioration in that respect. Unfortunately, this deterioration has existed in Quebec.

**Senator Hays:** Are there any percentages to show you what percentage of the population, say, in Charlottetown is considered in the work force, as compared to, say, Victoria, Montreal or Quebec City—in these various regions where you have these disparities?

**Professor Neufeld:** These statistics are available. They are referred to as participation rates, the proportion of the population in various regions defined as being the labour force.

**Senator Hays:** But there is a definite disparity—or not a “disparity,” but there is a difference. There may be a larger percentage of the population in Charlottetown that is considered in the work force than there would be in other areas?

**Professor Neufeld:** It is possible, but I have not looked at those figures. I accepted the definition of the labour force that constitutes the definition of the Department of Labour, and then took the proportion of unemployment in each region as a proportion of that defined labour force. It is true that in addition to that you have the possibility that the proportion of the population in the various regions that is defined as constituting the labour force might vary. Those statistics are available, but I have not looked at them.

**Senator Hays:** This would upset the whole percentage basis, would it not?

**Professor Neufeld:** I do not think so, because since the labour force statistic does essentially include those people of certain age groups who have a job or want to have a job...

**Senator Hays:** Married women are included in this as well, are they not?

**Professor Neufeld:** Yes. The definition is more complex than that, but essentially they are. Since you work to a common definition of what constitutes the labour force across the country I do not think it really disturbs one's view of what constitutes the unemployment rate in the various parts of the country.

**The Acting Chairman:** Professor Neufeld, do you mind answering this question? When I read the reports of highly skilled men such as yourself dealing with the subject of inflation and its relationship to wages, salaries and the like, I do not seem to see any particular emphasis placed on the take-home pay of the wage-earner and salary-earner. In other words, some of your colleagues—I do not say you—seem to overlook the results of taxation. There may be an increase in wages or an increase in salaries and the assumption is that the increase in wages and salaries has some effect on the inflationary or deflationary spiral. Very seldom do I see in the discussion any reference to the concurrent level of taxation. Do I overlook it in the studies, or is it really not dealt with in your specialized sphere?

**Professor Neufeld:** I think it is dealt with. It is implicit in one of the comments I make in the paper. For example, if you wish to determine a relationship between increases in income and increases in spending, the figure often used is personal disposable income, and personal disposable income is income after taxes. To get an impression of what is likely to happen to consumer spending, what I did was to take the personal savings rate as a proportion of personal disposable income, and this showed that in 1968, while there was a slight decline in the ratio of savings to personal disposable income, it was still a very high rate looked at over a period of years. That led me to the conclusion that probably in 1969 consumer spending is likely to remain at a level with a normal sort of increase, because savings are already high and people are not likely to increase their rate of savings even further. Here is an example of where you would try to take into account the fact that some portion of income that people receive they pay out in taxes.

**The Acting Chairman:** With regard to your reference to the Province of Ontario with a low unemployment rate being a possible cause for inflationary pressures, would not that trend be offset by the proposed increased taxation by the Province of



Ontario, which is also a concurrent phenomenon in terms of the net take home pay.

**Professor Neufeld:** Yes. If you look at the year 1969 and consider what are all the individual forces likely to work in the direction of damping down inflation, I think the point you have made is a very important one. In addition to this move toward a surplus on a national accounts basis on the federal Government level you have also had a move toward restraint on a provincial level. Both of those actions will have the effect of damping down the forces of inflation. I think the Ontario budget in that respect is a very important one.

**Senator Hays:** What about the private sector?

**Professor Neufeld:** As far as I can see, the private sector is going to be an expanding sector in 1969; that is, the government sector in 1969 will work against inflation and the private sector will work in the direction of inflation and hopefully the balance between those two forces will be of a kind that will not pose really serious inflationary problems.

**Senator Hays:** By what percentage has education increased costs at all levels of government? I suppose these figures are obtainable?

**Professor Neufeld:** Again I do not keep these figures in my head, but it would be quite easy to get the breakdown between education, highways, and so on. It is perfectly clear that education has been one of the really burdensome areas in terms of expenditure increases in the post-war period. I again go back to the point I made before which is that it is really not too useful to think in terms of the levels of government expenditures in a sort of doctrinaire fashion, because you would have to ask yourself what would happen to the country if you had not spent that money on education.

**The Acting Chairman:** I believe Senator Desruisseaux has a question.

**Senator Desruisseaux:** Could all your reasoning, Dr. Neufeld, be upset by psychological reverse, either in this country or elsewhere?

**Professor Neufeld:** With respect to the likelihood of prosperity?

**Senator Desruisseaux:** Yes.

**Professor Neufeld:** One would have to ask oneself what sort of events could occur to produce psychological reverses.

**Senator Desruisseaux:** Let us say a break in the stock market or a possible separation in Canada—just the psychological effects of it.

**Professor Neufeld:** Well, I think unforeseeable events could occur, including the threat of separation, which might have a devastating effect on the economy and completely offset my projections.

**The Acting Chairman:** Honourable senators, the hour is getting late and I want to make a suggestion or two. Senator Hays put a question to the professor. It is proposed that he will prepare further material which will supplement his report.

**Professor Neufeld:** I will try to obtain it.

**The Acting Chairman:** I put two questions to you, which I do not wish to present unduly at the present time. One was, why it would not be desirable to have a ceiling on our national debt as well as to have statutory limitations to budgetary appropriations or estimates. I do not ask you to explain your reasoning as to why statutory limitations of a national debt seem to be appropriate in the thinking of legislators in the United States but do not seem to be appropriate here; I am not pressing this point now. I would like you to consider it. I think it would be very helpful in supplementing your report if we could have the information asked for by Senator Hays and a reply to my two questions, an explanation as to why that which seems desirable for the United States is not desirable for us, and, finally, why the GNP should not be the criterion for the determination of Government expenditures.

I may say frankly that I am pressing this point, so that honourable senators can have on the record a well considered view of an eminent and trained economist. I for one as a layman have a contrary point of view. I believe that the democratic and parliamentary pressures and procedures are bringing about expenditures which are endangering the economic levels of the country, and unless there is a statutory restriction we will be heading for disaster.

**Senator Hays:** Further to your question, Mr. Chairman, that cities are tied to an amount of debt, many of them at \$40 per capita, and cannot go over that—why for cities and not for the country?

**The Acting Chairman:** It would form part of the justification.

Are there any further questions, honourable senators. If not, may I have a motion that the statement prepared by Professor Neufeld, with the schedules attached, and the material asked for by Senator McLean and myself, which will be forthcoming from Professor Neufeld at his reasonable convenience, do form part of the transcript and record of these proceedings. Will you so move, Senator McLean?



Senator Beaubien: Would it be a terrible imposition to get Professor Neufeld to come back? There is a lot of material here which we would need to digest. Another visit by him would be helpful to us.

The Acting Chairman: I think this has been an example that in conference there has been some wisdom and some confusion.

Senator Beaubien: We might induce him, after lunch.

The Acting Chairman: The possible answer is that we should carefully study these documents. There are clearly differences of opinion on vital points. I can truthfully say, as your spokesman, that notwithstanding the obvious differences of opinion in such a broad field, we are most grateful to you, Professor Neufeld, for bringing to us your learning and experience in these matters, we hope to see more of you.

Professor Neufeld: Thank you.

The Committee adjourned.

Appendix A

The Impact of Government Expenditures

On Economic Conditions

A statement made before the National Finance Committee of the Senate of Canada by E.P. Neufeld, Professor of Economics, University of Toronto,

March 27, 1969.



It is an honour for me to appear as a witness before this Committee -- the National Finance Committee of the Senate. The Chairman of the Committee, Senator Leonard, asked whether I would consider particularly the effect of proposed federal government expenditures on various aspects of the economy, including total demand, pressure on costs and prices, and the level of taxation. This I am pleased to do. I realize however that the subject justifies more attention than I have been able to direct to it in the short period available to me.

It seems to me that from an economic point of view, government expenditures should be appraised in two ways: their impact on the short-term, cyclical economic environment, including particularly employment and price levels; and their impact on the long-term efficiency or productivity or average standard of living of the nation. I will organize my comments accordingly.

The main expenditure estimates of the federal government for the 1969-70 fiscal year total 11,858 million, or 9.5% higher than that in the 1968-69 fiscal year -- a year in which expenditures increased by about 9%. The annual average increase for the eight fiscal years from 1961-62 to 1968-69 was about 10.4% so the projected increase for 1969-70 is not only higher than for 1968-69 but is not much lower than the average annual increase since economic expansion began in the spring of 1961. At the same time the government has repeated its intention of achieving a balanced budget in 1969-70, in contrast to an estimated deficit of around \$700 million in 1968-69, and to deficits of various sizes in each of the years of the current phase of economic

expansion. If we examine the statistics on a national accounts basis, which is more appropriate for economic purposes, much the same general picture emerges for the year 1969-70 -- a forecast surplus of about \$250 million compared with a deficit of around \$400 million in 1968-69, or a "turn-around" of about \$700 million. So we may conclude that the budgetary accounts for 1969-70 seem to contain a fair sized deflationary element, but that this influence will emerge not from a slow down in expenditures but rather from increased tax revenues. The question that emerges at this point is whether or not such a trend is an appropriate one. To answer this question requires first a glance at current economic conditions in Canada.

There seems to me one piece of statistical evidence at present that is of particular relevance to our discussion, namely, the rate of unemployment in Ontario. Chart I shows this rate for the period 1953 to January 1969. It should be noted that there has been a relatively steady decline in Ontario unemployment since May 1968, when it stood at 4.1%, and that there was a sharp decline in January to 2.7% from 3.3% in December 1968. Furthermore, the January 2.7% figure was almost down to the lowest annual average rate attained in the 1961-1968 period, which was 2.5%. Ignoring for the moment any forecast as to whether this low rate of unemployment and high rate of employment will continue in Ontario -- a region accounting for about 37% of the Canadian labour force -- taken at face value it means that that province has suddenly returned to a position of relative full employment for the first time since late 1966. This in turn means that any sudden acceleration in aggregate national expenditure, whether induced by the government sector, the private sector or both, would pose the threat of a return of "demand-push"



inflation. Since "cost-push" inflation seems still to be a worrisome problem, the prospect of the two forces being combined is not a pleasant one for those concerned with controlling inflation. It may be recalled that in February 1969, Canadian wholesale prices stood 4.4% higher than a year ago, and consumer prices 3.7% higher, and that new wage rates negotiated in the 4th quarter of 1968 amounted to a 7.5% per annum increase. It is true that the latter two figures suggest a slight easing of price and cost forces from what they previously had been.

What then are the prospects for a continuation of the high Ontario employment rate of January? The February figures for Canada as a whole, it may be noted, were as strong as the January ones. It seems to me that the prospects are for continued economic expansion. Consider first capital spending. Since 1953 residential construction has accounted on the average for about 4.4% of G.N.P., but in 1966, 1967, 1968 the figures were 3.7%, 3.8%, and 4.1% -- so trend bias seems to be on the side of expansion. Furthermore, housing starts are running at record levels. The same kind of pattern exists in business capital spending, and soon to be published investment intentions data are likely to show some expansion for 1969. The unusually strong increase in exports in 1968 is not likely to be repeated in 1969; but at the same time it may be that the "deflationary" move to a larger trade deficit, that began in mid-1968, has just about run its course. While the rate of consumer savings seems to have declined slightly in 1968, it is still relatively high and argues against any significant reduction in consumer spending. Inventories too were not excessive in late 1968 and some expansion of them is likely in 1969. It

would seem to me that government policy at present must assume that there will be strong economic expansion in 1969. It is true that the slow down in exports, and the apparent absence of serious industrial capacity shortages with its moderating influence on capital spending plans, may keep that expansion orderly. But at present, with unemployment very low in large sections of the country, with inflationary forces from past expansion still in evidence, and with major sectors poised for further expansion, it would seem inappropriate to compromise in any way the deflationary nature of the 1969-70 federal revenue and expenditure estimates.

It should however be recognized that the problem of regional unemployment remains a serious one in Canada, and seems recently to have become worse. Chart II shows the unemployment rates for Quebec and Ontario as a proportion of the national unemployment rate. In January 1969 the unemployment rate in Ontario was only 63% of the national rate, a lower figure than at any time for at least fifteen years (using annual average data). The Quebec experience is quite different. The unemployment rate there was 51% higher than the national rate in January 1969, a higher figure than at any time over at least fifteen years (using annual average data). I refer to this important development in order to make the point that Canada continues to be faced in 1969 with a serious problem of regional unemployment and that such unemployment cannot be removed through an expansionary fiscal and monetary policy on the national level. To attempt to do so would probably have the effect of creating serious inflationary conditions in the regions of high employment.

I wish now to comment on some longer term issues with respect to the



levels of government expenditures. Chart III shows federal and provincial and municipal expenditures on goods and services as a proportion of gross national product; and Chart IV shows federal expenditures as a proportion of total government expenditures on goods and services. The following points may be noted: (a) In 1967 and 1968 government expenditures on goods and services accounted for about 20% of G.N.P. -- a record figure for the post-war years; (b) federal government expenditures have been declining quite persistently as a proportion of G.N.P., standing at 6.6% in the 3rd quarter of 1968, while provincial and municipal expenditures were 13.2% of G.N.P. in the 3rd quarter of 1968 and more than offset that decline; (c) federal government expenditures accounted for about 34% of total government expenditures on goods and services in 1968, compared with 46% only a decade earlier.

These trends raise the question as to whether the high levels of government expenditures, and their accompanying taxation levels create problems for long term economic prosperity. Presumably increases in government expenditures are designed to achieve both social and economic objectives. In some cases the achievement of social objectives may conflict with economic objectives, and an appropriate "trade-off" must be sought -- as, for example, in the case of creating regional employment by generating capital expenditures in regions of relatively low productivity; in some cases it may be that social and economic objectives are attained by the same expenditure -- as would be the case if expenditures on education and health were to improve the efficiency of the labour force; in some cases government expenditures may contribute only to achieving economic objectives.

Since it is reasonable to believe that some government expenditures will enhance and others reduce national productivity and some will help achieve

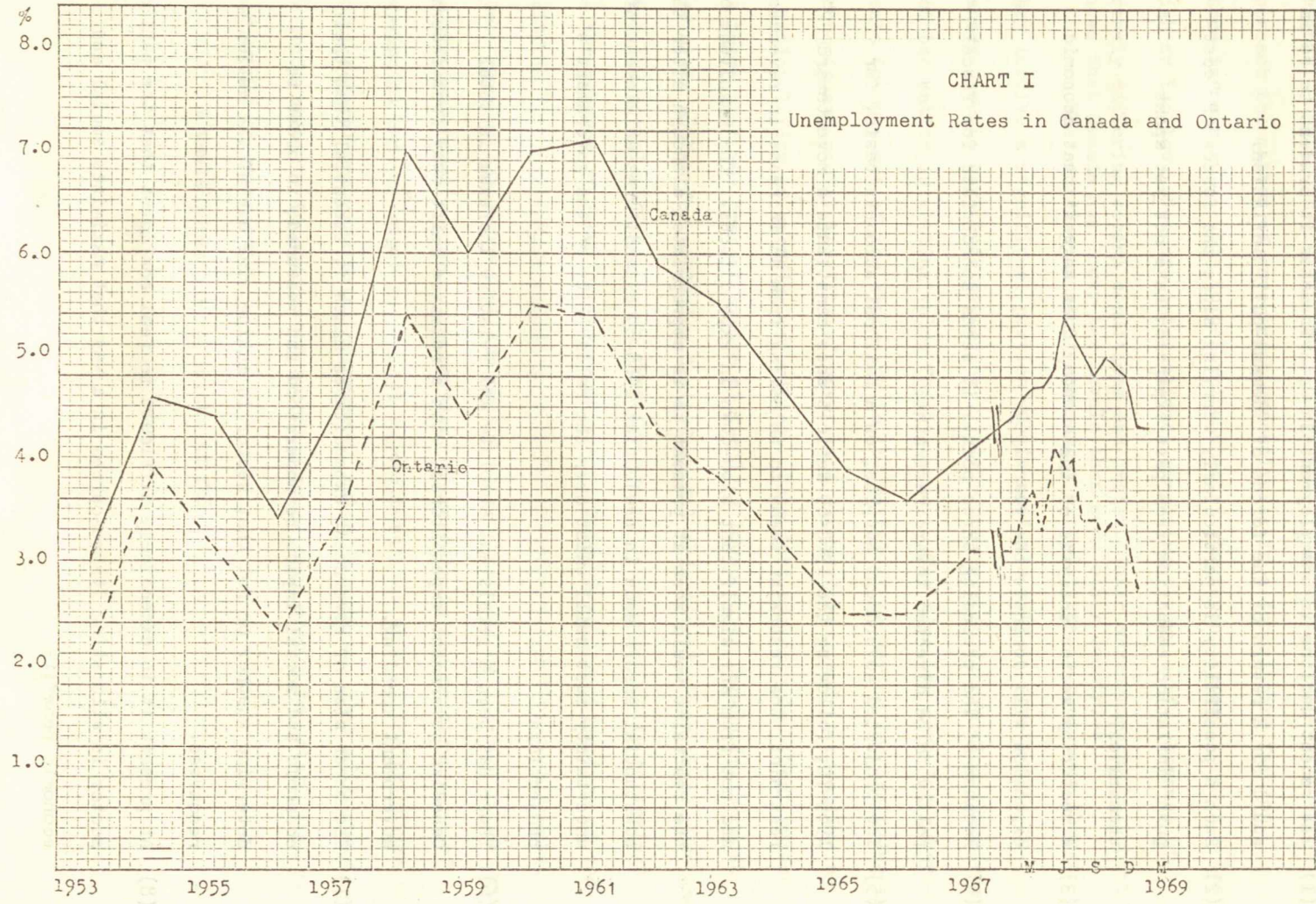
desirable social objectives, and others not, it is of limited usefulness to approach the matter of government expenditures in a doctrinaire fashion. There is no simple guide to determine whether government expenditures are too high or too low. Nor are international comparisons very useful because of greatly differing social conditions and institutional arrangements, but chart V shows that Canada has lower tax levels than some other countries.

What worries me about government expenditures is that even though they involve a significant portion of the nation's output, governments in Canada seem to have made exceedingly little progress in determining whether or not the nation is getting value for its money. The time has come for governments to move out of the stone age in the matter of measuring and analyzing the economic and social benefits of government expenditures; and in establishing a rational list of spending priorities. Take just one example. What evidence is there that the present system of family allowances in Canada is the most efficient system for achieving desired social objectives? Even worse, who knows what the social objectives are that the system is supposed to be achieving? In the absence of detailed information with respect to the objectives of and criteria for performance relating to major government spending commitments, there remains the worry that the nation may be mishandling its scarce resources in the government sector. The persistent increase in the relative size of provincial and municipal government expenditures, as well as the existence of joint federal and provincial programmes, makes it apparent that efficiency criteria relating to government spending programmes should be established at all levels of government.

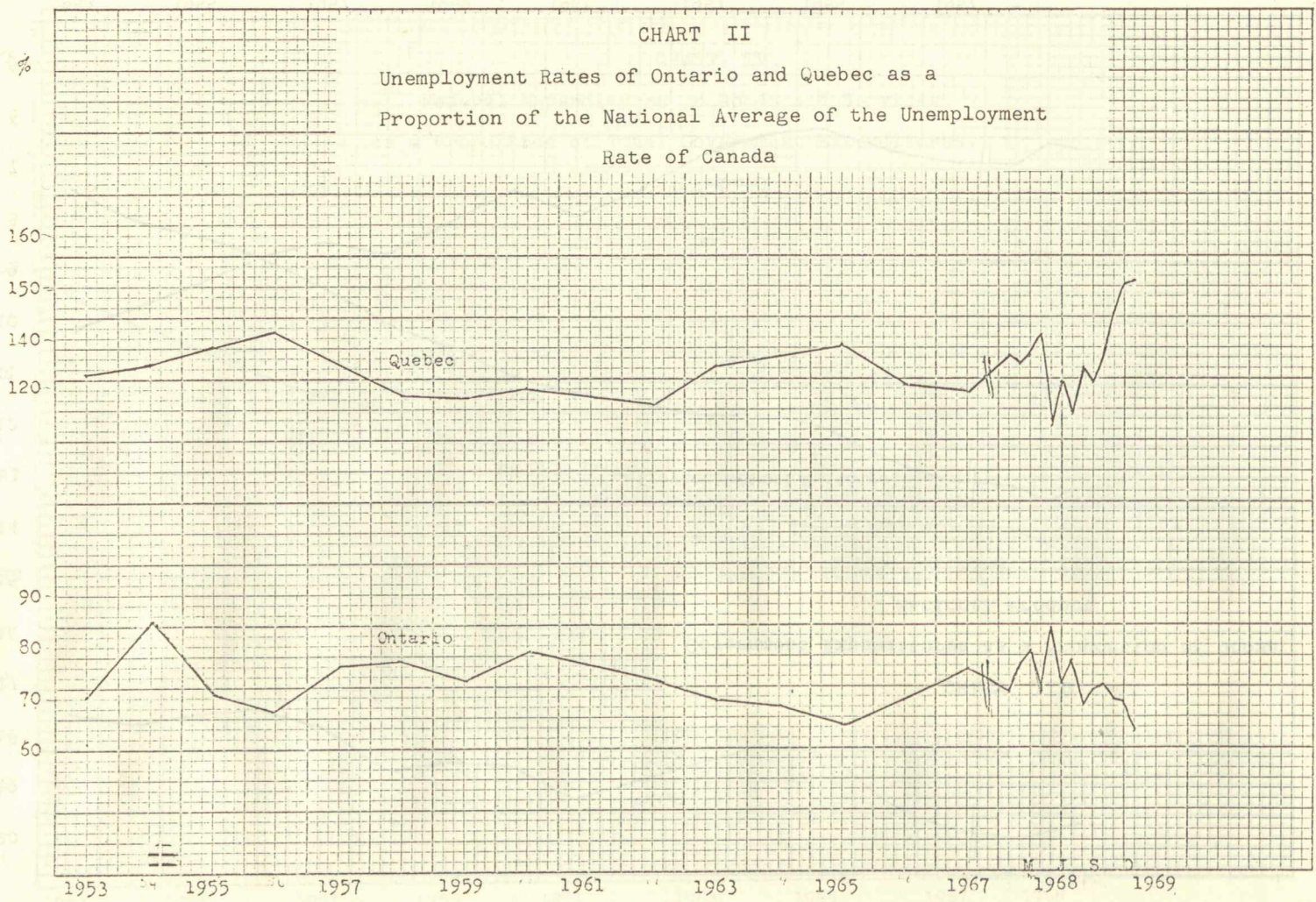
I would summarize my points as follows:



- (1) The recent decline in unemployment in Ontario makes it prudent to be on guard for a return of the forces of "demand-pull" inflation.
- (2) Such a possibility is particularly worrying since the forces of "cost-push" inflation emanating from past expansion have not yet spent themselves.
- (3) A sector by sector analysis of the economy does suggest that economic expansion will dominate the year 1969.
- (4) Because of the preceding three points it seems appropriate for fiscal policy to be directed toward restraint.
- (5) The projected government surplus, on a national accounts basis, for 1969-70, following the 1968-69 deficit does constitute a move toward restraint; the restraint seems to be coming from an increase in revenues and not from any significant slow-down in expenditures. The magnitude of the restraint would seem at present to be appropriate, although after the substantial errors made in projecting 1968-69 expenditures an element of uncertainty must still exist over the reliability of the government's projections.
- (6) There has been a persistent absolute and relative increase in total Canadian government expenditures, with a relative shift away from federal government spending.
- (7) The sheer size of government expenditures makes it essential that their economic and social impact be understood and measured, in order to determine whether or not that sector is making wise use of the nation's resources.
- (8) At present it is exceedingly difficult to feel confident that the public sector is allocating its resources in a way that maximizes social and economic benefits.









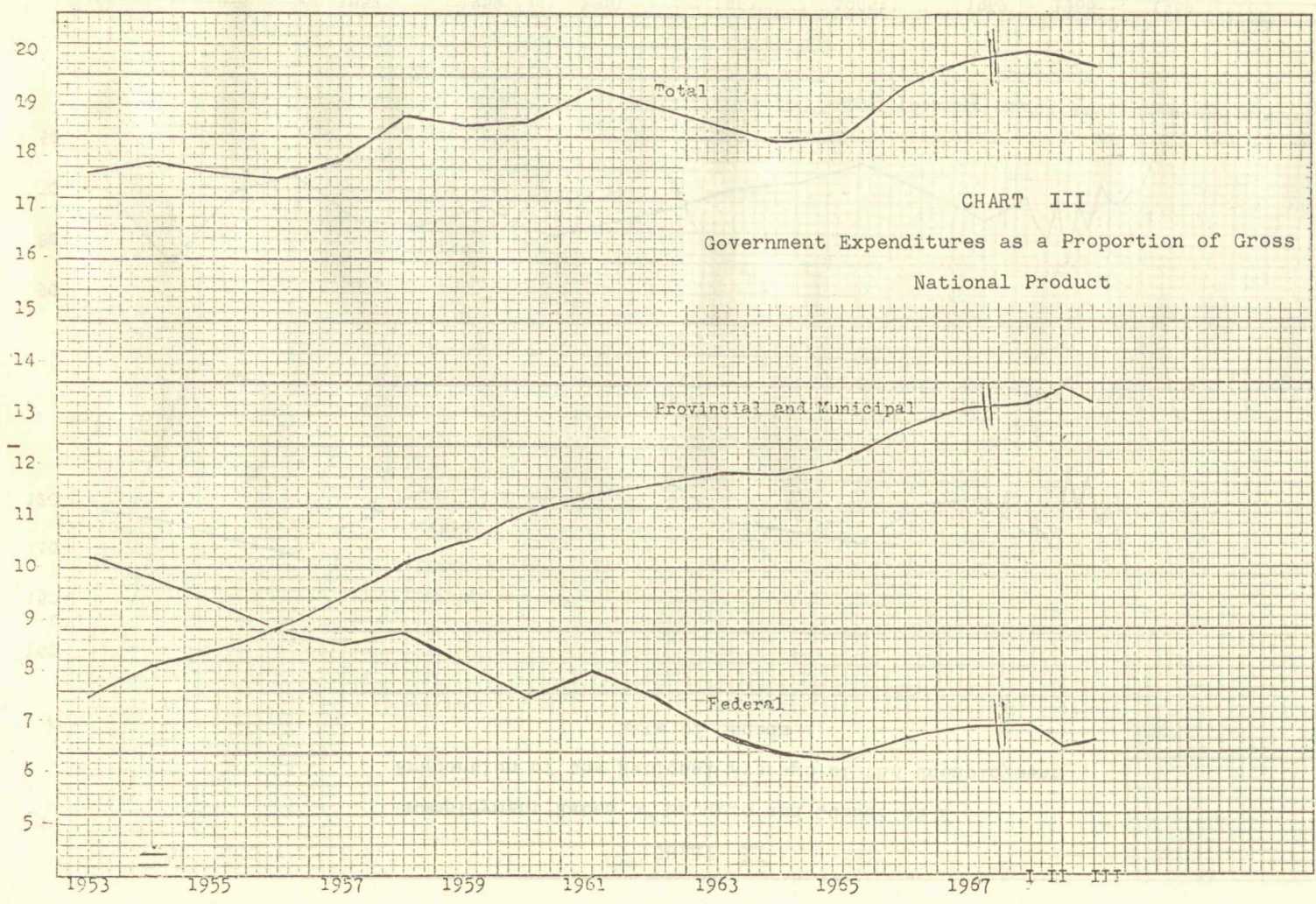
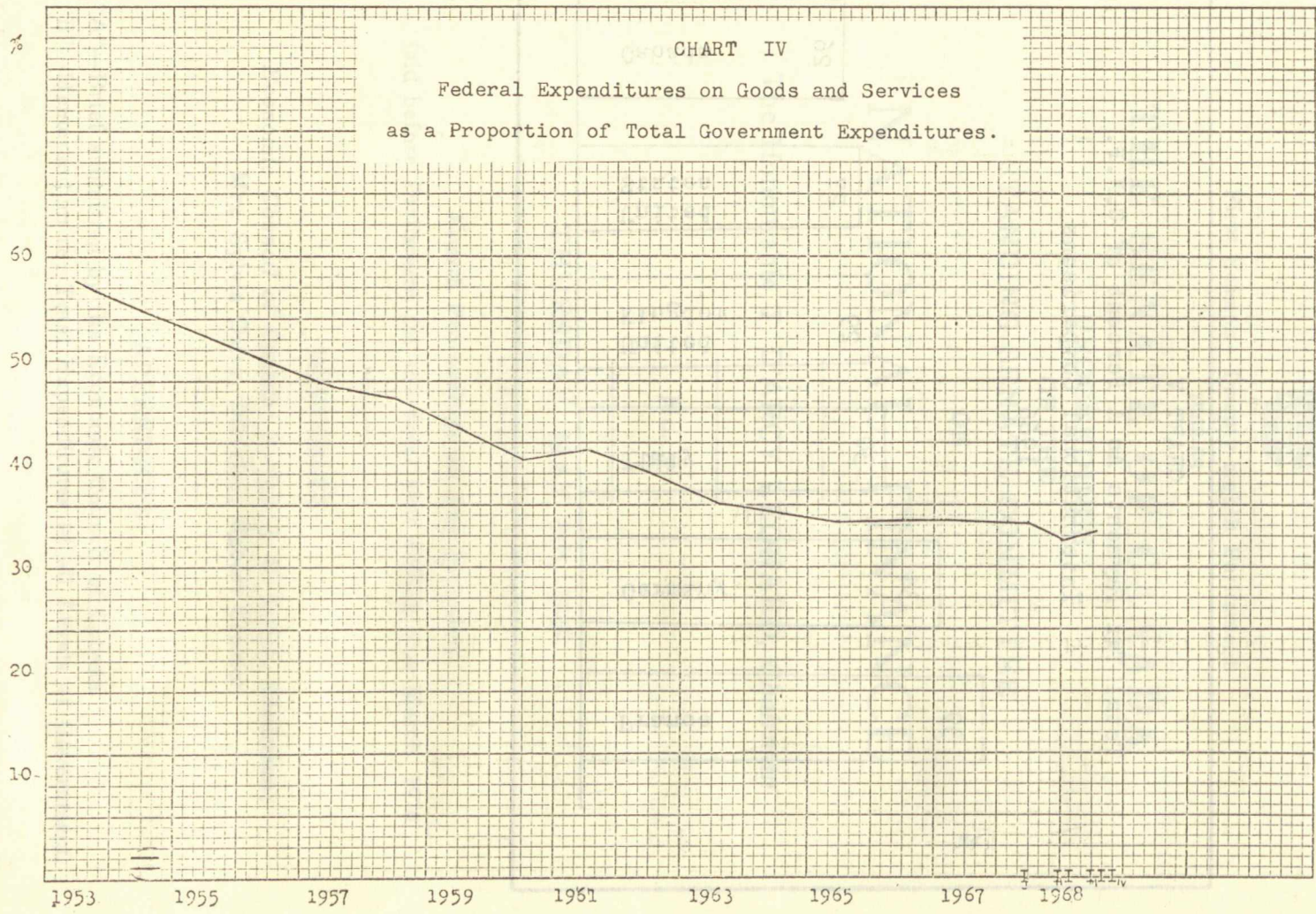




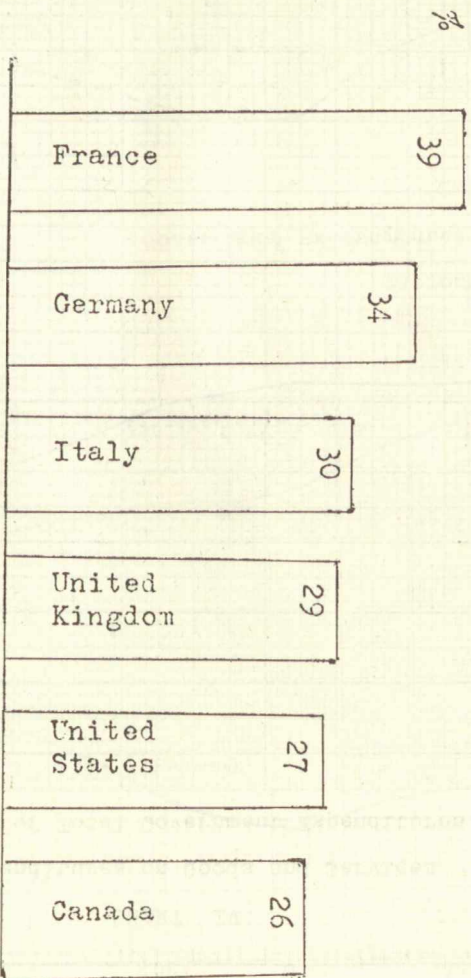
CHART IV

Federal Expenditures on Goods and Services  
as a Proportion of Total Government Expenditures.



## CHART V

Total Tax Payments As A Percent of G.N.P.  
International Comparisons  
1966







First Session—Twenty-eighth Parliament

1968-69

# THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

# NATIONAL FINANCE

The Honourable T. D'ARCY LEONARD, *Chairman*

No. 9

THURSDAY, MAY 8th, 1969

*Fourth Proceedings on The Estimates*

laid before Parliament for the fiscal year ending 31st March, 1970.

WITNESSES:

*Economic Council of Canada:* Arthur J. R. Smith, Chairman;  
Mrs. Sylvia Ostry, Director; Robert Crozier.

APPENDICES:

"A"—Brief submitted by the Economic Council of Canada.

"B"—Memorandum re: Total Expenditures of all Levels of Government.

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Beaubien	Grosart	McDonald
Benidickson	Hays	McLean
Bourget	Isnor	Nichol
Bourque	Irvine	Paterson
Desruisseaux	Kinley	Pearson
Dessureault	Laird	Phillips ( <i>Rigaud</i> )
Everett	Leonard	Phillips ( <i>Prince</i> )
*Flynn	MacDonald ( <i>Queens</i> )	O'Leary ( <i>Antigonish-</i> <i>Guysborough</i> )
Fournier ( <i>Madawaska-</i> <i>Restigouche</i> )	*Martin	O'Leary ( <i>Carleton</i> )
Gelinas	Methot	Sparrow
	Molson	Walker—(30).

\**Ex officio* members: Flynn and Martin

(Quorum 7)



ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, February 12th, 1969:

“With leave of the senate,

The Honourable Senator McDonald, moved, seconded by the Honourable Senator Langlois:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, in advance of Bills based upon the said Estimates reaching the Senate; and

That the Committee have power to engage the services of such counsel and technical, clerical and other personnel as may be necessary for the purpose of the inquiry; and

That the Committee have power to sit during adjournments of the Senate.

The question being put on the motion, it was—

Resolved in the affirmative.”

ROBERT FORTIER,  
*Clerk of the Senate.*





## MINUTES OF PROCEEDINGS

Thursday, May 8th, 1969.  
(12)

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10:00 a.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Benidickson, Bourque, Dessureault, Flynn, Gelinas, Hays, Isnor, Irvine, Laird, MacDonald (*Queens*), McDonald, Paterson, and Phillips (*Rigaud*). (14)

*Present, but not of the Committee:* The Honourable Senators Macdonald (*Cape Breton*) and Urquhart. (2)

In attendance: E. Thomas Houston, Research Assistant.

The Chairman outlined for the Committee the agenda for the coming weeks as follows:

May 22nd — Professor C. L. Forget, University of Montreal.

May 29th—Professor E. P. Neufeld, University of Toronto.

June 5th — Hon. E. J. Benson, if possible.

June 12th — Estimated date for Report of the Committee on the Estimates ending 31st March, 1970.

The Committee then proceeded to *resume* consideration of the Estimates, ending 31st March, 1970.

The following witnesses were heard:

*The Economic Council of Canada:*

Arthur J. R. Smith, Chairman;

Mrs. Sylvia Ostry, Director;

Robert Crozier.

The Brief presented by Mr. Smith and the memorandum showing total expenditures of all levels of Government will be printed as Appendices "A" and "B", respectively, to these proceedings.

MINUTES OF PROCEEDINGS

At 12.10 p.m. the Committee adjourned to the call of the Chairman.

ATTEST: (12)

Frank A. Jackson,  
*Clerk of the Committee.*



## THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

### EVIDENCE

Ottawa, Thursday, May 8, 1969.

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, met this day at 10 a.m.

Senator T. D'Arcy Leonard (*Chairman*) in the Chair.

**The Chairman:** Honourable senators, it is 10 o'clock and we have a quorum. Before we proceed to hear our witness today, there are one or two matters of housekeeping to be dealt with. We have received replies from Dr. George Davidson to the questions that were asked of him when he appeared before the committee and those replies have been circulated to all members of the committee. In view of that fact I do not think it is necessary to have them printed as part of our proceedings; we will simply have them tabled and note that they have been distributed to all members of the committee.

As you know it is probable that we will not be sitting next week and consequently the meeting which had been scheduled for next week has been postponed. Professor Forget of the University of Montreal will come before us on Thursday, May 22. Professor Neufeld will be back before us on May 29. These witnesses will be continuing with the study of the impact of government expenditures on the economy of the country and its economic effects, and that is the subject we will also be hearing about today.

I have in mind that we will ask either the Minister of Finance or someone from his office to appear before us on June 5. I think that we should then contemplate having a report before the Senate by June 12 having in mind the timetable of Parliament and the desirability of having a report in before the summer recess. If any members of the committee have any other suggestions, I will be glad to hear them.

Now, honourable senators, our witness today whom I am very glad to welcome to the committee is Dr. Arthur J. R. Smith, Chairman of the Economic Council of Canada. You will recall that in that position he

succeeded Dr. John Deutsch who was very well known to this committee and to other committees of the Senate and who was indeed of great help to the Senate not only when he was Chairman of the Economic Council but also during his previous career. Dr. Smith is an able successor to Dr. Deutsch and I am very glad to welcome him on this his first appearance before us. With him is Mrs. Sylvia Ostry who many senators will remember gave us great assistance when we had our Special Committee on Manpower and Employment. Mrs. Ostry worked with Dr. Deutsch on that committee for us.

I will leave it to Dr. Smith to introduce the members of his staff who are with him.

You have all received copies of the brief; you may not have them with you but Dr. Smith will run through the brief or handle it in such a way as he thinks best, and if it is agreeable I will call upon him to speak to us now. Dr. Smith, would you like to proceed.

**Doctor Arthur J. R. Smith, Chairman, Economic Council of Canada:** Honourable senators, may I say first of all that we very much welcome this opportunity of being here and if we can assist you in some way in your very important responsibilities we will be very glad to do so. Your Chairman mentioned that Mrs. Ostry, recently appointed a director of the Council, is here today. Perhaps I might also introduce my other colleagues, Mr. Robert Crozier and Mr. Peter Cornell, two very knowledgeable senior members of the Council's staff, and Mr. Fred Belaire, Secretary of the Council.

The brief we have prepared and submitted to you tries to make clear at the outset that the Economic Council of Canada has been specifically asked to be concerned about medium- and longer-term issues and developments in the economy. Therefore, it does not fall within our purview, and not really within our competence, in the way in which we proceed to carry out the duties and responsibilities given to us in our act, to look at the Estimates and to appraise the Estimates. Indeed, I suppose our most direct connection with the Estimates is that we prepare



Estimates ourselves, which must be approved along with those of other departments and agencies.

So, in the light of that, the brief attempts to set out some broader issues which we thought might provide useful background for you as you carry out your responsibilities in this committee; and I thought that perhaps at the outset I might comment briefly on some of the major points, some of the highlights of the brief.

First, I would like to start with the section on the "Pursuit of Goals" and the role and appraisal of government spending in this context. Some of the matters covered here, incidentally, are set out in a very recently issued booklet which arrived in my office in a timely way the day before yesterday. This is a booklet entitled *The Politics and Economics of Public Spending* written by George Schultze, and published by the Brookings Institution in Washington, D.C. Mr. Schultze was a Director of the United States Budget Bureau under President Johnson, and I would commend this book to the members of this committee as a lucid and perceptive discussion of some of the problems and principles of government spending and the complex budgetary processes in a modern economy.

There are, I think, four major roles or functions involved in the handling of government expenditures, the formulation of government expenditures programs and the evaluation of the expenditure aspects of the budgetary process.

One of these is the function of the *control of expenditures*. This essentially has to do with honesty and propriety in the handling of expenditures—to make sure that the expenditures that are made fall within the restrictions and the provisions of decisions that have been made, to make sure the expenditures that are made are ones that have been authorized and do not exceed the appropriations, to make sure that waste and corruption are avoided. This has tended to be, in this country as in other countries, one of the functions developed at a relatively early stage in the handling of public expenditures. It is a function which requires eternal vigilance and care, and we have, over the years, built up quite a wide variety of efforts and activities designed to serve this function—for example, auditing arrangements and various kinds of administrative control arrangements at the centre of Government and within departments. In short, this is a function to which a very considerable amount of attention and effort have been directed. Nevertheless, from time to time it is important to review this, to make sure that the control procedures are working well. This was one of the roles of the Glassco Commission, you may recall; and, very recently, as you may know, the Auditor General has suggested that there should be another careful review of this function.

The second function relating to expenditures and the handling of expenditures is the *management function*. This is of much more recent origin in the development of the expenditure operations. We have come to pay a great deal of increased attention to high-quality management and administration of expenditures, essentially in the post-war period. As the Government departments have become larger, as many activities have become more complex, as new and more sophisticated programs of many kinds have been introduced and expanded, we have come to recognize increasingly that very high-quality management is required in the handling of public policies and programs. This function essentially concerns the efficiency of the handling of expenditures, to make sure that the expenditures under approved programs are ones that are carried forward with the maximum of efficiency.

The third function concerns the *planning function* for expenditures, and here we are at a less developed stage. Some people might say we are still very much in our infancy with regard to this function. This is a function that is really concerned with how to develop the best possible means for achieving certain ends. It concerns the choice among various kinds of programs to achieve certain ends most effectively.

Finally, there is a fourth function which is the function of what I suppose what one could call the *clarification and determination of goals and objectives*. This is essentially concerned with the allocation of resources; it is concerned with broad aspects of Government policies; it is concerned with what we are really trying to do ultimately in our society. In other words, this is a function that is concerned with the determination of desirable ends in our economic, social and political systems.

As I emphasized earlier, the control function is one that has been developed fairly far and with a considerable amount of attention. The management function is one that has been acquiring increasing emphasis. The planning and the goal-setting functions are much less developed. I think it is clear that the development of the planning, programming, budgeting system, which is now in the process of evolution within the federal Government—as well as in many provincial governments in Canada,—is a technique which is helping to put increased emphasis and attention on these latter two functions.

I think it is fair to say that, looking at this spectrum of functions, it is particularly in the planning function and in the setting of objectives and goals that we need particularly increased attention at this stage. These latter two functions, I might add, are closely inter-related and they are difficult functions. In other words, with regard to both the ends and the means for achieving certain ends, we are in a very



difficult and complex realm. Many things cause difficulties and problems in this area. For one thing, the determination of both goals and means involves opinions and views about values and the weights we attach to values, and these are both subtle and complex—I think, extremely so in our modern society. For another thing, because this is so, it is often very difficult indeed to find agreement and consensus in the kind of way which would facilitate a clear articulation of ends—sometimes of means as well. For a third thing, when it comes to goals there are obviously conflicts between goals, certain kinds of incompatibilities. Sometimes we cannot have all of everything we want. Indeed, one of the things we are coming to realize increasingly is that we do not live in the kind of affluent society some people think about when they assume that we have very large resources to meet many, many needs. We are continuing to wrestle with shortages of resources in relation to the kinds of objectives and ends we want. Therefore, choices have to be made. Very difficult choices have to be made in regard to certain goals. Because of incompatibilities we are going to have more of one thing and less of another. These are very difficult choices that have to be made.

Finally, complications arise from the fact that many ends are not really ends, but means for obtaining other things. Behind all of this we have the situation in which both ends and means are in a process of constant change as we learn more about our system and how it operates, and as values continue to change in our society.

Thus, we need to pay a great deal more attention to this area of planning and the setting of objectives as a basis for determining our Government expenditure programs. This is a difficult thing to do. One of the main messages in this brief is that this is an area in which experts, although they do not, and should not, determine the ends in our society, may have a very significant and important role to play in developing analysis which will help us to have a better view of what certain goals cost, how they may be best achieved, and the resources that are required to meet various ends in relation to the resources that we are going to have available in our economy for doing the things that we wish to do.

That is, as I say, the central message of the first part of the brief. It is also one of the central messages of the section on Government Expenditures from the Council's Fourth Annual Review that is included in the brief. Perhaps I might read a key paragraph from this because it touches on many of these issues. The Council in its Fourth Review made a reference to the fact that in the later stages of the prolonged and great expansion of the 1960s there had been an acceleration in the advance of government expenditures, and that this was creating possi-

ble dangers of undue pressures on resources and might well involve, if it were to continue, substantial increases in taxes. Uneasiness and concern were therefore emerging about this acceleration in government spending in some areas of the economy. I might emphasize that this was included in the Council's Fourth Annual Review which was published in September of 1967.

**Senator Benidickson:** To what page of your brief are you referring?

**Dr. Smith:** I am going to read a paragraph which begins at the bottom of page 11 of the brief:

These developments have led to a growing uneasiness in Canada about the current pace of the over-all advance in government spending. The Council shares this uneasiness, but we feel that it is important to place it in the proper context. Too often it is merely translated into a suspicion of increasing waste in government agencies and departments, together with a Parkinsonian build-up of excessive bureaucracy and lax procedures for administrative control. Constant vigilance and effort are, of course, required to eliminate all such waste, especially in organizations as large as governments. This has been recognized, and many government treasuries and audit departments are attempting to develop machinery to review and audit more carefully the minutiae of government expenditures. However, this has not been matched by comparable advances in the development of procedures and machinery for dealing with much larger questions; for consistent and comprehensive determination of objectives and priorities; for continuing evaluation of the impact and effectiveness of the growing range and diversity of government programmes in relation to their cost; and for increased co-ordination between governments in relation to these matters. It is in these much more important areas that there is now an urgent need for improvement. This need is greatly reinforced in an economy operating close to potential output, when conflicts among various goals tend to be sharpened and when the practical dangers of aggravating instabilities grow stronger.

Now, if I may, I would like to turn very briefly to another section of the brief which is entitled "Fiscal Strategy". This is a section which begins at the bottom of page 6. In the annual budget cycle of any government there is a great pressure usually to focus attention almost overwhelmingly on the current year—that is, on rather short-term horizons. Also the main emphasis over the postwar period in operating fiscal policy has been to attempt to develop and use it as an instrument for countering short-term instabilities in the economy. Here I am referring to insta-



bilities that are created, for example, by such things as inventory fluctuations.

The Council's view—and this is reflected in what is said in the brief—as we have evolved our thinking, is that one of the things we need is a shift in emphasis on expenditures directed to longer term horizons of planning. In many areas the things that need to be done cannot be done within a few months, or within a year. They take a longer time to work out, and we have become increasingly aware in field after field of the need to evolve programs over a longer period if they are to be effective, if they are to meet some of the changing needs of our system. I think it is fair to say that in almost all fields in which there are major problems to be met in the economy in the future, there is a need for a better anticipation of these problems.

Now, there are a variety of ways by which policy can adapt to these medium- and long-term needs of government programming, and longer-term expenditure planning represents only one of the things that needs to be looked at more carefully with these longer term planning horizons in view.

**Senator Isnor:** Would you give us an example of that?

**Dr. Smith:** Let me take an example which we used in the quotation from the Fourth Annual Review at the end of the brief—the area of education expenditures. We have not, in fact, managed the greatly increased expenditures now going into education as smoothly as we might have done. If, going back five or ten years, we had done a better job in anticipating the needs for expenditure in this area, and preparing in various ways to develop a smoother build-up of expenditures, we would not be facing such severe present difficulties in this field.

Or, let me take another example that is referred to there. Looking ahead we can see now that over the course of the coming decade pollution is going to be a major problem. Now is the time when we should be starting to think about expenditure programs that will be necessary to adequately meet problems in this field, so that we do not tend to find ourselves in some kind of major crisis in the early or mid-1970's with major pollution problems on our hands, and when we will have to have an enormous increase in expenditures that cannot be fitted in very easily at that stage.

**Senator Benidickson:** And there is medicare.

**Dr. Smith:** This is an area again where there were opportunities for anticipation so that the build-up of the resources required could have occurred in a smoother way than has been the case.

The other thing that I want to say in regard to fiscal policy is that we feel that while there must always be tactical flexibility for fiscal policy—manoeuvrability for changes in some expenditures and for changes in taxes to meet short term instabilities of certain kinds that may arise—the general setting of fiscal policy must be geared more, in our view, to the sustained future growth of our economy, and not so much to trying merely to iron out short term instabilities. We have suggested, again in the quotation included in the brief, that this kind of strategy needs greater emphasis than it has been given in the past.

Along with this, there is also the need for much better intergovernmental coordination of expenditure and fiscal policy. This is extremely important in the Canadian context, which you can see from the chart figures we have set out on government expenditures, to which I will return later. In this country a very large part of our governmental expenditures are made by the provincial and municipal governments, to a larger extent than in many other countries. If we are to operate better long-range expenditure programs and better longer-range fiscal policies we shall have to develop better co-ordination between governments on these essential matters. In recent years we have had a number of developments moving in this direction. More recently, as you know, the decision has been made to re-establish the Tax Structure Committee, which may provide an important and useful vehicle for moving further in the direction of developing this essential kind of co-ordination that is necessary.

I should now like to make a brief reference to the section at the end of the brief entitled "Some Council Views on Government Expenditures". I have already referred to the fairly long quotation from our Fourth Annual Review. In the course of its work the Economic Council has touched on government expenditures in a number of ways, sometimes directly and sometimes on other matters relevant to government expenditures. As we indicate in the brief, scattered through its reviews have been a number of issues which you may wish to raise in the discussion, some of which are concerned with particular and special issues:

...such as the need for a smoother future growth of construction expenditures by governments; the appropriate criteria for wage and salary decisions in the government sector; and the development of new programs (for example, manpower and labour market programs). Others have been concerned with larger and more general issues in the government sector—the need for better information, analysis and public understanding of fiscal matters as a background to the development of government budgets; the assess-



ment of certain government expenditures in the general context of the regional impact of federal policies; and the particularly acute financial strains of municipal governments against the background of rapid urban growth and its attendant problems.

Finally, I thought I might say a few things about the section on perspective on government expenditures which begins on page 8. Mr. Chairman, I do not know whether you would like me to present the charts on the screen at this point.

**The Chairman:** Whenever you wish.

**Dr. Smith:** At the back of the brief there are five charts. I thought perhaps we might show these on the screen; I could say a few words about them and you may wish to stop and have some discussion while the charts are being shown, or you might want to wait until the end, when we can come back to them.

The first chart shows a calculation of potential output in the Canadian economy. This is a concept of what we think the economy is capable of producing if it were using reasonably fully and reasonably efficiently the resources at its disposal—particularly its labour resources and capital resources. The chart shows that in the late fifties and early sixties the actual output of the economy moved off on a fairly level trend, falling further away from potential output. During that period we built up in our economy a very substantial amount of economic slack. As you will remember, we had a very high level of unemployment, around seven per cent or more, in 1960 and 1961. By the stage we had also a considerable amount of under-utilized productive capacity in our system.

**Senator Benidickson:** Why? What do you think were the causes of that drop?

**Dr. Smith:** I would think those are very complex, senator. One of the major and most important factors is, I think, the fact that during that period the United States economy went through a similar experience. In our environment in Canada it is not possible to do a great deal better than the United States. But during that period we did not, in fact, do even as well as the United States in respect of unemployment; unemployment there did not go as high. So there were additional factors within the Canadian economy that also contributed importantly to the slump.

I think the primary cause really reflected an insufficiency of demand in the system, and one of the things I was going to point out that is relevant to government expenditures is that when you get into a situation of slow growth of that kind, government

revenues tend to grow particularly slowly, and this is frequently followed, after some lag, by a slower growth in government expenditures on goods and services. This is in fact what happened during this period. For example, in the early 'sixties such expenditures grew less rapidly than the total output of the economy.

On the other hand, once actual output started to pick up strongly during this great expansion in the 'sixties, we not only had an accelerated growth in total output and income because some of our resources were growing at an accelerated rate—for example, the labour force rate of growth picked up more rapidly in the 'sixties—but we were also drawing in slack. During this period government revenues increased with extraordinary rapidity. This is in part due to the fact that with a progressive income tax structure, government revenues tend to grow more rapidly than the total growth of income or output in the economy when the economy advances rapidly. Therefore, government revenues grew particularly rapidly, and about the mid 'sixties (again, as you see, after a significant lag), government expenditures that had earlier been growing more slowly also accelerated sharply.

I might emphasize that calculations of potential output may be made in a variety of ways, and I would not like the line on the chart necessarily to be taken as *the* line; much depends on the assumptions we use. However, I think the concept of potential output is most important. It serves as a useful basis for thinking about a whole variety of aspects of policy and performance in our system.

**Senator Phillips (Rigaud):** Does the use of the word "Real" in the heading to the chart mean you are eliminating the factor of inflation in relation to actual gross national production?

**Dr. Smith:** Yes. Those are constant dollar figures.

**Senator Phillips (Rigaud):** Yes, I was concerned by the word "Real".

**The Chairman:** Dr. Smith, what rate of unemployment do you use in calculating the potential? Is it a historic or an optimum?

**Dr. Smith:** I believe those figures were done on the basis of a 3 per cent figure. This may not have been altogether relevant for the particular circumstances of the past, but this was the medium term target that the Economic Council felt we should aim for over a number of years in the future.

**Senator Benidickson:** Three per cent unemployment figure. That is about what the UK has.



**Dr. Smith:** Well, the UK, during most of the post-war period, has been very far below this. Indeed, in the UK, once unemployment has gone over 2 per cent they have tended to become concerned, but in part there are differences in the definitions of unemployment between the UK and Canada. The UK definition tends to give you a lower unemployment figure. For one example, they have not in the past, as I recall, included in their unemployment, people who are looking for work for the first time, on the grounds that somebody is not unemployed if they have not had a job already. Is that right, Mrs. Ostry?

**Mrs. Sylvia Ostry, Director, Economic Council of Canada:** Statistics are based on their unemployment insurance scheme and they would exclude quite a number.

**Senator Benidickson:** When we use a percentage figure in unemployment in Canada is it more or less on a par with the United States?

**Dr. Smith:** Yes, it is. There are calculations that have been done to try and put western European unemployment rates and North American ones on a consistent footing. After those adjustments, it is still clear that in the UK and most European countries unemployment has been consistently below that of Canada in the postwar period. There are various factors, some structural and seasonal that partly account for that difference. If you have a lot of seasonal variations in the economy . . .

**The Chairman:** Mobility I suppose.

**Dr. Smith:** Well, this is a field that we need to know more about. In so far as we can assess it in Canada, from the limited evidence that is available and that has been analysed, mobility tends to be somewhat higher in Canada than in Europe.

**Senator Phillips (Rigaud):** In spite of the language factor.

**Dr. Smith:** Yes. We are a mobile people.

**Senator Hays:** Dr. Smith, if the Government expenditures have not accelerated in the middle and the late sixties, would the actual output be different? Was this a lead?

**Dr. Smith:** Yes, it certainly would have been different. It is difficult to say precisely the ways in which it would have been different, but it would have had some effect.

**Senator Hays:** In your opinion, would it have been better if they had not been accelerated?

**Dr. Smith:** I think this has to take into account a variety of different kinds of things. Perhaps I might put it this way: I think the acceleration of expenditures in general and certain kinds of expenditures in particular, such as construction expenditures by Government in, let us say, the latter part of 1965 and 1966, came at a time when the economy was threatening to press too hard against its resource capabilities. At that stage these accelerated government expenditures were an undesirable development. It should be recalled, however, that the acceleration in the total economy and in the pressure of demand came rather suddenly and unexpectedly. Even as late as the middle of 1965 in the United States, and here too, there was still some concern that we had slack in our economy. One of the things that I think no one saw coming clearly,—that nobody had a good impression of at all in advance of its impact—was the decision in the United States to move to a major involvement in Vietnam, which came in mid-1965 and which rapidly transformed the economic situation in a very short period of time.

In 1967 on the other hand, we had a situation in which there was some slowing in advance of the economy. Higher government expenditures at that time may not have been inappropriate in preventing the loss of output and poor utilization of resources that might have occurred if we had something that was more akin to a recession instead of something which, in effect, represented a more desirable kind of pattern of slowing of the economy's advance. At the same time, at that stage, there began to be increasing concern in the country that the growth in government expenditures was becoming excessively rapid, and as you can see from the quotation in our review from the fall of 1967, that mood was very much in the air at that time.

**Senator Isnor:** What was the main factor in that increased expenditure?

**Dr. Smith:** I do not know, but governments decided that they wanted to spend more money.

**Senator Hays:** Was it not education with the greatest acceleration?

**Dr. Smith:** Education was obviously a major factor. Many programs expanded and they did so very rapidly. All this was taking place, as you recall, against a background of rapid expansion in government revenues.

**Senator Bourque:** Can you tell us what the 1969 and the 1957 dollar is, please? You expressed in 1957 dollars.

**Dr. Smith:** I am sorry, I do not have those figures here. I take it that you would like to know what has



been the price increase that has occurred over this period. As I recall the consumer price index—although it is important to remember that no index is perfect for this purpose—is now nearing about 24 per cent (if I remember the figure reported on the radio this morning) above the base of 1961. There would have been some price increase between 1957 and 1961, but not so rapid. There were price increases of over 3 per cent as I remember in 1958, but then the price increases slowed in 1959, 1960 and 1961.

**Senator Bourque:** Around 30 per cent, possibly?

**Dr. Smith:** It could be of that order. If we take the gross national product price deflator—this is the most comprehensive of all of the general price indexes that we have—in 1967 there was nearly a 27 per cent expansion over 1957. It is very important to remember that there are certain deficiencies in some of these price indexes. For example, if we take the GNP deflator, there are certain things that show up as price increases that ought not to. Let me take one illustration. In the construction sector of the economy, in these statistics, it is a very difficult job to measure the output of the construction industry and therefore the output of the construction industry is measured by the inputs used in the form of labour and building materials. Then, when the deflator is calculated, there is no allowance made for productivity increases by this kind of measurement, so that much of the productivity increase that occurs in this industry shows up as a price increase. There are certain deficiencies in these data and there is a general tendency for the price indexes to somewhat overstate the amount of price increase that, in fact, is occurring in the economy.

I would not want to exaggerate this point, but there is a tendency in this way.

**Senator Phillips (Rigaud):** Would plant and equipment come under the same line?

**Dr. Smith:** No. Mr. Crozier knows more about this. I would not think there is a problem in that area.

**Mr. Robert Crozier, Economic Council of Canada:** Mr. Chairman, to the extent that plant and equipment does include the construction outlays which Dr. Smith has been discussing, this problem does exist.

**Dr. Smith:** I was thinking of machinery and equipment.

**Mr. Crozier:** It does not exist in respect to machinery and equipment.

**The Chairman:** Dr. Smith, your chart stops at 1964 on actual output. Have you any approximate

idea of how the line would run? As late as you have?

**Dr. Smith:** I thought this chart we put up this morning was going to bring the numbers further forward and I did not realize it had not been brought somewhat further forward. What happened roughly was that in 1966, as I mentioned, we had a very rapid expansion and the actual output moved closer—it accelerated—and moved closer to the potential output line. Then, in 1967 and 1968, it moved slightly away from the potential output line but not so far away as the last plot shows on that chart.

**The Chairman:** There is an improvement in the situation.

**Dr. Smith:** We have been fairly close to potential output.

**Senator Benidickson:** I have been impressed by everything you said today. However my one quarrel with you probably is where I thought you said something rather flippantly, when you were asked this question as to why we did have an acceleration, and you said that the Government decided it ought to spend some more money. It may be that it did—for some purposes.

**Dr. Smith:** I did not mean it to be flippant. That is what governments do.

**Senator Benidickson:** At certain times you have to try and provide employment and prevent a recession or something of that kind. That might have been the case, and I take your view on that. But I would think that a lot of it was due to the commencement of a number of very massive programs that you could call, in a sense, political.

My question is this. I know that when something has to be digested and is of consequence, governments consult the Bank of Canada, and so on. You are speaking after the event, so far. On some of these big things that arose, I wonder if governments consult you at all, as to your council, as to whether or not they could be digested in that reasonable period of time, having regard to the advice you can give as to the evidence that might be available, trade-wise?

**Dr. Smith:** No. The Economic Council was set up as an independent advisory agency which is not part of the regular Government advisory machinery on an internal basis. The Government may make references to us from time to time, if they wish to have the Council examine a certain issue and report on it. They have done this in two special references. We have had one on prices, costs and incomes, and a



more recent one, which we are still working on, in regard to combines, mergers, consumer interests, copyrights and patents. But we are not part of the day-to-day advisory machinery. We have, however, included in the Council's Reviews a number of comments on how we think government expenditures might be approached, with an emphasis on the longer view.

One of the central features of this longer view is that we should seek to avoid major instability—such as the slow growth in government spending in the early part of the 1960s, the sudden spurt in the mid-1960s, and now great efforts to contain expenditures in various ways. If such expenditures are curtailed too much and too long somehow or other we will probably have another spurt again. The Council was trying to say "Look at a longer term, try and arrange it so that government spending will move forward more smoothly."

One of the main contributing factors to the acceleration in the mid-1960s was government expenditures on construction activities. The federal Government is not a large factor in the construction expenditures in this country. It is not even as big a factor in the government sector as are the provinces and municipalities, which have construction expenditures that considerably exceed those of the federal Government. But in the case of the federal Government, there was a very low level of construction expenditure in the early 1960s and then considerable construction acceleration into 1965, 1966, when a similar acceleration was occurring in private investment. We also had another factor, a special factor operating here in the government sector. That was Expo and the centennial year. These expenditures also came along at a time when other forms of construction were very high. They were special expenditures.

Also, we moved into a period in which, as I mentioned earlier, we became increasingly aware of the need to strengthen expenditures in some very important fields, such as education, and many programs and many kinds of expenditures were built up.

With a revenue background that was generous in terms of higher tax yields, as the economy had expanded rapidly, there were also resources available to make decisions on expanding programs or introducing new programs.

Another new set of programs, of course, an important one introduced during this period, was in the manpower field, which we in the Council recommended should be introduced and developed quite rapidly.

So there are a great number of factors involved in the expansion.

**Senator Benidickson:** That is what I wanted to emphasize, that there really were these very obvious

increases in expenditures which are the result of such programs. I think that the programs in the early 1960s would have gone more rapidly with more industrial training in the schools.

**Dr. Smith:** Yes. We might come back to this later on. One of the other factors was the very rapid acceleration in transfer payments, as you will see in one of the later charts. Could we have the next chart?

(Chart No. 2 projected).

**Dr. Smith:** This chart was produced from the Fourth Annual Review, and extended through 1967-68. It shows Government expenditure as a percentage of the gross national product. In the bottom panel it shows provincial and municipal expenditures on goods and services as a proportion of the GNP. You will see that there has been a gradually rising ratio of these expenditures in relation to GNP.

The next section, above that, shows the federal expenditures on goods and services, as a proportion of the GNP. You can see that this gap, this band has been tending to narrow; that in the early 1950s, mid-1950s and late 1950s, it was wider than is the case now. Federal expenditures, in other words, on goods and services, have been declining as a proportion of GNP.

**Senator Hays:** Does that include the transfer payments?

**Dr. Smith:** No. Transfer payments from all levels of government to the private sector are excluded from the bottom two portions of the chart and are shown in the top portion. You can see that transfer payments have been rising quite rapidly. If you go back to the early 1950s, they were much smaller than they are today. As a proportion of GNP, they have been tending to grow. You can see that within the last year or two there has been an upswing in the transfer payments in particular and much greater stability in the expenditure on goods and services by governments.

**Senator Phillips (Rigaud):** Dr. Smith, I have been looking at the reports. Being a lawyer, I am not an expert in the dismal science of economics.

**Dr. Smith:** It is not so dismal any more.

**Senator Phillips (Rigaud):** Is there a yardstick which would indicate a danger point beyond which over-all Government expenditures in transfer payments should not go in relation to the gross national product? Has that been studied by the Council?



**Dr. Smith:** No, we have not studied that. That has been a hypothesis. Perhaps the hypothesis that created the most impact and stir was that which was produced by an Australian economist who spent most of his professional career in the United Kingdom, Colin Clark. He advanced the thesis that any country would run to wrack and ruin, if government expenditures increased to above 25 per cent total output. That thesis has been worked over in many different ways; it is not a thesis that holds a great deal of water. When I was a young and green economist, one of the first jobs I had was to look at that hypothesis and make some assessment of it. I was not impressed with it.

**Senator Phillips (Rigaud):** As you know, there is a school of thought that the gross national product, as a criterion from which we move on to consider phases of our political and economic and social life, is a deceptive and illusory base in dealing with the whole subject matter. Does the Economic Council entertain that view or does it adhere to the view to which we have all been accustomed that, in dealing with the subject matter generally, we first take a good look-see at the gross national product?

**Dr. Smith:** Much of our work starts from the base of the gross national product. This is a measure of the total output of goods and services that we produce in our system. The counterpart is gross national expenditure, or, if you like, the expenditure patterns—or demand patterns—that show how the goods and services that are produced are taken up or purchased. It is consistent at the same time with the national income figures which show how the income produced is distributed in the system. So it is a central framework of statistics which are consistent and which allow us to look at our economy and the way it is working in a very useful way. Obviously, you cannot stop just with this framework, but must go beyond it to look at other statistics.

Our statistical system is continuing to evolve, and there are new kinds of statistics that are in the process of evolving and there are many more detailed kinds of statistics that one must look at, too. This only gives a general framework.

**The Chairman:** There is an international relationship among these figures, too, is there not? The gross national product is used by other nations on a somewhat similar basis, too. Is that not the case?

**Dr. Smith:** Yes. There have, of course, been attempts during the post-war period to make the calculations of gross national product in various countries as comparable as possible to facilitate international comparisons.

**Senator Hays:** When Dr. Deutsch was here the last time, he gave us some figures that were very useful, I thought. The suggestion was that, if taxation could be related to anything, it could be related to gross national product, and he gave us the figures for the United States, Canada, Great Britain, France, Germany and so on. I think those figures would be very helpful to the committee, if you still have them available, to see whether there has been any change.

**Senator Phillips (Rigaud):** Mr. Chairman, may I just interject? In putting the question, I was not critical of the view taken by the Economic Council that the gross national product for the moment is the best way to deal with the problem. I was just wondering what the reaction of the Council was to the attack made by that so-called philosophical approach, which I know has been made in certain quarters of thinking by economists.

**Dr. Smith:** Yes. Well, on these international comparisons, my feeling is that it depends on what you want to use the international comparisons for. Sometimes some of these international comparisons in various things trouble me a little bit, in the sense that there may be an attempt to reach for some kind of ideal pattern or some kind of normal pattern which I don't think exists. This sometimes occurs with regard to the Government, in the Government area with regard to Government expenditures or Government tax revenues, with international comparisons.

Let me use an illustration of another kind. When it comes to housing expenditures as a proportion of gross national product, one can see perhaps more clearly that, as between countries, there may be a great many reasons why these in fact should be different and not the same. Let us say you are in a situation in which you may have a very rapid growth in new household formation which may require the allocation of quite a lot of resources to housing activity in this particular period in one country and very low rates of new household activity in another country. That means you are not adding to the demand in the same way. In another country you may have a backlog of poor housing that needs replacement or a very rapid expansion of population or very rapid shifts of people from one part of the country to another, requiring new housing in different places. These conditions may not exist in another country, and that will have some bearing on the needs which they will have for housing.

Similarly, it seems to me, in the Government area there are very large differences between countries as to what people decide they want to do collectively in governments and what they want to leave to the private sector to do. There is no sort of ideal or norm that would necessarily make international comparisons of this kind very meaningful.



So I have tended to be skeptical of the comparisons that have been made in terms of what you could use them for.

**Senator Hays:** You don't care to give us the figures?

**Dr. Smith:** I have not got the figures.

**The Chairman:** May I be permitted to just interject? While I was not at the last meeting, this kind of question was asked by Senator Hays before, and I went back to Dr. Deutsch's evidence where he did, as Senator Hays says, give a figure of 32 per cent for Canada and 26.2 per cent for the United States, both in 1966. Following this up, I asked the Bank of Canada whether they had any available information and they have given me a one-sheet memorandum, which, in so far as Canada is concerned, goes up to 1968. It includes transfer payments and includes all levels of government. The latest comparison in this statement is apparently the same, or approximately the same, as that given by Dr. Deutsch, because it is 32.2 per cent in Canada for 1966 and 27.7 per cent for the United States for that same year. The statement goes on to list Britain, West Germany, France, Italy, Netherlands, Sweden and Switzerland.

It might be convenient to have this memorandum printed as an appendix so that it will appear in the printed proceedings.

(See appendix "B")

**Senator Benidickson:** What are these figures? Are they percentages of taxes with respect to GNP?

**The Chairman:** They are the total expenditure, including transfer payments, of all levels of government; that is, the three levels of government in Canada. It includes the transfer payments as a percentage of the GNP at the current market prices. And it is expenditures, not taxes.

**Senator Isnor:** Dr. Smith, I was wondering whether that chart gives us a true picture of expenditures in the provinces as compared to the federal? Does it include the payments by the federal Government to the provinces?

**Dr. Smith:** No. Those are not included in the federal expenditures on goods and services. The use of those resources by the provinces would be included in the provincial and municipal government expenditures.

**Senator Isnor:** That would be federal money used to expand the figures in the province.

**Dr. Smith:** In other words the federal government transfers resources to the provinces and it is at the

provincial level that those funds are used for expenditure.

**Senator Isnor:** Is that a true picture?

**Dr. Smith:** This is the way the basic reporting is done for this purpose in trying to get an initial assessment in economic terms of what different levels of government are doing in laying claim to goods and services being produced in the economy. On this basis, in fact, the provincial and municipal governments using resources provided through the transfer of payments by the Federal Government are laying this claim. But taxation charts show that the money is being raised by the Federal Government instead of by the provincial governments.

**Senator Benidickson:** Dr. Smith, I do not quite understand the reference to transfer payments in this context. Here we have always used transfer payments as meaning what goes from the federal government to provincial governments, but this has reference to all levels of transfer payments from government to the private sector.

**Dr. Smith:** Yes.

**Senator Benidickson:** What does this include?

**Dr. Smith:** It includes interest payments for example. It also includes things like family allowances, old-age security payments and those categories in which the federal government, in effect, is taking the resources out of the economy, or let us say governments are taking the resources out of the economy, but not using them to buy goods and services. Instead, the funds are redistributed to somebody else to spend.

**Senator Hays:** Such as hospitalization and education?

**Dr. Smith:** No, that would not be the case, because there you are employing people and buying equipment. Does that answer your question, senator?

**Senator Benidickson:** Yes. It is really a case of where the money goes into the pockets of the private sector.

**Dr. Smith:** There is a table in the *National Accounts Book* produced by the Dominion Bureau of Statistics that outlines some of the transfer payments involved. Now, can I turn to the next chart?

This chart shows the government sector surpluses and deficits on a national accounts basis. It shows these, first of all, in the top panel for all levels of government, the surpluses and deficits without taking



account of the Canada and Quebec pension plans. The bottom panel shows the surpluses and deficits, again for all levels of government, including the net resources derived from the Canada and Quebec pension plans. This chart gives some impression of the fiscal posture of the government sector, and here again, as I emphasized earlier, it is important to take all levels of government together in making an assessment.

In the chart which has been included in the brief you will see that it includes the years, but in the chart which you see on the screen the years have been chopped off. It starts with 1961 on the left panel and you will see that at that time, taking all levels of government together, we were running a deficit on a national accounts basis about \$1 billion in 1961 (excluding the pension plans). This gradually became less, and moved to a surplus by 1965. You will recall that this is the period when, as I said earlier, we began to move through a rapid expansion and government revenues were rising particularly rapidly. In this period the total effect of spending and tax changes in the government sector was to produce a shift in the position from a deficit to a surplus. It was a fairly large change. In the last three years, as you can see there, we have had some small deficits.

Now in the bottom part of the chart you will see that we have included the effects of the Canada and Quebec pension plans. There are a number of economists who feel that in assessing the fiscal position of governments it is important to take these into account because the premiums are rather like taxes. They are withdrawing resources which could have otherwise been spent in the private sector. These are, in effect, distributed among the provincial governments and they are available for their expenditures. You will see that on that basis over the past five years we have been in a surplus position, a very modest one, until 1968 when we reached a surplus position of about \$800 million on this basis. Moreover, and this is one thing I should add because economists have been giving increasing attention to this, that surplus occurred at a time when the average level of unemployment in the economy was about 4-3/4 per cent. If we had had a slightly more fully employed economy, the implications for the budget would have been that we would have had a larger surplus than the one shown there. In other words, if we were a little closer to potential output the surplus would have been larger; and similarly going back to the early 60's when we were running deficits, if we had not had a slack in our economy, the picture would have been different. The deficits would have not occurred—we would have had surpluses instead. Governments suffer when there is a great deal of slack in the economy because they do not get the revenues they might otherwise have, and they often have to increase expenditures at the same time.

There are various calculations to suggest that if we had been operating close to potential output and with the tax structure we had then, we would have been running surpluses instead of deficits in the economy.

**The Chairman:** Would you care to relate these figures to their inflationary or deflationary effect?

**Dr. Smith:** Well, at the present time I would suggest that we are operating in a situation of moderate fiscal restraint in our economy. I think that is appropriate in circumstances where we have had price and cost increases that have been persistent and too high.

**Senator Hays:** On page 14 of your brief, at the top of the page, I see some very important words where you say "cost versus benefits." I am thinking of your earlier charts where you dealt with the cost of education. There has been an acceleration in these costs and it does not seem as if the picture will change in the immediate future. In fact there may be a further acceleration caused to a great extent by the student-teacher ratio.

For instance, I do not know what the figures are today, but, say, seven or eight years ago, when we were educating a child in Prince Edward Island for \$250 a year and at the same time it was costing us \$500 in Toronto, were we wasting money in Toronto or discriminating against Prince Edward Island, and this sort of thing? This disparity widens in this sort of relationship.

Does the Economic Council do any studies, or does it propose to give any guidelines as to how this sort of thing goes? Are we wasting money? Are we getting benefits for the costs, where we work a schoolteacher for 190 days a year and use the facilities for the same length of time? Have we this ratio of what we could afford, and could we cut the costs in half if we cut the ratio of students to teachers in half, which in some parts of Canada we have done, and yet in other parts of Canada this disparity widens where they have their own jurisdiction, where some people collect for themselves and others do not?

**Dr. Smith:** I will try to be brief about it. We have been very much concerned about education since the very early stages of our work. In our Second Annual Review we included a chapter on education as a factor in economic growth. We became aware on the basis of our earlier studies, and this has now been confirmed by our more recent work, that at the beginning of the sixties Canada, in many kind of international comparisons, did not have a very good



educational performance. We lagged very badly by comparison with the United States. At one time, 50 years ago, there was not much of a gap in the average educational attainments of the labour force in the two countries. However, this gap widened steadily for half a century. We did rough calculations that suggest this was a factor which had a not insignificant bearing on the difference in standard of living and the difference in productivity levels between the two countries. Subsequently, we have become aware that in the post-war period the rate of increase in the average number of years of education in our labour force has not been as rapid as that in a number of other countries. For instance, most European countries have been making more rapid educational progress than Canada in the post-war period.

We became aware of the fact that we had been lagging particularly in developing higher levels of education. Also, it was not adequately recognized until some of our work went forward that until as late as the fifties we had less than half of our 14 to 17 year-old children in school. We now have about 85 per cent in school, and we have made great progress in terms of enrolment ratios. We had about half the number in post-secondary institutions that the United States had. As we put together more and more statistics, it became clearer that the area of education is important in the economic growth of the country, that we are likely to get good returns in this area, and that because of our lagging behind other countries we needed to strengthen our educational progress.

In the sixties we have been getting this in this country, and we have had an enormous spurt. There has been a good deal of catching up on things we should have done earlier, although the earlier days make it harder to try to catch up. At the same time we have had to try to accommodate a much greater population in the younger age groups—about half our population is below 25 years of age—and to accommodate the post-war baby boom in the sixties, first at the high school level and now at the university level.

As to the question about the differences you referred to in teacher qualifications, expenditures per student, and so on, we have been looking into these questions, and we might have something to say about some of these questions in the Council's Sixth Annual Review, which I hope will be published next fall, if that work is completed, although we have not made a final decision on it yet. However, we have not extended this to a cost-benefit or cost-effectiveness analysis. We are trying to pull together all the information we have, first of all. I would think that perhaps our most useful role at the Council would be to draw increased attention to some of the disparities you mentioned, which are very wide, as

you indicated. Then I anticipate that some of the very important but very difficult kinds of cost-benefit, cost-effectiveness analyses might be done by those who are much closer to the responsibility for the actual allocation of resources and for decisions about how to change the system—in particular, in the provinces. This should be the place where such cost-effectiveness studies can best be developed, close to the programs.

**Senator Hays:** Will you deal with this in so far as taxation for these services is concerned, where it used to take, what, 33 per cent of the real property tax for the education bill, it is up around 72-1/2 per cent today of the real property tax plus a big percentage of money from the general revenues of the provinces? These costs are completely out of line, compared to what they were designed for. The ratio seemed to be 33-1/3 per cent to 66-2/3 per cent—the former for education, and the latter for other services. Will you be doing a study on that, which seems to be one of the great urban problems today?

**Dr. Smith:** We have not looked into that particular question yet.

**The Chairman:** This is really the problem of the municipal basis of taxation being confined to real estate, and the costs of municipal services rising so rapidly that they have distorted the problem.

**Senator Hays:** And it was never designed to carry this load.

**The Chairman:** And our constitution has a separation between federal and municipal governments, with the provinces in between.

**Senator Phillips (Rigaud):** I think Dr. Smith, this is as good a place as any to put this question. Obviously, in the field of education a projection over a long period is desirable, and you have touched on the point the Council does this work in terms of longer-term thinking in depth rather than on an annual basis in dealing with budgets, etcetera.

In reading your reports and in listening to you, I have been bothered by this fundamental point. In running a democracy we have this principle of "No taxation without representation," and the fact of government policies being developed from year to year, on an annual basis, in terms of the needs of taxation, expenditures, and the like. If we really want to do a fundamental job and be guided by a Council such as yours—and this is my opportunity to say how I, for one, as a Canadian, am deeply indebted to the quality and depth of your work—

**Dr. Smith:** Thank you, senator.



**Senator Phillips (Rigaud):** —I am always bothered by the fact that whatever government happened to be in power at the moment would put into effect a long-term program based on deep thinking with statutory conclusions that would be binding on successive governments, involving the necessity of taxation based on prior commitments.

**Dr. Smith:** I suppose that in any democratic system it is very difficult to bind successor governments. That is a political exercise that is beyond my competence to comment on.

**Senator Phillips (Rigaud):** I was relating it to long-term thinking in relationship to short-term policies.

**Dr. Smith:** As regards the long-term thinking about assessments, requirements and problems that may emerge, we think there should be more of this in our system. One is struck increasingly, in looking at the literature, by the kinds of lags that are involved. For example, last week I was reading a book which pointed out, on the basis of a careful study, that it took nine years from the first decision to explore an urban redevelopment project to its completion.

Now, that is a long period of time. If you are going to think in terms of major projects of that kind you must think in terms of the development of resources over a period of time in order to achieve certain ends that simply take time to work out.

In the field of housing, for example, our problems of quite intense housing shortage over the last year or two in some of our major cities really have their origins in an inadequate build-up of housing performance going back to at least 1965 and 1966. We failed to make adequate progress to build forward in order to meet what we could then see were going to be a rapidly increasing demand. Once serious shortages develop, you cannot then get out of these situations quickly. You cannot have a sort of cushion upon which to fall back when you get into these situations so quickly. It can be seen that there are similar situations developing in other fields.

The Glassco Commission recommended that the federal Government should prepare and publish five-year projections of its expenditures. In our first review we took up this suggestion, and we have repeated it subsequently, that governments in Canada should prepare and publish five-year projections of their expenditures. This is done in some countries like Sweden. It is not an unusual thing. It forces the kind of thinking about the evolution of expenditures that is very important.

Some progress is now being made in the preparation of five-year projections of government expenditures. This has been proceeding in the federal Government. It is proceeding in some of the provincial governments, and it is proceeding in some of the

municipal governments in Canada. But, we do not yet have regularly available information pulled together in this form. Yet, this would be very helpful for many things.

As you know, we have been publishing five-year investment intentions of major business firms in Canada. We are now exploring the possibility of trying to incorporate in our survey next year the same information in respect of as many governments as possible—information relating to the federal Government and provincial governments, and perhaps some municipal governments, and to include for the first time the five-year intentions of governments in respect of investment expenditures.

There is much to commend this. If one takes the investment area again, it would be enormously helpful for the federal Government to put out its intentions. It should not necessarily feel bound and committed. Circumstances may change. Each year they ought to be revised, brought up to date, and carried forward. But, that information would be enormously helpful.

It would, I think, bring about a much better use of resources if there were clearer indications to the private sector of the economy of certain kinds of expenditures to which the private sector must relate. The expansion of harbour facilities and airport facilities is an illustration of what I have in mind. Such developments ought to have a bearing on the plans of private industry, in developing as efficiently as possible, by locating and expanding in a more co-ordinated way with Government activity.

**Senator Hays:** Doctor, when I was the head of a department I found that these things sound very well, but the political part of them is very difficult. I might mention, on the humorous side, that I was going to build a hog barn out in the Green Belt, and it was projected over five years. We had every hospital authority crying out: "He is going to build a hog barn, when what we need is more hospital beds." The question is: What is the most important? The patient will die if he does not get food to eat, you know.

**Dr. Smith:** I agree that this is a very difficult process. I can only say that I hope we will be moving in this direction.

**Senator Phillips (Rigaud):** This is extremely interesting from the point of view of investments. Is it within the purview of your terms of reference to make a five-year projection of rates of exchange, both fixed and floating, and other matters of that kind including incentives to investment such as subsidies and tax benefits, so that investors might have a clear conception of what they should do.



**Dr. Smith:** Well, this is something that requires a very great deal of analysis. We do not have a program of research activity in that direction at this stage. It would be within the competence of the Council to have a look at this at some stage. One of the problems is that there are a great many things that people would like us to look at, and we have tried to develop a sort of central program of work around which we can build more detailed work in a variety of fields.

**Senator Phillips (Rigaud):** I would think that in respect of investment in the banking field and the country at large it would be most interesting to have the view of yourself and your colleagues on the promotional aspect of incentives—whether they should be accelerated or done away with. At least, if we had guidelines the reservoirs of capital would know what to do.

**Dr. Smith:** Yes. Shall we go to the next chart?

**The Chairman:** Yes.

**Dr. Smith:** We might skip the bottom part of chart 3 because it really does not add very much, and go to chart 4, which shows the trends of expenditures on a national accounts basis. The top part of the chart covers the federal Government. Here I wanted to note some contrasts between the developments in the provincial-municipal and the federal fields.

If you look at the very bottom line on chart 4 you will see that the interest, transfers and subsidies of the provincial and municipal governments have been rising with great speed right through the sixties, particularly since 1964. If you look at the "Interest, Transfers and Subsidies" line for the federal Government, which is at the top part of the chart, you will see that this too has been rising, and in the last few years it has been rising particularly steeply.

Here we have had the development of new, and a very considerable expansion in a number of existing, transfer payments. We have also had during this period—and I am sure you are all aware of it—a very considerable rise in interest rates, and that has brought about a very rapid expansion in the interest payments by all governments.

If you look again at the "Goods and Services" line at the bottom of the chart you will see that this line during the sixties for the provincial-municipal governments is also rising quite rapidly and steadily. At the federal level there are two lines for "Goods and Services". The dashed line is "Defence", and you can see that this has been quite stable. Then there are the non-defence expenditures on goods and services, and here you can see some of the instability that I spoke about earlier—the flatness of the early sixties, and the sudden burst of spending in 1965 and 1966,

and then a tendency to taper off in the last year or two. From the line on the bottom chart you will see that total revenues and total expenditures of provincial and municipal governments have been rising quite rapidly in a sustained and smooth kind of way and at the federal level you see somewhat greater volatility, expenditures moving more slowly and then accelerating, with revenues on the other hand moving much more slowly during the period when we had more slack and then accelerating later.

Chart 5 is simply an attempt to portray for all levels of government the distribution of expenditures among certain major areas of expenditure. The largest single component is education. This is for 1967. Over one-fifth of all government expenditure now falls into the educational category. Social welfare is also a large category. Health is similarly large, and also a very rapidly expanding category.

**Senator Isnor:** What is it on a percentage basis?

**Dr. Smith:** Health is 11.6 per cent; social welfare 14.5 per cent; education 20.8 per cent. You see those three categories together at the top. These really reflect expenditures on human resources. This is a very different pattern of government expenditure from that which existed earlier in our history. In earlier days a very large proportion of our government expenditures went on our physical resources, on transportation and on other things, and not very much on our human resources. We now have a pattern of government expenditures established in a much larger way to meet some of the needs of, and to help develop, our human resources.

**Senator Phillips (Rigaud):** What percentage is the net debt charges?

**Dr. Smith:** The net debt charges, 6.8 per cent. I might as well give all the figures. Transportation is 11.6 per cent; defence 8.7 per cent, and the "All Other" category, which is a sort of catch-all category, 26.1 per cent.

I am afraid I have taken up a great deal of time, for which I apologize.

**The Chairman:** Not a bit. Are there any further questions to Dr. Smith on the brief or the other material he has furnished to us?

**Senator Phillips (Rigaud):** I should like to direct myself to the following question. I do not think we have dealt with the problem of export trade, more particularly in relation to inflationary trends in our country, and our obvious sensitivity to that problem. Looking at the overall picture, with the expertise you have—does your projection indicate that we will hold our own as one of the great trading nations of the world within, say, the next 20 years in terms of



position, or do you see inherent dangers that might impair our position?

**Dr. Smith:** Let me touch very briefly on the kind of pattern we have had up to now. During the late 1950s when the economy was slowing down, one of the major factors involved was undoubtedly related in part to the slowing down also of the United States economy, less demand for our exports and less buoyancy in other respects affecting our economy. During that period we did not do very well on exports. At that stage we were also facing, as it became increasingly clear, a situation in which our exchange rate was not very appropriate. It took us some time to realize this, and it tended to discourage exports and encourage imports, with a high exchange rate, at a time when we had slack in our economy. Then in a rather messy kind of way we got the exchange rate down, devalued, and returned to a fixed exchange rate, and this adjustment has undoubtedly been one of the important factors that has really revolutionized the picture of our exports in the 'sixties. At the same time, there have been many other factors at work too, such as the strong United States performance and the generally strong growth in world markets and world demand in many directions.

I think there has also been a much more aggressive and confident mood on the part of Canadian business about export possibilities. In any event, what we have had in this great expansion from 1961 to date is an expansion that has essentially been "export led"; exports have been one of the great engines of this expansion. One of the most striking features of this expansion of exports has been the extraordinary rate of growth in the volume of exports of what the Dominion Bureau of Statistics call "end products inedible" which are highly manufactured products. I do not know the figure now, but I suppose the total of these exports must now be something of the order of six times or more the level in 1960 or 1961. For the first time in our history, really, we have had an enormous manufactured exports boom. Our exports of highly manufactured products are now twice as high as our exports of agricultural products. Who would have believed that at the beginning of the 'sixties? They are in excess of our exports of forest products, and if I am right, they are now about to exceed our exports of mineral products. So, for the first time Canada has become, among the industrially advanced nations, a manufactured goods exporting country in a major way.

There are certain special factors that have contributed very importantly to this. One is the automobile agreement, which has meant a great expansion in the export of automobiles and parts, and also an expansion in imports. There have also been the defence production sharing arrangements with

the United States, which have facilitated some of this. In part the expansion in our aid program has contributed somewhat to it, as well. However, making allowance for all these factors and looking at what is left, in terms of our export of manufactured products the increases have been large, the product diversification has been great, and the pattern of distribution by destination has been varied. Much of it has gone to the United States because it is a close, and in some ways an easier market for us to penetrate, but there has also been a significant expansion in other directions as well. This has been a very important factor in what has been happening, and a very encouraging factor I would think for us.

There have been increasing concerns about how one looks to the medium and longer term future in terms of maintaining and continuing it. This is really the question you are raising. We at the Economic Council have had occasional qualms and concerns, but our basic view has been one of considerable confidence that we will be able to do well. In this context, I might point out that during the past year one of the quite striking developments, and one that I do not think any of us would have anticipated, is that in manufacturing in Canada our unit labour costs advanced by a quite small amount compared with earlier years—around two per cent—whereas in the United States, where there had been slower increases in unit labour costs earlier, there was a great acceleration. In 1968, we had in Canada a sudden and quite significant spurt in productivity by our manufacturing industries. For what reasons I do not think anybody is quite sure yet; but it suggests that, if anything, the internationally competitive position of Canadian manufacturing was well preserved in 1968, maybe even enhanced, and this should give us confidence for the future. As I travel around the country talking to businessmen I am much impressed with the kind of feeling that exists among many of them about their capacity to compete internationally. There is a new mood, a new attitude, and a new confidence.

**Senator Phillips (Rigaud):** With the expertise of you and your Council, because of the importance of the export trade and our sensitivity to the problem in relation to the whole economy, do you now take within the purvey of your thinking problems such as fixed rates of exchange against floating rates and the question of international monetary policies and things of that nature, or is that beyond the range of your thinking? Does that belong to the Bank of Canada and the Finance Department or do you go into those studies?

**Dr. Smith:** The Bank of Canada and the Department of Finance, of course, have major responsibilities in this field. They have very considerable resources for studying these matters and for keeping in



touch with developments. Also, they participate in a major way in international discussions of various kinds in this field. For our part, we do have a look at these things, but perhaps in a more general sort of way. We have included sections in a number of reviews on the international side, touching on these matters. Obviously, for a country like Canada which is heavily involved internationally and in many ways becoming increasingly heavily involved in the increasingly interdependent world we are living in now, the health and solidity of the international monetary system is a very important factor. If we run into crises and difficulties, we here in Canada can suffer very greatly.

**Senator Phillips (Rigaud):** For what it is worth, I would say that a good many of us in Canada would like to see that subject matter dealt with by you in greater depth in future reviews, because of its importance in relationship to the overall economy.

**Dr. Smith:** One of the things of course is that—this is perhaps a difficult thing to put easily. In Canada we can, I think, make some contribution to facilitating the development and appropriate evolution of the international monetary system in a useful way, but nevertheless, in today's world we are not a large factor. I am not trying to say that the kind of contributions we can make are unimportant or marginal. At times it may be very critical and very crucial, but we do not have the power and capacity to have a major influence and to really determine whether the international monetary system gets into serious difficulties or not. This will not depend on anything we do or do not do in Canada. At one time, immediately after the war when there had been the severe wartime disruptions and difficulties, and attempts were being made to reconstruct the international monetary system in a better way, we in Canada played a very crucial and a very important part in the development of the new postwar monetary arrangements. That kind of influential role is not one that we can play to the same extent today. Nevertheless, I am trying to say that what we can do is important and a person like the Governor of our central bank, who has an enormously high international reputation, can play a significant role.

**Senator Isnor:** Mr. Chairman, I think there was a very important question raised by Senator Phillips. I would like to pursue it a little further. We take 1960 and 1967 or 1968 and bring it right up to date. Years ago I was sitting on a committee—perhaps 20 years ago—and our thought was, exports of raw materials. Today we are thinking along a different line of exports, true, but in manufactured or finished products. There must be a big difference in the dollar value to us. I wonder if a chart could be prepared dating back 10 years perhaps and showing the value of exports.

**Dr. Smith:** Basic groups of commodities?

**Senator Isnor:** Yes.

**Dr. Smith:** Yes, this could be done.

**Senator Isnor:** I think that could be a good study for us.

**Dr. Smith:** I would like to add something, senator, if I may. I did not mean, in my earlier emphasis on manufactured products to downgrade, in any sense, the importance of exports in other areas. Export performances need to be high in all major areas of our production as a basis for an increasingly efficient economy.

**Senator Hays:** How does our productivity now in Canada compare with the United States, Great Britain, France and other various countries? I think that we are now the fourth largest exporter of dollar value; am I right? The fourth or fifth.

**Dr. Smith:** I have not looked at the figures lately. It is somewhere in that range. I am not quite sure what you mean by productivity. Do you mean the productivity levels, such as the output for person or per man hour?

**Senator Hays:** The output.

**Dr. Smith:** After trying to make as close a comparison taking into account as many factors as possible, including price differences to get at the real output per worker, our estimate is that we are about 20 per cent behind the United States.

**Senator Hays:** Great Britain would be—

**Dr. Smith:** We would be considerably, in terms of level, above Great Britain. I forget. I do not have the figures with me here. There is a special staff study which we released recently and it has some international comparisons which have been done on a consistent basis on levels for the year 1960. This is a study of international comparisons of growth and income levels. I can send you that if you wish.

**Senator Hays:** I would appreciate that. What areas are we comparable to in productivity, such as in the automotive industry? Productivity must be levelled off should it not?

**Dr. Smith:** So far, the Council's main concern has been to try and get a good picture of the overall level of the economy. But we know, however, from some work we have done thus far in regard to manufacturing, that the gap with the United States for the manufacturing sector seems to be particularly wide. It is wider than for the whole economy. This is what



encouraged us to look at the possible influence of scale and specialization as a factor affecting this gap. We seem to have a much less specialized manufacturing sector in our economy than has the United States. This has a significant bearing on that difference.

We would like to move our work forward over the next few years to look, more particularly, at the main sectors of the economy and perhaps eventually some day at particular industries—it is a very complicated task to do this precisely and accurately. Productivity is a very tricky measurement to make with precision.

**Senator Isnor:** It is a very important factor in business life.

**Dr. Smith:** That is right. It is one of the things that has been crucial and central to the work of the Council ever since the beginning of our work and it will continue to be.

**Senator Isnor:** Mr. Chairman, these charts are very interesting and will give us an opportunity to study them. I was wondering about this chart 5, the last one. It shows the expenditures. If we had a chart dated back a few years in order to make a comparison as to the difference in expenditures—education has been mentioned quite often—a comparison, say, with 1960.

**Dr. Smith:** You would like a comparable chart for 1960?

**Senator Isnor:** Yes.

**Dr. Smith:** I can give you some figures now. I could give them for 1950, 1955, 1960.

**The Chairman:** 1960.

**Dr. Smith:** They are: education, 14.6; social welfare, 15; health, 7.8; defence, 16.8; transportation, 13.3; debt charges, 7.9; and all other, 24.6.

**Senator Phillips (Rigaud):** It is rather amazing, in so far as debt charges in 1960 compare to 1967.

**Dr. Smith:** Yes, it is rather surprising. I thought they would have gone up as a proportion of the total. We must have a substantial amount of long-term debt that is at a lower level.

**Senator Hays:** When a person buys a bond in Canada, the Government knows it has to pay back, on a \$100 bond, 3 to 4 per cent. Has any thought ever been given to the fact that this capital that he has invested in this country should escalate along

with inflation, because you really trim every person in Canada who does not think about it.

**Dr. Smith:** I do not know quite what you mean.

**Senator Hays:** The Government gets it from people in Canada who do not think about this factor.

**Dr. Smith:** Do you mean that the Government should have some kind of escalation factor built in, so that a person who bought a bond at \$100 would find he would get \$105 for it now?

**Senator Hays:** The debt charges prove that for the same weight of debt one has to pay only the same or less.

**Senator Phillips (Rigaud):** It is the depreciation in the \$100 bond which you purchased 20 years ago.

**Dr. Smith:** There have, in fact, been various kinds of experiments made with "purchasing power bonds". In general, however, there has been the view that it is not likely to be a particularly good instrument, because there is a danger that it may undermine resistance to inflation if bondholders do not have anything to lose in such a system.

**Senator Phillips (Rigaud):** We do it in regard to old age pensions now and it has been found necessary to do this. Previously, people worked hard all their lives and were told they would get a pension and they found it was worth only one-third when they got it.

**The Chairman:** It has been paid with current dollars all the time—current dollars in and current dollars out.

**Dr. Smith:** I think that a much better procedure is to slow inflation down, to get it stopped.

**Senator Phillips (Rigaud):** That is getting off the hook.

**The Chairman:** We had Professor Neufeld here and he gave us some rather startling figures with relation to the recent changes in the unemployment rates in Ontario and Quebec, the proportion of the national average of unemployment, showing the unemployment rate in Quebec going up very steeply since December 1968, in the last few months, and the unemployment rate in Ontario going down, not quite as steeply, but steeply. This brings up the question of regional disparity in this country and what one might be thinking about in terms of Government expenditures relating to their effect on the economy in relation to regional disparity. It is a big question.

**Dr. Smith:** Yes, it is a very large question. I might say a few things about it. First of all, in general, the



labour force and the employment and unemployment performance in Quebec has worsened. There was only a very small increase in employment in Quebec last year. If I remember correctly, the figures showed an increase of about 2,000 in employment in Quebec, compared with 100,000 in Ontario. So there was a very marked disparity in the way in which employment developed in the two provinces last year.

There was also, in 1968, as I remember, not merely a rise in unemployment relatively in Quebec but also a more marked deterioration in the participation rates, too, which suggests a generally softer labour market. I do not know whether you would like to hear Mrs. Ostry speak on this.

**Mrs. Ostry:** It is a very complicated area and looking at a few months' figures might be a very dangerous exercise, if one attempted to derive too much significance from them. When one is assembling estimates, one has to look over a longer period of time.

There has undoubtedly been some relative deterioration, but it would be worth examining some of the things which Dr. Smith has mentioned—the relationship between the participation and unemployment, and other factors such as the proportions of persons who are extending their schooling, which would affect the participation; changes in the activity of married women in the province; the degree of participation has lagged enormously in Quebec compared to other provinces. So there are many factors one would want to examine before reaching firm conclusions.

**The Chairman:** Before considering what significance should be given to these figures.

**Dr. Smith:** With regard to your main question on expenditures by regions, we did include a section in the Fifth Annual Review on the regional development of federal expenditures, page 150. There is some discussion about this, as between different regions in Canada.

One of the problems was that we did not have good information, first of all, and we had to dig out some information rather laboriously. There is, I believe, work going forward in the federal Government now so that we will have better statistical information more regularly in the future to use for analysis.

Our conclusion was that there was not really a very clearcut indication that the regional distribution of federal expenditures that had a bearing on development had been very carefully designed to move in the direction of narrowing regional disparities.

The patterns as they came out in the classifications which were portrayed, on the purposes of expendi-

tures and objects of expenditures, did not reveal to us, at least for 1964-65, any very clearcut indication that the expenditure programs of the federal Government were being used significantly to reduce regional disparities.

**The Chairman:** So there is scope there for more planning and development in that area?

**Dr. Smith:** Yes.

**Senator Benidickson:** I wonder if you would hark back to the question raised in the context of government expenditures with respect to inflation. Did I understand you to say that neither the expenditures or the attitudes were satisfactory or appropriate to our needs in the climate of inflation or in the context of inflation?

**Dr. Smith:** What I said was that, in looking at the patterns, as we did, in 1967, at the time of the Fourth Review, looking at the patterns of Government expenditure at that point of time, there had been some uneasiness, which the Council shared about the developing acceleration in Government expenditures. The Council was concerned that there was an emerging tendency for government expenditures to be rising too rapidly. The economy was then in a situation in which it was much closer to potential output and the pressure of available sources could become greater much more quickly. In the position we are in now, if we got another burst of the kind we got in late 1965 and 1966 that we did not anticipate, a sudden surge of demand for whatever reasons, from either external or internal sources, we now would have much less protection against inflation. At this stage it is appropriate in terms of the over-all government sector position that care be taken about not having expenditures increase too rapidly. If they are going to increase rapidly at this stage, there needs to be a very careful look at the possible need for withdrawing additional purchasing power from the private sector, to meet the claims that Government is going to place on resources, so that the total demands of the government and private sectors together are not too great on our resources.

**Senator Benidickson:** That is the very opposite of what I thought I heard you say, particularly when we hear on the radio this morning that in April there was an increase in the cost of living of 1.5 per cent.

**Dr. Smith:** The difficulty here, and one which the Council has pointed to—and I am coming back to this because there is no easy, simple answer to this and I don't mean to imply that there is—is that whatever fiscal policy setting you are developing now is going to have its greatest impact with a significant lag probably towards the end of this year or maybe even next year. These things work with a considerable



lag. Therefore, we must always be asking ourselves where we will be then and what kind of effect we will then want. So we at the Council have been urging that more attention be given to the longer view and to a more stable setting of policies so you don't always have to try to turn on a dime. Because, with the usual lags that are involved, you may be wrong a good part of the time.

**The Chairman:** Dr. Smith, I want to thank you and your colleagues on behalf of the committee first of all for the excellent brief, which is going to be of great assistance to us in our own consideration of

the reference to us and of our report, and also for your evidence here today, which has been so well given, so clear and comprehensive.

**Hon. Senators:** Hear, hear.

**Dr. Smith:** Thank you.

**The Chairman:** We are very grateful to you. If there is nothing further, we will adjourn until one week from next Thursday.

The committee adjourned.

IN THE SENATE OF CANADA

MAY 1954

Presented by  
ARTHUR W. SMITH,

Chairman, Economic Council of Canada





APPENDIX A

BRIEF

TO THE STANDING COMMITTEE ON NATIONAL FINANCE OF THE SENATE OF CANADA

MAY 1969

Submitted by Arthur J. R. Smith, Chairman, Economic Council of Canada

The Economic Council was established by Parliament as an institutional response to the need for strengthening the base of information and advice available to the Government in the process of formulating economic and social policy. This is not an easy task, especially in a country such as Canada, with its wide regional differences, its highly decentralized system of private decision-making, and its constitutional system in which very important economic policy powers are divided between the federal and provincial governments. But the Council has endeavored to provide the kinds of information and analysis that would lead to a better understanding of our economic system and enable decision-makers in many parts of the country to plan more effectively. In furtherance of these goals, the Council has strengthened its links and ties with the basic economic and social data embodied in the Annual Review, as well as other aspects of the work, have emerged from the basic concern with

## Standing Senate Committee

BRIEFTO THE STANDING COMMITTEE ON NATIONAL FINANCEOF THE SENATE OF CANADAMAY 1969

Submitted by  
Arthur J. R. Smith,  
Chairman, Economic Council of Canada

The Economic Council of Canada welcomes the opportunity of appearing before the National Finance Committee of the Senate to assist in the Committee's consideration of the estimates of the Government of Canada. It is not within the prerogatives of the Council nor does it have the competence to assess and comment upon a specific set of government estimates. However, the work of the Council may provide a useful perspective for the activities of this Committee in the context of its most important Parliamentary role with reference to the budgetary process.

The Economic Council was established by Parliament as an institutional response to the need for strengthening the base of information and advice relevant to the achievement of challenging national economic and social goals. This is not an easy task, especially in a country such as Canada, with its wide regional differences, its highly decentralized system of private decision-making, and its constitutional system in which very important economic policy powers are divided between the federal and provincial governments. But the Council has attempted to provide the kinds of information and analysis that would lead to a better understanding of our economic system and enable decision-makers in many parts of the economy to plan more effectively.

In Pursuit of National Goals

From its inception, the Council has attempted to clarify, and to some extent to quantify, the basic economic and social goals embodied in its Act. Virtually all of the analyses and conclusions of the Council's Annual Reviews, as well as other aspects of its work, have emerged from the basic concern with



five economic and social goals: full employment, a high and sustained rate of economic growth, reasonable price stability, a viable balance-of-payments position, and an equitable sharing of rising incomes. These are essentially the *performance goals* which Canada shares with many other modern industrial states.

Public awareness of, and commitment to, these performance goals are of rather recent origin in Canada. For example, as late as 1938, Canada's federal government explicitly rejected responsibility for employment policy. A national commitment to the active use of fiscal policy for stabilization purposes dates back only a little over two decades to 1945. This commitment emerged from the process of planning for postwar reconstruction -- planning which was undertaken during the latter stages of the Second World War. The goal of a high rate of economic growth is of even more recent origin -- essentially, a goal which has emerged in the past decade or so.

The frustrations and problems associated with persistent high unemployment and slow growth in the late 1950's and early 1960's, together with a foreign exchange and balance-of-payments crisis in 1961-62, led to the incorporation of these performance goals in the Economic Council Act of 1963. These goals are related to the attainment and maintenance of high standards of performance in our economic system -- standards of performance that will provide a large and well-sustained growth of resources that can be available to serve our nation's needs and aspirations, the ultimate purposes and objectives of our society. How to achieve the latter, however, calls for a more elaborate and more sophisticated national goals exercise in which the focus shifts from concern with the maximum production and availability of resources to the uses to which these growing resources should be applied. In this process the performance goals must be recognized as means rather than ends in themselves -- that is, the means to social progress and increased human welfare.

Just as our national commitment to the performance goals matured over time from commitments to the elementary goal of balance-of-payments viability,

through those of price stability and full employment, to a commitment to the *simultaneous* attainment of the five economic and social goals embodied in the Council's legislation, the time has come for articulation of what might be termed *national achievement goals*.

The list of achievement goals that could be set out is very extensive. They range over such widely diversified areas as advancing education, better housing, the elimination of poverty, improvements in health, the maintenance of national security, increased international aid, better regional balance, rising standards of living and wider consumer choice, pollution abatement, and an improved quality of life in our vastly changed and increasingly urban society. Most certainly the list should be extended to cover even broader social, cultural and political goals.

The material and social aspirations of people find expression in the market place and through political processes. These aspirations, however, have to be reconciled with the resources that the nation has at its disposal.

In a democratic system such as Canada's, it is not the role of professional experts or advisers to make the basic decisions about the allocation of resources or about the priorities among competing demands for available resources. Such decisions are properly made by governments, business firms, labour unions, consumers and other decision-makers operating within the broad framework of our political, economic and social system. If intelligent choices are to be made, however, it is essential not only that the aims and objectives should be set forth as clearly and consistently as possible, but also that decisions designed to facilitate their attainment should rest upon good underlying information, analysis and advice. Indeed, in our increasingly complex society, and in the circumstances in which the needs and objectives of this society appear to be becoming more demanding and ambitious than ever before as accelerating technological change generates vastly expanded possibilities for using resources, the need for strengthening the analytical basis for the pursuit of national goals is growing. Thus, we



need greater attention to what might be termed "goals research" -- that is, to analysis of the resources required to attain various goals, in relation to the resources available to meet our aims and aspirations. We need estimates of this kind (even if they are rough ones) if we are to avoid the twin dangers, on the one hand, of attempting to pursue an overly ambitious set of national goals for which available resources could not possibly be adequate and, on the other, of failing to pursue a sufficiently ambitious set of goals which we might believe to be beyond our capacity. In the latter case there would be the tragic waste of underutilized resources; in the former, there would be no less tragic distortions and strains that would be bound to produce a disturbed society.

In the United States, estimates of this kind have been explored by the National Planning Association, a private nonprofit research organization, under the able initiative of the late Gerhard Colm. In Canada, no comparable explorations have yet been made.

Faced as you are with the difficult task of assessing the multitude of programs covered in the estimates before you, this Committee might wish to give some consideration to the need for the development of such a national goals exercise, and to how this might be most effectively accomplished. In this context, it may be relevant to draw your attention to a recent specific recommendation of the Joint Economic Committee of the U. S. Congress which urged that Congress, "with guidance from its leadership, and the administration undertake a formal and comprehensive study of national goals and priorities with a view to establishing guidelines for legislation and expenditure policy". Such guidelines would allow this Committee, as well as many decision-makers, to make better-informed judgments about alternative priority combinations that are both mutually consistent, and consistent with the resources that the nation has at its disposal. In the context of your responsibilities, this would greatly facilitate an appraisal of government expenditures in terms of their role in pursuit of national goals, as well as an eventual assessment of broader aspects of government policies. It would also

facilitate appropriate decisions in the private sector of the economy that could also be more consistent with the attainment of national achievement goals.

Governments in Canada have already taken steps to fill some of the gaps that exist in the process of planning, reviewing and co-ordinating their objectives. At the federal level, task forces have been at work for some time reviewing the objectives of programs in the areas of defence, external affairs, housing, industrial relations, agriculture, health and social welfare, and information services. On the federal-provincial plane, a number of committees now exist which hold regular meetings for the purpose of attempting to co-ordinate the plans of the various governments. In our constitutional system this is an extremely important matter. The newly revived Tax Structure Committee, with its broad terms of reference, could well make a major contribution to the co-ordination process.

In addition, the federal government and some of the provincial governments are now adopting the techniques of Planning, Programming and Budgeting systems, including simulation models and cost-benefit analyses, although the planning aspects of such systems, as opposed to their management and control functions, are still in their infancy. But the continued concern over the absolute and relative growth of government expenditures, the increasingly strong demands for a new look at federal-provincial fiscal relations, and the growing questioning of the present allocation of both government and private resources, all testify to the continued existence of a need for considerable further development of the planning processes.

#### The Potential of the Economy

Since the beginning of its work, the Council has given important emphasis to the development and analysis of measurements that would depict the growth of the economy's potential capabilities to produce a growing volume of goods and services. The Council is presently revising the estimates of potential contained in its *Fourth Annual Review* on the basis of recent revisions in the National Accounts. In that Review, it was indicated that Canada has an extremely large



growth potential over the medium-term future to 1975. Indeed, if anything, subsequent information suggests that this potential may be even slightly larger than that suggested in the Fourth Review -- so that Canada may well have a larger potential for growth in total output than any other industrially advanced nation except Japan. Chart 1 (see Appendix), based on information in the *Fourth Annual Review* contrasts the actual performance of the economy with its potential since 1955. Potential output -- the supply of goods and services that the economy is capable of producing under conditions of relatively full and increasingly efficient utilization of resources -- embodies the performance goals of the economy. Among other things, this Chart helps to convey an impression of the tremendous economic costs involved in failing to operate the economy reasonably close to its potential in a continuing way.

It was estimated in the *Fourth Annual Review* that actual output in the nonfarm sector in 1960 and 1961 was falling short of its real potential by about 6 or 7 per cent. Not only was the unemployment rate in each of these years in the neighbourhood of 7 per cent of the labour force, but there was also substantial underutilization of existing productive facilities, and therefore relatively low levels of productivity. Translated into today's levels of production, a gap of this size between actual and potential output would represent a loss to the nation equivalent in round terms to about \$4 billion or \$5 billion per year, a loss that would be cumulative for every year in which such a gap persisted. Since the achievement of the national goals depends crucially upon the margin of resources available to meet these goals, a waste of resources on a scale even approaching such dimensions as those of the early 1960's would clearly represent a massive curtailment of the opportunities for achieving higher standards of living and improvement in the quality of life.

#### Fiscal Strategy

Historical experience suggests that there is no automatic assurance that our economic system will achieve a growth in output consistent with a continually expanding supply capabilities of the economy. It is essential that aggregate

demand should grow in line with the growth of potential output. If the growth of demand is insufficient to match the economy's potential, then resources will be idle and there will be a considerable waste and loss to the nation in terms of unrealized output and employment. On the other hand, if the growth of demand tends to push too hard against the economy's growing potential, this pressure will show up in inflationary cost and price increases. Central to the Council's framework of positive recommendations is a view that the so-called "big levers" of demand-influencing policies -- monetary and fiscal policies -- must be "appropriately set" at all times. And central to the Economic Council's view of the appropriate setting of these demand policies is the view that they should be essentially concerned with maintaining smooth and stable growth in *total final demand* close to the economy's *growing potential output*. Governments by collecting revenues and expending funds exert a considerable influence on final demand. In the words of the Council's *Fourth Annual Review*:

"... When the economy is close to potential, this means that the basic strategy of demand policies should be designed to maintain smooth and sustained growth of final demand over the medium-term future in line with rising potential output. Conversely, it means that there should not be frequent or sudden reversals in such policies in response to purely temporary and short-run cyclical developments (for example, those reflecting inventory fluctuations). Tactical flexibility must, of course, be retained for both monetary and fiscal policies, especially in a world of volatile international and financial changes. But changes in the basic *strategy* of these demand policies aimed at promoting either significant restraint upon, or significant stimulation to, the trend of growth of final demand in the Canadian economy should be made only in response to economic shifts of a fundamental nature -- shifts clearly indicating that the economy is encountering general and persistent tendencies either to press too hard against its rising productive capabilities or to fall significantly short of such capabilities."

In short, these views call for the formulation of these policies in relation to a longer perspective of economic developments and potentials than has typically been the case in the past. This focus, according to the Council, will be especially important to keep clearly in mind over the next decade or more when an extremely high rate of growth in the labour force will make it unusually important, for policy purposes, to appraise demand trends in the economy in relation to a very high long-term rate of growth of both potential employment and potential output.



Some Perspective on Government Expenditures

In terms of economic assessments of government expenditures, such spending is usually divided into two basic categories. The first is expenditure on goods and services; these constitute a direct use of national output and resources by governments and represent a component of the Gross National Product. The second is expenditure on transfer payments; these redistribute income from one group of individuals to another (and include such items as interest on the public debt, family allowances and other transfer payments to individuals). These do not add directly to Gross National Product, but because they shift income among individuals, they influence the pattern of demand in the private sector of the economy.

Given the nature of Canada's constitutional and governmental system, it is particularly important in this country to consider the expenditures of all levels of government together when any economic appraisal of government spending is being undertaken. Thus, Chart 2 shows the expenditures on goods and services of the federal government, as well as provincial and municipal governments, as a percentage of Gross National Product (it also distinguishes between expenditures on goods and services and those on transfer payments to individuals).

Total government expenditures on goods and services have grown at approximately the same rate as total Gross National Product over the period 1961-68. But the share of the total accounted for by provincial and municipal governments has grown. At the same time, total expenditures on transfer payments have risen considerably more rapidly than Gross National Product over the 1961-68 period.

Governments must, of course, finance both broad groups of expenditures, and as revenues are being raised there are usually no distinctions made as to the specific purpose of the funds collected. However, it is within the powers of governments to raise more, just enough, or less revenue than would be required for all forms of expenditures.

Chart 3 attempts to set out which of these alternative effects resulted from the operations of all levels of government. On the first panel on the Chart which excludes the effects of the Canada and Quebec Pension schemes, it is evident that in 1965 more money was taken out of the economy by governments than was put back in by governments. On this basis, the following three years were in deficit since the combined expenditures exceeded the total revenues of governments. On the next panel, the net budget position is depicted, taking into account pension contributions. The argument for doing this is that the net accumulation of funds in the pension accounts withdraws purchasing power from the private sector of the economy. That is, the premiums are essentially similar to income taxes and have essentially the same economic effects. The net budget position of the government sector, including the effects of the pension fund operations, was in surplus in 1966, 1967 and 1968. In 1968, this surplus is estimated at about \$800 million. Moreover, it would have been substantially higher if the economy had been operating closer to potential output instead of a position involving close to 5 per cent unemployment.

The other panels depict the separate net position of the federal, provincial and municipal levels of government as well as the combined net accumulation of funds in the Canada and Quebec Pension Plans.

Chart 4 allows some comparison between government revenues and expenditures on a National Accounts basis at the federal level and at the provincial-municipal level.

Since the mid-1950's there has emerged a considerable shift in the objectives of government expenditures. Total government expenditures (including transfer payments) have risen from the equivalent of roughly one-quarter of national output at the time of the Korean War to nearly one-third in 1968, with particularly sharp increases in the late 1950's and 1965-68. Throughout the period, defence expenditures declined relative to national output, but this was more than offset by rising levels of nondefence spending.



Human resource development has played an increasingly dominant role in government expenditures. Expenditures on education accounted for the largest single component of the increase in total government spending from 1955 to date, and by the early 1960's they represented a higher proportion of national output than any other government service, including social welfare or defence (see Chart 5). This increase reflected a rapid expansion in the enrolment ratios of young people in the secondary and higher levels of the educational system, a large rise in the school-age population through elementary and secondary schools and more recently the universities, as well as some upgrading of the quality of the Canadian educational system.

Health expenditures also rose as a proportion of national output, particularly in the late 1950's and early 1960's, with the introduction of the hospital insurance system. In the very recent period, they have moved up rapidly again with rising hospital costs and a number of extensions of service at the provincial level, including the introduction of some medical care plans.

#### Some Council Views on Government Expenditures

In the course of its work, the Economic Council of Canada has set forth various recommendations and conclusions relating to government expenditures. Some of these have been concerned with particular and special issues -- such as the need for a smoother future growth of construction expenditures by governments; the appropriate criteria for wage and salary decisions in the government sector; and the development of new programs (for example, manpower and labour market programs). Others have been concerned with larger and more general issues in the government sector -- the need for better information, analysis and public understanding of fiscal matters as a background to the development of government budgets; the assessment of certain government expenditures in the general context of the regional impact of federal policies; and the particularly acute financial strains of municipal governments against the background of rapid urban growth and its attendant problems.

In its *Fourth Annual Review*, published in September 1967, the Council included a special section on government expenditures. Although the factual content of this section is now somewhat dated by subsequent events, the Council has included in this Section a number of basic principles which it believed should be of major importance in the formulation and operation of government expenditure programs and policies. This Section is therefore quoted in full here to reflect the Council's views on some of the matters that may be relevant to the responsibilities and work of your Committee.

#### *Government Expenditures*

Total expenditures by federal, provincial and municipal governments for all purposes, including transfer payments, were equivalent to about one third of the total output of goods and services in the economy from 1960 to 1965. Towards the end of 1965, however, just when the private economy was reaching full capacity, the increase in government expenditures accelerated sharply, and the rate of increase in 1967 would appear to be continuing well above that of the early 1960's. It is also a striking fact that, in spite of the very large increases in defence expenditures which took place in the United States in 1965 and 1966 as a result of the increased involvement in Vietnam, government spending rose more rapidly in Canada than in the United States in these two years. Over the period 1963-66, total government expenditures at all levels of government rose by about 25 per cent in the United States and about 35 per cent in Canada. Total nondefence government expenditures now represent nearly 30 per cent of Gross National Product in Canada, but only about 20 per cent in the United States -- a difference reflecting, among other things, relatively higher expenditures in Canada for social welfare, transportation, interest on the public debt and subsidies.

During the earlier part of the 1960's, when the economy was growing exceptionally rapidly as economic slack was being eliminated, a large increase occurred in government revenues -- a considerably larger increase than occurred in total output or total income in the economy. In our earlier *Reviews*, we drew special attention to this development, pointing especially to the rapidly growing revenue yield of the progressive income tax structure under conditions of very rapidly rising personal income. Now that slack has largely been removed from the economy, both the increase in total output and income and the increase in government revenues under present tax levels will necessarily be more moderate. Thus, the accelerated increase in government spending in 1966 and 1967 is outpacing the growth of government revenues at existing tax levels. This necessarily raises troublesome questions about the possibility of increases in tax levels -- perhaps of major dimensions if the present very high rate of increase in government spending continues -- and of sharper conflicts in competing claims for the use of resources. Such conflicts could lead to sharp rises in prices and costs.

These developments have led to a growing uneasiness in Canada about the current pace of the over-all advance in government spending. The Council shares this uneasiness, but we feel that it is important to place it in the proper context. Too often it is merely translated into a



suspicion of increasing waste in government agencies and departments, together with a Parkinsonian build-up of excessive bureaucracy and lax procedures for administrative control. Constant vigilance and effort are, of course, required to eliminate all such waste, especially in organizations as large as governments. This has been recognized, and many government treasuries and audit departments are attempting to develop machinery to review and audit more carefully the minutiae of government expenditures. However, this has not been matched by comparable advances in the development of procedures and machinery for dealing with much larger questions: for *consistent and comprehensive determination of objectives and priorities; for continuing evaluation of the impact and effectiveness of the growing range and diversity of government programmes in relation to their cost; and for increased co-ordination between governments in relation to these matters.* It is in these much more important areas that there is now an urgent need for improvement. This need is greatly reinforced in an economy operating close to potential output, when conflicts among various goals tend to be sharpened and when the practical dangers of aggravating instabilities grow stronger.

Given the fact that government spending has many important roles to play in facilitating high standards of performance in the nation's economic and social development -- for example in regard to education, health and welfare, transportation, resource development and improving the quality of life -- and given the fact that rapid economic and technological changes tend to produce large and complex problems of social and economic adjustment with which governments should be concerned, we recognize that the volume of over-all government spending will and should grow in the future along with the economy. In fact, the analysis in Chapter 4 envisages some small increase in the relative size of the government sector to 1970. But we wish to emphasize that, in the future, attention should be focused more intensely on such issues as the relationship between the use of resources and the purposes to be achieved. Very careful attention will be required to the relationships between fiscal developments and required foreign capital inflows. Similarly, careful attention should be given to the possible ways in which rising government spending could impinge, with adverse effects on the whole economy, on needed growth in housing, exports, and business investment.

Our primary concern is the need for developing more equitable means to clarify aims of government expenditure programmes, for appraising achievements in relation to these aims, and for promoting larger degrees of consistency in both the aims and the implementation of programmes. We believe that it is a matter of the highest importance that both new and existing expenditure programmes be tested and reviewed carefully in the light of four fundamental questions:

- (1) What are the purposes to be served by a given programme of expenditures and is the given programme the most effective way of serving these purposes?
- (2) Are the purposes or the anticipated results of any programme inconsistent in some ways with the purposes and results from other programmes, and how can such inconsistencies be eliminated?
- (3) What are the benefits in relation to the costs involved?
- (4) What are the effects on the whole economic system of different tax or expenditure changes, as these work themselves out over time under changing conditions?

Having these questions in mind, the Council endorses the preliminary steps which have been taken towards more effective programme budgeting and systems analysis. But we believe that there are very considerable opportunities for improving government processes of decision-making in this field through greatly reinforced and extended development and application of appropriate techniques, in particular for:

- better and longer-range planning of government expenditures which we have strongly emphasized in our earlier *Reviews*;
- systematic techniques for planning-programming-budgeting to facilitate selection of the most effective means of achieving given objectives;
- the further development of techniques for cost-benefit analysis of an increasing number of government activities; and
- the application of new and increasingly sophisticated techniques for testing the possible impact that various alternative patterns of expenditure and tax changes may have on the economic system.

Systematic review must also be extended to the initiation or enlargement of government spending programmes in a *timely and orderly* way. In an economy operating closer to potential, there will be serious dangers of generating dislocations and instabilities through substantial and belated increases in highly necessary government spending. For example, the present needs for post-secondary education could have been anticipated some time ago and the strains from the recent rapid increases in expenditures in this area could have been moderated through an earlier and more orderly build-up of the necessary facilities and resources. Similarly, it is already clear that very substantial resources will have to be allocated over the medium- and longer-term future to deal with air and water pollution; an orderly build-up of resources for such purposes will be required if dangers of a large and sudden escalation are to be averted at some future time when the problems will become very acute and even critical.

It is also extremely important that existing spending be regularly reviewed from the standpoint of priorities, so that the thoughtless perpetuation of existing expenditure programmes will not occur, and so that opportunities will be maximized for the development of new programmes that can more effectively contribute to economic growth and needed adjustments to change. Under rapidly changing economic conditions, many expenditures which were once considered to have high priority will no longer be so important or will become obsolete, and should be reduced or eliminated. *It is especially important, in our view, to give a high priority to the abandonment of obsolete programmes and activities.* Failure to have an adequate and effective system for reviewing priorities and for reducing and eliminating marginal and obsolete programmes could eventually lead to restriction and curtailment of all programmes, including many which yield high rates of return to the whole economy in terms of higher growth and human welfare.

Finally, it is essential to have more effective co-operation and co-ordination among the three levels of government in regard to all of the above issues -- the pace of over-all expansion of government



spending; the appraisal of purposes, costs versus benefits, and consistency of objectives and results; and the setting and reviewing of priorities. A useful start has been made towards such co-operation and co-ordination in the Tax Structure Committee and certain other federal-provincial meetings. But all of these issues should be reviewed regularly in relation to the economy's needs and productive capabilities. The exchange of statistical and other factual information is absolutely essential for appropriate co-operation and reviews along these lines; the present exchange of information is not adequate to these needs. In this as well as in other respects, much remains to be done to strengthen the basis for more effective performance in this field in Canada. The annual meeting of finance ministers and provincial treasurers seems to us to provide an early and particularly useful opportunity for constructive discussion on the kind of co-ordinated and effective fiscal management urgently required under current and prospective economic circumstances.

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 REAL GROSS NATIONAL PRODUCT  
 AS A PERCENTAGE OF POTENTIAL GROSS NATIONAL PRODUCT  
 (BILLIONS OF 1957 DOLLARS)

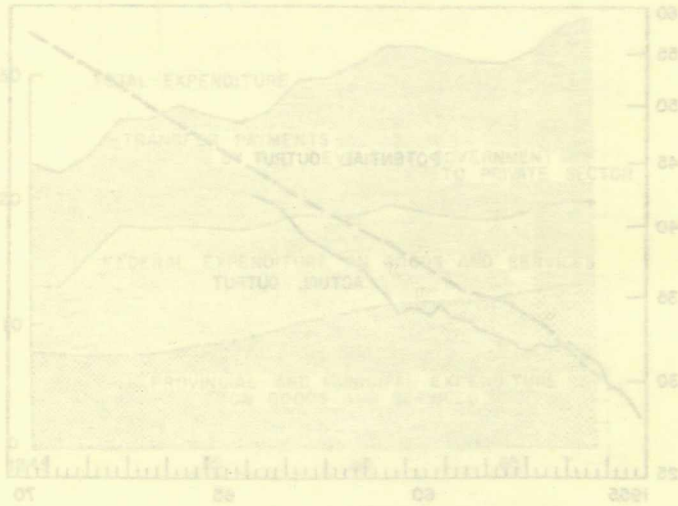
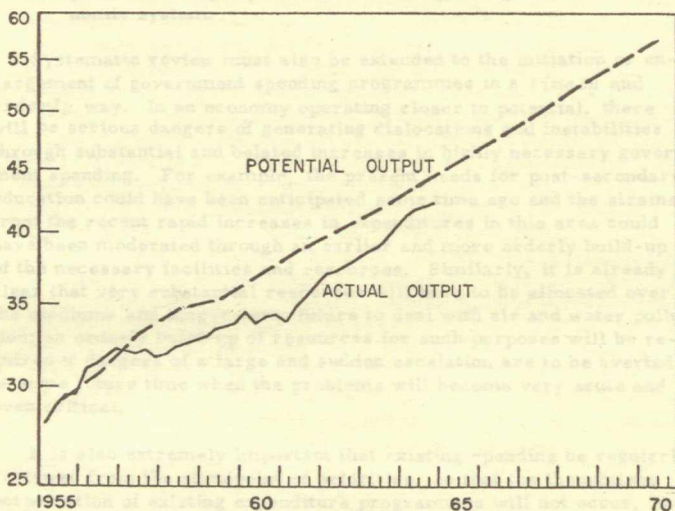


CHART I

### REAL GROSS NATIONAL PRODUCT ACTUAL AND POTENTIAL

(BILLIONS OF 1957 DOLLARS)



Finally, it is essential to have more effective co-operation and co-ordination among the three levels of government in regard to all of the above issues -- the pace of over-all expansion of government



CHART 2  
GOVERNMENT EXPENDITURE  
AS A PERCENTAGE OF GROSS NATIONAL PRODUCT

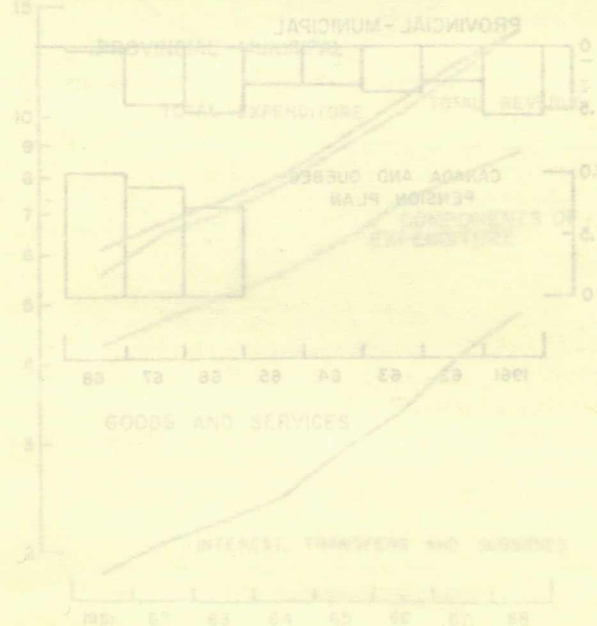
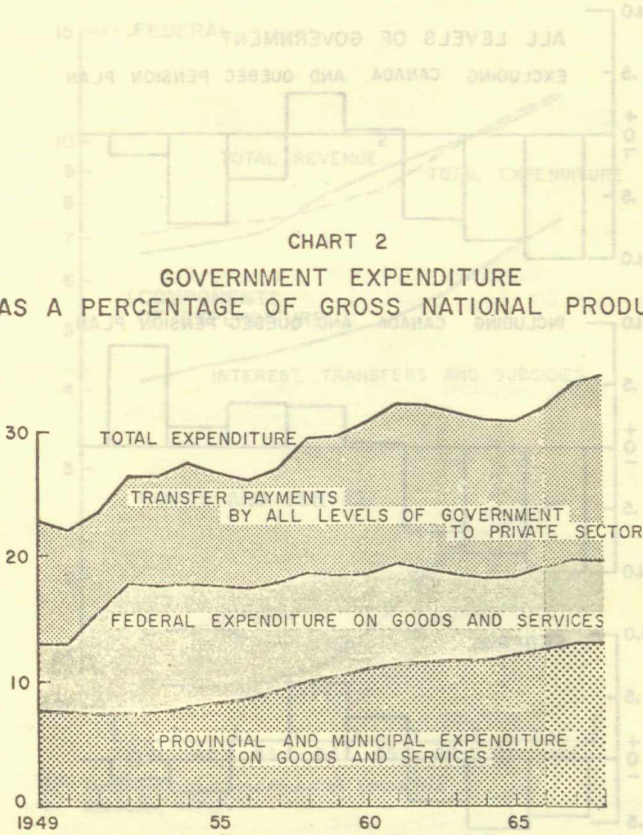


CHART 3  
 GOVERNMENT SECTOR SURPLUS OR DEFICIT  
 NATIONAL ACCOUNTS BASIS  
 BILLIONS OF DOLLARS

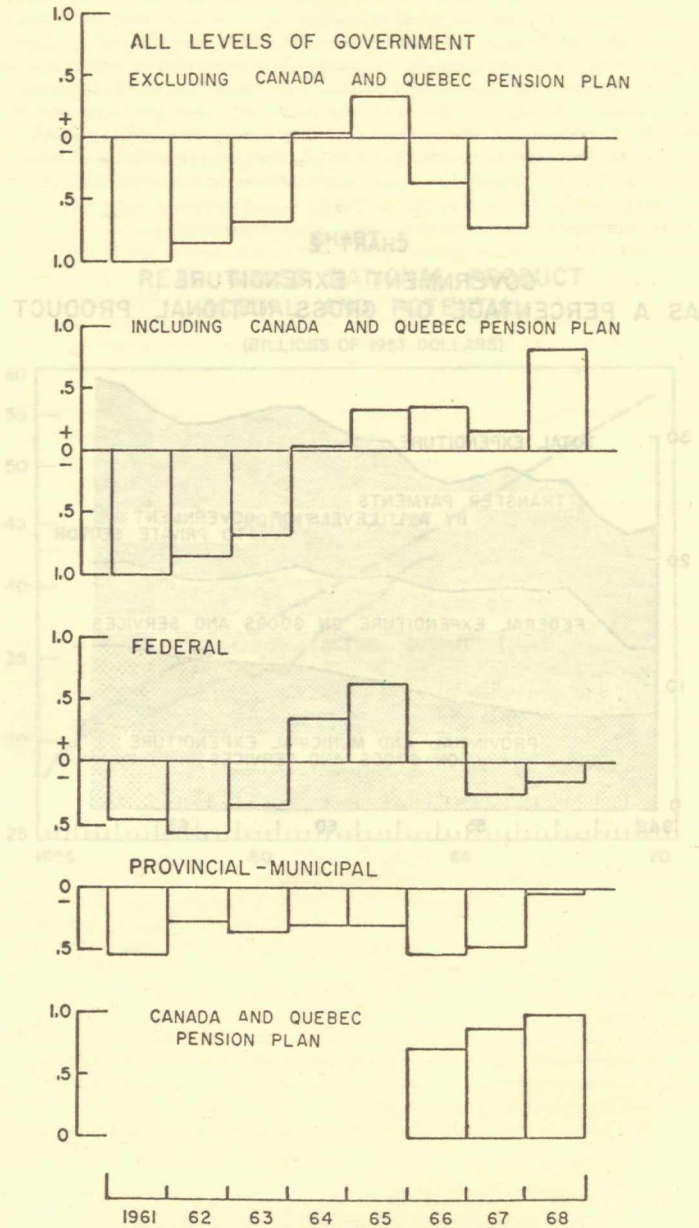
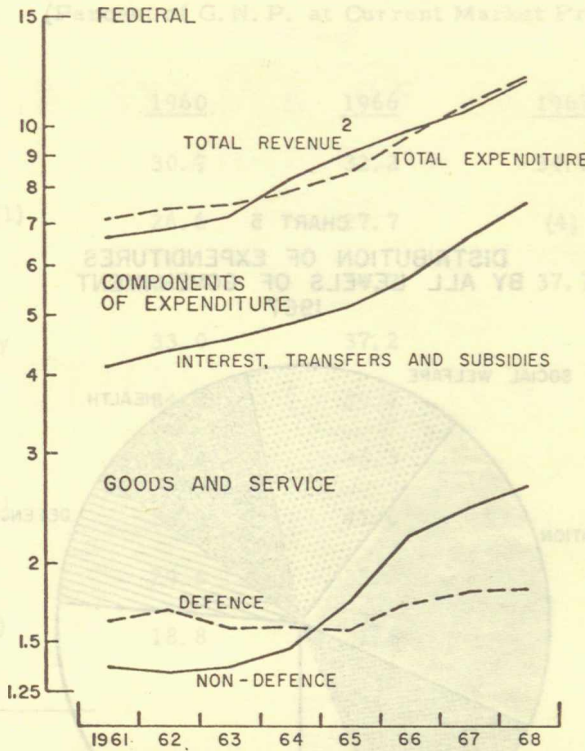
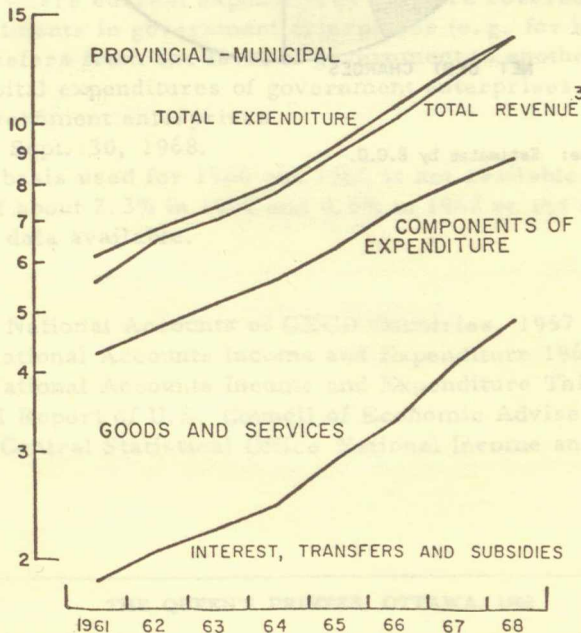




CHART 4  
 GOVERNMENT REVENUE AND EXPENDITURE  
 NATIONAL ACCOUNTS BASIS  
 BILLIONS OF DOLLARS



1. Includes intergovernmental transfers  
 2. Excludes C.P.P.

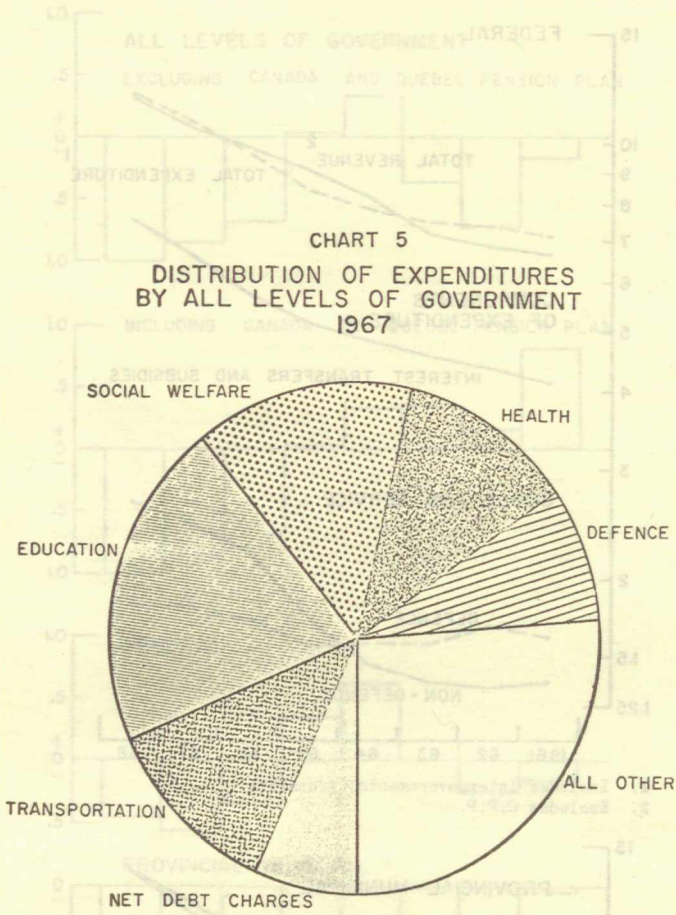


3. Includes intergovernmental transfers but excludes CPP/QPP.

Sources: OECD National Accounts of OECD Countries 1957-1966;  
 DBS National Accounts Income and Expenditure 1967;  
 DBS National Accounts Income and Expenditure Third Quarter 1968;  
 Annual Report of the Economic Advisers, January 1969;  
 U.K. Central Statistical Office, National Income and Expenditure 1966.

March 14, 1969

CHART 5  
DISTRIBUTION OF EXPENDITURES  
BY ALL LEVELS OF GOVERNMENT  
1967



Source: Estimates by E.C.C.



## APPENDIX B

TOTAL EXPENDITURE (incl. TRANSFER PAYMENTS)  
OF ALL LEVELS OF GOVERNMENT\*

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(Percent of G. N. P. at Current Market Prices)

	<u>1960</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Canada	30.9	32.2	34.1	34.7 <sup>(3)</sup>
United States <sup>(1)</sup>	26.6	27.7	(4)	(4)
Britain	31.2	34.7	37.7	
West Germany	33.0	37.2		
France	34.2	39.7		
Italy	31.4	35.3		
Netherlands <sup>(2)</sup>	34.3	41.6		
Sweden <sup>(2)</sup>	29.5	35.2		
Switzerland <sup>(2)</sup>	18.8	21.5		

\* Includes government capital expenditures (except for Sweden and Switzerland where current expenditures only are covered). Excludes loans to and investments in government enterprises (e. g. for housing, farm credit, etc.). Transfers from one level of government to another are eliminated.

(1) Includes capital expenditures of government enterprises.

(2) Includes government enterprises.

(3) Year ending Sept. 30, 1968.

(4) Data on the basis used for 1960 and 1966 is not available but there were increases of about 2.3% in 1967 and 0.5% in 1968 on the most closely comparable data available.

Professor Claude B. Ferguson, Department of Economics,  
University of Western Ontario

Sources: OECD National Accounts of OECD Countries, 1957 - 1966.  
DBS National Accounts Income and Expenditure 1967.  
DBS National Accounts Income and Expenditure Third Quarter 1968.  
Annual Report of U.S. Council of Economic Advisers, January 1969.  
U. K. Central Statistical Office National Income and Expenditure 1968.

March 14, 1969







First Session—Twenty-eighth Parliament

1968-69

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

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The Honourable T. D'ARCY LEONARD, *Chairman*

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No. 10

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THURSDAY, MAY 22nd, 1969

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*Fifth Proceedings on The Estimates*

laid before Parliament for the fiscal year ending 31st March, 1970.

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WITNESS:

Professor Claude E. Forget, Department of Economics,  
University of Montreal.

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APPENDIX:

"A"—Brief submitted by Professor Forget.



First Session—Twenty-eighth Parliament

1968-69

# THE SENATE OF CANADA PROCEEDINGS

## THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Beaubien	Hays	McLean
Benidickson	Isnor	Nichol
Bourget	Irvine	Paterson
Bourque	Kinley	Pearson
Desruisseaux	Laird	Phillips ( <i>Rigaud</i> )
Dessureault	Leonard	Phillips ( <i>Prince</i> )
Everett	MacDonald ( <i>Queens</i> )	O'Leary ( <i>Antigonish-</i> <i>Guysborough</i> )
*Flynn	*Martin	O'Leary ( <i>Carleton</i> )
Fournier ( <i>Madawaska-</i> <i>Restigouche</i> )	Methot	Sparrow
Gelinas	Molson	Walker—(30).
Grosart	McDonald	

\**Ex officio* members: Flynn and Martin

(Quorum 7)

THURSDAY, MAY 22nd, 1969

Fifth Proceedings on The Estimates

laid before Parliament for the fiscal year ending 31st March, 1970.

WITNESS:

Professor Claude E. Forget, Department of Economics,  
University of Montreal.

APPENDIX:

"A"—Brief submitted by Professor Forget.



# MINUTES OF PROCEEDINGS

THURSDAY, May 22, 1969.

(13)

## ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, February 12th, 1969:

“With leave of the senate,

The Honourable Senator McDonald, moved, seconded by the Honourable Senator Langlois:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, in advance of Bills based upon the said Estimates reaching the Senate; and

That the Committee have power to engage the services of such counsel and technical, clerical and other personnel as may be necessary for the purpose of the inquiry; and

That the Committee have power to sit during adjournments of the Senate.

The question being put on the motion, it was—  
Resolved in the affirmative.”

ROBERT FORTIER,  
*Clerk of the Senate.*





THE STANDING COMMITTEE ON NATIONAL FINANCE

MINUTES OF PROCEEDINGS

EVIDENCE

THURSDAY, May 22, 1969.

(13)

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10.00 a.m.

*Present:* The Honourable Senators Leonard (*Chairman*), Beaubien, Benidickson, Desruisseaux, Everett, Grosart, Isnor, Irvine, Kinley, Laird, MacDonald (*Queens*), Methot, Molson, McDonald, McLean, Paterson, Phillips (*Rigaud*) and O'Leary (*Antigonish-Guysborough*)—(18).

*In attendance:* E. Thomas Houston, Research Assistant.

The Committee proceeded to *further* consideration of the Estimates, ending March 31st, 1969.

*The following witness was heard:*

Professor Claude E. Forget, Department of Economics, University of Montreal.

*Resolved*—that Professor Forget's brief be printed as Appendix "A" to these proceedings.

At 11.55 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
Clerk of the Committee.





## THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

### EVIDENCE

Ottawa, Thursday, May 22, 1969

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, met this day at 10 a.m.

**Senator T. D'Arcy Leonard (Chairman):** In the Chair.

**The Chairman:** Honourable senators, it is 10 o'clock and we have a quorum. We are honoured today to have, as our witness, Professor Forget of the University of Montreal. I think you will be interested in a few notes and remarks about his career.

Professor Forget studied law at the University of Montreal and was admitted to the Bar in 1959. He then went to the London School of Economics and studied economics and public finance from 1959 to 1963. He was a Research Assistant on the staff of the Carter Commission on Taxation and that commission published his study on international tax corporations. He studied economics also at the John Hopkins University and he has been teaching economics and public finance in the Economics Department of the University of Montreal since 1966. He was about to go on leave to occupy the position of Economist for the Private Planning Association of Canada and the Canadian-American Trade Committee, both of which organizations, I think, we are familiar with and both of which are very important and useful.

With that introduction I would like to say to Professor Forget that he is very welcome here and we are honoured to have him. We are looking forward to hearing from him on this subject, particularly from the international aspect of taxation which affects us as Canadians and in our study of the effect of Government expenditures on the economy of Canada.

If there is nothing further, I will ask Professor Forget to proceed. He has prepared a brief and there are copies available. Every senator should have one. Perhaps it might be

easiest if we now have a motion to print the whole brief as an appendix to our proceedings and then the questioning, in case there are any, can take place either afterwards or during the time the brief is being presented.

**Hon. Senators:** Agreed.

**The Chairman:** It is agreed.

*(For text of brief, see Appendix "A")*

**Professor Claude E. Forget, Economics Department, University of Montreal:** Thank you, Mr. Chairman and senators. First, I would like to express my thanks for being given this opportunity to make myself heard by your committee. I would also like to apologize for not having been in a position to send this brief beforehand so that you could have had an opportunity to go through it before I appeared.

**The Chairman:** Yes. If any points arise, during the reading, which require explanation, you might indicate that you would answer questions.

**Professor Forget:** There appears to be an increasingly widespread awareness of the income tax differential between Canadians and Americans and to the benefit of the latter. It is therefore important to document that fact with respect to taxpayers in each country and in otherwise similar situations. It is also quite as important to place this tax differential against its proper context so as possibly to understand at least some of the reasons why it has come about and also to gain some insight into possible and plausible remedies. Needless to say, perhaps, only partial remedies can be imagined as circumstances and the history of the two countries prevent and even render undesirable a full offset of their differences. However, the emphasis put on taxation (comprehensively defined to include transfers to persons) is not misplaced as it constitutes a field where, to some extent, differences with the United States can be exploited to Canada's advantage rather than merely suffered.



Canada is not as rich as the United States not only, of course, in terms of total aggregate wealth but also relative to its own much smaller population, that is to say, in terms of income per head. It is not inappropriate to start from this well-known but also frequently forgotten truth. An attempt to provide the same level of public services and collective amenities in both countries would consequently represent a relatively greater use of domestic resources in Canada than it would in the United States of America. As, in addition, some services can only be provided at greater cost per head in Canada due to the relatively lower population density, it is inevitable that a comparable level of amenity in the public sector should entail a still greater relative cost. Yet, this is what has been happening.

Table 1 clearly shows that the combined objectives of a high level of public purchases of goods and services, plus comparatively liberal transfer payments to persons in Canada, have currently entailed a higher aggregate level of government operations than has been the case in the United States. Yet these figures understate the situation in as much as the current level of government exhaustive purchases presently reflects the requirements of a high military budget in connection with the fighting in Viet-Nam. A comparison of civilian expenditures in both countries would show Canada spending relatively more than the United States in relative—of course, not absolute—terms. One other striking fact that emerges from this comparison is the relatively high level of transfers to persons in Canada where such payments represent an expenditure of the order of over one and a half times as big as the comparable U.S. one, both being expressed relative to G.N.P.

I might remark, in regard to Table 1, that it shows the figures for all governments in Canada and similar figures for the United States. The same applies to the figures for transfers to persons—which refers, of course, solely to welfare benefits and pension payments of one kind or another and not to interest on public debts paid to private individuals. All these are expressed in per capita terms in the currency of the respective countries.

In this case, we see that expenditures on goods and services, per capita, in the United States, run definitely higher than they do in Canada; but the reverse is true when we

come to transfers to persons, which are higher in Canada than in the United States.

**Senator Desruisseaux:** When you say "transfers to persons" do you mean old age pensions? What is comprised in it?

**Professor Forget:** It represents payments out of the old age security fund, for instance, in Canada, and family allowances, which are the two main things; and unemployment insurance benefits. In the United States, it represents the old age security benefits, old age and survivors disability insurance, and various payments under public assistance laws.

**Senator Everett:** In the final paragraph on page 2, the first sentence states:

Table 1 clearly shows that the combined objectives of a high level of public purchases of goods and services, plus comparatively liberal transfer payments to persons in Canada, have currently entailed a higher aggregate level of government operations than has been the case in the United States.

Yet when I add the two figures for 1968, goods and services expended in Canada and transfer payments, I seem to come to a lower figure per capita than that in the United States, and about the same percentage of the G.N.P. I cannot relate those two facts.

**Professor Forget:** It is true that in absolute terms the dollar figures will total more in the United States than here, although as a percentage of G.N.P.—the sentence you refer to in the text should have been so qualified as relative to G.N.P.—they are higher, I understand.

**Senator Everett:** Slightly higher in Canada than in the United States?

**Professor Forget:** Yes.

**Senator Phillips (Rigaud):** May I refer at this point to page 3, where you refer to the expenditure on goods and services in Canada and make a comparison with the United States. Does it include the expenditure in the United States on Vietnam?

**Professor Forget:** The United States expenditures on goods and services includes all the defence projects.

**Senator Phillips (Rigaud):** I suppose that would account for its higher percentage of the G.N.P.?



**Professor Forget:** Yes. If the defence expenditures in both countries were excluded from the "expenditures on goods and services", the dollar figure in Canada, expressed as per capita, would be lower than the United States.

**Senator Everett:** Could you tell me what the G.N.P. in 1968 in the United States was, roughly?

**Professor Forget:** I could tell you exactly. I have brought these figures with me. The G.N.P. in 1968 of the United States was \$860.6 billion; and the G.N.P. in Canada for the same year was \$67.4 billion.

**Senator Everett:** The Vietnam expenditures, if I recall correctly, are about \$15 billion.

**The Chairman:** They are more than that.

**Professor Forget:** They were running, I think, at close to \$30 billion in the year. Of course, one could divide by roughly 200 million of population to get the per capita sum there. If I were fast enough in arithmetic I could produce the figure.

**Senator Everett:** But I wondered what that would be as a percentage of GNP.

**Professor Forget:** Well, \$30 billion would be about 5 per cent of GNP, I guess. In fact, it would be under 5 per cent.

**The Chairman:** It would be slightly less. It would be 4 per cent.

**Senator Everett:** Three per cent of GNP for Viet Nam would bring expenditures on goods and services in the two countries almost to a comparable level.

**Professor Forget:** In terms of GNP, yes. The big difference is, of course, the transfers to persons which are higher in Canada both in absolute and relative terms.

**Senator Everett:** If you take Viet Nam out, just to deal with goods and services, the percentage of GNP is the same in both countries, relatively.

**Professor Forget:** Roughly.

**Senator Everett:** I think it would be reasonably close. In per capita terms Canada is much lower than the United States, though?

**Professor Forget:** Yes, but, of course, if we excluded the whole defence budget of the two countries, then the civilian part of the whole

government budget would be less in the United States as a percentage of GNP and even in dollar figures.

**The Chairman:** I hope, professor, that you do not mind these interruptions. They do clear the air.

**Senator Phillips (Rigaud):** We stopped the witness at the schedule because we had not seen it before.

**The Chairman:** That is right—to get it explained.

**Professor Forget:** If we now turn to the question of how those services and transfers programs are financed, we may be interested to find out to what extent the differential already inherent in the relatively greater importance of the public sector in the Canadian economy has had its impact softened or else increased as to the tax burden imposed on the income of the personal sector—that is, with respect to individuals and families.

A brief inspection of a few statistics is sufficient to provide convincing evidence that the structure of taxes in Canada and the United States has been such as to minimize the impact through personal income taxes of the relatively more costly government sector in Canada. Tables 5.3 and 5.11 of my study on "International Tax Comparisons" published in 1967 for the Royal Commission on Taxation have been reproduced here as Appendix A, but I will give more detail on them later. We can see that Canada had, by 1961, made far less intensive use of the personal income tax than the United States had. This was true both in terms of the relative importance of the yield of that tax in the total fiscal revenues of all governments in each country: personal income tax receipts accounting for 21-22 per cent of total fiscal receipts in Canada as against 37-38 per cent in the United States, and also in terms of their importance against the background of general economic activity, personal income taxes counting for 4-5 per cent of GNP in Canada as against 7-8 per cent in the United States. The above-mentioned study, and those numbers, refer to the 1955-61 period but recent developments in both countries have not altered the situation to the point of reversing it although the gap has been all but eliminated. In 1966, personal income taxes in Canada produced a yield representing 6.67 per cent of GNP and 25.75 per cent of total government fiscal revenues at all levels.



This increase in the relative importance of personal income taxation in Canada over the last few years is however constrained by the already high level of other taxes in Canada compared to the United States. For instance, in the 1955-61 period, "taxes on outlay" in Canada accounted for 42-47 per cent of all government fiscal revenue and 10-11 per cent of GNP; comparable figures for the United States being 25-26 per cent and 5-6 per cent respectively.

**The Chairman:** When you refer to "taxes on outlay", are these sales taxes?

**Professor Forget:** Yes, these are the aggregate of sales taxes, excise taxes, customs duties, licence permits, motor vehicle licences and all the so-called indirect taxes.

In the more recent past, those percentages have retained their validity for Canada but they are now higher in the United States—respectively 45.5 per cent and 11.8 per cent in Canada and 8.8 per cent and 37.5 per cent in the U.S.A. for 1966. Finally, the burden of corporate taxation in Canada has been over the years closely comparable to what it has been in the United States.

More liberal depreciation rules in the United States, especially when the 7 per cent investment credit was in effect, have tended over the years to reduce the effective rate of tax on corporation profits to a level closely comparable or even below the effective rate in Canada in spite of capital gains exclusion here. An indication of the similarity of the effective rates of tax bearing on corporate profits is seen in the fact that in both countries governments channel in this way into the treasuries between 4 and 5 per cent of their GNP. In 1966, this was down to 3.86 per cent in Canada but was still 4.5 per cent in the United States. But this similarity has quite distinct implications for governments in each country: while the corporate income tax yield provided the U.S. with 19 to 23 per cent of government revenues in the period 1955 to 1961—and that was still valid in 1966 being 19.4 per cent, it only provided Canadian governments with 16-19 per cent of their needs, and this had been further reduced to 14.5 per cent in 1966.

In the foregoing argument, social security contributions were left out of both personal income taxes and total government fiscal receipts. Over the 1955-61 period the differential between Canada and the United States was quite large and consistently to the advan-

tage of the Canadian resident-beneficiary. The following table gives a good summary view of the rapidly evolving situation in this respect.

We have here in the upper part of the table the comparative reliance on personal income tax and social security contributions. Under the heading "Percentage of total fiscal revenue", we have Personal income tax, Social security contribution, and Personal income tax plus Social security contributions all compared for the years 1956, 1961 and 1966 expressed as a total percentage of government at all levels.

I might say that these figures were available to me when I wrote the study to which I have alluded.

We see here that personal income tax in Canada was lower in 1956, as a total, than it was in the United States for the same year. This was still true in 1961 in spite of the increase over the years. By 1966 Canada had still not reached the relative importance of income tax in its revenue system that the United States had given it already in 1961.

In the area of social security contributions we see that the difference is very big indeed, with Canada in 1956 collecting only 3.84 per cent of the total government revenues in this way while in the United States the relevant percentage was already 9.82 per cent. The growth in this percentage has been quite large in the United States and in Canada, too, but still it is not equal in the two countries.

Social security contributions, I might say, are in Canada the taxes or the surtaxes, as it were, that are channeled into the old age security fund and also unemployment insurance contributions by both employees and employers, and, since 1956, the Canada and Quebec pension plan contributions. In the United States we have the employment taxes and payroll taxes that are channeled into the O.A.S.D.I. fund, and also similar payments into state unemployment funds and from 1968, I believe, the hospital insurance tax.

**Senator Phillips (Rigaud):** I am sorry for interrupting again, but should we not keep in mind in studying Table 2 that the United States has a more affluent society so that we must not only consider the comparable figures but also the rates of taxation. If you take Canada in 1961 the personal income tax plus social security contributions amounted to 28.07 while in the United States it was 50.36.



From that one would think that the rates of tax were much lower in Canada than in the United States, but then when we take into consideration the per capita income we realize that that inference cannot be drawn and should not be drawn from this Table 2.

**Professor Forget:** Yes, senator, this is only half the picture. In the second part of the picture we are going to have a closer look at the rates of income tax.

**Senator Molson:** At the top of Table 2 you have a heading which says "Percentage of total fiscal revenue" and below it you have a note which says "total fiscal revenue excludes social security contributions," and yet in the table we are dealing with social security contributions in the second line in each instance.

**Professor Forget:** That is right.

**Senator Molson:** I am just wondering if that could lead to some distortion here.

**Professor Forget:** I believe not. The point is that the bench mark, as it were, is the total fiscal revenues of government excluding social security contributions because this is the area where you find the highest degree of variations among different countries, and the total fiscal revenue is a more stable bench mark than taking the whole fiscal receipts including social security contributions. Perhaps this is not so striking when you compare only the United States and Canada, and it looks somewhat arbitrary, but it is only a kind of a bench mark to get a view of the orders of magnitude. It is a much more normal thing to do when comparing the fiscalities of taxation in Canada with that of, for example, Sweden or Japan.

**The Chairman:** I understand the purpose of the table is to show how much each government is relying on this kind of tax in the raising of its revenues, and it shows what weight it is putting on income tax as compared with sales taxes, so that this indicates that Canada has been relying less heavily relatively speaking than the United States on income tax to get its taxation revenues. Is that right?

**Professor Forget:** That is right. The lower part of the table is free from that possible bias in that we compare the general economic activities of the two countries and the same picture emerges without much difference.

Therefore it can be seen that by no single measurement can it be said that Canada in 1966 had even caught up with the tax effort demanded from U.S. residents by their governments five years previously in terms of income tax, strictly, or social security contributions.

**Senator Everett:** But does not that bring you back to the point made by Senator Phillips that in order to make that statement you would have to relate personal income taxes to personal income, and what you are talking about here is the relative contribution of personal taxes to government expenditures. This paragraph seems to talk about the effect of personal taxes on the individual which is another matter entirely and cannot be related to the figures you have in Table I. At that point you would have to relate them to personal income or per capita income.

**Professor Forget:** This is true, but it is also a fact that other taxes are involved there and presumably they also impinge on the income of Canadians. Perhaps there is an ambiguity in the way it is formulated. The point is that in the structure of taxes Canada relies far less heavily on income tax and social security contributions. But certainly corporate taxes and sale taxes also impinge on family incomes. But we will bring this out, I hope, later on.

To sum up this section, we can say that Canadians expect a high level of provision of public services at least equal to those provided in the United States and, in addition, support comprehensive and expensive programs of transfers to persons. To meet the cost of these services and transfers, they have imposed on themselves an absolutely high burden of taxes on outlay and as high a level of corporate income taxation as the international mobility of capital will bear. In the field of personal income taxation, as well as with regard to social security contributions, they have treated themselves much more leniently than their neighbours to the south have done, at least in the aggregate. Recent changes in the level of personal income taxation and social security contributions—and in particular the Canada and Quebec Pension Plan contributions—have raised the percentage contribution from these sources in Canada to a level closer to the American one, but, as yet, not equal to it. Still, Canada remains less rich than the United States and there exists a question whether



present levels of income taxation in Canada, let alone taxes at a level such as to produce United States-type yields, can be safely maintained unless other compensating changes are made.

In this third section we come to the more specific question of tax rate schedules, and here we will get a picture that is entirely the opposite, as it were, from what we got looking at the aggregate picture. The almost paradoxical nature of the foregoing remarks stands out when we refer to the relevant section of the report of the Royal Commission on taxation in Canada. This document, known as the Carter Report, from the name of its late and regretted chairman, while it recommended increasing the relative importance and progressiveness of the personal income tax also expressed concern for the large differential—of the order of 20 to 25 per cent for many taxpayers—between the taxes borne by individuals and families in the United States and Canada respectively. The taxes were computed on the basis of 1966 tax laws and rates in the two countries for an array of typical individual taxpayers. Tables 11-1 and 11-2 as well as tables H-1, H-5, H-8 and H-9 of appendix H of volume III of the Carter Report have been reproduced here as appendix B. No structural change of importance to our purpose has taken place since that date in either country; there are currently in each country a set of tax surcharges reflecting current anticyclical policy which has not basically altered the relative position of taxpayers on either side of the border.

Then there follows a list which is, I presume, well known of the different tax surcharges in the United States and Canada beginning with the tax surcharge to finance part of the cost of the Vietnam war in the United States, starting April 1st, 1968 at 7½ per cent of the adjusted tax. Then there is the change in rates under the Social Security program in the United States which were changed from the schedule in effect in 1966, and at the same time the levying since the 1st of January, 1968 of a hospital insurance tax on wages or payrolls and of course in Canada the various changes since early 1967.

To quote from appendix H of the Carter Report:

The lower United States taxes result largely from the lower ratio of taxable income to gross income. This lower ratio, in turn, results from the deductibility of items such as mortgage interest, property

taxes, state and local sales taxes and state income taxes as well as from a more liberal definition of what can be claimed as charitable donations, expenses of earning, employment income and other deductions.

Another advantage to married taxpayers under United States laws is provided by the possibility of filing joint returns (which amounts to paying twice the tax on half the aggregate income).

Faced with this situation, the royal commission decided against extending to Canada the two single most important contributing factors of the observed differential, namely income splitting and mortgage interest deductibility. These decisions are well explained in the report and the reasons need not be rehearsed here.

The solution the commission did recommend was as follows:

1. A rate schedule such as to minimize the differential tax on Canadian residents with incomes in the \$8,000 to \$20,000 brackets where the differential had been found to be the greatest in percentage terms.

2. A rate schedule for married couples who would file a joint return different from the rate schedule applicable to an individual's income but having the same effect in reducing the Canada-United States differential.

3. Eventually a tax credit for indirect taxes levied on consumers expenditure.

**Senator Phillips (Rigaud):** Would you explain that one to me, sir? I do not understand No. 3: "Eventually a tax credit for indirect taxes levied on consumers expenditure."

**Professor Forget:** They suggested that there should be a credit given against personal income tax liability in consideration of sales tax paid on consumer expenditure. This credit that would reduce the income tax would be equivalent to what is done in many American States and, of course, at the federal level.

**Senator Beaubien:** Is that the sales tax that you pay when you buy a refrigerator or an automobile? Is there sales tax in the United States?

**Professor Forget:** There is a manufacturers' sales tax and a retailers' sales tax in the United States. The manufacturers' sales tax applies only to a narrow range of products



such as automotive products, tires and gasoline. Basically those taxes go into the highway trust fund to finance the interstate highway system. It is a narrow base tax. The retailers' sales tax at the federal level in the United States only applies to so-called luxury items such as luggage, cosmetics, jewelry, watches, clocks, cameras, sporting equipment and also to electrical appliances for the home, at either 5 or 10 per cent, whether it is more of a luxury or less of a luxury. It is a very narrow tax. Of course, several of the American States also have a retail sales tax.

**Senator Beaubien:** When we have in Quebec 8 per cent?

**Professor Forget:** That is right.

**Senator Beaubien:** We also have federal sales tax at 11 per cent.

**Professor Forget:** Yes. I cannot quite recall what the Carter Commission said as to the applicability of the tax credit but I am almost certain that they meant it to apply to the provincial taxes, although there is a complicated problem there of agreement between the governments, because this is, of course, tantamount to a transfer of revenues between governments.

Perhaps before going further we might look at the tables. I first had in mind computing a whole set of different taxes on sort of representative individuals but I found that, given the very few changes that had taken place in taxation in the two countries over the 1966 to 1969 period, it was hardly worth the trouble to do that, because it would not have changed the picture at all.

We see in Appendix B, which is taken from the report, the very large differential.

**The Chairman:** This is headed: "Appendix B-1, Table 11-1", professor?

**Professor Forget:** That is right. This is based on a computation of taxes payable in the two countries by a family with two children and an income of \$12,000 and, of course, 1966 rates were applied again, but the situation would be much the same today. In the right-hand column we see the various percentage differences and the total income taxes paid by the two families in similar situations in the two countries. We see there that the percentages are quite big and the dollar amounts quite substantial; they range in percentage terms from 15.4 per cent to 25.9 per cent and

in dollar terms they run to something like \$600.

The following tables give for a set of different income levels roughly the same picture in percentage terms. We see that for families with an income between \$8,000 and \$25,000 the American tax is less than the Canadian tax. The second column from the left, showing the situation of a single person with no dependants, using standard deduction, shows a relatively small difference. Of course, in the two right-hand columns we find larger percentage differences due to the fact that a couple can use income splitting, which makes all the difference in their fiscal situation.

**Senator Desruisseaux:** Professor, in Table B-1, what was the reason for excluding the three provinces in Canada? Would you know that?

**Professor Forget:** The problem presumably was to compute the tax only for those provinces levying income tax at the sort of agreed rate. Those levying income tax at a rate above the federal abatement would not be shown so as not to make the table too complicated, except that Saskatchewan is shown separately. My understanding would be that the taxes in those provinces would be even higher and, of course, there is a fortunate fact that in the last issue of the Canadian Tax Journal of April, 1969 Mr. Perry has computed the tax for the \$5,200 per year family—a family of four in all cases—the \$10,400 family and the \$52,000 family. He has computed the tax payable by this family in the different provinces. We see that there are differences there and the provinces that have been included in that table, such as Quebec and Manitoba, stand on opposite sides of the Canadian average figure given in the Carter Report, but, of course, between provinces the differences are far wider than for Canada and the United States.

**The Chairman:** We will see that every member of the committee is supplied with a copy of the *Canadian Tax Journal*. The article is by Dr. Perry, on page 136.

**Senator Beaubien:** This is 1969?

**Professor Forget:** Yes.

Table B-3 in the brief, which is Table H-1 of the Carter Report, volume III, shows the contributing factors to the lower taxes in the United States, because in each case the U.S.



and Canadian taxes are computed using the situation in each country. We have four computations showing what the tax would have been if the Canadian taxpayer had had applied to him the rules and rates applicable to U.S. residents; similarly, in the United States what the tax would have been there if Canadian rates and rules had been applied.

**The Chairman:** May I interrupt there? When you say \$12,000 in the United States and \$12,000 in Canada, is it U.S. \$12,000 in the United States and Canadian \$12,000 in Canada?

**Professor Forget:** Yes. No adjustment has been made for this type of difference. There may also be the fact that salaries are higher in the United States, which even compounds the inequities.

In the left-hand column of Table H-1 we see that deductions allowed under Canadian tax rules amount to \$3,478, whereas the deductions allowed under U.S. tax rules total \$5,166. Of course, the taxable income, which is the difference between gross income and the total of those deductions, is substantial, the taxable income under U.S. law being something like three-quarters of the Canadian one.

**Senator Everett:** What precisely do you mean in the second column by "United States Tax Calculation Using 1966 Canadian Rates"? Is that to demonstrate the deductions?

**Professor Forget:** It is to demonstrate the deductions and also the income-splitting privilege. They simply took the situation of the Canadian taxpayer in that income bracket and applied to it the tax rules applicable in the United States.

**Senator Everett:** And what would happen if those applied?

**Professor Forget:** Yes. For instance, in the United States a man can deduct \$975 in mortgage interest, \$700 in property taxes, \$198 in provincial or state sales tax and \$324 in provincial or state income tax. None of those deductions is allowable in Canada.

Below the taxable income we see the federal income tax, which is \$1,293 in Canada and \$943 in the U.S. This figure stands in about the same relationship as that of taxable income, so the difference in tax between Canadian and American taxpayers is rightly attributed to the difference in deductions and

not to the difference in the rate schedules, because the rate schedules produce about the same sort of percentage taxes. The federal income tax computed there of \$943 reflects the income-splitting privilege. This could have been shown separately, but it is obviously substantial. The Old Age Security tax and all the other Canadian taxes are added, and it produces this very wide disparity between \$1,800 and nearly \$1,400 tax in the two countries.

The same exercise is performed using United States rates but American rules in computing taxable income in the right-hand columns. There we produce about the same taxable income in the two cases, about the same federal income tax, which confirms the point made earlier that the rate schedules are not responsible, as it were, for this differential; it is the tax rules.

Table H-5 gives the income taxes payable in the United States and Canada by a married taxpayer with a wife and two children filing average itemized deductions at different income levels, adding on the state and local income taxes in the United States, the Old Age Security taxes being included for the Canadian total. The differences reappear but for an area of different income brackets. This again confirms the statement that for people in the \$8,000 to nearly \$25,000 bracket the American tax is lower. It is lower all the way through actually, but in percentage terms this difference is greater in the stated bracket.

**Senator Phillips (Rigaud):** Does the schedule not show dramatically one reason for the "brain drain" to the United States in that bracket?

**Professor Forget:** This was the implication inferred, that it was people in that bracket who were most susceptible to being lured away.

**Senator Phillips (Rigaud):** And containing the greatest ability, presumably, at least in the economic system.

**Senator Molson:** Conversely, it limits the ability to tempt back from the United States people in that same bracket because there is this very differential.

**Professor Forget:** I suppose it could be a considerable element or hindrance in doing that.

Table H-8 gives the tax in the single state where taxes are highest in the United States,



in New York State. I suppose this is a relevant comparison, more than Alabama or any other state can be because of its proximity. Even so, the difference still exists to the advantage of the United States taxpayer.

Tables H-8 and H-9 carry over this comparison, including social security payments and so on. I do not know that we need to go in detail over those tables; they are broadly the same facts.

**Senator Grosart:** Why would New York State have the highest taxes? It seems to me to be a contradiction of the relative affluence between Canada and the United States. Is there any reason why the New York State tax is higher than other states?

**Professor Forget:** I could not answer that with any degree of certainty or confidence, I suppose in one way or another the City of New York, with its very heavy welfare role, does contribute to the high tax burden, although this is off the cuff, because I really do not know why they are high. If I may go back to the text on page 10—

**Senator Beaubien:** Professor, I would like to ask, if somebody has an income of, say, \$15,000—it says the New York State taxable income is \$10,200? Where does the \$4,800 go? Is that exempt?

**Dr. Forget:** These are deductions.

**Senator Beaubien:** What kind?

**The Chairman:** Mortgage interests.

**Dr. Forget:** Personal exemptions of \$800 a head and so on.

**Senator McDonald:** They can deduct property taxes.

**Dr. Forget:** Mortgage interest, local and state sales taxes.

**The Chairman:** They are the taxes set out in the earlier table.

**Dr. Forget:** B-3.

**The Chairman:** The various deductions and exemptions. As Professor Forget said, these are the reasons for the differential in the taxes of the two countries—it is the deductions, rather than the rates.

**Dr. Forget:** There is a small difference, of course, in the allowability in certain expenses and costs, such as medical expenditures,

which are also shown in the table. This is just an example. You also have contributions to charities under Canadian tax which amounted to \$328, and under United States tax rules they would amount to \$358, according to that calculation, but those are minor things, of course.

On the commission's own admission, these recommendations, while doing much to alleviate, or even in some cases eliminate, the Canada-U.S. tax differential, were not, in general, sufficient to achieve what could be called complete tax parity between residents of each country. For the reasons pointed out at the beginning of this presentation no amount of fiddling with tax rate schedules is likely to do the job, which is an impossible one. The commission did not estimate the cost of reducing the progressivity of the personal income tax in the middle income range of \$8,000 to \$20,000 but one can guess that given the very large proportion of total income that is to be found there, the cost must be very large indeed, in terms of foregone fiscal receipts. The likelihood of its being adopted in the present juncture appears correspondingly slim.

I myself believe that unless a very critical look is taken at the expenditure side of the Government budget there is precious little that can be done to relieve the Canadian taxpayer of his relatively excessive burden. One area of special concern is to be found in the very high relative level of transfers to persons in Canada. As presently operated, current transfer programs involve a high "excess burden" of taxes that have to be kept at a high level to finance transfers that are eventually paid back to those persons from whom the taxes had been collected to start with. The Family Allowance Program deserves a close scrutiny on this count. The Old Age Pension Fund also could benefit from a revision to reflect the existence of the Canada and Quebec Pension Plan. Universal welfare schemes have a long and honourable history in Canada, but we should pause to reflect on the fact that the United States initiated under the name of the "War on poverty" a more selective system which may turn out to provide a more satisfactory way to overcome the problem of economic insecurity than our own wider, but also "thinner", system.

From another point of view, Canadian insistence on transfer payments is incongruous given our also heavy reliance on



indirect taxation for which no relief is provided—even at the lower end of the income scale—through appropriate tax credit. In the present context a reduction of income tax designed to reduce the Canadian-American tax differential, and thereby favour the “middle income” recipient, would have to be accompanied by an increase in indirect taxation. Instead, a drastic reappraisal of universal welfare measures towards selectivity and the adoption of indirect tax credits for these at the lower levels of income would appear a far more efficient route to lower tax burdens.

IV—Conclusions: Tax-parity between Canada and the United States is a pipe-dream. Public needs appear to have, at the margin, the higher priority and substantial reduction in public purchases of goods and services do not appear likely in the foreseeable future. Even were it not so, it is not sure that it is necessarily desirable to reduce public expenditures in Canada below or even on a par with those in the United States. The level of public services reflect public attitudes towards a type of society which may well constitute—in this respect—a focus of attraction in itself. Nature has not endowed Canada with the climate of southern California but man-made advantages can compensate other disadvantages. No one can say with certainty whether higher taxes is more of a disadvantage or a high level of governmental activity more of an advantage from that point of view.

All developed societies engage in some degree of income redistribution through the taxing and spending activities of the Government. It is increasingly important that this redistribution be done with a minimum of uncalled-for shuffling of money between citizens and governments. It may be time for Canada to reassess its income redistribution mechanism to make sure that those in need of help get it, and as much of it as feasible, while those who do not, do not.

**Hon. Senators.** Hear, hear.

**The Chairman:** Thank you, very much. Now, I am sure that there are questions in your minds. Senator Grosart has a question.

**Senator Grosart.** When you recommend a reversal of the Canadian trend toward universality in welfare schemes, and a tendency towards selectivity, does this mean income tests or means tests, or is there any other way of achieving selectivity?

**Dr. Forget:** This is a complicated question. There has been a lot of discussion on negative income tax schemes, as you know, and in some ways there is a means test built into those schemes, but a means test that is not a means test in the usual sense of the word. If it was feasible to work out a system of that kind, without manipulative machinery that would be too large and difficult to operate, it would seem to offer an answer to the problem. Of course, this is a very technical point which I am not really equipped, at the present time, to deal with.

**Senator Grosart:** The Canadian welfare system is generally more loaded towards universality than, say, Sweden, or the Scandinavian countries, or other countries with a high level of welfare transfer payments.

**Dr. Forget:** I am afraid that I do not know the answer to that question. It would seem to be quite universal in coverage in Canada as compared even to Sweden, but I may be off the track there. I really do not know.

**Senator Phillips (Rigaud):** Speaking for the Quebec senators, I want to say how proud we are that you come from our province. This is a highly instructive brief that you have prepared.

**The Chairman:** As Canadians, we are proud too.

**Senator Phillips (Rigaud):** I would like to ask the professor whether, by any chance, our Prime Minister saw this brief, because of the reference to the curtailment of Government expenditures.

**Dr. Forget:** It is the other way around.

**Senator Phillips (Rigaud):** I do not expect an answer to that question. I want to put a question. From your experience and background is there available today in Canada a way of indicating the brain drain in terms of movement of competent executives, mainly to the United States but to other countries as well, within the last decade? And, as a complement to that question, is there any material indicating the cost to our country of educating those personnel, before we replace it by new immigrants whom we have also to educate? I want to get that into focus for comparison of these income tax rates.

**Professor Forget:** In connection with the first question, there is available quite com-



plete documentation on the movement of skilled personnel between Canada and the United States. The Department of Manpower, I believe, has published studies on this and also, I think, the Canadian Economic Council has done this.

As to the overall cost of labour mobility in Canada, one has to bear in mind that part of this is compensated, and more than compensated, by movements from other countries to Canada, and what we lose in one way we presumably gain in part, or even more in full, from movement from other countries. So the balance is hard to strike there.

**Senator Phillips (Rigaud):** Have you any information on the balance, not in terms of dollars but as to whether we get a reverse flow?

**Professor Forget:** I think the movement of skilled people on the whole has been favourable to Canada in spite of the outflow to the United States.

**The Chairman:** I think we will ask Mr. Hugessen, our research assistant, to see what figures are available through the Department of Manpower and Immigration and possibly through the Bureau of Statistics.

**Senator Phillips (Rigaud):** And they should be incorporated, I should say, Mr. Chairman?

**The Chairman:** We will have it ready at the next meeting.

**Senator McDonald:** I wonder if we could have the gains or losses just between Canada and the United States, as well as the total export or import? I think it would be interesting as to what the situation is between Canada and the United States separately, apart from the situation between Canada and the rest of the world.

**The Chairman:** I think the figures will show that.

**Senator Molson:** The figures published in the last few days about university appointments were quite staggering. In the last year there was an enormous percentage, something like 75 per cent, of appointments to professors which were non-Canadian people. I am not sure of the figures but I was quite staggered by them. Also, the figures produced in respect to those with senior degrees, like Ph.D.'s, employed in Canada, or unable to find employment in Canada, in the last few

days, form part of the overall picture of the brain drain.

**The Chairman:** We will have those figures looked up and have them available for the next meeting.

**Professor Forget:** In connection with the question by Senator Molson, I am aware that there is this problem of university employment and that a movement is on foot among some faculty members in Canada to have a quota put on the hiring of non-Canadians as faculty in Canadian universities.

In the other way around, the movement of skilled personnel has curiously been hampered in the last few months in the case of Canadian-American firms, or firms having operations in both countries, hampering the movement of senior personnel between the two countries on account of United States immigration laws and rules. This presents a problem there.

**Senator Molson:** It is rather difficult in spots, and there are long delays.

**Senator Benidickson:** Has this anything to do with military obligations of United States citizens?

**Professor Forget:** The first half might have something to do with the political situation in the United States and the war in Vietnam and things like that.

I myself know a few individuals who have decided to move away from the United States—persons with Ph.D.'s—for that reason, but I do not know how large that movement is. Of course, in the other way around, the prevention, as it were, or the hindrance put in the way of the movement of senior personnel, such as corporation personnel, is something which relates to the new immigration laws, with Canada losing its privileged status in the eyes of the Canadian Immigration Department and being put on the par with immigrants from Pakistan, for the first time in our history.

**Senator Everett:** You made a very good case which indicates that the burden of personal taxation falls more greatly on Canadian shoulders than on American shoulders. But it seems to me that it is necessary to find out the total burden of taxation, and that the only way you can discover that would be to look at the Government expenditures as opposed to one aspect of taxation, which is personal taxation.



If we look at Government expenditures, on page 3 of your brief, Table 1, we find that in 1968, as percentage of G.N.P., the expenditures in Canada by governments, on both goods and services and transfers, was 30.5; while in the United States it was 29.7. Those figures are roughly comparable, I think, or only eight-tenths of one per cent different. That in terms of dollars may mean several millions or even billions but nevertheless the percentage was roughly comparable. That would indicate to me that if there is this wide disparity in personal income taxes in favour of the United States, there must be an equally wide disparity in outlay taxes in favour of Canadians.

**The Chairman:** In corporation taxes?

**Senator Everett:** I am making the assumption that the professor makes, that the corporation taxes are roughly equal in the two countries.

**Professor Forget:** Yes, they are.

**Senator Everett:** If these are roughly equal, if the burden of personal income taxes falls more heavily on Canadians than on Americans, if the expenditures of both countries as a percentage of G.N.P. are comparable, it seems to me in logic to follow that the outlay taxes must be a greater burden on Americans than on Canadians. Perhaps the burden is not quite as great as this paper indicates?

**Professor Forget:** There is a paradox in this whole situation that, if you look at the aggregate tax revenues of the Governments in both countries, you find that the Canadian seems to be favoured from the point of view of personal income tax. The paradox is that this is not so, when you look at the tax schedules, the tax rate and the tax paid by real people, and not at the aggregate figure.

Reverting to the aggregate figure, personal income taxes are lower as a percentage in Canada than in the United States. This is compensated, not by a lower percentage of revenue coming from outlay taxes but by a higher one. This of course stands to reason, because we have these manufacturers' sales taxes in Canada, which they do not have in the United States or at least do not have to the same extent.

**Professor Forget:** Perhaps we can have a look at the tables that are taken from my study. Of course, they relate to a period that is somewhat far in the past in the sense that

the latest year is 1961, but the figures have not changed all that much in the seven intervening years.

This is Table A-1 for Canada and Table A-2 for the United States. We have here three area figures, three sets of data. The first set gives the absolute amount in dollar terms in millions of Canadian dollars and billions of American dollars, and the breakdown among all different taxes is given. The second set relates to the same figures, but taken as a percentage of total fiscal revenue, excluding social security contributions for the reasons that I have previously alluded to. The lower set refers to taxes as a percentage of GNP. If we look at the personal income tax, which is the first column on the left, we have for Canada very much lower figures in terms of either percentage of government revenue or percentage of GNP.

**Senator Everett:** So then a percentage of GNP is not a good standard on which to judge taxes.

**Professor Forget:** Well, it is and it is not. It depends on what sort of question you are asking. You see, it is really an aggregate and aggregates tend to minimize the differences between individuals in the aggregate. Of course, this is of the essence in comparing the situation of a \$12,000 family to that of a \$6,000 family, which is what we have been doing, you know, in the latter part of the presentation. But, still, the figure has its validity.

**Senator Everett:** This would indicate that personal incomes in Canada, as a percentage of GNP, are markedly lower than personal incomes in the United States, as a percentage of GNP.

**Professor Forget:** No. The difference between the GNP and personal incomes is made up of a number of components, one of which is indirect taxation. This is greater in Canada than it is in the United States. The percentage of GNP represented by personal income would be somewhat smaller in Canada, but not by a great extent.

As we see, the total indirect taxes, or "taxes on outlay" as they are labelled here, amounted in Canada to about 11 per cent of GNP and in the United States to about 5 to 6 per cent of GNP. You can see that in the sixth column from the right in Table A-2.

This confirms the fact, by the way, that indirect taxation is far heavier in Canada



than it is in the United States. The paradox here is that, when we look at aggregate figures, personal income tax seems to be far smaller in Canada; but, when we look at the red schedule, the situation is reversed.

**The Chairman:** You have to consider the mix, do you not? There will be more people at the \$12,000 income in one country compared to the other. There will be more corporations with larger incomes in one country compared to another than therefore there will be more money produced at certain levels in one country compared to another. So you have to consider the mix. The mix all comes into the consideration when you try to analyse these figures.

**Senator Everett:** Yes, when you take personal incomes, for example, and look at that table dealing with personal incomes in all income brackets except for about the first three bottom brackets, the difference is in favour of the United States.

**Professor Forget:** It favours Canada up to \$8,000. Up to \$8,000 it is in favour of Canada slightly, but most taxpayers are in those brackets in Canada.

**Senator Everett:** Dealing with Table B-2, it shows an advantage to Canada up to \$5,000, but then beyond that the advantage shifts to the United States.

**Professor Forget:** Yes.

**Senator Everett:** Well, that seems to be an incongruity. I cannot understand it.

**The Chairman:** The ability to split income is a great factor in this kind of table, of course. As between a husband and wife, to divide a \$12,000 income into two \$6,000 incomes is quite a factor in this whole table.

**Senator Phillips (Rigaud):** And so are the deductions.

**The Chairman:** Yes, and the other deductions must be considered as well.

**Professor Forget:** Apart from that, it would be interesting to find out how much of the taxable income in Canada accrues to taxpayers in the tax brackets where taxes are effectively lower in Canada. I would assume there is a fair percentage of people in Canada who are below the \$8,000 bracket for individuals.

**Senator Everett:** There would be a greater percentage than in the United States.

**Professor Forget:** Without doubt.

**Senator Grosart:** Is there available a set of figures showing the percentage of taxpayers at each income level between the two countries? The percentage in number?

**Professor Forget:** No, there is nothing in this paper. Mind you, this is something very easy to produce, but I don't have the figures here.

**The Chairman:** I will have Mr. Houston see what he can obtain on that, senator.

**Senator Laird:** Professor Forget, have you made any study, or have you arrived at any opinion, of the possible effect of guaranteed annual income on government expenditures, having in mind particularly these items you call transfers to persons?

**Professor Forget:** No, I have not done this type of study. I understand it is being done somewhere. I think that the Canadian Economic Council is looking into this, and there are other bodies looking into it as well. I vaguely remember that the Americans, who have produced the first studies on these questions, reckoned that in their case it would be something like \$3,000 for a family of four in a small-sized city. Now, of course, it is all a matter of where you put the sort of break-even point, you know, of guaranteed income; but, depending on that, I think they find that it could be \$3,000 for a family of four in a small-sized city, or something like that.

The total cost in the United States was something like \$11 billion. I suppose one could take perhaps a tenth or less of that for Canada, because there are potentially great problems that they are concerned with in some of the states, for example, where they have population problems with the Negroes and where the lower end is slightly bigger than our lower end, in relative terms. So it would be roughly \$1 billion in Canada, I suppose.

**Senator Grosart:** If it was a billion dollars, how would that compare with the welfare transfer payments that would be eliminated by that?

**Professor Forget:** I am afraid I did not bring the Canadian Tax Foundation paper on National Finances for the last year, but I understand there is something like \$500 million just for family allowances, or over \$500 million for family allowances.



**The Chairman:** They do not know what percentage of that would be eliminated, though.

**Professor Forget:** We could compare this billion dollars with the total of all transfer payments that would be eliminated, however.

**Senator Phillips (Rigaud):** My impression is that the over-all transfer payments would be about \$3½ billion.

**Professor Forget:** Perhaps I do have some figures on this, come to think of it. Of all transfers that were used to compute those percentages, and I am referring to national accounts data on transfer payments from governments to persons at all levels of government, for 1966 the figure is \$5,047 million; for 1967, \$6,223 million; and for 1968, \$7,194 million, which, of course, is quite a substantial sum for Canada.

**The Chairman:** Does that answer your question, Senator Laird?

**Senator Laird:** Yes, Mr. Chairman.

**Senator Phillips (Rigaud):** When you take municipal and provincial expenditures and compute them by rule of thumb they are about equal to national figures at 3½.

**Senator Desruisseaux:** Professor Forget, in your paper where you refer to the relative weight of taxation on the income of individuals and families in Canada and the United States, we should not of course forget that there is an imbalance in the population. The population of Canada is about one-tenth of that of the United States. I was wondering whether if any such study could be projected into the comparative situation with some of the other countries that are about the size of Canada.

**Professor Forget:** Well, yes. I have done this elsewhere for the study published by the Royal Commission on Taxation, but not dealing strictly with personal income taxes. It was a case of looking at the whole tax structure of 11 countries. Of course there is a whole set of data which I do not have in mind at the moment. It has been done and it is available. We must remember, however, that the size of the country as such is perhaps not too important, but the relative levels of per capita income would be tremendously important. If anything, one would expect from looking at the percentage of GNP devoted to public uses in different countries that

the higher the per capita income, the higher the share that goes to the government because the public service is somewhat akin to luxury goods in that the necessity or demand for them grows with the growth of income. On that account, looking at the two countries we have been dealing with, the share of government of the GNP in Canada might be expected to be somewhat lower than in the United States.

**Senator Desruisseaux:** Could the information be made available to this committee?

**The Chairman:** Senator Desruisseaux, if I may just make clear in my own mind what you would like, it is something like the study that Professor Forget did of the 11 countries for the Carter Commission.

**Senator Desruisseaux:** Yes.

**The Chairman:** Do you have that, Professor Forget?

**Professor Forget:** Yes, but international statistics do need some adjusting. My study covers 11 countries, but it relates to 1961, and these things get older and older every day and you may want something more up to date.

**The Chairman:** We will see what we can get, Senator Desruisseaux, and have it at a later meeting.

**Senator Desruisseaux:** I also have an observation to make in connection with Senator Molson's approach to the situation to non-Canadian professors in Canadian universities. I know that when we get some talent from outside of Canada there are usually some good reasons. However, I wonder if there is any information available as to how many of those coming here eventually become Canadian citizens?

**Professor Forget:** I am afraid I am out of my depth there. I just don't know.

**The Chairman:** Senator Desruisseaux, on that point we will see what we can get from Manpower and Immigration.

The next name on my list is Senator Beaubien.

**Senator Beaubien:** Professor Forget, in calculating the amount of the tax burden borne here and in the United States, are school taxes included?



**Professor Forget:** They are in some cases and not in others. But in this instance where we are looking at individual income taxes, they are not. In my study they are included under the property taxes. They do show up there.

**Senator Beaubien:** Are schools supported in the United States in the same way as they are supported here? In Quebec such taxes have increased fourfold in 8 years and now constitute a very, very big item. Now are the schools down there supported in the same way?

**Professor Forget:** My understanding is that they are.

**Senator Beaubien:** Of course municipalities pay for the schools here.

**Professor Forget:** They have all kinds of school and water and sewage districts in the United States and all kinds of local government districts. I suspect that the schools also get assistance from state governments and in some cases even from the federal government because this is involved in the desegregation program. Of course it is hard to compare property taxes from country to country because assessment ratios vary so greatly; in fact they vary greatly from city to city. But as far as one can discover real property taxes were about the same in the early 1960's in the two countries. Of course this is a very general statement and while it may not be true in all cases it can still be true in the aggregate. Perhaps I could sum up by saying it is very hard to say.

**Senator Everett:** In Tables A-1 and A-2—coming back to the question of personal income—where the personal income tax in Canada is shown as 5.60 per cent of GNP and 8.45 per cent of GNP for the United States, I can understand it shows a greater tax burden in the United States than in Canada. It is the difference in level of per capita income that results in the sort of figures that you have given us for the actual advantage that Americans enjoy in taxes on personal income over Canadians. But it will become just a little clearer for me if you can tell whether there are any similar differences in corporate income taxes. In these tables the corporate income tax in Canada as a percentage of the GNP is 4.27, while in the United States it is 4.36. In that regard they are almost compara-

ble with each other. Now if you break down corporate taxes the way you broke down personal taxes would you find any significant difference in the taxes that corporations pay in Canada as against what they pay in the United States, or would they be roughly comparable?

**Professor Forget:** In this case, it is also a yes and no answer, senator. It all depends on how intensive a corporation is in its use of capital and of course it has a great deal to do with depreciation rules followed in the two countries. In 1963 and up to the recent past, except for a short period when this was suspended in the United States, they had a 7 per cent investment credit. That meant that any corporation making an investment in a particular year could deduct from its tax 7 per cent of the cost of the capital investment it made, and of course this was a substantial abatement from the tax. Now this plus the liberalization of tax lives and the depreciation rules that took place in 1962 purely through administrative action of the American treasury defining a new set of tax lives for corporate assets and manufacturing assets which were considerably shorter than the tax lives used to compute depreciation prior to 1962 and, of course, the 1964 Tax Revenue Act in the United States—the Kennedy tax reduction in 1964. Those three things together looked as if they were going to produce a level of corporate taxation in the United States that would be lower than the Canadian effective corporate tax. This was a reversal from a situation that had endured over the whole post-war period when effective rates of tax on American corporations were higher than corresponding rates for Canadian corporations. Of course, now they have announced that the 7 per cent credit was removed; I do not know the effective date of it. The effect of this would be to make the rates of the two countries very roughly comparable. Of course the nominal rates have been comparable for a number of years, at least as far as the central provinces of Canada are concerned, at about 52 per cent. Of course there is more to it than the nominal rate. In Canada we do not have the capital gains tax. Taking all these things together there is not a substantial difference as far as I can see in the effective rates of taxation.

**Senator Everett:** If that is so then the real reason for the incongruity is to be laid at the



door of the fact that the per capita personal income tax is generally lower in Canada.

**Professor Forget:** Yes; not only is it lower, but we also take a bite at it in a way by using far more intensively indirect taxation in Canada than they do in the United States. There is no paradox there because the aggregate of figures shows exactly what the detailed account would show.

**Senator Everett:** Generally though, because we have a much greater percentage of lower per capita income earners in Canada, we suffer this incongruity.

**Senator Molson:** Mr. Chairman, we have been talking in pretty broad terms and it occurred to me that it might be appropriate to say this: We are talking about brain drain, relative taxation, and relative salaries. Another effect of the difference in the taxation in the middle management level, where the impact of the difference between Canadian rates and American rates is the greatest, is that in fact companies are paying higher, often \$4,000 or \$5,000 a year more, to get an appropriate man to come to this country in the absence of suitable candidates here, which definitely has an effect on the cost of doing business here.

Secondly, that money is being paid in order that he can pay the income tax. The company is laying out the additional money, but it is not in fact getting that benefit. The benefit is passing in taxation really to the federal Government—or 50 per cent of it is.

**Senator Phillips (Rigaud):** I would like to supplement that remark. There seems to be an emphasis generally on taking a position that income tax rates in the lower brackets, affecting so many people, have an important bearing upon this whole question. I do not think we place enough emphasis on the fact that those in the middle brackets are the ones who provide the employment, in addition to the investors who put up the risk capital. In the final analysis it is the risk capital plus executive brains and management that provide employment on a competitive basis, if you have a competitive economy. Unless those two segments of the population are considered and reasonably protected you inevitably end up with lesser employment. The great mass of people who do not pay taxes will keep on not paying taxes, in addition to which they will become unemployed.

We have had that same line of thinking arise in connection with the payment of succession duties and estate taxes. We were told estate taxes were very high, and the minister at one of our meetings said you do not have to worry about it because it affects only five per cent of the people; not the great mass of the people. There was no consideration being given to the question that the very people who through their estates pay the taxes are the ones who in great part are responsible for the general employment level.

So when we see in these schedules the higher tax rates affecting people in the middle brackets it is not merely a disparity affecting these people; it goes to the hard core of our national economy for the reasons I have mentioned.

This is not in the form of a question; this is purely in the form of an expression of view so as to put into balance one of the points that Senator Molson just made.

**Senator Benidickson:** I want to ask Senator Phillips if he would define what he calls the middle income group.

**Senator Phillips (Rigaud):** I would say the middle income group in Canada that is responsible for supporting the investor and providing the national level of employment includes those whose taxable incomes range, roughly speaking, from \$20,000 to \$50,000.

**Senator Grosart:** Professor, in Tables A-1 and A-2 you show in 1961, in the last figure on each page, the percentage of Gross National Product represented by taxes in both the United States and Canada; 27.06 in Canada and 25.64 in the United States, which figures are roughly comparable. You also suggest, I think it is on page 10, that we need to take a critical look at the trend of Government expenditures.

This committee has recommended, as a principle, that total expenditure, of all governments in Canada should not in future in any one year exceed the percentage increase in the Gross National Product. Would you care to comment on the viability of that as a principle of government expenditure and government taxation in future years in relation to your thesis?

**The Chairman:** I do not know whether we went as far as that. I think we said that you hang out a red light when that happens.



**Senator Grosart:** I think it was a recommendation in fairly precise terms by the committee.

**Professor Forget:** Senator, with regard to a rule such as that I would distinguish between the short term and the long term. Certainly a rule such as the one you alluded to—

**Senator Grosart:** Call it a principle, rather than a rule.

**Professor Forget:** Such a principle seems to be quite a sound one, because in the event that from year to year a government tries to increase its share of GNP, risks of inflation are increased. If, of course, the situation is such as to make such a demand by governments on the nation's resources an inflationary demand, then this is a good short term yardstick.

I would suppose over the long term when the GNP of Canada increases faster than the population, when incomes per head increase to a substantial extent, it may be that the Canadian people may want to have more public services and less consumption of private goods. No one can speak for the whole mass of the people. Certainly this has been the case in most western countries since the beginning of the century. I suppose it has all been to the good in the long run. There have been cases in which it has created problems because of the higher increases, but those higher increases have mostly taken place at the outset of a war and been kept on at the same level when the war was finished. In the long run I am not so sure, but as a short-term yardstick to gauge the action of the government it may very well not be the case.

**Senator Grosart:** The increase from 1961 to the present is roughly from 27 per cent to 35 per cent. From the point of view of the total economy is that a healthy or a viable increase?

**Professor Forget:** It becomes very hard to say anything definite about such a widely put question. You may recall that a number of years ago there was a lot of controversy about 25 per cent of GNP being the absolute limit; most countries went above that and did not collapse. No one is quite sure. There must be a limit somewhere but where it is I am afraid I do not know. Certainly in the period you refer to as being one of rapid increase in GNP, with high levels of private demand and export demand, at times it may have been

unwise for governments to proceed as fast as they have done, given the fact that other factors of the economy were also trying to increase their share. This is a question of timing and does not affect the basic point.

**Senator Grosart:** This relates to the problem of the responsibilities any particular government assumes in the realm of public expenditure. Is there any significant difference in the responsibilities assumed by Canadian governments compared with United States governments?

**Professor Forget:** In terms of this rate of increase, you mean?

**Senator Grosart:** No, in terms of the responsibilities they assume for public expenditure. For example, in the United States the federal government assumes a much higher responsibility for their roads than does the federal government here.

**Professor Forget:** In terms of the division between the levels of government? I guess I have the figures here, anyway for those years. There is a breakdown of non-central government revenue being about 35 per cent to 38 per cent in Canada and somewhere between 30 per cent and 35 per cent in the U.S. Therefore, the answer would be that the federal government does assume a slightly larger role within the U.S. but it is only a slightly larger role. It is 65 per cent instead of 60 per cent of total government revenues. Of course, there are transfer payments, so the expenditure picture is not quite the same. I do not know what precise difference that might make, because in both countries the payments go from the central to the state or provincial governments. It is interesting to note that in other countries, which we tend to regard as more highly centralized than ours, from the tax point of view at any rate, the proportion of total taxes channelled into the federal treasury is smaller. Of course, Germany is a federal country and it is surprising how high a percentage of tax revenues go to the Lande, because most of the main taxes are paid to the Lande treasury rather than the federal.

**Senator Beaubien:** Are you taking into account the abatement made by the federal government to the provinces?

**Professor Forget:** Yes.

**Senator Beaubien:** That would make a big difference?



**Professor Forget:** Yes.

**Senator Grosart:** Is there a general relationship in comparison between countries between the state of national affluence, the GNP per capita income, and the total assumption of public responsibilities by government?

**Professor Forget:** Yes, in a very broad way there is a relationship, but, of course, the dispersion, the averages as it were, for each income level is very wide. Looking at the United Nations statistics, with something over 120 countries, in the percentage of GNP represented by government expenditure in each there is a distinct progression in the percentages going up the income scale, as it were. There is no doubt about that. It is not a straight line because in the richest country, the United States, the percentage of government in the U.S. GNP is lower than you could expect it to be if you merely projected the percentage from income levels for each country.

**The Chairman:** I have a question following the lines of what we have been talking about, although it may not be directly pertinent. In *The Economist* of May 10, at page 31, in an article on the United States, the statement is made:

As America's economy moves along the potential output path of four per cent expansion a year, and with reasonably steady prices, the federal tax system generates an increase in tax revenues of about six per cent a year. . .

In other words, even with no change in rates, or methods of taxation, the increased GNP itself produces six per cent of the increase in tax revenues as against a four per cent increase in GNP. Have you any information on that, or do you know anything about whether it would be a comparable situation in Canada?

**Professor Forget:** Yes, I guess it would be, because this is due to the generally higher level of prosperity and higher levels of income, which push people into higher and higher tax brackets. As the schedules are basically the same as far as rates are concerned, we would have the same thing.

**Senator Everett:** I wish to carry on with Senator Phillips' (Rigaud) defence of the executive and administrator in Canada. I

gather you agree with that, for on page 11 you talk about favouring the middle-income recipient. I assume you are talking of roughly the same area?

**Professor Forget:** Yes.

**Senator Everett:** You go on to say:

Instead a drastic reappraisal of universal welfare measures towards selectivity and the adoption of indirect tax credits for these at the lower levels of income could appear a far more efficient route to lower tax burdens.

In earlier parts of the brief you talk about examining the selectivity of the pension fund and the family allowance program. Have you given thought to, or have you any statistics on, how much revenue would be required to end this imbalance between the United States and Canada as it affects the middle-income, or the executive or administrator level of income, how much money we would have to take out to do this?

**Professor Forget:** No, I have not had the opportunity to compute that.

**Senator Everett:** Is it a great amount?

**Professor Forget:** It must be a tremendously great amount because there is a lot of income. There are not a lot of taxpayers in those brackets. There is in relative terms, but the majority perhaps is not in those brackets. As far as income gives the mass of taxable income, there must be quite a bit there. Given the magnitude of the percentage differential it should be quite a substantial amount. I was sorry to learn that the Carter Commission did not explicitly state the cost of this aspect of its suggested reform of the tax system, but it must be substantial. If one had the percentage breakdown of income taxes in all brackets, of course, one could roughly estimate it.

**The Chairman:** Are there any questions?

**Senator Phillips (Rigaud):** Professor Forget, I am the disciple of Senator Grosart on this question of restricting national expenditures, having regard to GNP. The question is, with your expertise, are you aware of any country that has attempted to curb and curtail its expenditures by a guideline of some kind, based upon the previous fiscal year or do all governments just blithely go along paying no attention to past year's experience?



**Professor Forget:** To be very specific, I do not know of any particular instance of that, but I suppose that countries which have attempted a national four- or five-year plan and have had to make a decision as to how the public sector would evolve, as compared to the private sector, this would be done.

**Senator Phillips (Rigaud):** Would you support a policy such as that? I know we are getting into the realm of political considerations, but still confining ourselves to the highly expertise concept. Would you not think that it is worth an experiment in Canada for a five-year period to deliberately lay down a rule—I am speaking, of course, not of a national crisis, such as war—whereby Government would actually be forced by the statutes to handle its expenditures in balancing its budgets in relationship to the GNP of the previous year?

**Professor Forget:** There is a rule, senator, in the United States of that degree of rigidity, as a ceiling of the national debt. This is not a too happy parallel to draw, because the ceiling on the national debt is raised whenever there is need to raise it. On the other hand, how would the Government face to the prospect of committing itself to the next five years in public on a question like this? I do not know. Perhaps it would be unwise if there should develop a tremendous drop in exports. After all, the prosperity that we now enjoy in Canada has been buoyed up to an unknown extent by the prosperity in the United States and this, of course, has something to do with the military operations and how far production in the United States has been diverted to Canadian plants and things like that. How are we to know that, come the settlement in Vietnam, our exports will not drop or stand still, which is almost as bad and in that case, of course, Government would be, I think, compelled to look after the

domestic situation if that meant an increase in Government expenditures.

**Senator Phillips (Rigaud):** Has any important trading country in the world attempted to guide itself in some form?

**Professor Forget:** The Swedish Government had, for a long time—during the war years in which they were not formally involved—worked out a budget of principle that was recorded on the span of a number of years, maybe five or seven, and they tried to balance the budget over a cycle. They gave it up, because, of course, you have to foresee what the level of everything will be in the future years in order to make this work and if you have your forecasts wrong, which often turns out to be the case, then your whole plan is upset and finally you work very much as if you had no plan at all.

**Senator Phillips (Rigaud):** Thank you.

**Senator Grosart:** In view of Senator Phillips' remark, that he was a disciple of mine, for the record I will say that I think we are both disciples of Senator Leonard.

**The Chairman:** Heaven help you. Are there any other questions? If there are no further questions, I am sure that I am expressing the views of all of you and I say a very hearty word of thanks to Professor Forget. He has been very helpful to us and I am sure that when we come to the drafting of the report we will appreciate having a record of what he has said, as being a very helpful part of our report. Thank you very much.

Next Thursday, Professor Neufeld will be back with us to complete the examination he started in March. He will have some further information. I think we can look forward to hearing him.

The committee adjourned.





## APPENDIX "A"

The relative weight of taxation on the incomes of  
individuals and families in Canada and the United States

I - Introduction.

There appears to be an increasingly widespread awareness of the income tax differential between Canadians and Americans and to the benefit of the latter. It is therefore important to document that fact with respect to taxpayers in each country and in otherwise similar situations. It is also quite as important to place this tax differential against its proper context so as to possibly understand at least some of the reasons why it has come about and also to gain some insight into possible and plausible remedies. Needless to say, perhaps, only partial remedies can be imagined as circumstances and the history of the two countries prevent and even render undesirable a full offset of their differences. However the emphasis put on taxation (comprehensively defined to include transfers to persons) is not misplaced as it constitutes a field where, to some extent, differences with the United States can be exploited to Canada's advantage rather than merely suffered.

II - The background.

Canada is not as rich as the United States not only, of course, in terms of total aggregate wealth but also relative to its own much smaller population, that is to say, in terms of income per head. It is not inappropriate to start from this well-known but also frequently forgotten truth. An attempt to provide the same level of public services

and collective amenities in both countries would consequently represent a relatively greater use of domestic resources in Canada than it would in the United States of America. As, in addition, some services can only be provided at greater cost per head in Canada due to the relatively lower population density; it is inevitable that a comparable level of amenity in the public sector should entail a still greater relative cost. Yet, this is what has been happening.

Table 1 clearly shows that the combined objectives of a high level of public purchases of goods and services plus comparatively liberal transfer payments to persons in Canada have currently entailed a higher aggregate level of government operations than has been the case in the United States. Yet these figures understate the situation in as much as the current level of government exhaustive purchases presently reflect the requirements of a high military budget in connection with the fighting in Viet-Nam. A comparison of civilian expenditures in both countries would show Canada spending relatively more than the United States in relative of course - not absolute - terms. One other striking fact that emerges from this comparison is the relatively high level of transfers to persons in Canada where such payments represent an expenditure of the order of over one and a half times as big as the comparable U.S. one, both being expressed relative to G.N.P.

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TABLE 1: Comparative importance of exhaustive expenditures and transfers to persons by governments.

<u>CANADA</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>
Expenditure on goods and services			
a) per capita	\$564.	\$607.	\$643.
b) as a percentage of GNP	19.4%	19.9%	19.8%
Transfers to persons <sup>(2)</sup>			
a) per capita	\$252.	\$305.	\$347.
b) as a percentage of GNP	8.7%	10.0%	10.7%
<u>UNITED STATES</u>			
Expenditures on goods and services			
a) per capita <sup>(2)</sup>	\$783.6	\$895.9	\$980.4
b) as a percentage of GNP	20.8%	22.6%	22.9%
Transfers to persons <sup>(1)</sup>			
a) per capita	\$226.	\$260.	\$291.
b) as a percentage of GNP	6.0%	6.6%	6.8%

SOURCES: DBS Natural Accounts - Income and Expenditures and Statistical Review.

U.S. Department of Commerce "Survey of Current Business."

NOTES (1) Excludes interest on the public debts of governments

(2) Dollar figures are given in each country's currency.

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If we now turn to the question as to how those services and transfers programs are financed, we may be interested to find out to what extent the differential already inherent in the relatively greater importance of the public sector in the Canadian economy has had its impact softened or else increased as to the "tax burden" imposed on the income of personal sector (individuals and families).

A brief inspection of a few statistics is sufficient to provide convincing evidence that the structure of taxes in Canada and the United States has been such as to minimize the impact though personal income taxes of the relatively more costly government sector in Canada. Tables 5.3 and 5.11 of my study on "International Tax Comparisons" published in 1967 for the Royal Commission on Taxation (reproduced here as appendix A), we can see that Canada had made by 1961, far less intensive use of the personal income tax than the United States had. This was true both in terms of the relative importance of the yield of that tax in the total fiscal revenues of all governments in each country: personal income tax receipts accounting for 21-22% of total fiscal receipts in Canada as against 37-38% in the U.S., and also in terms of their importance against the background of general economic activity, personal income taxes counting for 4-5% of G.N.P. in Canada as against 7-8% in the U.S. The above-mentioned study refers to the 1955-61 period but recent developments in both countries have not altered the situation to the point of reversing it although the gap has been all but eliminated. In 1966 personal income taxes in Canada produced a *yield* representing 6.67% of G.N.P. and 25.75% of total government fiscal revenues at all levels.



This increase in the relative importance of personal income taxation in Canada over the last few years is however constrained by the already high level of other taxes in Canada compared to the United States. For instance, in the 1955-61 period "taxes on outlay" in Canada accounted for 42-47% of all government fiscal revenue and 10-11% of G.N.P.; comparable figures for the United States being 25-26% and 5-6% respectively. In the more recent past, those percentages have retained their validity for Canada but they are now higher in the U.S. (respectively 45.5% and 11.8% in Canada and 8.8% and 37.5% in the U.S.A. for 1966). Finally the burden of corporate taxation in Canada has been over the years closely comparable to what it has been in the United States. More liberal depreciation rules in the United States, especially when the 7% investment credit was in effect have tended over the years to reduce the effective rate of tax on corporation profits to a level closely comparable or even below the effective rate in Canada in spite of capital gains exclusion here. An indication of the similarity of the effective rates of tax bearing on corporate profits is seen in the fact that in both countries governments channel in this way into the treasuries between 4 and 5% of their G.N.P. (in 1966, this was down to 3.86% in Canada but was still 4.5% in the U.S.). But this similarity has quite distinct implications for governments in each country: While the corporate income tax yield provided the U.S. with 19 to 23% of government revenues in the period 1955 to 1961 (and 19.4% in 1966), it only provided Canadian governments with 16-19% of their needs (and this had been further reduced to 14.5% in 1966).

In the foregoing argument, social security contributions were left out of both personal income taxes and total government fiscal receipts. Over the 1955-61 period the differential between Canada and the United States was quite large and consistently to the advantage of the Canadian resident-benefici<sup>ary</sup>. The following table gives a good summary view of the rapidly evolving situation in this respect.

TABLE 2: Comparative Reliance on Personal Income Tax and Social Security Contributions

Percentage of total fiscal revenue (1)	1956		1961		1966	
	Canada	U.S.A.	Canada	U.S.A.	Canada	U.S.A.
	Personal income tax	21.33	36.41	22.61	37.28	25.75
Social security contribution.	3.84	9.82	5.41	13.08	9.40	21.6
Personal income tax plus S. Security contributions	25.17	46.23	28.07	50.36	35.15	
<u>As a percentage of G.N.P.</u>						
Personal income tax	5.11	8.02	5.80	8.45	6.67	
Social security contributions	0.92	2.16	1.39	2.97	2.46	5.1
Personal income tax plus S. security contributions	6.03	10.18	7.19	11.42	9.13	

Note: (1) Total fiscal revenue excludes social security contributions.

Therefore it can be seen that by no single measurement can it be said that Canada in 1966 had even caught up with the "tax effort" demanded from U.S. residents by their governments five years previously. This, in spite of a rapid increase in the total of personal income taxes plus social security contributions that took place in Canada over that period.

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To sum up this section, we can say that Canadians expect a high level of provision of public services at least equal to those provided in the United States and, in addition, support comprehensive (and expensive) programs of transfers to persons. To meet the cost of these services and transfers, they have imposed on themselves an absolutely high burden of taxes on outlay and as high a level of corporate income taxation as the international mobility of capital will bear. In the field of personal income taxation (as well as with regard to social security contributions) they have treated themselves much more leniently than their neighbours to the South have done, at least in the aggregate. Recent changes in the level of personal income taxation and social security contributions (in particular the Canada and Quebec Pension Plan contributions) have raised the percentage contribution from these sources in Canada to a level closer to the American one but, as yet, not equal to it. Still, Canada remains less rich than the United States and there exists a question whether present levels of income taxation in Canada - let alone taxes at a level such as to produce US - type yields - can be safely maintained unless other compensating charges are made.

### III- Personal Income tax differentials

The almost paradoxical nature of the foregoing remarks stand out when we refer to the relevant section of the Report of the Royal Commission on taxation in Canada. This document known as the Carter report, by the name of its late and regretted chairman, while it recommends increasing the relative importance (and progressiveness) of the personal income tax (1) also expressed concern for the large differential (of the order of 20 to 25% for many tax payers) between the taxes borne by individuals and families in the United States and Canada respectively.

(1) Report, Vol. II, p. 267.

The taxes were computed on the basics of 1966 tax laws and rates in the two countries for an array of "typical" individual tax papers. Tables 11-1 and 11-2 as well as tables H-1, H-5, H-8 and H-9 of appendix H of Volume III of the Carter Report have been reproduced here as appendix B. No structural change of importance to our purpose has taken place since that date in either country; there are currently in each country a set of tax "surcharges" reflecting current anticyclical policy which has not basically altered the relative position of tax papers on either side of the border:

- a) Effective April 1<sup>st</sup> 1968, a tax surcharge has been added to the American federal income tax at the rate of 7 $\frac{1}{2}$ % of the adjusted tax.
- b) The Social Security contributions under the American O.A.S.D.I. are being increased over a number of years starting on 1<sup>st</sup> January 1968 when the rate went from % of wages to 3.8% going to 4.2% in 1969, 4.6% in 1971 and 5% in 1973. At the same time, on 1<sup>st</sup> January 1968, an Hospital Insurance tax went into effect at a rate of 0.6% of wages for the first 5 years and increasing to 0.9% by 1986.
- c) In Canada, effective 1<sup>st</sup> January 1967, the maximum tax payable under the Old Age Security program was increased from \$120. to \$240.
- d) Effective 1<sup>st</sup> January 1968, and applicable to 1968 and 1969, a "temporary Surtax" of 3% has been imposed in Canada with respect to the federal income tax. Effective 1<sup>st</sup> January 1969 a "social development tax" of 2% of taxable income but limited to a maximum of \$120. is also be imposed by the federal government,



Except for these changes (of roughly the same magnitude and direction in both countries) and for other minor changes in state and provincial income taxes, what could be said in 1966 remains true today.

To quote from Appendix H of the Carter Report:

"The lower United States taxes result largely from the lower ratio of taxable income to gross income. This lower ratio, in turn, results from the deductibility of items such as mortgage interest, property taxes, state and local sales taxes and state income taxes as well as from a more liberal definition of what can be claimed as charitable donations, expenses of earning, employment income and other deductions".

Another advantage to married tax payers under U.S. laws is provided by the possibility of filing Joint returns (which amounts to paying twice the tax on half the aggregate income)

Faced with this situation, the Royal Commission decided against extending to Canada the two single most important contributing factors of the observed differential, namely income splitting and mortgage interest deductibility. These decisions are well explained in the <sup>(1)</sup> Report and the reasons need not be rehearsed here

The solution the Commission did recommend were as follows

- 1° A rate schedule such as to minimize the differential tax on Canadian residents with incomes in the \$8,000 to \$20,000 brackets where the differential had been found to be the greatest in percentage terms.
- 2° A rate schedule for married couples who would file a joint return different from the rate schedule applicable to an individual's income but having the same effect

(1) The Report, Vol. III chapter 10 "The Tax Unit" and Chapter 8 at p.47

in reducing the Canada-U.S. differential.

3<sup>o</sup> Eventually a tax credit for indirect taxes levied on consumers expenditure.

By its own admission, these recommendations while doing much to alleviate or even on some cases eliminate the Canada - U.S. tax differential were not, in general, sufficient to achieve what could be called complete tax parity between residents of each country. For the reasons pointed out at the beginning of this presentation no amount of fiddling with tax rate schedules is likely to do the job which is an impossible one. The Commission did not estimate the cost of reducing the progressivity of the personal income tax in the middle-income Range" of \$8,000 to \$20,000 but one can guess that given the very large proportion of total income that is to be found there, the cost must be very large indeed, in terms foregone<sup>ms</sup> fiscal receipts. The likelihood of its being adopted in the present juncture appears correspondingly slim.

I myself believe that unless a very critical look is taken at the expenditure side of the government budget there is precious little that can be done to relieve the Canadian taxpayers of his relatively excessive burden. One area of special concern is to be found in the very high relative level of transfers to persons in Canada. As presently operated, current transfer programs involve a huge "excess burden" of taxes that have to be kept at a high level to finance transfers that are eventually paid back to these persons from whom the taxes had been collected to start with. The family allowance program deserves a close scrutiny on this count. The old age pension fund also could benefit from a revision to reflect



the existence of the Canada and Quebec Pension Plan. Universal welfare schemes have a long and honorable history in Canada but we should pause to reflect on the fact that the United States initiated under the name of the "War on poverty" a more selective system which may turn out to provide a more satisfactory way to overcome the problem of economic insecurity than our own wider but also "thinner" system.

From another point of view, Canadian insistence on transfer payments is incongruous given our also heavy reliance on indirect taxation for which no relief is provided - even at the lower end of the income scale - though appropriate tax credit. In the present context a reduction of income tax designed to reduce the Canadian American tax differential (and thereby favour "middle-income" recipient) would have to be accompanied by an increase in indirect taxation. Instead a drastic reappraisal of universal welfare measures towards selectivity and the adoption of indirect tax credits for these at the lower levels of income could appear a far more efficient route to lower tax burdens.

IV-Conclusions: Tax-parity between Canada and the United States is a pipe-dream. Public needs appear to have, at the margin, the higher priority and substantial reduction in public purchases of goods and services do not appear likely in the foreseeable future. Even were it not so, it is not sure that it is necessarily desirable to reduce public expenditures in Canada below or even on a par with those in the United States. The level of public services reflect public attitudes towards a type of society which may well constitute- in this respect- a focus of attraction in itself. Nature has not endowed Canada with the climate of Southern California but man-made advantages can compensate other disadvantages. No one can say with certainty whether higher taxes is more of a disadvantage or a high level of governmental activity more of an advantage from that point of view.

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## Standing Senate Committee

All developed societies engage in some degree of income redistribution through the taxing and spending activities of the government. It is increasingly important that this redistribution be done with a minimum of uncalled for shuffling of money between citizens and governments. It may be time for Canada to reassess its income redistribution mechanism to make sure that those in need of help get it and as much of it as feasible while those who don't, don't.

Montréal, May 1969.

Claude E. Forget  
Professor  
Economics Department  
Université de Montréal.



TABLE 3.1  
CANADA

Year	INCOME TAXES				OTHER TAXES				BASED ON OUTPUT						TOTAL TAXES				
	Personal	Corporate	Non-Corporate	Total	Pro-erty Tax	Alcohol	Gift & Inheritance	Of Which Central Govt.	General Sales Tax	Excise Taxes	Alcohol Tax	Motor Vehicle Tax	Custom Duties	Stamp Duties	Various Surtax	Total	Of Which Central Govt.	Of Which Provincial Govt.	Total
1955	1,312.3	1,435.0	66.2	2,813.5	-	710.9	131.6	3,560.0	507.0	995.3	231.8	431.9	431.9	136.8	560.1	5,008.0	1,179.7	6,377.0	6,680.0
1956	1,561.8	1,297.8	76.4	3,036.0	-	816.8	134.2	3,997.0	979.9	1,175.1	262.6	342.7	307.8	128.5	397.1	5,119.7	1,297.1	7,316.7	7,597.7
1957	1,676.1	1,269.9	68.3	3,014.3	-	684.3	134.2	4,098.8	1,232.6	1,134.5	292.2	373.0	358.9	137.7	351.2	5,322.6	1,403.9	7,601.4	7,998.3
1958	1,747.6	1,202.0	61.2	2,910.8	-	1,050.0	128.3	4,044.1	1,334.7	1,122.8	310.8	370.4	366.5	171.1	338.9	5,391.9	1,440.7	7,436.0	7,769.0
1959	1,806.6	1,483.2	73.4	3,363.2	-	1,165.6	134.6	4,674.4	1,252.3	1,095.5	354.3	420.1	325.7	167.6	333.5	5,794.7	1,265.1	6,412.1	6,697.1
1960	2,011.2	1,690.2	88.2	3,799.6	-	1,796.3	135.4	5,102.3	1,636.6	1,068.9	397.0	434.9	491.7	167.6	333.7	5,729.3	1,291.5	6,693.6	6,991.1
1961	2,136.6	1,570.2	112.3	3,819.1	-	1,800.0	130.6	5,269.7	1,619.0	1,406.6	398.4	456.9	497.5	131.5	369.8	6,031.0	1,492.4	6,459.7	6,961.7
1955	20.27	17.00	1.04	39.31	-	11.15	2.17	22.85	13.60	15.61	3.59	4.99	7.21	2.13	5.77	47.17	10.20	100.00	102.98
1956	21.25	19.09	1.04	41.37	-	11.16	1.97	24.60	13.29	15.36	3.69	4.68	6.94	1.75	5.45	45.27	11.73	100.00	105.04
1957	21.21	19.73	0.84	41.78	-	12.09	1.60	26.13	16.11	14.77	3.83	4.99	6.31	2.06	4.59	43.03	13.35	100.00	104.00
1958	20.80	17.50	0.82	39.12	-	11.51	1.72	24.55	17.94	14.97	4.10	5.22	7.67	2.38	4.56	45.61	13.50	100.00	104.21
1959	21.46	17.68	0.87	39.91	-	11.05	1.72	25.22	18.12	15.27	4.21	4.99	7.27	2.21	4.56	44.15	13.59	100.00	105.01
1960	22.25	18.47	0.79	41.51	-	14.29	1.65	26.13	18.09	14.27	4.11	4.27	7.11	1.88	3.56	41.00	17.48	100.00	105.64
1961	22.61	16.61	1.19	40.41	-	14.81	1.59	26.82	16.25	15.73	4.17	4.05	5.66	1.22	3.21	43.13	13.60	100.00	105.41
1955	4.66	4.19	0.24	9.09	-	2.66	0.51	27.42	3.20	3.73	0.93	1.16	1.69	0.20	1.26	11.10	4.34	21.28	24.45
1956	5.11	4.27	0.25	9.63	-	2.67	0.47	23.07	3.23	3.68	0.88	1.12	1.66	0.42	1.20	10.86	4.24	23.93	24.85
1957	5.26	4.73	0.20	10.19	-	2.90	0.59	23.48	3.07	3.50	0.92	1.19	1.75	0.49	1.10	10.22	4.40	24.00	24.96
1958	4.70	3.86	0.19	8.85	-	2.05	0.50	22.99	4.05	3.38	0.95	1.20	1.73	1.48	1.03	10.31	4.41	22.60	23.55
1959	5.20	4.26	0.21	9.67	-	2.15	0.42	23.44	4.29	3.69	1.02	1.21	1.76	0.46	1.10	10.76	4.20	24.19	25.40
1960	5.60	4.59	0.25	10.44	-	3.01	0.40	24.45	4.70	3.87	1.02	1.21	1.77	0.47	0.93	10.41	4.45	24.86	26.26
1961	5.00	4.27	0.31	10.37	-	3.00	0.41	24.59	4.49	4.04	1.07	1.24	1.79	0.49	1.00	11.09	5.03	25.67	27.06

Note: Totals may not add due to rounding.

Standing Senate Committee

TABLE 5.11  
UNITED STATES

AS A PERCENTAGE OF GROSS NATIONAL PRODUCT	HOUSE TAXES					OTHER TAXES					TAXES ON OUTPUT					TOTAL TAXES						
	Personal	Corporate	Non-Allo-able	Gift & Inheri-ance	Estate	Wealth	Prop-erty	Taxes	Total	Of Which Non-Federal Govt. Revenue	General Sales Tax	Tobacco	Alcohol	Motor Vehicle	Customs	Licenses	Taxes	Of Which Non-Federal Govt. Revenue	General Govt.	Social Security	Of Which Non-Federal Govt. Revenue	Total
1955	79.46	38.071	-	40.855	-	11,136	1,152	61,225	13,703	3,020	2,079	3,430	4,599	285	775	5,805	20,791	10,999	89,074	24,700	7,858	89,852
1956	55.795	29.105	-	55.889	-	12,264	1,481	69,574	14,245	3,485	2,485	3,685	5,495	680	844	6,804	24,060	12,299	92,698	27,144	9,095	101,731
1957	57.574	29.559	-	59.833	-	13,668	1,711	75,209	15,157	4,007	2,773	3,804	6,204	738	868	6,405	24,796	13,595	100,665	30,662	9,690	109,715
1958	56.543	24.348	-	57.881	-	13,566	1,760	74,247	13,056	4,206	2,394	3,795	6,268	782	922	6,779	23,996	13,057	99,543	31,083	10,701	110,684
1959	59.713	25.070	-	57.893	-	15,674	1,680	74,737	13,276	4,444	2,298	3,697	6,891	995	946	6,788	26,331	14,799	101,688	24,175	13,018	118,866
1960	54.198	23.100	-	66.278	-	17,136	2,085	85,500	21,695	5,177	2,252	4,105	7,658	1,105	965	7,331	29,180	16,460	113,600	24,145	12,895	129,485
1961	54.931	22.656	-	66.617	-	16,463	2,207	87,877	23,639	5,433	2,063	4,193	8,133	988	995	7,080	30,035	17,327	117,930	31,016	13,453	133,393
1955	56.56	25.01	-	59.56	-	13.05	1.44	74.65	16.70	3.77	2.33	3.74	5.77	0.71	0.94	7.17	25.25	13.11	100.00	30.11	9.54	109.54
1956	36.41	22.86	-	60.27	-	13.28	1.60	75.10	16.56	3.87	2.15	3.98	5.95	0.74	0.91	7.13	24.90	13.38	100.00	29.99	9.82	109.82
1957	37.35	22.54	-	59.89	-	13.66	1.71	75.26	17.15	4.02	2.27	3.82	6.20	0.72	0.87	6.82	24.74	13.90	100.00	30.64	9.68	109.64
1958	36.05	21.54	-	58.19	-	13.63	1.77	74.59	13.14	4.23	2.40	3.74	6.54	0.79	0.74	6.81	25.11	13.89	100.00	28.09	10.75	110.75
1959	38.20	18.47	-	56.78	-	15.51	1.66	73.99	19.17	4.40	2.50	3.88	6.78	0.96	0.94	6.71	26.05	14.64	100.00	28.81	10.90	110.90
1960	37.66	20.15	-	57.81	-	15.00	1.77	74.58	18.98	4.28	2.54	3.58	6.65	0.96	0.79	6.38	25.12	14.56	100.00	28.87	12.08	112.08
1961	37.28	18.22	-	56.50	-	16.00	2.05	74.53	20.99	4.61	2.60	3.55	6.90	0.85	0.81	6.17	25.17	14.70	100.00	24.79	12.08	112.08
1955	7.52	4.72	-	12.29	-	2.81	0.20	15.29	3.45	0.77	0.32	0.87	1.23	0.15	0.19	1.48	5.21	2.76	70.56	6.19	1.96	28.26
1956	8.08	5.86	-	13.28	-	2.92	0.25	16.55	3.68	0.95	0.31	0.86	1.31	0.16	0.20	1.57	3.49	2.99	22.04	6.60	2.16	24.20
1957	8.42	5.08	-	13.50	-	3.08	0.29	16.96	3.86	0.91	0.31	0.86	1.40	0.17	0.20	1.70	3.58	3.04	22.54	6.91	2.17	24.71
1958	8.17	4.80	-	12.98	-	3.26	0.29	16.64	4.05	0.94	0.34	0.83	1.46	0.18	0.20	1.52	3.67	3.10	22.30	7.13	2.40	24.70
1959	8.00	3.66	-	13.65	-	3.54	0.25	15.14	4.00	0.98	0.32	0.80	1.31	0.19	0.20	1.40	3.14	3.06	20.87	7.06	2.28	23.15
1960	8.96	4.58	-	13.14	-	3.41	0.40	16.95	4.30	1.05	0.38	0.81	1.31	0.22	0.18	1.45	3.78	3.86	22.75	7.56	2.74	25.47
1961	8.45	4.56	-	12.81	-	3.65	0.46	16.90	4.56	1.04	0.59	0.81	1.56	0.19	0.18	1.40	3.77	3.53	22.67	7.89	2.97	25.64

Note: Totals may not add due to rounding.



TABLE 11-1

INCOME TAXES PAYABLE BY A FAMILY WITH  
TWO CHILDREN AND INCOME OF \$12,000 IN  
THE UNITED STATES AND IN CANADA  
(1966 RATES)

	<u>United States</u>		<u>Canada</u>	<u>Percentage difference</u>
<u>Typical home owner</u>				
New York State	\$ 1,419	Saskatchewan	\$ 1,914	-25.9
Average for United States	1,318	All provinces other than Saskatchewan, Manitoba and Quebec	1,827	-27.9
<u>Average taxpayer filing itemized deductions</u>				
New York State	1,529	Saskatchewan	1,914	-20.1
Average for United States	1,409	All provinces other than Saskatchewan, Manitoba and Quebec	1,827	-22.9
<u>Average taxpayer using standard deduction</u>				
New York State	1,843	Saskatchewan	2,178	-15.4
Average for United States	1,634	All provinces other than Saskatchewan, Manitoba and Quebec	2,060	-20.7

Note: Income taxes include provincial income taxes and old age security tax in Canada, and average state and local income taxes on the United States. They do not include compulsory contributions to government pension plans in either country. In all cases, the percentage difference is calculated using the Canadian tax figure as base.

Source: Appendix H to this Volume.

## Standing Senate Committee

TABLE 11-2

PERCENTAGE DIFFERENCES BETWEEN  
UNITED STATES AND CANADIAN INCOME TAXES

Assessable Income	Percentage Dif- ference for Single Persons, No Dependants, Using Standard Deduction	Percentage Dif- ference for Married Couples, No Dependants, Using Standard Deduction	Percentage Dif- ference for Family With Two Children, Itemizing Deductions
\$ 1,500	76.5	-	-
2,500	34.8	249.0	-
3,500	16.2	55.4	13.4
5,000	5.2	11.6	18.4
6,500	1.5	1.8	- 18.4
8,000	- 1.3	- 3.7	- 17.3
10,000	- 4.7	- 11.9	- 19.1
12,000	- 5.6	- 15.2	- 22.9
15,000	- 6.5	- 21.5	- 27.3
25,000	- 2.4	- 28.5	- 36.6
40,000	4.5	- 23.7	- 35.0
70,000	7.2	- 14.8	- 28.1
100,000	8.5	- 10.9	- 26.7
200,000	5.3	- 6.6	- 24.3

Note: The percentages shown in this table are calculated so that a "plus" figure shows United States income taxes being higher than Canadian income taxes; a "minus" figure shows United States taxes being lower. In all cases the base of the comparison is the Canadian income tax payable on that income. United States taxes include average state income tax; Canadian taxes include only the lowest provincial income tax. Old age security taxes are included in Canadian tax figures. Compulsory contributions to government pension plans are not included in either United States or Canadian tax figures.

Source: Appendix H to this Volume.



TABLE H-1

## COMPARISON OF INCOME TAXES WHICH WOULD BE PAYABLE UNDER CANADIAN AND UNITED STATES TAX LAWS BY A HOME-OWNING HUSBAND AND WIFE WITH 2 CHILDREN AND INCOME OF \$12,000

	Canadian Tax	United States	United States Tax	United States Tax
	Calculation	Tax Calculation	Calculation Using	Calculation Using
	Using	Using 1966	1966 United States	1966 United States
	1956 Rates	Canadian Rates	Rates and 1965 New	Rates and Average
			York State Rates	1962 State Income
				Tax for All States
Dollars				
Income	12,000	12,000	12,000	12,000
Deductions:				
Personal exemptions	2,600	2,400	2,400	2,400
Medical expenses	136	211	211	211
Contributions to charities	328	358	358	358
Retirement savings premiums and pension contributions	335	-	-	-
Canada Pension Plan contributions	79	-	-	-
Mortgage interest	-	975	975	975
Property taxes	-	700	700	700
Provincial or state sales tax	-	198	198	198
Provincial or state income tax	-	324	245	123
Taxable Income	<u>8,522</u>	<u>6,834</u>	<u>6,913</u>	<u>7,035</u>
Federal income tax	1,293	943	1,173	1,196
Old Age Security tax	120	120	-	-
Provincial income tax	414	324	-	-
State income tax	-	-	245	123
Total Income Taxes	<u>1,827</u>	<u>1,387</u>	<u>1,418</u>	<u>1,319</u>

## Notes:

- Personal exemptions are assumed to be two \$1,000 exemptions and two \$300 exemptions for the Canadian calculation; and four \$600 exemptions for the United States calculations, which assume joint returns to have been filed.
- For the Canadian calculation, medical expenses and contributions to charities are assumed to be the average for all Canadian taxpayers with incomes between \$10,000 and \$15,000 in 1964 with itemized deductions; retirement savings premiums and pension contributions are assumed to be equal to the average for all taxpayers in that income class. These average figures were multiplied by the ratio of \$12,000 to mean income in the class to make them consistent with an income of \$12,000. The data were obtained from Table 2 of 1966 Taxation Statistics: Individual Tax Statistics for 1964, Ottawa; Department of National Revenue, preliminary figures. For the United States calculations, medical expenses and contributions to charities were estimated in the same way from data in Tables 13 and 14 of the *Statistical Abstract of the United States: 1966*; Individual Income Tax Returns, Washington; Internal Revenue Service, 1965.
- Mortgage interest and property taxes are assumed to correspond to what would be paid by the family if it owned a \$25,000 home with a 6½ per cent mortgage of \$15,000 outstanding, and if property taxes were assessed at 70 mills on an assessment equal to 40 per cent of market value.
- Provincial sales taxes are assumed to be the amount deductible without documentation as given by the optional state sales tax tables provided in the United States Federal income tax form (Form 1040 for 1965) for a state with a 5 per cent retail sales tax.
- For the calculations according to United States procedures, but using 1966 Canadian rates, provincial income tax is computed as 24 per cent of the "basic" Federal income tax on taxable income before deducting provincial income tax. "Basic" Federal tax is the Federal income tax before deduction of the 24 per cent provincial tax abatement and of the \$50 tax decrease introduced in 1966.
- New York State income taxes were calculated using 1965 New York State rates on taxable income as defined for Federal income tax purposes, less New York State tax. Average 1965 state income taxes were estimated as in Table H-2.

TABLE H-5

INCOME TAXES PAYABLE IN THE UNITED STATES AND CANADA BY A MARRIED TAXPAYER WITH A WIFE  
AND 2 CHILDREN FILING AVERAGE ITEMIZED DEDUCTIONS AT DIFFERENT INCOME LEVELS  
(1966 RATES)

Income	United States Income Taxes				Canadian Income Taxes			
	Taxable Income	Federal Income Tax	State and Local Income Tax	Total	Taxable Income	Income Tax	Old Age Security Tax	Total
\$ 1,500	-	-	3	3	-	-	-	-
2,500	-	-	23	23	-	-	-	-
3,500	264	37	39	76	530	46	21	67
5,000	1,480	292	56	348	1,912	218	76	294
6,500	2,749	410	68	478	3,345	466	120	586
8,000	4,048	629	86	715	4,706	745	120	865
10,000	5,778	958	107	1,065	6,638	1,196	120	1,316
12,000	7,507	1,286	123	1,409	8,522	1,707	120	1,827
15,000	10,099	1,842	154	1,996	11,354	2,624	120	2,744
25,000	18,774	4,037	247	4,284	20,751	6,633	120	6,758
40,000	31,585	8,498	388	8,886	34,991	13,546	120	13,666
70,000	56,494	20,441	676	21,117	63,653	29,242	120	29,362
100,000	79,815	33,233	912	34,145	92,155	46,451	120	46,571
200,000	157,491	81,924	1,640	83,564	185,720	110,304	120	100,424
350,000	273,964	162,755	3,010	165,765	325,248	212,986	120	213,106
600,000	470,247	300,153	5,206	305,359	559,482	396,635	120	396,755

Note: For both countries, taxable income was calculated by subtracting from income the sum of allowable personal exemptions (\$2,400 in the United States and \$2,600 in Canada) and total itemized deductions presented in Tables H-3 and H-4. All taxes except United States state and local taxes were calculated at 1966 rates. United States state and local taxes were assumed to be the 1962 averages presented in Table H-2. For the United States calculations, it was assumed that joint returns were filed. Canadian income tax is the Federal income tax before deduction of the provincial abatement.



TABLE H-8

INCOME TAXES PAYABLE IN NEW YORK STATE BY A HUSBAND  
AND WIFE WITH 2 DEPENDENT CHILDREN  
CLAIMING ITEMIZED DEDUCTIONS

<u>Income</u>	<u>New York State Taxable Income</u>	<u>New York State Income Tax</u>	<u>Taxable Income for Federal Tax</u>	<u>Federal Income Tax</u>	<u>Total Income Taxes</u>
\$ 1,500	-	-	-	-	-
2,500	-	-	-	-	-
3,500	303	-	303	42	42
5,000	1,536	11	1,525	219	230
6,500	2,817	50	2,767	413	463
8,000	4,134	100	4,034	621	721
10,000	5,885	179	5,706	944	1,123
12,000	7,630	273	7,357	1,256	1,529
15,000	10,253	443	9,810	1,778	2,221
25,000	19,021	1,237	17,784	3,760	4,997
40,000	31,973	2,532	29,441	7,662	10,194
70,000	57,170	5,052	52,118	18,123	23,175
100,000	80,727	7,408	73,319	29,545	36,953
200,000	159,131	15,248	143,883	72,943	88,191
350,000	276,974	27,032	249,942	145,939	172,971
600,000	475,453	46,880	428,573	270,981	317,861

Note: Taxable income for New York State income tax was estimated by subtracting from income the sum of allowable personal exemptions (\$2,600) and average total itemized deductions less average state and local income taxes, presented in Table H-2. New York State income tax was calculated using 1965 rates and credits. Federal income tax was calculated using 1966 rates.

## Standing Senate Committee

TABLE H-9

TOTAL INCOME AND SOCIAL SECURITY TAXES PAYABLE  
IN THE UNITED STATES AND TOTAL INCOME TAX  
AND CANADA PENSION PLAN CONTRIBUTIONS  
PAYABLE IN CANADA  
(1966 RATES)

Income	Single Individual, Claiming Standard Deductions Only		Married Taxpayer With Two Children Claiming Itemized Deductions	
	United States	Canada	United States	Canada
\$ 1,500	153	67	66	16
2,500	372	232	128	34
3,500	605	446	223	119
5,000	937	770	558	373
6,500	1,306	1,097	751	665
8,000	1,643	1,463	992	944
10,000	2,126	2,019	1,342	1,395
12,000	2,718	2,664	1,686	1,906
15,000	3,765	3,809	2,273	2,823
25,000	8,254	8,254	4,561	6,837
40,000	16,607	15,699	9,163	13,745
70,000	35,119	32,589	21,394	29,441
100,000	55,575	51,034	34,422	46,650
200,000	126,287	119,729	83,841	110,503
350,000	232,657	230,924	165,765	213,106
600,000	409,853	428,369	305,359	396,755

Note: Income is assumed to be composed entirely of wages and salaries in computing Canada Pension Plan payments and United States Social Security taxes. United States calculations include average state and local taxes. Canadian income tax is the federal income tax before deduction of the provincial abatement. All amounts except United States state and local taxes were calculated at 1966 rates. United States state and local taxes were assumed to be the 1962 averages presented in Table H-2. Canada Pension Plan contributions are deductible in computing income, but United States Social Security taxes are not.





Michigan Senate Committee

1911

REPORT OF THE SENATE COMMITTEE ON THE  
COMMISSIONERS OF THE LAND OFFICE  
IN RESPONSE TO A RESOLUTION PASSED BY THE SENATE  
MAY 15, 1910

Item	Quantity	Unit Price	Total	Balance
1	100	1.00	100.00	100.00
2	50	2.00	100.00	50.00
3	25	4.00	100.00	25.00
4	10	10.00	100.00	10.00
5	5	20.00	100.00	5.00
6	2	50.00	100.00	2.00
7	1	100.00	100.00	1.00
8	100	1.00	100.00	100.00
9	50	2.00	100.00	50.00
10	25	4.00	100.00	25.00
11	10	10.00	100.00	10.00
12	5	20.00	100.00	5.00
13	2	50.00	100.00	2.00
14	1	100.00	100.00	1.00
15	100	1.00	100.00	100.00
16	50	2.00	100.00	50.00
17	25	4.00	100.00	25.00
18	10	10.00	100.00	10.00
19	5	20.00	100.00	5.00
20	2	50.00	100.00	2.00
21	1	100.00	100.00	1.00
22	100	1.00	100.00	100.00
23	50	2.00	100.00	50.00
24	25	4.00	100.00	25.00
25	10	10.00	100.00	10.00
26	5	20.00	100.00	5.00
27	2	50.00	100.00	2.00
28	1	100.00	100.00	1.00
29	100	1.00	100.00	100.00
30	50	2.00	100.00	50.00
31	25	4.00	100.00	25.00
32	10	10.00	100.00	10.00
33	5	20.00	100.00	5.00
34	2	50.00	100.00	2.00
35	1	100.00	100.00	1.00
36	100	1.00	100.00	100.00
37	50	2.00	100.00	50.00
38	25	4.00	100.00	25.00
39	10	10.00	100.00	10.00
40	5	20.00	100.00	5.00
41	2	50.00	100.00	2.00
42	1	100.00	100.00	1.00
43	100	1.00	100.00	100.00
44	50	2.00	100.00	50.00
45	25	4.00	100.00	25.00
46	10	10.00	100.00	10.00
47	5	20.00	100.00	5.00
48	2	50.00	100.00	2.00
49	1	100.00	100.00	1.00
50	100	1.00	100.00	100.00

Approved: \_\_\_\_\_  
Secretary





First Session—Twenty-eighth Parliament

1968-69

**THE SENATE OF CANADA**

**PROCEEDINGS**

**OF THE**

**STANDING SENATE COMMITTEE**

**ON**

**NATIONAL FINANCE**

The Honourable T. D'ARCY LEONARD, *Chairman*

No. 11

THURSDAY, MAY 29th, 1969

*Sixth Proceedings on The Estimates*

laid before Parliament for the fiscal year ending 31st March, 1970.

WITNESS:

Professor E. P. Neufeld, Department of Economics,  
University of Toronto.

APPENDIX:

"A"—Brief submitted by Professor Neufeld.



First Session—Twenty-eighth Parliament  
1968-69

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

Beaubien	Grosart	McDonald
Benidickson	Hays	McLean
Bourget	Isnor	Nichol
Bourque	Irvine	Paterson
Desruisseaux	Kinley	Pearson
Dessureault	Laird	Phillips ( <i>Rigaud</i> )
Everett	Leonard	Phillips ( <i>Prince</i> )
*Flynn	MacDonald ( <i>Queens</i> )	O'Leary ( <i>Antigonish-</i> <i>Guysborough</i> )
Fournier ( <i>Madawaska-</i> <i>Restigouche</i> )	*Martin	O'Leary ( <i>Carleton</i> ),
Gelinas	Methot	Sparrow
	Molson	Walker—(30).

\**Ex officio members:* Flynn and Martin.

(Quorum 7)

THURSDAY, MAY 28th, 1969

Sixth Proceedings on The Estimates

laid before Parliament for the fiscal year ending 31st March, 1970.

WITNESS:

Professor E. P. Newfeld, Department of Economics,  
University of Toronto.

APPENDIX:

"A"—Brief submitted by Professor Newfeld.



MINUTES OF PROCEEDINGS

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, February 12th, 1969:

"With leave of the Senate.

The Honourable Senator McDonald, moved, seconded by the Honourable Senator Langlois:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, in advance of Bills based upon the said Estimates reaching the Senate; and

That the Committee have power to engage the services of such counsel and technical, clerical and other personnel as may be necessary for the purpose of the inquiry; and

That the Committee have power to sit during adjournments of the Senate.

The question being put on the motion, it was—  
Resolved in the affirmative."

ROBERT FORTIER,  
Clerk of the Senate.





## MINUTES OF PROCEEDINGS

THURSDAY, May 29th, 1969.

(14)

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10:00 a.m. to resume consideration of:

*The Estimates* laid before Parliament for the fiscal year ending March 31st, 1970.

*Present:* The Honourable Senators Leonard (*Chairman*), Beaubien, Bourque, Everett, Grosart, Hays, Isnor, Irvine, Kinley, Molson, McDonald, McLean and Phillips (*Rigaud*). (13)

*Present, but not of the Committee:* The Honourable Senator Smith. (1)

In attendance: E. Thomas Houston, Research Assistant.

The Chairman informed the Committee that a meeting had not yet been arranged for the following week, but that on June 12th, it was expected that Mr. R. B. Bryce would be the witness.

The following witness was heard:

Professor E. P. Neufeld, Department of Economics, University of Toronto.

*Resolved*—That Professor Neufeld's brief be printed as an Appendix to these proceedings.

At 12.20 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
Clerk of the Committee.





## THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

### EVIDENCE

Ottawa, Thursday, May 29, 1969

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, met this day at 10 a.m.

**Senator D'Arcy Leonard** (*Chairman*) in the Chair.

**The Chairman:** Honourable senators, there are a few items I want to mention before I call on our witness for today. You will remember that last week there were three matters arising out of Dr. Forget's evidence that were left for us to follow up. The first was concerned with information from the Department of Manpower on what is commonly called the brain drain, or the movement in and out of Canada. Mr. Houston, of our Research Assistant, has been doing some work on that, with the result that a paper will be ready next week from the Dominion Bureau of Statistics which will be available for us. In that connection also, I might call your attention to the fact that in this week's notice from Government Publications there is an item listed dealing with a special study prepared by the Economic Council of Canada on Immigration and Emigration of professional and skilled manpower during the post-war period. Originally this was published in June, 1965, but it has been reprinted in 1969.

**Senator Phillips (Rigaud):** Has it been brought up to date?

**The Chairman:** I assume it was brought up to date when being reprinted. Now, that might be available to you. In addition, we are having a paper prepared which will cover this information. Then we were to get copies of Dr. Perry's article dealing with the differences in taxation between the various cities in Canada, and these have been circulated to all members of the committee.

There was a third matter also that we were following up, and that was incomes by classes or by sections to show the amount of income earned or received by various people. That,

too, is in the process of preparation at the moment and will be ready next week.

In addition to that, Senator Phillips (Rigaud) called my attention to a very recent publication by the Brookings Institute—a pamphlet on "Politics and Economics of Public Spending". I have received a copy of that and I am in the process of reading it. I do not know whether we can get other copies, but for those who are interested we will try to get copies. As soon as I have finished reading the one I have, I can pass it on.

Honourable senators, no meeting has been arranged for next week. Perhaps I should apologize for that. I had in mind that possibly Dr. Bryce of the Department of Finance might be available, but he is coming to us the following week. The budget will be presented on Tuesday night and he will be busy until then and possibly for a day or two afterwards, but he will be our witness on Thursday, June 12. In the light of what we have been doing and also in the light of what may be contained in the budget next week, his evidence should be very valuable and interesting. It is my thought, although I have not discussed this point with the steering committee or with the full committee, that that should wind up for this session our public hearings, and that we should then formulate or draft a report with the idea of submitting it to the Senate within the week following, that is by June 19, having in mind the publicly announced idea that we might close the session on June 27. Presumably in that last week we will have the appropriation bills, and consequently this committee should report on the estimates before that. That is what I have in mind and if any honourable senators have any suggestions in that connection, I should be glad to hear them.

Honourable senators, I am glad to welcome Professor Neufeld back to this committee, but I need not introduce him again because when he was here before you had the opportunity of meeting him and hearing him. You will recall it was felt there were some matters we would like him particularly to come back for.



Senator Beaubien made the comment at the end of the meeting:

Would it be a terrible imposition to get Professor Neufeld to come back? There is a lot of material here which we would need to digest. Another visit by him would be helpful to us.

And Senator Phillips (Rigaud) suggested something along the same lines. I think there were some questions you felt you wanted further information on.

Therefore, without any further ado, I will ask Professor Neufeld to address us. He is aware of all the matters that were in your minds, and I think that he is prepared to proceed now to answer those questions.

Professor Neufeld, would you proceed?

**Professor E. P. Neufeld, Professor of Economics, University of Toronto:** Mr. Chairman and honourable senators, I am very pleased indeed to have this opportunity of discussing an important area of governmental financial activity with you. At our last meeting there were some questions and, I think, there was some confusion as a result of the fact that my presentation did not include all government revenues and all government expenditures.

In order to avoid confusion in discussions relating to government financial activity, I think it is useful to distinguish clearly between three things: first, government receipts and government expenditures; second, government tax receipts and government non-tax receipts; and, third, government expenditures on goods and services and government transfers, subsidies and capital assistance.

Table I, in the distributed material, shows the various categories of government revenues as a proportion of Gross National Product at Market prices from 1952 to 1968—all government revenues as a proportion of Gross National Product from 1952 to 1968; and Table II shows the various categories of government expenditures on the same basis.

If you examine Table I you will, in fact, see the distinction made between tax revenues and non-tax revenues as far as the government is concerned, and these are expressed as a proportion of Gross National Product: and when we talk about "tax load" we must immediately make sure we are indeed talking about taxes and that we are not talking about non-tax revenues. At the same time, for some purposes it might be

useful to talk about total revenues because some so-called non-tax revenues might, in fact, be in the nature of taxes. Table I shows it both ways. Column 5, entitled "Total Taxes," shows how tax revenues as a proportion of GNP have increased since 1952. It shows that in 1968 taxes, tax revenues, as a proportion of GNP were 28.9 per cent, that in 1960 they were 24 per cent, and that in 1952 they were 23 per cent. Non-tax revenues, as you can see by the second-last column, have also increased faster than GNP, particularly those relating to insurance and pension contributions.

**Senator Beaubien:** What are the other revenues that are not taxes?

**Professor Neufeld:** Investment income—Governments have some funds invested in loans and securities; and also profits from Government corporations.

**Senator Beaubien:** If you cancel that out against the losses on their capital, they have no income.

**Professor Neufeld:** Table I shows those other revenues, the fourth-last column, called "Investment Income," shows profits and interest earned by Government from these various enterprises and accounts; and they are part of the non-tax revenues that are available for the government to spend.

**Senator Beaubien:** The loss on the CBC alone wiped out any tax revenues the government had.

**Professor Neufeld:** I would not want to get into an involved discussion on what is profit and what is loss. For one thing, it would be completely out of my field. However, I would simply say that I accept the government accounts the way they are stated, and these tables are based on the reported government accounts.

**The Chairman:** I assume, for example, that the profits of the Bank of Canada, Polymer Corporation, and so on, come into this investment income, and that the CBC loss would show up under the expenditures on the other side, but that they do not balance off one against the other—they do not charge the Bank of Canada with a loss by some other corporation?

**Professor Neufeld:** No.

**Senator Phillips (Rigaud):** When you speak of government expenditures, do you include municipal government expenditures?



**Professor Neufeld:** Perhaps we can get to government expenditures in one second.

**Senator Phillips (Rigaud):** I was anxious to know.

**Professor Neufeld:** Yes, I do include all government expenditures.

**The Chairman:** The heading of Table I says "(All levels of government)"; and similarly with Table II.

**Professor Neufeld:** The final column of Table I shows total revenues—that is, tax and non-tax revenues—as a proportion of GNP; and it also shows that there has been quite a substantial increase over the last seven or eight years.

**Senator Molson:** Might I ask where the other elements of income for some governments come in—licenses, profits on the liquor business, and so on? Would they be an investment income in this case? I am thinking particularly of provincial and municipal governments. In some cases they would not be taxes, I do not suppose.

**Professor Neufeld:** I think in cases of Crown corporations, which traditionally cast their accounts in an income statement form these amounts would appear under "Investment Income".

**Senator Hays:** Do you mean to say that applies at the municipal level also?

**Senator Molson:** This is all levels.

**Senator Hays:** If a municipality makes money on its electric light system or its water system then that money goes into the general revenue. It is not shown as investment income.

**Senator Molson:** It is not shown as non-tax income?

**Senator Hays:** It was not in the city of which I was the mayor. It just went into the general revenues.

**Senator Molson:** Professor, these are Government accounts, and we are not always just sure where some of these elements go, but perhaps it does not make all that difference.

**Professor Neufeld:** Well, in this sense it does not make all that much difference: it is a relatively small source of funds and, secondly, it has not changed much. In 1960 it constituted three per cent of the GNP. In 1968,

eight years later, it was 3.5 per cent, so it had not changed very much.

Table II relates to Government expenditures, all levels of government. It makes a distinction that I did not make in the tables I presented the other day. It makes a distinction between expenditures on goods and services, and other expenditures. The fifth column shows total expenditures on goods and services as a proportion of GNP and it shows that since 1961 there has been an increase in such expenditures as a proportion of GNP. In 61 it was 19.3 per cent, and in 1968 it was 19.8 per cent.

The significance of this item is that it measures the actual amount of physical resources that are used by the government sector. This is why economists are particularly interested in it. It is a measure of the amount of real resources that government uses.

Now, the columns on the right hand side show other expenditures, including transfer payments in the form of interest on the debt, subsidies, other transfer payments, and capital assistance. It is clear that as a proportion of GNP these other expenditures in the form of transfer payments—that is, payments not involving the use by the government of real resources, but the shifting of income from one group to another—have increased faster than expenditures on goods and services.

The final column, then, shows all expenditures—expenditures on goods and services and other expenditures—as a proportion of GNP. It shows, for example, that in 1961 the proportion was 32.3 per cent of the GNP, and in 1968 it was 34.7 per cent of the GNP. So, it would appear that there has been a general increase in government expenditures and receipts measured in two different ways, as a proportion of GNP, over the last seven or eight years.

International comparisons of government tax levels and revenues are difficult, but a general impression of how Canada compares with the United States may perhaps be seen from the approximate figures in Table III and IV. Table III shows government expenditures divided into expenditures on goods and services and on transfers, subsidies, et cetera, as a proportion of GNP for both Canada and the United States. The period covered there is the calendar year 1968. What it shows is that in Canada, government expenditures on goods and services constitute a smaller proportion of GNP than in the United States. In 1968 the figure for Canada was 20 per cent, and for the United States it was 23 per cent.



However, in contrast to this, in the case of transfers, subsidies, et cetera, Canada spends a distinctly higher proportion. It is 15 per cent for Canada, and 8 per cent for the United States.

Taking the two together it shows that in the year 1968 total government expenditures—that is, expenditures on goods and services plus transfers, subsidies, et cetera—as a proportion of GNP in Canada were 35 per cent, and in the United States they were 31 per cent.

What about the comparison when you look at the revenue side rather than the expenditure side? I had to take the period from June 30, 1966, to June 30, 1967, because those were the most recent figures available to me. Again, I have made the distinction between tax revenues and non-tax revenues for both countries.

Table IV shows that in this period—and I have rounded these off deliberately because they can only be approximations—in Canada tax revenues accounted for 27 per cent of GNP, and in the United States that figure was 26 per cent. That is for the period from June 30, 1966 to June 30, 1967.

Other revenues in Canada were 6 per cent of GNP, and 5 per cent in the United States. So, the total revenues in Canada amounted to 33 per cent of the GNP, and in the United States they amounted to 31 per cent.

Within the context of the limitations of these statistics I would not really want to go much further than to say that the overall tax impact in Canada seems to be about the same as it is in the United States, but it does seem to be the case that Canada has gone further in the direction of using transfer payments than the United States has done. The discrepancy there is sufficiently wide so as to make it clear that in Canada Government transfer payments are distinctly more important than they are in the United States.

Finally, it would seem almost certain, because of the burden of defence expenditures in the United States, that the government sector in the United States uses a larger proportion of the nation's total real resources than is the case in Canada.

**Senator Phillips (Rigaud):** Mr. Chairman, may I put a question to the professor? First, I should like to say that these schedules are extremely revealing, and we are indebted to Professor Neufeld for them.

**The Chairman:** Perhaps I might interrupt to say that I assume we will want these tables published as appendix to the proceedings today.

**Hon. Senators:** Agreed.

**Senator Phillips (Rigaud):** Has there been a study of the reverse flow in terms of income to the Government because of expenditures on goods and services and transfer payments? We speak generally of these expenditures by government as being somewhat troublesome and constituting a drain on the economy. Certainly there is an offset in terms of goods and services on the basis of taxable income to recipients of those goods and services, or purchasers thereof, and in terms of transfer payments of direct benefits to the recipients. Are there any such studies?

**Professor Neufeld:** The approach usually taken is to try to answer the following question, if I could illustrate it this way. If government expenditures increase by such and such an amount, to what extent will total output increase and to what extent will total government revenues increase? There have been fairly sophisticated studies made to give reasonably good answers to these questions.

**Senator Phillips (Rigaud):** Is there any place we could find them, or any indication of them?

**Professor Neufeld:** I think the Canadian Tax Foundation frequently publishes estimates of the governmental financial position. Indeed, it published one just a few days ago. I seem to recall reading it.

**Senator Phillips (Rigaud):** Is that a good book to look at for it, in the national finance dealt with by the Canadian Tax Foundation?

**Professor Neufeld:** Yes. In making their estimate they have to estimate the increased tax revenues that will flow from an increase in output. In other words, they have to begin with a sort of economic forecast, and then they have to assume a certain relationship between increases in economic activity and increases in tax revenues. This is an integral part of almost any forecast of economic activity.

**Senator Phillips (Rigaud):** I should like to put another question under that heading, related to the schedule, as I think and hope. I read today with considerable amazement in the financial pages of *The Globe and Mail* from one of its writers that tax revenues



increase by an amount in excess of the increase in the gross national product. If there is a gross national product increase of six per cent, the estimate is that revenues increase by  $7\frac{1}{2}$  per cent.

**Professor Neufeld:** This is right. This is referred to among economists as the fiscal drag, the fact that we have a kind of tax structure that throws up higher tax revenues than the increase in economic activity that has brought the tax revenue increase about.

**Senator Phillips (Rigaud):** Do you support that?

**Professor Neufeld:** I think it can be supported statistically.

**Senator Phillips (Rigaud):** You say it can be statistically supported?

**Professor Neufeld:** Yes.

**The Chairman:** At our last meeting I called attention to an article in *The Economist* dealing with the United States, which used the figure of a four per cent increase in GNP which with the United States tax system would increase government revenues by six per cent because of the progressive income tax that was coming out of the higher levels of production for the increase in GNP.

**Senator Phillips (Rigaud):** I remember that now.

**Professor Neufeld:** There seems to have begun a sort of parallel movement on the expenditure side in a way, because some expenditures seem to have a built-in progression as well. I think the reason why substantial mistakes have been made in estimating expenditures on the national level in the last few years is because things have happened to increase expenditures substantially more than had been thought possible when projects were introduced.

**Senator Everett:** In a demand pull inflation situation does fiscal drag tend to be deflationary, and could it be justified on that ground?

**Professor Neufeld:** Yes, it does, and it certainly tends to be useful in that sort of environment. For example, right now it is probably rather fortunate that there is such a thing as fiscal drag. Whether or not it is a good or bad thing depends basically on the economic conditions with which you are faced, because sometimes the fiscal drag is so strong that it prevents the economy from moving to full

employment. This was beginning to happen in the United States in the early sixties. The whole reason for the tax decrease in the early sixties in the United States was that fiscal drag was slowing down the acceleration of the economy. Under those circumstances, from an economic point of view fiscal drag was not a good thing. However, under present circumstances, where the economy, particularly in certain regions, is pretty close to a situation of demand pull inflation, fiscal drag does have the advantage of reducing spending at a time when it might become excessive.

**Senator Everett:** If you, as an economist, were running things, would you want a fiscal drag situation, taking into account the short-term problem of demand pull inflation, but also the long-term problem of developing an economy properly? In brief, in your judgment do you think fiscal drag is a good thing or a bad thing?

**Professor Neufeld:** It is a good thing only if it is managed properly, because if simply left to its own devices it might under certain circumstances do a lot of damage. At the same time, assuming that there are competent and intelligent people in the Department of Finance and in government, presumably the minute fiscal drag begins to do harm to the economy there will be changes introduced in the tax rates that will prevent real harm from in fact developing. Assuming good management, then I think fiscal drag is not a bad thing. At the same time, I can envisage fiscal policy operating very satisfactorily without fiscal drag, because, again making the assumption that tax rates will be changed at the right time, you could accelerate or decelerate economic activity even without fiscal drag.

**Senator Grosart:** I should like to ask a question on Table II under the heading "Transfer Payments". In lay thinking transfer payments are often regarded as a total of what are sometimes called welfare payments. Obviously there is an element of goods and services expenditure in the welfare segment. Roughly what would the 10.7 per cent figure for 1968 be if you took the total expenditures in this areas?

**Professor Neufeld:** What would it be in dollars and cents terms?

**Senator Grosart:** Say in percentage? Or, what significant difference would there be in the 10.7 per cent?



**The Chairman:** Let me in any event be clear. You assume that in the 10.7 per cent there is an element of payment for goods and services?

**Senator Grosart:** It would not show here because goods and services are kept separate from this particular column. Let me put it this way. First of all, is there a component of goods and services expenditure in the 10.7 per cent figure.

**Professor Neufeld:** I think the point to remember about this table is that the column headed "Goods and Services Expenditures" relates to expenditures by government on goods and services.

The columns relating to the other expenditures really relate to the transfer of income between parties outside the government sectors. Now, it is true that people that receive those payments are obviously going to use that money for buying goods and services and the people who have to finance those payments are going to buy fewer goods and services, because they have lost income. The important distinction here, I think, is between those government expenditures and goods and services and government expenditures that are not on goods and services. Therefore, with respect to the 10.7 per cent all I can say is that there is not an element of government expenditures on goods and services in it, but it is certainly true that by transferring income about you are likely to do something to national expenditures on goods and services. Here is a simple example that economists often use. Since you have, basically, a progressive tax rate and so you transfer income from higher income people to lower income people and since low income people spend a higher proportion of their income than higher income people, these transfer payments probably, on balance, have the effect of increasing the total expenditures on goods and services.

**Senator Grosart:** My thought is that from the point of view of government expenditure, there is always an element of choice. You can give a family allowance or you can spend more money on school facilities. I am wondering to what extent that reflects in here and to what extent we can take 10.7 as a valid figure, indicating the welfare transfer or the redistribution of income transfer.

**Professor Neufeld:** Well, I think that on a simple plane you can take that figure as a reasonably good one, but I would immediate-

ly have to point out some tricky problems. Some transfer payments are what they are on grounds of administrative efficiency. I get family allowance and I have three children, but what I get in family allowance is taken away on my income tax statement. Another way of doing it would be to just simply stop my family allowance and change my income tax allowances. The result would be that you would show lower transfer payments, yet what has happened? I think a degree of caution must always be exercised in using these transfer payments figures. It is true that they mean something, but I think one has to be rather careful in concluding how much they mean and what exactly they do mean.

**Senator Grosart:** I have a supplementary question. In this whole field of transfer are there any estimates of the magnitude of the net federal Government assumption of constitutional responsibilities in the provincial field? Education is a good example.

**The Chairman:** This would be represented by a transfer to the provinces.

**Senator Grosart:** That is right.

**Professor Neufeld:** There are figures of transfers for the provinces.

**Senator Grosart:** Or transfers to individuals. It could come both ways.

**Professor Neufeld:** I have excluded here, as the footnote to the table indicates, transfer from the federal government to provincial and municipal governments. If I included them I would be double counting. I took them out. But those figures are quite readily available.

**Senator Grosart:** Have you any idea of the magnitude? I suppose there is a question of definition here. For example, federal government funding of research postgraduate education might not be regarded as an assumption of a provincial responsibility?

**Professor Neufeld:** Transfers from the federal Government to the provincial-municipal governments amounted to \$2,452,000 which was about 3.6 per cent of the GNP. It is fairly large.

**Senator Grosart:** Would you say all or a large portion of that transfer was to assist the provinces in carrying out constitutional responsibilities or were some of them just administrative?



**Professor Neufeld:** I have not the details of the kinds of transfers that lie underneath that aggregate total. I better not say anything about them since my impression may be quite wrong.

**Senator Grosart:** The purpose of my question is that I have always been interested in trying to find out what is the actual total percentage or dollars of federal government expenditure on its constitutional responsibilities?

**The Chairman:** My guess is that all the money transferred to the provinces is to help the provinces carry out their constitutional responsibilities.

**Senator Molson:** Mr. Chairman, there is not any great degree of agreement on the beginning and the end of these constitutional responsibilities is there? Is not that one of our great problems, yet both education and health or the grey areas are not in complete agreement.

**The Chairman:** I suppose it is an arguable point, but the fact that expenditures are being made by the provinces would indicate this is their responsibility. Contributions from the federal government, education and health and so on, is to assist them in that. There are other responsibilities, such as the federal government exercises itself on health, for example, but when it transfers funds to the province and things like hospitals, those are provincial responsibilities.

**Senator Grosart:** There might be some doubt about such transfers as the winter works. It would be difficult to say what constitutional responsibility the federal contribution of the winter works program was and it took a constitutional amendment to clear up the situation and the federal Government contribution is to unemployment insurance. This is the kind of thing I am wondering about.

**The Chairman:** I said mine was a guess.

**Senator Isnor:** The question I had in mind was along the similar lines to that proposed by Senator Grosart. I wanted to know, in a broad sense, the definition for the term "transfer", as you used in tables 2 and 3. On table 3 it shows a certain figure 15. In table 2, it shows 10.7, a difference of 4.3. What does that include?

**Professor Neufeld:** No. The figure on Table II is also 15. It is actually 14.9 and I have rounded it off for purposes of Table III to 15.

**Senator Isnor:** Yes, but it shows on Table II, does it not, percentage 10.7.

**Professor Neufeld:** That is transfer payments only. The item on Table III is transfers, subsidies, etc.

**Senator Isnor:** That is what I want to know. Could you give us a wide interpretation of that, what it covers, transfers?

**Professor Neufeld:** Yes. I just wanted to make sure that we understand that the 15 per cent shown on Table III is in fact also shown on Table II.

**Senator Phillips (Rigaud):** It is 14.9.

**Professor Neufeld:** It is 14.9, which I have rounded off to 15. So we are talking about the same items in both of these tables. What are they? They are transfers in the form of interest on the public debt. There are transfers in the form of all the welfare payments, family allowances and so on. There are subsidies in various government schemes, aid to industry or aid to farming and so on—it is not very large—and a very minor item, capital assistance. In general, I think a very great proportion of it is accounted for by various welfare schemes, where you take money from one group and give it to another.

**The Chairman:** Old age payments?

**Senator Isnor:** I think the interest is where we deal with welfare and some of the others.

**The Chairman:** What you would like is the 10.7 per cent broken down to show what makes it up.

**Senator Isnor:** That is right.

**The Chairman:** I think Mr. Houston could probably get that for us, a breakdown of the 10.7. These statistics would be available to Mr. Houston, I think, to separate them as between the various kinds of welfare payments. Is that satisfactory?

**Senator Isnor:** Yes, that would cover what I have in mind. I think Senator Grosart has the same thought.

**Senator Grosart:** Yes, Mr. Chairman. I was going to ask about the .1 in the figure for capital assistance, which seems low if it includes Government funding of hospitals, trans-Canada highways. Is that capital assis-



tance or where does that show, and where do the loans and advances show?

**Professor Neufeld:** The capital assistance item is a very recent item. I must confess, since it is insignificant, I did not examine what lay behind it. It obviously does not include the items you mentioned, or it would be quite a lot larger.

**Senator Hays:** Would it include vocational schools?

**Senator Grosart:** Yes, where could they show?

**Professor Neufeld:** I am trying to find the reference to it.

**The Chairman:** The federal government aid to vocational schools would come under that footnote, which says that this table "excludes transfers from federal government to provincial and municipal governments to avoid double counting."

**Senator Grosart:** On the other hand, all these expenditures are in here. They are excluded statistically only.

**The Chairman:** That is right, but they would be in, represented by the provincial government's expenditures on vocational schools?

**Professor Neufeld:** Yes.

**The Chairman:** And that would amount to the total of both federal and provincial government, and they exclude the federal, otherwise you would be duplicating the figures.

**Senator Grosart:** Even so, .1 is very low, if this capital funding of provincial and federal or municipal is included. If that is so, this is too low to take from them. I am wondering where they would come in. In other words, the heading "goods and services", does it include capital and current expenditure by the Government?

**Professor Neufeld:** Yes, it does.

**Senator Grosart:** Well, that is the answer.

**Senator Hays:** Mr. Chairman, Professor Neufeld, you had a big increase from 1960 to 1968 of 34.7 per cent of the gross national product. Do you have a breakdown on why the increase, or what percentage of this has been due to increased expenditures in so far as education is concerned?

**Professor Neufeld:** Education expenditure increases are one of the huge increases of this period.

**Senator Hays:** Is this responsible for nearly the total increase? Do you have a breakdown on the decreases over the same period, for some government expenditures?

**Professor Neufeld:** I do not have them here. It would require a rather detailed look at the Government accounts—which could be done—in order to isolate quite explicitly which of the many categories of government expenditures over this period have increased and which have decreased. We know, for example, that the relative size of defence expenditures have decreased over this period. At the same time, we know that expenditures on education have increased over the period. Welfare expenditures, because of the introduction of hospitalization schemes, and so on, have increased also. The exact percentage of these increases I do not have here. I do not think that it would be very difficult to get them.

**Senator Hays:** Could that be possible, Mr. Chairman?

**The Chairman:** Yes, we will get Mr. Houston to get that.

**Senator Hays:** I am sure that the total increase was caused by increased education.

**Professor Neufeld:** It was very great.

**The Chairman:** I think that what you can see, Senator Hays, is that, in so far as expenditures on goods and services, which is the kind of expenditure that you are talking about, according to this table, in 1960, totalled 18.7 per cent. They went up to 19.8 per cent, which is about 1 per cent increase. That was more than all contributed to by the municipal and provincial expenditure.

**Senator Hays:** This where the interest occurs?

**The Chairman:** That is right—for education, municipal education went up from 11.1 to 13.1, being a 2 per cent increase. The federal expenditures went down from 7.6 to 6.6, so this shows it is in the field of education and similar provincial and municipal expenditures that the big increase took place.

**Senator Hays:** It would be nice to have a breakdown, to know what the increase costs were, because this can be compared to other



countries, as to the amount that they are spending in education and hospitalization and this sort of thing.

My next question, Professor Neufeld, is this. Is there anybody doing any work on guidelines as to Government expenditures, at the provincial and municipal level? I can probably best explain by an example of hospital beds, for instance, in the Province of Saskatchewan. They have more hospitals beds to the thousand people than any province, or any state in the United States, and they are costing about 130 to 135 in comparison with Ontario, 5.2, I believe. In all of these Government expenditures, I am wondering if there is a guideline or formula where you would say that, for example, in the City of Chicago you have one policeman to 485 people; or in the City of Cincinnati—these figures may not be correct, they may have changed—at one time there was 1 to 700. Or the student-teacher ratio, all the way from 39 to 17.

**The Chairman:** Lower than that.

**Senator Hays:** Yes, I suppose the proper ratio is one to one, or probably even close to 12 teachers to one student. It depends on how far you want to go. But these are the great problems of government expenditure, particularly at the municipal and provincial levels.

If you have one policeman to 750 people, the crime rate rises. It depends on how much crime you want. If you have one policeman to 300 people, you can almost eliminate crime. Somebody has to make the decision.

But these are the things on which most of your costs are based.

**Professor Neufeld:** Senator, you have raised an issue which is probably the most important issue in this matter of government expenditures, because, first of all, there are incredibly few really useful guidelines and criteria. And yet, as we have seen, the government sector has become more and more important. Usually one feels that in the private sector the guidelines governing activity are the ones appearing on the income statement and, therefore, the income statement imposes a degree of discipline.

The trouble is that there is not really the equivalent in the public sector. In other words, there are not the kinds of guidelines you have just now referred to.

I think that one of the most important things that must happen, if we wish to use

our resources efficiently, is the development of useful guidelines and criteria for efficiency that can be applied to the government sector. My impression is that we have gone only a very short distance in this direction, and so, when one looks at the level of government expenditures, say, in 1968, which was very high, one cannot really sit back and feel assured that those expenditures necessarily involved an efficient use of our resources.

For example, it is very difficult to get rid of certain government projects once they are started. Yet one might think that the application of the kind of guidelines you referred to would argue conclusively that one should get rid of them.

I think it is the absence of those criteria and guidelines that makes it possible for obsolete programs to continue on almost forevermore.

**Senator Hays:** In your opinion, how do we resolve these sorts of problems? For instance, in a city of 300,000 people there are about 90,000 children. If you decide to reduce the number of children per classroom by two children, in a city of that size, in which one mill produces about \$500,000, you would be speaking of about one mill in terms of removing two children from each classroom over the whole group.

On the other hand, if you were to drop the number of students per classroom from 35 to 17, you would be speaking about eight or nine mills.

It seems to me that there should be some studies that would help municipal administrators as well as provincial administrators in making decisions with respect to these matters.

**Professor Neufeld:** There should be studies and there should be centralization of the findings of research. But it is too expensive for an individual municipality to do this kind of work. The people who do it competently are quite expensive. Therefore, I think that a way should be found for establishing guides to efficiency or criteria or guidelines for the government sector that would be available to all municipalities.

It is true that not all guidelines would fit a municipalities, but there are a fair number of municipalities in urban areas that have essentially the same problems.

**Senator Hays:** They are really all the same problems. They are pretty generally the same.



**Professor Neufeld:** Some cities might have a different slum problem than other cities; some cities might have a different race problem than other cities; so that there are differences of that kind. But I agree with you that there is a lot that is the same about the various urban areas.

Therefore, one would think that it would be possible to develop criteria of efficiency just the same way as the security analysts establish criteria for efficiency in appraising corporations.

**Senator Hays:** But there is no one doing this at the moment?

**Professor Neufeld:** I don't think there is any serious effort outside the individual government departments. There is, I think, some work being done within Government, but outside Government I think there is not very much done at all in this country at least.

**Senator Grosart:** Some departments of municipal affairs seem to be tackling the problem.

**The Chairman:** There is a Bureau of Municipal Research in Toronto, for example.

**Senator Grosart:** Yes, and such things as equalization of assessment between municipal units are being started.

**Senator McLean:** Mr. Chairman, the Prime Minister made a statement awhile ago about making some changes in the old age pensions and childrens' allowances. Have any ground rules been established for that? Has a study been made of that? Could the Government get back the transfer payments or part of the transfer payments right across Canada? Let us say that the old age pension and childrens allowance were cut off at a certain income level. Would they be better off in their income, holding this money in the Treasury, or do they get it back anyway from transfer payments from income tax?

**Professor Neufeld:** I can only make a guess, but, to take an example, if they stopped giving the family allowance to me and therefore adjusted my tax payments accordingly, the decline in government expenditures might not fall by the same amount as their decline in revenues. But I can see that the outcome, theoretically, could be either way, depending upon the way the adjustments of the family allowance were made. They could either break even or they could take in more or take in less, depending on how they adjusted the scheme.

**Senator McLean:** Is there a study going on on that right now?

**Professor Neufeld:** Not outside Government. I am guessing here, and I really don't think it is very worthwhile for me to say anything, but presumably, since in the last several weeks there have been some references made in public by Government on the matter of family allowances, some studies must be underway to try to assess what the impact would be of changing the basis for family allowances.

I myself used family allowances as an example when I came before you the last time.

**The Chairman:** I think Dr. Smith mentioned something about family allowances, too. It may not have been Dr. Smith, but, at any rate, there was mention of it.

**Senator Everett:** Professor, you talked in your evidence at the last hearing about the fact that we had both demand pull and cost push inflation in Canada at the present time. There is always talk about government having an effect on demand pull inflation, but you don't hear much talk about Government having an effect on cost push inflation.

Now, I think it is clear that in, say the area of government employment, the government would have an effect, as industry does, on cost push inflation. I would like to deal very briefly with the problem of government taxation in so far as if you accept the fact that industry generally passes on the effect of taxes in the price of its goods, you might establish that taxes therefore are inflationary in one respect. So I ask you this question; in dealing with that aspect of government's contribution to cost-push inflation, is it significant in relation to the government's contribution to demand-pull inflation, and should government give consideration to the mix of its taxes or the type of its taxes in order to reduce the effect of taxation on cost-push inflation.

**Professor Neufeld:** I think there is no doubt at all that from time to time government has aggravated the problem of cost-push inflation. I certainly would not believe that the government's impact on inflation is only through demand inflation. From time to time it also works through cost-push inflation. I think, if I may give an example, that the type of direct or indirect role the federal government played in the Seaway settlement, several years back was an important element in



subsequent movements in wage costs. It was an example of government aggravating the problem of cost-push inflation. The kind of cost-push inflation you are thinking of is a little different. Presumably it is of the kind where if government raises taxes and thereby reduces someone's take-home pay, at the next bargaining session the attempt will be made not only to get the normal increase in wages, but also to restore previous take-home pay levels. All I can say is that if that is the way bargaining goes, then conceivably the beginning of the cost increase process was the increase in government taxation.

I cannot really see offhand how some kind of taxes might have a smaller impact than others. I suppose we really do not know. If, for example, you opt for an increase in sales tax rather than an increase in income tax, would this produce a different kind of bargaining experience from that which would occur if the opposite were the case? I am not sure it would, because I think that more and more unions have become concerned not just with take-home pay but with the real value of their take-home pay, and if increases in sales taxes increase the price of goods and services and reduce real income, I think it would affect the bargaining process just as would the straight reduction in take-home pay through an increase in income tax. I cannot see any easy way out. We have to deal directly with the problem of cost-push inflation and we have to get the message through, somehow or other, that there is no point in providing income increases that are greater than output increases. This is the central truth of the matter, but if you get down to the details of individual negotiations and individual price setting, this fundamental truth always gets lost in the discussion. I think cost-push inflation is a very serious issue, and yet I do not think we can do anything about it simply by changing the structure of our taxation.

**Senator Everett:** I see what you mean; the mix cannot be changed. Is it possible that the government in trying to control inflation by an increase in its taxes from the demand-pull point of view creates more inflation through the effect of taxes on cost-push?

**Professor Neufeld:** While it is certainly true that you can argue that the tax increase might set in train certain cost-push influences, I think there is no doubt that the deflationary impact through demand-pull of the tax increase would outweigh any cost in-

fluences that arise. Basically, an increase in taxes is deflationary, I think.

**Senator Grosart:** Coming back to table II and looking particularly at the column dealing with transfer payments, the view could be taken that transfer payments are almost synonymous with welfare payments. Now the Commons seems to go along with that assumption, but I wonder if it is a valid assumption. To what degree has anyone attempted to find out what percentage of transfer payments to individuals are actually welfare payments in the sense that they are directed only to low-income groups? I realize this is more or less supplementary to Senator Everett's question. What would be the social and economic effect of confining individual transfer payments to those who need them? This, of course, would involve family allowances, as you have indicated, and perhaps in some cases old-age pensions. Perhaps relevant to that is the statement made last week by Professor Forget that when you come up to the Canada-Swedish level, you seem to reach a plateau as compared with the Americans because total expenditure on welfare payments is less in the United States than it is in Canada, but all the way up the line from the lower per capita income countries it increases. Would there be any particular social or economic effect in attempting to direct individual transfer payments only to those who need them?

**Professor Neufeld:** Again, I think that is a very important question. First of all let me support the point you made at the beginning that it is a mistake to regard transfer payments as being synonymous with welfare payments. That just is not true. Some transfer payments are welfare payments and some clearly are not. Again if I may use my own personal example, I receive family allowances, but I do not regard them as a welfare payment because I know what goes out on the other side in the way of taxation. If one holds government bonds and receives interest, that appears as a transfer payment, but one might be transferring the interest from an average taxpayer to somebody who is quite well off and who holds the bonds. Therefore, I agree it is not synonymous with welfare payments.

The other question you raised is, I think, a slightly different one. There has been a tendency in Canada ever since the introduction of family allowances to approach these schemes from a universal point of view, and I think



that one of the justifications for it has been administrative simplicity and efficiency. Yet it is interesting—I think possibly stemming from the discussions surrounding medicare—that the concept of universality has begun to be questioned. It may well be that it has begun to be questioned because more sophisticated techniques of accounting have made it possible to achieve efficiency in administration without universality. It may be that the argument has become less important than was the case at a time when we did not have the efficient administrative machinery.

The other thing too is that I think people are a little concerned about some of the non-measurable consequences of universality. The question is, if people seem to be getting these things free, will they not behave differently than if they seemed not to be getting them free? I do not think there are any conclusive answers, but I do think we have got to the point where for both these reasons—that is, the fact that universality may have certain undesirable effects on expenditures, and, secondly, because administrative efficiency may not be an argument for universality any longer—I think we are in a period when one might look at alternatives to universality; that is, to directing welfare payments to people who need them.

There is one final point that I think has concerned people a great deal. We have had some welfare schemes for a long time now, and yet, if you drive across the country you find many areas of pathetic poverty, you ask yourself what has gone wrong? Is it not possible that our universal approach has, in fact, left untouched the people who need assistance most? I think this is another reason for the general questioning that is beginning to emerge about the efficiency of universal welfare schemes. I myself have questions about it.

**Senator Grosart:** You also have the problem of semantics regarding the significance of “means” in “means test” and its association with word “mean”. Is there any lessening of that as a result of these trends you indicate?

**Professor Neufeld:** I would hope so, because it seemed to me to be a sort of hypocritical way of looking at the problem anyway. There seemed to be a tendency to pretend there were not these transfer payments involved, if they were universal. I am all in favour of transferring money in a way that will relieve poverty and increase the welfare of the average Canadian; but I am not much

taken with hypocrisy. Therefore, I am not going to pretend that universal payments do not involve transferring money from the rich to the poor, because they do. I think sheer logic should win through on that argument after a while. Certainly, over the last two or three decades it was more or less closed to discussion. The view was that the means test was bad because it implied people were not deserving or that a transfer was taking place. I think that in time people will say that efficient welfare schemes are desirable, and no one will argue the point. And after some time everyone may freely say, “Of course, it involves the transfer of income to people who themselves have not earned it.” and not be worried or concerned about it. In the past it has been rather difficult to speak rationally about this issue because it has been emotionally charged.

**Senator Grosart:** Perhaps the straw in the wind is the very high percentage of response to what is, in effect, a means test, which is called an income test, in the old age pension income supplement, where everyone has been amazed at the number of people worried about calling it a means test who have applied for the income supplement. I think the percentage is something like 70 per cent of all old age pensioners have applied.

**Professor Neufeld:** Another area is the matter of education. I think, for example, the cost of education at the university level, because of the universal subsidy involved, in fact involves a transfer of money from the poor to the rich, from the ordinary, average Canadian to the upper-middle-class Canadian, because those are the kinds of students that predominate at the universities. So, what logic is there in perpetuating this situation? And yet, if you do not want to perpetuate it, what do you do about it? What you do about it is that you begin to apply some kind of means test, and I think that at the university level the time is coming when it would be a good idea to do it. I think there should be different tuition fees for people with different income levels.

**Senator Hays:** You dwelt quite a bit this morning on inflation in government expenditure. Nearly every city in Canada boasts about their capital expenditures, and say that, “This year we have building permits in this city totalling \$200 million,” and then in another it is \$500 million, and so on. What about the public sector? What is their responsibility in so far as inflation is concerned,



when you take inventories of office buildings, old office buildings being emptied now because new ones are being built? You do not find this situation in cities like London, Paris or Amsterdam, where they have 100 per cent occupancy. As a matter of fact, I was in Finland a short time ago and married couples there have to wait eight years for a single room.

**Senator Beaubien:** What do they do in the meantime?

**Senator Hays:** I think the same condition exists in Holland. There are many of these countries where married people have to wait seven or eight years for one room. I want your opinion on the inflationary trends, which I think the government is doing a great deal to prevent, but in the private sector there does not seem to be any lid on it at all.

**Professor Neufeld:** My answer to that is that it is the government that is at the controls and they are responsible. The principal objective of the private sector is to pursue the normal affairs of economic activity. It is not one of their responsibilities to control inflation. It is not, because it is impossible for them to do it because we do not have one private sector. What we have are hundreds of thousands of individual companies doing their best to operate efficiently, presumably. Therefore, it is not possible to impose on them the responsibility for containing inflation. So, what we do is to charge government with this responsibility, both through the central bank, the Bank of Canada, and through the federal government; and what we say is that if there is inflation in the private sector—and there certainly can be, and frequently it has been the most important source of inflation—it is the duty and responsibility of government to take measures that will contain the inflation. I say that if there is inflation in the private sector it is the duty and the responsibility of government to make take measures that will contain the inflation.

**Senator Hays:** My next question is: If you were the Prime Minister, how would you do this?

**Professor Neufeld:** I think we are now in a position where we have to make a three-pronged attack. We have to use monetary policy—that is, controlling credit conditions, and I do not think that monetary policy in the last year has made as great a contribution as it should have made. Secondly, we have to use fiscal policy. If you look at fiscal policy

over the last two or three years you will see that there have been periods when its contribution was somewhat less than what was desirable. Thirdly, I think we have to begin to experiment with techniques that deal with cost-push inflation. In this third area we have done virtually nothing, and yet it has become an important source of inflation. The government has now formed a prices and incomes commission, and the chairman was recently appointed. My feeling is that this kind of experimentation has become essential, not because I am absolutely convinced that the prices and incomes commission will work, but because I see no alternative to experimenting with different approaches to see which one will work.

So, my approach would be a three-pronged approach, and I would use monetary policy, fiscal policy, and an incomes policy.

**Senator Hays:** That is pretty general. Would you make it a little more specific? How are you going to stop the Toronto Dominion Square and other projects in Toronto?

**Professor Neufeld:** I think what is very important is not to get at it on an individual project level.

**Senator Hays:** I know, but you have been pretty general in what you have said. Just how do you attack this problem?

**Professor Neufeld:** Yes, I was general in my remarks, and consciously so, because I think it would be very undesirable if we introduced controls of the kind that said that the Toronto-Dominion Bank project can go forward, but the Canadian Imperial Bank of Commerce project cannot go forward.

**Senator Hays:** I just used that as an example.

**Professor Neufeld:** I think it is better to impose general restrictive credit conditions which result in a postponement of marginal projects wherever they may be, and which permit the more efficient and more profitable projects to go forward. It is important, when we control credit for the purpose of reducing inflation, not to interfere with the allocation of resources between different projects, because some projects are better than others. The good ones are the ones that should go forward, and the marginal ones are the ones that should be postponed.



**Senator Hays:** You are saying that there should be more Government control in respect to the freezing of some projects and...

**Professor Neufeld:** I say there should not be, because if you begin to freeze individual projects you would have no way of knowing whether you are freezing the good ones and letting the bad ones go forward. Therefore, I say we have to operate from the viewpoint of general monetary policy affecting general credit conditions, general interest costs, general levels of bank loans, and we have to stay away from trying to outguess which projects should go forward and which ones should be held back.

**Senator Grosart:** May I ask a supplementary question? It seems to me that the government uses the project restraint principle in its own assessment of expenditures. I am thinking of ING and the causeway, and so on.

**Professor Neufeld:** Yes, that is true. The difficulty with the government sector is that you do not have market forces which make the decision in the first place. It is an arbitrary decision as to which project is going to go forward. It relates back to a discussion of the criteria that we had before. I think it would be a good thing, for example, to develop criteria that would enable us to say which are the best government projects and which are not the best government projects, and which ones in an inflationary period should be kept back and which ones should not be kept back. This is something that I think we must come to.

At the moment, I am inclined to agree with you, that cutting back on government projects in a period of inflation is pretty haphazard, and for all we know we may be cutting back on the ones that we should not be cutting back, and letting go forward the ones that should be cut back.

**Senator Grosart:** If it is possible to develop criteria in the public sector, why would you suggest that it is not possible to use the same principle in the private sector on a project basis?

**Professor Neufeld:** I would say that the criteria in the private sector are by and large the criteria of the market place. That is, those projects which are likely to be most profitable and likely to go forward; and hopefully, in a relatively competitively environment, they are the projects that are likely to be efficient. What we are saying is that in the private

sector you have criteria already, and these criteria are the criteria of the market place, whereas in the public sector you do not have criteria of that kind.

I do not want to take that too far because there are areas of the private sector where, because of inadequate competition the market may not work all that well. Therefore, one ends up with a gray, rather than a black and white, picture. But, generally my own impression is that in the private sector it is just as well to permit market forces to make most of the capital allocation decisions.

**Senator Grosart:** Perhaps the crux of the problem is that it is a function of the private sector not merely to meet demand but to create it, and in certain circumstances a function of government to restrain demand.

**Professor Neufeld:** I think sometimes that is the function of the government, but at the same time we have to realize that government has come to be a source of a great many services that people expect. Therefore, you cannot just use it as a balance wheel. You cannot just use it as a machine for restraining the economy. It is also a sector from which the nation is going to expect a continuing flow of important services, and even of some goods.

**The Chairman:** While all this is very interesting I would point out that we stopped Professor Neufeld while he was in the middle of his paper, and there are still four or five pages more to be covered. I suggest that we let him complete his paper, and then come back to this whole field.

**Senator Molson:** I should like to ask one other question before we leave this part, Mr. Chairman. In looking at both Tables I and II it seems to me that from 1950 through to 1960 there was a fairly consistently increasing proportion of GNP going into government expenditures. Then, in 1961 that proportion sort of pauses, and reduces slightly, and it looks as though there was some recovery of the approach to this thing, and then from 1965 forward we take off again at what seems to be an accelerating rate. In graph form I think this would be quite interesting. I am wondering, Professor, whether you have any comments on the fact that this has sort of wavered in the way it has?

**Professor Neufeld:** Are you asking for the reasons for the pattern that you have correctly described?



**Senator Molson:** Yes.

**Professor Neufeld:** I think it is partly because 1961 was the beginning of a period of economic recovery. 1960 was a period of mild recession, and indeed in the years before that the economy had not been fully employed. The spring of 1961 was really the period when we began to get an acceleration of economic activity. This acceleration was based on a recovery in the private sector. It is usually the case that in the early stages of the business cycle there is a rather rapid acceleration in private sector spending and a rapid acceleration in the GNP. I think it was really the recovery of the private sector that had some sort of influence here.

The interesting thing, however, was the strong re-emergence of government spending well before there was a slowing down in economic activity, and the full reasons for that I just do not know. We can, of course, point to the fact that we seem to have been rather late in spending money on capital equipment needed in education and were suddenly faced with a horde of students. There was an increase in spending as a result of that. In other words, I think probably there was an element of very bad planning in the government sector, which explains why all of a sudden, even when the economy was booming, the government sector had to come through with substantial spending. There were also the direct and indirect effects of Expo '67, expenditures for which were incurred before that. Also, the political process threw up some welfare schemes just at that time. These are all things that can be identified, but it still has to be viewed as a most unusual period.

**Senator Phillips (Rigaud):** I would suggest that if you take a look at the number of elections we had from 1962 to 1967 and the teasing of the public you might get a clue.

**Senator Molson:** I might indicate that there is another lag in the economic scheme of things that does not always act in the same way under different circumstances and at different times. Perhaps there is a distinct lag in the effect of these major government things. Is that so?

**Professor Neufeld:** Lag between what?

**Senator Molson:** Between action and the effect being apparent.

**Professor Neufeld:** Yes, I think so. It might well be that the actual need for, say, expen-

diture on university facilities was seen two or three years before this, but simply to get the hole in the ground took several more years of planning. I agree that is possibly an influence. In other words, some of the thinking about spending in the government sector might have emerged at a time when the economy was still under-employed, and by the time the expenditures were under way the economy was really not under-employed any more.

**The Chairman:** Professor Neufeld, I think now you might go to page 6 of your memorandum, and then we can question you on that. We can come back to this other subject if honourable senators so desire.

**Professor Neufeld:** At our last meeting there was some discussion on the possibility of using a ceiling on the national debt and on government expenditures as a proportion of gross national product for the purpose of imposing some sort of limit on the levels of government expenditures or the growth of government expenditures. I do not favour such indirect and direct limitations on government expenditures, essentially because I do not believe that there is anything inherently right about the level of government expenditures that such formulae would produce. They might, on rational economic and social grounds, produce a level of expenditures that is too high or too low. Rather I favour a system of intensive appraisal of specific government expenditures in the light of the explicit objectives they are designed to achieve, and utilizing as far as possible objective criteria. It is really at that point that I reiterate all that was said a few moments ago about the need for guidelines and criteria. Also, I do not believe that such limitations on government expenditures would work in practice, because Parliament is not likely to permit its powers of taxing and spending to be delegated to a formula.

The Report on the Commission of Money and Credit in the United States in 1961 had this to say about the United States debt ceiling and interest rate ceiling:

On February 19, 1941, Congress combined its authorization for each type of security into a total debt figure. With this legislation, Congress introduced the present form of the federal debt ceiling. The debt limit had little effect until 1953. Since then, however, the federal debt has often bumped against the ceiling, and this has been a source of inflexibility and



inefficiency in the management of the public finances.

The debt ceiling has been defended as a means of inducing fiscal responsibility. The ceiling has, on the contrary, served as a stimulus and a sanction for devious budgetary practices. These have included financing at higher interest cost through the Commodity Credit Corporation and the Federal National Mortgage Association and monetizing a portion of the small remaining balance of gold against which no certificates have been issued. Moreover, the debt ceiling on one occasion is reputed to have resulted in delaying payments of its bills by the government with the unfortunate consequence of destabilizing economic activity.

**Senator Isnor:** You are speaking of the United States now?

**Professor Neufeld:** The question arose at our last meeting of the experience the United States has had with their debt ceiling.

**Senator Isnor:** You are also dealing with the war period?

**Professor Neufeld:** No, this is the post-war period. It was introduced in 1941, but the experience relates to the more recent period, because the debt ceiling did not really become effective until 1953, and is still in effect.

The report goes on:

The debt ceiling has also been defended as a curb on federal spending. Within limits, the executive can slow the pace of federal outlays. On the other hand, the Treasury must eventually find the funds necessary to finance whatever Congress appropriates. If the ceiling prevents additional borrowing, the Treasury must obtain funds indirectly through another federal agency rather than by marketing its own obligations. The result is added and unnecessary interest costs, because federal agency issues can be sold only at higher interest rates than those on direct obligations of the Treasury. Thus, as an expenditure control, the debt ceiling may be self-defeating.

Not only has the debt ceiling failed to promote fiscal responsibility and to control expenditures, but also it has restricted the Treasury's freedom in managing the debt. In 1957 and 1958, for example, the excess of the ceiling over the out-

standing debt shrank to \$0.8 billion and \$1.8 billion, respectively. This was seriously below the margin considered necessary to permit the Treasury to maintain flexibility in its financing.

If the cash balance is driven too low, the Treasury cannot vary the timing of its financing operations to take advantage of favourable market conditions. Moreover, some leeway is needed to take care of the sometimes volatile and unpredictable needs for cash from various Government agencies, such as the Commodity Credit Corporation, the Federal National Mortgage Association, and the Export-Import Bank.

The debt ceiling also hampers the ability of the Treasury to finance through "tap" issues, such as savings bonds. Because these issues are continuously on sale, the Treasury must resort to their use with caution for fear of unwittingly breaching the debt limit. Similarly the debt ceiling restricts the ability of the Treasury to carry out other debt operations. For example, the Treasury might wish to sell long-term bonds and accumulate cash balances as an anti-inflationary measure.

Now, Mr. Chairman, from there on the quotation really deals with something which we had not discussed which was the interest rate ceiling. I simply included it because I thought the committee might generally be interested in it, but I do not think there is any need for me to read it.

**The Chairman:** Fine.

**Senator Phillips (Rigaud):** I would like to just put the following question. From the point of view of the devious methods employed, I would imagine that such deviousness could be eliminated in Canada by legislation so that the practice in the United States need not...

**Professor Neufeld:** Yes, indeed, senator. I saw some reference recently to a suggestion that they may wish to amend legislation so as to include Federal National Mortgage Association obligations and other obligations in their concept of the debt. I agree with you that that aspect of the problem could be diminished through adopting a broad definition of what constitutes the public debt. At the same time it would not eliminate all the deviousness that is involved when a government faces the debt ceiling and yet has bills to pay.



This is a problem. Indeed it is a problem in the United States right now because it is continuously operating very close to the debt ceiling and must try to vary its expenditures even over the course of a year so as to make sure that it maintains the debt ceiling.

The other thing is that there is really very little evidence that the debt ceiling has controlled government expenditures. We mentioned before that in terms of government expenditures on real resources, this is higher in the United States than in Canada. I think that what happens inevitably is that through legislative action programs are introduced and approved and that one way or another the funds are found to finance those programs and the debt ceiling then only becomes just another obstacle which you obviously must circumvent somehow in order to finance the programs.

**Senator Phillips (Rigaud):** May I continue for the moment before we get to the hard core of the argument? Your analysis of course is very instructive on a point of deviousness through Commodity Credit Corporation. We have covered that. There are two other objections that have been raised. One is the sale where it restricts the ability of the Treasury Board to carry out other debt operations, long-term bond issues. You then have the third one with respect to the sale on a covering basis of savings bonds to the public at large. Under those two headings, those objections could be overcome statutorily by the proceeds (a) of long-term bonds and (b) of the normal bonds being earmarked as not being available for ordinary government operations and, therefore, would not affect the debt ceiling prohibition. If government, as an anti-inflationary measure, wished to sell X amount of dollars and isolated the proceeds as not being available for current purposes, then the objection to which you refer could be eliminated.

**Professor Neufeld:** I think that is really part of the question of the definition of the debt. I think that all questions that relate to problems of defining the debt are ones that could be surmounted, including this one. You could have a definition of net debt rather than gross debt. In other words, deduct all securities held in some government corporation or Bank of Canada or what have you and you would get a concept of net debt rather than gross debt. I feel that while these definitions have caused considerable trouble in the United States up to the present time, if they

are purely definitional issues those could be overcome.

**Senator Phillips (Rigaud):** If we therefore eliminated the three basic objections to which you refer, objections reflected in the experience of the United States...

**Professor Neufeld:** Some of the objections.

**Senator Phillips (Rigaud):** That is to say, the deviousness of selling and borrowing through Commodity or other corporations. The restriction of long-term borrowing and the inability of the Government to sell bonds only on the current basis to the public—if you isolated the proceeds and related the definition of the national debt thereto and if for the moment we eliminated from the discussion, on account of time, the interest rate feature, which is a very important item and not debt, which would only complicate matters for the purpose of this section, are we not back to the hard core of the problem as to whether a statutory limitation of debt would not be desirable in terms of curbing Government in its commitments.

**Professor Neufeld:** I think that the two major objections, as I see it, are first (a) will it in fact curb expenditures and (b) should it? As to whether it will curb it, my answer would be that the United States experience is that it will not. The deviousness in terms of financing through Federal National Mortgage Association arises in the first place, because Congress has approved certain programs. If Congress continues to approve certain programs and you have the net debt definition we referred to, then I am sure that deviousness would go another direction, maybe toward borrowing through expansion in the money supply, for example. In the end, deviousness would find a way to satisfy the commands of Congress which would be to spend certain moneys. We have not removed that problem.

**Senator Grosart:** We would not have this problem here would we, because in effect, we do not have the same congressional power in appropriations?

**Professor Neufeld:** I think we do, because it really relates to the point I made before, whether the will of the people through Parliament would permit itself to be frustrated by a formula. My feeling is that just as the will of the people through Congress did not permit itself to be frustrated by the ceiling, it would not permit itself to be frustrated here.



The second point I wanted to make was an economic one, and I think even more important than the first; that is, whether the kind of level of government expenditures that would then be established would be a good level or a bad one. I think this does get to the heart of the issue. I feel that there is no reason to believe that it would produce a level of government expenditure that, on the basis of whatever rational criteria could be developed, would constitute the best level of government expenditures.

Therefore, I think the direction we must move in controlling government expenditures, is not to impose an overall ceiling, forgetting all about the quality of what lies underneath it, but rather one of appraising in detail all individual government expenditures, to see what the nation is getting from them. Hopefully, in time, this will lead to a level of expenditures that, on the basis of rational criteria, could be defended as a good level of expenditures.

**Senator Phillips (Rigaud):** Suppose that today, for a period of ten years, we could get a national consensus, on the part of the major parties in the country, that the debt should not increase other than in relationship to the growth of the gross national product. From your schedule we have some indication of what we are now spending at the municipal, provincial and federal levels. And suppose that from the point of view of the federal expenditure, we could roughly cut the whole percentage in half, so that in practice we get down to an expenditure of \$12 billion per annum, and we say that is it, for a period of ten years. If the major parties in the country agreed, and if the public of Canada were made aware of the fact that we were not becoming involved in the political rat race in terms of giving, but that this country was engaging in an effort really to get down to the hard tack with the business of living within means and providing a place for savings, for the purpose of expanding our national resources.

With that background to my question, the question is, do you not think this would have a highly salutary influence in the climate of our country, getting away from these general pressures towards an overall welfare state, finding ourselves in the ridiculous position of having overwhelming natural resources and developing a lazy outlook.

**Professor Neufeld:** I think that if you had a national consensus of that kind you would not need a debt ceiling.

**Senator Phillips (Rigaud):** I beg your pardon?

**Professor Neufeld:** I think that you would not need a debt ceiling if you had a national consensus of that kind.

**Senator Phillips (Rigaud):** But would not the setting of a ceiling for a salutary period create the necessary climate, that people would re-orient their line of thinking?

**Professor Neufeld:** I do not think so.

**Senator Phillips (Rigaud):** In a discussion such as this we at least dramatize the problem.

**Professor Neufeld:** To take one complication immediately: By and large business has come to regard government as having responsibility for trying to maintain relatively buoyant economic conditions. It used not be the case, but I think this is generally accepted now. If you impose, for example, constraints on government that would prevent it—let us say, if the economy moved into a recession—from taking measures to restore prosperity, because it had to adhere to a debt ceiling, I do not think it would create the kind of climate you have suggested. It might well create another kind of climate. Business people who have come to see that government must try to avoid recessions, might well fear that government no longer was able to do that.

**Senator Phillips (Rigaud):** I think that is an important point.

**The Chairman:** The ceiling in the United States is a fixed amount, is it not, not a percentage of the GNP?

**Professor Neufeld:** It is a fixed amount, which is changed.

**The Chairman:** It is fixed, according to statute.

**Senator Grosart:** I do not very often disagree with Senator Phillips (Rigaud) but I must disagree with him on his concept which he wraps up in the words "political rat race" where he assumes that some of our welfare, and so forth, to which he objects, is caused merely by political parties buying votes by promising expenditures.

**Senator Phillips (Rigaud):** Well...



**Senator Grosart:** My own view is that the function of a politician is to be a broker between the people and the private enterprise system, a broker who decides the price of the franchise. That is a very different concept, and it happens to be mine.

Secondly, on the question of frustrating the will of the people by various legislative devices, I think we have to face the fact that we do have a device which is designed to frustrate the will of the people. The device is that only the government may introduce a money bill. This is a device to do just that very thing. The Senate cannot introduce a money bill, we are told. A private member cannot do so, the Opposition party cannot do so. This is a very different thing from the American congressional system. Then there is the other objection made to the applicability of the American system to ours, because without it the government must take the responsibility for federal expenditure in a way which they do not have to take in the United States, they can always blame Congress.

**The Chairman:** We are still on debt ceiling.

**Senator Beaubien (Bedford):** With the present open ended spending program we have with the provinces, we could not possibly have a debt ceiling. If we set aside \$375 million this year for Medicare and it costs \$1 billion, the Government would still have to pay it. Can we improve on that?

**Professor Neufeld:** I agree. At the same time, I suppose one might argue that this is the sort of example where even something as crude as a debt ceiling might from time to time be a good thing because these open ended commitments of the federal government are, I think, very undesirable. Yet my response would be, the answer is not a ceiling on debt, but to stop making open ended commitments.

**Senator Beaubien (Bedford):** The ceiling on the debt might help?

**Professor Neufeld:** I hope there are better ways of doing it.

**Senator Molson:** Except that the damage is done in the open ended commitments before the amount is actually realized.

**The Chairman:** The damage is done in the inception.

**Professor Neufeld:** Yes.

**The Chairman:** There should be a ceiling on every open ended commitment.

**Professor Neufeld:** There should be ceilings.

**Senator Everett:** When you were talking about the generality of government restraint in monetary fiscal cost-push outlays, it would seem to me that there would be one very major exception, and I think you touched on it in your evidence when you were originally here before the committee. That is, the regional aspect of the effect of this restraint. I would like to hear your comments on that, because it seems to me to be terribly germane to the sort of restraints we are imposing on the economy in Canada right now. If all we are prepared to do is impose these restraints generally, as you point out, we are going to create a tremendous imbalance in the various regions of the country.

**Professor Neufeld:** I think that the regional problem—as I have tried to illustrate in my original statement—is an exceedingly important one for Canada and is likely to loom as the major economic problem of the next decade. How does aggregate stabilization policy fit into that? I think the way it fits into it is this. You must have aggregate control over spending, through credit conditions and fiscal policy, of a kind that will prevent demand inflation from occurring anywhere in the country. Not only that, you must have a completely different kind of policy, which deals with the fact that there are still unemployed resources in other regions of the country. In other words, the presence of the regional problem does not argue against using monetary and fiscal policy. What it does argue is that you should use monetary and fiscal policy only so as to avoid demand inflation, but at the same time you should have regional policies that should be operating whether you do or do not have the threat of inflation, and that have as their specific objectives the reduction in regional unemployment and the increase in regional income.

I do not think there is a conflict between the two. Right now we have to have monetary policies and fiscal policies of a kind that will prevent the development of demand inflation in Ontario and a few of the western provinces. It pretty well amounts to that. But, at the same time, we have to have other kinds of policies that will in an on-going way, whether you have or don't have inflation, deal with the problem of unemployment in the maritime provinces and in some parts of Quebec.



**Senator Everett:** Has anybody ever found a means of applying monetary policies regionally, or monetary restraints regionally?

**Professor Neufeld:** No, I think it is absolutely impossible to apply aggregate monetary policies regionally.

**Senator Everett:** So, in effect, you might have to create in the maritimes severe monetary restraints, severe general fiscal restraints, because they are really required by Ontario, and, yet, turn round and, through specific governmental intervention, build up the economic disparity.

That raises the point that, so long as you have that disparity, every time this happens you are increasing the incursion of the government sector into that regionally undeveloped area and you are not giving the private sector a fair chance there to take its proper proportion of the development of that region. So that region more and more becomes a government region.

**Professor Neufeld:** It need not be that way, because you can have regional policies that encourage the development of private industry.

**Senator Everett:** Can they overcome the monetary and fiscal restraints on the private sector?

**Professor Neufeld:** I believe so.

**Senator Everett:** They can?

**Professor Neufeld:** To take a hypothetical example, if interest costs for new corporate borrowings are in the order of  $8\frac{1}{4}$  to  $8\frac{1}{2}$  per cent, as they are at present, you could say that any industry that locates here or locates there will have a subsidy on its capital cost of a certain amount so that, to that company, the effective rate of interest will not be  $8\frac{1}{2}$  or  $8\frac{1}{4}$  per cent, but could be as low as you choose to make it.

**Senator Everett:** That is true in terms of interest costs, but let us assume at the moment that the banks cannot meet these severe levels and therefore start to cut down on the amounts of money available to lend to enterprises. How do you overcome that, regionally?

**Professor Neufeld:** Well, usually, the restrictions on credit do not involve a reduction on loans. I think it has been a long time since you have had a reduction in loans through

credit restraint. Usually what is involved is a reduction in the rate of increase in loans.

**Senator Everett:** Well, it is the same thing because here in this regionally undeveloped area you are talking about an increase in loans in order to promote development.

**Professor Neufeld:** A very tricky point that has to be understood is that excessive lending, or increased lending, in the maritimes, say, might well increase inflation in Ontario, because it might cause those companies to increase orders from companies located in Ontario. So that this is one of the reasons why it is so completely impossible to compartmentalize the economy with respect to the application of monetary policy. And so I think again that you come back to the point where you just have to establish a national credit climate, and a national fiscal climate, but underneath that you have to establish on-going built-in regional development programs that are not turned off or turned on with inflation or deflation. They should be completely removed from economic stabilization. That would be my view. Then you would not get the turning off of the tap in the maritimes when you have tight money, or the turning on of the tap full force when you have easy money. You would have a smoother, more rational and, I think, a more effective approach to regional development than would be the case if you tried to do it through differences in the application of monetary and fiscal policies.

**Senator Everett:** Thank you very much.

**The Chairman:** May I ask you a question, Professor Neufeld? In your evidence on March 27 you gave us some rather striking information about the unemployment rates in Ontario and Quebec in Chart II attached to the proceedings, which showed a very sharp increase in unemployment in Quebec as compared with a decrease in Ontario.

**Professor Neufeld:** Yes.

**The Chairman:** That was up to the latest available figures?

**Professor Neufeld:** That was January.

**The Chairman:** Can you tell us what has happened since or are you familiar with that?

**Professor Neufeld:** I looked at February and March, and it is still way up there. It came down a little bit in February-March, but the basic point, unfortunately, still is



that there is an unemployment problem in Quebec. I am hoping that it will vanish more quickly than seems likely now.

**Senator Bourque:** Professor, just for my information, I wonder what effect it would have on the general economic condition of Canada if one of the provinces seceded from Canada.

**Professor Neufeld:** I guess it would depend on which province.

**Senator Bourque:** Well, say Quebec. I hope this will never occur, but, nevertheless, to gain a little knowledge I ask the question.

**Professor Neufeld:** I think it is quite apparent, and I am sure that you are aware of it, that a detailed answer to that kind of question would have to be a fantastically complex one. Indeed, I should think that you would not get a clear answer from even a large group of economists working a long time. Some attempts to estimate the impact on the nation of the secession of Quebec have been made, but I don't get the impression that they have been made with any great degree of confidence. For what they are worth, most of them—and I should not say most, because there have only been a few—have come out with some very scary predictions.

**Senator Phillips (Rigaud):** I think Senator Bourque had better put that question to me, because I am the only one here who is a descendant of the prophets and I think you need a prophet rather than an economist to answer that question.

**Senator Grosart:** Are you sure of that statement, that you are the only descendant of the prophets, senator?

**Senator Phillips (Rigaud):** I am assuming so.

**Senator Kinley:** Professor, I take it that your presentation is calculated on percentage values only.

**Professor Neufeld:** These statistics in Table I and Table II are all based as a percentage of the gross national product, yes.

**Senator Kinley:** They are percentage dollars, then.

**Professor Neufeld:** Government expenditures in dollars as a proportion of GNP in dollars.

**Senator Kinley:** I do not think it is a good way to discover merit—by percentage.

**Professor Neufeld:** I think at our last meeting some people were interested in the extent to which the government sector had increased relative to the whole economy, and I agree that this way of looking at the problem only provides us with some answers.

**Senator Kinley:** It is only a comparison and a bad one at that.

**Professor Neufeld:** I would not say it is a bad one for the purposes we dealt with at the last meeting. I think it is the appropriate one.

**Senator Kinley:** Yes, but dealing with percentages at the last meeting somebody brought up the matter of schools. Now if you take a school with 6 pupils in it, and if you lose 3, you lose 50 per cent. But if you have 100 pupils and you lose 3, you only lose 3 per cent.

**Professor Neufeld:** The figures are current dollar figures rather than constant dollar figures. It would be very simple—well, perhaps I should not say very simple—to have taken these figures in constant dollars. I am not sure if they are available in constant dollars for all sectors, but I am almost sure the basic story would not be changed if you had deflated all the figures by the price index.

**Senator Kinley:** You know, a lot of people still believe that the philosophy of Mr. Micawber is a pretty good one. You know of Mr. Micawber? In defining happiness he said that you will be happy if you earn a dollar and spend 90 cents, but if you earn a dollar and spend a dollar and a quarter, then you are in trouble.

**Professor Neufeld:** By that criterion Canadians should be a very happy people because their rate of saving is among the highest in the world.

**Senator Kinley:** There is a percentage that comes in there too. You haven't as many millionaires here as you have in the United States.

**The Chairman:** Any other questions?

Honourable Senators, once again on your behalf I want to thank Professor Neufeld for his presentation to us today and for his kindness in coming here and helping us as he has done.

The committee adjourned.



## APPENDIX "A"

The Impact of Government Expenditures  
On Economic Conditions

(A Supplementary Statement)

Made before the National Finance Committee  
of the Senate of Canada by E. P. Neufeld,  
Professor of Economics, University of Toronto

May 29, 1969

In order to avoid confusion in discussions relating to government financial activity it is useful to distinguish clearly between (a) government receipts and government expenditures, (b) government tax receipts and government non-tax receipts and (c) government expenditures on goods and services and government transfers, subsidies and capital assistance. Table I shows the various categories of government revenues as a proportion of Gross National Product at Market Prices from 1952 to 1968; and Table II shows the various categories of government expenditures on the same basis. The following points may be noted:

(1) From 1965 to 1968 government expenditures as a proportion of G.N.P. rose from 31.1% to 34.7%, as a result both of increased expenditures on goods and services and increased transfer payments.

(2) From 1965 to 1968 government revenues as a proportion of G.N.P. rose from 31.7% to 35.9% as a result mainly

of increased personal direct taxes, and increased pension and insurance contributions, with indirect taxes and investment income also providing some of the increase.

International comparisons of government tax levels and revenues are difficult, but a general impression of how Canada compares with the U.S. may perhaps be seen from the approximate figures of Tables III and IV. The major points are the following:

(1) In 1968 governments in Canada spent less on goods and services in relation to G.N.P. than did U.S. governments—20% compared with 23% for the U.S.; but they spent more on transfers and subsidies—15% compared with 8% for the U.S. Therefore total expenditures by government were 35% of G.N.P. in Canada and 31% in the U.S.

(2) In the period June 30, 1966 to June 30, 1967 tax revenues in Canada were 27% of G.N.P. and 26% in the U.S.; non-tax revenues were 6% in Canada and 5% in the U.S.



TABLE I  
 GOVERNMENT REVENUES  
 As A Percentage of Gross National Product<sup>1</sup>  
 (All levels of government)  
 1952-1968

	TAX REVENUES					NON-TAX REVENUES				Total Revenue
	Direct Taxes		With- holding	Indirect	Total Taxes	Investment Income	Insurance and Pension Contribution	Total		
	Personal	Corporation								
1952.....	5.3	5.8	.2	11.7	23.0	2.6	1.6	4.2	27.4	
1953.....	5.7	4.9	.2	12.1	22.9	2.6	1.6	4.2	27.1	
1954.....	5.8	4.4	.2	12.2	22.6	2.8	1.7	4.5	27.0	
1955.....	5.5	4.7	.2	12.2	22.6	2.8	1.8	4.6	27.2	
1956.....	5.7	4.6	.2	12.3	22.8	2.7	1.7	4.4	27.3	
1957.....	6.0	4.2	.3	12.5	23.0	2.6	1.8	4.4	27.4	
1958.....	5.4	4.0	.1	12.2	21.7	2.8	1.9	4.7	26.6	
1959.....	6.0	4.5	.2	12.8	23.5	2.9	1.9	4.8	28.2	
1960.....	6.5	4.3	.2	13.0	24.0	3.0	2.1	5.1	28.9	
1961.....	6.7	4.3	.3	13.8	25.1	3.0	2.1	5.1	30.1	
1962.....	6.7	4.2	.3	13.6	24.8	3.1	2.0	5.1	30.0	
1963.....	6.7	4.2	.3	14.1	25.3	3.3	2.0	5.3	30.6	
1964.....	7.2	4.3	.3	14.1	25.9	3.3	1.9	5.2	31.1	
1965.....	7.5	4.3	.3	14.6	26.7	3.2	2.0	5.2	31.7	
1966.....	7.7	3.9	.3	14.6	26.5	3.1	3.2	6.3	32.8	
1967.....	8.8	3.6	.4	14.9	27.7	3.5	3.3	6.8	34.3	
1968.....	9.9	3.8	.3	14.9	28.9	3.5	3.4	6.9	35.9	

SOURCE: D.B.S., *National Accounts Income and Expenditure*.

<sup>1</sup>Excludes transfers from federal government to provincial and municipal governments to avoid double counting.

TABLE II

## GOVERNMENT EXPENDITURES

As A Percentage of Gross National Product<sup>1</sup>  
(All levels of government)

1952-1968

	GOODS AND SERVICES					OTHER EXPENDITURES					Total Expenditures
	Federal			Municipal and Provincial	Total	Transfer Payments		Subsidies	Capital Assistance	Total	
	Defence	Non-Defence	Total			Interest	Other				
1952.....	7.5	2.9	10.4	7.4	17.8	2.4	5.7	.4	—	8.5	26.3
1953.....	7.6	2.6	10.2	7.5	17.7	2.4	5.8	.4	—	8.6	26.4
1954.....	6.9	2.9	9.8	8.1	17.9	2.7	6.6	.3	—	9.6	27.5
1955.....	6.5	2.8	9.3	8.4	17.7	2.5	6.4	.3	—	9.2	26.8
1956.....	5.9	2.9	8.8	8.8	17.6	2.3	5.8	.4	—	8.5	26.1
1957.....	5.5	3.0	8.5	9.3	17.9	2.3	6.5	.4	—	9.2	27.1
1958.....	5.0	3.6	8.6	10.1	18.8	2.4	8.0	.4	—	10.8	29.6
1959.....	4.5	3.6	8.1	10.5	18.6	2.8	7.9	.6	—	11.3	29.8
1960.....	4.3	3.3	7.6	11.1	18.7	3.0	8.6	.6	—	12.2	30.9
1961.....	4.3	3.7	8.0	11.3	19.3	3.1	9.2	.7	—	13.0	32.3
1962.....	4.1	3.3	7.4	11.6	19.0	3.2	9.2	.7	.1	13.2	32.2
1963.....	3.6	3.1	6.7	11.9	18.6	3.3	8.9	.7	.1	13.0	31.6
1964.....	3.3	3.1	6.4	11.9	18.3	3.2	8.7	.7	.2	12.8	31.1
1965.....	3.0	3.3	6.3	12.1	18.4	3.2	8.8	.6	.2	12.8	31.1
1966.....	2.9	3.8	6.7	12.7	19.4	3.1	8.7	.9	.1	12.8	32.2
1967.....	2.9	4.0	6.9	13.1	19.9	3.2	10.0	.8	.1	14.1	34.1
1968.....	2.7	3.9	6.6	13.1	19.8	3.4	10.7	.7	.1	14.9	34.7

SOURCE: D.B.S., *National Accounts Income and Expenditure*.<sup>1</sup>Excludes transfers from federal government to provincial and municipal governments to avoid double counting.



TABLE III

CANADA—U.S. COMPARISONS<sup>1</sup>

## GOVERNMENT EXPENDITURES

Percent of G. N. P. at Market Prices  
1968

	Canada	U.S.
	%	%
Goods and services.....	20	23
Transfers, subsidies, etc.....	15	8
Total.....	35	31

SOURCE: D.B.S., *National Accounts Income and Expenditure and United States, Annual Report of the Council of Economic Advisers.*

<sup>1</sup>Approximations only.

TABLE IV

CANADA—U.S. COMPARISONS<sup>1</sup>

## GOVERNMENT REVENUES

Percent of G. N. P. at Market Prices

June 30, 1966—June 30, 1967

	Canada	U.S.
	%	%
Tax revenues.....	27	26
Other revenues.....	6	5
Total.....	33	31

SOURCE: D.B.S., *National Accounts Income and Expenditure and United States, Annual Report of the Council of Economic Advisers.*

<sup>1</sup>Approximations only.

### *Ceiling on the National Debt and on Government Expenditures As A Proportion of Gross National Product*

I do not favour such indirect and direct limitations on government expenditures essentially because I do not believe that there is anything inherently right about the level of government expenditures that such formulae would produce. They might, on rational economic and social grounds, produce a level of expenditures that is too high or too low. Rather I favour a system of intensive appraisal of specific government expenditures in the light of the explicit objectives that they are designed to achieve, and utilizing as far as possible objective criteria.

Also, I do not believe that such limitations on government expenditures would work in practice, because Parliament is not likely to

permit its powers of taxing and spending to be delegated to a formula.

The Report of the Commission on Money and Credit in 1961 had this to say about the U.S. debt ceiling and interest rate ceiling:

"On February 19, 1941, Congress combined its authorization for each type of security into a total debt figure. With this legislation, Congress introduced the present form of the federal debt ceiling. The debt limit had little effect until 1953. Since then, however, the federal debt has often bumped against the ceiling, and this has been a source of inflexibility and inefficiency in the management of the public finances.

"The debt ceiling has been defended as a means of inducing fiscal responsibility. The ceiling has, on the contrary, served as a stimulus and a sanction for devious budgetary practices. These have included financing at higher interest cost through the Commodity Credit Corporation and the Federal National Mortgage Association and monetizing a portion of the small remaining balance of gold against which no certificates have been issued. Moreover, the debt ceiling on one occasion is reputed to have resulted in delaying payments of its bills by the government with the unfortunate consequence of destabilizing economic activity.

"The debt ceiling has also been defended as a curb on federal spending. Within limits, the executive can slow the pace of federal outlays. On the other hand, the Treasury must eventually find the funds necessary to finance whatever Congress appropriates. If the ceiling prevents additional borrowing, the Treasury must obtain funds indirectly through another federal agency rather than by marketing its own obligations. The result is added and unnecessary interest costs, because federal agency issues can be sold only at higher interest rates than those on direct obligations of the Treasury. Thus, as an expenditure control, the debt ceiling may be self-defeating.

"Not only has the debt ceiling failed to promote fiscal responsibility and to control expenditures, but also it has restricted the Treasury's freedom in managing the debt. In 1957 and 1958, for example, the excess of the ceiling over the outstanding debt shrank to \$0.8 billion and \$1.8 billion, respectively. This was seriously below the margin considered necessary to permit the Treasury to maintain flexibility in its financing. If the cash balance is driven too low, the Treasury cannot vary the timing of its financing operations to take



advantage of favourable market conditions. Moreover, some leeway is needed to take care of the sometimes volatile and unpredictable needs for cash from various government agencies such as the Commodity Credit Corporation, the Federal National Mortgage Association, and the Export-Import Bank.

"The debt ceiling also hampers the ability of the Treasury to finance through "tap" issues, such as savings bonds. Because these issues are continuously on sale, the Treasury must resort to their use with caution for fear of unwittingly breaching the debt limit. Similarly the debt ceiling restricts the ability of the Treasury to carry out other debt operations. For example, the Treasury might wish to sell long-term bonds and accumulate cash balances as an anti-inflationary measure.

"Another rigidity imposed by the Congress is the interest rate ceiling on bonds, established in 1918. The  $4\frac{1}{4}$  percent ceiling applies to all new issues of Treasury bonds but does not apply to notes, certificates, or bills. Because only bonds may carry maturities equal to or in excess of five years, the ceiling affects only those security issues of five years or greater maturity. During the twenties when the debt was being reduced in size, and during the easy money periods of the thirties and World War II, the ceiling was ineffective. But recently, market yields on outstanding long-term Treasury securities rose above the  $4\frac{1}{4}$  percent level.

"The objective of the interest rate ceiling is to hold down the interest cost of the federal debt. But the ceiling may fail to achieve this

goal. When the demand for capital has been strong, there have been occasions when long-term yields have been less than those on obligations with a four to five-year maturity. To avoid breaching the interest rate ceiling for longer-term bonds, and at the same time to avoid further shortening in the debt, the Treasury has found it necessary on a few occasions in the late fifties to refinance the debt at the higher interest rate permitted on securities with maturities of four but not five years. The Treasury could doubtless have sold some long-term issues at a lower interest cost if it had been permitted to offer these issues at a rate somewhat in excess of the  $4\frac{1}{4}$  percent ceiling.<sup>2</sup>

"On a few occasions in the late fifties the interest rate ceiling has also interfered with arresting the shortening in the maturity structure of the debt. It has sometimes precluded the use of advanced refunding techniques to lengthen the debt, and it has in the recent past prevented the issuance of long-term debt as a part of a program of counter-cyclical financing. But in much of the postwar period when the interest ceiling did not prevent issuing long-term securities, the average maturity of the debt also declined."

<sup>2</sup> At the end of April 1961, the Treasury announced an interpretation by the Attorney General to the effect that the sale at a discount of a new issue of Treasury bonds carrying a coupon rate at the statutory interest rate ceiling would be permissible—that is, the yield on the security could exceed the  $4\frac{1}{4}$  percent ceiling.

The Queen's Printer, Ottawa, 1969





First Session—Twenty-eighth Parliament

1968-69

**THE SENATE OF CANADA**  
**PROCEEDINGS**  
**OF THE**  
**STANDING SENATE COMMITTEE**  
**ON**  
**NATIONAL FINANCE**

The Honourable T. D'ARCY LEONARD, *Chairman*

No. 12

THURSDAY, JUNE 12th, 1969

*Seventh Proceedings on The Estimates*

laid before Parliament for the fiscal year ending 31st March, 1970.

WITNESSES:

*Department of Finance:* R. B. Bryce, Deputy Minister. C. L. Read,  
Director, Government Finance and Capital Markets Division. R. A.  
McLarty, Fiscal Policy Branch.

APPENDICES:

- "A"—Tables respecting immigration re: Canada-U.S.
- "B"—Memorandum respecting Appendix A.
- "C"—Statement and statistical Tables submitted by Mr. Bryce.



THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable T. D'Arcy Leonard, *Chairman*

The Honourable Senators:

- |  |                             |                             |
|--|-----------------------------|-----------------------------|
| Beaubien                                       | Grosart                     | Molson                      |
| Benidickson                                    | Hays                        | McDonald                    |
| Bourget  | Isnor                       | McLean                      |
| Bourque  | Irvine                      | Nichol                      |
| Desruisseaux                                   | Kinley                      | Paterson                    |
| Dessureault                                    | Laird                       | Pearson                     |
| Everett  | Leonard                     | Phillips ( <i>Rigaud</i> )  |
| *Flynn   | MacDonald ( <i>Queens</i> ) | Phillips ( <i>Prince</i> )  |
| Fournier ( <i>Madawaska-<br/>Restigouche</i> ) | *Martin                     | O'Leary ( <i>Carleton</i> ) |
| Gelinas  | Methot                      | Sparrow                     |
|  |                             | Walker—(29).                |

(Quorum 7)

\**Ex officio* members: Flynn and Martin.

Senate Proceedings on The Estimates

laid before Parliament for the fiscal year ending 31st March, 1970.

WITNESSES:

Department of Finance: R. B. Bryce, Deputy Minister; C. L. Reed,  
Director, Government Finance and Capital Markets Division; R. A.  
McLarty, Fiscal Policy Branch.

APPENDICES:

- "A"—Tables respecting immigration re: Canada-U.S.
- "B"—Memorandum respecting Appendix A.
- "C"—Statement and statistical Tables submitted by Mr. Bryce.



ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, February 12th, 1969:

"With leave of the Senate.

The Honourable Senator McDonald, moved, seconded by the Honourable Senator Langlois:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1970, in advance of Bills based upon the said Estimates reaching the Senate; and

That the Committee have power to engage the services of such counsel and technical, clerical and other personnel as may be necessary for the purpose of the inquiry; and

That the Committee have power to sit during adjournments of the Senate.

The question being put on the motion, it was—  
Resolved in the affirmative."

ROBERT FORTIER,  
*Clerk of the Senate.*

## MINUTES OF PROCEEDINGS

THURSDAY, June 12th, 1969.

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10:00 a.m. to *resume* consideration of:

*The Estimates* laid before Parliament for the fiscal year ending March 31st, 1969.

*Present:* The Honourable Senators Leonard (*Chairman*), Beaubien, Bourque, Desruisseaux, Dessureault, Everett, Fournier (*Madawaska-Restigouche*), Hays, Isnor, Irvine, Kinley, Molson, McDonald, McLean, Pearson and Phillips (*Rigaud*)—(16).

*Present, but not of the Committee:* The Honourable Senators Smith and Thorvaldson—(2).

After discussion, it was agreed that the Tables and the memorandum thereon supplied by Mr. Houston be printed as Appendices "A" and "B" these proceedings.

After discussion, it was agreed that Mr. Bryce's statement and statistical tables submitted therewith be printed as Appendix "C" to these proceedings.

The following witnesses were heard:

*Department of Finance:*

R. B. Bryce,  
Deputy Minister.  
C. L. Read, Director,  
Government Finance & Capital Markets Division,  
R. A. McLarty,  
Fiscal Policy Branch.

At 12:30 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,  
*Clerk of the Committee.*



## THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

### EVIDENCE

Ottawa, Thursday, June 12, 1969.

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March 1970, met this day at 10 a.m.

**Senator T. D'Arcy Leonard (Chairman)** in the Chair.

**The Chairman:** Honourable senators, it is ten o'clock and we have a quorum. Before we proceed with our evidence today, I know that you will have received since our last meeting a memorandum from our Research Assistant, dated June 4, with highlights from certain tables dealing with the subject of immigration in and out of Canada and the United States, with particular reference to managerial and professional groups.

Perhaps this is not the occasion to discuss that or to ask for questions, but I was going to suggest that it should be printed as an appendix to today's proceedings so that we will have it on permanent record and will be able to refer to it as we wish. Is that agreeable?

**Hon. Senators:** Agreed.

*(See Appendix "A")*

**The Chairman:** You will also have received the DBS publications on federal Government finance for 1966 and on consolidated Government finance for 1965. As these are matters of public record, I do not think we need to have them attached to our proceedings. I simply note for the record that all members of the committee will have received those two DBS publications.

There is a third information paper which you may receive in your mail today. I doubt whether you will have received it yet. It deals with the various classes of population in the United States and in Canada by income classes, which was some of the information we desired when we were discussing the relative weight of taxation as between citizens of one country and citizens of the other.

I suggest, too, in addition to your receiving copies of this table, that it be printed as an appendix to today's proceedings. Is that agreeable?

**Hon. Senators:** Agreed.

*(See Appendix "B")*

**The Chairman:** We will now proceed with our witness today. I am very glad to welcome back to this committee Mr. R. B. Bryce, Deputy Minister of Finance, who has appeared before us from time to time over the years. We all recognize him as one of our ablest members of the Public Service and we are very happy to have him back with us today.

I have given him, in a letter, a brief outline of the manner in which we were considering the 1969-1970 Estimates, and I suggested to him that we were particularly concerned not with the individual items so much as with the over-all impact upon the economy of these expenditures at this particular time.

With those preliminary remarks I am glad to ask Mr. Bryce if he will go ahead with his presentation to us. I think you all have copies of the material he has supplied. You may proceed, Mr. Bryce.

**Mr. R. B. Bryce, Deputy Minister of Finance:** Thank you, Mr. Chairman and honourable senators. I have indeed appreciated appearing before this committee in past years, although I have not had the opportunity of being here so often recently. I may say that we in the department have appreciated the work of the committee which we feel has contributed to an understanding of the problems which we in our part of government face.

I think your current objectives, as I understand it, of promoting a better understanding of the general scale and economic effects of our expenditure programs in one that should be quite helpful from our point of view. I only regret that at this particular time both the department generally and I personally have been so busy on urgent government matters, including the conference with the



provinces now going on and from which I am playing hookey this morning, that we have not had time to prepare a written presentation in keeping with the scope and importance of the objectives and considerations that you, no doubt, have in mind.

I anticipate you will want me to respond to a variety of questions, but I ask you to bear in mind: first, that we have just had a budget that restates the fiscal policy and the fiscal position of the government, and it is still being debated in the other place; and secondly, that we are in the course of preparing proposals on tax reform, which I must be careful not to foreshadow in any way, despite the temptation to do so. Thirdly, we face within a few weeks the need of refunding some hundreds of millions of maturing bonds and treasury bills in a most difficult market. I have to be cautious that I do not complicate that further, in any way by what I say. The material that I have had distributed to you, apart from the budget, which I thought we might distribute in case the easiest way of answering some questions is by reference to it, are some tables of figures with explanatory paragraphs. We are not trying to make an economic analysis in this document but rather we set forth the several ways in which we account for our government financial transactions. Essentially they cover first our budgetary position as we set it forth in the traditional public accounts, and our extra budgetary sources of and requirements for funds and thus reach our overall financial requirements. We go on from there to show our figures for the same year on the basis of the national economic accounts which gives a better measure of the economic impact than do the figures of the budgetary revenues and expenditures. I have included the sets of tables which are in the budget showing how we get from one set of figures to the other, and I, or the officers who are with me, will endeavour to answer any questions you may have about that reconciliation. It involves a number of fairly major changes.

Finally, I have taken the liberty of including two or three sample tables from the comprehensive study just issued by the Dominion Bureau of Statistics of financial flows in the Canadian economy as between various sectors of the economy of which the federal government is one. We have included these really just to give the committee an idea of the nature of this new material which may be of interest to you in future years rather than

trying to do it this year. The latest year available is 1967; that was the last for which they had the material. Finally, I have also distributed the table showing our revenue and expenditure figures over the series of years since 1948 on the national economic accounts basis, because that is the easiest way to get comparable figures both for Canada and the United States. With these are tables showing the government expenditures as a percentage of gross national expenditure in constant 1948 dollars, so that you can see the rate of growth abstracted from price changes, and finally, expenditures per capita in the two countries and some other related matters.

I have not had time to prepare for distribution to you a comparison of other taxes and income tax in the two countries, which you discussed with Professor Forget at your most recent meeting, but I do have some figures here, and if the committee wishes to ask questions about them, I could have copies made, or I could leave it with you to incorporate in your proceedings. The figures differ a little from the Professor's figures chiefly because he and the Carter Commission assumed a considerably larger deduction or series of deductions from taxable income in the United States than we normally assume, though of course it is very hard to be clear as to what does form the best basis of comparison.

That is an outline of my presentation, Mr. Chairman.

**The Chairman:** I wonder whether we might clear this matter now. I think your figures with respect to the past records are probably not in our records at the present time, and while we have percentages of the Gross National Product, it does sound as though this table might be quite relevant to the points we are considering, and if it is agreeable to you we would like to have it printed as part of our proceedings today.

On the other hand, dealing with Professor Forget's submission, if your figures are different, Mr. Bryce, we should have them on our record, and if you could supply me as soon as possible with a copy of them, we will give them in *Hansard*. Is that agreeable?

(See Appendix "C")

**Mr. Bryce:** Yes. It may be that our rapid-fire printers could produce a copy of those personal income tax comparisons before this committee session is over, and I can speak with them if you wish.



Well, sir, I thought that rather than read through or attempt to read through the two paragraphs about the accounting which are before honourable senators, I might just start off by referring to a few points of interest that appear in this material and make two or three observations about the growth in expenditures, and then leave it open for questioning.

I would like to start by saying, that in recent years, we in the Department of Finance, have been drawing attention to, and endeavouring to deal with, something that does come out in the accounts we publish, but which does not receive anything like as much attention as our budgetary revenues and expenditures. That is our extra-budgetary disbursements and requirements.

If I could just illustrate from the figures for this year, it will be noted in the budget that the minister speaks of our requirements of this nature towards the end of his speech. This is on page 9423 of the Commons *Debates*, the budget text. He forecast last November that, over and above the budget, we would have extra-budgetary requirements, apart from foreign exchange requirements, of \$600-700 million. In the budget this month Mr. Benson has said that these requirements, again excluding foreign exchange requirements, would add up to about \$650 million. This is before we allow for the accounting effects of writing off the Expo deficit to expenditures. That involves a credit on our extra-budgetary accounts, which results in the figures that are set forth in the tables I distributed.

**Senator Fournier (Madawaska-Restigouche):**

Would it be possible, at a later date, to obtain a list of the items that have been written off at Expo?

**Mr. Bryce:** Yes. I can tell you in a general way, in a moment, if you wish.

**Senator Fournier (Madawaska-Restigouche):**

That is satisfactory.

**Mr. Bryce:** On page 6 of the material I have distributed is a statement of our overall financial requirements, in which we have added into expenditure the write-off of the federal share of the Expo deficit of \$125 million. This is on page 6 of the mimeographed material. Then we have shown the net extra-budgetary requirements as \$525 million, having reduced the minister's figure of \$650 million by the credit for the Expo item.

Just to pause a moment on that Expo item, the overall deficit of Expo has now been calculated at just a little short of a quarter of a billion dollars. There are a few outstanding accounts which remain to be settled.

**The Chairman:** That is the federal Government's share?

**Mr. Bryce:** No, that is the total deficit. We have financed nearly the whole of that through buying the bonds of Expo Corporation, which have been guaranteed by ourselves and the Province of Quebec.

The arrangements have been made with both Montreal and the Province of Quebec for their paying their share of the deficit to us over a period of years. I do not have all the details with me on that, but the essence of it is that their payments are deferred and spaced over a number of years, at the interest rates that were applicable on the Expo bonds themselves. However, this leaves our share of the deficit to be dealt with, and it is one-half. The province took three-eighths; the municipality, one-eighth; and we are paying the remaining one-half. Our half, therefore, is approximately \$125 million, and the minister is proposing that it be written off this year as a charge against expenditures. That is over and above the earlier forecast of expenditures.

We had hoped that we would deal with the Expo accounts in the last fiscal year, but they were not ready in time, and the legislation is being made ready now to introduce, first, in the House of Commons and then before you gentlemen. There is an abundance of accounting detail you can look at then.

**Senator Beaubien:** Is the quarter of a billion dollars the total amount of the deficit?

**Mr. Bryce:** Yes.

**Senator Beaubien:** Does it include the expense for the bridge, for the control of the ice, roads, and everything?

**Mr. Bryce:** You must bear in mind that the islands belonged to the City of Montreal and were furnished for the purpose. Mackay Pier, as it was then, the mainland point, belonged to the Government of Canada, or to the Harbours Board, and it has been returned to us. Some account has been taken of the disposable value of various assets in a rather complicated way.

Returning now to this extra budgetary matter, the minister notes that the main require-



ment in our extra budgetary operation in some \$1.3 billion for loans and advances. These are quite large and important items. I have shown some of them for the past two years, in the table at the top of page 8 of the mimeographed material that I distributed. These are quite high because they include the foreign exchange elements. Last year, in particular, these were very large, and complicated, and I would not suggest it is worth while trying to explore this, because of the time it would take.

For the current year, I could indicate to you what the major items are, so you can see them in perspective. The biggest item is some \$500 million—or, we put it as \$498 million net advances by the Government to Central Mortgage and Housing for housing and related purposes under the Housing Act. Another \$131 million is for the net requirements from us—that is to say, our loans to them, less their repayments—for the Farm Credit Corporation.

In addition, we have funds for export credits which we have forecast at \$76 million, and for the Veterans Land Act which we have forecast at some \$50 million. For Air Canada we have put down \$110 million—that is for the capital budget that has been tabled in Parliament.

Then we have a variety of other things. Perhaps the biggest other item of interest is External Aid loans. You may recall that a fair amount of our aid to underdeveloped countries takes the form of what we call soft loans. Loans on which repayment is made over a long period, with no or very little interest. This is based upon the balance of payments of these countries and the fact that they cannot carry ordinary loan terms. We have put that down tentatively at \$100 million. It is a very hard figure to guess at because one has to estimate how rapidly these things will be dispersed after the loans have been arranged.

**Senator Phillips (Rigaud):** Would you describe those as loans to national governments? I am referring to page 8.

**Mr. Bryce:** Yes, that is right, sir. That is what that is. You will notice that we are assuming that the increase is from \$63 million last year to about \$100 million, or something of that order.

We finance a good deal of this from other receipts that we get, a number of which are shown on the preceding page in the material

distributed. These are repayments of previous loans and advances. There is a variety of them shown there. The biggest items by far, however, are the annuity, insurance and pension accounts, as is indicated in the middle block of that table at the bottom of page 7. The biggest items are the employees' pension funds and the old age security fund.

You will notice that in these tables the Canada Pension Plan appears on both sides. That can be mainly disregarded because those funds that we get out of the Canada Pension Plan account, and which I have put down here at \$755 million on page 7, are all or almost all invested in securities of the provincial governments in accordance with the Canada Pension Plan Act. You will note that on page 8, under "Other disbursements and charges" there is a large item of \$742 million for investments of the Canada Pension Plan Investment Fund.

**Senator Phillips (Rigaud):** Are you obliged to do that by statute?

**Mr. Bryce:** Yes, sir, that was part of the arrangements made with the provinces, and those were incorporated in the Canada Pension Plan legislation in 1965.

**Senator Thorvaldson:** Is the whole amount of the Canada Pension Plan Investment Fund invested in Government securities?

**Mr. Bryce:** The figures for last year show that our intake was slightly larger than the amount that was invested. This is the sort of working capital that accumulates in the pipe line with three-quarters of a billion dollars passing through.

**Mr. C. L. Read, Director, Government Finance and Capital Markets Division, Department of Finance:** Yes, and there is the investment in respect of the Northwest Territories in Canadian Government securities.

**Mr. Bryce:** Yes, there are small investments in Canadian Government securities because of the Northwest Territories, and there are Canadian Government employees in Quebec who are not covered by the Quebec Pension Plan.

**Mr. Read:** Yes, the R.C.M.P., and so on.

**Senator Pearson:** What are the annual withdrawals from the Canada Pension Plan now per annum?

**Mr. Bryce:** Perhaps Mr. Read could look that up while I proceed. The figure is in the



White Paper for last year. As yet the benefits are relatively small.

The chief point I want to make is that this Government lending operation has become a very large operation, and we feel it needs to be scrutinized and controlled just as well and as effectively as our expenditure program. We in the department are having to work a good deal on this analysis and this control.

The size of the budget of Central Mortgage and Housing Corporation is now one of the chief policy decisions, because it is this that really determines the scale of our housing operation which are laid down in the National Housing Act itself. Similarly, on farm credit we are trying to keep the Farm Credit Corporation under some measure of control as well. The Government of Canada provides through the Farm Credit Corporation the majority of the long term mortgage financing on farms in Canada. This is really quite a large operation in economic terms.

I shall not try to go through all of them, but I do draw this to the committee's attention as something that might be of interest to it in future years.

**Senator Thorvaldson:** May I ask a question in respect of the National Housing Act? There must be a large amount of money coming back each year on principal account. How is that handled?

**Mr. Bryce:** Yes, sir, when we lend money to C.M.H.C. they issue us debentures for a particular term and a particular rate of interest. The interest rates are laid down each quarter year now, and they are based on the yield on Government securities plus a small margin. The rounded off figure that I quoted of \$500 million is the net of those two things. In other words, we have receipts of \$140 million or \$150 million from Central Mortgage and Housing Corporation offsetting gross loans of about \$650 million.

Mr. Read tells me that at page 233 of the White Paper attached to the budget you will find a table that shows the advances and repayments in respect of Central Mortgage and Housing Corporation in some detail. That is Table 64 on page 233.

**Senator Desruisseaux:** Is there any amount written off for losses?

**Mr. Bryce:** For losses?

**Senator Desruisseaux:** Yes.

**Mr. Bryce:** We have been very fortunate, sir, in having very few losses on these loans. We make some where risks are involved. There are some loans that the Government made many years ago on which we have not received payments; loans for example to some European countries after the First World War. We also gave guarantees to the banks in financing some ships for China after the Second World War which we have had to implement. One or two other foreign loans were made to the government of mainland China on which we have had losses. We have not had losses on loans to our own crown companies, nor on any of the other items I have mentioned. We have not had any significant losses as yet.

**Senator Desruisseaux:** What about the reserves?

**Mr. Bryce:** We hold a reserve against our active assets. I have forgotten the exact amount, but it is something over \$500 million. Occasional questions have been raised by the Auditor General about how that is determined, why it is the size it is and things of that sort. It is largely history now. It was set up many years ago and we have not charged anything to it for some years, that I recall.

**Senator Desruisseaux:** Would you say that percentage-wise the write-offs are negligible?

**Mr. Bryce:** I think it is fair to say that. We must at some time contemplate recapitalization of the Canadian National Railways. The intention to do that has been included in a number of speeches from the Throne over the past six or eight years, but for one reason or another it has been deferred. We have substantial investments in the railways that are not yielding us revenue, of course, or at least we are having to put up large amounts for deficits to enable them to pay it to us; we have investments in stock and things of that sort. Apart from that, we are doing very well. We show on our balance sheet our holdings in the Bank of Canada at \$5 million or \$10 million, or something of that sort, and we are getting revenue of over \$150 million a year, so there are offsets to those where we have lost.

In answer to the question about the Canada Pension Plan benefits, in the last fiscal year the benefits were some \$15.5 million.

**Senator Beaubien:** The payments on C.M.H.C. in 1968 were \$673 million, and in 1969 only \$386 million. Would that be right?



**Mr. Bryce:** Yes, sir.

**Senator Beaubien:** Because of the high mortgage rate?

**Mr. Bryce:** That was largely because we cut back quite substantially on the direct lending program. Direct lending is lending by C.M.H.C. direct to builders or house owners. We did a great deal of that during 1966 and 1967. That was changed when the interest rate policy was altered and we permitted the interest rate to rise as high as the statute would permit. That brought a great deal more private funds into the mortgage market and C.M.H.C. did not have to supply as much; some of the C.M.H.C. funds went into public housing, limited dividend housing and things of that sort. Perhaps I have said enough about these extra budgetary items, although there may be questions later.

**Senator Isnor:** What did you mean when you referred to the Canadian National Railways deficit? Are you going to reconstruct, as you did some years ago, and write-off those deficits?

**Mr. Bryce:** Yes. Successive governments have indicated an intention to recapitalize.

**Senator Isnor:** How do you show them at the present time? As an asset?

**Mr. Bryce:** Yes, sir.

**Senator Isnor:** Later you propose to do what?

**Mr. Bryce:** We propose to recapitalize. Where it will come out at we do not know. This is a very large job that has to be done.

**Senator Isnor:** You did the same some years ago.

**Mr. Bryce:** That is right. It was done back in 1952, the last capitalization of the C.N.R.

**Senator Molson:** Do you think we could succeed in putting it on a permanent basis this time, or do you think it will come up again?

**Mr. Bryce:** We hope that if we do it this time we will do it once and for all.

**Senator Phillips (Rigaud):** The simplest way would be to set a reserve for the next 20 years so that the deficit can be applied against the reserve, then you will not have to recapitalize.

**Mr. Bryce:** Turning to expenditures, I think there are a few observations I might make. The table distributed shows that government expenditures have been increasing over the years. Table II shows government expenditures as a percentage of gross national expenditures; that is, the equivalent on the expenditure side to the gross national product. Looking at the total for Canada in the two columns on the right hand side, you will notice that in the last several years they have been increasing as a proportion of the gross national product, and are now somewhat ahead of the proportion in the United States.

Looking at the breakdown between federal expenditures and others, you will notice that the major increase has been occurring in the expenditures labelled "Others", which are provincial and municipal governments. Between 1960 and 1968 they have increased, in round figures, from about 15 per cent to 20 per cent of the gross national product. Federal expenditures are roughly at the same level as a proportion of the gross national product as they were in 1960, that is to say around 18 per cent. They have varied during the ensuing years, but that gives a rough idea.

If you note the comparison with the United States, their federal expenditures are now higher as a proportion of the gross national product, although in 1960 they were about the same. That difference is due largely to defence. In our case defence has been declining as a proportion of the gross national product; in the United States it has been increasing.

You will note that our provincial and municipal expenditures are substantially higher, as a proportion of the gross national product than are the state and local expenditures in the United States. This is really one of the major differences in the public finances of the two countries. I think it can be said, despite all the difficulties of our provinces and municipalities, that they are dispersing a significantly higher proportion of the gross national product than are the corresponding levels of the Government in the United States. The position of the various states and municipalities in the United States, of course, differs. There are some that are well off and well to do and there are others that are notoriously very hard up. I think the chief thing to note is that the big increase has been at the provincial and municipal level with us and it has raised our proportion in relation to the United States. I would not try to go through all those others.



The rate of increase of our expenditures is being reduced now. If you look at the economic chart labelled 21 on page 42 of the White Paper you will see that it shows the rates of increase of Government expenditures on an annual calendar year basis. At the bottom of the page you can see that those rates of increase have been decreasing. This is reflecting the efforts of governments now to moderate the substantial rates of increase that were occurring in the middle sixties. In the budget speech, itself, it was pointed out by the minister and recorded on page 9414 of the House of Commons *Hansard* the following:

The preliminary figures also show . . . This applies for the past year.

. . . that while total expenditures rose by some 9 per cent, half of this increase was accounted for by larger payments to the provinces. These payments, both in the form of unconditional fiscal transfers and in grants for shared-cost programs in health, welfare and education, rose by over \$450 million, an increase of some 27 per cent. Additional public debt charges accounted for a further \$178 million. The increase for all other federal programs and services provided through the budget was held down to less than 4 per cent less than the rate of increase in pay and prices in the country as a whole.

Those figures indicate that progress is being made in the endeavour to hold down the rate of increase in expenditures and it is under some measure of control. It is, however, perfectly obvious that it is more difficult for us to control our big statutory programs and, in particular, our major programs that we share with the provinces.

We have made some effort in the department which I will mention to you. We have tried to get a rough idea of what lies behind these increases in our federal expenditure in the last four years. I warn you that one cannot be precise about this, but we reckon that something approaching half of the increase over all has been due to the effects of prices and wages and other pay. Almost all Government expenditures, other than interest, are affected fairly directly, such as increases in wages and prices.

In the social welfare field the Canada Assistance Plan is fairly automatically increased as costs go up, and this is reflected in recognized local and provincial standards. Perhaps this is not as fast as some feel it should be. The Old Age Security Pension and

the guaranteed income supplements have a limited amount of price inflation built into them now. The Government has to meet these increases automatically under the statutes. The costs of hospital insurance automatically reflect increases in wages and prices of which there have been a good many. Medicare, which has now commenced, and the expenditures on post secondary education, which again we meet through the provinces and they in turn through the universities and other institutions, have costs which are rising at a more rapid rate than the yield of the tax transferred to the provinces.

Generally, in the country wages have been going up more than prices. In the case of the Government the proportion of wage cost is high and more so in the case of provincial and local governments than in the federal Government. Consequently, Government expenditures are under more pressure from rising prices and wages than would be indicated by the ordinary price indexes. Moreover, the wage costs to which the Government is contributing, particularly through the hospital insurance plan and also with a number of other things relate to groups where wage incomes have been increasing more rapidly than others in the economy. The pay increases in the hospitals have been more rapid than in the economy generally. They have been catching up. Many of these institutions have been organized more recently than other sectors of the economy.

**Senator Phillips (Rigaud):** Is it catching up or is it a case of easier to get because of Government support?

**Mr. Bryce:** That is a question of judgment. The ratio has been rising, in any event. Of course, particularly in these things, we do not control them directly. That is the first thing. The second thing which I think could be noted, is the increase due to population factors. Again, it is difficult to be precise, but it would look to us as though this accounts for perhaps one-fifth or one-quarter of the increase in expenditures over the past four years. Many of our operating costs depend on total population, such as the post office, air services and a variety of other services that the Government provides. Others are influenced by the composition of the population such as the increase in the number of young people and particularly those becoming adults. It is reflected in the very rapid increase that has been going on in the cost of post



secondary education and in requirements for housing. These increases reflect the wave of post war births, of the middle 1940s, that are now moving into the years where they are marrying and setting up housekeeping. The increasing affluence of the young now enables more of them to have their own apartments rather than live with their families. This, too, has added to the pressure on resources and to the requirements for housing finance and for furnishing and things of that sort.

A third important population factor is the big shift which has been going on, from the rural areas to the urban centres. Urban dwellers expect and require more of public service facilities than those living in the country. This transfer from rural to urban life has been going on quite rapidly in Canada—more rapidly than in most western countries during the 1950s and 1960s. This is set forth in one of the recent reports of the Economic Council.

I think one must bear in mind that those factors have been at work all round.

In addition, we have had new programs and changes in the spending programs. I would sum these up by saying that we have seen some quite broad changes in social attitudes and circumstances.

There has been a major change over the last twenty odd years in attitudes towards social security. The community has come to expect that much more will be financed through governments. The most marked change, I suppose, is in regard to the old people, where it is now expected that the Government take a major responsibility in regard to them, far greater than before the first world war and of course infinitely greater than before the first old age pension plan was introduced in Parliament in the 1920s.

I will not try to detail this. We have had radical changes in the attitudes towards the support of the poor, whether they be employable or unemployable. There is of course a committee of the Senate studying this.

The second major change I would note is the acceptance of public responsibility for higher education, which is now almost entirely financed by provincial governments.

We came massively to the support of provincial governments when this program began to assume really major dimensions in the middle 1960s. We are finding now that our expenditures under this program are growing at 20 per cent a year or more, partly because of increases in the number of people in that

age group, as I mentioned, partly because of the higher proportion of the number attending universities or other post secondary institutions, and partly because pay increases are going on among the professors and others.

**Senator Everett:** Have you any idea of the amount transferred in the last fiscal year, Dr. Grace?

**Dr. Bryce:** Yes. Our estimates are for last fiscal year.

**The Chairman:** 1968-69.

**Dr. Bryce:** I can give estimates for this year, which would be more comparable with the other things we have been talking about. We estimate the gross operating expenditure of post secondary education institutions, universities and such like, to be \$1,240 million, of which the federal share, after making adjustments for things that are excluded and included, would be \$628 million. Of that, some \$303 million are covered by the transfer of tax points that we made to the provinces under the legislation of 1966-67, and the equalization that arises automatically from it. The remainder, our cash adjustment payments will be some \$325 million. I have not checked these against the estimates, but I hope they can be reconciled. However, that gives you a sketch of the position.

**Senator Everett:** Is it the \$628 million that is increasing by 27 per cent, or is it the difference between the \$628 million and the \$303 million?

**Mr. Bryce:** It is the total that is increasing—in that order. Perhaps Mr. McLarty could confirm that.

**Mr. R. A. McLarty (Fiscal Policy Department, Department of Finance):** Yes. Operating costs are going up, or have been going up, at the rate of 20 to 25 per cent.

**Senator Everett:** So it is the \$1,240 million that is making the figure bigger.

**Dr. Bryce:** We reckoned that about one-third of that increase is due to increased cost per student, and the other two-thirds due to the increasing number of students. That is, speaking roughly.

As you can see, this assumption of responsibility by governments for post secondary education was not the custom a generation ago, but is a major thing now.



A third and related matter is the emphasis now being given throughout the country—and particularly by the Government and Parliament—to upgrading the level of occupational training. We have all become convinced that one of the real handicaps we have in achieving increasing productivity is the fact that much of the existing adult labour force has not had adequate training or a basic education, and we are endeavouring to upgrade that.

As I recall the expenditures on that run something in the order of a quarter of a billion dollars a year. The details are in the Estimates.

Another major point it is well to bear in mind is that it is assumed now—as is evident in still another Senate committee, sir—that the Government bears the main responsibility for financing research and development in science and technology. This is another major growth sector of the economy.

The need for some restraint on expenditures has led the Government to slow down the rate of growth in this, but it is still the case that in most countries now, and in Canada particularly, a large portion—indeed, a predominant portion—of the finance cost for research and technology falls on the government. This is widely accepted as applying to the physical sciences and technology and to a lesser degree in regard to the social sciences and humanities. As you know, there is an argument going on as to whether the latter should not be supported at rates of growth corresponding to the former.

We had hoped, of course, that these things would be offset by a reduction in the need for defence expenditure. We have been able to hold defence expenditures fairly well at the sort of levels they have reached with slow growth in recent years. The real content has been declining as the increases in costs press against the levels at which they are being framed, but the need for collective defence, for readiness, remains. We are not able to look for reductions in this field at present to offset the increases in the things that I have mentioned.

Finally, we have seen over the last quarter century a revolutionary change in the attitude toward the responsibility of the Government of Canada for alleviating regional disparities, to use the latest language. We got into this indirectly during the war under the tax rental agreements, which contained an element of support for the provinces. This became explicit in the middle 1950s, when we intro-

duced the equalization grants for the provinces. It was greatly increased and put on a much more objective and general basis in the legislation of 1966, which took effect in April of 1967.

Now this is being extended from the equalization of provincial revenues to cover the improvement of the basic capital infrastructure of the areas where economic growth has been slower and opportunities have not been as great. Of course, it is also going over into substantial expenditures on the support and encouragement of industries in these areas. Again, this has been one of the major developments in understanding the growth in our expenditures.

Well, sir, I think those are the main features to which I would draw attention. I think it is fair to say that they are recognized by the Government and, indeed, by the provincial governments. The Estimates that you have before you reflect their efforts to recognize and meet these problems while endeavouring to slow down the rate of growth in the total of expenditures.

Thank you, sir.

**The Chairman:** Thank you, Mr. Bryce.

**Senator Isnor:** Mr. Chairman, Mr. Bryce indicated that he expected a reduction in the defence department.

**Mr. Bryce:** Years ago we hoped that we could look forward to that, sir.

**Senator Isnor:** So I understood you to say. I am particularly interested in the defence expenditures in respect of the numbers in the naval service. Are such estimates brought before you? Do you have anything to say concerning policy?

**Mr. Bryce:** Sir, the questions of defence policy and expenditures are dealt with by a colleague of mine. I have been before both the Treasury Board and the cabinet committees specifically charged with dealing with defence matters, but I regret to say that defence policy is one of the subjects I have had to leave to others in this past year. I have a very strong, articulate colleague in the Secretary of the Treasury Board, who has already appeared before you. He and his minister, Mr. Drury, have taken a most active role in this matter. I am sorry that I cannot help you with respect to these matters, particularly in reference to the naval figures.

**Senator Isnor:** You are not prepared to say that the reductions you mentioned are likely to take place in respect of the navy?



**Mr. Bryce:** No, sir, I couldn't tell you.

**Senator Desruisseaux:** Mr. Chairman, I wonder if it is the right time to toss this in. I hope our distinguished witness will not misunderstand me when I repeat what was said a few days ago by a former Liberal minister to the effect that the finances were in a mess.

What comments would you make on that?

**Mr. Bryce:** Well, sir, I don't think the committee would expect me to agree. I think it has been evident that the rate of increase in expenditures in the middle 1960s was such that people were becoming concerned about how far it would go. They began to realize that it was one of the features contributing to the inflationary tendencies of the last several years.

So the problem has been recognized, and the figures and charts I have drawn to your attention indicate that a real effort has been made to bring it under control.

We do have a very serious problem in getting control over the big programs which are carried out by agreement and arrangement with the provinces. This gave rise last year, for example, to our expenditures turning out to be substantially higher than we had forecast early in 1968.

Whether that constitutes a "mess" or a miscalculation, I will leave to others to say, but I think it is evident now that a serious and successful effort is being made to get these under control.

We have to take up with the provinces the question of such major programs as hospital insurance and post-secondary education, where there are expenditures over which we do not have any direct control with respect either to their level or their rate of growth under the arrangements we have.

The other outstanding feature of our public finance in the past year or two has been the state of the capital market, where we have seen interest rates rise to quite unprecedented levels and where the difficulties, particularly of provinces and municipalities, in financing and in selling bonds have been manifest and important.

This, however, is not just a Canadian phenomenon. It is common to other countries as well, and particularly to the United States. The situation now is made more difficult by the fact that in the United States they are having to follow a tough monetary policy,

particularly to safeguard their situation in case the surtaxes on personal income and corporate taxes are not extended when they expire late this month. Thus monetary policy is having to carry a large part of the load there, and this has given rise to conditions in the capital market that make it difficult for those who have to finance by way of bonds or mortgages.

In addition, of course, we have seen a growing awareness on the part of investors of the danger of price increases in eroding the value of long-term investments that are defined in money. There have been a lot of changes going on in the capital markets in the last half dozen years, both institutional changes and others, and there has been an increasing professionalization of investment advice. As is manifest in the search for stocks and the reluctance to buy long-dated bonds, there has been desire to safeguard against the risk of inflation in the future.

Now, of course, both governments and monetary authorities have been trying to break this expectation that prices will go on rising year after year. This is the reason that we have in Canada, as in the United States, and in other countries, a tough fiscal policy. It was set forth by the Minister in the house last week. This is to try and get the inflationary situation under control so that the expectation of inflation will be reduced. One of the chief advantages to be gained from that is the reassurance to the capital markets that people can invest in long-term bonds and mortgages with some confidence that these investments will not lose their value over the years.

**Senator Desruisseaux:** Are we satisfied, sir, about the control of expenditures in the Foreign Aid department.

**Mr. Bryce:** Well, the program in foreign aid is being revised by Mr. Strong and his officers to put it on a somewhat different basis. He has explained this to the committee of the House of Commons and perhaps here as well, but I have not read his testimony.

**The Chairman:** I think he spoke to the Senate Committee on Foreign Affairs.

**Mr. Bryce:** I hesitate to try and comment to put it on a better long-term basis, and in on the testimony when I have not read it, but I am a member of the board that deals with the aid program, and I know they are trying the interim they are not in fact spending all the appropriations they have been given. But



they want to do a good job in terms of quality and destination, and they have had our support in trying to achieve that. The general priority to be given to foreign aid is a matter for the government and parliament, and not for those of us carrying out the operation.

**Senator Beaubien:** Going back to the cost of education, Mr. Bryce, you said that the cost of education to the federal and provincial governments is running in the order of \$1,240,000,000.

**Mr. Bryce:** That is post-secondary education.

**Senator Beaubien:** And that it is increasing at the rate of 20 or 25 per cent. At that rate it will double before long. Does it look to you in your judgment that that line of increase will keep up? I know it is hard for you to say definitely.

**Mr. Bryce:** I know that the provinces recognize this as a major problem themselves, and it may be noted that Ontario, which is the biggest by far in this field, has just a month ago announced the appointment of an eleven-member commission to plan the development of post-secondary education in that province for the next twenty years. I think it is reasonable to say in general that the provinces are actually aware of this problem of post-secondary education and are trying to reach decisions as to how rapidly the expansion should take place and in what form, and subject to what sort of controls. This raises the question of the relationship between the universities in particular and provincial governments.

The nature of our arrangements with the provinces now is designed not to interfere with the responsibilities of the provinces and not to influence the direction of the development of their post-secondary education or its goals. We have deliberately made it broad in scope. This is a major problem which will confront parliament in two years' time because our arrangements with the provinces, which are embodied in part of the Fiscal Arrangements Act, expire in March, 1972. Then, the government and parliament will have a major decision to make as to what support they can and should and will give to post-secondary education beyond that date.

**Senator Beaubien:** If it looks as though the expenditures will increase at that rate, is it your guess that the income of the federal and provincial governments can grow at the same

rate or do you think they will have to give up some other programs?

**Mr. Bryce:** Well, sir, the real increase, abstracting from price changes, in our output has been projected at something in the order of 5 per cent. However, Mr. McLarty might like to comment on that.

**Mr. McLarty:** We did a projection to frighten people, some weeks ago. Taking into account the growth rates of post-secondary education operating costs and the gross national product, the cost of operating post-secondary institutions would be greater than the gross national product by 1994. However, we have indications that this growth rate has slowed considerably in the current year. Our projection was based on the situation in the last four or five years.

**The Chairman:** It would have to slow down at that rate.

**Senator Fournier (Madawaska-Restigouche):** Mr. Chairman, I have followed the remarks of Mr. Bryce with interest and I presumed that we had some years ago adopted a policy where all forms of government all over the world supported the theory of buy now and pay later. This has not proven to be too successful and we are trying to get away from it in order to have a few dollars in our pocket before we take an adventure of some kind. Under the old policy we would spend millions of dollars and say we would pay later. However, I endorse 100 per cent what Mr. Bryce has said because I was never an advocate of the buy now and pay later theory. There has to be a day of reckoning sooner or later. I must congratulate you on your approach this time, which I think is the right one. I think credit is limited under any circumstances.

Now, turning to education, education is getting to be a problem and—this is a personal problem—I believe sometimes extravagances are taking place in education. I do not know what you would call it—maybe the architects' ambitions—but it seems to me there is a race as to who is going to build the nicest building and so on. It seems to me all these things are all very fine if you have the money to do this, but most are building on credit and all those I have seen are extravagant. There seems to be a limit, and my limits are set by my ability to pay.



**Mr. Bryce:** Let me say that in this major field of post-secondary education the Government in Ottawa does not, and constitutionally really cannot, take a view on how these funds are spent, in detail. We have been careful to set up the arrangements in such a way as to leave the jurisdiction and responsibility for the expenditures with the provincial governments.

Essentially, what the Government of Canada and Parliament did in 1966-67 was to provide to the provinces extraordinary assistance to meet the obvious big bulge that was under way in the need for post-secondary education.

I would not want to comment on the question you raised, sir, not only because I am a civil servant but also because it is basically related to provincial rather than federal policy. However, all this sort of thing will no doubt be in the mind of Parliament when they look at the situation in 1971. Are the rates of increase in expenditure on post-secondary education going to have to proceed the way they have been?

**Senator Everett:** Mr. Bryce, on page 6 of this study you show that the extra-budgetary transactions are estimated at a deficit of \$525 million, but that excludes any amount for foreign exchange acquisitions, and I note that in the year 1969 the preliminary figures show that the advances to the exchange fund account total \$833.7 million. So, that is a fairly large part of that?

**Mr. Bryce:** Yes.

**Senator Everett:** I was wondering what the situation is today. Are there advances being made to the exchange fund—and, if so, are they large—or are we getting money back from the exchange fund?

**Mr. Bryce:** Last year was a quite extraordinary year—and we are speaking here in terms of fiscal years. We had, as you well recall, a major exchange crisis in January, February and March of 1968, and our reserves were reduced very materially. So that during the April to March fiscal year following it we rebuilt those reserves. We rebuilt them partly by foreign borrowing undertaken last May, May of 1968, which raised several hundred millions of dollars. The figures are here, and I can lay my hands on them in a moment. In addition, we rebuilt them by the accumulation of reserves through the market, which we had to finance from our Canadian dollar balances. So that large figure

you mentioned of \$833 million would include the proceeds—would it, Mr. Read?—of the foreign loans?

**Mr. Read:** Yes.

**Mr. Bryce:** Yes, it does. For this year our balances have been restored to fairly substantial levels. They have not changed much. In the last four or five months they have been fluctuating only by modest amounts, and we would assume that much greater stability can be expected compared with last year. We do not try to forecast this because it is very hard to do.

The minister did say something in the budget on this matter. I might briefly refer to it, at page 9424 of Commons *Hansard*, the upper left corner, second sentence, where he says:

It would probably be prudent to assume that we will need some modest amount for this purpose.

That is for foreign exchange acquisitions. I suppose a "modest amount" might be \$100 million or \$200 million.

**Senator Everett:** "What's a hundred million?"!

**Mr. Bryce:** In this business you can gain tens of millions or lose tens of millions very easily.

**Senator Everett:** I appreciate that. If we require foreign exchange, that would result in an expenditure of monies to obtain that foreign exchange, which would be the \$833 million?"!

**Mr. Bryce:** It would correspond to that, that is right.

**Senator Everett:** In fiscal terms, that would have an inflationary effect.

**Mr. Bryce:** It requires financing, and the financing, in turn, might affect the level of bank credit and things of that sort. We would normally finance such exchange things, I suppose, by short-term borrowing of one kind or another; but it does not necessarily have any significant effect on the demand for or supply of goods or labour, because the changes are normally caused by capital flows, and those capital flows would bring the foreign exchange with them, and we would have to acquire it in order to provide the foreign investor or the Canadian repatriating funds with the dollars that he wants.



**Senator Isnor:** Mr. Bryce, take the four largest banks, the shareholders in the banks every year are given a comparison of the net profits, and so on. We have had a lot of figures, as to expenditures in the United States and Canada. Would you care to comment as to Canada's standing at the present time as compared to that of the United States?

**Mr. Bryce:** In what respect?—I am sorry.

**Senator Isnor:** I have said that we are all interested in how the banks and companies are doing in Canada, and we make comparisons with the United States, and we have had a lot of figures. Taking into consideration the size of the United States, how are we doing financially?

**Mr. Bryce:** I do not know how our banks' operating results compare with...

**Senator Isnor:** I am not talking so much about that. I was just giving that as an illustration. I want you to give us your opinion as to how we in Canada are doing from the financial point of view as compared to the United States.

**Mr. Bryce:** I think one can say that our economy is growing more rapidly than that of the United States. We are not under such strains in the labour and commodity markets as is the United States. Their unemployment proportion, I think, is currently below ours—I have the figures here somewhere—but their price increases recently have been somewhat more than ours. Our rate of wage increases, I would have thought, are comparable, or even perhaps slightly greater.

I am speaking from memory here, without looking at the figures, but those are the sorts of observations I would make.

I think that in general we are both confronted with the same sort of problem at the moment—the problem of how to maintain a stable prosperity and restrict inflationary tendencies. We are both trying to solve this problem by a combination of fiscal and monetary policy.

I would not want, just off the cuff, to compare the contributions of fiscal and monetary policies in the two countries, but I think it is fair to say that both of us are endeavouring to use these two major influences to restrain price increases and cost increases.

How we are going to come out this year and next year remains to be seen, sir. Our parliamentary system enables us to get our

fiscal measures into effect more quickly than does the congressional system in the United States.

Of course, they have a war on their hands, and they have other very serious problems in their cities, that we do not have. We have our own problems, particularly problems of regional diversity of economic conditions, which complicate the problem we have in controlling the economy. The United States has fewer regional differences, but they do have these other serious problems.

Does that answer your question, sir?

**Senator Isnor:** It is a summing up, but I do not think it is an answer to the question I had in mind. When I looked at the tables that we received from previous witnesses it struck me that Canada was doing exceptionally well compared to the United States, apart from the defence aspect. I was hoping you would support that thought and assure us that Canada is doing a good job financially.

**Mr. Bryce:** Do you mean in the control of expenditures?

**Senator Isnor:** Yes.

**Mr. Bryce:** The figures up to 1968 are shown here in the tables I distributed. If you look at Table 4, Canada-United States Government Expenditure on Goods and Services per capita, you can say that our expenditures, excluding defence, per capita were nearly as high last year as those in the United States, excluding defence. This includes all governments. Of course, if you include defence then the United States figure is very much higher.

The comparison in terms of gross national product that I gave you showed that we have been over the years growing more rapidly in the provincial and municipal areas than the United States. But, I think, sir, that we must bear in mind that the growth of our population is more rapid, and in particular the growth of our labour force and family formation has been more rapid than that of the United States. Our provinces and municipalities are confronted with very real growth problems that they have to meet and finance, and this has been reflected in their expenditure figures.

**Senator Phillips (Rigaud):** Mr. Bryce, you dealt earlier with extra-budgetary expenditures. I am wondering why it would not be desirable to include the normal budgetary



expenditures with what we now call the non-budgetary items so that the public at large will get a clear, simple indication of the total flow of moneys in, and the total flow of moneys out? I for one find it very confusing to see this growth of non-budgetary expenditures which, at one period, was very small in relationship to the whole. Do you think it proper for me to ask you whether you think it desirable that the procedure be changed in connection with the presentation of the annual budget by including the so-called non-budgetary items in the budgetary items, and thus provide the Canadian public once a year with a clear indication of the total moneys in and the total moneys out?

**Mr. Bryce:** I think, sir, we can improve that. At the bottom of page 8 of the material I distributed there is this paragraph:

In the United States consolidated cash budget figures are prepared showing cash movements between government and other sectors of the economy. These are an essential step forward in assessing the effect of government action on financial markets and private sector liquidity, studies are underway on the possibility of a regular cash budget for the Government of Canada.

And then I mention that an example of how such a budget might appear was prepared for the Royal Commission on Taxation, and it is included on the next page.

**Senator Phillips (Rigaud):** Excuse me. I did not know you had this in the material because I did not have a chance of reading it before the meeting. Therefore, I am most anxious to get a reaction as to what your personal views are.

**Mr. Bryce:** We would hope to improve our presentation in this respect. These extra budgetary accounts have become increasingly important. I do not know what the minister will do in future budgets, but certainly for our own use we are paying increasing importance to them. We recognize that for the layman it is difficult to take into account all these varieties of accounts that do not show up in the ordinary expenditure and revenue. The chief problem is that there is a real difference between spending money on, let us say, family allowances, or a battle ship, or a dock, and lending money on mortgages that are good security. I think people would not feel we were justified in counting normally

on raising money by taxation in order to put it into the mortgage market.

**Senator Phillips (Rigaud):** During the course of a year there is much difference between so-called current expenditure and capital account expenditure, and determining how to run a household. Why should we not nationally do the same?

**Mr. Bryce:** On the other hand, there is a difference if you compare us with a corporation. A corporation does not hesitate to raise capital or borrow to undertake capital expenditure.

**Senator Phillips (Rigaud):** The relationship between shareholders and the private loans operation would obviously be completely out of balance if you simply went on a cash load basis, but from the point of view of government and the relationship between the total money it takes in and the total it takes out, so that we tidy up the question I was wondering whether it would be appropriate to ask if you would react favourably, as a department, if a recommendation were made that budgetary expenses should include the total cash load? Or would it embarrass you to be asked that?

**Mr. Bryce:** I would see some point in recommending that we make clearer the overall cash budget.

**Senator Phillips (Rigaud):** With regard to the second major heading that you developed, in which you dealt specifically with medicare and education, surely quite a number of taxpayers in the country would prefer paying for the education of their children and for their own and their families' medical attention, but they are not sufficiently patriotic to want to pay the tax on that. They might be much more inclined to pay those expenses if there were tax deductions related to their taxable income. Has the department considered the desirability of making reductions in major expenditures under these headings, which are now developing on a galloping basis, by amending our tax laws to grant full relief for expenditures on education and health by the individual taxpayer? Would that not save the government a considerable amount of money, or is that policy again?

**Mr. Bryce:** I think it is, sir. The handling of health expenditures in particular has been a matter of high policy for the last several years. Mind you, the principle now seems to have been settled and the health expenditures are becoming much more a matter of management than high policy.



**Senator Phillips (Rigaud):** What would be your reaction to a suggestion that the government be bound annually in terms of total expenditure having regard to the production of a percentage of gross national product as a ceiling.

**Mr. Bryce:** There would be a ceiling on the percentage of the gross national product that we could spend.

**Senator Phillips (Rigaud):** Is that policy?

**Mr. Bryce:** That would be parliamentary policy.

**Senator Phillips (Rigaud):** I wanted to have on record that I had asked you the question.

**Mr. Bryce:** You can see from the tables that that would not have been a great restriction on the federal Government itself over the past eight or ten years, but it would run into the desire from year to year to do new things.

**Senator Fournier (Madawaska-Restigouche):** It would not come in election year.

**Mr. Bryce:** I can see strains developing.

**Senator Molson:** I should like to follow one question asked by Senator Phillips. We have some loans and advances on the loans side that I do not think will ever be repaid every year.

**The Chairman:** The chief item would be the Canadian Broadcasting Corporation.

**Senator Molson:** The C.B.C. is certainly one of the major ones. Are we not being a little unrealistic in year after year putting nice round sums in there under that heading?

**Mr. Bryce:** This is the old—

**Senator Molson:** Chestnut?

**Mr. Bryce:** No, it is not a chestnut. We have had discussions on it from time to time in the Public Accounts Committee in the other place. We now segregate in our accounts those loans that we show as assets, the repayment of which is likely to require appropriations. We therefore call attention to that. Secondly, when we instituted this back in the fifties, I think, we felt that it helps to give a truer position year by year of the operating results of the corporate entities to which they are attached.

One of the first cases in which this arose was the National Capital Commission, when it

was decided to acquire the property known as the "Green Belt". This was a decision taken under Mr. St. Laurent, and I was then his chief officer, Secretary of the Cabinet. We came to the conclusion that this would be a sensible investment, that we would in the end get good revenue from it, and moreover that what we were doing was not putting these major properties to government use but holding them to restrict their private use; any time Parliament wanted to reverse the policy we could sell that land for more than we paid for it.

We felt it was appropriate to lend the commission money to do that and to make it pay interest as a form of putting pressure on it to try to get the best rents it could, within the limits of the policy as to the use of these lands. Insofar as it could not do that, it showed Parliament year by year what it was costing us to hold those properties for the uses that were permitted. In other words, it was the cost of maintaining a green belt around the capital. I think this has succeeded, and over the years I guess we have shown in our accounts more interest than we would have shown expenditure had we charged it to expenditure.

In regard to the C.B.C. we felt it put them closer to a commercial basis of keeping their accounts and managing their affairs, if they had to borrow the money for their capital requirements, pay interest and amortize the loans, and have the C.B.C. management present their accounts to Parliament, as the board of directors, in a more businesslike way. They were engaged in a not very profitable business, but still in a business.

It is true, sir, and this is a clearly debatable issue, there are advantages, one way or the other, but we have endeavoured by leaving the matters in the accounts as I have described, to avoid pulling wool over one's eyes. I still believe there are managerial advantages and advantages to Parliament in having the costs each year reflect the fact that these corporate agencies have substantial capital provided by the Government.

**Senator Molson:** In the case of the CBC, the contrast with the commercial and financial world would perhaps focus attention specifically. There is such a contrast.

**The Chairman:** I wonder if the committee would allow me to ask a question following what Senator Phillips spoke about, the overall figure of percentage of Government



expenditures as against gross national product.

Mr. Bryce, we have had two witnesses here, Dr. Smith of the Economic Council, and Professor Neufeld, who stressed the desirability of reviewing existing programs and expenditures that seem to have become built-in programs and to a point where one wonders their justification and whether they should be reviewed and changed. The one that Professor Neufeld specifically mentioned was Family Allowance, and he was free to mention that because he himself is a recipient of Family Allowance.

The other one that occurs to me is the Old Age Security payment which I receive and pay back in income tax. I question that this is the right way to handle that kind of program.

We all recognize, in the first instance, that there are strong administrative reasons and other reasons, too, for putting them into effect. Have you any comment to make to us about the reviewing of these kinds of expenditure programs that have been going on for years and whether their continuance is justified or whether you feel changes should be made in this connection.

**Mr. Bryce:** I do not think either witness has shown any more zeal in this matter than the Prime Minister has. The Prime Minister had us working late and often, reviewing almost everything on which we are spending any significant amount of money. The difficulty is not in reviewing it, but in deciding the changes.

Each program raises significant problems. It has been indicated publicly by the Prime Minister that we are reviewing the Family Allowance program to see whether it should be modified and in what respect it should be done. It is, of course, well known that it is going on as part of the general review of social security. I would suggest, sir, that the situation with regard to the Old Age Security Pension is a somewhat different problem.

It was a very careful and well discussed decision in Parliament back in the early fifties to have a universal Old Age Security Pension that was deliberately independent of income. One of the reasons for this was that we did not want to discourage people from saving, for themselves. We did not wish to penalize those who had been prudent or had been economical. If you make your provision for old age primarily dependent on income you do penalize those who have saved. Many of those who have saved find that their sav-

ings are not worth what they had expected them to be, because of increases in prices.

I suggest to you that to change the decision of Parliament, made some 17 or 18 years ago on this major issue, raises considerations of a quite different order than those involved in Family Allowance. The whole problem of retirement savings is a major one of our society, with the gradual extension of the expectation of life that has been occurring, with the desire of people to have retirement incomes that are comparable to the incomes they have been earning, and with the risks of erosion of the value of their savings through price increases. This is a very complex social and economic question that raises wide problems of equity, as well as expedience.

We do not want to discourage personal savings for a variety of reasons. Much of it is being institutionalized, however a lot cannot be. I think it is desirable to retain the incentive to save and not reduce it. If you put all of your old age pensions on a means test, needs test or income test basis you are bound to weaken it. That is a rather long answer.

**The Chairman:** It is a good answer. Were there any supplementary questions on that?

**Senator Molson:** Would you say that you are encouraging savings by the Estate Tax Act?

**Mr. Bryce:** Up to a point, sir, yes.

**Senator Molson:** I think we should make the same point.

**Senator Phillips (Rigaud):** I would say the point is the vanishing point.

**Senator Beaubien:** Do you mean to say that anybody with \$10,000 a year would not be eligible for the Old Age Pension? That would weaken the savings of the big majority. Would it save any money for the Government? Have you any idea how much it would save by cutting off the Old Age Pension at \$10,000?

**Mr. Bryce:** This is just a guess. It might save 15 or 20 per cent of the total. There are a lot of people who have worked hard to save up for pensions of \$10,000 or \$15,000 and find that those are worth a lot less than they had expected.

**Senator Bourque:** Mr. Bryce, you have already replied to Senator Desruisseaux along the same line. My question is a little different. There was a statement, as you know, reported from the press concerning a declaration



made by an ex-minister. This statement might have been made in a moment of disappointment, anger and frustration, because after all it creates emotion in the heart of the individual who resigned, but it has created unrest among the average investors and the public at large. After all the things that have been said in the budget speech by the minister, I do not think there is any cause for alarm. I quite understand the changing from the existing system to computerization, that there might be delays and one has to become adapted to all these things. Nevertheless, my question is, is there any truth in the declarations made by the ex-minister—or can you answer that—I do not know. I think it is of primary importance.

**Dr. Bryce:** This is a declaration I should have information about, but I do not, sir.

**The Chairman:** Was it in this morning's paper or yesterday morning's, or is it the same question as that put by Senator Desruisseaux?

**Senator Bourque:** It is causing a lot of unrest right now. No doubt, big companies have their own officers and investment departments and they know all the answers. But the average independent investor does not know anything about it. If there are millions of these small investors, they get so frustrated and do not know anything about what may affect the market very much.

**The Chairman:** I do not want to rule you out of order. Probably you are in order, but I think the answer to Senator Desruisseaux's question, which Dr. Bryce gave us, was pretty complete. Were you in, Senator Bourque, when Senator Desruisseaux asked it?

**Senator Bourque:** Yes.

**Mr. Bryce:** I do not think there is anything more I can add to that at this stage.

**Senator Bourque:** I do not want to embarrass you by asking the question. I asked it because I, like many others, would like to know something further about it.

**Senator Desruisseaux:** I do not think this question should remain unanswered or that we should get away from it, or from getting the right answer on this one. We have or have not a mess in our financial situation. We should know. If we have not, we have to make it sufficiently clear, so that it reaches all those people that we are concerned with. This was the purpose of my question.

**Mr. Bryce:** Quite properly, sir. I am sorry that I have been so busy in the last 24 hours I had not seen this statement, and it is obviously something I have to go back and look up.

**Senator Desruisseaux:** It followed up on the previous statement made by the Leader, Mr. Stanfield, about the finances not knowing where they were going, whether they were coming or going. This, with the other statements now made, makes it a very cumbersome situation for some of us to answer, when we are asked questions about it.

**Senator Bourque:** I want it to be understood that I had not conferred with Senator Desruisseaux. I had just come in with the idea of asking this question this morning.

**The Chairman:** As I recall, Dr. Bryce said you would not expect him to agree with it, would you?

**Senator Bourque:** I do not want to embarrass him, and he may not be able to give an answer.

**Mr. Bryce:** I will certainly draw this to the minister's attention and I have no doubt he will be asked in the meantime.

**Senator Molson:** I do not know whether this fits in with the topic this morning, but I would like to ask Dr. Bryce about our reserves and international position. Perhaps I should know. I have a vague figure which seems to show that the holdings of gold on the American exchange have been allowed to rise.

**Mr. Bryce:** Sir, in December the Minister of Finance met with the Secretary of the Treasury of the United States—who has since retired, being replaced by Mr. Kennedy—and they reviewed the exchange arrangements with the U.S., and they came to the conclusion that it was no longer necessary to set a fixed figure limiting them. We take note of this exchange in the White Paper here and I can give you the reference, and read it to you, if you wish. The gist of it is to give us considerably more flexibility in our exchange reserve position.

This is on page 48 of the White Paper:

By an exchange of letters on December 17 between the Minister of Finance and the then Secretary of the U.S. Treasury, Mr. Henry Fowler, the arrangements between the two countries in the balance of payments field were restated and clarified. Under these arrangements, the



support which Canadian international transactions provide for the position of the U.S. dollar is recognized in the exemption of Canada from certain U.S. balance of payments measures, including especially the Interest Equalization Tax, insofar as it relates to new issues, and restraints on direct investment; it is also reinforced by Canadian undertakings not to permit transactions in contravention of the U.S. programmes to be channelled through Canada, and by Canadian reserves investment policy. In the letters it was agreed that the undertaking by Canada not to increase its reserves through unnecessary borrowings in the United States does not require that the level of those reserves be limited to any particular figure.

One should see the whole letter.

There are another couple of sentences that relate to it, but the essence of it is that they take note that there are temporary and seasonal factors that happen and that monetary policy may require.

The letters themselves were published and appended, I think, to *Hansard* at the time.

**Senator Molson:** I think that is satisfactory. I had really forgotten where we stood.

**The Chairman:** May I interpolate another question, as a result of some of the evidence we have had. Mr. Bryce, we have had some evidence relating to the United Kingdom or the U.S.A., that a 4 per cent increase in the gross national product would throw up a 6 per cent in Government revenues without any change in taxation, by reason of the progressive system of taxation. Are there any comparable figures for the federal Government?

**Dr. Bryce:** Yes, sir. We have these worked out in great detail. I do not have them with me.

The methods that we follow in the department were set forth in detail in an article in the *Canadian Tax Journal*, I think, last November or thereabouts.

We have recently reviewed and revised the relationship that we recognize and use in forecasting between the yield of personal income tax and the forecasts of personal income. That is one reason why our estimated revenues this year are now higher than we forecast in October. In the intervening time, we have done some further work on this elasticity, as we call it.

I cannot quote the actual relationships, but we calculate this for each type of tax and, in the case of the personal income tax, we calculate separately the relationship for those elements that are deducted at the source from wages and salaries, and from those that are paid quarterly or at the end of the year by others. We calculate this for each type of tax and, in the case of the personal income tax, we calculate separately the relationship for those elements that are deducted at the source from wages and salaries and from those that are paid quarterly or at the end of the year by others.

The relationship between the corporate income tax receipts and the GNP, of course, depends on the relationship of profits to the total gross national product, and this varies quite considerably due to a variety of circumstances, and we have tried to forecast carefully with respect to that.

Then we have made so many changes in recent years in regard to capital cost allowances and changes of time of payment, and everything else, that you have to be an expert to judge exactly what is a good forecast and what isn't. In other words, the sort of base line from which we work has been shifting so much.

But Mr. Bernier has set forth in that article the detailed methods we use. They are not completely up to date on the personal income tax, but otherwise they are. The article has all the regression equations.

**The Chairman:** I was just wondering if there was any broad rule of thumb over all that 1 per cent increase in GNP.

**Mr. McLarty:** The over-all figure we use, sir, is between 1.1 and 1.2.

The U.S. is higher because personal income tax is more important in their system.

**Senator Everett:** On page 15 of your study of accounting methods, Mr. Bryce, you state that there are three accounting concepts, namely, budgetary accounts, consolidated accounts and national economic accounts.

I can understand how the budgetary accounts are used for purposes of internal management. It states that the consolidated accounts are used for purposes of monetary policy and that the national economic accounts are used for purposes of fiscal policy. Could you tell me why this is so and how it works?

**Mr. Bryce:** That is a good, sophisticated question, sir. The reason why we have to use



these consolidated accounts for monetary policy is that the national economic accounts do not include our lending operations and the borrowing that we have to do to carry out our lending operations. For monetary policy, however, they must have regard to the Government's borrowing operations. This is one of the problems that the Bank of Canada faces in acting both as our fiscal agent in issuing loans for us and as monetary authority taking into account the impact of Government financing on the credit conditions in the country. So they need the more comprehensive consolidated figures for that purpose.

**Senator Everett:** Excuse me, but is that all federal Government financing?

**Mr. Bryce:** Yes.

**Senator Everett:** We would have to come back, then, to page 7 and page 8, where the non-budgetary receipts and disbursements are shown.

**Mr. Bryce:** That is right. They have to take account of all non-budgetary as well as budgetary items.

**Senator Everett:** That is the essential difference between budgetary and consolidated accounts.

**Mr. Bryce:** That is right.

**Senator Everett:** Surely there are more federal Government loans and disbursements than are disclosed on pages 7 and 8. For example, bond issues to finance a deficit.

**Mr. Bryce:** These do not include any transactions in the public debt.

**Senator Everett:** Not at all?

**Mr. Bryce:** No.

**Senator Everett:** Wouldn't they affect the monetary policy?

**Mr. Bryce:** Of course. They are the problem. But what is necessary in terms of public debt operations arises from these non-budgetary receipts and disbursements. And with respect to the budgetary accounts, specifically, you have got to consolidate those in order to get our over-all cash picture. You can get a brief summary of that in the White Paper on the public accounts on page 164 of the White Paper, Table 1. That brings it all together.

You see, there are the budgetary transactions which for 1969 showed a deficit of \$566

million. Then for non-budgetary transactions, including all those foreign exchange acquisitions, the total is \$1,373 million. This shows an over-all cash requirement to be financed by increase in unmatured debt or decrease in cash balances of \$1,939 million. Again I emphasize that it was as large as that because of the foreign exchange operations.

Of that amount we get \$1,523 million from net increase in unmatured debt outstanding in the hands of the public. The balance of \$416 billion we met by reducing our cash balance.

Of course, the bank is interested in all of that. That huge amount of increase in debt included our foreign loans.

**Senator Phillips (Rigaud):** That signalizes the question put to you previously about the desirability of the budget being on a cash-flow basis completely.

**Mr. Bryce:** Yes, sir. What we do in the budget is to make note of the balance of these non-budgetary transactions, but we don't set them forth in enough detail to give people what I think you are speaking about.

**Senator Everett:** To go on, how, then, does the national economic accounts affect fiscal policy? Why is it useful in the form of fiscal policy over and above the other two accounts?

**Mr. Bryce:** Because it is a closer reflection of the impact of Government operations, including those extra budgetary operations that result in payments to or contributions from the public. It is a more comprehensive figure there than the budgetary accounts themselves, and that enables us to judge better the magnitude of the impact that we are having on net incomes of the private sector—what we are taking from the private sector and what we are paying to the private sector—than do the budgetary figures themselves.

What it does not take into account are the loan transactions between us and the private sector. This has been the traditional form used by the economists in analysing the fiscal position.

**Senator Everett:** On page 13, item number 5 where you deal with corporate income tax, excess of accruals—I could understand an excess of collections over accruals but I have difficulty in understanding an excess of accruals over collections because I understand you tend to precollect.

**Mr. Bryce:** Well it is an excess of accruals, that is a plus, but it does not show up well in



the printing. Here it is an excess of collections over accruals.

**Senator Everett:** Then it should be a plus after accruals and a minus after collections?

**Mr. Bryce:** What we see here is an excess of accruals. The reason we have to make that adjustment is two-fold. First of all, the private sector national accounts are kept on a business-accrual basis and as you can see in the case of corporate income tax it is quite a substantial amount. Secondly, we think that corporations take mainly into account their accruing tax liabilities in determining whether they can afford to do certain things, and they take their collections into account in determining their liquidity.

**The Chairman:** Mr. Bryce, is there sufficient flexibility in our system of handling the estimates and the budget considering the period of time elapsing from when the estimates are originally prepared, go to Cabinet and Treasury Board and then come to Parliament when it is considered that they cover the year ahead. Do you think there is sufficient flexibility in this system to allow for changes that have to be made depending on whether the economy is inflating too fast or deflating?

**Mr. Bryce:** The big and somewhat ponderous process of department budgeting and control does impose a major task. However, the government can change up to, let us say, December its plans for the next year if there has been a major change in the economy and can impose further restraints on expenditure programs if that is what is needed, or it can put back in items that have been eliminated. Accordingly, you do have until approximately

the new year to make the adjustments. Many of the provinces make their major decisions at that time of the year too. We tend to make our major decisions somewhat earlier and then review them.

It is hard to change that late in a way which would produce comparable adjustment in all your programs because there are hundreds of them. On the other hand, if you really wanted to spend more money, there would be time enough to do it, or if you were facing a real emergency and decided you had to hold up construction expenditures, for example, you could do it. But it is difficult to do, at the last moment, if you want to impose sensible, well-distributed restraints on a discretionary basis, across the board.

**Senator Phillips (Rigaud):** You can always cope with the situation by use of supplementary estimates

**Mr. Bryce:** Yes, but the Government in recent years has been trying to get away from depending upon supplementary estimates. The Newfoundland and East Coast fishermen ran into a little trouble this year which resulted in the necessity for changes not amounting to many millions, but this was something that could not reasonably have been foreseen.

**The Chairman:** Are there any other questions? If there are no other questions, on your behalf I want to thank Mr. Bryce and his officials for being with us this morning. We have had the most knowledgeable man on this subject before us. We are very grateful for his help.

Mr. Bryce, thank you very much.

The committee adjourned.



## APPENDIX A

June 4, 1969

Some Highlights of the TablesTable 1

These figures show emigration to and immigration from U.S.A. by country of last permanent residence. Immigration from U.S.A. to Canada during the period 1956-1968 has doubled. However, emigration from Canada to U.S.A. remained higher and fluctuated more erratically. After declining to its lowest level in 1966, the emigration from Canada to U.S.A. has shown a tendency to rise in 1968. The difference between emigration to, and immigration from, U.S.A. works out to be on an average 34,000 annually in 1956-1958 as compared to 19,000 in 1966-1968.

Table 2

Information on immigration to Canada by intended occupational group in the post-war period is provided in this table. There has been a steady increase in the percentage of immigrants who intended to join one of the professions. Their percentage went up from less than 8 per cent in 1946-1955 to 24.7 per cent in 1962-1968. Farmers and farm labourers, who accounted for 27.0 per cent of the immigrant labour force in 1946-1950 and 18.1 per cent in 1951-1955, consisted of only 3.5 per cent in 1962-1968. The percentage of labourers among the immigrant labour force showed a tendency to decline during the period 1946-1968. Immigrants who came to join manufacturing, mechanical and construction trades continued to be the largest single group. Their percentage rose from 28.3 in 1946-1950 to 32.2 in 1962-1968.

Table 3

A more detailed breakdown of immigrants by professions intending to join the labour force in the period 1960-1968 could be seen in this table. There has been a four-fold increase in the number of engineers and health professionals, a six-fold increase in the number of teachers and a seven-fold increase in the number of physical scientists as against a four-fold increase in the number of all professionals. The number of labourers, loggers, etc. has

-2-

come down drastically in 1968 as compared to the previous years, presumably as a result of the introduction of the new selection criteria.

Table 4

The table shows immigration to Canada from the United States by intended occupation. There has been an increase in the number of immigrants who reported their occupation as managerial, professional or technical. For the last two types, the number increased from 1,628 in 1960 to 5,064 in 1968. Teachers who accounted for only 24.0 per cent of all professionals in 1960 corresponded to 45.2 per cent in 1968. Nearly 50 per cent of them consisted of university teachers. Though the numbers involved were less, there has been an increase in the number of engineers, scientists and health professionals. Among non-professionals, persons intending to join clerical occupations and manufacturing, mechanical and construction trades increased rapidly during the period.

Table 5

The table supplies information on the emigration of professionals according to last permanent residence from Canada to U.S.A. When this table is considered along with Table 4, it is discovered that while in 1960-1962 period Canada lost, on balance, an average of nearly 3,700 professionals annually, in 1966-1968 the loss was only less than 1,200 per annum. Nevertheless, 1968 showed the highest figure of emigration of professionals during this decade. Engineers and health professionals constituted the bulk of these professionals.

Table 6

The table focuses attention on the emigration of Canadian-born to U.S.A. during this decade. The number of Canadian-born professional, technical and kindred workers admitted to U.S.A. reached its peak in 1965 with 4,629. Since then it showed a tendency to decline for two years before rising again in 1968.



-3-

A comparison of this table with the previous one indicates that the emigration of persons in professional, technical and kindred occupations, who were in Canada but were not Canadian-born, declined from an average of over 2,000 per year in 1960-1962 to an average annual figure of 1,500 in 1966-1967 before rising to 3,300 in 1968.

Apart from the information contained in the tables enclosed a recent study completed in the Department on "The Migration of Canadian-Born between Canada and the United States of America" throws some light on some of the problems discussed above. Some significant findings of the study relevant in the present context may also be noted.

Firstly, the study finds that during the period 1955-1959, 37.3 per cent of Canadian-born emigrants to U.S.A. returned to Canada giving an average annual rate of return migration of 10,000 as compared to an emigration of 29,000. Estimates indicate that during the period 1960-1967, 42 per cent of Canadian-born immigrants to U.S.A. in this period might have returned to Canada. This gives an average annual figure of 15,000 as the number of Canadian-born staying permanently in U.S.A. from the Canadian-born emigrants during the period 1966-1967.

Secondly, professionals appear to have had a higher rate of return migration. Only 51 per cent of the Canadian-born professionals who migrated to Canada during the period January, 1955 to March, 1960 were counted in U.S.A. on the U.S. Census day of April 1, 1960.

Table 1  
 IMMIGRATION FROM U.S.A. TO CANADA  
 AND EMIGRATION FROM CANADA TO U.S.A.  
 1956-1968

Year	Immigration from U.S.A.	Emigration to U.S.A. *
1956	9,777	42,363
1957	11,008	46,354
1958	10,846	45,143
1959	11,338	34,599
1960	11,247	46,668
1961	11,516	47,470
1962	11,643	44,272
1963	11,736	50,509
1964	12,565	51,114
1965	15,143	50,035
1966	17,514	37,273
1967	19,038	34,768
1968	20,422	41,716

\* Data on emigration are for fiscal years ending June 30



Table 2

## Immigration to Canada by Intended Occupational Group, 1946-1968

	1946	1947	1948	1949	1950	TOTAL 1946-50 % of L.F.	
<u>Destined to the Labour Force</u>							
Managerial	-	-	-	-	-		
Professional	1,368	1,954	2,288	1,879	1,628	9,117	4.1
Clerical	1,617	4,066	4,689	2,893	2,417	15,682	7.1
Transportation							
Communication	541	1,264	2,930	1,313	569	6,617	3.0
Commercial							
Financial	1,676	2,900	2,984	2,043	1,704	11,307	5.1
Service	675	2,168	9,050	4,709	2,740	19,342	8.7
Agriculture	1,120	4,550	19,799	19,139	15,520	60,128	27.0
Fishing, Trap. & Logg.	166	4,103	550	373	873	6,065	2.7
Mining	58	430	2,889	1,234	532	5,143	2.3
Manufacturing, Mech. & Const.	3,710	11,857	23,149	14,305	9,937	62,958	28.3
Labourers	205	653	2,271	1,609	1,347	6,085	2.7
Others	3,239	5,826	4,605	3,437	2,856	19,963	9.0
TOTAL	14,375	39,771	75,204	52,934	40,123	222,407	100.0
<u>Not destined to the Labour Force</u>							
Wives	36,295	12,233	22,798	18,827	14,368	104,521	
Children	20,366	11,438	26,430	22,574	18,671	99,479	
Others	683	685	982	882	750	3,982	
TOTAL	57,344	24,356	50,210	42,283	33,789	207,982	

Continued ....

Immigration to Canada by Intended Occupational Group, 1946-1968							
	1951	1952	1953	1954	1955	TOTAL 1951-55 % of L.F.	
<b>Destined to the Labour Force</b>							
Managerial	-	-	1,176	1,633	1,404	4,213	1.0
Professional	4,001	7,054	8,845	8,350	7,159	35,409	8.2
Clerical	5,317	6,900	6,339	6,775	5,775	31,106	7.2
Transportation			1,557	1,553	872		
Communication	2,093	1,559	298	385	318	8,635	2.0
Commercial			3,044	2,561	1,987		
Financial	2,956	3,402	141	174	159	14,424	3.3
Service	6,904	7,932	13,766	11,974	9,588	50,164	11.6
Agriculture	25,890	16,971	17,250	10,920	7,036	78,067	18.1
Fishing, Trap. & Logg.	4,834	1,019	415	335	260	6,863	1.6
Mining	3,026	714	464	428	254	4,886	1.1
Manufacturing, Mech. & Const.	41,172	29,635	26,492	25,699	15,117	138,115	32.0
Labourers	13,263	8,317	10,380	13,011	7,687	52,658	12.2
Others	3,930	1,359	966	578	371	7,204	1.7
<b>TOTAL</b>	<b>113,386</b>	<b>84,862</b>	<b>91,133</b>	<b>84,376</b>	<b>57,987</b>	<b>431,744</b>	<b>100.0</b>
<b>Not destined to the Labour Force</b>							
Wives	34,938	31,011	31,343	28,897	21,637	147,826	
Children	44,667	42,999	41,253	35,503	25,397	189,819	
Others	1,400	5,626	5,139	5,451	4,925	22,541	
<b>TOTAL</b>	<b>81,005</b>	<b>79,636</b>	<b>77,735</b>	<b>69,851</b>	<b>51,959</b>	<b>360,186</b>	

Continued ....



Immigration to Canada by Intended Occupational Group, 1946-1968

Occupations	1956	1957	1958	1959	1960	1961	TOTAL 1956-61 % of L.F.
Managerial	996	1,216	944	837	825	896	5,714 1.3
Professional & Technical	9,343	16,040	7,553	6,947	7,436	6,696	54,015 12.1
Clerical	9,492	16,829	6,745	5,459	5,860	4,232	48,617 10.9
Transportation	1,646	4,127	902	760	913	413	8,761 1.9
Communication	609	1,127	327	239	310	161	2,773 0.6
Commercial	3,561	6,132	2,066	1,953	2,008	1,164	16,884 3.8
Financial	262	427	163	154	144	77	1,227 0.3
Service	13,800	17,574	11,501	9,740	8,763	6,557	67,935 15.2
Agricultural	7,500	10,838	5,071	4,965	5,321	2,341	36,036 8.0
Fishing, Trapping, Logging	505	827	169	123	188	65	1,877 0.4
Mining	1,144	1,866	344	248	479	90	4,171 0.9
Manufacturing & Mech.	29,264	54,376	17,476	12,792	13,551	8,076	135,535 30.3
Labourers	12,482	19,471	9,388	8,940	7,482	3,982	61,745 13.8
Not Stated	435	661	429	394	293	59	2,271 0.5
<b>TOTAL WORKERS</b>	<b>91,039</b>	<b>151,511</b>	<b>63,078</b>	<b>53,551</b>	<b>53,573</b>	<b>34,809</b>	<b>447,561 100.0</b>
<b>DEPENDENTS</b>							
Wives	30,547	52,533	24,795	21,223	20,654	15,882	165,634
Children	38,461	70,673	30,444	26,133	24,626	17,315	207,652
Others	4,810	7,447	6,534	6,021	5,258	3,683	33,753
<b>TOTAL DEPENDENTS</b>	<b>73,818</b>	<b>130,653</b>	<b>61,773</b>	<b>53,377</b>	<b>50,538</b>	<b>36,880</b>	<b>407,039</b>
<b>TOTAL IMMIGRATION</b>	<b>164,857</b>	<b>282,164</b>	<b>124,851</b>	<b>106,928</b>	<b>104,111</b>	<b>71,689</b>	<b>854,600</b>

Continued ....

## Immigration to Canada by Intended Occupational Group, 1946-1968

Occupations	1962	1963	1964	1965	1966	1967	1968	Total 1962-1968	%
Managerial	1,093	1,159	1,212	1,728	2,292	3,023	2,385	12,892	2.4
Professional & Technical	8,218	9,640	11,965	16,654	23,637	30,853	29,250	130,217	24.7
Clerical	4,898	6,186	7,931	9,919	13,235	16,609	12,651	71,429	13.6
Transportation	369	473	549	936	1,302	1,378	926	5,933	1.1
Communication	120	179	219	267	507	516	331	2,139	0.4
Commercial	1,050	1,381	1,916	2,485	3,035	3,030	2,631	15,528	3.0
Financial	164	115	83	175	271	328	564	1,700	0.3
Service & Recreation	5,853	6,099	6,420	7,587	8,681	10,716	9,235	54,591	10.4
Farmers	1,923	2,398	2,234	2,362	3,153	3,203	3,164	18,437	3.5
Loggers	64	49	61	154	179	224			
Fishers, Hunters, Trappers	14	17	12	33	81	100	114	1,102	0.2
Miners	100	130	114	230	334	380	496	1,784	0.3
Construction Trades	2,667	3,852	4,799	6,601	9,535	10,643	7,737	45,834	8.7
Manufacturing & Mechanical	7,018	10,563	12,677	17,566	24,512	28,118	23,189	123,643	23.5
Labourers	3,145	3,559	5,737	7,112	7,593	8,792	2,681	38,619	7.3
Not Stated	52	66	261	386	863	1,626	92	3,346	0.6
<b>TOTAL LABOUR FORCE</b>	<b>36,748</b>	<b>45,866</b>	<b>56,190</b>	<b>74,195</b>	<b>99,210</b>	<b>119,539</b>	<b>95,446</b>	<b>527,194</b>	<b>100.0</b>
<b>DEPENDENTS</b>									
Wives	15,674	19,305	21,023	25,809	34,216	37,894	32,091	186,012	
Children	18,137	23,226	29,819	40,315	53,895	56,417	44,925	266,734	
Others	4,027	4,754	5,574	6,439	7,422	9,026	11,512	48,754	
<b>TOTAL NON-LABOUR FORCE</b>	<b>37,838</b>	<b>47,285</b>	<b>56,416</b>	<b>72,563</b>	<b>95,533</b>	<b>103,337</b>	<b>88,528</b>	<b>501,500</b>	
<b>TOTAL IMMIGRATION</b>	<b>74,586</b>	<b>93,151</b>	<b>112,606</b>	<b>146,758</b>	<b>194,743</b>	<b>222,876</b>	<b>183,974</b>	<b>1,028,694</b>	



Table 3 - Immigration to Canada by Intended Occupation, 1960-1968

(Continued)

Intended Occupation	1960	1961	1962	1963	1964	1965	1966	1967	1968
Managerial.....	825	896	1,093	1,159	1,212	1,728	2,292	3,023	2,385
Professional and Technical.....	7,436	6,696	8,218	9,640	11,965	16,654	23,637	30,853	29,250
Engineers.....	725	547	967	1,198	1,476	2,254	3,210	3,704	2,814
Civil.....	224	177	183	207	263	533	799	917	611
Mechanical.....	196	125	219	334	576	692	937	988	606
Industrial.....	-	-	25	39	39	80	137	112	355
Electrical.....	165	141	197	309	308	486	711	916	559
Mining.....	30	37	45	41	66	117	164	181	174
Chemical.....	62	44	62	87	164	242	297	387	273
Other Engineers.....	48	23	236	181	60	104	165	203	236
Physical Scientists.....	157	122	363	335	490	742	967	1,294	1,133
Biologists, Agricultural Professionals.....	-	-	110	109	150	203	284	427	643
Teachers.....	1,396	1,480	1,528	1,861	2,554	3,623	5,092	7,699	8,406
Professors and Principals.....	-	-	390	539	672	1,084	1,410	1,986	2,280
School Teachers.....	(1,396)	1,480	787	1,206	1,843	2,408	3,465	5,388	5,965
Other Instructors.....	-	-	351	116	39	131	217	325	161
Health Professionals.....	1,760	1,589	2,769	3,291	3,611	4,489	5,653	6,601	6,662
Physicians and Surgeons.....	441	445	530	687	668	792	995	1,213	1,277
Dentists.....	29	36	61	42	55	60	78	99	99
Nurses, Graduate.....	1,290	1,108	1,621	1,879	1,967	2,829	3,732	4,262	3,375
Nurses in Training.....	-	-	22	24	-	35	49	89	-
Therapists.....	-	-	177	177	198	219	266	317	198
Optometrists.....	-	-	7	4	5	10	11	13	-
Osteopaths and Chiropractors.....	-	-	10	2	13	14	2	13	7
Pharmacists.....	-	-	39	56	63	87	106	142	132
Medical and Dental Technicians...	-	-	227	242	193	309	389	431	1,169
Other Health Professionals.....	-	-	75	178	449	134	25	22	405

(Continued)

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(Continued)

Intended Occupation	1960	1961	1962	1963	1964	1965	1966	1967	1968
Law Professionals.....	-	-	35	30	39	49	65	90	91
Religion Professionals.....	-	-	475	470	436	456	492	425	368
Artists, Writers, Musicians.....	-	-	256	282	405	491	655	910	986
Other Professionals									
Architects.....	78	31	65	79	94	210	355	432	275
Draughtsmen.....	480	370	506	755	957	1,589	2,525	2,830	2,049
Surveyors.....	-	-	46	50	55	85	125	185	172
Actuaries, Statisticians.....	-	-	21	18	31	39	65	78	332
Economists.....	-	-	35	43	57	81	139	224	313
Computer Programmers.....	-	-	6	8	2	1	114	286	8
Accountants, Auditors.....	283	215	270	258	311	412	665	833	587
Dietitians.....	-	-	20	24	35	44	65	76	59
Social Workers.....	-	-	58	75	72	156	191	333	396
Librarians.....	-	-	40	61	57	101	159	239	217
Interior Decorators.....	-	-	36	46	47	108	160	233	133
Photographers.....	-	-	39	50	93	126	200	266	187
Science Technicians.....	363	341	227	310	674	1,044	1,871	2,954	2,405
Other Professionals.....	2,194	2,001	346	287	319	351	585	734	1,014
Clerical.....	5,860	4,232	4,898	6,186	7,931	9,919	13,235	16,609	12,651
Transportation Trades.....	913	413	369	473	549	936	1,302	1,378	926
Communication Trades.....	310	161	120	179	219	267	507	516	331
Commercial Sales Workers.....	2,008	1,164	1,050	1,381	1,916	2,485	3,035	3,030	2,631
Financial Sales Workers.....	144	77	164	115	83	175	271	328	564
Service and Recreation.....	8,763	6,557	5,853	6,099	6,420	7,587	8,681	10,716	9,235

(Continued)



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Intended Occupation	1960	1961	1962	1963	1964	1965	1966	1967	1968
Farmers.....	5,321	2,341	1,923	2,398	2,234	2,362	3,153	3,203	3,164
Loggers.....	156	51	64	49	61	154	179	224	82
Fishers, Hunters, Trappers.....	32	14	14	17	12	33	81	100	32
Miners.....	479	90	100	130	114	230	334	380	496
Construction Trades.....	(		2,667	3,852	4,799	6,601	9,535	10,643	7,737
Manufacturing and Mechanical Trades..	(13,551	8,076	7,018	10,563	12,677	17,566	24,512	28,118	23,189
Labourers.....	7,482	3,982	3,145	3,559	5,737	7,112	7,593	8,792	2,681
Not Stated.....	293	59	52	66	261	386	863	1,626	92
Total Workers.....	53,573	34,809	36,748	45,866	56,190	74,195	99,210	119,539	95,446
Total Immigration.....	104,111	71,689	74,586	93,151	112,606	146,758	194,743	222,876	183,974

Source: Immigration Statistics, Canadian Immigration Division, Department of Manpower and Immigration.

Table 4 - Immigration to Canada from United States by Intended Occupation, 1960-1968

Intended Occupation	1960	1961	1962	1963	1964	1965	1966	1967	1968
Managerial.....	550	622	626	608	655	887	973	962	796
Professional and Technical.....	1,628	1,543	1,643	1,746	2,030	2,694	3,215	3,954	5,064
Engineers.....	144	113	208	173	220	307	284	280	310
Civil.....	52	32	30	30	31	68	54	46	33
Mechanical.....	42	34	58	47	87	77	78	72	66
Industrial.....	-	-	13	15	17	28	16	18	71
Electrical.....	13	12	27	24	25	42	52	52	62
Mining.....	12	13	19	10	24	37	34	41	42
Chemical.....	17	15	13	16	28	43	32	38	21
Other Engineers.....	8	7	48	31	8	12	18	13	15
Physical Scientists.....	9	13	49	63	69	116	149	183	175
Biologists, Agricultural Professionals.....	-	-	26	23	39	39	77	72	136
Teachers.....	390	459	445	440	676	1,004	1,300	1,876	2,290
Professors and Principals.....	(		174	208	267	477	615	857	1,013
School Teachers.....	(390	459	184	199	389	500	644	965	1,227
Other Instructors.....	(		87	33	20	27	41	54	50
Health Professionals.....	213	166	304	453	360	350	348	356	529
Physicians and Surgeons.....	84	67	97	143	60	42	58	65	79
Dentists.....	10	10	21	18	15	15	14	12	14
Nurses, Graduate.....	119	89	114	206	177	211	214	196	231
Nurses in Training.....	-	-	5	4	-	5	8	11	-
Therapists.....	-	-	8	12	15	12	8	11	32
Optometrists.....	-	-	2	1	2	1	4	3	-
Osteopaths and Chiropractors.....	-	-	6	2	3	5	1	7	-
Pharmacists.....	-	-	3	6	2	3	6	4	15
Medical and Dental Technicians...	-	-	33	38	21	33	31	41	105
Other Health Professionals.....	-	-	15	23	65	23	4	6	53

(Continued)



Table 3 - Professionals (Adults) - 2 - U.S. Place Country of Last Permanent Residence  
 and Canada, by Occupation, 1960-1968 (Final Year Ending June 30)

Intended Occupation	1960	1961	1962	1963	1964	1965	1966	1967	1968
Law Professionals.....	-	-	3	4	5	5	3	11	10
Religion Professionals.....	-	-	280	261	265	247	295	238	208
Artists, Writers, Musicians.....	-	-	78	82	87	146	136	192	299
Other Professionals									
Architects.....	7	4	11	14	14	20	24	25	25
Draughtsmen.....	46	38	25	22	30	57	58	70	83
Surveyors.....	-	-	3	3	3	9	18	18	9
Actuaries, Statisticians.....	-	-	2	3	5	11	12	13	68
Economists.....	-	-	10	6	12	12	16	15	40
Computer Programmers.....	-	-	1	2	-	1	13	28	4
Accountants, Auditors.....	41	34	43	42	35	61	87	60	70
Dietitians.....	-	-	2	7	5	10	10	8	9
Social Workers.....	-	-	18	28	31	59	59	122	193
Librarians.....	-	-	8	9	16	23	53	84	83
Interior Decorators.....	-	-	4	9	9	13	23	15	14
Photographers.....	-	-	6	9	7	9	20	26	29
Science Technicians.....	35	50	26	25	43	69	84	122	151
Other Professionals.....	743	666	91	68	99	126	146	140	329
Clerical.....	500	460	480	476	703	980	1,089	1,169	1,270
Transportation Trades.....	58	72	51	48	42	55	64	71	51
Communication Trades.....	36	33	21	24	43	48	47	64	53
Commercial Sales Workers.....	319	285	200	221	246	309	302	328	389
Financial Sales Workers.....	55	34	65	37	25	65	83	65	118
Service and Recreation.....	349	302	268	238	283	362	427	374	462

(Continued)

Table 4 - Immigration to Canada from United States by Intended Occupation, 1960-1968

(continued)

Intended Occupation	1960	1961	1962	1963	1964	1965	1966	1967	1968
Farmers.....	226	272	232	232	168	139	146	188	275
Loggers.....	(		23	19	14	30	37	33	13
Fishermen, Hunters, Trappers.....	(31	18							
Miners.....	(		3	2	2	9	4	2	3
Construction Trades.....	(		136	112	159	182	239	242	180
Manufacturing and Mechanical Trades..	(540	461	336	365	465	577	668	689	769
Labourers.....	65	64	31	35	38	63	79	76	68
Not Stated.....	8	21	18	30	38	21	19	27	3
Total Workers.....	4,381	4,202	4,145	4,210	4,921	6,435	7,408	8,266	9,540
Total Immigration.....	11,247	11,516	11,643	11,736	12,565	15,143	17,514	19,038	20,422

Source: Immigration Statistics, Canada Immigration Division, Department of Manpower and Immigration.



Table 5 - Professionals Admitted to U.S.A. Whose Country of Last Permanent Residence was Canada, by Occupation, 1960-1968 (Fiscal Years Ending June 30)

Intended Occupation	1960	1961	1962	1963	1964	1965	1966	1967	1968	Total
Professional, Technical and Kindred Workers.....	5,768	5,562	5,561	6,398	6,510	6,579	5,587	5,965	7,117	55,047
Engineers.....	1,073	811	816	894	789	892	852	1,196	1,402	8,725
Civil.....	68	63	71	103	85	76	49	82	133	730
Mechanical.....	111	103	87	93	99	98	127	205	251	1,174
Industrial.....	21	24	33	30	31	36	26	39	77	317
Electrical.....	144	127	125	150	120	126	129	186	235	1,342
Mining.....	10	11	11	8	21	23	20	18	15	137
Chemical.....	42	41	46	40	48	45	47	87	82	478
Other Engineers.....	677	442	443	470	385	488	454	579	609	4,547
Physical Scientists										
Biologists, and Agricultural Professionals.....	84	92	108	104	117	131	96	121	139	992
Teachers.....	520	556	650	706	801	812	832	737	932	6,546
Professors and Principals...	68	80	91	118	126	133	160	191	200	1,167
School Teachers.....	452	476	119	114	144	133	107	124	157	1,826
Others.....	-	-	440	474	531	546	565	422	575	3,553
Health Professionals.....	1,846	1,849	1,804	2,232	2,244	2,140	1,882	1,903	2,120	18,020
Physicians and Surgeons.....	245	287	280	467	440	380	393	449	314	3,255
Dentists.....	10	10	6	13	8	17	16	11	17	108
Nurses, Graduate.....	1,372	1,316	1,259	1,456	1,436	1,419	1,193	1,180	1,478	12,109
Nurses in Training.....	55	56	77	71	85	65	58	37	52	556
Medical and Dental Technicians.....	96	113	124	167	195	191	151	154	168	1,359
All Other Health Professionals.....	68	67	58	58	80	68	71	72	91	633

(Continued)

(Continued)

Intended Occupation	1960	1961	1962	1963	1964	1965	1966	1967	1968	Total
Law Professionals.....	20	18	12	19	12	11	10	13	18	133
Religion Professionals.....	244	283	276	275	308	261	249	275	256	2,427
Artists, Writers, Musicians...	217	201	196	207	232	281	205	165	157	1,861
Other Professionals										
Architects.....	32	34	34	42	41	37	31	34	73	358
Draughtsmen.....	294	218	227	253	260	245	162	211	420	2,290
Accountants, Auditors.....	289	295	285	364	363	362	226	177	283	2,644
Science Technicians.....	359	381	381	383	413	388	272	263	359	3,199
All Other Professionals.....	790	824	772	919	930	1,019	770	870	958	7,852

Source: United States Department of Justice, Immigration and Naturalization Service, Washington, D.C.



Table 6 - Canadian-Born Immigrants Admitted to U.S.A.  
by Major Occupation Groups, 1960-1968

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Professional, technical and kindred workers	3,545	3,541	3,532	4,047	4,376	4,629	3,703	3,401	3,823
Farmers and farm managers	137	95	91	94	95	123	70	27	30
Managers and officials, etc.	766	728	648	762	897	904	716	597	767
Clerical and kindred workers	3,211	3,242	3,062	3,559	3,952	3,979	2,426	994	1,655
Sales workers	840	842	848	973	995	916	572	328	391
Craftsmen, foremen and kindred workers	1,949	1,842	1,639	2,036	2,184	2,320	1,415	1,091	1,563
Operatives and kindred workers	1,141	1,269	1,073	1,406	1,436	1,403	898	584	889
Private household workers	301	301	195	255	265	258	149	129	165
Service workers, except private households	795	954	1,110	1,240	1,420	1,244	779	577	698
Farm labourers and foremen	174	153	155	153	129	112	66	32	43
Labourers, except farm and mine	1,314	1,413	1,560	1,799	1,623	1,900	1,078	489	866
Housewives, children and others with no reported occupation	16,817	17,658	16,464	19,679	20,702	20,539	16,486	15,193	16,772
Number admitted	30,990	32,038	30,377	36,003	38,074	38,327	28,358	23,442	27,662
Number in the labour force	14,173	14,380	13,913	16,324	17,372	17,788	11,872	8,249	10,890

Source: U.S. Department of Justice, Annual Reports of the Immigration and Naturalization Service, 1960-1968.

APPENDIX B

INCOME CLASS BASED ON TOTAL INCOME	CANADA		U.S.A.	
	NUMBER	%	NUMBER	%
Under 2,000	742,443	11.8	9,456,274	15.4
2000 - 2999	940,942	15.0	4,824,324	7.9
3000 - 3999	1,044,646	16.7	4,563,496	7.4
4000 - 4999	967,124	15.4	4,475,270	7.3
5000 - 5999	839,448	13.4	4,901,000	8.0
6000 - 6999	610,658	9.7	5,229,436	8.5
7000 - 7999	377,465	6.0	12,790,360	20.9
8000 - 8999	228,241	3.6		
9000 - 9999	139,522	2.2	15,025,104	24.5
10,000 - 14,999	256,673	4.1		
15,000 - 19,999	65,112	1.0		
20,000 - 24,999	25,976	0.3		
25,000 - 49,999	31,745	0.3		
50,000 - 99,999	5,679	0.1		
100,000 - 199,999	803			
200,000 and over	122			
TOTAL	6,276,579		61,265,264	

SOURCE: Canadian Table - Taxation Statistics, 1968, Department of National Revenue.

United States Table - Current Population Reports, 1968, Bureau of the Census.



## APPENDIX C

Accounting for Government TransactionsIntroduction

Just as the shareholder, controller and cost accountant look at the same business transaction in different ways, the taxpayer and those responsible for financial and economic management are interested in different aspects of public transactions. To meet these needs, three concepts of government accounting have been developed. Since all rely on the same basic information, and share many terms, confusion often arises in discussions of public receipts and expenditures. This note outlines the basic features of budgetary (also called legislative or administrative) accounting, consolidated accounting (budgetary plus extra budgetary accounts) and national economic accounting, and presents a tabular summary of the three methods.

Budgetary Accounts

The earliest, and most familiar of the concepts is that presented to the public's representatives for approval in the estimates, and recorded for their later analysis in the public accounts. It also forms the basis for internal management control in the public sector. The growing importance of this latter aspect is reflected in the current trend towards presentation of these accounts by program or functional divisions, as well as the customary allocation by administrative units.

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\* A statement made before the Standing Committee on National Finance of the Senate of Canada, by R.B. Bryce, Deputy Minister of Finance, Government of Canada.

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Parliament traditionally grants authority to spend one fiscal year only, and funds not spent in that period require new authority. As a result, the budgetary accounts are essentially on a cash basis. This is slightly modified by year-end adjustments. However, of increasing importance are expenditures made under statutory authority, which in 1969-70 should account for almost 48 per cent of budgetary expenditures. These expenditures require authorization only when the statutes are amended. Some of the major statutory items are:

- Medicare
- Public Debt Charges
- Major Pensions, Superannuation and other benefits
- Fiscal Transfers to Provinces
- Payments to Provinces under Hospital Insurance and Diagnostic Services Act
- Post-Secondary Education Payments to Provinces
- Canada Assistance Plan
- Contribution to Unemployment Insurance Fund
- Family and Youth Allowance Payments
- Contributions under Health Resources Fund Act
- Payments to Railway and Transportation Companies pursuant to the provisions of the National Transportation Act

The major portion of budgetary revenues on the other hand are authorized by Tax Statutes which remain in force from year to year until amended. Only about 11 per cent of budgetary revenues are from non-tax sources. These include returns on investment, post office revenues, sales, rentals, fees and user charges.

The main revenues and expenditures of the Government of Canada are shown on the attached tables.

Two important types of operation, however, are not included. These are the social insurance accounts and crown corporations. In major social insurance programs, such as Old Age Security, the Canada Pension Plan and Unemployment Insurance the federal government segregates



the amounts paid in and disburses them in accordance with the related Statutes. These are not taken into the budgetary accounts, except at such times as budgetary appropriations may be required to maintain the funds in balance. Similarly, crown corporations are separately established to operate outside the normal control of parliament and the executive, and only the net effect of their operations (profits received or transfers paid) are accounted for in the budget.

A further exclusion on the revenue side is the value of tax concessions granted by Parliament since these amounts are netted out before receipt. Some user charges are similarly netted from expenditures.

While budgetary accounts for all governments are normally available in their estimates and public accounts, the Dominion Bureau of Statistics in their Financial Management series publishes this data on a comparable basis for federal, provincial and municipal governments. These publications, however, include trust fund accounts and revenues netted against expenditures, and thus are a step towards Consolidated Accounts.

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<u>Federal Government</u>				
<u>Budgetary Revenue by Major Sources</u>				
Fiscal Year ended March 31				
<u>Source</u>	1968	1969	1970	%
		preliminary	Forecast after tax changes	
	(\$ million)			
<u>Tax revenue -</u>				
Income tax -				
Personal	2,849.6	3,422.0	4,500	37.4
Corporation	1,670.6	2,030.0	2,445	20.3
On dividends, interest, etc., going abroad	220.5	206.0	220	1.8
Sales tax	1,601.1	1,572.0	1,677	13.9
Customs import duties	746.4	760.0	753	6.3
Excise duties and taxes	825.6	886.0	970	8.1
Estate tax	102.2	111.7	110	0.9
Other taxes	0.3	0.3	-	-
	(8,016.3)	(8,988.0)	(10,675)	(88.7)
<u>Non-tax revenue -</u>	<u>1,012.9</u>	<u>1,181.0</u>	<u>1,350</u>	<u>11.3</u>
Total budgetary revenue	9,029.2	10,169.0	12,025	100.0

cent of budgetary revenues are from non-tax sources. These include returns on investment, post office revenues, sales, rentals, fees and other charges.

The main revenues and expenditures of the Government of Canada are shown on the attached tables. Two important types of operation, however, are not included. These are the social insurance accounts and crown corporations. In major social insurance programs, such as Old Age Security, the Canada Pension Plan and Unemployment Insurance the federal government segregates



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Federal GovernmentBudgetary Expenditure By Departments

<u>Departments</u>	<u>Fiscal Year ended March 31</u>			
	1968	1969 (Preliminary) Forecast	1970	%
	(\$ million)			
Agriculture	276.4	286.0	280.9	2.4
Communications	312.8	357.5	375.7	3.2
Consumer & Corporate Affairs	12.9	14.0	15.9	0.1
Energy, Mines and Resources	203.3	182.0	204.8	1.7
External Affairs	215.7	225.0	252.8	2.1
Finance	2,121.0	2,419.7	2,586.3	21.8
Fisheries and Forestry	73.8	71.0	74.6	0.6
Governor General	1.0	1.0	1.0	0.0
Indian Affairs and Northern Development	231.4	265.0	289.7	2.4
Industry & Trade & Commerce	186.3	204.0	252.1	2.1
Justice	15.4	17.0	20.0	0.2
Labour	118.0	138.0	142.6	1.2
Legislature	18.3	18.5	20.6	0.2
Manpower and Immigration	417.9	415.0	438.3	3.7
National Defence	1,756.1	1,762.0	1,814.1	15.3
National Health and Welfare	1,509.0	1,670.0	2,122.7	17.9
National Revenue	115.1	120.0	132.3	1.1
Privy Council	11.1	9.5	10.0	0.1
Public Works	290.9	282.0	335.6	2.8
Regional Economic Expansion	159.6	170.0	251.9	2.1
Secretary of State	365.7	530.0	573.9	4.8
Solicitor General	153.5	160.0	182.8	1.5
Supply and Services	64.6	66.0	68.8	0.6
Transport	534.1	501.8	527.3	4.4
Treasury Board	259.3	423.0	460.5	3.9
Veterans Affairs	400.8	427.0	421.2	3.6
<b>TOTAL</b>	<b>9,824.0</b>	<b>10,735.0</b>	<b>11,857.7</b>	<b>100.0</b>
- Anticipated supplementaries or overruns, provision for lapses and revisions			- 207.7	
- Total budgetary expenditure	9,824.0	10,735.0	11,650.0	

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Consolidated Accounts

The over-all financial requirements of government are more comprehensive than those shown by the budgetary accounts even with trust funds and crown corporations added in. Normally the only forecast of over-all financial requirements is made in the budget speech, and a table summarizing these is shown below.

Federal GovernmentStatement of Over-all Financial Requirements

	<u>Fiscal year ended March 31</u>		
	1968	1969 Preliminary	1970 (Tentative)
	(\$ million)		
<b>Budgetary transactions</b>			
Revenue	9,029.2	10,169	12,025
Expenditure	<u>- 9,824.0</u>	<u>10,735</u>	<u>11,775<sup>(1)</sup></u>
	- 794.8	- 566	250
<b>Extra-budgetary transactions (excluding unmatured debt transactions)</b>			
Receipts and Credits (net)	1,250.7	2,004.9	n.a.
Disbursements & charges (net)	<u>- 1,044.4</u>	<u>- 3,377.9</u>	<u>n.a.</u>
	206.3	- 1,373.0	- 525 <sup>(1)(2)</sup>
<b>Over-all Financial Requirements</b>	<b>- 588.5</b>	<b>- 1,939.0</b>	<b>- 275</b>

(1) After bookkeeping write-off of \$125 million federal share of Expo deficit.

(2) Excluding any amount for foreign exchange acquisitions.

In addition to budgetary revenues and expenditures it includes:

- (a) Extra-budgetary receipts: the re-payment of loans, investments and working capital advances; employee and government contributions and interest credited to the various annuity, pension and insurance accounts;



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earmarked taxes and contributions to the old age security fund, unemployment insurance and other funds; and monies received and credited to the several deposit and trust accounts.

- (b) Extra-budgetary disbursements: loans, investments and working capital advances to Crown corporations, municipal, provincial and foreign governments, international organizations, superannuation, pension, annuity, insurance and other benefit payments, deposit and trust fund payments.

Details of these amounts appear in the Public Accounts and preliminary figures for 1968-69 are shown in the Budget White Paper of May 1969, and reproduced below.

(in millions of dollars)

NON-BUDGETARY RECEIPTS AND CREDITS (NET)	Fiscal year ended March 31	
	1969 (preliminary)	1968
Repayments of loans, investments and advances—		
Investments in United States dollar securities issued by other than the		
Government of Canada	32.3	57.4
Defence production revolving fund	2.0	-5.0
Royal Canadian Mint	12.0	2.5
Agricultural commodities stabilization account	0.6	0.6
Canada Deposit Insurance Corporation	5.9	-29.4
Canadian Commercial Corporation	1.0	-6.5
Canadian Corporation for the 1967 World Exhibition	57.0	-30.0
Canadian Overseas Telecommunication Corporation	3.1	-2.6
National Capital Commission	12.9	-0.8
Municipal development and loan board	3.0	-48.5
	129.8	-62.3
Annuity, insurance and pension accounts—		
Superannuation accounts—		
Public service	298.4	186.3
Canadian forces	300.7	146.3
Royal Canadian Mounted Police	26.3	19.6
Canada pension plan account	755.2	671.9
Old age security fund	76.0	106.5
Other	7.6	6.5
	1,464.2	1,157.1
Other receipts and credits—		
Outstanding treasury cheques	83.6	44.8
Matured debt outstanding	6.8	-4.7
Interest due and outstanding	1.4	50.3
Interest accrued	70.7	29.1
Post office outstanding money orders	19.1	5.7
Provincial tax collection agreements account	41.8	27.7
Deposit and trust accounts	49.9	2.5
Undisbursed balances of appropriations to special accounts	100.5	23.3
Deferred credits	30.5	7.0
Miscellaneous	6.6	-9.8
	410.9	175.9
	2,004.9	1,250.7

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(in millions of dollars)

NON-BUDGETARY DISBURSEMENTS AND CHARGES (Net)	Fiscal year ended March 31	
	1969 (preliminary)	1968
Loans, investments and advances—		
Stockpiling of uranium concentrates	11.1	17.7
Advances to the exchange fund account	833.7	-321.7
Atomic Energy of Canada Limited	68.6	32.9
Canadian Broadcasting Corporation	22.0	18.4
Canadian Dairy Commission	19.8	22.1
Canadian National Railways	200.4	163.8
Cape Breton Development Corporation	4.8	5.2
Central Mortgage and Housing Corporation	386.7	633.9
Export Credits Insurance Corporation	33.9	34.7
Farm Credit Corporation	128.2	169.2
National Harbours Board	10.6	27.8
Northern Canada Power Commission	8.5	2.9
The St. Lawrence Seaway Authority	28.6	26.7
National governments	63.0	4.5
Subscriptions to capital of international organizations	29.8	17.7
Provincial governments	82.3	64.2
Veterans land act fund	40.3	71.5
Defence plant modernization	4.0	10.2
Loans to manufacturers of automotive products	2.4	7.9
Miscellaneous	8.0	20.1
	1,986.7	1,029.7
Other disbursements and charges—		
Canada pension plan investment fund	742.2	665.3
Accounts payable	120.2	-65.7
Non-interest-bearing notes	215.7	-450.3
Canadian Commercial Corporation—special deposit	18.1	-38.2
Canadian Dairy Commission	1.1	-25.2
Refundable corporation tax	85.8	-39.1
Provision for estimated premium on redemption of bonds	13.6	-6.0
Cash in hands of collectors and in transit	5.7	50.0
Moneys received after March 31 but applicable to the current year	4.2	5.1
Securities held in trust	53.1	8.7
Deferred charges	121.5	-89.3
	1,391.2	14.7
	3,377.9	1,044.4

In the United States consolidated cash budget figures are prepared showing cash movements between government and other sectors of the economy. These are an essential step forward in assessing the effect of government action on financial markets and private sector liquidity, studies are under way on the possibility of a regular cash budget for the Government of Canada. An example of how such a budget might appear was prepared for the Royal Commission on Taxation, and is shown on the following page.

(a) Extra-budgetary receipts: the repayment of loans,

investments and working capital advances; employee and

government contributions and interest credited to the

various annuity, pension and insurance accounts;



TABLE 2-4

Cash Budget of The Federal Government

(Fiscal years 1951-52 and 1952-53. In millions of dollars.)

DESCRIPTION	1951-52	1952-53	DESCRIPTION	1951-52	1952-53
<b>RECEIPTS FROM THE PUBLIC</b>					
<b>BUDGETARY RECEIPTS</b>					
Personal income tax	1,291.9	1,474.9	Reference	1,474.5	1,460.8
Middland	1,271.8	1,454.4	National health, welfare and social security	268.5	268.5
Other	19.1	20.5	Public debt charges	1,139.8	1,236.0
Less refunds	1,959.7	2,159.0	Payments to provinces and territories	655.4	710.1
Net	281.4	240.2	Transportation and communication	566.4	678.9
Corporate income tax	1,265.7	1,310.6	Resources and industrial development	673.5	680.1
Less refunds	28.3	29.2	Education	200.1	210.7
Net	1,237.4	1,281.4	International co-operation	45.6	31.0
Sales tax	796.5	788.9	General government and unclassified	146.5	124.4
Less refunds	22.0	28.1	<b>TOTAL BUDGETARY RECEIPTS</b>	3,132.2	3,172.9
Net	774.5	760.8	<b>NON-BUDGETARY RECEIPTS</b>		
Customs import duties	570.3	695.6	Loans and advances	161.8	501.9
Less refunds	35.8	40.1	CRR	131.1	64.4
Net	534.5	655.5	Exchange Fund	277.0	1,687.0
Other excise taxes and duties	642.4	707.8	Other	185.5	179.0
Less refunds	35.4	5.0	Annuity, insurance and pension funds		
Net	607.0	702.8	Old Age Security Fund	625.1	734.5
Less refunds	4.1	5.5	Unemployment Insurance Fund	455.2	403.1
Net	598.7	697.3	All other	109.0	112.5
Less refunds	4.1	5.5	Other accounts and funds	1,958.0	1,121.5
Net	196.7	236.5	<b>TOTAL NON-BUDGETARY RECEIPTS</b>	2,437.7	3,543.8
Less refunds	595.3	508.4	Deduct: Miscellaneous non-cash items		
Net	3,539.1	3,992.3	Increase in outstanding treasury cheques	-21.5	-33.1
Non-tax revenues	17.7	8.8	<b>TOTAL RECEIPTS FROM OR PAYMENTS TO (-) THE PUBLIC</b>	8,195.4	10,007.7
Less refunds	68.0	155.2			
Net	73.8	601.1			
<b>TOTAL BUDGETARY RECEIPTS</b>	1,048.2	1,052.2			
Less refunds	13.8	6.0			
Net	1,034.4	1,046.2			
Less refunds	644.0	281.3			
Net	390.4	764.9			
<b>TOTAL NON-BUDGETARY RECEIPTS</b>	2,437.7	2,430.7			
Less refunds	281.3	16.3			
Net	2,156.4	2,414.6			
Increase or decrease (-) in cash in hands of collectors	-8.3	8,439.5			
<b>TOTAL RECEIPTS FROM THE PUBLIC</b>	7,117.8	18,454.2			

From: Studies of the Royal Commission on Taxation, Number 1, The Budget as an Economic Document, (by Robert M. Will), the Queen's Printer, Ottawa, 1966.

National Economic Accounts

The national economic accounts put government transactions on the basis required for analysis in terms of Gross National Income and Expenditure. Since the impact on the private economy is the major concern of the National Economic Accounts, transactions are recorded as far as possible as this impact is felt. Receipts are normally on an accrual basis, expenditures are usually on delivery, and government enterprises which operated on a profit, or cost recovery basis are included in the private sector, rather than as part of government.

Preliminary estimates of the Government of Canada position on a National Accounts basis are normally included in the budget speech and budget papers. The estimates, and a reconciliation with the Budgetary Accounts, as used in the June 1969 Budget Speech are attached. Final results are reported by the Dominion Bureau of Statistics in National Accounts, Income and Expenditure, (catalogue No. 13-530 Quarterly, and 13-201 Annually).

While the budget speech presentation (and the government supplementary tables of the D.B.S. presentation) includes expenditures on goods and services, transfer payments to individuals and other governments, interest on the public debt, subsidies and capital assistance; only government expenditures on goods and services are included in Gross National Expenditure. This is because Gross National Expenditure attempts to measure only final demand for currently produced goods and services. Since transfer, interest and subsidy payments by the Government of Canada increase the demands of individuals, other governments, and corporations for goods



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and services they are netted out to avoid double counting. This procedure means that while total federal government expenditures in 1968 were equal to 18 per cent of Gross National Expenditure, the federal government expenditures included in Gross National Expenditure were only 7 per cent of the total. For all Canadian governments these percentages are 35 and 20 respectively.

The major problem with the National Economic Accounts, as a basis for policy assessment, is their exclusion of financial flows. The existing accounts are primarily interested in the value of real goods and services being produced, and the value of the labour, entrepreneurial skills and capital consumed in their production. While these are matters of obvious importance, financing this output, and the capital necessary to create it is also vital. To meet this deficiency the Dominion Bureau of Statistics has recently published a preliminary report which extends the national accounts framework into flow of funds analysis. Financial Flow Accounts, 1962-67. A Preliminary Report, (Catalogue No. 13-530) has just been published, and is available to Honourable Senators as are other government publications.

I will not endeavour to speak about either the form or substance of these new tabulations, as I have not had time this very busy week to review the document myself. I should like to say however that this document should help us in government, and others, to improve our understanding of government lending programs and the formulation of fiscal and monetary policies. Three basic tables from this document are attached as an appendix.

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Federal Government Revenue and Expenditure  
on National Accounts Basis

	1967-68	1968-69 Preliminary	1969-70 Forecast after tax changes
(millions of dollars)			
<b>A. Revenue</b>			
1. Direct taxes, persons.....	3750	4455	5646
2. Direct taxes, corporations.....	1670	2065	2235
3. Withholding taxes.....	226	205	220
4. Indirect taxes.....	3684	3822	4010
5. Investment income.....	836	950	1134
6. Employer and employee contributions to social insurance and government pension funds.....	728	890	1065
7. Total revenue.....	10894	12387	14310
<b>B. Expenditure</b>			
1. Goods and services: defence.....	1816	1816	1873
2. Goods and services: others.....	2513	2875	3312
3. Transfers to persons.....	3021	3388	3645
4. Interest on public debt.....	1270	1442	1602
5. Subsidies.....	398	394	394
6. Capital assistance.....	72	63	89
7. Transfers to other levels of governments	2137	2476	2820
8. Total expenditure.....	11227	12454	13735
C. Surplus (-) or Deficit (-).....	- 333	67	- 575

Note: At the time of the October budget, the federal government deficit for 1968-69 was forecast at \$675 million on a budgetary basis and at \$435 million on a national accounts basis. Whereas the budgetary deficit for 1968-69 is now estimated at \$566 million (a reduction of \$109 million) the deficit on a national accounts basis is forecast at \$67 million (a reduction of \$368 million). Over and above the budgetary reduction of \$109 million, two factors mainly account for the additional \$259 million national accounts reduction. Firstly, corporate profits have been revised upward resulting in an increase of \$147 million in corporate tax liabilities over a \$3 million adjustment to corporate tax collections and old age security taxes. A reallocation of corporate cash flows between profits and capital cost allowances accounts for that revision. Secondly, the Supplementary Estimates tabled on February 24, 1969 provided for the establishment of a reserve for contingency and its unexpended balance at the end of fiscal year 1968-69, \$111 million, was credited to the liability account "contingency for salary revision". Whereas this transaction represents a budgetary charge, it is not regarded as an expenditure on a national accounts basis.



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## Federal Government Revenue

## Public Accounts and National Accounts Reconciliation

	1967-68	1968-69 Prelimi- nary	1969-70 Forecast after Tax Changes
	(millions of dollars)		
1. Budgetary revenue.....	9029	10169	12025
<u>Deduct:</u>			
2. Budgetary return on investment.....	- 612	- 693	- 815
3. Post Office revenue.....	- 282	- 305	- 370
4. Other non-tax budgetary revenues.....	- 119 (-1013)	- 183 (-1181)	- 165 (-1350)
5. Corporate income tax, excess of accruals(-) over collections(-)	- 151	- 148	- 434
<u>Add:</u>			
Extra-budgetary funds revenue:			
6. Old age security taxes.....	1495	1620	1840
7. Unemployment insurance fund - employer- employee contributions.....	346	440	500
8. Government pension funds - employer- employee contributions.....	382	450	565
9. Prairie Farm Assistance Act levies.....	11 (2234)	9 (2519)	10 (2915)
Government investment income:			
10. Interest on loans, advances and investments	352	375	447
11. Interest receipts on social insurance and government pension funds.....	235	255	288
12. Profits before taxes (net of losses) of government business enterprises.....	249 (836)	320 (950)	399 (1134)
13. Miscellaneous <sup>(1)</sup> .....	- 41	78	20
14. Total revenue, national accounts basis.....	10894	12387	14310

(1) These miscellaneous adjustments represent revenues from miscellaneous direct and indirect taxes and adjustments for the supplementary period. In the National Accounts, revenues in the supplementary period are shifted into the following fiscal year.

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## Federal Government Expenditure

## Public Accounts and National Accounts Reconciliation

	1967-68	1968-69 Preliminary	1969-70 Forecast
	(millions of dollars)		
1. Budgetary expenditure.....	9824	10735	11650
2. Expo 67 Write-off.....			125
<u>Deduct:</u>			
3. Budgetary transfers to funds and agencies <sup>(1)</sup>	- 696	- 717	- 756
4. Post Office expenditure.....	- 301	- 347	- 360
5. Deficit of government business enterprises.	- 83	- 79	- 76
6. Reserves and write-offs.....	- 33	- 144	- 33
7. Expo 67 Write-off.....			- 125
8. Purchase of existing capital assets.....	- 5	- 12	- 10
9. Budgetary revenue items offset against budgetary expenditure <sup>(2)</sup> .....	- 120 (-1238)	- 90 (-1389)	- 90 (-1450)
<u>Add:</u>			
Extra-budgetary funds expenditure:			
10. Old age security benefits.....	1387	1544	1735
11. Unemployment insurance benefits.....	389	463	500
12. Government pensions.....	139	149	162
13. Prairie farm emergency payments.....	9 (1924)	7 (2163)	8 (2405)
14. Expenditure of government funds and agencies <sup>(1)</sup>	608	747	784
15. Miscellaneous <sup>(3)</sup> .....	109	198	221
16. Total expenditure, national accounts basis..	11227	12454	13735
17. Surplus (+) or deficit(-), national accounts basis.....	- 333	- 67	+ 575
18. Surplus(-) or deficit(-), budgetary basis...	- 795	- 566	+ 375
19. Expo 67 Write-off.....			- 125

(1) In the national accounts, budgetary appropriations to various funds and agencies are replaced by the expenditure actually made by these funds and agencies.

(2) This item mainly consists of revenue from sales of goods and services by the government. These sales appear as final expenditure of the private sector and are deducted to avoid double counting.

(3) This item includes the supplementary period adjustment. In the national accounts, expenditure on goods and services in the supplementary period are divided between adjacent fiscal years; most other expenditure are shifted entirely to the next fiscal year.



Summary of Accounting Concepts

<u>Item</u>	<u>Budgetary Accounts</u>	<u>Consolidated Accounts</u>	<u>National Economic Accounts</u>
Purpose	Parliamentary Control Internal Management	Monetary Policy Financial Management	Fiscal Policy Economic Analysis
Timing of Receipts	Cash	Cash	Accrual
Timing of Expenditures	Cash	Cash	Delivery
Treatment of Credit Transactions	Included	Included	Excluded
Treatment of Trust Fund Transactions	Excluded	Included	Included
Crown Corporations	Netted (varies with Statute)	Receipts and Advances	Excluded (where operated on profit basis)
Prepared by - Forecast	Treasury Board	Finance	Finance
- Final	Comptroller	Comptroller	D.B.S.
Extensions or Variations	Program Budgeting Functional Accounts	Consolidated Cash	Flow of Funds Input-Output Tables

Adapted from: Economic Report of the President, January, 1962.

APPENDIX I

TABLE 2-6. Summary of Financial Flows Accounts for the Year, 1967

No.	Category	Persons, unincorporated business and residual <sup>1</sup>		Non-financial business <sup>2</sup>		Federal government <sup>3</sup>	
		Use	Source	Use	Source	Use	Source
		millions of dollars					
1	Gross domestic saving .....	-	6,433	-	4,976	-	953
2	Non-financial capital acquisition .....	3,441	-	8,683	-	551	-
3	Net lending or borrowing .....	-	2,992	-	-3,707	-	402
4	Discrepancy .....	-	-268	-	277	-	-70
5	Net increase in financial assets .....	5,188	-	2,565	-	1,664	-
6	Net increase in financial liabilities .....	-	2,464	-	5,995	-	1,332
7	Net financial investment (5 - 6) .....	-	2,724	-	-3,430	-	332
8	Official holdings of gold and foreign exchange .....	-	-	-	-	-	-
9	Canadian currency and deposits .....	3,717	-	152	-	-338	36
10	Foreign currency and deposits .....	258	-	122	-	-3	-
11	Canadian bonds .....	523	-	-216	1,374	607	1,051
12	Canadian stocks .....	-136	-	127	677	6	-
13	Foreign securities .....	84	-	-62	-	-8	-
14	Mortgages .....	-	1,261	35	673	59	-
15	Bank and other loans .....	-	767	103	1,307	165	105
16	Claims on affiliated companies .....	-659	-659	599	1,481	1,337	-12
17	Consumer credit .....	6	808	37	-	-	-
18	Other receivables or payables .....	-	287	919	527	2	12
19	Life insurance and pensions .....	1,337	-	-	-	-	4
20	Other assets or liabilities .....	62	-	749	-44	-165	136

See footnotes Table 2-1.

TABLE 2-6. Summary of Financial Flows Accounts for the Year, 1967

Provincial and municipal government <sup>4</sup>		Rest of the world		Financial business <sup>5</sup>				Total		No.
Use	Source	Use	Source	Monetary authorities		Other finance		Use	Source	
				Use	Source	Use	Source			
millions of dollars										
-	2,013	-	549	-	1	-	474	-	15,399	1
2,380	-	124	-	-	-	220	-	15,399	-	2
-	-367	-	425	-	1	-	254	-	-	3
-	-71	-	118	-	-5	-	19	-	-	4
1,401	-	1,207	-	329	-	7,331	-	19,685	-	5
-	1,839	-	664	-	333	-	7,058	-	19,685	6
-	-438	-	543	-	-4	-	273	-	-	7
-	-	-	-	-	-	-	-	-	-	8
-44	-	24	-	-	-	363	3,638	3,874	3,874	9
3	-	-	380	-	-	-	-	380	380	10
506	1,784	822	-	319	-	1,940	292	4,501	4,501	11
11	-	57	-	-	-	336	337	401	1,014	12
-	-	-	362	-	-	348	-	362	362	13
44	-	-	-	-	-	1,812	16	1,950	1,950	14
115	-84	212	-104	3	-	1,559	186	2,157	2,157	15
573	19	676	90	33	142	162	1,047	2,721	2,108	16
-	-	-	-	-	-	765	-	808	808	17
1	80	-	-	-	-	-61	-45	861	861	18
-	-	-	-	-	-	-	1,333	1,337	1,337	19
194	40	-584	-98	-60	-7	103	272	299	299	20

Financial Flow Accounts, 1962-67  
A Preliminary Report, D.B.S. 13-530.



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TABLE 3-6. Financial Flows Matrix, 1967

No.		millions of dollars				
		I. Persons	II. Unincorporated business	III. Non-financial private corporations	IV. Non-financial government enterprises	V. The monetary authorities
1	Gross domestic saving .....	3,908	2,396	4,467	509	1
2	Capital consumption allowances and miscellaneous valuation adjustments .....	-	2,396	3,895	509	1
3	Residual error of estimate, income and expenditure accounts .....	-	-	-	-	-
4	Net domestic saving .....	3,908	-	572	-	-
5	Non-financial capital acquisition .....	- 275	3,716	6,579	2,104	-
6	Gross fixed capital formation .....	-	3,834	6,338	1,987	-
7	Value of physical change in inventories .....	-	- 118	174	169	-
8	Net purchases of existing assets .....	- 275	-	67	- 52	-
9	Net lending or borrowing (1-5) .....	4,183	- 1,320	- 2,112	- 1,595	1
10	Net financial investment (11-39) .....	4,044	- 1,320	- 2,084	- 1,346	4
11	Net increase in financial assets .....	5,120	68	2,423	142	329
12	Official holdings of gold and foreign exchange .....	-	-	-	-	34
13	Currency and deposits:					
14	Currency and bank deposits .....	2,771	-	130	- 37	-
15	Deposits in other institutions .....	946	-	11	48	-
16	Foreign currency and deposits .....	258	-	68	54	-
17	Receivables:					
18	Consumer credit .....	-	6	37	-	-
19	Trade .....	-	-	883	36	-
20	Loans:					
21	Bank loans .....	-	-	-	-	-
22	Other loans .....	-	-	106	- 3	3
23	Claims on associated enterprises:					
24	Non-corporate .....	- 659	-	-	-	-
25	Corporate .....	-	-	536	-	-
26	Government .....	-	-	-	61	33
27	Mortgages .....	-	-	34	1	-
28	Bonds:					
29	Government of Canada treasury bills .....	- 49	-	- 49	- 5	125
30	Other government of Canada bonds .....	315	-	- 276	3	194
31	Provincial government bonds .....	- 90	-	-	- 8	-
32	Municipal government bonds .....	148	-	-	- 24	-
33	Finance company and other short-term commercial paper .....	117	-	- 180	- 24	-
34	Other Canadian bonds .....	312	-	- 23	- 14	-
35	Stocks .....	- 136	-	121	6	-
36	Foreign investments .....	84	-	- 62	-	-
37	Life insurance and pensions .....	1,337	-	-	-	-
38	Other financial assets .....	-	62	727	22	- 60
39	Net increase in liabilities .....	1,076	1,388	4,507	1,488	333
40	Official holdings of gold and foreign exchange .....	-	-	-	-	-
41	Currency and deposits:					
42	Currency and bank deposits .....	-	-	-	-	198
43	Deposits in other institutions .....	-	-	-	-	-
44	Foreign currency and deposits .....	-	-	-	-	-
45	Payables:					
46	Consumer credit .....	808	-	-	-	-
47	Trade .....	-	287	466	61	-
48	Loans:					
49	Bank loans .....	268	120	821	-	-
50	Other loans .....	-	379	356	130	-
51	Claims on associated enterprises:					
52	Non-corporate .....	-	- 659	-	-	-
53	Corporate .....	-	-	676	-	-
54	Government .....	-	-	-	805	142
55	Mortgages .....	-	1,261	677	- 4	-
56	Bonds:					
57	Government of Canada treasury bills .....	-	-	-	-	-
58	Other government of Canada bonds .....	-	-	-	- 128	-
59	Provincial government bonds .....	-	-	-	619	-
60	Municipal government bonds .....	-	-	-	-	-
61	Finance company and other short-term commercial paper .....	-	-	- 3	-	-
62	Other Canadian bonds .....	-	-	886	-	-
63	Stocks .....	-	-	677	-	-
64	Foreign investments .....	-	-	-	-	-
65	Life insurance and pensions .....	-	-	-	-	-
66	Other financial liabilities .....	-	-	- 49	5	- 7
67	Discrepancy (9-10) .....	139	-	- 28	- 249	5

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TABLE 3-6. Financial Flows Matrix, 1967

VI 1. Chartered banks	VI 2. Other lending institutions	VII. Insurance companies and pension funds	VIII. Other private financial institutions	IX. Public financial institutions	X. Federal government	XI. Provincial and municipal government	XII. Social security funds	XIII. Rest of the world	XIV. Residual error of estimate, income and expenditure accounts	Total	No.
millions of dollars											
120	124	42	53	135	292	1,788	886	549	129	15,399	1
28	24	10	2	135	-	-	-	-	-	7,000	2
92	100	32	51	-	292	1,788	886	549	129	129	3
45	54	39	68	14	551	2,380	-	124	-	15,399	5
45	53	27	68	13	548	2,261	-	-	-	15,174	6
-	1	12	-	1	3	119	-	124	-	225	7
75	70	3	- 15	121	- 259	- 592	886	425	129	-	8
75	68	3	- 17	144	- 329	- 663	886	543	-	-	9
2,686	1,276	1,571	446	1,352	1,003	1,165	897	1,207	-	19,685	10
-	-	-	-	-	-	-	-	-	-	34	11
- 13	175	43	86	7	- 338	- 52	-	25	-	2,797	12
-	38	31	- 4	-	-	8	-	1	-	1,077	13
-	- 5	- 1	6	-	- 3	3	-	-	-	380	14
518	219	28	-	-	-	-	-	-	-	808	15
-	-	- 13	- 50	2	2	1	-	-	-	861	16
1,262	-	-	-	-	-	-	-	-	-	1,262	17
-	55	-	11	231	165	115	-	212	-	895	18
-	-	-	-	-	-	-	-	-	-	- 659	19
12	- 21	1	157	-	-	-	-	676	-	1,363	20
-	-	-	-	13	1,346	338	226	-	-	2,017	21
57	555	395	- 1	806	59	44	-	-	-	1,950	22
177	- 1	- 1	88	-	- 2	- 2	-	4	-	285	23
567	56	- 10	- 39	24	- 63	- 19	2	- 116	-	638	24
63	106	29	- 8	173	- 5	228	668	692	-	1,848	25
21	36	148	- 18	- 6	-	210	-	116	-	655	26
-	- 15	21	29	-	9	-	-	43	-	- 12	27
45	45	390	47	29	-	87	-	169	-	1,087	28
-	8	350	- 69	47	6	11	-	57	-	401	29
-	6	118	223	1	- 8	-	-	-	-	362	30
-	19	-	-	-	-	-	-	-	-	1,337	31
- 23	94	- 12	25	- 165	193	1	- 584	-	-	299	32
2,611	1,208	1,568	463	1,208	1,332	1,828	11	664	-	19,685	33
-	-	-	-	-	-	-	-	34	-	34	34
2,560	-	-	-	-	39	-	-	-	-	2,797	35
-	1,056	-	-	24	- 3	-	-	-	-	1,077	36
-	-	-	-	-	-	-	-	380	-	380	37
-	1	12	- 57	- 1	12	80	-	-	-	808	38
-	7	-	95	-	-	- 49	-	-	-	861	39
3	- 47	-	109	- 1	105	- 35	-	- 104	-	1,262	40
-	-	-	-	-	-	-	-	-	-	895	41
-	15	5	- 36	-	-	-	-	-	-	- 659	42
-	-	-	-	1,063	- 12	8	11	90	-	750	43
-	-	-	-	16	-	-	-	-	-	2,017	44
-	-	-	-	-	285	-	-	-	-	1,950	45
-	-	-	-	-	766	-	-	-	-	285	46
-	-	-	-	100	-	1,129	-	-	-	638	47
-	-	-	-	-	-	655	-	-	-	1,848	48
40	- 9	-	-	-	-	-	-	-	-	655	49
-	114	-	47	-	-	-	-	-	-	- 12	50
3	42	4	288	-	-	-	-	-	-	1,087	51
-	-	-	-	-	-	-	-	-	-	1,014	52
-	-	1,333	-	-	4	-	-	362	-	362	53
-	5	29	1	23	136	40	-	- 98	-	1,337	54
-	2	-	2	- 23	70	71	-	- 118	129	299	55
-	-	-	-	-	-	-	-	-	-	1,337	56
-	-	-	-	-	-	-	-	-	-	362	57
-	-	-	-	-	-	-	-	-	-	1,337	58
-	-	-	-	-	-	-	-	-	-	299	59
-	-	-	-	-	-	-	-	-	-	1,337	60
-	-	-	-	-	-	-	-	-	-	362	61
-	-	-	-	-	-	-	-	-	-	1,337	62
-	-	-	-	-	-	-	-	-	-	299	63
-	-	-	-	-	-	-	-	-	-	1,337	64
-	-	-	-	-	-	-	-	-	-	362	65
-	-	-	-	-	-	-	-	-	-	1,337	66
-	-	-	-	-	-	-	-	-	-	299	67

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TABLE 5-18. End of Year Levels, 1962-67  
Sector X. Federal Government

No.		1962	1963	1964	1965	1966	1967
		millions of dollars					
11	<b>Total financial assets</b> .....	<b>11,385</b>	<b>12,179</b>	<b>13,055</b>	<b>13,791</b>	<b>15,200</b>	<b>16,872</b>
13	Currency and deposits:						
14	Currency and bank deposits .....	407	840	572	658	668	330
15	Deposits in other institutions .....	—	—	2	—	4	—
16	Foreign currency and deposits .....	2	—	—	—	—	1
17	Receivables:						
19	Trade .....	9	8	7	10	11	12
20	Loans:						
22	Other loans .....	1,598	1,604	1,635	1,725	1,957	2,122
23	Claims on associated enterprises:						
26	Government .....	7,907	8,350	9,008	9,784	10,130	11,476
27	Mortgages .....	237	257	273	293	343	403
28	Bonds:						
29	Government of Canada treasury bills .....	34	47	58	6	5	3
30	Other government of Canada bonds .....	269	96	336	180	470	409
31	Provincial government bonds .....	7	12	15	17	479	1,143
32	Municipal government bonds .....	6	9	10	9	10	10
33	Finance company and other short-term commercial paper .....	—	—	—	1	1	10
34	Other Canadian bonds .....	10	10	9	11	10	10
35	Stocks .....	8	7	7	8	10	15
36	Foreign investments .....	5	—	225	198	183	175
38	Other financial assets .....	886	939	898	891	919	753
39	<b>Total liabilities</b> .....	<b>19,908</b>	<b>21,052</b>	<b>21,655</b>	<b>21,765</b>	<b>22,968</b>	<b>24,969</b>
41	Currency and deposits:						
42	Currency and bank deposits .....	203	227	258	296	322	361
43	Deposits in other institutions .....	27	26	25	23	22	19
44	Payables:						
47	Trade .....	8	10	13	15	23	35
48	Loans:						
50	Other loans .....	25	26	26	28	166	271
51	Claims on associated enterprises:						
54	Government .....	18	20	34	30	36	33
56	Bonds:						
57	Government of Canada treasury bills .....	2,165	2,240	2,140	2,150	2,170	2,455
58	Other government of Canada bonds .....	15,619	16,623	17,205	17,137	17,558	18,324
65	Life insurance and pensions .....	1,219	1,240	1,258	1,272	1,281	1,284
66	Other financial liabilities .....	624	640	696	814	1,390	2,187

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TABLE 1A- CANADA  
Government Revenue and Expenditure

	Revenue			Expenditure			Surplus/Deficit		
	Total*	Federal	Provincial- Municipal	Total*	Federal	Provincial- Municipal	Total	Federal	Provincial - Municipal
1948	4,000	2,677	1,473	3,292	1,917	1,525	708	760	- 52
1949	4,097	2,654	1,630	3,724	2,174	1,737	373	480	- 107
1950	4,567	2,965	1,853	3,982	2,330	1,903	585	635	- 50
1951	5,969	4,110	2,118	4,984	3,089	2,154	985	1,021	- 36
1952	6,571	4,626	2,313	6,318	4,373	2,313	253	253	0
1953	6,788	4,726	2,474	6,613	4,584	2,441	175	142	33
1954	6,719	4,528	2,621	6,850	4,628	2,652	- 131	- 100	- 31
1955	7,386	4,937	2,899	7,280	4,761	2,969	106	176	- 70
1956	8,339	5,578	3,246	7,989	5,034	3,440	350	544	- 194
1957	8,753	5,588	3,686	8,653	5,339	3,835	100	249	- 149
1958	8,738	5,334	4,067	9,745	6,091	4,317	-1,007	- 757	- 250
1959	9,857	6,043	4,694	10,413	6,370	4,923	- 556	- 327	- 229
1960	10,502	6,411	5,085	11,219	6,662	5,551	- 717	- 251	- 466
1961	11,099	6,668	5,559	12,104	7,129	6,103	-1,005	- 461	- 544
1962	12,212	6,859	6,487	13,066	7,424	6,776	- 854	- 565	- 289
1963	13,028	7,177	7,020	13,718	7,507	7,380	- 690	- 330	- 360
1964	14,697	8,187	7,762	14,718	7,891	8,079	- 21	296	- 317
1965	16,568	9,059	8,943	16,243	8,434	9,243	325	625	- 300
1966**	18,342	9,809	10,195	18,713	9,645	10,730	- 371	164	- 535
1967**	20,440	10,631	11,801	21,169	10,887	12,274	- 729	- 256	- 473
1968**	23,150	11,893	13,709	23,340	12,058	13,734	- 190	- 165	- 25

\* Excluding inter-governmental transfers.

\*\* Excluding Canada and Quebec Pension Plans.

Source - Canadian National Accounts Income and Expenditure.



TABLE 1B- UNITED STATES  
Government Revenue and Expenditure

U.S. \$ billion

	Revenue			Expenditure			Surplus		Deficit
	Total*	Federal	State & Local	Total*	Federal	State & Local	Total	Federal	State & Local
1948	58.9	43.3	17.6	50.3	34.9	17.4	8.5	9.4	0.1
1949	56.0	38.9	19.3	59.1	41.3	20.0	- 3.2	- 2.4	-0.7
1950	68.7	49.9	21.1	60.8	40.8	22.3	7.8	9.1	-1.2
1951	84.8	64.0	23.3	79.0	57.8	23.7	5.8	6.2	-0.4
1952	89.8	67.2	25.2	93.7	71.0	25.3	- 3.8	- 3.8	-
1953	94.3	70.0	27.2	101.2	77.0	27.0	- 6.9	- 7.0	0.1
1954	89.7	63.8	28.8	96.7	69.7	29.9	- 7.0	- 5.9	-1.1
1955	100.4	72.1	31.4	97.6	68.1	32.7	2.7	4.0	-1.3
1956	109.0	77.6	34.7	104.1	71.9	35.6	4.9	5.7	-0.9
1957	115.6	81.6	38.2	114.9	79.6	39.5	0.7	2.1	-1.4
1958	114.7	78.7	41.6	127.2	88.9	44.0	-12.5	-10.2	-2.3
1959	128.9	89.7	46.0	131.0	91.0	46.8	- 2.1	- 1.2	-0.8
1960	139.8	96.5	49.9	136.1	93.0	49.6	3.7	3.5	0.2
1961	144.6	98.3	53.6	149.0	102.1	54.1	- 4.3	- 3.8	-0.5
1962	157.0	106.4	58.6	159.9	110.3	57.6	- 2.9	- 3.8	0.9
1963	168.8	114.5	63.4	166.9	113.9	62.2	1.8	0.7	1.2
1964	174.1	115.0	69.5	175.4	118.1	67.8	- 1.4	- 3.0	1.7
1965	189.1	124.7	75.5	186.9	123.5	74.5	2.2	1.2	1.0
1966	213.2	143.0	84.6	211.5	142.4	83.5	1.7	0.7	1.1
1967	227.4	151.2	91.6	241.3	163.6	93.3	- 13.8	- 12.4	- 1.4
1968	260.9	176.9	102.4	267.3	182.2	103.5	- 6.4	- 5.3	- 1.1

\* Excluding inter-governmental transfers.

Source - U.S. Economic Report of the President 1969.

TABLE 2 - CANADA-UNITED STATES  
 GOVERNMENT EXPENDITURE AS PERCENT OF GROSS NATIONAL EXPENDITURE

(Per cent)

	Federal		Others**		Total Expenditure*	
	Canada	U.S.	Canada	U.S.	Canada	U.S.
1948	12.7	13.5	10.1	6.8	21.8	19.5
1949	13.3	16.1	10.6	7.8	22.8	23.0
1950	12.9	14.3	10.6	7.8	22.1	21.3
1951	14.6	17.6	10.2	7.2	23.5	24.1
1952	18.2	20.5	9.6	7.3	26.3	27.1
1953	18.3	21.1	9.8	7.4	26.5	27.8
1954	18.6	19.1	10.7	8.2	27.5	26.5
1955	17.5	17.1	10.9	8.2	26.8	24.5
1956	16.5	17.2	11.2	8.5	26.1	24.8
1957	16.7	18.0	12.0	9.0	27.1	26.0
1958	18.5	19.9	13.1	9.8	29.6	28.4
1959	18.2	18.8	14.1	9.7	29.8	27.1
1960	18.4	18.5	15.3	9.8	30.9	27.0
1961	19.0	19.6	16.3	10.4	32.5	28.6
1962	18.3	19.7	16.7	10.3	32.2	28.5
1963	17.3	19.3	17.0	10.5	31.6	28.3
1964	16.7	18.7	17.0	10.7	31.1	27.7
1965	16.2	18.0	17.7	10.9	31.1	27.3
1966	16.6	19.0	18.5	11.2	32.2	28.3
1967	17.5	20.7	19.8	11.8	34.1	30.6
1968	17.9	21.2	20.4	12.0	34.6	31.1

\* Excluding inter-governmental transfers.

\*\* Canada: Provincial and Municipal governments  
 United States: State and local governments.

Source - Canada National Accounts Income & Expenditure  
 U.S. Economic Report of the President 1969.



TABLE 3 - CANADA-UNITED STATES

Gross National Expenditure  
Government Expenditure on Goods and Services  
Constant Dollars - 1948 = 100

	<u>Gross National Expenditure</u>		<u>Expenditure on goods and services</u>	
	<u>Canada</u>	<u>U.S.</u>	<u>Canada</u>	<u>U.S.</u>
1948	100.	100.	100.	100.
1949	103.8	100.1	111.9	115.1
1950	111.0	109.8	117.9	114.0
1951	118.0	118.4	147.5	162.8
1952	127.3	122.0	184.9	198.9
1953	132.3	127.5	185.0	215.5
1954	128.3	125.7	179.6	192.0
1955	139.9	135.3	187.3	184.0
1956	152.1	137.8	199.4	184.2
1957	154.2	139.8	201.6	192.9
1958	155.2	138.2	215.2	203.5
1959	161.7	147.0	218.5	204.5
1960	165.6	150.7	220.6	205.0
1961	170.0	153.6	231.0	217.1
1962	180.6	163.7	240.0	232.2
1963	190.8	170.2	241.2	236.7
1964	203.0	179.5	250.4	240.2
1965	217.3	190.9	264.8	247.7
1966	231.8	203.0	292.8	273.2
1967	237.4	208.0	306.4	303.9
1968	248.6	218.4	309.8	322.2

Source-Ibid.

TABLE 4 - CANADA-UNITED STATES  
Gross National Product per Capita  
Government Expenditure on Goods and Services per Capita

(dollars)

	G.N.P. Per Capita		Government Expenditure on Goods and Services per Capita			
	Canada	U.S.	Canada		U.S.	
			Total	Excluding defence	Total	Excluding defence
1948	1,179	1,757	140	122	216	143
1949	1,215	1,719	158	131	253	164
1950	1,313	1,870	171	135	249	156
1951	1,511	2,120	233	150	382	165
1952	1,660	2,193	296	172	474	183
1953	1,685	2,276	299	171	509	154
1954	1,627	2,238	292	161	459	206
1955	1,728	2,399	305	193	447	215
1956	1,702	2,482	335	223	465	227
1957	1,921	2,565	345	239	501	244
1958	1,926	2,558	362	265	539	276
1959	1,997	2,720	371	282	546	287
1960	2,031	2,788	379	292	551	303
1961	2,055	2,830	397	309	586	326
1962	2,183	3,001	415	324	627	351
1963	2,294	3,118	427	344	647	379
1964	2,457	3,292	449	367	670	410
1965	2,657	3,520	489	410	704	447
1966	2,904	3,797	564	479	793	486
1967	3,042	3,966	607	519	896	532
1968	3,266	4,279	646	558	980	588

Source - Ibid.



TABLE 5A - CANADA-UNITED STATES  
Selected Sources of Revenue as percent of Total Revenue

	<u>Federal</u>		<u>Others*</u>			
	<u>Taxation Revenues</u>		<u>Taxation Revenues</u>		<u>Transfers from federal</u>	
	<u>Canada</u>	<u>U.S.</u>	<u>Canada</u>	<u>U.S.</u>	<u>Canada</u>	<u>U.S.</u>
1948	91.5	89.4	64.0	67.1	10.2	11.0
1949	90.1	88.0	64.4	67.6 <sup>e</sup>	11.5	10.8 <sup>e</sup>
1950	89.7	86.9	63.7	66.5	13.6	12.0
1951	90.2	89.1	65.6	63.0 <sup>e</sup>	12.2	10.9 <sup>e</sup>
1952	89.7	88.8	61.9	56.5	15.9	10.3
1953	89.4	89.2	60.8	66.7	16.7	10.6
1954	88.5	88.1	61.2	65.9	16.4	10.3
1955	88.0	87.1	62.5	65.3	15.5	10.0
1956	88.3	86.5	63.1	64.8	14.9	9.5
1957	88.1	85.5	64.7	65.7	14.1	9.9
1958	86.5	84.3	63.2	64.6	16.3	11.9
1959	87.3	83.8	62.4	62.7	18.8	14.1
1960	86.4	82.4	61.9	63.0	19.6	13.9
1961	86.2	81.0	61.8	63.5	20.3	13.1
1962	85.9	80.9	65.6	63.3	17.5	13.6
1963	85.5	79.9	66.2	62.0	16.7	13.8
1964	86.0	79.7	67.2	62.1	16.1	14.6
1965	86.2	79.8	67.8	61.9	16.0	14.7
1966	86.0	76.9	68.4	61.0	16.3	17.0
1967	85.9	75.7	68.0	61.0 <sup>e</sup>	16.9	17.1
1968	85.7	76.5	67.8	61.0 <sup>e</sup>	17.9	18.0

\* Canada: Provincial and Municipal Governments.  
 United States: State and Local Governments.

Source - Ibid.

TABLE 5B - CANADA-UNITED STATES

Selected Expenditures as percent of Total Expenditures

	FEDERAL						OTHERS*	
	Goods and Services		Transfers to Persons		Transfers to other gov'ts.		Goods and Services	
	Canada	U.S.	Canada	U.S.	Canada	U.S.	Canada	U.S.
1948	35.1	42.7	29.7	28.2	7.8	5.8	73.7	86.2
1949	40.0	48.7	26.8	20.5	8.6	5.3	72.4	88.5
1950	41.9	44.8	26.4	26.7	10.8	5.7	71.8	87.4
1951	55.1	56.3	18.7	18.2	8.4	5.4	72.8	90.7
1952	56.9	70.6	22.4	12.9	8.4	3.8	77.4	90.5
1953	55.8	74.0	22.8	12.3	9.0	3.7	76.7	91.1
1954	52.9	71.7	25.1	14.2	9.3	3.9	75.9	91.6
1955	52.7	65.2	25.9	18.0	9.5	4.5	76.9	92.0
1956	53.3	64.8	24.3	18.3	9.6	4.6	78.6	92.7
1957	51.1	62.8	27.4	18.9	9.8	4.9	78.1	92.7
1958	46.9	61.0	31.2	21.4	10.9	5.7	77.0	92.3
1959	44.5	60.2	28.1	21.8	13.8	6.8	74.3	92.5
1960	41.0	57.7	29.7	22.6	14.9	7.4	72.8	92.9
1961	41.8	56.6	28.1	24.1	15.8	7.0	69.7	92.8
1962	40.8	57.2	28.5	23.6	15.3	7.1	69.2	93.2
1963	39.1	56.9	28.4	23.7	15.6	7.5	69.7	93.6
1964	38.6	56.2	28.4	23.4	15.9	8.4	69.4	93.6
1965	39.0	53.6	27.4	24.3	17.0	9.0	68.4	94.2
1966	40.6	54.1	25.7	23.4	17.2	10.1	68.7	94.3
1967	39.1	59.9	27.0	26.5	18.3	10.3	66.1	94.1
1968	37.1	56.5	27.2	25.8	20.3	10.4	64.5	93.8

\* Canada - Provincial and Municipal Governments  
 U.S. - State and Local Governments.



Comparison of Personal Income Taxes in Canada and the United States

(Married taxpayer with no dependants)

Income	Canada - taxes at rates for 1969				U.S.A. - taxes at rates for 1969 in present law			
	Federal income tax	Provincial income tax	O.A.S. tax and C.P.P. contribution	Total income taxes	Federal income tax	State income tax (New York State)	Social security tax	Total income taxes
\$	\$	\$	\$	\$	\$	\$	\$	\$
1,000	-	-	7	7	-	-	48	48
2,000	-	-	25	25	56	-	96	152
3,000	69	28	79	176	200	10	144	354
4,000	188	66	137	391	360	37	192	589
5,000	334	113	195	642	522	67	240	829
7,500	770	257	299	1,326	961	163	360	1,484
10,000	1,223	421	323	1,967	1,409	283	374	2,066
15,000	2,433	874	323	3,630	2,481	639	374	3,494
20,000	3,990	1,455	323	5,768	3,623	1,123	374	5,120
30,000	7,365	2,715	323	10,403	6,273	2,427	374	9,074
50,000	14,931	5,539	323	20,793	13,288	5,227	374	18,889
100,000	36,577	13,621	323	50,521	35,965	12,227	374	48,566

The taxes shown for Canada are the federal income tax, including the temporary surtax and the proposed social development tax, the provincial income tax, the Old Age Security tax and the Canada Pension Plan contribution. The taxes shown for the U.S.A. are the federal income tax, including the temporary surtax, the state income tax in New York State and the Social Security tax. The federal income tax shown for Canada is the tax in all provinces except Quebec. The provincial tax is the provincial tax in any province except Quebec, Manitoba, or Saskatchewan. The state income tax is the New York State income tax. In the United States forty states and the District of Columbia impose income taxes.

In calculating the Canadian taxes it has been assumed that taxpayers with incomes under \$10,000 deduct only the optional standard deduction of \$100, but that taxpayers with incomes in excess of \$10,000 deduct charitable donations and eligible medical expenses which aggregate 2-1/2% of their income.

In calculating the United States taxes it has been assumed that taxpayers with incomes of \$10,000 or less deduct only the optional standard deduction. This is 10% of income with a minimum of \$400 for joint returns of married taxpayers and a maximum of \$1,000. It was also assumed that taxpayers with incomes in excess of \$10,000 use the optional standard deduction for purposes of their state income tax and for federal tax purposes deduct charitable donations, eligible medical expenses, mortgage interest, property taxes, etc., which aggregate 5% of their income and in addition deduct their state income tax. It was further assumed that taxpayers take advantage of the income splitting provision in the federal tax law.

The old age security tax shown for Canada is 4% of taxable income with a maximum of \$240 and the Canada Pension Plan contribution is 1.8% of income in excess of \$600 with a maximum of \$82.80. The social security tax in the United States is 4.8% of income with a maximum of \$374.40.

The temporary surtax shown for Canada is 3% of basic tax in excess of \$200. The temporary surtax shown for the United States is 5% of adjusted tax where adjusted tax exceeds \$580 and is 10% of adjusted tax in excess of \$290 where adjusted tax exceeds \$290 but equals or is less than \$580.

The proposed social development tax for Canada is 2% of taxable income with a maximum of \$120.

100,000	30,255
20,000	10,037
30,000	5,292
30,000	3,000
72,000	5,833
10,000	1,553
3,200	330
2,000	339
8,000	788
3,000	90
5,000	-
1,000	-

Tax	Tax
Income	Income
Income	Income





In calculating the tax on such income it was then assumed that taxpayers with income under \$10,000 deduct only the optional standard deduction of \$1,000, but that taxpayers with incomes in excess of \$10,000 deduct charitable donations and eligible medical expenses which aggregate 24.7% of their income.

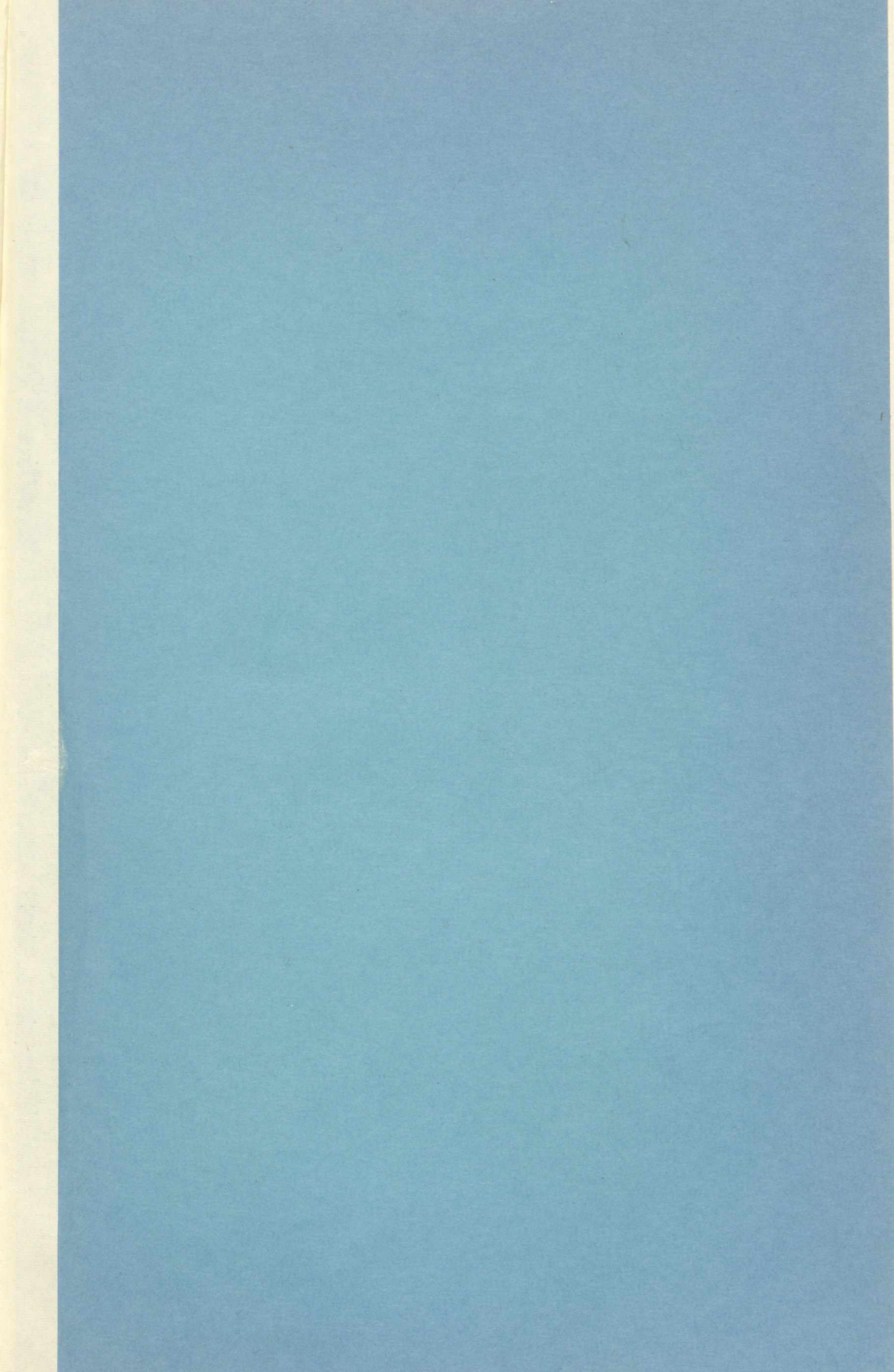
In calculating the United States taxes it has been assumed that taxpayers with incomes of \$10,000 or less deduct only the optional standard deduction. This is 10% of income with a maximum of \$1,000 for joint returns or married taxpayers and a maximum of \$1,000. It was also assumed that taxpayers with incomes in excess of \$10,000 use the optional standard deduction for purposes of their state income tax and for Federal tax purposes deduct charitable donations, eligible medical expenses, mortgage interest, property taxes, etc., which aggregate 2% of their income and in addition deduct their state income tax. It was further assumed that taxpayers take advantage of the income-splitting provision in the Federal tax law.

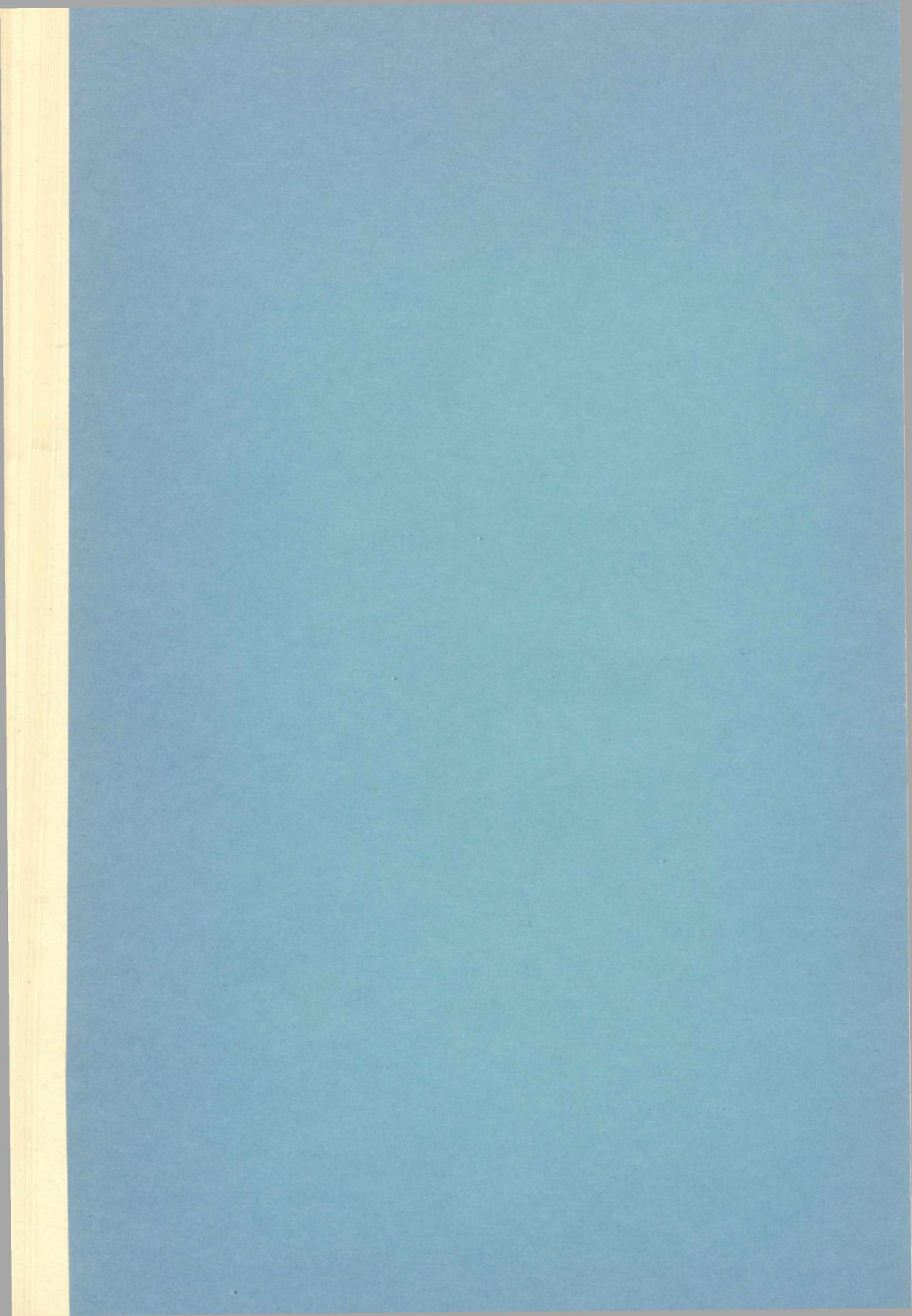
The old tax security law which for Canada is 4% of taxable income with a maximum of \$100 and the Canada Pension Plan contribution is 1.6% of income in excess of \$100 with a maximum of \$132.80. The social security tax in the United States is 4.8% of income with a maximum of \$974.40.

The temporary surtax which for Canada is 3% of basic tax in excess of \$200. The temporary surtax which for the United States is 3% of adjusted tax where adjusted tax exceeds \$100 and is 1% of adjusted tax in excess of \$200 where adjusted tax exceeds \$200 but equals or is less than \$200.

The proposed social development tax for Canada is 2% of taxable income with a maximum of \$100.









SENATE OF CANADA

Standing Committee on National Finance  
1st Session, 28th Parliament, 1968-1969

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