

Chapter 8 Government current expenditure on goods and services

Introduction

8.1 Canadian governments play an important role in the national economy. One way in which this role is evident is as a producer of public goods and services. Some government-produced goods and services cannot be provided by non-government producers, such as the administration of justice or military defence. Canadians prefer other goods and services to be provided by their governments, such as most education and health-care services. The value of the goods and services produced by Canadian governments must be included in gross domestic product for that measure to accurately describe the economy.

8.2 The value of the goods and services produced by government is estimated in two places in the Income and Expenditure Accounts (IEA): government current expenditure on goods and services and government gross fixed capital formation. These aggregates are two of the components of expenditure-based gross domestic product (GDP) and, as such, represent the direct contribution of the government sector to aggregate economic activity.

8.3 Canadian governments also redistribute income and provide economic incentives to influence behaviour. A comprehensive depiction of government economic activity is presented in the IEA government sector accounts (see Chapter 1 and Chapter 2). In these accounts government income is disaggregated into various taxes and transfers, investment income and sales of goods and services. Government outlay components include purchases of goods and services, transfers to persons, to businesses, to non-residents and interest on the public debt.

8.4 While this chapter is devoted to the sources and methods used in estimating government current expenditure on goods and services, it should be kept in mind that an analysis of the role of governments in the national economy should include statistical information presented in other aggregates of the IEA and in other parts of the Canadian System of National Accounts (CSNA) such as the Financial Flow Accounts and the National Balance Sheet Accounts, produced by the Income and Expenditure Accounts Division (IEAD), the Public Sector Statistics, produced by the Public Institutions Division and Canada's International Investment Position, produced by the Balance of Payments Division.

Concepts and definitions

8.5 In national accounting, goods and services are usually valued using the prices buyers pay for them. Most government production, however, is not sold but is delivered without charge and consumed either individually by Canadians—education or health care, for instance—or collectively by all Canadians, like military defence or the administration of justice. The absence of market transactions and selling prices for most government-produced goods and services creates difficulties for national accountants, in Canada and around the world, in estimating the value of this production. The method adopted as the international national accounting standard is to assume that the value of the goods and services produced by government is equal to the cost of producing those goods and services. That is to say, the value of government-produced goods and services is equal to government current expenditure on goods and services.

8.6 Government current expenditure on goods and services¹ appearing in the IEA as a component of expenditure-based GDP does not include the value of those goods and services produced by government that are sold to other institutional sectors. The value of these sales is netted from total purchases of goods and services by government, to estimate the value of government final consumption—Canadian society's final consumption of government goods and services.

1. In the *System of National Accounts 1993* (SNA 1993), the government current expenditure on goods and services is named government final consumption expenditure. The definition in this section is derived from paragraph 9.94b of SNA 1993. The examples for individual and collective consumption were added to the SNA 1993 definition.

8.7 Government goods and services purchased by the household sector are recorded in the IEA as personal expenditure on consumer goods and services and those purchased by non-residents of Canada are part of exports of goods and services. Goods and services purchased by business from government are part of the intermediate inputs of business in the production of the goods and services produced by that sector.

8.8 Government current expenditure on goods and services appearing in government outlay in the IEA sector accounts has not been reduced by the value of sales to other institutional sectors because those sales are shown as a component of government income in those sector accounts.

Table 8.1 Government current expenditure on goods and services, 2000

	Table ¹	CANSIM	Millions of dollars
In expenditure-based GDP			
Government current expenditure on goods and services	Table 2	V498092	200,084
In government sector accounts			
Sales of goods and services: government sector			
Federal government	Table 9	V498325	33,414
Provincial and territorial governments	Table 10	V498370	4,534
Local governments	Table 11	V498405	18,201
	Table 12	V498433	10,679
Gross current expenditure on goods and services: government sector			
Federal government	Table 9	V498327	233,498
Provincial and territorial governments	Table 10	V498372	42,137
Local governments	Table 11	V498407	122,292
Canada Pension Plan	Table 12	V498435	68,705
Quebec Pension Plan	Table 13	V499663	296
	Table 13	V499671	68
<i>By calculation - Current expenditure = Gross current expenditure - Sales</i>			
Current expenditure on goods and services: government sector			200,084
Federal government			37,603
Provincial and territorial governments			104,091
Local governments			58,026
Canada Pension Plan			296
Quebec Pension Plan			68

1. Table number refers to the tables in the *National Income and Expenditure Accounts*, catalogue no. 13-001.

Who is included in the government institutional sector?

8.9 In the Canadian System of National Accounts, the government institutional sector is divided into the following basic components called sub-sectors:²

- federal government;
- provincial and territorial government;
- local government; and
- Canada and Quebec pension plans.

8.10 The sub-sectoring of the CSNA's government institutional sector and the components of each sub-sector for calculation of current expenditure on goods and services is illustrated in Table 8.2.

2. When data become available, it is intended to add another sub-sector: First Nations, Métis and Inuit Government.

Table 8.2 Components of current expenditure on goods and services by government sub-sector, 2000

	CANSIM	Millions of dollars
Government current expenditure on goods and services	V498092	200,084
Federal government		
Gross current expenditure on goods and services	V500017	42,137
Non-defence	V500018	27,961
Defence	V500019	10,398
of which: military	V500020	4,292
Capital consumption allowances	V500021	3,451
Financial services indirectly measured (FSIM)	V500022	327
Minus: Sales of goods and services	V500015	4,534
Current expenditures on goods and services		37,603
Provincial and territorial governments		
General government and provincial non-autonomous pension plans		
Gross current expenditure on goods and services	V500137	58,370
Operating expenditures	V500138	52,723
Capital consumption allowances	V500139	5,506
Financial services indirectly measured (FSIM)	V500140	141
Minus: Sales of goods and services	V500135	6,063
Current expenditures on goods and services		52,307
Health and social services institutions		
Gross current expenditure on goods and services	V500207	45,489
Operating expenditures	V500208	43,652
Capital consumption allowances	V500209	1,807
Financial services indirectly measured (FSIM)	V500210	30
Minus: Sales of goods and services	V500205	5,845
Current expenditures on goods and services		39,644
Universities and colleges		
Gross current expenditure on goods and services	V500190	18,433
Operating expenditures	V500191	17,211
Capital consumption allowances and financial services indirectly measured (FSIM)	V500192	1,222
Minus: Sales of goods and services	V500188	6,293
Current expenditures on goods and services		12,140
Local governments		
Gross current expenditure on goods and services	V500240	68,705
Operating expenditures	V500241	60,340
Municipalities	V500242	28,520
Schools	V500243	31,820
Capital consumption allowances	V500244	8,159
Municipalities	V500245	6,536
Schools	V500246	1,623
Financial services indirectly measured (FSIM)	V500247	206
Minus: Sales of goods and services	V500238	10,679
Current expenditures on goods and services		58,026
Canada and Quebec pension plans		
Canada Pension Plan	V499663	296
Quebec Pension Plan	V499671	68

8.11 The government sector of the Canadian System of National Accounts is one part of a larger group of entities called the public sector universe. The other component of the public sector universe is called government business enterprises (GBE) which, in the CSNA, is classified to the corporate sector. The primary distinction between government controlled institutional units assigned to government and those assigned to government business enterprises is the nature of their principal activity. Non-commercial institutional units, controlled by government, are classified to the government institutional sector, while government controlled commercial entities are classified to the GBE component. An institutional unit is considered to be commercial, and therefore a GBE, if it operates in the marketplace, charging economically significant prices for its products.³ In the measurement of government current expenditure on goods and services, GBEs are not included.

Table 8.3 Public sector universe

Public sector data					
Government					Government business enterprises
Federal government	Canada and Quebec pension plans	Provincial and territorial government	Local government	First Nations and other aboriginal government	
General government • Ministries and departments, non-autonomous funds and organisations • Autonomous funds and organisations	Canada Pension Plan	General government • Ministries and departments, non-autonomous funds and organisations • Autonomous funds and organisations	General government • Municipalities, non-autonomous funds and organisations • Autonomous funds and organisations	General government • First Nations and other aboriginal government, non-autonomous funds and organisations ¹ • Autonomous funds and organisations ¹	Federal government business enterprises • Financial enterprises • Monetary authorities • Other financial enterprises • Non-financial enterprises
Federal non-autonomous pension plans	Quebec Pension Plan	Provincial non-autonomous pension plans	School boards ²	Universities and colleges • Universities ¹ • Colleges, vocational and trade institutions ¹	Provincial and territorial government business enterprises • Financial enterprises • Non-financial enterprises
		Universities and colleges • Universities ² • Colleges, vocational and trade institutions ²		School boards ¹	Local government business enterprises
		Health and social service institutions • Health boards ^{1,2} • Social service organisations and community boards ^{1,2} • Other health and services organisations ^{1,2}		Health and social service institutions • Health boards ¹ • Social service organisations and community boards ¹ • Other health and services organisations ¹	First Nations and other aboriginal government business enterprises ¹

1. Data are not available

2. Except institutions which are integrated in the federal or provincial and territorial public accounts or local government audited financial statements

Annual estimation methods and data sources

8.12 For this discussion of sources and methods the three stages of the production-revision cycle will be considered starting from the benchmarked years and progressing to the current quarter estimates. This order works for two reasons: first, because for some sub-sectors the more timely estimates are based, to some extent, on the benchmark periods; and, second, because for all sub-sectors the benchmark period estimates are based on information from public accounts, audited financial statements and censuses of universe entities.

8.13 Revised estimates of government current expenditure on goods and services for benchmarked years benefit from the commodity and industry balancing of the Input-Output Tables (IOT) and are the product of an integrated effort by statisticians of the Industry Accounts Division, the Income and Expenditure Accounts Division and the Public Institutions Division. Annual estimates for benchmarked years are based on the final, audited financial accounts and statements of each government entity.

8.14 Non-benchmarked year estimates are based on similar source information—financial reports and statements, budget estimates and survey responses—but final versions are often not yet available and the information is subject to revision.

3. Economically significant prices being those that influence the quantity of product supplied by producers and demanded by consumers.

8.15 Current year quarterly estimates are based on sub-annual administrative or financial reports, budget estimates and related indicators.

Federal government

8.16 The federal government sub-sector is divided into two parts for purposes of estimation, as the underlying data sources are different. These two parts are called budgetary⁴ and extra-budgetary. Information for the budgetary part of the sub-sector comes from the Government of Canada Banking and Accounting System of Public Works and Government Services Canada. Data sources for the extra-budgetary part include annual and sub-annual financial reports and statements of the extra-budgetary entities or other information obtained from them directly.

8.17 Current expenditure on goods and services for the budgetary part of the federal government sub-sector is estimated as a remainder. Data on total budgetary expenditures are provided in the Public Accounts of Canada⁵ and Public Works and Government Services monthly statements. From this total, statisticians working in the Public Institutions Division identify and remove all spending that is not on goods and services, as illustrated in Table 8.4. The resulting budgetary goods and services expenditure includes both current and capital spending.

8.18 For the extra-budgetary part of the sub-sector expenditure, transactions in the source documents are analyzed and those that are purchases of goods and services are identified and aggregated. As for the budgetary part of the sub-sector, this aggregate includes both current and capital amounts.

8.19 Finally, current expenditure on goods and services is obtained by removing an estimate of investment in fixed capital and adding capital consumption allowances and financial services indirectly measured (FSIM) from the sum of budgetary and extra-budgetary total goods and services expenditure as all three appear elsewhere in the Income and Expenditure Accounts.⁶

Table 8.4 Estimation method of federal government current expenditure on goods and services

Total budgetary expenditures

- Spending not on goods and services

e.g. Transfer payments

Interest on public debt

Intergovernmental transfers

Transfers to extra-budgetary entities

= Current and capital budgetary expenditures

+ Current and capital extra-budgetary expenditures

= Current and capital expenditures

- Capital spending

+ Capital consumption allowances

+ Financial services indirectly measured

= Gross current expenditure on goods and services

- Sales of goods and services

= Current expenditure on goods and services

4. Budgetary entities is the terminology used in Canadian public finance to describe the ministries, departments and agencies of the government. Similarly, the term extra-budgetary entities is used to describe what the public sector universe refers to as autonomous organizations, boards, commissions and funds—that is, entities that the Canadian System of National Accounts includes in the federal sub-sector but which are not included in the Government of Canada's budgetary universe, for example, the Canadian Broadcasting Corporation (CBC).
5. The federal, provincial, territorial, Canada and Quebec pension plans public accounts benchmark data are all on a fiscal-year basis. Since estimates for these entities in the IEA were originally made for a specific quarter, based on monthly or quarterly information, it is a relatively simple matter to convert the benchmark data from a fiscal-year to a calendar-year basis using the appropriate quarters.
6. Investment in fixed capital sources and methods are described in Chapter 10 while the capital consumption allowances methodology is described in Chapter 9. Financial services indirectly measured (FSIM) methods are described in detail in Chapter 7.

8.20 Sales of goods and services are identified directly in source documents for both budgetary and extra-budgetary entities.

8.21 Federal government estimation is done in two parts for the non-benchmark years, just as for benchmark years. For the budgetary part, the same procedure is used for both benchmark and non-benchmark years, except that since the Public Accounts of Canada is not usually available for the last non-benchmark year, only Public Works and Government Services Canada's monthly reports are used.

8.22 Extra-budgetary estimates are also prepared in the same way as for benchmark years. Again, the main difference with benchmark years is source-data availability; for some extra-budgetary entities, financial statements are not available for the reference year and information for the most currently available year is used instead.

Provincial and territorial government

8.23 The provincial and territorial sub-sector has budgetary and extra-budgetary parts too, but unlike the federal sub-sector, the same methodology is used for both parts. Source documents are analyzed and transactions that are purchases (or sales) of goods and services are identified and aggregated. Source documents used to estimate provincial and territorial government current expenditure on goods and services include the public accounts of each province and territory for budgetary components and audited financial statements and annual reports of extra-budgetary entities.

8.24 The estimates derived from provincial and territorial sub-sector information, as for the federal sub-sector, include both current and capital spending. Current expenditure on goods and services is obtained by removing an estimate of investment in fixed capital and adding both capital consumption allowances and financial services indirectly measured (FSIM).

8.25 For the non-benchmark years, source information is much less uniform than for benchmark years and includes budget estimates, quarterly and monthly financial reports and information obtained directly from governments and their subordinate entities. As with the benchmark years, provincial and territorial governments expenditure on (and sales of) goods and services are identified in source documents and aggregated—the methodology for both budgetary and extra-budgetary parts of the sub-sector being identical.

8.26 Current expenditure on goods and services of hospitals, residential care facilities and other health and social service entities is obtained by summing their operating expenditures, as reported in Canadian Institute for Health Information (CIHI), Health Statistics Division surveys and provincial health ministry records. These surveys and records also provide the information to estimate sales of goods and services.

8.27 Estimates of universities and colleges expenditures on, and sales of, goods and services are obtained through surveys conducted by the Culture, Tourism and the Centre for Education Statistics.

8.28 For hospitals, residential care facilities, other health and social institutions, and universities and colleges, estimates for the more current years are projected from earlier benchmarks using various indicators, including information on provincial and territorial funding transfers and related labour income time series.

Local government

8.29 Source documents are the annual reports of provincial and territorial governments' departments of municipal affairs, which summarize information for all municipalities in their jurisdiction, and financial statements of municipalities and other local government entities. The current expenditure on goods and services of municipalities and other local government entities are calculated by summing all transactions identified as purchases of goods and services. Sales of goods and services are also aggregated.

8.30 Estimates for school boards are based on provincial and territorial departments of education information, representing a census of local schools. This information is gathered from surveys conducted by the Public Institutions Division.

8.31 For the non-benchmark years, estimates of transactions in goods and services of municipalities and other local government entities are developed from information gathered through sample surveys conducted by the Public Institution Division⁷ and then inflated to represent the universe of local government entities in Canada. The surveys collect information originally developed for budget estimates and financial statements.

8.32 Operating expenditures and sales of goods and services estimates of local schools boards are based on information from provincial departments of education, compiled by the Culture, Tourism and the Centre for Education Statistics, for the non-benchmark years.

Canada and Quebec pension plans

8.33 Administrative expenditures of the Canada Pension Plan and Quebec Pension Plan are obtained from the accounting statements of the plans for both the benchmark and non-benchmark years.

Quarterly estimation methods and data sources

8.34 When possible, quarterly estimates are built using monthly and quarterly information from government accounting systems, reports, financial statements and surveys. When quarterly source information is not available, quarterly indicators are used to estimate the series from benchmark and non-benchmark years or to establish quarterly values from annual values.

Federal government

8.35 For benchmark and non-benchmark years, federal government estimation is done separately for the budgetary and extra-budgetary parts of the sub-sector. For the budgetary part, the procedure and data sources are exactly the same. For the extra-budgetary part, estimates are also prepared in the same way as for benchmark and non-benchmark years, the only difference being the increasing difficulty in obtaining source information for some component entities. In these cases, values are estimated from the most currently available period.

Provincial and territorial government

8.36 Quarterly estimates for provincial and territorial governments expenditure on (and sales of) goods and services are developed from a variety of source information, varying widely across jurisdictions: l'Institut de la Statistique du Québec provides estimates based on Government of Quebec accounting-system information, other provinces submit monthly and quarterly information from their government accounting systems while estimates for some components and jurisdictions have to be compiled from official budget estimates and other published and unpublished information.

8.37 For hospitals, residential care facilities, other health and social institutions, universities and colleges, quarterly data on operating expenditures and sales on goods and services are estimated from earlier periods, based on related labour income series.

Local government

8.38 Quarterly estimates are projected from earlier periods, based on related labour income series.

Canada and Quebec pension plans

8.39 Administrative expenditures of the Canada Pension Plan and Quebec Pension Plan are obtained from the quarterly accounting statements of the plans.

7. See *Public Sector Statistics*, catalogue no. 68-213 for the methodology and sample size of the surveys.

Table 8.5 Government current expenditure on goods and services in the Provincial Economic Accounts, 2000

	Total government sector		Federal government		Provincial and territorial governments		Local governments		Canada and Quebec pension plans ¹	
	Table 2		Table 7		Table 8		Table 9		Table 10	
	CANSIM	Millions of dollars	CANSIM	Millions of dollars	CANSIM	Millions of dollars	CANSIM	Millions of dollars	CANSIM	Millions of dollars
Canada	V687347	200,084	V688955	37,603	V689269	104,091	V689565	58,026	V ²	364
Newfoundland and Labrador	V687381	4,000	V688979	751	V689292	2,412	V689584	831	V689823	6
Prince Edward Island	V687415	1,065	V689002	315	V689315	565	V689603	184	V689830	1
Nova Scotia	V687449	7,458	V689025	2,876	V689338	3,102	V689622	1,475	V689837	5
New Brunswick	V687483	5,330	V689048	1,327	V689361	3,600	V689641	400	V689844	3
Quebec	V687517	47,421	V689071	8,161	V689384	25,981	V689660	13,211	V689858	68
Ontario	V687551	72,687	V689094	14,739	V689407	32,682	V689679	25,019	V689865	247
Manitoba	V687585	7,874	V689117	1,545	V689430	4,275	V689698	2,049	V689872	5
Saskatchewan	V687619	6,679	V689140	836	V689453	3,880	V689717	1,960	V689879	3
Alberta	V687653	19,531	V689163	2,635	V689476	10,998	V689736	5,888	V689886	10
British Columbia	V687687	25,202	V689186	3,502	V689499	14,877	V689755	6,807	V689893	16
Yukon	V687721	606	V689209	142	V689522	429	V689774	35	V689900	0
Northwest Territories	V1407375	969	V1407637	169	V1407683	720	V1407726	80	V1407761	0
Nunavut	V1407409	684	V1407660	27	V1407706	570	V1407745	87	V1407768	...
Outside Canada	V687785	578	V689250	578

Note: Table number refers to the tables in the *Provincial Economic Accounts*, catalogue no. 13-213.

1. Canada Pension Plan data are for all provinces and territories except Quebec where current expenditure on goods and services relates to Quebec Pension Plan.
2. Canada Pension Plan CANSIM number V689808 and Quebec Pension Plan CANSIM number V689816.

8.40 Table 8.5 provides estimates of government current expenditures on goods and services by province and territory. These estimates are published annually in the *Provincial Economic Accounts* (PEA).

8.41 Provincial, territorial and local government estimates of current expenditure on goods and services are built-up by province and territory when preparing national estimates. As described in paragraphs 8.23 to 8.33, this is done using information from the public accounts of the provinces and territories, various financial statements and surveys conducted by Statistics Canada.

8.42 The federal government estimate must be allocated geographically. From one point of view, some operations of the central government cannot be divided among the provinces, for example, Parliament, the Bank of Canada and Statistics Canada are all indivisible in that they are equally attributable to all Canadians regardless of where the Parliament Buildings stand, where monetary policy is conducted or where the Census results are tabulated. Other activities could be allocated more easily: harbours, passport sales and the salaries of most Royal Canadian Mounted Police (RCMP) officers all have very specific geographic locations associated with them. Still other expenditures could be distributed in more than a single way: the purchases of particular supplies or equipment could be allocated on a procurement basis (where it was sold), a purchasing basis (where it was bought) or a consumption basis (where it was used).

8.43 As discussed in the concepts part of this chapter, the value of government-produced goods and services resembles approximately the cost of its inputs. In the PEA, the value of the goods and services produced by the federal government is distributed by province and territory, following the original concept used to estimate that value.

8.44 The current expenditure on goods and services of the federal government sub-sector can be broken down into about 60% for wages, salaries and supplementary labour income, 10% for consumption of capital and 30% for other current goods and services. Each of these different types of expenditure is distributed geographically using the same concept but a different method.

8.45 Wages, salaries and supplementary labour income are distributed geographically on the basis of employment, for example, where employees work. However, the provincial distribution of capital consumption allowances (CCA) is a function of the distribution of the capital stock of the federal government. The Investment and Capital Stock Division estimates investment in fixed capital, the capital stock and the CCA for the federal government on a provincial and territorial basis at replacement cost.

8.46 Other non-wage expenditure on goods and services is allocated by province and territory where the goods and services were consumed in production. This distribution is based on information obtained by the Industry Accounts Division for the various components of the federal government sub-sector. The following two examples demonstrate the allocation process used for non-wage goods and services:

- Suppose uniforms for all RCMP officers are produced in Ontario and purchased by the Government of Canada. In the *Provincial Economic Accounts* the associated expenditure would be allocated not to Ontario, where the uniforms were produced, but, instead, to the provinces where the uniforms were used by RCMP officers in producing government goods and services (law enforcement).
- Another example is the acquisition of the submarine HMCS⁸ Victoria. The vessel was purchased from non-residents (the United Kingdom) and is based in British Columbia. Although the service produced by the government (defence), is consumed by all Canadians, in the *Provincial Economic Accounts*, the expenditure is allocated to British Columbia because that is where the submarine is used in production.

Deflation – Estimates in real terms

8.47 For deflation purposes, government current expenditure on goods and services is broken down into 24 components. The deflation is carried out in three broad segments: wages, salaries and supplementary labour income (called, broadly, labour income); capital consumption allowances; and, all other current expenditures.

Labour income

8.48 Labour income represents about 60% of total net government expenditure on goods and services and is considered separately for 11 sub-sectors. The associated hours worked in the period are used as an indicator of volume, and the price indexes are obtained implicitly, as the ratio of the current dollars estimate to the constant dollar estimate. Estimates of labour income in current dollars are produced by the Income and Expenditure Accounts Division (IEAD) as part of the estimation of the wages, salaries and supplementary labour income aggregate. Data on hours worked in each sub-sector are also compiled by the IEAD, using public sector employment data from the Public Institutions Division and average hours worked per employee provided by the *Labour Force Survey*. The sub-sectors are:

- federal government
 - civilian defence
 - military pay
 - other civil servants
- provincial and territorial government
 - general government
 - universities
 - colleges
 - hospitals
 - residential care facilities

8. Her Majesty's Canadian Ship.

- other health and social services
- local government
 - general government
 - school boards

8.49 Over time, compositional changes occur in federal and provincial government sector employment that amount to a quality change in the labour input to production. These changes need to be reflected in the estimates in real terms, but cannot be captured through the total hours worked data. To reflect this type of change in the estimates in real terms, quality indexes are applied during the benchmarking revision cycle. On an annual basis, Industry Accounts Division provides quality indexes for federal civilian defence, military pay and allowances and all other civil servants, while the Income and Expenditure Accounts Division provides a quality index for provincial government employment.

Capital consumption allowances

8.50 Capital consumption allowances (CCA) are estimated in current dollars for nine sub-sectors. As for other estimates related to capital, the CCA estimates and their associated price indexes are produced by the Investment and the Capital Stock Division. The sub-sectors are:

- federal government
 - civilian defence
 - other civil servants
- provincial and territorial government
 - general government
 - universities
 - colleges
 - hospitals
 - residential care facilities
- local government
 - general government
 - school boards

Other non-wage current expenditures

8.51 Other non-wage current government expenditure on goods and services is broken down into four parts: defence, medicare, hospitals, and a remainder for all other outlays. Combined, they represent about 30% of net government expenditure on goods and services.

8.52 The deflation of defence expenditures presents unusually difficult problems. First, an object breakdown of these expenditures in the level of detail most appropriate for deflation is not available from the Department of National Defence. Second, the problem of pricing individual products or commodities within the available breakdown of defence expenditure is particularly troublesome. Changes in price can be measured readily if the nature of the priced object remains constant. For example, a bushel of Number 1 Northern Wheat in 2000 is essentially unchanged from a bushel of that commodity in 1990. But commodities such as aircraft are constantly undergoing technological and structural changes so that an aircraft produced today is not easily comparable to an aircraft produced fifteen years earlier. Consequently, changes in the cost of these goods to the government cannot be regarded wholly as changes in their price. Because of these difficulties, the present deflator for defence expenditure combines various material and average-hourly-earning indexes, with the implicit assumption that these prices move in the same way as do the prices of the final products.

8.53 Medicare expenditures are deflated using a fee-benefits index for physicians provided by the Canadian Institute of Health Information (CIHI).

8.54 Hospital expenditures are deflated with a fixed-weighted index of commodities used in hospitals.

8.55 The remaining portion of government current expenditure on goods and services is deflated using a base-weighted composite price index covering major operating expenditure categories: freight, postage, and telephones; utility expenses; office supplies and equipment; and building maintenance and repairs. The component price indexes used to build this composite index for all other expenditures are largely final-purchase prices as incorporated in the *Consumer Price Index* (CPI) although some use is made of intermediate input prices in the form of Industry Price Indexes (IPI). The weights come from the latest Input-Output Tables.