continue this government's strong support for health and post-secondary education. Finally, the bill will meet to some extent the government's own need for fiscal restraint.

As I indicated in the budget, current circumstances require that the federal government apply restraint in all areas. Since transfers to provinces account for approximately 20 per cent of total federal expenditures, they cannot be insulated from our restraint effort. However, the restraint which must apply to federal transfers to provinces should be tempered with equity. I am convinced that the means whereby we propose to moderate the growth of these transfers is equitable. While the changes we propose to established program financing would affect all provinces, except the richest, in more or less the same way, the new equalization system would be particularly beneficial to those with the lowest fiscal capacity.

In arriving at the government's position on fiscal arrangements, we have taken account of the marked shift in the distribution of total government revenues in the past 20 years. Between 1961 and 1981 the federal share of total government revenues declined from over 57 per cent to 49 per cent, while the provincial local share increased from 43 per cent to 51 per cent. The change in the federal government's position is even more striking when intergovernmental transfers are taken into account. When federal transfers to provinces are deducted from federal revenues and considered as provincial revenues, the federal share of the total revenue pie, which was 50 per cent in 1961, drops to 38 per cent in 1981. It is evident that the provinces now spend the largest share of public moneys raised in Canada. What these numbers indicate is that Canada is one of the most fiscally decentralized countries of the western world.

• (1530)

Specifically, the measure before Parliament would do the following: First, it would provide for a substantially changed fiscal equalization formula featuring a representative average standard and a comprehensive measure of fiscal capacity.

Second, it would modify established programs financing arrangements by eliminating the portion of these transfers compensating provinces for termination of the 1972 revenue guarantee and by making established programs financing transfers to all provinces equal per capita, without reducing federal contributions, to health and post-secondary education programs.

Third, it would authorize the federal government to transfer to oil-producing provinces their share of the federal oil export charge for oil exported during the period November 1, 1980, to January, 1982.

Fourth, it provides for special arrangements under which the federal government would make payments to certain provinces equal to the amount of recoveries under the equalization program for the 1980-81 and the 1981-82 fiscal years attributable to the June, 1981 census of population.

Fifth, it extends for an indefinite period the fiscal stabilization program which protects provinces against a reduction in revenues arising from a sharp downturn in economic activity and, therefore, would facilitate their borrowings.

Sixth, it extends for another five years the personal income tax revenue guarantee program which is associated with the income tax collection agreements.

Finally, it provides for technical amendments to sections of the fiscal arrangements act dealing with reciprocal taxation.

The fiscal equalization program is a cornerstone of the Canadian federation, and I now turn to the specific provisions of the bill which give effect to that particular aspect of the Canadian federation. These provisions are in two parts. Part I of the bill modifies the Federal-Provincial Fiscal Arrangements and Established Programs Financing Act, 1977 and, more particularly, the provisions of the act relating to fiscal equalization and established programs financing.

Part II of the bill empowers the Government of Canada to transfer to the oil-producing provinces their share of the oil export charge and to make payments to certain provinces equal to the amount of recoveries under the equalization program for the 1980-81 and 1981-82 fiscal years attributable to the June, 1981, census of population.

Among the most important provisions of the bill are those modifying Part I of the fiscal arrangements act, which sets out the fiscal equalization system. The program seeks to make it possible for all provinces to provide reasonable standards of basic public service to their residents without having to resort to unduly high levels of taxation. It is estimated that under this new system about $29.3 billion of equalization would be paid to six provinces during the next five years compared with $16.5 billion under the present system over the past five-year period.

With the formula provided for in the bill, over-all federal cash outlays over the next five years are projected to be $1.148 billion higher than the original budget estimate. That results from the fact that at the first ministers' conference the initial proposal was enriched by $1.148 billion. All of this amount would go to the six equalization receiving provinces. Some $311 million would be delivered through the fiscal equalization program, and $837 million would be delivered through EPF, which would have higher cash payments as a result of replacing the proposed Ontario standard by the representative average standard.

As I have suggested, the new formula will be based on a representative average standard instead of an Ontario standard as initially proposed last November. It would also apply to a much more comprehensive set of provincial and local revenues than the current formula.

In order to understand why these changes are being made, it is important to appreciate that the equalization program has two fundamental components. The first is the measure of provincial fiscal capacity, that is, the capacity or potential of a province to raise revenues through taxes and levies of various kinds relative to the capacity of other provinces.

Hon. members will recall that I had originally proposed to broaden the measure of fiscal capacity by bringing into the