

Government Orders

All this was done to make users more aware of costs. It is not necessarily a bad thing, but we must be careful: objectives and cutbacks are not always defined in the same terms as we do not always agree.

The equalization system is special in the sense that it transfers money to provincial governments, which have much more flexibility to do with it what they want.

It is these four elements that define transfer payments. Let us now look at the basic objective of the equalization system, which is one of these elements.

The basic objective of equalization is to ensure horizontal or vertical redistribution. This can seem very theoretical but the objective is to ensure that, in the end, each province has the same capacity to provide an adequate level of service.

Equalization measures the provinces' capacity to collect revenue according to various factors and a 31-element tax base. This is all very complex. Equalization is a mathematical system that would give nightmares to any professor having to teach it in a maths course, even an advanced maths course. Not many people are looking at this closely to try to understand how the system works, but it is important. These very serious matters affect our daily decisions and actions. And these links are not easy to establish.

• (1230)

So, after assessing the capacity of the provinces to generate revenues, you compare it to a sample of five provinces, make some adjustments, and translate the result in dollars per capita. That gives you the amount of money to be given to the provinces. There are seven provinces which actually get some money under this program, including Quebec, which will receive, yes, \$3.7 billion out of the \$8.4 billion set out for next year. There are reasons for this, and I will get back to them, because I heard the hon. member for Calgary West refer to them earlier, and I will address this issue in a little while.

This whole issue is important for the Bloc Québécois, but there is one thing we have to remember. Soon, Quebecers will have collective choices to make. At that time, it is true that we will not have to deal with this equalization system. We may have to create another one within our own country. Nevertheless, this system will not be affecting us, not anymore. Meanwhile, the Bloc Québécois has to protect Quebec's interests here and play its role as the Official Opposition. That is what we are going to do, and that is what we are doing. We will try to improve the whole principle behind the transfers to the provinces. There is room for a lot of improvement.

The bill before us has two major flaws. The first one is the ceiling, which affects the basic principle of the equalization system, since transfers are subject to a maximum level of 5 per cent if economic growth is higher. Given the situation, some of

the richer provinces will be able to get even richer, and if the poorer provinces have trouble generating revenues, the gap will widen. At the present time, in spite of the equalization system, there is a 12 per cent difference in the capacity to generate revenues between the have provinces and the have-not provinces. You should remember that that capacity is what differentiates the richer provinces from the poorer provinces.

A previous ceiling was set at the end of the 1980s, and another one for the 1993-94 fiscal year. Of course, during the recession, when economic growth was slower, the ceiling had less severe consequences, but still resulted in a decrease of \$2.9 billion in transfers. Of the additional \$2.9 billion in transfers, \$1.8 billion would have gone to Quebec. These lost revenues forced Quebec to make the difficult choices I was telling you about a moment ago. They forced Quebec to gradually pass the burden on to the municipalities and, increasingly, to the taxpayers.

We will not be able to say forever that the principle of equalization justifies the measures now being taken. It is not the principle, it is the fiscal constraints that justify these measures. Let us not mince words. We have to say it because it is the truth. That is the reason for this provision. As I was saying at the beginning of my remarks, the fact that the government wants to increase transfer payments does not mean that we will not have to examine the whole issue of transfers to the provinces. We have to look at what is going on to realize that there is an election looming in Quebec. I can hardly imagine the present premier, Mr. Daniel Johnson, campaigning with cuts in equalization payments pending, on top of all the other problems he has to face. This would be very difficult for him since he will have to demonstrate the effectiveness of federalism, including from a fiscal point of view. It will be a real challenge for him, and I can tell you that we will be there to take part in this debate and he will have to prove his point. So, this will be very difficult for him.

But what will happen next year, when the election is over and other programs have to be renewed? It is something that we will have to watch. Maybe this is just a smokescreen to hide the Minister of Finance's real intentions, and this is why we heard him say that it would be a tough budget this year, that he would reduce the deficit to perhaps \$38 billion. We will know soon. But watch what will happen next year, watch where the money is going to come from.

• (1235)

The other principle contained in the bill is that there will be changes—and that is even more technical—in tax bases as such and in their composition. It would be interesting if the committee could review the regulations in order to evaluate their impact more precisely. We already have an idea of that impact but they really should be made available to the committee.