

*Fiscal Transfers to Provinces*

This bill is important in at least two regards. First, it proves that the federal government must adapt to evolving circumstances. Fiscal arrangements are not static and must be revised from time to time to take into account new facts of life. Second, the provisions of this bill reflect the will to reduce expenditures and the federal deficit.

We know that all administration levels share that purpose.

Bill C-24 provides amendments to two statutory programs. The first relates to the equalization payments authorized under the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977. The second aspect of the bill has to do with the payments made under the Public Utilities Income Tax Transfer Act. I will deal briefly and specifically with both questions.

Hon. members recall that the equalization program is meant to authorize the transfer of sufficient revenues to the have-not provinces to enable them to provide satisfactory public services without levying higher than average taxes. I would like to point out that the equalization program ultimately rests on the capacity of the provinces to provide those services. And the program performs that role by estimating the revenues which each province would draw through the levy of average tax rates on its basis of assessment and by adjusting upward such potential revenues in the case of provinces below that average.

Thus we make sure that those provinces have sufficient financial resources to finance the main public services. Equalization is one of the most important programs of the federal government and I want to assure the House that we remain firmly committed in that respect. The very substantial payments which continue to be made under the program indicate quite well the federal commitment in that area. Indeed, the payments will be over \$3.3 billion in 1980-81 even if the bill is passed by the House. Newfoundland and Prince Edward Island will each receive more than \$600 per capita in 1980-81, New Brunswick and Nova Scotia over \$500 per capita, Quebec and Manitoba each more than \$250 per capita.

The equalization formula encompasses nearly all the revenue sources of the provinces, including those drawn by the provincial government from their oil and gas resources. These revenues from oil and gas resources have increased sharply in the past five years. In particular there has been a spectacular rise in the revenues of the provinces from the sale of exploration and oil and gas development rights. These revenues have gone from \$253 million in 1976-77 to \$932 million in 1977-78 yet they remain very unstable and varying.

It is obvious that the costs borne by the provinces to provide services have not risen at the same pace as the revenues drawn by the rich provinces from their natural resources. Furthermore revenues coming from the sale of rights differ from the ordinary revenues of the provinces given the fact that they come from the sale of assets. For these reasons it is considered that these revenues should not be included in the equalization formula.

The present bill provides also for the gradual suppression over a period of two years of the revenues from the turning over of Crown concessions on oil and gas fields for the purpose of equalization. Even if we take into account this change, the equalization payments to the provinces will increase by \$311 million in 1979-80 and by \$130 million in 1980-81. Each of the seven provinces receiving equalization payments will share in these increases. Saskatchewan's shares will go down in 1980-81 by comparison with the previous year, but this decrease will not be due to the provisions of the bill before the House, Bill C-24.

● (1620)

The bill also includes another change in the equalization formula. This change is based on the principle that the provinces in which per capita personal income is regularly higher than the national average should not be eligible for equalization payments. The reason for this change is that such a province can provide for its residents the services which they normally expect. Obviously, it would be inappropriate to make equalization payments to an economically strong province, such as Ontario, simply because Alberta revenues from oil and natural gas are increasing. This is what would happen under the present formula. This would seriously threaten the basic purpose of the equalization program and the capacity of the federal government to finance it. The situation of Ontario within the equalization program will be given priority during the next renegotiation of financial arrangements for the period from 1982 to 1986.

We must also ensure that a province where the per capita income is only temporarily higher than the national average will not be excluded from the equalization formula. This provision would therefore only apply during a year where per capita personal income in the province is higher than the national average that year and the two previous years. We would therefore take into account a period of three consecutive years where the average in the province would be higher than the national average.

If I may, I would now like to speak about the Public Utilities Income Tax Transfer Act. Hon. members may recall that the government announced on September 8, 1978, in the context of the expenditure restriction program, its intention to eliminate the payments made under this act, which allowed the federal government to transfer to eight provinces and both territories 95 per cent of the federal income tax paid by public utilities of the private sector for the production and distribution of electricity and natural gas.

In determining the restrictions concerning tax transfers, the government judged that all provinces, and not only those who receive equalization payments, should play some part in the cutback of federal expenditures. The public utilities income tax transfer program met this objective since it included not only five of the seven have-not provinces, but also Alberta and