obviously a contingency measure. Our forecasts indicate that it will not likely come into play, but past experiences have shown that it is wise to provide for such a contingency.

There you have it, Mr. Speaker; those are the essential features of the equalization system provided for in the bill. It would achieve the historic purpose of equalization by means of the most comprehensive measure of fiscal capacity ever used since the inception of the program 25 years ago, and of a more stable standard, reflecting economic and fiscal developments in five provinces accounting for about 80 per cent of the country's population and provincial fiscal capacity. Equalization payments would increase by 13.6 per cent in 1982-83 over 1981-82; and the average annual rate of increase of equalization over the five full years would be 11.2 per cent.

I do not understand how the term "cutback" can be applied to this particular program. A rate of growth next year of 13.6 per cent and a five-year rate of growth of 11.2 per cent is, in my view, a reasonable annual rate of growth to the provinces.

It is obvious that the system provided for in the bill is significantly different from the one proposed in the budget, and it is different because the government has tried to accommodate the provinces as much as possible. We have provided the features that I have mentioned at the suggestion and on the representations of the provinces. I am hopeful that the equalization receiving provinces will in the main support our efforts.

Four of the six equalization receiving provinces have formally indicated to me that they find the representative average standard system conceptually superior to the Ontario standard and consequently they are able to support it. I have received written communications to that effect from the Hon. Richard Hatfield, Premier of New Brunswick, the Hon. Joel Matheson, Minister of Finance of Nova Scotia; the Hon. Dr. John Collins, Minister of Finance of Newfoundland; and the Hon. Lloyd MacPhail, Minister of Finance of Prince Edward Island. I have had detailed discussions with each of these ministers on the implications of the equalization formula for the province concerned. I have had negotiations with finance ministers as a group; I have had them individually; and I have had discussions with them by telephone since the first ministers' conference. I believe that we have made an effort, an honest and successful effort, to accommodate the principal concerns of equalization receiving provinces.

• (1550)

I now want to turn to another major component of our fiscal arrangements known as established programs financing, commonly called EPF. These are dealt with in Part VI of the fiscal arrangements act. The transfers made under EPF since 1977 have served two distinct purposes. First, they have funded provincial health care and post-secondary education programs. Second, they have compensated provinces for termination of the 1972 tax reform revenue guarantee.

The bill before us modifies EPF in two ways. The first change stems from our concern for equity. Federal EPF contributions have two elements, the transfer of tax room and a payment in cash. Under the present legislation, the total per capita federal contribution is higher in those provinces where the yield from the tax transfer is higher.

As a result, over the coming years Alberta and British Columbia would benefit substantially more from established programs financing than any other province. This is inequitable since those receiving more are the provinces best able to finance activities. Consequently, the bill modifies the computation of EPF cash transfers so that the per capita value of the total federal contribution to all provinces will be equal.

This change would rectify one aspect of established programs financing which both Quebec and Ontario have criticized in the past. It would also implement once again a major recommendation of the parliamentary task force on fiscal arrangements.

The second modification to EPF proposed in the bill would end that portion of the EPF transfer that has so far compensated for the termination five years ago of the 1972 tax reform revenue guarantee. This element was added to the EPF arrangements in 1977 at the request of the provinces, although the EPF arrangements were essentially designed to provide financial support for public health insurance and post-secondary education. One personal income tax point and the cash equivalent of a second point were added to the arrangements in 1977 by way of compensation.

Provinces have argued in the past that compensation for the revenue guarantee should not be taken into account in computing the federal share of the financing of these programs. It will be argued in the House that, by removing the revenue guarantee, we are undermining our support for post-secondary education and health. I am saying that is not so, because it cannot be defended.

Even the premiers, meeting last summer, when putting together the contributions by the federal government to these important elements of our Canadian society, health and education, explicitly declined to include the revenue guarantee as a portion of the federal contribution to these two sectors. The same view as that expressed by the premiers was adopted by Justice Hall in his 1980 report on health programs, which states that the federal contribution to health programs does not include the two tax points attributable to the revenue guarantee negotiations.

If I had more time, I would add to the list of authorities a number of others, including the president of the Canadian Medical Association who argued in Halifax after the budget that the revenue guarantee was never and was not intended to be a part of the contribution by the federal government to health care. I believe similar statements can be attributed to spokesmen for those interested in post-secondary education.

I state quite firmly that ending the revenue guarantee will not lower the level of federal support for these two programs. In fact, the value of the federal contribution to these programs will continue to grow in line with the gross national product over the 1982-87 period. Removing the revenue guarantee will