relative merits of Confederation. Newfoundland entered Confederation for the same primary reason as the other provinces did—the hope that it would lead to a higher standard of living for its people and an accelerated rate of economic development. There have been tremendous gains in terms of our standard of living since we became a province, and there have been quantum leaps in the quality and availability of education and health care, transportation, roads, airports, municipal services, and in many other areas where gains could not have been made without federal monetary contributions. In spite of these gains, which have been numerous, the people of Newfoundland continue to suffer the highest unemployment rate in Canada, 24.4 per cent in March of 1987, and a per capita earned income just 52 per cent of the national average in 1986. The unemployment rate was down to 17.1 per cent in October 1987, a welcome decline indeed, but it is still approximately twice the national average. The province's fiscal capacity—as defined by the federal government to reflect each province's ability to raise revenue from its own sources—was only 59 per cent of the national average in 1985. The Honourable John Collins, Provincial Minister of Finance, said in his 1987 budget speech:

> ... ever since Confederation, our gain in per capita income has been small, slow and uncertain, with significant gaps persisting throughout, leaving us the chronically poorest in the nation, and especially negatively affected by the recent recession.

The minister went on to say:

> ... it is particularly noteworthy that the fiscal capacity spread between ourselves and the Maritime Provinces' average widened from seven percentage points in 1980 to ten percentage points by 1985, confirming that the basic economic problem in this province cannot be considered as simply one aspect of a general Atlantic Canada problem, but is an inherent structural disorder unique to Newfoundland and Labrador and demanding particular approaches for its correction.

● (1520)

Honourable senators, Newfoundland and Labrador still faces some serious problems 40 years after we became a province; the efforts to overcome regional disparity have not been all that successful and were recently called into question by the Macdonald royal commission.

A research report by N. Harvey Lithwick, entitled "Federal Government Regional Economic Development Policies: An Evaluative Survey", Volume 64, *Disparities and Inter-Regional Adjustment*, in the series of studies prepared for the Royal Commission on the Economic Union and Development Prospects for Canada, concluded:

> Our most important finding is that regional disparities have not disappeared. Despite widely varying policy thrusts and economic circumstances, there has been little improvement in the relative position of most of the poorer provinces ...

Since Newfoundland entered Confederation then, the availability of such services as educational and medical care, to cite two examples, has improved dramatically, but relative incomes have remained extremely low, unemployment chronically high, and economic development has been spotty at best. It is against that background that I would like to paint some impression of the other economic issues facing Newfoundland today.

Respecting transfer payments, because of our depressed economy, low income levels, high unemployment and small fiscal capacity Newfoundland has been heavily dependent on fiscal transfer payments both to individual citizens and to the provincial government to support services to those citizens. The costs of social programs continue to rise, particularly health and educational expenditures, far more rapidly than the rate of inflation. This current fiscal year Newfoundland will spend over $577 million on education, an increase of $57 million over the previous fiscal year, and will spend $546 million as well on health care, a $35 million increase in this field. But revenues from Established Programs Financing, which subsidizes costs of health and post-secondary education, will be reduced by an estimated $6.7 million; equalization payments to Newfoundland will decline by an estimated $36 million; and transfers under the Canada Assistance Plan are expected to be over $1 million lower than in the 1986-87 fiscal year. Transfer payments are made on a per capita basis, and the preliminary 1986 census data indicate a decline of about 10,000 in our province's population. Given the present formula for calculating transfer payments, those reductions are perfectly legitimate, but it is extremely difficult for a smaller province to try to stimulate economic recovery and development when costs are increasing and major sources of revenue are declining significantly. If we are even to maintain the levels of social services we have achieved perhaps the transfer payments system needs to be revised to give some protection against the very serious budgetary effects of population decline.

Respecting regional economic development, a reading of the "Federal Government Regional Economic Development Policies: An Evaluative Survey" by Harvey Lithwick, prepared for the Macdonald royal commission, shows that over the last quarter of a century or so numerous efforts have been made to overcome regional disparities. I am told by my advisers back in Newfoundland that the disbandment of the Department of Regional Economic Expansion in 1981 and its replacement with the Department of Regional Industrial Expansion was seen by many as a negative blow against regional economic development in our province, because in many respects the wealthier provinces could qualify for funding, thus, in effect, competing with the poorer provinces and negating the whole purpose of the program.

A review of the 1987-88 federal estimates shows that overall spending for the economic and regional development envelope declined from $14,851 million in 1984-85 to a projected $11,955 million in 1987-88. The economic and regional development envelope share of total federal expenditure has fallen from 13.1 per cent in 1981-82 to 9.9 per cent in