

programs of direct benefit to students, such as the Canada student loans plan, various manpower training programs and certain provisions of the Income Tax Act. In light of these massive transfers, the federal Government considers from time to time how best to allocate the huge sums which it allocates to the training and education of our young people. For some time now, the Government has felt that some of the funds which now move through provinces in a totally unconditional fashion might be more effective if they were channelled through more direct programs.

For that reason, the then Secretary of State discussed with his provincial counterparts the federal Government's objectives in supporting post-secondary education. He reviewed with them the most effective ways in which the federal funds allocated to this purpose can be used. In order to help ensure that these discussions took place expeditiously, the then Minister of Finance in 1981 stated that the Government would have to re-evaluate the future of post-secondary education transfers to the provinces if satisfactory progress was not made.

The Minister of Finance accordingly met with the provincial Ministers of Finance in December 1982 to exchange views on the economic prospects. He indicated that he had been informed by the Secretary of State that some progress was being made in discussions of support for post-secondary education. The Minister of Finance was therefore able to inform provincial Ministers that it might be unnecessary to introduce measures suggested by his predecessor in 1981. He indicated that he would be prepared to see the federal support for post-secondary education increased by 6 per cent in 1983 and by a further 5 per cent in 1984. This would bring such transfers into conformity with the anti-inflation six and five program and the restraint measures that the Government was applying to a broad range of its own programs.

Before describing the changes in the existing legislation, Mr. Speaker, I should like to explain why six and five is being applied to the post-secondary education escalator and why we are not simply proposing that the education cash transfer for the total education entitlement grows at six and five per cent. Hon. Members may recall that one of the major advantages of the arrangements introduced in 1977 over the former cost-sharing regime was that federal contributions were made more nearly equal on a *per caput* basis. In this way the previous situation was changed whereby those provinces which could afford the most expensive programs tended to receive the most assistance. In 1982 the process was completed which led to exactly equal *per caput* contributions for post-secondary education and health to all provinces. In order to preserve the equal *per caput* contributions for post-secondary education, we have chosen to apply six and five to the *per caput* GNP escalator which I mentioned earlier rather than to the total entitlement or to the cash transfer. To allow the total entitlement to grow by 6 per cent and 5 per cent would not allow for population increases in certain provinces. The different rates of increase in provincial populations would have then resulted in unequal *per caput* contributions. Similarly, allowing the cash transfer to grow by 6 per cent and 5 per cent would have

Established Programs Financing

resulted in unequal total *per caput* contributions since the tax transfer grows at different rates in each province.

● (1220)

I should also like to note that because six and five is applied to the *per caput* escalator and thus provincial population increases are fully recognized, the total education entitlement will grow by approximately 7 per cent in 1983 and 6 per cent in 1984.

Let me describe the precise changes in the Act that are necessary to achieve the objectives of the present Bill. These arrangements involve federal transfers to provinces for the general purpose of post-secondary education as well as for hospital insurance and medical care. The total transfer to the provinces under the current arrangements is made up of an equalized tax transfer and a cash transfer. Under the existing legislation, only the cash transfer is formally divided between education and health so that the Secretary of State and the Minister of National Health and Welfare (Miss Bégin) can make the necessary payments.

In order to appreciate how the transfers will be determined following the implementation of this Bill, let me first describe how the transfers are now calculated. First, the *per caput* transfer by the federal Government to all provinces under these three programs, education and the two health programs, in a base year, 1975-76, is determined.

Second, this base year *per caput* figure is increased or escalated each year by a moving average of the Gross National product on a *per caput* basis. This determines the *per caput* entitlement for each province in each subsequent year. That entitlement for each province is, of course, equal.

Third, this equal *per caput* figure is then multiplied by the population of each province to determine the total entitlement for that province for each of the three programs.

Fourth, the value of the equalized tax transfer is deducted from the total entitlement.

Let me point out that the equalized tax transfer is indeed a real transfer from the national Government to provincial governments. On January 1, 1977 the federal Government reduced its personal income tax rates and the provincial governments increased theirs by corresponding amounts, leaving the taxpayer with the same total income tax payable. The tax transfer mechanism therefore results in a transfer of potential revenues, which the provinces took up, from the federal to the provincial governments. It is today very much part of the transfer arrangements.

I might add that these transferred revenues enter automatically into the fiscal equalization formula resulting in increased provincial equalization entitlements. This element of the increased equalization in respect of the tax transfer is therefore taken into account in determining the cash payments to the provinces.

Fifth, the balance, after deducting the equalized tax transfer from the total entitlement of the province, is the cash payment to be made to each province. This cash is allocated to post-