

NOTES FOR TALK TO  
THE CANADIAN CLUB, TORONTO  
BY MAXWELL HENDERSON,  
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With our income tax deadline only two days away, I have some trepidation in discussing just what kind of value we are receiving for our tax dollars, Mr. Chairman. I am afraid the subject is not a particularly agreeable one but the facts must be brought out into the open if we are to understand its great importance to all of our fellow Canadians.

First let me say to you that I am a retired person nowadays, interested only in responding to countless requests which keep on coming to tell people the way things really are, based on my 13 years' experience as Auditor General of Canada. I thought perhaps I could contribute something here because since I qualified as a chartered accountant in 1929 I have had 46 years' experience in my profession, in industry and government - 20 years of that, in fact. I have never had any political affiliations or ambitions whatsoever. In fact, I have never really understood the difference between our two major political parties - too often it all seems to be simply a case of the ins and the outs. Nevertheless, government, like any form of management, has to be judged by its actions or

inaction and it behooves all of us these days to face the facts. As that great parliamentarian, Edmund Burke, said generations ago, "The only thing necessary for the triumph of evil is for good men to do nothing."

### Parliament

Under our constitution the supremacy of Parliament is the very keystone of our democratic way of life. When we elect its members we expect them to act responsibly, honorably, and to set an example for all to follow, particularly the youth in whose hands the destinies of our young and vigorous country rest.

The principles underlying Parliament's control of the public purse are at the heart of the problem we are discussing today. These principles have a long history both in our country and in similar parliamentary institutions round the world. The fundamental principle with which we must be concerned is that the House of Commons controls the public purse at all times, that is the raising of all the taxes from the people and the appropriation of these tax revenues to the elected government of the day to administer at the direction of Parliament.

It is Parliament's delegation of this administrative responsibility to the elected government that gives the

government its tremendous powers because, in order to be able to govern, the government must control Parliament.

As I reminded Parliament in my last report, with this kind of power goes responsibility. Nowhere is this truer or more visible for all to see than in the relationship of government to Parliament. We must never forget that the Members of the House of Commons represent all the people, rich and poor, who in one degree or another pay the taxes which give the government its strength and its power.

This is not a responsibility to be taken lightly or handled arrogantly. The Members we elect to Parliament come from all walks of life and must always include many who are not trained in finance and the law to the degree whereby they can fully understand the intricacies and details of government spending running into billions of dollars a year which it is their duty to approve on your behalf and mine.

The guiding principle, to my way of thinking, is very simple. It is that public money is trust money taken from the taxpayers and appropriated by Parliament to the government to administer for the benefit of all the people. This is so true that, as the columnist Charles Lynch wrote, the House of Commons should remind itself of this every day in the opening prayers in the House.

This places a tremendous responsibility on the government to disclose its spending clearly, fairly and honestly. It places an equally heavy responsibility on the Auditor General to examine that spending and to report on it fearlessly to Parliament. His reports constitute the only check, the only real assurance Parliament and the people have that their hard-earned tax money is being spent properly as Parliament intended.

My experience as the Auditor General of Canada started, I must confess, with not a little disillusionment as I watched the constant daily impact sheer politics have on just about every move our average Member of Parliament makes. To see political opportunism colouring so many decisions, the actions of our elected representatives in the House, on the committees and in their daily contacts with the public, left me with the impression that the country's real needs always seemed to come last. It is really only when the politician can equate an act that is good for his country with one that is good politics that he appears to reach his highest goal.

There are of course among our Members of Parliament many good men in all parties who deplore this. The tragedy of the party system is that a Member can seldom speak or act independently unless he is prepared to alienate himself from

his party because the party line is all-powerful in swinging the votes in the House. Thus government becomes the art of compromise. It is why much of the best brains and intelligence we have in Canada won't go into politics and government - a great pity because there surely can be no finer opportunity for serving your country. This too is why we find so many untrained and unskilled people determining our destinies in government and why government has grown into the huge sprawling, costly apparatus you and I find ourselves having to support today.

But this is all a fact of life, the kind of challenge we must accept in a democracy. The objective is to see that it works - and it can be made to work, politics or not, if we have a real Opposition on the job in our House of Commons.

#### Government Spending

The rate of increase in government spending over the past ten years has gone up 500% - from \$5.7 billion in 1965 to the \$28.2 billion announced last month for 1975-76, a figure which, we are told, will reach \$35 billion after loans, advances and other things which government categorizes as non-budgetary expenditures are taken into account.

For a population of only \$22 million, Canada must surely be one of the most grossly over-governed countries in

the world with its tremendous bureaucracy at the federal level duplicated as it is at so many other levels by its provinces. The time has certainly come when we should have a lot less government and bureaucracy in this country instead of sitting by and allowing our politicians to go on building it up, tier upon tier, at our expense.

In a recent trip through Western Canada to speak to Canadian Clubs, I was constantly being given examples of how welfare schemes like unemployment insurance are killing initiative and ruining our youth. Many of these may be well conceived even if they are tremendously costly. But alas, too many of them today are either simply geared to buying votes with our tax dollars or to sapping the initiative of our young people. Our government leaders seem to have forgotten that Canada was built by solid industry and hard work on the part of courageous people who had precious little government assistance of any kind. The scale on which all forms of financial assistance come today is hurting if not actually destroying the very kind of initiative Canada needs. The work ethic, as it is so euphemistically called, seems to have gone out of fashion. Jobs go begging and productivity falls while unemployment rises to dangerous levels because too many people simply find unemployment insurance and other government handouts a much easier way to make a living. The average

young Canadian working hard to make his way has to shoulder an inordinately high tax burden, a burden which unfortunately can only get heavier and heavier as government spending demands more and more of his earnings. It is not just a question of "restraining" government expenditure, as Prime Minister Trudeau puts it - this giant expenditure has simply got to be reduced and cut back drastically. And so has the tax burden, if our youth is to be given an incentive to get out and work, to save, and to invest in the development of this great land.

Let us take a moment to look at Unemployment Insurance. Its figures show what is happening very vividly. In 1971 benefit payments totalled \$758 million. On January 1st of that year the present government reduced the waiting period for recipients from 30 weeks of insured employment to 8, benefits of up to 15 weeks became eligible for loss of employment due to sickness, and a retirement benefit became payable to those between ages 65 and 70 who, to quote the Act, "voluntarily withdrew from the labour force". Benefit payments promptly shot up 46% to \$1,147 million in 1972. In 1973 the benefit payments were over \$2 billion, and now in 1974, when every wage earner in Canada has had his unemployment insurance premium cost doubled, Statistics Canada recently reported that benefit payments had reached \$2,119 million. You may have read Scott Young's recent article in the Globe and Mail, "What the Hell is Going On" - in which

he quoted Statistics Canada disclosing to him that benefit payments totalling \$636,000 were paid out in 1973 to individuals in Canada with declared incomes of \$25,000 a year, with \$20,000 of that going to people with incomes in excess of \$50,000 a year!

If this really happened in 1973, what other abuses took place in that year? Were pay-outs like these continued in 1974? Why are we not given a report on such cases similar to the one I used to make to the House of Commons each year on the Unemployment Insurance Commission? The Auditor General always checked Unemployment Insurance Commission offices in a regular cycle, reporting cases like these to the Chairman and to Parliament.

The Unemployment Insurance Commission is big business in Canada with a staff - 6300 in 1972 - now over 8000 today and offices right across the country. In 1972 its administrative cost was \$93 million compared to \$65 million the year previous. The 1975-76 Government Estimates laid before Parliament don't disclose what this huge administrative overhead is today.

More than ever before people today are demanding answers to questions like these. They want to know the true facts about government spending, and if value is not being obtained by the government spending our tax money, if government

programs are not effective or efficiently administered, they want to know why. Every day our newspapers carry more and more stories of charges, allegations and counter allegations, innuendo and the like, much of which could be sensibly explained if only governments would be more open and frank in placing the facts before the people. A typical example came up recently - charges that the Canadian International Development Agency (CIDA) was inefficient, wasteful and embarking on give-away programs of doubtful credibility. Members of Parliament demanded a full-scale enquiry. The Secretary of State for External Affairs, Mr. MacEachen, replied for the government and this is part of what he said:

"What has happened to the official opposition? What has happened to the Public Accounts Committee? The Chairman of the Public Accounts Committee is a member of the official opposition and the accounts of CIDA must go to the Committee every year, but never has the Public Accounts Committee asked that CIDA appear before it as witnesses."

and then to show his further contempt, he blamed it all on me in good political fashion:

"Perhaps", he continued, "the reason is that the former Auditor General - the gentleman whom my friend, the hon. member for Peace River, respects so greatly . . . . has never raised a single criticism about the administration of CIDA. Maybe that is why the official opposition has failed, through the Public Accounts Committee, through the Estimates Committee or through any other process, to conduct the scrutiny they now desire."

Mr. MacEachen should have done his homework. He should read what I said in my 1971 report about the hospital CIDA

helped in South Viet-Nam. Without getting any approval from the Treasury Board at all, as the law requires, his predecessor spent \$15,000 for construction of this 32-bed addition to this hospital in January 1966. By November of that year the cost had risen to \$249,000 which Mr. MacEachen's predecessor approved - also without Treasury Board approval. A year later it was finished - at a cost of \$429,000. The Audit Office couldn't verify this cash expenditure because CIDA couldn't produce proper vouchers.

You ask if Parliament is giving you value by at least examining situations such as these. Well, just ten days ago the External Affairs Committee of the House got round to examining CIDA. You may have read in the paper that out of the 30 members of this prestigious committee, only 9 Liberals and 5 Conservatives bothered to show up for the meeting. As happens so often, these 14 committee members were completely outnumbered by the CIDA officials attending the meeting and, in the words of the Canadian Press, the officials walked away one hour and twenty minutes later unchallenged and unscathed.

### Inflation

As I reminded the Women's Canadian Club a month ago, the job of government is to govern, to give leadership. Government spending at its present gigantic level of \$35 billion

is simply fuelling the fires of inflation. It is all very well for the government to blame wage settlements, including its huge public service ones, for causing it - any credibility the present government may have had in this argument is surely lost by its own action railroading this 33-1/3%, 50% or 60% salary increase - however you figure it - through Parliament for its members. This preposterous action has never once taken into account the fantastic extra cost such huge salary increases will have on the Members of Parliament pension plan - a plan which the present government's majority again railroaded through Parliament five years ago whereby any MP, regardless of age, who has served six years in the House of Commons, can leave, defeated or not, with a life pension starting at \$300 a month. And what about the other tax free fringe benefits, the \$600 a week buses from the Confederation Building to the Centre Block, free airline transportation, free mail privileges and the famous Parliamentary Restaurant - one which I always had to audit and whose \$1 million annual deficit means the taxpayers are subsidizing it at a rate of over \$3,700 a year for each of the 265 Members of Parliament? I applaud Mr. John Turner's brave words about what he is going to do to control inflation next month; but how on earth can you expect people to believe in - let alone co-operate with - a government which acts like this?

I am sure many of you here today enjoyed the recently published excerpts from Mr. Rees-Mogg's book on the

causes of inflation. I found them fascinating but was stopped at one point - the part where the author said that governments traditionally "would always discourage inflationary wage increases - always be reluctant to set a bad example by giving generous or even adequate increases to its own servants." Little did Mr. Rees-Mogg know the extent of such reluctance on the part of our own government!

#### Parliamentary Control of Government Spending

Government spending today must be said to be out of control and this has been due not so much to its bigness but because of the continual weakening or erosion of parliamentary scrutiny and check. This has been increasing year by year almost in direct proportion to the fantastic growth, size and kind of government expenditure taking place each year. Just how this is happening, how it is being encouraged by the government itself I have illustrated year after year as I gave example after example in my reports to the House of Commons.

As a general background to this, let me explain the reduction in the number of votes, something few people appreciate, as an example of how this got started. One of the reasons there is so little real debate in the Committees and in the House over the huge spending demands of the government can be directly traced to the actions of the present government,

first in 1964 and again in 1968 when it succeeded in getting Parliament to agree to reduce the number of votes on spending from 495 to 136. You must understand that each vote represents one debate, so to speak, and thus you can see that by cutting down the number of votes in this way Members of Parliament have given up nearly two-thirds of their debating and voting opportunities.

When the government first cut the number of votes in 1964 - from 495 to 236 - the yearly spending was only around \$6 billion. When the then President of the Treasury Board, Mr. Drury, proposed a still further reduction of 100 votes - from 236 to 136 - in 1968, he said it was "to reduce the number of required votes (by a further 100) to facilitate the work of Members of Parliament and to better serve the needs of more effective government administration".

It certainly did this for government administration - how effectively I will leave to you. Today we have expenditures of around \$35 billion coming up for consideration with 100 less debating and voting opportunities in Parliament than we had when expenditures were only one-third as big. As the adviser to the Public Accounts Committee, I protested this reduction at the time very strongly. Were the Members prepared to surrender 100 debating or voting opportunities just to render government administration easier? I went on to show them how simply to

bundle the huge mounting expenditures into fewer but much larger single votes would greatly weaken parliamentary control at a time when it should be strengthened. I reminded the Committee it was their duty to put the rights and prerogatives of Parliament first in the control of public expenditure. Mr. Drury and his colleagues in the Cabinet never denied this - instead they very much resented my pointing this out to the Committee. Its members did indeed register great concern at the time but the large Liberal majority of the day railroaded the reduction through regardless.

#### The Auditor General

Today the only real protector Parliament and the taxpayer have against government excesses is the Auditor General and his small staff. It may be an office only as strong as the person occupying it; nevertheless it is the duty of government and Opposition alike to uphold and strengthen the Office of the Auditor General so that it can function efficiently and effectively.

The role of the Auditor General was in the news recently with the recommendations of a special committee calling for broader powers for the Auditor General to check on inefficiency and waste to ensure the Canadian taxpayer receives value for his tax dollar. I am delighted to read this if only because it

endorses exactly what I sought to do during my 13 years on the job. It is not necessary, however, to wait for the government to introduce legislation to empower the Auditor General to do this - the power is right there in the present Financial Administration Act of Canada under section 61, which says:

"The Auditor General shall 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 ...". Then follow six statutory cases on which he must specifically report - and then the section concludes with the following all-important proviso: "and to any other case that the Auditor General considers should be brought to the notice of the House of Commons."

This proviso was precisely what empowered me and my predecessors to turn in such comprehensive reports to the House. You may recall in 1970 Prime Minister Trudeau introduced a bill to limit this freedom and muzzle the Auditor General but he had to withdraw the bill in face of widespread public criticism. This freedom still stands. It is just as readily available to my successor in office. It will be a sorry day for the taxpayers of this country if the freedom of this proviso is ever removed or watered down. I am afraid the present government will try to do just this if they introduce new legislation for the Auditor General.

In the area of external audit, the system that has been found over a century of experience to work best is a very simple one under which the Auditor General makes a report not only covering the formal points such as the correctness of the accounts and the regularity of the payments, but commenting as he sees fit on the efficiency of the financial management by which the policy of the government and the intentions of Parliament have been carried out, along with suggestions for improvement in the extent to which full value for money has been obtained.

My reports across the years have been filled with examples of questionable government spending to await examination by Parliament's own Public Accounts Committee. These illustrated clearly for some years a continuing weakening or erosion of parliamentary control - the way the government was handling, for example, the Contingencies Vote, how appropriations were being supplemented and grants paid without parliamentary approval, how grants which never can be repaid to the Crown are being treated as loans and advances among the assets of Canada. I also referred to the prime example in my last report of the improper retention of public money in the case of the sale of foreign aircraft to Venezuela where the proceeds in excess of \$34 million were not even paid into the Consolidated Revenue Fund of Canada as the law of our country requires. The charges

are all on the record here, fully documented and for the most part they remain unanswered by the government.

The same is true of the endless cases of non-productive spending - cases of waste and extravagance where public money was spent without any value being received. My 1970, 1971 and 1972 reports alone contain no less than 118 such cases where over \$22 million was spent without any value being received. All of them are still awaiting examination by the Public Accounts Committee today but they will never be examined because since I retired the government has ceased referring these reports to the Committee.

#### Dredging Contracts

The Public Accounts Committee could perform a useful job right now in light of the current dredging scandals by examining the 40-odd cases detailed in my reports about dredging costs. The Opposition called for this but both Prime Minister Trudeau and Mr. Mitchell Sharp, the Government House Leader, replied that the government could not refer these reports - 1963, 1964, 1965, 1966, 1967, 1968, 1969, 1970 and 1972 - again to the Committee because they had already been referred - meaning further examination is now closed.

I think this attitude is short-sighted for it would clear the air considerably about dredging expenditures

were the Departments of Transport and Public Works to be allowed to give the reasons why the expenditure estimates in so many of these cases were so grossly exceeded. There was the case in my 1965 report of the famous spur line built at Pointe-au-Père, Quebec, at a cost of \$401,000. Only four railroad cars used the line - ever since it has provided a fine windbreak for the ferry traffic across the St. Lawrence River! What lay behind that decision?

There was also the case of the partial development of a port at Gros Cacouna, Quebec, which lacked prospective users. It was believed a grain company would build an elevator there. Before the dredging was done, Public Works asked the Transport Department to secure a contract or at least some kind of commitment from the grain company. The Transport Department never acted on this suggestion. Public Works went ahead anyway and spent \$8,800,000 up to March 31, 1969. Six months later the Transport Department got around to replying. They said that, as there were no prospective users, it seemed inadvisable to spend additional funds for the harbour. Aren't the details of a case like this worthy of examination on behalf of the taxpayers?

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This is all I can tell you today. I beg of you not to despair but to reflect on what you can do to remind

our parliamentarians of their responsibilities.

You and I elected them. If we don't let our Member of Parliament know what we think of his behaviour, how is he to know whether we approve or disapprove? If he only hears from his political supporters, you can scarcely blame him for thinking we approve what he is doing or not doing. So I ask you to express your views to him regularly. It doesn't cost any postage to write to your Member. Enough of such letters and you may be surprised how constructively he responds.