

express my thanks to the opposition parties for the courtesy extended to my minister and myself in permitting me to handle this bill at the second reading stage. This is the second or third occasion the opposition has extended that courtesy, and I want hon. members to know that it is much appreciated.

The purpose of the bill now before the House is to propose a number of amendments to the Federal-Provincial Fiscal Arrangements Act, 1972. These amendments relate to two of the federal government's main policies for financial support for the provinces and, through them, for Canada's municipalities. One is the program of equalization payments provided for in part I of the act; the other is the revenue guarantee program covered by part IV of the act.

Hon. members will be familiar with the equalization payments program and the massive financial support it provides to the less wealthy provinces. The basic purpose of the program is to provide provinces whose revenue-raising capacity is below the national average with enough funds to enable them to provide national average levels of service without having to resort to excessive levels of taxation. There years ago when the present fiscal arrangements legislation was introduced in this chamber, it was estimated the program would be providing equalization payments beginning at \$1 billion a year. The main estimates for 1975-76 provide for equalization payments of \$1,985 million. In the space of three years, federal equalization payments to the provinces have doubled. The program is clearly one of the main pillars of our federal fiscal structure, but the rapid escalation of payments has been an important reason for the recent growth of total federal expenditures.

The revenue guarantee program was introduced at the time of tax reform with the enactment of the 1972 Fiscal Arrangements Act. The original purpose of this measure was to encourage provinces to bring their income tax legislation into conformity with the reformed federal law and thus to maintain the consistency of federal-provincial income tax structures across the country. In the years since tax reform, the government has voluntarily extended the program to cover tax changes resulting not only from the 1972 reforms of the tax system but also from subsequent changes in the federal tax law which tended to reduce the federal and provincial tax bases.

Under the program, if the equalized yield of the province's current personal and corporate income taxes, at tax rates equivalent to those prevailing prior to tax reform, yields less than the amount that the pre-tax reform system would have yielded if it had applied, the federal government will make up the difference. During the fiscal year 1974-75, payments of \$475 million were made to the provinces under this program. The main estimates for 1975-76 provide for the payment of another \$340 million. All ten provinces receive payments under this program.

● (1510)

Before turning to the specific amendments themselves, I should note that the fiscal arrangements program is a complicated one and the legislation is technically complex. The complexity results, in the case of equalization, from the extent to measure the relative fiscal capacities of the

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provinces with respect to all of the taxes provinces levy. In the case of the revenue guarantee, it results from the need to estimate tax yields of the pre-reform system. Of necessity, therefore, the amendments are highly technical.

The amendments dealing with the equalization program relate exclusively to the treatment of provincial revenues from oil and gas. They would do two things. First, they would carry out the proposal contained in the budget speech of November 18 last to equalize all oil and gas revenues that are not attributable to the international oil disturbance of 1973-74, plus one-third of the revenues that are attributable to this event. Second, they would provide for the reclassification of oil and gas revenues for the purpose of the equalization calculation. Both amendments would affect equalization for three fiscal years beginning with 1974-75 and ending with 1976-77 when the present fiscal arrangements expire.

The reason for the amendments respecting oil and gas revenues was explained at some length in the November 18 budget speech. The Minister of Finance (Mr. Turner) indicated they would protect the basic equalization formula from distortions which would otherwise be created by the very large windfall revenues of the oil and gas producing provinces. While there is still uncertainty as to what these windfall revenues will be, it is clear they will run into many billions of dollars during the course of the present fiscal arrangements.

The potential cost of equalizing these revenues in full could be so large as to be beyond the capacity of Canadian taxpayers to finance. The minister expressed the fear that this result could undermine public acceptance of the fiscal equalization program and erode the basic principles on which the program is based. This was an eventuality the government wanted to avoid. The budget proposal would achieve this objective while at the same time permitting large but orderly increases in the equalization payments resulting from oil and gas revenues. This can be seen in the estimates of the portion of equalization payments that relate to oil and gas revenues. Assuming that the provisions of this bill are adopted by parliament, we estimate the cost of equalizing provincial oil and gas revenues, which in 1973-74 was \$257 million, would be \$380 million in 1974-75 and \$415 million in 1975-76. The estimates are based on the prices prevailing at the time they were made, and on the prevailing royalty structures.

The bill would achieve the budget objective by dealing with oil and gas revenues in the following way. Those revenues which are not attributable to the international oil disturbance would be equalized in full. They are referred to as "basic revenues" in the bill. Those revenues which are attributable to the international oil disturbance would be equalized to the extent of one-third. They are referred to as "additional revenues." In the bill, "basic revenues" for each oil and gas revenue source are defined as the actual revenues of the provinces from that source in the 1973-74 fiscal year subject to an upward adjustment for any increase in the volume of production between the calendar year 1973 and the year for which equalization is being determined. Provision is made for a floor which protects provinces against a decline in "basic revenues" in the event that the volume of oil or gas production falls subsequent to 1973. "Additional revenues" are defined in