By 1996–97 our financial requirements, the amount of new money we will have to borrow in the financial markets, will be down to $13.7 billion or 1.7 per cent of GDP. That is better than every other G–7 country. Most important of all, by 1996–97 the debt no longer will be going faster than the economy. That is the key to fiscal stability, to putting our debt ratio on a permanent downward track.

Canadians realize the importance of achieving fiscal targets. They know this is the budget our economy needs. They affirmed this in the consultations leading up to the budget and they reaffirmed it in the response to the budget itself.

Financial markets have also recognized that the budget will promote an improvement in public finances. However, to secure the savings that will lead to this improvement, we must pass the legislation as expediently as possible. Anything less would compromise our commitments to a secure and prosperous future for ourselves and for our children.

There is no need for further budget background. It has been extensively discussed in the House. Let me turn therefore to the specific elements of the bill before the House.

Provincial transfers. One of the most important elements of the bill is the reform of transfers to the provinces. The federal government wants to create a transfer system that functions better and is fiscally sustainable. The centrepiece of this reform is the replacement, beginning in 1996–97, of established program financing for health and post–secondary education and the Canada assistance plan, with a single consolidated block transfer, the Canada health and social transfer.

The Canada health and social transfer represents a new approach to federal–provincial fiscal relations. This new approach is marked by a greater flexibility for provincial governments, and more sustainable financing arrangements for the federal government. It continues the evolution toward more mature fiscal relations.

Although provinces will have greater flexibility in addressing their priorities, the budget made it clear that the principles of the Canada Health Act will be enforced. There will be no change in the principle that provinces must provide social assistance without minimum residency requirements.

We believe the new system will be more effective in meeting contemporary needs. Our fiscal situation demands that it also be less costly than the current system. That is why, when the CHST is fully implemented in 1997–98 the total of all major transfers to provinces will be down by about $4.5 billion from what it would have been if it had been transferred under the existing system. However, to put this into perspective, the reduction will be equal to about 3 per cent of the aggregate provincial revenues.

We believe our approach to provincial transfers passes three important tests. First, the federal government has hit itself even harder. Second, we have given the provinces ample notice of our intentions. Third, the reduction in transfers is equitable across all provinces.

• (1025)

In addition to the introduction of the Canada health and social transfer, the bill also introduces other measures that will help reduce the cost of payments to the provinces. For example, the government is proposing to reintroduce to the fiscal stabilization program a provision which will trigger payment under the program only when economic conditions cause provincial revenues to decline by more than 5 per cent. The fiscal stabilization program compensates provinces if their revenues decline from one year to the next due to economic circumstances.

When the program was introduced in 1967, it provided compensation only in situations where the economic conditions caused revenues to decline by more than 5 per cent, that is, in the event of a severe economic downturn. The program was amended in 1972 to provide compensation if province's revenue fell at all.

Despite that change only two payments were made under the program between 1967 and 1990. However, the combination of the last recession and low inflation has triggered recent stabilization payments to virtually all provinces.

Now that inflation is low and stable, even a minor economic downturn can cause a decline in a province's revenue and thus result in a stabilization payment. This is not consistent with the intent of the program and is not consistent with current fiscal realities. Therefore, the government is reintroducing the 5 per cent eligibility threshold to the program. This measure will take effect for stabilization claims in 1995–96 and subsequent years.

The federal government will continue to play a major role in stabilizing revenues of provincial governments. However, it will do so only in times of severe economic shocks, as was intended when the program was originally introduced. There are no immediate savings associated with this measure.

The bill also includes an amendment to the Public Utilities Income Tax Transfer Act, PUITTA. Under PUITTA the federal government transfers to provinces and territories most of the federal corporate income taxes paid by privately owned electrical and gas utilities.

These payments were intended to level the playing field between privately owned utilities which pay income tax and provincially owned utilities which under the Constitution do not. However, it is up to the provinces and the territories to decide whether or not they will pass these savings through to utilities companies or to consumers.