

Equalization Payments to Provinces

Mr. Sharp: Another important element in the proposed fiscal arrangements with the provinces is the undertaking to place a floor under provincial revenues. The provinces have, from time to time, expressed concern over the vulnerability of their revenues to changes in the economic climate. The provinces have argued that in periods of recession when revenues are falling, the costs of provincial responsibilities continue to rise. To the relentless rise in education, health and welfare costs would be added the additional financial burdens occasioned by the recession. The federal government, in the past, has gone part way to alleviate this provincial anxiety for certain provinces, by undertaking to stabilize the equalization payments and standard taxes. Thus the federal government, in the present fiscal arrangements act, undertook for the five-year duration of the arrangements to pay a provincial revenue stabilization payment to a province whenever the amount of that province's three standard taxes and equalization payment fell below 95 per cent of the average of the same taxes and payment for the preceding two fiscal years. The federal government now proposes to extend this stabilization to all provincial revenues and it proposes to remove the five-year limit which has applied to the stabilization provision as well as to the equalization provisions. Stabilization is to be provided on a continuing basis as a protection to the provinces against sharp declines in revenues.

Mr. Douglas: At what percentage?

Mr. Sharp: At 95 per cent. A province will be entitled to stabilization payments when its net general revenues for a fiscal year fall below 95 per cent of the province's net general revenues for the immediately preceding year. In order that the years shall be comparable, the net general revenues for the fiscal year will have to be adjusted to eliminate the effects of changes in provincial taxes and tax rates between years. It will also be necessary to adjust for the effect of revenue windfalls that are characteristic of such revenue sources as succession duties and oil and gas lease sales, as well as for tax revenues accruing to a province because of arrangements between Canada and a province which are not of general application. An example is the federal tax abatements to Quebec under the "contracting-out" arrangements.

Finally, a major proposal was also made to the provinces in respect of the continuing and well-established programs in the field of

[The Chairman.]

health and welfare. This offer was designed to enable the provinces ultimately to assume full responsibility for such programs thus bringing to an end the cumulative and continuing influence on provincial decision-making resulting from these major established programs. In return for the assumption of full financial responsibility for hospital insurance, the Canada Assistance Plan and the continuing portion of the health grants, the provinces were offered 17 points of the individual income tax with associated equalization and an adjustment payment or special program equalization grant which would bring each province's annual compensation up to the amount to which it was entitled under the shared-cost agreements involved. From 1970 the provinces would, if they chose, be relieved of the conditions attached to these shared-cost programs, and the adjustment payment or program equalization grant would from then on be escalated independently of program costs.

This was the federal offer in respect of shared-cost programs. It was not, of course, obligatory and because the main change of substance would not occur until 1970 I did not expect the provinces to accept the offer immediately. This in fact turned out to be the case. Consequently the arrangements with the province of Quebec covering these same programs, under the Established Programs (Interim Arrangements) Act, are to be continued, and it is necessary to extend the interim period applicable to the health grants program to March 31, 1970. The other programs are already covered to that date under the act.

That, Mr. Chairman, completes my brief review of the major changes proposed in the fiscal arrangements between the federal government and the provinces. The final element of the proposed arrangements contained no change; the federal government offered to extend for a further two years the tax collection agreements we have with nine of the ten provinces. Also the government proposes to continue the present arrangements for sharing the yield of the federal estate tax with the provinces.

My colleague, the Secretary of State, will speak to the proposed arrangements to help the provinces meet the rising costs of post-secondary education.

Mr. Douglas: Before the minister sits down may I ask him a couple of questions to help us study his statement and deal with the legislation when it is brought down? When