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Committee on National
Finance, 1969/70.
Proceedings.

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Second Session—Twenty-eighth Parliament

1969

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

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

No. 1

WEDNESDAY, NOVEMBER 26th, 1969

Complete Proceedings on Bill C-6,

intituled:

"An Act to wind up the Canadian Corporation for the 1967 World Exhibition and to authorize the writing-off of certain costs and the deferral of certain payments connected therewith".

WITNESSES:

Jean Lupien, Vice-President, Central Mortgage and Housing Corporation; Dr. A. G. Irvine, Crown Corporations, Financing Division, Department of Finance; L. J. Rodger, General Director of Promotional Services, Department of Industry, Trade and Commerce.

REPORT OF THE COMMITTEE



Second Session—Twenty-eighth Parliament

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	Kinley	Nichol
Desruisseaux	Laird	Paterson
Dessureault	Leonard	Pearson
Everett	Macdonald (<i>Queens</i>)	Phillips (<i>Rigaud</i>)
*Flynn	*Martin	Phillips (<i>Prince</i>)
Fournier (<i>Madawaska- Restigouche</i>)	Methot	O'Leary (<i>Carleton</i>)
Gelinas		Sparrow
		Walker—(28).

(Quorum 7)

**Ex officio* members: Flynn and Martin.

No. 1

WEDNESDAY, NOVEMBER 26th, 1963

Complete Proceedings on Bill C-6

intituled :

"An Act to wind up the Canadian Corporation for the 1967 World Exhibition and to authorize the writing-off of certain costs and the deferral of certain payments connected therewith."

WITNESSES:

Jean Lapierre, Vice-President, Central Mortgage and Housing Corporation; Dr. A. G. Irvine, Crown Corporation, Planning Division, Department of Finance; L. J. Rogge, General Director of Promotional Services, Department of Industry, Trade and Commerce.

REPORT OF THE COMMITTEE

MINUTES OF PROCEEDINGS
ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, November 25, 1969:

"A Message was brought from the House of Commons by their Clerk with a Bill C-6, intituled: "An Act to wind up the Canadian Corporation for the 1967 World Exhibition and to authorize the writing-off of certain costs and the deferral of certain payments connected therewith", to which they desire the concurrence of the Senate.

The Bill was read the first time.

With leave of the Senate,

The Honourable Senator Gélinas moved, seconded by the Honourable Senator Fournier (*de Lanaudière*), that the Bill be read the second time now.

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 Gélinas moved, seconded by the Honourable Senator Bourque, 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:

Frank A. Jackson,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, November 26, 1969.

Pursuant to adjournment and notice, the Standing Senate Committee on National Finance met this day at 11:30 a.m. to consider:

Bill C-6, "An Act to wind up the Canadian Corporation for the 1967 World Exhibition and to authorize the writing-off of certain costs and the deferral of certain payments connected therewith."

Present: The Honourable Senators Leonard (*Chairman*), Beaubien, Bourque, Gelinas, Grosart, Laird, Molson, Nichol and Phillips (*Prince*)—(9).

In attendance: E. Russell Hopkins, Law Clerk and Parliamentary Counsel.

It was Agreed that 800 copies in English and 300 copies in French of these proceedings be printed.

The following witnesses were heard:

Jean Lupien,
Vice-President,
Central and Mortgage and Housing Corporation.
Dr. A. G. Irvine,
Director, Crown Corporations, Financing Division,
Department of Finance.
L. J. Rodger,
General Director of Promotional Services,
Department of Industry, Trade and Commerce.

Upon motion, it was Resolved to report the said Bill without amendment.

At 12:30 p.m. the Committee adjourned until Thursday next, December 4, 1969.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

REPORT OF THE COMMITTEE

WEDNESDAY, November 26, 1969.

The Standing Senate Committee on National Finance to which was referred the Bill C-6, intituled: "An Act to wind up the Canadian Corporation for the 1967 World Exhibition and to authorize the writing-off of certain costs and the deferral of certain payments connected therewith", has in obedience to the order of reference of November 25, 1969, examined the said Bill and now reports the same without amendment.

Respectfully submitted.

T. D'ARCY LEONARD,

Chairman.

The following witnesses were heard:

- John Lupton,
Vice-President,
Central and Mortgage and Housing Corporation.
- Dr. A. G. Irvine,
Director, Crown Corporation, Financing Division,
Department of Finance.
- I. J. Rogier,
General Director of Promotional Services,
Department of Industry, Trade and Commerce.

Upon motion, it was resolved to report the said Bill without amendment.
At 12:30 p.m. the Committee adjourned until Thursday next, December 4,

1969.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

EVIDENCE

Ottawa, Wednesday, November 26, 1969

The Standing Senate Committee on National Finance, to which was referred Bill C-6, to wind up the Canadian Corporation for the 1967 World Exhibition and to authorize the writing-off of certain costs and the deferral of certain payments connected therewith, met this day at 11.30 a.m.

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

The Chairman: Honourable senators, two matters have been referred to the committee: one is the Supplementary Estimates A, and the second is Bill C-6, the short title of which is the Expo Winding-Up Act.

There is no legislation yet introduced with respect to Supplementary Estimates A. Therefore, there is not an immediate rush about that, and I suggest we meet to discuss the Estimates next Thursday, a week from tomorrow, at ten o'clock, at which time I expect that Mr. Reisman of the Treasury Board will appear before us. Does that time meet with your approval?

Hon. Senators: Agreed.

The Chairman: A motion to print the proceedings in connection with the Expo bill is in order.

Upon motion, it was *resolved* that a verbatim report be made of the proceedings and to recommend that 800 copies in English and 300 copies in French be printed.

The Chairman: With respect to Bill C-6, which was given second reading yesterday on the motion of Senator Gélinas, we have as our witnesses today Mr. Jean Lupien, Deputy Commissioner General of the Expo Corporation, as well as two directors of the Corporation, namely, Dr. A. G. Irvine from the Department of Finance, and Mr. L. J. Rodger from the Department of Industry, Trade and Commerce.

Unless Senator Gélinas has something to say at the moment, I will ask Mr. Lupien to lead off in speaking to the bill before us.

Senator Gélinas: I have nothing to say, Mr. Chairman.

Mr. Jean Lupien, Vice-President, Central Mortgage and Housing Corporation and Deputy Commissioner General, Expo Corporation: Thank you, Mr. Chairman. Honourable senators, I am very pleased to appear before your committee to provide any information that we have available on the nature of the bill, and, at the same time, on the main questions that may be of concern to you about the Expo Corporation.

I should like to explain that in the beginning of February, 1968, a new board was established by consent of the three partners to carry out the dissolution of the Expo Corporation. It was felt that the three partners, the province, the municipality and the federal Government, could best be represented to carry out this task by public servants who would have in their fields the competence to carry out that task.

At that time there were still some 400 employees of the Corporation, and there were a few thousand contracts that still had to be settled. This task was tackled during 1968, mainly, and our 1968 report, copies of which you have, describes the activity of the Corporation during that period.

When we reached 1969 we had, for the main part, carried out the administrative task of dissolving the Expo Corporation, but we still had to iron out some problems of the division of responsibilities for the repayment of the Expo Corporation. This was carried out mainly by the federal Government in communication with the partners concerned—the Province of Quebec and the City of Montreal.

During 1969 the staff of the Expo Corporation was less than half a dozen until May, 1969, and in that month we had for all practical purposes, except for the formality of it, achieved the dissolution of the Corporation. Since then we have only one employee who is looking after the archives of the Corporation and seeing to it that they are stored properly and used for any query we may have.

We still had one task to perform which was the printing of the memorial of the Expo

Corporation. This is under way at the moment at the Queen's Printer and will be published by January or February, 1970.

In order to bring every one concerned up to date with the state of finances of Expo Corporation, we have distributed an unofficial document which is called "The financial statement as of October 31." That gives the extent of the assets and liabilities of the Corporation as of now, and you can see from it that the total assets are of the order of \$350,000 and the liabilities are in an equal amount. Among possible payments still to be received there is an amount of money that could be of the order of \$100,000 or more from the settlement of the costs of premiums that covered the liabilities for property and personal damage during the time of Expo Corporation. We have distributed also a document, the one with the green cover, which is the annual report for the year 1967. Since in fact when dealing with the Expo Corporation we are mainly concerned with the events that took place in 1967, we thought your interest could be centred on this document.

I do not wish to talk too long, but I would like to point out that probably two main questions could be of some interest in dealing with Expo Corporation. These would be the matters that were brought to the attention of the house by the Auditor General in his certificate covering the administration for the year 1967. You have it at page 33 of the 1967 annual report and more specifically, perhaps, on page 34 where the Auditor General felt that he had to write the following sentence:

The inadequacies of the financial controls referred to in previous reports still existed at the time the Exhibition opened. Certain revenues could not be effectively checked by us and we are unable to express an opinion on the correctness of the following amounts shown on Schedule 4 of the attached financial statements:

The board of Expo Corporation dealt extensively with these remarks of the Auditor General and felt for its own part that they were unduly severe. We admitted that at the first days of the opening of Expo the management was faced with an unbelievable success in as much as there had been forecasts of attendances by experts and all of the administration provisions had been based on these forecasts. But it so happened that in the first three days of the opening 1,500,000 visitors came to Expo which was roughly three

times the attendance expected and this carried on for the first three days of May at a rhythm that was about twice the forecast attendance. In fact it turned out that the total attendance was twice that which had been forecast, amounting to some 50 million. This impact of a very much larger number of visitors than had been forecast created an unforeseen situation that physically the staff could not cope with. It was an emergency situation. We readily admit that this was the case, but corrective measures were taken immediately. The management came to the governments concerned and requested authority to hire 2,000 additional employees required to handle the greater amount of traffic, for example in the collecting of tickets and everything related to it.

During that first period we were faced with what we have identified as a cash surplus. That is to say there was an amount of receipts that could not be assigned to a specific function or activity. But it was clearly established by a reconciliation that was carried out from the beginning of June, with the help of outside consultants and carried through the period of the holding of Expo and from the month of October on that the only amount of money that could be considered as a difference between expected revenues and actual revenues was a net amount of \$97,788 which amounts to one tenth of one per cent of the total revenues concerned which were over \$101 million.

We feel it is safe to conclude from this that on the basis of this final revenue reconciliation supported by documentation which is available for examination that there is ample evidence to form an opinion as to the correctness of all the revenues of the Corporation. We regret that we could not convince the Auditor General of that point of view, but we have transmitted to him our views about it and our reconciliation and we feel that this is one of the important issues that can be mentioned.

The other one that is the most often referred to, and which has been dealt with by the honourable senator who spoke about it on first reading, relates to the cost of Expo Corporation. I do not believe I can add very much to what the honourable senator has stated. This was a plan, a concept, that had to evolve with time, since time was so short for the execution of the project. So, no one, in our judgment, could make a detailed estimate of what could be the final cost because there was no final plan.

What we feel should be emphasized is that the Expo Corporation, through its management and its board, has overseen the development of such plan in a very careful and efficient manner, by holding some 250 meetings of the executive committee and some 60 meetings of the board of the Expo Corporation. As you know, this board was composed of most eminent Canadians experience in the field of management and business, and they have exercised their duties with all the ability we can expect from them, and they have discharged these responsibilities to the fullest. In addition, there were seven reviews of the master plan. In my judgment, this shows the degree of attention given by the management affording the opportunity for governments to be fully aware of what evolution was taking place in these plans, so that on seven separate occasions, in a short span of four years, there was occasion for each respective minister of the province and the federal Government, for each treasury board, for each cabinet to pass judgment on details of elements that constituted Expo as we knew it.

Of course, there are two other important issues. They relate to the division of assets of the Expo site and the benefits that have resulted from Expo. With your permission, Mr. Chairman, I would ask Dr. Irvine to speak on these two elements.

Dr. A. G. Irvine, Director Crown Corporations Financing Division, Department of Finance: Thank you very much, Mr. Chairman. I would like to say that we have not really been able to explain this very successfully before, so I hope you will give me a few moments.

If I may start with the expenditures of Expo Corporation, there has, of course, been considerable criticism of the total which, in round figures, is about \$430 million. The other very large expenditure was by foreign tourists who came to Canada, and they spent in Canada a net amount of \$480 million—that was the figure produced by DBS. So, if you take these two items together you have more than \$900 million.

There were other expenditures associated with Expo. There was a figure of over \$100 million spent by foreign exhibitors, mainly foreign governments, on the construction and operation of buildings at Expo, and then expenditures by Canadian exhibitors and by Canadian corporations. When you take the total of the whole of these expenditures and you calculate it conservatively, the estimate

that we have is one of over \$1.1 billion. However, I am going to talk in hundreds of millions, because to do otherwise would lead to confusion.

When you ask what happened to this \$1.1 billion, first of all, there was a cost to Canada in terms of imports. After all, there were imported materials used; there were foreign opera companies and foreign orchestras that came to Expo to give performances; there were items purchased from abroad like parts of the minirail, certain foods and drinks, and so on; and when you add up all these import costs the total came to approximately \$200 million.

Then there were the taxes by governments. This includes all levels of government: the Government of Canada, the Government of Quebec, the City of Montreal and the other provincial and local governments. These taxes came to about \$230 million. I will quote them as being about \$200 million.

The balance, which was some \$700 million, consisted of the income generated by Expo, a very large part of it consisting of wages and salaries. Very large sums were paid in the form of wages and salaries by the Expo Corporation itself and by the other exhibitors on the site, by the construction companies which built the various exhibits; and, of course, there were other income payments in the hotels that served tourists and fed them and looked after them. This was the figure.

These are the broad outlines of the economics of Expo but, if you look at it in a little more detail, Expo brought into Canada \$585 million—that is, \$480 million for tourists plus \$105 million spent by foreign facilities. On the other hand, Expo cost \$200 million in imports, so that \$385 million was the net receipt from other countries.

As far as governments were concerned, we have a bill here for the three partners which adds up to \$285 million, of which \$40 million was met by the initial grant, and this bill asks for authority up to \$125 million, the figure we are actually talking about being \$122.9 million. So, there is a bill for \$285 million, but against that there is \$230 million of taxes, so you can say there is a \$50 million cost.

In actual fact, you have to add other costs which affected governments and crown corporations. For example, Canada had a pavilion, Ontario had a pavilion and other provinces had pavilions at Expo which you have to take account of. When you take account of those,

the figure, in round terms, for governments was a cost of about \$100 million. This is the other factor that comes in, but when you take Canada as a whole and the non-government sector of Canada—and, after all, they are mainly employees of corporations—you find that, taking account of the whole cost, they still have \$600 million left. You had \$1,100 million of expenditures, \$200 million in imports, and that left you with \$900 million. There were \$200 million directly generated in taxes and by Expo expenditures, and the other \$100 million which has to be taken into account in order to find the net value of Expo, and you are still left with \$600 million. This is the pattern. In other words, this shows that the expenditure, while it occurred and while it was high, did, in fact, flow through the economy and produce very considerable benefits to Canadian individuals and Canadian corporations.

The Chairman: Thank you very much, Dr. Irvine and Mr. Lupien. I have no doubt there are some questions that occur to members of the committee, in view of Dr. Irvine's statement. I might comment that it is a good thing that a capital gains tax did not apply to the operations of the Corporation.

Senator Molson: They would get it back five years from now, Mr. Chairman.

Senator Beaubien: At page 4 of the financial statement of October 31, 1961 there is the entry: "Phase-out—Miss Y. Tremblay, \$3,373.75". What is that amount?

Mr. Lupien: This is the one employee I referred to earlier, and she is the last one remaining. This is the only full-time employee of the Expo Corporation who will remain an employee until this bill is proclaimed. She will benefit, as have all other employees, from what we call the phase-out that was provided for all employees who agreed to work under conditions of temporary employment. They were given an amount based on their salary in order to compensate them for the time necessary to find another job.

Senator Laird: Would you say that this is severance pay?

Mr. Lupien: Yes.

Senator Connolly (Ottawa West): What is the amount?

Mr. Lupien: In her case it amounts to \$3,373.75, and she has been employed since 1963.

Senator Molson: She gets just over \$3,300 after six years of service.

Mr. Lupien: Yes.

Senator Molson: It is not overly generous.

Mr. Chairman, I should like to refer to the auditors' report which is contained in the annual report for 1967. I do not think subparagraph (1) needs any further comment, and subparagraph (2) has been dealt with at some length. Subparagraph (3) seems to bring into question some activities in regard to banks. Could we have an explanation of that?

Mr. Lupien: I would ask Dr. Irvine to reply to that. It relates to the choice of banks.

Dr. Irvine: I should like to read to you section 13 of the Canadian Corporation for the 1967 World Exhibition Act, which is as follows:

The Corporation shall maintain in its own name one or more accounts in a chartered bank designated by the Minister of Finance with the approval of the Minister of Finance of Quebec.

In actual fact, the Corporation did just that, but it also maintained as well other accounts—one in a chartered bank, if I remember correctly, and one in a caisse populaire. In actual fact, section 13 of the Canadian Corporation for the 1967 World Exhibition Act does not prohibit the holding of these additional accounts.

Senator Molson: Which are the banks we are discussing?

Mr. Lupien: The Bank of Commerce...

Senator Molson: Which bank was originally authorized—the Bank of Montreal or the Bank of Commerce?

Dr. Irvine: The Bank of Montreal, I believe.

Mr. Lupien: The bank actually used was the Bank of Commerce. This is a complex story. In fact, the banking fraternity had not elected to accept willingly the invitation to open up a system of branches to take care of the banking activity on the site. The first one that accepted the invitation to provide banking facilities was the caisse populaire. Faced with this situation, the banking fraternity volunteered with a bit more enthusiasm, and the Bank of Commerce was the first one to offer a firm proposal with respect to banking services on the site.

But, your question, senator, deals with the original banks named in the act.

Mr. L. J. Rodger, General Director of Promotional Services, Department of Industry, Trade and Commerce: They were the Banque Canadienne Nationale and the Bank of Montreal.

Senator Beaubien: But the Bank of Montreal was not used.

Mr. Lupien: Because they did not offer their services on the site.

Senator Molson: I do not think we want to go into this, but the story has certain ramifications, and there are some letters on the file which perhaps are best left alone. But, my question did not really deal with that. My question is: Which banks should have been used, and which banks were, in fact, used?

Mr. Lupien: The Banque Canadienne Nationale and the Bank of Montreal.

Senator Molson: And then later on what banks were used?

Mr. Lupien: They were the Bank of Commerce and the caisse populaire.

Senator Connolly (Ottawa West): How many financial institutions provided facilities on the site?

Mr. Lupien: These two only—the Bank of Commerce and the caisse populaire. They were the only two that provided banking facilities on the site.

Senator Connolly (Ottawa West): Did the other banks have an opportunity to provide such facilities?

Mr. Lupien: Yes, in my understanding, they did.

Senator Molson: What was that?

The Chairman: Mr. Lupien was asked if the other banks were given the opportunity to provide banking services, and he said that they were.

Senator Molson: I think the bankers' association dealt with this matter generally, and I do not think your statement is completely and fully explanatory, if I may put it in that way. The banks were dealt with as an association, were they not?

Mr. Lupien: Yes, that is right.

Senator Molson: So that they individually did not at any time choose to put their facilities on the Expo site?

Mr. Lupien: That is right, but—well, I do not know whether I should go on.

Senator Molson: I do not think this is the time for it.

The Chairman: Are there any other questions?

Senator Phillips (Prince): Mr. Chairman, what has been the disposition of Habitat?

Mr. Lupien: Habitat was designed and built as an exhibit forming part of the pavilions to be presented by the Expo Corporation. It was a new concept of residential accommodation of high density that would offer an equivalent to the housing accommodation of a privately-owned individual house. As such it called for the concept to be transferred into plans, and it had to be executed while the plans were being drawn. Since all of the proposal came in as a proposal only at the time, a decision had to be taken as to whether it would be accepted. It was built, and 154 units were erected. Of those 154 units, 114 were actually finished. The total cost of construction was \$22.5 million.

Once the Expo Corporation was terminated and its assets divided, the assets on what is called Cité du Havre were given to the federal Government for the sum of \$1. So, the federal Government has acquired, among other assets, Habitat. The federal Government has selected the Central Mortgage and Housing Corporation to administer these assets on its behalf. Habitat is not on our books as an asset. We took this property over in 1968.

Senator Connolly (Ottawa West): You being?

Mr. Lupien: C.M.H.C. took over this property, among others, in 1968. We have offered it for lease and now have 108 of the 114 units occupied at rents that are competitive on the Montreal market at the moment.

Senator Connolly (Ottawa West): Were they not competitive before?

Mr. Lupien: The original rents that had been established at the time of Expo benefited from the value of its size and location. They were too high to be maintained on a continuous basis on the Montreal market.

Senator Connolly (Ottawa West): How much do you charge for rent?

Mr. Lupien: The rents charged are on the basis of \$200 for one-bedroom accommodation, plus \$100 each for additional bedrooms. It is \$300 for a two-bedroom dwelling, \$400 for three bedrooms and \$500 for four bedrooms.

Senator Phillips (Prince): The obvious question is how much is C.M.H.C. losing on Habitat?

Mr. Lupien: The first year of operation did not produce a balanced budget, because we were renting as we were administering. We hope that after a full year of operation, fully rented, we will have a balanced budget.

Senator Connolly (Ottawa West): Is there any suggestion or plan that Habitat might be sold to some entrepreneur?

Mr. Lupien: As administrator on behalf of the federal Government we have not yet faced this question. It is our judgment that the project should be completed and experience a period of sound administration before being offered for sale. It is my personal viewpoint that once it has experienced a full year of successful administration it should be offered for sale. My hope also is that it should be a wonderful type of accommodation to be placed under the condominium legislation being considered by the Quebec Government at the moment. It is a type of accommodation that lends itself to such form of tenure.

Senator Beaubien: How many units are there, and how many are rented?

Mr. Lupien: There are 114 completed and 108 are occupied.

The Chairman: What is the situation with the remainder of the 154?

Mr. Lupien: They are the subject of a recommendation by our Corporation to the Government for their completion. No decision has yet been taken.

The Chairman: In what order would an estimate of the cost of that be?

Mr. Lupien: In the order of \$1,200,000.

Senator Gélinas: How many square feet are there in the largest apartment?

Mr. Lupien: A three bedroom housing unit would have about 1,500 square feet. It is much larger than conventional apartment construction.

Senator Beaubien: What would that rent for?

Mr. Lupien: Four hundred dollars per month.

Senator Connolly (Ottawa West): That would be unfurnished, I presume?

Mr. Lupien: Unfurnished.

Senator Molson: Mr. Chairman, could I ask what was the estimated value of the assets that were taken over by the different governments at the end in lieu of sales, which the Auditor General says accounted for a great deal of the deficit. Is there a figure here that I did not find?

Mr. Lupien: There is a figure of the original value of assets that were distributed. This figure is \$199 million. In the distribution of assets the Province of Quebec elected to have only two pieces of real estate, the Expo theatre and the museum on Cité du Havre. The rest of the division was based on the original ownership of land. Since the two islands belong to the City of Montreal, they were given the two islands and the properties thereon. The federal Government took Cité du Havre and the buildings thereon. The original book value of the assets given to the federal Government was \$59 million.

Dr. Irvine: The City of Montreal, \$135,094,953; the Government of Quebec, \$4,753,693; the Government of Canada, \$59,876,285. That is a grand total of \$199,724,931, at cost.

The Chairman: Was there no effort to do it on some kind of appraisal value? It was all done on book value, was it?

Dr. Irvine: Yes, Mr. Chairman.

Senator Connolly (Ottawa West): Other than Habitat are there any revenue properties than Habitat owned by the federal Government?

Mr. Lupien: The main property owned by the federal Government and given in this distribution of assets in addition to Habitat was the administration building, which was built at an original cost of \$5 million. This in my judgment would have a present-day value close to that. This building was given to the National Harbours Board for its headquarters in Montreal and is being used as such at the moment. Since it was received by the federal

Government at the nominal cost of \$1 it was transferred in that same fashion to the National Harbours Board by decision of the Government.

In addition, there is the Autostade, which is also a piece of real estate with a present value. Central Mortgage and Housing Corporation recommended to the Government that it be leased to the Alouette Football Club. This was carried out for a lease of five years.

Senator Molson: For how much?

Mr. Lupien: One hundred thousand dollars a year.

The Chairman: Is there anything from the gate?

Mr. Lupien: This is a minimum, or 15 per cent of the revenues if it is higher.

Senator Molson: For the moment you are taking the minimum, are you?

Mr. Lupien: We are. In addition there is a building of some substance, Cercle Universitaire. At the beginning we entered into a short-term lease and we are now considering a longer term lease of five years with the Cercle Universitaire. There has been a very happy relationship between the Cercle on what was formerly called the University Club, as well as another name. The banks were represented there.

Senator Molson: Yes sir, I think it was known as some kind of centre.

Mr. Lupien: It was the Expo Trade Centre. The whole building is now being occupied by the Cercle Universitaire and we hope to negotiate successfully a lease for five years with them.

Senator Molson: Is it going to be a typical temporary building that will be satisfactory for the purpose for the next 30 years, or is it showing signs of being temporary?

Mr. Lupien: It is behaving very well at the moment, but any long-term plan for the use of this land would probably call for a more substantial building to be built on such a site. I foresee that eventually it will disappear and make place for more substantial residential construction.

Senator Gélinas: May I ask what the cost was for the art gallery, if that figure is available?

Mr. Lupien: We gave you the book value of the two buildings together. We will look for it in a minute.

Senator Molson: I should like to ask one more question about the administration centre. The National Harbours Board have it. Was this the sort of space the National Harbours Board needed, are they occupying all of it, and what space did they have before?

Mr. Lupien: I am not competent to speak on behalf of the requirements or views of the National Harbours Board. I can say from observation, since we still go there on behalf of Expo Corporation to work, that they do not occupy all the space. They have signed leases with other government agencies. They are also offering surplus space to all comers on the Montreal market. I am now advised that the art gallery cost us \$2.1 million.

Senator Connolly (Ottawa West): Near the Expo site, as one enters it, there were vast areas for parking. Who owns that?

Mr. Lupien: This part of the assets came back to the federal government. It is the property of the federal government. There are ten million square feet of land in all of what one could call Cité du Havre, including the Victoria parking ground and the land under the Autostade. It belongs to the federal government.

Senator Molson: Do you perhaps envisage development there, commercial or otherwise?

Mr. Lupien: The Government gave us the mandate through CMHC to administer these assets, and one of the first decisions we took jointly with the National Harbours Board was to request a study on the long-term use of this land. We have a preliminary report on such a study, and we will discuss that with the Government.

Senator Molson: That is not reclaimed land.

Mr. Lupien: It is in great part reclaimed. In fact, the Victoria parking ground is a piece of land which could not be used for many years because of the filling procedures used, which make it an unusable piece of land for many years to come.

Senator Molson: Like a garbage dump.

Mr. Lupien: The Cité du Havre or the McKay pier was reclaimed land with stone,

and done in a professional manner, which makes it usable presently.

Senator Connolly (Ottawa West): But in time they propose to use the Victoria parking area...

Mr. Lupien: In less than ten years.

Senator Connolly (Ottawa West): ...which will increase in value.

Mr. Lupien: Very definitely.

Senator Laird: When you say usable, do you mean usable for buildings? At the present time is it being used as a parking area?

Mr. Lupien: Only very partially as a parking unit.

Senator Laird: Is it too far from the downtown area to be attractive?

Mr. Lupien: There would be a need for a commuter service between that parking space and downtown.

Senator Bourque: The land on the west of the parking ground used in Longueuil for Expo is now to be used to build a \$500 million apartment project. I heard last week a syndicate has been formed to build 100-unit apartments on the land.

Mr. Lupien: Personally I am not aware of these plans. The land used for parking facilities in Longueuil belongs to the City of Longueuil.

Senator Molson: Has there been any discussion with the Department of Transport about the possible need for a STOL aircraft strip in the area of the Victoria parking ground?

Mr. Lupien: Our consultants, in being given a mandate to study the long-term use of the land, were asked specifically to consider an airport of the STOL type. The preliminary recommendation of our consultant there is negative on that.

Senator Molson: It is probably too close to buildings, is it not?

Mr. Lupien: To buildings, because of the tower wires there, and various other technical considerations.

Senator Phillips (Prince): On page 44 of your statement dealing with personal expenses, there is a total to date of approxi-

mately \$1.75 million for travel expenses and other fees. What amount of that has been spent since Expo closed, in 1968 and 1969?

Mr. Lupien: It would be a very nominal figure in 1968. I do not see a specific listing of such an expenditure in our financial report for 1968, but it would be a negligible amount. From that year on the board changed. In 1968 the corporation employees had no need to travel, though there could be some \$100. There is no heading catering for that, and it would be virtually nil.

Senator Phillips (Prince): During construction there was considerable criticism of the fact that many contracts were negotiated on a cost-plus basis rather than tender call. How many contracts were let in that way?

Mr. Lupien: The general procedure was to award contracts on tender. Once a tender had been awarded to the lowest tenderer, the procedure was to continue negotiations with that contractor any change order in the plans. The principle followed was the one followed by the Government in all its transactions, that once a main contract has been awarded any changes to be made to the original buildings contracted for should be negotiated exclusively with the original contractor.

Senator Phillips (Prince): How many contracts exceeded their original estimated cost, not the revised estimate?

Mr. Lupien: We feel this was inherent in the manner in which we had to design complete plans for the exhibition.

Senator Phillips (Prince): But how many actual contracts did exceed the original estimated cost?

Mr. Lupien: I regret that I have no figures on that at the moment.

Dr. Irvine: I cannot give an exact answer in terms of numbers, for the reason that there were thousands of contracts. The Auditor General in his 1967 report, if I remember correctly, listed all the major ones. There was Habitat, two large buildings and one or two small ones in terms of value, which he mentions. With regard to those that are not mentioned by the Auditor General, frankly my memory is that there were as many that went above as went below. It was about 50-50 and, in fact, the two tended to balance out. In

other words, they were not very large, the other ones on the contract. There were some cases where an active process led to considerable reductions. I think there was a \$12 million contract, which was cut back to \$5 million.

The Chairman: Are there any other questions? Shall we report the bill?

Hon. Senators: Agreed.

The committee adjourned.

Queen's Printer for Canada, Ottawa, 1969
Imprimeur de la Reine pour le Canada, Ottawa, 1969

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

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

No. 2

THURSDAY, DECEMBER 4th, 1969

*Complete Proceedings on Supplementary Estimates (A),
laid before Parliament for the fiscal year ending March 31, 1970*

WITNESSES:

*Summary Board: The Honourable C. M. Drury, President S. Cloutier,
Deputy Secretary, Program Branch.*

REPORT OF THE COMMITTEE



Second Session—Twenty-eighth Parliament

1969

THE SENATE OF CANADA

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Deputy Secretary, Program Branch.

REPORT OF THE COMMITTEE



Second Session—Twenty-eighth Parliament

1989

THE SENATE OF CANADA

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	Kinley	Nichol
Desruisseaux	Laird	Paterson
Dessureault	Leonard	Pearson
Everett	MacDonald (<i>Queens</i>)	Phillips (<i>Rigaud</i>)
*Flynn	*Martin	Phillips (<i>Prince</i>)
Fournier (<i>Madawaska- Restigouche</i>)	Methot	O'Leary (<i>Carleton</i>)
Gelinas		Sparrow
		Walker—(28).

(Quorum 7)

* *Ex officio members:* Flynn and Martin.

THURSDAY, DECEMBER 4th, 1989

Complete Proceedings on Supplementary Estimates (A),

laid before Parliament for the fiscal year ending March 31, 1990.

WITNESSES:

Treasury Board: The Honourable C. M. Ducey, President, S. Cloutier,
Deputy Secretary, Program Branch.

REPORT OF THE COMMITTEE

MINUTES OF PROCEEDINGS

Thursday, December 4th, 1969.

(3)

ORDER OF REFERENCE

Extract from the Minutes of the Proceedings of the Senate, Wednesday, November 19, 1969:

“With leave of the Senate,
The Honourable Senator Langlois moved, seconded by the Honourable Senator Martin, P.C.:

That the Standing Senate Committee on National 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, 1970.

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

Robert Fortier,
Clerk of the Senate.

ATTEST:

Frank A. Jensen,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, December 4th, 1969.

(2)

Pursuant to notice the Standing Senate Committee on National Finance met this day at 10:00 a.m. to examine:

Supplementary Estimates (A), laid before Parliament for the fiscal year ending March 31, 1970.

Present: The Honourable Senators D'Arcy Leonard (*Chairman*), Beaubien, Benidickson, Desruisseaux, Everett, Flynn, Fournier (*Madawaska-Restigouche*), Gelinas, Grosart, Kinley, Laird, MacDonald (*Queens*), Molson, Pearson and Phillips (*Rigaud*). (15)

Present, but not of the Committee: The Honourable Senators Connolly (*Ottawa West*), Haig, Lamontagne and Smith. (4)

The following witnesses were heard:

Treasury Board:

The Honourable C. M. Drury, President.

S. Cloutier, Deputy Secretary, Program Branch.

Upon motion, it was Resolved to report upon the said *Supplementary Estimates (A)*.

At 11:15 a.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Frank A. Jackson,
Clerk of the Committee.

REPORT OF THE COMMITTEE

THURSDAY, December 4th, 1969.

The Standing Senate Committee on National Finance, to which was referred the Supplementary Estimates "A" for the fiscal year ending March 31, 1970, has in obedience to the order of reference of November 19th, 1969, examined the said Supplementary Estimates and reports as follows:

1. Your Committee has examined the said Supplementary Estimates "A" and has heard evidence thereon from the Honourable C. M. Drury, President of the Treasury Board, and Mr. S. Cloutier, Deputy Secretary, Programs Branch, of the Treasury Board.

2. The said Supplementary Estimates provide for total expenditures of \$66,446,526.00 and for loans of \$24,760,002.00, bringing the total of Main and Supplementary Estimates for the current fiscal year to \$11,924,098.00 and the total of Loans, Investments and Advances to \$634,418,060.00.

3. It was stated in evidence before us by the President of the Treasury Board that the total of these Estimates plus additions that may be made by final Supplementary Estimates will be consistent with a budgetary surplus for the fiscal year.

4. Included in the said Supplementary Estimates "A" were forty-four (44) one dollar (\$1) items about which your Committee made inquiries and the explanations of these items are contained in a statement furnished by the Treasury Board and attached as an Appendix to this Report. Over the past several years your Committee has been concerned about the number and character of one dollar (\$1) items contained in various Supplementary Estimates. In consequence thereof at a meeting of this Committee held on November 2nd, 1967, the then Secretary of the Treasury Board, Dr. George F. Davidson, expressed his willingness to give an undertaking to provide the Committee with mimeographed explanations of such items. As a result, the Appendix to this Report explains the one dollar (\$1) items in the said Supplementary Estimates "A".

5. The largest vote in these Supplementary Estimates is Vote 5a for \$40,000,000.00 for the Treasury Board and your Committee received evidence from the witnesses to the effect that this item is required to assist the Board in connection with salary adjustments for all departments of the Government as a result of bargaining negotiations with employees.

Respectfully submitted.

T. D'ARCY LEONARD,
Chairman.

APPENDIX

EXPLANATION OF ONE DOLLAR ITEMS SUPPLEMENTARY ESTIMATES (A), 1969-70 SUMMARY

The 44 one dollar items in these Estimates are listed separately in the attached according to purpose.

- (I) One dollar items authorizing transfers from one vote to another within a ministry to meet salary costs and to meet other costs. (25 items to meet salary costs and 4 to meet other costs.)
- (II) One dollar items to provide for the listing of items of expenditure that are required to be listed in Estimates (i.e., grants and certain capital projects, 12 items)
- (III) One dollar items to amend legislation usually approved through Estimates. (3 items)

PART I

ONE DOLLAR ITEMS AUTHORIZING TRANSFERS FROM ONE VOTE TO ANOTHER WITHIN A MINISTRY TO MEET SALARY COSTS AND TO MEET OTHER COSTS

TRANSFERS TO MEET SALARY COSTS

Agriculture

Vote 5a: Amount of transfer to this vote \$934,999.

Source of funds: Vote 10 (\$200,000); purchase of items of equipment originally scheduled for acquisition in the current fiscal year has been deferred.

Vote 17 (\$734,999) Agricultural Stabilization Account. The amount of subsidies will be lower than anticipated due to decrease in price support activity; in particular an improvement in the price for sugar beets will reduce the amounts of sugar beet subsidies to levels lower than originally estimated.

Vote 15a: Amount of transfer to this vote \$111,899.

Source of funds: Vote 17 (\$111,899) Agricultural Stabilization Account— as explained above.

Vote 30a: Amount of transfer to this vote \$407,899.

Source of funds: Vote 17 (\$407,899) Agricultural Stabilization Account— as explained above.

Vote 40a: Amount of transfer to this vote \$146,899.

Source of funds: Vote 17 (\$146,899) Agricultural Stabilization Account— as explained above.

Communications

Vote 1a: Amount of transfer to this vote \$863,999.

Source of funds: Vote 5 (\$649,999) Construction and Acquisition of Build-

ings, Works, Land and Equipment—Estimated expenditures on the ISIS "B" contract reduced by \$450,000 due to delay of the project and deferment of purchase of miscellaneous equipment \$200,000.

Increase in revenues forecasted to be netted in Vote 1—\$214,000.

Clarification of legislation: Also amending the wording of Vote 1 to clarify the authorization to expend revenues received by Canadian Radio Television Commission for purposes of this vote.

Energy, Mines & Resources

Vote 1a: Amount of transfer to this vote \$119,399.

Source of funds: Vote 5 (\$119,399)—reduction in planned scale of replacement of field survey equipment.

Vote 15a: Amount of transfer to this vote \$900,999.

Source of funds: Vote 20 (\$440,000)—Main Estimates provided for purchase of Skyvan Aircraft but the purchase at a cost of \$400,000 was made from 1968-69 funds; postponement of astronomy mirror transit project, \$40,000.

Vote 25 (\$18,000)—reduction in grants for costs of scientific conferences in geological sciences.

Vote 40 (\$442,999)—reduction in expenditures on contracted studies.

External Affairs

Vote 1a: Amount of transfer to this vote \$2,367,999.

Source of funds: Vote 15 (\$2,367,999)—expenditure for Defence Support Assistance in Greece and Turkey has been less than expected; contribution to cost of Tanzanian Military Academy is no longer required as Military Assistance Agreement with Tanzania is not being renewed; proposed grant to International Civil Aviation organization not required in 1969-70 because planned move of ICAO to new headquarters has not taken place.

Fisheries & Forestry

Vote 5a: Amount of transfer to this vote \$1,172,999.

Source of funds: Vote 10 (\$1,172,999)—deferment of vessel construction (\$643,000); deferment and cancellation of building and works (\$308,000); general reduction in acquisition of equipment (\$221,999).

Vote 20a: Amount of transfer to this vote \$199,999.

Source of funds: Vote 25 (\$199,999)—deferment of minor capital projects and final payment on Nanaimo Laboratory.

National Health & Welfare

Vote 8a: Amount of transfer to this vote \$39,999.

Source of funds: Vote 15 (\$39,999)—it is expected that contributions for hospital construction will be less than estimated in Main Estimates 1969-70.

Vote 20a: Amount of transfer to this vote \$1,556,999.

Source of funds: Vote 41 (\$1,000,000)—reduction in cost of payments to immigrants in lieu of family allowances since number of immigrants arriving in Canada with children is smaller than expected.

Vote 25 (\$159,000)—deferment of planned construction of Fisher River Indian Hospital in Manitoba.

Vote 15 (\$397,999)—based on current trends reflected in claims submitted by the provinces, contributions to hospital construction will be less than estimated.

Vote 40a: Amount of transfer to this vote \$311,999.

Source of funds: Vote 10 (\$249,999). Vote 15 (\$62,000)—based on current trends as reflected by claims and projects submitted by the provinces, contributions for health grants and hospital construction will be less than originally estimated.

Public Works

Vote 1a: Amount of transfer to this vote \$1,317,799.

Source of funds: Vote 15 (\$1,317,799)—general slow down in this program has made funds available for transfer to other departmental votes.

Vote 5a: Amount of transfer to this vote \$1,969,799.

Source of funds: Vote 15 (\$1,969,799)—as detailed above.

Vote 35a: Amount of transfer to this vote \$147,599.

Source of funds: Vote 15 (\$147,599)—as detailed above.

Vote 55a: Amount of transfer to this vote \$34,199.

Source of funds: Vote 15 (\$34,199)—as detailed above.

Regional Economic Expansion

Vote 1a: Amount of transfer to this vote \$943,493.

Source of funds: Vote 10 (\$943,493)—the number of projects initiated by provinces involving building of industrial infrastructure are less than estimated and funds provided in this vote are therefore available for transfer.

Transport

Vote 1a: Amount of transfer to this vote \$499,999.

Source of funds: Vote 15 (\$499,999)—actual subsidies payable less than estimated due to decreased cost of operating in ice free conditions in North Sydney Harbour and efficiencies from operating the new rail-car ferry service to Newfoundland.

Vote 5a: Amount of transfer to this vote \$1,579,317.

Source of funds: Vote 10 (1,579,317)—reassessment of priorities and deferment of capital projects has made funds available for transfer.

Vote 30a: Amount of transfer to this vote \$2,999,999.

Source of funds: Actual revenues expected to exceed original forecast by (2,999,999) and provide additional funds required.

Veterans Affairs

Vote 1a: Amount of transfer to this vote \$57,999.

Source of funds: Vote 10 (\$57,999)—actual expenditures on War Veterans' Allowances less than estimated due to decline in number of recipients and lower than anticipated average cost.

Vote 5a: Amount of transfer to this vote \$464,502.

Source of funds: Vote 10 (\$464,502)—as detailed above.

Vote 40a: Amount of transfer to this vote \$301,297.

Source of funds: Vote 10 (\$301,297)—as detailed above.

NON-SALARY ITEMS

Agriculture—Canadian Dairy Commission

Vote 55a: Amount of transfer to this vote \$45,299.

Purpose: To meet additional administrative expenses due to the larger than expected workload; to meet costs of larger premises.

Source of funds: Vote 17—Agricultural Stabilization Account—as explained in Vote 5a.

Finance

Vote 1a: Amount of transfer to this vote \$75,999.

Purpose: To provide for the costs of issuing White Paper on Tax Reform (\$26,000) and computer work on Canada Student Loans Plan (\$50,000).

Source of funds: Vote 15 (\$75,999)—payment to provinces of grants in lieu of taxes will be lower than originally estimated since assessments on properties are less than expected.

Manpower & Immigration

Vote 6a: Amount of transfer to this vote \$429,999.

Purpose: To provide funds to make payments against undischarged commitments in respect of Winter Works Incentive Programs of previous years.

Source of funds: Vote 20 (\$429,999)—deferment of projects with lower priority has made funds available.

Vote 15a: Amount of transfer to this vote \$2,499,999.

Purpose: To provide additional funds to complete the Czechoslovakian Refugee Movement Program; placement in employment has taken longer than expected and some courses for refugees have been increased in length.

Source of funds: Vote 1 (\$352,000)—size of staff will be lower than originally planned for the year, thus releasing funds.

Vote 5 (\$2,026,700)—reduction in the O.T.A.—Purchase of Training has made these funds available.

Vote 20 (\$121,299) certain projects of lower priority have been deferred making funds available for this purpose.

(It is considered desirable to more clearly set out the authority under this program to give assistance to immigrants on a "recoverable" basis and therefore the word "recoverable" has been added in the vote title.)

St. Lawrence Seaway Authority

Vote 85a: Amount of transfer to this vote \$344,999.

Purpose: To cover operating costs for reopening Lachine Canal under terms of an injunction issued by the Supreme Court of Montreal on January 20, 1969.

Source of funds: Vote 90 (\$344,999)—the operating deficit on the operation of the Welland Canal in calendar year 1969 is now estimated to be lower than originally estimated.

PART II

ONE DOLLAR ITEMS TO PROVIDE FOR THE LISTING OF ITEMS OF EXPENDITURE THAT ARE REQUIRED TO BE LISTED IN ESTIMATES.

Communications

Vote 15a: To authorize contribution by the Post Office to furnishing of International Building, Berne, Switzerland—\$2,999.

Explanation: Member countries of the Universal Postal Union were asked to contribute gifts of furnishings at 1968 meeting of the Executive Council. Canada endorsed this proposal and this is the cost of purchasing and shipping Canada's contribution.

Source of funds: Available within vote 15.

Energy, Mines & Resources

Vote 25a: To authorize a grant to the Canadian National Organizing Committee for the XXIV Session of the International Geological Congress—\$25,000.

Explanation: Canada is the host country of the XXIV Congress in 1972 and this grant to the Organizing Committee is to meet the costs of administration and printing of circulars in 1969-70.

Source of funds: Reduction in planned scale of grants in aid of research in the Geological Sciences (\$24,999).

Vote 50a: To authorize a grant to the Canadian National Committee of the International Geographical Union—\$20,000.

Explanation: Canada is the host country for the 1972 Congress of the International Geographical Union and this grant is to meet expenses in 1969-70 in preparing for this Congress.

Source of funds: Reduction in total expenses of the Canadian Council of Resource Ministers, resulting in smaller amount as Canada's share. Funds available (\$19,999).

External Affairs

Vote 15a: To authorize grants and contributions in addition to those detailed in Main Estimates 1969-70 in amount of \$215,500.

Source of funds: Available in Vote 15.

Canadian International Development Agency

Vote 35a: To authorize additional grants to International Food Aid and the World Food Program in the amount of \$13,745,000.

Explanation: To permit additional grants of wheat and other foodstuffs and to increase the cash grant to the World Food Program.

Source of funds: Vote 35—Funds available in the International Development Assistance activity since C.I.D.A. has not fully committed these funds under arrangements with developing countries for fiscal year 1969-70.

Finance

Vote 2a: To authorize grant to Trail Disaster Relief Fund \$200,000 and transfer of \$199,999 from vote 15.

Explanation: Contribution to Trail, B.C. to aid those who suffered losses during floods in the spring of 1969.

Source of funds: Vote 15 (\$199,999)—Payments to provinces of grants in lieu of taxes on federal property will be less than originally estimated since assessments on the properties are less than anticipated.

Indian Affairs & Northern Development

Vote 1a: To authorize grant to University of Alberta toward cost of conference on production and conservation problem in the amount of \$3,000.

Explanation: The department is a supporting member of the International Union for the Conservation of Nature participating in this conference and the contribution is to assist in defraying the costs of a conference held in Edmonton.

Source of funds: Vote 20 (\$1,500)—Northern Economic Development, and Vote 40 (\$1,499)—Canadian Wildlife Service.

Public Works

Vote 15a: To authorize certain construction and acquisition projects as detailed in the Supplementary Estimates—\$4,420,300.

Explanation: To permit changes in priorities in the Accommodation Services Program resulting from urgent requirements of client departments.

Source of funds: Vote 15 (\$4,420,299)—the rearrangement of items within the vote as well as a general slow down in the works program will provide funds to proceed with these items.

Vote 30a: To authorize new construction and repairs as detailed in the Supplementary Estimates, \$770,000.

Explanation: To permit changes in the Harbours and Rivers Engineering Services program resulting from urgent requirements in other areas.

Source of funds: Vote 30 (\$769,999)—rearrangement of priorities within the vote will provide funds to proceed with the projects as detailed.

Vote 40a: To provide funds to cover the costs of the Northumberland Strait Crossing termination budget. (\$1,499,999)

Explanation: Decision not to proceed with the Causeway had not been taken at time of 1969-70 Main Estimates. The outstanding accounts against this project will approximate \$1,500,000.

Source of funds: Vote 40 (\$749,999) by rearrangement of priorities within the vote; Vote 15 (\$750,000)—resulting from a general slow down in the works program covered in this vote.

Transport

Vote 40a: To authorize additional funds for assistance to mainline airports and for Canada's assessment as a member of the World Meteorological Organization \$160,610.

Explanation: Added funds necessary for contributions to operation of municipal and other airports due to an increasing number of mainline airports entitled to assistance which was unforeseen in preparation of the Estimates for 1969-70, and also to finalize payment of assessment to the World Meteorological Organization due to change in U.S. rate of exchange from 7% to 8%.

Source of funds: Vote 40 (\$160,609)—reduction in fellowship grants in meteorological research and reduction in contributions for the establishment or improvement of Terminal and Operational Buildings for mainline airports.

Canadian Transport Commission

Vote 50a: To amend the wording of Vote 50 to authorize payment of grants in aid of transportation education and research.

Explanation: Main Estimates 1969-70 included this amount of \$125,000 for grants but the vote title did not provide the authority for payment.

Source of funds: Vote 50.

PART III

ONE DOLLAR ITEMS TO AMEND LEGISLATION USUALLY APPROVED THROUGH ESTIMATES

Industry Trade and Commerce

Vote L97a: *To amend the wording of Vote 657 Appropriation Act No. 2, 1952 to permit the department to make advances to employees during their services abroad.

Manpower and Immigration

Vote L115a: *To amend the wording of Vote 626 Appropriation Act No. 2, 1955, to permit the department to make advances to employees during their service abroad.

*(Note: Vote L33a for External Affairs has the same purpose as this and the preceding vote but in addition it increases the amount of the Working Capital Advance.)

National Research Council

Vote 15a: To amend the wording of the vote to include the following—"to authorize the spending of revenue received by the Council in the conduct of its operations".

Explanation: In the 1967-68 Auditor General's Report (Section 142) the Council's authority to expend its revenue is questioned because Section 13(e) of the NRC Act as revised in 1966, does not contain the enabling phrase "to expend revenue received by the Council through the conduct of its operation", which had been included in the Act prior to 1966.

To clarify this authority a change in the wording of the Council's vote is proposed as detailed in this item.

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

EVIDENCE

Ottawa, Thursday, December 4, 1969

The Standing Senate Committee on National Finance, to which was referred the Supplementary Estimates (A) 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, I call the meeting to order. Is it your wish that the proceedings of this committee be printed?

Upon motion, it was *resolved* that a verbatim report be made of the proceedings and to recommend that 800 copies in English and 300 copies in French be printed.

The Chairman: We have before us for consideration today Supplementary Estimates (A) for the current year, which were referred to us by the Senate for study, examination, and report.

We are pleased to welcome to the committee again the Honourable C. M. Drury, President of the Treasury Board, who is accompanied by Mr. Cloutier and Mr. MacDonald of the Treasury Board.

The minister has excused himself from a meeting of Cabinet to attend this meeting, and would like to return in due course. Without further ado, I shall ask the minister if he would like to make a statement on these supplementary Estimates.

Honourable C. M. Drury, President of The Treasury Board: Mr. Chairman and honourable senators, these Estimates contain budgetary items in the amount of \$6 million, which brings the total of Estimates tabled to date for the fiscal year 1969-70 to \$11,924 million. They also contain loans, investments and advances amounting to \$25 million.

Last February, when I tabled the main Estimates for the fiscal year in the House of Commons I indicated that there might be a need for supplementary Estimates in the course of the year, and spoke of the Govern-

ment's determination that such supplementary Estimates would be held to a figure consistent with the declared objective of a balanced budget.

I may say now that the total Estimates of \$11,924 million plus additions that may be made through final supplementary Estimates will be consistent with the Government's determination to achieve a budgetary surplus for the year.

A practice introduced in the final supplementary Estimates for 1968-69 is being continued here, namely the redirection of funds from appropriations already approved by Parliament to reflect the changing needs and priorities. This is seen as providing a clearer picture of total funds required than the practice followed in earlier years of voting additional moneys to meet requirements that could not be met within the same vote. In each case where such a transfer is proposed an amount of \$1 is shown in the Estimates as a net requirement to bring the item before the House, and to obtain approval of Parliament for the transfer. My staff has prepared a summary of these \$1 items on a separate piece of paper which, if you wish, we would be glad to have distributed.

The Chairman: Do the members of the committee wish to have this summary distributed?

Hon. Senators: Agreed.

Hon. Mr. Drury: By far the greater part of the total budgetary requirement of \$66 million in these Estimates is sought for one vote, the Treasury Board Contingencies Vote. You will see on page 21 that the amount for this item is \$40 million. This is the amount calculated as necessary to raise the Contingencies Vote to a level sufficient to the demand that will be made on it in meeting the costs of salary adjustments arising out of collective bargaining. Almost every one of the groups into which the Public Service is divided for classification and bargaining purposes has members in more than one department; that is the salaries of the members of almost every

group are chargeable to several programs of government. Given this often wide distribution of the members of a group, uncertainty as to the rate at which settlement will be reached, and uncertainty as to the date at which it will be reached, it is clearly not possible to determine in advance the precise requirement that will arise in each of the many votes that contain provision for salaries. This is one reason why partial provision only is made in the departmental budgets and a further provision is made in the Contingencies Vote from which allotments are made to supplement the departmental votes as the precise requirements become known after the conclusion of collective bargaining agreements.

I would like to draw your attention to the fact that Parliament is being asked again this year to grant this appropriation worded in a way that would allow payments owing with respect to 1969-70 and prior fiscal years to be made and recorded up to April 30 next in the Public Accounts for 1969-70 under the department requiring the money, and that the unexpended balance on that date would remain available for salary adjustment payments yet remaining to be paid. Since the books for the year 1969-70 will be in effect closed on April 30, 1969, the amounts paid after that date will not be shown in the Public Accounts for the year under the departments requiring them but instead under the heading for the Treasury Board.

This is a departure from our normal accounting practice but, were normal accounting practice to be followed, the Government as employer, under pressure from its accounting system to conclude agreements, would be placed at a disadvantage in the bargaining process.

Another reason for distributing the funds expected to be required for salary adjustments between departmental votes and the Contingencies Vote is to make it impossible for the employee side of the bargaining table to see what the employer is prepared to settle for. To reveal in advance the employer's position in this matter would, to a large degree, make collective bargaining meaningless. In 1969-70, the main Estimates for departments carried a portion only of the funds required for adjustments in rates of pay. Another portion was provided in the Contingencies Vote in the main Estimates for 1969-70. Finally, the item for the Contingencies Vote in these supplementary Estimates provides an up-dating

portion. In so distributing our provision for the cost of salary adjustments in 1969-70, I hope we have avoided tipping the employer's hand.

If there are any questions which I am able to answer arising out of this statement or the Supplementary Estimates (A), I will be very glad to do so. With me are Mr. Cloutier and Mr. MacDonald who, I can assure you, are very much better informed than I am.

Senator Pearson: When you ask the \$40 million for the Treasury, does that not expose your hand in the bargaining? You agree before you start that you are going to raise the salaries. Does it give you any hold over the negotiations at all, or do you intend to go up anyway?

Hon. Mr. Drury: Mr. Chairman, it does indicate quite clearly, when the salary provision for the forthcoming fiscal year is larger than it is for the current year, at least willingness or intention to agree to an increase in salaries. In the collective bargaining process we have been engaged in negotiations in the first round. These cover the period from July 1, 1967, through the remainder of that fiscal year, the fiscal years 1968 and 1969 and in some cases 1970. So, in a sense an indication of the future has already been given.

Senator Pearson: In other words, you have recognized the need for the employees to have an increase?

Hon. Mr. Drury: We have.

Senator Grosart: Mr. Minister, I know you have given full explanations of these votes in another place not very long ago. I will not ask you to go over all the territory again. However, I am not quite clear as to how and where you have found the money you require for these salaries in different places. My understanding is that you found some \$40 million in the Contingencies Vote and \$20 million in items that have lagged or been postponed throughout the departments. Is this an *ad hoc* arrangement for this year, or is it the intention to carry on this method of financing salary increases?

Hon. Mr. Drury: Your question raises two rather separate notions. One is this \$1 item transfers. Intentions are formulated generally in the month of November of a year in relation to programs which will be started the following April and carried through until the

subsequent April. We are trying to forecast progress some 12 to 16 months ahead of the event. Circumstances are liable to change in 16 months, and they do. Some programs proceed more quickly than anticipated, but others do not. In the past it has been the practice to provide for programs which advance more rapidly than anticipated by seeking supplementary Estimates from Parliament. The funds voted for the slower programs were merely allowed to lapse. This has the effect, unfortunately, of inflating the budget, because the total sum asked for is considerably more than is going to be spent.

Starting last year and continuing during this year we have been persuading departments to finance acceleration through slow-downs in other programs and to effect transfers. In order to secure parliamentary authorization for these transfers we have these \$1 items. So the final presentation is a more accurate picture of total government expenditures.

With regard to the amount of \$40 million, in a period of stability ideally one would endeavour to forecast accurately salary requirements for the 16 months ahead. In a period of stability one could expect this to be done with some accuracy and contingency vote arrangements would not be needed. We have for some years—and it appears that we have not reached the end of this yet—been going through a time when salary increases have taken place, and look like continuing, I hope, at a very much more moderated pace. Either each department can be told what they will be given in the way of salary increases for bargaining purposes, which in effect says to those bargaining in advance, "This is what we are going to give and no more", and then proceed allegedly to engage in collective bargaining, or put a notional figure in the main Estimates for the department and another figure in the contingency vote without indicating in any way whether it will go to the engineers, the ambassadors or the snow cleaners, leaving completely open how much money the Government may have in mind to satisfy the end needs of the collective bargaining process. It is only towards the end of the year, when the agreements have been negotiated in good faith and concluded, that the amount is sought, and this is a precise amount, which is the arithmetic sum of the amounts agreed in the collective bargaining agreement signed. We are not forecasting in

this sense; this is merely a request for money to meet undertakings given.

Senator Grosart: I appreciate the fact that you cannot estimate exactly what these salary increases will be, and the necessity, to use your phrase, of the employer "not tipping his hand". We understand that. However, it raises the question whether, when departments find money by making a deliberate decision to abandon or postpone a program that they said was necessary a year ago, you are not inviting the departments to pad their estimates in future if you keep on asking them to find the salary money or make the difficult choice which you now ask them to make between programs and projects on the one hand and salaries on the other. Are you going to work out some slightly better system in the future? I am not criticizing the system this year, because it is an emergency situation and you had to deal with it ad hoc. I would be inclined to feel that there might be support for using some other device than the contingency vote, which has been subject to criticism.

Hon. Mr. Drury: I would be glad if anyone had any suggestions for a better system. I recognize that there is a temptation for departments to pad the estimates, the budgets, they put forward. This has been done in every sphere I have ever looked at, and it is really up to the Treasury Board to look at the estimate proposals quite critically and try to screen out the padding.

Senator Grosart: It cannot be very easy.

Hon. Mr. Drury: It is not very easy. We hope we are getting to be more effective, more efficient, at this. Perhaps one of the indications of our success in this direction is the amount of money that lapses at the end of each year. Over the past two years we have succeeded in reducing the lapsed sums at the end of the year from 2 per cent to something under 1 per cent, which is quite a lot of dollars.

Senator Molson: Mr. Minister, you have been talking about negotiations, I think you said in 1967?

Hon. Mr. Drury: July 1, 1967, is the initial date covering these collective bargaining agreements.

Senator Molson: Is there any prospect that the figures in here now will be adequate for

what may occur in the future? It seems to me that the settlements are few and far between.

Hon. Mr. Drury: I suppose I should try to furnish the committee with some kind of record of our progress. We have concluded some 72 settlements, 72 separate negotiations with quite separate and distinct bargaining units, with I am glad to say only one strike. We are now starting on a second round. The first round covered the period starting July 1, 1967, up to roughly the current date, and we are starting on the second round, the second series, of agreements. With 72 bargaining units it means that the process of negotiation, discussion and arriving at agreements is virtually continuous around the year. When the contracts terminate at a variety of times, the negotiations are continuous, and I suppose not unnaturally the employee side is tempted to carry its case to the press and complain, so that almost every week there is a new complainer. This is part of the process of collective bargaining.

Senator Molson: I think recently there has been the threat of slowdown, work to rule and so on, reported in the press. Am I not correct in that?

Hon. Mr. Drury: By the president of one of the larger units. I have not seen in detail what he has said, but it is quite clear from the newspaper reports that this is part of the conditioning process; each side suggests the other is being unreasonable and unfair, and you accept this.

Senator Flynn: Mr. Minister, you have indicated that by requiring these supplementary Estimates of \$66 million and taking into account the final supplementary Estimates which may be needed before the end of the fiscal year, the government is retaining its objective of a balanced budget, an intention announced by the Minister of Finance last year at budget time. In the meantime, the government has, let us say, made a decision to adopt an austerity program. I was wondering how this program is reflected in this context. You have indicated that most likely we will balance the budget but we will do better than expected if we have this austerity program in addition to the objective we had last year.

Hon. Mr. Drury: The austerity program—I would prefer to use the term a program of restraint—announced by the Prime Minister in August related not to the current fiscal

year, the period about which we are talking here, but to the future fiscal year, the year beginning April 1 next. In effect this was an instruction, a direction, to the departments as to the guidelines that should be observed in preparing their estimates for next year, which will be tabled early in the calendar year, 1970, the blue book that is coming out.

Moving from the previous dispensation to the new restraint which will begin to be fully implemented, it appears first that there will be some modifications in the current fiscal year and adjustments made. There will be taken in the current fiscal year some administrative changes on the part of External Affairs. They will be closing some foreign missions this year in anticipation for starting out the next year on a rather more restrained basis. The extent that these cutbacks have taken place this year in anticipation for next year, will show that there is not so much money required in these supplementary Estimates than would have been the case had there been no program restraints.

Senator Flynn: You would not have been able to reach a particular balanced budget without this restrained program.

Hon. Mr. Drury: A balanced budget in the current year?

Senator Flynn: Yes.

Hon. Mr. Drury: I would hesitate to say that we could not have managed to balance the budget without this, but really the attention is directed not to the current fiscal year, which is largely launched and quite difficult to change quickly and substantially, but looking to the next fiscal year where we can do it more coherently and effectively.

Senator Everett: Would you refer to page 4 of the supplementary Estimates. In one of the votes the funds are taken from Vote 17 of the Agriculture Department, and in another of the votes new moneys are budgeted for the Canadian Livestock Feed Board. In another vote the funds for the Post Office are taken from the main Estimates. Now, I am just wondering how you determine whether the moneys taken out are taken from a specific vote or from the main Estimates, which I assume is from a vote that another department had or from a new supplementary Estimate, which is added to the original Estimates. How do you make that determination?

Hon. Mr. Drury: One talks about the main Estimates or from a vote. The votes are merely subdivisions of the main Estimates, so in each case it will be a transfer between votes. Really, perhaps the question is how does one determine whether the additional moneys sought are to be found from transfers or from new money as in the case of the Livestock Feed Board.

Senator Everett: That is right, but before we come to that, in many of the votes you designated exactly from which vote the money came. In others you used the general term "main Estimates". Do you understand me?

Hon. Mr. Drury: But I think in each case, where you see the term "main Estimates", there is also a vote mentioned too. For the Agriculture Vote 17 of the main Estimates and for Communications, it is Vote 5 of the main Estimates.

Senator Connolly (Ottawa West): The trouble arises out of the use of the words "Appropriation Act No. such and such," which is subject to correction and which I take it is just one of the bills which authorizes a certain proportion of the main Estimates of the Government.

Hon. Mr. Drury: That is correct, the statute which authorizes these payments is the Appropriation Act.

The Chairman: Cannot the answer be, Mr. Minister, that there is a shortfall of the smaller expenditure than the vote itself has provided for, so this money is then available for some other expenditure? Therefore, this is the method by which Parliament agrees to the transfer rather than have that money lapse.

Senator Everett: I understand that. What I am asking is how in each case does the shortfall relate to a particular department? Is the particular department involved in the shortfall or are you giving money to some departments by reducing appropriations of other departments?

Hon. Mr. Drury: I am sorry. In each case it is, within a particular departmental section, additional money for specific programs and specific votes. They are invited to look over their whole budget and see what economies they can achieve in other programs, other fields, and to scrape together all the money they can. It is only when they are unable to find enough within these other programs,

these other votes, that there will be fresh money.

Senator Everett: The fresh money will not be taken from another department on a \$1 basis?

Hon. Mr. Drury: No.

Senator Everett: There will be a new appropriation?

Hon. Mr. Drury: That is correct.

Senator Grosart: I was a little concerned about the same matter that Senator Everett raised and that is that in some places the supplementary Estimates state the vote from which the money is being received and in other cases they merely state from the main Estimates. For instance, on page 7, second last line, and again on page 6 in Vote 25a, why, in one case, do you specify the vote in which you are finding the money and in others merely say the main Estimates?

Hon. Mr. Drury: Where no vote is specified as the source, then the source is the same vote. In this case, looking at page 7, Vote 15a is the source, but we have to return to Parliament for the reason that grants are specific within a vote and that within Vote 15a the Department of External Affairs is not authorized to change without parliamentary approval, grants proposed in the main Estimates, to lower some and raise others. Where the vote is not mentioned as the specific source, it is the vote heading from which this appropriation is sought.

Senator Grosart: This is a case where there is no authority in the Financial Administration Act to transfer within the vote?

Hon. Mr. Drury: That is correct.

Senator Grosart: May I ask another question? These supplementaries are a bit unusual in that we are asked to authorize substantial reductions in Estimates more so than usual. What is the total reduction in the main Estimates in these supplementaries, that is reductions from votes already approved by Parliament?

Hon. Mr. Drury: When you say the total reductions, unfortunately the net total is \$66 million plus.

Senator Grosart: That is the net, yes, but if you take it the other way...

Hon. Mr. Drury: I guess really the question is how much money has been found by way of these \$1 transfers. I am told that about \$25 million of reductions or offsets have been found to find \$25 million for expanded and accelerated programs.

Senator Grosart: So that, if that money had not been found, the supplementary Estimates would be about \$90 million.

Hon. Mr. Drury: That is correct, sir.

Senator Grosart: Where would there be a reporting to Parliament of the specific programs of projects that have been abandoned or postponed? I know there is some in the evidence that has been given, but is there anywhere a complete list where a Member of Parliament could find out what he approved when the main Estimates came through and what has been abandoned now?

Hon. Mr. Drury: There is no such compendium that I know of, although it could be discerned, perhaps a little tardily from the...

Senator Grosart: The public accounts.

Hon. Mr. Drury: ...the analysis of the public accounts, running through a comparison with what had been voted and what was actually spent.

Senator Molson: Would that show up by program?

Hon. Mr. Drury: Unfortunately in the past both the Estimates and the public accounts have been used to represent really the total of inputs into programs, without distinguishing between the programs themselves. The new form of Estimates—of which examples were furnished last year, the form that will be given this year officially—will try to spell out each program and the total resources to be devoted to that program. Perhaps that will give a better identification of both the sum total of programs and of individual programs, than the Estimates have tended to indicate in the past.

If one looks at the blue book for really any department, it is a little difficult to ascertain what programs they are running. You see that they need so many ministers, deputy ministers, clerks and so on, and how much they are costing, but this does not really tell you what they are doing. We hope to try to describe the programs and then it would become easier

also to articulate changes in specific programs, than has been the case in the past.

Senator Grosart: I imagine that you are not over-anxious to have in the front page of newspapers across the country lists of postponements of projects.

Hon. Mr. Drury: If this would be educational, I would be in favour of it. The fact of the matter is that we have not tried to indicate all this in an overall way. There are changes going on continuously. I am not sure how one would distinguish between a program and, shall I say, a happening. If one abandons a proposal to build a post office in a northern constituency, as far as the local people are concerned it is the abandonment of a program; but the single post office, while terribly important to them, is only one of a number of changes made in the post office construction program. Perhaps the best way of indicating this is by departments individually, so that the people really interested get to know about it.

Senator Grosart: There has been some comment on the percentage rate of increase in salaries in the public service. I am not too clear, in what you call "the first year", whether the figure was 6 per cent or 7.5 per cent?

Hon. Mr. Drury: The first year carried, in a sense, two elements. One was an adjustment, to put the particular class in a better or more reasonable relationship with similar classes of employees outside the public service. This figure varied a little up or down, dependent on whether the adjustment indicated they were lagging behind the outside or they were ahead of the outside. 7 per cent, plus or minus a percentage point, is about the figure. In some cases it was higher and some cases lower. In the Government, as in outside, skills tend to command a changing market value dependent on the supply and dependent always on the importance in the total economy, and these changes occur almost on a yearly basis.

Senator Grosart: The 7 per cent, therefore, would not really be related to one fiscal year? In other words, a good deal of it would be picking up the backlog of adjustments?

Hon. Mr. Drury: In the first year, that is right, Mr. Chairman.

Senator Grosart: It would be rather frightening if we were to anticipate a steady rise of 7 per cent in public service salaries.

Hon. Mr. Drury: Most of the agreements have, in their final year of settlement, which is the current one, an increase of 5½ per cent. We have negotiated with the electronics group—mostly in the Department of Transport but also in other communications areas—a further year beyond that, which would be July 1, 1970 to July 1, 1971, a further increase of 5.3 per cent.

Senator Grosart: You are talking about a total payroll, including defence, of \$2 billion?

Hon. Mr. Drury: Including defence? Including the civilian elements in the Department of National Defence.

Senator Grosart: About \$2 billion.

Hon. Mr. Drury: A little short of \$2 billion.

Senator Molson: I suppose, Mr. Chairman, one accepts the principle that rates of salary and wages do not have any effect on the inflationary situation, that it does not really matter.

I would like to ask the minister a question about the way the supplementary Estimates come up. I think, from what he said—and I want to be corrected if I am wrong—that it is in the course of meeting the extra demand of the department, that these dollar items are discovered. Or is it in the course of general tidying up of these requests for funds, for programs which are not now going to be carried out, that they come to light?

Hon. Mr. Drury: It is really not so much tidying up as a change of direction, perhaps a modest change of direction or a revision of forecasts of activities and expenditures within the department.

A department such as the Department of Agriculture, which has a great many programs affected by changes of conditions in the agricultural industry and also to some degree by weather, may have some programs move ahead more rapidly than had been forecast, and others not so rapidly. It is to rebudget, if I can use the term, or revise the budget, that these \$1 items are put forward.

Senator Laird: It is mentioned that CIDA, as it is called, has not spent all the funds allocated to it—is that reflected anywhere in the Estimates under External Affairs.

Senator Grosart: Page 8.

Hon. Mr. Drury: Would you look at page 8? One will see a \$1 item which describes exactly the process I was outlining in response to Senator Molson's question. Here the funds exist within the various programs—the votes they have, but they wish to proceed rather more quickly in one area than they had planned to in another so that a transfer is made rather than new money being sought. They have the money so they are being asked to transfer as between programs rather than to try to get new money.

Senator Flynn: It may be that they have more money than is shown here. You only appropriate the money you need to cover a particular part of a program. There may be some left over.

Hon. Mr. Drury: Yes, there may be some left over, even after this transfer.

Senator Grosart: Senator Laird's question was directed more to the \$300 million allocated but not spent by CIDA. What happens to that money? First, where does it show? It would show in the public accounts, I suppose, but how is it held? Does the CIDA have its own bank account?

Hon. Mr. Drury: It represents merely the authority to draw on the exchequer. The money actually remains in the consolidated revenue account, and they are authorized by Parliament to draw this money down when they need it without further parliamentary authorization.

Senator Grosart: Are you concerned in the Treasury Board about the fact CIDA is one year behind in spending its allocations?

Hon. Mr. Drury: Not only is the Treasury Board concerned, but the whole Government is concerned that we have not made the progress that we had hoped to; but we are persuaded that, while slower, it has nevertheless been a more strongly based and much more intelligent program than might have been the case otherwise. It is fairly easy in this field to spend lots of money, but it is a bit more of a trick to spend it usefully and intelligently. It is better to go slowly and surely than just merely meet the promises of expenditure.

Senator Grosart: Where would this show? In what document? I ask that question,

because it was a surprise to some of us to find out that the agency was one whole year behind in its spending.

Hon. Mr. Drury: The best exposé of this is in their annual report to Parliament. I am not sure when their next report is due.

Senator Grosart: I don't think that figure was in their annual report. I have read that report, but I am reasonably sure they did not come out and say they had \$300 million which they had not spent.

Hon. Mr. Drury: It may not have been as explicit as that.

Senator Grosart: That is what I mean.

Hon. Mr. Drury: But a careful reader might have been able to discern it.

Senator Grosart: I must have been an "uncareful" reader.

Senator Everett: If there is a special appropriation made in the Supplementary Estimates to a department, does that mean that the department has spent all of its funds?

Hon. Mr. Drury: If there is fresh money?

Senator Everett: Yes.

Hon. Mr. Drury: It would indicate not that it has spent all its funds, but that it anticipates doing so and does need this additional money.

If I may just qualify that, when one says "the department", it must be noted that, for these purposes, CIDA, for instance, should not be lumped together with the Department of External Affairs. They are quite separate entities for these purposes. External Affairs may well spend all its money, but CIDA no. Or, to give another example, the Department of Agriculture might spend all of its money in its administrative apparatus, but some of the agencies, such as the Livestock Feed Board or the Dairy Commission and so on, might not.

Senator Everett: I understand. Coming to page 13 of the Supplementary Estimates A, I note that the Department of Manpower and Immigration show two items of \$1 and then a new appropriation of \$2 million. Does that mean that the department has decided on what its appropriations will be to the full limit they were originally?

Hon. Mr. Drury: The Department of Manpower and Immigration has informed the

Treasury Board staff of its monetary needs, and jointly, it has been concluded that in addition to all the money that otherwise might lapse it will need this additional money.

Senator Everett: Why does it work out so neatly?

Hon. Mr. Drury: It doesn't.

Senator Everett: In this case it does, though. Here is a nice round sum of \$2 million. They use up everything appropriated and all they need is an extra \$2 million for a specific program.

Hon. Mr. Drury: Well, this particular program relates to the assistance being provided to refugees from Czechoslovakia. There is still some period to go in this; most of the refugees are now here and being looked after, but the terminal dates for them being entirely on their own are still a bit indeterminate and, as we are not too sure, this is a round figure.

Now, in respect of the previous lapse, the inaccuracy in forecasting was in the order of 2 per cent. We reduced that to 1 per cent, which is rather a substantial improvement in terms of percentage, being a 50 per cent improvement. Nevertheless, 1 per cent of the total budget is still \$110 million.

This is what I mean when I say it is not as neat as we should like it to be. One would like the figure to be zero, to come right out on the button. In fact, however, the inaccuracies throughout all the departments and programs add up to something in the order of \$100 million. So this tends to be a bit of a rounded figure.

Senator Everett: But a rounded figure for that specific use. That \$2 million is not for general use.

Hon. Mr. Drury: That is correct, Mr. Chairman. The department had hoped early in the year to be able to deploy or redeploy funds designated for the general immigration program for the refugees from Czechoslovakia. They subsequently found that the needs caused by the regular immigration program, plus the larger number of refugees than had been forecast, called for additional funds.

Senator Everett: So that the requirement for one program is \$2 million, and for the other is \$430,000. Are those two entirely different programs?

Hon. Mr. Drury: Two entirely different programs, yes.

Senator Everett: Would that not indicate, then, that we have \$430,000 left unallocated and that they decided to use the \$430,000? Because it just comes out too perfectly.

Hon. Mr. Drury: No. One must look at these quite distinctly. The department has a budget which is prepared in advance, in which there is a forecast made in some detail of the amount of money required for each program. During the course of the year the forecasts turn out to be either too high or too low and we adjust these forecasts and switch funds to correspond.

Now, in the first case, bills have come in from the provinces in excess of those anticipated under the cleanup of the Municipal Winter Works Program, and those bill have had to be paid. They got the money for this out of Vote 20 in their main estimates which is in excess. Now I should know what Vote 20 is exactly, but I do not. The funds in Vote 20 relate to program development for planning and implementation of a program of immigration, and organizational funds were provided. This has not gone as quickly as anticipated and there is money available there and this is being devoted to payments in Vote 6a.

Senator Everett: Does not this indicate that because it needs \$2 million additional money it has allocated all its appropriations. Otherwise you would not ask for this additional \$2 million.

Hon. Mr. Drury: That is correct.

Senator Everett: What interests me is that they say they require 430 thousand for the Winter Works Program and, by George, if they do not have \$429,000 left which is \$1 short of what they need. But at that stage they say they are out of money and they need an additional \$2 million.

Hon. Mr. Drury: But you have to look at this as a whole, senator. They say they need in respect of accelerated programs or increased programs \$2.5 million in total, but scratching around they can find a half a million against this sum and so they need \$2 million in fresh money.

Senator Everett: I shall not pursue the point but that \$2 million refers to a specific requirement. I think I asked earlier whether the gross amount is what they require and whether they just distribute it for the sake of

these votes or whether there were two separate votes and I think your answer is that there were two separate requirements.

Senator Grosart: May I suggest to the Minister, Mr. Chairman, that a good explanation of this is to be found in the Department of Agriculture Supplementaries where six different amounts of money have been "found" in a single vote and applied in various places. In Vote 17 you transfer \$735 million to one new requirement, \$112 million to another, \$237 million to another, \$147 million to another and \$45 million to yet another for a total of about \$1,724 billion. Now, you have obviously looked around and found a vote here where you could say "we can find a bit here, and a bit here and a bit here." I think this would answer Senator Everett's question. The fact that there is a specific amount there does not mean that that is all you could find.

The Chairman: Any more questions. It is now 11 o'clock and we did indicate to the Minister that we would let him go back to Cabinet. However, before that I have one question. We have always been concerned as to whether any of these \$1 items really involved amendments to statutes as distinct from changes in votes in appropriation acts. I think here there are very few of what we would call changes in statutes, but fears have been expressed that \$1 items could be used to amend legislation. Now the one I particularly want to ask about here was the National Research Council.

Hon. Mr. Drury: Perhaps, Mr. Chairman, I might refer your colleagues to this paper which has been distributed and particularly to the last page.

The Chairman: This is one I am going to ask about because I wonder whether in view of the Auditor General's report on the question of authority there should have been a change in Section 13(e) of the act rather than in an appropriation bill. Maybe this is something that cannot be answered as clearly as that, but this is what we are concerned about—that sometimes items appear in these estimates which more appropriately should be covered by amendments to statutes themselves.

Hon. Mr. Drury: The suggestion has been made that on occasion it might be more appropriate to effect substantive changes in existing statutes by amending the statutes

directly rather than through this form of item in an appropriation act, which in itself is an amending statute. In this case rather than proceeding to change the specific wording of one section in the National Research Council Act—because this is primarily an accounting matter and because there has been a lack of agreement between the Auditor General and the National Research Council as to whether they in fact had the power, and the National Research Council claiming that they had and acting as if they did have the power and the Auditor General saying no—this is to settle the issue on an accounting basis and does not change the claim, if I can put it that way, to statutory authority made by the National Research Council. But I would agree that in the normal course of events when substantive changes are being sought it should be done by amendment to a statute rather than by \$1 items in appropriation acts.

Senator Grosart: I would like to suggest that this is rather more than an accounting matter. What you are in fact saying is that “we want you to get paid more for some of the contract you are doing.” I believe from some information we have had that this is running pretty well through all the agencies. You are asking them to start charging now for their work and as an incentive you will allow them to keep the money. Is there not some danger there?

Hon. Mr. Drury: Mr. Chairman, what Senator Grosart said is quite correct. A real effort is being made to recover to a greater degree than in the past the cost of services provided by the federal Government. However I would suggest that this arose in a slightly different connection. The National Research Council had been doing this under its act, and the Auditor General observed some time ago that in his view the act did not authorize this. There were discussions over some considerable period of time, as is usual, and when the parties failed to agree we then proceeded to amend the statute or to propose an amendment to the statute which would confirm a practice which the National Research Council had been following for some time. We then proceeded to propose an amendment to the statute which would confirm a practice which the N.R.C. had been following for some time. It is quite true that as a matter of policy they are being asked to do much more of this than they have in the past, but it is not a new practice.

Senator Grosart: But in view of the fact there seems to be a similar pressure on other agencies, would you consider a possible amendment to the Financial Administration Act to regularize this whole situation?

Hon. Mr. Drury: Across the board—When we have had a little more experience of how this works out, we may find it necessary to amend the Financial Administration Act.

The Chairman: Thank you, Mr. Minister. We are sorry to have delayed you a few minutes.

Hon. Mr. Drury: Thank you very much indeed. I will now leave you in the safe hands of Mr. Cloutier.

The Chairman: We still have the Estimates before us and, if there are any further questions, I am sure that Mr. Cloutier will be able to field them or at least give the information that is before Treasury Board. Of course, there are items upon which we would require answers from the individual departments themselves, if we wanted to explore them in any greater depth.

Senator Grosart: I would suggest that Treasury Board has been a little modest in reducing the number of possible statutory amendments to three. I have found possibly more than three. They are not actually amendments to statutes but amendments to legislation. I refer particularly to two items on page 25 to extend the purposes. It is a special account under an Appropriation Act, but this is an amendment to legislation.

Mr. Cloutier: These are two of the three we have identified. This is on the last page of the document we have circulated.

Senator Grosart: I am sorry, but it was not too distinct. I did not think you had taken in the two. Actually, you have only taken in one. You refer to L115a but not to L97a.

Mr. Cloutier: Yes, at the very top of the page.

Senator Grosart: Oh, I am sorry.

Mr. Cloutier: I might say a word about these two items. They are identical. In our examination of the operations of the revolving fund maintained by the Department of External Affairs, for which there is a requirement in these Estimates of \$500,000 at the bottom of page 23, it appeared to the solic-

tor of Treasury Board that "advances...on posting" meant only an advance at the time the posting is made and not during posting. As a layman I argued this was a very fine distinction and that, surely, "on posting" meant on as well as during. However, the lawyer said, "If you want to be legal, accept my advice and put in wording in Vote 33a that would accomplish this." I asked, "Is this your formal advice". He replied, "Yes." I said, "If we have this for External, then we have to clean up a similar situation in Industry, Trade and Commerce and Manpower and Immigration." Hence, the dollar items to regularize the situation which the lawyers told us needed to be regularized.

Senator Grosart: I failed to observe that, and I am sorry I did not catch it.

The Chairman: Do you want to deal with the supplementary Estimates item by item?

Some Hon. Senators: No.

Senator Fournier (Madawaska-Restigouche): I move we adopt the report.

The Chairman: Our procedure here is that we do not exactly adopt or approve a report. We are here to examine and report upon the supplementary Estimates. However, there will be an Appropriation Bill, which is, of course, debatable. I suggest our report in this case would be that we have examined the supplementary Estimates and we have had all our questions answered and explanations given. I might also make mention of the fact that we particularly examined the dollar items.

Senator Benidickson: I am very glad you raised that question of dollar items. There have been many more in recent years than are actually before us today that do, in effect, amend something that I call legislation. I am glad the matter was pursued by Senator Grosart, and I was glad to have the view of the

President of Treasury Board that these have been reduced.

The Chairman: I think we have a clear explanation of all of them, and I think it is a very good idea. Senator Grosart called attention to the fact that Dr. Davidson, two years ago, said that Treasury Board would supply these on occasion and, therefore, Treasury Board did furnish it to us.

Senator Molson: It is a very good move that in meeting the supplementary requirements of the departments they are scratching through the programs which have not been carried out in order to find some or all of those funds.

Senator Flynn: Yes.

The Chairman: Probably on other occasions the item might have appeared without anything being found.

Senator Flynn: We certainly might have some other use for such appropriations.

Senator Grosart: I suggest that in our report we commend the minister and his officials for providing this and that perhaps the Senate should take a little credit for having initiated this.

The Chairman: Is there anything further you think should go in the report? Of course, the report can be debated, and one purpose of the report is to enable the Appropriation Bill itself to be dealt with, we having been provided with a great deal more information than otherwise would be the case.

Are you satisfied to leave the report in my hands?

Hon. Senators: Agreed.

Senator Molson: I move that we adjourn. The Committee adjourned.



Second Session—Twenty-eighth Parliament

1969-70

THE SENATE OF CANADA
PROCEEDINGS

OF THE
STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

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

No. 3

THURSDAY, FEBRUARY 19th, 1970

First Proceedings on the Estimates

laid before Parliament for the fiscal year ending March 31, 1971

WITNESS:

Mr. S. Cloutier, Deputy Secretary, Program Branch, Treasury Board.



Second Session—Twenty-eighth Parliament
1969-70

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

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

The Honourable Senators:

Aird	Grosart	McDonald
Beaubien	Hays	McLean
Benidickson	Isnor	Nichol
Bourget	Kinley	Paterson
Bourque	Laird	Pearson
Desruisseaux	Leonard	Phillips (<i>Rigaud</i>)
Everett	MacDonald (<i>Queens</i>)	Phillips (<i>Prince</i>)
*Flynn	*Martin	O'Leary (<i>Carleton</i>)
Fournier (<i>Madawaska- Restigouche</i>)	Methot	Sparrow
Gelinas	Molson	Walker—(28).

(Quorum 7)

* *Ex officio* members: Flynn and Martin.

No. 3

THURSDAY, FEBRUARY 19th, 1970

First Proceedings on the Estimates

laid before Parliament for the fiscal year ending March 31, 1971

WITNESS:

Mr. S. Cloutier, Deputy Secretary, Program Branch, Treasury Board

MINUTES ORDERS OF REFERENCE

Extract from the Minutes of Proceedings of February 12th, 1970.

“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 proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1971, in advance of Bills based upon the said Estimates reaching the Senate;

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 Proceedings of February 18th, 1970.

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Hayden:

That the name of the Honourable Senator Aird be substituted for that of the Honourable Senator Dessureault on the list of Senators serving on 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.

MINUTES OF PROCEEDINGS

THURSDAY, February 19, 1970

(3)

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

The Estimates laid before Parliament for the fiscal year ending 31st March, 1971.

Present: The Honourable Senators: Leonard, (*Chairman*); Desruisseaux, Everett, Flynn, Gelin, Grosart, Isnor, Kinley, Laird, McDonald, McLean and Pearson—(12).

Ordered:—That 800 copies in English and 300 copies in French of the Committee proceedings be printed.

The following witness was heard:

Mr. S. Cloutier, Deputy Secretary, Treasury Board.

Also present, but not heard:

Mr. Bruce MacDonald, Director-General, Budget Co-ordination.

The Treasury Board officials undertook to supply answers to several questions put by the Honourable Senator McDonald concerning these Estimates.

At 11.45 a.m. the Committee adjourned to the call of the Chairman.

ATTEST.

Gerard Lemire,
Clerk of the Committee.

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

EVIDENCE

Ottawa, Thursday, February 19, 1970.

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March 1971, met this day at 10 a.m.

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

The Chairman: Honourable senators, as you are aware, the Senate last Thursday referred the main Estimates for 1970-71 to this committee for its usual study in advance of any bills reaching the Senate based on these Estimates. Again, following our usual practice, we have asked Mr. S. Cloutier, Deputy Secretary of the Treasury Board, to come before us and outline in general what this year's Estimates contain and to give us the broad general picture. From there we can move to whatever particular studies we wish to make.

Before calling upon Mr. Cloutier, we should have the usual motion for the printing of our proceedings on these Estimates.

Upon motion, it was *resolved* that a verbatim report be made of the proceedings and to recommend that 800 copies in English and 300 copies in French be printed.

The Chairman: The minister, as you probably know, is out of Canada at the present time and there is a change going on so far as Mr. Reisman is concerned, so we are very happy to have Mr. Cloutier with us again.

Now, honourable senators, unless there is some point that you wish to raise, I will ask Mr. Cloutier to speak to us.

Mr. S. Cloutier, Deputy Secretary of the Treasury Board: Mr. Chairman and honourable senators, if it is agreeable to you, I shall

start by reading the statement which the President of the Treasury Board made upon tabling the Estimates.

The budgetary Estimates for 1970-71 amount in total to \$12,910 million, approximately \$892 million or 7.4 per cent more than the total Estimates of \$12,018 million for 1969-70. Statutory expenditures, those which result from firm commitments provided for in existing legislation, are going up by 11.5 per cent. On the other hand, growth in expenditures for which Parliament will be asked to appropriate funds—the category in which the government has flexibility in the allocation of resources—has been restrained to a rate of 3.8 per cent.

The comparable increase between 1968-69 and 1969-70 that I indicated when I tabled the 1969-70 Estimates at this time last year was \$1,032 million or 9.5 per cent. The year-to-year increase has therefore been reduced by \$140 million, or by more than two percentage points.

The total Supplementary Estimates for 1969-70 are expected to be \$160 million or about the same as the Supplementary Estimates of \$152 million for 1968-69. This compares with \$392 million in 1967-68 and even larger amounts in the preceding few years. Any requirements for Supplementary Estimates in 1970-71 to meet urgent and unforeseen needs will be kept to a minimum in line with the determination of the government to restrain expenditures as an anti-inflationary measure.

Statutory expenditures, those which result from firm commitments provided in existing legislation, will amount to \$6,323 million or 49 per cent of the total Estimates. Virtually all of the increase of

\$651 million in these expenditures falls under the following three headings:

1. Public Debt

Servicing charges \$195 million

2. Payment to the Provinces

Fiscal transfers 156 "

Hospital Insurance 95 "

Medicare 70 "

Post Secondary Education 49 "

Canada Assistance Plan. 38 "

3. Wheat

Carrying costs on temporary wheat reserves and advance grain payments 44 "

It can thus be seen that of the overall increase, \$651 million, or 73 per cent, is taken up by statutory expenditures, and of that amount, \$408 million is required for increased payments to the provinces.

At this point I might mention that the provincial governments were asked during the last several weeks to provide us with the most up-to-date forecasts of their expenditures under the Canada Assistance Plan and the Hospital Insurance and Diagnostic Act and for Medicare and Post Secondary Education. Their latest forecasts are consistent with the amounts shown in the Estimates being tabled today.

The expenditures for which Parliament will be asked to appropriate funds, the category where the Government has flexibility in the allocation of resources, amount to \$6,587 million or 51 per cent of the Estimates. Additional resources in the amount of \$293 million are going to the following few programs to which the Government is giving high priority:

Regional Economic Expansion, an increase of \$75 million; Bilingualism Development, an increase of \$52 million; Postal Services, an increase of \$36 million; Indian and Eskimo Affairs, an increase of \$34 million; the Royal Canadian Mounted Police, (including police services for provinces) an increase of \$26 million; Air Services, an increase of \$22 million; Development and Utilization of Manpower, an increase of \$21 mil-

lion; International Development Assistance, an increase of \$15 million; Incentives to Industry for Technological Innovation and Development, an increase of \$12 million.

Since the overall increase in items requiring to be voted annually by Parliament total \$241 million, and the above listed priority programs are increased by \$293 million, the combined 1970-71 budgets of all other programs in this category have been reduced from 1969-70 by a net total of \$52 million, to an amount of \$4,698 million. This reduction, and the resulting requirement to absorb salary and price increases within this lower total allocation means a considerable decrease in real terms of the cost of these programs.

Leaving aside the servicing of the public debt for which there is no option but to pay, the programs for which increases are provided relate to the basic priorities of the country; national unity, social justice, education and economic development here in Canada and in the developing countries.

The planned levels of strength in the Public Service continue the downward trend indicated in the Estimates of 1969-70. The table which appears on page LXX of these Estimates, shows that this downward trend will continue in 1970-71 and indicates a reduction of about 7,500 in the planned level of continuing employment.

The tabling of these Estimates marks a major step forward in an endeavour by the Government to improve the process of resource allocation and to better inform Parliament and the people of Canada of the objectives, operations and costs of the departments and agencies of Government. The form of these Estimates is radically different from that which has been followed for more than half a century. For the first time the expenditure proposals respecting departments and agencies are clearly formulated in terms of programs. The objectives and sub-objectives of each program are stated and the nature of the program further amplified through a description of the activities carried on in pursuit of program objectives.

The aggregate of expenditures proposed to Parliament for each program is classified first in terms of these activi-

ties and second in terms of the portions of the aggregate to be devoted respectively to operations, to capital and to grants and contributions. Data are provided, under the same classifications, for the forecast expenditure for 1969-70 and the actual expenditure for 1968-69.

When a program involves large expenditures on capital, there is provided a table listing the major projects and showing for each total cost distributed between expenditures up to and including the current year, the expenditures forecast for 1970-71 and the subsequent total until completion.

In previous Estimates, all items for Loans, Investments and Advances were grouped together at the back of the Blue Book. In the new form such items are shown alongside the related budgetary expenditures in order to be more informative.

Greater detail on manpower, on grants and contributions and on revolving funds for quasi-commercial operations are provided. Improvement has also been made in the information provided on Crown Corporations.

The Blue Book contains for the first time an explanatory forward which seeks to clarify the technical terms used which, in the past, may have been difficult to understand. Included in the foreward are a number of tables summarizing the details of the Estimates which will help to provide a better overall picture.

All of this material is contained in one bilingual volume replacing the separate English and French Blue Books of former years. I have no doubt that our experience in the House and in committees reviewing Estimates will suggest further modifications in form. We will be glad to receive suggestions for further improvement.

Mr. Speaker, I believe that the Estimates in the form I am now tabling provide a clearer and more informative presentation than we have had heretofore of the proposed allocations of fiscal resources to the budgetary requirements of Canada.

The Chairman: Thank you very much, Mr. Cloutier. I am sure there are a good many

questions which come to the minds of members of the committee. Senator Laird?

Senator Laird: I have two questions I wish to ask, Mr. Chairman. In connection with the increase in the cost of postal services, I noted the Prime Minister's indication yesterday in the House of Commons that certain increases would be foregone. Will this change that figure?

Mr. Cloutier: No, the revenue foregone as a result of the decision of the Government would have been credited directly to the Consolidated Revenue Fund, so this does not change these Estimates.

Senator Laird: I note there is an increase in External Aid. Is that based upon an attempt to get ourselves up to 1 per cent of the Gross National Product, or is it based on projects which have been promulgated by the CIDIA?

Mr. Cloutier: I think it is based on both these factors; probably more on the former.

Senator Everett: Mr. Cloutier, do these Estimates include all the capital expenditures?

Mr. Cloutier: All the capital expenditures provided for in the budgetary Estimates. They do not include capital expenditures of crown corporations which finance capital investment out of their own generated funds.

Senator Everett: What about expenditures, say, under the National Housing Act?

Mr. Cloutier: Expenditures under the National Housing Act, for which there is no statutory authority, are provided for in these Estimates. We will find that on page 18-14 and 18-15. At the bottom of page you have a breakdown by activity where you will find investments for "Housing Research and Community Planning", "Public Housing Projects and Land Development", "Municipal Sewage Treatment Assistance", "Urban Renewal Assistance", and so on, totalling \$122 million in loans, investments and advances.

The Chairman: That is only \$8 million more than last year.

Mr. Cloutier: This relates to only one portion of the capital budget of Central Mortgage and Housing Corporation. The other portion is provided for under the legislation, and that does not have to be voted annually.

Senator Everett: I am thinking specifically in this case of the \$400 million that is to be granted under special sections of the act.

Mr. Cloutier: Yes.

Senator Everett: This would not come within this?

Mr. Cloutier: That does not appear in this, that is right, sir.

Senator Everett: Do you have a figure that shows the comparative total expenditures of the Government in terms of such programs as N.H.A. programs and Crown corporations—that is, the impact of those expenditures?

Mr. Cloutier: Not in the main Estimates.

Senator Everett: I mean when they are added to the main Estimates.

Mr. Cloutier: I am afraid I have not those figures.

Senator Everett: I gather from what you say that one of the objectives of the Government has been to reduce the impact of Government expenditures on the economy, and you have been careful to point out that the area in which the Government has increased its expenditures is that of regional development, and so on and so forth.

Mr. Cloutier: Yes.

Senator Everett: But it seems to me that that just tells a part of the story.

Mr. Cloutier: That is right.

Senator Everett: In terms of inflation we have to know the total impact of Government spending.

Mr. Cloutier: Yes.

Senator Everett: Has it increased? For example, if Mr. Andras has increased that program—and I am just pulling a figure out of the air—from \$150 million to \$500 million, then it seems to me that the attempted impact of the Estimates has been lost by that one action.

Mr. Cloutier: The increase in the total capital budget of Central Mortgage and Housing was referred to by Mr. Andras, I think, in a statement in the house in which he indicated—and I am quoting from memory—that the increase was of the order of \$150 million *in*

toto, and that most of this increase, if not all, would go to public housing. This, in effect, is another priority of the government which is extra-budgetary, so to speak. In other words, it is an allocation of non-budgetary resources to a priority of the Government.

Senator Everett: How do you define a budgetary expenditure?

Mr. Cloutier: We define as budgetary those expenditures, both statutory and non-statutory items that go into the calculation of the budgetary deficit or surplus. These do not include loans and investments. Loans and investments again are of two categories. One category includes those that are provided for in legislation, like most of the Central Mortgage and Housing Corporation's budget, and the other category includes those loans and investments for which there does not exist parliamentary authority in statutes and which therefore have to be voted every year through the Estimates process.

Now, this volume covers the non-statutory loans and investments. It does not include the statutory loans and investments.

Senator Everett: Then, the C.B.C. deficit would not be included in these Estimates?

Mr. Cloutier: The funds allotted to the C.B.C. by the Government are included in here, because the Radio Act does not by itself provide funds to the C.B.C. These Estimates provide for most of the operating requirements of the C.B.C. and its capital requirements.

You will find the C.B.C. on page 21-48. There are two items there. One is \$166 million for operating expenditures, and the other is \$25.3 million for capital requirements. These again are broken down into more detail at the bottom of that page and the subsequent pages.

Senator Everett: Then, is it possible to obtain for the committee the total expenditures of the Government in all its forms?

Mr. Cloutier: This would appear in the Public Accounts.

Senator Everett: In the Public Accounts?

Mr. Cloutier: That is right. There is no other compilation, to my knowledge.

Senator Everett: You see, I am concerned—and I would like you to enlighten me—about

the impact of Government expenditures upon inflation. The Government tells us that it is reducing its impact. It is calling upon business to do the same thing. It has got an agreement of some sort from the provinces and the professions, and it is attempting to get an agreement from the labour unions. Your narrative this morning would seem to indicate that that is being followed through in the Estimates.

Mr. Cloutier: Yes.

Senator Everett: But I would be interested in knowing whether it is being followed through in total expenditure. Can you tell me if I am wrong in suggesting that total expenditure, as a guide in deciding . . .

Mr. Cloutier: I should add to the statement I have just made. This would also be covered in the budgetary papers which the Minister of Finance will table before his next budget, and in which he reviews both the budgetary and the non-budgetary expenditures of the Government in detail. You will have in these budgetary papers a commentary on both the budgetary expenditures and the non-budgetary expenditures, and tables showing the detail.

Senator Everett: Thank you.

Senator Grosart: The minister has asked for suggestions. What would you think of the suggestion that you identify loans, investments, and advances as such each time they appear? In other words, would you tell us which are loans, which are investments, and which are advances.

The Chairman: Do you mean they should distinguish as between those three classes?

Senator Grosart: That is right.

Mr. Cloutier: I think, sir, you would have this in the awarding of the vote items. For instance, I happen to have the book open at page 21-48 which concerns the C.B.C. Vote L55 is "Loans, on terms and conditions..." and so on.

The Chairman: Do you mean to say that if it were an investment instead of a loan there would be the word "investment"?

Mr. Cloutier: I would expect so, sir.

The Chairman: And you would expect the same thing if it were an advance?

Mr. Cloutier: Yes, or an advance.

Senator Grosart: From just looking through it that was not my impression. However, if it shows that then I am very happy. It is a great improvement.

The Chairman: This is something that we have been rather concerned about in the past.

Mr. Cloutier: I am just trying to think of an investment item right now.

Senator Grosart: Here is a very good example. Whether that C.B.C. item is a loan. . .

The Chairman: It is treated as such.

Mr. Cloutier: Yes, it is treated as such.

Senator Grosart: On page 18-14 there is an item in connection with the Central Mortgage and Housing Corporation, which we were discussing a minute ago, that is an advance. I am referring to Vote L15. It does not seem to me, from just looking at it quickly, that all the items that are included in the total of \$175 million are identified as to those three categories. However, it may be that we are on the way.

The Chairman: The \$175 million includes Vote 10, which amounts to \$53 million, and which is a straight reimbursement. It is not an advance.

Mr. Cloutier: That is right.

Senator Grosart: That is the very point. What is it, then? It is included in the total, which is described as "Loans, Investments and Advances."

The Chairman: It is \$122 million; this is what Mr. Cloutier explained before. This is special statutory authority to the Central Mortgage and Housing Corporation to do these things which are not in their normal operations, such as the urban renewal schemes.

Senator Grosart: Could I ask, if you have the figure, how much of the statutory increase is due to the open ended agreements with the provinces?

Mr. Cloutier: The open ended programs are hospital insurance, medicare, post secondary education and the Canada Assistance Plan. The total increase for those is \$252 million.

Senator Grosart: How does that compare with last year?

Mr. Cloutier: I think I have a similar calculation for last year. I should point out that last year was the first large provision for medicare, so this distorts the figure. The increase for these same four programs last year was in the order of \$500 million, \$335 million of which was for medicare.

Senator Grosart: So we have a substantial, I might say a very substantial decrease in the burden on the federal budget of open ended agreements with the provinces.

Mr. Cloutier: In terms of the increase only, yes. That is largely explained by the medicare item.

Senator Flynn: How much is provided for Quebec in this?

Mr. Cloutier: In which figure?

Senator Flynn: Medicare.

Mr. Cloutier: I am afraid I have not got that figure here, sir.

Senator Grosart: Have you any of the provinces?

Senator Flynn: How much was provided for Quebec, because Quebec is joining the medicare plan this year?

Mr. Cloutier: The figure of \$440 million for the medicare program accounts for all the provinces. The amount required for Quebec is calculated as for July 1, and the other provinces are on the same basis.

Senator Gelinas: You have not got New Brunswick's acceptance.

Mr. Cloutier: No, I do not believe there is a formal acceptance, but we have provided in the estimates as if they were coming in on July 1.

Senator Grosart: The recommendation was that the budget should not include an increase greater than that in the GNP. This increase is 7.4 per cent, which is more than the increase in the GNP this year. I do not think we made a distinction between a real increase in GNP...

The Chairman: We are working on current data.

Senator Grosart: That was the only way. We cannot compare it with the budget. There we are slightly over, but in the controllable or flexible item the increase is 3.8 per cent.

We can congratulate the Government for following our recommendation in so far as it was in its power. Without going into actual policy, do you see any way that a larger proportion of the items which are sometimes called uncontrollable or statutory can become controllable?

Mr. Cloutier: If I may I will refer the committee to the statements of the Prime Minister in the House of Commons yesterday with reference to the joint efforts of the provincial and federal governments to control or restrain growth in these open ended programs which you mentioned earlier. So there is a serious attempt being made to control the growth in these expenditures. Basically the problem is that these programs are administered by the provinces, and without their co-operation control is impossible.

Senator Grosart: So there is no way that the federal Government, other than by major changes in policy, can exercise greater unilateral control over the uncontrolled expenditures?

Mr. Cloutier: No sir, short of changing legislation to apply ceilings or specify given growth rates, which really could not be done unilaterally.

Senator Grosart: What percentage of the total of uncontrollable items would be accounted for by medicare?

Mr. Cloutier: With a total of statutory items at \$6,323 million and the provision for medicare being \$440 million, it would be less than 10 per cent, about 6 per cent to 7 per cent.

Senator Grosart: That is the most recent addition to the uncontrollable items.

Mr. Cloutier: Yes sir.

Senator Grosart: How far back do these open ended agreements go in our fiscal history?

Mr. Cloutier: Hospital insurance is the oldest, probably going back to 1956 and 1957. The second one would probably be the Canada Assistance Plan, in 1966, which in effect brought together a number of individual programs which dated for many years before 1966. Post-secondary education started in 1966. Medicare, of course, is of more recent origin.

Senator Grosart: You are taking my question as referring only to the open ended programs.

Mr. Cloutier: I thought that was your question.

Senator Grosart: Yes, it was. Actually, that is a small part of the total of the uncontrollable expenditures. What percentage would the open-ended items be?

Mr. Cloutier: We have four.

Senator Grosart: You say Medicare is about 4 per cent.

Mr. Cloutier: We have four that add up to about \$1.9 billion.

Senator Grosart: That is about one-third?

Mr. Cloutier: A little less than one-third.

Senator Grosart: What is the nature of the other major item?

Mr. Cloutier: The other large item is the public debt.

Senator Grosart: At about 14 per cent of the total?

Mr. Cloutier: I think it would be about that. I think it is about \$1.8 billion.

Senator Grosart: It is about \$13.9 million according to page xxvi.

Mr. Cloutier: The public debt is almost \$1800 million. The 13.9 is really a percentage.

Senator Grosart: Then there would be some other statutory payments to provinces and individuals.

Mr. Cloutier: The statutory transfers to the provinces are fiscal transfers which add up to about \$1,060 million.

Senator Flynn: Equalization payments?

Mr. Cloutier: These are equalization payments.

Senator Grosart: So that the only possibility, I take it, of the federal Government getting control of the other 50 per cent of those expenditures is by agreement with the provinces or by unilateral amendments to the present statutory set-up.

Mr. Cloutier: I brought some charts which I think might be of interest and I shall have them passed around. They indicate the break-

down of the total budget for the last four years along the lines we have been discussing.

Senator Grosart: Very well. I have another question, but I shall save it until later.

Senator Gélinas: I understand the Polymer Corporation is no longer a Crown corporation. If this is so, under which department will it be administered?

Mr. Cloutier: To my knowledge it is still a Crown corporation. However, for many years they have not required funding from the government.

Senator Gélinas: I understand it was one of the most profitable corporations, but you say it is still a Crown corporation.

Mr. Cloutier: Yes.

Senator Grosart: I think the basis of Senator Gélinas' remarks is the statement made in the Senate yesterday on the authority of the Department. It was made in response to a question which I asked. Senator Urquhart, if I remember correctly, said it was not a Crown corporation.

Mr. Cloutier: There is, I think, a change in the status, and whether it is an agent of the Crown or not is a legal distinction which frankly escapes me.

Senator Grosart: To be fair, Senator Urquhart I think used the phrase that it is not an agent of the Crown.

Mr. Cloutier: There has been a change in recent months on that score.

Senator Gélinas: Then the public debt is mentioned as \$18 billion.

Mr. Cloutier: \$1.8 billion.

Senator Gélinas: Is that the total public debt?

Mr. Cloutier: No, those are the service charges.

Senator Pearson: What is the public debt itself?

Mr. Cloutier: The public accounts would show that. It is in the area of \$17 billion. That is the net debt.

Senator McDonald: On page xii there is a table of the total budgetary Estimates starting with 1960-61 and going to 1970-71. Now in 1960-61 the total was \$6,061.3 million and in

1969-70 the total was \$12,018.1 million. What percentage of the gross national product was the \$6,061.3 million in 1961 as compared to the \$12,018.1 million in 1969-70?

The Chairman: I think we would have to go back to the reports of the National Finance Committee, but Mr. Cloutier may be able to give this to us.

Mr. Cloutier: I know where I can put my hands on those figures in my office, but I do not have them with me.

The Chairman: I think a little guessing may be required here, and my guess is that it would be less now than it was in 1960-61.

Senator McDonald: A lesser percentage of the gross national product?

Senator Everett: I think so, yes.

Senator McDonald: Perhaps I am in the wrong place, but what is the amount of money in circulation compared to the expenditures in 1960-61 and 1969-70, and how does it compare to the total expenditures and the total of the gross national product?

Mr. Cloutier: I am afraid I do not have those figures with me.

Senator McDonald: I would like to have that information.

The Chairman: I think we should try and get it.

Senator McDonald: What I would like is the total federal Government expenditures compared to the gross national product for those two years.

Senator Everett: Are those budgetary expenditures?

Senator McDonald: The total expenditures and the total amount of the money supply in those two years.

The Chairman: We have it in our annual reports of this committee relating to the actual expenditures, the Estimates and the gross national product.

Senator Grosart: I think about 17.5 per cent.

The Chairman: Currently we are running at about \$80 billion or \$70 billion for this last year.

Senator McDonald: We can get it at a later date, but is it also possible to get the amount of money in circulation for those two years?

The Chairman: Yes. And you want to relate that amount of money to the expenditures and the gross national product?

Senator McDonald: Yes.

Senator McLean: On page xxvi, under the heading of Foreign Affairs there is a sum of 2.1 per cent. What does that cover? You will find it in the chart.

Mr. Cloutier: You will find the details of this on page xxx about two-thirds of the way down the page.

Senator McLean: Then for CBC you have \$191 million. Does that cover all CBC expenses or do they get any revenue of their own.

Mr. Cloutier: You will find the detail of this on the page you are referring to, 21-48. You will find it at the bottom of the page. Revenue is estimated at \$35.7 million in 1969-70 and an estimated \$37.6 million estimated for 1970-71.

Senator Everett: Mr. Cloutier, could you tell me if there has been any change in the operation of the Treasury Board since the Department of Supply and Services went into operation on this plan which I think was suggested by the Glassco Commission?

Mr. Cloutier: The role of the Treasury Board in relation to the Department of Supply and Services?

Senator Everett: Yes. Has there been any change in the function of the Treasury Board? Have they delegated functions to the Department of Supply and Services they held prior to that time?

Mr. Cloutier: No, I do not believe so. The functions of the Department of Supply and Services were specified in the re-organization act of 1968. The role of the Treasury Board has not changed in any appreciable manner, to my knowledge. The Treasury Board still issues directives and guidelines to the departments in relation to the acquisition and care and maintenance of supplies. It may be that with the emergence of the Department of Supply and Services as the expert in the supply business, the amount of direction that has to be given by the Treasury Board has decreased, but I do not recall, any dramatic

change in the 2½ years I have been with the Treasury Board.

Senator Everett: Would you give those directives now to the Department of Supply and Services instead of to the individual departments?

Mr. Cloutier: I will give you, as an example, the repair services provided by the Department of Supply and Services. If I can zero in on office equipment, years ago this function of repairing office equipment was discharged by the Queen's Printer. I believe it was a free service to the departments; in other words, the expenditures of the Queen's Printer in this regard were charged directly to his appropriation. With the emergence of the Department of Supply and Services there has been a tendency to make it a self-sustaining operation, and the Department of Supply and Services provides the service but charges for its services to the individual department.

Senator Everett: How much does the Department of Supply and Services purchase in a year? What volume of money goes through its hands, do you know? I cannot find it in the Estimates, nor do I think it should be there.

Mr. Cloutier: I just have not that figure in my mind.

Senator Everett: Would you have any rough idea? I have a figure of 1½ billion of purchasing going through its hands.

Mr. Cloutier: You might come to an approximation if you look at Table 6, page LVii. This would be just an approximation.

Senator Everett: Could I make a suggestion, Mr. Cloutier, that next year you dispense with Roman numerals?

Mr. Cloutier: Yes, we have already zeroed in on that.

Senator Grosart: Mr. Chairman, as I expect to have to go to the Foreign Affairs committee, could I ask another question now?

The Chairman: We will get the answer to this first.

Senator Everett: No, please do, Senator Grosart.

The Chairman: I think we have the time to get the answer to this while we are on it.

Senator Everett: Maybe we could come

back to it, because I have a couple of other questions on that point.

The Chairman: All right. Senator Grosart?

Senator Grosart: Mr. Cloutier, do you keep a record in any one place of the amounts of the estimates that have not been spent by the end of a year? I know they are available if you compare the Public Accounts with the Estimates, but do you look at them and say, "Why were they asked for, if they were not spent?"

Mr. Cloutier: We do this in the course of our examination of the Estimates requirements for the coming year. Where a department is asking for funds, we look at its expenditure pattern in the past few years.

Let us take the hypothetical case of a department that had Estimates of \$90 million this year and next year they say they will absolutely need \$96 million. We can go back and say, "For the last four years you have lapsed \$4 million. Where and why?" Usually, as a result of this kind of examination, they do not get the \$96 million they want; they probably get \$92 million.

Senator Grosart: They do not get the \$96 million unless they can make out a good case.

Mr. Cloutier: Yes, of course.

Senator Grosart: Take CIDA as an example. My understanding is that about \$100 million, more than one-third of their total annual appropriation, is still unspent. I know there is a good reason, but it is an example. Could you provide the committee with a complete list, by departments and not necessarily by projects, of the total amounts that lapsed and what happened to them, which lapsed completely and which did not? For example, the CIDA money does not lapse.

Mr. Cloutier: Yes, we will do that. This information is available in the Public Accounts.

Senator Grosart: Separately?

Mr. Cloutier: I believe so.

The Chairman: At any rate, you would have to go back into the 1968-69 to have current information on this. You might see what you have in the department on that.

Senator Grosart: How do you carry over the CIDA money? Do they not show it or keep it in an account of their own?

Mr. Cloutier: It is part of the Consolidated Revenue Fund.

Senator Grosart: It remains in the Consolidated Revenue Fund?

Mr. Cloutier: Yes, until it is expended.

Senator Laird: Do they requisition it when they need it?

Mr. Cloutier: Yes.

Senator Grosart: In the summary of assistance to developing countries there is a separate item on Caribbean payments, Finance. That is in addition to the amount expended in the Caribbean under CIDA?

Mr. Cloutier: Yes.

Senator Grosart: Does this come from the Department of Finance?

Mr. Cloutier: This was an item no longer required for the next year arising out of payments to Caribbean countries related to the customs duties payable and collected on raw sugar imported into Canada from there.

Senator Grosart: That is the sugar agreement?

Mr. Cloutier: Yes, it was instituted before the new sugar agreement was passed.

Senator Grosart: I know what it is now, thank you.

Senator McDonald: Mr. Cloutier, can a department transfer expenditures from one vote to another?

Mr. Cloutier: Not without parliamentary authority. That is these \$1 items that honourable senators like so much!

Senator Grosart: What is the relationship of the number of votes in the new structure to the old?

Mr. Cloutier: I do not know we have counted them exactly.

Senator Grosart: The Auditor General has.

Mr. Cloutier: And he probably will again! I think we appeared before this committee last year to explain the proposed changes in the Estimates, and I indicated that a set of principles had been agreed to at the Public Accounts Committee of the House of Commons with respect to the structure of the Estimates. I am sorry, but we just have not counted them yet.

Senator Grosart: I am not questioning the principle, because I lost that argument some time ago, but I just wondered what the reduction was in view of the fact that some parliamentarians say it has limited parliamentary control to some extent.

Mr. Cloutier: We can provide you with that information, sir. I am curious to know it myself now.

Senator Grosart: Those are all my questions.

Senator Desruisseaux: This makes fascinating reading for a layman like me. In the ordinary course of events in business we usually compare our estimates of expenditure with our estimates of revenue. Are these estimates of expenditure compared with the estimated revenues?

Mr. Cloutier: Wherever revenues arise from these operations, or from these expenditures, they are indicated in the tables. On page 3-14, which I have picked at random, under the Corporate Affairs program of the Department of Consumer and Corporate Affairs you will see the details of the expenditures in the first seven or eight lines adding up to \$7.5 million, and then you will see the receipts credited to revenue of \$10 million.

Senator Desruisseaux: Does that mean receipts from last year?

Mr. Cloutier: No, these are the receipts estimated in 1970-71. You have the estimated receipts for the current year, 1969-70, at \$8.7 million, and the actual receipts for 1968-69 at \$7.4 million.

The Chairman: There is, of course, no estimate of tax revenues?

Mr. Cloutier: No, these are non-tax items.

The Chairman: That will come in the budget.

Mr. Cloutier: These revenues are from patent fees, and so on.

Senator Desruisseaux: Is it possible to obtain estimates of the revenues from taxation as well?

Mr. Cloutier: This is available but, again, it will be in the budgetary papers. This document is not meant to cover that.

Senator Desruisseaux: And the budgetary papers come after this document?

Mr. Cloutier: Yes, they should be tabled within the next several days by the Minister of Finance.

Senator Desruisseaux: There was a statement made in the press last year that there were discrepancies in the estimates of revenues. That is the basis of my question.

Mr. Cloutier: Those would not be with respect to revenues arising from the Estimates. Those would be tax revenues.

Senator Flynn: I do not know whether I should ask this question of the witness because it may be close to policy. The idea of reducing the expenditures of the Government is to fight inflation, because there will be less money in circulation. Do I understand correctly that that is the main objective of reducing the expenditures?

Senator Grosart: It means there will be less money spent by the Government.

Senator Flynn: And less money in the hands of the consumer.

Mr. Cloutier: There will be less money demanded by the Government from the capital market. If the Government has a deficit then it must increase its borrowings.

Senator Flynn: How do you reconcile that with the idea of forgoing some revenues? It was announced yesterday that the new tax on air tickets increases in post office rates, and so on and so forth, would not be put into effect. It seems to me to be contradictory to reduce the expenditures on the one hand, and to forgo some revenue on the other.

Mr. Cloutier: The rationale there, in effect, is that the Government will be setting the example that the Prices and Incomes Commission is asking the private sector to follow and not increase its fees and charges in the light of the estimated cost increases.

Senator Flynn: But it will leave more money in the hands of the consumer.

Senator Grosart: As most of us do, the Government saves in one place to spend in another. At page L there is Table 6 which is headed "Budgetary Expenditures by Standard Objects of Expenditure 1970-71 and 1969-70". This is the table we used to receive as a separate folder. Has there been any suggestion that you might reprint that? When it was printed separately it was an easy thing to

carry around in your pocket apart from the Blue Book, and it was also very useful to have.

Mr. Cloutier: No, there is no intention of doing that, but I will suggest that these pages can be xeroxed very easily if one wanted to carry a copy in his pocket.

Senator Grosart: Would there not be an objection to an infringement of the Crown copyright?

Mr. Clouthier: I see that the Crown copyright is reserved there.

Senator Grosart: I make that suggestion seriously, because it would be a simple thing to have the Queen's Printer reprint this as a separate brochure.

Mr. Cloutier: Actually, we decided to put it in as a regular page because of the complaints we received about the other form.

Senator Grosart: This is the better form, because the other was very big. However, it would be a useful thing to have if it were printed separately.

Mr. Cloutier: We will provide you with a photocopy.

Senator Pearson: It appears that you do not now show the number of employees and their categories, but you show the man-years of work.

Mr. Cloutier: We also show the employees by category. We show man-years in the program activities table, but there is a subsidiary table for each program headed "Manpower". If you look at page 3-14 you will see in the "Program by Activities" table that we show 645 man-years broken down as between the various activities. Then on page 3-18 in the "Manpower" table we show those same 645 man-years broken down by manpower categories.

Senator Pearson: What is the advantage of that?

Mr. Cloutier: It gives you a better idea of the type of comparison which is being used, whether it is clerical versus professional, or operational versus executive. We have given you in the last table in the foreword the salary ranges that apply to each occupational group within these categories. That is on page—I assure you that we will get rid of these numerals—LXXXVIII which is page 88.

Senator Pearson: Is it Table 9?

Mr. Cloutier: That is right, sir. So, in the manpower tables for each program you have the number in the scientific and professional category, and this tells you all the professions involved and the salary ranges applicable to each group as at October 31, 1969.

The Chairman: May I ask you to turn to the Secretary of State's Estimates at page 21-16, and to look at the item entitled "Co-operation with the Provinces" and the amount of \$50 million. In the previous year it was \$100,000. Is there any further detail on that?

Mr. Cloutier: No, sir, not in the Estimates. This is the program which the Government is in the process of discussing with the provinces arising from report of the B & B commission.

The Chairman: Then there has been no breakdown of these Estimates as far as Treasury Board is concerned as to how the \$50 million will be spent?

Mr. Cloutier: This is still under negotiations with the provinces. I would suggest that in the months ahead the department might be asked to supply a breakdown.

The Chairman: It would have to go to the Department of the Secretary of State of Canada to get the breakdown?

Mr. Cloutier: That is right.

The Chairman: Does the same apply under the Regional Economic Expansion at page 20-14, where the increase is \$75 million? Is there any further breakdown of the increases as far as these Estimates are concerned?

Mr. Cloutier: No sir. The amounts here have been the breakdown as shown between eastern, central and western Canada. Any further breakdown would have to be obtained from the department itself.

The Chairman: These Estimates, of course, do not include the Old Age Security Fund.

Mr. Cloutier: That is right, sir.

The Chairman: You have a footnote at page 15-4 which gives the Estimates for 1970-71 of \$1,093 million an increase of \$143 million over 1969-70. That is a further increase in Government expenditures if one includes the Old Age Security Fund.

Mr. Cloutier: That is right.

The Chairman: I do not think there is any other fund like that, is there?

Mr. Cloutier: That is the only one, sir.

The Chairman: Of course, you do not have the Estimates, or do you, of what the counter-figure would be of the estimated revenues? Sometimes in the past this fund has shown a slight surplus and sometimes a slight deficit. Do you know whether the taxes now imposed for this fund will produce \$1,903 million?

Mr. Cloutier: That detail will be available in the budgetary papers tabled by the Minister of Finance.

Senator Flynn: It is very difficult to assess the Estimates generally or the Government declared policy of compressing the controllable expenditures before we know what the expected revenues are, or before the budget speech is delivered in the other place. I suggest that we should be given an opportunity to re-assess the situation after the budget speech. If it is expected that the revenues will increase in a much higher proportion than would be reflected in the increased expenditures, you could appreciate that the Government has really done something.

The Chairman: You are quite right, Senator Flynn. I imagine the committee will be sitting until June anyhow on these Estimates.

Senator Flynn: I suggest that Mr. Cloutier would not want to comment on this at this time.

Mr. Cloutier: The Estimates blue book is not and never has been meant to be a statement of the application of funds for the Government. This is merely the vehicle through which Parliament is asked to appropriate funds. It seeks to give as much information as possible relating to those appropriations, but an attempt to have the Estimates document go further would really pre-empt the budgetary papers of the Minister of Finance.

Senator Flynn: I appreciate that, but if you are to pass judgment on the Estimates you have to know the other side of the story.

Mr. Cloutier: Absolutely.

Senator Flynn: There may be a program which sounds very good in itself, but taking into account the expected revenue, priority

should have been given to another or this one should have been delayed a year or so.

Senator Everett: I wonder if we could go back to the Department of Supply and Services. You were speaking to Table 6 at page LVII.

Mr. Cloutier: This is probably not a complete answer, sir, but on the basis of the figures we have, the three items headed: Purchased, Repair and Upkeep; Utilities, Materials and Supplies; and Construction and Acquisition of Machinery and Equipment, add up to about \$800 million. That is provided in the Estimates for these standard items. To the extent that all these expenditures would be funnelled through the Department of Supply and Services—I am not saying that they all are—then this would be the range of business in which the Department of Supply and Services is involved. They are not involved in construction and acquisition but they would be in some items in transportation and communications, although my guess is that this would be a very small proportion of the total.

Senator Everett: It seems to me that it is over \$1 billion.

The Chairman: I think I have the report of the department, which will show it.

Senator Everett: That is a pretty important part of your expenditure. Have you conducted any studies to determine the effectiveness of this centralized system of purchasing?

Mr. Cloutier: We are embarking on this, but we have not arrived at a conclusion, let us say.

Senator Everett: Is the study proceeding now?

Mr. Cloutier: I do not believe that the study with respect to that department is proceeding, but it is planned.

Senator McDonald: How long has that department been in existence?

Senator Everett: They are really an outgrowth of the Department of Defence Production.

Mr. Cloutier: It is the old DDP, really.

Senator Everett: Their area of service and purchase has become much larger during the last three years.

The Chairman: This was Mr. Drury's department at one time.

Mr. Cloutier: This was one of Mr. Drury's departments. He had the Department of Defence Production and the Department of Industry. Mr. James Richardson is now the minister. I might draw your attention to one table under Supply and Services, under the supply program, which we find at page 23-14. Under Manpower, you will find that the Allowable Continuing Employees in 1968-69 were 3,195; in 1969-70 the figure was 2,797; and for 1970-71 it is 2,186. Where on the one hand, as you have indicated, the amount of business has increased because of the greater centralization, the manpower they use in the conducting of business is going down.

Senator Everett: I was not suggesting anything else.

Mr. Cloutier: That is an indicator of greater efficiency, but it is not an absolute guarantee.

Senator Everett: It may be an indicator or it may not be, I would have to differ with you there. What we are concerned with is how efficiency, but it is not an absolute guarantee. \$1 billion, how effective is their purchasing service? It really worries me when they start to be so glib about centralizing purchasing as though that were going to solve all problems. Maybe it will—maybe it won't.

Mr. Cloutier: The effectiveness and efficiency study in this regard has not been completed as yet, and until it has been I cannot give you any satisfactory answer.

Senator Everett: Do you think it would be useful for this committee to do a study on this, or is it better to leave it as a departmental matter?

The Chairman: I think we should check whatever study is made. That might be more in our line.

Senator Everett: When do you expect to have the study available?

Mr. Cloutier: We are in the process of developing a capability in the Treasury Board and our plans are to cover most of the expenditures leaving aside the public debt and things like that. I believe that the latest compilation that I have seen indicates that about three-quarters of the expenditures are subject to this kind of analysis.

Senator Everett: But what you are speaking of is the efficiency of the Department and the fact that they have reduced their employment, if I read this correctly, from 3,200 to

2,100. You are assuming that this indicates greater efficiency. But is there not another study of efficiency which would involve finding out how well the purchasing goes?

Mr. Cloutier: Yes, as against what the private sector does, for instance.

Senator Everett: As against the decentralized approach. Do you propose doing a study of that aspect?

Mr. Cloutier: Yes. Glassco had interesting figures on this as I recall.

Senator Everett: He suggested this in the first place, and I would like to see a follow-up on whether his suggestion was accepted. I do not know how you could assess it or whether you could by definitive terms assess it.

Mr. Cloutier: An examination can be made not only in terms of the department itself, but in terms of the large agencies outside of government. This is an area of comparison which should not be neglected.

The Chairman: I think in the past we had some information in our hearings on the subject of standardization of stationery, for example, and other purchases which were done through the Department of Supply so that each department was not ordering some special kind of article or equipment or stationery.

Mr. Cloutier: If I can focus for a moment on a joint endeavour of Treasury Board, the Department of Industry, and the Department of Defence Production, there has been created a new modular type of furniture, entirely of Canadian design, and now available through the Department of Supply for various departments. This modular-type furniture is designed to meet modern concepts of building construction and it is tremendously attractive and very functional. It is very low in cost. The design, if I am not mistaken, won an award a year and a half or two years ago. Now departments moving into newer quarters are directed to use this furniture because it tends to bring greater efficiency in the utilization of space.

Senator Desruisseaux: Mr. Chairman, I was trying to locate what information there was on expenditure to date on communication satellite projects in these Estimates.

Mr. Cloutier: I am not sure if they would appear as such. But on page 2-6 there is an

activity breakdown of the Department of Communications.

Senator Desruisseaux: There is no way of getting this for us?

Mr. Cloutier: That information could be obtained from the department, but all these Estimates show is that activity related to communications and space applications research and development. The proposed budget for next year is \$8.6 million, but I cannot tell you what portion of that amount relates to the communications satellite.

Senator Desruisseaux: There is an item here on page 2-6 dealing with communications and space applications research and development.

Mr. Cloutier: That is correct, but what I am trying to tell you is that I do not know which part of that amount relates to communications satellites themselves. I should add that if you look at the right-hand side of that line under "loans and investments", you will see an amount of \$9,800 for last year. My recollection of this amount is that it was an advance for the purposes of the communications satellite in anticipation of the creation of the corporation.

The Chairman: On page 2-12, at the bottom of the page, there is a breakdown of this communications and space applications research and development showing ISIS "B" and Alouette.

Senator Desruisseaux: And they have projected the figures.

The Chairman: Yes, for the satellite system and the earth resources satellite ground station, and the biggest item is \$2.3 million for ISIS "B" and then there \$900,000 for the Canada-U.S. Technology Satellite. Does that give you what you want, Senator Desruisseaux?

Senator Desruisseaux: Yes.

Senator Gélinas: If I may ask a question relating to page 9-46 under Indian Affairs and Northern Development. There is there a projection for activities regarding national parks, but I do not see anything there about the projected park in Gaspé, if and when the two governments come to an understanding on that. Maybe I have missed it. At any rate, I cannot find it. The project was supposed to cost \$10 million.

Senator Flynn: Forillon?

Senator Gélinas: Forillon.

Mr. Cloutier: I do not remember the total expenditure, but it is spread over a period of years. This might be a reflection of the fact that the agreement has not been completed with the province and the expenditures in the first year will be of a capital nature rather than of an operational nature.

The Chairman: Then, what about the expenses of the Queen's Printer?

Mr. Cloutier: The Queen's Printer comes under "Supply." It is a revolving fund and is to be found on page 23-22 under "Canadian Government Printing Bureau". You will find here a summary of the proposed expenditure and revenue broken down by, "Administration; Provision of a Central Printing Service; Provision of Local Printing Services;..."

The Chairman: Then the Queen's Printer charges all these various departments with the expenses?

Mr. Cloutier: That is right.

The Chairman: And where are the revenues shown?

Mr. Cloutier: You have that on the same page. The expenditures are shown on page 23-22 and the revenues on page 23-23. They are proposing to break even this year.

The Chairman: Is there a breakdown of the charges that go into the revenue at all?

Mr. Cloutier: You have a breakdown of Central Printing Service—that is the main plant; and Local Printing Services are the printing establishments located around Ottawa and around the country.

The Chairman: We do not know what the Printing Bureau is charging us for today's proceedings?

Mr. Cloutier: I could not tell you that, I am sure. On the other hand, if you go to "The Senate" you can find out how much, in total.

The Chairman: I wondered whether we could, because I think the item in "The Senate" is all-inclusive.

Mr. Cloutier: It is probably under the object of expenditure for information in "The Senate", where an amount of \$938,000 is provided on page 17-6.

The Chairman: That would include the printing item?

Mr. Cloutier: I would think so, sir.

The Chairman: Are there any other questions?

Senator Everett: On the Post Office, page 2-19, this increase of \$36 million, I just cannot seem to work out how that comes about, looking at this table. Presumably, that is an increase in the Post Office deficit, is it?

Mr. Cloutier: You will find the change from year to year at page 2-19, under the heading "Total Budgetary Expenditures".

Senator Everett: I see that. You are talking about the top table there?

Mr. Cloutier: No, down below.

Senator Everett: That is what I cannot work out.

Mr. Cloutier: If you start off with "Administration" they are spending \$31.8 million as against \$24 million last year; "Mail Processing", \$176 million, as against \$164 million last year; "Mail Transportation", \$73 million as against \$72 million. So this gives you an idea of the breakdown.

Senator Everett: And that is the total of \$36 million?

Mr. Cloutier: That is right. Now, if you go to the standard "Objects of Expenditure" table on the next page, you will find that the bulk of that \$36 million is in salaries and wages.

Senator Everett: Coming back to that for a moment, does not this say that the net deficit is improved by \$201,000?

Mr. Cloutier: This is what it says.

Senator Everett: Why would you provide that in your Estimates then? Do you not net out your revenues?

Mr. Cloutier: Not all of it; part of it is netted.

Senator Everett: I am thinking particularly of the Department of Consumer Affairs we were just discussing. That is netted out, is it not?

Mr. Cloutier: No, not the item we are discussing.

There are two types of non-tax revenue, so to speak: one is netted and the other goes directly to the Consolidated Revenue Fund. The item we referred to in relation to the Patent Office goes directly to the Consolidated Revenue Fund. In the Post Office you have a dual situation. If you go to the end of the table on page 2-18 you have the item, "Less: Receipts Credited to the Vote" in the amount of \$27.6 million, and later "Receipts credited to revenue", that is directly to the Consolidated Revenue Fund—\$386 million.

Senator Everett: What would the difference in those receipts be?

Mr. Cloutier: The principle followed in the Post Office is that receipts for specialized non-general services, like the philatelic activity, special delivery charges—the kind of services that are specific to an individual rather than to the general public—are credited to the vote. The more general type of revenue is credited to the C.R.F.

Senator Everett: If the items credited to the vote you net out, the increase in the Estimates is that amount, is that correct?

Mr. Cloutier: The increase in the Estimates is really the difference between \$367 million last year and \$395 million this year. That difference is explained by the difference in all the figures that precede it.

Senator Everett: The minister's paper, I think, said \$36 million, and that shows \$28 million.

Mr. Cloutier: The difference here equals the estimated expenditure of \$368 million less the approved Estimates of \$360 million, the difference being explained by an allocation \$8 million, approximately, from the Treasury Board Contingencies Vote to provide for the salary increases arising out of collective bargaining.

Senator Everett: Where is that shown?

Mr. Cloutier: If you go to the top of page 2-18, you will see "Vote 10...Estimates...Approved 1969-70, \$360 million." The forecast expenditure for the year is \$368 million.

Senator Everett: I see. That is purely a contingency fund?

Mr. Cloutier: That is right. It is an allocation for that purpose, and to complete it, if we go to "Treasury Board" you will find the \$63 million of contingency fund has been

allocated to all departments to make up salary differences.

Senator Everett: And that is totalled somewhere here?

Mr. Cloutier: That is right.

Senator Everett: It is not totalled in the departmental Estimates though?

Mr. Cloutier: Not identified as such, no. That kind of detail will appear in the Public Accounts.

Senator Everett: Then it is not changed by virtue of the Government's decision to pass the postal rate increases; the \$36 million is intact as far as your Estimates are concerned?

Mr. Cloutier: Yes.

Senator Everett: Because their income goes into the Consolidated Revenue Fund?

Mr. Cloutier: Yes, that is right.

Senator Gelinas: On page 21-74, the National Art Centre Corporation, the proposed Estimates here for 1970-71 are \$2,625,000. Is that to cover the deficit?

Mr. Cloutier: This is the grant made by the Government to the Arts Centre. You will find on the next page a breakdown of the expenditures and the revenues, and the net amount voted.

Senator Gelinas: And this includes also the outside National Arts Centre Corporation?

Mr. Cloutier: This is for 1969-70, yes, but next year they are not forecasting an expansion on that side.

Senator Desruisseaux: I refer you to page 21-74, concerning the Company of Young Canadians. It seems that we have volunteer allowances amounting to \$846,000, but there is nothing below to indicate the number of volunteers so that one may calculate the average amount.

Mr. Cloutier: The volunteers, sir, are not considered as full time employees of the Company, and so they are not included.

Senator Desruisseaux: Why not?

Mr. Cloutier: Well, this gets technical, but it is because they are operating more or less on contracts. The purpose of the Estimates, when they deal with manpower, is not to indicate the number of people who do work

for the particular departments, but only those who are employees. The volunteers are not employees of the Company of Young Canadians. The same thing is done for every other department. It is only the employees that are shown in the Estimates. We do not attempt to indicate the number of consultants or people who work under contract for the different agencies of government, because they are not public servants.

Senator Desruisseaux: I think it would be valuable to know how much this cost is per volunteer.

The Chairman: We would have to ask the Department of the Secretary of State to get that information, or we could ask Mr. Cloutier to follow it through.

Senator Desruisseaux: I have one more question. The revenues of Crown corporations are not indicated anywhere in these Estimates, are they?

Mr. Cloutier: Yes, the revenues of the C.B.C., for instance, are indicated.

Senator Desruisseaux: What about Eldorado Nuclear Limited, for instance?

Mr. Cloutier: That would come under Energy, Mines and Resources.

Senator Desruisseaux: I refer you to page 4-52.

Mr. Cloutier: This is just a loan to Eldorado. It is not a budgetary expenditure item.

Senator Desruisseaux: But the expenditures are not indicated.

Mr. Cloutier: You are right, sir.

The Chairman: For example, the revenues of the Polymer Corporation will not be reported in these Estimates.

Mr. Cloutier: Yes, that is right.

The Chairman: That is because Polymer does not come to the Government for a grant, or anything else. We have always had to go to the organization itself if we wanted information in that respect. We have done that in the past.

Senator Desruisseaux: And the same would apply to the future operations of the Telesat Canada Corporation?

The Chairman: Yes, we would have to call the Corporation before us, or the departmen-

tal minister under whom the Corporation came.

Senator Isnor: Mr. Chairman, I should like to ask a question as to page 9-46, which deals with national parks and historic parks and sites. If a proposed park is not included in that list am I to take it for granted that it will not be undertaken this year?

Mr. Cloutier: No, sir. The list to which you are referring is a list of major capital projects, is it not?

Senator Isnor: Yes.

Mr. Cloutier: This is an estimate to indicate at the time the Estimates were put together what the department was projecting. There is always the possibility in the course of a year that the work on one project goes slower than that on another, or that a project that was meant to start is not started for certain reasons, or the priorities of the department change over the course a year, and in that event work that is not indicated by the Estimates is undertaken.

Senator Isnor: There is talk of two new parks in Nova Scotia, and they are not mentioned. Am I to take it for granted that they are not likely to be proceeded with this year?

Mr. Cloutier: To which parks are you referring?

The Chairman: What are the names of the two parks, Senator Isnor?

Senator Isnor: I am not sure of the names.

Mr. Cloutier: I do not think that you can assume that nothing will be done. At the time the Estimates were prepared—that is, in November and December of last year—this is what the department was planning to go ahead with, but there could be changes. At that time the department was considering in respect of Nova Scotia improvements to the Cabot Trail and the Cheticamp development in the Cape Breton Highlands, and also Kouchibougam.

Senator Isnor: That is not shown.

Mr. Cloutier: Yes, it is, and the amount is \$750,000. I refer you to page 9-46.

Senator Kinley: Kouchibougam is just built, and they are going to build the rest of it this year.

Senator Isnor: That is what I wanted to know.

Senator Kinley: Yes, they are going to build a marine port to it.

The Chairman: Yes, they have \$750,000 for it this year, and \$500,000 in the future, which will be probably next year.

Senator Isnor: I do not know the name of it, but there is one in the eastern portion of Halifax County. That is not shown here at all.

The Chairman: No, that does not seem to be mentioned. There is also Louisbourg under "Historic Parks and Sites".

Senator Kinley: There is one down at Ecum Secum.

Senator Isnor: I would like to pursue further at the next meeting, Mr. Chairman, the question of the change-over to the Department of Supply and Services. It seems that this system at the present time practically entirely looks after Ontario and central Canada. There is very little going other than to Ontario. Is that a policy?

Mr. Cloutier: This is in the purchase of supplies?

Senator Isnor: Yes.

The Chairman: We would have to bring representatives of the Department of Supply and Services here, Mr. Richardson or one of his officials. We might do that.

Senator Isnor: It is rather interesting when you turn over six or eight pages, run your finger down to see what Nova Scotia is getting and find perhaps one.

The Chairman: You are referring to the national accounts?

Senator Isnor: Yes.

The Chairman: We must not allow that to happen. If there are no further questions I thank Mr. Cloutier for his customary courtesy and knowledge. I neglected to mention that with Mr. Cloutier is Mr. B. A. MacDonald, Director General, Budget Co-ordination, Treasury Board.

We will not be meeting next week if the Senate is not sitting. If the Senate is sitting we will convene a meeting. The next meeting will probably be two weeks from today.

The committee adjourned.



Second Session—Twenty-eighth Parliament

1969-70

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

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

No. 4

THURSDAY, MARCH 19th, 1970

Complete Proceedings on Supplementary Estimates (B) laid before Parliament for the fiscal year ending March 31, 1970.

WITNESSES:

Treasury Board: Mr. J. L. Fry, Assistant Secretary; Mr. Bruce MacDonald, Director General.

APPENDIX "A"

REPORT OF COMMITTEE

Second Proceedings on the Estimates laid before Parliament for the fiscal year ending March 31, 1971.

WITNESSES:

Economic Council of Canada: Dr. A. J. R. Smith, President; Mrs. Sylvia Ostry, Director; Mr. Peter Cornell, Research Officer.

APPENDIX "B"

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

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

The Honourable Senators:

Aird	Gelinas	Molson
Beaubien	Grosart	McDonald
Benidickson	Hays	McLean
Bourget	Isnor	Nichol
Bourque	Kinley	O'Leary (<i>Carleton</i>)
Desruisseaux	Laird	Paterson
Everett	Leonard	Pearson
*Flynn	MacDonald (<i>Queens</i>)	Phillips (<i>Rigaud</i>)
Fournier (<i>Madawaska- Restigouche</i>)	*Martin	Phillips (<i>Prince</i>)
	Methot	Sparrow
		Walker—(28).

(Quorum 7)

**Ex officio members:* Flynn and Martin.

APPENDIX "B"
Economic Council of Canada: Dr. A. J. R. Smith, President; Mrs. Sylvia
Ostry, Director; Mr. Peter Cornell, Research Officer.

Second Proceedings on the Estimates laid before Parliament for
the fiscal year ending March 31, 1971.

REPORT OF COMMITTEE

APPENDIX "A"

Treasury Board: Mr. J. L. Fry, Assistant Secretary; Mr. Bruce
MacDonald, Director General.

WITNESSES:

Complete Proceedings on Supplementary Estimates (B) laid before
Parliament for the fiscal year ending March 31, 1970.

MINUTES OF PROCEEDINGS
ORDERS OF REFERENCE

Extract from the Minutes of Proceedings of February 12th, 1970.

"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 proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1971, in advance of Bills based upon the said Estimates reaching the Senate;

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 Proceedings of March 5th, 1970.

"The Honourable Senator Martin, P.C., laid on the Table the following:—

Supplementary Estimates (B) for the fiscal year ending March 31, 1970.

With leave,

The Senate reverted to Notices of Motions.

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 Supplementary Estimates (B) laid before Parliament for the fiscal year ending the 31st March, 1970.

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

ROBERT FORTIER,
Clerk of the Senate.

MINUTES OF PROCEEDINGS

THURSDAY, March 19, 1970.

(4)

Pursuant to adjournment and notice the Senate Committee on National Finance met this day at 9.30 a.m. to consider:

The Supplementary Estimates (B) laid before Parliament for the fiscal year ending March 31st, 1970.

Present: The Honourable Senators: Leonard, (*Chairman*); Beaubien, Bourget, Desruisseaux, Everett, Flynn, Grosart, Isnor, Kinley, Laird, McDonald, Pearson and Phillips (*Prince*). (13)

Also present, but not members of the Committee: The Honourable Senators: Argue, MacDonald (*Queens*) and Dessureault.

Ordered:—That 800 copies in English and 300 copies in French of the proceedings of the Committee be printed.

The following witness was heard: Mr. J. Larry Fry, Assistant Secretary, Functional Branch, Treasury Board.

Also present, but not heard: Mr. Bruce MacDonald, Director-General, Budget Co-ordination.

It was agreed that the explanation of one dollar items of the Supplementary Estimates (B), 1969-70, be printed as Appendix "A" to these proceedings.

It was agreed that the Report on the said supplementary estimates be drafted by the Steering Committee and be presented to the Senate without a further meeting of the Committee.

At 10.30 a.m. the Committee proceeded to the further consideration of the Main Estimates laid before Parliament for the fiscal year ending March 31st, 1971.

The following witnesses, representing the Economic Council of Canada, were heard:

Dr. Arthur J. R. Smith, President;

Mrs. Sylvia Ostry, Director;

Mr. Peter Cornell, Research Officer.

Also present, but not heard:

Mr. Otto Thür, Vice-Chairman.

It was agreed that the Chart Presentation be printed as appendix "B" to the proceedings on the Main Estimates.

At 12.45 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Gerard Lemire,

Clerk of the Committee.

REPORT OF THE COMMITTEE

THURSDAY, March 19, 1970

The Standing Senate Committee on National Finance, to which was referred the Supplementary Estimates (B) laid before Parliament for the fiscal year ending March 31st, 1970, has in obedience to the order of reference of March 5th, 1970, examined the said Estimates and reports as follows:

1. Your Committee has heard evidence with respect to the said Estimates from Mr. J. L. Fry, Assistant Secretary, and Mr. Bruce MacDonald, Director General, both from the Treasury Board.

2. The said Supplementary Estimates provide for expenditures of \$215,967,147 and for Loans, Investments and Advances of \$41,614,752, bringing the total of main and supplementary Estimates for the current fiscal year to \$12,140,065,176 and the total of Loans, Investments and Advances to \$676,032,812.

3. Included in the said Supplementary Estimates (B) were thirty items of one dollar each. It has been customary for your Committee to scrutinize such items closely and this has again been done. The Committee was supplied with a list containing an explanation of each item. Eight of these items are legislative in nature. Your Committee re-iterates its concern about the practice of making statutory changes by means of Appropriation Acts based on Supplementary Estimates. There may be instances of minor importance, or of special urgency where this method could be justified, and it is the practice now of the Committee to obtain full information as to these items. Attached to the printed report of the proceedings of the Committee will be the list with the explanations.

4. The practice of amending statutes through one dollar items can lead to the same practice on other items involving substantial expenditures, thereby bringing about changes that are also legislative in character that should properly be brought about by substantive statutes rather than by Appropriation Acts. Of such a character in these Supplementary Estimates (B) is Vote 17b of the Department of Agriculture, a grant of \$100,000,000 for payments to be made in the fiscal year 1970-71 for purposes of wheat acreage reduction, this vote being the largest single item in the Supplementary Estimates and representing nearly one-half of the total amount of the Estimates. Your Committee is not critical of the purpose for which this sum is to be used, nor of the amount of the vote, but it is strongly of the view that the importance of the subject matter and the extent of the changes intended to be brought about in so essential a part of the Canadian economy as is constituted by our wheat producers, require the usual and proper method for Parliamentary action, namely, a substantive Bill with all the appropriate clauses setting out the intended purposes of the legislation and going through the required readings and debates as prescribed by the Rules of the respective Houses of Parliament. Furthermore, while the Vote is included in the Supplementary Estimates for

the fiscal year 1969-70, the Committee points out that the expenditures to the producers will be incurred in the 1970-71 fiscal year, and subsequently, and this again is a practice of doubtful propriety in the opinion of your Committee.

5. Your Committee is further of the opinion that it is desirable in the re-printing of Statutes to show by marginal notations those instances where Appropriation Acts have made in effect changes in existing Statutes, as for example in the case of the Canada Wheat Board Act which is affected by Vote 17b of the Department of Agriculture above mentioned.

Respectfully submitted.

T. D'ARCY LEONARD,
Chairman.

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

EVIDENCE

Ottawa, Thursday, March 19, 1970

The Standing Senate Committee on National Finance, to which was referred the Supplementary Estimates (B) laid before Parliament for the fiscal year ending 31st March, 1970, met this day at 9.30 a.m.

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

The Chairman: Honourable senators, we have two stages this morning. Now we are dealing with Supplementary Estimates (B) for the current fiscal year, which have been referred to us by the Senate. At 10.30 we have coming on the main Estimates Dr. Arthur Smith, President of the Economic Council of Canada. In case we are not through the supplementary Estimates by 10.30, we will have to consider when we should adjourn to for further consideration, but it is possible that we may be able to finish. I may say that the steering committee, consisting of Senator Everett, Senator Grosart and myself, spent all yesterday afternoon with the Treasury officials, so we have covered a good deal of ground in dealing with these matters.

There were a couple of things left over from the last meeting. Senator Grosart wanted the standard list of expenditures, which was not in the main Estimates for 1970-71. We received that for him. If any other senator wishes to have a copy, I am sure we could get it.

Senator McDonald asked some questions with respect to the relationship of the Estimates with respect to the GNP and the money supply and these will be forthcoming, but they are not available yet.

First of all, we should have a motion to print the proceedings. I would suggest we have the proceedings on the supplementary Estimates printed along with the second proceedings on the main Estimates, so that we will have it all together in one volume. Is that agreeable?

Upon motion, it was resolved that a verbatim report be made of the proceed-

ings and to recommend that 800 copies in English and 300 copies in French be printed.

With those preliminary remarks we will proceed. We have before us on the Supplementary Estimates (B) Mr. J. Larry Fry, Assistant Secretary, Program Branch, Treasury Board and Mr. Bruce A. MacDonald, Director General, Budget Co-Ordination, Program Branch, Treasury Board. Unless there is something else that any honourable senator wishes to say, we will ask Mr. Fry to speak to these supplementary Estimates.

Mr. J. Larry Fry, Assistant Secretary, Program Branch, Treasury Board: Mr. Chairman and honourable senators, I might make a brief opening statement, to set the stage for the supplementary Estimates. These final supplementary Estimates for the fiscal year 1969-70 contain \$216 million in budgetary items and \$42 million in loans. The tabling of these final supplementary Estimates bring total budgetary estimates for 1969-70 to \$12,140 million, about 11 percent higher than the total Estimates for 1968-69.

The principal components of the \$216 million in budgetary items in the supplementary Estimates are the \$100 million for wheat inventory reduction payments; the \$48 million to reimburse the Wheat Board for losses incurred in the August 1968 to July 1969 crop year; the \$24 million which represent the final payments under the hospital construction grants; and the \$20 million for payments to the provinces for capital assistance in the provision of training facilities in connection with the adult occupational training program.

The Blue Book of Estimates for 1970-71 when tabled in early February showed expected final supplementary Estimates for 1969-70 in amount of \$94 million. The large difference between that and the \$216 million is made up of the wheat inventory reduction program and the payments for hospital construction grants.

These Estimates continue the practice instituted in the fiscal year 1968-69 of seeking to finance supplementary Estimates items

through complete or partial offsets in other votes in the same program or other programs of the ministry where funds can be made available through the exercise of restraint or where changed circumstances permit lower expenditures. These complete offsets are treated as \$1 items in order to bring them before Parliament for authorization and there are 14 instances of them on this occasion.

There are also 8 \$1 items to cover items of expenditure which require specific listing in Estimates—notably grants and contributions in the case of these supplementary Estimates.

There are eight \$1 items which have a somewhat legislative character in that they extend the period of application of some legislation or authorize the deletion of unpaid claims of Her Majesty from the accounts of Canada or effect some other necessary housekeeping change.

That is all I want to say in a formal way. We have provided a list of the \$1 items broken down into three categories. I think we normally table this, Mr. Chairman, and it is available here.

The Chairman: We normally have it printed as an appendix to our proceedings, and it explains the circumstances of each \$1 item, and my suggestion would be that we have it printed again as an appendix to the proceedings of this meeting. Is that agreeable?

Hon. Senators: Agreed.

The Chairman: I think we are ready for questions now.

Senator Laird: Mr. Chairman, in those \$1 items I recall last year seeing one involving CIDA. Is there another one this time?

Mr. Fry: For CIDA there is. But it is not shown separately as a \$1 item. There is money being voted for CIDA in these Estimates for Nigerian relief.

Senator Laird: The question that I asked last year, and I understand the same situation prevails this year, is why isn't all the money allotted used up by CIDA?

Mr. Fry: In the case of CIDA they do spend most of the funds that have been voted, except for that which goes into the fund which was established by an appropriation act some years ago. That is, in relation to the grant that they make, the money does show as a charge against the particular fiscal year as paid out of the accounts into this fund and there is, as I understand it, a considerable amount of money in that fund.

Senator Laird: Yes, there always seems to be.

Mr. Fry: There has been for several years. The balances, I think, are reported in Public Accounts each year, however.

Senator Laird: Have you any explanation, though? Perhaps it is unfair to ask you, but have you any explanation why they don't spend up to the limit?

Mr. Fry: I think really that, if you want to get something on that, you should talk to Mr. Strong. They have, of course, since he has taken over, been reorganizing the branch in order to try to provide for better administration. I believe he has that pretty well completed now and should be in a better position to deal with the situation. But I would not like to venture a statement on why.

Senator Grosart: Mr. Chairman, the statement by Mr. Fry appears on the surface to be contrary to some other evidence we have had to the effect that the unexpended CIDA funds remained in the Consolidated Revenue Fund and where not drawn out. It is a considerable sum. It is about \$100 million out of a \$300 million vote. So it is not a small matter.

Mr. Fry: It is a separate account in the Consolidated Revenue Fund, that is right. It shows as a budgetary charge into that account because it is voted in the Estimates. There is a certain amount voted in the Estimates each year and it is paid out of that appropriation and put into the account in the Consolidated Revenue Fund.

Senator Grosart: In other words, it does not lapse.

Mr. Fry: That is right.

Senator Grosart: It is retained there. The reason why this is important, Mr. Chairman, is that in OECD comparisons of external aid we are not credited with money which we have not spent, naturally.

The Chairman: Suppose a grant of \$50 million, for example, were required. It still has to go through these Estimates, does it? Or perhaps it doesn't. Has the \$100 million already been appropriated?

Mr. Fry: There is, senator, an amount appropriated each year which goes into this account which simply builds the account up, and then the money is spent from the account.

The Chairman: The money, when spent from the account, does not then go through. Is that correct?

Mr. Fry: It goes through the Estimates to be paid to the account. Then, when it is paid out of the account, it does not.

Senator Everett: But it is not itemized in the Estimates.

Mr. Fry: That is right.

Senator Beaubien: If the Government wanted to spend \$50 million from that account, for example, it would not have to be itemized in the Estimates.

Mr. Fry: So long as there was money in the account, no.

The Chairman: So far as your department, the Treasury Board and the committee are concerned, it has already been put in the hands of CIDA to spend and why it is not spent is CIDA's business. It is CIDA to whom we should direct our questions.

Senator Grosart: We have had those answers in detail in other committees from Mr. Strong and others, Mr. Chairman.

Mr. Fry: how many similar accounts are there in the Consolidated Revenue accounts to do essentially the same thing? That is, to provide a mechanism for retaining non-lapsed funds?

Mr. Fry: I don't think I can give you a number off-hand, senator.

Senator Grosart: Are there many of them?

Mr. Fry: There are several. There are various kinds of these for various reasons. I don't think you would say there are many of them.

Mr. Bruce MacDonald, Director General, Treasury Board: I doubt that any of them would have dimensions even nearly approaching those of the CIDA account.

Senator Grosart: Owing to the fact that this is contrary to the principle of the Financial Administration Act, the principle that all voted funds automatically lapse shortly after the end of the calendar year, could you give us any idea of the magnitude of the carry-over of non-lapsed funds from year to year?

Mr. Fry: In these kinds of accounts?

Senator Grosart: Yes.

Mr. Fry: Could we provide you with that information later, senator?

Senator Grosart: I would suggest, Mr. Chairman, that it would be useful information to have. I presume that these—call them non-lapsed accounts in the Consolidated Revenue Fund—are disclosed in the Public Accounts?

Mr. Fry: Yes. There are really two kinds here. You may have noticed that we have votes that provide for non-lapsing; that is, they say the funds will be available for expenditure in the current year and following fiscal years. In those kinds of votes the expenditure that takes place in the next fiscal year gets charged to that fiscal year. In the case of the accounts where there is an account of the type in CIDA the charge shows in the year in which the money was voted and it goes into the account. So there are the two kinds. Would you like information on both types or just on the one?

Senator Grosart: I would suggest it would be useful to have both, Mr. Chairman. I have never seen a statement of this other than scattered through Public Accounts.

Mr. Fry: We can provide that.

The Chairman: Thank you very much. We will get that, then.

Senator Phillips (Prince): Mr. Chairman, the item on the Treasury Board showing the 191 claims for \$4,542,000 being deleted is rather intriguing. Could we have some explanation on that?

Mr. Fry: Mr. Chairman, these are accounts being written off from the national revenue taxation and national revenue customs and excise. This is an item which is found in the Estimates, the final supplementary Estimates, every year. I can give a summary of the types of write-offs that are included here. Under Customs and Excise there are 31 claims for bankruptcy amounting to about \$489,000. There are 31 claims for out-of-business, no assets, amounting to about \$348,000. There are four related to people having left the country, amounting to \$40,000.

In respect of national revenue taxation and the number of claims there, there are 25 related to deceased, no estate. This is \$529,000. I am giving these in round figures. Untraceable, four claims amounting to \$114,000. Indigent, 11 claims for \$151,000. Left the country, 14 claims for \$410,000. Out-of-business, no assets, 53 claims for \$1,852,000. Bankruptcy related to corporations, 18 amounting to \$608,000.

That in summary is what is covered by this item.

Senator Phillips (Prince): I am not sure I put down correctly the figures you have given. You gave 53 firms as being out of business and yet you had a claim of \$1,852,000 against those firms. Is that correct?

Mr. Fry: That is what was being written off in relation to those 53 claims.

Senator Phillips (Prince): And how many years arrears in taxation has there been since the firms went out of business?

Mr. Fry: This varies, Mr. Chairman. The Department tries to collect as long as there were still assets available. The claim may be related to the taxation year of several years ago and the claim remains until such time as there are no longer any assets available from which they can recover. That is to say until the trustee or whoever is looking after the bankruptcy or the estate has been relieved of responsibility because there are no assets left.

Senator Phillips (Prince): But my question was related to the fact that you had 53 claims all in the vicinity of \$2 million and the firms are now out of business with no assets. Yet, they must have had assets at one time for you to have assessed these claims for \$2 million. How many years in arrear was this \$2 million before the firms went out of business?

Mr. Fry: I haven't got details of that, senator, at the moment. I only have a few in the book. We do not have the complete details.

The Chairman: Might I make a suggestion here? In the past you have tabled with the chairman a list covering all the individual items of \$5,000 which are involved in this write off. Could you table such a list with me?

Mr. Fry: We have a list of that sort.

The Chairman: Is it agreeable to have this list tabled and available to members of the committee.

Senator Phillips (Prince): That would be satisfactory but I am still concerned with the fact that in some cases of a \$50 claim the department is on the ordinary taxpayer's doorstep every ten days, but if there is a claim in the hundreds of thousands, the taxpayer is left alone. I am wondering as to the effectiveness and the fairness of the collection methods used by the department.

Senator Everett: I wonder if it would help the committee if that list which has been tabled had two or three cases picked out from it and ask the officials to get the explanation from the department on these cases.

The Chairman: We are taking a look at this and if there are some cases you would like particularly to be followed up, we could do so.

Senator Phillips (Rigaud): Mr. Chairman, I have always been puzzled about these national revenue items and the items that are written off, particularly in relation to the Income Tax Act where assessments are issued against taxpayers. Such assessments, I assume, are not included in the accounts receivable of Government and I am wondering why we would have a situation where there are claims against taxpayers that are written off. I would assume in respect of national revenue income we are working on a cash basis or a cash flow, and surely there is a great deal of money outstanding in respect of assessments directed against taxpayers which have not been collected and which may be the subject of litigation. Am I right in saying that when an assessment is obtained against a taxpayer, such an assessment is not reflected in terms of accounts receivable against the Government? If this is not the case, where do we get claims that are written off as distinct from ordinary assessments directed against the taxpayer?

Senator Laird: Would it be possible that once it is in the hands of the collection division of the Department of National Revenue that it would then apply as a receivable? Is that possible?

Mr. Fry: I don't think they show as receivables at all.

Senator Everett: Isn't the explanation that it would be a \$1 item?

Mr. Fry: I understand that all claims that are not collectible are written off, and a number are written off under section 23 of the Financial Administration Act which allows you to write off sums of \$5,000 without going to Parliament, and a lot of the smaller ones are handled in that way.

Senator Everett: But the department operates on a cash basis, therefore there is nothing to write off. But in the Estimates there is nothing written off. They are simply shown as \$1 items.

Mr. Fry: They are claims under the act and this simply drops the claim.

Senator Phillips (Rigaud): I am afraid I may have a blind spot on this.

The Chairman: Your point is well taken, senator. It is a question of the method used and what is normally regarded as a receivable seems to be simply a memorandum account as far as an asset under Government finances is concerned. This is a situation where the Department of National Revenue or Mr. Henderson who is the Auditor General could possibly enlighten us. Mr. Henderson will be appearing before us in due course and we might warn him ahead of time that we would like this situation cleared up.

Senator Phillips (Rigaud): I deal with this point because last year I raised the same question as to how we could write off an item which in fact does not constitute an asset of the Crown before it is written off.

The Chairman: I think it is really brought before us so that we can take a look at what they are writing off.

Senator Phillips (Rigaud): Well, Mr. Chairman, I will just record my puzzlement again.

Senator Everett: They are not writing anything off here.

Mr. Fry: Not from the accounts.

Senator Pearson: What type of bankruptcy is involved as a rule? Is there any general type of bankruptcy involved?

Mr. Fry: I would think there would be many different types of bankruptcy where there was a claim.

The Chairman: Yesterday afternoon we looked over some of these and in some cases the Government got every single asset there was in the bankruptcy and still there was a claim to be written off.

Senator Grosart: Mr. Chairman, on that point perhaps you might suggest in our report that in similar Estimates in future the phrase "written off" not be used. They are not written off in the formal accounting sense of the word.

The Chairman: We probably have to follow the wording of the statute.

Mr. Fry: The statute refers to deletion from the accounts. Maybe we should use those words.

The Chairman: I think that is an excellent suggestion.

Senator Grosart: You cannot write them off if they were never written on.

Mr. Fry: That is how it reads in the act "to authorize the Treasury Board to delete from the accounts..."

Senator Grosart: But then, if you read the fine print at the bottom.

Mr. Fry: The actual authority says "delete" but we probably should change the fine print.

Senator Grosart: Senator Phillips (Rigaud) may have won his battle.

The Chairman: Any other general questions?

I think we should have a look at Vote 17b on page 2 for the Department of Agriculture amounting to \$100 million. Before we come to that, I would like to say something which we have said before and which I would like to reiterate and that is that we do not agree with the practice of having statutory changes or changes made within statutes by \$1 items—"that notwithstanding such and such a statute, this is to be done". The \$1 is simply a memorandum, and the effective thing is the change in the statute. There may be some urgent cases. There may be some cases of no great importance where the method is not too objectionable, but I think, in general principle, we should reiterate our stand against statutory changes being made through the medium of appropriation acts.

Senator Grosart: Mr. Chairman, could we go a step further and recommend that where this is done there should be notification by the Treasury Board to the departments concerned that such legislative action taken by appropriation bills be included in the Office Consolidation of the statutes by those departments?

The Chairman: I will put that to the Treasury Board officials.

Senator Grosart: I have raised the point before, because otherwise a lawyer has no way of knowing an act has been, in effect, amended by an appropriation bill.

If you look at some of the authorities requested here, in at least one instance it goes back to an Appropriation Act of 1952, and in another case to an Appropriation Act of 1958. How does anyone know these acts have been amended, because we are usually told the

reason is an emergency, it is something you have to do in a hurry and, for various reasons, a department is reluctant to wait until the normal legislative process achieves its end. But this does not hold when you are still operating on the basis of a change made in an Appropriation Act of 1952.

This is on page 21, in this case under Loans, Investments and Advances, the Department of Industry, Trade and Commerce, Vote L97b, "To increase to \$1,950,000 the amount that may be charged at any time to the special account established by Vote 657, Appropriation Act No. 2, 1952 for advances to posts and to employees abroad:..."

Mr. Fry: Would you like to comment on that, Mr. MacDonald?

Mr. MacDonald: I think that the same matter came up in the Miscellaneous Estimates Committee, about the difficulties lawyers have involving amendments to legislation effected through Appropriation Acts. If the committee recommends this, it would be looked at as a matter of Government policy.

There are some things that are done first in an Appropriation Act, such as a pension fund or some executive action, and then amended later in an Appropriation Act.

Senator Grosart: This is not executive action; this is legislative or parliamentary action.

Mr. MacDonald: Yes.

Senator Grosart: That is why it has to go in in an appropriation bill, to give it statutory authority.

The Chairman: Supposing we enunciate the principle, at any rate, that where these changes are made it is desirable that in the printing of the statutes any changes so made should be noted in the marginal notes, is there any objection to that? Is there any further feeling about it?

Senator Laird: That makes sense.

The Chairman: Is that agreeable?

Hon. Senators: Agreed.

The Chairman: Is there any further question?

Item No. 1 is, as you see, an example of a very substantial change in the law whereby \$100 million are being voted for a new policy or plan for dealing with the wheat marketing situation whereby wheat acreage reduction payments are to be made.

While it is not for me to do more than bring this to your attention for your further consideration and decision, it does seem to me this is in line with and follows on from what we have been saying with respect to the \$1 items. It is, in effect, a substantive statutory amendment involving a matter of considerable importance and the whole authority for the \$100 million, while it is perfectly all right to have it in an appropriation bill, of course, nevertheless the amount is substantial, and the purposes for which it is to be expended are contained in this item in one paragraph on page 2.

I think we can hardly say what we have said with respect to the dollar items without at any rate considering and deciding what we should say with respect to the \$100 million item which, on the surface, certainly to me, very definitely seems to violate the same principle.

I might say that the Treasury Board officials have called to our attention that this item is to be amended by an amended Supplementary Estimates (B), and assuming the appropriation bill passes all these estimates, the appropriation bill will contain an amended Vote 17b. Those amendments, as given to us and as the Treasury Board officials may explain, do change somewhat the way in which the Wheat Board is going to deal with the producers. They do not affect the point that I am bringing to your attention on this whole plan, that whether it is done by the wording that is here or the amended wording, it is in effect a substantive change of law brought about in this manner.

Senator Argue: If I might make a comment, Mr. Chairman, I would certainly like to agree with the remarks of the Chairman. This is a huge item to be handled in this way. I think it is an extraordinary kind of procedure. It may be that when the payments are in fact made up there have to be certain rules and regulations, in very detailed form, which affect the rights of thousands of people; and if this kind of practice should continue there would not be any real need for legislation at all, when all they needed to do was to put an item in the Estimates to bring about this kind of widespread undertaking.

There is another thing that bothers me with regard to this, and it is associated with certain new rules that must be followed by the Canadian Wheat Board. I made the submission that it is beyond the scope of the Wheat Board Act to make these kinds of different

rules. In other words, it is illegal for the Wheat Board to make those rules, and those rules are necessary if this kind of undertaking is to be followed through.

From the producers' standpoint, because we hear this raised so often, I want to make the point that the wheat producer never asked for this package. This is something that has been given to them without their request. They may have asked for certain things. They never asked for the package. I think there is a widespread opposition to the package which has been given to them. In other words, a small interest payment tied to certain other things and conditions. I think it was for that particular reason that the chairman raised it and for the additional reason, if it is an additional one, that it is tied to certain other actions in other acts. If Parliament should get into the habit of doing this kind of thing, there is not much need for legislation. The whole authority of Parliament must be based on a bill, a debate, and the final decision of Parliament on various clauses in the kind of bill enacted that should be substituted for this.

The Chairman: Is there any further discussion? Senator McDonald from Saskatchewan, would you like to say anything?

Senator McDonald: In fact, the \$100 million would never be spent in the first place. In the second place, you cannot spend a nickel without changing the law. The law of the land has said that the farmer can sell his grain on cultivated acres. Now the law will say, if this goes through, that you cannot sell grain unless you do not produce it. The whole thing is backwards. I can see it happen, but I cannot see a reason for Parliament completely reversing what has been taken as the law of the land, with the issue only coming to Parliament through the Estimates.

The Chairman: I imagine our witnesses could say what they like, but what we really have been discussing is probably a question of policy that goes beyond them.

Senator Phillips (Prince): I wonder if I interpreted Senator McDonald's remark aright. Did I understand you to say that you cannot sell unless you do not produce?

Senator McDonald: That is right. Your quota in the future will be based on non-production rather than on production.

Senator Argue: Black land in the future.

Senator McDonald: If you grow wheat in this year you have no quota. The only way to get a quota to sell wheat next year is not grow it. To give an example, if you have a 1,000 acre farm and you have 500 acres under wheat last year and 500 acres summer crop, and if you repeat that this year, the land that was under wheat last year, the summer crop, you would have to keep to 25 per cent of 500 acres. But if you do not sow anything, you will have a quota of 500 acres, plus 25 per cent of the other 500. So if you produce wheat you have no quota to sell it in. If you do not produce wheat you have got a quota.

Senator Flynn: It is easy to understand, you would think that those who designed this policy should have dealt with the White Paper on taxation.

Senator McDonald: I am sure it was not designed...

Senator Argue: They got it and the White Paper probably mixed up.

The Chairman: Are there any other questions with regard to this \$100 million item, 17b.

The discussion has gone a little beyond the jurisdiction of this particular committee, yet it is very relevant to the statutory point that we are raising, because if this were a substantive statute, these points would be the subject of a regular debate according to the rules of parliament and procedure.

I would mention also that while this money itself is not going to be spent until the fiscal year of 1970-71, it is being voted and put in the Estimates of 1969-70 and will be appropriated in so far as Government accounts are concerned before March 31, 1970, before two weeks are up. So, in a sense, it is \$100 million being shown as being spent out of the current fiscal year's accounts, when it actually will be spent in the year of 1970-71.

Senator McDonald: I would question why we put it in the supplementary Estimates 1969-70, if it is expenditure for 1970-71?

Senator Argue: There is a surplus this year.

Senator Flynn: I would like to hear an answer to that question.

The Chairman: I think we will have to put that to the Government official.

Mr. Fry: All of these questions which have been raised are matters of policy.

The Chairman: We cannot ask officials on policy.

Senator Flynn: Do you suggest that the minister can decide to charge the expenditures of one year that relate to money that is going to be spent in the next fiscal year.

Mr. Fry: He has to go to Parliament to get it authorized, of course.

Senator Flynn: If he does, that is the way it is going to work.

The Chairman: Yes.

Senator Flynn: He may go for it, without knowing it.

Senator Grosart: I think there has been a statement made, I think by the minister, linking this directly to the fact that there was a surplus. It recently has been stated in the press that one of the reasons why the Government felt it could spend this money to meet this problem in the West was that it had this substantial surplus this year. Personally, I do not see anything too much to quarrel about with this. You have money, you set it aside for the contingency that we know is going to arise next year, we charge it to this year. It may be that the Government is going to save corporate income tax by this method.

Senator Flynn: I have seen that, too, but this is a distortion of the situation, because after all if we should have a surplus of \$450 million this year and you say we are going to reduce this surplus of this year because we are going to spend \$100 million next year, this is a distortion of the finances.

The Chairman: Will you agree that we point this out by a special clause in our report?

Hon. Senators: Agreed.

The Chairman: Have the officials anything to say other than what Mr. Fry has already said, that this discussion is a matter of Government policy?

Mr. Fry: I do not think so, Mr. Chairman.

Senator Grosart: Could I make one comment. This particular item we are concerned with seems to be a case of a small bad habit growing into a big bad habit. That happens to all of us. I have myself in this committee predicted that this very sort of thing would happen if we did not suggest some restraint on the part of Government in legislating by appropriation bills. It is not the only example.

Even in these supplementary Estimates there is another one on page 15, Vote 8b, under Transport, where we are asked to authorize the transfer of the assets of the administration of the pension fund of the Montreal Pilotage District Establishment to whomever the Governor in Council may approve. I am not saying that it should not be done. I understand the pilots themselves asked for this.

Mr. Fry: They requested it, yes.

Senator Grosart: Still, the Government is here legislating again in a matter that could be of concern to some persons who do not want that fund transferred. This should normally come before Parliament and be debated. That is why bills, have three readings and are examined in committee, so that there will be an awareness amongst the public in order that anyone who may be concerned may make his protest. It is done this way.

The Chairman: This is one of the \$1 items we are including in our special clause dealing with them. I propose that we do that in the report. Then we go on leading into this \$100 million item.

Senator Grosart: It is this bad habit of \$1 items that leads to the attitude that if we can get away with it in small items we can get away with it in the larger items which were introduced into the Miscellaneous Estimates Committee of the house by the departments concerned.

Mr. Fry: Mr. Chairman, I should like to provide to the committee now the amended wording for these particular items.

The Chairman: Yes, we should have it tabled. Honourable senators, I call your attention to the fact that in this paper submitted to me by the officials there is also a change in the wording of Vote 36b of Industry, Trade and Commerce, found on page 8 of the Supplementary Estimates (B).

Mr. Fry: The change, Mr. Chairman, is that it adds at the end: "in accordance with such regulations as may be made by the Governor in Council."

In looking at this after it had been tabled, the Department of Justice advised that in their opinion a regulation authority would be required. Therefor, it has been added to this wording—or will be if an amendment is tabled.

Senator McDonald: What would be required?

Mr. Fry: A regulation authority by the Governor in Council.

The Chairman: This is the vote in connection with the Durum wheat payment.

Senator McDonald: Would it not hold true for the \$100 million?

Mr. Fry: There is already a regulation authority in respect of that.

The Chairman: We have noted that, and it falls in within our general view.

Senator Everett: I have just two points Mr. Chairman, which I don't think will affect the report. One has to do with Vote L38b on page 19 at the bottom. I should like the committee to have the balance sheet of the Fishing Vessel Insurance Plan. The reason I want that is that here is a \$1 item which indicates that there is an insurance plan being run which is self-sustaining to insure fishing vessels, and, presumably because it is self-sustaining, it has funds which it may be investing in the Consolidated Revenue Fund or in outside investments. I think it would be something that perhaps this committee at its leisure should look at.

The Chairman: What you specifically want is the balance sheet as at the last annual report, I presume.

Senator Everett: I might as well include the profit and loss statement, too.

Senator Grosart: Would it not be the Fishermen's Indemnity Plan?

Senator Everett: Indeed, that is correct.

Mr. Fry: That is what it is called now.

The Chairman: Tell me, Mr. Fry, is that something that you can produce to us or is it something you cannot?

Mr. Fry: Yes, we can follow that up, Mr. Chairman.

The Chairman: That is agreeable, then. Thank you.

Senator Everett: I would also like to point out so that it is on record that under Vote L51b at the top of page 20 the Government is in effect creating a new Crown corporation, albeit a very small Crown corporation. What they are doing is buying all the common shares of the Canadian Arctic Producers Limited and then funding that corporation

with \$400,000 by way of 7 per cent non-cumulative redeemable preferred shares. I just want to point out, because I think it is in context with what we have been discussing on legislative action, that here is a case by virtue of a loan estimate and advance in which the Government is really creating a small Crown corporation.

Senator Beaubien: Who would be the owners of the Canadian Arctic Producers Limited now?

The Chairman: I think the witness would have the answer to that.

Mr. Fry: It is presently a privately-owned organization.

The Chairman: That organization exists to sell the products of the Eskimos and Indians and is produced by a co-operative movement.

Mr. Fry: Yes. It is a private company and it has not been successful in obtaining private financing mainly because of lack of capitalization.

Senator Everett: By virtue of that the Government has bought all the outstanding common shares.

Mr. Fry: The hope is that it might eventually be taken over by the natives themselves.

Senator Everett: Indeed. I just wanted that on the record.

Senator Beaubien: Mr. Fry, who are the shareholders then?

Mr. Fry: The shareholders, when it is sold, will be the Government.

Senator Beaubien: But who are the sellers then?

Mr. Fry: I do not know who the actual shareholders are at the moment. I can get that information for you.

Senator Everett: Is it not a co-operative movement?

Senator Beaubien: I am interested in knowing who owns the shares.

Mr. Fry: Whether the shares are in the names of individuals, I am not sure.

The Chairman: The Treasury Board officials will get that information for us.

Senator Flynn: Is it a chartered organization?

The Chairman: It is a commercial organization.

Senator Pearson: Is this company showing a profit or a loss?

Senator Beaubien: We should have the balance sheet.

Senator Pearson: If it is a dead horse, what is the use of buying it?

Senator Everett: Because it is a dead horse. Live horses are not for sale.

The Chairman: We will have to have further information on this and we can report it at the next meeting of the committee.

Senator Phillips (Rigaud): Mr. Fry, can you indicate to us whether, when the Governor in Council will prescribe a regulation, such regulation will be guided by reference to a particular statute now in existence or will it depend purely on the views of the Governor in Council?

Mr. Fry: I think the Governor in Council will have freedom to make regulations as he sees fit.

Senator Phillips (Rigaud): In other words, freedom to make regulations without reference to any existing statute.

Senator Grosart: Except this one.

Senator Phillips (Rigaud): The reason I want that on record is that we are dealing with the whole subject matter of statutory instruments in both houses of Parliament and this is an interesting example of a procedure which is inviting some criticism.

Senator Argue: Just reverting to Vote 36b on page 8, I understand that \$48 million is to pay the wheat owners for losses which occurred because, in forecasting the market situation, the Wheat Board had an initial payment which as a result of this operation proved to be too high. Of course there was a surplus in the Durum account, and my question is what part of the \$48 million has to do with payments that will be made under the Durum account.

Mr. Fry: The payment to the Durum wheat producers will come from the surplus in the Durum wheat account. I do not know if we have the actual figures for the Durum wheat producers or not—I now find that they had a surplus of approximately \$7 million.

Senator Argue: Is there any indication how many bushels of Durum wheat that covers? Is it 25 million at 25 cents a bushel?

Mr. Fry: I am sorry, I do not have the bushel figures.

The Chairman: Any other questions?

Senator Phillips (Prince): If I may go back a moment to what we were discussing earlier, I have a couple of cases the names of which I do wish at this stage to bring before the public, but I would like to have clarification of the future follow-up on these cases. Am I to receive an explanation from the Treasury Board in writing?

The Chairman: If there are any special cases, if you will give the names to me, we can get the information for you.

Mr. Fry: That is agreeable to us. If we might just go back for a moment to 51b. I have an indication here that there are only five shares held by the owners and the owners are apparently the Co-operative Union of Canada. I can check further to see if there are any other shareholders.

The Chairman: Does anybody know who the Co-operative Union of Canada is?

Senator Grosart: And the five shares are being sold for \$1,000.

Mr. Fry: The shares are being sold for \$1,000. We will follow up with further information on that.

Senator Everett: Maybe they could also file a balance sheet or a financial statement on Arctic Exploration.

Mr. Fry: If this is possible, we will.

The Chairman: Now the drafting of a report may take some time. I don't know whether you want to come back for another meeting on the report itself, but I would suggest that if you leave it in the hands of Senator Grosart, Senator Everett and myself, this might be a convenient way of doing it. We could agree on the drafting of the report. Is that agreeable, honourable senators?

Hon. Senators: Agreed.

Senator Grosart: Mr. Chairman, if I may have a word on that because I did not realize we were coming to it at this stage. I would like to make the comment that I notice that the increase in Government expenditures this

year is 11 per cent higher than the previous year. However, the latest figure I have on the rise in the Gross National Product is 9.3 per cent. Perhaps we could call attention to the fact that the Government has not heeded the recommendation of this committee that in future years the increase in public expenditures should not exceed the increase in Gross National Product.

The Chairman: I think your point is well taken. At the moment I cannot remember whether we were talking about the Estimates or about expenditures at that time. And obviously there is some difference between the Estimates and the expenditures.

Senator Grosart: I think the sense of our recommendation dealt with expenditures.

The Chairman: Subject to checking that, I take it there is no objection to our calling the attention of the Government to our previous recommendation.

Senator Flynn: Mr. Chairman, I wonder if we have any assurance that these are the last supplementary Estimates for this fiscal year.

Mr. Fry: As far as we are aware, with the exception of the possible tabling of the amendments introduced initially at the Miscellaneous Estimates Committee of the house, we know of no others.

Senator Grosart: That does not change the amounts.

The Chairman: I take it that your report is approved subject to drafting by this subcommittee. Thank you very much.

Thank you very much Mr. Fry and Mr. MacDonald.

APPENDIX "A"

EXPLANATION OF ONE DOLLAR ITEMS SUPPLEMENTARY ESTIMATES (B), 1969-70 SUMMARY

The one dollar items in these Estimates have been grouped in the attached according to purpose.

- (I) One dollar items authorizing transfers from one vote to another within a ministry (13 items to meet various increased costs and one to meet salary costs).
- (II) One dollar items which require listing in Estimates (i.e. grants—8 items).
- (III) One dollar items which are legislative in nature (8 items).

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PART I

One dollar items authorizing transfers from one vote to another within a ministry (14 items).

AGRICULTURE

Vote 20b—Amount of transfer to this vote \$85,999.

Purpose—To provide for increased expenditures on travel.

Source of funds—Vote 10 (\$85,999)—delays in the construction of the office laboratory complex at Laval, Quebec have resulted in funds being available for transfer.

Vote 30b—Amount of transfer to this vote \$465,399.

Purpose—To provide for increased expenditures for travel (\$143,000) and the additional cost of the vehicle decontamination station at Port aux Basques, Newfoundland.

Source of funds—Vote 25 (\$322,399)—hog premium payments have been reduced from \$3.00 to \$1.50.

—Vote 35 (\$143,000)—the latest forecast of the amount of the federal contribution to the Quebec Experimental Crop Insurance Program for the period April 1, 1969 to March 31, 1970 is less than originally estimated.

ENERGY, MINES AND RESOURCES

Vote 20b—Amount of transfer to this vote \$149,999.

Purpose—To provide for the construction of a core storage and administration building at Dartmouth, N.S. required for the offshore oil and gas drilling operations.

Source of funds—Vote 40 (\$149,999)—certain regional water resources planning investigations have been deferred pending the negotiation of federal-provincial agreements.

FISHERIES AND FORESTRY

Vote 25b—Amount of transfer to this vote \$124,999.

Purpose—To permit the purchase of mobile laboratory units to be used at the Fisheries research site in West Vancouver by their staff while engaged in anti-water pollution research.

Source of funds—Vote 10 (\$124,999)—the payment to the Province of New Brunswick for the Mactaquac Fish Hatchery will be less than anticipated.

NATIONAL DEFENCE

Vote 30b—Amount of transfer to this vote \$310,999.

Purpose—The Department is now renting certain computing equipment which is being used in defence research activities. It is proposed to purchase this equipment since it has now been found to be more economical to do so than to continue renting.

Source of funds—Vote 25 (\$310,999)—savings in various activities including rental for computer equipment (The equipment to be purchased under Vote 30b is now being rented under this vote).

NATIONAL HEALTH AND WELFARE

Vote 1b—Amount of transfer to this vote \$649,999.

Purpose—To provide for the expenses of the Commission of Enquiry into non-medical use of drugs, which was not provided for in the Estimates (\$500,000); the purchase of a small terminal computer and other expenses.

Source of funds—Vote 41 (\$649,999)—Family Assistance Payments are less than anticipated due to fewer immigrants entering Canada.

Vote 6b—Amount of transfer to this vote \$82,999.

Purpose—To provide for the purchase of additional laboratory equipment and the replacement of machinery used in the manufacture of orthopaedic boots and shoes.

Source of funds—Vote 10 (\$82,999)—reduction in the number of approved claims from the Provinces for General Health Grants.

Vote 25b—Amount of transfer to this vote \$229,999.

Purpose—It is planned to accelerate the program for the improvement of Indian health services through the purchase of new mobile nursing stations for use in Ontario and Northern regions, mobile accommodation units for staff for Ontario and new medical equipment for mobile units in the Prairie Region.

Source of funds—Vote 20 (\$229,999)—Revenue collections have been received more quickly during the first year of vote netting than was anticipated thus funds can be reused without affecting the program.

Vote 35b—Amount of transfer to this vote \$271,999.

Purpose—Additional equipment is to be purchased to assist in the monitoring of imported drugs, to carry out decontamination tests for mercury and other heavy metal content in foods and to meet the requirements for analytical services for the R.C.M.P. in connection with narcotics and controlled drugs.

Source of funds—Vote (\$71,999)—Expenditures for salaries are less than anticipated due to difficulties encountered in recruitment.

—Vote 41 (\$200,000)—Family Assistance Payments are less than anticipated due to fewer immigrants entering Canada.

SOLICITOR GENERAL

Vote 5b—Amount of transfer to this vote \$949,999.

Purpose—To cover the cost of salary increases.

Source of funds—Vote 1 (\$449,999)—Delays have been encountered in setting up contracts for the carrying out of correctional research.

—Vote 10 (\$500,000)—funds are available due to delays in completion of construction contracts.

TRANSPORT

Vote 55b—To authorize the transfer of \$699,999.

Explanation—Due to certain unavoidable delays a portion of the 1968 subsidies were not paid in the 1968-69 fiscal year. It is proposed to pay these subsidies in 1969-70.

Source of funds—Vote 50 (\$699,999)—forecast expenditure will be lower than anticipated due to difficulty in recruiting staff and delays in the carrying out of contractual studies on transportation.

VETERANS AFFAIRS

Vote 30b—Amount of Transfer to this vote \$1,739,999.

Explanation—To cover increased costs for medical supplies and drugs, higher costs for purchased hospital and dental services and a larger than normal carry-over of accounts for 1968-69.

Source of funds—Vote 10 (\$1,039,999)—Expenditures on War Veterans' Allowances are less than estimated due to

decline in number of recipients and lower than anticipated average costs.

—Vote 25 (\$700,000)—Forecast expenditures of pensions for World War II and Defence Forces—Peacetime Services recipients are less than estimated.

Vote 38b—To authorize the transfer of \$284,999.

Explanation—The forecast expenditures for Treatment Allowances to veterans are higher than anticipated.

Source of funds—Vote 20 (\$284,999)—The projected expenditures for the purchase of professional and special services are less than anticipated.

Vote 40b—Amount of transfer to this vote \$174,999.

Explanation—Additional funds will be required to not only cover increased travel expenditures but also a 50 per cent increase in the schedule of fees charged by legal agents for acquiring land titles.

Source of funds—Vote 10 (\$159,999)—as detailed above.

—Vote 45 (\$15,000)—the number of grants will be less than anticipated.

PART II

One dollar items which require listing in Estimates (I.E. Grants—8 items)

AGRICULTURE

Vote 35b—To authorize contributions as detailed in the Supplementary Estimates, in the amount of \$142,600.

Explanation—These contributions are required to:

(a) provide for the payment of compensation to horticultural crop growers of Vancouver Island for losses incurred by them in the control of Golden Nematode—\$48,000.

(b) cover the cost of the federal share of one-half the amounts paid to the Province of Ontario for Barberry Eradication during 1968-69. This sum was originally budgeted for in that fiscal year but the monies lapsed when the claim was not received in time for payment—\$7,900.

(c) meet the federal share of preagreement costs incurred in the period October 1968 to April 1, 1969 while developing a federal—provincial crop insurance agreement with the Province of Nova Scotia—\$5,000.

(d) provide for the payment of an amount equal to the federal share of additional costs identified in the final audit of the Quebec Experimental Crop Insurance Program—for the period July 6, 1967 to March 31, 1969—\$81,700.

Source of funds—Vote 35 (\$142,599)—The latest forecast of the amount of the federal contribution to the Quebec Experimental Crop Insurance Program for the period April 1, 1969 to March 31, 1970 is less than originally estimated.

ENERGY, MINES AND RESOURCES

Vote 25b—To authorize the transfer and payment of a grant to the International Conference on the Utilization of Tidal Power of \$3,000.

Explanation—The grant is to be used to assist in meeting the costs of the Conference on the Utilization of Tidal Power which is to be held in Halifax in May. One of the major subjects to be discussed at this Conference will be the unique energy resource of the Bay of Fundy.

Source of funds—Vote 40 (\$2,999)—certain regional water resources planning investigations have been deferred pending the negotiation of federal—provincial agreements.

Vote 50b—To authorize additional grants in aid of Resources Research in the amount of \$850,000.

Explanation—It is proposed to provide grants to additional universities to aid in the University Development Research Program on resources.

Sources of funds—Vote 50 (\$849,999)—contributions to the provinces to assist in the conservation and control of water resources will be less than anticipated.

EXTERNAL AFFAIRS

Vote 15b—To authorize the payment of grants in addition to those detailed in the Estimates for a total of \$35,700.

Explanation—To provide for the payment of two grants. A grant of \$10,700 is to be made for the United National Organization to assist in the establishment of a trust fund to meet the costs of the 1970 World Youth Assembly. The other grant of \$25,000 is to cover the Canadian Government's share of the cost of a National Committee to be established in Canada to conduct national programs to commemorate the twenty-fifth anniversary of the

Organization. This Committee will be soliciting funds for this purpose from all levels of government and private individuals and organizations.

Source of funds—Available within Vote 15 because the proposed grant to the International Civil Aviation Organization will not be required in 1969-70 as the planned move of the Organization to new headquarters has been delayed.

NATIONAL HEALTH AND WELFARE

Vote 40b—To authorize the transfer of \$562,499 and the payment of additional grants to those detailed in the Estimates for a total of \$562,500.

Explanation—A single grant of \$500,000 is to be made to the Canadian National Institute for the Blind as the Government of Canada's contribution to assist in the improvement of the Associations' service within the Provinces of Quebec and Newfoundland in order that they may provide a level of services comparable to those of other provinces.

A further grant to the Canadian Welfare Council is to be paid to assist with the completion of an extension to their headquarters building in Ottawa.

Source of funds—Vote 10 (\$212,500)—claims for the payment of Public Health Research Grants from Provinces are less than anticipated.

Vote 41—(\$349,999)—Family Assistance Payments are less than anticipated due to fewer immigrants entering Canada.

SECRETARY OF STATE

Vote 3b—To extend the purposes of Vote 3 to include the payment of a grant to the International Association of Universities of \$25,000.

Explanation—The Association of the Universities and Colleges of Canada together with the Universities in Canada, will be hosting the Fifth General Congress in Montreal in 1970. The proposed grant will be used to assist in meeting the costs of the Congress.

Source of funds—Available within Vote 3

SOLICITOR GENERAL

Vote 1b—To authorize a grant to the University of Montreal of \$5,000.

Explanation—A grant was requested by the University of Montreal to assist with the cost of the First International Symposium

for Research in Comparative Criminology.

Source of funds—Available within Vote 1 as the result of delays in the completion of certain contracts.

TRANSPORT

Vote 40b—To authorize the payment of an additional contribution under the Operating Contribution Policy for municipal and other airports of \$215,000.

Explanation—This sum provides for the payment of operating subsidies to the Regional Municipal Airport for the fiscal years 1968-69 and 1969-70.

Source of funds—Funds are available within Vote 40 as the result of delays in the construction program for the establishment or improvement of local airports and related facilities.

PART III

One Dollar Items Which Are
Legislative in Nature (8 Items)

FINANCE

Vote 5b—To authorize the continuation of the Established Program (Interim Arrangements) Act.

Explanation—The present contracting-out arrangements with Quebec expire on December 31, 1970 for the Hospital Insurance Program and on March 31, 1970 for the Special Welfare and Health Grants. It is proposed to extend the arrangements for a further twelve months.

NATIONAL DEFENCE

Vote 51b—To authorize the inclusion of Corporal Stewart under Part II of the Public Service Superannuation Act.

Explanation—To authorize the payment of Death Benefits to the widow of Corporal Stewart under the Supplementary Death Benefit Plan of the Canadian Forces Superannuation Act.

TRANSPORT

Vote 8b—To authorize the transfer of the assets and administration of the Pension Fund of the Montreal Pilotage District.

Explanation—The Ministers of Finance and Transport presently jointly administer this Pension Fund. The Ministers have been petitioned by the Pilots of the Montreal District and have agreed to the

transfer of the assets and administration of the Fund to a Trust Company. The transfer of this Fund requires the approval of the Governor in Council.

Vote 15b—To authorize the extension of Transport Vote 15 to include payments for the amortization of the cost of ferry vessels and related equipment.

Explanation—It has been decided to amortize the cost of ferry vessels and related facilities and to purchase this equipment through a loan. The amortization, which will begin the same year as the vessels are placed in service will repay these loans.

TREASURY BOARD

Vote 7b—To authorize the deletion by the Crown of certain claims in excess of \$5,000 which amount to \$4,542,291.23.

Explanation—It is the usual practice to include authority in final supplementary Estimates for the deletion of this type of claim. The claims, totalling \$4,542,291.23 which it is proposed to delete are all claims of the Department of National Revenue.

Vote 10b—To authorize the inclusion of employees of Crown Corporations serving abroad in the present Hospital Care Insurance Plan.

Explanation—It is proposed to extend the provisions of the present Hospital Care Insurance Plan which now covers employees of Government departments serving outside of Canada, to include employees of Crown Corporations who are also serving abroad.

FINANCE

Vote L37b—To authorize payments to the International Monetary Fund (\$360,000,000—U.S.), and to the International Bank for Reconstruction and Development (\$149,800,000—U.S.) for the purchase of 1,498 shares of stock in the Bank.

Explanation—Every five years membership quotas in both the Fund and the Bank are reviewed. In the latest review Canada's share as a member has been increased for both the International Monetary Fund and the World Bank.

FISHERIES AND FORESTRY

Vote L38b—To authorize the changing of the name of Fishermen's Indemnity Plan and extend the Plan to insure fishermen

for third party liability resulting from a collision.

Explanation—It is proposed to rename the Fishermen's Indemnity Plan to Fishing Vessels Insurance Plan which more accurately describes the Plan. At the same time it is also proposed to provide Third Party liability insurance for fishermen within the Plan. The fisherman must presently secure this protection from another source which is difficult in that the balance of the insurance is usually provided under the existing Plan. It is estimated that premium income will provide for the payment of any claims arising.

The Chairman: We are now going to proceed with the main Estimates for 1970-71.

Before proceeding formally with our consideration of the main Estimates, there are one or two things I might call to your attention. Last week I had requested the Honourable Mr. Marchand to come before us on the regional expansion item in the main Estimates, and he was not able to appear because of a Cabinet meeting and we did not get word in time to do anything else. We have no meeting scheduled for next Thursday which is Holy Thursday, and there seems to be some question as to what the situation will be with the House of Commons and the Senate, so, unless you think otherwise, I have scheduled no meetings for next Thursday. The following Thursday also seems to be in some doubt as to whether the Senate will be back or not and there is also a question to the availability of witnesses. Therefore no meeting has been scheduled for April 9. April 16 Dr. Neufeld, Professor of Economics at the University of Toronto who gave evidence last year on the economic effect of the Estimates for last year will be our witness. On April 23, the Honourable Jean Chrétien, Minister of Indian Affairs and Northern Development, will be before us dealing with one of the other three main increases in the 1970-71 items.

Senator Beaubien: Will this always be at 9.30 a.m., Mr. Chairman?

The Chairman: At the moment it is 10 o'clock, which is our normal time of meeting. Because of the two matters we have for discussion today, we met at 9.30 a.m.

The other department which has a substantial increase in 1970-71, besides the Department of Regional Economic Expansion and the Department of Indian Affairs, is the

Department of the Secretary of State, Mr. Pelletier. We have requested his attendance, but as yet have not made any definite arrangements with him.

I am open to any suggestions from you as to how to deal with this program.

Senator Phillips (Prince): As you know, Mr. Chairman, I requested that certain items in the Department of Regional Economic Expansion be studied before this committee, and with the various delays which you have outlined I can see us meeting just before the summer recess to take a look at these items.

While you might consider it essential to have the minister present, frankly I have to disagree with you on the necessity of having the minister present. In the 14 years that I have been around here, both in the other house and this, I have usually found the minister has turned round to someone down the line and has asked them to answer the questions anyway.

This type of inquiry is really not on policy but on expenditure, how the money was actually spent and what supervision was provided through the year. I do not think we should of necessity arrange our committee meetings to coincide with ministers' convenience.

The Chairman: We are all agreed on that, Senator Phillips. If we cannot get the minister, we get the man next best qualified to speak for the department. There is no doubt about that.

I think we should still plan to have the Department of Regional Economic Expansion before us. I could try for next Thursday, if the committee so wished, or for one of the two following Thursdays.

Senator Flynn: We are not sitting next Thursday.

The Chairman: Then next Thursday is out. What about Thursday, April 9, is that agreeable?

Senator Beaubien: Will we be back by the 9th?

The Chairman: One of the Whips assures us that we will be back.

Senator McDonald: I expect we will be back on the 7th.

The Chairman: If it is agreeable to you that we set up a meeting for April 9 with the Department of Regional Economic Expansion,

with the best officials available attending, I will do so, but because I will not be here I will leave it in the hands of a deputy chairman to carry on. Is that agreed?

Hon. Senators: Agreed.

Senator Grosart: Can we make that contingent upon the Senate being in session at that time?

The Chairman: I think we have no power to sit when the Senate is not sitting, so that is settled.

Honourable senators, we are very glad to welcome back Dr. Arthur Smith, the Chairman of the Economic Council of Canada, who gave us some very interesting and valuable information last year in dealing with last year's Estimates.

I would differentiate between the kind of evidence we receive from the Minister of Regional Economic Expansion, the Secretary of State or one of the other departments, and the evidence we receive from Dr. Smith or Professor Neufeld, because they really deal with what is happening to the economy of Canada and the economics of the country by reason of the Government's expenditure plans and the Government's fiscal situation.

I make those introductory remarks so that you will understand that Dr. Smith's remarks will be more of a general character than specifically directed towards the items of the Estimates themselves.

I will also call your attention to the fact that you have all received a copy of Chapter III of the Economic Council's Sixth Annual Review. I hope you all have it with you. If you have not, perhaps there are some extra copies. I think you also have some information which has been circulated to you this morning on behalf of the Economic Council.

In addition to that, Dr. Smith will introduce those in attendance with him.

Do you wish to explain that you have some graphs and projections, Dr. Smith?

Dr. Arthur J. R. Smith, Chairman, Economic Council of Canada: Yes, sir.

Mr. Chairman and honourable senators, may I first introduce my colleagues here?

The Chairman: Please do.

Dr. Smith: They are: Dr. Sylvia Ostry, Director of the Council; Mr. O. Thür, Vice-Chairman of the Council; and Mr. P. M. Cornell, a senior research officer of the Council.

May I say that I thought we might present some rather general views initially from a brief which has been prepared. I might say that these would look forward mainly to the seventies, and if you were interested we could then show a few charts which look back at the sixties, and attempt to show a few of the highlights of the Canadian economy in the past decade. I leave that to your decision.

May I say at the outset that we very much welcome the invitation to appear once again before this committee this year. This committee provides a valuable forum for the discussion of important aspects of public finance in Canada and related matters, and we are pleased to try to be able to be of some assistance to you.

As the Chairman has indicated, the Economic Council does not have the prerogative or competence to comment on the specific set of Estimates which are before you, but we hope we might be able to provide some general background information which you might find relevant to your interests and your work in this committee.

Members may recall that at the time of our last appearance before this committee, in May, 1969, we laid particular emphasis on the need for developing machinery to facilitate appraisal by this committee, as well as by others, of the role of Government expenditures in the pursuit of national goals. We also pointed out that the Council was then engaged in a reappraisal of the economy's potential for growth over the medium-term future to 1975. These two subjects are, of course, closely related. The estimates of Canada's economic potential, that form a regular part of the Council's work, provide some idea of the total resources that could be available to Canadians for the fulfilment of their many wants, needs and rising aspirations in the years ahead—including those which may be met by private expenditures and those which may be satisfied by government expenditures. We therefore thought that it might be useful to set out for the committee a few highlights from the Council's new look at Canada's economic future through the mid-1970s, as outlined in our last Annual Review, and to focus special attention on some of the Council's analysis and estimates of expenditures by all levels of government in Canada through the mid-1970s.

The Council's approach to its task of appraising the nation's future economic possibilities has, in effect, represented an attempt

to construct a sort of economic budget for the country as a whole. On the one side of this budget—the *supply* side—is an estimate of the overall potential of the economy to produce goods and services by 1975, taking account of a whole variety of factors:

- the estimated future growth in the population, and more particularly in the numbers of people who want jobs;
- the maintenance of a relatively high rate of employment;
- the trend towards increased leisure (reflected in a decline in the average number of hours worked by each person);
- the trend towards more or less "experience" in the labour force (as roughly measured by changes in the sizes of various age groups in the labour force);
- the trend towards a higher "quality" of the labour force (as defined, in rather approximate terms, by the growth in the average number of years of education of all people in the labour force);
- the trend of growth in the average amount of capital invested per employed person; and
- the trend of growth in the efficiency with which labour and capital are combined in processes of production.

Taken together, all of these factors help to shape an estimate of what overall production target we should aim to achieve for the Canadian economy. This, in turn, will determine the total income created in the economy—the sum of wages, salaries, profits, rents, interest and dividends, and other forms of income.

On the other side of this national economic budget—the *demand* side—is the total of all expenditures (that is, the uses to which all of our resources are put): personal consumption of goods and services, residential construction and business investment, government purchases of goods and services, and exports less imports.

The Council's *Sixth Annual Review* has set out a consistent set of estimates for both sides of this budget. On the *supply* side, it has indicated that if the economy can be made to perform well over the eight years from 1967 to 1975—that is, if we can achieve a high, stable, widely shared growth at reasonably high levels of employment and use of our capital and material resources—Canada should be able to advance from a \$65 billion economy in

1967 to a \$100 billion economy by 1975 (in constant 1967 dollars). This is equivalent to an average annual rate of growth in the volume of total real output and total real income in the economy of 5.5 per cent a year—a faster rate of growth than is estimated for the United States, and most other industrial countries in this period, and a rate which is very high by long-term historical standards for Canada.

On the *demand* side, it is critically important to try to achieve a smooth and stable growth of *total demand*, closely in line with the economy's growing output capabilities. If total demand should fall significantly or persistently below potential output, the resulting economic slack in the form of high levels of unemployment and underutilized productive capacity will impose economic costs on Canadians. Output which could have been produced, and incomes which could have been

generated (for governments, business enterprises, farmers and others, as well as for wage and salary earners) would not be achieved. Conversely, if total demand rises too steeply, or presses persistently against the economy's growing potential output capabilities, there are the opposite dangers of inflationary pressures (and perhaps also of balance-of-payments strains) which will undermine the sustainability of growth.

In the light of these and other considerations, the Council has sketched out a possible pattern of demand for the mid-1970s which would be appropriate, in total, to match the potential output at that time. This pattern is based on available knowledge and analysis about various trends and factors influencing demand—including population changes, government programs, and the expected level of economic activity in Canada's major trading partners.

TABLE 1
DEMAND TO 1975

	1967	At Potential in 1975	1967	At Potential in 1975	1967-75 Average Annual Percentage Change
	(Billions of 1967 dollars)		(Percentage share)		
Consumer expenditure.....	39.0	59.0	59.5	58.6	5.3
Government expenditure on goods and services.....	13.9	22.3	21.2	22.1	6.1
Business investment (including business plant and equipment inventories and housing).....	12.9	20.8	19.7	20.7	6.2
Exports of goods and services.....	14.7	26.7	22.4	26.5	7.8
Imports of goods and services.....	-15.3	-28.1	-23.3	-27.9	7.9
Gross National Expenditure.....	65.6	100.7	100.0	100.0	5.5

SOURCE: Based on data from Dominion Bureau of Statistics and estimates by Economic Council of Canada.

The main changes anticipated in the major categories of demand to the mid-1970s are shown in Table 1. I might point out that this table is presented in constant dollars. The first column for 1967 and the second column "At potential output in 1975" show that the Gross National Expenditures, and therefore the Gross National Product, could rise from just over \$65 billion to \$100 billion, an increase of about 50 per cent.

Looking at the difference between those two columns, about \$20 billion of the \$35 billion expansion (in constant dollars) would go to consumer spending. About \$8.5 billion would go to government expenditures on goods and services. About \$8 billion goes to business investment and housing. There would also be a \$12 billion increase in exports and close to a \$13 billion increase in imports.

The following two columns show the percentage distribution of total Gross National Expenditure, in constant dollars, for the two years. You can see the consumer sector is the dominant sector in the economy, accounting for close to three-fifths of the total.

The final column shows the average annual rate of growth between 1967 and 1975, for the various components.

Senator Grosart: Would you show us the 8½ per cent anticipated growth in the Government expenditure component?

Dr. Smith: That was about an \$8½ billion increase from \$13.9 billion to 22.3 billion.

The changes imply a further decline in the share of our total output going to consumers and a further increase in the share absorbed by governments for the collective wants of Canadians. Even with this relative decline in the consumer share, however, the estimates provide for one of the biggest increases in consumer spending in Canada's history—an increase of about one-third in real per capita consumption between 1967 and 1975. Business investment and housing would continue to account for about 20 per cent of total demand. Both exports and imports could be expected to grow very strongly as the economy moves towards potential output in the mid-1970s; the deficit on international trade in goods and services, though widening slightly in absolute terms, would continue on a declining long-term trend as a *proportion* of our total output.

This pattern of demand is one which the Council believes is realistic and in keeping with the underlying forces in the economy as seen in 1969—when we did our work. At the same time, the Council has emphasized strongly that this is *not* the only possible pattern of demand. A variety of forces, both external and internal—and including particularly, government policy measures—could alter that pattern. The important thing to realize is that the economy's potential sets a ceiling—admittedly a rather roughly estimated ceiling—on Canada's productive potential, and if spending is increased in one sector—say, by governments—it must be reduced somewhere else in the system. But there are certain limits to how much the existing pattern of demand can be altered, particularly over a short period of years, without producing far-reaching effects on the operation of the economic system.

I might say that in these few remarks I have just touched on a few highlights of our analysis of the potential growth of the Canadian economy to the mid-1970s. I would be very glad to come back and discuss this in more detail, if you wish, later on.

Chapter 3 of the *Sixth Annual Review*, entitled "Governments in a Growing Economy" is an integral part of this systematic appraisal of the economy's capabilities to 1975. The revenue and expenditure estimates set out in this chapter encompass the federal, provincial and municipal governments taken together; the Council makes no attempt to distinguish either revenues or expenditures by level of government, nor does it try to assess any details of intergovernmental fiscal arrangements. Moreover, it should be noted that these estimates were prepared before the publication of the White Paper on Taxation, and hence they do not take account of the Government's tax reform proposals.

Senator Isnor: Dr. Smith, when was this paper prepared?

Dr. Smith: This work was undertaken during the latter part of 1968 and the early part of 1969 and it was completed for discussion and decision by the Council by June of last year. It was then published in our *Sixth Annual Review*, which appeared in September 1969.

Senator Isnor: How pressing, then, are the conditions today compared with your statement? Is my question clear? I have particularly in mind business conditions as they apply at the present time as compared to your statement.

The Chairman: Could we put the question to Dr. Smith in this way, Senator Isnor: If there is anything that has happened since this paper was prepared that would affect what is in the paper, could you call that to our attention?

Dr. Smith: With regard to the analysis of potential output to the mid-1970s, which we have been talking about, and the framework for that, we have not subsequently reworked that analysis. It is a major task to prepare this medium term assessment in a fully integrated way and we have not undertaken a new appraisal of that since that time. I therefore have nothing new to report to you on

how certain subsequent developments might impinge upon a view of the economy's potential in 1975. I would think that, if we were doing such an exercise again at this stage, there would be perhaps some subsequent developments that should be taken into account, but I doubt that they would alter the estimates of potential output very much for the mid-1970s.

Senator Isnor: Mr. Chairman, my question was based on the state of business as it is at the present time both in Canada and in the United States. Dr. Smith, in his statement a few moments ago, intimated that there was progress and that things were fine and dandy in the United States. I don't think that is the condition at the present time. However, I will waive any further questions on it at the moment.

Dr. Smith: Could we wait until we have looked at the charts, since they could provide some background for further discussion on this?

One of the most important conclusions of the Chapter is that total government revenues would rise very strongly as the economy moves to potential output in 1975. Taxable income grows steeply in a swiftly growing economy and produces, especially from the personal income tax, a large "fiscal dividend" for governments, even without increases in tax rates. Indeed, even without any general increase in tax rates beyond the levels in effect early in 1969, total revenue of all governments in Canada would approximately double between 1967 and 1975, from about \$22 billion to about \$44 billion.

Perhaps an even more important conclusion from the Council's analysis, however, is that, even without allowing for major new expenditure programs, government expenditures will also approximately double between 1967 and 1975. In other words, most of the large "fiscal dividend" in prospect over this period under high growth conditions is already "mortgaged", especially to support the rising expenditure commitments inherent in various large government expenditure programs introduced in the past ten or fifteen years in the fields of education, hospital care, medical care and social welfare. Thus, the introduction of any major new programs of government expenditure through the mid-1970s can only be accommodated either through substantial curtailment or abandonment of some existing government programs or through tax

increases leading to a shift of more resources to governments (ultimately, mainly from consumers). In addition, substantially increased efficiency in major government programs—an objective which is highly desirable as part of the overall progress towards greater productivity in the economy—could also provide some margin of advantage for governments to accommodate rising levels of government services.

In the light of the above considerations, the estimates of total government expenditures in the Council's *Sixth Annual Review* make no allowance for any major new government spending programs to 1975, although they do provide for some relatively small expansion in spending, beyond programs already in effect or announced, in some areas of particular needs, such as pollution abatement and urban development. Including the letter, the estimates—shown in Table 2 below—indicate the increased government outlays calculated essentially on the basis of existing policies, population growth, some continuing trends towards improved standards in existing programs and adjustments to wages and salaries of government employees (and to income-maintenance payments) in line with the rising average level of productivity in the economy.

Seen in broad perspective, the revenue and expenditure estimates for 1975 show a rising share of government spending as a proportion of total spending in the economy, and a small fiscal surplus (on a National Accounts basis). Regarding the former, the Council estimates that governments would be absorbing or redistributing about 37 per cent of the nation's total income in 1975, compared with 33 per cent in 1967—and demanding about 24 per cent of all goods and services in the economy in 1975, compared with 21 per cent in 1967. As for the fiscal position, the Council estimated government revenues at \$44 billion and expenditures at \$43.5 billion in 1975, to provide a small surplus of half a billion dollars.¹

The expenditure estimate includes government transfer payments as well as government expenditures on goods and services. In addition, as shown in Table 2, it includes an allowance for price increases in the goods and services purchased by governments (at an average annual rate of about 3 per cent).

¹These estimates include revenues and expenditures of the Canada and Quebec Pension Plans.

TABLE 2
EXPENDITURE OF ALL GOVERNMENTS, BY FUNCTION

	Estimated 1967	At Potential in 1975	Increase	Average Annual Percentage Change 1967-75
(Billions of 1967 dollars)				
Health.....	2.4	4.9	2.5	9.3
Education.....	4.3	8.3	4.0	8.6
Social assistance (including veterans' benefits).....	3.4	5.4	2.0	6.0
Transportation.....	2.4	4.2	1.8	7.2
Defence.....	1.8	2.0	0.2	1.3
Net debt charges.....	1.4	2.0	0.6	4.6
All other.....	4.9	8.4	3.5	7.0
Total functional expenditure.....	20.6	35.2	14.6	6.9
Net adjustment to National Accounts basis—				
Canada and Quebec Pension Plans.....	—	0.5	0.5	
Other adjustments.....	0.9	1.6	0.7	
Total expenditure (in 1967 dollars), National Accounts basis.....	21.5	37.3	15.8	7.1
		6.2	6.2	
Adjustment for price—				
Total expenditure (in current dollars), National Accounts basis.....	21.5	43.5	22.0	9.2

SOURCE: Economic Council of Canada, *Sixth Annual Review*, Ottawa, Queen's Printer, 1969, Table 3-4, p. 32.

Senator Grosart: Excuse me, Dr. Smith, but what kind of dollars are we talking about in Table 2?

Dr. Smith: The figures in the top part of the table are in billions of 1967 dollars. Near the bottom of the table, where we mention adjustment for price, we have added \$6.2 billion—which is what the “cost” price of increases would be to governments on the assumption we have made—and the bottom line gives the total expenditures in current dollars.

The Chairman: That is in 1975 current dollars?

Dr. Smith: Yes. The whole framework of our analysis in the *Review* to 1975, where it was needed for the analysis, was done on the assumption of an average annual increase in the GNP price deflator of 2 per cent. The deflator for expenditures on government expenditures on goods and services has tended historically to run somewhat ahead—to be somewhat higher—than the over-all GNP deflator, and we have taken that into

account to make allowance here for about a 3 per cent price increase for government purchases of goods and services.

Senator Everett: Do you apply the same factor to the revenue side, when you double \$22 billion to \$44 billion?

Dr. Smith: Yes, revenues are calculated in current dollars.

The figures in Table 2 are based on an analysis of expenditure by all levels of government on the basis of a “functional” classification indicating the general purposes of expenditures. However, to examine the effects of these expenditures and to allow comparisons with estimated changes in other broad categories of demand in the economy, the figures in Table 2 are also translated into the comprehensive framework of the National Accounts.

The following are some of the highlights of the data in Table 2:

More than 40 per cent of the total increase in government expenditures

from 1967 to 1975 is anticipated in the health and education fields.

Education will continue to be the largest single item of government expenditure, rising to well in excess of \$8 billion by 1975 before any allowance for price increases. The estimates suggest that expenditures at postsecondary levels will rise by roughly 15 per cent a year 1967-75 as compared with only about 5 per cent for elementary and secondary education.

Health expenditures are expected to grow faster than all other areas of government spending to 1975, reaching nearly \$5 billion (in 1967 prices) by the latter year, about double the 1967 level. Roughly half the increase is associated with the assumed adoption of medicare by all provinces. The Council's projections allow for both population increase and more intensive use of doctors' services, but they are based on the assumption of a marked slowing in recent advances in doctors' fees.

Senator Everett: Excuse me for interrupting here, Dr. Smith. Why in health expenditures do you take into account the price increase which would be the doctors' fees, while in education expenditures you seem not to do that. You speak about constant dollars before any allowance for price increases.

Dr. Smith: I will ask Mr. Cornell to comment on this. If I remember correctly, we did the education expenditures in constant dollars and then provided an adjustment in prices and we did the same in the health field.

Mr. Peter Cornell, Senior Research Officer, Economic Council of Canada: There are several types of price adjustments that do eventually go in. In the first case we always make an allowance for productivity increases in the economy. In other words, we say that the doctors are going to share in the general productivity increase in the economy. That is built in before we do any general price increase. We eventually make a general price increase throughout all these Estimates. There are three steps involved.

Senator Everett: But here in the education paragraph you say \$8 billion before any allowance for price increase, and I would imagine that the price increase in education is probably growing faster than any other segment of the economy.

Mr. Cornell: I am not too sure of that. You may well be correct.

Senator Everett: Then in comparing that to the health expenditures of \$5 billion, you appear to take in the increase. I wondered if there was any significance to this?

Mr. Cornell: The \$5 billion is before this general price increase.

Senator Pearson: Is part of this \$8 billion for capital expenditures?

Mr. Cornell: Yes, it is.

Senator Pearson: For that reason it would be greater because the capital expenditures would be greater.

Mr. Cornell: I think you are probably right that the capital expenditures would be greater. The price factor we would apply to capital expenditure would in fact be the same regardless of field. The difficulty here is that we do not have price indexes for each field of government expenditures. In fact there is quite a substantial gap in government statistics and we cannot differentiate between price movements in the health field and in education.

Dr. Smith: The estimates of social assistance payments allow for payments under existing programs to a growing population, with the largest share of the estimated rise accounted for by increased payments under the Canada Assistance Plan.

The estimates imply that there will be some speeding up of transportation expenditure to 1975. Spending on roads, highways and bridges which now comprise four-fifths of total government expenditures on transportation will show the most rapid increase, though the suggested rate of increase would not be sufficient to prevent a further rise in traffic congestion in some metropolitan areas.

The estimates of "All other" expenditures cover a wide variety of programs such as police and fire protection, sanitation and waste removal, and environmental management that will bear heavily on the quality of urban life. While the projections allow for somewhat greater increases in these programs than in general government services (which are also included in the "Other" category), they do not allow for large new programs to upgrade the quality of our physical environment.

The estimates imply that the relative decline in defence spending (from over 6 per cent of Gross National Product in the mid-1950's to less than 3 per cent by 1967) would continue to 1975.

This brief summary, like the chapter on which it is based, has focused largely on government expenditures. But we do not wish to leave the impression that government spending is the only, or necessarily even the dominant, way in which governments affect the economy. In fact, governments may affect the economy in a wide variety of other ways: through changes in the structure as well as the level of taxation; through borrowing and lending operations; through monetary policy (via the central bank); through the activities of various agencies and Crown Corporations; through a multitude of regulatory activities; through actions that affect the attitudes and motivations, and hence the decisions, of other organizations; and through arrangements affecting Canada's international economic position. Since the effects of many of these diverse activities are not always directly reflected in *Estimates, Public Accounts* or budgetary statements, it is perhaps even more important to keep them constantly in mind and to try to ensure the maximum of consistency among policies in the various fields of government activity.

The Council feels that the possibilities for reducing policy conflicts, for improving the effectiveness of government operations, and for stimulating informed public discussion could be greatly enhanced by two steps on the part of our governments—the introduction of more comprehensive budgetary presentations and the development of improved procedures for formulating and pursuing national goals.

In a complex modern economy in which government operations loom so large, government decision-making must take place within a very broad context, encompassing both the allocation of resources among individual programs and the total impact of government transactions. In consequence, budgetary presentations are required for several different purposes:

Let me mention three of the most important ones:

1. Program analysis: this calls for information for management and control, both legislative and executive, of the many individual activities carried on by governments.

2. Economic and financial analysis: aggregative analysis of the influence of government transactions on the economy whether through the direct impact of taxes and expenditures on income, or indirectly through financial transactions (e.g. lending and borrowing activities) that bear on the size and structure of financial assets held outside the government sector.

3. Cash management: the recording, analysis and forecasting of cash receipts and payments with consequent changes in government cash balances and outstanding debt.

The members of this committee are, of course, aware of the improvements in the presentation of the Government of Canada's fiscal activities in recent years, including the introduction of the national accounts budget and the progress towards implementation of a planning, programming and budgeting system. Yet a great deal more needs to be done. There is a particular need for developing a more comprehensive budgetary accounting system to link government financial transactions to the existing national accounts presentation of the budget so that more systematic assessment of the economic effects of fiscal changes can be made in the future. There is also a need for extending the time horizon of *published* budgetary forecasts. In this respect, the Council commends the recent publication of the Tax Structure Committee projections. The benefits which can be derived from exercises of this nature—or, perhaps more accurately, the misallocations of resources that could occur in the absence of such analysis—are likely to be very large in relation to the costs involved, in terms of the dollars and skilled manpower required for such work.

The second recommendation that emerges strongly from our analysis of government expenditures as well as our studies of other demand sectors is the need for new initiatives to develop more purposeful, deliberate and systematic ways of identifying and clarifying goals—good information and analysis prepared by experts, informed public dialogue, and a better understanding of the options and possibilities for matching needs to resources. We drew attention to this matter in our brief to the committee in May 1969, and the Economic Council has taken this up in the concluding chapter of the *Sixth Annual Review*. In the latter, the Council made recommendations concerning steps that might be taken by

governments to improve the existing machinery for developing goals and priorities. Today we are more convinced than ever that some such steps are becoming imperative.

We hope that these remarks may help to provide a broad and useful perspective on the overall economic environment in which public finance decisions will have to be made in the 1970s.

The Chairman: Thank you very much, Dr. Smith. Now, you have some other information and charts to give us, but perhaps this might be a convenient time to call for questions on what we have already had submitted to us.

Senator Grosart: Mr. Chairman, could I ask Dr. Smith, through you, if I am correct in comparing the following numbers in Table 1 and Table 2?

In Table 1 we have the statement that the present level of GNP is 65.6, rising to 100.7 in 1975, constituting an average annual increase of 5.5. In Table 2 we have what I might call gross government expenditures rising from 21.5 in 1967 to 43.5 in 1975, constituting an annual increase of 9.2.

On page 7 you project that the total Government absorption or redistribution will rise from 33 per cent in 1967 to 37 per cent in 1975.

There has to be a missing factor in here. What is it? I say that because obviously a comparison of the 5.5 rise in one and the 9.2 in the other is going to add up to a much greater increase than 33 to 37.

Dr. Smith: Senator Grosart, I tried to anticipate that question through an additional sentence which I inserted in the text of my statement.

Moving from Table 1 to Table 2 there are two things added. One is that transfer payments are added. The first table shows only expenditures on goods and services. Transfer payments will be rising more rapidly than government expenditures on good and services to 1975.

Secondly, the bottom line in Table 2 includes a price factor. The first table is in constant dollars, and the last line on the second table is in current dollars. So, these two things account basically for the difference.

Senator Grosart: A fiscal dividend?

Dr. Smith: We usually talk about fiscal dividend as added tax revenue generated by

the existing tax structure as the economy, and therefore taxable incomes, grow.

Senator Phillips (Rigaud): Dr. Smith, is it within the purview, in your opinion, of the Council to consider a study on the White Paper on Taxation and the effects it has on your projections?

Dr. Smith: I think I might add that this is a study, Senator Phillips.

Senator Grosart: There are several already.

Dr. Smith: I think I might add that this is a field in which there has in fact been a great deal of study. We have had the Carter Royal Commission which undertook a very considerable amount of analysis. Subsequently, there were basic analyses for the White Paper itself. I understand that a great deal of additional analysis is being done in many other places at this time.

It requires a very considerable amount of expertise in this area to do this sort of analysis. The White Paper, of course, is a very complicated document. We do not have this expertise readily at hand to make a comprehensive assessment so, at least for the time being, the Council is devoting its energies and resources to looking at other things which we think also have an important bearing on the performance of the economy.

Senator Phillips (Rigaud): Therefore, those of us who are making some attempt (a) to understand the White Paper and (b) to make some suggestions, cannot expect to receive the benefit of expertise from your Council in giving some advice and direction?

Dr. Smith: Yes.

Senator Phillips (Rigaud): The answer is in the negative?

Dr. Smith: Yes, the answer is in the negative.

Senator Laird: This follows on from what Senator Phillips has said. Would it be unreasonable to suggest that if some of the prognostications about the White Paper in fact come true—for example, the virtual elimination, as some people allege, of small businesses—that would upset your whole projection?

Dr. Smith: I would say the tax structure changes proposed in the White Paper could have a significant bearing on almost all the basic goals the Council has been asked to be

concerned with—the goals of growth, employment, price stability, the balance of payments position and what we have called an equitable distribution of rising income.

Senator Laird: Exactly.

Dr. Smith: It will have effects in a wide variety of ways on these various goals. I would say that if the tax structure is changed in a major way, when the Council undertakes an appraisal of the medium term potential of the economy that is one of the things we would have to take into account.

Just to give one illustration, one of the important things is that the estimates made in the White Paper, and some other estimates made elsewhere, about the additional revenue to the federal Government from the proposed tax structure changes are all calculated on the basis of 1969 estimates of income. When this is put into a dynamic context of the kind we have been talking about this morning—that is about a growing economy towards the middle seventies—these tax structure changes can have a very much larger effect. Some estimates I have seen in the press, by the Institute of Quantitative Policy Analysis of Toronto, are that the changes might perhaps produce added revenues of the order of \$2 billion or so over a period of five years in a dynamically growing economy. That will be the kind of thing we would have to take into account in any re-assessment of the future by the Council.

Senator Laird: Exactly.

Senator Phillips (Rigaud): Dr. Smith, going back to page 2, in the factors you take into account, all of which are, of course, very important and illuminating, I see no reference to the increased access to natural resources during this period. I am thinking of the opening up of the north, and that sort of thing. Were these factors taken into consideration in your projection?

Dr. Smith: In the comprehensive framework of our general growth analysis in the past we have had a look at the role of natural resources. I am not sure that our analysis is fully adequate in all respects. This is a troublesome area.

Senator Phillips (Rigaud): Of course.

Dr. Smith: I might put it this way. What appears to be emerging is that the important thing about the development of resources is not so much the resources themselves but the

skilled manpower and capital investment involved in their development, which are really critical. Those are factors which we have taken into account, and I think those are probably the major productive factors in the growth of the economy.

Senator Phillips (Rigaud): Do your studies cover the problem of pricing and the effect on exports in our competitive markets with countries such as Japan and West Germany? Broadly speaking, in what direction are we heading as a great trading nation? Are we losing ground or making ground in your projection up to 1975? You have dealt with exports and imports in a general way, and I was wondering more specifically if we can get any guidance from you and your expertise on that point.

Dr. Smith: We have not made specific estimates of changes in the prices of exports, certainly not in detail. In the development of our estimates we have looked at the implications for Canadian exports of growing markets abroad, and have related the export growth in Canada to the growth of markets abroad. We have also had a particular look at certain components of exports. For example, we looked at grains, following a special study, and discovered from this analysis—looking at the whole production, consumption, trading patterns for the whole world in grains to the mid-1970s—that the prospects were not very bright for any significant expansion in our grain exports during this period. We recently issued this study entitled "Future Market Outlets for Canadian Wheat and Other Grains," which was prepared for the council by Dr. Hudson.

We also looked at one or two other components of exports.

With regard to your reference to prices, we have done some studies in the past and have found out that the movement of prices in Canada, relative to those in the United States, has a very important bearing on our export performance. We therefore regard price movements as a very important matter.

In a general way, the pattern, as I have tried to point out, to 1975 in our potential analysis conforms with a pattern which has generally emerged in the world during the post-war period—namely, that any country which achieves a rapid rate of economic growth tends to have, along with that, an even more rapid rate of growth in its trade, both in exports and imports. You will note in Table 1.

that the average annual rate of growth in exports and imports, in volume terms, is about 8 per cent, compared to about 5½ per cent rate of growth for total output.

Senator Phillips (Rigaud): I would like to put another question if I may, Mr. Chairman. I wish to compliment you on your immensely valuable study, since the council has been organized, because it is a real guidepost for a good many of us in Canada.

Do you feel that the conventional methods of monetary and fiscal policy in themselves are still able to regulate our economy in terms of pricing, as an export nation or are we heading inevitably toward regulatory controls, in your opinion, in order to maintain and improve our position?

Dr. Smith: I think that is a very complicated question. Perhaps I might answer it in this way: when the council was asked several years ago by the Government, under a special reference, to look at prices, costs, productivity and incomes in the economy, we undertook a number of studies and reported on them at some length in our Third Annual Review in 1966. We indicated at that time that appropriate settings of monetary and fiscal policy were extremely important for maintaining general price stability in the economy. Without appropriate settings—at least to the extent that it was in our power to establish appropriate settings, in a world in which we, of course, are greatly affected by what happens around us—we could not hope to achieve at least as good a price performance as other countries. But we suggested that a great variety of other complementary policies were required for maintaining reasonable price stability in the future. These included policies that would place considerable emphasis upon maintaining competitiveness in our system, and policies that would help promote our productivity performance. We have found from our studies that a good productivity performance in an economy tends to have at least some marginal dampening effect upon price increases.

We stressed the importance also of certain kinds of policies that might be pursued more effectively by governments. For example, we stress the importance of trying to maintain a smooth and even growth of government expenditures on construction to avoid what has typically happened in the past, especially in the post-war period—namely, that government expenditures on construction often rose very rapidly just at the time when they were

rising rapidly in the private sector. This added to pressures and problems of maintaining price stability in the past, in a very, very important sector of our economy. We also set out general criteria for wage and salary determination in the government sector.

We emphasized the importance of better analysis, better information, and a better basis for creating public understanding of inflationary problems and dangers and instabilities in our system. So, we laid out a variety of what we considered to be very important complementary policies to monetary and fiscal policy.

Senator Beaubien: Dr. Smith, municipalities seem to be finding it very hard to make ends meet. Their fields of taxation are limited. What do you see in the future in respect of the municipalities? Let us take as an example the City of Montreal, which seems to be in a difficult position, and which seems to find it very hard to raise money.

Dr. Smith: Well, Mr. Thür may wish to comment further on this, but let me say that I think this is a very important problem. In our *Fourth Annual Review* we included a chapter on urban growth in Canada. Canada is undergoing an extraordinarily rapid rate of urban growth—more rapid than that in most other industrial countries. This imposes a growing set of problems of various kinds in our urban centres. To deal with these problems requires a widening scope and range of activities, and this imposes great pressures on municipalities in financial terms. We drew particular attention to this in that chapter, and we concluded at that stage that in looking ahead to the future—to a continued rapid rate of urban growth and the possibility of a piling up of serious problems—one of two courses would have to be followed in respect to the financial problems of municipalities. Either there would have to be further allocation of responsibilities from the local governments to more senior levels of government, or there would have to be some kind of system of re-allocating more financial resources to the municipal governments for coping with the problems that we can see.

Mr. Cornell: Perhaps I could add, Mr. Chairman, that one of the problems affecting municipal financing is that many of these things are hidden away. Federal programs such as those concerning defence, the Canada Assistance Plan, or Medicare are big programs which are out in the open and come up

for a great deal of discussion. Municipalities face many undramatic problems, and in this respect I always like to use the example of garbage collection, which only becomes important when we see it lying around the streets when there is a strike. This is one of the reasons. I think not enough attention is paid to the problems of municipalities. There is very little drama in these things. They come up year after year, yet the people tend to just curse the city administration and forget them, and turn to the much more dramatic problems facing other levels of government.

Senator Phillips (Rigaud): Police strikes dramatize them now and again.

Senator Isnor: Mr. Chairman, I should like to join with Senator Phillips in complimenting Dr. Smith and his associates for this very fine paper.

According to the brief and to Dr. Smith's statements, he says very definitely that the Government from 1967 to 1975 will have to double its revenue to take care of its expenditures. Is that right?

Dr. Smith: We estimated that the revenues of all governments will double at existing tax rates.

Senator Isnor: Naturally in business when we consider our expenditures we must also take into account the revenue. I wonder why you did not cover the source of revenues to a greater extent than you did. Your brief deals almost entirely, I would say 90 per cent, with expenditures by the Government. The revenue for those expenditures must come from some source, from business in a general way. What effect is that going to have on business?

Dr. Smith: We focussed particularly on expenditures, since we considered that background information of this type would be most useful to this committee. On the revenue side the greatest part of the increase will come from increased revenue under personal direct taxes.

Senator Isnor: Personal and business.

Dr. Smith: Yes, personal and business, the income tax. In the underlying analysis we made no allowance for increases in rates of tax from the setting of the early part of 1969 when we were closing off our work in this field.

Senator Phillips (Rigaud): The normal increase of the GNP.

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The Chairman: No increase in rates and no new major form of taxation.

Senator Isnor: The rate does not mean everything to a businessman. It is the amount he has to pay out compared with what his receipts are. At the end of the year he takes his total receipts less the expense and shows his profit. If taxes are going to double is that not going to have an adverse effect on his net profit?

The Chairman: Dr. Smith, I think, feels that generally throughout business on the whole the income of the businessman must also increase sufficiently to increase his expenditure. In effect, if taxation is doubled by 1975, the profits must also be doubled.

Senator Beaubien: If the profits are not doubled the take of the Government will not be doubled.

Senator Isnor: You say his profits must double but the Government says his profits must not increase, prices must not increase.

Senator Beaubien: Did you say that profits must not increase?

Senator Isnor: Prices must not increase.

The Chairman: There is a built in factor, I understand, Dr. Smith, of a price increase in these tables?

Dr. Smith: Yes, in the estimates of revenue and in the estimates of expenditure in the bottom line of Table 2, that includes an assumption for some price increase.

Senator Isnor: May I sue the word "retail"? Did you say that you have taken into consideration an increase in retail prices?

Dr. Smith: We prepared our estimates on an assumption of a 2 per cent increase in the GNP deflator from 1967 to 1975. Within that framework we applied, on the basis of historical experience, somewhat different rates of price increase to the major sectors of the economy. In the consumer sector of the economy, the tendency in the past has been for prices to increase a little less rapidly than for the economy as a whole. I think our estimates for price increases in the consumer expenditure sector to 1975 was of the order of about 1½ per cent per year.

Senator Isnor: I will close with this remark. If the Government says we are not to have an increase in prices, I do not see how their revenue is going to double.

Senator Beaubien: Keep the prices down.

The Chairman: We wish that what the Government said could come about, but it does not always happen.

Senator Everett: Dr. Smith, on page 3, you say that you used an annual rate of growth of 5.5 per cent per year in order to arrive at these conclusions: You say:

This is a faster rate of growth than is estimated for the United States and most other industrial countries and a rate which is very high by long-term historical standards for Canada.

Given the present monetary and fiscal restrictions, can you tell me at this moment whether we are sustaining that rate of growth?

Dr. Smith: The charts which I have would help to put that matter into perspective.

Senator Beaubien: Let us see the charts.

The Chairman: These would be useful and we will see them. I suggest that we come to this later and take Senator Pearson's question now.

Senator Pearson: I understand that you say that the outlook is not very bright, projecting to 1975. I talked to the Director of the F.B.O. at the United Nations and he had exactly the same story.

I wonder, with the population of the world increasing considerably and rapidly, are we losing our use of grain and growing some other type of food. Is that why the projection looks so poor?

Dr. Smith: No. The main reason is when one looks at what is developing in production and consumption of grains in different parts of the world—different regions and different countries—one finds that a fairly widespread tendency has emerged for production to rise more rapidly than consumption, in many areas.

This has produced the situation in which we now have, by the latter part of the 1960s, a good deal more countries who are exporting grains—have become net exporters—than we had, let us say, a decade earlier.

Secondly, in the net importing countries there has been a tendency, again, for production to rise in relation to consumption, so that imports are not tending to rise as rapidly as one might have anticipated.

We had some major breakthroughs, of course, technologically, genetically, in grain production—in rice as well as in wheat—in what today is being called the "green revolu-

tion". Apparently that has begun to have a significant effect in many countries in providing a more adequate domestic basis for feeding rapidly-growing populations.

Senator Beaubien: Is that because of better fertilization and that sort of thing?

Dr. Smith: Yes, there has been a wider use of fertilizers, too. There are many factors involved in this. I think that the genetic side of it is perhaps the most important new aspect, but increased use of fertilizers and mechanization in farm production in certain areas and better organization and management of land, more knowledge and skill on the part of the farmers around the world about how to grow crops better are also involved. There are many factors involved.

Senator Laird: Mr. Chairman, following that line of questioning, into how much depth do you go on specific items? For example, take transportation. You consider that on the basis of the various modes of transportation now in vogue, do you, or do you not consider the possibility of a change such as the greater use of public transportation in urban communities?

Dr. Smith: We have not gone into this in very much detail, senator. There have been certain trends and tendencies in the past which are taken into account in the way in which we have developed our system for the future. I should think that, with regard to the question of some major changes in modes or in patterns of transportation, those are not likely to come quickly or overnight. We are not likely to have radical changes over a few years. We have not attempted to deal in very much detail with these kinds of changes.

Senator McDonald: Dr. Smith, in your paper you have given us projections of Government revenues now and for the mid-1970s. You go on to say that you don't anticipate the Government will be able to institute any new major spending programs unless the money can be found through the discontinuation of some present programs and through more efficiency in Government. Have you done any studies that would give us some reason for being in this position? Were the estimates for increased expenditures on education and increased expenditures for new health and welfare programs underestimated when the programs were brought into effect?

Senator Beaubien: Or were they not estimated at all?

Senator McDonald: Yes, that is a good question: or were not estimated at all? Surely the plans of five and ten years ago were not such that it was the intention of the Government of the day to commit itself to programs that would put it in a position where they would not be able to bring into effect new programs over a period of five or ten years from then. How did we get into this mess?

Dr. Smith: One of the things I might say about this is that in a field such as education, for example, we have been attempting in the 1960s to put a great deal more effort into improving and extending the education of Canadian young people; into keep them in school longer; into reduce drop-outs—and also, at the same time, into accommodating since the beginning of the 1960's the very large bulge in the age group associated with the higher education system. In the early post-war period, we had the largest baby boom, relatively, of any industrially-advanced country. The leading edge of this baby boom has now become, in the 1960's the leading edge of a very large rise in the numbers of young people entering into the education system and the labour force. And we are trying to accommodate this in the education system at the same time that we have been trying to encourage a rising number of younger people to get more education. That means, since the numbers will be growing very rapidly in terms of enrolments through the 1970s, that education expenditures will have to keep rising to accommodate them.

Similarly in a field like health, where we anticipate against a very rapid increase in expenditures associated with the introduction of a program like Medicare (which was not fully introduced in 1967, we simply estimated the expansion required in expenditures by governments to take care of that program.

One of the things we have emphasized in the past, and this may be a useful opportunity to do it again, is that there should be published in Canada, each year, a five-year forward estimate of government expenditures. This is done in a number of countries and we think it would be a very useful thing to do in this country. It does not mean that one is committed to these in detail or that one is frozen into a pattern, but each year there could be a review which would be carried forward a year, and would give some impression of where we were going. The tax structure committee has been moving in this direction, and we ourselves at the Economic

Council have attempted to make a small contribution. This year, for the first time, governments as well as larger business firms are covered in our medium-term investment survey. The bulk of government expenditures are covered in those Estimates for five years. But I think it would be very useful to have this done in a consistent and continuing way for all expenditures of all governments in Canada.

Senator McDonald: Could you give us any information as to whether there will be a period in the mid-1970s or before when expenditures for health, welfare and education will peak. If tax revenues were doubled in the next five years without making provision for new programs and leaving taxes at the present rate, when will our growth in the economy be sufficient to bring in tax revenues to implement new programs? Will these present programs peak at some period and let us have some money in the bank for new programs, or will they go on indefinitely?

Dr. Smith: Mr. Cornell may have more details on this. But again to take the field of education, the most rapid increase in enrolment in post-secondary levels of education is in fact now behind us. Roughly, the rate of increase in enrolment at the university and non-university post-secondary institutions was about 15 per cent per year in the latter half of the 1960s, and we estimate it will be around 10 or 11 per cent in the first half of the 1970s, and somewhere around 5 per cent in the latter half of the 1970s. We are still going to have a very high rate of increase in expenditures in the early 1970s because we are now talking about the most expensive level of education where both capital and operating costs are high; here again we are trying to develop and build up added facilities in some of the most expensive parts of education—graduate education, (which is more expensive than undergraduate education), and certain specialized areas such as medicine, where costs are relatively high.

But there will be a stage in education where the patterns will change. To provide perspective on this, we moved from very high birth rates rapidly down to much lower birth rates in the sixties. In fact, the total number of births in Canada declined substantially in the sixties. Already that is showing up in falling enrolment in the primary schools. By the latter half of the 1970's we will have falling enrolment in the secondary schools.

And by the 1980's we will have much less rapidly expanding post-secondary education.

Senator McDonald: Thank you for the education, the aspects. Now what about health and welfare programs, Medicare programs, hospitalization programs, old age assistance? Is there a peak somewhere there, or do they continue to go up forever?

Dr. Smith: I cannot really speak beyond 1975. We have done estimates only that far.

Senator McDonald: Well, ex-'75 are these costs still going up? Is there any sign of a peak?

Mr. Cornell: I think we can answer that in part, senator. Our figures refer to the average rate of increase over the period 1967-75. It is very difficult to pin down. We could not say, for example, there was going to be a peak reached in 1972 or 1973. What I think it would be safe to say, however, is that in certain areas—and health is probably one—if our assumptions remain the same—for example, the assumptions we make regarding doctors' fees—there will be more pressure on health expenditures during the early part of this period than in the later part. Obviously, if you introduce Medicare, in the earlier stages your health costs are going to go up much more rapidly than in the later stages.

This could perhaps be the case, say, for post-secondary education too. Right now we are still facing a fairly rapid rate of increase of enrolment. That rate of increase is eventually going to diminish sometime in the 1970's. As it does, this will give more leeway for other programs—for example, for pollution programs—if this is what governments want.

Dr. Smith: Could I make one more comment, and then perhaps Dr. Ostry could add a comment?

There is one other question that I think is very important. In this period in which we have been trying to move to expand our educational system very swiftly, and to extend medical care and services quite rapidly, a great deal of attention has been devoted to the question simply of *expansion*—how to enlarge the capacity to provide educational services and health services. I think we are moving into a period in which a rising number of questions are going to be asked as to how to do some of these things more efficiently. The Council is working in these two areas, higher education and health services,

and beginning to ask questions about how to provide some of these services more efficiently.

Senator McDonald: In the areas that have had medical care the longest—and I think my own Province of Saskatchewan has probably had it the longest—there has been no indication that the cost of Medicare has ever reached a peak. It goes up by about 15 per cent a year, and from the projections we have it looks as though it is going to go on rising forever. That being the case, the only way to implement new programs in Canada is either by an increase in Gross National Product or an increase in taxes.

Senator Beaubien: Tell me, what programs do you think we have not got now that would entail more government handouts?

The Chairman: I think I should point out that the statement of Dr. Smith does include more money for two relatively new programs, pollution and urban development. Then I come to the question of Senator Beaubien, after pollution and urban development: what are the new programs that we are thinking about?

Dr. Sylvia Ostry, Director, Economic Council of Canada: I think this brings up very clearly the last point we tried to make about the more rigorous analysis of national goals. What, in fact, you are saying is that most of our goals are pre-empted, and your question is how much pre-emption is there and how much margin for manoeuvre have we got?

I think if we take as inevitable that they are all pre-empted, we are in a very bad state indeed. A great deal more research and planning goes into the development of a new cake mix and much harder questions are asked about that than are asked about what output are we getting for expenditures on very rapidly growing services such as medical care and education. I think this is what the Council is trying to suggest, that this is an area requiring very intensive, careful analysis, and a good deal of innovation in research and in the development of data that will be needed if we are not always to have our goals pre-empted without a free choice in the matter.

The Chairman: This has been a very interesting discussion. Shall we go ahead with the other part of Dr. Smith's presentation of the charts.

(See Appendix "B")

Dr. Smith: This is a set of charts, as I indicated earlier, which attempt to provide some perspective on the performance of the Canadian economy in the 1960s. As you may recall, we entered the 1960s with a lot of economic problems—some very serious economic problems—problems of high unemployment, slow growth, balance of payments strains, and widespread poverty and large regional disparities. We also still had inflation worries even at that time, and considerable apprehension about how the Canadian economy would perform in the 1960s.

In the event, the 1960s have turned out, as you all know, to be a very different kind of decade than many had expected, a decade of strong recessionless economic growth, of improvement in a number of aspects of our economic performance. It has certainly not been a problemless decade. But in many respects I think we have done better than many people anticipated.

The charts (*See Appendix*) attempt to touch on a few of the highlights of the developments in growth, unemployment, price performance, some aspects of the anatomy of our demand growth in the 1960s, and in the fiscal posture of governments and monetary expansion in the decade.

The first chart shows real gross domestic product—a measure of output which is very close to that of gross national product. Canada and the United States are shown in the middle lines in the chart. You can see we grew slightly more rapidly in terms of total real output than the U.S. economy from 1961 to 1968 and a good deal more rapidly than the United Kingdom in this decade, although a good deal less rapidly than the Japanese economy, which approximately doubled in size in only seven years.

Senator Phillips (Rigaud): I might as well admit my ignorance. What is the difference between G.N.P. and G.D.P.?

Dr. Smith: The main thing is that there is a difference here in the way in which interest and dividend payments between residents and non-residents are taken into account. To move from G.D.P. to G.N.P., you deduct the payments of interest and dividends to non-residents and you add the interest and dividend payments to residents of Canada.

Senator Phillips (Rigaud): Thank you.

Dr. Smith: It does not make very much difference in the Canadian case.

The second chart shows, for the same group of countries, real output per capita. Real output per capita is often used as a rough measure of the standard of living. Here you see very much the same pattern: Japan with a very high rate of growth in real output per capita; a lower rate in the United Kingdom; and with Canada and the United States again in the centre. In this case, the Canadian and the United States rate of growth in average real output per capita was about the same over this period—a little more rapid in Canada through the mid-sixties and a little less rapid than in the United States during the latter part of the 1960s. I might indicate that on these two charts, if we had shown the European Economic Community—which is another important advanced area—it would have shown that the standard of living in the European Community grew at about the same rate as that in Canada and the United States in the first half of the sixties, but more rapidly than in the North American countries in the latter part of the sixties.

One of the reasons for showing the particular group of countries depicted in this chart—the United States, the United Kingdom and Japan—is that these are our major trading partners—between them, they account for over 80 per cent of Canada's total trade.

Senator Beaubien: This seems to have been all stopped in June of 1968.

Dr. Smith: They are plotted on an annual basis. At the time we put these together, 1968 was the last year for which we had annual data for these countries.

Senator Beaubien: Do you think there has been a significant change in the acceleration on these different lines since then?

Dr. Smith: I would think the changes in the United Kingdom and Japan would probably extend the sort of trends you see here. With regard to Canada and the United States, the next charts will carry us through 1969.

The third chart shows the changes in real output for Canada and the United States, plotted year over year in the top part of the chart and quarter over the previous quarter in the bottom part. Also shown, in lines across the chart, are the potential growth rates in the two economies over this period—5 per cent for the Canadian economy, and 3.8 per cent for the U.S. economy. The higher potential growth rate for Canada results

mainly from the fact that in this period the Canadian labour force grew twice as rapidly as that of the United States.

Senator Everett: How do you establish potential growth rates?

Dr. Smith: This is a calculation about the output that one could be realized in an economy if you had reasonably full utilization of resources and increasingly efficient utilization of resources over time. The latter involves a measure of productivity growth and is essentially based on the post-war trend of productivity growth.

You see in Chart 3 that after the 1960-61 recession when the growth rates were quite low in both Canada and the United States there was a rather extended period through to 1966 in which both economies moved very strongly. Both economies were growing at actual rates above their potential growth rates, and in the next chart you will see how that was possible.

Then in 1967 we had a brief slowdown in both economies, and a pickup again in the early part of 1968.

By looking at the bottom of the chart you can see that in the United States economy, since the very high rate of growth in the second quarter of 1968, there has been a progressive slowing until the fourth quarter of 1969, when the U.S. economy was in a virtual "no-growth" situation.

In Canada we have had a much more volatile growth pattern, which is typical of the past. We seem to have an economy that is more volatile in a variety of ways than the U.S. economy. In the second quarter of 1969, we had a "rogue" quarter, with a significant decline in real output. This decline shows up in a wide category of expenditures, but I think there are some statistical problems with the measurements here—as well as strikes and other special factors. However, the basic position within the Canadian economy is that it, too, like the U.S. economy although rather less clearly, is in the process of slowing down. The fourth quarter figures for 1969 are relatively high, but in part they reflect recovery of production from various strikes that had been in process earlier in the year.

Chart 4 shows potential output growth and actual growth for Canada and for the United States.

It can be seen that the Canadian potential growth rate is rising quite steeply—in fact,

more steeply than that of the United States because we had a more rapid labour force growth.

Both economies came into the 1960s with a substantial amount of slack. Actual output was considerably below potential output, and both had high levels of unemployment. Unemployment was at about 7 per cent in Canada in 1961. We had underutilized manpower, in other words. We also had idle plant and equipment at that time. Subsequently, the two economies grew exceptionally rapidly. You will remember the previous chart which showed the growth of the two economies at above their potential rate of growth up to the mid-1960s.

The United States economy reached potential output in the mid-1960s, and then moved slightly above potential output, and it has been in that position, under very heavy demand pressures, almost consistently since then, moving slightly below potential output only in the fourth quarter of 1969.

I might say that these potentials have been calculated on comparable bases for the two countries.

In the case of Canada we moved up to potential in the mid-1960s, and then moved slightly below again, and we have remained slightly below potential in the latter part of the 1960s.

I have put in one more chart here which is not in the package of charts that you have, to illustrate an interesting development in the United States, reflected in the last report of the U.S. Council of Economic Advisers. This chart shows the same information for the United States as the preceding chart, (but plotted on a quarterly basis). It shows the growth of actual output in relation to potential—the closing of the gap in the first half of the 1960s, moving to slightly above potential output in the latter part of the 1960s. Then it extends this analysis to 1975.

This is a new step in the United States. The U.S. Council of Economic Advisers, as you know, is part of the President's office, and this presentation, in effect, amounts to a view on the part of the Administration of the United States about the particular growth path which it presumably considers to be appropriate over the next few years. The intention, suggested by this chart, is to move the U.S. economy to a position of slightly below potential during the course of 1970, keep it slightly below potential during 1971, and begin to move back towards potential

output in 1972. The implication is that policy will be geared to maintain a small margin of slack in the American economy during the next two or three years. This is to ensure that excessive demand pressures of the kind that emerged in the latter part of the 1960s and helped to produce considerable price instability will not re-emerge in the near future.

Senator Everett: Does that indicate that the President will have to take control of the Federal Reserve Board?

Dr. Smith: The President, in recent weeks, has made some cautious comments on the role of monetary policy.

Senator Beaubien: Dr. Smith, how is he going to keep wages down? That has an important bearing on the situation.

Dr. Smith: The expectation is that the wage increases will gradually moderate in the United States.

Senator Pearson: There will be greater manpower in the next two years than at the present time due to the retirement of troops from Vietnam.

Dr. Smith: Yes, there will be some adjustment. This is not a major factor in a labour force as large as that of the United States, but it is a factor.

Chart 5 shows the unemployment rates in Canada and the United States during the 1960s. In Canada we started with a higher rate of unemployment than in the United States at the beginning of the decade. Our unemployment rate dropped more rapidly than that in the United States until 1966. It then moved up to about 4½ per cent in 1968 and 1969. In the United States the rate of unemployment moved down a little less rapidly than that in Canada. In the last two or three years, unlike Canada, under strong demand pressures in the United States, labour markets have continued to be very tight and unemployment has moved somewhat lower to around 3½ per cent. In 1970, the unemployment rate in the United States is moving up. At the last count, in February, it was 4.2 per cent.

Senator Laird: Would that be due to the racial situation?

Dr. Smith: No, it is mainly because the economy is slowing down. The demand pressures are easing and the labour markets are not quite so tight as they were.

The Chairman: I would read the previous chart, Dr. Smith, as indicating that this current rate of unemployment and the amount of slack indicated would be about maintained. Would that be so, or would it be greater or less for the United States?

Dr. Smith: The Council of Economic Advisors in testifying before the Joint Economic Committee of Congress about three weeks ago indicated that the rate of unemployment which they believed would be consistent with the 1970 path of output in the United States would be an average of about 4.3 per cent for this year. For some months it will obviously be higher than that, but this is their estimate of what would be the rate of unemployment consistent with that output.

We now turn to prices. Chart 6 sets out changes in the gross national product deflator, in Canada and the United States. In the case of Canada you can see from those bars marching up very rapidly to 1966, that we had a more rapid acceleration of price increases in the mid-1960s than the United States did. We had a little bit of falling back in 1967, and subsequently continued high rates of price increases, but with some volatility from quarter to quarter. Again, that second quarter of 1969 appears to be a "rogue" quarter, with an unusually high rate of price increase.

Senator Isnor: Is that good or bad?

Dr. Smith: I do not know. I suspect there may be some statistical problems. In the United States, you will see that their price increase moved up less rapidly than Canada's in the mid-1960s, but continued to rise in the latter part of the 1960s. It has been only in the latter part of 1969 that prices appear to have stopped rising in the United States.

Chart 7 shows the consumer price index, which is another widely used measure of price changes. The main part of the chart shows, in index number form for the 1960s, the price increases that have taken place in a variety of countries. You will see that, for this decade as a whole, even though our price increases were high, and obviously of very great concern, for the decade as a whole the Canadian-U.S.-West German price increases have been somewhat less than those in some other countries.

Italy, France and the United Kingdom all had larger price increases in the 1960s. Japan, with its very high growth economy, has had the fastest rate of increase in consumer prices.

The Chairman: It started from a low base in 1961, is that right?

Dr. Smith: We put them all on an index number basis, starting from 1961, showing the changes since then.

The insert chart shows the consumer price index for United States and Canada on an index base of January 1968 equal to 100. In this period you can see the consumer price increase in Canada has been slightly less than that in the United States.

Chart 8 attempts to show something of the anatomy of the expansion in demand in the 1960s, by indicating the contribution which major categories of demand—exports, business investment, Government spending on goods and services, and consumer spending—have made to the growth in total demand, year by year in the 1960s.

There are two major categories missing here—imports and housing. If they had been shown, it would be possible to add up all the bars to equal the height of the bottom bars in the chart. The aim, in other words, is to indicate what contribution each sector of the economy has made to the increase in GNP.

In the 1960s, export increases have been very high in Canada and they have contributed very substantially to the growth in the economy. They have made a much more substantial contribution to growth than was the case in the late 1950s. The surge in exports in the 1960s—perhaps especially through the early 1960s—was related to the devaluation of the Canadian dollar, which had a significant stimulating effect on exports. But even in the latter part of the 1960s we may still have been getting some favourable effects from devaluation—sometimes devaluations take a long while to work their way through the system.

In the second line—Business Investment—you can see that in the 1961 recession we had a decline in new business investment. We moved, starting in 1963, into a major business investment boom through 1965-66. There was then a year of cut-back again and subsequent re-emergence of some expansion. Business investment has historically tended to be the most volatile of the major components of expenditure in the system and it has maintained that record in the 1960s.

In the case of governments, the contribution they were making to the demand on the economy was high in 1961, but then fell off somewhat before moving up very strongly in the mid-1960s. So if you look at those top

three panels together, considering the contributions they made to the growth, you can see that exports cut in as one of the early engines of growth in the expansion over the first half of the 1960s. This was followed by business investment which moved in, then, as the second strong supporting factor in growth, and then just as the economy was beginning to near potential output governments came in as a strong factor.

In the case of personal consumption expenditures, after the low contribution of consumers in the recession of 1961, consumer expenditures have remained relatively steady in terms of their contribution—a high and stable contribution—to growth.

Chart 9 is a similar chart for the United States. We have omitted exports here because they make a very much smaller contribution to growth in the United States than in Canada. The patterns for the other three major categories are somewhat similar to those in Canada. In the United States again you can see the business investment boom of the mid-1960s, a falling-off in 1967, and some subsequent build-up again. In the case of governments, a later and relatively much stronger build-up of total government expenditures occurred in the United States than in Canada, especially in 1966-67. Again, in the United States, there was, on the whole, a fairly high and stable contribution to growth by personal consumption expenditures.

Senator Isnor: What is that value change?

Dr. Smith: These are percentage figures, senator.

Senator Isnor: What does the word "value" indicate?

Dr. Smith: The top of the bar is the value of total output. In other words, the total height of the bars show the percentage increase in current dollar GNP, and the solid part of the bars shows the percentage increases in volume terms—that is, in constant dollar terms. The difference shows the contribution of price change to the current dollar GNP growth; you can see that in the United States in the last three years price increases in volume terms—that is, in constant dollar GNP increases, and the "volume" increases have not been very high.

Chart 10 needs something of a preamble. It attempts to portray the fiscal position of all levels of government combined that would

have occurred in Canada and the United States if each had operated at potential output during the 1960s. This is what is meant by the "full employment budget" position. The full employment budget position here is defined as the fiscal balance that would have been realized with actual levels of government expenditure and the tax revenues that would have been generated at potential output. In other words, with a full employment output level in the system. This concept helps to indicate what might be called the "fiscal tilt" towards restraint or towards stimulus in the economy that would exist at potential output—and hence, whether the fiscal posture may be tending, in the case of a deficit, to push the economy above potential output or, in the case of a surplus, to hold the economy below it. I might say that the underlying data for this chart include the revenues and expenditures of the Canada and Quebec Pension Plans and, for both countries, they are based on the national account concepts of Government revenues and expenditures. Although the latter unfortunately excludes certain government financial transactions which may have considerable economic consequences, the national accounts presentation of the government sector attempts to provide systematic coverage of the economic effects of government revenues and expenditures.

Senator Phillips (Rigaud): Of what use is this to a layman like myself, Dr. Smith?

Dr. Smith: I was going to try to do some interpretation for you. Let us look at the U.S. economy first. In the earlier 1960s this full employment concept indicated that the United States economy was operating with a moderate surplus in its fiscal posture in these terms, and this became an increasing source of concern in Washington, as the economic advisors and others felt that there was a built-in bias in the system, at a time of substantial slack in the economy, against moving up towards potential output. It took some considerable time before, in 1964, a major tax cut was introduced in the United States. That began to reduce the full employment budget surplus, and then in 1965, especially with the stepped up involvement in Vietnam and very large expenditure increases—particularly, very large military expenditure increases—the U.S. full employment budget position swung over to a very substantial deficit in 1967. By that stage the setting of the U.S. economy—the fiscal posture setting—was one which was

tending strongly to push the economy above potential output. That became an increasing source of concern, starting as early as the latter part of 1965, through 1966 and 1967 but it was not until the United States Revenue and Expenditure Control Act in June, 1968 that a major increase in taxes was introduced. This, together with the government expenditure restraints which began to emerge in the United States at that time, led to a swing back onto a small surplus position by 1969. In short, in the United States there have been serious questions about the U.S. fiscal posture—both about the earlier full employment surplus at a time of considerable slack in the economy and about the full employment budget deficit at a time when there was considerable pressure on the economy later in the 1960s when the economy was above potential.

In the Canadian case we see a very different pattern. In the early 1960's we had a full employment budget position in which there was a small deficit at a time when we had a good deal of slack. By the mid-1960's we moved to a moderate full employment budget surplus at a time when price increases were accelerating, and during the latter part of the 1960's, supported by the introduction of the Canada and Quebec Pension Plans, we moved up to a quite substantial full employment budget surplus in the economy. This magnitude of this full employment budget surplus—at around three per cent of the Gross National Product—is about the same as we had (measured in the same way) at the time of the Korean War, but still significantly below the full employment budget surplus of 1947 when we were very worried about the emergence of strong inflationary pressures.

Senator Phillips (Rigaud): I would not like you to cross-examine me on that.

Dr. Smith: The full employment budget position is a difficult concept senator, and yet it is a very useful concept to start with. It does not tell you everything about the fiscal position in a country, but it tells you a good deal about what the underlying fiscal posture really is like. In a fuller appraisal of fiscal policy, one would want to supplement this by looking also at the borrowing and lending operations and other things not included in this calculation, and one would want to look too at the rate of increase in expenditures and revenues. It is quite possible to have a surplus position that is unchanged and still have

some expansionary effects, if both expenditures and revenues are rising very rapidly together—since quite frequently the expansionary impact of government expenditures hits homes on the economy more quickly than the restraining effects of increased revenues.

Chart 11 shows rates of expansion of the money supply broadly defined for Canada and the United States during the 1960's.

You can see, for Canada, after the brief period of monetary restraint in 1962, when we had an exchange crisis and a return to a fixed exchange rate in May in 1962, both Canada and the United States had roughly equivalent measures of monetary growth in that period.

In 1966, both countries applied monetary restraints, but back away from them in the latter part of 1966; and in 1967 and 1968 both countries had quite high rates of monetary expansion. In part, the very high rate in Canada during that period was related to the introduction of new banking legislation which had some effects that tended to encourage a rapid expansion of the money supply. Then you can see, very dramatically, both countries applying very vigorous monetary restraint in 1969, with almost no change in the money supply.

Senator Isnor: But it did not have any effect on the exchange, did it?

Dr. Smith: The Canadian...?

Senator Isnor: The Canadian dollar.

Dr. Smith: No. By and large, Canada's international payments position has been quite strong in 1969.

Senator Isnor: But it did not affect the rate of exchange?

Dr. Smith: We have a fixed rate of exchange. Now we are on a system in which we have small margins to fluctuate around a fixed rate under the International Monetary Fund arrangements.

Senator Everett: Dr. Smith, Chart No. 4, the actual and potential GNP of Canada and the United States, and also Chart No. 5, the unemployment rates indicate that we are well below our potential—that is, at the latest moment on that chart, which I imagine is somewhere just after half way through 1969—and also that our unemployment rate is considerably higher than the U.S. If that is the case, why would we put on a monetary

and fiscal crunch that is far more vigorous than that of the United States?

Dr. Smith: I cannot answer that question, senator.

Senator Everett: I can understand that you cannot. Do you think, in light of these statistics, that we are being a little too vigorous in Canada in our restraint?

Dr. Smith: Perhaps I could answer by indicating that when the Economic Council looked at this matter at the time of its Sixth Annual Review last year it could then see that our general demand restraint policies, both fiscal and monetary, were moving towards positions of very vigorous restraint. At that stage we in effect put out a warning that this was something that would need to be watched with considerable care. The recent degree of restraint is not sustainable for a long period of time without producing poor performance in the economy. The positions of restraint would have to be shifted at sometime. The question of the timing of shift is a very difficult one and the Council did not pretend to have any answer about the appropriate time of shift.

Senator Everett: As I understand it, since you made that statement the Bank of Canada has moved to restrict the money supply to an even greater extent. Now the Government has projected increased budget surpluses, and has now moved into consumer credit restraints, and in certain hot spots that they have designated, into the deferment of appreciation. It therefore seemed to me that the crunch is far worse today than at the time you made the statement.

This Government is being far more vigorous than the American government. When you look at these figures, which I imagine would be the figures obtaining about the time you made that statement, the American economy was very close to its potential but the Canadian economy was running about three-quarters of the way below its potential, that it was running in 1961 when we talk about the great slack in the Canadian economy.

I shall come to a question sooner or later, but I want to go back to the fact that you projected a 5.5 per cent per year growth in the economy. You have this tremendous restraint, and I am given to understand that in monetary restraint there is about a six-month lag from the time the central bank

changes its direction before the economy feels the effect. If we are below our potential when we start, if our restraint is greater and if we have to suffer a six-month lag, does that not indicate that in the early stages, that is the first year, we may not enjoy a 5.5 per cent growth but a very different and much lower figure? If in the five-year projection you are compounding that rate you seriously affect that rate in the first year, the compounded effect of the short-fall becomes a very grave figure in 1975. Would you say in your judgment that the restraints are perhaps too vigorous for the conditions that obtain today, and that they may seriously affect the projections because of the compounding effect, so that the economy has an enormous short-fall in its potential by 1975?

Dr. Smith: In responding to your question, senator, may I say first of all that as the first five years of the 1960s demonstrated, even if you have some slack to start with, you can move close to potential over a number of years. But we are inclined to suggest in the Economic Council that the appropriate approach in terms of policy is to try not to produce a situation in which you create either persistent pressure against potential, such as the United States had in the late sixties, or the emergence of a significant amount of slack. If we produce a significant amount of slack, the danger arises that there may be a tendency for a very fast catch-up later on, such as the kind we actually had around the mid-1960s. In those circumstances, there is a danger that another round of inflationary pressures might be set loose. There is a question too, that if you run an economy with a significant amount of slack, it may have some indirect effects on your potential growth rate—may tend to reduce it somewhat. In the Council we are trying to look into this relationship more closely. I do not think the effect is likely to be very large unless there is a large amount of slack which is maintained for a long period of time, but there could be a fair amount under those conditions.

The basic question which you raise is, I think very much at issue. This is the same kind of question which we raised in our Review last year—that the high degree of current demand policy restraints needs to be watched with very great care. If we should produce a large amount of slack the danger arises that there will be a sudden and major reversal policy to a stimulating posture; this would give rise to possible dangers of another

round of pressures and distortions in the system.

The Chairman: I take it, Dr. Smith, that one of the factors in the Canadian economy is also our regional disparity which reacts differently to general measures taken, dealing with the amount of fiscal policies.

Dr. Smith: Yes, when the economy slows down in a major way and moves to a position of substantial slack, and unemployment rises, the costs are borne very unevenly in the system. In the case of the unemployed, it is those among the disadvantaged which tend to be most affected and similarly the weaker regions of the country tend to feel the impact of the slowdown most dramatically.

The Chairman: Are there any other questions?

Senator Everett: I do not want to involve Dr. Smith in any political problems.

Dr. Smith: I hope not.

Senator Everett: I am sure that I won't. I just want to say that he has, in the past and once again, warned of this matter of restraint which has to be watched carefully. If I were sitting in his shoes I would go much further and say that the time has come to change direction, that we started with an economy that was slacker than the United States and with a higher employment rate. We have been far more vigorous in trying to restrain it. Are you prepared to go as far as I am going to say that the direction should be changed, and that the time has come...

Dr. Smith: No, I am not prepared to make that statement. I emphasize again that the big levers are not adequate in themselves. We need to have a much fuller range of weaponry for stabilization purposes, and if we had a fuller range of other things we would probably need to use monetary and fiscal policy—which are blunt, heavy, and powerful instruments—perhaps less than we have in the past. But, in operating major levers of policy there is a great deal of information that one needs to have in order to make decisions as to timing of changes, and we in the Economic Council do not have that information at the present time.

In such an area as monetary policy we have indicated a general strategy in the past which we thought appropriate as a basis of monetary policy operations—one, incidentally, that

for its effective operation, would have to depend upon a roughly similar strategy operating in the United States. But, we have provided a great deal of scope for tactical departures from that strategy when dealing with a practical situation in which we have very large international payments transactions and financial markets of a very volatile nature. One has to have a range of detailed financial information which we do not have in the Council to make the kind of judgment you were wondering whether I would make.

Senator Everett: In chapter 3 under the heading of "Poverty" you referred to two courses that could be followed in the mid-70's. The Special Committee of the Senate on Poverty is constantly faced with the idea of a guaranteed annual wage, or a negative income tax. Would the Council be able to provide any figures that would show how much the guaranteed annual wage would likely cost, and how much it would save in the present welfare payments? If this is to become a recommendation of the committee then before any government can make a move it will be necessary to have that kind of financial information.

Dr. Smith: We in the Economic Council have not made such estimates, although there have been two or three studies made privately. Mr. Thür, the new Vice-Chairman of the Council, made some estimates along these lines some time ago before he joined the Council, and there have been some others. They indicate that the magnitude would be quite large. If I recall, the amounts would be considerably over and above the amount of the present payments.

Senator Everett: Perhaps it is something that you could give consideration to.

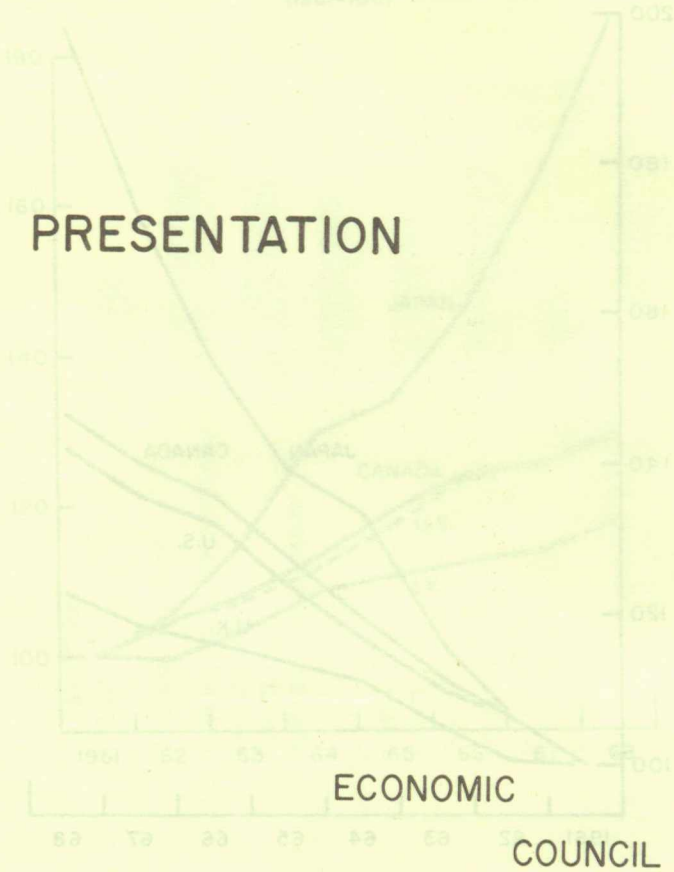
Senator Leonard: They can deal with that when you call them before the Committee on Poverty.

Dr. Smith, I want to thank you and your colleagues and associates on behalf of the committee for a very interesting and delightful morning. Your presentation has added much to our knowledge of Canada's economic position. We are very grateful to you.

The committee adjourned.

APPENDIX B

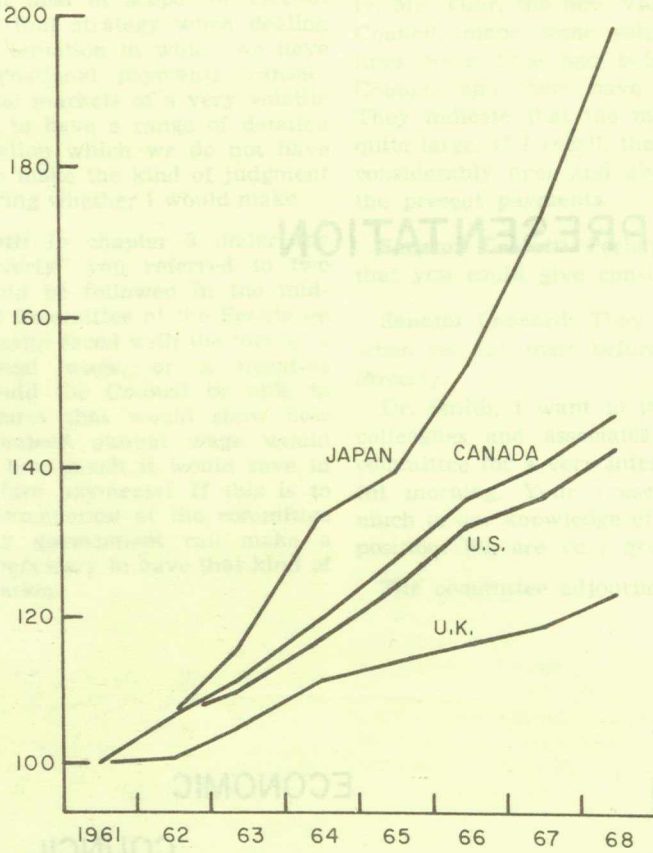
CHART PRESENTATION



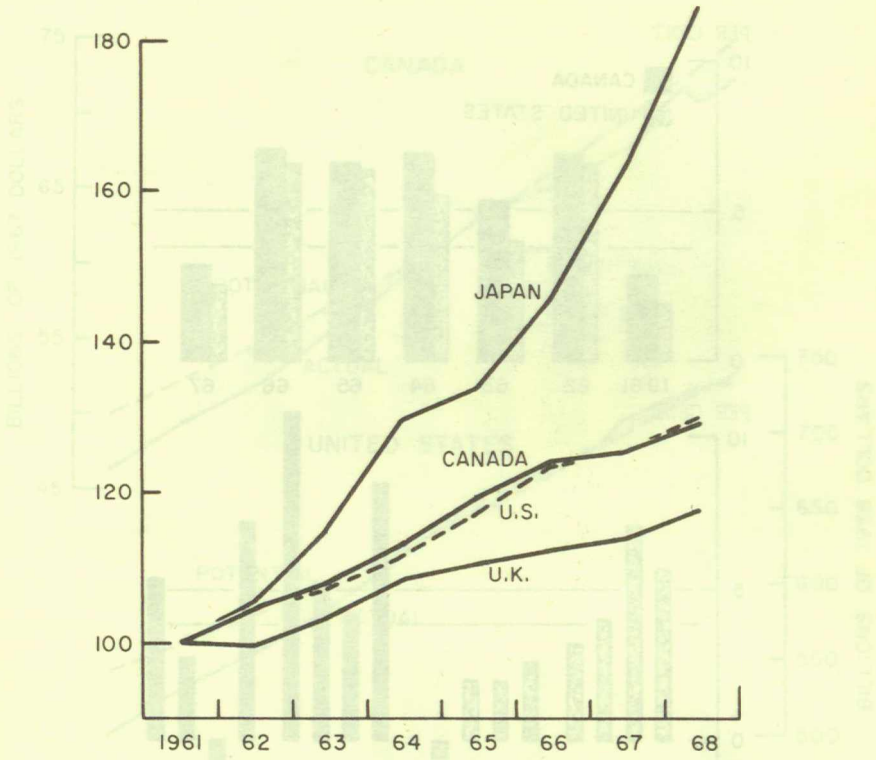
COUNCIL
OF
CANADA

REAL G.D.P. SELECTED COUNTRIES

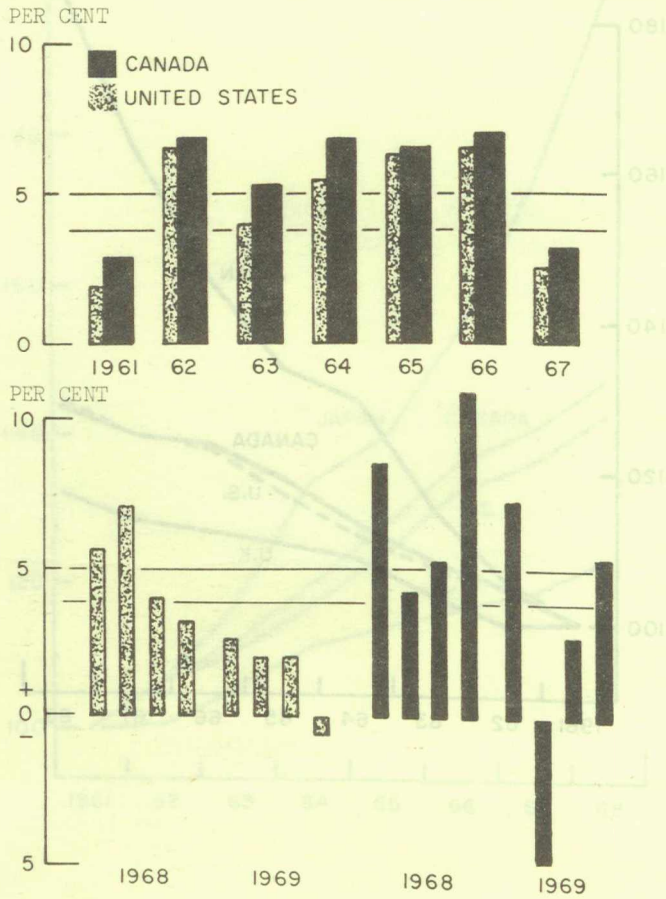
(1961=100)



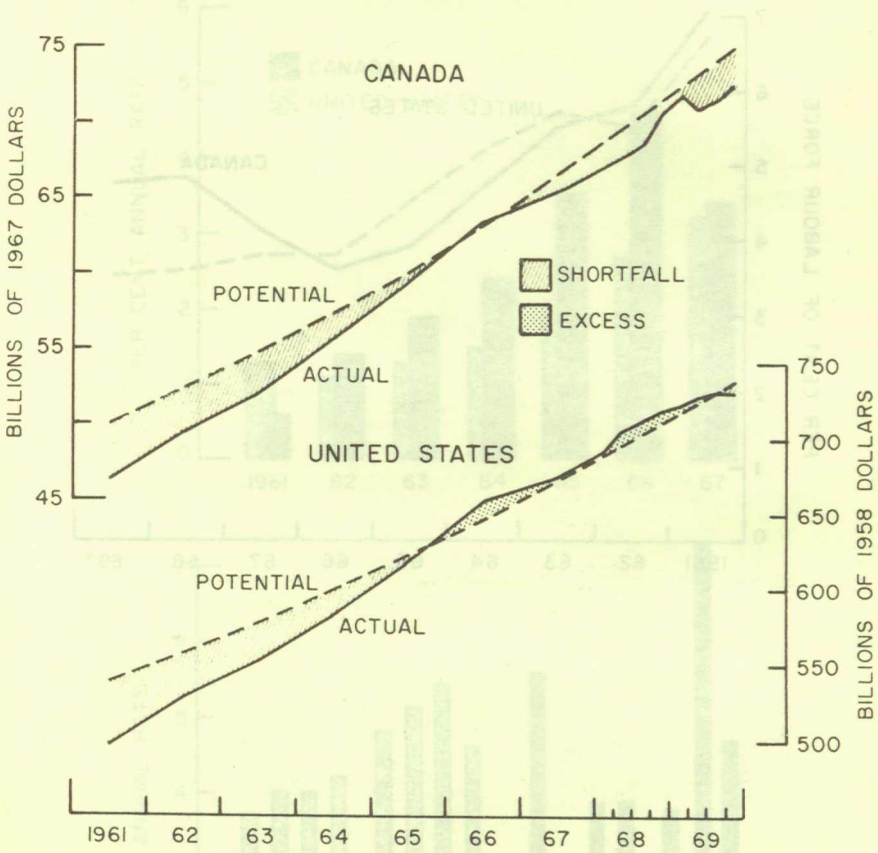
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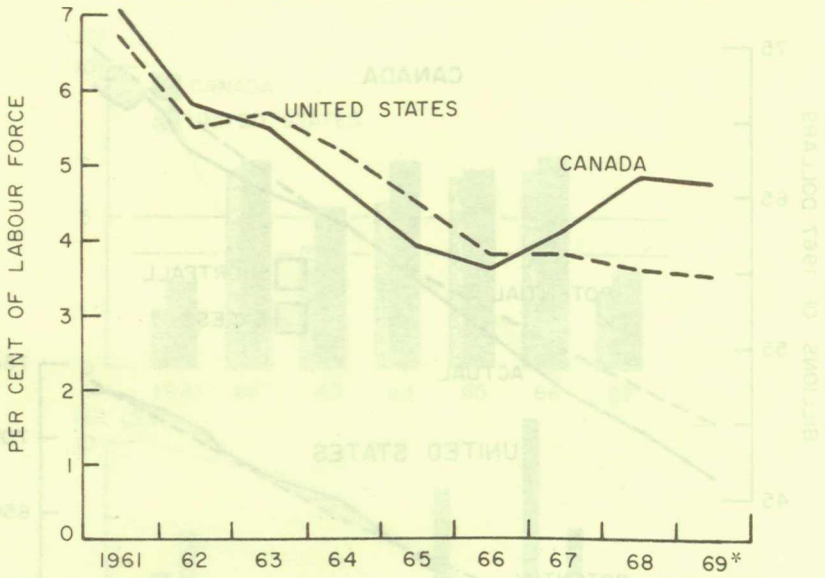
CHANGES IN CANADIAN AND U.S. CONSTANT DOLLAR G.N.P. OVER PREVIOUS YEAR OR QUARTER



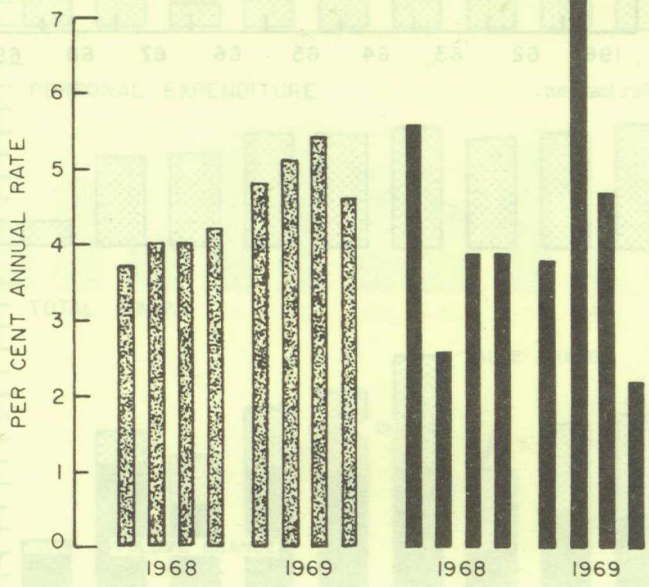
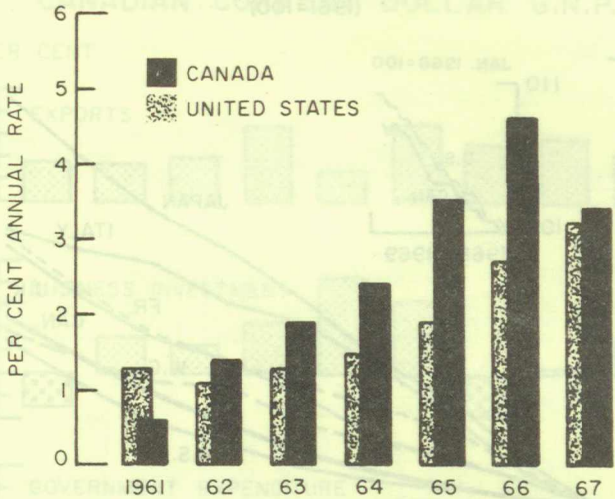
ACTUAL AND POTENTIAL G.N.P.
CANADA AND UNITED STATES



UNEMPLOYMENT RATES CANADA AND UNITED STATES

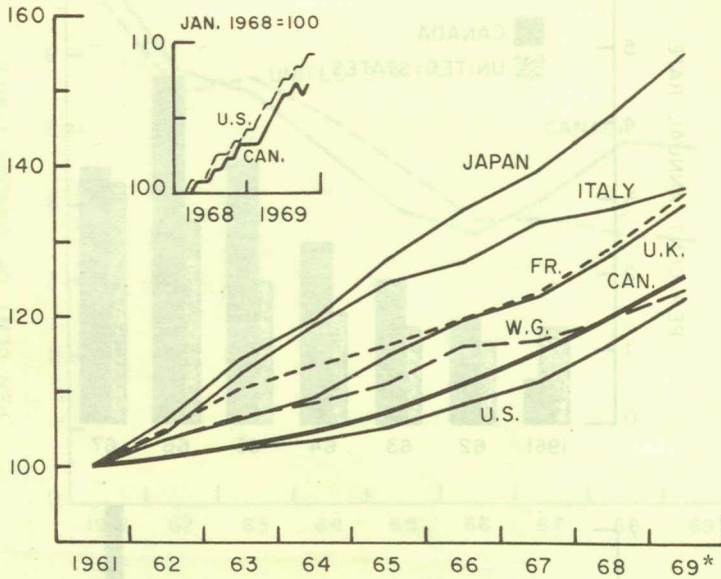


INCREASE IN G.N.P. PRICE INDEX - CANADA AND UNITED STATES



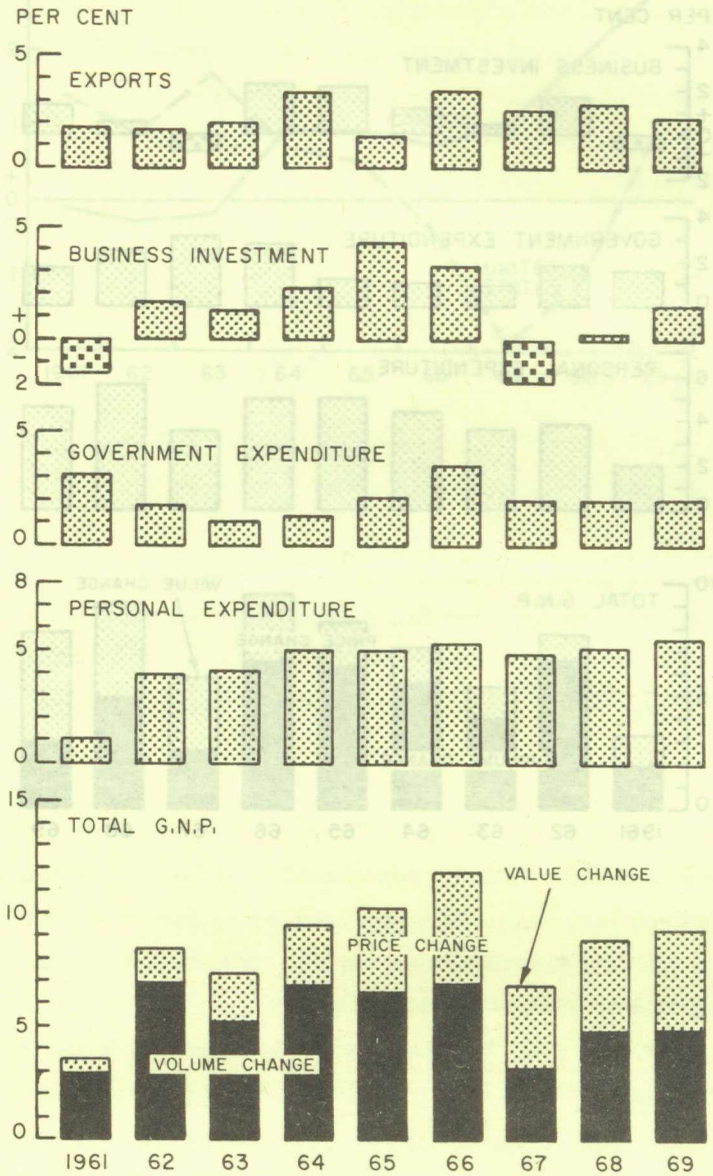
CONSUMER PRICE INDEXES - SELECTED COUNTRIES

(1961=100)



* Estimates.

MAJOR SOURCES OF CHANGE OVER PREVIOUS YEAR IN CANADIAN CURRENT DOLLAR G.N.P.



MAJOR SOURCES OF CHANGE OVER PREVIOUS YEAR IN U.S. CURRENT DOLLAR G.N.P.

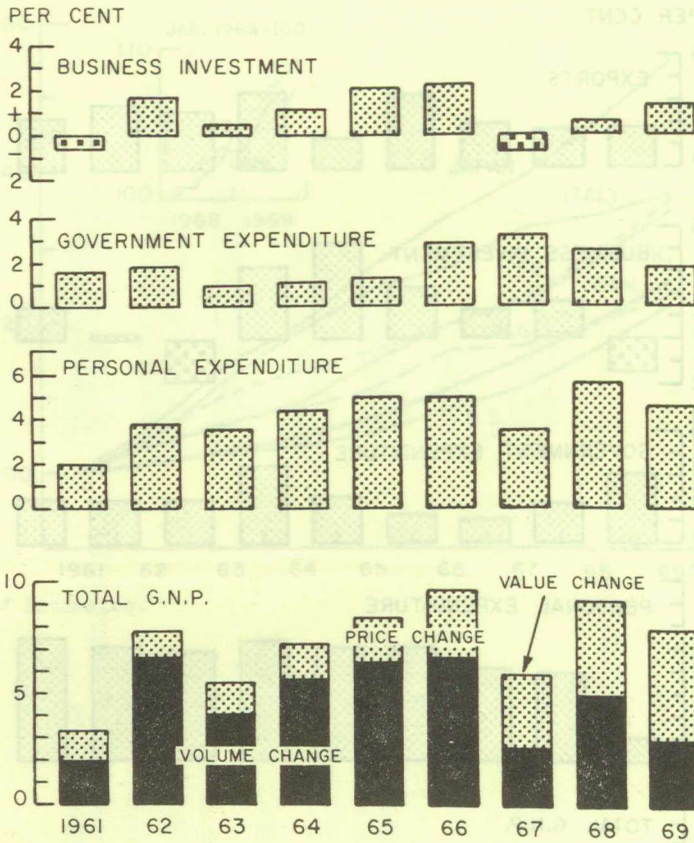


CHART 1
**FULL-EMPLOYMENT BUDGET SURPLUS
 AS PERCENTAGE OF POTENTIAL G.N.P.**

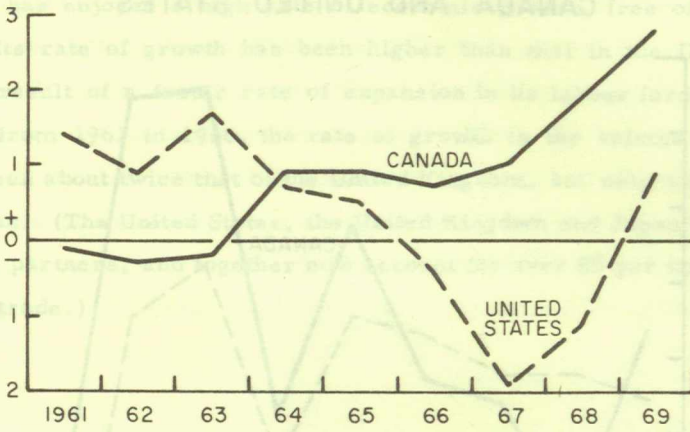


CHART 2

The pattern of economic growth in the United States and Canada during the 1960's is shown in Chart 2. The average real standard of living -- measured in terms of total real output in the 1960's. Real per capita output rose more rapidly in the United Kingdom and considerably more rapidly in Japan than in Canada in 1961-66. During these years, real per capita output in the United States rose at an annual rate in Canada and in the United States -- somewhat more rapidly in Canada up to the mid-1960's, and somewhat less rapidly in the latter part of this decade.

CHART 3

Over the period 1962-64 both Canada and the United States achieved growth rates of real output that were above their potential rates of national economy. Output rose at average annual rates of 7 per cent in Canada and 5.8 per cent in the United States in the 1960's. This was possible because both countries had a substantial amount of slack in their economies early in the decade. The period of 1967 was followed by another upturn in the rate of growth, as output rose until the second quarter of 1968 in the United States and until the third quarter of 1968 in Canada. The subsequent U.S. decline culminated in a 1.5 per cent decline in the last quarter of 1969. In Canada the pattern has been more erratic, but the overall slowdown is nevertheless evident.

CHANGES OVER PREVIOUS YEAR IN SUPPLY OF MONEY
CANADA AND UNITED STATES

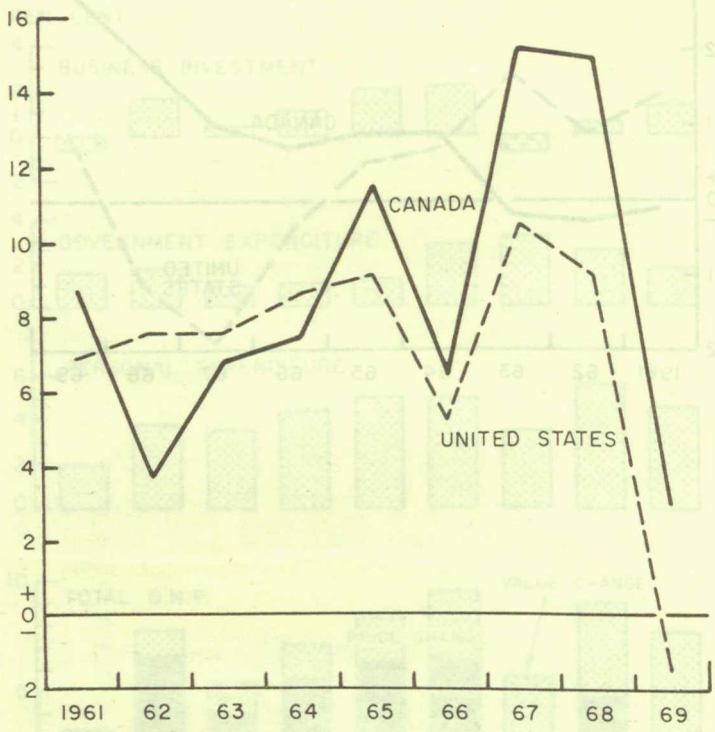


CHART 1

Canada has enjoyed a high rate of economic growth, free of recession, since 1961. Its rate of growth has been higher than that in the United States, mainly as a result of a faster rate of expansion in its labour force. Over the seven years from 1961 to 1968, the rate of growth in the volume of output in Canada has been about twice that of the United Kingdom, but only about one-half of that of Japan. (The United States, the United Kingdom and Japan are Canada's major trading partners, and together now account for over 80 per cent of Canada's international trade.)

CHART 2

The patterns of growth in real output per capita -- a rough measure of the average real standard of living -- are similar to those in the growth of total real output in the 1960's. Real per capita output rose less rapidly in the United Kingdom and considerably more rapidly in Japan than in Canada in 1961-68. During these seven years, real per capita output grew at about the same average annual rate in Canada and in the United States -- somewhat more rapidly in Canada up to the mid-1960's, and somewhat less rapidly in the latter part of this decade.

CHART 3

Over the period 1962-66 both Canada and the United States achieved growth rates of real output that were above their potential rates of increase (potential output rose at average annual rates of 5 per cent in Canada and 3.8 per cent in the United States in the 1960's). This was possible because both countries had a substantial amount of slack in their economies early in the decade. The pause in 1967 was followed by another upturn in the rate of growth, an upturn that lasted until the second quarter of 1968 in the United States and until the final quarter of 1968 in Canada. The subsequent U.S. decline culminated in a no-growth position in the last quarter of 1969. In Canada the pattern has been more uneven, but the recent slowdown is nevertheless evident.

CHART 4

On the basis of broadly comparable estimates of potential output in Canada and the United States for the 1960's, it is clear that actual output was well below potential at the beginning of the decade. A very high rate of actual growth was possible over the first half of this decade as economic slack was being reduced. By the mid-1960's, both countries were approaching potential output. Since then, under strong demand pressures, the U.S. economy has consistently remained slightly above potential until the latter part of 1969; in contrast, the Canadian economy has remained slightly below potential since 1966.

CHART 5

The unemployment rate was higher in Canada than in the United States in the early part of the 1960's but declined more rapidly than that in the United States in 1961-66. Subsequently, the Canadian rate has moved up to over 4 1/2 per cent in 1968 and 1969, while the U.S. rate continued to move down to about 3 1/2 per cent.

CHART 6

Measured by the Gross National Product Price Index -- the most comprehensive measure of prices -- price increases accelerated more rapidly in Canada than in the United States through 1966. Since then, Canadian price increases have remained generally high, although there has been considerable fluctuation in quarter-to-quarter changes. In contrast, prices have continued to accelerate in the United States until the latter part of 1969.

CHART 7

Measured by the Consumer Price Index, Canadian and U.S. price increases in the 1960's have been lower than those in most other large OECD countries. Since January 1968, Canadian increases have been slightly less than those in the United States.

CHART 8

This chart shows the anatomy of demand growth in the 1960's; for each year the component bars in the top four panels would add up (if housing and imports were also included) to the GNP change shown in the bottom panel. The 1962-66 surge in demand began with exports, followed by a business investment boom, and then by a sharp rise in government spending. In 1965-66 all three of these components rose strongly. Business investment, as in the past, has been the most volatile component of demand. Exports have remained exceptionally strong throughout the 1960's. Consumer spending has also remained consistently strong since the 1961 recession.

CHART 9

The major sources of demand strength in the U.S. economy up to 1965 were business investment and personal expenditures. Subsequently, government spending (especially military spending) emerged as a major expansionary force, one that was relatively much more important than in Canada. As in Canada, business investment has been the most volatile component of demand, and consumer spending the most stable component.

CHART 10

The Chart attempts to portray the surplus or deficit position of all levels of government combined, that would have occurred in the Canadian and U.S. economies if each had operated at potential output during the 1960's. The full-employment-budget position has been defined here as the fiscal balance that would have been realized with the actual levels of total government expenditures and the tax revenues that would have been generated by the existing tax structure at a full-employment level of output. This concept helps to indicate any "fiscal tilt" towards restraint or stimulus that would exist at potential output -- and hence, whether the fiscal posture may be tending, in the case of a deficit, to push the economy above potential output; or, in the case of a surplus, to hold the economy below it. The underlying data for the Chart include the revenues and expenditures of the Canada and Quebec Pension Plans; and for both countries, they are based on the National Accounts concepts of government revenues and expenditures. Although the latter unfortunately exclude certain government financial transactions which may have considerable economic consequences, the National Accounts presentation of the government sector attempts to provide a systematic coverage of the effects of government revenues and expenditures on the economy.

In the United States, there was a significant full-employment-budget surplus in the early 1960's when the U.S. economy was still well below potential. This became a matter of increasing concern, leading to a major U.S. federal tax reduction in 1964. The latter was followed, in turn, by an accelerated advance in government spending (especially federal military spending) beginning in 1965, which contributed to the emergence of a substantial full-employment-budget deficit. The major U.S. tax increase in 1968, together with government expenditure restraints, helped to bring about a small full-employment-budget surplus in 1969. In Canada, there was a small full-employment-budget deficit in the early 1960's when economic slack was most pronounced, a moderate full-employment-budget surplus in the mid-1960's when price increases were accelerating, and a sharp rise in the full-employment-budget surplus in the latter part of the 1960's (supported in part by the introduction of the Canada and Quebec Pension Plans).

CHART 11

Year-to-year percentage changes in the money supply (broadly defined) in Canada and the United States followed a roughly similar pattern in the middle-1960's, after Canada emerged from the 1962 exchange crisis. The tight-money policies of 1966 were followed by substantial expansion in money supply, in 1967 and 1968 (in Canada, this was partly associated with the introduction of changes in banking legislation). In 1969, vigorous monetary restraint was applied in both countries.

Queen's Printer for Canada, Ottawa, 1970

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

The Honourable DOUGLAS M. GIBBERTI, Acting Chairman

No. 5

THURSDAY, APRIL 9th, 1970

Third Proceedings on the Estimates

Laid before Parliament for the Great year ending March 31, 1971

Department of Regional Economic Expansion, Mr. Tom Kent, Deputy Minister; Mr. D. Franklin, Minister, Canada's Economic Development and Administration.

CHART II

1950-1960

Year-to-year percentage changes in the money supply (broadly defined) in Canada and the United States followed a roughly similar pattern in the 1950's. When Canada emerged from the 1951 recession, the money supply rose sharply, and by 1955 it was nearly as high as in 1950. In the United States, the money supply rose sharply in 1950, and by 1955 it was nearly as high as in 1950. In both countries, the money supply rose sharply in 1955, and by 1960 it was nearly as high as in 1955. In the United States, the money supply rose sharply in 1955, and by 1960 it was nearly as high as in 1955. In Canada, the money supply rose sharply in 1955, and by 1960 it was nearly as high as in 1955. The chart shows that the money supply in both countries followed a similar pattern in the 1950's, with a sharp rise in 1955 and a decline in 1960. The chart also shows that the money supply in both countries was higher in 1960 than in 1950. The chart is based on data from the National Accounts of the United States and the National Accounts of Canada. The chart is a line graph with the x-axis representing the year and the y-axis representing the percentage change in the money supply. The data points are connected by a line, and the line shows a clear upward trend in the money supply in both countries during the 1950's. The chart is a good example of how the money supply in both countries followed a similar pattern in the 1950's.

In the United States, there was a significant full-employment budget surplus in the early 1950's, which was a major concern, leading to a rise in U.S. federal tax revenues in 1954. The latter was followed, in turn, by an accelerated increase in government spending (especially federal military spending) in 1955, which contributed to the emergence of a substantial full-employment budget deficit. The major U.S. recession in 1954, together with government expenditure restraints, helped to bring about a small full-employment budget surplus in 1955. In Canada, there was a small full-employment budget deficit in the early 1950's when economic growth was most pronounced, a moderate

full-employment budget surplus in the early 1950's when price increases were accelerating, and a small full-employment budget surplus in the latter part of the 1950's. The introduction of the Canada and Quebec Pension Plans.



Second Session—Twenty-eighth Parliament

1969-70

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

The Honourable DOUGLAS D. EVERETT, *Acting Chairman*

No. 5

THURSDAY, APRIL 9th, 1970

Third Proceedings on the Estimates

laid before Parliament for the fiscal year ending March 31, 1971

WITNESSES:

Department of Regional Economic Expansion: Mr. Tom Kent, Deputy Minister; Mr. D. Franklin, Director General of Evaluation and Administration.



Second Session—Twenty-eighth Parliament
1969-70

THE SENATE OF CANADA

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

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

The Honourable Senators:

Aird	Grosart	McDonald
Beaubien	Hays	McLean
Benidickson	Isnor	Nichol
Bourget	Kinley	Paterson
Bourque	Laird	Pearson
Desruisseaux	Leonard	Phillips (<i>Rigaud</i>)
Everett	MacDonald (<i>Queens</i>)	Phillips (<i>Prince</i>)
*Flynn	*Martin	O'Leary (<i>Carleton</i>)
Fournier (<i>Madawaska- Restigouche</i>)	Methot	Sparrow
Gelinas	Molson	Walker—(28).

(Quorum 7)

* *Ex officio* members: Flynn and Martin.

THURSDAY, APRIL 24, 1970

Third Proceedings on the Estimates

laid before Parliament for the fiscal year ending March 31, 1971

WITNESSES:

Department of Regional Economic Expansion: Mr. Tom Kent, Deputy
Minister; Mr. D. Franklin, Director General of Evaluation and
Administration.

MINUTES OF PROCEEDINGS
ORDER OF REFERENCE

Extract from the Minutes of Proceedings of February 12th, 1970.

“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 proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1971, in advance of Bills based upon the said Estimates reaching the Senate;

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.

ATTEST:

*General Lemire,
Clerk of the Committee.*

MINUTES OF PROCEEDINGS

THURSDAY, April 9, 1970

(5)

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10.30 a.m. for the further consideration of the Main Estimates laid before Parliament for the fiscal year ending March 31st, 1971.

Present: The Honourable Senators: Aird, Bourget, Everett, Hays, McDonald, McLean, Nichol, Pearson, Phillips (*Prince*), and Sparrow.

On Motion of the Honourable Senator McDonald, the Honourable Senator Everett was elected acting chairman.

Ordered:—That 800 copies in English and 300 copies in French of the proceedings of the Committee be printed.

The following witnesses were heard:

Mr. Tom Kent, Deputy Minister, Department of Regional Economic Expansion;

Mr. D. Franklin, Director-General of Evaluation and Administration.

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

ATTEST:

Gérard Lemire,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, APRIL 2, 1970

(5)

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10:30 a.m. for the further consideration of the Main Estimates laid before Parliament for the fiscal year ending March 31st, 1971.

Present: The Honourable Senators: Auld, Bourget, Everett, Hays, McDonald, McLean, Nichol, Pearson, Phillips (Pres.), and Sparrow.

On Motion of the Honourable Senator McDonald, the Honourable Senator Everett was elected acting chairman.

Ordered:—That 300 copies in English and 300 copies in French of the proceedings of the Committee be printed.

The following witnesses were heard:

Mr. Tom Kent, Deputy Minister, Department of Regional Economic Expansion;

Mr. D. Franklin, Director-General of Evaluation and Administration.

At 12:35 p.m. the Committee adjourned to the call of the Chairman.

ATTEST:

Gérard Lemire,

Clerk of the Committee.

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

EVIDENCE

Ottawa, Thursday, April 9, 1970

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March 1971, met this day at 10.30 a.m.

Senator Douglas D. Everett (Acting Chairman) in the Chair.

The Acting Chairman: Honourable senators, we are here to consider the Estimates of the Department of Regional Economic Expansion. We have with us Mr. Tom Kent, Deputy Minister and Mr. Franklin, Director General of Evaluation and Administration. You have before you a copy of the Estimates taken from the blue book Estimates for 1970-71 for the Department of Regional Economic Expansion. The objectives of the department are described on page 20-8. The objectives of the Cape Breton Development Corporation, which comes under the department, are described at page 20-18. The National Capital Commission program is described at page 20-22.

You also have before you a document which has been filed by the department which I believe explains in greater detail the objectives and undertakings of the department.

One of the reasons for asking the officials of the department to attend is that the Estimates show that the expenditures of the department will increase by \$75 million, from \$192 million in 1969-70 to \$267 million in 1970-71. I believe this is one of the departments which was exempted from the Government's freeze.

I would ask Mr. Kent if he would care to make an opening statement and give special reference in his statement as to why the increase is necessary. We would also like some information on the operation of the Regional Development Incentives Act and the special area designation which was made by the minister in March of this year.

Mr. Tom Kent, Deputy Minister, Department of Regional Economic Expansion: Thank

you, Mr. Chairman. You have referred to the two substantial reasons for the increase in the department's expenditures. This is, of course, the first year of its operation as a department fulfilling new programs and policies decided on by the Government. As you know, the department legally came into existence on April 1, 1969. Inevitably, of course, at that point the programs were substantially a continuation of previous ones, but what is reflected now in these Estimates is the first year of hopeful fulfilment of the new programs.

Those are essentially two: one is the much changed industrial incentives program which has produced, indeed, an increase of expenditures of quite substantial magnitude. We estimate that within 1970-71 the actual expenditures under the program will be about \$20 million more than the expenditures under the previous program. I should say that the nature of the industrial incentives program is that actual expenditures lag appreciably behind changes in policy. This is because the form of the incentives is that the Government makes an offer to provide an incentive related to the capital costs of establishing, expanding or modernizing a plant in one of the designated regions. The actual payment of the incentive takes place when the plant comes into commercial production. To be precise, 80 per cent of it is paid then and 20 per cent is held back until it has been in operation for three years. Obviously, therefore, the actual payments in any one fiscal year reflect the offers made and accepted some time previously. The interval varies a great deal according to the scale of the plant and how long its planning and construction phase has been. The average dollar would be paid out something like 18 months to two years after the offer is made and accepted. Even so, because of the increasing tempo of the program we do expect that in this fiscal year expenditures will be increased by about \$20 million.

The other main program which was adopted to combat regional disparities was what we called the special area program or infrastructure program which consists essentially of the making of federal financial contributions

to the carrying out by provinces and municipalities of necessary public works which are essential to the economic growth of the areas concerned. As you know, that program, starts this month. Twenty-two special areas in this sense have been designated, and in virtue of that designation quite substantial sums will be spent this year on the financing of roads, sewers, water systems, schools, industrial parks, servicing of land, and so on. This will involve expenditures of a type which have been made in the past on a small scale, mainly by the Atlantic Development Board. There will be an increase of about \$50 million in those expenditures.

Those two items, Mr. Chairman, account for most of the increase to which you referred. Approximately \$20 millions more for industrial incentives and \$50 millions under the new infrastructure programs are the sources of the increases. There are minor ups and downs and other expenditures, but for all practical purposes that is the essential change. I can go into detail now, but perhaps it would be more appropriate if I did so in response to questions.

The Acting Chairman: Is that the wish of the honourable Senators?

Hon. Senators: Yes.

The Acting Chairman: We will proceed to questions.

Senator Hayes: Since this program has been initiated what is the result of some of the early programs?

Mr. Kent: I suppose the most concrete results that we can point to so far is that in 1969 we were able, under the combination of the new legislation and the previous industrial incentive legislation, which did remain in force until December 31st of last year to make offers of industrial incentives which will involve employment in the plants, when they come into commercial production, at a rate over four times what the rate of approvals under the old program had been in 1968. I do not have the precise figures with me, but the order of magnitude is that the jobs involved in approvals under the previous program in 1968 had been 5,300. As you will recall, the new programs came into force July 1st. This reflects just the first half year's operation. Under the two programs together the jobs which will be created when the plants come into commercial production,

which is the result of approvals in 1969, will be 22,000, somewhat more than an increase by four times.

The infrastructure programs only come into effect as of this month. Obviously we cannot claim results from those at this point. The first immediate result is to enable the provinces chiefly concerned to carry out a substantially larger volume of capital works than they could possibly do with their own financial resources this year. The purpose of the program is to make probable things that otherwise could not happen and which will undoubtedly have a very considerable immediate impact on the level of activity of provinces such as New Brunswick and Newfoundland. Of course, if the projects are successful they will very much increase the chances of long term economic growth in the special areas.

Senator Hayes: Have you got any particular programs in Newfoundland, New Brunswick, Saskatchewan and Alberta? The program has been in long enough to justify the expense. How many dollars have we put into it and is it now competing? I am just wondering about the wisdom of it.

Mr. Kent: These are new programs in their present form. Some of them are derived from previous ones, but the industrial incentives program in its new form is a very different one from the previous one. There is no doubt at all that the previous one had some success in increasing employment and economic growth. And I think the figures that I have quoted for what happened in 1959 do illustrate the very considerable impact of the new program in terms of employment. The fundamental purpose of the department is that employment opportunities—economic growth yielding employment opportunities—should be better distributed across the breadth of the country than would take place in the absence of these programs.

The criteria of whether or not the department's programs are successful will be whether the ratio of unemployment in what are now the slow growth areas declines relative to the ratio in the prosperous areas of the country. We are not responsible for the absolute level, but we are trying to close the gap. The overall national level of unemployment is of course a function of government policy and economic circumstances as a whole. The purpose of our programs is to narrow the gap between the unemployment rate in what have been the slow growth regions, compared with

the prosperous regions. But the ratio of unemployment itself is not an all together adequate measure. One knows very well, from a western Canadian point of view, that there are other measures. One is the rate of participation in the labour force. If employment opportunities are inadequate the effect is that fewer people and specifically fewer women will be making any effort to get into the labour market; they cannot, and so are not recognized as being even candidates for it. Therefore, in addition to the actual unemployment rate there is also bringing more closely together the percentage of participation in the labour force, which in the Maritimes especially is very much lower than in Ontario.

The third measure concerns under-employment and low-productivity employment, for which the best statistical evidence is the proportion of households where the level of earnings is below whatever one likes to take as a poverty level or something of that kind. So there are really three indices which Mr. Franklin, who is in charge of evaluation and financial matters generally, will be using to gauge the effectiveness of the program. They are all relevant. They are: the extent to which the ratio of unemployment in slow-growth regions is brought down closer to the national average; the extent to which the ratio of participation in the labour force is raised closer to the national average and the extent to which the ratio of households where earnings are below, say, \$4,000 a year—the extent to which that ratio in the slow-growth regions is reduced, so that it is closer to the level of the prosperous regions.

Now, those are the criteria. We have not been in operation long enough with the new programs to give any evidence as yet of their success, except the evidence I quoted earlier, that even in the transitional phase, which is all we were in last year, certainly we were creating new employment at a much faster rate than before.

Senator Hays: I am thinking of—this is the old program and would probably be in the new program—Canada Wire and Cable. For instance, they decided to build on a place on the British Columbia border between Alberta and British Columbia in the Pincher Creek area. I was up there not so long ago and the factory looked as if it were empty. Do you keep track of these programs? This goes back, it may be, to 1965. This was a slow-growth area.

Mr. Kent: At the time, it received assistance under the old program, did it?

Senator Hays: Yes. I wonder if you have any inventory of this particular program and I wonder whether you could say—it was a really bad one—did the Canada Wire and Cable feel sorry they took advantage of the program?

Mr. Kent: I cannot speak on the specific case. I should say, first of all, that under the new program, in any new plant, while the grant is a grant in respect of capital cost, it is only partly related to the actual level of the capital cost, it is also partly related to the number of jobs that the plant will produce. We make an offer of X per cent of the capital cost, plus Y dollars per job created. What we mean by Y dollars per job created is the actual employment in the plant in the second and third years of its operation. It is not until the plant has been operating for three years that the final amount of the grant is settled. So we never pay a grant except on the basis of actual performance, under the new program, during the first three years. We do not maintain, and we do not have any legal authority to maintain, any control beyond that period. By control I mean the relation of the incentive to what we give, to what actually happens. The thesis of the legislation is that if a plant has operated for as long as three years, its chances of continuing to operate are very good. Certainly, the general experience under the old program has been that there have been very very few failures indeed of plants that were set up with its assistance. There have been the isolated one or two, but they have been very few.

Senator Phillips (Prince): Mr. Chairman, I am going to change the tone of questioning somewhat, based on my inquiry in the Senate in February. The regional department assigned development programs with various problems—Prince Edward Island, New Brunswick, Manitoba, Quebec and so on. Could I have a brief comparison of those programs, and in particular, what is the percentage of federal contribution in each case?

Mr. Kent: I take it, sir, that these are the FRED plans that you are referring to?

Senator Phillips (Prince): Yes. You call them economic development plans—development plans for Prince Edward Island, development plans for northern New Brunswick, northeastern New Brunswick.

Mr. Kent: These are the plans under the former legislation, which of course was repealed when the legislation establishing the new department was created.

Senator Phillips (Prince): Yes, but the legislation did not repeal the plans.

Mr. Kent: No. Those plans are under the fund for rural economic development. I am not going to give a very direct answer, because it is impossible to do so. The nature of those plans varies a great deal according to particular circumstances with which they are attempting to deal. For example, the Manitoba plan, which is for the Interlake Region, is dealing with a relatively small area. What it is attempting to do is important but certainly not ambitious to the degree that some of the other plans are. That is true also of the Mactaquac Plan, which is one of the New Brunswick plans, and the Interlake plan for Manitoba are the relatively small ones. The others are somewhat more ambitious.

Of course, the Prince Edward Island one is distinguished from the others by being a plan for a whole province and including much more of the total range of provincial government activity than any of the others do, precisely because it covers a whole province. There are many more provincial activities which, if a development plan is to proceed, have got to be linked in with the particular things that the federal Government is financing. So if I may speak specifically of the P.E.I. plan, and especially for the first phase, which covers from five to seven years; it is left flexible according to how it progresses. The first phase involves a total expenditure of \$243 million—I think I am right in recalling—of which \$118 million is provincial and \$125 million is federal.

Perhaps this is a perfect example of how misleading an overall figure like that can be, because in the case of Prince Edward Island—not in the case of any of the other plans—all the provincial government's expenditures on education, in all forms, are included in the plan.

Senator Phillips (Prince): That is unique.

Mr. Kent: That is not true in the case of any of the others. Of the \$118 million of provincial expenditures, \$97 million, I think, are in fact the province's expenditures on education. So the provincial expenditures on the programs which are taking place because of the development plan is only \$21 million, as compared with the

federal \$125 million. It is a very small percentage indeed. The others are relatively much more I am afraid I do not have the precise figures for the other plans with me; and while I remember the Prince Edward Island figures very well, the others I do not remember so well, because they were of course signed at an earlier time. But I am confident in saying that the federal percentage sharing, in the programs taking place because of the development plan, is in fact substantially higher in the PEI Plan than in any of the others.

Senator Phillips (Prince): Now, you were able to give me a breakdown of the provincial expenditures. Could you do the same for the federal, please?

Mr. Kent: The federal expenditures are broken down first of all into three kinds—contributions from the FRED Fund, credit to the provincial government from the FRED Fund, and expenditures of other federal departments. In round figures the contributions from the FRED Fund are \$76.4 million, the contributions by other federal departments are \$12 million, and the credit is \$36.6 million.

Senator Phillips (Prince): One question on your statement concerning FRED grants. There is an item in the expenditures for a loan of \$36 million, and that is credit. Now the FRED grants—\$55 million—would have occurred without the signing of the agreement, am I correct in my interpretation of that?

Mr. Kent: No, sir. There are no programs under which any of those expenditures would have taken place in the absence of an agreement.

Senator Phillips (Prince): The summary of your cost says \$55.802 million available under FRED shared cost programs.

Mr. Kent: Those are the programs under this agreement which are cost shared. There are two ways in which money from the FRED Fund is made available to the provinces. One way is that, for what would otherwise be entirely provincially financed programs the federal government pays to Prince Edward Island—from the FRED Fund—money which it could not pay under any other program or to any other province unless an agreement was signed. It is a share of the cost, and that share varies from program to program but generally it would be about 75 per cent. But

those are not shared cost programs which exist outside the agreement. The other part of the federal contribution is simply an overall development grant which is not tied to any particular expenditure by the provincial government.

Senator Phillips (Prince): This is the figure I wanted to get. There is a special \$20 million development grant in the plan for Prince Edward Island that is not in the other plans. Am I correct in that?

Mr. Kent: Well, no, not altogether, if I may say so. Some of the other plans also contain what is called an overall implementation grant rather than a development grant. The major federal contribution, special to the province because of the development plan, in each case takes the form of sharing in provincial programs to the extent of 75 per cent or whatever it may be. In addition to that, there is a general grant in respect to the carrying out of the plan which in the case of Prince Edward Island is called a development grant but in New Brunswick and Manitoba is called an implementation grant. It is a smaller amount, of course, in the cases of other plans because they are smaller plans, but the general nature of it is exactly the same. But there is no distinction as to their specialness, so to speak, between the shared cost grants and the overall development grant.

Senator Phillips (Prince): One further question and then I will switch to the subject of the Senate inquiry. What is there included in the Prince Edward Island Plan that is not included in any of the other grants?

Mr. Kent: Well, there are a great many things. The most distinctive feature of course is that the major thing the provincial government is seeking to do in the development plan is to change the land use on the Island.

Senator Phillips (Prince): I am not interested in the philosophy, Mr. Kent. I am asking for dollars and cents. Is there any special amount of money for the development of Prince Edward Island that is not included in the other plans?

Mr. Kent: But the whole nature of the plan is that it is special to Prince Edward Island.

Senator Phillips (Prince): I agree it is special to Prince Edward Island, but what I am asking is for dollars and cents included for Prince Edward Island and that is not included in any other plan.

Mr. Kent: I think the only answer I can give to that is \$125 million.

Senator Phillips (Prince): I can pick up this and ask what is the difference between the \$125 million for Prince Edward Island and that one?

Mr. Kent: The amounts in the Interlake Plan are devoted to some quite different programs which are largely keyed to the fact that the Interlake area is one of a considerable...

Senator Phillips (Prince): You are back in philosophy again, and not in dollars and cents.

Mr. Kent: Perhaps I am failing to understand your question.

Senator Phillips (Prince): I will try to elaborate because probably I have been too brief. I will put my question to you again. In the statement in your calculations grant, you list \$20 million.

Mr. Kent: For the development grant.

Senator Phillips (Prince): Yes, and what I am trying to get clarification on is this; is that special to Prince Edward Island or is the same type of grant included in other plans?

Mr. Kent: As I tried to explain, there is in all plans an element in the federal contributions which is not allocated to particular programs. In the Prince Edward Island Plan it is called a development grant, and in both the Manitoba Interlake Plan and North-East New Brunswick, it is called an implementation grant, but it is of the same nature.

Senator Phillips (Prince): This is the point I wanted to get at. Maybe I have been too much in the dollars and cents area, trying to get a comparison of the amounts, but similar amounts are in the other plans.

Mr. Kent: Well, they are all plans signed under the same legislation.

Senator Phillips (Prince): I was under the impression that this was a special grant for Prince Edward Island and I wanted clarification on it.

Mr. Kent: Well, it is a special grant for Prince Edward Island.

Senator Phillips (Prince): But not unusual as compared with the others.

Mr. Kent: It is unusual, of course, because of its much greater size.

The Acting Chairman: I have other senators who want to ask questions, and I don't want to interrupt your flow, Senator Phillips. But I wonder if it would be possible to allow them to ask questions and then come back to you.

Senator Phillips (Prince): All right, and I will be a little more specific in the details on the plan then.

Senator McLean: In your explanation of your budget, you mention \$50 million for water and sewers?

Mr. Kent: \$50 million for infrastructure, senator. Water and sewers were just examples of the type.

Senator McLean: Well, in connection with the grant available for water and sewers, is that in connection with industry or for towns and villages?

Mr. Kent: Essentially for towns, although in many cases the need of a town or village for increased water supplies arises from new industry.

Senator McLean: And what about existing industry?

Mr. Kent: I am trying to remember whether there is a case where we are working on a water system for an existing industry. This could arise if for some reason the supply was inadequate. But certainly all the major cases are where new industry is developing and therefore an enlarged, entirely new water system is necessary in order to deal with it.

Senator McLean: They did have fresh and salt water under the old system.

Mr. Kent: The Atlantic Development Board financed the provision of quite a number of fresh water systems for fish processing plants.

Senator McLean: Both fresh and salt water?

Mr. Kent: Yes.

Senator McLean: Is that out under the new system?

Mr. Kent: No, sir, the new program, of course, is on a very much larger scale and is aimed more to meet the need for larger water systems in major communities. For example, one of the cities where a considerable extension of the water system is likely to be needed

is Saint John, New Brunswick. That would be on a very much larger scale than anything that has been done in respect of a specific fish processing plant. However, there is no change in principle. Certainly some of the smaller ones are still of the same kind.

Senator McLean: The reason I ask is that I am from New Brunswick and headed a group which was representing an existing industry. They went to the department of economic growth in New Brunswick for assistance on the expenditure of over \$1 million both for salt and fresh water. Eventually they were told that there was no grant or assistance for existing industry.

Mr. Kent: That is certainly not a matter of universal rule, if there is a need in one of the special areas. Of course it has to be for the improvement of the water system not merely in relation to existing industry but also with prospects of expansion; then, certainly, that project could be included.

Senator McDonald: Mr. Chairman, I wish to pursue the question raised by Senator Hays earlier. Mr. Kent has informed us that this program seems to have considerable effect as far as job opportunities are concerned. However, when we refer to regional development it seems to me that one of the reasons that certain regions of Canada have not developed is because private industry and the private sector of the economy, for some reason or other, have refused to go into these particular areas. Now, through Government assistance, companies are moving over. Established companies are going into these areas, or new companies are being formed. In view of the fact that these companies refused to go in without Government assistance, after receiving that assistance to establish themselves, their capital expenditures and expenditures for each job that is created, are they going to be able to compete in the market for Canada and the world in the future? If we had to pay them a subsidy to go into these particular areas in the first place, is that subsidy sufficient to put a company in a competitive position with old established companies in other areas of Canada and the world?

Mr. Kent: Certainly we do our best to ensure that that will be so. That is to say, in deciding whether or not an incentive should be offered to any plant the procedure is that we discuss with the company—when I say discuss, I do not mean necessarily a face-to-face meeting, a lot of it being done on

paper—the basis of its expectations about its sales, operating costs, and so on. If we offer an incentive it is because the company is able to convince us that it has good reason to believe that, provided the initial amount of capital on which it has to get a return is somewhat lower than it would otherwise be, it will be able to conduct its business entirely successfully in the future.

The form of the incentive is in effect to say: You are setting up a business; you are going to do, say, \$1 million worth of sales and have operating costs of \$600,000. In order to do this, you have to invest in a plant of a certain size. If this is being done in one of the slightly more difficult industrial areas, where people have not been as ready to invest, we will reduce the investment you have to make and we will pay incentives to certain levels. The levels, of course, are those fixed by Parliament through the legislation. The investors are told, in effect, that they can reduce the amount of capital on which they have to make their return. Given that, the company believes—and makes a convincing case before we offer the incentive—that it will be profitable.

This is the whole concept of the legislation. Certainly there is some evidence from the experience under the old program that it can be quite effective. There is a good deal of evidence that the business community, at least, believes that it can be effective under the new program. The activity under it is very considerable. Industry has shown a great amount of interest.

It is still industry that is risking its money. It is less money than it would otherwise have to be, but it is still theirs. I think one can be pretty optimistic. There will be the odd case, clearly, where a plant is set up with the help of the incentive but does not work out. That is true in any business. You cannot completely remove the element of risk. That would not be the right sort of economic system. There is every reason to believe the program can succeed in influencing the location of industry, so that more is in the slow growth regions, without increasing the risk. That, after all, is the only test one can apply. The odd business is going to be a failure under any system. That is what economics is.

Senator McDonald: In your view will the cost to the consumer be greater because of this program than it would have been had the industry had chosen to locate without Government of Canada? In other words, would the cost of production have been less if this had

taken place in the areas of Canada in which industry had chosen to locate without Government subsidy? Will the fruits of the labour and the jobs that you are creating mean that Canadians will pay more for progress because of this program?

Mr. Kent: No, the program is set up so that, while the location of the employment is influenced, the cost to the consumer is not affected at all. That is really in effect what the grant achieves. It enables a company to produce in Saint John rather than in Toronto, for the sake of argument, at the same cost to the consumer, competitively with alternative products, as would have been the case without the program. The public cost is represented by the incentive. That is the full amount of public cost under the program.

Senator Pearson: I would like to ask a question of the Deputy Minister. In regard to the regional economic expansion body now, what is the continuity between them and ARDA and FRED and the NewStart program, et cetera? Did you take over all of the staffs of these other bodies and bind them into one expansion program?

Mr. Kent: The continuity varies a little from case to case. Essentially, so far as ARDA and NewStart are concerned, we simply took over the responsibility for the programs. In the case of FRED and the Atlantic Development Board infrastructure programs, we took on the particular commitments, but those pieces of legislation in themselves disappeared. All the powers under them were picked up by the legislation establishing the department. Thus there are two slightly different situations.

So far as the organization is concerned and the staffs, during the transition period we inherited the previous organizations which were transferred to us. Then the new organization for the new department was established by the Treasury Board after that the staff for the new department was recruited. This staff was recruited, for the most part, from people doing equivalent sorts of work in the old organizations. But there were also new appointments to the new organization.

Senator Hayes: That is PFRA also?

Mr. Kent: PFRA is one example of a piece of legislation which continues unchanged except for the ministerial responsibility which has been shifted. Therefore, there was no organizational change.

Senator Hayes: That is now under you?

Mr. Kent: Yes.

Senator Pearson: I would like to have a more detailed statement on what happened in the development of INTERLAKE. Just how far have you gone? Have you improved the situation there at all?

Mr. Kent: I must apologize, because I am not qualified to give a very precise answer to that question. The INTERLAKE agreement became effective in 1967, but the real beginning of the operation was in 1968. It is provided under the agreement that there be an evaluation of what is happening. That review and reconsideration of the program is now taking place, but is not yet completed. In the absence of that detailed study, the general impression is that the plan has indeed had some quite considerable effects in raising the level of training and increasing the level of employment in some activities in the INTERLAKE. There are improvements in the roads and the school systems there has been some development of more alternative sources of income, as well as an increase in tourism and recreation facilities.

Senator Pearson: I understand you are undertaking to purchase Hecla Island. What amount of tourist value would it be to that community?

Mr. Kent: I must ask for forgiveness, because I cannot answer that question. I am not close to the details of the execution of that particular plan.

Senator Pearson: Can we have that information sometime?

Mr. Kent: Certainly. That could be obtained and given to you.

Senator Pearson: I would like to have that because I wish to know what goes on and if it is being developed to what extent everybody is going to get a better show than they have had. You say there is certainly a big improvement, but that does not say the thing has been developed enough to make a total improvement yet. Do you have any estimate on how many years it will take?

Mr. Kent: It is a ten year program. It is now in its third year of operation and certainly, as is true of all of these things, the main payoff comes in the latter part of the implementation of the program.

Senator Pearson: In your budget there is nothing indicated of any need of money for that area in western Canada.

Mr. Kent: Yes sir, the expenditures under the INTERLAKE-FRED plan are included in the item for western Canada.

Senator Pearson: Is there new money to be voted this year?

Mr. Kent: Yes sir.

Senator Pearson: For how much?

Mr. Kent: The Manitoba FRED plan is four million this year.

Senator Hayes: Do you think you are spending all of your money wisely?

Mr. Kent: That is a very difficult question to answer, sir. I am sure that improvements are possible here and there, as they always are. But one cannot conscientiously be associated with anything like this without believing that the level of wisdom is somewhat better than average.

Senator Pearson: That four million dollars makes a total of how much so far?

Mr. Kent: It is the same level as last year, and it would make a total for federal expenditures of about \$11 million.

Senator Pearson: Thank you.

Senator Nichol: I should like to ask Mr. Kent a question which will not sound too well, because it is really a statement. I have two points to begin with, one is that you said quite rightly that your program is involved with measuring and handling the question of relative unemployment as opposed to the absolute unemployment, which is logical. Secondly, several years ago and I mention this to sort of put my question in perspective, I heard a very senior financial official speaking in Vancouver at a private lunch. I will not name him because it was a private lunch. He said that the time honoured techniques of fighting inflation in Canada or any other country were no longer acceptable, that is, tight money in particular, because the impact of such programs are so uneven across the country and in particular had such harmful social results in terms of housing and unemployment in the areas where people were less able to defend themselves. I have mentioned what you said and what this other person said and it is obvious that the three things

which are up now for such tremendous debate in Canada are tax reform, free trade with all that applies to tariffs. Thirdly, economic policy or whether we are deflating ourselves to a depression, have such fantastic impact on the programs which you are dealing with that I would suggest, that the amounts which you are using will be not enough to help these people very much if these major policies are going the opposite way. My question is, how do you relate your programs to the overall economic trade and tax policies of the country, particularly with the White Paper coming up.

Secondly, although you can measure the direct effects of your program, because you are spending money in a direct place and therefore there is a measurable effect in employment, what techniques are there available to measure the indirect impact of all these other things?

In other words, an incentive program of some kind, it is fairly easy to measure where you are spending money, to measure the impact; but how do you measure or is there any way of measuring the impact of all these other things?

Mr. Kent: It is indeed a very large question, if I may say so, Mr. Chairman, and I am not sure that I can really answer it very effectively. I apologize.

Senator Nichol: I am not sure that it was asked very effectively.

Mr. Kent: Presumably the measures of the effectiveness of the national programs in toto are what happens—over a period of years, and clearly it must be a period of years—to the rate of economic growth, the national level of employment, the national level of prices, and so on.

Our programs are intended, within that national level, to improve the regional distribution. And particularly—and certainly this is most important in the present situation—to modify the effects of any tight money policy, restraint of Government expenditures, and so on, in the areas where it is least possible for such an impact to be economically and socially acceptable. We have to recognize that, if there is a necessity, because of inflationary circumstances, for a general restraint policy, there is no doubt that it has tended to bear particularly heavily on the slower-growth regions of the country. To the extent to which we can succeed in improving the relative position of those areas, then clearly we are

making the total policy effect much better than it would otherwise be. Is that a satisfactory answer?

Senator Nichol: Yes. I am in sympathy with what you are doing. What I am interested in is, how much feed, for instance, can you have in this. I suppose it is very difficult to measure, but obviously, to use a *reductio ad absurdum*, you should be the people, above everyone else, submitting things to the White Paper committee because it is going to have a fantastic effect, this sort of program would be. In terms of growth, this sort of program will have a tremendous effect.

Mr. Kent: Except that we see this program, as I think we must, as operating on behalf of what would otherwise be the slower-growth regions, within the framework of national policy as regards taxation, monetary policy, fiscal expenditures, and so on. Whatever that framework is, then, within it, we are trying to ensure a better distribution of the benefits and the effects, good or bad, than there would otherwise be.

Senator Nichol: My question, in time, is whether that is going far enough. That is really what I am asking about. In terms of helping the people that are to be helped.

Senator Aird: Secondly, I think the question relates, as Mr. Kent says, to the fact that it cannot be regarded in isolation.

Senator Nichol: That is so.

Mr. Kent: On the other hand, obviously in order to get things done, it is necessary to concentrate on particular parts of the problem. And the particular part of the problem with which the Department of Economic and Regional Expansion is dealing with is the relative effects of overall policy, in particular regions which otherwise would be the one that made relatively less progress. There is no doubt at all that, if the economic circumstances are such that general business investment is relatively low, then the application of our incentives may still be effective in lessening the disparity that would otherwise exist between the slow and the fast growth regions. But in that case we cannot alter the fact that the general level is relatively low everywhere. The less conducive to investment expansion are the general economic circumstances, then obviously the harder we have to run in order to improve the situation in the slower growth regions.

Senator Nichol: Yes.

Mr. Kent: I think that is obviously true. But the need to make a special effort is there, whatever the total policy may be.

Senator Nichol: I agree.

Mr. Kent: Whether it is enough or not, this is obviously the sort of question that puts anyone in my position really on the spot, because obviously if one believes in what one is doing, one would like it to be more.

Senator Nichol: If these municipalities decided to get their money for sewage and pollution control out of your \$50 million here, that will be gone in about three weeks, I would say.

Mr. Kent: There is no doubt the needs are very great. On the other hand, the purpose is not to achieve, in the slow-growth region, a higher level of pollution control, or whatever it may be, than in the other regions of the country. It is to enable the slow-growth regions to get into a more equal situation.

Senator Nichol: Can I make one more point and then I will be quiet. To bring this down to the question, it is obvious, in the case of a tariff law and tariff reform, and the Kennedy Round, and all such questions, that this has a tremendous effect on the work you are going to do. If they change the tariff on certain agricultural or manufactured products or reduce the tariff on others, you are going to have regions instantly put into your bag.

Senator Hays: The whole of Canada.

Mr. Kent: Certainly there are specific problems which we are very greatly concerned about, from our point of view.

Senator Nichol: You have to be involved in what is happening.

Mr. Kent: Oh indeed, yes. We are most concerned, for example, about the level of United States tariffs on some of the products of the Maritimes. We are certainly very much involved in attempts to improve that situation.

Senator Nichol: That is what I am glad to know.

Senator Sparrow: Mr. Kent, have you a list of the designated regions or areas, or a map with you today, that we could have? I have a map of the special areas but not of the designated regions.

Mr. Kent: The designated regions—I apologize, I do not. I have a map of the special areas but I do not have a map of the designated regions with me. We could certainly send such maps to all members of the committee, or whatever you would wish, Mr. Chairman.

The Acting Chairman: If the department would send them to the Clerk, he will distribute them to the members of the committee.

Senator Sparrow: In your program, is there any special effort made to employ certain people in an area, in a program, unemployed people, as an example, Indian people, Metis, or such people?

Mr. Kent: Yes, it is one of the conditions of an industrial incentive, that the company which receives an incentive will, when it does its manpower assessment, of how much it needs and so on, what sort of workers it will need, inform the Canada Manpower Centre of that. The Canada Manpower Centre will then do its best to offer suitable workers from the local community. After all, this is the purpose of the program.

We do—and this is something that has not been done in the past, and that we are just beginning—we are attempting, in the areas where there are opportunities of economic growth and where there is at the moment a very severe employment problem for Indian and Metis people, to provide additional manpower training programs, along with the industrial incentives. We are trying to ensure that the severely disadvantaged local people—I put it like that, because I do not want to put it in, so to speak, racial terms, though in practice obviously a very high proportion are Indian and Metis people—we are anxious to ensure that, as new employment opportunities open up, they will be the people who will have the opportunity to take them, more so than if there were not such services available.

Take, for example, The Pas in Manitoba. There are controversies as to how it has come about, but the fact is there is substantial industrial expansion taking place. We have done two things. We have designated it as one of the special areas, so that we can help the province and the community to finance the very considerable expansion in serviced land, water systems, and so on, that they need in order that people may be able to move in and take the jobs.

Secondly, we are undertaking there a NewStart program, designed to provide the

pre-training level of employment preparation which is often necessary if Indians and Metis people are to have a proper chance to do the jobs, rather than labour be brought in from outside.

We hope, in time, to do this on a much more general scale, to provide this sort of assistance, but it is going to take time to develop these programs.

Senator Sparrow: What is the time limit on a designated region and on special areas?

Mr. Kent: They are designated under the present orders in council until June 30, 1972.

Senator Sparrow: Both of them.

Mr. Kent: Yes.

Senator Sparrow: June 30, 1972.

Mr. Kent: Yes.

Senator Sparrow: In the Province of Saskatchewan there were three special areas, Regina, Saskatoon and Meadow Lake, being somewhat familiar with the area, it appears to me that the decision was made for those three areas, appeared to be sought, by agreement, that in one of the reports it says that special areas are designated by the federal Government, after consultation with the provincial government concerned. It seems to me at this particular time, that the whole of the Province of Saskatchewan or very close to all of it, should be either a designated area or a special area. I would like some explanation as to how Saskatoon, for example, could be a special area, and the City of North Battleford would not be or the City of Regina would not be and a place like Meadow Lake in between is a designated area?

Mr. Kent: A special area.

Senator Sparrow: A special area, I should say.

Mr. Kent: It is an attempt to get as much benefit as possible from the programs. As you know, the southern part of the province was designated for industrial incentives, as a part of the designated region for that purpose, because it is the part of the province where the chances of industrial development are best. The program is already beginning to have some very important effects. For example, it has been responsible for a new plant which is a stronger market for the disposal of grain than some of the traditional ones. At

Weyburn, one of the plants being started out with the help of the legislation is a distillery.

It is down in the southern part of the province that the chances of an industrial response, generally speaking, are best. And that is largely where there has been a long-term problem of slow-growth. The criteria used in designating the regions for industrial incentives related to the areas where the growth in employment and population and income has been relatively slow over the last decade or so, and where there is a good chance of a response to the provision of incentives to secondary industry.

That logically led to the designation of the southern part of the province. It did not lead to the designation of Regina and Saskatoon, because they had in fact been two of the fastest growing centres anywhere in the country over the last decade. So, they did not come within the sort of criteria that we were trying to use on a national basis, in the designation of the regions under the industrial incentives legislation.

However, the very severe impact on the prairies generally, and on Saskatchewan particularly, of the present grain situation, combined with what one hopes is the more temporary but still serious potash situation, has been an especially sharp impact on those two cities. They are the main trading commercial cities of the province, so that, in spite of their very rapid growth over the last ten years, they are now suddenly faced with a very severe economic setback. Therefore, it was felt that it made sense to treat them as special cases, as special areas, even though they had not come within the criteria for the designation of the original regions for industrial incentives.

What needs to be done is, in effect, the same thing as if they were designated for industrial incentives. They do not have the massive difficulties, as far as infrastructure is concerned, that some of the cities and towns in the more permanently slow growth regions have, because they have been developing so fast over the last ten years. So the practical effect of their designation as special areas will be very similar to what would have happened if they had qualified for industrial incentives in the designated regions.

The Acting Chairman: Except as I understand it they can also qualify for primary and tertiary industry under the special areas and they cannot under industrial incentives.

Mr. Kent: That is correct, Mr. Chairman, yes. It does mean that the range of industries that could receive incentives is somewhat broader. But the practical difference that would make would not be very great. The range under the industrial incentives legislation is sufficiently broad that almost anything that would be likely to be established in a community such as Regina or Saskatoon probably would qualify under the basic legislation.

Senator Sparrow: Is there a continual program going on there where special areas will be brought into the special areas program or is this the final program now until 1972?

Mr. Kent: That is a difficult question to answer. Obviously in a program of this kind, if one were continually chopping and changing, adding places and taking places off, its effectiveness would be considerably lessened. Certainly there is no impossibility of additional places being designated before 1972. But to designate more would increase the cost of the program, and this is not an easy thing to do at this time.

If I might make one further remark about the Saskatchewan areas, Mr. Chairman, and I shall be very brief, Meadow Lake is of course an example of a special area of the same kind as I referred to earlier in connection with The Pas. There is an opportunity of using the broader powers of the special area legislation for primary industries and initial processing to get wood-based industry developed, and there is a very crying need, if that can be brought about, to take special measures of assistance to ensure that it is local disadvantaged people who get the jobs. The special area agreement in respect of Meadow Lake will be of that nature.

The Acting Chairman: Both Senator Nichol and I would like to know what is meant by tertiary industry.

Mr. Kent: By tertiary I think is meant what is more often called service industry. "Tertiary" is a rather horrible phrase coined by economists.

The Acting Chairman: I should mention I took it out of one of your departmental releases.

Senator Laird: I would like to come back to Senator Nichol's line of questioning, and also pick up a little bit from where Senator Sparrow left off when he was talking about a

specific area. What I would like to know is where this is all going? In response to Senator Nichol's question, I think you agree that you could not regard this program in isolation. I think it is very interesting that the increase that we have this year falls into two specific areas—the \$20 million and the \$50 million and it seems to me that perhaps these two areas get to be more measurable than others. Having some high regard for your personal talents for planning and knowing the way I am sure the department is now thinking, for the next forthcoming year are we looking at increases, and if we are, are they in the same two areas? Are you satisfied with the ratio of \$20 million to business and \$50 million to infrastructure? In summary, how do you see the future of this program, having full cognizance of the fact that one always wants perhaps more than one is going to get or than one is going to spend. I think this is a very real problem, and I think one of the key questions that should be asked by this committee inasmuch as this department is one of the very few departments to have achieved this increase in this difficult year that we are now involved in. What do you see for next year or the year after?

Mr. Kent: Well, we would certainly, as I see it, hope to be spending, and expect to be spending, more again next year on the industrial incentive programs. This I would regard as the absolutely key area, because this is the direct creation of employment and everything else is really supporting to it. The rest is useful insofar as it supports and helps the industrial incentive program, in respect of most of the slow growth regions. Of course, we all know there are special cases, but in general industrial growth is the key program. If we have judged correctly, if we have the type of program which will influence industry, the type of program to which industry will respond—of course, how much depends on all sorts of other circumstances, as Senator Nichol has in effect pointed out—but if we have judged it so that the response in reasonably favourable circumstances is a fairly vigorous one, while remaining realistic, then I think there would be no doubt at all that expenditures under that program could be expected to increase. If that increase is not worthwhile, the whole purpose of the department is wrong. The purpose is to increase employment in these slow-growth areas, and for this purpose economic growth is the basic thing.

But there is, perhaps, a misleading element in the contrast of the \$20 million extra on incentives and the \$50 million extra on infrastructure. They are the main components in the increase in the department's expenditures. But there is a sense in which their relative size is misleading. The \$20 million is in addition to an existing \$50 million level of industrial incentive expenditures. The infrastructure \$50 million is in addition to a very much lower level. I do not have the exact figure here, but I would not be very far wrong if I said it was in addition to an existing \$20 million. So, for the two together, what we get to this year, which is the first really effective year of the department's work, is a rough equality between industrial incentive expenditures and infrastructure expenditures.

Now, there is nothing magical about that equality. But as a very rough guideline, it is the sort of thing we have thought about as being probably reasonable. In other words, for the future I would not expect the infrastructure expenditures to increase at a very different rate from the industrial incentive expenditures.

Senator Laird: Would you mind defining rate? Do you define rate in ratio or in dollars?

Mr. Kent: This year the two become virtually the same in absolute amount. The ratios also become the same for any future increases.

Senator Aird: So it is the current thinking of your department that the two should stay in step, both as to dollars and percentage?

Mr. Kent: Yes. I must ask that that not be interpreted too literally, because one gets into difficult definition problems such as, is assistance to power development industry or infrastructure? In our category it tends to be treated as infrastructure, because it is part of an agreement with a province in relation to the public sector, as most power projects are public utilities, though it could be considered to be an industrial incentive with the private sector. We really ought to have three categories: industry in the sense of the private sector; direct economic or industrial expenditures in the public sector; and infrastructure in the sense of supporting services such as water systems, roads, and so on.

Senator Aird: It would be helpful. Why do you not have there?

Mr. Kent: Because, under the programs as they stand at the moment, we are not engaged in direct assistance to power development. There is, as you will recall, a long-standing loan program in respect of power development in the Atlantic provinces. The federal Government makes loans for virtually all costs of increases in generating capacity in the Atlantic provinces. They are simply loans, not part of the budgetary expenditures. Therefore, the additional element which I have just identified in fact at this moment is nil.

Senator Aird: Yes, but all three are in effect response situations you act in response.

Mr. Kent: Yes, indeed. However, perhaps I complicated it unnecessarily by introducing my reservation about power development. The classification as between industrial incentives and infrastructure becomes a little uncertain in the case of power development, which could really be put in either. But, so far as incentives on the one side and infrastructure as we are carrying it out at present are concerned, our thinking is that a rough equality is probably about right. That is what we are achieving this year.

Senator Aird: My next question relates to your reply to Senator McDonald. I was somewhat surprised to hear you say that one of your criteria, perhaps your fundamental criterion, would be the measurement of earnings as against capital invested. That capital invested included, of course, a capital grant. I would have thought that would be a dangerous criterion. It related to a specific question.

Mr. Kent: Yes, I remember it. This was looking at the criterion as to how we judge whether or not a new industrial plant is a reasonable one to be provided an incentive.

Senator Aird: And for the support to continue.

Mr. Kent: No, we do not continue to support we only provide the initial incentive.

Senator Aird: Yes, of course, but you do it in two bites.

Mr. Kent: That is right, but it is all an initial incentive to get it started. We hold back part of the payout until it is started.

Senator Aird: It develops into a very critical part of the financing. It is the bridge financing, which is very critical.

Mr. Kent: Yes, but when I referred to the rate of return on the capital, I meant the rate if there were no public assistance. This plant would cost, let us say \$1 million, and its estimated rate of return on the \$1 million is 8 per cent. The effect of our incentive is to reduce the capital on which the return is to be calculated to, let us say, \$700,000. In that case the rate of return, the earnings on the capital investment, goes up to about 11 per cent. In other words, from the investor's point of view he does not invest with a 7 per cent return but with an 11 per cent return. Therefore the incentive in that case is critical to the decision to locate the plant and start it in that situation.

Senator Phillips (Prince): I will turn to the two projects referred to in my inquiry, firstly the Mill River Project. Could you advise me as to who raised it and the description of the site the project was to include?

Mr. Kent: I apologize; I do not think I can do that in any detail. As you know, the way in which the Development Plan operates, both this one and all the others, is that the responsibility goes as follows. The two governments sign an agreement in the form in which it is printed in that little document. That identifies general programs. Then each year there is an agreement, between a committee representing the two governments, on the broad nature of what is to be done within each of those programs. That is the definition of the programs for the year. The individual projects within each program are, of course, the responsibility, so far as everything in provincial jurisdiction is concerned, of the provincial government. The projects must be within the broad definition of the program, which in the case of the recreation and tourism program was to provide public facilities for certain key areas where it was believed that, by developing a number of facilities, attractiveness to the tourist and recreation industry could be very much increased. The Mill River area was identified as one of those areas. The details of the project, within that program, are then a provincial decision subject to approval by the federal representative who looks at the details on the spot with the plan managers.

Senator Phillips (Prince): How do you relate that to article 17, which states that the board shall prepare a forecast of estimated expenditures for the next five years. How can you estimate your expenditures for the next five years if you do not know your program?

Mr. Kent: One estimates, as in all these matters, not on the basis of detailed estimates of individual projects. It is a broad estimate of the scale of the programs. Then the people responsible for the details carry out the projects within the expenditure ceilings.

Senator Phillips (Prince): And you go then from year to year, rather than on a five year basis as prescribed in article 17?

Mr. Kent: No, there is a broad five year projection, then a detailed one year projection, as in all budgeting.

Senator Phillips (Prince): This is what I find confusing. How can you make your five year projection without having the project plan?

Mr. Kent: It is, of course, what we have to do all the time. All federal departments make five year program forecasts, inevitably in rather general terms. We do not know in detail what we are going to be doing five years from now, but we can make rough estimates. Only once a year do we make detailed plans which get expressed in the actual Estimates for that year.

Senator Phillips (Prince): I still feel you have a complete plan for your project before you start your program. It has been indicated to me that Manpower was investigating the means whereby these people were hired in contravention to article 12 of the agreement. Have you received a report from them yet?

Mr. Kent: No, we have not. It was brought to the attention of the provincial government. Apparently the services of Manpower have not been used in hiring people for that particular project. It is, of course, the type of work for which often hiring is done other than through the Manpower centres. The agreement requires that it be done through Manpower centres unless there are good reasons why that is not practicable. We naturally have raised this issue, and Manpower was investigating it, discussing it with the people directly concerned. I do not have a report on it.

Senator Phillips (Prince): I first raised this question with you on February 4th and this is now April 9th. We have had two months lag. Do I have to wait for another two months?

Mr. Kent: I am not exactly in control of that, because it concerns the Department of Manpower. I am sure that they are doing

everything they can to ensure that their services are used in all cases where they can possibly and reasonably be made available.

Senator Phillips (Prince): You did not comment on the selection of the site. Who made the selection?

Mr. Kent: The selection of the Mill River site?

Senator Phillips (Prince): Yes.

Mr. Kent: It was made essentially by...

The Acting Chairman: Excuse me, but are you asking specifically who?

Senator Phillips (Prince): The Advisory Board or the provincial government?

Mr. Kent: In any decision of that kind it is the primary initiative of the provincial government. It should be, otherwise we would be living in, shall I say, an unconstitutional world. The point Advisory Board at its first meeting approved and agreed to the reasonableness of the area.

Senator Phillips (Prince): Were you aware that in this site which is selected that the river is closed to fishing by an order of the federal Department of Fisheries due to pollution?

Mr. Kent: I cannot speak on that. It just happens that I was not at the meeting which that program was approved. I cannot say in detail as to whether it was known.

The Acting Chairman: Can you tell us when that pollution order was made?

Senator Phillips (Prince): I think it was about 1953.

Mr. Kent: Then we can assume that it was known. However, of course that obviously does not necessarily rule out the desirability of the site from the point of view of any type of tourist development.

Senator Phillips (Prince): It does for beach and shell fishing is very popular in that area.

I believe there are seven golf courses in Prince Edward Island for a population of 110,000. The one golf course which is operated by the national parks has been operating at a deficit for a good many years, in fact, from its beginning. Who absorbs the loss of these golf courses being built under this development program?

Mr. Kent: I cannot answer that question. Our contribution of course is purely in respect to the capital cost. How any losses are absorbed depends upon how the individual golf operations are financed.

Senator Phillips (Prince): What about golf courses under the development plan?

Mr. Kent: It depends on the particular arrangements with respect to the program, but essentially the provincial government. It is believed that golfing is one of the attractive things which brings tourists to Prince Edward Island. Therefore the general return from the economy by the existence of the golf courses is very much greater than represented by the particular finances.

Senator Phillips (Prince): Do you have many places in your study for a plan in which you determine the net return for the province for the golf courses?

Mr. Kent: I cannot answer that question in detail for any individual golf course. Certainly, there is evidence of the very high returns to the province from an increase in its tourist industry. The sort of expenditures involved for the tourist industry would have a very high rate of return overall through the provincial economy. That calculation was made. How far it was broken down with respect to individual golf courses I do not know, but I would be surprised if it were with respect to individual ones. At that stage nobody would want to try to tie down too rigidly what the individual courses would be.

Senator Phillips (Prince): But, a study for this development plan was three years. I am wondering if at any time during that three years anyone had done a breakdown?

Mr. Kent: For the individual golf courses?

Senator Phillips (Prince): The idea of golf courses in general and the return of various projects. It need not be limited to golf courses.

Mr. Kent: The total investment under the plan on tourism and recreation is not very great.

Senator Phillips (Prince): It is \$18 million over ten years.

Mr. Kent: I have some figures here. There is a substantial federal loan input on tourism of \$7 million. The return from those facilities, in terms of the money that people spend on

the Island and the benefit to the economy, is of course very high indeed. I am afraid I do not have the figures on the tourism study on hand, but certainly there is no question of the attractiveness of it from the point of view of the overall economy of the Island.

Senator Phillips (Prince): I was a bit concerned to read in here where you consider that camping and trailer type tourism as being non-profitable. That is why I was asking my question.

Mr. Kent: I do not remember that it was suggested that camping and trailer tourism was non-profitable. It is not as profitable as people who spend more money by staying in more expensive accommodations. I think there is no doubt at all that the camper is profitable, but not as profitable as the man who stays in a resort.

Senator Phillips (Prince): The second one I raised was the tourist accommodations in the form of cottages at Brudenell. These were supposed to have cost \$3,000 but have exceeded it greatly. I think the final cost will be between \$8,000 and \$9,000. What happened in this stage of the plan?

Mr. Kent: I suspect, if I may say so, that you know more about these details than I do. The Brudenell project is a very experimental one, not in the plan itself, but one we started in advance of the plan.

Senator Phillips (Prince): The Brudenell is listed here as one of your expenditures of which you put in \$236,000.

Mr. Kent: The decision to build those particular cottage-type accommodations was taken in the summer of 1968 in advance of the actual plan. They were experimental projects and the desire was to find out whether a cheaper, but attractive cottage accommodation could be provided. I believe in fact the carrying out of the project was held up quite badly for one reason and another. The purpose was to learn from this whether there really is an opportunity of providing appreciably lower cost accommodation of an attractive kind. I do not think anybody is yet in a position to have a firm opinion about that.

Senator Phillips (Prince): But in the three years' planning, this was not determined in advance? You still have to experience the ten-year development period?

Mr. Kent: I think that would always be true. Anything that is done on paper is not

really proven until there is some practical result.

Senator Phillips (Prince): That is an odd statement for an economist to make.

Mr. Kent: It is definitely not an odd statement from any practical administration point of view.

Senator Phillips (Prince): I realize you will not have a list of projects with you for the present fiscal year, but could we have those, Mr. Kent?

Mr. Kent: Well, sir, the only responsibility of the federal Government here relates to the approval not of projects but of programs, and I am not sure whether it is—I will look into this—whether it is proper for us to be the medium through which the information about projects is brought forward. Certainly, the programs which are approved, we can give.

Senator Phillips (Prince): This is an estimates committee, Mr. Kent, and there is a good deal of federal money in these projects. I do not think it is unreasonable that the members of the committee should have a list of the projects.

Mr. Kent: The form of the agreement is that the federal Government provides money for the programs and of course the breakdown by programs, which is what is approved by the federal Treasury Board, is certainly a proper concern from the federal point of view. But we are not the instrumentality for the use of that money in terms of detailed projects. That is the affair of the provincial departments concerned.

Senator Phillips (Prince): It is really an affair of the Joint Advisory Board, is it not?

Mr. Kent: No, sir, the Joint Advisory Board is responsible for the programs, not for the individual projects within the programs. We have to satisfy ourselves of the reasonableness of the program but not as to the details of the projects, which would be, I suppose one might say, an interference, certainly, an improper interference in the affairs at one level of government by another, and certainly also an involvement in the details of administration of people who should not be involved in the details.

Senator Phillips (Prince): Mr. Chairman, I do not wish to belabour the point or be cantankerous on it. You are able to give an exact

figure, Mr. Kent, for Hecla Island, I believe, in Manitoba...

Mr. Kent: No, I did not give a figure for Hecla Island.

The Acting Chairman: If I may correct that, it was Hecla Island, and the question from Senator Pearson was more detailed on the extent of that type of program. I do not think Senator Pearson was asking for specific project figures nor do I think the deputy minister was undertaking to provide those, but to provide general program figures.

Mr. Kent: It is not a question of whether or not they are provided. It is a question that I do not think I could give an undertaking that the federal Government would provide them. If the province is willing to provide them through us, that is fine. We will do it, but they are not our figures. That is my only point, sir.

Senator Phillips (Prince): Mr. Chairman, I will make this comment and move on to another subject then. I still find it rather odd, where federal money is being expended, that a committee of the Senate is unable to obtain the list of estimated expenditures. I will move on.

Mr. Kent: Mr. Chairman, may I say this. I did not say that we could not provide the list of estimated expenditures. It is a question of into how much detail they would be broken down. Most certainly we can provide the list of program expenditures.

Senator Phillips (Prince): I will be perfectly happy with this type of thing that I obtained last year.

The Acting Chairman: Could we have a look at that. Senator Nichol has a question, could I let him in at this point.

Senator Nichol: I would like to go into a much broader question.

The Acting Chairman: Excuse me, Mr. Kent tells me that those on this list are program expenditures. There is no problem about those at all.

Senator Phillips (Prince): When can I obtain those?

Mr. Kent: As soon as the expenditures for 1970-71 have been approved by the Treasury Board. Obviously, we cannot do it before that.

Senator Phillips (Prince): I accept that.

Senator Nichol: Assuming that you are going to have a shortage of cash to do what has to be done and taking it to be that pessimistic in the next few years, that tax is not going to be available in the quantities in which it might be needed to solve these problems, do you have any means of bringing the credit of the federal Government to bear in these regions, either in terms of guaranteed bank loans or of garnishees to municipal or other authorities? That might help. My guess is that you do not have such means. My question really is what consideration has been given to this method of helping to finance either municipalities or corporations within these regions? This could be pretty helpful.

Mr. Kent: Yes, sir. Under the general legislation of the department, we do in fact have the power to guarantee the commercial borrowings of a company which is establishing, expanding, or modernizing a plant in a special area.

Senator Nichol: Directly? It is not through the IDB (Industrial Development Bank)?

Mr. Kent: No, the department has the power.

Senator Nichol: Do you exercise it?

Mr. Kent: That is the authority under the departmental legislation, but when Parliament passed our industrial incentives legislation it imposed a rather substantial restriction on the use of that power. It said that, for any plant to which we are providing an industrial incentive, we can additionally provide a guarantee of loans only if the plant is one which hits the ceilings of the absolute amount of \$12 million in grant or the maximum of \$30,000 per job. That is to say, in effect we can guarantee loans only in the case of a highly capital intensive plant.

In practice, highly capital intensive plants are usually built by very substantial corporations for whom the attractiveness of a loan guarantee is not very great. So, for practical purposes, the guarantee power is only relevant for the type of industry which is not eligible under the industrial incentives legislation—your primary or, theoretically, tertiary industries. That is the present legal situation.

Senator Phillips (Prince): Mr. Kent, I notice in the appendix to the agreement every section of the economy of the Island is mentioned except the second-largest source of

income on the Island, and that is the Canadian Forces Base at Summerside. You and I have had many discussions on this, and I need not go into that. What plans are there to replace this amount of federal expenditure in the province's economy when the base closes?

Mr. Kent: Well, of course, the reason why this is not in the agreement is that the agreement relates to matters primarily of concern to the province in which the federal government is nonetheless giving very large financial help. On the other hand, the Forces base is entirely a matter within federal jurisdiction. As is well known, consideration was being given from time to time to the question of whether or not the Summerside Base should be retained. The federal government recognized that the closing of the base, which is so important to the economy of the Island, would be the proper thing to do only if means were found to replace it by some other federal activity which would generate an equivalent amount of income. Explorations were made, as you know, of possible activities of that kind. However, it did not prove necessary to make any decisions about them because in fact the eventual military decision was that the Summerside Base would not be closed, but that it would continue to operate. So at this stage the question is academic, so to speak. It is hypothetical. Obviously it could become an issue again, depending on future policy regarding military bases. But at this point there are no specific plans to replace the base by other activities, because the base is to continue.

Senator Phillips (Prince): Being a resident of Summerside, I find the question is a little more than academic. It is vitally important. However, I am also pleased to hear that you through your department are still considering alternatives.

Mr. Kent: Yes, if the need should arise. When I say academic, I do not mean to imply that it is unimportant. But for the present and for some years ahead, the base is to continue.

Senator Phillips (Prince): If I may move on to another subject, and that is the matter of the Indian reservation on Lennox Island. For the benefit of the members of the committee I would mention that this is a small island off Prince Edward Island—an island off an island. Following along with the question of Senator Hays, I consider this is money being

well spent. There is an announcement in the legislature that a causeway would be built from Lennox Island to Prince Edward Island. You, being familiar with the history of causeways in Prince Edward Island, probably take it as lightly as I do. But this would cost \$750,000, which is a preliminary estimate, for 30 families which works out at about \$25,000 per family. Would it not be better to consider the alternative method of moving the families to the main island and providing them with homes there rather than going into this expenditure?

Mr. Kent: This is a question which has most certainly been discussed. I should say that the expenditure on the causeway as such is not part of the plan. That is a matter for the Department of Indian Affairs. Under the plan the road to connect up with the causeway would be part of the plan.

Senator Phillips (Prince): The causeway is a separate item.

Mr. Kent: Yes. However, that does not alter the fact that this is an expensive way of connecting the community with the mainland. There is no doubt at all that, if the community is to remain there, the social arguments for connecting it are overwhelmingly strong. One must say, and it has been said by a number of us, I can assure you, that on a dollar and cents calculation there is no doubt that to provide land and homes on the mainland of the island could well be an economically attractive thing to do. However, one has to recognize that Indian reservations are the result of certain historic agreements, and it is not easy to say to people that they should leave their land and live elsewhere.

Senator Phillips (Prince): Yes, I realize that there is a harshness in this.

Mr. Kent: The thought that it would be perhaps the best thing to do has indeed been explored, and I believe it has been discussed with the Indian band itself on a number of occasions. But I think it would be very difficult to take the view that it is something that should be forced upon them.

Senator Phillips (Prince): But this has been discussed with the Indian band.

Mr. Kent: I believe so. It has been explored over quite a number of years.

Senator Phillips (Prince): I am pleased to hear that. The provinces recently announced a loan to the credit unions for short-term

credit, which is badly needed. At what rate will this money be loaned? What rate of interest will the borrower pay?

Mr. Kent: Of course, I cannot tell you that. What is in the plan is that the federal Government will make a longer-term loan to the province, to put it in a position to make the loan to the credit union. The provision in the plan, as you will recall, is that our loans to the province are at the federal rate for Crown corporations plus one-quarter of 1 per cent. But what rate is then charged by the credit unions to the borrowers is a matter of their ordinary commercial business.

Senator Phillips (Prince): What rate are you charging the province?

Mr. Kent: One-quarter of 1 per cent over the federal rate at the time they actually take up the loan. It comes out to $8\frac{3}{4}$ per cent at the moment, I believe. At least that is what it was for the last quarter. We don't know yet what it is for this quarter.

Senator Phillips (Prince): The socioeconomic aspect of the plan disturbs me in that there is a plan to move something like 3,300 rural families to new communities. I find nothing in the plan to provide employment for these people. What do you have in mind for employment?

Mr. Kent: Well, you will recall that there is in the plan a part of the expenditure which is provided for various types of industrial development: market development, the provision of credit to industry, the provision of some capital for anti-pollution measures and so on; all of which is designed to increase the amount of processing carried out on the island on the basis of a larger and more diversified agriculture. This is the employment change on the direct industrial side.

Of course, the other factor is that as living standards rise, if the plan is successful in making possible an increase in agricultural productivity, then we will experience what always happens with a higher level of incomes. All sorts of higher levels of service, not only in the tertiary industry sense, but also in the provision of public services, become possible. These are the things that are labour intensive and employment intensive all over the national economy.

Manufacturing development is crucial to the whole process, in a very real sense the spark plug. Nothing else is going to happen

successfully without it. But manufacturing employment itself does not increase very much anywhere. What happens is that with higher levels of earnings, resulting from more productive manufacturing employment, people have much more money to spend on services and that is where the employment comes in. This is, after all, the trend of the economy as a whole and Prince Edward Island is clearly likely to be a substantial beneficiary from that sort of trend.

Senator Phillips (Prince): You list labour force as 3,300. The Dominion Bureau of Statistics informed me that there were 2,000 of these people unemployed during last winter. This leaves me with concern that the plan is not moving enough towards an industrial side to provide employment. You mention agricultural processing, but this is on a seasonal basis and does not provide the individual with year-round employment.

Mr. Kent: Some agricultural processing does, but a good deal of it does not, no. What it usually does is to provide a considerable increase in income for people who otherwise would be unemployed at that time of the year and are employed at other times in whatever it may be, tourism, fishing, et cetera.

Senator Phillips (Prince): How many farmers and fishermen will be moved out under your land management and reduction of the number of fisheries?

Mr. Kent: One cannot, fortunately I think, answer that. It is not a question of anyone being moved out. It is, after all, a question of how many people take advantage of the opportunities for, for example, selling their land under the land adjustment program and then deciding to move into a town rather than continuing to live in their existing farm houses. Under the arrangements of the plan they can do that as an alternative. I do not think one can predict these things in any precise way at all, because people have choices and they will exercise them.

Senator Phillips (Prince): Your program includes \$10 million for public involvement. Is this sum not rather high for 100,000 people? I realize public involvement takes in many different aspects.

Mr. Kent: The counselling expenditures are about \$5 million—no a bit under \$10 million.

Senator Phillips (Prince): Is this figure not rather high for 100,000 people?

Mr. Kent: It certainly is a fairly high figure. It is \$100 a head, but over a six year period that is about \$16 per person a year. It certainly is quite a—what shall I say?—substantial service, but I would think it probably does not compare at all unfavourably with the costs of a great many of the referral services over the whole range of social activity.

Senator Phillips (Prince): I make one brief comment, and then cease my questioning.

I hope that Information Canada does not become as expensive as counselling in P.E.I., or we are going to need another White Paper.

Mr. Kent: If I may say so, counselling is different from information, and more expensive.

The Acting Chairman: Honourable senators, on your behalf I would like to thank Mr. Kent and Mr. Franklin for their presence here, and especially to thank Mr. Kent for his relaxed submission to the questions that have been asked of him.

The committee adjourned.

Queen's Printer for Canada, Ottawa, 1970



Second Session—Twenty-eighth Parliament
1969-70

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

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

No. 6

THURSDAY, APRIL 16th, 1970

Fourth Proceedings on the Estimates

laid before Parliament for the fiscal year ending March 31, 1971

WITNESS:

Mr. E. P. Neufeld, Professor of Economics, University of Toronto.

APPENDIX

"A"—Charts prepared by Mr. E. P. Neufeld, Professor of Economics, University of Toronto, relating to his evidence given before the Committee.



Second Session—Twenty-eighth Parliament
1969-70

THE SENATE OF CANADA

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

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

The Honourable Senators:

Aird	Grosart	McDonald
Beaubien	Hays	McLean
Benidickson	Isnor	Nichol
Bourget	Kinley	Paterson
Bourque	Laird	Pearson
Desruisseaux	Leonard	Phillips (<i>Rigaud</i>)
Everett	MacDonald (<i>Queens</i>)	Phillips (<i>Prince</i>)
*Flynn	*Martin	O'Leary (<i>Carleton</i>)
Fournier (<i>Madawaska- Restigouche</i>)	Methot	Sparrow
Gelinas	Molson	Walker—(28).

(Quorum 7)

* *Ex officio members:* Flynn and Martin.

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APPENDIX

"A"—Charts prepared by Mr. E. P. Neufeld, Professor of Economics, University of Toronto, relating to his evidence given before the Committee.

MINUTE PROCEEDINGS
ORDER OF REFERENCE

Extract from the Minutes of Proceedings of February 12th, 1970.

"With leave of the Senate, (6)

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 proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1971, in advance of Bills based upon the said Estimates reaching the Senate;

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.

ATTEST.

Clerk of the Committee

MINUTES OF PROCEEDINGS

THURSDAY, April 16, 1970

(6)

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10.00 a.m. for the further consideration of the Main Estimates laid before Parliament for the fiscal year ending March 31st, 1971.

Present: The Honourable Senators: Leonard (*Chairman*), Aird, Beaubien, Desruisseaux, Everett, Grosart, Hays, Molson and McDonald. (9).

Ordered.—That 800 copies in English and 300 copies in French of the proceedings of the Committee be printed.

The following witness was heard:

Mr. E. P. Neufeld, Professor of Economics, University of Toronto.

Ordered.—That the charts appended to Professor Neufeld's brief be printed as Appendix "A" to these proceedings.

At 12.05 p.m. the Committee adjourned to Thursday, April 23rd, 1970, at 10.00 a.m.

ATTEST.

Gérard Lemire
Clerk of the Committee

MINUTES OF PROCEEDINGS

Thursday, April 16, 1970

(8)

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10:00 a.m. for the further consideration of the Main Estimates laid before Parliament for the fiscal year ending March 31st, 1971.

Present: The Honourable Senators: Leonard (Chairman), Auld, Beaudin, Desruesseau, Everett, Givens, Hays, Melson and McDonald. (8)

Ordered—That 800 copies in English and 300 copies in French of the proceedings of the Committee be printed.

The following witness was heard:

Mr. E. P. Neufeld, Professor of Economics, University of Toronto.

Ordered—That the charts appended to Professor Neufeld's brief be printed as Appendix "A" to these proceedings.

At 12:05 p.m. the Committee adjourned to Thursday, April 23rd, 1970, at 10:00 a.m.

ATTEST

Gérard Lemire
Clerk of the Committee

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

EVIDENCE

Ottawa, Thursday, April 16, 1970

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March 1971, met this day at 10.00 a.m.

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

The Chairman: Honourable senators, it is ten o'clock and notwithstanding the fact that three other committees are meeting this morning, we have a quorum here. Therefore I think we should proceed right away.

Upon motion, it was resolved that a verbatim report be made of the proceedings and to recommend that 800 copies in English and 300 copies in French be printed.

Copies of this map dealing with the designated regions under the Regional Development Incentives Act have been distributed. The map was referred to in the evidence of Mr. Tom Kent, Deputy Minister, Department of Regional Economic Expansion, at our last meeting. I presume that we simply need to note in the minutes that this has been distributed and it is not necessary to include it in our minutes in any shape or form.

That is the only other preliminary business that we have, except that Honourable Jean Chrétien, Minister of Indian Affairs and Northern Development, is to be our witness next Thursday, when we will be dealing more specifically with the Estimates of his department as distinct from what we are considering today, which is the overall picture of the effect of the Government Estimates for 1970-71 on the economic situation in Canada.

Senator Desruisseaux: Mr. Chairman, what is the date of this map? It is published in 1969, but I thought that Regina was added to the designated areas some months ago.

Senator Everett: I may be able to answer that, Mr. Chairman. These are the designated areas under the Industrial Research and

Development Incentives Act. Two months ago the Minister of Regional Economic Expansion designated special areas in which the Government not only gives benefits that are available under this act, but also gives grants in order to develop what they refer to as the infrastructure of the particular community, being roads, bridges, schools, and so on. Regina, which was not included in the designated areas under the Industrial Research and Development Incentives Act, was included in the special areas, and therefore gets the benefits of both situations.

Senator Molson: Are there many special areas? You mentioned Regina; was there a lot of territory?

Senator Everett: I think there were something like 12. There was Halifax, for example, The Pas in Manitoba, Regina and Saskatoon.

Senator Desruisseaux: Would this mean that designated areas would benefit under both?

Senator Everett: The designated areas here only benefit under the Industrial Research and Development Incentives Act. The special areas, in effect, benefit under both.

Senator Desruisseaux: The special areas benefit much more than?

Senator Everett: That is right.

Senator Desruisseaux: There is no map of them.

Senator Everett: Yes, I believe there was a map submitted with Mr. Kent's evidence last week showing the special areas.

Senator Desruisseaux: Is that to be made available?

The Chairman: Was it distributed at all?

Senator Everett: No, it was not.

The Chairman: We will make a note to obtain from the department and Mr. Kent the information, a map preferably, with respect to the special areas and infrastructure

arrangement, in addition to the designated areas.

Are there any other preliminary questions? There being none, I welcome back to this committee our witness for today, Professor E. P. Neufeld, Professor of Economics of the University of Toronto. Most of you will recall hearing him last year on two occasions and that his evidence was extremely helpful to us, which I am sure it will be again today. As I said at the outset, we are dealing now with the general problem of the Government expenditures as forecast in the Estimates in their impact on the economic situation in Canada. Without further ado I will ask Professor Neufeld if he will proceed. He has distributed a copy of the paper that he has prepared.

Professor E. P. Neufeld, Professor of Economics, University of Toronto: Mr. Chairman, honourable senators: thank you very much for asking me to appear before this committee. It is an honour for me. I would just like to say that there are a few changes which I will introduce into the distributed memorandum arising from additional information that has come to me following its typing.

My understanding is that you would wish me to discuss the economic implications and appropriateness of proposed federal Government expenditures.

I pointed out during my appearance before this committee last year that from an economic point of view Government expenditures should be appraised in two ways. First, they should be judged with respect to their appropriateness for combatting short-term cyclical movements in employment and prices. Second, they should be appraised with respect to their long-term implications for economic efficiency in the allocation of the nation's resources. This continues to be a useful approach for examining the appropriateness of planned Government expenditures.

Budgetary expenditures of the federal Government for the 1970-71 fiscal year are expected to increase by 8.3 per cent to a total of \$12,900 million. This is the smallest percentage increase since fiscal 1965-1966. Budgetary revenues are expected to be sufficient to produce a surplus of \$250 million compared with \$355 million in 1969-70 and a deficit of \$576 million. So whereas last year there was a "turn around" of plus \$931 million this year it was minus \$105 million. This means that while the accounts injected a substantial amount of added restriction into the economy

last year, they will not do so this year and on balance, even from a budgetary point of view, will ease restriction.

We may also look at expenditures in the national accounting framework, thereby concentrating on the impact of the federal Government's expenditures on the demand for goods and services. Total federal Government expenditures viewed in this way are expected to rise by no less than 12.7 per cent in 1970-71, which is a higher rate than the expected increase in the value of the nation's output of goods and services, and is also larger than the increase in 1969-70 when such expenditures rose by only 10.1 per cent. So it seems that on a national accounting basis the federal Government's surplus is estimated at \$130 million for 1970-71 compared with \$570 million in 1969-70, or a "turn around" of \$440 million deficit. Since there was a deficit of \$80 million in 1968-69, the "turn around" last year was plus \$650 million. So again it would seem that the federal Government accounts will be less restrictive in 1970-71 than in 1969-70.

Again, if you look at it in this way it would seem that the federal Government accounts would be less restrictive in 1970-71 than in 1969-70. I might add that there is a bit of semantics involved. These people use the phrase that it will be "less restrictive," and others use the phrase that it will be "more expansionary." I think you have to realize that it is the same thing. Moving from a large surplus to a small surplus is expansionary in exactly the same way as would be the case if you moved from a smaller surplus to a smaller deficit. We face a budget and proposed expenditure program which has to be regarded as being expansionary in nature.

To judge whether these developments are economically appropriate requires an examination of the state of economic activity.

Senator Grosart: Could I interrupt at this point to ask Professor Neufeld to do me a personal favour and explain the difference between budgetary expenditures, budgetary plus statutes and budget accounts. The end result is markedly different from an increase of 8 per cent to 12 per cent. I have tried very hard to find out the difference from the books.

Professor Neufeld: The main difference is that the national accounts approach concentrates on the direct impact of the government spending and taxing for the demand of goods and services. There are all kinds of other

expenditures, such as transfer payments, that do not have the direct impact of the demand for goods and their services. That is the major difference.

What one can do for example, if you look at the budgetary expenditures, is adjust to those budgetary expenditures to reconcile them with the national accounts kind of expenditures. What happens is that you deduct some items and you add others. The ones that you deduct are budgetary transfers to funds and agencies, also for accounting reasons, post office expenditures, the deficit of government business enterprise write-offs, budgetary revenue items, offset gains and budgetary expenditures. These are the things you take off. The ones which you put on are old age security benefits, unemployment insurance benefits, government pensions, prairie farmer's payments, expenditures for government funds agencies and a lot of miscellaneous items. You make those adjustments to your budgetary expenditures and you arrive at what you call expenditures on the national accounts basis. The idea is to get a figure that more accurately shows the demand impact on the nation's output.

Senator Grosart: The older type of accounting is somehow useful.

Professor Neufeld: We think it is useful for some purposes and not for others. Obviously if you were thinking of the implications that government expenditures will have for financing, because all expenditures have to be financed you will want to get some indication of how much financing the government will have to do in the market and how much it will do internally. It is also useful if you feel that transfer payments and those sorts of items, in themselves, have important economic implications. They of course do, but if you are thinking simply in terms of the impact on the demand for the nation's output then I think it is best to look at the national accounts expenditures.

My answer to you would be that the budgetary expenditures are useful for some purposes and the national accounts kind of expenditure framework is useful for others. For my immediate purpose, that is trying to guess or speculate on the impact of the government spending plans of the demand for the nation's output and therefore for inflation, I prefer to look at the national accounts basis of expenditures. This year this is particularly important, because added in that way the expenditures are much larger than the budge-

tary expenditures. The increase in the expenditure is much larger than the increase in the budgetary expenditures.

Senator Molson: You need the budgetary figures anyway to get the impact of what the federal government is withdrawing in form of taxes and spending in all phases, as well as the financial impact, don't you?

Professor Neufeld: Yes, you do. Frequently people refer to the proportion of total government spending as proportionate to the gross national product. I refer to that later on. It is a sort of measure of the total impact on the economy, including both transfer payments and demand for goods and services. For some purposes that is a useful thing to have.

Senator Aird: Isn't it also useful as an international comparative?

Professor Neufeld: I think that it is for two reasons, that you might find it useful to have international comparisons with respect to the size of the government sector as measured by the amount of goods and services that the government sector actually takes to itself. This is the national accounting aspect, but at the same time you might find that it is useful to make international comparisons with respect to the amount of transfer payments there are to the extent which government takes money away from some people and gives to others through welfare schemes and medical schemes.

I agree that for international comparisons it is useful, but I would say that it is useful from the two accounting points of view. I would want to know both the size of the government sector internationally from the point of view of goods and services that the government sector takes and also from the point of view of the relative size of transfer payments involved.

Senator Everett: You state that when you are looking at the national accounts method of accounting that in the 1970-71 year there is an expansion of some \$440 million or, put of \$440 million. Could we look at the other another way, it is less restrictive to the extent side of the coin and say that it is more restrictive in the sense that the Government is spending that much less for goods and services so that on a national accounts basis the budget has no effect and that it is a balance between decreased revenues and decreased purchases.

Professor Neufeld: I do not think you could, because the Government, first of all, is in fact spending more on a national accounts basis. It is spending 12.7 per cent more on a national accounts basis, and just from that point of view it would be regarded as being expansionary even more than last year when the increase was just over 10 per cent. Even if you take the view that it is not just the expenditures that matter, but also the revenue, I would say it is an expansionary budget because, as I point out, the turn-around on the balance is a negative of \$440 million, a move from a big surplus last year to a much smaller one this year. This turn-around of a negative \$440 million must be regarded as an example of budgetary restraint on the economy.

Senator Everett: What would happen if the budget deficit increased instead of reduced and the expenditures stayed the same, for example?

Professor Neufeld: I believe you would have further expansionary influences. Expansion and contraction can come from either the spending side or the tax side or from both. In the case that you have mentioned, you are keeping spending constant and you are envisaging a decline in tax revenue, which together produce a bigger deficit. That would be regarded from an economic point of view as an expansion. It could have happened through an expansion of spending and constant revenues just as easily.

Senator Everett: Could spending and revenue then balance each other out in certain cases? I agree with you here in your brief. I see your point that in this case both are expansionary, and therefore, the net effect must be expansionary. But could there be a situation in which they just balance each other out and have no effect?

Professor Neufeld: Yes, there could be. Yes.

The Chairman: As I understand Professor Neufeld when he is analysing this, the Government accounts would be less restrictive in 1970-71. What he is saying is, to me, that they will be more inflationary. In other words, the Government might have had a larger surplus on its Government accounts; but it is going to have a smaller surplus than it had before and to that extent that smaller surplus or additional expenditure is inflationary.

Professor Neufeld: That is exactly right.

The Chairman: Perhaps we could let Professor Neufeld go ahead now.

Professor Neufeld: To judge whether these developments are economically appropriate requires an examination of the state of economic activity. I have prepared some charts to assist us in such an examination. Chart I shows that unemployment in Canada has for about a year remained at roughly the 4.8 per cent level, and that in early 1970 the United States unemployment rates began to move sharply upward.

I might add that an additional March figure for the United States shows that that increase in unemployment has continued into March.

Chart II shows that in recent months the unemployed have been more evenly distributed regionally in that the rate in Ontario has begun to be higher relative to the national average unemployment rate than it was six months ago, and the Quebec rate has begun to be lower than it was.

In February of 1970 the Ontario unemployment rate was 3.6 per cent of the labour force, the highest rate since July, 1968. Unemployment figures therefore suggest that a certain slackness in economic activity has been created in both Canada and the United States, and I would add, almost certainly because of the tight monetary and fiscal restraint of the past year. Growth of real gross national product in both Canada and the United States tells the same story. Since the first quarter of 1969 real gross national product has increased only at a slow rate. In the United States it declined on balance in the fourth quarter of 1969 and almost certainly declined substantially more in the first quarter of 1970. Those figures are not yet available. In both countries profits have been declining which, some believe, might reduce the enthusiasm of businessmen to engage in capital spending.

With this distinct slow-down in economic activity it might be thought that a move toward easier fiscal and monetary policy would not be appropriate. However, the major complicating factor is the absence of concrete evidence that inflation and inflationary cost increases have begun to decelerate in a significant way. In February Canadian consumer prices were running 5 per cent ahead of a year ago and if the inflation rate of the last three months up to February were to continue, the year 1970 would end up with the consumer price index up to 4 per cent over 1969. The March consumer price index was made available just the other day and it

shows that it is running 4.6 per cent ahead of a year ago, compared with 5 per cent in February, and in 1969 as a whole it rose by $4\frac{1}{2}$ per cent.

There is as yet no evidence that wage cost increases are coming down. In January 1970, average hourly earnings in manufacturing were running 8.5 per cent ahead of a year ago, whereas in January 1969, the figure was 8.4 per cent. Base rate wage increases for all agreements covering 500 or more employees excluding construction rose by 8 per cent in 1968, and 7.9 per cent in 1969, with the quarterly increases in 1969, beginning with the first quarter, being as follows: 7.2 per cent, 7.7 per cent, 7.9 per cent and 8.8 per cent.

So that the highest settlements in 1969 came at the end of the year rather than at the beginning of the year.

Senator Aird: Why do you exclude construction?

Professor Neufeld: The only reason construction is excluded is that the official figures compiled do not include construction. It would be better if it were included, but in fact for statistical reasons, I guess, it has not been possible to get adequate surveys of that area. It is almost certainly the case that the increases in the construction area would be bigger than this.

Senator Aird: I think it is a very important point, Mr. Chairman. If we are in fact to have a true picture of the situation, it seems clear to me that every cost should be included.

Professor Neufeld: I think it would be very desirable to have equivalent statistics for the construction industry. All I can say, however, is that the official publications showing quite substantial details on wage settlements have not included the construction industry.

Senator Desruisseaux: Have these statistics always been made this way?

Professor Neufeld: Yes. This in itself, though, is already a great step forward, because even a year or two ago we did not have this information.

Senator Molson: The construction settlement that took place in the Toronto area a year ago last summer was simply fabulous and affected thousands of employees. I cannot remember the figures now, but the whole construction industry in the Toronto area was affected, I believe. It involved very high figures as I recall.

The Chairman: We might make a note to see if we can get some special information on that. My own impression would be, as Professor Neufeld has indicated, that the figures for the construction industry would be greater than these figures.

We might see if we can find some more information on that score.

Professor Neufeld: In some respects these developments are more serious in Canada than in the United States, and in others they are not. Chart III shows that average hourly earnings in manufacturing in Canada are continuing to rise more rapidly than in the United States, whereas chart IV which shows the consumer price index in the two countries, the bottom line showing the ratio of Canada to the United States, suggests that consumer prices in Canada have been rising less quickly than in the United States. The recent economic slowdown in the United States may however begin to reduce their rate of inflation.

So what we have seen over the past year is a slowing down of the demand for an output of the nation's goods and services, but no decisive slowing down of price and wage cost increases. One final aspect of the economic scenery must be examined, namely, prospects for the demand for output in the near term. Possibly the most significant development in this respect is the recent publication of U.S. Commerce Estimates of 1970 spending plans of U.S.-owned companies in Canada. These showed that such businesses were planning to increase their capital spending to \$2,883, million to \$2,335 million in 1969, or 23.4 per cent. While financing difficulties and declining profits may cause that figure to become much smaller, it does suggest that fundamentally business activity has an expansionary and not a contractionary bias in 1970. This is also suggested, I might add, although not so dramatically by the Canadian capital spending intention figures published the other day and which appeared in the newspaper reports. I think it was yesterday or the day before.

The Chairman: I think we received this yesterday. It is a White Paper on Capital Intentions.

Professor Neufeld: Those figures show that basically while you have an overall capital spending program of 7.5 per cent bigger than last year, the business part of it is up by 11 per cent and I might also add that the Gov-

ernment and institutional part of it is up by 10 per cent. It is really only housing that is down, and it is only because housing is down that the total figure is down. Housing is down by 5 per cent. So that the figures, the total figures suggest that business bias is in the direction of expansion in 1970.

Senator Molson: Those are not constant dollars?

Professor Neufeld: No, those are current dollar figures and three is an inflation element in that.

Senator Aird: Just in passing, Mr. Chairman, I think those figures from the United States Commerce Department came out in a relative context which showed the Canadian increase at this figure of 23.4 per cent. If my memory serves me correctly, this was the largest area of capital expansion on a pro-rated basis as contrasted to, say, subsidiaries in Japan, Europe and so on.

Professor Neufeld: I think that is right. It seems to be the case that US subsidiaries are regarding Canada in a relative sense as a very attractive form of expansion in the years ahead.

Senator Grosart: Could I ask Professor Neufeld in relation to chart III for a little fuller description of the chart and of the heading because on first looking at it, it would appear that average real earnings in Canada are higher than in the United States.

Professor Neufeld: It is an index.

Senator Grosart: Am I correct in saying that it is a percentage of 1958 levels?

Professor Neufeld: That is correct.

The Chairman: In other words, at the starting point, the earnings in the United States are higher than in Canada, and this represents what taken place since.

Senator Grosart: As a percentage figure of what has taken place in 1958.

Senator Hays: Did I understand you to say that the expansion of subsidiaries in Canada would contribute to Canada's growth in the years ahead?

Professor Neufeld: Yes. What I wanted to do was to form an impression as to whether business in general is going to be expansionary in Canada in the year ahead or not, and it seemed to me that these capital spending

figures related to the proposed spending of United States subsidiaries in Canada suggests that sector will be quite expansionary in the year ahead. Now, the Canadian figures which include those companies as well as all Canadian companies is a lower figure. It is a different survey, but it also suggests that the business area is biased in favour of expansion in the year ahead.

Senator Hays: And will these funds be provided by the subsidiary or will this be foreign capital coming into Canada?

Professor Neufeld: Probably both.

Senator Hays: How do these figures relate back three or four years, not of necessity in percentage figures but in dollar figures?

Professor Neufeld: Well, I am not quite sure whether this 23 per cent is one of the highest or not. My guess would be it is one of the highest figures we have seen, but I had better not answer it in any definitive way because I am not sure.

Senator Hays: Your studies would indicate categorically that American interests in Canada are possibly going to spend more percentage-wise than they have in the past?

Professor Neufeld: My guess would be yes, but I would want to look back at the figures to confirm. This 23 per cent looks very high to me.

Senator Aird: The place I saw this was in the Whaley-Eaton Newsletter, and my recollection is that this is with respect to American spending in Canada.

Senator Everett: You gave us the figures for the intentions in Canada as a whole which were just released. Could you give the percentages again?

Professor Neufeld: The percentage for total spending for Canada—that is a total capital spending program for Canada—is up 7.5 per cent. The business part of it was up by about 11 per cent. Government and institutions was up by 10 per cent and housing is down by 5 per cent.

Senator Everett: Thank you.

Senator Grosart: Just going back to chart III for a second, I am interested in the gap between the levels of earnings in manufacturing in the two countries. There seems to me to be a very significant closing of the wage-rate gap between the two countries in this

period. How close is that gap to being closed, do you know, or how much has it been closed?

Professor Neufeld: I think a distinction has to be made between closing the gap in real terms and closing the gap in monetary terms. Over this period, by and large, we have had more inflation in Canada than in the United States, so some of these wage-rate increases are really illusory in the sense that they reflect more inflation in Canada. So that from the point of view of closing of the real gap in wages in terms of what they will actually buy, the recent study that I looked at that was published by the federal Government suggested there had been virtually no closing on the average. In some areas, yes, in some areas, no, and in some areas it widened out.

The Chairman: Notwithstanding the automotive agreement and the drive for parity, you feel there has not been a closing of the gap if you take into account the change in prices?

Professor Neufeld: That is right. The rough rule of thumb that in real terms incomes in Canada are about a quarter below those of the United States still holds. There really is not any evidence that this is closing. I might add that this is one of the reasons why this trend in chart III has to be worrying. If our wage rates are going up more than those in the United States, when in fact there is very little evidence that our productivity is going up at a faster rate, then it just has to be inflationary somewhere along the line. At present I find the relative movements in wage rates between the two countries really more worrying than the movement in prices. Our consumer and wholesale prices have not been rising faster than those in the United States for some time. They were a few years ago, but they are not at present and some of them have been rising less quickly than those in the United States. However, as you can see from Chart III, there has been a rather persistent upward bias in our relative wage rate performance.

Senator Hays: Do you have any figures relative to the breakdown between the rich worker and the poor worker. Where is this happening? Is the rich worker becoming richer and the poor worker becoming poorer? There is a big discrepancy in the work forces between those who are poorly paid and those who are well paid.

Professor Neufeld: Yes, this is certainly true and particularly in periods of rapid inflation. The rich workers, or the well organized workers, almost never lose in an inflationary period. That is, they are able to keep up, but the poor workers, or less organized workers, are the ones who take quite a while longer to catch up. They usually do eventually, but it generally takes much longer. A definite answer to your question would involve research showing changes in wage rates between various classifications of workers. I am not sure how by industry or regionally this would indicate changes in income distribution in Canada over the last year or two. However, I think that as a minimum one can say that since it is apparent that the increases in wages to many sections of the economy, the organized sections and even some of the unorganized sections, have been very rapid at a time when there has been some increase in unemployment, there must have been some transfer from the poor workers to the rich workers.

Senator Hays: That is rather obvious, but a year ago you gave us figures on the rich worker and the poor worker. You did it by way of the income tax they were paying and this included probably some of the white collar workers.

Professor Neufeld: I think that must have been another witness. I did not get into that. That was after-tax incomes of various income groups.

Senator Hays: It seemed to me that 5 per cent of the Canadian workers were contributing, or were expected to contribute about the same amount of money to the tax revenues as 24 per cent do in the United States.

Professor Neufeld: I remember reading evidence of that nature; I did not submit it though.

The Chairman: That was one of our other witnesses. We had specific discussion on that. It was a professor from the University of Montreal.

Senator Desruisseaux: Professor Forget.

The Chairman: That is right.

Senator Everett: Am I to take it from your figures that there is a greater squeeze on Canadian business profits than there is in the United States?

Professor Neufeld: Taking 1969 as a whole, that was the case, there was a greater squeeze

on profits in Canada than in the United States. I have referred to the fact that his capital spending in the year ahead seems to be biased in favour of expansion, not contraction. Exports recently have been remarkably strong, and while short-term influences such as strikes of last fall partly explain current strength in exports, I expect them to be sufficiently strong so as to prevent an increase in the size of the current account deficit in our 1970 balance of international payments. Consumer spending was probably weak in early 1970 as indicated by the decline in car sales, and proposed consumer credit controls may to some extent slow down their recovery; but with personal savings rates now probably relatively high, I would expect some expansion in spending as the year progresses.

It is within this general 1970 economic context that the proposed 12.7 per cent increase in federal Government spending, on a national accounts basis, must be appraised. The danger is that if that spending increase is accompanied by similar increases at the provincial and municipal levels, and is accompanied by an acceleration in business capital spending, it could regenerate expectations of increased inflation even before price and cost increases of the past expansion have definitely begun to decelerate. Because of this it might have been more appropriate if the federal Government had planned for a smaller increase in spending; in the event that subsequent developments called for an easing in policy this could have been effected by a change in monetary policy.

Senator Aird: Is the word "danger" truly a fact? Is it not a fact that there is going to be increased spending at provincial and municipal levels?

Professor Neufeld: I suppose it is a fact once one has the statistics. I think that it is a very high probability. I refer later on, for example, to the Ontario budget, which was brought down recently and shows an increase in spending there of 14 per cent. I do not know what the rest of the provinces or the municipalities are doing. However I find it very difficult to believe that their spending increase is going to be below, say, 9 per cent.

The Chairman: Ontario was representative of 35 per cent of the total provincial spending, so the 14 per cent increase there could hardly be offset by any lesser spending in any of the other provinces.

Professor Neufeld: I might refer briefly to the implications of increased Government

spending for long-term economic efficiency. As Chart V shows, total Government expenditures, and total Government expenditures on goods and services, have been rising as a proportion of Gross National Product—the former amounting to around 33 per cent and the latter to over 21 per cent in 1969. In 1970-71 total federal Government expenditures, as we have seen, are expected to increase by 8.3 per cent and total federal Government expenditures on goods and services by 12.7 per cent.

Ontario expenditures are up by 14.1 per cent, so even taking the Ontario and total federal expenditures together shows an increase of 9½ per cent. As I already mentioned, capital spending by governments in institutions is up by a smaller amount. Therefore, we can take it that we are discussing a total government spending increase of the order of 9, 10 or 11 per cent. I suggest this would be faster than the growth in the gross national product. Certainly, using the figure of federal government expenditures on goods and services as a proportion of G.N.P. and as a guide, it would seem that government spending is continuing to take an increasing share of the nation's output. The importance of appraising the results of this shift of resources has never been greater.

The President of the Treasury Board was reported the other day as having criticized the Auditor General for going beyond matters such as accounting procedures, and into the realm of the appropriateness of some government policies. The problem is that neither the Auditor General, nor anyone else seems to have gone nearly far enough in appraising the benefits the nation receives, or does not receive from government expenditure programs. The potential losses to the nation in imperfect accounting procedures are insignificant compared with the potential losses from programs, while perfectly satisfactory in a financial control sense, do not produce the benefits they are designed to produce. Possibly the country should have an economist-general in addition to an auditor general. One way or another there should be a much more critical and informed analysis of costs and benefits with respect to government expenditures than there has been in the past.

The Chairman: That gives us something to digest and to think about. I am sure that there are questions in the minds of all of you, but rather significant comments that Professor Neufeld has made on the government's plans for expenditures as represented by the

estimates for 1970-71. Who would like to start off?

Senator Desruisseaux: Are your views generally concurred with by the other economists in Canada?

Professor Neufeld: I think that the record would probably suggest that I have been more concerned with the problems of inflation, including excessive cost increases over the last two or three years than most economists. I remember three years ago, in front of a parliamentary committee, arguing the need for measures designed to deal with excessive cost increases and I think that at that time I was probably one of the few to do so. This does not necessarily mean that I am correct. All I am doing is to give you my own biases, and my bias has been one of some concern over the rate of price and cost. I think another bias I have is that I am basically more optimistic than many economists are about the direction of economic activity. My own feeling is that we are basically in an expansionary environment and not in a contractionary environment, and we will see a very rapid expansion in capital spending in the business sector.

Senator Hays: What is the gross national product now?

Professor Neufeld: It was running in the fourth quarter in money terms at 80,252,000,000 for the year 1969, as a whole, which was 70,099,000,000. The increase in 1969 over 1968, in money terms, was 9.3 per cent.

Senator Hays: So it is running 80,200,000,000?

Professor Neufeld: In the fourth quarter.

The Chairman: If that rate continues for 1969-70 it would be approximately \$80 billion?

Professor Neufeld: Yes, my guess is that the rate in the first quarter of 1970 is about \$81 billion.

Senator Hays: Seven or eight years ago the gross national product was around \$43 billion. We have almost doubled this in seven years. How many economists predicted that back in 1960.

Professor Neufeld: I think that the economists would not have predicted that, because the amount of inflation that we have had is greater than anyone would have forecasted at

that time. If you adjust for inflation then the sort of real growth rate increases.

Senator Hays: What is the greatest, inflation or deflation?

Professor Neufeld: I beg your pardon?

Senator Hays: What is the greatest sin, deflation or inflation?

Professor Neufeld: I think they are both very undesirable in several instances.

Inflation is undesirable for many reasons which we all understand. Deflation is undesirable from two points of view, firstly, because it is usually accompanied by quite high unemployment levels and secondly, because the income redistribution effects arising from falling prices may be just as serious as the income redistribution effects from rising prices. I would say both inflation and deflation is bad.

Senator Hays: So I suppose one of the concerns we must have is being able to compete with other countries but the whole world is moving in an inflationary period.

Do you have any figures on where Canada now stands in competing with the world? I think a year ago we were the fourth largest exporter in the world, even though we were a very small country. I see where our exports are up and the percentage is up. Do you have any figures as to where we stand and what countries are now ahead of us?

Professor Neufeld: In terms of?

Senator Hays: Of total exports and in dollars.

Professor Neufeld: I do not have those figures here. I know that our exports of 1969, while they were up quite substantially, were not up as much as the increase in the exports of the industrially developed countries in the world, excluding the United States.

Senator Hays: Percentage-wise. They were around 13 billion?

Professor Neufeld: The percentage increase was not as high. I do not know if there is any significance in that at all. If you look just simply at our balance of international payments and at our Canadian dollar you will find that the Canadian dollar has been exceedingly strong and our balance of payments has been quite good. In the first quarter of this year, partly for special reasons, it

is true that we saw a huge increase in our surplus in trade. Therefore, I do not think there is much wrong with our trade position yet. The real problem arises when we permit the inflation rate to proceed to the point where there is something wrong.

Senator Hays: This is the very point I am getting at. You have to buy and sell so in order to buy and sell you have to be in step with the rest of the world and your trading partners. Is it possible, Professor Neufeld, that you may be able to give us the figures on where we stand? I am sure that we were in third or fourth place as an exporting nation in the world.

Senator Beaubien: That is right.

Senator Hays: What is our position and are we competing?

Professor Neufeld: We are, there is no question about that. The growth of our exports show that we are competing still quite effectively. Those international comparisons would be somewhat out-of-date. That would be one of the things that would bother me. It would not be difficult, however, to get some figures of the size of exports of various countries of the world.

Senator Aird: Certain articles appearing recently have suggested that a certain amount of inflation is concomitant with the system we have at present. I have heard the view expressed that a 2 per cent factor is one we can live with. What would be your view on that?

Professor Neufeld: I think that a few years ago I would have been quite content to make that kind of generalization. What worries me now is the possibility that it may be no easier to maintain 4 per cent than 2 per cent or 6 per cent than 4 per cent. And given that, we might as well opt for having a relatively low rate of inflation. Our problem has been that we have had between 4 and 5 per cent inflation—not 2 per cent.

So my argument would be that, if we got down to 2 per cent and kept it there, that would be a pretty satisfactory performance. I myself would be content with it. But I think that what had been thought was that it might be easier to maintain 4 per cent than 2 per cent. That I would now question. I suspect that we might as well go down to 2 per cent because it would not be any more difficult to maintain than maintaining 4 per cent.

Senator Beaubien: Professor Neufeld, the labour settlements we have had of late have been in the order of 8 per cent a year. How can we possibly get away from inflation if those percentages continue?

Professor Neufeld: I don't think we will. I agree with you. I think that in 1970 we will be fortunate if we have a rate of inflation as low as 3½ per cent. I think it could move to 3½ per cent, if anti-inflationary policies are persisted in. But just simply because of the built-in cost increases I would think it would be very difficult to do much better than 3½ per cent inflation in 1970.

Senator Hays: Just what would happen if we got it down to 2 per cent? What would be the unemployment rate?

Senator Beaubien: You can't get it down to 2 per cent.

Professor Neufeld: I think that the unemployment rate that is accompanied by varying rates of inflation is quite a flexible thing. Economists for a while tended to leave the impression that there was a pretty stable trade-off; that is, that if you had a lower rate of inflation you would have a higher rate of unemployment and so on, but my own feeling is that if one were to accompany a policy of price stability with other policies that would move people to where the jobs are, one could probably move down to a 2 per cent inflation rate and still have unemployment that is no higher than it is now.

Senator Hays: But the methods that you use to curb inflation accelerate unemployment, don't they?

Senator Molson: Did not the German experience bear out what you said a moment ago, Professor Neufeld, in recent years? I am referring to West Germany.

Professor Neufeld: I think it has. I would make the distinction between bringing an inflation under control and moving to a sort of sustained record of inflation and growth. Once you have inflation the matter of bringing it under control is likely to be somewhat bloody, if I may use that expression.

Senator Hays: Bloody, bloody.

Professor Neufeld: It seems at present, for example, that there are not going to be any important useful substitutes for the use of monetary policies and fiscal policies to bring present costs and price inflation under con-

trol. But I feel that if you look beyond that, and once you have it under control, when the matter of keeping it under control may well be possible through the use of those policies as well as others. Hopefully, in that way we could have a lower rate of inflation together with the satisfactory level of unemployment.

Senator Hays: You don't think that it affects our trade? For instance, if the Canadian dollar is par or is, say, one-ten, then our sales start dropping. We just then start dropping off on exports or we are not competing. In other words, we are not keeping in step with everybody.

Professor Neufeld: You have raised a very important issue, and that is the relationship between our domestic control of inflation and our exchange rate. For example, one could argue that, if we really bring inflation under control, this will so improve our balance of payments position that it will cause an upward pressure on the Canadian dollar which, of course, would make exports more expensive to foreigners. I think this is an issue on which the nation has to clarify what it wants to do. I know what I think should happen.

First of all, I incline to the view that a 92½ cent dollar within the context of Canadian history is a very unusual dollar and that, historically, a par dollar has been much more normal than a 92½ cent dollar.

Senator Hays: That is right.

Professor Neufeld: Therefore it does not worry me particularly if we pursue domestic price policies that lead to a strong balance of payments position and that eventually lead to an upward revaluation of the Canadian dollar. Never forget that while you might argue that that works against exporters, you must also remember that the preceding period of keeping prices under control also works against exporters. So over time the two off-set each other.

Here is where I differ substantially with a number of economists who are inclined to argue that we should not try to have a lower rate of inflation than anyone else because all it will do is to cause balance of payments problems and put pressure on the Canadian dollar. My own feeling is that we have leeway there and that, if need be, we should control inflation to the point where we do have a strong export position, even if this

requires upward revaluation of the Canadian dollar.

Senator Hays: I don't know how you can have both. Senator Molson can't sell any beer and I can't sell any cattle and we will be in a hell of a shape with the Senate salaries we get.

Senator Molson: Any change there would be inflationary.

Senator Beaubien: But, Professor Neufeld, how can you control inflation if in any future labour settlements the cost is going to go up by 8 per cent a year? Every time somebody signs a contract at 8 per cent he thinks he is doing well. Everything is based on labour.

Professor Neufeld: That is true. There is one glimmer of hope which I would refer you to, and that is that if you look at wage rates settlements from the point of view of the amount of settlement in the first year covered by the contracts, then the amount of the settlement in the second year covered by the contract and the amount of the settlement in the third year of the contract, if you look at it that way, what does it show? It shows that in 1969 all the settlements signed had a 9½ per cent wage increase in the first year, a 6 per cent increase in the second year and a 5.2 per cent increase in the third year so that, if we could just get the new settlement down, the hangover from the old settlements would not cause all that much trouble after the first year. This is the crucial issue, it seems to me.

Senator Molson: New settlements are not showing any indication of that so far, however.

Professor Neufeld: Not so far, no.

Senator Molson: Not so far this year. Just following through on the question of inflation, I might say that Professor Young's Commission inclined to bring all phases of economic activity into line, and when he got around to organized labour the Commission made the point that they did not consider rate changes as inflationary or wage increases as contributing to inflation. Would you agree with that?

Professor Neufeld: My own feeling is that the current efforts of the Prices and Income Commission to control inflation will be a failure unless the work of that Commission gets through to wage-rate increases.

Senator Molson: Why?

Professor Neufeld: The reason is that the upward impetus on prices for the last year or

so has not been in the area of profits. It has been in the area of wages. In fact, profits have been declining and wages have been rising. So that to concentrate only on businesses keeping profits down and therefore increasing the profit squeeze that already exists will bring inflation under control only to the extent that that makes management a harder bargainer at the negotiation table, and so I repeat I feel that the Prices and Incomes Commission's work will be a failure unless it leads to a reduction in the rate of increase in wages. If their efforts should be directed only at the prices that business is charging and do not get through to the wage-rate increases, then it will be an unsustainable situation.

Senator Molson: In other words, it will be hopeless because they have been told that there is nothing to talk about. They have been told that wage increases are not contributing to inflation so apparently there is no meeting place.

Professor Neufeld: At the moment I think the hope that the Prices and Incomes Commission's work will lead to a decrease in inflation must be a limited one. The more likely prospect is that if monetary and fiscal restraint is maintained, then the reduction in wage rate increases will come as a consequence of long and possibly troublesome strikes.

Senator Hays: The tools of lower wages are unemployment. When I was mayor of Calgary, we decided there were enough people to replace a certain union and we said we would hold the line, and we did. That put 500 people out of work and we did not have transportation for 300,000 people but the people were willing to live with this. But if we didn't have anybody to replace them, we would not have had any tools. I suppose if we go up to 8 per cent unemployment, the fact that we have rich workers and poor workers means that this might happen sooner than we expect. Would you agree with that?

Professor Neufeld: I think it is true that if you have to rely only on monetary and fiscal policy to bring down wage rate increases, then you are not going to avoid higher unemployment, whether this takes the form of actual unemployment or unemployment through strikes or what. This is really why the work of the Prices and Incomes Commission in the long run is so important, because presumably even in the present situation were it possible to have a sharp step down in wage rate increases, then further unemploy-

ment could be avoided, and this of course is the tragedy of it. If it were possible to bring demands down at a time when profits are already falling, then I think you could avoid some unemployment, but if you cannot bring those demands down, and must rely on monetary and fiscal policy alone to squeeze the economy, then the only way they will be brought down is through unemployment.

Senator Hays: If you lay off 10 per cent of your staff, the vote is entirely different when you go to have a strike vote. These are the hard realities of the situation.

Professor Neufeld: That is right. On the face of it, it would seem that there must be a better way of running the country than by the use of monetary and fiscal policy to bring cost increases under control, but right now we do not have a better way.

Senator Everett: I have two questions, the first one dealing with the subject we are now on. I would like to refer to Senator Lamontagne's speech which has been widely reported and with which you are no doubt conversant. He makes the very point that you are now making that you can't control cost-push inflation by monetary and fiscal means and that the Government is making a mistake in trying to do this.

Professor Neufeld: May I correct you, sir, that is not the point I am making. The point I am making is that you can control cost-push inflation through those means, but it will entail higher unemployment.

Senator Everett: I am sorry if I gave the impression that I was saying that that is what you are saying. I think and I hope that it is a correct reporting of what Senator Lamontagne was saying.

The Chairman: I am not sure that that is what he was driving at.

Senator Hays: That is how it was reported.

Senator Everett: I will be glad to be corrected.

The Chairman: Never mind. Assume you are correct and go ahead.

Senator Everett: I would just like to get your comments on the case that I thought he made because I thought the case he made was that even the Prices and Incomes Commission is not the answer. And he sort of rules out, if we are dealing with cost-push inflation, the

voluntary approach and the fiscal and monetary approach and says we just have to have some kind of price and wage control. I think it limits it to the major corporations and the major unions.

Professor Neufeld: Well, without implying in any way what exactly he said and speaking only for myself, I will make several points. First, I do think that monetary and fiscal policy can bring inflation under control if they are persisted in, but I do realize that in so doing it will involve a higher level of unemployment. The second point I would make is that I am fearful in moving in the direction of controls be it on prices or wages, on several grounds. The first of these grounds is that I am not at all sure that a democracy would accept them, and secondly I am not sure that they should accept them. Therefore, because of my worries over the implications of controls of that detailed character, be they on wages or prices or both, I would prefer another course. I think it is the course that the Prices and Incomes Commission is likely to develop because it is really one that involves increasing greatly the amount of useful economic and other information available to those sections of the community that happen at a particular point in time to be making important wage and price decisions. My own feeling is that some of the important wage and price decisions have been made in a sort of vacuum where the true implications for the national economy have not been understood.

Senator Aird: Including the Government?

Professor Neufeld: Particularly the Government from time to time. And as a beginning it would be very useful if an organization such as the Prices and Incomes Commission were to make available detailed information on an industry-by-industry basis, if necessary, with respect to the actual developments in prices and wages in those industries and the implications of proposed price and wage developments in those industries. It may in retrospect simply prove that I am naive in these matters, but it seems to me that you are more likely to get reasonable settlements and reasonable price performance if you know what the national interest is and if you know what the relevant information is and if the people that are involved in bargaining know that the public knows what the national interest is. I would therefore prefer a massive informational assault to an approach involving control and restriction. I am hopeful that the

Prices and Incomes Commission will, once it is over its present pre-occupation with voluntary restraint, move on to this area of supplying information in a general and detailed way with the hope that this would really make the system work better.

Senator Everett: I refer to your statement on page 5, which reads as follows;

Because of this it might have been more appropriate if the federal Government had planned for a smaller increase in spending; in the event that subsequent developments called for an easing in policy this could have been effected by a change in monetary policy.

In light of your optimism toward general expansion and your concern that we have not licked inflation, could you comment on the present monetary policy? Is there any implication in this statement that you disagree with the present application of monetary policy?

Professor Neufeld: It may well be that four weeks from now would be a better time to ask that question than now, for the simple reason that there is a considerable amount of uncertainty as to what the Bank of Canada is actually doing. The Bank, since about last April, which is about a year now, has pursued a policy of quite severe restriction. It has permitted almost no increase in the supply of money. It has kept bank credit firmly under control. In the last three or four weeks there has begun to be an appearance of some ease in the marketplace. We do not know yet whether this apparent move toward ease has the blessing of the Bank of Canada. We do not know whether the Bank of Canada is, itself, actively encouraging ease. My own feeling is that now is not the time to move in any substantial way toward monetary and fiscal ease. This is for two reasons: first, we have not yet succeeded in bringing our cost increases down to the U.S. representative cost increases; secondly, my own feeling is that down the road the economy is really biased in favour of expansion, rather than contraction.

Senator Everett: Professor Friedman again, if I quote him correctly, seems to say that there is a danger in maintaining this very restrictive monetary policy, because you get to a point where you have to change it and the change is then probably so massive that you recreate the inflationary pressures. He seems to opt for at a certain point—if, for example, that point has been reached today and the decrease in interest rates is not so

much a reflection of the easing of the restraints, but of the fact that the restraints are finally having their effect, he would say that at this point a gradual increase in the money supply and gradual decrease in the restriction in monetary terms would be wise, so that you avoid this sudden shift to the sudden downturn, and then the need to pump it up again. Do you think this would be a wise policy for the central bank?

Professor Neufeld: Basically what you have suggested is sensible, leaving apart the matter of timing. The one complicating factor, both in Canada and the United States, is what is going to happen to fiscal policy. I think that in the United States, for example, the impression has begun to emerge in the last six or eight weeks that there might be something which they refer to there as fiscal slippage, the effect of the federal budget beginning to slip away. The allocation of public spending in the public sector, which will produce \$1½ billion, is read in some quarters to indicate that basically fiscal policy has already begun to edge in the direction of expansion. In Canada on balance you could make the same argument. This "turn around" on the national accounts basis to which I referred might be interpreted as indicating that the fiscal policy has begun to edge in the direction of expansion. The question immediately arises that if that is the case then should monetary policy also move in the direction of expansion? I raise the question without having an immediate answer. My own feeling is that I would wish to have more evidence of wage rate increases beginning to level off than I have now before moving on to a trend growth rate of money supply.

Senator Everett: And you are taking into account the lag of the effects of changes in the monetary policy?

Professor Neufeld: Yes I am. This question of lags is a very tricky one, because there is very little evidence to suggest that it is very stable. Sometimes it is long and sometimes short. Therefore we do not really know why, for example, so long after the beginning of monetary restraint we have not seen a sizable impact of it on prices. The answer is probably that the lag is variable. Also, that we are in an inflation psychosis which changes the nature of the lag. One of the great dangers in now giving the impression that both monetary and fiscal policy have begun to move toward ease is that this inflation psychology

which has been so deeply imbedded will simply continue.

Senator Molson: I think the Bank of Canada raised the money supply by \$250 million last week.

Professor Neufeld: Money supply figures from week to week have to be read with a great deal of caution because of short-term seasonal influences. Just because what you speak of happened, in addition to a few other things, the guessing game really now is, has the Bank of Canada changed its policy? Six or eight weeks from now it might be perfectly clear that it has or has not.

Senator Aird: Is it also not a fact, with reference to this very last point, that on the new issue of \$375 million the Bank of Canada itself took \$300 million, which would be an indicator that perhaps this policy is being pursued?

Professor Neufeld: It might or might not be because the amount the bank takes up of a new issue depends on several things. It depends on the size of maturity issued and it depends on what other items in its accounts are working toward a contraction in bank cash, which it may wish to offset. Taken by itself it is not sufficient evidence, but again a case of where you can say that the very fact that it happened makes it worth while to look closely at and what the bank is going to do over these succeeding weeks.

Senator Aird: I would like to refer to page 6 of your brief and the last paragraph which seems to me to be the important point that you make. The sentence begins:

The problem is that neither the Auditor-General, nor anyone else...

Quite apart from engaging in a political discussion or referring to government policies, is it politeness on your part that does not name the Treasury Board as that "anyone else"?

Professor Neufeld: I think that one would have to say that over the years the Treasury Board has failed in its role of appraising properly the quality of government spending programs. I also feel that what has to happen is a substantial increase in the expertise the government directs towards appraising its spending plans. It would seem to me also that this sort of expertise should be found in the Treasury Board. Therefore, what should really happen is an expansion in the ability

of the Treasury Board to appraise the quality of the government spending programs.

Senator Aird: Accepting that answer you then go on to say:

Possibly the country should have an economist general.

In effect would you not agree that with the present structure that we have that that role should be discharged by the Treasury Board, perhaps amplified, assisted and supplemented by this expertise you feel is now lacking.

Professor Neufeld: I think that one would feel a lot more confident about the quality of government expenditures if one knew that they had been subjected to the scrutiny of such a group and the Treasury Board. At the same time I would not dismiss completely the possibility of having an auditor general whose interests are a little bit wider than the President of the Treasury Board believes they are. I am not suggesting that he should begin to say that certain programs are bad and certain ones are good on the basis of his own value judgments. What I am saying is that he might well begin to inquire whether certain programs in fact achieve the effects the government has intended that they should in addition to answering the question of whether or not adequate financial control procedures have been followed.

I agree that the Auditor General cannot set himself up as an alternative to the government, but I think it would be perfectly desirable if he were to appraise projects on other than accounting grounds as well as on accounting grounds. This does not involve a conflict with government. All it means is that he would look at projects to see if, in his judgment, they were serving the purposes that they were intended to serve.

Senator Hays: What projects are bothering you in this way, Professor Neufeld?

Professor Neufeld: In the sense that we really have not had a systematic cost benefit appraisal of almost any project. The statement which I am making is a very general one. If one wants to give a specific example I would give the one of family allowance which I alluded to last year.

Senator Hays: Of course that is government policy.

Professor Neufeld: It is government policy, but it is lack of government policy that is desirable to achieve certain effects as a result

of family allowance. The question is are the effects that government wishes to have achieved through family allowance, in fact, being achieved? I would question that.

Senator Hays: Do you feel that the government should have someone in the policy field like that? This is the great argument today. If you want to go into the field of policy get out there and be rough and tumble and get elected.

Professor Neufeld: I am going to make a very important distinction here. Take another example which is regional development. Maybe the government would take the view that we wish to achieve this effect in this area and in order to achieve those effects we want to have these programs. It seems to me that the Auditor General could ask himself, "Now the government feels they want to achieve those effects and they have introduced those programs to achieve those effects. The question is have they achieved those effects?" If the Auditor General or the economist general or someone on that staff has serious misgivings as to whether the projects are in fact achieving the effects they were designed to achieve, without raising the question as to whether those effects are good or bad, this seems to me too involved or contradicts with government policy.

Senator McDonald: Along that line you made a statement earlier about moving people to where jobs are which I thought was very interesting. It seems to me that the policy of the present government, rather than moving to where jobs are is to try to move resources to where the people are. I looked at the map which was presented to us earlier today and I wonder if the private sector of our economy is not prepared to move into certain areas of Canada for good reasons. They look to government at all levels, provincial, municipal and federal to use the taxpayer's money to encourage going into uneconomical areas of the country.

We pay capital grants and so much for every person employed and presumably we do this to make them viable with industry in other areas. I wonder how long they can remain viable or will we have to subsidize them forever. Isn't it better to move people to employment rather than move employment to people? What, in your opinion, would be the proper policy?

Senator Desruisseaux: Taking into consideration the provincial loss and the relationship we have to have with the provinces.

Professor Neufeld: The example you have alluded to is precisely the kind of example that concerns me. At present regional development is in the nature of a sacred cow and I myself have no unkind feelings to any region of the country. At the same time, it is quite conceivable that within the context of this new found enthusiasm we will proceed to waste a lot of the nation's funds and resources. Why? Because I question whether the new regional development programs are going to in fact receive the cold eyed scrutiny that they should receive.

I would be happier with these new experimentations in regional development as well as other policies if I could sit back and feel that the projects, one by one, are going to, when they are under way, receive the closest possible scrutiny and analysis. So I think that my answer to the direct question that you ask is that I don't have a closed mind about whether you should move capital to people or people to capital. I think that in some cases it might well be a good idea to move capital to people whereas in other places it might not be. But what worries me is that we are beginning to launch or are launching on the very important problem of regional disparity without having behind that the sort of careful scrutiny of results from experimentations attempted that we should have.

Senator Hays: There are four people in this room who, no later than last week, were doing the very thing you are suggesting is not being done. We asked for the same information. I am wondering what kind of scrutiny you think they should have or do you know what kind of scrutiny they are already receiving?

Professor Neufeld: I think the scrutiny has to come once the projects are underway. How else can we explain certain Government programs that simply go on year after year? I think it is only because there is very little scrutiny on projects once they have been launched. The difficulty in scrutinizing only when they are launched is that you don't have nearly all the information. You just cannot tell in advance whether or not something is going to work in many cases. So the second best approach is to examine it closely after it has been launched.

Senator Hays: Is that not the Minister's responsibility?

Professor Neufeld: I don't know whether it is the Minister's responsibility or not. I think it is just a question of whether the system is working or not, and to me it does not seem to be working very well. Within the context of the Government I would hope this kind of scrutiny does become part of every department. But a sort of global over-all scrutiny would probably have to be exercised by the Treasury Board, I should think.

Senator Hays: I think both of those things are being done now. I remember when I was a minister we threw out all kinds of programs, some of which had been in effect for 60 years or more.

Senator McDonald: You should have thrown out an awful lot more.

Senator Hays: They didn't let me stay there long enough.

Senator Beaubien: No wonder you are in the Senate.

Senator Molson: Thinking of what Senator McDonald said, there are a lot of programs we have seen that have just gone on and on. For example, 10 or 15 years ago this very Finance Committee raised the question whether the Government's annuities program was an unnecessary expense. The Treasury Board knew that we made those unkind remarks, but they did not do anything about it.

There are any number of things like that. We raised the issue in this same Finance Committee a few years ago that the Post Office statement contained absolutely nothing in it by way of facts annually in the Estimates and so on, because of the fact that they were living in the property of the Department of Public Works and the buildings were being cleaned and maintained by the Department of Public Works. There were no figures to show anything about property of the Post Office so that the figures were meaningless. I think they were showing at that time that the Post Office was operating at a profit of \$8 million, or something, if I remember correctly, which was just absolute nonsense. So the Treasury Board was not being at all that conscientious, bright and intelligent over the years, I think it is fair to say.

Senator McDonald: You made a statement which has been referred to to the effect that

there should be an Economist General in addition to an Auditor General, and the ensuing conversation centered around the Treasury Board. I often wonder if the Treasury Board is properly equipped to do this job. The Treasury Board like most civil servants, and I don't say this disparagingly, is rather divorced from the great mass of people of the country. If this committee was properly staffed with experts and was strengthened by some good appointments to the Senate, I wonder if it might not do that job better than the Treasury Board has been doing it.

Senator Hays: There are five Ministers sitting on the Treasury Board.

Senator McDonald: I don't care if there are 25.

Senator Hays: And they are all elected representatives and you are living in a democracy.

The Chairman: The Senate is part of the democracy, too.

Senator McDonald: I don't think it matters whether they are elected or appointed.

Senator Hays: If you had ever tried to get anything through the Treasury Board you would realize that it is a pretty big job.

Professor Neufeld: What was your question, Senator McDonald?

Senator McDonald: The question was, professor, if this committee were strengthened through adequate professional staff and by some good appointments to the Senate, could the committee perform this function?

Professor Neufeld: One of encouraging developments of the last several years has been the increased role of parliamentary committees in Canada. More effective operation of committees is highly desirable, and I think that in several areas it has already proved to be exceedingly useful to the nation. The committees now sitting—for example, the ones on the White Paper on Taxation—are likely to prove to be most useful. So I am very much in favour of that. However, I think that probably in the area of objective scrutiny of projects the problem is too much of an on-going one to be handled by a committee. It has to be built into administrative machinery in a way that results not just in all projects as a matter of course being scrutinized when they are introduced but also performance being judged annually in an operational way. I

think that it would still be open for parliamentary committees to appraise projects, but what they would then have is not just a sort of accounting record of the projects but also information relating to the costs and the benefits that the Government sees following from such projects. Rather than just having an estimate of expenditures, there should be an accompanying balance sheet showing costs and benefits as well as sizes of expenditures. In that way committees such as this one would have much more solid evidence on which to make judgments whether projects are or are not worthwhile.

Senator Beaubien: The set-up in the United States is, of course, much larger and much more complex than ours. How do they control these things? I realize the executive is appointed there.

Professor Neufeld: I would not say that their approach is in total any better than ours, except that there are some very hopeful indications there of the attempt to do the sort of things that I have suggested should be done here. Just to give you one example, probably one of the most emotionally desirable projects introduced by the preceding administration of the United States was one that was referred to as the "Headstart Program". This was a welfare program designed to help very young children in ghettos prior to their going to school because the feeling was that these children were so far behind that even if they went into good schools being already so far behind they would not be able to compete. The thinking was that they should be put into an educational stream before going to school.

Everything looked right about it and it was politically acceptable and it was launched and financed and so on. Well, two or three years later they began a very objective appraisal of the Headstart Program. There was a detailed analysis of how well the children did who had been in those programs compared with those who had not been in those programs, and the result was that they found that the program was not doing anything good at all, or was doing hardly any good, and therefore, however desirable the motives involved in the program were, they threw it out. This seems to me to be just a tiny example of the useful results that can come from an objective appraisal of Government spending programs.

The Chairman: Well, who initiated that objective appraisal? Was it some department of Government or was it a particular organization?

Professor Neufeld: I would not want to commit myself on that. I am not sure exactly who took the initiative to do the appraisal.

Senator Beaubien: Is it automatic?

The Chairman: I do not think it was automatic. I think that unless somebody started this somewhere, it might not even have happened.

Professor Neufeld: That's right.

Senator Hays: That often happens, Mr. Chairman, by some politician getting in and running an election on it. He says "if I am elected, I am going to throw the whole damn business out." This happened in our city when they were putting in a mall and a mayor was elected because he said it was a complete waste of money. This was his program. Then when he got in he had second thoughts on it.

The Chairman: The charts that Professor Neufeld has given us should be printed as part of our proceedings, I think, and I would like to have agreement that this should be done. I do not mean to suggest that the paper itself should be printed as an appendix because Professor Neufeld read it all with his own additions, and I think in that regard the record will speak for itself. But I think since he referred to the charts, they should be published as an appendix to our proceedings. Is that agreed?

Hon. Senators: Agreed.

(See Appendix "A" pp. 6 : 25-6 : 30)

The Chairman: If there are no further questions to Professor Neufeld, I would like once again to thank him on behalf of the committee.

The committee adjourned.

APPENDIX "A"

Charts prepared by Mr. E.P. Neufeld,
Professor of Economics, University
of Toronto, April 16, 1970, relating
to his evidence given before the
Standing Senate Committee on National
Finance, on above mentioned date.

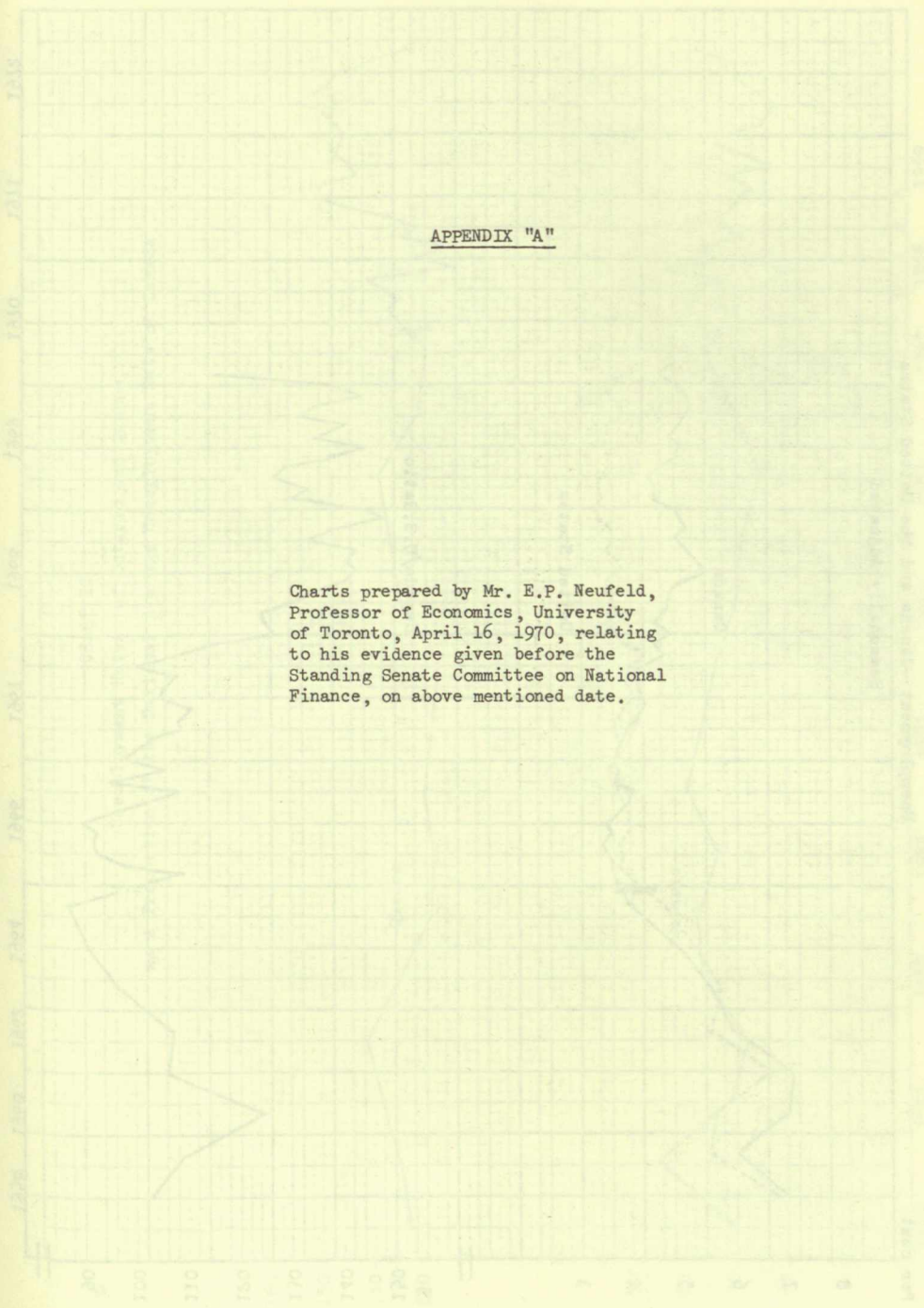


CHART 1

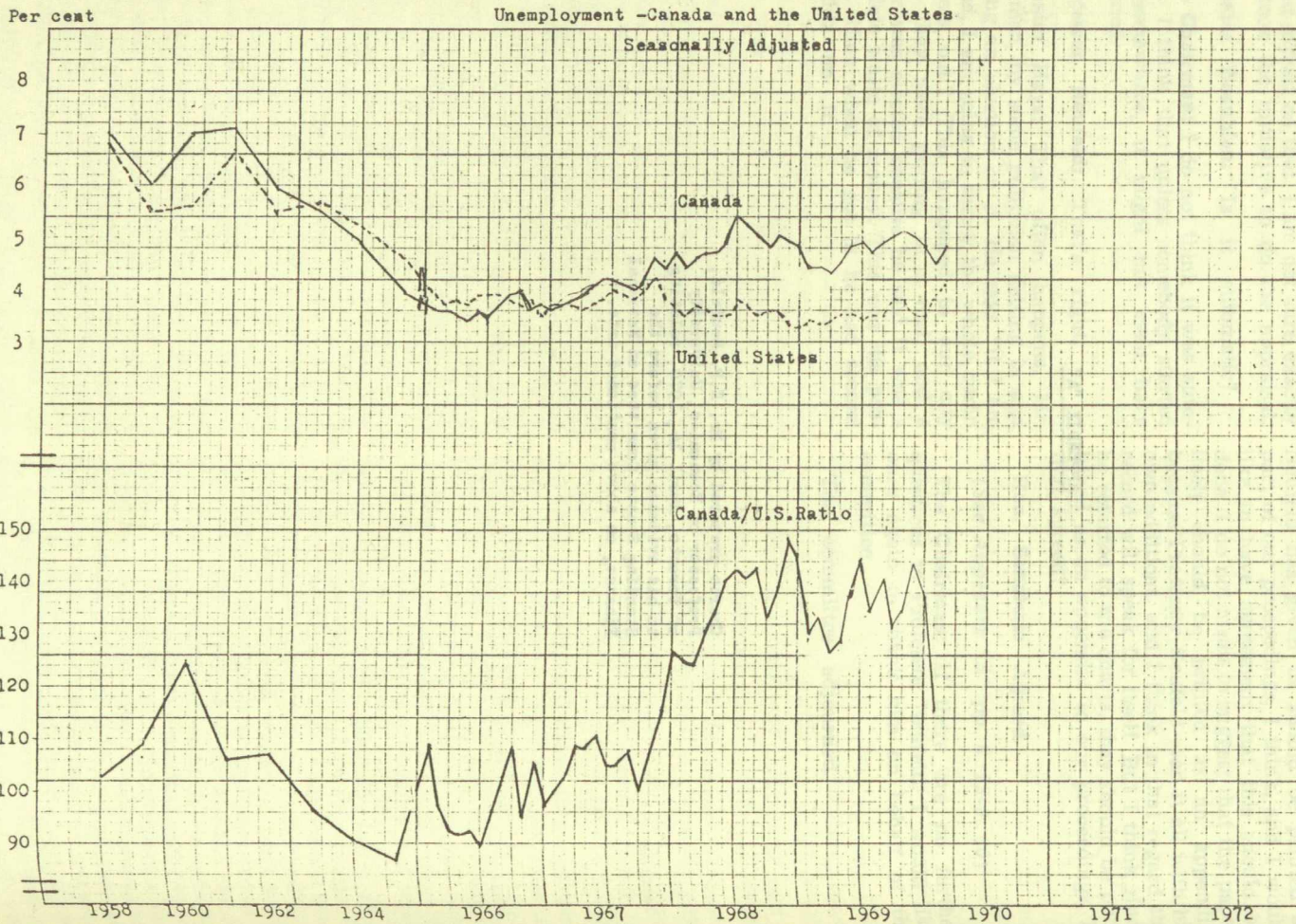
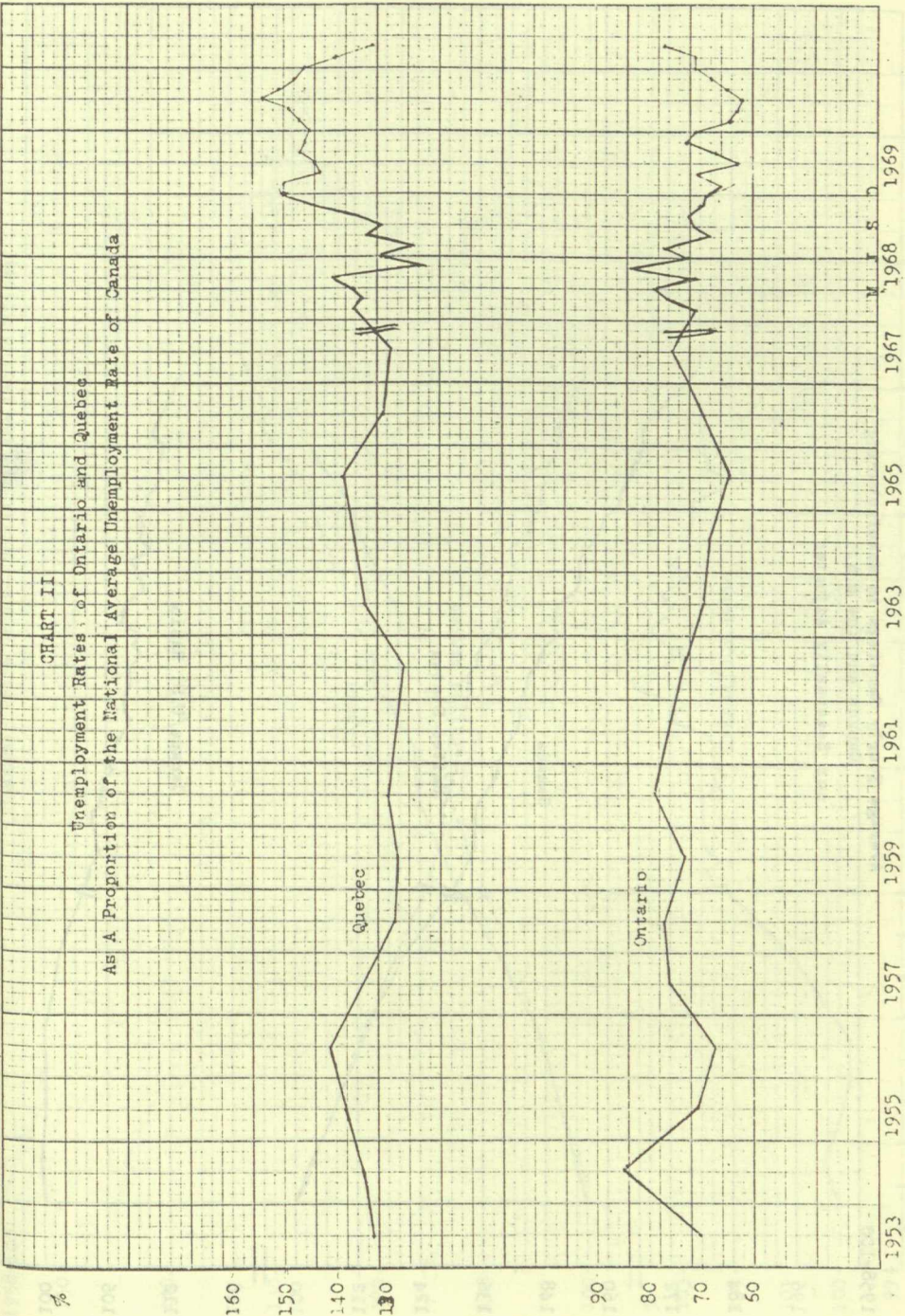


CHART II
 Unemployment Rates of Ontario and Quebec
 As A Proportion of the National Average Unemployment Rate of Canada



15 1/2" X 15" TO THE INCH 48 08450
 REPRODUCED BY THE NATIONAL ARCHIVES
 QUEBEC 1970

Chart III

K-12 X 12 TO THE INCH 46 0840
MURPHREE & LEBNER CO.
HOUSTON, TEXAS, U.S.A.

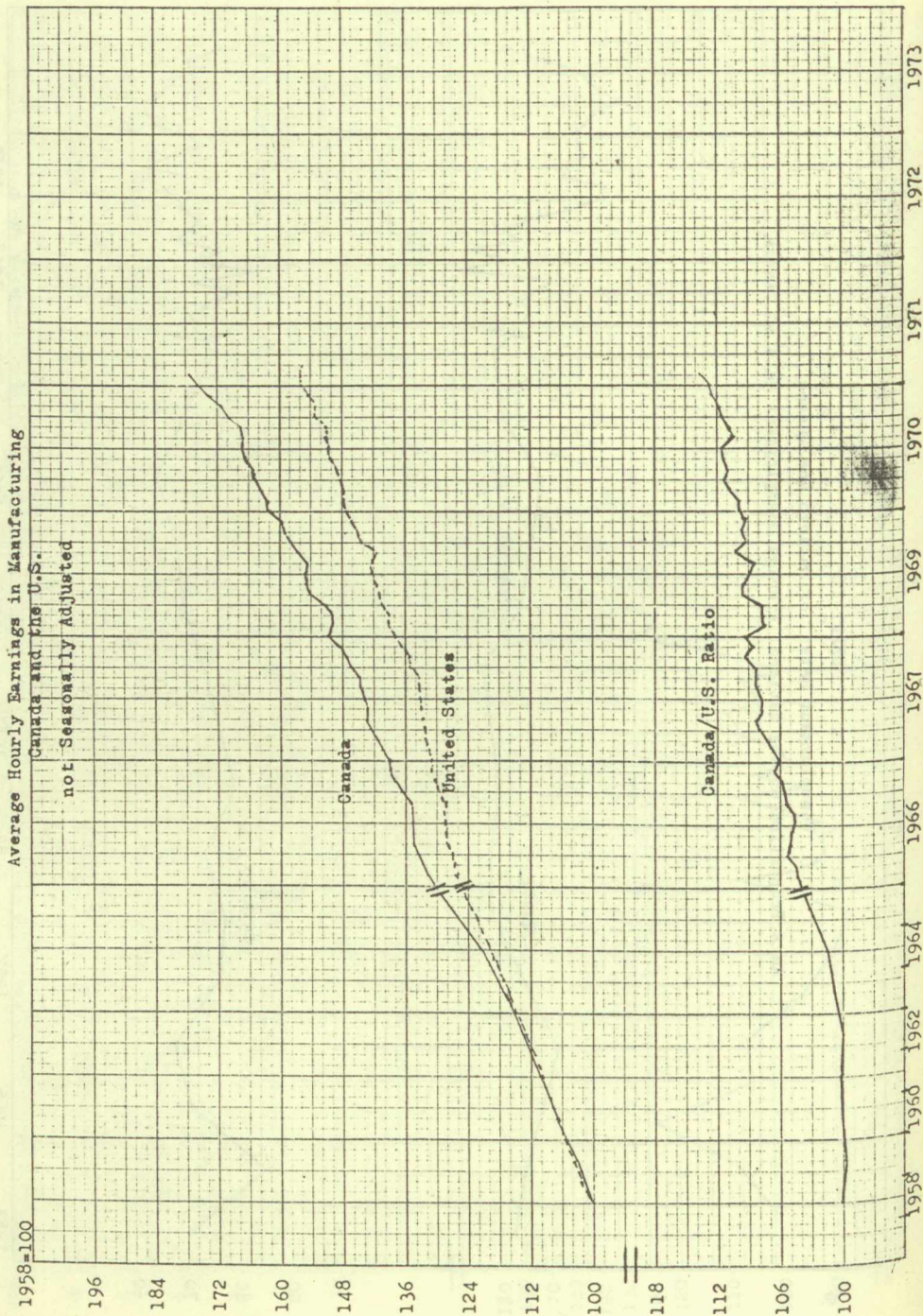
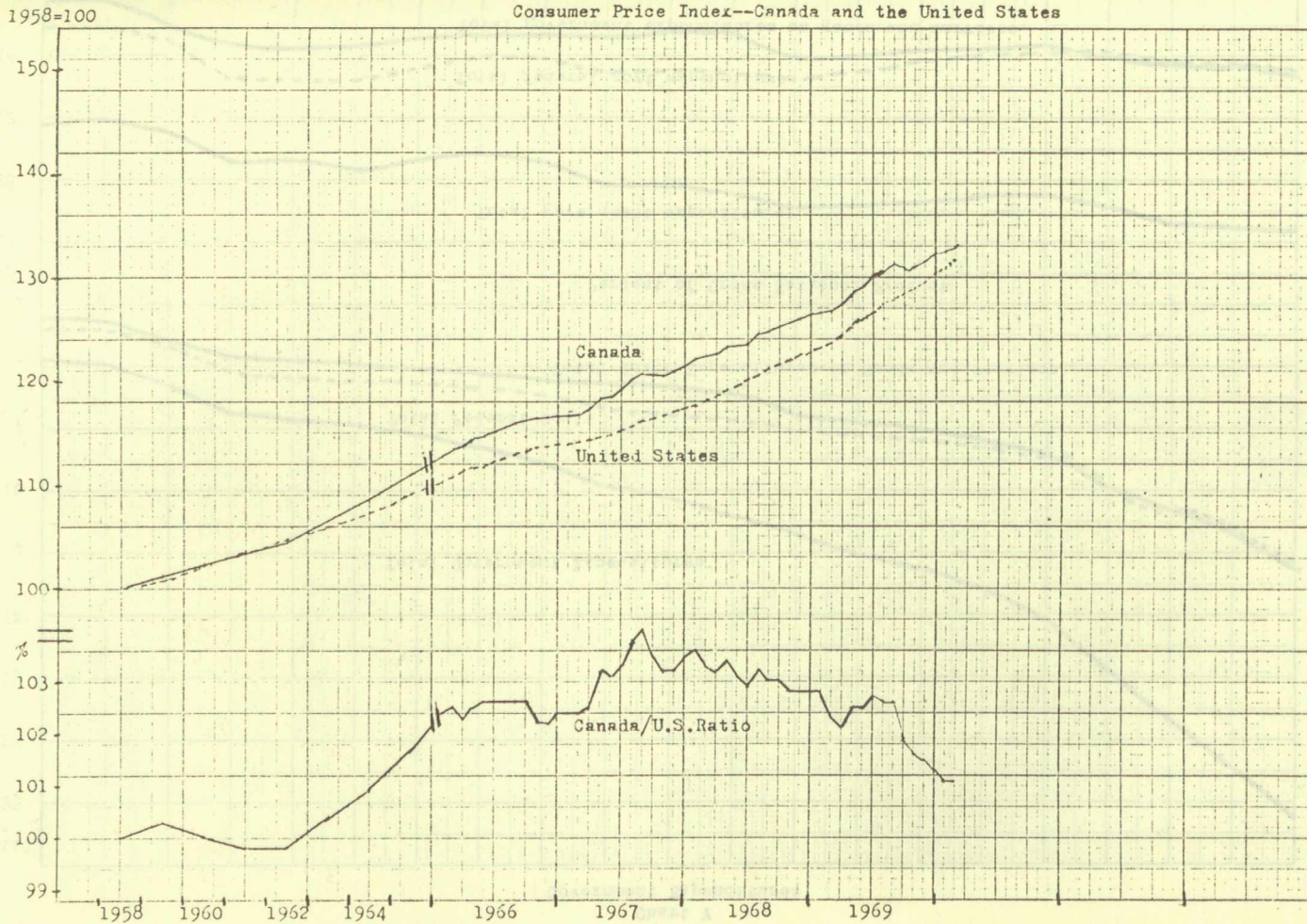


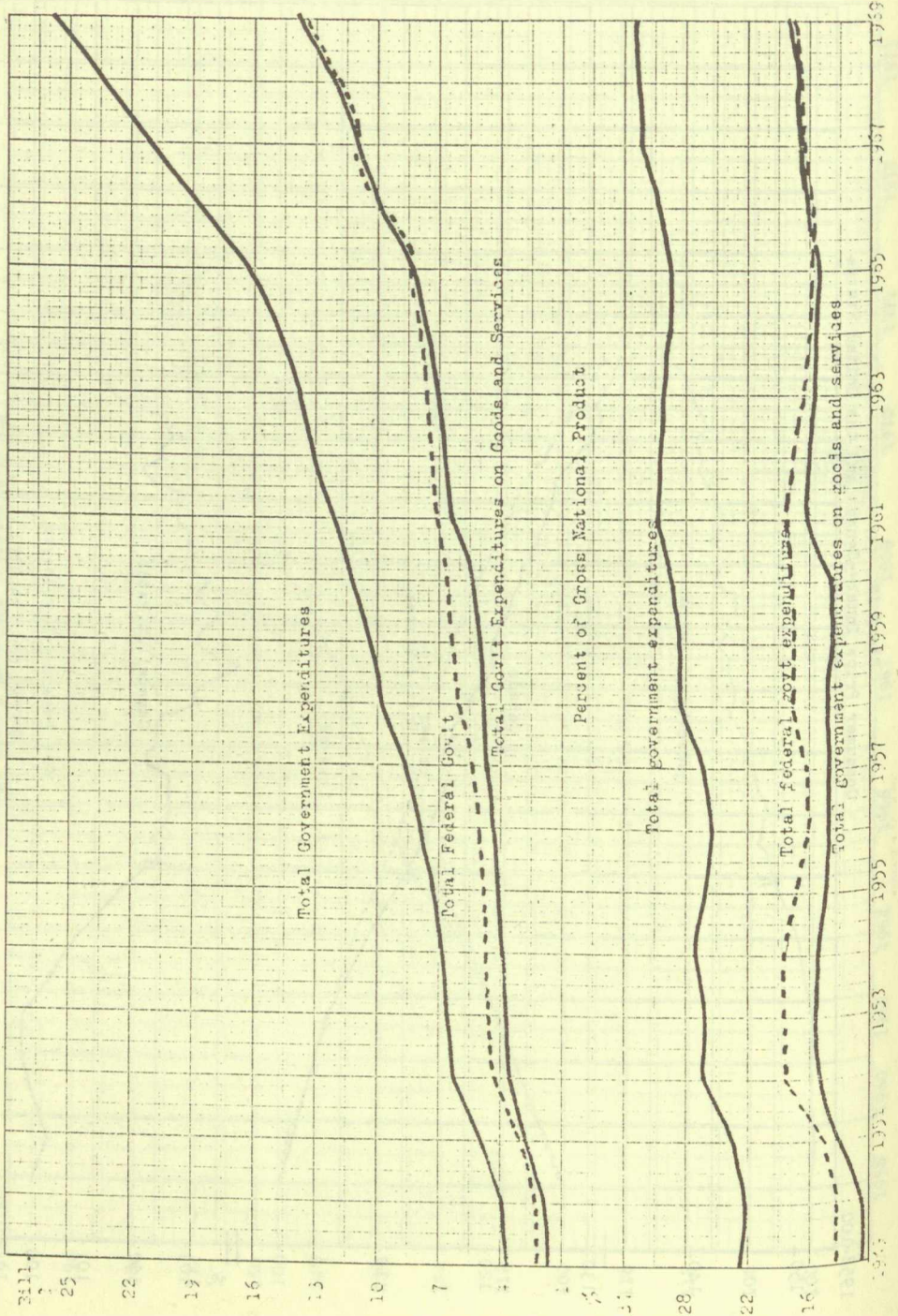
Chart 17

Consumer Price Index--Canada and the United States



12 X 12 TO THE INCH 46 0940
7 X 10 IMPRINT
STUFFEL & ESKER CO.
MINN. U.S.A.

Chart V
Government Expenditures





Second Session—Twenty-eighth Parliament

1969-70

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

The Honourable Douglas D. Everett, *Chairman*

No. 7

THURSDAY, MAY 7th, 1970

Fifth Proceedings on the Estimates

laid before Parliament for the fiscal year ending March 31, 1971

WITNESSES:

Mr. Jules Léger, Under-Secretary of State;
Messrs. Maxwell Yalden and André Fortier, Assistant Under-Secretaries
of State; Mr. Laurent Lafleur, Director, Financial and General Ad-
ministration Branch; Mr. Myer Belkin, Director, Research and Plan-
ning Branch.

APPENDIX "A"

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable Douglas D. Everett, *Chairman*

The Honourable Senators:

Aird	Gelinas	McDonald (<i>Moosomin</i>)
Beaubien	Grosart	McLean
Benidickson	Hays	Nichol
Bourget	Isnor	Paterson
Bourque	Kinley	Pearson
Desruisseaux	Laird	Phillips (<i>Rigaud</i>)
Everett	MacDonald (<i>Queens</i>)	Phillips (<i>Prince</i>)
*Flynn	*Martin	O'Leary
Fournier (<i>Madawaska- Restigouche</i>)	Methot	Sparrow
	Molson	Walker—(27)

(Quorum 7)

**Ex officio members.*

ORDERS OF REFERENCE

Extract from the Minutes of Proceedings of February 12th, 1970.

“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 proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1971, in advance of Bills based upon the said Estimates reaching the Senate;

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 Proceedings of February 18th, 1970.

With leave of the Senate,

The Honourable Senator McDonald moved, seconded by the Honourable Senator Hayden:

That the name of the Honourable Senator Aird be substituted for that of the Honourable Senator Dessureault on the list of Senators serving on 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.

THE STANDING MINUTES OF PROCEEDINGS NATIONAL FINANCE

EVIDENCE

Thursday, May 7, 1970

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10.30 a.m. for the further consideration of the Main Estimates laid before Parliament for the fiscal year ending March 31st, 1971.

Present: The Honourable Senators: Beaubien, Bourque, Everett, Gelinas, Grosart, Hays, Isnor, Laird, Molson, McLean and Sparrow—(11).

In the absence of a Chairman and on Motion of the Honourable Senator Laird, the Honourable Senator Everett was elected Chairman.

Ordered:—That 800 copies in English and 300 copies in French of the proceedings of the Committee be printed.

The following witnesses from the Department of the Secretary of State were heard:—

- Mr. Jules Léger, Under-Secretary of State;
- Messrs. Maxwell Yalden and André Fortier, Assistant Under-Secretaries of State;
- Mr. Laurent Lafleur, Director, Financial and General Administration Branch;
- Mr. Myer Belkin, Director, Research and Planning Branch.

It was resolved to print as Appendix "A" supplementary answers furnished by the Treasury Board, from previous proceedings.

At 1.05 p.m. the Committee adjourned to Thursday, May 14th, 1970, at 10.30 a.m.

ATTEST.

Gérard Lemire,
Clerk of the Committee.

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

EVIDENCE

Ottawa, Thursday, May 7, 1970

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March 1971, met this day at 10.30 a.m.

The Clerk of the Committee: Honourable senators, as you know, there is no chairman of this committee. Is it your pleasure to elect a chairman?

Senator Laird: I move that Senator Everett be chairman.

Senator Beaubien: I second that motion.

The Clerk of the Committee: Is it agreed that Senator Everett be chairman?

Hon. Senators: Agreed.

Senator Douglas D. Everett in the Chair.

The Chairman: Thank you very much, honourable senators. Before we commence I would entertain a motion with respect to the printing of the committee's proceedings.

Upon motion, it was *resolved* that a verbatim report be made of the proceedings and to recommend that 800 copies in English and 300 copies in French be printed.

The Chairman: I should like, first of all, to express the appreciation of this committee to the honourable T. D'Arcy Leonard for his able chairmanship over many years, and to express our regret that he chose to retire from the Senate. We wish Senator and Mrs. Leonard every happiness in their new life.

I wish to table a letter dated April 17th, 1970 from Mr. B. A. MacDonald, the Director General of Budget Coordination of the Treasury Board. This letter contains the following:

(a) A brief description of the content of the printing of the Privy Council Office program in response to the inquiry of Senator Belisle shown on page 797 of the Senate Debates for March 25, 1970.

(b) A listing of non-lapsed amounts in the Consolidated Revenue Fund plus some related explanatory material. This was requested at the meeting on March 19 last of this committee by Senator Grosart.

(c) A financial statement for the Fishing Vessel Insurance Plan.

(d) A financial statement for the Canadian Arctic Producers Limited.

The last two items were requested by myself at the meeting of this committee on March 19.

The letter also contains an explanation in response to my question on the Canadian Arctic Producers Limited, to the effect that the Cooperative Union of Canada which at that time owned the shares of Canadian Arctic Producers Limited, has 38 members which include most of the major cooperatives such as the Saskatchewan Wheat Pool, Co-operators Insurance Association, and the Ontario Co-operative Credit Society.

Is it the committee's wish that this material be printed as an appendix to this day's proceedings?

Hon. Senators: Agreed.

(For text of letter and accompanying material see Appendix A. p. 31.)

The Chairman: I shall also direct, with the committee's approval, that copies be sent to Senators Belisle and Grosart.

Honourable senators, we shall now continue with the committee's review of the Government's Estimates for the fiscal year ending March 31, 1971. It will be recalled that the Estimates increased by \$892 million over those of 1969-70. Of this amount the statutory expenditures increased by \$651 million, and the other appropriations have increased by \$241 million. This amount of \$241 million is made up of increases amounting to \$193 million in programs contributing, as the Government has put it, to national unity and social justice, and to education

and economic development, here in Canada and in the developing countries. To make up this amount of \$241 million there is a consequent reduction of \$53 million in all the other programs. One of the programs that is involved in this increase is the bilingualism development program which aggregates an increase of \$51,696,000. This program is under the Department of the Secretary of State, and to give us details of it, and the other items in the estimates of that department, we have Mr. Jules Léger, the Under-Secretary of State; Mr. Maxwell Yalden, Assistant Under-Secretary of State; Mr. André Fortier, Assistant Under-Secretary of State; Mr. Laurent Lafleur, the Director of the General Administration Branch; and Mr. Myer Belkin, the Director of the Research and Planning Branch.

Perhaps, Mr. Léger, you would like to lead off.

Mr. Jules Léger, Under-Secretary of State: Thank you, Mr. Chairman. Copies of my opening remarks have already been distributed to the members of the committee, but if it is your wish I will read them.

First of all, I should like to say that Mr. Pelletier has asked me to convey his regrets at not being able to be here this morning. Unfortunately, he is absent from Ottawa.

I shall very briefly give you a general outline of the different programs of the Department of the Secretary of State, and then we shall try to answer any questions you may want to put to us. The most important of these programs, as the chairman has already said, is the bilingualism development program. It is important in itself, and it is also important because of the amounts involved.

1. The Bilingualism Development Program.

The objectives of this program are to ensure the quality of status of Canada's two official languages in federal Government institutions and to encourage their continuous use and development in Canadian society at large. This comes about as a result of the act respecting the status of the official languages of Canada, which was assented to on July 9 of last year.

The expenditures for this program may be broken down into the following categories:

(a) contributions to the provinces to assist them to undertake bilingualism programs in areas of their competence \$50,000,000

(b) grants to English and French language groups in areas where they are established as minorities and for the promotion of intercultural understanding \$1,665,000

(c) grants for language research \$488,000

(d) grants for the promotion of bilingualism in the non-government sector \$75,000

(e) the expenses of the Bilingual Districts Advisory Board which has a mandate to conduct an enquiry regarding the establishment of bilingual districts \$462,000

As you know, this board was set up recently.

(f) operating expenditures for the program \$841,000

Total \$53,551,000

This is on page 21-13 of the Estimates for 1971.

Senator Beaubien: Mr. Chairman, could we ask Mr. Leger a question now, or should we wait until he has finished his statement?

The Chairman: If the question is germane, I think we should ask it now.

Senator Beaubien: Mr. Léger, how would the \$50 million be distributed among the provinces?

Mr. Leger: You may recall that on November 6 the Secretary of State made a statement in the house, and a more elaborate statement to the committee, on official languages, not suggesting a way whereby this would be divided, but suggesting that negotiations be undertaken with the provinces to find ways whereby this would be allotted. These negotiations are still going on, and in a very satisfactory way, on the whole.

There is to be a further meeting of the ministerial committee on official languages on May 25, and we hope that then we will be able to find a formula that will be acceptable to all. We admit there is a delay, but a good part of this delay is due to political developments in certain provinces, of which senators are aware, which have prevented us from possibly coming to an understanding.

Senator Beaubien: Then the distribution has not been made yet?

Mr. Léger: No.

Senator Beaubien: So we can ask you at another time?

Mr. Léger: Yes.

Senator Laird: Mr. Chairman, if I might establish something in connection with this point on pages 1

and 2 of the brief, reading from subparagraph (a) to subparagraph (f). I have in mind the situation in my home town of Windsor, which is an area that has been described as bilingual and where services are required to be available in both languages—for example, at the Customs, at the Income Tax office, and so on. I do know that in the case of the Income Tax office certain individuals have been taken, at Government expense, to the Province of Quebec for the purpose of a crash course in French. Under what item would expenditures of that kind appear in your statement here?

Mr. Léger: I do not think this would appear in this statement. It is most likely expenditures would be related to the department responsible for this transportation and this move.

Mr. Maxwell Yalden, Assistant Under-Secretary of State: And the Public Service Commission, which is responsible for giving the course.

Senator Laird: To get a complete picture of the expenditures made for bilingual purposes in a city like Windsor, one could not ascertain the figure solely from your department?

Mr. Léger: No.

Senator Laird: But it would have to be a combination of all the departments concerned?

Mr. Léger: Yes, and the Public Service Commission.

Senator Hays: In your opening statement, Mr. Léger, did you indicate the amount that was being used within the Government service, or do you know the amount that was used last year?

Senator Beaubien: Do you mean for bilingualism?

Senator Hays: Yes.

Mr. Léger: I think this is the same question put in a different way. We would not have the answer, if the question is what amount it would have cost the Government as a whole to make progress towards furthering bilingualism, in that a tabulation would have to be made.

Senator Hays: What did you spend last year within the federal service? You would have that figure.

Mr. Andre Fortier, Assistant Under-Secretary of State: Under the Public Service Commission we see

“Language Training,” and according to this figure it shows \$8 million in 1970-71 and \$6 million for 1969-70, so there has been an increase of \$2 million for language training.

The Chairman: But you and Senator Laird are referring to programs other than that of the Public Service Commission?

Senator Hays: Yes. It was \$8 million used for language training within the Public Service?

Mr. Fortier: This year.

Senator Hays: Do you have a breakdown as to where these public employees were stationed?

Mr. Léger: I am afraid this question would really belong to the Public Service Commission, in that while we know what there is in the budget, we have not the details with us, but I am sure that they would be glad to give you whatever information you desire.

Senator Hays: Are those figures obtainable? We will not be examining the Public Service Commission, will we?

The Chairman: It was not our intention. We could make a request for the figures that you want, and then determine whether or not we want to examine them further. Is that satisfactory?

Senator Hays: Yes.

The Chairman: We will make such a request, then.

Senator Hays: In the same context, what grants were distributed last year to the provinces?

The Chairman: By the Department of the Secretary of State under the bilingualism development program?

Senator Hays: Yes.

The Chairman: I think, nothing.

Mr. Yalden: There were small grants distributed to Ontario, Nova Scotia and New Brunswick in respect of studies which they carried out of measures to further bilingualism in their provinces. The federal Government announced some time ago that it would be prepared to share to the extent of one-half the expense of any study a province wished to carry out

to determine its needs, and in 1969-70 we made three grants in that way, to Nova Scotia, New Brunswick and Ontario.

Senator Hays: They were just studies though?

Mr. Yalden: Yes.

Senator McLean: You set the figure at \$50 million here. How do you arrive at that figure of \$50 million?

Senator Beaubien: That is a maximum.

Senator McLean: What is the proportion distributed to New Brunswick and Nova Scotia?

Mr. Léger: We still have to come to an understanding.

Senator McLean: What was it last year?

Mr. Léger: There was no distribution last year. This is the first year this will go into operation.

Senator Hays: Apropos Senator McLean's question, how did you arrive at the \$50 million in the Estimates?

Mr. Yalden: If I may try to answer that, senator, as you will have seen from the minister's statement of last November, there were 12 recommendations addressed to the federal Government in Part II of the report of the Royal Commission on Bilingualism and Biculturalism. The major recommendation called for the federal Government to pay the additional cost involved in providing education in the minority language. The Government also agreed to pay certain additional costs in respect to teaching in the second language.

There were then a number of recommendations relating to grants to universities, grants to allow for student exchanges, the establishment of a language research council, and so forth. These recommendations were costed by the financial authorities. The total amount that we judged would be required to implement them is roughly \$50 million. This figure is based in respect to the recommendation dealing with aid to students in the minority language, the number of students studying it in each province and the average cost per student for a full year of operation. However, the exact amount can only be determined in negotiation with the provinces in order to establish a formula to make these payments, how many students there are, and what the exact cost per

student is in 1970-71. These figures were not available in exact terms.

Senator Hays: I still do not know how you arrive at \$50 million if you do not know the number of students.

Mr. Yalden: We do know the number of students.

Senator Hays: Do you have a distribution of students?

Mr. Yalden: DBS can provide figures for two or three years back on students attending the minority schools. For example, French-speaking students in English Canada who potentially would attend minority language schools if they existed.

It is on this basis that the figures were calculated, but subject always to discussion with the provinces to check out the figures and to devise a formula for distributing the funds.

The Chairman: I will read a statement made in the House of Commons by the minister on November 6, 1969, in connection with this principle:

Based on our studies, we believe that the recommendations which I have just reviewed can be met, in so far as a federal contribution is concerned, by financial participation in the order of about \$50 million for a full year of operations. This amount could increase, within limits established in terms of available resources, as the programme expands with enhanced participation on the part of the provinces. As far as we are concerned the programme could go into operation in January of next year.

However, as he reviews each program he indicates that it is subject to negotiation with the provinces as to how the program will work and what its cost will be.

Senator Hays: When they get the formula.

The Chairman: That is correct.

Senator McLean: Is that the maximum?

The Chairman: This is an estimate for the year 1970-71, but not necessarily the maximum.

Mr. Léger: In the phrase of the minister, it is more or less what the Government expects.

Senator Grosart: The Public Service Commission is one of the components of Government that reports through this department. I am surprised that the witnesses do not have these figures.

What was the figure that was given to us for expenditure on language training by the Public Service Commission last year?

Mr. Léger: It was \$6 million last year and \$8 million this year.

While there is a relationship between the Public Service Commission and the Secretary of State, it is not one that exists through the department.

The Public Service Commission reports to Parliament through the Secretary of State. However, we do not have in detail the figures requested by Mr. Grosart. We could find them for you.

Senator Grosart: I will come back to that question later as to just what this relationship is, because the budget of the Public Service Commission does appear in your Estimates at page 21-102, which is the document before us.

The questions are answered there. Mr. Léger quoted a figure of \$8 million, which is approximately what we find in the proposed Estimate, which is \$7,822,000 and for last year \$6,027,000.

This is a very important question in relation to any witnesses coming before a committee dealing with the Estimates. These Estimates are part of those of your department.

Mr. Léger: Yes, Mr. Chairman.

Senator Grosart: If we may call the office of the Secretary of State a department, which I believe we can under the Financial Administration Act, these are questions we are entitled to deal with and ask representatives from the Secretary of State.

The Chairman: I gather you propose to return to these questions later, Senator Grosart?

Senator Grosart: I would like to come back to the question of the very type of answer we have had, that because the Public Service Commission reports through the Secretary of State the Secretary of State's department should not be asked to answer questions.

Of whom do we ask questions in this committee if we get this type of answer?

Mr. Léger: I do not know if I can add much to this but, as you can see, reference is made under the Estimates of the Secretary of State to the Canada Council, the Canadian Broadcasting Corporation, the Canadian Radio-Television Commission, and we go on really covering all the corporations. They report to Parliament through the Secretary of State.

I am not too familiar with this committee, but is it not a fact that if you so wish you could call any of those institutions to appear and explain their respective budgets?

Senator Grosart: That is so, of course. We could call any single individual from any department of Government. I am only suggesting that when we call the Secretary of State's department that is where we would like to get the answers, without having to call someone who reports to Parliament through you.

I will just define my question by reading a semi-official statement:

The Secretary of State reports to Parliament for the Canadian Film Development Corporation, the National Arts Centre Corporation, the National Film Board, the National Library, the Public Archives and the National Museums of Canada. He is spokesman in the Cabinet and the House of Commons for the Canada Council, the Canadian Broadcasting Corporation, The Canadian Radio-Television Commission, the Company of Young Canadians, the Public Service Commission, the Office of the Chief Electoral Officer, the Office of the Representation Commissioner, and the Secretariat on Bilingualism.

I would very much like to come back and find out what is, in terms not of policy but of the Estimates, which is what we deal with, the control and the control mechanism within the Cabinet.

The Chairman: That is fine; we will come back to that, senator.

Senator Beaubien: Mr. Yalden, in the recommendations of the second report of the B and B Commission, were there any demands for funds to teach English to French-speaking Canadians?

Mr. Yalden: Yes, sir. The intention is that there would be support, as I said earlier, for two types of educational training. One would be for training the minority in their own language. That is to say, French-speaking Canadians in English Canada in schools where the language of instruction would be

French and English-speaking Canadians in Quebec where the language of instruction would be English.

In addition, although the royal commission did not address a specific recommendation to the federal Government about second language training, there was a good deal of emphasis in Volume II about the importance of Canadians learning a second language—English speakers learning French and French speakers learning English—and the Government accepted providing support for this activity as well. This would include in English Canada young English speaking students learning French and in Quebec French speaking students learning English.

Senator Beaubien: Of the \$50 million that you thought was required, how much would have been put down to teaching English to French-speaking Canadians?

Mr. Yalden: It would be very difficult for me to provide you with an exact breakdown on that, because it is tied to the number of students, the number of French students studying English in Quebec schools, and the average cost per student. As yet we do not have that information from the province. We do have estimates, but I do not think they would be that useful.

Senator Beaubien: If you have estimates totalling \$50 million you must have some idea what you are going to spend on it.

Mr. Yalden: That is right, sir.

Senator Beaubien: Or what it might be spent on.

Senator Laird: Have you got those estimates here?

Mr. Yalden: We have some estimates, sir. To be honest, we hesitate to use them because we are negotiating with the provinces. You are quite right, we could build up a \$50 million figure without knowing how we built it up. In fact we built it up on the maximum number of students in the right age groups and the right language groups per province. These have to be checked out with the provinces against the actual number of students in that age group and in that language group. We then have to arrive at a formula that will cover not only the teaching of English to French-speaking students in Quebec, but in all ten provinces. As a result, to give one figure of that sort would, I think, provide a false picture, especially when we are in the midst of discussions with all ten provinces.

Senator Hays: Are these shared programs?

Mr. Yalden: They are sharing programs in the sense that we are paying, or we are offering to pay, supplementary costs. That is, the royal commission took the line, and the Government accepted those principles, that the federal Government is not responsible for paying for education; this is provincial responsibility, but there are additional costs that arise through two streams of education when you try to teach in a majority language and in the minority language; additional costs arise when trying to improve the quality and quantity of second language instruction in the country, and these additional costs should be shared by the federal Government as part of a national policy to improve bilingualism in the country. So there is sharing in the sense that the provinces are paying part and we are paying part. Whether this would be a "shared cost program" in the technical sense remains to be determined in the negotiations with the provinces.

Senator Beaubien: Could I have the figure when it is available?

Mr. Yalden: Yes, sir, certainly.

Senator Sparrow: Could we not even have a ball park figure, 5 per cent, 10 per cent, that type of thing, of the global \$50 million?

The Chairman: Is it your judgment, Mr. Yalden, that such a figure would prejudice the negotiations with the provinces?

Mr. Yalden: It would not make it easier, Mr. Chairman. Speaking of ball park figures, I should say we allowed for the possibility of around about—

The Chairman: Before you give that—

Senator Beaubien: Let us have the figure later. We can wait until our next meeting. I would like to have the figure, but we can wait until there has been a meeting with the provinces and get the figure afterwards.

Senator Hays: When do you think these negotiations will be completed?

The Chairman: We could have a general figure now and the specific figures after your negotiations are completed.

Senator Hays: If it is prejudicial, Mr. Chairman, he probably would not want to give even a ball park figure, because it seems to me it would still make the situation difficult. When you expect the negotiations to be completed?

Mr. Yalden: As the Under Secretary said, the ministerial committee on official languages established by the Constitutional Conference will be meeting on the 25th of this month, and we certainly hope to advance considerably at that meeting. If we could get agreement on a formula amongst ministers, or at least the principles of a formula that can be worked out by officials after the meeting, we would be very happy. We hope we can.

Senator Bourque: Could the witness tell us how this \$50 million has been divided up amongst the provinces? Could we have the figures, so much for Quebec, so much . . .

The Chairman: Senator Bourque, that is what we are attempting to get. Mr. Yalden has pointed out that the negotiations with the provinces are still under way and they would prefer not to give those figures at this stage of their proceedings. I think they would undertake, of course, to give the figures as soon as they were not prejudicial to the negotiations.

Mr. Yalden: Certainly, sir.

Senator Grosart: You said these were in a way a type of shared cost, but they are not matching grants, are they?

Mr. Yalden: No, sir.

Senator Molson: What happens to the non-English, non-French cases in the provinces, such as the Italians in the Province of Quebec? Do they have any impact on the learning of a second language, or I suppose in their case a third language? Do they come into the calculation?

Mr. Léger: The third language problem, if any, is one that is not covered by this program, which is strictly bilingual. But, as the senator knows, the Fourth Volume of the B. and B. Commission Report has been published, I think only two or three weeks ago, and reference is there made to that problem, among others, but the Government has not yet taken a position on this.

Senator Hays: I should like to suggest that on this language problem we should recall this committee

after they have these figures that we can discuss. I do not think we can look at this very intelligently now.

The Chairman: Is that the wish of the committee?

Senator Hays: I think it is very important.

Senator Laird: I can well understand that it would prejudice certain negotiations if the figures appeared in our published record.

Mr. Yalden: I was going to add earlier, if I may, that the start of our approach was not to divide the pie by provinces, but by recommendation or measure. Some of those measures are applicable across all the provinces. For example, there is a scheme to provide for the exchange of university students specializing in either French or English, which would allow them to go for one year to Laval, say, or U.B.C. This goes right across the board. There I think we could tell you that the Government thought in terms of roughly speaking \$1 million. That is a relatively simple one; we are not trying to hide the figures. This \$1 million is broken down into something of the order of 2,000 scholarships, which would come to about \$600,000, plus a grant to each university that receives those 2,000 students in the order of \$1,000, making \$900,000, plus roughly speaking \$100,000 for administrative costs in running the program. This kind of figure can be given, but when you come to recommendations then they depend on the number of students the provinces will eventually tell us are in the schools, and the amount of time each day they are studying in a given language, whether in French or English. We are really in a position where we have to wait for confirmation from the provinces as to what these figures are. In other words, we did extrapolations on the basis of figures provided us by D.B.S.

Senator Hays: I realize all that, Mr. Chairman, but the program will be either very discriminatory or very costly. For instance, I have two grand-daughters who live in Calgary where there is no French spoken. They are both taking French and they both speak French, but it is very costly. If in the Province of Quebec everybody has an opportunity to learn English, then I think all other Canadians should have an opportunity to learn French and to speak it, although they are not locked into a community that is ten percent French speaking. That is why I do not think we can discuss this until we have all those figures.

Mr. Yalden: It is for this reason, sir, that the Government provided for assistance in respect of

second language instruction, which would include the English-speaking students in Calgary, but the problem is to learn from the Alberta authorities how many students there are in the primary and secondary schools of Alberta who study French, and how much of the day they spend in studying it. We do not have those figures from Alberta. We calculated certain rough maximums on the basis of population distribution which was provided us by D.B.S., but in the nature of things they are a projection and they must be checked out with the Alberta authorities. We do not have that information from Alberta.

Senator Beaubien: What you are saying, Mr. Yalden, is that an amount will be set aside per student, and the amount that a province will get will be based upon how many students it happens to have?

Mr. Yalden: That is it, sir, and it will be based upon the average cost per student in the province.

Senator Laird: And the number of hours spent in study?

Mr. Yalden: Yes.

Senator Grosart: I think, Mr. Chairman, the difficulty has arisen because of the terminology here. These are described as contributions to the provinces. Does this mean that the amount that will be contributed to each province will depend upon the initiative in the matter of bilingualism that is shown by the government of that province?

Mr. Yalden: Yes, sir. Education being a provincial responsibility, we would not be in a position to take the initiative.

Senator Grosart: So, in effect, these will be response grants?

Mr. Yalden: Yes, sir.

Senator Grosart: Will they be given to the treasury of the particular province, or will they be held in a specific account?

Mr. Yalden: Well, the Government's intention, sir, is that the money should be used for the purpose for which it is intended, if that partly answers your question. It is intended for second language instruction, or instruction in the minority language, and not for building roads. It is based upon performance. As I said a moment ago in response to the honourable senator's question, it is based upon the number of students, the length of time per day they spend in

school, and so forth. Therefore, it is tied to performance.

Senator Grosart: Will there be an accounting audit by the Canadian Government?

Mr. Yalden: There would have to be some form of audit, yes, sir. That is to say, we would either have to agree on a statistical procedure in advance that would be satisfactory to the federal government and the province in question in order to provide these figures in an accurate, checkable manner, or there would have to be some sort of audit procedure for checking after the fact.

Senator Grosart: Will you also have an audit of the efficiency of performance?

Mr. Yalden: That is difficult, sir.

Senator Grosart: That is a serious question.

Mr. Yalden: It is a very serious question, I agree.

Senator Grosart: We have had this problem before in respect of this type of contribution to provinces. It cropped up in the municipal with the works programs where, to put it in crude terms, the federal treasury has been cheated. I think in this case, if we are a committee dealing with the Estimates, we are particularly interested in knowing whether this money will be spent as has been suggested, namely, in reasonable proportion to the needs of Canadians in respect of bilingualism, and not necessarily in relation to the disposition of any particular provincial government. I know that it is a problem.

Mr. Yalden: Senator, the problem arises from the fact that the provinces have jurisdiction in matters of education. In partial answer at least to your question I will say that there were other recommendations put forward by the Royal Commission, and accepted in principle by the Government, which will lead to improved performance. I take it that by "improved performance" you mean improvements in both quantity and quality. If we are talking about second language instruction we are talking about a quality which has not been altogether satisfactory in this country over the years.

These two additional recommendations are in the body of recommendations made to the Government. One of them calls for the establishment of special second language training centres across the country. The other one calls for the establishment of a national language research council, which would be designed to improve the standards of education and second language teaching.

We believe that the establishment of those institutions will assist in upping the quality of education in the second language, but it would be very difficult I think you will agree—indeed, I doubt whether it would be constitutionally possible—for the federal Government to send in inspectors, as it were, to see whether in a given school district in a western or eastern province the standard of language teaching is what we thought was desirable.

Senator Grosart: This is done in respect of similar grants. For instance, in the science field grants are very carefully controlled, and you have on-going technical audits. One aspect of this question is that we are all aware that there are very different methodologies in language training to-day. I would be interested to know if you are concerned about this, and if there is any way, constitutionally or by negotiation, by which you can make sure that you have a first class methodology used in all the provinces.

Mr. Yalden: Sir, I think the answer is to be found in the two types of institution I have just mentioned—the second language training centres, and the possible language research council, whose task it would be, through making grants and providing experts in the field of language instruction, to come up with techniques that would be recognized by all provincial authorities as being valid and up to date.

There is a third feature that we put to the provinces for discussion, and that concerned the provision for on-going consultation between the federal Government and the provinces designed to ensure that as the program develops from year to year, or perhaps twice yearly, we will be able to meet together and try to verify together that the program in fact is achieving what it is supposed to achieve. With these on-going discussions, with the research factor in the national language research council, and with the training of second language teachers, we hope to be able to improve considerably the quality and quantity.

Senator Grosart: Has the department reached any conclusion as to the superiority of one particular language training system over another?

Mr. Yalden: No. So far as the federal Government's operation is concerned, the federal language teaching scheme is handled by the Public Service Commission, and in particular by the Language Training Bureau of the Public Service Commission. I can only say from my own experience that it is a rather controversial field. There are two, three or four methods, including the old fashioned one under which all of us studied,

the so-called grammar translation method. There are partisans for each of these methods, and the experts disagree. Certainly, I would not presume to try to give an answer to that question.

Senator Grosart: I have two daughters who have French-speaking boy friends. I think that that is the best method of learning the language.

Mr. Yalden: Yes, that is an excellent method.

Senator Hays: We should take another look at this program. I think this is very important, because when I think of my city, there are 100,000 people going to school and only the bigoted would not take advantage of the opportunity to learn to speak French, so you are speaking of about 45,000 students. We have vocational training schools which the federal Government play a great part in, and either we can get into this wholeheartedly without being discriminatory or we cannot afford it. That is why we should take a look at it. If a girl wants to get on Air Canada today and does not speak French, she does not get the job. You have a vast number of Canadians in the public service who are going to be discriminated against, and it seems to me that if we are going to do it we should do it well or leave it alone. If we could afford it, we should be able to speak five languages, but in any event we should take a look at the program when we have more information on it.

Mr. Yalden: The Government did take account in its costing of the desirability of all students studying French, but we are unable to say whether the Alberta authorities or the Calgary School Board authorities would in fact have all their students studying French and, if so, how many hours or minutes a week they would be studying, until we could get the information from Alberta.

Senator Hays: I think this is very important.

Senator Beaubien: You think your province has a problem. What about Quebec, with four million people who do not speak a word of English?

Senator Hays: I am thinking of 16 million Canadians who do not speak French.

The Chairman: Perhaps I could ask the witnesses a question. The Minister, in his statement of November 6, 1969, said:

As far as we are concerned, the program could go into operation in January of next year.

I assume he is speaking of January, 1970.

Mr. Léger: Yes.

The Chairman: Is the program in operation now?

Mr. Léger: No, but moneys are set aside, and the moment we come to an understanding with the provinces that we hope for, it will be retroactive as of January 1 of this year.

The Chairman: It will be retroactive?

Mr. Léger: Yes.

The Chairman: In his statement he says:

Recommendation 29 relates to a teacher-training institution at Moncton to serve the Western provinces.

Mr. Léger: That is a mistake.

The Chairman: I knew Senator Hays would be pleased about that.

Mr. Yalden: I would not want to accuse *Hansard* reporters, but that is not what was said. He said:

Recommendation 29 relates to a teacher-training institution at Moncton to service the Maritime provinces and a teacher-training institution to serve the Western provinces.

It appears that a line was dropped somewhere.

The Chairman: Has the location of that western institution been determined yet?

Mr. Yalden: No. We have put this proposition to the provinces and have explained that the federal Government is prepared to play its part in the operation by providing the financial assistance that was recommended by the royal commission, but we naturally left it up to the four western provinces to decide among themselves.

The Chairman: That is 70 per cent of the capital cost.

Mr. Yalden: Yes. The same is true in the case of the Maritimes. We have drawn the recommendation to the attention of the Maritimes provincial authorities, and we have left it to them to decide whether they agree or not that that institution should be at Moncton because, of course, in the case of the Maritimes the

commission made a specific recommendation, and they did not in the case of the western provinces.

The Chairman: The institutions in Ontario and Quebec are handled on a different basis, I gather.

Mr. Yalden: Teacher-training institutions?

The Chairman: Yes.

Mr. Yalden: Yes. This was a special recommendation, No. 29, to take account of the need to establish teacher-training institutions which could serve the four provinces in each case on a regional basis. There is a teacher-training institution at Moncton, but it is not designed, as it is now, to serve Nova Scotia, Prince Edward Island and Newfoundland as well as New Brunswick.

The Chairman: Will there be capital grants for teacher-training institutions in Ontario and Quebec?

Mr. Yalden: Not as far as I am aware. There are various forms of aid. For example, the second language training centres, of which I was speaking a moment ago, might well be sited at existing institutions. That would constitute a form of aid, as far as the teacher-training institutions were concerned.

The Chairman: Are there any further questions on that?

Mr. Yalden: I am sorry, senator, but there is a further recommendation, No. 28, which speaks of a grant in terms of 10 per cent of the cost per student, together with 10 per cent of the capital costs in the future for Quebec, Ontario and New Brunswick, based on the number of students attending the official minority-language teacher-training institutions.

Senator Sparrow: Does your program relate to bilingual districts, as such, or is it just a broad program? Is there a different program in the bilingual districts?

Mr. Yalden: The answer I think is that it is not restricted to bilingual districts. The bilingual districts concept relates more to services provided by the federal Government.

The Official Languages Act requires that services be provided by the federal Government in both languages in the national capital and in the bilingual districts, which will be established following a recommendation by the Bilingual Districts Advisory Board.

As to schooling, there could be minority-language schools in cities or areas which are not in bilingual districts. You could have a minority-language school or French-language school in Toronto, for instance, and it is unlikely that Toronto would be a bilingual district.

Senator Laird: When are these districts going to be designated?

Mr. Yalden: The Bilingual District Advisory Board was formed a short while ago and has had a couple of meetings and has begun trips across the country which it has to undertake, and is required to consult provincial authorities under the act. I would hesitate to say when the chairman of the board and his colleagues would make a recommendation. I hope they want to make one as soon as possible, but it will take several months.

Senator Sparrow: Do all provinces recognize there is a need for this type of training? For example, some provinces have no bilingual districts, as such.

Mr. Yalden: I think the attitude we have met with is a very encouraging one, very positive, that most of the provinces do recognize the need both to provide education in the minority language for their minority language population, and the importance, which some honourable senators mentioned this morning, of providing for second language training to all young Canadians, so far as possible. I think the answer is that their attitude is good.

Senator Bourque: In the teaching of the different provinces, has it been found it was possible to teach two languages to everyone? There are many people who are unilingual and never learn another language.

Senator Beaubien: They do pretty well in Europe.

Mr. Yalden: If I understand your question, sir, and perhaps I am interpreting your question, if you are thinking of young people of school age—let us say, from the age of 6 until they emerge from university at 22 or so—I think no one has ever questioned the possibility of teaching all such students a second language, or, say, a third or a fourth. It is often said it is harder the older one gets, and I expect all of us have experienced that, but for young persons of school age I do not think there is any problem.

Senator Bourque: If we were to teach all these young folk in 10 or 15 years, then everyone would be

bilingual, but I do not know it is possible to teach older folk two languages. If they have been trained all their lives in French it is impossible to teach them the other language, and the same applies if they have been trained in English.

Senator Hays: Time will take care of that.

Mr. Yalden: Even with people beyond the student population it is harder, senator.

Senator Bourque: Yes, but I do not think a person of about 75 years of age could ever be taught a second language, no matter how many institutions you had.

Senator Hays: At 75 there are a lot of other things they cannot do.

Senator Sparrow: You referred to the figure of \$8 million estimated by the Public Service Commission for language training. Other Government departments as such would have individual training programs with figures appearing in their Estimates.

Is that right, or would language training of every department go through the Public Service Commission?

Mr. Léger: Yes, I think it would.

Senator Sparrow: But you are not sure?

The Chairman: There has been a request made, Mr. Léger, for the total cost of, I suppose it could be called the implementation of bilingualism in Canada in the Government service. Would it be possible for your department to supply those figures?

Mr. Léger: Surely.

Senator Sparrow: I would like it for all departments of Canada.

Senator Grosart: Including the Crown corporations, in the broader sense of that highly ambiguous term.

The Chairman: Including the Crown corporations. Then it will probably take more time, but I gather it is available?

Mr. Léger: It could be found, yes.

The Chairman: With your agreement, honourable senators, we could ask Mr. Léger how soon he

expects to complete the negotiations with the provinces, or what is the deadline date, if there is one?

Mr. Léger: We will probably make considerable progress on May 25 at the ministerial meeting. If at that time the provinces agree on a formula, it would take a very short time for us to get a pretty complete picture of what the situation will be.

The Chairman: Could you then give us that picture at that time? Perhaps you will come before us again to discuss it.

Mr. Léger: If you wish, surely.

The Chairman: Is that agreeable to honourable senators?

Hon. Senators: Agreed.

The Chairman: Perhaps you would like to proceed with your statement. That completes the section on the Bilingualism Development Program.

Mr. Léger: We could pass on to the Arts and Cultural Support Program, which appears at page 21-18 of the Estimates.

The objectives of this program are to assist in the continuing development of the federal cultural policy and programs and in bringing culture within the reach of all segments of society and to encourage and support artistic and cultural projects of national significance which are complementary to or outside the concern of the federal cultural agencies. The expenditures may be broken down into the following categories:

- (a) capital grants to the province of Manitoba for its centennial projects \$5,000,000
- (b) research and support grants to arts and cultural service organizations and activities . \$403,000
- (c) operating expenditures \$598,000

I need not underline that the important item here is really the one relating to the centennial of Manitoba.

Senator Beaubien: What is included in the figure of \$598,000 for operating expenditures?

Mr. Fortier: This includes \$300,000 for the federal programs in connection with the Manitoba centennial. These are events that we will try to put on during the centennial such as a caravan, or a tour of

a film or film clips. This is part of the \$395,000 on page 21-20 of the Estimates.

There is also \$35,000 for July 1 celebrations and an amount of \$50,000 for statues and portraits of prime ministers, which were authorized by Cabinet four years ago and are now being produced.

In essence, \$200,000 is left for the staff.

Senator Hays: Who is going to paint the portraits for \$50,000?

Mr. Fortier: Sculptors have been commissioned. The one of Bennett has been completed. I do not have the names.

Senator Hays: Are they abstracts?

The Chairman: Mackenzie King is out here; he is fairly abstract there.

Senator Grosart: While I recognize that this particular item deals with cultural support or activities outside the scope of established federal cultural agencies, I am particularly interested in the total support of cultural activities in Canada by the federal Government.

I believe that in the department, the Secretary of State, generally being regarded as the unofficial minister of culture, there is a compilation of the total funding of cultural activities in Canada. If that exists, could it be made available to the committee?

Mr. Léger: There is a set of figures that we can make available quite readily. That will be the total budgets of the different cultural agencies. It would amount to a little over \$275 million.

The Chairman: Does that include the direct departmental contribution to arts and culture?

Mr. Léger: Yes it does, but it also includes the total budget of the CBC, for example.

Senator Grosart: And the National Film Board, the National Arts Centre, and so on?

Mr. Léger: Yes.

Senator Grosart: I hope we could have that, because I happen to be one who believes we are not doing enough in that field in comparison to what I have seen in other countries.

The Chairman: That seems to be agreed, Senator Grosart. Are there other questions on this subject?

Senator Grosart: The grants to the Canadian Conference of the Arts and to the Canadian Museums Association are not in the Estimates for 1970-71. At page 21-22. Is there a reason for that?

Mr. Fortier: Yes. We decided that the better way of dealing with this problem is to show it as part of a general item. They are now included in the item for Arts and Cultural Service Organizations and Activities—Research and Support Grants of \$228,000. There is an increase of \$115,000. It is simply a different way of presenting it.

Senator Grosart: You are not breaking it down. In 1969-70 you did break it down to the extent of showing these two large grants.

Why have you decided, if you do not mind me using the word, to bury them in the general grant in the Estimates in 1970-71?

Mr. Fortier: It gave a little more freedom in calculating exactly the requirements of each institution from one year to the other. Last year in the case of the grants to the Canadian Conference of the Arts considerably more funds were needed. Having it all lumped together permitted the Government to act quickly on this rather than waiting until a further supplementary. In the meantime they had to go through the bank, which was a very painful exercise.

However, this is not buried in that since it is really a pot of money which permits quick action on requests from these organizations.

Senator Grosart: I would point out that this is a trend in the wrong direction as far as the opinions expressed by this committee in the past are concerned. This means you can transfer at will from grantee to grantee without any reference to Parliament. In other words, you are avoiding the \$1 vote device. You are putting these organizations in a position where they cannot say they have a grant in the Estimates to which they are entitled.

Mr. Fortier: In that sense, legally you are quite right. In practice, of course, this does not happen, because support of this is shown by the Government, and has been a long time support. It might be that an organization may be cutting down its operations and there would be a requirement to give them less

too. This is also one possibility that has happened in the past.

Senator Grosart: It would be part of your function to know that in advance before you put a specific item in the Estimates.

Mr. Fortier: Well, no. You see, you put the item in the Estimates, as we are putting the item in the Estimates for 1970-71 this summer and it is very difficult to tell you a year in advance what they will really require. Therefore this permits greater flexibility in this respect.

Senator Grosart: With respect, I have had a great deal to do with cultural organizations, and I do not know one that could not tell you a year in advance what they want.

Senator Molson: I think Senator Grosart's point is rather well taken here. We are dealing in this instance with two grants, but that could easily apply to 12 or 15 grants.

Senator Grosart: Exactly.

Senator Molson: The principle could apply. I think to that extent it is desirable to have these things spelled out. In fact there will be no accounting for these sums until a great deal later in life when we come to the Public Accounts; that is the only place those sums will appear.

Mr. Fortier: That is right, but during examination I think the minister and the department can give some indication of what level is anticipated.

Senator Molson: The only point is that that is not in the public domain to the same extent. That information is not as broadly dispersed as it is when it appears here.

The Chairman: What you believe, then, senators, is that the item on page 21-22 should be broken down in the way that the other departmental estimates are broken down.

Senator Beaubien: As they were last year.

Senator Grosart: I would say in the way the other departmental estimates are not always broken down! One of the objections I have to this whole P.P.B. (Planning, Programming, Budgeting) system is that it deliberately cuts down the vote in order to

give greater flexibility in moving money around from grant to grant and therefore taking it out of the control of Parliament. I would like to put on record that to me this is an example of the kind of trend that is developing under the P.P.B. system, which does not increase parliamentary control of spending.

Senator Beaubien: I should like to ask Mr. Fortier this. He said the Canadian Conference of the Arts needed \$68,000 last year instead of the \$53,000 they were allotted.

Mr. Fortier: Yes, sir.

Senator Beaubien: Where did you get the other \$15,000? Out of the museum?

Mr. Fortier: No, it was voted in the final Supplementary Estimates in March.

Senator Beaubien: It was an extra amount?

Mr. Fortier: There is an extra \$15,000 there; we found enough somewhere to cover it.

The Chairman: It was a \$1 item such as we have been so upset about in the past.

Senator Beaubien: It did not come out of the museum? The museum got its \$60,000.

Mr. Fortier: It was voted. You see, from January to March when we had the crisis—well we had a difficult operation during that time. With all due respect to Senator Grosart, there is a problem about putting the case through to the board vis-à-vis an organization, let us say nine months in advance. The Canadian Conference of the Arts is a case in point. I think they would have been in difficulty last July to tell us how much they would require for 1970-71 in terms. They could have done it, but it would have been difficult to prove all the points, except to say, "We need more money".

Senator Molson: The stock answer.

Mr. Fortier: To prove it in a good P.P.B. system, with all the effectiveness of what achievements they have made nine months in advance, is a difficult exercise.

Senator Grosart: This, of course, applies to everything in the Estimates.

Mr. Fortier: True.

Senator Grosart: You can say, "We should just vote \$11 billion a year because it is very difficult for people to come up with their estimates in the P.P.B. system nine months or a year in advance." I do not think this is a legitimate answer to my objection. I should like to ask one more question. What is the relation of the Canadian Museums Association to the National Art Gallery now?

Mr. Fortier: If you mean financial assistance, I do not think there is any relationship. It exists as an association of museums that tries to promote the development of museums across Canada, and we assist their secretariat here so that they are able to promote what they exist for.

The Chairman: Senator Grosart, are you talking about the National Museum of Canada?

Senator Grosart: I am sorry, you are quite right, Mr. Chairman. I was confusing the Canadian Museums Association with the National Museum.

The Chairman: I was under the impression that the National Art Gallery was indeed part of the National Museum.

Mr. Fortier: Yes.

Senator Grosart: That was what my question was about. I was confusing the two names.

The Chairman: Are there any further questions on this subject? If not we will pass on.

Mr. Léger: If we may go on to education support programs, the objective of this program is to assist in the co-ordination of federal policies of support and research in the field of post-secondary education. The expenditures for this program may be broken down quite easily. I do not think I need read what relates to the 1967 legislation, because the \$377 million referred to as the first item is statutory.

The Chairman: We would like to get it on the record. I can ask the committee for agreement to put it into the record, or you can read it.

Mr. Léger: It is very short. The expenditures for this program may be broken down into the following categories:

(a) payments to the provinces for post-secondary education under Part II of the Federal-Provincial Fiscal Arrangements Act, 1967, under which the

federal Government has undertaken the transfer to the provinces, fiscal resources equivalent to the greater of (i) half of the eligible operating costs of post-secondary institutions in each province; or (ii) an amount calculated at \$15 per person of the population in a province. The federal transfer is composed of two parts: tax point and equalization payment transfers through the Department of Finance, and adjustment payments by the Department of the Secretary of State to make up the difference between the finance transfers and either (i) or (ii) above. That is the \$377 million referred to—grant to the International Association of Universities of \$75,000, and operating expenditures \$250,000.

The Chairman: Are there any questions?

Senator Beaubien: The \$377 million is the whole thing?

Mr. Léger: No, that is our part.

Senator Beaubien: The federal part?

Mr. Léger: No, it is the Secretary of State department's part. There is more that comes from the Department of Finance.

Senator Hays: Is that a grant to every student?

Senator Beaubien: It says person, not student.

Mr. Fortier: I can refer to last year's figures, if that will help you. We have a table showing that the Estimates for operating expenditures for all provinces amounted to \$1.2 billion.

The 50 per cent operating expenditure was about \$600 million, and our part was only \$286 million, because there were tax points given to the provinces.

The fiscal transfer was \$332 million and, as I say, our part was \$286 million. I am rounding out the figures, you understand.

Senator Hays: Do you have the amount that was given to university students?

Mr. Fortier: No; student aid is not part of this.

Mr. Léger: This is under the Department of Finance. If the committee is interested, we can obtain that information for you.

Senator Hays: I am very interested in the figure for the grants to university students throughout Canada.

Mr. Léger: We can get that for you.

The Chairman: Is that in the Estimates for the coming year or for the past fiscal year, senator?

Senator Hays: It does not matter. It will just be more this year and I can add it on.

The Chairman: That is the Estimate paid by the federal Government to the provinces on behalf of university students?

Senator Hays: Yes. Is there also a portion of that for fixed assets?

Mr. Léger: No, I don't think so.

Senator Hays: It is all for students?

Mr. Léger: Right.

The Chairman: It states that it will be half the eligible operating costs or \$15 per person of population in a province.

Mr. Fortier: Mr. Chairman, I should point out for clarification that these are only estimates and that the final figures are not in yet.

The Chairman: Perhaps you can give us the latest final figures and the estimates on the university costs.

Senator Beaubien: Mr. Fortier, you said that the total cost of the program was \$1.2 billion of which your department received \$286 million. So that figure would relate, then, to the amount that you are putting here as \$377 million. Is that what that means?

Mr. Fortier: That is right.

Senator Beaubien: So in effect the \$377 million is up roughly \$90 million from last year. Is that right?

Mr. Fortier: That is right.

Senator Beaubien: So the difference between what your department paid out, the \$286 million, and the \$1.2 billion was transfers of taxable income that were made from the federal Government to the provincial governments through income tax points. Is that right?

Mr. Fortier: Yes, sir.

Senator Bourque: Mr. Chairman, I see here a figure of \$377 million which is calculated at \$15 per person for the populations of provinces. Taking Canada as having 22 million people that would work out to \$330 million.

Senator Beaubien: Maybe there is a little thrown in for administration.

Senator Bourque: Why is there that difference of \$47 million?

Mr. Léger: Most provinces, Mr. Chairman, instead of taking the \$15 per person take half the operating costs because it amounts to more than \$15.

Mr. Yalden: The \$15 per person provision is applicable in the maritimes, but the other provinces opt for half the operating costs.

Senator Bourque: Why is it lower in the maritimes?

Mr. Yalden: Because the operating costs in the maritimes are lower. Therefore they choose to apply the \$15 per person provision.

Senator Beaubien: It is either half of what the province spends or the \$15 per person, whichever is more advantageous to the province.

Senator Cook: So it is arbitrary, I see.

Senator Molson: Mr. Chairman, these amounts are going up at roughly \$50 million a year. How long is this increase projected for?

Mr. Léger: Mr. Chairman, there is concern indeed as to the increase, and the committee may recall that a few weeks ago Mr. Drury visited all provincial capitals to impress on his colleagues the necessity of having a very hard look at the increase, which, in fact, really affects the provincial authorities as well as the federal authority. This indicates clearly the concern of the federal Government. Whether or not he has been successful in his mission, however, is a matter that we do not know yet. I do not think the report has been submitted yet.

Senator Molson: There is no statutory limitation to this shared-cost program, is there?

Mr. Léger: Not under the 1967 legislation, Mr. Chairman.

The Chairman: Were you happy with the answer, Senator Molson? I understood you also wanted to know if there was a projection as to what the future cost would be.

Senator Molson: I did ask that originally, Mr. Chairman, but I think Mr. Léger feels that perhaps Mr. Drury is trying to get it reduced in his travels. You did not have that figure, Mr. Léger?

Mr. Léger: Well, we do have one, but it is merely a compilation. It looks as if, if the present trend continued, the increase would be in the order of 20 per cent or more a year. And that is what is considered to be really too high.

Senator Molson: We will be out of business then, Mr. Léger.

The Chairman: Well would that not be double when compounded over three and a half years, Mr. Léger?

Senator Molson: 20 per cent per annum compounded would take very few years to go outside.

The Chairman: Any further questions on item number 3?

Senator Grosart: Mr. Chairman, this is a rather general question, but it comes out of the new form of the Estimates. I have tried to trace through the figures that have been before us for the various divisions, if I may call them that. First of all there are the approved Estimates, next the forecast for expenditures and also the various additions for statutory items and the costs of services supplied to other departments. I would like to go into this, if I may, very quickly starting with the figures in section C on page 24 to find out how you handle this problem.

First of all we go back to page 22 under Vote 25 where the approved Estimates for the Education Support Program were \$229,000. Then we turn to the next page, page 24, and there you find the \$229,000 in the first line under "Educational Support". This is the approved Estimate. Then we look to see what is the forecast expenditure against that Estimate and we find it is \$226,000. This, as I say, is on page 24 under the sections dealing with the two breakdowns "Objects of Expenditure" and the projects. Then we come to the final forecast of expenditure, we find it is \$286,000. In other words, the total expenditure is considerably over the approved forecast. This runs pretty well through all the Estimates. Will you tell me, first of all, the date on which you put in your

Estimates in any one year, and then the date on which this forecast is made.

The Chairman: Perhaps you can wait a moment, Mr. Fortier, until everybody understands the point we are dealing with.

Senator Grosart: There is a capital expenditure item in there, but I am ignoring that for the moment.

The Chairman: Is that the \$285,921?

Senator Grosart: Yes, the \$285,921 is a better figure because it includes the capital expenditure.

Senator Beaubien: This is for last year.

Senator Grosart: I am now talking about last year, because in the Estimates now we are given a comparison of the approved Estimates and the forecast expenditures which, I take it, are the actual expenditures.

Mr. Fortier: The Estimates are prepared originally for target decision some time in May. We are preparing the 1971-72 Estimates at this moment, to be submitted to the Treasury Board, which will decide on the magnitude each department and program will get. Subsequent to that there is an estimate preparation to be ready by October 31 which goes into the details. At that time we must do our forecasting of the current year. We did the 1969-70 forecast by October 31, so the figures are for October 31. These forecasts could be right or wrong; the actual might be quite different from what you have there. But you asked, "When do you prepare the original figure?" and the answer is: In May. You asked, "When do you prepare the forecast?" And the answer is that we prepare it in October. It is decided in the summer, and we go into the details of separating the figure. This is why you have under page 21-22, as you pointed out, a comparison of \$325,000 to \$229,000 for the whole year. You have \$229,000, and then I would suggest you go not to the first column, which is only a portion, but the end column, the total budgetary expenditures, where you have the \$254,000.

The Chairman: On what page?

Mr. Fortier: Page 21-25. You have \$254,000 as compared to \$229,000. Incidentally, you can say the same thing for the second figure. You have \$328 million approved as opposed to \$285 million spent.

To keep these figures in perspective, you may ask, "Why did you spend more than was approved?" This is because during the year the Government supplemented salaries of civil servants, and these funds came from the Department of Finance, Treasury Board Vote No. 5, which permitted to allocate more money for salaries. This is why we in fact spent \$254,000.

The Chairman: You are dealing purely with administration there?

Senator McLean: Where is the \$254,000?

Mr. Fortier: Page 21-25, under "Total Budgetary Expenditures" for the year 1969-70.

The Chairman: So \$229,000 was approved?

Mr. Fortier: Yes, and \$254,000 were spent.

The Chairman: \$254,000 was spent?

Mr. Fortier: That is right, that is under "Administration". This was because of the supplementary for salaries.

The Chairman: How did you pick it up?

Mr. Fortier: From Treasury Board Vote No. 5, where there is money provided for salary revisions, and that is where the money came from. The other item, \$328 million, was prepared last May. We now find we are spending only \$286 million.

Senator Grosart: The balance sheet would show in the Public Accounts?

Mr. Fortier: That is right. This is trying to provide the Parliament with what they proved earlier and what the department is spending and to give them the perspective of whether they approve or what they are spending. It may be difficult because it is the first experience. It is the Treasury Board which should really talk to you about this and not us.

Senator Grosart: You have to live with it.

The Chairman: Are there any further questions?

Senator Hays: This may be a dumb question. What institutions are included in post-secondary institutions?

Mr. Léger: All universities as defined by the provinces.

Senator Hays: That is just solely for universities?

Senator Hays: This does not include the vocational training.

Mr. Fortier: No.

Senator Grosart: To conclude my point, I would like to ask Mr. Fortier if he would agree with me. The comparison we have in the first table on 22-2 between the approved Estimates of 1969-70 and 22-8 on the proposed Estimates for 1970-71 is not a very meaningful figure. But we would like to really compare it with what is spent in 1969 with what you intend to spend in 1970. Superficially it is a misleading figure. I wonder why it is there. I would say that the Treasury Board says that is the way to do it.

Mr. Fortier: I myself think that Parliament would like to know how much they would approve. They would like to know how much they approved earlier, and what we are going to spend. It seems to me that it is a little normal that we are spending more. Normally, the departments spend less than what you do approve, because there are lapses happening, and therefore you would like to make a comparison from what they think they are going to spend as opposed to what you really approve, and to see whether they have met your approval in the sense that they are given so much money to do something. In other words, if you have not done it why haven't you spent that money? This is what is intended by these two figures there. I agree it is a little confusing.

Senator Grosart: I would suggest that it would be much more useful if the first summary against the vote read "approved 1969 \$229, spent \$286 and proposed \$325." I say that for the record.

I might call it to the attention of the Treasury Board and tell them that it would be easier for the members of Parliament to follow these figures, if the Treasury board is at all interested in making these figures easier to understand.

The Chairman: I think that is a recommendation for the Treasury Board. Please proceed, Mr. Léger?

Mr. Léger: We may then go to Translation Program on page 21-28. The object of this program is to provide translation and interpretation services to Parliament, Government departments and agencies. The expenditures for this program may be broken

down into the following categories. A grant to universities in support of translation programs \$63,000, operating expenditures \$7,937,000, total \$8 million.

The Chairman: Are there any questions?

Senator Beaubien: How do you break down the operating expenditures?

Mr. Fortier: You will find them on page 21-28 and 29 under Program by Activities and on page 21-30 and 21-31 under Objects of Expenditure. Under Activity you have administration; training, terminology and linguistic research; parliamentary and general service translation; scientific and technical translation; administrative and financial translation. I would again suggest that you go to the other end and see it on the total budgetary expenditure. That gives you one type of breakdown. There is a further type on the next page, which is the translation program by standard object. The table includes operating expenditures, salaries and wages, transportation, and so on. The figures are shown for the year 1970-71.

Senator Molson: In this case the expenditures in the revised forecast made in October were \$1 million greater than the approved Estimates.

Mr. Fortier: Yes.

Mr. Léger: This is directly related to our discussion earlier with respect to the consequences of the Official Languages Act in that much more translation will be needed in future as the Government applies the different programs that we discussed earlier.

Indeed, I may add that we would like to make sure that the Parliament generally gets as good a service as possible in that field. For that purpose I think there is room for improvement, which we are endeavouring to carry out.

The Chairman: In light of the fact that this meeting is not translated, you are right.

Senator Molson: I remember the late Senator Jean-Francois Pouliot often saying that translations in Parliament left much to be desired. It was quite a strong point with him.

This again is perhaps not for this particular meeting. However, I would like to make this remark in order to suggest that in drawing up these figures on pages 21-28 and 21-29, the relationship between the Estimates at the top of page 21-28, Vote 30, it seems to me would be better related to performance if it were broken down in the manner of the table on page 21-29, so

that in assessing performance we can see where the differences occur.

We just mentioned that in this case there was \$1 million difference.

Mr. Léger said it is nearly all in this one particular area. However, this does not illustrate why there is a \$1 million over-run or if there were a \$1 million saving, where that occurred would not be indicated.

Mr. Fortier: That is correct in this case. As Mr. Léger said, we are pushing that, but most of the additional money was for what I explained earlier, the general salary revision. The Government approved a revision retroactive to 1967 last year to civil servants. This came to about 20 per cent of the total, in the case of the translation bureau about \$1 million. That is why there is that \$1 million difference, plus the fact that there were other things going on. However, that is the essence of it.

Senator Molson: But it would split in the same manner as the program by activities is split.

Mr. Fortier: Yes.

Senator Molson: The \$1 million would appear split between these different activities.

Mr. Fortier: That is right; it would split by activity.

Senator Molson: It would give a direct comparison between this table on page 21-29 and the Estimates on page 21-28. I think that again is Treasury Board, Mr. Chairman.

The Chairman: Yes, I see. You can see where the over-run is there.

Senator Molson: In the activities, each activity cost \$1 million over-run.

The Chairman: Perhaps that should form part of our report to the Senate.

Senator Molson: It is a Treasury Board item. I wanted to get it on the record as an aide mémoire for the committee.

Senator Grosart: How far do you go when separating the public accounts in this particular legislation? All this will be in the public accounts. In this new system there is an attempt to introduce some figures that previously were only found in public accounts. That is Senator Molson's point, and a little more.

Senator Molson: Once you start something, it is hard to stop.

Mr. Léger: We may go on, to the Citizenship Development Program we find on page 34. The objectives of this program is to promote effective citizenship among immigrants to Canada and Canadians through projects designed to foster mutual understanding and co-operation among groups in Canada. The expenditures may be broken down into the following categories. There are contributions in accordance with agreements with the provinces for travelling expenses in relation to interprovincial visits, \$460,000. There are contributions towards the cost of citizenship and language instruction for immigrants, \$994,000. Thirdly, there are grants to the provinces and voluntary agencies for expenses in relation to interprovincial visits, \$600,000. Fourthly, there are grants for citizenship promotion, \$474,000. And lastly, there are operating expenditures, \$1,478,000. Further information naturally can be found in the program description that we have in pages 34 and 35.

Senator Grosart: The contributions in (b), \$994,000, contributions to the provinces?

Mr. Léger: Yes, Mr. Chairman. We provide 50 per cent of the cost of any instructors for immigrants.

Senator Grosart: This is an open-end contribution?

Mr. Léger: Yes.

Senator Beaubien: On page 34, you say, salaries and wages, \$1,115,000. Is that half of this? Do the provinces pay a like amount?

Mr. Léger: No. The reference here is that all provinces with whom we have agreements—and we have not got agreements with all the provinces in this respect—would pay as much as we do for any instruction. In other words, we provide \$994,000 and they provide as much.

Senator Grosart: Is this subject to federal audit?

Mr. Léger: Yes.

The Chairman: Can the provinces receive the 50 per cent credit for any valid instruction, or does it have to be through certain institutions?

Mr. Léger: No. We negotiate with them a contract. We have just negotiated one with Quebec, for the

first time. They make us aware of the program they want to conduct and we jointly agree, and then it is put into operation.

Senator Grosart: For the record, may I point out that this committee is on record as recommending the end, the termination, of all open-end agreements with the provinces. They simply seem to be increasing, rather than decreasing, in the Estimates.

Senator Hays: It would be nice to do it, but there is no way you can do that.

Mr. Léger: I do not know if we wish to discuss this further, in that we now have agreements, let us say, with eight provinces, there is a pattern of agreement, and a ninth province comes to us; those agreements are for five years, and if the ninth province comes and suggests that it wants a contract like the one we have with, say, Ontario, then we are in for another period of five years. Indeed, we will bear in mind the comments you make, senator, but I must say in practice it is very difficult. This is not a major program, but it still would not be easy to stop this sort of program from going on. It is a good program. It may be that the way to finance it is not good, but it is a good program.

Senator Grosart: Do you in any way control the methodology of this language training for immigrants?

Mr. Léger: This is very much left in the hands of the provinces, but then it is based on their own normal curriculum in a way. The real question is whether the normal curriculum in Ontario or Quebec is good or not. The teachers we have are really provincial teachers who do not specialize in any given language, but they are generally acceptable to the profession in that province.

Senator Molson: Does the immigrant have any choice of language? Can an immigrant in Ontario be taught in French, or is it limited in each province by the choice of the province?

Mr. Léger: It is not limited by the agreement. It might be limited by past practice, and it could be changed if that was so decided. As far as the federal Government is concerned there is no limitation about this or that language.

Senator Molson: It would have to be at the request of the province, then, would it? The federal Govern-

ment has no point of view; they are agreeable to it being in either official language?

Mr. Léger: That is so.

The Chairman: But is the federal Government prepared to make grants where the provinces are restrictive as to that official language?

Mr. Léger: If it were, it would not be under this heading. I am trying to think which heading it would fall under in the bilingual operation. I do not think it has come up yet.

Senator Molson: It is probably too soon.

Mr. Léger: Yes.

Senator Beaubien: If the Quebec government decided immigrants could only be taught in French, even if the immigrants' choice was English, the federal Government would have no control; they would just pay them the money and the province would do what they want. Is that it?

Mr. Léger: Under present arrangements I think so, yes.

Senator Grosart: Mr. Chairman, I think there is a principle that we have discussed in this committee before, of the responsibility of the federal Government to make sure that the projects in which it is putting public money is efficient and useful. I should like to make that comment. The same thing applies if the federal Government is to share the cost of a building. Surely they have a responsibility to make sure it is a good building. I would suggest that the federal Government has a responsibility here, in spite of the constitutional difficulties, to insist on equality of opportunity in immigrant language instruction, and efficiency.

The Chairman: Let us take one of the western provinces. If an immigrant requests his instruction in French, would he get it?

Mr. Léger: It would be up to the province to provide facilities. If that province cannot provide facilities, then I don't think the federal Government could intervene and provide them in its stead.

The Chairman: But that is not part of the agreement. Could that not be part of the agreement?

Senator Grosart: Why not? This has been done in Manpower Training where there are adult immigrants.

Mr. Léger: I think it is a good point, but I would rather not consider it under this heading. I would rather see if we can set it in our bilingual program. It just has not occurred yet.

The Chairman: Nevertheless you are making an agreement to pay 50 per cent of the teaching costs. This is specifically directed towards immigrants.

Mr. Léger: Right.

The Chairman: If an immigrant goes to Alberta and says he wants to learn the French language and wants his instruction in French, I cannot see why he should not be able to have that, although I don't know why he would want it.

Mr. Yalden: That is the point, Mr. Chairman. As the under secretary has suggested, to our knowledge such a situation has not arisen.

The Chairman: It has not arisen in Quebec?

Mr. Yalden: In Quebec instruction is provided in both languages in accordance with demand. In the west we are not aware of there having been such requests, although that does not mean that there have not been. But we are not aware of any. The point is well taken, however, sir.

Senator Grosart: The federal Government might find itself in the position of contributing financially to language discrimination.

Senator Molson: As the under secretary has said, perhaps it is too soon for it to have occurred yet. It will be interesting to see what development there might be at a later stage under the bilingualism program, as Mr. Léger has suggested.

Mr. Léger: We may go to the citizenship registration program then, on page 43. The objective of that program is to grant Canadian citizenship and provide evidence thereof. That is really the application of the Canadian Citizenship Act. The expenditures for that program are all operating expenditures totalling \$1,800,000.

The Chairman: Are there any questions on that? I received in the mail from Mr. Stanbury a document,

an application, which I could fill out in order to get a citizenship certificate. Is that part of this program, and, if it is, is it the intention to send to every Canadian such an application form for a citizenship document?

Mr. Léger: No, Mr. Chairman. We would be in deep trouble if that happened. Mr. Stanbury sent such forms to all senators and members of the House of Commons as a promotional idea. You are aware that there may be as many as one million residents in Canada who are not Canadian citizens. Naturally, we would want them to come our way, and the more publicity we can make to attract them the more chance there might be of getting them. However, I must add that, as the committee knows, the Citizenship Act is to be reviewed within a matter of a few months, and the publicity relating to the amendment to the act may help us get some of those persons to become Canadian citizens.

Senator Beaubien: Mr. Léger, if you are trying to get people who are not Canadian citizens to become Canadian citizens, why would you write to the only body in Canada that you are sure is comprised of Canadian citizens? I cannot understand that. After all, any member of Parliament who is not a Canadian citizen can be thrown out of Parliament. You would have him trapped, if he were not.

The Chairman: As I read the letter, it was to give a certificate, and if you wanted an identity card as well, one you could carry around with you, you would get that too and you could put it with your railway pass.

Senator Sparrow: You must have a citizenship card before you can get a passport, mustn't you?

The Chairman: No, you merely need a birth certificate for that purpose.

Senator Cook: Exactly what is the meaning of the letter?

Mr. Léger: So far as you are concerned it does not mean very much, but to Mr. Stanbury it means a great deal, because he wants to use you in a way whereby he could demonstrate to the nation that each member of the Senate and House of Commons has asked for a proof of citizenship. That would help him to draw in those non-Canadians and get them to ask for a proof of citizenship or a certificate of citizenship.

Senator Sparrow: What is the income from that department?

Mr. Léger: Half a million dollars a year.

The Chairman: We will now pass on to the final paragraph.

Mr. Léger: This would be the administration program.

The objectives of this program are to provide management and centralized services to the department and, to a varying degree, to certain cultural agencies, and to provide senior advisory services on matters affecting the ministry. The expenditures, which are all operating in nature, total \$2,044,000. That is on page 8.

Senator Grosart: Mr. Chairman, this would seem to be the place to raise a question I mentioned previously in view of the phrase "to provide management and centralized services to a varying degree to certain cultural agencies." My question really is to what extent is management by the Department extended to various cultural agencies? However, I think I will leave it at that and come back to it because it would take half an hour, and it is now 12.30 and I am sure you would want to get through the detailed Estimates. But I wonder if I could suggest to the honourable secretary that it would be helpful to this committee if you could prepare a document for us indicating the financial control and the management relationship between the Department, if I may call it that, and the various entities, Crown corporations and otherwise listed in A to N on the first page of the Estimates. I say that because I have been trying for some years to find out what the relationship is. I have read the Financial Administration Act which is of very little help. The term "Crown corporation" is loosely used. Nobody really knows what it means in spite of the attempted definition in the Financial Administration Act. This raises the whole question of the relationship to the Canada Council, the CBC, the National Film Board, the Canadian Film Development Corporation, the Company of Young Canadians, the National Arts Centre and so on. Would that be possible?

Mr. Léger: Yes, Mr. Chairman. What is easy to do is to set the relationship that flows as a result of the different legislation. That can be done quite easily. We can also set the role played by the Secretary of State as regards amending legislation and as regards budgets. In other words, anything connected with Parliament. That we can do and we will undertake this right away. I do not know if it will satisfy Senator Grosart fully, but we will start.

Senator Grosart: I am sure it will be very helpful, particularly if note is taken of this word "management" in your statement, because this question arises over and over again. What is the responsibility of these organizations to Parliament? The very phrase that you get that the Secretary of State reports to Parliament in respect of some of these and he is the spokesman for others. It will be very helpful if you could attempt it. It is a big job, and I am sure you will want to see Justice before giving it to us.

The Chairman: If there are no further questions then on your behalf, honourable senators, I would like to thank the witnesses—

Senators Hays: I have one more question, Mr. Chairman. I remember when the Government first gave the Canada Council a grant of \$10 million in 1963, and at that time I suggested that in ten years it would be doubled, and they made it in six. Now I am familiar with the beginning of the Canada Council as I am sure all honourable senators are, but what is the total amount of money now left in the Trust?

Mr. Fortier: There is left in the Trust the original \$50 million granted as an endowment fund for the purpose of giving grants to the arts, humanities and social sciences. There was another \$50 million given for capital grants to universities. This is almost totally expended; in fact, it is totally expended. There is only one or two outstanding payments amounting to less than \$2 million. Over and above that there are donations from the Killen estate, from the Molson Foundation, from a special scholarship fund and other donations which in total at the moment in cash would probably amount to something like \$12 million. We have accumulated profits through sales of securities of about \$5 million, and they have a running grant pattern because they are on an accrual basis of unpaid grants of about \$20 million so in total their portfolio would be around \$90 million.

Senator Hays: Was it originally \$150 million or \$160 million?

Mr. Fortier: No, \$100 million when it started, but \$50 million to be spent and \$50 million to be retained. The \$50 million to be spent is spent, except for something less than \$2 million, so they would be left with \$50 million, but with these unpaid grants and accumulations they are about \$90 million now.

Senator Hays: I am sorry the minister is not here. I am thinking about this bilingualism, which I think is very important. Has the department ever given any thought to taking two cities—and I will mention my city because I am more familiar with it—such as Calgary and Quebec City which are sister cities, where they would take as many schools as they want at the elementary level and say that the school will be French from Grade 1 to Grade 8, and vice versa in Quebec City, as a pilot project in both cities? There would be a transfer of teachers and the parents would be in a position to send their children to this sort of school.

Under the present system it is going to be a very costly program, but under this basis the child would elect to start school and go to French school until Grade 8, and I believe it would be good for the union of Canada and a much better way of learning French, because he could go from there on to high school. Have you ever had any thoughts on this matter, the idea of using two cities as a pilot project?

Mr. Léger: This is a very imaginative idea, Mr. Chairman. No, we have not contemplated this because really our bilingual program is just getting off the ground and we have a set of priorities. It may well be that it will blossom more rapidly than we expect, and that we will reach the possibility of looking at projects like those such as the senator has just mentioned, but for the moment that would be left to the provinces.

Senator Hays: In your conference that you are going to have on May 25, will you be discussing Policy and so on? It seems to me this is the way you can do this without a great expenditure, because I am sure that there are schools in Calgary that hold a thousand students where you could say, "We have one in Quebec City which is exactly the same, and we will change the teachers from one to the other and the students can elect to go to such schools." Then you could just move the teachers.

Senator Beaubien: For a year or two?

Senator Hays: It would always be a French School up to Grade 8, and they would elect to go to a particular school. I am sure the parents would say that they would look after the transportation problem, and that is all they would have to do. It seems to me that there are ways of doing this. I mention again, with the exception of bigoted people who would not want their child to learn both

languages, this process is quite easy to implement, and then they would have a real foundation in the other language, either French or English.

Mr. Léger: In trying to rapidly see a scheme, if it were put forward I am wondering if the division of the labour would not be more or less as follows. Each province would accept responsibility and the federal Government might come in for transportation costs.

Senator Hays: For moving the teachers.

Mr. Léger: Right.

Senator Hays: The teacher is going to be there. There will always be a French school in Calgary and an English School in Quebec City.

Mr. Yalden: This is an area of encouraging the provinces to take this kind of action, and we are encouraging them to do this. If I may say so, in the meantime another possibility is to create a French school in Calgary. It has been done in Saskatoon and Toronto very successfully.

Senator Hays: You could create this before the first of September. You have the same number of teachers and the same number of students and the cost would be the same.

Mr. Léger: It is done in Germany and France. Three hundred French students just go to the other side of the Rhine, and 300 German students go the other way, to learn each other's language. It is easier for them because the distances are not that great. You see the children cross the bridge to spend a year in Germany, and they come back knowing German.

Senator Hays: I am suggesting that we move the teachers.

Mr. Fortier: Yes, it would be easier.

Senator Molson: There is one question which I would like to ask before we finish. Why on page 21-8 is the bottom line shown as an appropriation not required for 1970 to 71 of 13-odd million dollars. I do not think I have seen it elsewhere. Why was it not shown for what it was for?

Mr. L. Lafleur, Director, General Administration Branch, Department of Under-Secretary of State: This was an expenditure incurred in 1968-69 which was not going to be incurred in 1969-70, because

that was part of the cost of building the National Arts Centre.

Senator Molson: Why do they not say so?

Mr. Lafleur: This is just the way the Treasury Board wants us to show these things.

Senator Molson: Some are more sensitive expenditures than others?

Mr. Lafleur: That is not the reason.

Senator Molson: I am sure there are hundreds of expenditures or thousands of expenditures which are not required from year to year, but I do not seem to remember them as being shown if not required for next year. It would seem to be quite logical to show what the money was spent for under the heading of actual expenditures 1968 to 1969, and to merely show the blank and the future years the way other items are shown.

Mr. Lafleur: This is just to balance the total actual expenditure.

Senator Molson: I agree, but if you leave the other lines blank but change what is written at the beginning you would still balance the figures, but you would know why there was \$13½ spent in that year and not proposed for the future years.

The Chairman: Are there any further comments on Senator Molson's point?

Mr. Lafleur: As I said, that is the Treasury Board's responsibility.

The Chairman: Are there any further questions? Honourable senators, on behalf of this committee I would like to thank Mr. Leger, Mr. Fortier, Mr. Lafleur, Mr. Yalden and Mr. Belkin for being with us today. I will now hear a motion for adjournment.

The committee adjourned.

APPENDIX "A"

In the course of the Debate in the Senate on Bill C201 being Appropriation Bill No. 2, 1970, Senator Belisle read the vote wording for Vote 1, Privy Council Office which appears at page 18-6 of the Estimates for 1970-71.

"Vote 1 - Privy Council Office - Program expenditures including maintenance and operation of the Prime Minister's residence, and the payment to each member of the Queen's Privy Council for Canada who is a Minister without Portfolio of a salary of \$7,500..."

He then asked

"If there are but a few present ministers without portfolio receiving it, and the maintenance of the Prime Minister's residence, why is it over \$5 million?"

The answer is:

As the Estimates show at page 18-6 in the Program by Activities table, the salaries of Ministers without Portfolio take up only a small portion of this vote.

They are included in the \$504 thousand shown as proposed estimates against the activity "Offices of the President of the Privy Council, Leader of the Government in the Senate and Ministers without Portfolio". The remainder of the proposed Estimates for 1970-71 for this program are distributed as follows.

(Thousands of Dollars)

Office of the Prime Minister	981
Cabinet Secretariat	1,262
Science Secretariat	501
Federal-Provincial relations Secretariat	476
Administration	1,188
Royal Commissions and Task Forces	550

As requested by Senator Grosart at the meeting of the Standing Senate Committee on National Finance held March 19, 1970, following is a listing of non-lapsed accounts in the Consolidated Revenue Fund which are similar to the C.I.D.A. Account.

<u>Department</u>	<u>Description of Account</u>	<u>Public Accounts 1968-69 Page Reference for Explanation</u>
External Affairs	- International assistance Account	7.86
National Defence	- Replacement of materiel, sec. 11, National Defence Act	7.86
	- Proceeds from sale of Surplus Crown assets	7.86
Regional Economic Expansion	- Area Development Account	7.86
	- National Capital Comm. - National Capital Account	7.86
Secretary of State	- Centennial of Confederation Fund	7.86
	- National Library purchase account	7.87
	- National Museums purchase account	7.87
Transport	- Railway grade crossing fund	7.87
Treasury Board	- Reserve for salary revisions	7.87

CANADIAN ARCTIC PRODUCERS LIMITED
(Incorporated as a Private Company under the laws of Canada)

BALANCE SHEET

At 31st October, 1969

(With comparative amounts at 31st October, 1968)

<u>ASSETS</u>	1969	1968
CURRENT		
Cash	\$ 27,399	\$ 9,858
Accounts receivable	\$287,947	
Less: Allowance for doubtful accounts	5,727	282,220
Accrued commissions	27,000	21,000
Merchandise inventory, at cost	33,010	1,591
Prepaid expenses and supplies	3,907	3,335
	373,536	268,032
FIXED		
Equipment — at cost	11,370	
Less: Accumulated depreciation	4,346	
	7,024	
Leasehold improvements — at cost less \$ 5,856 amortized to date	6,169	
	13,193	14,204
	\$ 386,729	\$ 282,236
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
CURRENT		
Accounts payable and accrued expenses	\$ 15,066	\$ 36,170
Employees' payroll deductions	3,882	1,899
Due to suppliers	232,411	317,768
Due on contract sales	2,426	2,426
Income taxes payable	7,782	5,600
	352,567	263,863
SHAREHOLDERS' EQUITY		
Capital stock		
Authorized		
50,000 common shares of \$ 1 per value		
Issued		
5 common shares	\$ 5	
Retained earnings	34,157	
	34,162	18,373
	\$ 386,729	\$ 282,236

Approved by the Board:

Director

Director

Note: At 31st October, 1969, the Company held inventory on consignment from suppliers valued at approximately \$ 523,500. The operating expenses include warehouse and handling costs but as the inventory is on consignment only, the asset and related liability are not included above.

15/1/70

FISHERMEN'S INDEMNITY PLAN

Fiscal Year	VESSELS			LOBSTER TRAPS			FIXED GEAR			TOTAL (ALL PLANS)		
	Net Premiums	Claims	Credit or Debit Balance	Net Premiums	Claims	Credit or Debit Balance	Net Premiums	Claims	Credit or Debit Balance	Net Premiums	Claims	Credit or Debit Balance
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
1964-65	281,103	351,975	-70,872	2,523	12,650	-10,127	-	-	-	283,626	364,625	-80,999
1965-66	314,074	366,739	-52,665	1,671	5,006	-3,335	198	-	198	315,943	371,745	-55,802
1966-67	347,655	461,093	-113,438	1,552	6,647	-5,095	5,727	19,391	-13,664	354,934	487,131	-132,197
1967-68	370,871	503,298	-132,427	2,301	7,686	-5,385	6,426	26,312	-19,886	379,598	537,296	-157,698
1968-69	*525,915	488,912	+37,003	*1,891	5,877	-3,986	*6,230	37,338	-31,108	534,036	532,127	+1,909
	*NOTE: New Fishing Vessel Indemnity Regulations approved P.C. 1968-1032 (effective June 15, 1968) Premium rates adjusted			*NOTE: Lobster Trap Indemnity Regulations revoked P.C. 1969-209 dated Feb. 4, 1969			*NOTE: Fixed Fishing Gear and Shore Installations Indemnity Regulations revoked P.C. 1928-2113 dated November 19, 1968. (Policies in force at that time to be honoured to expiry date but not renewed)					



Second Session—Twenty-eighth Parliament
1969-70

THE SENATE OF CANADA

PROCEEDINGS

OF THE

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

The Honourable Douglas D. Everett, *Chairman*

No. 8

THURSDAY, MAY 14th, 1970

Sixth Proceedings on the Estimates

laid before Parliament for the fiscal year ending March 31, 1971

WITNESSES:

Department of Indian Affairs and Northern Development: Mr. H. B. Robinson, Deputy Minister; Mr. J. B. Bergevin, Assistant Deputy Minister; Mr. D. H. Beatty, Adviser, Financial and Management; Mr. J. McGilp, Director, Community Affairs; Mr. D. Cable, Financial Officer.



Second Session—Twenty-eighth Parliament
1988-70

THE SENATE OF CANADA

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable Douglas D. Everett, *Chairman*

The Honourable Senators:

Aird	Gelinas	McDonald (<i>Moosomin</i>)
Beaubien	Grosart	McLean
Benidickson	Hays	Nichol
Bourget	Isnor	O'Leary
Bourque	Kinley	Paterson
Desruisseaux	Laird	Pearson
Everett	MacDonald (<i>Queens</i>)	Phillips (<i>Prince</i>)
*Flynn	*Martin	Phillips (<i>Rigaud</i>)
Fournier (<i>Madawaska- Restigouche</i>)	Methot	Sparrow
	Molson	Walker—(27)

(Quorum 7)

**Ex officio members.*

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MINUTES OF PROCEEDINGS

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of February 12th, 1970.

"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 proposed by the Estimates laid down before Parliament for the fiscal year ending 31st March, 1971, in advance of Bills based upon the said Estimates reaching the Senate;

That the Committee have power to engage the services of such council 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.

Also present but not heard: Miss M. M. Beillard, Chief, Parliamentary and Correspondence Division.

The Department of Indian Affairs Northern Development undertook to supply answers to questions put by members of the Committee concerning these Estimates.

At 12.45 p.m. the Committee adjourned to the call of the President.

ATTEST:

ORDER OF REFERENCE

Extract from the Minutes of Proceedings of February 12th, 1970.

"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 proposed by the Estimates laid down before Parliament for the fiscal year ending 31st March, 1971, in advance of Bills based upon the said Estimates reaching the Senate;

That the Committee have power to engage the services of such council 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 FORTYER
Clerk of the Senate

(7)

MINUTES OF PROCEEDINGS

THURSDAY, May 14, 1970.

(8)

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 10.30 a.m. for the further consideration of the Main Estimates laid before Parliament for the fiscal year ending March 31st, 1971.

Present: The Honourable Senators: Everett (*Chairman*), Beaubien, Benidickson, Bourget, Bourque, Grosart, Hays, Isnor, Kinley, Laird, Methot, Molson and Sparrow. (13)

Also present but not of the Committee: The Honourable Senator Smith.

On Motion of the Honourable Senator Beaubien, it was resolved that 800 copies in English and 300 copies in French of the proceedings of the Committee be printed.

The following witnesses on behalf of the Department of Indian Affairs and Northern Development were heard:

Mr. H. B. Robinson, Deputy Minister;
Mr. J. B. Bergevin, Assistant Deputy Minister;
Mr. D. H. Beatty, Adviser, Financial and Management;
Mr. J. McGilp, Director, Community Affairs;
Mr. D. Cable, Financial officer.

Also present but not heard: Miss M. M. Robillard, Chief, Parliamentary and Correspondence Division.

The Department of Indian Affairs Northern Development undertook to supply answers to questions put by members of the Committee concerning these Estimates.

At 12.45 p.m. the Committee adjourned to the call of the Chairman.

Gérard Lemire,
Clerk of the Committee.

ATTEST:

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

EVIDENCE

Ottawa, Thursday, May 14, 1970

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending 31st March, 1971, met this day at 10.30 a.m.

Senator Douglas D. Everett (*Chairman*) in the Chair.

The Chairman: Honourable senators, I call the meeting to order. May we have the usual motion for the printing of our proceedings?

Upon motion, it was resolved that a verbatim report be made of the proceedings and to recommend that 800 copies in English and 300 copies in French be printed.

The Chairman: In opening the meeting I will read the statement I made last week, which explains the reasons for this particular meeting today.

We shall now continue with the committee's view of the Government's Estimates for the fiscal year ending March 31, 1971. It will be recalled that the Estimates increased by \$892 million over those of 1969-70. Of this amount the statutory expenditures increased by \$651 million, and the other appropriations have increased by \$241 million. This amount of \$241 million is made up of increases amounting to \$193 million in programs contributing, as the Government has put it, to national unity and social justice, and to education and economic development, here in Canada and in the developing countries. To make up this amount of \$241 million there is a consequent reduction of \$53 million in all the other programs.

One of the programs involved in this increase is the Indian and Eskimo Affairs program which is budgeting for an increase of \$33,812,000 in Votes 5 and 10 in the Estimates of the Department of Indian Affairs and Northern Development. Members of the committee have a copy of those Estimates, and to give us details of the programs of the Department of Indian Affairs and Northern Develop-

ment, and other departmental details, we have present Mr. H. B. Robinson, the Deputy Minister of Indian Affairs and Northern Development; Mr. J. B. Bergevin, Assistant Deputy Minister for Indian and Eskimo Affairs; Mr. J. McGilp, Director of the Community Affairs branch; Mr. D. H. Beatty, Financial and Management Adviser; and Mr. D. Cable, Estimates Officer.

Mr. Robinson, do you have an opening statement to make?

Mr. H. B. Robinson, Deputy Minister of Indian Affairs and Northern Development: Mr. Chairman, I have no opening statement to make except perhaps to say that what we have done in accordance with your wishes and those of your predecessor as expressed in his letter to my minister, is to prepare ourselves today to answer questions regarding the plans for increased expenditures in the year 1970-71 as compared with the year 1969-70, and to say also that the figure of \$33,812,000 which is given on page 9-2 of the Estimates is a figure which contains a discrepancy which should perhaps be clarified before we go on to discuss the remaining components. That figure of \$33,812,000 was the figure in the approved 1969-70 Estimates plus Supplementary Estimates (A). However, for the purpose of the program by activity schedules shown on pages 9-16 and 9-17, the Treasury Board instructed that forecasted 1969-70 expenditures should be shown. These expenditures included all actual and forecasted supplementary Estimates together with the release from contingency Vote 5 for the purpose of covering salary increases in excess of the original provision. Consequently, the overall increase which you asked to be explained for the Indian and Eskimo Affairs program is larger than the real amount of the increase. The real amount should be \$27,252,000, the difference being \$6,560,000 which is the release from the Treasury Boards' contingency vote for salaries to meet increased costs arising from union negotiations.

The Chairman: Could you show us, Mr. Robinson, where that figure is contained in the Estimates?

Mr. Robinson: Yes, senator. I cannot point to that particular figure in the Estimates, but if I might invite your attention to page 9-16, the salaries which have been increased are to be found under Operating Expenditures in the first column of page 9-16. That is to say, the \$6 million is spread into the figures in the first column on page 9-16. It is not specifically identified but is spread through the various activities which are listed in the first column on that page.

The Chairman: Is this broken down at all on page 9-20, for example?

Mr. Robinson: Yes, senator.

The Chairman: That shows an increase of roughly \$3,400,000. Well, exactly \$3,392,000.

Mr. Robinson: Perhaps I could ask my financial adviser, Mr. Beatty, to speak on this particular point.

Mr. D. H. Beatty, Financial and Management Adviser, Department of Indian Affairs and Northern Development: In the column you are looking at, Mr. Chairman, the figure includes the \$6.5 million which was referred to. So there is indeed a further increase of whatever that exact figure is. We can explain that as we go through these figures.

The Chairman: The \$6.5 million is due to increases in wages of the establishment as it was, and the \$3,392,000 presumably is an increase in the establishment. Is that it?

Mr. Beatty: It is an increase due partly to the Treasury Board requirement for the 6 per cent for the 1970-71 year, 5 per cent being the post union negotiation figure and 1 per cent being for the other miscellaneous items.

The Chairman: That is the \$6.5 million?

Mr. Beatty: No, the \$3,392,000 that you were mentioning now is over and above the \$6.5 million that we talked about just a minute ago.

Senator Beaubien: So the increase is almost \$10 million.

Mr. Beatty: I should like to explain that the increase is an additional amount of money which we require in our department to meet salary costs on top of what the Treasury Board told us to provide in 1970-71. All

departments got releases for this type of situation, I understand. Is that clear?

The Chairman: I wonder if honourable senators have any other questions.

Senator Sparrow: You are referring then to additional staff; not to an increase in salaries as such.

The Chairman: That is my point.

Mr. Beatty: Maybe I could go back. We are trying to reconcile the figures for the years that you are talking about here. You have two sets of figures in the Blue Book. One set is only partial. That is, the Estimates for 1969-70. Every time you see the word "forecast" at the top of the 69-70 columns it includes the \$6.5 million. These are the 1969-70 costs. We are saying that these are the true costs of operating in the year 1969-70. The figure you are looking at, the \$3.3 million increase, is over and above that because the 1969-70 figures forecast have been brought up to date. So, if you are looking for the difference between the two years I suggest it is \$3.3 million in terms of increased salaries, partly Treasury Board provisions and partly increased staff.

Senator Molson: Could we ask what change in manpower or manyears there is between these years? In other words, how much of this is increase in salaries and wages and how much is increase in staff? That is what I am trying to get at.

The Chairman: Would you like to have Mr. Beatty answer?

Mr. Beatty: Are you now asking for a breakdown of that \$3.4 million? Approximately \$2.3 million of that is the 6 per cent provision from the Treasury Board. The balance would be for new staff and, indeed, the salary increases for these people.

Senator Molson: I just want to go back. The actual expenditures in 1968-69 were \$24.5 million. The Estimates for the fiscal year ending 1971 are \$42.5 million. Those are salaries and wages. What is the change in the number of personnel between those years?

Mr. Beatty: I am looking at the bottom of page 9-20, and the difference between the two years of man-years is only 61. However, I think you should be aware, of course, that there are changes that go on within a program at any time and as will come out through your questioning there will be changes in policy in

terms of closing some of these student residences. There are other requirements for additional manyears in other areas which perhaps can be discussed, and you have changes of this type. But over-all, it is very little for the program as a whole.

Senator Molson: I find it awfully hard to reconcile the increase of \$18 million in this context, Mr. Chairman.

The Chairman: Where does the \$18 million come from, Senator Molson?

Senator Molson: Actual expenditures of 1968-69 and proposed expenditures for 1970-71. It goes from \$24 million to \$42.5 million. That is for salaries and wages. You can see that on page 9-20.

The Chairman: Apropos of that, it would be interesting to know what the actual expenditures on salaries and wages was in 1969-70.

Senator Molson: The forecast was probably close.

The Chairman: There must have been a \$6.5 million short fall in that. Is that so, to carry on your reserve?

Mr. Beatty: Could I have that again? The \$6.5 million is the amount which we put in the forecast column.

The Chairman: Senator Molson has pointed out the actual expenditures for 1968-69 were \$24.5 million. The forecast for 1969-70 was \$39,036,000. You say there is \$6.5 million left over from that forecast, set aside for increases in wages under labour negotiations with the Civil Service Commission, and it would be interesting to know what the actual expenditure was in the year 1969-70.

Mr. Beatty: As related to the \$39 million in wages?

Senator Beaubien: Did you spend the \$39 million?

Mr. Beatty: There was a release of \$6.5 million. There has been a return to the Treasury Board for their reserve of approximately \$1.5 million for salaries and wages for the year.

Senator Benidickson: That was short fall.

Mr. Beatty: Last August or September we had to estimate a certain amount and we estimated too much. We turned back \$1.5 million to the Treasury Board. So this \$39 million

would come down by \$1.5 million when the figures are finalized.

Senator Benidickson: You add the \$6 million to the \$39 million, do you?

Mr. Beatty: No, it is included in that. That is the point. So the real difference is this \$3.3 million.

Senator Sparrow: On the Estimates for manpower, from 1968-69 there looks to be an increase of between 65 per cent and 75 per cent in expenditures for salaries and wages, and the percentage for planned manyears is only 1.5 years, although you have authorized in that plan an increase of 24 per cent. I cannot see that the argument is justified for that increase at the moment, relating to dollars and manpower.

Mr. Beatty: There is another point which Mr. Bergevin wishes to raise at this time. We took on these student residences that were operated in most cases by the churches before and during this year, and there is a sizable increase as a result of this, \$9 million all told.

Senator Sparrow: But how can that be 1.5 per cent?

Mr. Beatty: I think one of the confusing things is that these are continuing employees, and full-time employees would not include the casual and other types of people.

Senator Sparrow: That is not answering my question.

Mr. Beatty: Could I take a minute to look into this? What you would like is the difference between the increase in the man years or the people versus the \$3½ million. They do not equate.

Senator Sparrow: It is not \$3½ million; it is \$18 million.

The Chairman: What Senator Molson and Senator Sparrow have pointed out is that the salaries and wages in one program, and not dealing with other aspects of the Department, have gone on in one program from \$24 million to a proposed Estimate of \$42 million, and in looking at it, we cannot relate it.

Mr. Robinson: May we have a little time to work on that?

The Chairman: I think Senator Grosart may have a supplementary which you may want to hear before you go ahead with your examination.

Senator Grosart: On the term "forecast expenditure", when will the final audit be available?

Mr. Beatty: My understanding is that we have had our usual March run-off on our computer statements, but it will be some time in either late May or early June before we have the final. We have closed off the end of April with our expenditures for this year. So we will not know until some time in early June.

Senator Grosart: Generally speaking, do you find that these forecasts are fairly close to your actual expenditures?

Mr. Beatty: It is not too bad. The salary one was difficult to project nine months in advance. Otherwise it is pretty close.

Senator Grosart: My next question is supplementary to Senator Molson's. I am wondering why we are dealing only with Indian and Eskimo Affairs programs, salary and wage increases when this is only one area of departmental expenditure. If we look through some of the other areas we find some rather startling things. For example, on page 32 in the Northern Development program, we find a decrease in salaries and wages of \$5 million.

The Chairman: That perhaps is your Chairman's doing. I asked these officials to give specific attention in the examination to Votes 5 and 10. Of course you are free to ask questions on any part of the Estimates, but I asked them to be specifically prepared for Votes 5 and 10.

Senator Grosart: I agree, but I did get the impression that we were dealing with the whole salary and wages budget of the Department, even though these Votes 5 and 10 may have been the area in which there was an increase and it would be important to contrast this with, say, a decrease of \$5 million someplace else in salaries and wages.

Mr. Robinson: I think the reason for the apparent discrepancy, if I may say so, is that there has been a transfer of administration from the federal Government to the territorial governments during the year in question and this accounts for the decrease you mention.

Senator Beaubien: That accounts for the increase in the total, switching people from one classification to another?

Mr. Robinson: I don't think I could say that.

Senator Beaubien: It shows a decrease of \$14 million on page 32.

Senator Grosart: The salary decrease is \$5.3 million.

Mr. Beatty: If I may say here—you will see at the bottom, grants, contributions and other payments. This is an increase of \$18 million so I would not say there is any true offsetting or savings in terms of what you are looking at.

Senator Grosart: I would like to follow that question by asking why we do not seem to have in the Estimates a general background of the summary figures. For example, what about those on page 4? Why are we not provided with a complete breakdown of the total expenditures of the Department by standard objectives and the other classification which is activities. This is the point we are discussing.

Mr. Beatty: I am not sure I can answer that. We are just following what has been prescribed by Treasury Board at this moment, and if it is not there...

The Chairman: You can however tell us how you feel about it and whether you feel it would make the examination by Parliamentary committees and others somewhat easier.

Mr. Beatty: I think it probably would.

Senator Grosart: I am aware of your responsibility, but I am also aware of ours which is to look behind the facade that Treasury Board prescribes. If it were not for that responsibility, I would not be here, and I am one who is very disturbed with the nature of that facade because it is very obvious to me that in reducing the Votes as Treasury Board has in its wisdom or otherwise, we are getting less information than we were before, and less opportunity to examine programs in detail. This seems to me to be an example, and maybe I will come back to it later, of the discrepancies between the column headings throughout. At no place are we given a comparison between the approved Estimates for 1969-70 and the forecast expenditures for that year. There is almost what would appear to be a deliberate avoidance throughout all of these figures of any comparison of these two sets of figures. I wonder why. For example, we are supplied with the actual expenditures for 1968-69 in a comparative table, but nowhere are we provided with the forecast expenditures for 1969-70 contrasted with the Estimates for 1970-71. It seems to me that

there is a degree of unrealism in giving us throughout a contrast between the approved Estimates for 1969-70 and the proposed Estimates for 1970-71. If I might just add one further question—the heading here is “Estimates” throughout—does this mean main Estimates or is it main Estimates and supplementaries?

Mr. Beatty: Are you talking of 1969-70 now?

Senator Grosart: No, the headings throughout the Estimates. Obviously it is for 1970-71 at the moment and we have had one supplementary in 1970-71. Does the word “Estimates” which appears throughout apply to the main Estimates or to the main Estimates and supplementaries? What does the word mean?

Mr. Beatty: I do not think it is clear, and I understand your point. It is well taken here. Even when one says “Estimates”, one might conclude that they are the main Estimates only, but in this case I know that they are not.

Mr. Robinson did cover this by saying that in our case here—and I think this would be the case in all departments—the Estimates are the main Estimates plus the Supplementary (A)'s when they came into the forecast. The Treasury Board asked us to do the best we could in respect of forecasting. This took place away back last August, and, of course, the Estimates were put together in October. Your point is that there is really no basic comparison of like things, and I think that that is a very good point.

Senator Grosart: You see, I do not know what the numbers mean, or what the word “approved” means. You see it throughout. This runs all the way through the other departments.

Senator Benidickson: Where does the word “approved” appear?

Senator Grosart: Under the word “Estimates” there is “Approved 1969-70”. We are talking about approved Estimates. Surely we know whether we are talking about approved main Estimates, or approved main Estimates plus the supplementaries.

Mr. Robinson: That refers to the approved main Estimates and Supplementary Estimates (A).

Senator Grosart: For that year?

Mr. Robinson: Yes.

Senator Grosart: There were four supplementaries in that year, I think.

The Chairman: There were certainly more than one.

Senator Grosart: I have forgotten just exactly how many there were last year.

Senator Molson: There were three or four.

Mr. Beatty: In our department it is just the main Estimates plus Supplementary Estimates (A). The forecast for 1969-70 includes Supplementary Estimates (B), plus the relief from the Treasury Board contingency vote for salaries, which we have discussed.

Senator Grosart: How do you show that release in your estimates—that is the provision under the Treasury Board vote, is it not?

Mr. Beatty: That is right. The book will not show you the detail of this, except to the extent that Mr. Robinson has stated for the various program activities, each of which gets part of the salary money.

Senator Benidickson: We are jumping around here. We are at page 9-20 with respect to Manpower, and then we were on Northern Affairs which is at page 9-32 with respect to both. We are talking Manpower, and it seems to me that we have oranges and apples here for comparison. With respect to Indian Affairs and the figures on page 9-2, I understand that the situation has changed in that you have taken over the personnel of the churches, and included their salaries in the figures here. I was not aware of that. In 1968-69, when you make reference to your operating expenditures, the salaries of the people in these schools that were operated by the churches are accounted for somewhere else. You gave the churches grants-in-aid to pay the salaries, but now we are in a third column in another year, and the same bodies are being employed in many cases, but that expenditure is not in the same place in the Estimates.

Mr. Beatty: If it is agreeable to the committee, I will undertake to prepare a standard objects table for the whole department in terms of the salaries and, of course, we shall have to consider the professional services category as well, and this will explain the difference right back to 1968-69, which I think is the point that was raised earlier—that is, the difference of \$18 million.

Senator Benidickson: Yes. You, in fact, paid for those salaries through grants to the churches.

The Chairman: Is that agreeable, honourable senators? I would ask that it be in the fullest possible detail.

Hon. Senators: Agreed.

Senator Grosart: Would it be too much trouble to include also a summary breakdown by activities? You said you would do it by standard objects. Could you also do it by activities?

Mr. Beatty: Yes, we will do it by activities as well.

Senator Grosart: What I am referring to, of course, is the summary which appears at page 4. It has always appeared strange to me that it is buried down there, and is not at the start of the presentation. It is two-thirds of the way down page 4 in black face type. There is a summary there, and that is what you suggest you might be able to break down?

Mr. Beatty: I might just try to clarify this. In respect of salaries and wages, and professional services in terms of the church situation, we will attempt to explain an increase of \$18 million from 1968-69. In doing that I will give you the objects breakdown in any way you like for the whole department, and by activities as well, and I will also explain the manpower increase because that is part of it—the changes that have taken place. In doing that we will automatically pick up the northern economic development program as well.

Senator Grosart: Could you add to that the forecast expenditure column which normally appears in your breakdown by standard objects?

Mr. Beatty: Yes.

The Chairman: And would you have the actual for 1969-70?

Mr. Beatty: This is what I mean. The last report will not be in until late May or early June.

Senator Benidickson: But you indicated it would not be very different from this forecast.

Mr. Beatty: I do not think it will, but it will be your choice, gentlemen. I can do it now, but if you wish to have it absolutely correct we shall have to wait a little while.

The Chairman: I think the committee would like it now. We can always ask for an amendment later on.

Senator Benidickson: I have the same problem with respect to personnel in the new situation. In 1968-69 you spent less under the item of salaries and wages on Indian and Eskimo affairs programs because certain personnel were being paid by the churches. That is not the situation in the Estimates for 1970-71. So, we are not talking about the same thing. The money was being spent, but it was not being spent in the same place in the Estimates.

Mr. Beatty: They were brought on the Government establishment, and that automatically raised the level of wages.

Senator Benidickson: I understand that, but our difficulty is that we are trying to compare 1968-69 with 1970-71, and we are not dealing with the same items.

Mr. Beatty: That is right.

Senator Beaubien: We paid them before, but in another way.

Senator Benidickson: Yes, we paid them through grants to the churches.

Mr. Beatty: That is right.

Senator Benidickson: I suspect we have the same problem in trying to compare the proposed Estimates for 1970-71 with the actual expenditures in 1968-69 that are referred to on page 9-32. I think it was Senator Molson who pointed out that we have a very substantial drop in salaries.

Senator Grosart: I pointed that out.

Senator Benidickson: To answer that we still have bodies being paid somewhere in the administration of the northern development program, but their salaries are being paid in another manner. They are being paid by the Territories, but are you not somewhere else in the Estimates still providing money to the Territories for the payment of these bodies?

Mr. Robinson: That is correct, sir.

Senator Benidickson: It is very difficult for us to make comparisons.

Senator Molson: Mr. Chairman, I think in dealing with the salaries and wages we seem to be making progress towards getting this clarified, but then the item of professional and special services which might be so closely

related is actually a larger amount, and I would like to have defined just what those professional special services comprise.

The Chairman: That is on page 9-20.

Senator Grosart: Throughout.

Senator Molson: I was dealing with Indian and Eskimo affairs.

The Chairman: Item 4.

Mr. D. Cable (Estimates Officer, Community Affairs Branch, Department of Indian Affairs and Northern Development): If we add tentatively \$6 million from the professional services category in the 1968-69 column up into salaries and at the bottom add approximately 1600 man-years, I think we would have a more valid comparison. It is approximately 1600 bodies and approximately \$6 million that should be in salaries. But of course the 1968-69 figures are actual expenditures according to appropriations at that time.

Senator Grosart: Are these professional and special services all remunerations paid in respect of man-hours? Are they salaries and fees?

Mr. Cable: No. These were the total amounts paid to the churches for the operation of student residences under their administration.

Senator Molson: That is all that is in that? Professional and special services?

Mr. Cable: No. There is the provincial tuition fees.

Senator Grosart: This is a standard subclassification which you find again on page 32, the matter that Senator Benidickson was referring to. Here again it is a drop of \$1.3 million. What I am asking is, is this entirely remuneration paid by salaries, wages or fees for man-hours? Is there anything else included in professional and special services?

Mr. Cable: There is the cost to the school boards of provincial governments for tuition fees as such for pupils who are in provincial school systems.

Senator Grosart: Tuition fees paid to students?

Mr. Cable: No. To school boards or provincial agencies.

Senator Benidickson: They have a lot of Indians going to high school now. We have to

pay for that, and that is called the special service.

Senator Hays: You have to pay for elementary, too. You pay it all.

Senator Grosart: Just to finish up, it would seem that the use of this standard subclassification is very imprecise. You can put almost anything you like in there. My point is that the use of these standard Treasury Board subclassifications tends more to hide than to reveal. The department itself should say, here are our expenditures, and if you made up your own classification rather than use the standard ones that would be better, because obviously you would want to reveal as much as possible.

The Chairman: That will become graphically clear, I assume, when these gentlemen give us the breakdown they are promising.

Senator Benidickson: I hope when they refer to salaries and bodies and manhours that they will make some footnotes. I hope they will point out that there have been certain transfers such as the two I illustrated, a complete change in the placing of the costing of the personnel. The work is going on, but it is being paid for in another way.

Mr. Beatty: Well, we will show these transfers in this respect.

Senator Grosart: In reply to your comment, Mr. Chairman, I doubt very much that the answer will be made graphically clear.

The Chairman: My comment was made more in hope than anything else.

Senator Grosart: I would say it is probably unrealistic, because in the breakdown of the operating expenditures, or objectives of expenditures, the department will no doubt follow these subclassifications so that we will not have any more information than we have at the moment, unless, as Senator Benidickson suggests, some footnotes are added.

Mr. Robinson: In doing this breakdown we will naturally do our best to take into account the direction of the questioning we have had from the committee this morning. We recognize the points you have been asking are very significant and we ourselves appreciate the importance of trying to clarify the matter in this way for you.

Senator Sparrow: With all respect to your question on transfers, Senator Benidickson, the budget is up \$59 million. Is that not right?

The total budget is up \$59 million. So even though there was some juggling or change from department to department, or however the method was, the figure is still up \$59 million.

Mr. Robinson: Which page are you referring to?

Senator Sparrow: Page 9-20, total Indian and Eskimo affairs program. It is up \$59 million.

The Chairman: That is from 1968-69 to 1970-71.

Senator Sparrow: Right.

Mr. Robinson: Yes, that is correct, senator. That is for a two-year period. The part that I have been focusing on when we came here was on the \$27,252,000, which is the change between the forecast expenditure for 1969-70 and the proposed Estimates for 1970-71.

Senator Sparrow: All right. That is \$27 million.

Mr. Robinson: That is correct. On page 9-16 and 9-17 the information is broken down by activities in four main columns. In the fourth column, if I might invite attention of the honourable senators to the fourth column, budgetary expenditures, about two-thirds of the way down that column there are the figures for total Estimates. The change between the forecast expenditures for 1969-70 and the proposed Estimates for 1970-71 is given again as \$27,252,000, which was the same figure we were discussing on page 9-20. I might also say, if you wish me to continue, that the information on Vote 5 can be found by reference to the first and third columns on page 9-16, namely, those columns headed "Operating Expenditures" and "Grants and Contributions". And those expenditures grouped under Vote 10 can be found under the heading "Capital Expenditures".

The Chairman: So if we add the changes there together we come to the \$33 million...

Mr. Robinson: No, you would come to the \$27 million, sir. The difference between the forecast expenditures for 1969-70 and the proposed estimates for 1970-71.

The Chairman: I just did that and it came to \$33 million.

Mr. Robinson: If you will direct your attention to this line here, sir.

The Chairman: Oh, yes, I see.

Senator Grosart: Would you mind explaining just what you are looking at, please, Mr. Chairman?

The Chairman: I was adding under "Operating Expenditures" the change in the total Estimates and capital expenditures and grants and contributions, and the figures are \$11,911,000, \$5,222,000 and \$10,119,000, which comes to \$27,424,000.

Mr. Robinson: Now, the peculiarity here, which I was explaining, was that Vote 5 was made up of the first and third columns. Therefore, the change in Vote 5 is to be found by adding the \$11,911,000 figure under the first column and the \$10,119,000 figure under the third column, which comes to \$22,030,000; whereas for the capital expenditures the change is \$5,222,000, which is Vote 10, and if you add \$11,911, \$10,119, and \$5,222 you come, I think, to \$27,252.

Senator Molson: It seems like a wonderful exercise, Mr. Chairman, but I am really wondering if this system and the program that has been made over the years in developing this system of providing the Estimates has made it as much better as we had hoped a few years ago. It still seems to mix different classes of items together, and it seems to be difficult to follow through. I am wondering if the Department itself finds the present form particularly easy to work with, or, shall I say, any easier to work with than it used to be? I should think not.

Mr. Beatty: If I may, one of the main benefits of the new system is this program activity structure. Perhaps for the first time we are zeroing in on what our program is all about and what we intend to accomplish, and I refer now to the program description and the objectives and what it is we are trying to do. In some ways it has caused more work to do this by activities and sub-activities. There is no doubt about this. I just wonder if even though it is not apparent immediately, there will not be signs in the future that this process is more beneficial for all of us. As you pointed out, the figures don't really mean very much unless you know the definition of what is in there and then you get into the interpretation of where things should go.

Senator Molson: This was one of the complaints some years ago, and there was a discussion about it, and I am wondering if they have found the final solution as to form here because I find it difficult to follow it through.

I am not even sure that the column of forecast expenditures which was provided, I think, in October is very useful. I am not quite sure it provides the comparison that Senator Grosart mentioned. It is a different set of figures because it is provided in the light of experience in October. Is this not correct?

Mr. Beatty: Yes. There is this difference in the figures certainly for comparative purposes. I think the Treasury Board's intent here was to give you as much an up-to-date picture as they could in the forecast. Now if that had been the case, the same figures might have been used in the general summary and then you would have had the same base.

Senator Molson: Yes. Again when trying to get the overall picture for the Department, I look on page 9-4 and find the summary and I come to the proposed total of budgetary expenses which is shown to be \$335 million. Then I go back through all the pages and at 9-16 I find the program by activities for Indian and Eskimo Affairs and we get the total budgetary expenses there of \$232 million and then we look through another several pages and we come to the Northern Development program and I do not see the reconciliation, the total based on activities. I suppose it is here, but I find it difficult to make my way through this document. On the basis of activities, where is the reconciliation of the total proposed Estimates for 1970-71?

Mr. Beatty: I do not believe there is a total of the activities, so to speak, and the general summary is the only thing.

The Chairman: Do you not think there should be such?

Mr. Beatty: Well, since there are two different sets of figures, it would have been desirable in this particular instance. If we can get down to the same basic figure, I am not so sure that it is necessary. But it could be done either way.

Senator Grosart: Is it not true if we were able to add up—if we had the mathematical ability to add up—the figures that appear in column 1, that is the proposed Estimate figures in the breakdown of program by activities throughout, we would or should reach the figure of \$353 million?

Mr. Beatty: Yes.

Senator Grosart: I think Senator Molson's point is that it would be more helpful if in this summary of activities, we had a breakdown of at least column 1 and certainly the forecast column, so that we could actually have before us a comparison of the components of both the forecast expenditures for last year and the components of the proposed Estimates for next year. It seems strange that this has not been done. We just get this blanket figure of \$315.115 million and we are asked to go through and make our own table. It would seem to me that the Treasury Board, in its wisdom or in its largesse, might at least provide Parliament with that kind of breakdown.

The Chairman: I think, honourable senators, we have probably gone as far as we should go down that road. I wonder if we can now give consideration to whether or not the Department is fulfilling the objectives of its program.

Senator Hays: After you have done all this exercise, it would be pretty meaningless to me, but what I would like to know is what is the impact on the Indian and the Eskimo? I should like to know what does the Indian get out of the program? Let us take a Reserve, for instance, the Sarcee Reserve which is one I am familiar with. What is it costing to administer the program per Indian on the Sarcee Reserve? What is it costing to give him religious background, education, etc.? Does the Reserve pay taxes or does it not pay taxes? The same applies to the Eskimo. How many Eskimos are there? How many Indians are there? What is the administrative cost of the program? Of the increases or decreases in the dollars spent, what does the Indian receive? What changes have been made over the last five years? He is surely an unhappy fellow. Are these breakdowns possible? You can take a Reserve in Ontario, in Manitoba, in Saskatchewan and in Alberta, and see if we are discriminating against Indians so far as dollars are concerned in Manitoba or is he receiving more benefits in Alberta? Is it possible to have these figures?

Mr. Robinson: Senator, there are a number of questions there and probably it would be better, if you would like exact figures, for us to take note of your detailed questions and provide answers to them. If that is your wish, I would be very glad to do that. I might perhaps add one or two other things. First of all with regard to your question about discrimination as between Indians in different

parts of the country, naturally every effort is made to ensure that the available resources are distributed in the fairest way possible relative to the need of the Indians in the different parts of Canada. What we are seeking to do is widen for the Indian people the opportunities they have to shape their own lives. That is the broad objective. We do this by our various programs. By our program of education, for instance, we seek to make it possible for them to have the best kind of education that is available to Canadians.

Senator Hays: Which is provincial education if they are under provincial jurisdiction?

Mr. Robinson: This could be provincial education or federal education.

Senator Hays: There is a bit of both.

Mr. Robinson: Yes, there is both. It varies from province to province but, of course, the basic objective that we have in our programs, as well as in those where we co-operate with the provinces, is to enrich the opportunities which the Indian people have to enter into society—to be comfortable in their society and at the same time to be comfortable in non-Indian society.

We also pursue this general objective through our community programs, where the idea is to try to make it possible for the Indians to manage their own affairs to an increasing extent. We do feel, while it is difficult to generalize, that progress is being made.

Naturally, in both the educational and the community development areas it is a cardinal criterion that the programs which we administer are administered not only for the benefit of the Indian people but in partnership with the Indian people so that increasingly they will be able to take on responsibility.

Senator Hays: I realize all that, Mr. Robinson, but let us take the example of an Indian boy in Manitoba. He is six years old and ready to go to school. What happens to him? What do you do with this boy? What is your first dollar spent on?

Mr. Robinson: A boy of six would normally go into either a provincial school or a federal school, but the tendency with boys of six is to have them go into the provincial school system.

Senator Hays: In Manitoba what would this cost you—\$400 a year?

Mr. McGilp: I think in the federal schools the cost at the elementary level could be up to \$400, and it varies across the country. This figure would vary between \$400 and \$600 in various provinces.

Senator Hays: I realize that.

Mr. McGilp: When it comes to high school, it can go up to as high as \$2,000.

Senator Hays: We have spent \$400 on this boy who is in Manitoba, where the costs are perhaps less and where the education is perhaps is not as good, with all due respect to the chairman.

The Chairman: If you are referring to my education, then that is all right.

Senator Hays: We have spent \$400 on him. He gets hospitalization that is provided under medicare, or do you supplement this? He goes to a hospital if he is ill?

Mr. Robinson: Yes, under the Department of National Health and Welfare.

Senator Hays: He pays no premium, does he? Does the department pay the premium?

Mr. McGilp: It depends upon the province in which he resides. There are arrangements whereby the Indian people who can afford to do so pay their own OHSIP premiums. Where the family cannot afford to pay then the Indian Health Service of the Department of National Health and Welfare makes the payment on their behalf. So there could be Indian youngsters of the kind you describe going into hospital under provincial plans, with the cost being paid by the Department of National Health and Welfare. In other areas he can enter perhaps an actual institution run by the department. Generally speaking, the parents here would not be contributing because they would be indigent, but the Department of National Health and Welfare would be contributing to the provincial scheme on their behalf.

Senator Hays: So we have \$468 a year.

Mr. McGilp: It is a very rough figure.

Senator Hays: You are going to give us the exact figures but, just using ballpark figures, what else do we spend?

Mr. Gilp: Before the \$400 enters into it, he might enter a kindergarten program developed by the department, and this could cost between \$200 and \$400.

Senator Hays: But he is six years old. What else have you spent on him during the time he is six years old?

Mr. McGilp: It could be the parents would be in receipt of social welfare aid from us. It could also be that the parents are in receipt of housing assistance.

Senator Hays: Does he get the baby bonus?

Mr. McGilp: Yes, the Family Allowance.

Senators Hays: That is not included?

Mr. McGilp: No.

Senator Hays: These are the sorts of things I think would be useful to the committee, if we knew what we were spending per capita on each Indian and per capita on each Eskimo, and what the program costs to administer. I think these are the programs we should be looking at. Then we could soon figure out whether or not we are wasting money.

The Chairman: Could you provide the committee with these figures, Mr. Robinson?

Mr. Robinson: We shall do our best to provide what the senator asks for.

Senator Laird: Speaking of what the Indian gets out of it, I would like to refer to page 18. Under the general description of "Program Description" and the subheading "Administration" I find it starts out with the words:

The operation of a headquarters, —etcetera. Down at the end it has this language:

and provision for Indian annuities and miscellaneous pensions.

I am intrigued by that item, "Indian annuities". What are they, and where do they appear in the Estimates?

Mr. McGilp: That is usually the description for treaty payments. It is usually \$5 per person under the numbered treaties.

Senator Beaubien: A year?

Mr. McGilp: Yes.

Senator Hays: Has this ever changed?

Mr. McGilp: No. Under most treaties it is \$25 for chiefs, \$15 for counsellors, and \$5 for individuals. It is described in the original treaty presents, so this would comprise the annuities.

Senator Laird: Under what item do they appear?

Mr. McGilp: Under the item under this department.

The Chairman: Page 9-24, under the heading "Administration."

Senator Hays: May I ask a supplementary question? Could you take a reserve like the Sarcee reserve and give us the total expenditures, the total number of Indians, what the administrative costs are, and what the Indians receive on a per capita basis, and then another reserve in Manitoba?

Mr. Robinson: A comparable reserve in Manitoba?

Senator Hays: Yes.

Mr. Robinson: Certainly.

The Chairman: Will that be all you want? Does that satisfy your previous question?

Senator Hays: No, I think we should know what it is costing in each of the reserves, but this breakdown is probably quite complicated. Are all the reserves listed here?

Mr. Robinson: No.

Senator Hays: Is there anything else which is available to us?

Mr. Bergevin: We could give you many figures. Once we start telling you the cost per Indian to do it, we will have to define our terms. For instance, in our estimate the Indian and Eskimo program does not include \$4 million for health and welfare.

Senator Hays: It is not included?

Mr. Bergevin: No, it is in the Department of National Health and Welfare. When you start talking about the cost per Indian, we can give you what we have in our program. Furthermore, in terms of Eskimos, for instance, in the program called "The Indian and Eskimo Affairs Program" which you have in front of you now, there are only 3,000 Eskimos included in there. They are the Eskimos living in Arctic Quebec. The 12,000 other Eskimos living north of the 60th parallel are not included. All the expenditures for Eskimos and Indian in that area are included in the northern program. It is not included in the Indian and Eskimo program. That is why it is so difficult.

Senator Hays: But it is very important.

Senator Molson: May I ask why it is not included? I have not got any ulterior motives. I am just asking why we should call it an Indian and Eskimo affairs program and then find that the majority of Eskimos are not included in it.

Mr. Robinson: I quite agree that it does not sound logical, but the explanation is that the administration of services for the majority of Eskimos is conducted by the territorial governments. Therefore, the money comes under the Department of Northern Affairs.

Senator Molson: That seems to make sense.

The Chairman: Would it be satisfactory to you to start with, Senator Hays, so we don't get drowned in a sea of statistics, to take two reserves or even three? I was fascinated by the news last night. There was an Indian from Nova Scotia, I believe, who was saying that despite the Indian Affairs program 75 per cent of the Indians there were on welfare. I think that was the figure. And there was a considerable percentage who, he said, were dying from alcoholism. So I should like to see an inclusion of a Nova Scotia reserve, because according to many people that is particularly bad. So could we take Alberta, Manitoba and Nova Scotia?

Senator Molson: You are getting into dangerous territory there, because you cannot omit Quebec if you are going to do that, Mr. Chairman. We are then going to get back to Caughnawaga and Ancienne-Lorette.

Senator Hays: Well that's all right.

The Chairman: That is agreed.

Senator Hays: But in doing that, can we get the figure that is spent on a reserve by all concerned? Because within the reserve there are an awful lot of bright people, and perhaps if you gave the reserve \$3,000 per Indian and said that this was a grant for them to spend, they might just go ahead and operate quite successfully.

Mr. Robinson: Mr. Chairman, there is one thing that I should like to say with regard to the provision of the information Senator Hays has requested. While we are only too ready to do our best to provide accurate and significant information, it is sometimes difficult to say that a particular sum is spent in respect of the Sarcee reserve, when a great many of the services which go into the provision of assistance to the Sarcee have really to be found in the headquarters. How do you

decide what proportion of the expenditure or what proportion of the money you spend on headquarters is to be allocated to Sarcee?

Senator Hays: That is what I would like to know, Mr. Robinson. That is your problem.

Mr. Robinson: It is quite a problem.

Senator Hays: I appreciate that.

Senator Beaubien: Is headquarters Ottawa?

Mr. Robinson: It is Ottawa and it is also the Regional Director's office in Alberta.

Senator Hays: And would you include the minister's salary in that, too? I think you can take a reserve like the Sarcee reserve which involves about 20 sections or maybe 25 sections, and I know that if you gave seven sections of that to a Hutterite colony the colony would earn each of its members about \$3,000 apiece and it wouldn't cost them anything. They would be very pleased to do so, because that is the finest land we have in Alberta.

Mr. Robinson: I want to point out, Mr. Chairman, that there would probably be a large element in the expenditures we make on every reserve which cannot be attributed specifically to the services of that reserve.

Senator Hays: We will deal with that, then, in northern affairs.

The Chairman: Would it be satisfactory, Senator Hays, if they dealt with a named Quebec reserve and a named Alberta reserve?

Senator Hays: And a Manitoba reserve.

The Chairman: It may be just as well initially to leave out the Manitoba reserves. Perhaps you and Senator Molson would name a reserve in Alberta and one in Quebec.

Senator Hays: Let us take the Sarcee.

Senator Grosart: I suggest the department take a typical one in each case, rather than have members of the committee make suggestions.

Senator Molson: Yes, there is a great disparity in fact between Caughnawaga and Maria.

Mr. Bergevin: We could give you two or three examples of reserves, some in a potentially good area. Caughnawaga is a very valuable piece of land. We can take a semi-developed reserve and one in a remote area

and establish how much it costs to administer each.

Senator Molson: That might be fair enough. Caughnawaga has the finest steel workers in the world, some of whom are not only wealthy, but extraordinarily competent at their trade. They go to New York for a spell to do some high rigging and then return to Caughnawaga.

They are quite exceptional people. I think there would be a tremendous contrast between them and those in some of the other reserves, where they have a barely marginal existence.

What is the date of the treaty with respect to the \$5 mentioned by Senator Hays?

Mr. McGilp: That last one was in 1921, treaty number 11.

Senator Molson: When was the first one?

Mr. McGilp: About 1870.

Senator Hays: Is it still \$5?

Mr. McGilp: Yes.

Senator Molson: That is a pretty hard bargain; there is not much allowance for inflation in that.

The Chairman: Manhattan was bought for \$24.

Senator Molson: I must say I cannot find any logic in this.

Senator Sparrow: Did Senator Hays intend to establish the cost of operation per Indian?

Senator Hays: I would like to know the amount of the benefits to the Indians.

Senator Sparrow: Is that not simply solved by dividing the number of Indians into the total cost of the program?

Senator Hays: Not unless you know the administration costs. There are many factors involved. Although \$1,000 might be spent per Indian, they might receive only \$5 per capita.

Senator Benidickson: Senator Hays referred to a six year student, following which there was mention of provincial and federal education and an overall average estimate of \$400 for education per child.

Senator Hays: Per year.

Senator Benidickson: In the case of a student who is living off the reserve and going

to a provincial school you would have to add the cost of his maintenance. His board is being paid during the school term.

Senator Sparrow: Would the figure of \$1,000 per Indian in Canada be close to the cost of the operation of your department that relates to Indian and Eskimo affairs?

Would there be one employee in your department for every 40 Indians and one for every eight families?

Is it correct to say that 60 per cent of the Indian population is under the age of 20?

Mr. McGilp: About 50 per cent are under the age of 60, as a rough answer. It would be close to that.

Mr. Bergevin: With reference to the first part of your question, to our Indian and Eskimo program should be added, for instance, \$40 million spent for health of Indians.

Furthermore, quite often Indians are dealt with by other departments in the same manner as all citizens. I would say, for instance, they receive services from the Department of Regional Economic Expansion, and from Manpower—quite a lot of it—and so all these are expenditures on Indians as Canadian citizens.

Senator Sparrow: Then you are agreeing with the \$1,000 figure but you are saying it is more than that.

Mr. Bergevin: It is more than that.

Senator Molson: I do not think we should confuse there the cost of services that every Canadian citizen gets. When you accept the fact that every person in Canada gets benefit from certain things, then I do not think you should single out the Indian and say, "Remember he is getting this service the same as somebody else." We are talking about particular programs here that are designed...

Mr. Bergevin: The gross and the net.

Senator Molson: Yes. Programs designed for income. I think that is a little different aspect.

Senator Grosart: You could put in there the cost of defence and everything else on that basis.

Mr. Chairman, as a supplementary to that, getting back to the document which is before us, I think what Senator Hays is suggesting is that we have a program description on

page 18 which in a rough count breaks down into 31 items. Now if we look at the money information given to us, we find that these are not all covered. Some are covered under activity breakdown, and we find a few under grants and contributions. What Senator Hays is suggesting is that he would like to have these 31 items which I add up as being 8 under Administration, 4 under Indian Consultation and Negotiations, 7 under Education, 5 under Community Affairs and 7 under Indian and Eskimo Economic Development—I am suggesting that if we had these figures roughly against these 31 on a per Indian basis, rather than on a per Reserve basis, we would have a pretty fair idea of how this money is being spent by the Department. I make that comment because we come back to the purpose of this new type of Estimate which is to relate programs to budgeting. Yet, it is never done. It is not done here. We have 31 programs or items in the Program Descriptions, but we do not have 31 in the dollar information given to us. This is what is concerning this committee and has concerned this committee in the Estimates of other departments. I think it is about time that here was a clear relating of program description to program information in all the departments. I am not just singling out yours. But if we are going to have a program description under a system called Planning, Programming and Budgeting, surely there should be a relation between the information given and the program description.

Senator Benidickson: Reference has been made there to the welfare item of \$40 million and reference was made to expenditures that Indians receive the benefit of from other departments. But am I not right in thinking that with respect to the Health Act, they have a special item for Indians. They have an Indian Health Branch under the Department of Health and Welfare, so that that is rather an isolated expenditure and should be added to the other 31 items Senator Grosart refers to in the Estimates. Maybe there are some other things, but that is a specific item which is devoted only to Indians, and the number of Indians paying premiums for that health service would be pretty minimal.

Senator Hays: Just one other point referring to Senator Molson's question. I think the total figures are very important because the Indian and Eskimo population have got a great deal out of Confederation too. We should know that figure. Because it is said "we did not get anything out of Confedera-

tion." But he has received his education and his medicare and all these things too. But when they chased the Indian off his lands, he did not receive any of these benefits. He was really out on his own, so I think the figure is important.

Senator Laird: I should like to go to the item of the acquisition of parks for public use, and the acquisition of private property on existing federal public parks. If you do not mind, I will take the example of Beausoleil Island in the Honey Harbour area. I am looking at an item on page 32 for the "Construction and Acquisition of Land, Buildings and Equipment", which I assume covers that sort of thing. The reason I am asking about this is that on that island, which is owned by the federal Government, a portion of it is used for public use, but a great portion of it has been occupied by YMCA camps, and I amongst others have received representations against the Government's proposed taking over of these private camps; paying for them, of course, but taking them over. Since the deputy minister is here, I should like to ask what is the departmental policy in that connection, and with what speed are you proceeding to acquire private property in public parks like Beausoleil?

Mr. Robinson: I think we would be anxious, senator, to enter into negotiation with the owners of the land in question, and try to work out an accommodation that would be best for both sides. I do not think we would want to do anything to precipitate the negotiations. On the other hand, once the decision is taken to establish a park in an area, we are under instructions to proceed to engage in discussions with the various private interests involved.

Senator Laird: I realize you have to be careful, but how precipitate are you going to be about this?

Mr. Robinson: On this particular one, senator, I would like to take notice of the question and I will provide the committee or you personally, whichever you prefer, with an answer.

The Chairman: Is that agreeable?

Senator Laird: Yes Mr. Chairman.

Senator Bourque: On page 9-2, I would like to ask a question on item 9-14 L15:

To increase the \$5,500,000 the amount authorized for loans to Indians and

Eskimos for construction or acquisition of houses and land in areas other than Indian Reserves, including authority to forgive repayment thereof

In the change there is a loss of \$1,100,000, and there is a proposal for 1970-71 of \$1,200,00, which makes \$2,300,000. I presume that you have a fund already for \$4,300,000 if you are increasing it to \$5,500,000.

Mr. McGilp: I am not too sure of the answer to the question about the actual money. Perhaps I could ask Mr. Beatty to deal with that. I could describe the whole program.

Mr. Beatty: That is right, \$4,300,000 increasing it to \$5,500,000.

Senator Bourque: Do the last words, "including authority to forgive payment thereof" mean that there is a kind of giveaway, that if they do not pay you are not going to force them to pay, they can buy property and borrow \$5,000, \$8,000 or \$10,000, and if they do not pay you do not collect?

The Chairman: Perhaps we could have a description of the program and some details of how this forgiveness takes place. Would that be satisfactory?

Senator Bourque: With regard to the next item...

The Chairman: I think Mr. McGilp can give you that answer right now.

Mr. McGilp: When an Indian person wishes to purchase a house in a city, such as Toronto, Montreal or some other place he might, have acquired employment—especially in small towns—find it extremely difficult to obtain the down payment. The departmental program permits us to give up to \$10,000 to that individual toward purchasing a house. This not only provides the down payment, but enables him to make payments on the remainder of the mortgage which is within his income.

For example, he may decide to buy a \$17,000 house. We provide him with up to \$10,000 depending upon his income. He must repay the \$7,000 in the normal way through his mortgage payments and each year for the first ten he keeps up his appropriate mortgage payments we give one tenth for every amount we had advanced.

Senator Bourque: The next item is to increase to \$70,000 a special account in the

consolidated revenue fund to cover losses sustained by the Farm Credit Corporation on loans to Indians. Under "Change" you have \$20,000, and under "Approved" you have \$20,000. The "Proposed" is \$40,000, but the increase is only \$70,000. Does that mean that you have already appropriated under another item the difference in the cost?

Mr. Bergevin: There was a special arrangement which started about a year ago with the Farm Credit Corporation in which it is to deal directly with the Indian farmers on the reserve. In regard to the land owned by the Indian the title is not normal as far as the Farm Credit Corporation is concerned. The minister guarantees the payment of the mortgage. Up until now, this time a year ago, Indians had borrowed something like \$750,000 from the Farm Credit Corporation. Before that it was hardly used. We will need to have a reserve of money in case something happens.

Senator Bourque: It is a greater amount than the \$70,000, because the \$40,000 proposed would not pay for the \$70,000. If you have greater amounts you would have to have a greater appropriation than \$40,000.

Mr. Bergevin: It is to cover the possible loss and it is a larger amount now.

Senator Bourque: You see, if you have only \$40,000 proposed, and you wish to increase it to \$70,000, that means you have only to increase that account from \$40,000 to \$70,000. Where do you account for the difference of \$30,000?

The Chairman: Presumably the \$30,000 was already in there and had not been used.

Senator Bourque: But then if the \$30,000 had not been used it makes it worse, because there is \$70,000 now.

Mr. McGilp: Perhaps I might try to clear that up. There would have been \$30,000 in there before. We are asking for \$40,000, making it \$70,000. But we had \$20,000 of this \$40,000 which was in there in 1969-70, so the difference is only \$20,000 between the \$40,000 we are asking and the \$20,000 we got last year.

The Chairman: As I recall it, in the last session Parliament amended the Farm Credit Corporation Act to permit Indian bands to form co-operatives and to receive loans of up to \$100,000 in the same way as farmers who incorporated could receive a loan of \$100,000.

Can you tell me if this program has been generally taken advantage of by the Indians, and what has happened in respect of it?

Mr. Bergevin: I know of a single case, but I can certainly provide you with figures on this.

The Chairman: Thank you.

Senator Grosart: Supplementary to this question of increasing authorized amounts, I find on pages 12, 14, 26, and 28 what appear to be requests for authority to increase existing amounts. First of all, are these, in effect, amendments to existing legislation or statutory authority? Are we again amending acts of Parliament by means of the Estimates? On page 9-26 I see "authority to sell electric power, fuel oil and services incidental thereto". Is this authority not vested in the department at the moment?

Mr. McGilp: We do have arrangements with communities in northern areas whereby we provide a generator, which in the past only provided electricity for the school or the Indian agency office. We want to be able to use this generator to provide electricity to the Indian residents, and, if appropriate, to receive payment from them. We have been doing this in a small way in the past. It can become an important thing if we cannot get the provincial hydro authorities to extend power.

Senator Grosart: What is the authority you have by which you are now doing what you said you are doing? You are asking for a new authority here. In other words, you are asking for authority not under an Act of Parliament but under the Estimates, to which this committee traditionally objects.

Mr. McGilp: I believe we have used the funds allotted to us to provide housing improvements to Indians, so it is really an Estimate provision that we are acting under rather than any statute, so far as I am aware.

Senator Grosart: But this is Vote 5, so presumably you have some authority now. Would that be under an earlier Vote 5?

Mr. McGilp: I believe so.

Senator Grosart: Let us turn to page 14 where we have a specific example in Vote L15, which is to increase to \$5.5 million the amount authorized for loans to Indians and Eskimos by Loans, Investments and Advances Vote L51a, Appropriation Act No. 9, 1966. Are we here by means of Vote L-15 amending an

amendment, the only statutory authority for which is an appropriation act which presumably concerned a supplementary Estimate? Is this what we have?

Mr. Bergevin: The amount appearing under Vote L15 is strictly an increase of the amount of money under that vote; it is not a new statutory authority.

Senator Grosart: You cannot have an increase except under statutory authority, and you cannot have an existing amount increased unless there is an existing amount under statutory authority.

First of all, can you tell me what Appropriation Act No. 9, 1966 was? Was it a supplementary appropriation?

Mr. Robinson: I wonder if we can provide the answer to this?

Senator Grosart: Appropriation Act No. 9, 1966 must be a supplementary. You have apparently some authority to spend a certain amount in loans. You are asking to increase that. What are you asking to increase it from? You say "To increase to \$5,500,000..."

Mr. Bergevin: From the Indian Loan Fund.

Senator Grosart: The same applies to the next vote, Vote L20.

The Chairman: Would it be satisfactory if the details are provided to you, Senator Grosart?

Senator Grosart: Yes.

I raise the point because in this committee we have recommended that there be an end to this business of legislating by estimates, and particularly amending existing acts, and even more particularly existing Appropriation Acts, because we find examples of this where the only statutory authority is an Appropriation Act going back to 1956. This is a method of obtaining parliamentary approval which has been widely condemned, and yet every department comes forward with the same kind of thing. Surely, in cases like these the situation should be examined and the department should seek an amendment to the act, rather than carry on under a 1956 Appropriation Act? I suggest to you it is not good enough for Parliament to ask us to provide funds on this basis, carrying on year after year, an Appropriation Act and amendments to the act, getting increasing amounts without any reference, other than this sort of reference to the existing statutory authority.

If I may add this, on page 26 there appears to be another one, Vote 30 "including authority to make expenditures". On page 28 there is Vote L50, "To increase to \$1,740,000 the amount authorized for loans" under a 1962 Appropriation Act; and Vote L60, a request for authority in the Estimates to increase the amount apparently approved, or a previous amount approved under Appropriation Act No. 3, 1969.

The Chairman: Thank you, Senator Grosart.

Senator Grosart: If you would go back beyond those appropriation acts and tell us what the original authority and the history of this increase is and how statutory authority has been obtained to make these increases, I would appreciate it.

Senator Molson: Mr. Chairman, as I have done before the Senate departments, I should like in the case of this department to ask what the items were which appear as appropriations not required for 1970 to 1971. On page 9-2 there is a figure of \$3,400,000 from page 9-14, and on page 9-4, from page 9-28, there is a \$10,600,000 figure. That is \$14 million not required without any comment as to what it was previously required for.

Mr. Beatty: I don't think I could specifically answer that now, but it is just the difference between what we asked for in the one year and the other. If you wish, we could also supply what we have not asked for in the current year. In other words, what this change is.

Senator Molson: I think it is of importance. I have raised this point before with other departments. I don't see why instead of that heading the Treasury Board does not have what the actual purpose of the amount was in the previous year. Why should it be headed "Appropriations Not Required"? It does not seem to me to be a heading designed to cover the matter. It conceals the matter. It is probably not deliberate, but it certainly tells us nothing. Fourteen million dollars in your department must have been of reasonable significance in the year before. It must have provided some services.

Mr. Beatty: I cannot give you a specific answer because it is not shown here, but we can supply what the change was for the \$14 million.

The Chairman: Is that satisfactory, Senator Molson?

Senator Molson: Yes.

Senator Grosart: It would be interesting if it turned out that this was for a program that was not working and so was terminated.

The Chairman: I think we shall see what the answer is.

Mr. Robinson: If you will allow Mr. Cable to have a word he might be able to account for the \$14 million which Senator Molson was speaking of.

Mr. Cable: In 1969-70 we received \$1 million through the main Estimates and \$2.4 million through supplementary Estimates A for an increase in the Indian Loan Fund. At that time there was some anticipation of a conversion of this fund into the new Economic Development Fund. There was a request at that time in supplementary Estimates B for a further \$5 million increase, which we did receive through supplementary Estimates B. We felt the outstanding amount as of the end of 1970 would be sufficient to carry us through a full year so we did not request in the 1970-71 Estimates any increase to these funds. So this is the method the Treasury Board chose for presenting the amount of increase for the year in question.

Senator Molson: Well, it could simply have read "Appropriation for Indian Loan Fund not Required".

Mr. Robinson: That is right.

Senator Molson: Which is really my point. Thank you.

Mr. Cable: Again, the difference between the \$3,400,000 and the amount shown on page 9-17, which is the \$15,130,000 reduction, the difference between those two amounts again is because one was an appropriation which included up to supplementary Estimates (A), whereas the forecast excluded supplementary Estimates (B).

Senator Benidickson: Mr. Chairman, knowing that we were to see these officials this morning I was particularly interested in the morning press. There were two items in the *Toronto Globe and Mail* with reference to the department, which emanated apparently from questions in the House of Commons, which were of wide interest. One is with respect to the housing program of the department. Reference is made to a five-year plan with respect to Indian housing. According to the press, the minister said that due to rising

costs and a limited budget this five-year plan has been thrown off, are the words used, and put on a limited priority basis.

Can the deputy minister, either now or at the next sitting, explain and give a brief outline of the five-year plan and the less limited priority being given to it.

In the same edition of the same paper this morning, there was another story, with respect to possible racial discrimination in the Yukon in the matter of the supply of certain services, such as sewer and water.

Reference was made to Inuvik. However, I was rather relieved to see it referred to the supply of these services on the outskirts of Inuvik. The answer may be that it is difficult to supply them on the outskirts. I know in my own town of Kenora we have certain areas within the town which for years have not been supplied with sewer and water by the municipality. Because they are on the outskirts costs are exceedingly high.

Could comment be made with regard to these two items of current press interest?

Mr. Robinson: Yes, senator. We are at the end of a five-year housing program, which began in 1966. The intended total cost of the program was \$75 million. In fact, owing to limitations on the money available over the five years, only \$53 million was actually spent on the program.

Senator Benidickson: Although \$75 million was actually voted?

Mr. Robinson: Planned.

Senator Benidickson: Planned or voted?

Mr. Robinson: No, it was planned; it was a five-year housing plan.

Senator Benidickson: It was a plan, but you did not have that total in the Estimates?

Mr. Robinson: That is correct, senator. Yes, that is one of the principal reasons why the number of houses constructed under the program fell short of the target.

Senator Benidickson: What is the shortage in figures?

Mr. Robinson: The target was 12,000 and the number of units built was 8,620.

Senator Benidickson: The five years having expired?

Mr. Robinson: That is correct.

Senator Beaubien: Did you keep a mortgage on these buildings?

Mr. McGilp: The general aid is given to the band council for administration. The Indian tenant has the right of occupancy, but ownership is generally recognized to be with the band council. However, this is a very difficult thing to interpret in some reserves because the Indian people who move into these homes sometimes imagine ownership when in practice it is occupancy. We are dealing with a situation where a lot of close consultation is required. For example, the way in which the funds are allotted, a Band council will decide on a priority basis which particular individual in the Band should receive housing assistance. When the house is built, and usually it is with a maximum input in labour by the proposed tenant, and when the tenant goes into that house, he often presumes ownership, but in practice it really is a right of occupancy, and the Band council could, when an individual vacates a house, transfer it to another Band member provided the man who left was compensated for the improvements he had made.

Senator Beaubien: Does it mean that the Government provides these houses and it then belongs to the Band council and not to the individual, and the federal Government having provided the house, has no further interest?

Mr. McGilp: We have an advisory interest. But that is a very fine point.

Senator Beaubien: It is a gift?

Mr. McGilp: There is an input from the individual.

Senator Benidickson: It is an investment on the Reserve, but not necessarily to the individual.

Mr. McGilp: That is right.

Senator Beaubien: The amount of money you put in is a gift?

Mr. McGilp: The amount of money is a gift.

The Chairman: There was another question concerning the supply of services in Inuvik.

Mr. Robinson: Might I say with your permission, Mr. Chairman, that there are one or two other points which I might make with respect to the first question. First of all, there has been an increase from \$7,000 to \$8,500 in 1969 in the amount of the subsidy paid in

respect of each house under that program. This was a further contributing factor to the failure to meet the target. The original target...

Senator Benidickson: The original target?

Mr. Robinson: The original target. And the other factor is that I think as time goes on the expectations of the Indian people with regard to the standard of housing they occupy do rise.

Senator Benidickson: Further to that, there is a reference here to downgrading. I think the words in the Press clipping are "more limited priority basis from henceforth will be given to this type of program".

Mr. Robinson: I can say that because this program has reached a point where at the end of the 1965 to 1970 period, we are now very actively working on a new program which I do think we are as yet in a position to discuss in detail, but which I think will introduce certain new features and will supersede the program which is just drawing to a close. And it may be that it was to the other program that we are just completing the Minister was referring when he said that the program had a lower priority.

Senator Benidickson: As the press clipping read it would indicate that there were more limited efforts to build decent accommodation for Indians and on a more limited priority basis.

Mr. Robinson: I think that is an interpretation which I should not allow to stand, because in fact our objective now is to enrich and strengthen the housing program rather than allow it to lapse into a lower priority. With regard to the other question, I believe it dealt with the standard of utilities in Inuvik.

Senator Benidickson: Those supplied to Indians, Eskimo and Whites.

Mr. Robinson: May I check that? When I was in Inuvik a couple of weeks ago I looked at that situation. My understanding is that there is to be construction this summer to remedy—or at least to move towards a remedy—the discrepancy between that housing and housing in the main part of the town. I would like to check the exact situation and provide you separately, if I may, with the answer.

The Chairman: Are there other questions?

Senator Sparrow: Does Panarctic Oils come under your department? Do you oversee the investment?

Mr. Robinson: The northern development program of the department is concerned with Panarctic Oils, and the assistant deputy minister of the northern program is one of the directors of Panarctic, as is Mr. MacDonald, my predecessor, who is now Deputy Minister of Public Works. We are concerned with Panarctic in so far as Panarctic is one element in the total northern development area.

Senator Sparrow: The initial investment this year of \$13.5 million does not appear in your estimates—or does it?

Mr. Robinson: Yes.

Senator Sparrow: If so, where?

Mr. Robinson: The \$13 million was provided out of Supplementary Estimates (B). There is a separate booklet, Supplementary Estimates (B), for the fiscal year ending March 31, 1970, and in that book at page 20 there appears an item Vote L52b, providing for \$13,533,750 to authorize payment regarding the payment out of the Consolidated Revenue Fund to maintain Canada's equity in Panarctic Oils at 45 per cent.

The Chairman: I think we dealt with this at a meeting on the Supplementary Estimates some five weeks ago.

Senator Sparrow: Under what heading is it in this book with which we have been dealing?

Mr. Bergevin: It is not included in that; it is after.

Senator Benidickson: It would be included in references to the column often headed "Projected expenditures for 1969-70". Is that right?

Senator Grosart: Not here, because this document antecedes the Supplementary Estimates.

Mr. Bergevin: That is correct.

The Chairman: I do not think you were at that meeting, Senator Sparrow.

Senator Sparrow: No. May I ask one further question?

The Chairman: Please.

Senator Sparrow: Where do the direct transfer payments appear? I am not referring

to the treaty payments to the Indians; I am talking about social welfare payments and so on. Where do they appear in the estimates?

Mr. Robinson: I think the best place to start might be page 9-16 under Community Affairs. You will see a list under Activity on the left hand side. Social welfare costs are shown mainly in the grants column, which is \$7 million increased over the forecast expenditure for 1969-1970. The figure was \$31,336,000.

Senator Sparrow: Is that welfare?

Mr. Robinson: That is welfare. The total costs of welfare for 1970-1971 are shown on page 9-24 and the figure is \$42,500,000.

Senator Sparrow: Where did you get that figure?

Mr. Robinson: This is supplementary information, but if you want to follow it through in greater detail I would be very happy to send you a more detailed breakdown.

Senator Sparrow: I would like that.

The Chairman: Are there any other questions?

Senator Grosart: I would like to move on to the Indian Eskimo program, taking the conservation program as an example. These are capital projects and we have a new set of headings: Previously Estimated Total Cost, Currently Estimated Total Cost, Expenditure to 1969-70, Proposed Estimates 1970-71 and Future Years Requirements. Is there published information as to the start time of any of these programs.

Mr. Robinson: May I have the page number please.

Senator Grosart: Page 9-46. I am asking the question because of the growing concern about the tendency in departments to start programs and then keep them going rather than to admit that they should be terminated. If we want to inquire into these previously estimated total costs where would we find that previous estimate and the year?

Mr. Bergevin: I do not think I can tell you. As far as the timing of it we do have a good capital management system and we do ask the engineering groups to schedule physically the time of the projects. As far as being published is concerned, I am not aware that those dates are published.

Senator Grosart: So if we wished to inquire into this very large area in other departments

perhaps the only way would be to have the departments before us and ask them specifically about the programs?

Mr. Bergevin: If you call for an individual one I am sure that the timing could be supplied.

Senator Grosart: The question is, if we in this committee decided to inquire into the possibility of there being programs that should have been terminated, I was wondering how we would go about it.

Mr. Bergevin: We are looking at capital projects are we not?

Senator Grosart: Yes.

Mr. Bergevin: The information would undoubtedly be available.

Senator Grosart: Only by questioning the officials?

Mr. Bergevin: I would think so, yes.

Senator Smith: I should like to refer you to page 9-46. I am confused about the total for "Land Acquisition—Kouchibouguac". I suppose this refers to the new park in the Province of Quebec?

Mr. Robinson: It is in New Brunswick.

Senator Smith: Why is the Department of Northern Affairs spending money to acquire land? I thought the policy was that the provincial governments turned over the land for new national parks free of all encumbrances. I know that that was the usual procedure. Can you explain the situation here?

Mr. Beatty: I am not familiar with all the details but the old policy was that the province did turn over the land unencumbered. Under the new policy the land is acquired on a cost-sharing basis. Where the province has had to expropriate some of the land, the cost is shared on a 50-50 basis.

Senator Smith: Is this the basis on which you will acquire the land in eastern Nova Scotia for the new national park? Will the cost of acquisition of that land be on a 50-50 basis?

Mr. Beatty: I am not qualified to answer with respect to that particular park or area, but presumably the same policy continues to prevail.

Senator Smith: It is difficult to have a given policy in one province and not in another. If

there has been a change in policy I think it has come a little late, especially as it concerns those provinces that are not able to meet the state capital expense.

Senator Grosart: What about the Northern Transportation Company which is described as a self-sustaining commercial enterprise? Is it self-sustaining? I am referring to page 9-54.

Mr. Robinson: It is a crown corporation, as you know. I think the answer to that question is yes. I might also mention at this time that the Northern Transportation Company Limited has just been transferred from the responsibility of this department to the responsibility of the Department of Transport as part of the new structure in the organization of the department.

Senator Grosart: What are the terms of roughly \$10 million in loans, or are they

loans? They must be loans if they are in the Estimates respecting a self-sustaining corporation. I am referring to the three items on page 9-54 of \$4.3 million, \$1.5 million, and \$3.7 million.

Mr. Robinson: I am afraid we shall have to obtain that information, and let you have it separately if it is available.

Senator Grosart: Would you let us have the terms of the loans—that is, interest and the pay-back.

Mr. Robinson: Yes, we will try.

The Chairman: Then, honourable senators, on your behalf, I thank Mr. Robinson and his staff very much for appearing before us.

The committee adjourned.



Second Session—Twenty-eighth Parliament

1969-70

THE SENATE OF CANADA
PROCEEDINGS
OF THE
STANDING SENATE COMMITTEE
ON
NATIONAL FINANCE

The Honourable Douglas D. Everett, *Chairman*

No. 9

THURSDAY, JUNE 11, 1970

Seventh and Final Proceedings on the Estimates
laid before Parliament for the fiscal year ending March 31, 1971

REPORT OF THE COMMITTEE

THE STANDING SENATE COMMITTEE ON NATIONAL FINANCE

The Honourable Douglas D. Everett, *Chairman*

The Honourable Senators:

Aird	Gelinas	McDonald (<i>Moosomin</i>)
Beaubien	Grosart	McLean
Benidickson	Hays	Nichol
Bourget	Isnor	Paterson
Bourque	Kinley	Pearson
Desruisseaux	Laird	Phillips (<i>Rigaud</i>)
Everett	MacDonald (<i>Queens</i>)	Phillips (<i>Prince</i>)
*Flynn	*Martin	O'Leary
Fournier (<i>Madawaska- Restigouche</i>)	Methot	Sparrow
	Molson	Walker—(27)

(Quorum 7)

**Ex officio members.*

MT ORDER OF REFERENCE

Extract from the Minutes of Proceedings of February 12th, 1970.

“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 proposed by the Estimates laid down before Parliament for the fiscal year ending 31st March, 1971, in advance of Bills based upon the said Estimates reaching the Senate;

That the Committee have power to engage the services of such council 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 11, 1970

Pursuant to adjournment and notice the Standing Senate Committee on National Finance met this day at 11.00 A.M. (In camera).

Present: The Honourable Senators Everett (*Chairman*), Aird, Beaubien, Benidickson, Bourque, Desruisseaux, Grosart, Hays, Laird, Molson, Pearson and Sparrow.—(12)

The Committee proceeded to study clause by clause the draft report on the Main Estimates laid before Parliament for the fiscal year ending March 31st, 1971.

Following discussion, the draft report was approved.

At 1.00 P.M. the Committee adjourned to the call of the Chairman.

ATTEST:

Gérard Lemire,
Clerk of the Committee.

REPORT OF THE COMMITTEE

The Standing Senate Committee on National Finance, to which was referred the Estimates laid before Parliament for the fiscal year ending March 31st, 1971, has in obedience to the order of reference of February 12, 1970, examined the said Estimates and reports as follows:

1. Your Committee was authorized by the Senate as recorded in the Minutes of the Proceedings of the Senate, February 12, 1970, "to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending 31st March, 1971, in advance of Bills based upon the said Estimates reaching the Senate."

2. In obedience to the foregoing, your Committee held seven meetings on the Estimates and heard evidence from Mr. S. Cloutier, Deputy Secretary, Program Branch, Treasury Board; Dr. A. J. R. Smith, Chairman of the Economic Council of Canada; Mr. Tom Kent, Deputy Minister of Regional Economic Expansion; Professor E. P. Neufeld of the University of Toronto; Mr. Jules Léger, Under-Secretary of State; Mr. H. B. Robinson, Deputy Minister of Indian Affairs and Northern Development; and, in camera, Mr. L. Rasminsky, Governor of the Bank of Canada.

3. As was the case in past examinations of the Estimates, your Committee made (a) a general examination; (b) a detailed examination of certain matters arising out of the general examination; (c) an examination of the current economic situation in Canada as it pertains to government expenditures.

4. The Main Estimates for 1970-71 amount to \$12,910 million, an increase of 7.4% over the Main Estimates for 1969-70. This increase compares with a percentage increase of the 1969-70 estimates over 1968-69 estimates of 9.5%. Statutory expenditures take up 73% of the increase in 1970-71, and these statutory increases include public debt charges, payments to the provinces, grain payments and carrying costs of wheat. The total increase in government expenditures of the preceding year is \$892 million on statutory and budgetary items as follows: statutory \$651 million, budgetary \$241 million. Estimates of nine programs in various departments show increased expenditures totalling \$293 million which are partially offset by estimated decreases totalling \$52 million in other programs. The individual increases attributable to these nine programs are Regional and Economic Expansion \$75 million; Bilingualism Development \$52 million; Postal Services \$36 million; Indian and Eskimo Affairs \$34 million; the Royal Canadian Mounted Police \$26 million; Air Services \$22 million; Development and Utilization of Manpower \$21 million; International Development Assistance \$15 million; Incentives to Industry for Technological Innovation and Development \$12 million.

5. The \$52 million decrease in all other programs has been achieved in spite of increases in salaries, good and services and involves commendable savings in other costs.

6. In light of these facts, your Committee determined on a detailed examination of the three programs which account for a large part of the increase in non-statutory expenditures. That is, Regional and Economic Expansion \$75 million, Bilingualism Development \$52 million, and Indian and Eskimo Affairs \$34 million.

7. Your Committee heard evidence from Mr. Tom Kent, Deputy Minister of Regional Economic Expansion, regarding the increases in expenditures by that department from \$192 million in 1969-70 to \$267 million in 1970-71. The bulk of this increase of \$75 million is due to a \$20 million increase in expenditures under the Departmental Industrial Incentives Program and the introduction of a new Special Areas Program which is estimated at \$50 million for the 1970-71 fiscal year. The Industrial Incentives Program provides federal government grants to industry to help reduce the capital costs of establishing, expanding or modernizing a plant in one of the designated regions. The special area program provides federal government financial contributions to provinces and municipalities to assist them in undertaking public works in 22 special areas in Canada which will build the infrastructure essential to the economic growth of the areas. These programs have been adopted by the federal government and conform to your Committee's recommendation in its review of the 1969-70 Estimates that regional development programs be carried on, especially where general deflationary measures are being undertaken by the government. The effectiveness of these programs will be measured by:

- (a) The extent to which unemployment in slow growth regions is brought closer to the national average.
- (b) The extent to which participation in the labour force in slow growth regions is raised closer to the national average.
- (c) The extent to which household earnings in the slow growth regions are raised closer to the national average.

While it is too early in the life of these programs to assess whether they are successful in terms of the aforementioned criteria, there is evidence that the previous industrial incentive legislation did increase employment in slow growth areas. Your Committee is of the opinion that the two programs examined will tend to alleviate regional disparity and to modify the effect of government monetary and fiscal restraints in the slow growth regions.

8. Your Committee heard evidence from Mr. Jules Léger, Under-Secretary of State, regarding the increases in expenditures by that department from \$343 million in 1969-70 to \$452 million in 1970-71. After deducting increases in statutory items of \$49 million the bulk of the \$61 million increase is due to a \$52 million increase in the Bilingualism Development Program from \$2 million in 1969-70 to \$54 million in 1970-71. This program consists of grants to the provinces in the amount of up to \$50 million to provide instruction in their own language to official minorities in their respective provinces and to bring about the learning of the second of Canada's official languages. It also consists of grants for language research and promotion, and covers the expenses of the Bilingual Districts Administration. These grants to the provinces are to offset the additional cost of education arising out of the attempt to improve the quality and quantity of second language instruction in Canada. As negotia-

tions are still in process regarding the allotment of these grants, the committee could only deal with the broad objectives of the policy. However, the Under-Secretary of State has agreed to provide your Committee with details of the allotment of these grants to the provinces as soon as agreement has been reached with the provinces.

9. Your Committee heard evidence from Mr. H. B. Robinson, Deputy Minister of Indian Affairs and Northern Development, regarding the increase in expenditures by that department from \$304 million in 1969-70 to \$335 million in 1970-71. The increase of \$31 million plus the decrease in other departmental programs is accounted for by an increase in the Indian and Eskimo Affairs program of \$34 million. This increase was examined in detail and the department was requested to provide additional information. More specifically, the department was asked to determine the per capita cost for Indian and Eskimos assisted by the program; to compare these costs in different reserves across Canada and to assess the per capita benefits from other Federal Government programs. This conforms to the previously expressed desire of the Committee to make detailed examinations of certain government programs to determine whether they are fulfilling their original objectives in terms of efficiency and benefit.

10. The form of the 1970-71 estimates is radically different from that which has been followed in the past. The expenditure proposals respecting departments and agencies are formulated in terms of programs. The objectives and sub-objectives of each program are stated and the nature of the program further amplified through a description of the activities carried on in pursuit of program objectives. The aggregate of expenditures proposed to Parliament for each program is classified first in terms of these activities and second in terms of the portions of the aggregate to be devoted respectively to operations, to capital, and to grants and contributions. Data are provided under the same classification for the forecast expenditure for 1969-70 and the actual expenditure for 1968-69. When a program involves a large expenditure on capital there is provided a table listing the major projects, and, showing for each, total cost distributed between expenditures up to and including the current year, the expenditures forecast for 1970-71 and the subsequent total until completion. Loans, investments and advances are shown alongside the related budgetary expenditures.

11. As a result of its examination of the 1970-71 Estimates, your Committee makes the following recommendations:

(a) In examining the details of departmental Estimates your Committee was unable to obtain from some departments full explanations of the expenditures of Crown corporations and other agencies which report to Parliament through the Minister or for which the Minister is the spokesman for Parliament. This is an official distinction in the status of responsibility of these agencies to Parliament on which your Committee recommends that departments appearing before it be prepared in future to supply such explanations.

(b) Your Committee notes that there appears to be inadequate federal audit of the operational effectiveness of certain shared cost or response grant programs administered by the provinces. Your Com-

mittee recommends better qualitative as well as quantitative appraisal of such programs wherever possible.

(c) Your Committee found that in some cases different government grants by departments are lumped together in one sum. Your Committee recommends that the details of individual grants be given in the Estimates.

(d) The Estimates list certain appropriations from the previous year that have lapsed because the amounts voted were not spent. An example appears on page 21-8 of the Main Estimates 1970-71 of the Secretary of State. The item states as follows under Vote 1: "Appropriation not required for 1970-71—\$13,617,105." No details are given to indicate the programs to which these sums refer. Your Committee recommends that this information be included in future Estimates.

12. Dr. A. J. R. Smith, Chairman of the Economic Council of Canada, gave evidence on the potential of the Canadian economy to 1975. The Council estimates a potential G.N.P. of \$100 billion by 1975, which means an average real growth of 5.5% per year. It is noted that the share of total output going to consumers will decline while the share absorbed by governments will increase. It is further indicated that while government revenues will approximately double from 1967 to 1975 without any increase in taxation, present government expenditures will also double even if no new major programs are added. This means that new major programs will be possible only if governments replace or reduce existing programs, increase taxation or accept deficit financing. To quote from Dr. Smith's evidence:

"More than 40 per cent of the total increase in government expenditures from 1967 to 1975 is anticipated in the health and education fields."

"Education will continue to be the largest single item of government expenditure, rising to well in excess of \$8 billion by 1975 before any allowance for price increases. The estimates suggest that expenditures at post secondary levels will rise by roughly 15 per cent a year 1967-75."

"Health expenditures are expected to grow faster than all other areas of government spending to 1975, reaching nearly \$5 billion (in 1967 prices) by the latter year, about double the 1967 level."

13. As a result of these data, the following initiatives are indicated:

(a) Some better method of appraising, auditing and controlling the outlays under shared cost programs must be developed.

(b) There must be an ongoing evaluation of government programs to determine whether they are meeting their original objectives with efficiency and whether their original objectives are still valid.

(c) Since Canada can reach its potential only by a proper mix of public and private expenditures, there should be published each year a five year forward estimate of government expenditures which would not necessarily be a detailed commitment, but an indication of the future course of government activities.

14. In a comparative review of the Canadian economy of the 1960's Dr. Smith submitted the appended chart. This chart indicates the performance of the Canadian economy between 1960 and 1970 against its potential. Examination of this chart shows that the Canadian economy was well below potential

at the beginning of the decade, and, in rushing to catch up, the inflation burden at the end of the period was created. It is therefore clear that if Canada is to reach its potential without inflation (or is not to fall short) fiscal and monetary measures must be applied as evenly as possible.

15. In his appearance before your Committee Professor Neufeld pointed out that budgetary expenditures in 1969-70 produced a budgetary surplus of \$355 million as against a budgetary deficit of \$576 million in 1968-69, or total restriction of \$931 million. In 1970-71 budgetary expenditures will produce a budgetary surplus of \$250 million which, when compared to 1969-70, means an easing of restriction of \$105 million. On a National Accounts basis (which concentrates on the impact of the Federal Government's expenditures on the demand for goods and services) the same easing of the restrictive effect of a surplus appears. Between 1968-69 and 1969-70 the restriction was \$.650 million, whereas between 1969-70 and 1970-71 there is an easing of restriction of \$440 million. When these facts are added to the fact that the Federal Government's cash requirements are estimated at \$500 million, it can be seen that the freedom of action in monetary policy can be seriously affected.

16. Professor Neufeld made two further points:

(a) Total government expenditures and total government expenditures on goods and services have been rising as a proportion of G.N.P.—the former amounting to around 33% and the latter to over 21% in 1969-70. In 1970-71 total Federal Government expenditures are expected to increase by 8.3% and total Federal Government expenditures on goods and services by 12.7%. It would seem that government spending is continuing to take an increasing share of the nation's output.

(b) There should be a much more critical and informed analysis of costs and benefits with respect to government expenditures.

17. In conclusion, your Committee quotes from its report on the 1969-70 Estimates:

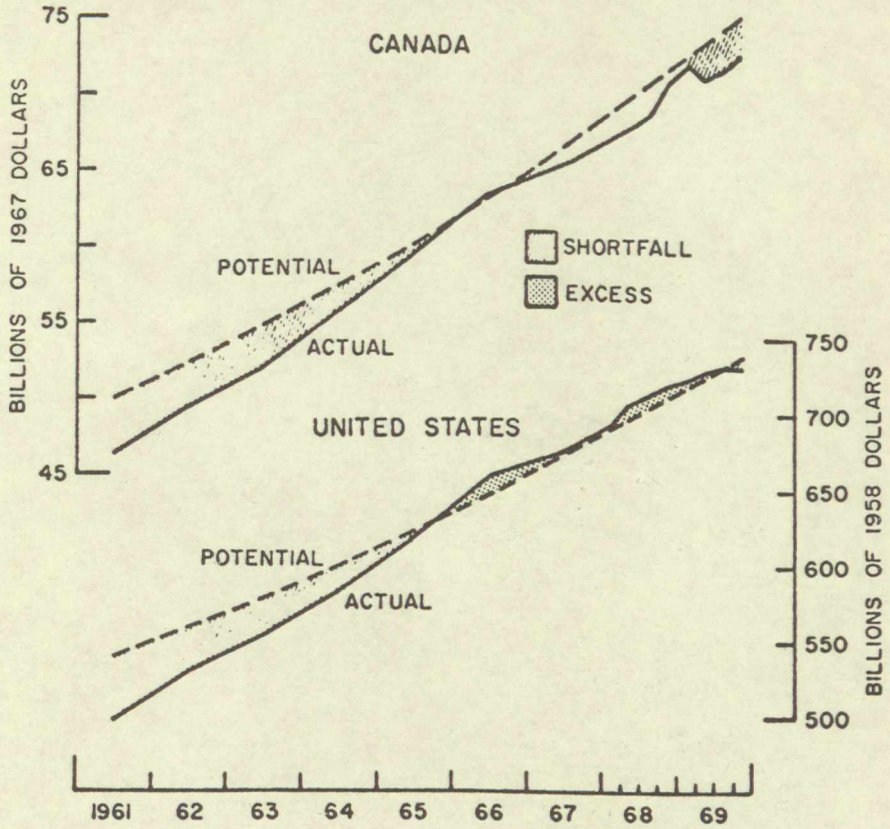
"It is the view of the Senate Committee on National Finance that some type of consolidated cash budget statement be presented in future years in order to show cash movements between the Government and other sectors of the economy. This would reflect the extra budgetary matters as well as budgetary matters and give a more accurate assessment of the impact of the public sector on the economy—especially as to its impact on financial markets, private sector liquidity, and the limitation placed upon monetary policy by the banking system's requirements to finance the Government's borrowing needs."

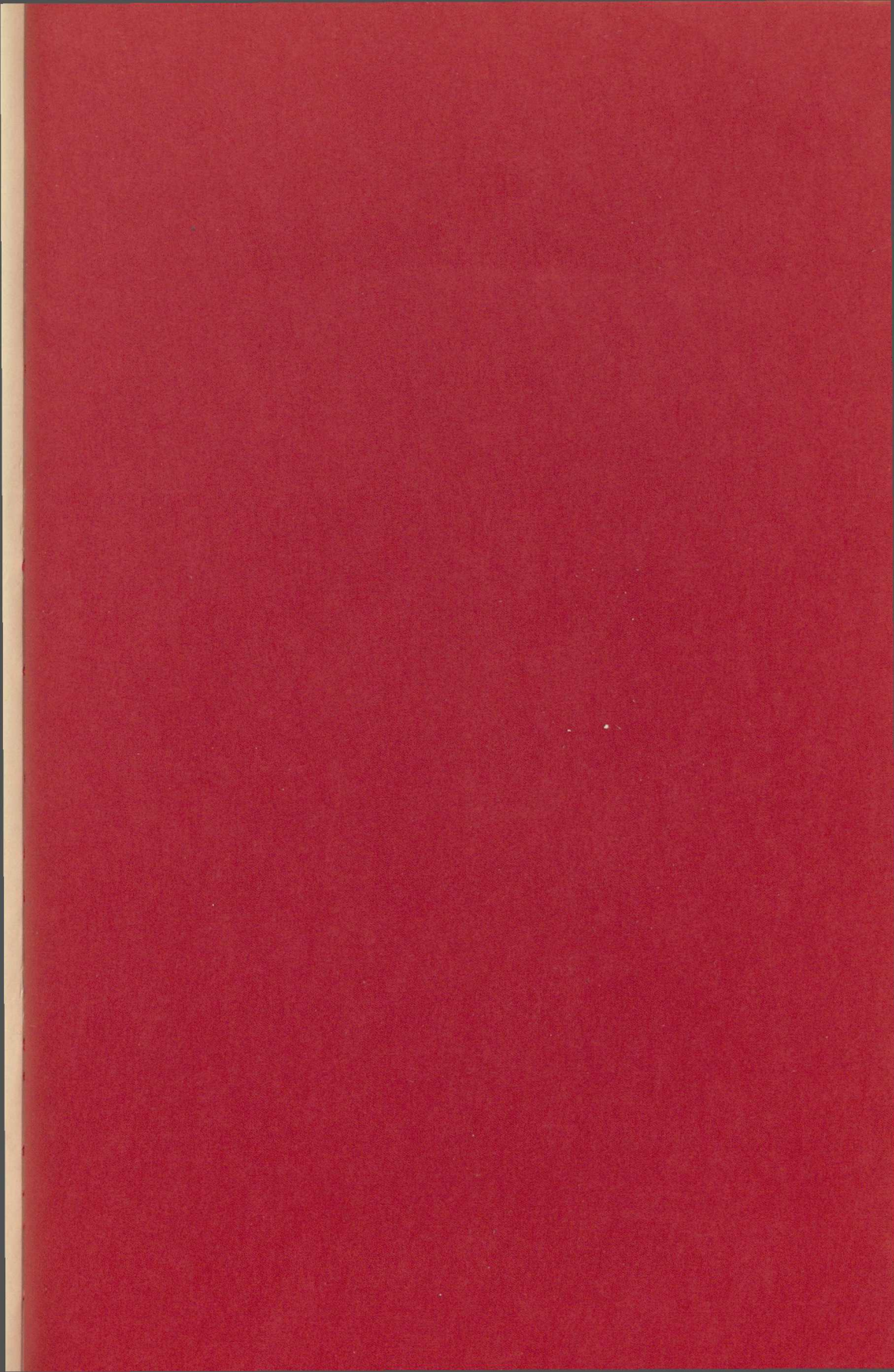
Respectfully submitted.

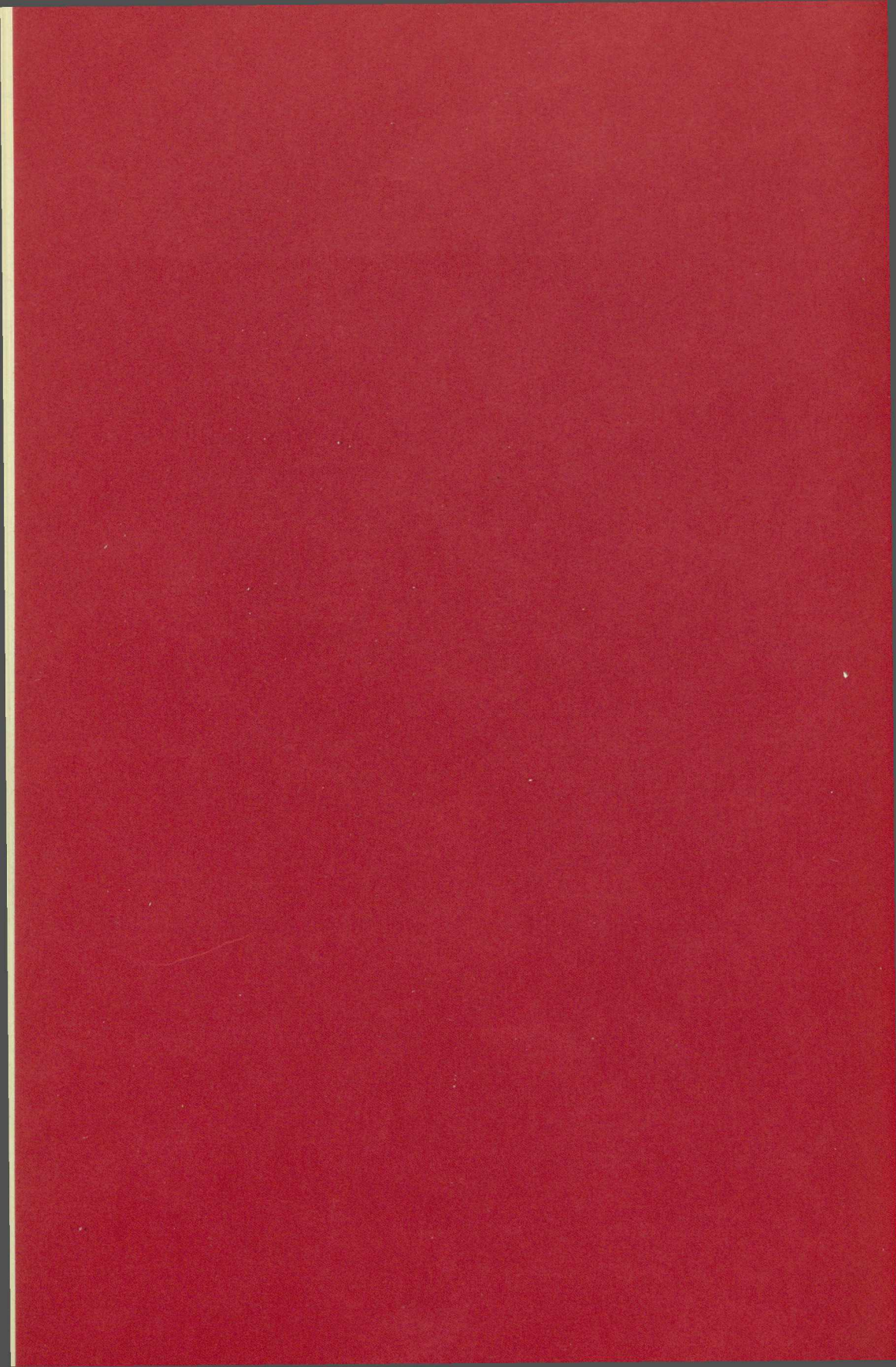
D. D. EVERETT,
Chairman.

APPENDIX

ACTUAL AND POTENTIAL G.N.P.
CANADA AND UNITED STATES









Second Session—Twenty-eighth Parliament

1969-70

THE SENATE OF CANADA

STANDING SENATE COMMITTEE

ON

NATIONAL FINANCE

Honourable DOUGLAS D. EVERETT, *Chairman*

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(Issues Nos. 1 to 9 inclusive)

Prepared

by the

Reference Branch,

LIBRARY OF PARLIAMENT.

ON

NATIONAL FINANCE

Honorable DOUGLAS D. EVERETT, Chairman

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