

*The Budget*

The deficit cannot be reduced significantly without affecting transfers to the provinces. These transfers are too large a share of federal spending to be left out.

Let us look at the situation of transfers. In the fiscal year that will end soon, transfers of cash and tax points to the provincial governments will exceed \$35 billion and these transfers have been growing faster than federal programs in general.

Transfers to the provinces have grown at an average rate of 6.5 per cent since 1984-85. Throughout that period, increases in total federal program spending were kept at an annual average of 3.6 per cent, which means below the inflation rate.

This year, 35 cents of every revenue dollar will go towards paying the interest on the debt. The provinces, on average, spend only 12 cents on servicing the debt.

If the federal government does its duty by keeping spending increases down to around 3 per cent, it would be hard to imagine allowing provincial transfer payments, for established programs financing in particular, to maintain a growth rate of 6.5 per cent.

The February Budget reflects the fact that transfer payments to the provinces cannot keep increasing at the same rate, if we are to achieve our objectives for reducing the deficit.

As part of the Expenditure Control Program set forth in the Budget, provincial transfers are expected to grow by an average of 3 per cent over the next two fiscal years, about the same rate as total program spending.

The Budget also reflects the specific needs of lower-income provinces. Federal transfer payments are expected to increase by an average of 2.3 per cent in higher income provinces and by about 4 per cent, during the next two fiscal years, in lower-income provinces.

The decline in the growth rate of provincial transfer payments represents about 1 per cent of total provincial revenues. Federal support to the provinces remains very substantial, nevertheless, and total transfers will continue to increase, reaching over \$36 billion in 1990-91. The poorest provinces will receive a proportionately larger share of these transfers.

Madam Speaker, the spending restrictions we must impose if we are to deal effectively with the deficit and

our national debt, require some difficult and very serious decisions. However, they reflect a concern for fairness and justice that ensures the provinces will not be unfairly penalized.

Madam Speaker, the Budget proposes a wide-ranging program aimed at controlling federal spending for two years. I shall, if I may, mention some of its components.

Although the Expenditure Control Plan will affect certain areas of program spending, major transfers to persons will be exempted.

In other words, the budget cut-backs do not apply to benefits for the elderly, family allowances, veterans' pensions and allowances, unemployment insurance benefits, and Canada Assistance Plan equalization transfers to poorer provinces.

Ever conscious of the views expressed by most Canadians, we want to maintain our social benefits and show that even if the fight against the deficit calls for stringent measures we can and we must do that without compromising our major social programs.

The growth of a number of programs has been limited to 5 per cent for the next two years. This applies to Canada Assistance Plan payments to the fiscally stronger provinces—Ontario, British Columbia and Alberta—and to expenditures for science and technology, Indian and Inuit programs, as well as foreign aid and defence.

Other programs will be held at the 1989-90 levels for the next two years. With respect to Established Programs Financing, total per capita cash and tax transfers to the provinces will remain constant. These transfers will continue to grow with provincial populations.

Some programs have been reduced or eliminated. The government will not proceed with the offer of assistance to the OSLO oil sands project. The Canadian Exploration Incentives Program has been cancelled, and the government will not proceed with the Polar 8 icebreaker project.

Business assistance has proved to be very useful, but the government will take a more business like approach. With limited exceptions, grants will be eliminated beginning in 1990-1991 and federal assistance will be repayable on more rigorous terms. The emphasis will be on economic development rather than private sector subsidy.