

*Federal-Provincial Fiscal Arrangements Act*

education provincial programs by 1990-91, which is some \$25 billion more than during the last five years.

The changes made by the Government to the percentage of increase for EPF transfers were announced in the May 1985 budget. That budget forecast a substantial increase in these transfer payments. However, they were to increase more slowly in accordance with our strategy to reduce the federal deficit. The changes come into effect on April 1, 1986, and will have the following results: an average annual rate of growth forecast at 5 per cent, as I said earlier, Mr. Speaker, and cash and tax transfers of over \$90 billion for provincial health care and post-secondary education programs during the next five years, which is about \$25 billion more than during the last five years.

● (1640)

As my colleague the Minister of Finance (Mr. Wilson) indicated when the consultations with the provincial Finance Ministers came to an end last December—and some people suggest that there were no consultations—the growth of EPF transfers will continue to be linked with the growth in the economy, the per capita GNP and the population in each province, and the increase of the transfer payments will never be lower than the inflation rate.

The changes brought about by this Government will mean a slight slowdown, not a reduction in the growth of provincial transfers, and this is both fair and reasonable.

Mr. Speaker, at this stage I would like to try and answer some questions that were asked by Hon. Members opposite, for instance: Why do you reduce federal support to health and post-secondary education, Mr. Speaker? There is no reduction. We are paying out huge amounts. They have been increased by not insignificant amounts. Especially when compared to expenditures on other federal programs that on average are increasing much more slowly, this reflects the high priority given by this Government to helping the provinces in the areas of health and post-secondary education.

Why should we not wait another six months, Mr. Speaker, as the suggestion is? No, Mr. Speaker. We must implement this measure immediately. Within our deficit reduction strategy, very many decisions were taken on other federal programs. Those transfers are made under federal legislation that is subject to no time constraints and that can be amended at any time. We must act now to control the deficit. Otherwise, because of the increasing debt charges, the Government will be less and less able to support major social services as health and post-secondary education.

They tell us we acted without consultation. That is not true. There has been no surprise. Discussions with the provinces were opened following the Government's economic statement of November, 1984. We told them that no change would be made in 1985-86, but that future years would be reviewed. This respects the Government's commitment on federal-provincial relations. There have been extensive consultations

with the provinces on the manner in which the measures would be implemented. There have been four meetings of Ministers of Finance since the beginning of May and also a conference of First Ministers.

What will happen to the low income provinces, asked the Hon. Member for Laval-des-Rapides (Mr. Garneau) a while ago? The basic principle for the EPF transfers is that they are paid on a *pro rata* basis. Because of this characteristic, the federal Government contributes the same amount for each Canadian. The low income provinces receive additional assistance through equalization payments, more specifically a total amount of \$5 billion per year paid to the six provinces of Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, Quebec and Manitoba.

Mr. Speaker, what will happen to the provinces which will see a reduction in their transfers? asked the Hon. Member for Sudbury a while ago. Again, this is an outright falsehood, because they will not be reduced. They suggested three reasons, three things, or three options: first of all, increase the taxes; second, reduce the services; or third, a combination of the two.

Mr. Speaker, he has just given us the proof that, for Liberals, the notion of reducing expenditures simply does not exist. That is not part of their vocabulary. For them, there is no way of reducing, say, the Budget by reducing the expenditures. Evidence to that effect was submitted a while ago by the Hon. Member for Calgary West (Mr. Hawkes) who has shown that every year over the last three years, their forecasts had been exceeded in tremendous proportions.

Therefore, Mr. Speaker, if it is impossible to reduce a deficit, what are his colleagues who have just been elected in Ontario, Quebec, and Prince Edward Island going to do who have proposed to reduce their respective deficits by reducing their expenditures without cutting the services? The EPF scheme is by far the main transfer program to the provinces, and it is the one which has increased the most over the past few years. This is a per capita amount, paid to the provinces, which covers approximately 50 per cent of provincial spending on health insurance and hospital insurance as well as 50 per cent of operating costs of institutions for post-secondary education.

In 1985-86, EPF payments are \$508 per capita, to which is added an extra \$43 per capita to help finance supplementary health services. EPF transfers have increased according to a movable three-year average of GNP growth linked to population growth. According to current projections, EPF payments will increase by more than 70 per cent over the next five years. In order to save \$2 billion in 1990-91, their rate of growth only has to be reduced slightly and will still be at a level well above the rate of inflation and the growth rate of the economy. We have decided to make the requisite saving as part of our strategy for reducing the deficit through EPF. The necessary adjustments will be made starting April 1, 1986, to spread the effects of the change over a period of five years.