

cont'd from p. 19

lower than the rate of increase in federal fiscal transfers to the provinces."

In other words, Johnson says the provincial governments are diverting federal money for PSE to other areas.

Therefore, the source of the present federal-provincial conflict is that while Ottawa believes the provinces have a moral obligation to spend its transfer money on PSE, the province disagrees because the 1977 EPF Act says they are not obligated to do so. As part of the changes introduced by the EPF Act the federal government also transferred a number of taxing powers to the provinces. In effect the provinces were awarded a large portion of federal income taxing powers.

Part of the intergovernmental conflict stems from the fact that the federal government counts its vacated tax points as part of its transfer payments that it is allowed to designate for PSE. The provinces on the other hand believe Ottawa has no right to designate these tax points

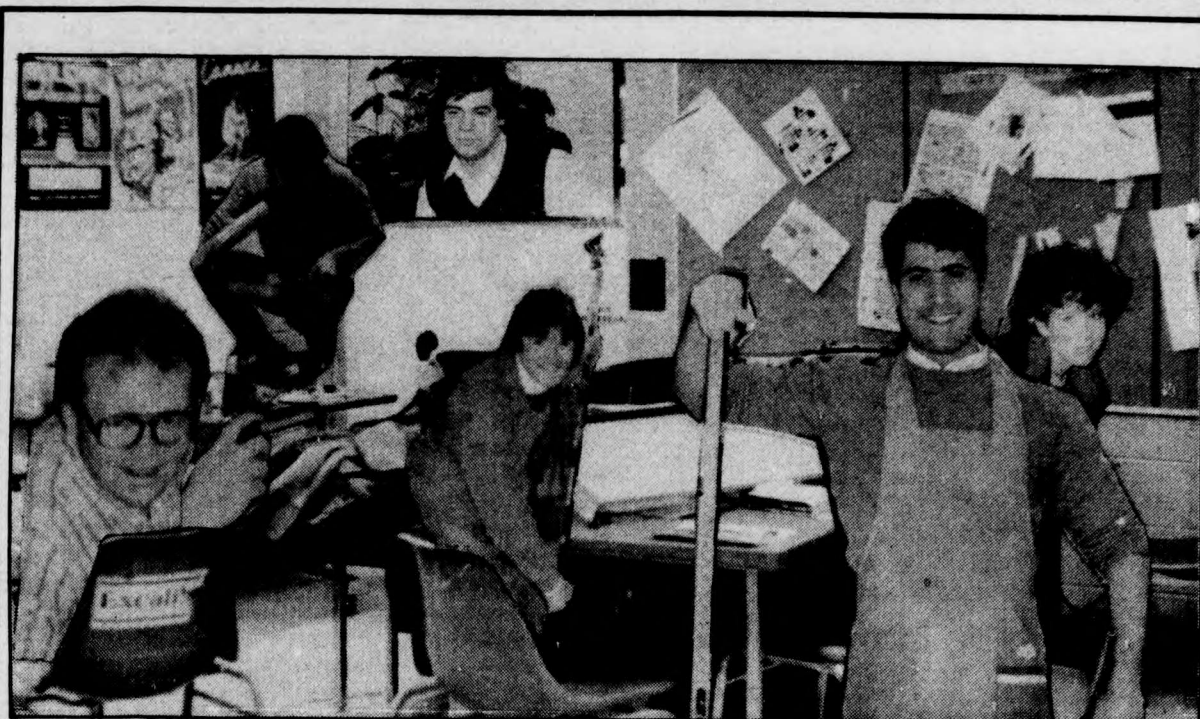
because they are now a provincial matter.

The vacated tax points amount to a very large portion of the contributions to PSE. Johnson says that fully 40 percent (\$2.1-billion) of PSE funding in Canada is financed through the income taxes transferred to the provinces, while 39 percent (\$2.1-billion) is paid for by federal cash payments to the provinces, and 17 percent (\$.9-billion) comes from purely provincial revenues. The remaining three percent goes to federally sponsored institutions such as Royal Military College.

Last April the federal government tightened up the 1977 legislation by specifically identifying what portion of federal transfer payments the provinces are supposed to spend on PSE.

This new wrinkle in the 1977 Act upset the provincial government of Ontario which felt Ottawa was "renegeing on a deal we used to have," McGinley said.

Yet even with these changes the provinces had no legal obligation to spend the transfer payments as designated by Ottawa.



ROBERTA DI MAMIO

EXCAL STAFF LEFTOVERS: From left, Peter Becker (fused to chair), Steve Stribbel (levitating), Anthony Sara (wall hanging), Marc Gagnon (telephone protruding from spine), Paul Pivato (American Gothic), Heidi Silverman (bursting from Paul's shoulder).



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