[*English*]

Listening yesterday to the Minister of Finance I was reminded of a song by Dinah Washington at the end of the fifties. Some members may remember *What a difference a day makes*, a nice soft ballad. Yesterday's budget could have been subtitled: "What a difference a year makes".

• (1235)

Remember last year. Who was talking about the debt crisis, the fat in the federal government, the wasteful overlapping between federal and provincial governments, and so on? Was it the Liberals? Of course not. They were all or almost all singing together from their bible, the red book. The Prime Minister was saying: "What debt crisis? Canada is okay". A year later, sobered by the money markets which are now calling the shots—he who lends to the piper calls the tune—the same Liberals are cutting with a vengeance.

The objective of a 3 per cent deficit to GDP ratio, the alpha and the omega of budget discipline in the red book, has become a simple marker on the way to a balanced budget. No date has been set aside for this new objective, but one senses that the Minister of Finance would like to get there as soon as possible and, I would add, at almost any cost.

For example, he becomes lyrical on the possibility that the deficit could be below $19 billion in the 1996–97 fiscal year. I would like to sound a note of caution here for two different reasons.

The first one refers to that inscrutable thing we call the future. The future has a way of messing things up. The Minister of Finance knows this very well. Just last year his interest rate forecasts were solidly off base barely two months after the budget was brought down in the House. Who predicted the Mexican crisis which began last December 21? Nobody, publicly anyway. On December 20, if we believed the pundits, Mexico was doing fine.

I am told that economists like many other respected professionals tend to follow the herd. This explains, at least in part, why their forecasts are very often interchangeable and consistently miss the turning points. All recessions have been predicted after the fact. To be more precise, one can feel uncomfortable with the budget assumption about real GDP growth. Last year the GDP growth assumptions for 1994 and 1995 were 3 per cent and 3.8 per cent. The first one underestimated it by a wide margin for it finally was 4.3 per cent, thanks in part to the strength of the American economy.

This year the assumption for 1995 is the same as last year, 3.8 per cent. This sounds a little strange in view of the fact that interest rates are projected to be so much higher this year than was anticipated last year. Already there are signs that high interest rates are biting into consumer demand. We certainly cannot exclude the possibility of 2.5 per cent real growth this year. In such a case the Minister of Finance's plan will be set back.

But there is another reason for our caution. Real expenditure cuts are one thing and the program review is supposed to deliver them. However there are other cuts in the budget which rather fit in the smoke and mirrors category.

[*Translation*]

The budget stresses the importance of a second set of reductions involving cuts in transfers to the provinces. Transfer payments basically cover three different programs: the Canada Assistance Plan, Established Programs Financing, which includes health care and post–secondary education, and equalization. Their treatment is not necessarily the same. The federal government's calculation of these payments not only includes cash payments but also the revenue yielded by tax points transferred to the provinces under cost–sharing agreements. This makes the federal government look good. However, it has no control over what the provinces make of these tax points and can certainly not take them back: there was never any question of its doing so. What the federal government controls are cash transfers, and how they change is the true measure of federal fairness.

Here is where the federal government strikes a real blow. Convinced that, and I quote from the budget speech: "At present, transfers under the Canada assistance plan come with a lot of unnecessary strings attached, which limit the flexibility of the provinces to innovate", the federal government decided to combine them with the established programs financing into a single program, as of 1996–97, to be known as the Canada social transfer.

• (1240)

This program will continue to include, in federal accounting, both tax points and cash transfers. And, for the federal government, this is the beauty of the thing. For three reasons.

The first reason is that this arrangement means a significant reduction in cash transfers, which are the only real expenditure for the federal government, and it means the government can show financial markets a more impressive record in deficit terms, while presenting a different image to Canadian public opinion, and this is the second advantage, thanks to the tax point transfer being included in the calculation.

Also according to the budget speech, and I quote: "This means that the total of all major federal transfers to the provinces in 1996–97 will be 4.4 per cent lower than they are today. That compares favourably with the reduction in spending in our