

*Federal-Provincial Fiscal Arrangements Act*

and grants for post-secondary education. The provinces allocate funds according to their own priorities, as I said earlier to the Hon. Member for New Westminster—Coquitlam (Ms. Jewett). To give some idea of the amounts involved in these transfers, Mr. Speaker, I would like to quote a few figures.

For the fiscal year 1985-86, federal transfers to other administration levels amount to \$20.1 billion in cash payments and \$7.2 billion in tax points—a total of \$27.3 billion. Mr. Speaker, cash transfers account for 19.4 per cent of all federal outlays, which is another way of saying that they are a major federal expenditure.

Needless to say, the revenues which make it possible for the central Government to spend money come from the same working taxpayer who pays his or her share of provincial taxes as well. We must keep everything in perspective when we say that 19.4 per cent of all federal outlays are earmarked for such fiscal transfers: they represent the third largest Government expenditure, after the public debt service and program expenditures.

Over the past 18 years, Mr. Speaker, since 1957, these transfers have been increasing at an annual rate of 18 per cent, whereas Canada's Gross National Product yearly growth has been slightly below 10 per cent. Mr. Speaker, this is one factor which the Opposition is prepared to gloss over, for under the formula we are supposed to take the GNP growth into consideration. And yet these expenditures have been increasing at a much faster rate than the GNP in the last 18 years. Disregarding for a moment the cost of servicing the national debt—our huge national debt which is the source of so much concern and which, as it happens, forces us to slow down the growth of these transfers—transfer payments rank first among ever increasing federal expenditures.

Even so, Mr. Speaker, Established Programs Financing is not the main provincial transfer program, not by a long shot. However, it is the one where costs have increased the most these last few years. This involves a payment per capita to the provinces which covers approximately 50 per cent of the expenditures of provincial Governments for, as I have already noted, health insurance, hospital insurance and the operational costs of post-secondary education institutions. EPF transfers have increased based on the growth rate of the GNP during the previous three years in relation to population growth.

Based on present projections, they would increase by over 7 per cent a year during the next five years under the existing formula. To make savings and reduce the deficit, this growth will be reduced by 2 per cent. This will result in savings of \$2 billion in 1990-91, but this will not begin this year because the previous formula has been maintained for 1985-86. We are beginning this year. In 1990-91, there will have been a \$2 billion savings, which will help to reduce the deficit. The rate of growth will be reduced only slightly and will remain much higher than inflation or the rate of growth of the economy.

Therefore, Mr. Speaker, I must emphasize that we are not reducing transfer payments to the provinces. To say so is incorrect. EPF transfers will continue to increase quickly, at a much higher rate than other program expenditures of the federal Government. Provincial transfers will amount to \$90 billion during the next five years, which is \$25 billion more than during the five previous years. It is therefore a canard to say that we are reducing these expenditures.

Our commitment to health care and post-secondary education is stronger than ever. These transfers, which will represent nearly half of provincial expenditures, will continue to be paid into the provincial coffers. It is to the advantage of all Canadians that the provinces provide health and education services while showing some financial responsibility.

In this context, Mr. Speaker, I would like to speak about the Quebec provincial Budget tabled yesterday in which the Finance Minister said that, according to his own figures, since he had been expecting a rate of growth of X per cent and X million dollars, there would be a shortfall of \$2 billion because of this bill. He has announced that, to compensate, he would impose a surtax on business.

There might be some expectation that the Federal Government will say: "That is really too bad!" However, for my part, I find it really too bad to use this type of creative accounting because the Provincial government has known since November 1984 that the new formula would mean a lower rate of growth.

In addition, Mr. Speaker, we have done much to improve the financial conditions of provinces generally. For example, we are aware of the fact that some of them are in underdeveloped areas of the country. They are subjected to financial constraints similar to those of the federal Government. We are also aware that Quebec has to reduce its expenditures. Incidentally, Mr. Gobeil, the provincial Treasurer, said quite adequately in his statement a few weeks ago that they have to reduce their deficit and such is the objective of the budget introduced yesterday. We are aware of their conditions.

However, we should not forget that it is specifically because we are conscious of the problems of have-not provinces that an equalization system has been set. I realize that the opposition often confuses both. I think that even yesterday, the Quebec Minister of Finances confused them. The equalization system and fiscal transfers are not the same thing. Equalization payments are made under a formula to be reviewed. In the past, the provinces were not consulted about how to come up with such a formula, but we are to do so now.

When we conclude a new agreement in 1987 at the expiry of the present one, we will consult the provinces, as we are now doing, about perequation payments which are quite different from transfer payments. They should not be confused.

The provinces will also enjoy substantial increases in their revenues during the next few years as a result of measures announced in the May budget and in view of the fact that tax revenues increase to the extent that our economy is growing.