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The budgetary system and fiscal policy in Canada.

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THE BUDGETARY SYSTEM AND
FISCAL POLICY IN CANADA

Submitted to the Department of Economics and
Political Science of Assumption University of
Windsor in partial fulfillment of the require-
ments for the degree of Master of Arts

by

John Strick, B.A.

Faculty of Graduate Studies
1962
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ABSTRACT

Fiscal policy is the systematic planning of government revenues and expenditures to combat economic fluctuations and maintain a stable rate of growth. In Canada fiscal policy is introduced through the budget. A study of this budgetary system shows it deficient for implementation of fiscal policy.

The legal framework of the budgetary system is in various Acts of Parliament, beginning with the British North America Act of 1867. The budgetary procedure, the preparation and administration of revenues and expenditures, is one in which most governments today accept an obligation to consider economic conditions when determining expenditure and revenue policies. They recognize an obligation to introduce policies to combat fluctuations and provide for a desired rate of growth. A survey of Canadian fiscal policy during the period 1950 to 1960 illustrates this recognition.

Although the budgetary system has merits, including a sound legal framework, centralized control, and a fairly complete administrative process, limitations restrict its adequacy for fiscal policy. It lacks flexibility; forecasting is inaccurate; it is not comprehensive, a significant portion of government financial transactions being non-budgetary, and it has been used for political expediency. Consequently, the budget is deficient. Much can be done to improve the system for implementing effective policy. Some possible steps in this direction are discussed.
PREFACE

The government budget is most commonly viewed by Canadians as the statement of expenditures and revenues presented annually before Parliament through the budget speech of the Minister of Finance. But the budget is more than a mere financial statement bringing together revenues and expenditures. The budget and the entire budgetary system serve a purpose which, unfortunately, is not readily perceived by the majority of Canadians. The budgetary system besides being a form of government financial administration, must also serve as an instrument of fiscal policy. It is this latter aspect of the system that I propose to treat in the limits of this dissertation. I say limits because it is impossible to consider the large number of intricate details of budgetary procedure and the extensive field of economic fluctuations and fiscal policies within the scope of this study. However, I hope that in treating this subject I am able to bring to light the significance of this commonly overlooked aspect of the budgetary system.

In making acknowledgements, my foremost gratitude is to the members of my committee: Dr. W.G. Phillips, Ph.D., Professor and Head of the Department of Economics and Political Science and Chairman of my committee, Dr. Z.M. Fallenbush, Ph.D., Assistant Professor of Economics and Political Science, and Rev. F.J. Boland, C.S.B., Ph.D., Assistant Professor of the Department of History. To them I am indebted for many helpful suggestions and comments and for their patience. I also
wish to express my sincere thanks to Professor W. White, M.A., Assistant Professor of Economics and Political Science, who acted as an advisor and to whom I owe my initial interest in the subject.

I am also grateful for the assistance given me by the staff of the Assumption University Library, notably, Mr. Albert V. Mate, M.A., A.M.L.S., Reference Librarian, and his assistant, Mrs. Elizabeth McGaffey, in locating various sources of information which I have consulted in this study. To many of these sources my indebtedness is indicated by footnotes.

To the staff of the library in the Department of Finance, Ottawa, I am also appreciative.

Finally, I wish to express my warm appreciation of those who have taken the time to assist in the typing of this thesis.
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INTRODUCTION

The purpose of this study is to describe and analyze the budgetary system in Canada to determine its adequacy as a means of implementing fiscal policy.

Fiscal policy is defined as deliberate adjustments in government revenues and expenditures for the purpose of promoting a stable rate of economic growth in a country. The determination and authorization of government revenues and expenditures in Canada is based on the budgetary system and hence fiscal policy is introduced through the budget. In order to assess the adequacy of the system as a means of implementing fiscal policy, it is necessary to understand how this system provides for the determination, formulation, authorization, and administration of revenue and expenditure proposals, which combine to form fiscal policy. The budgetary process is a very complex one indeed, but it is proposed that only the essential features of the system be considered without delving too deeply into any one aspect.

The procedure followed in conforming to the objective of this study will be to describe the legal framework on which this system rests, the procedure of preparing estimates of revenues and expenditures, the presentation of these estimates to parliament for authorization, and the administration of revenue and expenditure proposals as authorized.

Non-budgetary transactions will also be considered to show the lack of
comprehensiveness of the budget. Following this analysis, an attempt will be made to determine the degree to which the Canadian government has used the budget in the last decade to implement fiscal policy in accordance with current theories of economic fluctuations and growth. The final section of the thesis will consist of an evaluation of the adequacy of the budgetary system, as it functions in Canada today, for the implementation of fiscal policy.
I

THE FINANCIAL STRUCTURE OF THE CANADIAN GOVERNMENT

The structure of Canada's budgetary system is of important significance from the point of view of introducing and implementing fiscal policy. The government may set down its policy for the fiscal year but there must be adequate governmental machinery for the implementation of this policy. If planned fiscal measures are not realized then the system must be lacking in certain stages or areas. The legal machinery, through which expenditure and revenue proposals are determined, formulated, authorized, and administered, must be firmly established and its functions must be well defined. It is therefore proposed to outline the development of the structure of the budgetary system to determine whether the government has provided adequate machinery for the implementation of its financial decisions.

A. Early Legal Background

The legal foundation of Canada's financial structure dates back to Confederation and the British North America Act of 1867. But the Fathers of Confederation, unable to foresee all the complications of government financing, did not provide for the incorporation of detailed procedures into the Act. Their main concern was that ultimate financial control must rest with parliament. Therefore, after the government was created various procedures and
machinery by which it could perform its financial functions adequately had to be created. These organisations and methods of financing were established by further parliamentary acts of which the most significant were the Department of Finance Act of 1869, the Consolidated Revenue and Audit Act of 1867, the Department of National Revenue Act of 1927, and the Bank of Canada Act of 1934. Through the years following the passing of these Acts, amendments were required to keep pace with changing conditions and increasing government economic activity in the country. By the end of the 1940's government organization and the government's financial operations had so largely expanded that it became necessary to review federal legislation respecting financial administration and to consolidate the provisions of previous Acts, together with their amendments, into one statute. The result was the passing of the Financial Administration Act by parliament in 1951. This Act repealed the Department of Finance and Treasury Board Act and the Consolidated Revenue and Audit Act together with other minor Acts\(^1\) and is more or less a restatement of the provisions contained in them, although several important amendments of provisions contained in these Acts are found in the Financial Administration Act.

\(^1\)The acts repealed by the Financial Administration Act were: the whole of the Consolidated Revenue and Audit Act (1931); sections 1-13 of the Department of Finance and Treasury Board Act (R. S. C. 1927); the whole of the Department of Transport Stores Act (1937), Board of Audit Act (R. S. C. 1927), Contingencies Act (R. S. C. 1927), Debts due to Crown Act (1933); and sections 3, 4, 5, 6 and 10 of the Government Companies Operation Act (1949).

See *Statutes of Canada* 1951 (Ottawa: Queen's Printer, 1952), c. 12, p. 188.
Therefore, in tracing the historical development of Canadian financial administration the repealed Acts will be referred to only briefly as their provisions and amendments are re-stated in the Financial Administration Act.

The British North America Act - 1867 *

Among the various provisions of the B.N.A. Act only those pertaining to financial matters will be considered here. Section 53 of the B.N.A. Act stipulates that all financial measures, revenue or appropriation, must originate in the House of Commons: "Bills for appropriating any part of the public revenue, or for imposing any tax or impost shall originate in the House of Commons." No mention is made of the Cabinet but this body and its powers have developed following British parliamentary tradition and no measures regarding public money can be considered by parliament except those which have been recommended to it by the Cabinet. The B.N.A. Act carries a provision to this effect in Section 54:

> It shall not be lawful for the House of Commons to adopt or pass any vote, resolution, address, or bill for the appropriation of any part of the public revenue, or of any tax or impost, to any purpose that has not been first recommended to that House by Message of the Governor General in the Session in which vote, resolution, address, or bill is proposed.  

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2 Although a knowledge of parliamentary structure and procedure would be helpful, it would be beyond the scope of this study to describe the system of Canadian government. For information regarding the form of government in Canada see R. M. Dawson, Government of Canada (Toronto: University of Toronto Press, 1963).

3 Statutes of Canada 1867 (Ottawa: Queen's Printer, 1867), c. 3, s. 53, p. 13.

4 Ibid., s. 54.

*Hereafter to be referred to as the B.N.A. Act.*
In practice it has developed that the "Message of the Governor General" is prepared by the Cabinet and comes directly from that office. Sole responsibility for the conduct of the federal government rests upon the cabinet which is responsible to the House of Commons at all times. It is responsible for the initiation of government revenue and expenditure programs and the role of the House of Commons is to authorize and review. The B. N. A. Act further stipulated that all revenues collected by the government were to form one Consolidated Revenue Fund and that "payments . . . shall be appropriated by the Parliament of Canada for the public service." ⁶

Department of Finance Act - 1869

The B. N. A. Act left much of the details of the procedure of financing to the discretion of the "Governor General in Council." The Council is the Queen's Privy Council of Canada which in practice is composed of all Cabinet ministers, past and present. However, the real executive power lies in the hands of the present Cabinet ministers for the Privy Council as such seldom sits and the Governor-in-Council in practice is the cabinet. The Governor-in-Council was vested with authority to provide for the collection, management, and audit of public money. ⁶ Some of these authorizations came by Orders-in-Council and in 1867 the Treasury Board was so created. In 1869 it was placed on a statutory basis with the enactment of the Department of Finance Act which

⁶Ibid. s. 102, p. 25.

⁶Ibid. s. 103.
provided for the creation of the Department of Finance and the Treasury
Board. The functions of these two bodies as outlined in the Act were, though
much narrower, similar to those contained in the Financial Administration Act.

Consolidated Revenue and Audit Act - 1867

In 1867, following the B. N. A. Act, an Act respecting the collection
and management of revenue and the auditing of public accounts was passed. By
this Act the public accounts were to be audited by a Board of Audit consisting
of eight members, mostly deputy ministers of various departments, appointed
by the Governor-in-Council and supervised by the Minister of Finance. This
board was to prepare and submit to the Minister of Finance the Public Accounts
to be annually presented to parliament.\(^7\) In May 1878 an amendment to this
Act provided for the creation of the office of the Auditor-General and outlined
his duties.\(^6\)

Department of National Revenue - 1927

In March, 1927, a bill was introduced to reorganize the Department of
Customs and Excise and change the name to the Department of National Revenue.
This Act, known as the Department of National Revenue Act, divided the old
Customs and Excise Department into three branches: customs, excise and
income tax.\(^9\) Each branch was to be directed by a commissioner who was to

\(^7\)Ibid., c. 5, pp. 77-81.

\(^6\)Ibid., 1878, c. 7, pp. 43-78.

\(^9\)Revised Statutes of Canada 1927 (Ottawa: Queen's Printer, 1927), III,
c. 137, pp. 2829-2830.
have practically the same power as a deputy minister. The name of the Department was changed because the new title was deemed more appropriate and more descriptive of the functions of the Department than the old title. The Department had charge of practically all the revenues of the government, but the old title did not imply or include collection of income or sales taxes. The function of the Department, as set out in the Act, was the control and management of the collection of customs and excise duties, stamp duties, and all internal taxes.

Bank of Canada Act - 1934

Another important agency in the financial structure of the Federal Government is the Bank of Canada, established by the Bank of Canada Act in 1934. The Bank is controlled by the Bank Board of Governors, appointed by the Governor-in-Council, and they, with the approval of the Governor-in-Council appoint the Governor of the Bank. The Governor is the head and is responsible for the operations of the Bank. The Bank of Canada is important for the implementation of fiscal measures because of its capacity as debt manager and fiscal agent for the government. The government relies on the Bank for financing some of its expenditures through borrowing as the Bank handles the functional arrangements for putting out new bond issues, and retiring maturing ones.

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10 *Canada, House of Commons, Debates* 1927 (Ottawa: Queen's Printer, 1927), pp. 806-807: 998-1000.

11 *Statutes of Canada* 1934 (Ottawa: Queen's Printer, 1934), c. 43, pp. 493-516.
B. Financial Administration Act

The Financial Administration Act is the most comprehensive legislation with regard to financial structure and procedure in the Canadian government. When introducing the Financial Administration Bill into the House of Commons in June, 1951, Mr. Abbott, the Minister of Finance at that time, stated that the purpose of the bill was to:

consolidate, in one statute, in simplified, clarified, and where necessary in amended form, the provisions relating to the financial organization and administration of the government of Canada and the audit of public accounts, which are now included in the Department of Finance and Treasury Board Act, the Consolidated Revenue and Audit Act, and certain other statutes. 12

Mr. Macdonnell, financial critic for the opposition added that the bill:

puts into statutory form practices which have grown up that have been found to be convenient and which have had to derive their sanctions from various acts . . . They are now brought together and put into this bill. 13

Thus, where it was deemed necessary, new provisions were to be included as experience showed that certain provisions in the previous acts regarding collecting, disbursing, borrowing and accounting in the federal government were inadequate. The Department of Finance Act had been virtually unchanged since its enactment in 1869, while the Consolidated Revenue and Audit Act had not been changed since 1931. Some of the provisions in these Acts were considered obsolete and unnecessary, while certain amendments were particularly


The Treasury Board

The Treasury Board, as provided for by the Financial Administration Act, consists of "the Minister of Finance, who is the Chairman, and any five members of the King's Privy Council for Canada, who may be nominated from time to time by the Governor-in-Council."14 These other five members are usually Cabinet ministers although the Governor-in-Council can also nominate additional members of the Privy Council to alternate with those already nominated. The Minister of Finance may select an officer from the Department of Finance to be Secretary of the Treasury Board with a staff selected from the Department of Finance employees.

With regard to the functions of the Treasury Board the Act states that it is to serve as a "committee of the King's Privy Council for Canada on all matters relating to finance, revenues, estimates, expenditures, and financial commitments, accounts, and establishments."15 It may also "make regulations . . . respecting the collection, management and administration of and the accounting for public money."16 The Financial Administration Act further stipulated that the Governor-in-Council could delegate some of its powers to the Treasury Board. As these powers were not enumerated in the Act, the subject gave rise to considerable debate in the House of Commons when the

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14 Statutes of Canada 1951 (Ottawa: Queen's Printer, 1952), c. 12, s. 3, p. 129.
15 Ibid., s. 5.
16 Ibid., s. 7, p. 130.
provision was brought under consideration. \textsuperscript{17} The actual working of the
Treasury Board will be discussed in a following chapter when annual estimates
of expenditure are considered. However, it is generally agreed that the
Treasury Board is one of the most important, if not the most important, organ-
isation within the financial structure of the government, due to its capacity for
determining and co-ordinating the financial measures that are to be presented
before parliament for authorization. The Treasury Board can be considered as
the government in regard to financial matters.

The Department of Finance

The Minister of Finance, besides being chairman of the Treasury
Board, also presides over the Department of Finance, which was also provided
for by the Financial Administration Act. As the head of the Department of
Finance the Minister is responsible for:

the management and direction of the Department of Finance, the
management of the Consolidated Revenue Fund, and the supervision,
control, and direction of all matters relating to the financial
affairs of Canada not by law assigned to any other Minister. \textsuperscript{18}

The Minister of Finance is the central figure in government financial adminis-
tration and is responsible to parliament for the financial affairs of the country.
He is responsible for preparing and presenting the budget, with its proposals

\textsuperscript{17} Some members of the opposition in parliament felt that the Act was
granting almost unlimited powers to the Treasury Board.

\textsuperscript{18} Statutes of Canada 1951 (Ottawa: Queen's Printer, 1952), c. 12,
a. 9, p. 130.
of fiscal policy, before parliament for authorization. 19

Comptroller of the Treasury

An important unit within the Department of Finance is the office of the
Comptroller of the Treasury. This office was first created in 1931 with the re-
vision of the Consolidated Revenue and Audit Act;and the Financial Administra-
tion Act brought the functions of the Comptroller up to date. The Comptroller
of the Treasury is appointed by the Governor-in-Council and holds his office
during good behaviour. The function of the Comptroller is two-fold. He is
first of all the accountant for the Treasury Board and the Department of Fin-
ance. The expenditures of the various government departments come under the
close scrutiny of the Comptroller as he is "entitled to free access at all con-
venient times to all files, documents, and other records relating to the accounts
of every department,"20 and can "examine the collecting and accounting prac-
tices applied in a department."21 Such accounting information enables the
Treasury Board and the Department of Finance to determine whether depart-
mental expenditure estimates are based on accurate reports. Secondly, the
Comptroller is the expenditure control officer for the government. No money
appropriated by parliament to the various government departments can be
expended without first being released by the Comptroller. In this respect

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19 As manager of the Consolidated Revenue Fund the Minister of Fin-
ance is the Receiver General and all accounts of public money are maintained in his name.

20 Statutes of Canada 1951 (Ottawa: Queen’s Printer, 1953), s. 12,
s. 12, p. 181.
21 Ibid., s. 15, p. 132.
Section 33 of the Financial Administration Act states that "every payment pursuant to an appropriation . . . shall be made under the direction and control of the Comptroller." He has the right to with-hold or refuse any payment to a department if he feels that the expenditure for which it is requested is not in accordance with an appropriation. Through this close check no expenditures can be made which were not authorized by parliament and which would therefore not be in accordance with pre-determined financial policy.

Auditor General

Another major organization in the financial structure of the Federal Government is the office of the Auditor General. Under the provisions of the Financial Administration Act the Auditor General is appointed by the Governor-in-Council and holds his office during good behaviour. It is his duty to examine the accounts of the various departments to insure that they are properly kept and to:

report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that

(a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada.

(b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund.

(c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by parliament.

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22 Ibid., s. 33, p. 138.
(d) an expenditure was not authorized or was not properly vouched or certified.

(e) there has been a deficiency or loss through the fraud, default or mistake of any person, or

(f) a special warrant authorized the payment of any money.

and to any other case that the Auditor General considers should be brought to the notice of the House of Commons. 23

It is also his duty to determine whether "the rules and procedures applied are sufficient to secure an effective check on the assessment, collection, and proper allocation of the revenue." 24 and to make any recommendations to parliament of changes in rules and procedures that he feels are necessary.

The Comptroller is responsible for the pre-audit while the Auditor General is responsible for the post-audit of government accounts regarding revenues and expenditures. These two offices are very significant in this respect for through their close scrutiny no government financial transactions can take place that have not been pre-determined in accordance with general financial policy.

Other Provisions of the Act

The Financial Administration Act introduced several changes in the functions of some of the financial organizations in the government in an attempt to improve the efficiency of the budgetary process. In replacing the main

23 Ibid., s. 70, p. 149.

24 Ibid., s. 67, p. 147.
portion of the Department of Finance and Treasury Board Act by the Financial Administration Act, it was intended to provide a clearer definition of the Board's powers, and to extend these powers and the Board's field of operations. The Treasury Board was therefore given the duty of carrying out some of the administrative duties relating to financial matters which had previously been performed by the Governor-in-Council. These duties were to be carried out by the Board on the authorization of the Governor-in-Council and would relieve the already over-burdened Council of many minor financial administrative matters and leave it more time to deal with general policy.

Further provisions incorporated into the Act were those providing for the control of the financial affairs of Crown Corporations. Previously there had been no comprehensive legislation dealing with the financial operations of these corporations or with their financial relations to the government. The Financial Administration Act provided for the financial control of the crown corporations listed in the Act and these provisions were also to extend to any others which may be designated by the Governor-in-Council. The provisions of the Act dealing with crown corporations will be considered in a later chapter when the organization and the financial transactions of these corporations will be discussed. However, it is important to note that these provisions enabled the government to exercise greater control over the financial transactions of Crown Corporations which is not undesirable for the implementation of fiscal policy. Fiscal policy requires the co-ordination of all government financial transactions of which Crown Corporations form an appreciable portion.
Thus, the legal structure for the determination, authorisation, administration, and review of government expenditures and revenues consists of Parliament, the Treasury Board, the Department of Finance, the Department of National Revenue, the Bank of Canada, the Comptroller of the Treasury, and the Auditor General. This framework for financial administration, and hence for the implementation of fiscal policy, has been established by legislation, some of which dates as far back as Confederation, and appears to be fairly complete. But whether the machinery thus established has been adequately utilized through the establishment of a satisfactory procedure for such implementation is a question which will be considered in the following chapter.
II

PREPARATION, AUTHORIZATION, AND ADMINISTRATION
OF THE BUDGET

An adequate procedure must be applied to the established machinery if government revenue and expenditure policies are to be implemented as determined. This requires centralized control over expenditures and revenues for only in this way can they be deliberately adjusted and it is in the adjustment of government revenues and expenditures — in their flexibility — that fiscal policy rests. The system must include a procedure by which expenditure and revenue proposals are formulated in accordance with general financial policy as determined by the central body and a process by which these proposals are authorized and administered. The form of administration is important because revenue and expenditure proposals may be determined and authorized but if they cannot be put into effect then the whole process will prove inadequate and ineffective. It will therefore be necessary to describe the entire procedure if the budgetary system is to be objectively evaluated as a system for the implementation of fiscal policy.

A. Budgetary Preparation: Estimates of Expenditures

The Determination of General Expenditure Policy

The Cabinet and its sub-committee, the Treasury Board, are the policy making and the budgeting bodies of the government. The general magnitude of the budget is decided by the Cabinet when it determines general policy in such fields as defence, social security, the development of resources, and
the scope of services and facilities provided in the many other fields which concern the government, while the Treasury Board exercises the detailed central control over the budgets and programs of the various departments. The main function of the Treasury Board is:

to allocate the scarce resources at the government's disposal between the various competing governmental departments and agencies. The Treasury Board is also called upon to make judgments about the general level of expenditures for all departments and agencies during the course of the year.¹

Prior to the submission of the expenditure estimates by each department, a review of the departments is conducted by an Estimates Review Committee composed of a representative from the Civil Service Commission, a representative from the department concerned, and a representative from the Treasury Board Staff.² This committee carefully examines the establishment of each department to see that all existing staff is fully utilized and necessary and to review the new proposals of the departments for additional staff as a result of extended or new programs. This review serves as a check by the Treasury Board regarding the staff of the various departments and insures that no department will be over-staffed and consequently inefficient. The Treasury Board representative indicates the policy for the coming year and with this in consideration the committee reviews the various proposals of a department and decides on the number of positions that should be recommended to the Treasury Board for approval.³


²J.L. Fry, "Treasury Board and the Civil Departments -- Programme Analysis" in Ibid., p.2.

³Ibid., p.2.
Preparation of the Estimates

The next step after the Establishment Review is the submission to the Treasury Board of the expenditure estimates by government departments. Each department is required to submit to the Department of Finance estimates of the cost of each service or activity that it is planning or anticipating and which can only be financed by a Parliamentary appropriation of public money.

Departments begin preparing their expenditure estimates for a fiscal year early in the previous one. The Minister of Finance as Chairman of the Treasury Board or the Secretary of the Treasury Board indicates the commencement of the estimates process by means of a formal letter to all deputy heads of the government departments. This letter, which is often referred to as the "Sermon on the Amounts" also contains an indication of government financial policy for the coming fiscal year and requests that departments take this policy into consideration when determining their expenditure estimates. At one time this letter was also accompanied by a description of the desired form in which the estimates were to be submitted. However, in 1956 this procedure was abandoned when the Estimates and Administrative Procedures Section of the Treasury Board prepared a "Manual of Estimates" which was to serve two main purposes. The first purpose was that which had been served previously by the separate letters of detailed instructions which were issued with each call for estimates. The second was to facilitate clear and complete understanding of the procedures followed in preparing the estimates of departmental expenditures.5

4 Ibid., p.3.
The form of estimates of expenditures submitted by the government departments has undergone some change in the past. In 1937 the form of annual estimates was substantially revised as it was felt that they were too general and obscure and did not give Parliament enough precise information on the cost of the various activities carried on by the government. The form of the estimates was again revised in 1950. During the Parliamentary session of 1960–61 the Standing Committee of Public Accounts of the House of Commons met on the matter of the form and content of the expenditure estimates "to again review this subject with a view to up-dating and improving the manner in which estimates are presented to Parliament." After hearing evidence on the subject and after careful deliberation, the Committee made several firm recommendations for changes from the past practice. The Committee's Report to the House included a statement on the purpose of expenditure estimates. This summation was as follows:

Your Committee having considered the several purposes which annual Estimates are designed to serve came to the conclusion, and would recommend, that the most important purpose of Estimates is to enable Parliament to meet its constitutional responsibilities in connection with the appropriation of the funds required for conduct of federal government services. To this end, annual Estimates should be prepared in a form which will clearly identify for every Member and for the public the spending programs being proposed by the government and the essential elements of cost involved in them. Your Committee feels that this objective can be approached by rearrangement of the detail presently provided and by the inclusion of selected additional information.

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The Estimates and the Treasury Board

The estimates are prepared under the direction of the deputy minister and after being reviewed and signed by the Minister of the department concerned they are forwarded to the Treasury Board. The Treasury Board staff reviews the estimates from two points of view: cost and policy.

With regard to cost the staff must be satisfied that all expenditure items are reasonable for the proposed program. The policy review is conducted to insure that all new programs have been approved and, as already mentioned, departments are encouraged to have all policy matters approved prior to the submission of their estimates. 8

After tabulating the estimates in convenient form and assembling all supporting data the secretariat transmits them to the Minister of Finance as Chairman of the Treasury Board. The Board meets daily for approximately three weeks in late November and early December to review and discuss the departmental estimates. The Board may reject or refuse any expenditure proposal it considers undesirable and not in line with government policy and may call on the ministers of the various departments to explain and justify their requests. 9

This type of control insures that departmental expenditure proposals are held within approved government policies, that departments follow economical practices, and that "the government is informed of and approves any major developments of policy or difficult major transactions that may give rise to

8 Ibid., p.3.
9 The more the proposed departmental appropriations or proposed activities are in accordance with central policy, the more the voice of that department's minister will determine the budget for his department.
public or Parliamentary criticism."¹⁰

Finally the estimates as a whole are submitted to the Cabinet which compares them with anticipated revenues and gives them final approval before their submission to Parliament.¹¹ However, prior to their submission to Parliament the estimates must be approved by the Governor-General. This practice is traditional and is a mere formality as the Governor-General's consent is always given.

Tabling the Estimates

Following their approval by the Cabinet and the Governor-General the expenditure estimates are submitted to Parliament for consideration and review. The total estimates of all departments are tabled in one document called Estimates,¹² or what is popularly known as the Blue Book. Prior to their revision in 1937 the expenditure estimates comprised a small pamphlet of less than one hundred pages. The 1961-62 "Estimates" consisted of approximately six hundred pages, an indication of the much greater detail now included in the estimates. This detail is necessary if Parliament is to have a clear understanding of the spending program proposed by the government and its implication with regard to fiscal policy intentions.


¹¹The Treasury Board is under the control of the Cabinet which may amend or revoke any action of the Board. The Minister of Finance must present his financial plans before the Cabinet as a whole but if he has the other five members of the Board sharing his views then he is usually in a sound position in convincing the remaining members of the Cabinet. Thus, what is decided by the Treasury Board will usually be accepted by the Cabinet.

Supplementary Estimates

The estimates appearing in the Blue Book are known as the main estimates. However, there are also supplementary estimates which, as their title implies, are supplements to the main estimates. As each department must prepare at the beginning of the current fiscal year its estimates of expenditures for the following fiscal year, these estimates are frequently incomplete. A department may discover that its estimates did not provide for items not previously anticipated and that some of the estimates already submitted for other items were inadequate. This is certain to be the case if there is a change in government policy calling for increased government activity or services and consequently increased expenditure. The department concerned must then estimate these expenditures and submit the estimates to Parliament. Following these supplementary estimates the department may still find that the funds appropriated to it are inadequate and may submit still further requests or further supplementary estimates before the termination of the fiscal year. Thus for the fiscal year 1960–61, besides the main estimates and supplementary estimates for that year various departments submitted several "Further Supplementary Estimates." The 1960–61 Estimates consisted of four hundred and ninety-seven items or votes but by the end of that fiscal year supplementary and further supplementary expenditures increased the number of items to seven hundred and sixty-four. Supplementary estimates result in much greater flexibility of the budget as an instrument of fiscal policy.

B. Budgetary Preparation: Estimates of Revenues

Revenue Forecasting

Estimates of expenditures are based on planned activities and services
of which fairly accurate estimates can be made. However, attempts at estimating government revenues and the subsequent planning of taxation policies prove to be much more difficult. As Finance Minister D. M. Fleming stated in his Budget Speech of March 31, 1960, "Revenue forecasting, as I have observed on previous occasions, always presents formidable difficulties." In his Budget Speech of 1952 the then Minister of Finance D. C. Abbott made a similar observation when he commented that "the problems of forecasting are closely tied to general economic trends which are not easy to predict." He added that in attempting to determine tax policy and revenue from income taxes,

we have to look ahead over the next twelve months and estimate how many people will be employed month by month, whether and to what extent wages and salaries will go up, the prevalence of much overtime or much short-time, the dividend policies of corporations, and the aggregate profits and losses of half a million farmers, tradesmen, and professional men who are self-employed.

Procedure of Forecasting

The determination of government revenues and taxation policy is closely related to forecasts in the level of economic activity which is expressed in terms of gross national product. Forecasts of gross national product are conducted by various government departments and agencies working in close liaison with the Department of Finance. They are the end result of a very complex process of analysis of economic trends and the actual techniques in forecasting used by the government are not publicly known. However, some generalities regarding government forecasting can be observed. Within the Department of Finance are

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13 Budget Speech, March 31, 1960 (Ottawa: Queen's Printer, 1960), p.15
14 Ibid., April 8, 1952, p.5.
15 Ibid.
two main departmental divisions responsible for the preparation of Forecast material; the Taxation Division and the Economic and International Relations Division. The Taxation Division advises the Minister of Finance on taxation policy and studies the possible effects of changes in existing tax rates. The Economic and International Relations Division, besides dealing with tariff policy, concerns itself with forecasting and reviewing the economic situation and preparing material on which budgetary and fiscal decisions are made.\textsuperscript{17}

The Dominion Bureau of Statistics is continually carrying out sample surveys and gathering statistical data regarding economic activity in Canada. Much of this data is referred to the National Accounts Division of the Bureau. The National Accounts Division issues annually a publication known as\textit{ National Accounts},\textsuperscript{18} which is a collection of the data comprising gross national product. Since 1953 the\textit{ National Accounts} data have also been published on a quarterly basis. The main sources of these data fall into two general classes. The first and more important is based on questionnaires mailed from the Dominion Bureau of Statistics to the business community, and the second is based on the administrative records of various government departments or agencies.\textsuperscript{19}

The questionnaire is a continuing survey carried on by the various divisions of the Bureau.

These surveys include annual and monthly surveys of manufacturing, mining, fishing, and agriculture, surveys of retail and wholesale establishments,


of inventories and shipments, and of realized and intended capital investment, surveys of the labor force and unemployment. From these surveys estimates can be made of wages and salaries, farm income, personal expenditures on consumer goods and services, estimates of investment in housing and construction, machinery, equipment, and inventories. 20

The second class of major sources includes the estimates of indirect taxes, depreciation allowances, corporation profits, government expenditures, military pay, and exports and imports. This class or group draws heavily upon such material as the public accounts of the various government departments and agencies such as the Department of National Revenue, the Department of National Defence, Central Mortgage and Housing Corporation etc. 21 The National Accounts are looked upon as having a "major use in the field of economic public policy" and "the presentation of the annual federal budget against the economic background of the National Accounts provides a practical illustration of their use in the general area of public policy formulation." 22

The Economics Branch of the Department of Trade and Commerce also carries on a continuous review of the economic situation in Canada by making appraisals of current and prospective developments and by conducting studies on specific economic matters. 23 Prior to 1960 the Economics Branch submitted

20 Ibid.
21 Ibid., p. 80.
22 Ibid., p. 78.
23 T.N. Brewis in Canadian Economic Policy (Toronto: MacMillan, 1961), pp. 178-179, states that "the most comprehensive forecasts of the general level of economic activity are those undertaken by the Department of Trade and Commerce." The Economics Branch of the Department of Trade and Commerce, in making its forecasts, makes use of much of the statistical data collected by the Bureau of Statistics in its surveys.
each year, in March, a confidential report to the Minister of Trade and Commerce which was a forecast of the level of economic activity in the country for the current year. This report, known as the Canadian Economic Outlook, rose to national prominence in the election campaign of 1958 as the famed "hidden report." The government had been accused in 1958 of not heeding the 1957 forecast in the Canadian Economic Outlook of a decline in economic activity when the budget was prepared for that year. However, the Honorable L.B. Pearson, present leader of the Liberal party, which had been in power at that time, defended his party in later Parliamentary debates and stated that "The Minister of Finance took that report into consideration when he drew up his budget..." Such reports or forecasts of the trends in the economy are very important for the determination of fiscal policy as well as in estimating budgetary revenues.

Reliability of Forecasting

Not only is the gross national product and expected revenue difficult to forecast but these forecasts or estimates are subject to fairly wide margins of error. For example, for the fiscal year 1959-60 Finance Minister Fleming estimated budgetary revenues, after tax changes, to be approximately $5,267 million. He based this estimate on a forecast of gross national product of $34.5 billion. However in that year gross national product rose to $34.8 billion and revenues amounted to $5,301 million or $34 million more than was expected.

The opposite was true of the 1960-61 fiscal year. The main expenditure estimates for that fiscal year totalled $5,740 million. Taking into consideration supplementary estimates, Mr. Fleming concluded that budgetary expenditures

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would be approximately $5,880 million. Mr. Fleming based his estimates of revenue for the year on a gross national product of between $36.5 and $37 billion for 1960 or a 6 per cent gain over 1959, and determined that the tax structure without any changes in rates would yield $5,892 million. As this would result in a budgetary surplus of $12 million, no major tax changes were proposed.

However, recession held the gross national product gain to 2 per cent in 1960. On the basis of this Mr. Fleming, in his Baby Budget speech on Dec. 20, 1960, predicted that revenues for the year would only be 7 1/2 per cent higher than the previous year instead of the expected 11 per cent. Because of this, said Mr. Fleming, total revenues would be some $210 million or 3 1/2 per cent less than originally forecast. On the expenditure side Mr. Fleming said that he expected an increase of $100,000,000 over the estimates of March, 1960. This was due to the Parliamentary decision in August, 1960 to appropriate $42 million for wheat acreage payments and an increase of more than $50 million in the deficit of the Canadian National Railway. The net result, concluded the Finance Minister, was that revenues for the year would likely be about $5,680 million, expenditures approximately $5,880 million, and there would be a budgetary deficit of approximately $300 million rather than the $12 million surplus forecast. The tax changes introduced by the Baby Budget expected to increase revenues by approximately $14 million for the remainder of the fiscal year and thus bring the estimated deficit for 1960–61 to about $286 million. However, this estimate was not accurate either for the final result at the end of the 1960–61 fiscal year was a budgetary deficit of $345.5 million. It is quite clear that regardless of how carefully forecasts and estimates may be prepared, certain events are always bound to happen.

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26 Ibid.

which will produce a different result at the end of the year from that which was anticipated.

C. Budgetary Authorization

Budgetary revenues and expenditures are authorized by the House of Commons although they are not presented to the House simultaneously. Revenue proposals are introduced through the budget speech, presented annually to the House of Commons by the Minister of Finance, but expenditure estimates are introduced for parliamentary appropriation much earlier. However, the budget speech brings together revenues and expenditures and includes a summary of the government's fiscal policy.

Appropriation of Expenditures

Parliamentary Appropriation. The main estimates are usually introduced or tabled in the House of Commons in the beginning of February immediately following the opening of the annual session of Parliament. Section 54 of the British North America Act requires that all money measures be recommended to the House of Commons by message of the Governor-General and in practice the estimates are presented to the House by Message of the Governor-General which is prepared by the Minister of Finance. Only the government as such and neither private members nor individual Ministers on their own responsibility can introduce into Parliament any proposals for expenditures or any amendments that would increase them.28 Following the message the Minister of Finance immediately moves that the estimates be referred to the:

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28 If a Minister wishes to reduce an amount he must ask some other member to move an amendment because no member can amend his own motion. See Office of the Auditor, Canada, Audit Office Guide (Ottawa: Queen's Printer, 1958), p.50.
Committee of Supply which is the House of Commons sitting as a committee of the whole house. 29

In the process of considering departmental estimates for the coming fiscal year the House of Commons makes available to each of the members of the House a copy of the "Estimates" or Blue Book together with supplementary estimates. In the Blue Book, the various government departments appear in Alphabetical order. Expenditures in a department are grouped into items and each expenditure item is given an appropriation or vote number. The estimates are considered department by department and item by item; each item requiring a resolution and a vote. The Minister for whose department the estimates are being considered is responsible for steering these estimates through Parliament and must be on hand to answer any questions put forth by the opposition or by members of his own party regarding any of the items. Collectively the cabinet ministers are responsible for the general budget of expenditures but individually they are directly responsible to Parliament both for the policy and the management of their departments and for the administration of the expenditures proposed. The Minister, in explaining the estimates of his department, answering questions, and defending them, usually has the deputy minister and one or two prominent officials from his department appear in Parliament in an advisory capacity to assist him. The Speaker of the House, acting as chairman of the Committee of Supply, asks whether item "x" shall "carry" and if no member has any opposition

29 In 1955 it was decided to establish a small Standing Committee of Estimates Committee to consider such estimates that Parliament may wish to review more thoroughly. The role of this committee is advisory and it is still the duty of the Committee of Supply to decide whether each item will be approved. The Standing Committee is "empowered to examine and inquire into all such matters and things as may be referred to it by the House, and to report from time to time its observations and opinions thereon, with power to send for persons papers and records."

or comment to voice regarding this item it is "carried" and the Speaker proceeds to the next item. Consideration of the estimates presents an opportunity for Parliament to review government policy and government programs for which the expenditures are required. Members of the government party, usually backbenchers, also make comments regarding these estimates especially if the item for which the estimate is being considered affects their constituency. In this way Parliamentary members assure the people of their constituencies that they have not forgotten them. The debates on the expenditure estimates are detailed and time consuming and occupy a large proportion of the Parliamentary timetable. In the early part of the session the estimates are discussed fairly thoroughly but towards the end of the session very often large sums are voted with little or no discussion as all estimates must be voted on before the session terminates.

When the Committee of Supply has completed its review of the estimates and has passed resolutions covering all the items, the action of the Committee is reported to the House. The resolutions of the Committee of Supply are then referred to the Committee of Ways and Means which is also a committee of the whole house. The Committee of Ways and Means considers the resolutions regarding expenditure estimates for the purpose of appropriating these amounts out of the Consolidated Revenue Fund and this consideration follows the presentation of the budget in the House by the budget speech. The budget speech includes estimates of revenues and these must be known before Parliament can approve the expenditures or release supply for the main estimates.30 This is mainly a

30Interim supply bills are considered in the Committee of Ways and Means prior to the budget speech but the main supply bill is not enacted until all of the estimates have been considered by the Committee of Supply.
formal matter and does not occupy very much time as the Committee cannot
debate what has been decided in Supply or amend the resolutions in any way.
The Committee then reports back to the House and the supply or appropriation
bill authorizing the expenditures is enacted. The bill goes through the three
readings of the House and after being considered by the Senate is signed by
the Governor-General. But because the main estimates are not enacted into a
supply bill until some time after the beginning of the fiscal year on April 1st.
and since appropriations for the preceding fiscal year lapse on March 31st.
provisions must be made to carry on the functions of government until such
time as the main supply bill is enacted. This is provided for by Interim Supply
Bills. They grant a fraction of each of the tabled estimates to provide funds for
expenses of the new fiscal year until the main supply bill is passed. An
Interim Supply Act is complete in itself and remains operative even though
Parliament may refuse to appropriate the main estimates for the department
concerned.

Statutory Appropriations. Besides those expenditures for which Parliament
makes direct annual appropriations there are also other expenditures which
appear in the budgetary estimates which are not appropriated annually by Parlia-
ment. These are expenditures authorized by statute or what are known as

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31 The role of the Senate is a minor one in regard to the budgetary pro-
cedure. Money bills are considered and passed by the Senate but the British
North America Act provides that money measures must originate in the House of
Commons and the House has held that this is its sole right and is not to be en-
croached upon by the Senate. The Senate may discuss money matters and the
policies involved and it does have the right to reject or amend money bills,
although it very seldom does so.

32 Fairly large Interim Supply grants are required if there is a delay in
the presentation of the budget. In the fiscal year 1961-62 the government was
late in bringing down a budget and in June, 1961, Finance Minister Fleming re-
quested an interim supply release of approximately $600 million to carry on the
functions of the various departments before a budget was brought down. The
opposition, notably the Honorable Paul Martin, questioned this strongly on the
grounds that the government was asking Parliament to grant this huge sum not
knowing where the money was coming from.
statutory appropriations and which Parliament has agreed should not be subject to annual review and debate. In the Blue Book these expenditures are not assigned an appropriation or vote number but are marked "s" and continue from year to year. Among the most significant of these statutory appropriations are the subsidies to Provinces as appropriated by the British North America Act and its amendments and the payments to Provinces as provided under the Federal-Provincial Tax-Sharing Agreements Act of 1956. In 1961 the former amounted to $33,114,926 and the latter amounted to $506,239,000. Another significant appropriation provided for by statute is the interest on the public debt, estimated at $747,026,235 in the 1961-62 estimates. Although these statutory appropriations are not considered annually they constitute an appreciable portion of government expenditures and are of equal significance with regard to fiscal policy as those expenditures annually appropriated. However, since they are fixed by statute they are not as flexible and any changes in these expenditures require a statutory amendment.

**Governor-General’s Warrants.** With one exception the Dominion Government adheres to the stipulation of the British North America Act that any appropriation of public money may be made only on the authority of Parliament. This exception relates to the use of Governor-General's warrants for meeting unforeseen and emergency expenditures. The Consolidated Revenue and Audit Act authorized the use of Governor-General's warrants and this provision was re-enacted in Section 28 of the Financial Administration Act. The Governor-General has this authority only when Parliament is not in session or is adjourned "sine die." The Minister of Finance reports to the Governor-in-Council that there is no appropriation for an expenditure which is

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urgently required. The Governor-in-Council may then order the preparation of a special warrant for the Governor-General’s signature authorizing the payment of the estimated amount required. However, the warrants must be laid before the House of Commons by the Minister of Finance within fifteen days after the commencement of the next session of Parliament. 34

The Budget Speech

The budget speech brings together expenditures and revenues and introduces proposals of changes in the tax structure and tax rates which are deemed necessary to finance the government expenditures. For this reason the budget speech is anxiously awaited by the Canadian public. There is no set date for the presentation of the budget speech although it is normally delivered shortly following the commencement of the new fiscal year. Most budget speeches follow a normal pattern with regard to form and presentation. They usually begin with a general review of the economic and financial conditions within the country during the previous year with emphasis on the level of economic activity, its stability and growth, interest rates, capital requirements, the balance of payments and Canada’s position in international trade. The second phase of the budget speech consists of a brief review of the government accounts and the financial operations of the government in the past fiscal year. The third section outlines the general level of anticipated gross national product and the level of expected expenditures and revenues and the effect the proposed expenditures are expected to have on the economy. Estimates of revenues are compared with the expenditure estimates and the size of the expected surplus or deficit is predicted. The fourth and final section of the budget speech consists of an outline of the government’s proposals

regarding tax and tariff changes and the effect these changes are expected to have on the budget and on economic activity.

The budget speech is presented to the House of Commons sitting as the Committee of Ways and Means and following the budget speech the House of Commons remains in the Committee of Ways and Means to consider the budget and its resolutions. Subsequently, budgetary debate continues for approximately six to seven days. It provides an excellent opportunity for the parties in opposition to scrutinize government policy in financial and economic matters. Such matters as unemployment, rising prices, declining farm income, taxation policy, the national debt and bond issues, and the rate of economic growth are brought to the fore. However, the members of the government party are given equal opportunity to defend and explain government policy and the Finance Minister’s budget. During the budget debate public opinion is also taken into account and parliamentary members delight in using excerpts from newspaper editorials across Canada in emphasizing the points they are attempting to make either in criticizing or defending the budget. Counter-cyclical budgets are difficult to impress upon the public and members of the opposition, through their criticism of the budgets, do not make the Finance Minister’s job any easier. A budgetary surplus leads to a charge of over-taxation which, it is claimed, leads to wasteful and excessive government expenditures. A deficit on the other hand is similarly attacked as poor budgeting, over-spending, waste and extravagance. This is one of the great handicaps of the budgetary system as an effective means of implementing fiscal policy.

The Budget White Papers

The budget speech is accompanied and supplemented by the Budget White
Papers. As Finance Minister Fleming commented in his budget speech of June 20, 1961,

The white paper also contains a full account of the economic events of 1960. It includes an analysis of the more significant longer term developments in Canada and in the world as a whole as related to the Canadian situation. I commend this analysis to the careful study of the honourable members. Tonight I shall not cover the ground in the same detail as in the white paper, but I should like to refer briefly to some of the principal features.35

The budget papers are composed mostly of elaborate and up-to-date tables of economic data. The first part consists of a review of national income and product, national expenditure, personal income, saving, investment and capital expenditure, revenue and expenditures of all governments, employment, price trends, balance of international payments, and financial developments in the country. The second section presents the highlights of government financial operations for the previous fiscal year with a review of budgetary expenditures and revenues, a summary of government assets and liabilities, and an analysis of the government's cash position and the public debt. The economic review contained in the budget papers is fairly complete and enables Parliament to review economic conditions and government financial transactions of the previous fiscal year.

Revenue Proposals

Proposals for tax changes are only made during the annual presentation of the budget. The resolutions providing for changes in tax legislation are also considered by the Committee of Ways and Means during the budgetary debate. When all resolutions have been considered and carried by the Committee they are reported to the House of Commons. These resolutions are then incorporated into tax bills and are dealt with in the same manner as all government legislation.

Since the revenue proposals of the Minister of Finance are those of the Cabinet and the government party, they are never rejected by parliament. If they were, it would mean a defeat for the government and a new election.

The tax bills are usually in the form of amendments to existing tax laws and the tax changes are made effective as soon as the resolutions are introduced in Parliament during the budget speech. They are not deferred until the bills are enacted because this would permit some taxpayers to take steps to avoid or reduce the payment of proposed taxes and thus hinder government financial intentions.

D. Budgetary Administration

The budgetary system must provide for effective administration so that expenditure and revenue proposals are carried out as authorized and must also provide for the means by which the government can determine whether they have been effectively administered. The process of administering budgetary proposals involves the collection and disbursement of public funds while the post-audit serves to review whether these proposals are administered as authorized.

Collection of Revenues

The collection of government budgetary revenues is the responsibility of the Department of National Revenue. The Department consists of three divisions, the Customs Division, responsible for the collection of import duties; the Excise Division, responsible for sales and excise taxation, and the Taxation Division, responsible for the collection of income taxes and functioning through district offices across the country. All public money thus received is required by statute to be deposited into one fund, known as the Consolidated Revenue Fund, in the

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36 Ibid., 1960, p. 5245.
name of the Receiver General. Under Section 16 of the Financial Administration Act the Treasury Board is authorized to prescribe the form and manner in which persons authorized to collect and receive public money are to keep records and receipts of all such money received.

Disbursement of Appropriated Funds

The British North America Act stipulates that no payments shall be made out of the Consolidated Revenue Fund without the authority of Parliament and this provision was reenacted in the Financial Administration Act.

Authority is granted through Parliamentary appropriations and after the Governor-General has signed a supply bill it becomes an Act and the supply items become grants. However, grants are not mandatory. They are released by Orders-in-Council and the Cabinet has the authority to withhold any grant from a department even though the money has been apportioned. Thus, no payment is made for an appropriation out of the Consolidated Revenue Fund unless a warrant prepared by the Cabinet has been signed by the Governor-General authorizing expenditures to be charged against the appropriation. This process, known as the release of supply, is provided for under Section 26 of the Financial Administration Act:

Where an appropriation is made for any purpose in any Act of Parliament for granting to His Majesty any sum of money to defray expenses of the public service for a fiscal year, no payment shall be made pursuant to that appropriation out of the Consolidated Revenue Fund unless a warrant, prepared on the order of the Governor-in-Council has been signed by the Governor General authorizing expenditures to be charged against the appropriation, but no payments in excess of the amount of expenditures so authorized shall be made. 37

However, the actual issue and control of disbursements of public money in accordance with authorized appropriations is the responsibility of the Comptroller of the Treasury. After supply has been released by a Governor-General's warrant the Ministers of the various departments apply to the Comptroller of the Treasury for the funds granted them by Parliament so that they may carry on their functions and activities. The Comptroller determines whether the requested issue has been appropriated and whether there are funds available to meet the requisition. Section 31 of the Financial Administration Act stipulates that:

The Comptroller shall reject a requisition if he is of the opinion that the payment
(a) would not be a lawful charge against the appropriation,
(b) would result in an expenditure in excess of the appropriation, or
(c) would reduce the balance available in the appropriation so that it would not be sufficient to meet the commitments charged against it. 38

The Comptroller determines whether the requisition is in order and then he issues a cheque to the department concerned drawn on the Receiver General. If he refuses a department's requisition the department concerned can appeal to the Treasury Board which has the power to over-rule the decisions of the Comptroller.

Audit of Government Accounts

Following the collection of revenues and the disbursements of these public funds it is the duty of the Auditor General to conduct a post-audit and report his findings to the House of Commons. This is a completely independent audit as the Auditor General is an officer of Parliament and is not subject to control by the government as he holds his office on good behavior. The Auditor

38 Ibid., p.137.
General reports to Parliament annually and draws to its attention any matters which he feels merit Parliament’s attention. It is for this reason that the Auditor-General has sometimes been referred to as the “financial watch-dog of Parliament.”\(^3^9\) The Auditor General’s annual report is normally tabled in the House of Commons simultaneously with the “Public Accounts” to which it relates.\(^4^0\)

When the Auditor General submits his post-audit report to the House of Commons, the House refers the report, together with the Public Accounts, to the Public Accounts Committee for review and report. The Public Accounts Committee is a standing committee of the House of Commons and was created immediately following Confederation. It consists of fifty members but it is seldom that the whole committee will get together at one time. The majority of the Committee consists of members of the party in power and until fairly recently had met only on rare occasions. In connection with its function of examining and reporting on current expenditures and reviewing the public accounts it may call before it not only the Auditor but other such officers as it feels necessary.\(^4^1\) Thus, it is through the post-audit process that Parliament receives from the government a full accounting for the manner in which the approved plans are carried out.

The preceding analysis has shown that the determination of government fiscal policy is centralized in the Cabinet and particularly the Minister of Finance.

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\(^4^1\) Office of the Auditor General, Canada, Audit Office Guide (Ottawa: Queen’s Printer, 1959), p. 41.
who is the chairman of the Treasury Board. The Treasury Board is responsible
for the details of expenditure policies while authorization of expenditures is the
responsibility of the House of Commons. However, since expenditure proposals
must be approved by the Cabinet prior to their submission for authorization and
since it is very seldom that Parliament will reject Cabinet proposals, the Cabinet
and the Treasury Board are for all practical purposes the centralizing policy
making and budgeting bodies of the government. The Department of Finance is
responsible for the details of revenue policies and revenue forecasting. It would
therefore appear that with this centralized control over revenues and expenditures
there would be no major problem in deliberately adjusting them. However, as has
been shown, the budgetary process is a very complicated and lengthy one and this
tends to impede flexibility. The administrative process also appears to be well
established and quite adequate for administering revenues and expenditures as
authorized, but it is too early to draw any conclusions regarding the adequacy of
the budgetary system without first determining the comprehensiveness of the system
and the extent to which fiscal policy has been implemented in the past through this
system.
NON-BUDGETARY TRANSACTIONS

Government financing is not entirely undertaken through the budget for there are also government transactions which do not appear in the budget but yet form an important element in the financial operations of the government and may have a significant impact on the economy. Non-budgetary and budgetary transactions together form fiscal policy and the purpose of this chapter is to determine the types and the sum total of non-budgetary expenditures and revenues in order to determine their significance as fiscal measures.

Non-budgetary transactions arise from activities conducted through government agencies and trust funds, from loans to other governments, and from investments in international organizations.

Finance Minister Fleming had the following to say regarding the nature of such transactions in his Budget Speech of March 31, 1960:

In addition to the expenditures for administrative and other governmental services that are included in our budgetary accounts, we pay out each year substantial amounts of cash as loans to and investments in a wide variety of essential public undertakings. These outlays are not considered as budgetary expenditures as the principal is usually repaid, and, in almost every case they earn interest or produce revenue for the government.

Against this we receive each year large amounts of cash that are not recorded as budgetary revenue. For the most part these consist of repayments of loans made in previous years and money received by the government as net premiums contributions and earnings in connection with annuities, insurance, or pension funds.

During 1960–61 we shall probably require about $290 million for housing loans, including new and existing commitments, about $160 million for C.N.R. and T.C.A., capital investment and refunding and perhaps as much as $100 million for other non-budgetary purposes. Against this we shall probably have somewhat
more than $300 million available from the repayment of loans and from the transactions in our various annuity, insurance and superannuation accounts.¹

Government Trust Funds

Government trust funds are special funds which are excluded from budgetary calculations except to the extent that they involve government contributions or the payment of interest. That is, some government contributions to these funds are included as budgetary expenditures while the interest received by the government from investing money from these funds is considered as budgetary revenue. The largest of these trust funds are the old age security fund and the unemployment insurance fund.

Old Age Security Fund. Old age security payments are made from the old age security fund and are not included as direct budgetary expenditures. This fund is financed by contributions of 3 per cent from all revenues received from the personal and corporate income taxes and the sales tax. This Old Age Security Tax of 3 per cent is excluded in the calculation of budgetary revenues and is considered a non-budgetary transaction. During 1958-59 pension payments amounted to $559 million and tax receipts credited to the fund amounted to $375 million resulting in an excess of pension payments over tax receipts of $184 million² which was charged to budgetary expenditures in 1958-59 and subject to appropriation by Parliament. In the fiscal year 1959-60 pension payments totalled $575 million. Tax receipts credited to the fund amounted to $547 million and the deficit of $38 million was covered by a temporary loan by the


²This was due to the increase in pensions to $55 per month while the Old Age Security Tax remained at 2%. In 1959 the contributions from the three tax sources were increased to 3%.
Minister of Finance.

In his budget speech of April 9, 1959, the Minister stated that, since provisions were being made for the necessary revenues to bring the fund into balance over the next two or three years by increasing the Old Age Security Tax rates from 2 to 3 per cent, he did not propose to treat the deficit as a budgetary charge in that year but to consider it as a non-budgetary charge. In his 1960-61 budget the Finance Minister expected the old age security fund to show a surplus of approximately $40 million which he stated would balance the 1959 deficit.

Unemployment Insurance Fund. The unemployment insurance fund is a second major trust fund where transactions are considered non-budgetary. Unemployment insurance benefit payments are not charged to budgetary expenditures but are paid from the unemployment insurance fund which is financed by equal contributions from employees and employers, by interest earned on investments, and by the government contribution of an amount equal to one-fifth of the combined employee-employer contributions. Contributions by employees and employers are considered as non-budgetary revenue while the government contribution of 20 per cent is granted under a statutory appropriation and is included in the budgetary estimates of expenditures. During the fiscal year 1960-61 expenditures from the fund totalled $518 million while receipts were $498 million, which included a loan of $67 million from the Minister of Finance. Such loans are not charged to budgetary expenditures as it is expected they will be repaid during periods of prosperity when contributions are likely to exceed payments.

Loans To Governments

The second major category of non-budgetary transactions consists of

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3 *Budget Speech, April 9, 1959 (Ottawa: Queen's Printer, 1959), p. 15.*
loans and advances to, and repayments by national, provincial, and municipal
governments and international organizations. Total loans outstanding to national
governments and miscellaneous foreign loans totalled $1,415 million at March 31,
1960, a decrease of $34 million for that year, while loans to provincial govern-
ments totalled $88.3 million and loans to international organizations totalled
$605.2 million or an increase of $235.3 million over the 1959 total. These
loans are provided for under Parliamentary Acts rather than under budgetary
appropriations. However, direct contributions to international economic and
special aid programs which are not subject to repayment are granted by Parlia-
mentary appropriations and are included in the budgetary expenditures.

Transactions of Crown Corporations

A considerable portion of non-budgetary transactions consist of loans
and advances to, and investments in, crown corporations and receipts from these
corporations in the form of repayments of loans and in the actual transactions of
the corporations themselves. Some crown corporations are so large that they
handle more money than is handled by some government departments. The trans-
actions of the crown corporations in 1959, that is, their revenues and expenditures,
amounted to well over $3,500 million, excluding the Bank of Canada, the Canadian
Wheat Board, and Departmental Corporations.

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4 Department of Finance, Public Accounts of Canada for the Fiscal Year

5 Loans to the United Kingdom came under the authority of the United
Kingdom Financial Agreement Act 1946; loans to other countries under Part II
of the Export Credits Insurance Act 1946. See ibid., p.77.

The Financial Administration Act defines a crown corporation as "a corporation that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs." The Financial Administration Act has nothing to do with the actual form of incorporation of crown companies. Its purpose with regard to crown corporations is to give a uniform measure of financial control over these corporations and to provide for their annual reporting to Parliament through the appropriate Minister. The Act divides the crown corporations into three classes: departmental, agency, and proprietary corporations.

Departmental corporations are those crown corporations which are responsible for administrative, supervisory, or regulatory services of a government nature. They are treated similarly to government departments and their financial transactions are included in and accounted for as budgetary revenues and expenditures.

Agency corporations are corporations responsible for the management or service operations on a commercial basis. They are budgeted separately from the general budget but these budgets must have the approval of the appropriate department Minister and the Minister of Finance. Section 80 of the Financial Administration Act stipulates that,

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each \text{ agency corporation shall annually submit to the appropriate minister an operating budget for the next following financial year of the corporation for the approval of the appropriate Minister and the Minister of Finance.}^{9}
\]

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7 Statutes of Canada 1951 (Ottawa: Queen’s Printer, 1952), c.12 s.76(1), p.189.


9 Statutes of Canada 1951 (Ottawa: Queen’s Printer, 1952), c.12. s.80(1) p.150.
After obtaining approval the corporation is allowed to proceed to carry out the
approved items in its budget pretty much as management shall decide.

Proprietary corporations are responsible for the management
of lending or financial operations, or for the management of com-
mercial and industrial operations involving the production of or
dealing in goods and the supplying of services to the public, and
are ordinarily required to conduct their operations without
appropriations.\textsuperscript{10}

Their expenditures and revenues do not appear in the federal budget although
their operating deficits appear as a budgetary charge and are appropriated by
Parliament. Similarly any surpluses or profits which these corporations
incur become budgetary revenue. Agency corporations are required to submit
an operating budget before Parliament but proprietary corporations are not re-
quired to do so although all corporations must submit their capital budgets. The
government justified its position with regard to the submission of operating
budgets with the following statement:

An agency corporation is an agent of one of the departments. But
these other corporations, which are set up independent of the opera-
tions of any department, may very often . . . have directors who
are chosen from the business life of the country. Some of these
businesses are very successful. These corporations should have a
certain degree of independence such as they would have if they were
private corporations.\textsuperscript{11}

A few crown corporations do not fit into the three above categories but
operate under their own Acts. These are the Bank of Canada, the Canadian Wheat
Board, and the Industrial Development Bank.\textsuperscript{12} They have their own separate

\textsuperscript{10}Canadian Tax Foundation, \textit{The National Finances} 1960–61 (Toronto,

\textsuperscript{11}Canada, House of Commons, \textit{Debates} 1951 (Ottawa: Queen’s Printer,

\textsuperscript{12}Canadian Tax Foundation, \textit{The National Finances} 1960–61 (Toronto,
budgets similar to those of proprietary corporations.

Section 82 of the Financial Administration Act outlines the regulations governing loans to crown corporations. These loans are made from the Consolidated Revenue Fund by the Minister of Finance at the request of the appropriate Minister, but are subject to the approval of the Governor-in-Council. The maximum outstanding loan to any corporation cannot exceed $500,000 and all loans are repayable within a period not exceeding twelve months. The Act further requires that "A report of every loan to a corporation under this section shall be laid by the Minister of Finance before Parliament within fifteen days after it is made." 13

Loans and advances to crown corporations bear interest and this appears as budgetary non-tax revenue under "Return on Investments." Repayments of loans and advances by the corporations are considered non-budgetary receipts. Table 3 of the Appendix shows the net loans to and investments in crown corporations by the Federal Government for the fiscal years 1958-59 and 1959-60.

The audit of the accounts of departmental corporations is the duty of the Auditor-General. With regard to the accounts of agency and proprietary corporations the Financial Administration Act provides that if,

no provision is made in any Act for the appointment of an auditor
to audit the accounts and financial transactions of the corporation . . .
the Governor-in-Council shall designate a person to audit the accounts
and financial transactions of the corporations. 14

Of the twenty-four crown corporations listed as agency or proprietary corporations
in the schedule to the Financial Administration Act, as at December 1958 twenty

13 Statutes of Canada 1951 (Ottawa: Queen's Printer, 1952), c.12 s.82(3)
p.151.

14 Ibid., c.12 s.77(1), p.180
were required to be audited by the Governor-General. 15

Each crown corporation is required by the Financial Administration Act to prepare a financial report at the termination of each financial year which is to include a balance sheet, a statement of income and expenses, and a statement of surplus. This report is to be submitted to the appropriate Minister who is required to present it before Parliament within fifteen days after he receives it. The annual reports of all crown corporations are published in the Public Accounts of Canada 16 and are considered by the Public Accounts Committee.

The conclusion drawn from the above discussion is that non-budgetary transactions form an important part of total government revenues and expenditures and are significant for fiscal policy. Payments from government trust funds such as the Old Age Security Fund and the Unemployment Insurance Fund are important during times of recession for they increase the amount of purchasing power in the hands of the public and tend to stimulate the economy. These transactions are considered as fiscal measures but are not included in the budget. Moreover, the transactions of agency and proprietary corporations are large enough to have an influence on the economy and yet these corporations are indirectly controlled by the government and have considerable freedom in determining their budgets.

Foreign loans, if spent in Canada, tend to increase exports and affect, therefore, the level of national income. It would thus appear desirable that budgetary and non-budgetary transactions be more closely co-ordinated and considered together to present an over-all picture of the government's fiscal policies.


IV

RECENT CANADIAN BUDGETARY POLICY

The Budget is the financial plan of the government through which fiscal policy is implemented. Fiscal policy is considered as an attempt by the government to maintain a stable rate of economic growth in the country by deliberate adjustments of government revenues and expenditures. It would be incomplete to attempt to determine the adequacy of the budgetary system for the implementation of fiscal policy without some indication of the extent to which the Canadian government has recognized the significance of fiscal policy, of the degree to which the government has used the budget in the last decade to implement fiscal measures, and of how adequately the system has functioned in the past in regard to the implementation of fiscal policy for the maintenance of a steady rate of economic growth. For this purpose a brief review of Canadian fiscal policy during the period 1950–1961 will be presented.

Aim of Fiscal Policy

A nation's economy is subject to erratic fluctuations or disturbances which may be seasonal, cyclical, or secular in nature and which range from very mild to very severe. Fiscal policy is designed to stabilize the economy along a rising trend. Policies designed to offset current fluctuations should be such that they will, in the long-run, assist the economy in maintaining a stable rate of economic growth, that is, they will reduce the causes of
economic instability so as to provide a stable rate of growth.

The components of national income are consumption, investment, and government expenditures. Fiscal policy consists of various measures which affect the aggregate of these expenditures by affecting one or all of these components. But policy which influences one sector should not affect adversely the other two. Hence, an increased proportion of government expenditures devoted to public capital formation will expand the rate of economic growth, but increased public works may reduce the desire to carry on private investment. Economic instability results from fluctuations in consumption and investment expenditures. The government may attempt to bring about stability by introducing fiscal measures to combat these fluctuations or by manipulating its own expenditures to compensate for any fluctuations in private consumption and investment. The government may also influence economic growth through fiscal measures which affect the rate of increase of these three types of expenditures. Fiscal policy affecting consumption expenditures consists of various forms of taxation and transfer payments both of which affect personal incomes and hence consumer purchasing power. Policy affecting investment also consists of forms of taxation. These may increase or decrease the amount of money individuals and business enterprises have available for investment purposes. Taxation may also aim at affecting investment incentives and may take the form of depreciation and investment allowances. Subsidies likewise influence investment by encouraging the establishment of new firms or expanding existing ones.

Fiscal policy must be planned carefully so that in combating short-run economic disturbances, due to sudden changes in effective demand, the government helps to provide for the desired rate of economic growth. Not all policies aimed at correcting temporary downward economic fluctuations will
stimulate growth. The government must recognize that, from the point of view of economic growth, policies affecting either consumption or investment do not bring about the same result. Economic growth is a function of the rate of growth of investment as investment is both capacity creating and income generating and increases or decreases in the rate of growth of investment, other things being equal, will increase or decrease the rate of growth of the economy. The most important element in the stability of economic growth is therefore stability in the rate of growth of investment.\(^1\) Policies which stimulate investment such as subsidies, investment allowances, and decreased rates of taxation, and those which encourage technological research and entrepreneurship not only correct a downward fluctuation but are also favorable for economic growth and development. Policies which increase consumption may likewise lift an economy out of a recession but consumption does not increase growth as it is not capacity creating.

With regard to the government component of aggregate expenditures, in times of inflation fiscal policy calls for a budgetary surplus in the form of decreased government expenditures and increased taxes, while if there is a downward fluctuation in the economy from the normal trend of growth, the government should adopt a policy of increasing expenditures and reduced taxes in order to bring the economy back to normal. However, situations may arise in which inflation is present and yet the rate of growth is below the desired rate. A surplus, aimed at

combatting the inflationary pressures, does not necessarily retard economic growth. Policies for increasing economic growth, in the form of increased government investment and incentives for private investment, can still be a part of anti-inflationary policy if the government introduces a policy of decreased transfer payments and policies aimed at discouraging consumption by increased income and sales taxes. In other words, inflation can be reduced and economic growth stimulated if aggregate demand is decreased through a policy which decreases consumption expenditures by a greater amount than it increases investment. However, this is only true of inflation resulting from excess aggregate demand and does not apply to cost-push inflation.

Fiscal policy should aim at full employment without inflation. But in this respect there crops up one of the many problems inherent in fiscal policy and one which has been plaguing the Canadian economy for the past decade; the problem of underemployment coupled with inflation. Some believe inflation will occur only after the level of full employment has been reached, that is, where national income is at its maximum with the current productive capacity. But the Canadian experience during most of the 1950's has been rising prices together with unemployment. This is the result of various types of unemployment that exist. Unemployment may be seasonal, structural, cyclical, or secular and seasonal and structural unemployment are a problem in the Canadian economy. Certain industries are depressed while other industries are prospering. Merely increasing aggregate demand through fiscal policies is insufficient, for, while unemployment may be

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reduced to a certain degree through such measures, they will give rise to
greater inflationary tendencies.³ Full employment could thus only be achieved
and maintained at the cost of rising prices. If government policy was directed
at countering the inflationary pressures then deflationary measures of de-
creased expenditures and increased taxes would stabilize the price level but
would lead to greater unemployment. In such a case fiscal policy should not
be concerned with attempts to increase aggregate consumption and investment
for the problem would not be solved by such policies. Instead, fiscal policy
should be directed at assisting the depressed industries and eliminating the
various pools of unemployment. This could perhaps be accomplished through
a program of retraining workers and thereby increasing worker mobility, or
through a policy of subsidies and reduced taxes for the benefit of the depressed
industries.

It should be pointed out that discretionary fiscal policies are not the
only means of stabilizing the economy. Automatic stabilizers are likewise a
form of stabilization measures. These are pre-arranged stabilizers built into
the government’s financial system for the purpose of cushioning economic dis-
turbances. They consist of expenditures and receipts which respond without
any new government decisions and are of such nature that they partially or com-
pletely offset economic forces which move the economy away from stability.
That is, automatic responses are stabilizing if they reduce the amplitude and
duration of the cyclical deviations in employment and prices. According to this
principle, a budget is planned so as to balance during relative prosperity.
During a boom, government expenditures will decrease as transfer payments

fall off while revenues will increase due to the progressive rates of the tax
structure. The result is a surplus in the budget which automatically acts against
inflation without the government taking legislative action to increase taxes or
decrease expenditures. During a depression people receive less income and pay
less taxes due to the progressive rates while at the same time applications for
relief payments, unemployment insurance payments, and for old age pensions
will increase, thereby automatically reducing government receipts and in-
creasing government expenditures and the result will be a budgetary deficit.

The Beginning of Fiscal Policy in Canada

Fiscal policy as a means of achieving economic stability came to promi-
nance with the Great Depression of the 1930's and with the publication of the
*General Theory of Employment, Interest and Money* by John Maynard Keynes
in 1936. Keynes proposed fiscal policy with large government expenditures and
low taxes as a means of overcoming the depression. Prior to 1930 the old doc-
trine of annually balanced budgets was quite firmly entrenched in economic think-
ing. Government revenues in the form of taxes were regarded as a means of
financing expenditures and in periods when government revenues fell, expendi-
tures were reduced by the same amount. There was no recognition of the possi-
ibility of direct use of taxation and government expenditures to combat inflationary
and deflationary tendencies. In Canada, as Professor I. Brecher points out, “the
economic rationale for all of Mr. RHode's (Finance Minister) budget speeches
was the aim of maintaining high tax rates in the face of heavy and unavoidable
government expenditures and so minimizing additions to the national debt.”

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4 Irving Brecher, *Monetary and Fiscal Thought and Policy in Canada*
However, from the period 1935 to 1939, under the influence of leading economists of the time, government fiscal thinking underwent a change and it was gradually recognized that there was "sound economic ground for urging a policy under which public expenditures might be expanded and contracted to offset fluctuations in private expenditures." The Canadian government began to recognize more and more the significance of fiscal policy as a means of combating economic fluctuations.

Recent Canadian Government Attitudes

Early fiscal policy was aimed primarily at combating economic fluctuations, but in more recent years the government has come to stress the significance of fiscal policy for promoting economic growth as well. In his budget speech of April 5, 1955, the Honourable W. Harris, Minister of Finance, while commenting on fiscal policy, stated that,

all the useful tools and weapons at the disposal of government should be used and directed toward the fundamental objective of all economic policy - the steady expansion of the wealth and welfare, the employment and incomes, of the Canadian people. 6

On March 31, 1960, Finance Minister D. Fleming stated in his budget speech that he was bringing down a budget "which would resist inflation and at the same time encourage a healthy rate of balanced growth." 7 And again on June 20, 1961, in introducing his "economic budget", Finance Minister Fleming stressed that the "contribution in the field of fiscal policy . . . which I shall be announcing tonight will bring about higher levels of production and employment, and a

5Ibid., p. 217.
7Ibid., 1960, p. 2671.
more satisfactory rate of growth."³

Fiscal Policy 1950–1961

During the 1950’s the Canadian economy has experienced two general movements; prosperity and rapid expansion from 1950 to approximately 1956 with a brief slump in 1954, and a generally declining rate of growth and recession with the occasional short period of prosperity from 1957 to the present. However, the entire period was one of inflationary pressures.⁹

1950–1957. The post-war inflationary tendencies were still evident in the Canadian economy in 1951 during which year gross national product was 17 per cent higher than in 1950. However, approximately two-thirds of this increase was due to higher prices and only one-third to increased real output. In 1951 the Hon. Douglas Abbott, Minister of Finance, urged greater saving and less consumption if the government was to carry through its "essential investment programs for defence and for resource development without increased inflationary pressures."¹⁰ With reference to this in his budget speech of April 8, 1962 Mr. Abbott reported that personal savings had doubled during 1951 from their 1950 level. He attributed this to higher interest rates and more attractive terms of the Canada savings bonds and urged that Canadians, in order to resist inflation, should continue their trend towards increasing saving. During 1951 restraints had also been placed on credit and income taxes had been increased in attempts to reduce inflationary pressures. As direct controls

³Ibid., 1961, p.6543.

⁹See Table IV, Appendix.

over private capital expenditures are very difficult the government attempted
to control capital business expenditures by putting new provisions into the income
tax regulations which deferred for four years any allowance for depreciation on
capital expenditures being taken in that inflationary period. The purpose of this
policy was "to induce businessmen to think carefully of the long-run value to be
obtained from their capital expenditures and not to look primarily at the imme-
diate profitability in a period of high prosperity." 
11 Due to government policy
in 1951, even though inflationary pressures were quite severe at the beginning
of that year, by the end of the year they had been brought somewhat under
control. 12 The actual budgetary surplus for 1951 was $356 million. However,
he cautioned that there was still a strong inflationary potential and it would not
be wise for the government to become placid and relax its anti-inflationary
policy. Therefore, for the fiscal year 1952-53, the Finance Minister budgeted
for a surplus of $125 million. No major tax changes were proposed but of the
tax revisions or modifications made it was estimated that the loss in revenue
would still leave a small surplus of $9 million. With regard to expenditures
the government continued its policy of seeking economy and retrenchment and
the increase in the 1952 expenditure estimates over those of 1951 was princi-
pally due to increased expenditures for defence. 
13 Mr. Abbott stressed that

*Savings In the Modern Economy*, eds. W. Heller, F. Boddy, and C. Nelson
(Minneapolis: University of Minnesota Press, 1953), p. 32.

12 Canada, House of Commons Debates 1952, (Ottawa: Queen's Printer,
1952), II, p. 1245.

13 Canada, House of Commons, Debates 1951, (Ottawa: Queen's
government expenditures involving construction or the expansion of activities which were not deemed urgent were held down as much as possible. The direction of Mr. Abbott’s policies in 1951 and 1952 was certainly towards stabilizing the economy and reducing inflation but he concentrated mostly on the expenditure side of the budget in his emphasis on government economy and retrenchment in its expenditure programs.\(^1^4\) There was no attempt to increase taxes, perhaps because of the anticipated general election in 1953.

Government policy throughout 1953 and 1954 continued in this vein with budgetary surpluses predicted in both years. However, because of a decline in economic growth in 1954 the decrease in revenues reduced the forecasted surplus to a deficit of $180 million although expenditures were also 4 1/2 per cent less than forecasted. However, the 1954 recession was not to last and in 1955 the economy again reached prosperous levels. In introducing his 1955 budget the Hon. W. Harris, Minister of Finance, commented: "when employment and incomes are high, and the economy expanding at a normally healthy rate, we should fully balance our budget, with a modest amount for the reduction of debt."\(^1^5\) The main expenditure estimates were reduced from the 1954 level and tax reductions were also proposed. Similar policies were followed in 1956 and 1957 with no major tax changes and the Minister of Finance budgeting for a surplus of $113 million in 1956 and $152 million in 1957. Finance Minister Harris justified his stand of refusing to reduce the


general level of taxes and budgeting for a surplus by stating that he believed "the severe inflationary pressures, which we have resisted so far with a high degree of success, are still with us to a considerable extent," and he did not feel it would be wise for the government to relax its anti-inflationary policy.

But Mr. Harris's forecast of continuing prosperity was not to be realized for the boom of 1955 and 1956 ended in 1957 and the Canadian economy experienced the beginning of a major recession. The boom had fostered large increases in capital investment and the accumulation of inventories. In 1957 capital investment not only levelled out but began to decline as inventories were being liquidated. Housing investment also began to decline from its high rate in 1956 and only consumer expenditures continued to remain a sustaining force in 1957 with a 4 per cent increase over 1956.17

What were the goals of fiscal policy in this period? It was a period of strong inflationary pressures and a relatively high rate of economic growth.18 The government was principally concerned with combatting the inflation by retrenchment of its own expenditures and by discouraging private consumption and investment. The government thus attempted to influence all three components of national income. With regard to discouraging consumption the government encouraged saving and held down its own expenditures. The policies aimed at discouraging private investment in 1950 and 1951, the years of very high


17Ibid., June 17, 1958, pp. 4-5.

18See Table IV, Appendix. In constant dollars the rate of growth was uneven. It was high from 1950 to 1952, but from 1952 to 1954 there was very little growth. The economy was again prosperous in the 1954-1956 period but in 1957, gross national product declined from its 1956 level.
inflation, were anti-inflationary for cost-push inflation would have increased
still further had the government stepped in with expenditures for defence and
bid away resources from private investment. By discouraging private invest-
ment, resources were freed for government use. However, government expen-
ditures for defence are inflationary for military equipment is not adaptable to
personal use and the income received by persons as a result of defence spend-
ing is not matched by production for consumers' use.

1958-1961. This period was one of economic decline coupled with inflationary
tendencies. Government fiscal policy as implemented through the 1958 budget
was aimed at curbing this economic decline and at promoting recovery. Fore-
casting an increase in gross national product for 1958 of only 3 per cent over
the 1957 level, Finance Minister Fleming budgeted for a deficit of $640
million. This budget included large expenditures for national development and
social security while introducing no significant changes in the tax struc-
ture. It was Mr. Fleming's conviction that increasing government expendi-
tures was much more effective in promoting economic recovery than decreas-
ing taxes. To this effect he commented:

The advocates of tax reductions argue that by leaving more money
in the hands of individuals, consumer spending will be stimulated and
more savings will be available for productive capital investment.
But I believe experience has shown that while this may happen to
some extent, unless other stimulating measures are taken much of
the tax saving to many taxpayers tends to lie idle. It is neither
wholly spent nor put into productive investment. A program of
public investment has the obvious advantage of providing employ-
ment for idle or underemployed manpower and equipment.

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19Gross national product increased by 4% in 1957 over the 1956 level
but most of this increase was due to higher prices. See Table IV, Appendix.

20Public Works, transportation, and natural resource development.

Thus, even though tax reductions are recognized as having the quality of increasing consumer purchasing power immediately and are welcome by the public, Mr. Fleming was convinced that increased government expenditures were much more effective.

Mr. Fleming examined the results of his 1958 policies in his budget speech of 1959 where he stated: "the forces of economic growth and expansion have reasserted themselves."\(^{22}\) He further added that,

> the most important forces stemming the decline in business activity during 1958 were to be found in the fiscal policy and position of the federal government - lower tax rates and revenues, higher expenditures and increased cash disbursements particularly in housing loans. The additional spending power provided in this way helped to arrest the decline . . . the tax reductions announced in Dec. 1957 helped to maintain the purchasing power in the hands of the public.\(^ {23}\)

Mr. Fleming also emphasized the increase in social security payments such as old age pensions, veterans allowances, and unemployment insurance payments as contributing greatly to the maintenance of personal incomes and consumer expenditures: "almost one-third of the total increase in personal incomes consisted of increased federal payments of this type."\(^ {24}\) The government had also increased federal transfers to the provinces and government action of making funds available for housing resulted in a 25 per cent increase "in investment in residential housing . . . an all time high."\(^ {25}\) This very large increase in government expenditures as an attempt to maintain economic stability resulted in a cash deficit - budgetary requirements together with loans and advances - of $1,263 million for the fiscal year 1958-1959.

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\(^{22}\)Ibid., April 9, 1959, p.3.

\(^{23}\)Ibid.

\(^{24}\)Ibid., p. 4.

\(^{25}\)Ibid.
During 1957 business capital investment declined by almost 20 per cent, possibly because of the excess capacity created in 1956, and was considered as the major factor causing the recession. In 1958 business capital investment continued to decline by 13 per cent from the 1957 level. Government fiscal policy to counteract this reduction in private capital investment consisted of an expansion in public investment which was increased by 17 per cent and offset almost two-thirds of the decline in business investment. Investments in housing and community facilities such as roads, schools, and hospitals, amounted to more than two-fifths of our total capital spending.\(^2^6\)

However, the tendency towards inflation continued in 1958 with rising costs and prices and consumer prices increased by 3.4 per cent over the 1957 level. Mr. Fleming pointed out that rising prices in time of recession was a matter for concern and he concluded that the cause of inflation was due to the fact that developments in corporation pricing policies, in labour organization, and even in our political democracy are producing increased rigidities which inhibit the free play of competitive forces and thereby promote inflation and price increases.\(^2^7\)

He maintained that costs of production in Canada, unless kept in line with costs of production in other countries, would lead to greater economic difficulties as

\(^{26}\)Ibid., p.5.

Perhaps the government foresaw a rather lengthy recession and its policy of large government investment to offset the contraction in private investment would thus not only increase incomes but would also add to productive capacity and foster economic development and growth. However, a danger of such a policy is that if the private sector does not assume this investment later on, the government would be forced to continue its high level of investment each year for if it decreased its investment the economy would decline. Yet large government expenditures may add to the public debt.

\(^{27}\)Ibid., p.7.
world markets become increasingly competitive. However, no decisive policy was introduced to combat the inflationary tendencies caused by rising costs of production. The government no doubt felt that economic recovery was the dominant issue and should take precedence over inflation even though the increased government expenditures would strengthen inflationary tendencies.

Mr. Fleming summarized the impact of government economic activity on a nation’s economy and the importance of flexibility in budgetary policies when he stated:

Government policies relating to taxation and expenditure should be kept flexible. In an earlier generation when government revenues and expenditures were only a very small fraction of the gross national product the broad economic effects of government finance were not of great significance. But in the modern age where the government expenditures constitute 18 to 20% of the gross national product . . . the financial policies of the government - the amount spent, how it is spent, how the revenues are raised, and the balance between revenue and expenditure - all exert a very direct influence on the health of the private sector of the economy.

As economic conditions change, the government’s budget policy needs to change also. It must be flexible; it should be adapted to the shifting economic climate. There are times when a substantial deficit is clearly the right policy; there are times when the budget should be in balance; there are times when some provision should be made for the orderly retirement of debt; and within these ranges there is also the question of degree. The problem of timing the adjustments in budgetary policy is not an easy one, and yet good timing is often of crucial importance.28

In his 1959 budget speech Mr. Fleming expressed confidence that recovery was gathering momentum but stated that he did not wish to introduce abrupt changes that might hamper the expansionary forces. He optimistically based his 1959–60 budget on a forecast of gross national product of $34.5 billion or a 7 per cent increase over the 1958 level and budgeted for a deficit of $400 million. Tax policy for the fiscal year called for slight increases in

the rates on personal and corporate incomes and increases in the sales tax on
certain luxury goods in an effort to decrease the budgetary deficit and to lessen
inflationary tendencies. However, in order not to bring about any substantial
decrease in consumer demand no tax increases on personal incomes below the
level of $3000.00 of taxable income were proposed.\textsuperscript{29} As Mr. Fleming pointed
out, the objective of his tax policy for 1959–60 was:

(a) To provide a broadly based source of revenues to meet the
new and additional forms of universally available social welfare
benefits and,
(b) To reduce the budgetary gap in a degree that will not inter-
fer with the desired rate of recovery.\textsuperscript{30}

During the year 1959 Finance Minister Fleming's forecast of a reco-
very proved to be correct as gross national product rose to $34.8 billion. The
budgetary deficit of $393 million predicted at the beginning of the 1959–1960
fiscal year increased only slightly to $406 million. For the 1960–1961 fiscal
year gross national product was expected to rise to approximately $37 billion,
a significant 6 per cent increase, and in this respect no major tax changes or
expenditure increases were proposed. The finance Minister, convinced that
economic recovery had been achieved, attempted to balance the budget and
budgeted for a $12 million surplus. However, as mentioned in Chapter II, the
forecast of economic recovery and gross national product growth was not
realized as recession held gross national product to a mere 2 per cent increase
over 1959 resulting in greater expenditures, less revenue and an actual deficit
of $345.5 million.

Because of the 1960 decline, in an attempt to promote economic growth,
Mr. Fleming introduced further fiscal measures in a supplementary or "baby

\textsuperscript{29}Ibid., pp.16–21.

\textsuperscript{30}Ibid.
budget" on Dec. 20, 1960. Tax revisions were proposed calling for the 21 per cent corporation income tax to be applied to corporate income below $35,000 rather than the existing level of $25,000, and the repeal of the 4 per cent surtax on investment income to encourage investment. 31 This policy was continued in 1961 with:

a number of constructive programs to encourage economic expansion; small business loans, housing development, urban renewal and rural development; greatly increased aids to technical education and training; measures to promote the expansion of exports. 32

The 1961 budget forecast an increase in gross national product of 3 per cent and involved a deficit of $650 million to help promote economic recovery. Among the most important tax changes proposed was the repeal of the 7 1/2 per cent excise tax on automobiles in an attempt to stimulate the depressed automotive industry in Canada. Also, as an incentive to research it was proposed that businessmen could "deduct all expenditures of a capital nature made . . . in respect of scientific research," 33

Towards the end of this period it appears that the government was placing ever increasing emphasis on economic growth and began to stress incentives to the private sectors of the economy. The government's short-term policies of 1958 and 1959 raised the economy out of the recession but because these policies were short-term 34 they did not prevent the recession from returning in 1960 when

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32 Ibid., 1961 p. 6642.
33 Ibid., p. 6669.
34 These were principally increased expenditures for public works and welfare payments. Welfare payments do not necessarily lead to investment and economic development, while public works, once completed, add nothing further to national income and additional public works must be undertaken. This is unlike private investment in a new industry which produces year after year.
the government attempted to balance its budget rather than operate on increasing expenditures and continuous deficits. In 1960 and 1961 the Minister of Finance, rather than increase government expenditures only, attempted to influence private investment through tax incentives and aid and incentives for technological development and technical training.

This brief review has served to indicate the Canadian government's attitude, since 1950, towards fiscal policy for the maintenance of economic stability and growth. Increasing emphasis has been placed on economic conditions and fiscal policy in recent budget speeches and the budget has come to constitute the most important single reflection of government policy. It has been greatly stressed that the magnitude and the purposes of expenditures and the changes in the tax structure are being introduced for the purpose of promoting economic stability and growth. It can also be concluded that the results of fiscal policy during this period have tended to operate in a counter-cyclical manner. Furthermore, this review has indicated that since 1950 there have been numerous and even serious economic fluctuations. Since the purpose of fiscal policy is to promote stable economic growth then either the system or government policy has proved inadequate. The adequacy of the system will be determined in the following chapter.
EVALUATION OF THE BUDGETARY SYSTEM

The entire budgetary procedure has been described in preceding chapters for the purpose of determining the adequacy of the system as a means of implementing fiscal policy. What are the findings of this study? There is convincing evidence of limitations in the Canadian budgetary system as an instrument of fiscal policy. Some of these are minor, others are so serious as to practically make the budget inept for implementing effective fiscal policy in certain circumstances. However, there is also much to be said in favor of the system. Therefore, both the limitations and the merits of the system shall be considered in determining its adequacy for the implementation of fiscal policy.

A. Limitations of the Budgetary System

Lack of Comprehensiveness

A major criticism of the Canadian budget is that it is not as comprehensive as it could be. A considerable portion of the government's financial transactions are considered non-budgetary and do not appear in the budget as expenditures and receipts. However, non-budgetary outlays and receipts may play a vital role in government fiscal policy, that is in combatting economic fluctuations. The budget is therefore only a guide to general policy rather than a complete indication of government fiscal intentions. The details of non-budgetary transactions should also be tabled for Parliamentary consideration.
so that Parliament would have a more complete picture of government financial policies and could consider the effect of such policies on the economy. It is not being suggested here that budgetary transactions are easier to implement than non-budgetary ones, but rather that the budget does not present a complete picture of the government's fiscal policy and this hints at lack of co-ordination of fiscal measures.

Then there are also the Crown Corporations, notably agency and proprietary corporations, whose financial transactions are excluded from both budgetary and non-budgetary transactions in the government accounts. The transactions of these corporations add up to a considerable sum and such corporations as the Central Mortgage and Housing Corporation, the Farm Credit Corporation, and the Industrial Development Bank, through their operations may contribute greatly to the promotion of economic stability, and yet the amount nor the direction of their transactions is indicated in the annual budget presented before Parliament. Agency corporations are required to submit to the appropriate Cabinet ministers a capital and an operating budget and therefore it would require very little effort to include the budgets of both agency and proprietary corporations in the annual budget. This does not mean that these budgets must be subject to Parliamentary authorization but the presentation of the operating and capital budgets of these corporations would enable Parliament to consider the broad policies associated with their operations and the effect of these policies on the economy.

It is suggested that all present non-budgetary transactions, which would include the capital and operating budgets of Crown Corporations, the outlays and receipts of government trust funds, and government loans and investments and the repayment of the same, be tabled in one volume at approximately the same
time the Estimates are tabled. The budget speech should also take into con-
sideration these non-budgetary transactions and should equate total government
outlays to total government receipts. The result would be a comprehensive
presentation of total government financial transactions and hence a more com-
plete indication of fiscal policy.

Lack of Flexibility

An inherent problem of fiscal policy to counter economic fluctuations
is timing and magnitude. Should action be initiated as soon as possible when
an upward or downward movement in the economy is forecast, or only after
some delay? Should it be conservative or otherwise? When a need for stabi-
lizing action is recognized, time is required to permit the formulation and initi-
ation of a program by the government and once the program has started addi-
tional time is required before its economic effects show up. Actions initiated
in advance of imperfectly foreseen disturbances will be de-stabilizing if the
forecast is erroneous. On the other hand, delayed action will make the cumula-
tive movement so much more difficult to check. The complicated and rather
lengthy process of formulating, authorizing and administering expenditure and
revenue proposals contributes considerably towards making the Canadian
budgetary system a rather inflexible one for implementing fiscal policy.¹
However, as will be pointed out, the budget is more flexible for implementing
anti-depressionary policies than anti-inflationary ones.

A major drawback of the budget as a means of implementing fiscal
policy is that expenditure estimates are made from six to eighteen months

¹As K.W. Taylor points out: "our government has to make quite firm
and usually rather inflexible decisions, between Christmas and Easter of each
year which set the pattern of fiscal policy for the ensuing 12 months."
before they are carried out. Unless a very accurate method of long-range
governing is developed it is difficult to determine economic conditions so far
in advance. Such a system of accurate forecasting has not been developed and
yet important changes in fiscal policy are made only in the annual presentation
of the budget. To base government policies on unreliable forecasts of economic
conditions is undesirable. However, until a more reliable system of forecast-
ing is developed the budget could be made more flexible to compensate for this
lack of accurate forecasting. A large proportion of fiscal policy is introduced
through the budget and is presently fairly flexible with respect to economic
declines. The main expenditure estimates are not final and a department may
undertake additional activities, or extend its program in the activities and
services it has already undertaken, by submitting supplementary and further
supplementary estimates. Thus, should the economy suffer an unforeseen
slump mid-way through the fiscal year the government is able to take steps to
stimulate the economy by submitting supplementary estimates for additional
expenditure programs. However, tax changes during the fiscal year are not
common in the present system and in this respect the budget is fairly rigid.
The budget is even less flexible if the economy should suddenly experience an
unanticipated inflationary spiral mid-way through the fiscal year. Expenditure
programs, especially public works, are not easily postponed or scuttled if they
are already underway. Yet for the government to proceed with its planned pro-
grams would result in increased inflation as employed resources would have to
be bid away from private activities thereby increasing both factor and product
prices.

It would appear desirable to introduce a mid-year budget review which
would enable Parliament to consider economic conditions and the progress of
government fiscal policies and introduce, if necessary, any additional fiscal measures depending on the state of the economy. Finance Minister Fleming's Baby Budget of Dec. 1960 was a step in this direction. If a mid-year supplementary budget was established as a permanent part of the system, fiscal policy could be made much more flexible and consequently more effective.

With further respect to a budgetary policy review, a Standing Committee of the House of Commons could be established to study current budgetary policy in general and the short and long-run effects of this policy. It could also consider monetary policy and make recommendations for the co-ordination of fiscal and monetary policies as the essential goal is the combination of the two policies to promote a stable rate of economic growth and avoid the persistent tendencies toward inflation and recession.

Lack of flexibility is also found in the process of Parliamentary consideration of the expenditure items. Any suggestion made by the opposition towards reducing an expenditure is regarded as a vote of want of confidence in the government and an estimate will only be reduced if the Minister, whose department the estimate is for, has one of his colleagues propose an amendment to the expenditure resolution. Practically the only opportunity of parliament to directly control the spending of money is through the review and appropriation of the expenditure estimates. It would appear desirable that a method be resolved by which Parliament can effectively curtail expenditures, after a proper review and discussion of the proposed expenditures on their merits, rather than have such proposals treated as indicating a want of confidence in the government.

A.K. Eaton, an ex-Assistant Deputy Minister of Finance, is very critical of the effectiveness of manipulating revenues by adjustments in the tax structure
to achieve the desired goals of fiscal policy. He states that tax changes are
only effective if they are not expected and that a decrease in income taxes will
be hoarded, rather than spent, in the public anticipation that as soon as pros-
perity returns to the economy taxes will be raised. Also, if the public expects
sales and excise taxes to increase, there will be a wide-spread splurge of
buying to get in ahead of the higher taxes expected. The first criticism with
regard to income taxes is true but it is a general criticism of one aspect of
fiscal policy and is not unique to the budgetary system. Furthermore, the
government has recently recognized the uncertainty of the effectiveness of
income tax reductions to stimulate the economy and in 1958 Finance Minister
Fleming voiced his opinion in this regard and proposed increased expendi-
tures instead. The second criticism regarding sales and excise taxes is like-
wise true but is over-emphasized. The splurge or cut-back in consumer
buying in anticipation of a tax change applies to only a short period and does
not reduce the effectiveness of a tax change in the long-run.

Political Implications

Because of political pressures the budget presented may not always be
the best economic plan with regard to prevailing and anticipated economic con-
ditions. It is very difficult to impress counter-cyclical budgets on the public. Deficits lead to charges of waste, extravagance, and poor budgeting. There is
also considerable pressure on the government to reduce taxes when a budgetary

(Toronto, 1959), VI, pp.393-400.

3"...there is the practical political problem in any democratic
country operating on a two party system. Budgetary surpluses can be attacked
as over-taxation, budgetary deficits as irresponsible finance. Taxes cut for
cyclical purposes can only with difficulty be re-imposed, and expenditures in-
creased for similar purposes can hardly be reduced." See J.J. Deutsch and others, The Canadian Economy: Selected Readings,
surplus is forecast and the cry of over-taxation is not uncommon. However, a
surplus is deemed essential during periods of prosperity to counter the ever
pressing inflationary forces. As F.A. Knox points out, "Controlling inflation
is not at bottom a question of the remedies to be applied but rather of the public
willingness to see well known remedies vigorously used."⁴ Also in this regard
Professor B.S. Keirstead stated: "The Conservative Party in Canada won the
election of June 1957 by promising higher welfare payments and lower taxes,
and did so in a period of intense inflationary pressure."⁵

It is also evident that there is a long-run trend towards increasing
government expenditures. As the economy grows and gross national product
rises there is a tendency for government expenditures to rise also. It has been
the practice in the past to spend most of the additional tax revenues generated
by economic growth and this is not considered to be a calculated policy but the
result of inadequate planning and decision making. The result is the postpone-
ment of debt and of tax reductions. It is true that the government must have
revenues for essential programs and services and that public demand for
various government services is continually growing. The problem of economy
is indeed difficult. Some government expenditures such as those for technolo-
gical research could be increased appreciably for the purpose of promoting
economic growth, but other non-urgent and non-essential expenditures should
be kept down to the minimum and not increased merely because the government
expects a larger amount of revenue in the coming fiscal year and is subject to
public pressure to extend its programs. Certain tax reductions such as those

⁴Ibid., p.286.

⁵B.S. Keirstead, Capital, Interest and Profits (Toronto: Macmillan,
1959), p.82.
to encourage technical research and new potential industries could also well promote economic development and growth and perhaps to a much greater extent than government programs for which this tax revenue may have been used.

It is this writer's opinion that too much attention is being given to attempt to bring expenditures and revenues to equality because of political pressures rather than to use expenditures and revenues to effectively promote economic stability and growth. Budgetary decisions made now are critical for the future. In this regard the Committee for Economic Development in the United States, in a study on the budgetary policies of the United States, put forth a statement which applies equally to the budgetary policies of the Canadian government and which is as follows: "A vision which looks beyond the next election, which puts lasting national benefits beyond political expediency, is very much required." The budget has become a tool for political gain in the hands of the government party during election years.

Other Deficiencies

A minor but fairly significant flaw in the budgetary system is that no definite date has been established for bringing down the budget in Parliament through the budget speech. It is sometimes delayed for two or three months and a delay in the presentation of the budget may have an adverse effect on the business sector of the economy. Businessmen anxiously await the presentation of the budget on budget night for the announcement of the government's tax policy, which may sometimes have a significant effect on business decisions regarding output and expansion. Businessmen may hold back their decisions until they

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learn of the government’s policy. Furthermore, as a forecast the budget predicts economic trends and is useful, although to a limited extent, to businessmen who desire the best judgement regarding the outlook for the ensuing year.

Another criticism of the budgetary procedure is that there is too much detailed debate in Parliament on the expenditure estimates with the result that at the end of the session, because of time shortage, vast sums are voted with very little Parliamentary deliberation. Often unnecessary time-consuming comments are made by Parliamentary members regarding a proposed expenditure and these could be eliminated on the grounds of having little constructive value.

A budget, as an instrument of fiscal policy, can also be considered as possessing built-in or automatic economic stabilizers. However, some of the stabilizers which are usually considered as built into a budget are, in the Canadian system, excluded from the budget although they are part of the financial system. Progressive tax rates and relief payments are built into the Canadian budget but such other automatic stabilizers as the Old Age Security Fund, the Unemployment Insurance Fund, the Farm Credit Corporation, and the Industrial Development Bank are not incorporated into the budget. Although this does not make them any less effective they are not considered as budgetary stabilizers in the present system. Thus, if the government did not adjust expenditures and revenues to economic conditions but let the budget work automatically the resulting surpluses and deficits would not be a complete indication of the stabilizers at work in the entire government financial system.

B. Merits of the Budgetary System

Although there are various limitations of the budgetary system as a process of implementing fiscal policy it is not without its merits. Among the
most significant strengths of the system are the legal framework, the centralization of financial control, and the administrative process.

Legal Framework

The features of the financial structure can be regarded as sources of strength in themselves and the structure rests upon a sound statutory foundation. The governmental machinery established by legislation is adequate and its functions are well defined. If the budgetary system proves inadequate for the implementation of fiscal policy it is not because of lack of adequate machinery.

Centralized Control

The budgetary system is synonymous with a Parliamentary system of government. It reflects the division of powers in the government between the Cabinet and the House of Commons. The Cabinet is responsible for the preparation and execution of the budget while the House of Commons is responsible for authorization and review. The Treasury Board is a committee of the Privy Council and therefore of the Cabinet and is second only to the Cabinet in its capacity as a policy-making and expenditure-control body. The Department of Finance is responsible for processing expenditure estimates, for economic and revenue forecasting, and for determining revenue policies. The Minister of Finance is a member of each of these organizations and is the head of the Treasury Board and the Department of Finance. It is around him that the entire process revolves; he is the central figure in the budgetary system. The forecasting of economic conditions and the determination of revenue and expenditure policies to conform to these conditions is centralized in the Minister of Finance and this centralization is extremely important if the government is to readily and
deliberately adjust revenues and expenditures to maintain economic stability and growth. This centralization is clearly evident in the Finance Minister's budget speech which is a presentation of revenue and expenditure policies related to anticipated economic conditions.

Administrative Process

The collection of all major taxes and revenues of the Federal Government is the responsibility of the Department of National Revenue and all revenues are deposited in the Consolidated Revenue Fund. Expenditures are made under the direction and control of the Comptroller of the Treasury and no payments are made for purposes not authorized by Parliament. The Auditor-General audits the financial records and reports his findings to the House of Commons. As a result of his work the House is able to determine whether expenditures and revenues have been administered in accordance with authorizations and that all public money has been accounted for. This procedure is quite adequate as it insures that expenditure and revenue proposals will be administered as first determined and authorized and is well adapted to the Parliamentary system of government.

C. Conclusion

The budget is the government's financial plan through which fiscal policy is implemented. The system provides for centralized control and a process by which considerable attention can be given to economic conditions during the preparation of the budget in an attempt to counter any economic disturbances, which are currently in effect or which are anticipated, so as to achieve a desired and stable rate of economic growth. The machinery for the adequate control of expenditures and revenues has been established. The procedure of administering and auditing government revenue and expenditure transactions is complete and
ensures proper administration and that fiscal policy will be put into effect once it is authorized. However, the budgetary system as a means of implementing fiscal policy is found wanting in many respects. Regardless of its merits a number of very significant limitations in the system considerably impede its adequacy. Approximately one-third of the government's financial transactions are non-budgetary and though a part of these non-budgetary transactions act as automatic stabilizers they are not considered with budgetary transactions so as to present a complete over-all picture of fiscal policy. It is questionable whether some of these non-budgetary transactions are given consideration by the government as having any effect on the economy. The government may point to the budget as an indication of its policy regarding stability and growth and yet some of the desired effects of this policy could be rendered neutral by contradictory non-budgetary transactions.

However, the most glaring of the inadequacies of the budgetary system as it functions in Canada today is its lack of flexibility. The mechanism of budget making with expenditure estimates prepared so far in advance and the requirements of legislative control make the budget all too rigid. One almost wonders whether the present budget system as a means of implementing fiscal policy is of much use at all for preventing sudden violent fluctuations in the economy. The present system of economic forecasting is unsatisfactory for predicting the occurrence of economic fluctuations and whether they will be extreme and lengthy or otherwise. Without reliable forecasting the rigidities of the budget system severely limit its usefulness in combating these fluctuations. For stabilization purposes it is necessary that fiscal policy be quickly adaptable to short-run changes in the economic situation.
However the budget as a device for implementing fiscal policy for economic growth can be looked upon with more esteem. The budgetary system, with its centralized control and planning, can be considered as favorable for planning long-run objectives. Once the objective has been determined then the government, to combat short-run fluctuations, should use those measures which best conform to the long-run objective. However, a stable rate of economic growth can only be achieved if the budgetary system is made more effective for reducing the causes of short-run instability.

Because fiscal policy incorporated in the budget is the policy of the political party in power the budget has been continually abused in the past for political expediency. This tendency has resulted in further limiting the adequacy of the budgetary system for implementing effective fiscal policy designed for both short and long-run objectives. But this is not necessarily inherent in the budgetary system. If counter-cyclical budgets are difficult to impress upon the public the public should be educated with respect to the necessity of such budgets. Neither political party in Canada which has formed the government in the past has attempted to do this. Government counter-cyclical budgets are thus attacked by the government opposition on various grounds, and the press continually harps on the size of a deficit. In election years the budget is a favorite vote catching device employed by the government. Policies are presented which will be looked upon with favor by the public even though they may affect adversely and aggravate any economic maladjustments which are present.

The budgetary system has undergone several changes in the past with regard to structure and procedure in an attempt to improve government financial administration. But in the process it has become more complicated and more rigid for the purpose of implementing fiscal policy. Minute details
regarding government expenditures are presented to the House of Commons. Expenditure estimates are considered in detailed, time-consuming, Parliamentary debates resulting in delayed Parliamentary appropriation of expenditures for urgent programs in times of recession. Much more constructive would be these debates were they devoted to the more general policy associated with these expenditures. This would also leave Parliament with more time to review the effectiveness of policy already implemented and enable it to consider the need for further fiscal action. Furthermore, there is no indication that the government has considered pre-arranged fiscal programs which could be undertaken when economic disturbances are predicted or become evident. But such pre-arranged programs could only be effective if they could be implemented without delay rather than introduced annually as in the present system. The flexibility of fiscal policy is essential for effective economic stabilization but this desired flexibility is not characteristic of the Canadian budgetary system. This major deficiency combines with others to make the system inadequate for the implementation of sound, effective, fiscal policy.
## APPENDIX

### Table I

**Estimated Expenditure for Fiscal Year ending March 31, 1961**

<table>
<thead>
<tr>
<th>Department</th>
<th>To be voted 1960–61</th>
<th>Authorized by Statute 1960–61</th>
<th>Total 1960–61</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>$113,514,797</td>
<td>$17,000</td>
<td>$113,531,797</td>
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<tr>
<td>Atomic Energy</td>
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<td>41,653,255</td>
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<tr>
<td>Auditor General’s Office</td>
<td>890,860</td>
<td>20,000</td>
<td>910,860</td>
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<tr>
<td>Board of Broadcast Governors</td>
<td>299,420</td>
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<td>299,420</td>
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<tr>
<td>Canadian Broadcasting Corporation</td>
<td>71,739,400</td>
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<td>71,739,400</td>
</tr>
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<td>Chief Electoral Officer</td>
<td>76,925</td>
<td>38,500</td>
<td>115,425</td>
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<tr>
<td>Citizenship &amp; Immigration</td>
<td>59,309,988</td>
<td>454,512</td>
<td>59,764,500</td>
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<td>Civil Service Commission</td>
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<td>3,863,967</td>
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<tr>
<td><strong>Defence Production</strong></td>
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<td></td>
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<tr>
<td>Department</td>
<td>17,534,031</td>
<td>17,000</td>
<td>17,551,031</td>
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<tr>
<td>Crown Corporations</td>
<td>5,507,322</td>
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<td>5,507,322</td>
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<td><strong>External Affairs</strong></td>
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<td>Department</td>
<td>83,702,498</td>
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<td>83,764,302</td>
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<td>International Joint Commission</td>
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<td>19,939,590</td>
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<td>Governor General &amp; Lieutenant-Governors</td>
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<td>139,667</td>
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<tr>
<td>Department</td>
<td>To be voted 1960-61</td>
<td>Authorized by Statute 1960-61</td>
<td>Total 1960-61</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>---------------------</td>
<td>--------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Insurance</td>
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<tr>
<td>Justice</td>
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<td>Department</td>
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<td>Penitentiaries</td>
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<td>Labour</td>
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<td>Department</td>
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<td>Legislation</td>
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<td>Department</td>
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<tr>
<td>Dominion Coal Board</td>
<td>18,024,350</td>
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<td>18,324,350</td>
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<td>National Defence</td>
<td>1,586,364,247</td>
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<td>National Film Board</td>
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<td>National Gallery of Canada</td>
<td>1,079,145</td>
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<td>National Health &amp; Welfare</td>
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<td>National Research Council</td>
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<td>National Revenue</td>
<td>71,703,146</td>
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<tr>
<td>Northern Affairs &amp; National Resources</td>
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<td>1,093,100</td>
<td>77,950,633</td>
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<td>Post Office</td>
<td>172,060,947</td>
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<td>172,047,947</td>
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<td>Privy Council</td>
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<td>7,535,421</td>
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<tr>
<td>Department</td>
<td>To be voted 1960-61</td>
<td>Authorized by Statute 1960-61</td>
<td>Total 1960-61</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>---------------------</td>
<td>-------------------------------</td>
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<td>Public Archives &amp; National Library</td>
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<td>Public Archives</td>
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<td>$569,613</td>
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<td>National Library</td>
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<td>Public Printing &amp; Stationary</td>
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<td>Public Works</td>
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<td>49,017,000</td>
<td>195,897,719</td>
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<td>Royal Canadian Mounted Police</td>
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<td>53,702,011</td>
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<td>Secretary of State</td>
<td>4,307,791</td>
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<td>4,324,791</td>
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<td>Trade &amp; Commerce</td>
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<td></td>
</tr>
<tr>
<td>Department</td>
<td>27,124,384</td>
<td>43,031,952</td>
<td>70,156,336</td>
</tr>
<tr>
<td>National Energy Board</td>
<td>496,260</td>
<td></td>
<td>496,260</td>
</tr>
<tr>
<td>Transport</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Department</td>
<td>218,364,424</td>
<td>17,000</td>
<td>218,381,424</td>
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<tr>
<td>Air Transport Board</td>
<td>466,871</td>
<td></td>
<td>466,871</td>
</tr>
<tr>
<td>Board of Transport Commissioners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian Maritime Commission</td>
<td>6,241,338</td>
<td></td>
<td>6,241,338</td>
</tr>
<tr>
<td>National Harbours Board</td>
<td>2,633,099</td>
<td></td>
<td>2,633,099</td>
</tr>
<tr>
<td>Veterans Affairs</td>
<td>287,366,450</td>
<td>2,812,000</td>
<td>290,178,450</td>
</tr>
<tr>
<td>Totals of the above:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budgetary Expenditures</td>
<td>3,435,703,155</td>
<td>2,304,465,765</td>
<td>5,740,168,920</td>
</tr>
<tr>
<td>Expenditure from Old Age Security Fund</td>
<td></td>
<td>590,000,000</td>
<td>590,000,000</td>
</tr>
<tr>
<td>Loans, Investments, &amp; advances</td>
<td>126,650,715</td>
<td></td>
<td>126,650,715</td>
</tr>
</tbody>
</table>

Table II

Budgetary Revenues by Major Sources
(in $ million)

<table>
<thead>
<tr>
<th>Sources</th>
<th>1960 - 1961 Amount (Preliminary)</th>
<th>1959 - 1960 Amount</th>
<th>Per Cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal</td>
<td>1,711.2</td>
<td>1,566.6</td>
<td>29.6</td>
</tr>
<tr>
<td>Corporation</td>
<td>1,276.6</td>
<td>1,142.9</td>
<td>21.6</td>
</tr>
<tr>
<td>On dividends</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>going abroad</td>
<td>86.2</td>
<td>73.3</td>
<td>1.4</td>
</tr>
<tr>
<td>Excise Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>729.6</td>
<td>732.7</td>
<td>13.9</td>
</tr>
<tr>
<td>Other</td>
<td>290.7</td>
<td>287.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Import Duties</td>
<td>498.7</td>
<td>535.5</td>
<td>9.9</td>
</tr>
<tr>
<td>Excise duties</td>
<td>344.9</td>
<td>335.2</td>
<td>6.3</td>
</tr>
<tr>
<td>Estate tax</td>
<td>84.9</td>
<td>88.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Other taxes</td>
<td>*</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>5,015.6</td>
<td>4,752.3</td>
<td>99.8</td>
</tr>
<tr>
<td>Non-Tax Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on investments</td>
<td>284.0</td>
<td>239.7</td>
<td>4.5</td>
</tr>
<tr>
<td>Post Office</td>
<td>173.6</td>
<td>167.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Other non-tax revenues</td>
<td>142.2</td>
<td>130.2</td>
<td>2.5</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>5,615.6</td>
<td>5,289.8</td>
<td>100.0</td>
</tr>
</tbody>
</table>

* Less than $50,000

### Table III

Budgetary and Non-Budgetary Transactions for fiscal years ended 1960 and 1959 (in Million)

<table>
<thead>
<tr>
<th></th>
<th>1960</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budgetary Transactions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues --</td>
<td>5,301.0</td>
<td>4,754.7</td>
</tr>
<tr>
<td>Expenditures --</td>
<td>5,706.8</td>
<td>5,364.0</td>
</tr>
<tr>
<td><strong>Budgetary Deficit ((-))</strong></td>
<td>-405.8</td>
<td>-609.3</td>
</tr>
<tr>
<td><strong>Non-Budgetary Transactions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts &amp; Credits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repayments of loans, investments &amp; working capital advances (net)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canadian National Railways --</td>
<td>255.5</td>
<td>-199.5</td>
</tr>
<tr>
<td>Defence Production revolving fund --</td>
<td>10.2</td>
<td>24.4</td>
</tr>
<tr>
<td>Exchange Fund --</td>
<td>31.0</td>
<td>-30.0</td>
</tr>
<tr>
<td>United Kingdom (1946 loan) --</td>
<td>16.4</td>
<td>16.1</td>
</tr>
<tr>
<td>Export Credits Insurance Act --</td>
<td>17.9</td>
<td>18.0</td>
</tr>
<tr>
<td>Other --</td>
<td>17.1</td>
<td>42.8</td>
</tr>
<tr>
<td><strong>Net government annuities account receipts--</strong></td>
<td>348.1</td>
<td>-118.2</td>
</tr>
<tr>
<td>Premium receipts less payments to beneficiaries</td>
<td>8.7</td>
<td>17.3</td>
</tr>
<tr>
<td>Government contribution to maintain reserve----</td>
<td>.3</td>
<td>.2</td>
</tr>
<tr>
<td>Interest paid by government --</td>
<td>48.7</td>
<td>40.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>81.7</td>
<td>58.2</td>
</tr>
<tr>
<td>Net insurance and pension accounts receipts --</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee contributions less payments to beneficiaries --</td>
<td>34.4</td>
<td>32.2</td>
</tr>
<tr>
<td>Government contributions --</td>
<td>93.2</td>
<td>89.4</td>
</tr>
<tr>
<td>Deficiency in permanent services pension acct-- -- -- -- -- --</td>
<td>326.3</td>
<td></td>
</tr>
<tr>
<td>Interest paid by government -- -- -- -- --</td>
<td>38.9</td>
<td>76.9</td>
</tr>
<tr>
<td></td>
<td>216.5</td>
<td>524.9</td>
</tr>
</tbody>
</table>

| Net sales of investments of unemployment insurance fund -- -- -- -- -- | 125.1 | 250.9 |

| Non-interest bearing notes payable to the international monetary fund -- -- -- | 176.0 |

| Net increase in other current & demand liabilities -- -- -- | 10.7 | 74.5 |

| Net receipts in sundry other accounts -- -- | 14.3 | 34.4 |

<table>
<thead>
<tr>
<th>Disbursements and Charges ----</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans, investments &amp; working capital advancements (net) -- -- --</td>
</tr>
</tbody>
</table>

| Agricultural commodities stabilization acct---- | 4.7 | 3.3 |

| Canadian Overseas Telecommunication Corp. -- | 335.0 | 335.6 |

| Central Mortgage & Housing Corp. -- -- -- | 39.8 | 22.0 |

| Farm Credit Corp. -- -- -- -- -- | 10.7 | 5.0 |

| National Capital Commission -- -- -- -- | 16.0 | 20.2 |

<p>| National Harbours Board -- -- -- -- -- | 21.4 | 7.3 |</p>
<table>
<thead>
<tr>
<th>Description</th>
<th>1960</th>
<th>1959</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northern Ont. Pipe Line Crown Corp.</td>
<td>8.0</td>
<td>42.7</td>
</tr>
<tr>
<td>Old Age Security fund -- temporary loans</td>
<td>24.1</td>
<td>-----</td>
</tr>
<tr>
<td>The St. Lawrence Seaway Authority</td>
<td>23.0</td>
<td>106.1</td>
</tr>
<tr>
<td>International Monetary Fund</td>
<td>235.6</td>
<td>-----</td>
</tr>
<tr>
<td>Other</td>
<td>18.0</td>
<td>65.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>769.6</td>
<td>643.8</td>
</tr>
<tr>
<td>Net payments from unemployment insurance fund</td>
<td>126.1</td>
<td>244.9</td>
</tr>
<tr>
<td>Net payments from special defence acc'ts</td>
<td>10.2</td>
<td>216.1</td>
</tr>
<tr>
<td>Net payments on account of S.A.C. bases</td>
<td>18.3</td>
<td>-41.7</td>
</tr>
<tr>
<td>Net disbursements from sundry other acc'ts.</td>
<td>21.4</td>
<td>423.7</td>
</tr>
<tr>
<td><strong>Net amount received from or required for ( - ) non-budgetary transactions</strong></td>
<td>-3.2</td>
<td>-664.0</td>
</tr>
<tr>
<td>Overall cash requirements ( - ) to be financed by increase in debt or decrease in cash balances</td>
<td>-409.0</td>
<td>-1,273.3</td>
</tr>
<tr>
<td>Net increase in unmatured debt outstanding in the hands of the public</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unmatured debt</td>
<td>312.7</td>
<td>1,329.0</td>
</tr>
<tr>
<td>Securities investment acc't.</td>
<td>21.7</td>
<td>-18.2</td>
</tr>
<tr>
<td>Sinking funds &amp; other investments</td>
<td>-1.1</td>
<td>128.5</td>
</tr>
<tr>
<td><strong>Net increase or decrease ( - ) in Receiver General bank balances</strong></td>
<td>333.3</td>
<td>1,489.3</td>
</tr>
<tr>
<td><strong>Net increase or decrease ( - ) in Receiver General bank balances</strong></td>
<td>333.3</td>
<td>1,489.3</td>
</tr>
</tbody>
</table>

### Table IV

*(in $ million)*

<table>
<thead>
<tr>
<th>Year</th>
<th>G.N.P. at Market Prices</th>
<th>G.N.P. in Constant (1949) Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>18,006</td>
<td>17,471</td>
</tr>
<tr>
<td>1951</td>
<td>21,170</td>
<td>18,547</td>
</tr>
<tr>
<td>1952</td>
<td>23,995</td>
<td>20,027</td>
</tr>
<tr>
<td>1953</td>
<td>25,020</td>
<td>20,794</td>
</tr>
<tr>
<td>1954</td>
<td>24,871</td>
<td>20,186</td>
</tr>
<tr>
<td>1955</td>
<td>27,132</td>
<td>21,920</td>
</tr>
<tr>
<td>1956</td>
<td>30,565</td>
<td>23,811</td>
</tr>
<tr>
<td>1957</td>
<td>31,909</td>
<td>23,833</td>
</tr>
<tr>
<td>1958</td>
<td>32,867</td>
<td>24,104</td>
</tr>
<tr>
<td>1959</td>
<td>34,857</td>
<td>24,864</td>
</tr>
<tr>
<td>1960</td>
<td>35,959</td>
<td>25,379</td>
</tr>
</tbody>
</table>

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Fry, J.L. "Treasury Board and the Civil Departments - Programme Analysis", *The Treasury Board*, Four Talks Delivered in a Seminar arranged by The School of Administration on January 28, 1960, for Colombo Plan Students. Department of Finance, Ottawa.

VITA

Family
John Charles Strick, son of Mr. and Mrs. W. Strick of Dugald, Manitoba, born December 29, 1937 at Stonewall, Manitoba.

Education
1943–1954

1955–1958
Registered as an undergraduate in the Faculty of Arts and Science at St. Paul's College, an affiliate of the University of Manitoba. Received Bachelor of Arts degree in May, 1958.

1960–1962

Other Activities
1959–1960
Employed as a Social Worker with the Manitoba Department of Public Welfare, Winnipeg, Manitoba.

1961
Summer employment with the Dominion Bureau of Statistics, Ottawa, Ontario.

1961–1963
During final year of graduate studies, granted a Teaching Fellowship by the Department of Economics and Political Science.