

[Translation]

These are the reasons why the Federal Government is acting and acting now to put an end to this vicious circle and to put the federal finances on a solid base.

[English]

I would like to explain now how this Bill fits into the over-all fiscal plan of the Government. I should emphasize first of all that the burden of federal deficit reduction is not being borne by transfers to the provinces. It is being borne by other federal program expenditures. As I indicated earlier, the growth of the cash and tax transfers which together make up the federal EPF contribution is expected to average about 5 per cent over the next five years. Federal program expenditures generally will be growing much more slowly.

As indicated in the February 26 Budget, federal program spending this year will actually decline. For the remainder of the decade, federal program expenditures are expected to grow by an average of about 3.2 per cent. Total federal budgetary expenditures which include public debt charges is expected to grow by about 4 per cent.

Let us look at federal support for health and post-secondary education. In short, provincial health care and post-secondary education programs will be receiving more federal support than almost any other area. This is in keeping with the high priority the Government attaches to health care and post-secondary education. Nor are transfers to the provinces the only support the federal Government is providing for health care and post-secondary education.

[Translation]

As the provinces are mainly responsible for the provision of these services, the major part of the federal assistance is naturally assured under the transfer system. In 1985-86, these transfers amounted to nearly \$15 billion.

[English]

However, there is also a substantial direct federal contribution to these areas. In the health area, an additional \$1.5 billion is provided in the various health service programs carried out by National Health and Welfare and other Departments including Labour, Indian and Northern Affairs, National Defence, Veterans Affairs and the Department of the Solicitor General.

On the post-secondary education side, there is a further \$1,100 million in funding of provincial bilingualism in education programs, support for university research through the granting councils, the Canada Student Loan Program and other support. The tax system also provides support in the form of various tax deductions and exemptions for medical and education expenses and for certain goods used in the health and education fields.

[Translation]

In addition to these contributions, the Federal Government helps lower income provinces through equalization payments which now amount to \$5 million more each year and which

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can be used to support important public services, such as health care and post-secondary education.

● (1530)

[English]

Let us look at consultation with the provinces to assure the House that the maximum possible consultation has taken place with those who are most directly affected by EPF.

As you know, Mr. Speaker, EPF's transfers are authorized under federal legislation. This is not subject to any particular time frame and it can be amended by Parliament at any time. Nonetheless, we have consulted extensively with provinces in keeping with our desire to work as closely as possible with them. We have discussed the over-all fiscal plan and the need to restore federal fiscal responsibility. We have also tried, where possible, to accommodate provincial concerns regarding the future growth of EPF transfers.

Ministers of Finance met immediately following the November, 1984 Economic Statement. Provincial Ministers subsequently sought and obtained an assurance that no changes would be made in EPF transfers in 1985-86.

The May 1985 Budget confirmed the Government's intention to provide substantial growth in transfers, while at the same time moderating that growth by some \$2 billion annually by the end of the decade. There followed an extensive series of consultations on implementation of the measure beginning in 1986-87.

[Translation]

In the context of this consultation process, the Ministers of Finance met immediately after the May Budget, at the end of September, in early November and in late December.

The matter was also discussed at the First Ministers' meeting in Halifax last November.

[English]

These discussions proved helpful in coming to a specific decision on how the future growth of EPF transfers should be determined.

As Hon. Members are aware, the EPF arrangements replaced cost-sharing in 1977 with the mutual consent of the federal Government and the provinces. Federal support for provincial health care and post-secondary education programs is now based on an equal per-capita federal contribution, whose growth is linked to the growth of the economy as a whole and the population in each province. These contributions take the form of cash and tax transfers under the EPF "block fund", which provinces allocate to specific programs according to their demands and priorities.

The discussions with the provinces suggested that an EPF growth formula linked to Gross National Product and population remains the fairest way of supporting provincial health and post-secondary education programs.