

Supply

reduction of \$475 per person in the Northwest Territories.

• (1745)

Over the next five years, the reductions will amount to about \$110 million. Not only are these cuts damaging to the government's fiscal position and to the N.W.T.'s ability to respond to the pressing needs of its residents, but the new formula contains serious flaws which will limit the N.W.T.'s ability to develop the northern economy.

The new arrangements take effect April 1, 1990, and will be in place for five years with a review after three years. The changes to the formula financing mean that the N.W.T.'s revenues will grow by less than inflation in the 1990-91 fiscal year. This is the first time that this situation has had to be dealt with by the territorial government.

The territorial government, because of reduction in federal transfer payments, has had to reduce expenditures and increase taxes. The new formula funding arrangement forces the territorial government to increase taxes. However, as a result of the federal changes, the N.W.T.'s funding will be tied to an indicator based on a provincial and territorial tax effort in the year 1987-1988. The result is a reduction in the grant to the N.W.T. because the federal government considers the tax effort of the N.W.T. government to be lower than the provincial average for that year.

In addition, the federal grants in subsequent years will be reduced according to how the N.W.T. has lagged behind the growth in provincial tax effort since the base year 1987-88. These changes by the federal government to the financing arrangements with the government of the Northwest Territories have fundamental consequences for expenditure and taxation policies of the N.W.T. government over the next five years. The government of the Northwest Territories will have to impose the same taxes as the provinces at rates comparable to the provincial average in order to recover the cost imposed by the federal government.

We will also have to keep up with increases in provincial tax efforts to protect the total funding from further erosion. This provision of the formula ignores the fact that northern residents already face a higher tax burden than most other Canadians when the high cost of living in the north is taken into account.

According to the N.W.T. Minister of Finance: "In fact, the formula as a whole, we believe, acts as a disincentive to economic development". Some small comfort was provided by the phase-in of the financial impact over three years, and the fact that the reduction is not as large as was originally proposed by the federal government.

However, the government of the Northwest Territories remains fundamentally opposed to the application of the tax effort adjustment to the formula. Its use produces a formula which is flawed and its imposition by Canada could have severe financial consequences for our government over the next five years.

The federal budget released on February 20 had more bad news for the northern economies. Recent budget cutbacks are going to negatively affect the northern economies. Under the terms of the new federal formula financing arrangements with the northern governments, the two northern territories will have to increase their taxes if the provinces increase their tax rates. They will have to raise their own taxes or face a reduction in their annual operating grants.

By cutting transfer payments to the provinces for health and education, the federal government is forcing the provinces to increase their taxes. If the provinces increase their taxes, the territorial government will have to increase theirs as well.

I have already mentioned the cutbacks the federal government has imposed on the funding it transfers to the two territorial governments. The Northwest Territories has been cut back by \$110 million. Yukon's transfer payments have been reduced by \$9 million this fiscal year, by \$12 million next year, and by \$20 million the year after next.

According to the N.W.T. government, the cutbacks jeopardize the territorial government's ability to stimulate the economy. The Northwest Territories Minister of Finance has called the federal action a disincentive to economic growth.