

LEGISLATIVE ASSEMBLY OF MANITOBA

Tuesday, 14 April, 1981

Time — 8:00 p.m.

MR. SPEAKER, Hon. Harry E. Graham (Birtle-Russell): The Honourable Minister of Finance.

HON. BRIAN RANSOM (Souris-Killarney): Mr. Speaker, I move, seconded by the Honourable Minister of Energy and Mines that this House approves in general the budgetary policy of the government.

MOTION presented.

MR. RANSOM: Mr. Speaker, I am honoured, Sir, to present this my first Budget to the Assembly.

First of all, might I express my deep gratitude and thanks to the people who have worked so hard in putting together this Budget. Any of those of you who have an opportunity to participate in this undertaking know what an onerous task it is for the staff and I express my sincere gratitude to them. Also, I express my gratitude to the previous Minister of Finance for the fine work that he did in this portfolio prior to my assuming responsibility.

In presenting this Budget Address, the fourth for our administration, I would hope that I can contribute to a reasoned and informed dialogue and debate about the economic challenges, opportunities and realities facing the province that all of us in the House serve.

That we will disagree — and in some cases disagree on principle — is to be expected. But I will attempt to set forth clearly the facts about our current economic situation, about the trends and realities in the national and international economy that affect us, about the basic measures this government has already taken to protect the security, standard of living and the ability of Manitobans to grow, and about the course of action we will be following in the months ahead.

I will not try to pretend away the real difficulties that we must face, but I believe it is important to begin by recognizing that the basic economy of this province is strong. Our diversity, our resources, and the abilities and enterprise of our people — together, in my view, with the prudent policies and management of this government — have combined to ensure that our standard of living is not threatened, that our quality of life remains among the highest anywhere in the world. Our services and our institutions have grown in strength and in effectiveness. The key to long term, healthy economic growth, investment in such vital sectors of our economy as mining and manufacturing, has been encouraging. And we can realistically anticipate today, that over the next months and years, Manitoba will enter a period of somewhat more rapid economic growth to the benefit of all our people.

But the kinds of challenges and the kinds of opportunities that face us now are different from those we have had to cope with in the past, and I think it is important for us to consider those hard facts of national and international economic life, that

represent the framework within which we in Manitoba must live.

The difficulties are significant. The real growth rates of the 1960s and the first half of the 1970s have disappeared. In 1980, Canada recorded its lowest real growth since 1954. International financial markets are facing the most serious problems since the 1930s. Canada and the world are experiencing record inflation, unprecedented interest rate levels and volatility, combined with chronic high rates of unemployment. Investment climate in Canada as a whole, is considered to be at best, uncertain.

The ability of governments to respond to these challenges, and of governments within Canada to work together in responding effectively are also more limited than we would like. The glory days of rapidly increasing government revenues are gone; the fiscal position of the Federal Government in Canada is regarded by many as being out of control. Federal initiatives in the fields of energy and the Constitution have sparked division, disunity and confrontation at a time when we need co-operation and a unified effort to address the economic problems that face us.

Against this kind of national and international background, Mr. Speaker, and against the additional background of the particular problems which Manitobans have faced as a result of last year's drought and other weather problems, this government can take some satisfaction, and Manitobans have a right to be proud of what we have together, continued to achieve in this province.

Today in Manitoba, there are opportunities for our young people in the mines, the mills, the forests, the institutions and the factories, and in the service industries of our province. The opportunities are here for those who will reach out for them, and in terms of access to the requirements for a good life, and from housing to health care, from education to recreation, Manitobans need envy no one.

Some parts of this country are not as cold in the winter, and others can offer industries with higher paying jobs, but no province, no province in this nation is better positioned than our own. No people are better positioned or equipped than Manitobans, to enjoy the fruits of continued and healthy long-term economic growth.

No people in Canada have more to be confident about or proud of than the people of Manitoba.

I believe, Mr. Speaker, that the continued prudent policies and management of the Government of Manitoba which we have endeavoured to achieve have contributed very significantly to the current health of our economy — in the face of very real adversities — and to the opportunities that exist for us today.

To appreciate fully the potential which is open to Manitoba and the obstacles we must overcome to realize that potential, it's necessary to understand the profound changes in the international and domestic economies that have taken place over the past decade.

The growth rates for the major industrial nations tell much of the story. Real growth in the economies of member nations of the OECD, the Organization for

Economic Co-operation and Development, averaged more than 5 percent between 1964 and 1973, but only a little over half that rate in the remaining years of the last decade. In 1980, the average is around 1 percent. Only once since the energy price explosion has real growth in the OECD countries exceeded 5 percent and that was in 1976 — five years ago.

Throughout most of the '60s and into the early years of the last decade, Canada's economy expanded rapidly. Only three times during the '60s did real growth drop below 5 percent and never below 2.5 percent and much the same pattern continued through 1973. That was a period of buoyancy, of relatively low unemployment and stable prices, of rapid revenue growth and a substantial increase in the size of government at all levels. It was also an era of unsuccessful attempts to "fine tune" the economy by various combinations of broad stimulus and special "make work" programs.

Then, the pattern changed abruptly. The real growth in Canada was cut in half in 1974, and again in 1975, while unemployment increased and inflation went into the double-digit range. Trapped by the false expectations that they had helped to build, governments sought a variety of solutions, including wage and price controls in 1975. And at the same time, government deficits increased substantially as inflation-driven program costs outstripped lagging revenue growth with indexing now pushing up obligations on the expenditure side while slowing growth in income tax revenues. And in the five years, from 1974-75 to 1978-79, the Federal Government's financial position deteriorated dramatically. The annual budgetary deficit increased more than six times from under 2 billion to over 12 billion and now, of course, it is higher — in the \$14 billion range, according to the last Federal budget. Over the same period, the gross debt of the Federal Government doubled from under 50 billion to over 100 billion.

Starting in the fall of 1975, the Anti-Inflation Program provided some respite from the pressures which had preceded it and it helped buy time for governments and the private sector to begin consultations in an effort to work out rational objectives and guidelines for the kind of adjustment process which lay ahead. And members may recall the initial success of the two major First Ministers' conferences of the economy which were held in 1978 as part of the decontrol process. Unfortunately the process of co-operation and policy co-ordination which began so favourably some three years ago has been stopped in its tracks.

Of course, national and international economic trends affected Manitoba's economic performance throughout the 1960s and the 1970s. In addition to a generally buoyant national economy throughout much of this period Manitoba enjoyed the additional advantage of substantial market improvements in agriculture. In the early and mid 1970s rapid expansion of northern hydro generating capacity, although it was undertaken without establishing markets to justify the mass of expenditures involved and although it resulted in staggering debt loads for Manitoba Hydro, did provide significant stimulus to the construction industry in the province.

But even early in the 1970s the signs of an economic downturn were becoming clear in Manitoba, even in the face of a generally buoyant

national economy. The New Democratic Party government responded with efforts to buy its way out of difficulties through a variety of make-work programs, with massive investments of the taxpayers' money into failing business enterprises. It did not address the basic public policies that were contributing to the decline of our economic performance. The uncertainties created by their tax measures and by speculation about government takeovers of industry, such as that prescribed for the mining industry in the Kierans Report.

As government revenues grew more slowly reflecting the weakening of the Manitoba economy, that government continued to add to a tax structure which had already become one of the most burdensome in Canada and which was already interfering with the ability of Manitobans to compete. And that government borrowed and the budgetary accounting system employed at that time, a system which had already been abandoned in most other jurisdictions and which had been of concern to Manitoba's own provincial auditor, obscured the real bottom line. Foreign borrowings were apparently cheap. (Interjection)—The members opposite laugh at their foreign borrowings, Mr. Speaker, they forget the borrowings made less than five years ago that now are costing the taxpayers an additional \$28 million this year.

Their foreign borrowing seemed apparently cheap and although subsequent declines in the Canadian dollar multiplied the cost of the debts incurred by the New Democratic Government, the forced expansion of Hydro added to that debt load and significantly weakened the overall financial position of the province.

The emerging weakness of the Manitoba economy was even more apparent in the trends and individual sectors of the economy.

Among our primary industries, agriculture provided major impetus for Manitoba's expansion in the early 1970s in line with world marketing conditions. The value of production, for example, very nearly doubled in 1973. Then the situation levelled off and cost pressures on agricultural producers became onerous, but the government of that day seemed more concerned with the degree to which they could intervene in the agricultural sector and focused what it called an agricultural policy on land ownership, on ill-advised taxation policies including the succession duty and the mineral acreage tax, and misguided efforts to interfere in the market, such as their efforts to foist a government-controlled beef marketing system on Manitoba beef producers.

By the mid-1970s, excessive taxation and direct government intervention had weakened the mining industry to the point where, by 1977, nearly 50 percent of all the high-risk exploration work being undertaken in Manitoba was being done at the taxpayers' expense, because the industry simply lacked the confidence to invest in Manitoba. Both taxation and regulation had grown so far out of line with other jurisdictions that the industry was effectively crippled in this province. By 1977, when the government changed, cutbacks in both mineral production and mining employment had already been announced.

In overall investment, public sector capital expenditures played an increasingly influential role in

Manitoba in the 1970s, primarily reflecting Hydro development. This had an important short-term impact on the economy, but it masked the serious problems in the private sector, including major disincentives to expansion caused by an increasing number of new taxes, with direct impact on investors:

The succession duty and gift tax introduced in 1972,

the sales tax on production machinery, also introduced in 1972,

the two-tiered mining royalty tax introduced in 1975,

the corporate capital tax introduced in 1976, and

the surtaxes on personal and corporation incomes also introduced that year.

Mr. Speaker, the report of the Commission of Inquiry into Manitoba Hydro made it clear that the New Democratic Government had been strongly advised not to proceed with the forced rate of expansion of Hydro generating capability in the absence of clear markets, or requirements for additional electricity. The crippling debt burden resulting from the forced Hydro Construction Program soon meant that 50 cents out of every dollar of revenue available to Hydro was required for interest payments. Hydro rates skyrocketed, representing an effective extra tax on Manitobans, who were already over-taxed. The opportunity to use a stable and well-founded, long-term program of Hydro expansion as an ongoing stimulus to healthy economic development in Manitoba was traded by the NDP for a forced program that improved some statistical indicators for a few years, but threatened the health of the Hydro utility and, in the longer term, the entire economy of Manitoba.

Mr. Speaker, that general climate of disincentive also affected secondary manufacturing and the service sector. Growth was relatively strong during the early years of the 1970's, but when the inevitable decline occurred in the middle of the decade, there was little impetus for turnaround. In fact, the government of the day seemed much more interested in involving itself directly in manufacturing than in establishing a policy environment to encourage private expansion. Consequently, manufacturing investment was in a general decline during the final three years of the former government's term.

As I have said, external factors always play a role in the economy of Manitoba, but it is important to recognize that in the last three years of the New Democratic Government in Manitoba, their own domestic policies resulted in the Manitoba economy performing more poorly than most other parts of Canada. We had, because of misdirected public policies in this province, become less able to deal with emerging economic problems than other less-favoured parts of the country. Job creation in Manitoba, for example, lagged behind the rates being achieved in the Maritimes with their traditionally weaker economies. In fact, between 1975 and 1977, there was little growth in private sector employment in Manitoba. The record can and

should be contrasted with the higher rates of job creation achieved here after 1977, despite the fact that after 1977 the economic problems of the country as a whole became significantly worse.

In total, Mr. Speaker, because of the policies and practices of the New Democratic Party Government in Manitoba from '69 to '77, Manitoba did less well than it should have in the face of generally favourable external conditions, and did considerably worse than it need have — even as early as 1975 when other economies in Canada were still growing relatively strongly.

It is instructive, Mr. Speaker, to review the economic and fiscal situation of our province in 1977 — the last year for which the previous government had responsibility. Some members of this House seem sometimes to have forgotten the facts of that situation, but it is important to remember them, because it is the base from which the people of Manitoba and this government began the process of recovery and rebuilding.

On Budget night in April of 1977 the Minister of Finance projected 1977-78 expenditures, including capital, would be \$1,267,520,900.00. By mid-year, the projection had risen to \$1,338,952,600, up \$71,431,700, Mr. Speaker.

On Budget night in April, 1977, projections issued by the Minister of Finance indicated a deficit on capital and current accounts totalling \$109,513,400.00. By mid-year the deficit projection was \$225,059,000 up 115,545,000.00

In 1977, 6,000 jobs were lost in the manufacturing sector after a loss of 5,000 the year before.

Painful reductions in the mining work force were already taking place in Northern Manitoba.

The government had heavily involved itself in businesses that had lost scores of millions of taxpayers' dollars.

Massive investments in the range of \$350 million per year in Hydro development in Northern Manitoba had to be terminated by the New Democratic administration because even they at last realized that such a pace of forced growth could not be sustained.

Hydro rates were skyrocketing as a direct result of that premature and unnecessary expansion in capacity; from 1974 to 1977 hydro rates doubled and no end to those increases was in sight.

Retail trade increased only 4.4 percent over 1976 and, Mr. Speaker,

\$33.5 million was pumped post-Budget into make-work employment programs.

The total jobs expanded by only 3,000, as did the number of public administration employees, but 9,000 people had entered the labour force leaving 6,000 more unemployed.

So, the unemployment rate rose from 4.7 to 5.9.

And, even according to figures accepted and published by members opposite, real economic growth declined from 4.2 percent in 1976 to 0.8 percent in 1977.

That was the economic and fiscal position when this government took office after eight years of New Democratic Party Government in Manitoba.

Mr. Speaker, in April of 1977, when the Member for Seven Oaks presented his first and only Budget as Minister of Finance of that New Democratic Government, he enumerated proudly many of the new programs which had been introduced during the life of that government.

MR. SPEAKER: Order please. Order please. Honourable members will have a chance to take part in this at a later date.

At the present time I recognize the Honourable Minister of Finance.

MR. RANSOM: Mr. Speaker, of those programs that the Minister of Finance of the day enumerated, let me say that in our view and in the view of Manitobans, some of those programs were good and many have been continued and improved under our government.

But too many of the directions of that government were wrong. Its management of the public affairs of Manitoba and of the taxpayers' money was lax and waste, and inefficiency eroded many of the best things that that government tried to do.

But more than that — the attitude of that government, an attitude that they held in common with all Socialist parties that I know of — seemed to be that government in Manitoba knew better than Manitobans themselves did. And, with that attitude they increasingly interfered with the efforts of Manitobans to lead their own lives, make their own ways, raise their own families. The tangible results of that attitude were everywhere — in the dramatic growth of the Civil Service and in the systematic politicization of what had always been one of the best services in Canada; in the new controls and regulations that abounded; in the ongoing purchase of private farmland by government turning more and more Manitobans into tenant farmers of the state; in the tax imposed on mineral rights; and in the takeover of private businesses.

Because they believed, Mr. Speaker, that government knew better than Manitobans, they substituted the judgment of their bureaucrats for the free decisions of people throughout the province. They distrusted Manitobans, and out of that distrust felt free to treat one group after another as enemies. And in so doing, they attacked and eroded our sense of community. They eroded the civility that traditionally has marked political life in this province.

And, by their policies, they contributed to the sorry fiscal and economic situation which existed in Manitoba in 1977 . . .

MR. SPEAKER: Order please.

The Honourable Minister of Finance.

MR. RANSOM: Mr. Speaker, and by their policies they had contributed to the sorry fiscal and economic situation of the province, Mr. Speaker, and when Manitobans tired of the practice of envy-ridden attitudes of socialism — chose, by a greater proportion of the vote than that granted to any other government in our modern history — to elect instead a government that would have faith and confidence in the judgment, ability and resourcefulness of the people of Manitoba.

Turning the economy around and rebuilding confidence have occupied much of our government's attention since taking office.

Our most immediate priority, of course, had to be to restore order in the financial situation of this province — to regain control over expenditures; to re-establish the principle of fiscal responsibility in government and to put an end to the insidious assumption, both within the public sector and

outside, that government had an unlimited capacity to spend money, and the ability to correct every economic and social problem, be it real or imagined.

As we took care to emphasize at the time, restoring a secure budgetary base was the essential first step, not only to preserving essential public services, but also to restoring a healthy economy, and that step has been taken.

But, since 1977, substantial progress has been made toward many of our government's other major economic priorities.

Among the first objectives was to encourage expansion of the private sector by making it clear that, unlike our predecessors, we saw private initiative as having the key role in turning the economy around.

Despite difficult external pressures to which I have already alluded, the private sector has responded to the challenge strongly and effectively. Between 1977 and 1980, total private sector employment has increased by approximately 30,000.

An equally important and directly-related objective was to increase competition and reduce government intervention in the day-to-day decision-making that is so essential to making our market economy work effectively.

Again, we have made progress, although not as much as we would have liked. Our government has been in the forefront of regulatory reform efforts across the country, and we are continuing to co-operate with other provinces and the Federal Government in improving the regulatory process while we await the final report and recommendations of the Economic Council on this subject, now expected in six weeks.

In addition, we have attempted, wherever possible, to extricate the taxpayers of Manitoba from their involvement in a variety of business ventures undertaken by our predecessors. The problem with government involvement in the producing sector, Mr. Speaker, is not the theory, it is the fact, with some exceptions which we are prepared to acknowledge, governments do not manage enterprises well, and the reason is simple: There is no bottom line, no personal stake, and no real accountability.

We also set as a goal the encouragement of expansion and diversification of our industrial structure, particularly in manufacturing where the greatest potential exists for permanent job creation.

Here too the record speaks for itself. The past three years have seen significant upswings in manufacturing. Growth in the value of shipments, for example, has exceeded the national average in each of the last two years and the total reached \$4.3 billion in 1980. Manufacturing employment growth has effectively restored the losses which occurred between 1975 and 1977, and the rate of increase in manufacturing investment has totalled 54 percent in the last three years according to Statistics Canada. Not surprisingly perhaps, the 1980 estimate was reduced from earlier forecasts but the overall gain since 1977 has still been substantial.

We also stressed the importance of renewed development of our natural resources for the benefit of Northern Manitoba and the entire province.

In the last two years that is exactly what has occurred. The value of mineral production increased by 28 percent last year to some \$834 million,

following a 40 percent increase in 1979, and new records have been set in exploration expenditures doubled from \$16.6 million in 1979 to \$31 million in 1980, and substantial new investment is under way.

To a degree, the improvement in the industry reflects international market conditions but it is also a direct result of our government's efforts to assure that mineral resource development policies in this province, including tax and royalty rates, are competitive and fair, both to the industry, to encourage expansion and to Manitoba, to guarantee satisfactory direct and indirect returns.

A record high \$32 million was also spent on oil exploration and development last year, and recently we have heard encouraging news regarding new oil discoveries.

We also emphasized the need for greater stability and fairer returns in agriculture which remains the backbone of our economy.

The agricultural sector has been subjected to severe stresses in recent years, including adverse weather conditions, an inadequate national grain handling and transportation system, unsatisfactory Federal agricultural policies, and significant increases in operating costs. But despite these factors, however, the preliminary Estimates indicate that the total value of agricultural production in Manitoba reached a new record of almost \$1.7 billion in 1980, a slightly larger increase at 7 percent than was recorded in 1979. It goes without saying that a significant part of this increase can be attributed to improved prices, Mr. Speaker, rather than increased volumes.

Farm cash receipts also went up to \$1.4 billion, an increase of about 9 percent over 1979. Such figures obscure the hardships faced by many agricultural producers, as well as the significant negative impact of the drought on potential production and on producers' net income positions. Still, the special assistance measures we were able to introduce last year proved quite effective in backing up the determined efforts of the producers themselves to prevent permanent damage to the agricultural sector, and particularly to livestock production, which had appeared to be especially vulnerable.

Along with the priorities I have outlined, another, overriding objective has been, and remains a continued fight against inflation so far as it is within our power to do so.

Inflation is a national and international problem over which individual provincial governments have just about no control, and in important related areas such as monetary, interest rate and exchange rate policies, do not even have any significant input. But, we have made every effort to avoid contributing to inflationary pressures. We have cut taxes, we have held our expenditure growth, on average, to a rate below the trend rate of growth of gross provincial product, as agreed to by all senior governments in 1978. We have also provided increased assistance for Manitobans with low and fixed incomes through the specially-targetted White Paper programs and, of course, we have frozen hydro rates.

During 1980, there were the usual month to month fluctuations in the Consumer Price Index, but the Average Consumer Price Index for Winnipeg was marginally below the national average last year.

Finally, and perhaps most important in terms of what a provincial government realistically can expect

to do, we pledged ourselves to ensuring that we would keep the cost of government within the means of our taxpayers.

Again, I can say without hesitation that we've gone a long way towards that goal. We've reduced or eliminated a significant number of taxes, and at the same time we've been able to provide an expanded range of public services which we believe are substantially more effective and of better quality than those in place when we took office.

The measures this government has taken have helped, supported and complimented the efforts and contributions that Manitobans themselves have made with the result that against that difficult national and international background I have described, and against the flood and drought problems we have faced, our economy has performed well in the last few years. Manitobans have achieved this healthy economic performance without the pull of strong national growth, and without the stimulation of a forced and economically unsound programs of hydro construction.

Through their efforts, and because of their abilities, we are now in a position where we can look forward to somewhat more rapid economic growth in the next few years.

It is worth noting that most of the statistics I've cited include preliminary figures for 1980 — a year in which, as I've emphasized, our economy not only felt the effects of national downturn, including the resurgence of the inflationary pressures and record interest rates, but also the drought and further damaging weather problems which followed later in the year. In those circumstances, it's not a surprise that Manitoba, like Canada, is estimated to have experienced its lowest rate of growth in a quarter century. In fact, it appears that the majority of provinces had zero or negative growth last year, and that includes the province of Ontario, which recently has been building up theoretical entitlement to equalization.

Recent estimates by my department indicated that the percentage change in real gross provincial product was approximately minus three-quarters of one percent in 1980 and that our real growth would have been fairly close to the national average had not the drought occurred.

But the main point, in our view at least, is not the precise percentage involved. The main point is that, because of our resources, the diversity of our economy, the prudent policies in management of this Government, and most importantly the abilities and achievements of Manitobans themselves, the economy of this province has once more achieved the kind of health which makes it possible for us to withstand even the exceptional pressures of a year like 1980, and we withstood those circumstances, Mr. Speaker, without reductions in our standard of living or in the quality of life that we have built for ourselves in this Province.

At the conclusion of my Address, I will table a more detailed economic review in which members opposite will find additional comparisons and information on other sectors.

The review points out, for example, the substantial improvement in tourism expenditures in 1980, an increase of 14 percent to \$427 million, the largest increase in at least a decade.

The review also helps put the housing situation in perspective. High mortgage rates and the supply-demand adjustment problem have affected most provinces, but have been more obvious here in the wake of the residential construction boom in 1978. Again however, preliminary information indicates that during the past few months, the housing market may be strengthening once more.

Finally, the review comments on the subject of population and the pull on our province as on others, of the energy boom conditions in the provinces to the west of us, and particularly Alberta. The Statistics Canada estimates have shown an improvement in recent months, but we'll have to wait until the results of the June '81 census, which should be available in early 1982 to have a more accurate picture of the trend over the past five years, and as well, we would hope, a more reliable base for future projections.

It is important to note however, Mr. Speaker, that negative, net interprovincial migration is nothing new to Manitoba. It has been a fact of life in this province for the past 20 years. What is new is the impact of the rapid expansion of Alberta's economy on migration patterns throughout the country. That has affected us of course, but it has affected every other province as well. And still, the underlying strengths and policy changes I've outlined rule out a significant downturn in population. In fact, they provide the basis for steady and respectable growth in the years ahead.

I'd like to turn now, Mr. Speaker, to the outlook for the balance of the year and the medium term.

Prior to the Federal Budget last October, it was widely estimated that real growth in the Canadian economy would be in the 2 to 2.5 percent range in 1981. However, the Budget itself forecast a rate of 1 percent, and within a matter of weeks after it was presented, we saw most other projections lowered too, as the negative effects of the National Energy Policy became clear. More recently, and in the wake of strong national accounts data for the fourth quarter of last year, there have been a number of upward revisions in national forecasts once again. The range is fairly wide, in some predictions up to 3 percent.

But while there is a great deal of uncertainty surrounding these figures, what is certain is that Canada is capable of a better performance, given the major advantages our country enjoys relative to other industrialized nations.

Unfortunately, the Federal Government apparently chose, when it regained office over a year ago, to assign a secondary priority to economic recovery. It seems to have determined, instead, that the interests of Canada would be better served by placing primary emphasis on constitutional change, and at the same time, on a series of measures designed to strengthen the effective power of the Federal Government in relation to the provinces and to the private sector. The costs of that policy choice in terms of lost output, lost investment, lost jobs, and lost incomes, are already being felt across the country, and will continue to be felt for years to come.

In August of last year, at the 21st Annual Conference here in Winnipeg, the ten provincial Premiers joined in calling on the Prime Minister to renew the process of Federal-Provincial consultation

on fiscal and economic matters and to convene a full-scale First Ministers' Conference on the economy at the earliest opportunity later in the year to discuss such issues as inflation, interest rates, the national budgetary and balance of payments deficits, and productivity. Unfortunately, the Prime Minister has refused to agree to such a conference, even though similar suggestions have been made by individual Premiers on a number of occasions in recent months.

This is a regrettable situation for our Federal system and for our economy because many of the major economic challenges we now face must be dealt with by both levels of government in concert if we are to have any real hope of resolving them effectively.

The current inflationary situation is one of the most obvious examples. Members may recall that it was only three years ago today on April 14, 1978, that the anti-inflation program phase-out began. At that time, the Federal Government emphasized the importance of consultation in the decontrol and post control periods as one way of avoiding a build-up of the kinds of pressures which led to wage and price controls.

Now, of course, we have heard the prediction by the Federal Minister of Finance that consumer prices may well exceed 12 percent on average in 1981. And now, we are also hearing increased speculation about the possibility of a re-imposition of some form of guidelines or controls. While there may be emergency circumstances in which controls are the only choice possible, our government believes as a matter of fundamental principle, that resorting to that kind of intervention in the economy on a regular basis is a grave threat to our competitive market system. We do not want to see controls become the only policy choice for dealing with inflation because governments in Canada have abandoned their responsibilities and avoided hard decisions.

The two First Ministers' Conferences on the economy in 1978, and the policy guidelines which were developed and agreed upon at those conferences were a promising start towards making those kinds of decisions on a joint basis. It is essential to resume that kind of consultation as soon as possible, and if controls replace consultation and fiscal and monetary prudence as a standard and accepted part of economic policy in Canada, that will mark not only the end of the free market system as we know it, but the concomitant reduction in individual freedom which is so intertwined with economic freedom. I hope that it is as well understood by labour and business as it is by those of us in this government.

Another related issue which demands genuine consultation is energy policy. Our government welcomes the renewal of formal discussions between the Federal Government and Alberta which began here in Winnipeg yesterday. But while energy pricing is a subject which traditionally has been negotiated primarily between the producing provinces and the Federal Government, other energy issues have in the past, and should continue to be the subject of discussion by all senior governments. A successful First Ministers' Conference on Energy was held in November of 1979 under the chairmanship of Prime Minister Joe Clark but no such conference has been

held since, and again none is scheduled. Instead, the people of Canada and the producing provinces have been subjected to imposed Federal policy whose negative effects are being felt in every province.

I would like to turn now, Mr. Speaker, to the outlook for our province.

Manitoba enjoys every major prerequisite for economic growth in the 1980's. It is important not to underestimate the very significant advantages that we enjoy in this province, advantages that most others in the world would consider to be a virtual guarantee of long-term economic security and health:

A strong, diverse and balanced economy, which in 1980, proved its maturity and resilience, its capability, its capacity to bend with breaking, and which in the year ahead should resume the process of recovery with renewed vigour.

We have an industrial base which, though in need of expansion, does not need to undergo the kind of drastic adjustment and restructuring now facing key industries in the central provinces.

We have an abundance of natural resources, not only mineral wealth, but rich agricultural land and a vast water supply, and our single most important industrial resource, hydro, has assured us of a guaranteed renewable energy supply for our own use as a development tool, and as a permanent source of strength for our entire region.

We have important locational advantages. While geography has a constraining influence, it also has a positive side. Our central position affords us important access to markets within the western region and throughout the continent, given improvements in various forms of transportation and communication.

We have social, cultural and recreational amenities and a quality of life second to none.

Finally, and most importantly, the proven abilities of the people of Manitoba themselves, whose enterprise and imagination have already made this one of the best places on earth to live. There are now close to half a million men and women in our labour force. They are educated, skilled, motivated, and have proven throughout our history their ability to overcome challenges and build on the opportunities that have existed for Manitoba, they're free.

And we face both challenges and opportunities in the months ahead. The after-effects of last year's drought will continue to be a problem in the short term. We, along with every other province in Canada, including the oil producing provinces, continue to be vulnerable to the negative effects of national policies. We also face a number of specific challenges in Manitoba.

We have problems of scale in much of our industry. If we are to take advantage of the opportunities that exist, we must expand, and in some cases, upgrade our capital stock and productive capacity. To do so, we must be able to continue to attract outside investment, and we must stay a competitive place to invest and to do business.

As our economy changes and grows we must equip Manitobans with the special skills that will be needed in the future. For us, as for other parts of Canada, a shortage of skills will become a major potential problem as we grow.

Our geography and our location make us particularly vulnerable to national transportation policies, which continue to mitigate against balanced economic development in Western Canada. Within our own province we face the challenges of providing adequate employment opportunities and access to public services for residents of rural, remote, and northern areas.

We will face the same demographic challenges that all North America must learn to cope with as the age distribution of our population changes to place extra pressure on our public services and income support programs.

And we face in Manitoba a recurring problem of public confidence and in large part this grows out of the kind of public policy debate that we've faced in this province since 1977 in which members of the New Democratic Party have seemed to believe they can best gain politically by denigrating the achievements and potential of the people of Manitoba, and by deliberately creating uncertainty and doubts about the value of the things Manitobans have already achieved, and the ability that we believe exists in this province to achieve even more.

So I would hope that in the public policy debate that will take place concerning this budget, that we could at least begin with an agreement about the abilities and resourcefulness of the people of Manitoba. We, of course, will disagree based on our differing views of how the world works, and how it ought to work as to the specific policies and attitudes that government ought to adopt. But surely we do not disagree about that, and surely no one who has looked around him in Manitoba, at the ability, the resourcefulness and the enterprise of the people who live here, could continue to counsel despair.

In 1980, our economy, and the men and women of Manitoba who make that economy go, have withstood the most severe test in recent memory, and today we stand on the threshold of a time of real opportunity for sustained and steady economic growth. I believe, and this government believes, that we have every reason to be confident, and in this Budget we are expressing that confidence clearly. Manitobans have much to be proud of, and will, we believe, achieve a great deal more in the months ahead.

Assuming only normal conditions for agriculture, we currently estimate that Manitoba's total output in 1981 will increase at about the same rate as the Canadian national average. We anticipate some continued recovery in housing and some strengthening of the retail sector. We are more than usually cautious in our forecasts because of the volatile international interest rate situation and a variety of other external factors which I have already discussed, but on balance we believe our confidence is well founded.

As I have said, by comparison with most other parts of Canada, our unemployment situation is enviable, and our record of job creation should be a source of pride to Manitobans. The record has been achieved, not by make-work schemes paid for by the taxpayer, but by the healthy growth of the private sector in Manitoba. We believe that that is what Manitobans want. They want real jobs for our young people, useful jobs, jobs that contribute to our total

well-being and our total economic strength. And they want the sort of jobs that contribute to career opportunities.

Now there will continue to be employment opportunities from time to time within the public service of Manitoba, helping to carry out the important responsibilities of government within our mixed economy, but there will be no make-work projects to create phoney jobs that offer neither real satisfaction nor long-term opportunities. Because, Mr. Speaker, because we continue to believe that by leaving money in the hands of people who work to earn it, instead of taxing it away, we make it possible for them to create real jobs and real opportunities that Manitobans have a right to expect, and we believe that that's what the vast majority of Manitobans would wish us to do.

And it's important to add, in discussing our prospects for the year ahead and beyond, that the forecasts up to now do not reflect the major capital projects now being negotiated, aluminum smelting, potash mining, forestry expansion, and the western power grid. These projects will provide substantial added momentum to our economy in the medium term. The projects will involve major direct investment, with major multiplier effects, substantial spinoffs which will have a positive stimulative effect across most sectors of the economy, and they will add to the opportunity available to Manitobans.

In many ways, the most important of these major projects will be the resumed development of our northern hydro resources based on assured new markets. The potential for stable and ongoing hydro development as a lynch pin in our economic growth, a potential that the New Democratic government sacrificed through its ill-conceived program of forced hydro expansion, represents perhaps the most significant long term opportunity facing Manitobans, and it's an opportunity, Mr. Speaker, that this time will not be wasted.

This summary of some of the major opportunities open to Manitoba should help clarify our government's view of the appropriate role for the public sector in economic development. We believe that the competitive market system should be the fundamental mechanism for economic decision-making, and the private sector, the primary engine of economic growth in our society. Our economy is a mixed economy, and within it, government and the public sector also have important roles to play. Under this government, those roles have been effectively and efficiently discharged. Unlike the New Democratic Party or other socialist parties, we do not believe that government should have the primary decision-making role in the economy. We do not believe that the judgment of ideologues and bureaucrats should be substituted for the free economic choices of individuals.

Our aim is to ensure that we have the right kind of policy environment to encourage as much productive private development as possible. That requires competitive tax policies and stable and cooperative economic policies, not sudden shifts of policy, not threats of takeover and pointless confrontation and uncertainties. Simply put, we believe in an economic policy of moderation and common sense, with the private and public sectors working together toward realistic goals which recognize the strengths of the

Manitoba economy and the aspirations of the people of this province. These are not the kinds of policies that produce dramatic overnight changes, Mr. Speaker, these policies take time. They also provide the kind of stability and predictability which are so essential to encourage major investment projects such as those now ahead of us. And given the continuation of that kind of responsible policy environment, there will be more of those kinds of investments in the future.

Before turning to the specifics of the budgetary policy for 1981-82, I would like to raise an additional matter which bears directly on our ability to assess fiscal and economic policy options.

A few years ago, Mr. Speaker, the Lambert Royal Commission on Financial Management and Accountability recommended adoption of a system of medium-term budgeting at the Federal level, as a key to more responsible and accountable policy-making. That recommendation was accepted and implemented by the Progressive Conservative administration of Prime Minister Joe Clark, and it's been continued by the current government. Subsequently there have been a number of recommendations that provinces adopt similar medium-term approach to budgeting. A few provincial governments have made major progress towards this goal and most others appear interested in moving in this direction as time and staff resources permit. I wish to advise the House that our government has assigned a high priority to expanding our analytical and forecasting capacity in order to permit us to improve our assessment of key options for growth in Manitoba.

The members opposite, Mr. Speaker, seem to take it rather lightly every time this government talks about responsible management of the financial resources of this province, which simply indicates the kind of policies they pursued during their administration.

Earlier, I outlined the success that Manitobans achieved in meeting a series of key economic objectives, success towards which prudent policies and management of this government have contributed in a significant way. That success has been mirrored on the budgetary side as well. After years in which relatively little attention was paid to expenditure growth, or to the real bottom line, the principles of fiscal responsibility and accountability had to be re-established as the fundamental working guidelines of the Government of Manitoba.

And as our 1980 Budget pointed out, we have achieved or made progress toward every one of our initial fiscal policy objectives, but our success does not mean that those objectives will be set aside. Tonight I want to reaffirm our government's commitment to those guidelines:

A reduction in the government's demands on the economy. We have held the rate of growth and the expenditures below the average rate of growth of total output during our time in office.

We will be committed to greater efficiency in government programming to ensure that improved and expanded services can be provided for those who require them.

Rationalization of taxation measures, to simplify our tax structure and make it more competitive, and,

Improved financial reporting to ensure that the citizens of Manitoba have up-to-date factual and understandable information about the government's budgetary position.

Under the previous administration provincial expenditure growth habitually exceeded the overall growth rate of the provincial economy. In the four years from 1973 through 1976-77, expenditures increased at an average of nearly 20 percent a year, while the average growth in gross provincial product was some four percentage points lower. By 1977-78, provincial expenditures were equivalent to more than 19 percent of gross provincial product, up close to seven percentage points from just over twelve in 1968-69.

Since that time, as I indicated earlier when I tabled the Main Estimates of Expenditure, our government has succeeded in holding the rate of growth provincial expenditures on average, to below the trend rate of growth of total output in line with the commitment made by all senior governments at the First Ministers' Conferences in February and November of 1978.

That commitment was seen as a key element in the continuing fight against inflation, and we believe it should remain a primary guideline for fiscal policy. Of course, the guideline does permit flexibility, since it's based as it should be on a medium term prospective.

In certain years, circumstances may require the expenditure growth rate to exceed the gross provincial product, and this will probably happen in 1981-82 in Manitoba because of such factors as the major increase in support for education, and the cost of hydro rate freeze. What has to be avoided, however, is the expectation that there will be, or indeed can be, real growth in total government expenditures every year.

The controlled pattern of expenditure growth in government over the last few years has had major beneficial results. Faced with a serious deficit problem, and with a program structure which did not reflect realistic priorities, our government recognized the necessity of constraining overall expenditures. Contrary to predictions that it couldn't be done, we were able, in our first full year in office to hold total spending growth to zero without damaging any essential social programs. And I should say, of course, that not all programs were held to zero, there was significant growth in Health and Education, for example, while low priority or unnecessary expenditures in other areas were reduced or eliminated.

That year of transition provided us with essential breathing room, a chance to assess policies and programs, and to realign them where necessary. Then the following year we were able to move ahead with clearly defined priorities and programming which had been carefully screened for effectiveness.

Since that time, prudent expenditure management has continued to play a major part in the substantial improvement in our financial position. Our success in restoring a secure budgetary base in this province has perhaps been obscured by some of the unavoidable economic pressures we've experienced. The figures are worth repeating:

When we took office, we found a projected deficit for 1977-78 of at least \$225.1 million,

and some \$110 million more if so-called uncommitted projects were included, and that is projects which were ready to be implemented, but for which contracts had not yet been let. That figure, of course, was on a combined accounting basis, and the current deficit, under the old accounting system, amounted to \$129 million. The remainder was the net deficit on the old capital account.

By the end of 1977-78, as a result of many tough decisions and actions, there had been some improvement, and the year-end deficit standing on a combined basis at \$191.3 million, excluding sinking fund payments.

To put that figure in perspective, it's important to note that the \$191.3 million total was equivalent to approximately 12 percent of total expenditures, while the percentage would have been even higher, some 17 percent, if the uncommitted projects had proceeded.

Now since that time the situation has improved substantially, both in absolute and relative terms.

In 1978-79 the annual deficit was reduced . . .

MR. SPEAKER: Order please. If people want to laugh and talk amongst themselves, I suggest they do it outside this Chamber.

The Honourable Minister of Finance.

MR. RANSOM: In 1978-79 . . .

MR. SPEAKER: Order please, order please. If members want to carry on private conversations they may leave this Chamber to do so.

The Honourable Minister of Finance.

MR. RANSOM: Well, Mr. Speaker, they're not interested in hearing about their record and the achievements of this government.

In 1978-79, the annual deficit was reduced to \$84.3 million.

A year later, in 1979-80, the year-end deficit was \$45 million.

Last year's Budget for 1980-81, forecast a deficit of \$139.6 million. Subsequently, however, that figure was raised to approximately \$191 million when supplementary expenditure authority was approved for drought relief and forest fire suppression. As members are aware, a substantial portion of that supplementary supply was not required. That fact, coupled with normal lapsing of authority and improved revenues, both from our own sources and from Federal transfers, have resulted in a 1980-81 deficit which we now estimate — although I would caution that the books of the Province are not closed and that this is an early estimate — at about \$100 million. This represents an improvement of around \$91 million from the total amount authorized for the year and a reduction of around \$32 million from the projection at the end of the third quarter.

It's difficult to grasp, Mr. Speaker, the full significance of these figures without reference to the

situation that could have occurred had our government not acted decisively to restore sound budgetary procedures. We have estimated, by projecting the average rate of growth in provincial expenditures in the last four complete fiscal years under the previous government, and using revenue estimates adjusted by adding back the tax cuts we have implemented since 1977, that by 1980-81, the Province of Manitoba would have faced a cumulative deficit for the past three years of more than \$1.5 billion, and instead, the total deficit for the 1978-79 to 1980-81 period has been around \$229 million.

MR. SPEAKER: Order, order please. Order please.
The Honourable Minister of Finance.

MR. RANSOM: Thank you, Mr. Speaker.

Without that improvement, without the "breathing space", the taxpayers of Manitoba would be facing a near disastrous situation in the short-term and substantially added interest costs in years to come and a number of policy choices would have been closed off. The ability to respond to unforeseen emergencies, such as last year's drought would have been severely impaired, and the Government would have faced an even more difficult situation for the coming years, with potential Federal transfer payment cuts adding to the pressure on the bottom line.

Now the members opposite no doubt, Mr. Speaker, will argue they would not have allowed that to happen and that they would have curtailed expenditure growth, or raised taxes, or both, and based on their record and what we know about their present policies, it can be assumed that the latter option was more likely than the former.

In any case, Mr. Speaker, while I acknowledge that the projected figures are hypothetical, they do clearly indicate that our Government has turned our financial position around from the direction that it was taking and given us . . . The members opposite laugh at the kind of expenditure increases and the kind of growing deficits that they encountered, they laugh at it, Mr. Speaker. We now have the flexibility and the range of policy choices that are absolutely essential at a time like this, when we're facing uncertainty at the national level and are at an important point in our economic recovery.

For the year ahead, we've been able to get a budget, which will make possible significant program improvements, without the need for a general increase in taxes. While some other provinces have found it necessary to increase taxes in a major way in their budgets this year, we do not believe such increases would be appropriate for Manitoba.

We have confidence that our economy will continue to grow, and as that growth gains momentum, revenues will increase accordingly and we believe that revenue expansion, in tandem with continuing effective expenditure management, will give us increasing scope to improve our overall position.

Mr. Speaker, I would like to deal briefly with some of the main program improvements, which are possible in 1981-82. They are dealt with . . . It's interesting, Mr. Speaker, that the members opposite seem only interested in the spending of money.

Before I deal with the estimates of revenue, I'll deal with some of the program improvements, Mr.

Speaker, but only very briefly, because they are outlined in more detail in the printed budget. I would simply like to point out that over 80 percent of the increase in estimated expenditures for 1981-82 was accounted for by the three major departments with responsibility in the area of social programming; Health, Education, Community Services and Corrections.

In Health, our health care system required the largest single increase, approximately \$115 million or almost 20 percent over the 1980-81 Estimate, and I invite the members opposite to consider some of the increases on an individual program basis since 1977-78. Hospital and Medicare expenditures up approximately 56 percent; personal and home care expenditures up 65 percent and childrens' dental care expenditures up 182 percent.

In each case, Mr. Speaker, these percentages are well above the overall growth rate for total provincial expenditures.

The second largest dollar increase in 1981-82 was the \$101 million or 25 percent increase allocated to the Department of Education, bringing the department's total to around \$501 million.

Much of the increase, of course, relates to the introduction of the new Education Support Program, the first significant reform in public school finance in this province in nearly a decade and a half.

The Department of Community Services and Corrections required the third largest increase in dollar terms in 1981-82, departmental total some \$249 million, as approximately \$38 million or 18 percent over the authority for the previous year.

At the conclusion of my Address tonight, Mr. Speaker, I will table a summary paper on the White Paper programs, including some specific analysis of improvements and benefits.

The White Paper reforms outlined in the Budget last year represented the most comprehensive and innovative set of income support and shelter assistance program improvements introduced in a single year by any province of Canada, and those included an increase in the minimum and maximum property tax credits by \$100, increase in the supplementary school tax assistance for pensioners from \$100 to \$175; the Manitoba supplement for pensioners was doubled and extended to pensioners between the age of 55 and 65; SAFER was enriched and extended to pensioners and tenants between the ages of 55 and 65; net family income was used in place of the former individual taxable income definition to relate property and cost-of-living tax credits more closely to actual income available to each family in the province; and the CRISP program now provides lower income families with up to \$30 a month or \$360 a year per child, and the SAFFR program had been implemented for assistance to family renters with children who faced high rents in relation to incomes. And major increases were also announced in the province's support for day care.

Because the White Paper programs were so comprehensive, the government made a commitment to monitor the operation of the programs in their implementation stages to determine their success in providing additional assistance to those who need it most. And our analysis indicates that the programs are working well and that the primary beneficiaries are those most in need of added assistance, lower

income pensioners and lower income families with children.

We are also aware that a number of Manitobans have expressed concern about certain aspects of the program, primarily, the introduction of the family income concept in the tax credit programs. That change was, of course, intended to redirect benefits in favour of lower income groups. It is also a fact that in many cases, benefits available under other programs, including the expanded property tax credits, more than offset reductions in cost-of-living tax credits. It's worth recalling in this connection that the total provision for benefits under the pre-White Paper programs in last year's main Estimates was \$165.5 million, and this year's main Estimates provide for \$196.4 million in benefits payments, an increase of \$30.9 million or 18.7 percent.

It is important to acknowledge, however, that our monitoring of concerns about the White Paper has demonstrated that there is a significant anomaly problem for married couples. The maximum cost-of-living tax credit benefits can vary significantly, from as low as \$96 to as high as \$190.20, depending upon the incomes and dependency status of the spouses. The ultimate result has been a lower cost-of-living tax credit for couples where each has an income, including working couples and senior citizen couples, than for others with similar net incomes but where a single spouse is the recipient.

To help offset this anomaly, we are proposing to change the calculation of cost-of-living tax credits for married couples in order that the personal exemptions available to each spouse under The Income Tax Act can be added together. This change will increase the maximum cost-of-living tax credit for couples in 1981 to \$190.20 for a couple with \$10,000 in net income, equally divided between husband and wife. The change will increase cost-of-living tax credits from zero in 1980 to \$90 for 1981. It ensures that working couples will receive the same level of cost-of-living tax credits as their single income counterparts.

The change will be of particular help to senior citizen couples who will be assured the same level of cost-of-living tax credit assistance, that they will be assured the same level of assistance at the same level of net family income, regardless of how that income is distributed between the spouses. For a senior citizen couple with \$10,000 in net income, equally apportioned between husband and wife, the change will increase cost-of-living tax credits by \$127 from \$82 for 1980 to \$209 for 1981.

In addition, it will reduce income tax form filing requirements since the cost-of-living tax credit will be claimable on one return filed on behalf of both spouses. The estimated cost of the measure for 1981 is \$2 million, authority for the additional expenditures will not be required until the next fiscal year.

Earlier I referred to the increase in property tax credits, which were introduced for 1980 and to the substantial increase this year in provincial support for school divisions. However, we continue to believe that a further improvement in direct property tax credit support is also warranted and desirable, particularly for lower income property taxpayers, and I'm pleased to announce, Mr. Speaker, that effective for 1981 the general maximum property tax credit, will be increased from \$50 from \$475 to \$525.00

Furthermore, the maximum property tax credit for senior citizens will be increased by \$100 from \$525 to \$625.00.

The basic \$325 property tax credit will remain unchanged at the same level as last year, but of course that is \$100 above the minimum level in 1979.

The members may note that this is the first year in which the government has proposed to introduce an increase which focuses entirely on the maximum benefit level. Our purpose in doing so is to ensure that the full increase in funds available for Property Tax Credit Program will be directed toward Manitobans with lower and moderate incomes. For example, a general \$50 increase in the property tax credit maximum will be available to those with net family incomes of under \$15,000.00. Smaller increases will be available up to a family income level of around \$20,000.00. There will be no increase for those with incomes above that level.

For senior citizens the full increase of \$100 will be available to those with under \$20,000 in net family income. The additional property tax credit will be received when 1981 tax returns are filed in the winter and spring of next year.

Additional expenditure authority for the changes which are expected to cost approximately \$9 million in total, will not be required until the 1982-83 fiscal year, and I want to turn now to the economic development side of our expenditure program for the year ahead.

One of the most important economic development initiatives of course, is the hydro rate freeze, which requires statutory authority of \$35.8 million in 1981-82. That initiative and others in the economic development field represent a conscious effort by our administration to de-emphasize soft make-work programming and to concentrate our resources on encouraging private sector investment and job creation. I also wish to comment briefly here about our government's involvement in joint economic development programming with DREE.

Most members will be aware of the sub-agreements which are now in place, the Value Added Crops Production Agreement, the Industrial Development Agreement Enterprise Manitoba, the Water Development and Management Agreement and the Tourism Development Agreement. Negotiations concerning the new Northern Development Agreement and the Winnipeg Core Area Initiatives are nearing completion and discussions are proceeding with respect to DREE input and the Forestry Assistance Agreement. DREE's assistance has been welcome of course, but we have expressed concern from time to time about the adequacy of the cost-sharing ratios proposed for recent agreements and their fairness to Manitoba compared to other provinces.

We've also noted the degree of administrative overlap which seems to have occurred in some cases. We continue to believe that both levels of government could benefit from more flexible financing and operating arrangements, and that this benefit would be passed on directly through improved program services to those sectors of the economy which the programs are targeted to assist.

At the conclusion of my Address I will table Supplementary Estimates in the amount of \$3.5 million. The Estimates will include \$2.2 million to

cover the initial costs of the two-year Hog Producers Insurance Plan announced last week by my colleague, the Minister of Agriculture. The province is prepared to contribute up to \$5 million toward the program, in addition to make available a loan guarantee of up to \$5 million if required.

\$1.1 million is included for the school grants appropriation of the Department of Education to increase the authority available for assistance to school divisions under the new Education Support Program, and \$200,000 is included for a new program of incentives for super energy efficient housing. This program will involve grants of \$1,600 and will apply to 100 units in the first year. The purpose of this initiative is to support and stimulate the application of energy-saving technology to housing in Manitoba. Further details on the new program will be made available by my colleague, the Minister of Energy and Mines.

The addition of this supplementary authority will bring the overall 1981-82 expenditure growth percentages to around 15.5 percent, over the latest preliminary year-end Estimate for 1980-81. As I indicated when I tabled the Main Estimates, the increase is likely to be about 3 to 4 percent above the 1980-81 level in constant dollar terms, and I want to emphasize again that these expenditures represent what our government believes to be a prudent and appropriate response to demonstrated program needs in this fiscal year.

Earlier I referred to the flexibility and "breathing room", which we've been able to achieve in the fiscal position of this province. As I have already stated, this will mean it will be possible to finance the program improvements I have outlined without a general tax increase through the year. The exceptional problems of the past two years with the effects of the drought in 1980 and to a somewhat lesser extent, the flooding of 1979, have limited the economic growth of Manitobans — the economic growth Manitobans have been able to achieve and as a result the growth in revenues available to government in this province.

With more normal conditions for agriculture and on the basis of the major capital projects that appear likely in Manitoba in the next few months and years, we believe that our province is now entering a period of economic expansion. Any increases in taxes at this time would in our view merely hinder the efforts of Manitobans to achieve that faster growth, and on the longer run, we will require additional revenue to pay for expansions and improvements in government programs, but we are confident that sufficient revenues will be generated, not by growing taxes, but by the growing economy that Manitobans are capable of . . .

Mr. Speaker, it is worth pointing out, that we have now presented four Budgets and not one of those Budgets has contained a general increase in personal or sales taxes.

There have been some increases in tobacco and alcoholic beverage taxes and last year the gas tax was converted to an ad valorem system, just as it has in most provinces, but overall our major emphasis has been on tax cuts, to restore a fair, competitive system of financing public services in this province, and I want to review those tax reductions here, because they've affected virtually every major revenue source.

The members opposite clearly have an aversion to tax reductions, Mr. Speaker. Almost as soon as we took office we reduced the general personal income tax rate from 56 to 54 percent, and we phased out the temporary surtax on personal incomes on schedule at the end of 1978 and those measure are providing all Manitobans with permanent decreases in their provincial income tax liabilities.

Second, we abolished succession duties and gift taxes, respective October 11th, 1977. This has been of particular importance to farm families and to small family-owned businesses.

Third, we reduced the corporation income tax for small business in this province from 13 percent to 11 percent.

Fourth, we increased the corporation capital tax exemption for small business from \$100,000 to \$500,000 in 1978 and to \$750,000 in 1980.

Mr. Speaker, the members opposite have spoken about the impact of high interest rates on small businesses, and have suggested special Provincial Government assistance, but to mean anything in today's circumstances such assistance would have to be substantial and would be beyond our present capacity to provide.

It is worth noting though that the suggestion comes from those whose understanding and treatment of small business, when they were in office, was to tax and harass this critically important group in our economy, to tax them and harass them in a way that was previously unknown in the history of this province.

Fifth, Mr. Speaker, we introduced reforms in Manitoba's mining tax structure in 1979, which not only have assisted in restoring confidence in the industry, but has also generated revenues in excess of those achieved in the years the former system was in effect.

Sixthly, we abolished a number of nuisance taxes, including the mineral acreage tax and The Mining Royalty and Tax Act levies for quarry operators.

Seventh, we also provided new and extended sales tax exemptions for children's clothing, restaurant meals, safety equipment, certain farm use items and insulation materials.

Eighth and finally, we provided gasoline tax incentives for the production and distribution of gasohol, and overall these reductions have helped to restore tax structure in Manitoba, which is reasonably competitive with tax systems in other provinces. But we want to do more and in future years, we intend to introduce further reductions as economic and revenue conditions permit, and in so doing, we intend to be guided by the principles of fairness and moderation and common sense, and our government believes in the importance of ability to pay and taxation, but we do not believe that principle should be misused to justify tax burdens, which destroy the incentive and initiative on which our economic system is based.

For 1981-82, our main revenue priorities are to preserve the reductions that we have already implemented and to secure additional funds where practicable, without undercutting our prospects for recovery.

Four of the six provincial budgets, which have been introduced this year have provided for an increase in taxation on tobacco. We intend to do so

as well, effective at midnight on May 3rd, 1981, the provincial tax will increase by 5 cents per package of 25 cigarettes, from 30 cents to 35 cents. Similar adjustments will apply for other tobacco products.

This change is expected to yield an estimated \$5 million in a full year.

I should add that two provinces, Quebec and British Columbia, along with the Federal Government, have implemented procedures to adjust their tobacco tax levies in line with price increases. It may be appropriate for our province to consider a similar change.

Liquor Commission mark-ups will also be increased to raise an additional \$4 million in the current fiscal year.

A further improvement of \$24.8 million in the Province's general revenues will be achieved through the transfer to the consolidated fund of the balance remaining in the special municipal loan and general emergency fund.

The Act will be repealed during this Session of the Legislature, since it is inconsistent with our accounting principles and runs counter to the goals of government accountability to the Legislature and to the taxpayers.

Revenues for 1981-82 will also be affected by certain technical adjustments in the corporation capital tax and in the sales tax on machinery and equipment.

Two changes are proposed for the corporation capital tax:

First, "wholesale paper" that is, lien notes, will be excluded from the corporation capital tax base for farm machinery, truck and automobile dealerships effective July 1st, 1981. This change recognizes the particularly difficult circumstances these retailers have experienced as a result of the interest rate situation. The amendment will reduce the capital tax payable by these dealerships by about \$250,000 annually.

Second, the capital tax base for trust and loan companies and banks will be aligned with those of other provinces, and the applicable tax rate will be increased from the present one-fifth of 1 percent to three-fifths of 1 percent for trust and loan companies, and to four-fifths of 1 percent for banks. Revenues will remain unchanged, but the reporting requirements facing these financial institutions will be simplified. The effective date for this change will be July 1st, 1981. Credit unions will continue to be exempt from this levy.

The change affecting the sales tax will involve an exemption for the used immovable machinery and equipment which is purchased as an integral part of the physical plant when a manufacturing plant is sold. The exemption will be retroactive to May 14th, 1980 and is expected to reduce sales tax collections by about \$500,000 in a full year.

The cumulative effects of the tax adjustments I have announced this evening will be a net revenue increase of some \$8.3 million in a full year.

Overall, and with the changes I've announced, we are estimating total revenues for 1981-82 of \$2,161,200,500.00. This represents an increase of approximately 14.8 percent on a print-over-print

basis, and about 10 percent over the preliminary "actual" figures for 1980-81.

These figures reflect, in part, the general economic uncertainty facing Canada and to an extent, the continuing effect of last year's drought. Improved revenue growth can be expected as the recovery process resumes.

The prospects for continuing federal transfer payments are more clouded, and that is one reason for our government's view that substantial additional changes on the revenue and expenditure sides would be inadvisable at this time. Since approximately 40 percent of our revenues are attributable to federal transfer payments, it is no secret that our province is vulnerable to the major cutbacks with the Federal Government, which the Federal Government has stated it wishes to begin implementing in 1982-83 fiscal year.

Thus far, specific proposals have not been put forward, but the Federal Minister of Finance has announced what is apparently a minimum cutback target of some \$1.5 billion for 1982 and 1983-84, and in simple per capita terms, that suggests a minimum cutback for Manitoba of some \$60 million to \$75 million. While there has been widespread speculation that Ottawa may see the Established Programs Financing transfers, particularly those nominally assigned for post-secondary education, as a primary reduction possibility, it's our view that cuts in all major transfers, from equalization to Canada Assistance Plan cost-sharing for social allowances and social services cannot be ruled out. Already, we have seen the termination of the Community Services Contribution Program, which had been expected to provide at least \$10.5 million a year for Manitoba municipalities over the next five years, and we have seen a major, and in my view extremely ill-advised effort by the Solicitor-General of Canada to impose a drastic change in R.C.M.P. cost-sharing agreements, on both municipalities and provinces. I have even been advised that the Federal Government may be considering a further cutback through a restructuring of the Disaster Assistance cost-sharing plan Ottawa uses to provide special financial assistance to provinces and local communities when major floods and other emergencies occur.

The establishment of a Parliamentary Task Force to review the Fiscal Arrangements before proposals are presented to provinces, now suggests that the start of formal Federal-Provincial negotiations will be delayed until well into the summer. But, since the Federal Government normally realizes its expenditure estimates, finalizes its expenditure estimates in the early fall, it's easy to see that there may be little, if any time for genuine consultation on changes that are likely to have a serious negative impact for all provinces as early as next year.

Also included with the supplementary material which will be distributed at the conclusion of my Address, will be the joint position statement of the four western provinces on the Fiscal Arrangements which was presented by my predecessor at the last Federal-Provincial Finance Ministers' Conference in December. That document, which has already been tabled in the House, emphasized the consensus views of the Governments of Alberta, Manitoba, Saskatchewan and British Columbia, that the current set of arrangements have worked reasonably well,

and it expressed concern that the changes which the Federal Government is considering "may be motivated not be a desire to improve program quality, but by a desire to increase intrusions of the Federal Government in other areas of provincial affairs."

The upcoming discussions of the Fiscal Arrangements will also include, for the first time in recent years, a major review of the national income tax collection system, and that system is now under increasing pressure, particularly on the corporation income tax side, where three provinces are now administering their own taxes, and where that number may increase to four or more in a year or two.

While it is premature to predict the end of the current collection agreements, all provinces must be prepared for the possibility that within a relatively short time, we may be required to begin administering our own income tax system, and to ensure that we're adequately prepared for the possibility of such a changeover, I have asked my department to draft a detailed contingency plan and to review a wide range of related policy options, including the kinds of reforms to our tax system which would be possible under a self-administered system.

Earlier, I emphasized that our government's primary objective on the expenditure side, was to respond to demonstrated need for selective program improvements and expansions, particularly in areas as health, education, income assistance and economic development.

At the same time, on the revenue side, I said we recognized the importance of avoiding the imposition of any significant additional tax burden on the people of Manitoba at a critical time in our recovery. We also considered the future prospects of our economy and the strong likelihood of significant economic expansion, which would result in improved revenue growth in the near-term.

On that basis we concluded that a temporary increase in the provincial deficit would be the most appropriate budgetary policy at this time. Our current estimates indicate that expenditures will exceed revenues by some \$219.8 million in 1981-82. While this figure is above the deficit authorized for 1980-81, it remains lower in relative terms than the year end figure for 1977-78. As I noted earlier the deficit that year represented about 12 percent of expenditures. A comparable percentage based on the Estimates for 1981-82 is just over 9 percent, some 3 percent lower.

Well, Mr. Speaker, I think the deficit that they incurred in the last year of their government probably is a landmark. Another way of comparing the figures is to express the 1977-78 deficit in terms of 1981 dollars. After inflation the 1977-78 year-end deficit of \$191.3 million is equivalent to about \$275 million in this fiscal year, and our projected deficit is, of course, some \$55 million or 20 percent lower. In our view the deficit we're projecting remains within manageable limits and with the financial controls we now have in effect, we're in a position to monitor the bottom line situation very carefully on a continuing basis . . .

MR. SPEAKER: Order please. Order please. The Honourable Minister of Finance.

MR. RANSOM: Thank you, Mr. Speaker. With the financial controls that we have in effect, Mr. Speaker, we're in a position to monitor the bottom line situation very carefully on a continuing basis and take prompt action if any major deterioration in our position is indicated, unlike the system that was in place when the members opposite were in their last year of government. It is important to recall, of course, that in each of the last four years there has been an improvement in the forecast deficit position by the year-end, and to an extent that is attributable to the fact that initial estimates do not provide for lapsing of authority and that will certainly occur in 1981-82 as well.

However, it would be —(Interjection)— Mr. Speaker, the Member for St. Johns is one of the people on the other side who is most apt to criticize people on this side for speaking from his seat and for the last hour and three-quarters, I've heard him more than any other member on the other side.

As I say, Mr. Speaker, I expect that lapsing will also occur in 1981-82. However, I think it would be imprudent to assume that there will be automatic improvement during the year. If it occurs, it will be welcomed and if it does not, we will still have been spared a potentially more difficult situation.

I would like to make one additional point before concluding this section of my address, Mr. Speaker, and that is that our government has in no way abandoned its long term objective of a balanced budget. We are using —(Interjection)— It's plain to see what the members opposite think of their concept, Mr. Speaker.

MR. SPEAKER: Order please. Order please. Order please. The Honourable Minister of Finance.

MR. RANSOM: Mr. Speaker, I simply point out that our government is using the deficit concept in exactly the manner that responsible economists suggest that it should be used.

At the conclusion of my address, I'll also table estimates of the capital requirements of Crown corporations and agencies for the 1981-82 fiscal year. The amount of additional authority requested in the Estimates is some \$75.2 million. This represents an increase of \$51.2 million over the \$24 million in Schedule A authority requested in last year's Budget.

The Manitoba Telephone System requires \$25 million this year after a nil requirement in 1980-81. In addition, the requirements of the Manitoba Agricultural Credit Corporation have increased by some \$14 million while \$8 million will be required by the Manitoba School Capital Financing Authority.

An amount of \$2.5 million is included for the Credit Union Stabilization Fund in line with the request from the Credit Union System for support of a major rationalization program developed during the past year.

As has been noted in previous years the request for capital authority is not necessarily equivalent to the amount that actually will be spent during the year. Expenditures can also be financed from existing authority and from internally generated funds, particularly in the case of Manitoba Hydro and the Manitoba Telephone System. The combined capital spending by the provincial public sector including Crown corporations and agencies is estimated to total around \$500 million for the year.

The Government anticipates a net borrowing requirement for budgetary and self-sustaining or non-budgetary purposes of approximately \$365 million. We expect that some \$115 million of this amount will be available from non-market sources, mainly the Canada Pension Plan. The balance or some \$250 million will be obtained from public market sources.

Mr. Speaker, in conclusion I said earlier that Manitoba stands on the threshold of a major period of expansion. The people of our province have worked hard to prepare for the opportunities which are before us and we now have a genuine chance of achieving them.

The Budget that I've outlined tonight will play an important part in helping us to realize those opportunities and it will preserve the gains that we have achieved over the past few years without applying undue pressure on our economy and on our taxpayers. I believe that this Budget is realistic; I believe it's prudent; I believe it will permit government to continue to make its contribution to the efforts of Manitobans to continue as we've always done in this Province to build for ourselves better, more secure and more prosperous lives. The realities of the national, the international economic situation and of our own situation here in Manitoba do not permit massive new spending or commitments of the taxpayers' dollars to short term purposes. That has been tried here and elsewhere and it has failed.

More importantly, Mr. Speaker, we have confidence in Manitobans. We do not believe, as members opposite sometimes seem to believe, that Manitobans have failed and are in need of a government takeover of every major decision.

MR. SPEAKER: Order please. I do find it very difficult to hear the speaker. If some people aren't interested in it, I am. I would like to hear the speech. The Honourable Minister of Finance.

MR. RANSOM: Well, Mr. Speaker, it's quite evident that the members opposite simply want to see the Government assume a role of greater importance in decision making in the economy and that is not the philosophy of our party, Mr. Speaker. They want to see government take over every major decision and many minor ones that people are able to make for themselves, Mr. Speaker, and we reject that philosophy.

The things that have already been achieved by Manitobans over the years are impressive by any measure and we've built for ourselves a quality of life and a standard of living, and a sense of community that is second to none. In the years since we were elected in 1977 this Government working with the people of Manitoba has achieved once more the kind of basic economic health that will permit us to build upon that foundation. I am confident that is what Manitobans will do and that really is the foundation of this Budget, Mr. Speaker.

We are confident in Manitobans and we believe that the people of this Province have every reason to be confident in themselves.

Thank you, Mr. Speaker.

MR. SPEAKER: The Honourable Leader of the Opposition.

MR. HOWARD PAWLEY (Selkirk): Mr. Speaker, I beg to move, seconded by the Honourable Member for St. Johns that debate be adjourned.

MOTION presented and carried.

MR. SPEAKER: The Honourable Minister of Finance.

MR. RANSOM: Mr. Speaker, I have two messages from His Honour the Lieutenant-Governor.

MR. SPEAKER: The Lieutenant-Governor transmits to the Legislative Assembly of Manitoba Estimates of sums required for the service of the Province for capital expenditures and recommends these Estimates to the Legislative Assembly.

The Lieutenant-Governor transmits to the Legislative Assembly of Manitoba Estimates of further sums required for the services of the Province for the fiscal year ending the 31st day of March, 1982, and recommends these Estimates to the Legislative Assembly.

The Honourable Minister of Finance.

MR. RANSOM: Mr. Speaker, I move, seconded by the Minister of Natural Resources that the said messages together with the Estimates accompanying the same be referred to Committee of Supply.

MOTION presented and carried.

MR. SPEAKER: The Honourable Government House Leader.

HON. GERALD W.J. MERCIER (Osborne): Mr. Speaker, I move, seconded by the Honourable Minister of Natural Resources that this House do now adjourn.

MOTION presented and carried and the House adjourned and stands adjourned until 2:00 p.m. tomorrow (Wednesday).