

Federal Transfers to Provinces

simply moderate the growth of the total established programs financing transfer in 1982-83.

I should also add that the effect of removing the revenue guarantee compensation will be partly offset by the increase in provincial income tax revenues arising out of the tax measures announced in the November 12 budget. In 1982-83 alone, the resulting increase in provincial revenues is estimated at \$685 million.

I want to say again that following the presentation of the report of the parliamentary task force and hearing the views of the provinces, I made a deliberate effort in the budget through the selection of these tax changes to flow revenues into the provinces in order to mitigate for them the loss of the revenue guarantee. It was a deliberate choice. It was very carefully decided. Mind you, I did not get very much credit or acknowledgement for that. However, it is still a fact that in 1982-83 alone, the resulting increase in provincial revenues as a result of the tax changes made in the November budget will amount to \$685 million. That is an important sum of money.

I know that the intention to restrain the rate of growth of transfers to the provinces has been criticized in some quarters. We are not cutting back. We are not refusing growth. Transfers to the provinces will continue to grow, as I have indicated, by 13.6 per cent for equalization in 1982-83, plus 11 per cent for the five-year period for EPF, growing in line with the gross national product, growing as fast as the economy. Therefore, there is no intention to cut back. There is no justification for the use of the word "cut".

It is true that it is not possible to satisfy—I was going to say the wildest expectations, but that might be misunderstood. It is not possible in present circumstances to allow transfers to the provinces to grow at 15 per cent and 20 per cent when it is absolutely essential to apply restraint to all expenditures of the Government of Canada if we are going to control our deficit.

As I have already mentioned, transfers to the provinces account for approximately 20 per cent of total federal expenditures. One fifth of what we spend goes to the provinces. Is it reasonable to decide to moderate the rate of growth for 80 per cent and not moderate the rate of growth for the 20 per cent that goes to the provinces? I argue that it is not reasonable to think we cannot apply some restraint even as we increase the transfers to the provinces.

I could not find any valid reason for continuing the revenue guarantee compensation. The revenue guarantee program was first designed to protect provinces against unforeseen reductions in revenues which might have resulted from the 1972 tax reform. The beginning of the revenue guarantee was in 1972 when we undertook tax reform. It was initially intended to last two years only. It was extended to five years at the request of the provinces and expired at the end of 1976. But then, throughout the consultation that led to the 1977 fiscal arrangements act, the provinces sought compensation for the termination of the program. Although the federal government felt the program had fulfilled its purpose, it offered to enrich the EPF transfer then being negotiated by one personal income

tax point and the cash equivalent of another point to settle all outstanding issues. The offer was accepted. I argue that the provinces have now had ten years in which to adjust their tax rates since the 1972 tax reforms. The justification for this particular aspect of our system no longer exists. It no longer has any *raison d'être*.

● (1600)

I should also add that the budget proposals dealt with the program aspects of EPF. The government has proposed that the national standards for health care be clarified and an effective mechanism for their maintenance be developed in consultation with the provinces for incorporation in new federal legislation by March 31, 1983. We also propose that new federal-provincial arrangements for the financing of post-secondary education and human resources development be devised in consultation with the provinces for incorporation into new federal legislation by March 31, 1982.

I recall that the parliamentary task force had a good deal to say about the program aspects of EPF. They did not neglect that area at all. They made some rather helpful proposals in support of the direction in which we are now moving. Having made this proposal to incorporate these changes in new federal legislation by March, 1983, at the first ministers' conference held in February, the Prime Minister (Mr. Trudeau) tabled a proposal that would maintain the EPF transfer unchanged until March, 1984, subject to certain stipulations. This new proposal would allow two full years for consultations and discussion of ways of implementing the national objectives with respect to post-secondary education. My colleague the Secretary of State (Mr. Regan) will be pursuing this matter.

There are other provisions as well modifying the fiscal arrangements act. Other provisions of the bill would extend those parts of the fiscal arrangements act dealing with the fiscal stabilization program, the personal income tax guarantee program, and the reciprocal taxation program.

Part II of the fiscal arrangements act authorizes the government to make fiscal stabilization payments for the period beginning April 1, 1977, and ending March 31, 1982. The bill provides for an extension of that authority for an indefinite period. The purpose of these payments is to protect provinces from sudden year to year losses in revenue as a result of a severe economic downturn in the national economy or, indeed, in their own economies. This provision has been of value to provinces when they borrow in foreign capital markets and we believe its value would be enhanced by making it of indefinite duration.

Part IV of the fiscal arrangements act authorizes the federal government to make revenue guarantee payments in cases of a serious disruption to provincial financial planning resulting from federal tax policy changes during the five-year period ending March 31, 1982. The bill extends the authority to make such payments to March 31, 1987. The purpose of this program is to encourage the maintenance of a common tax system across Canada.