

Federal-Provincial Fiscal Arrangements Act

It is as applicable now as it was then. The EPF payments are being cut, no matter how you describe it.

As to the deficit, there is one sensible way to cut it in the long term, that is, to foster economic growth. That is something the Government said in its description of its economic strategy. What it has failed to recognize is that that strategy will fail if our universities and colleges fail and our people are not educated enough to pursue that strategy. That is a simple premise, one that even the Hon. Member can understand even if his memory is faulty.

The Acting Speaker (Mr. Charest): Debate.

Mr. Bill Attewell (Don Valley East): Mr. Speaker, I rise to make some remarks on Bill C-96. I would like to address an issue which has recently begun to receive a great deal of public attention. Much has been said about federal transfer payments to provinces. Unfortunately, a great deal of misinformation has been spread. I hope to explain to you a little bit about the history of these transfers, where we are today, and the action we as a Government have taken.

The federal Government, through a variety of means, makes significant cash and tax transfers to provincial and territorial Governments. The two most significant are equalization payments and the established programs financing or EPF transfers. The fundamental goal of the equalization program is to ensure that all provinces have the financial capacity to provide their residents with reasonably comparable levels of public services at reasonably comparable levels of taxation. The principle that all citizens in every province are entitled to an adequate level of services is enshrined in the Constitution. These payments raise to a prescribed level the per capita revenue raising capacity of the lower-income provinces.

• (1540)

Six provincial Governments, Newfoundland, P.E.I., New Brunswick, Nova Scotia, Quebec and Manitoba, received these payments on an unconditional basis. They may use the funds either to raise their level of public services or to lower the level of taxation, or some combination of the two. The level of equalization transfers are calculated according to a predetermined formula that was reviewed most recently in 1982. The federal Government has been contributing to the financing of provincial hospital insurance programs since 1958. Federal transfers to provincial Governments in respect of post-secondary education were introduced in 1967. The jointly financed medicare insurance program was established in 1968, and until 1977 federal transfer payments for these programs were made under cost sharing arrangements.

Federal transfers were based on the provincial government expenditures on a medical care and hospital care insurance, and on the operating costs of post-secondary education institutions. The federal share was roughly 50 per cent overall, although the precise share varied from province to province. In 1977 the arrangements were changed so that the federal contribution was no longer determined by provincial

programmed expenditures. Rather, it was determined by federal per capita transfers in a base year, 1975-76, escalated by the rate of growth of per capita Gross National Product and each province's population.

Thus the current arrangements involved a block fund which provinces allocate to their health and post-secondary education programs. In this fiscal year the federal Government transfers \$508 per capita, plus a further \$43 per capita to help finance extended health care services. In the May, 1985 Budget, the Minister of Finance (Mr. Wilson), indicated that under these two programs the federal Government will be transferring \$14.2 billion in cash, and an additional \$6.3 billion in tax transfers. These will be transferred, of course, to the provincial and territorial Governments. That amounts to \$20.5 billion in transfers through these two programs alone. Mr. Speaker, I know I do not have to remind you of the significance of that level of over \$20 billion. It is approximately 18 to 19 per cent of the total expenditures of this Government. So we are dealing with a very significant portion of our expenditures.

The Minister proposed in his Budget to limit the rate of growth of these transfers to provincial Governments as part of the over-all restraint package of the Government. The intention of this limit on the rate of growth is to effect savings amounting to about \$2 billion in 1990-91.

Let me make it clear, Mr. Speaker, this is not a cut-back on federal transfers to the provinces. Even when this limited growth rate has been put in place on April 1, federal transfers will, over the next five years, increase by some \$25 billion. In other words, they will grow from the current level of \$65 billion to \$90 billion.

It should also be noted that these increases are occurring at a time of severe fiscal restraint on the part of the federal Government. This Government has undertaken a vigorous and at times painful deficit reduction program, and has asked all Canadians to participate in this national effort to restore financial sanity to our nation's finances. Our spending program, that is excluding the debt and transfers, has been limited to a 2.9 per cent growth rate this year. These transfers to provinces, however, will continue to increase at a faster rate than the rate of growth of federal program expenditures, the projected rate of inflation, or the growth rate of the economy. In other words, Mr. Speaker, that 2.9 or roughly 3 per cent over-all growth compares to 5 per cent, roughly, for these transfer payments. That level of 5 per cent is some two-thirds or 66 per cent higher than it is in the other areas of Government. I think that gives us some idea of the sincerity and seriousness with which we treat those two major programs.

I do not believe that the restrained rate of interest increase that we are proposing is inappropriate given the fiscal situation we face. There has been no questioning of the value of health care or post-secondary education. The importance of these goes without saying. I believe the continued high rate of growth of federal transfers reflects that importance.