Island. In all other provinces utilities such as Ontario Hydro are Crown corporations. The province of Prince Edward Island stands to lose $300,000 per year because of amendments to this program. Madam Speaker, $300,000 may not seem to be a very large amount of money to some people or to some provinces. But to a small province like P.E.I., $300,000 is a significant amount and one which they can ill-afford to lose especially in view of the other transfer reductions that have been imposed.

Utility costs in Prince Edward Island are astronomical in comparison to those in Alberta or Ontario or Quebec. We have no oil or gas resources, we have no capacity to produce hydroelectric power. It seems grossly unfair that P.E.I. should be further targeted for hardship by cutting back on this particular income tax transfer program.

Prince Edward Island will lose $4.4 million in fiscal year 1991 because of the EPF reductions. In 1991-92 this reduction will increase to $8.5 million. To each of these totals must be added the $300,000 left in the income tax transfer program for utilities. This means that just from these two budget areas Prince Edward Island will lose almost $5 million this year and almost $9 million next year. However, this is only part of the story. The unkindest cut of all came on the last day of the fiscal year 1989-90. Unbeknownst to P.E.I. Department of Finance officials, a capping provision which had been built into the equalization formula in 1982 came into play.

On March 30, 1990, almost two weeks after bringing in a provincial budget based on expected equalization payments, the Minister of Finance was informed that federal equalization payments for the province would be cut by $18.3 million over the next two years but a whopping $13.6 million of that $18 million of that would be for the current year, a year for which the budget had already been prepared and had already been brought in to the House. This is the great example of the government snubbing their nose at the expense of the smallest province in Canada.

The reduction in equalization payments, EPF payments and PUITTA payments will cost Prince Edward Island almost $20 million this year and again next year. According to the Minister of Finance a good part of this year's shortfall will have to borrowed. That portion of the federal deficit has simply been transferred to the Government of Prince Edward Island. The general situation in P.E.I. can be extended throughout most of Atlantic Canada.

Equalization payments now exceed EPF as the largest form of federal support in the region. The cut-backs and transfers for the area are brutal. The federal government calls our program a frontal attack on the deficit. Analysts are much more cynical. They call it "throwing down the gauntlet to the provinces" or "transferring the tax heat." One of the greatest problems we face in the country today is the Canadian public's lack of confidence in this government. There is, of course, good reason for this lack of confidence. This government came to power in 1984 with promises to better manage the economy and to reduce the deficit. In a five year period of economic growth and prosperity they manage to double the deficit.

Forecasts in last year's budget have been proven to have come from fantasy land. This year's budget has been based on what have been charitably described as highly questionable assumptions. Two months after its introduction, the forecast on interest rates has been proven to be totally unrealistic. Instead of being in the 11 per cent area they have now risen to 14.75 per cent, the highest since the recession in the early 1980s.

The Prime Minister forecasts a decline in interest rates but the Governor of the Bank of Canada says we have to maintain high interest rates to fight inflation. Now we have both high interest rates and increasing inflation. The Conference Board of Canada predicts that we will have high interest rates for at least another two years. The whole situation will be compounded by the introduction of the goods and services tax.

This new tax will drive the inflation rate up to 6.3 per cent from the federal level of 5.4 per cent. Labour unions are now bargaining for cost of living clauses in their new collective agreements. As workers try to protect themselves from the effects of the GST, the inflation rate could rise even higher in response.

Unemployment is expected to rise to 8.2 per cent next year, up from 7.9 per cent for this year. Economic growth is predicted to slow to 1.5 per cent from 1.9 per cent this year.