



First Session - Thirty-Sixth Legislature

of the

Legislative Assembly of Manitoba

**DEBATES
and
PROCEEDINGS
(Hansard)**

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Speaker*



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MANITOBA LEGISLATIVE ASSEMBLY
Thirty-Sixth Legislature

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LEGISLATIVE ASSEMBLY OF MANITOBA

Monday, October 16, 1995

The House met at 8 p.m.

ORDERS OF THE DAY

(continued)

(Mr. Marcel Laurendeau, Deputy Speaker, in the Chair)

Hon. Darren Praznik (Deputy Government House Leader): Mr. Deputy Speaker, I would ask if you could please call for debate on second reading, Bill 2. Throughout the course of the evening we may have some other bills that we may like called during that period, so I will have further announcements for the House as we proceed through the evening.

DEBATE ON SECOND READINGS

Bill 2—The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act

Mr. Deputy Speaker: To resume debate on second reading, Bill 2, the motion of the honourable Minister of Finance (Mr. Stefanson), The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act (Loi sur l'équilibre budgétaire, le remboursement de la dette et la protection des contribuables et apportant des modifications corrélatives), standing in the name of the honourable member for St. Johns (Mr. Mackintosh). Is there leave that this matter remain standing? Leave? [agreed]

Mr. Leonard Evans (Brandon East): Mr. Deputy Speaker, I rise to make some comments on Bill 2, the balanced budget legislation as it is referred to, in brief terms and to try to put this into perspective in terms of our financial situation and the challenges that face Manitoba.

A cardinal rule in parliamentary practice is that legislation should not be introduced into the Assembly or into a parliament unless it is necessary. Indeed, legislation that is not necessary is bad or poor legislation, and Bill 2 is in this category of unnecessary

legislation. I say that because what it purports to do is to ensure that budgets are balanced or indeed are in surplus so that debts can be paid off over a period of years, but there is absolutely nothing preventing this government or indeed any provincial government from achieving these objectives if they so desire.

As a matter of fact, members opposite have been bragging for some years that they have not raised income taxes, they have not raised sales taxes. Well, they did not need the legislation to make that decision. The Province of Newfoundland has held the line on spending, held the line on taxes, and they did not have any balanced budget legislation. So my point is, you can do everything that you wish, you can achieve all the objectives of this bill without the legislation.

I recall people much senior to me in this House, when I was new, explaining that government should attempt to minimize legislation, should not bring in legislation if that legislation is not necessary.

I would suggest that in good parliamentary tradition, decisions on budgets, including debt repayment, are made on a year-to-year basis in keeping with the economic situation in the jurisdiction or in the province. Therefore, basically, this legislation is an ideological statement; it is not required legislation.

But I would also say that Bill 2 is bad legislation because it is essentially undemocratic, and let me explain. It imposes budget guidelines on future legislators and citizens of Manitoba 10 years or 20 years from now or whatever into the future, 30 years, 31 years. Budget decisions 10 years from now, I would submit with all due respect, have to be made by Legislatures at that time dealing with the conditions that they have to deal with. For this Legislature in the year 1995 to attempt to impose a straitjacket on the citizens of Manitoba and future legislators 10 or 20 years from now is simply not in keeping with the parliamentary tradition of government that we have inherited. It is not democratic.

I am not suggesting that one should not try to reduce the debt. If you want to reduce the debt, if that is your

policy, by all means attempt to do so. I think every responsible government does not want to have excessive debt, so let us try to do our best to curtail it, to squeeze it, to reduce it. Let us have a plan, but you do not need legislation to have a plan.

So, Mr. Deputy Speaker, what I object to in this bill, my second objection, I say it is undemocratic because we are imposing on citizens of Manitoba 10, 20, 30 years from now rules that we want them to abide by. I say, it is up to the people who are elected 10 or 20 years from now to make those kinds of decisions. But it is also bad because it proposes to bring provincial debt down to zero by the year 2028.

It proposes to pay for all future investments presumably on an annual basis in the interval and after that, but any accountant will tell you, Mr. Deputy Speaker, that capital projects should be paid for over a period of years and not in one single year.

Do you know of any business corporation that, say, builds a factory or has a major expansion that expects to pay it all in one year? They do not do it. Their books are not kept that way. They do not make their capital investment payments in one year. It is spread over a period of years, and similarly for a household.

Most people, most households do not attempt to pay the full price of their house in one year. They do not try to save all the money, save for 25 years to pay cash. Most people find it prudent, fiscally prudent, to get a mortgage, make their down payment and make the payments over, say, 25 years or whatever and get the advantage of living in that house. That is the way it is done, and it is done that way in large measure because it is to the financial advantage of that household to spread payments over a period of years using the mortgage.

Did we try to pay for the Winnipeg Floodway in one year? Did we pay for Leaf Rapids township in one year? It would be ridiculous to do so and, yet, that is what is implied, that you are going to pay all capital investments, whatever you enter into, in one year. That is just not good accounting, Mr. Deputy Speaker. So many projects whose benefits accrue over many years should logically be paid for over a period of years.

I would also observe that governments, unlike individuals, do go on in perpetuity and do not have to pay off their debt at some specific point in time. Unlike an individual who finally reaches retirement age and wishes at that point to get rid of all heavy debt, government continues as an institution and has to serve citizens on an ongoing basis. Governments as institutions do not retire. Governments as institutions continue in order to meet the needs of their citizens.

I might add, Mr. Deputy Speaker, just as a footnote, the debt issued by the federal government is the basis of Canada's monetary system. The Bank of Canada does not have a pot of gold to back up its money supply. It has in its assets—look at the Bank of Canada's annual report—the assets of the Bank of Canada are Government of Canada bonds. So Government of Canada bonds are the basis of the monetary system we have in Canada, and Lord help us if all of a sudden the federal government was able to eliminate all of its federal debt. That is not possible, that is not practical and it is not done anywhere in the world. No government that I know has attempted to go down to zero debt.

I would also point out that although debt may continue to exist or it may rise or it may fall, the important point to note is that the composition of the debt changes. It is not always the same debt. It is not the debt for the same purposes.

You know, 50 years ago the debt that Manitoba owed was for different purposes, different projects than the debt that we owe today. In other words, there is a rollover of debt; an old debt is paid off and new debt is acquired.

The main objective in debt management is to ensure that the debt does not grow faster than the provincial income. That should be surely a key factor. If we compare the total net general purpose debt as a percentage of gross domestic product in 1986-87, just before this government was elected, we see that it was 25.1 percent. That is the total net general purpose debt as a percentage of our gross domestic product. That is like relating an individual's debt to an individual's income. By 1995-96, we are at 25.9 percent; 25.1 percent, '86-87; now we are at 25.9.

In other words, over this period of time, there has essentially been a status quo situation. So if there is supposed to be a crisis today, Mr. Deputy Speaker, why was there not a crisis back in 1986-87? Why did the government not move in 1988-89 when it was first elected?

If we look at the total net debt of Manitoba as a percentage of the GDP, we get the same picture. In 1986-87, it was 51.2 percent; in 1995-96, it is 51.8 percent, again virtually no change in the situation. So admittedly the debt was a lower burden back in the '70s, and I remember as a cabinet minister in the Schreyer NDP government, our financial position was very strong.

Looking at it in terms of interest on the debt as a percentage of our total expenditures, in 1968-69, the year before the Schreyer government took office, investment expenditures on the debt equalled 3 percent of total spending; of all the spending we engaged in only 3 percent. By the end of the Schreyer period in office that 3 percent had actually dropped to 2.3 percent of total spending. We actually improved our position. Under Sterling Lyon, by the way, it rose up to 4 percent by 1981-82.

While no doubt the percentage of interest that we pay as a percentage of our total spending has risen. It was around 11 percent a few years ago and it is still not too far from that. I think it is around 12 percent or so today, but the point is, we were among the lowest of the provinces back in '87-88 and we are still among the lowest of the provinces in terms of interest payments as a percentage of our total spending. In fact I did some checking the other day, and I believe we are the third lowest in Canada today.

* (2010)

So members opposite I know like to talk about the growth of debt in Manitoba during the 1980s, but I would like to remind them what happened in Manitoba was what happened right across the country. There was increase in debt throughout the nation in all provinces and certainly at the federal level. As a matter of fact, more recently you can see that the federal debt has grown much more rapidly than in Manitoba.

In 1986-87, as I said, the debt as a percentage of GDP was 51.2 percent, that was the total net debt, and by 1994 it had risen to only 51.8 percent, virtually status quo. But if you look at the federal debt for Canada as a percentage of GDP, it was 57 percent in 1988, and it rose to 68.3 percent by 1994. I suggest they may have some kind of a problem in Ottawa. Certainly our problem shades into insignificance compared to what we see in the federal scene.

So why did the debt grow in this period, in the '80s or indeed any period? There are obviously some basic factors at work, one of which has to be your taxation and your spending policy. Surely they are important, but in addition to that it depends on the economic situation, the rate of economic growth in the province or the jurisdiction. Thirdly, it depends upon the monetary and fiscal policies of the federal government.

They have a great bearing on the provincial scene, and we are very dependent, unfortunately, on transfers from the federal government, and we are certainly affected by their monetary policy, particularly with regard to the rate of interest. That rate of interest has a great bearing on the debt burden that Manitobans face. The lower we can get that interest rate, the better off we will be.

I maintain that this is in large measure in the hands of the federal government, who control the Bank of Canada, or at least should control the Bank of Canada and try to keep the rate of interest down as low as possible. So in the '80s, we did have a large amount of debt accumulation across Canada. To a large measure, it was a result of economic recession, where revenues fell and expenditures automatically rose. At the same time, we had the central bank, the Bank of Canada, engaging in a very high interest rate policy. I might add that everybody is talking about the debt in Canada today.

I ran across a very interesting article very recently from the Toronto Star, and I would just like to read a couple of sentences from it, because I thought it was very insightful. It talked about Canada having, second only to Australia, the greatest wealth as measured per capita as measured by our natural and human resources and productive assets.

But then there is our debt problem, which will remind you of that constantly, and I am reading a quote from this article: Politicians quick to spot a trend have seized upon the debt issue and declaimed upon it, punishing the poor with the loser economies while visiting tax deductions upon the more fortunate. But we know all of this.

So even while we are one or two among the nations of the world, in the comforts we enjoy and in wealth, we are in a mess. Ask the Wall Street Journal. Ask the banks, the brokers, the bond sellers. It is the debt, stupid. But is it? Is it really the debt that is the problem? Why are those most obsessed by the debt so eager to cut taxes, not that we all would not wish a tax cut, but what is the good cutting taxes while adding to the debt?

Anyway, debt reduction with tax cuts is the nostrum of political patent medicine peddlers. It seems to me quite clear, we do not have a debt deficit problem so much as we have a revenue problem. Instead of talking about the rising debt, the politicians should be talking about falling revenues. That is the end of the quote. [interjection]

I am not sure—the honourable minister is asking me a question from his seat—what he is asking. He wanted me to suggest who I was quoting from, and I would be delighted to tell you that I am quoting from Dalton Camp, the well-known Conservative adviser to the Mulroney government, very active in getting Mr. Stanfield. That is what Dalton Camp says, so I agree with Dalton Camp.

There are some detailed criticisms I would like to offer and very seriously that this government should consider. First of all, about this bill, some particular criticisms about the bill. If the government was really serious about charting a long-term debt repayment schedule and requiring that no major income or sales tax increases could occur without a referendum, I ask very plainly, why did it not attempt to change the Constitution? Why did we not go to Ottawa to change the BNA act as it affects Manitoba? We can do that relatively easy. I suggest it is not like changing the Constitution for the whole country. We have had

Maritime provinces get the Constitution changed as it affected their jurisdictions.

Why did this government not go to Ottawa and ask for the change in the Constitution? Because, as it stands now, this legislation can be changed by any subsequent Legislature, by this government or any government. It can be changed. I know the minister said, well, if anyone wants to change it they will have to have public hearings. Well, my Lord, public hearings, we have public hearings on every piece of legislation that comes into this House, so that is nothing special. You are not doing anything exceptionally different. What we have here is a piece of legislation that I would say, I wonder how serious is the government when it is not prepared to change the Constitution? All you have is a bill that can be changed.

Secondly, I am proud of the fact that Manitoba has public hearings for every piece of legislation. That is an outstanding feature of our legislative process which I would not want to change, which I think is good, is very democratic, but I am simply saying in this bill, you are saying you are going to have public hearings. Well, that is nothing different. We always have public hearings.

There is nothing saying we have to stay in this Legislature. We can have public hearings throughout the province. There is nothing that says we have to do it here, so offering public hearings is offering nothing new. We do it all the time. It is part of our rules of the House, as a matter of fact.

The second criticism I would make of the bill is that it does not offer any definition of a serious disaster. Obviously there are some disasters that can be deemed to be very serious. A flood can be a disaster, a drought may be a disaster, but how do you determine when it is serious? When is that flood serious or when is it just marginally that? A flood is never acceptable, but sometimes it is really serious, sometimes it is not so serious. So what are we talking about here? How serious is the drought? Where do you draw the line? There is nothing in this bill that explains that. [interjection] Well, I say that is a deficiency of this bill. It is a weakness of this bill.

The third point I would offer: The government shall not be considered to be in contravention of this act if there is a reduction in revenue of 5 percent or more in the fiscal year calculated before transfers to the Fiscal Stabilization Fund and the debt retirement fund, but how do you calculate the 5 percent? How do you calculate it? And what happens if it was 4.95 percent or 4.975 percent or 4.99 percent?

It is left to the judgment, ultimately, of the cabinet and, I suppose, the minister, but we all have calculators and we can calculate. I would like to ask the minister or the member talking from his seat, you know, tell me when—you say 5 percent, then it is a real, serious thing, so we can throw out the requirements, say, about increasing taxes or whatever we want we do, but what if it is 4.98 percent? Think about it.

* (2020)

Another point I would like to make: The government has provided a table in the budget document of this year showing how the debt retirement fund would work, but think about it. By the year 2028, which is 31 years after the beginning of the debt retirement of 1998, the debt is supposed to be equal to zero. Do you really think that we are going to get the Manitoba debt down to zero? I do not. It has never been zero, and I tell you any good private corporation that is expanding, that is developing, will never operate with zero debt. They will never operate with zero debt because it is not in their interest.

I have some more points to make, Mr. Deputy Speaker. Another point, reference is made to a referendum being required to increase income taxes or to increase sales taxes, but there is no reference to going to the people about other kinds of actions that this government can take. For example, the government is free to increase user fees, which are a form of taxation. This government does not have to have a referendum. It can increase user fees substantially. That is a real burden on people.

Another example, the government can offload some responsibilities onto the municipal governments, as it has done over the past few years. How many PRs, how many hundreds of miles of provincial roads have you

given back to the municipalities and transferred the burden back to the rural municipalities? How many grants have you cut? You cut the grants to the Brandon transit system, I know that. You cut all kinds of grants. You have squeezed the municipalities. There is nothing in here that says you are going to refrain from doing this. You are going to do more. [interjection] I am not defending the federal government, not for one moment.

You can also cut tax credits. You have already cut the property tax credit. That is in effect, it is like a tax increase. You pay more on your property tax bill, and I would dare to predict that in the next year or two we are going to see more property tax credits reduced or even eliminated by this government. Of course, you can extend or broaden the sales tax. You have already done that. You brought in millions of more dollars to the Treasury by extending the sales tax, not increasing the rate but making the sales tax applicable to more items. So you have done all these, and I predict, Mr. Deputy Speaker, that more will happen in the future.

Another point I would like to make, Mr. Deputy Speaker, it is very amusing that this government is now talking about a rigid repayment schedule when, after seven years of office, it has built up the debt by one-third. It has not reduced it. You have built it up by a third. You know, you could have paid the debt down by almost \$60 million in 1988 but, instead, you chose to create the Fiscal Stabilization Fund and transfer the money there, therefore bringing a deficit on the books.

I remember discussing this with Fred Jackson. Just listen. I remember discussing this with Fred Jackson, the Provincial Auditor at that time, and he was just devastated. He said that money is equivalent—that money should be used, can be used and normally would be used to pay down the debt, but what Mr. Manness did at the time, he took a chunk of this revenue, put it into this Fiscal Stabilization Fund and created a deficit, whatever it was, \$140 million or whatever it was.

Even the Dominion Bond Rating Service has stated that this was a surplus year. In fact it was the only surplus that this government has achieved since it has been in office. In fact, it noted that this past year was

actually one of deficit because it did not agree with the time payment of Crown asset sales and lottery funds being utilized. The government used revenues from the sale of Crown corporations, such as McKenzie Seeds from 1994, put it into the 1995 budget and also had a special Lotteries transfer of \$145 million which allowed it to show this budgetary surplus. Of course, without these there would have been a significant deficit.

Mr. Deputy Speaker, another point: The government's medium-term fiscal plan, which attempts to show surpluses, can seriously be questioned because the 1995 federal reductions—

Some Honourable Members: Oh, oh.

Mr. Deputy Speaker: Order, please. I am really having difficulty hearing the member with both sides talking back and forth.

Mr. Leonard Evans: I will have more to say about this shortly. Of course the whole debt schedule is thrown out if one accepts the argument that unfunded liabilities should be included, as the Auditor has argued. So the result of this legislation will be a loss of flexibility in budgeting by a government. As well, one could argue that it is antidemocratic, as I said before, because it imposes fiscal policies and conditions on future MLAs and future citizens who have a right to make up their mind 20 or 30 years from now.

The Winnipeg Free Press, in its editorial of September 23, referred to the Minister of Finance (Mr. Stefanson) following trendy ideology. The editorial observes that the balanced budget law is a silly idea and that it is full of stupidities. It refers to cabinet ministers who preside over budget deficits slated to lose 20 percent of their ministerial pay if the first-time targets are not met and 50 percent the second as among the silly ideas.

Of course income and sales tax—[interjection] I am quoting the Free Press. I might add, Mr. Deputy Speaker, that the Standard and Poor's officials have expressed concern about this balanced budget legislation because of the referendum provision, and they say they have a concern with it. They see that it

has the potential to reduce the flexibility of the government should there be a revenue weakness as a result of a recession and so on.

Furthermore, the official from Standard and Poor's said it does not view the deficits as a big negative, because that person appreciates that in recessions we do get deficits. I might add, incidentally, talking about the use of a referendum which you do have in this, the Premier (Mr. Filmon) very eloquently defended the use of public money to bail out the Winnipeg Jets, saying the government had been elected to make judgments on the people's behalf that are ultimately in the best interests of the province and its future. So I agree with what the Premier stated. He says, and I am quoting the Premier of this province: We are in office with a mandate to exercise our judgment and to make decisions on a whole range of issues under new and changing circumstances.

Well, if it is good enough for the Jets, why is it not good enough for tax policy, which is at the heart of parliamentary government? At any rate, the Free Press editorial observes that the proposed law assumes the government can accurately predict revenues from year to year. It correctly observes that governments rarely hit their targets, and in fact it is virtually impossible to predict precisely what your revenues will be because there are so many factors at play. They go on to say the bill should be withdrawn.

I am going to speed along here, Mr. Deputy Speaker, because I can see that I am not having enough time to make all the points I would like to make.

There are a number of myths that are dominating the discussion of financial health of governments today in Canada.

The first myth is that government spending is out of control. Of course this is the Tory vision of the world and The Globe and Mail vision as well. In fact, in real terms, spending has not been rising in Canada in the last few years. If anything, we have been having operating surpluses.

The second myth is that there are only two options: we can either increase taxes or reduce spending.

Certainly, at the federal level at least, we have a third option, which is to reduce real interest rates. Here is the challenge. We should be going after the federal government to take a more serious part in leveraging lower interest rates through the Bank of Canada.

There was an article by a person called Ernie Stokes in the Canadian Business economic journal recently who showed clearly that if there was only a 2 percent gap between Canadian short-term rates and U.S. short-term interest rates, the projected federal budget deficit in 1993 would be only \$4 billion instead of \$34 billion. So interest rates are very significant.

* (2030)

I would like to proceed quickly. The Provincial Auditor, I would point out again, does not agree with the government's estimate of the total debt being \$7 billion. They say if you factor in unfunded liabilities, our debt is more like \$9 billion. So if we go with the Provincial Auditor's estimate, the schedule of debt repayment is out of whack.

There can be a lot of debate about what exactly constitutes the public debt figure. It is interesting to note that this whole area of public finance accounting, that Peter Holle of the Manitoba Taxpayers Association said, quote: There is a lot of smoke and mirrors about government accounting in general, unquote. He said that on October 3 in the Free Press.

When you consider the use of the Fiscal Stabilization Fund and special one-time transfers of lottery funds and revenues from sales of Crown assets, one can begin to question the reliability of the government's budget estimates of its deficits.

I will not repeat what I said before, but there is a great deal of difference between the Provincial Auditor and this government with regard to what the actual deficit is in some past years.

I do not often agree with the federal Finance minister, Paul Martin, but I do agree with his position that balanced budgets laws are, and I am quoting, not the way to go. Apart from limiting the choices of duly elected governments, this legalistic approach simply

encourages ingenious politicians and bureaucrats to spend time looking for ways to get around the rules through accounting hocus-pocus and subterfuges of various kinds.

At any rate, there are all kinds of criticisms of this particular legislation, especially when one considers that we do have recessions from time to time and what happens, other governments automatically go into deficits because taxes usually fall off, but certain expenditures rise, especially expenditures for welfare payments and the like.

That is what happened in the 1930s, that is what happened in the Great Depression. When governments cut back on spending in the Great Depression, they made that Great Depression even worse. I am suggesting that this type of legislation can make future recessions in Manitoba worse than they need be.

The term "balanced budget" is misleading. What we need to have is responsible budgeting. What is so magical about balancing the budget every year anyway? Why should we not do it every quarter? Or how about every month? Maybe we should do it every day or every hour. I mean, what is so magical about one year? There is nothing magical.

What we should do is balance the budget over a business cycle. In other words, we need surpluses when times are good to offset the deficits when times are not so good, and I say that there are, therefore, these built-in stabilizers in the way the budget process works now, the way public finance works now.

Surely, we should learn some lessons from the Great Depression, and one has been explained to us very well by John Maynard Keynes and other economists.

In effect, Bill 2 puts the government into a budgetary straitjacket. If revenues do fall, threatening a deficit, and given the fact that major tax increases would require a referendum which would not likely pass, the government will look to cutting expenditures, that is, if it could not obtain sufficient revenues from offloading or imposing user fees or eliminating more tax credits. Therefore, we will see a further reduction of transfers of income to people living below the poverty line as

well as further reductions in funding of our health and the education system. These cuts, of course, can lead to other kinds of taxes and charges on the population, for example, reduction of transfers to municipal governments.

I just want to, because I know I am running out of time here—I want to make a reference, very quickly, to a recent report put out by the Canadian Imperial Bank of Commerce. It is a real dose of realism. Our Minister of Finance (Mr. Stefanson) should read this thing very hard and take it to heart, because what it is saying is that the pace of growth in our provinces is almost certain to slow because of a slowing down in the U.S. economy, which they are predicting could occur by 1997. It says: Provinces are unlikely to find it politically feasible to raise taxes to make up for the shortfall.

So we are going to have some problems. Added to this, it refers to the Canada social transfer, which includes equalization, established program funding and the Canada Assistance Plan, all being forced to go under a new system. Block grants will replace the two programs, the Canada Assistance program and the Established Program Financing.

So that leaves us with looking at equalization, but the fact is, regarding the first two, the new system is estimated to cost the provinces about \$2.5 billion in grants in '96-97 and a further \$4.5 billion in '97-98. In a downturn, the cost to some of the provinces would be even more pronounced. If welfare costs in the provinces go up, there is no automatic stabilizer built into the system, in the form of a 50 percent federal subsidy. Thus, provincial outlays could increase very sharply.

The third leg of the federal transfer system, equalization, is expected to continue over this period, although here again there is a risk of payments that could fall. They refer to the Harris government's decision to cut provincial income tax by 30 percent. If that goal is achieved, this article says, the potential tax taken in Ontario will ultimately be reduced by two and a half billion annually. In this scenario, the equalization payments to the smaller provinces would automatically fall.

At any rate, Mr. Deputy Speaker, there are other factors as well, including the rising dependency rate in the province, more older people with more pressures on the health care system and so on.

At any rate, to conclude, it says: Given this outlook, the only way for provinces to keep making significant progress in deficit and debt reduction will be to make further deeper cuts to program spending. In this scenario, the temptation for some provinces might be to temporarily back off of their deficit reduction plans or move more spending off the book to Crown corporations.

Well, I just say, that is a dose of reality, because the fact is that this debt repayment schedule that the minister has laid out in the budget document this year may very quickly run into difficulty. In light of the flaws of this legislation as well as the flaws of some of the details, I think the government should really swallow its pride and withdraw the legislation, as the Free Press has suggested.

There are many problems with it. Some economists have said the Fiscal Stabilization Fund would only receive \$270 million. These economists say the fund needs at least \$700 million. According to Professors Norman Cameron and John Loxley, the government requires a buffer at least of 13 percent of spending, not 5 percent, to protect against the province's eight-year recessionary growth swings. This means putting a minimum of \$200 million away annually, not the \$75 million that the government is proposing.

At any rate, there are all kinds of questions with regard to definitions and what should be and what should not be in the accounts to get to the bottom line of deficit or surplus. I say governments do not need this legislation to regain a responsible budgeting. Let us engage in responsible budgeting. We can reduce our provincial debt, if we want, without this legislation.

I say what we need is strong economic growth. That has to be the priority. We should work to the extent that we can provincially to stimulate economic growth, to increase our revenues, to be able to reduce the debt without cutting back on expenditures on health, education, social services and so on. This is the ideal.

So the challenge really then is to ensure we have strong economic growth. This legislation was really brought in, Mr. Deputy Speaker, as an election gimmick, if I can use that term, election ploy, but the election is over. It is time to look very coldly and seriously at the impact of this legislation. I say it should be withdrawn. It is unnecessary, it is undemocratic, it is flawed. In fact it could prove to be very embarrassing to the Minister of Finance.

Manitobans, in conclusion—Mr. Deputy Speaker, I see the signal here—need and want responsible budgeting, not some kind of fairy tale balanced budgeting. So I urge the government in all sincerity to withdraw this legislation and get on with the business of managing the public finances of Manitoba in a responsible parliamentary fashion. Thank you very much.

Hon. Darren Praznik (Deputy Government House Leader): Mr. Deputy Speaker, after members who wish to speak on Bill 2 have done so, and I believe it is remaining standing in the name of an honourable member, I would ask then you should call other bills for debate on second readings as they are listed in the Order Paper.

Hon. Brian Pallister (Minister of Government Services): Mr. Deputy Speaker, I am pleased to be able to stand and put some comments on the record in regard to Bill 2, a bill which contrary to the comments of the previous speaker is one that more than being unnecessary is most necessary, because we have a system of government in this country and certainly in this province that is a biased system, a system biased toward spending. I quote from an article in the *The Globe and Mail* which says that government's share of the economy has gone from 20 percent in 1960 to 30 percent in 1970 to 40 percent in 1980 to beyond 50 percent now. This may well fit in with the socialist contract that the members opposite might like us to support, but it does not fit in well with what most people with any common sense or integrity in society want to see happen in this country.

What we have in this country is a system that is biased toward spending excessively. It is biased for several reasons. First of all, we are all here to serve our

constituents, and one of the traditional ways in which our effectiveness has been viewed was by measuring the amount of dollars we polled to our constituents and to serve the projects that we have in our constituencies. That encourages spending because spending is the most visible tangible way in which we can demonstrate our effectiveness to our constituents.

* (2040)

As well, the system encourages spending because of the fact that benefits are accrued in a concentrated manner to a few people. Whereas the cost of those benefits, the actual distribution of the cost is far afield, they are broadly based. What this means is that those who are going to benefit from the spending the governments do stand to benefit greatly and are encouraged and motivated to protest whenever governments decide that they wish to reduce spending. On the other hand, those to who the cost accrue are affected to a relatively small degree as opposed to those who benefit from the spending. So they are not motivated to take time from their jobs or away from their place of work or business or from their families to come to the Legislature steps and loudly proclaim the need for governments to continue to reduce spending. But those who are affected by the reductions, of course, are so motivated. So the system is motivated towards spending.

Finally, the system is biased towards spending because of the fact that there are great pressures to spend in the short term. The long term can be ignored, but the short term, it seems, cannot, and of course the benefits to be derived by spending occur to both the politician and the constituent in the short term and benefit both in the short term. It is the long term that concerns me and concerns this government when they come forward with such good legislation as this.

I will quote from comments made by Vaclav Havel, who is the president of the Czech Republic, made to Harvard University in June of this year, who said: It will certainly not be easy to awaken in people a new sense of responsibility for the world, an ability to conduct themselves as if they were to live on this earth forever and to be held answerable for its condition one day.

Who knows how many horrific cataclysms humanity may have to go through before such a sense of responsibility is generally accepted?

But this does not mean that those who wish to work for it cannot begin at once. It is a great task for teachers, educators, intellectuals, the clergy, artists, entrepreneurs, journalists, people active in all forms of public life. Above all, it is a task for politicians.

What Vaclav Havel was saying is that we should conduct ourselves in a manner that reflects the fact that we might live on this earth forever. In fact, we will not, but that does not mean to say it is not important for us to consider the consequences of what we do or do not do for those who follow us. It is, above all else, that sense of responsibility that brings me to speak in favour of this legislation and that encourages me to encourage others in this House to do the same, to support this legislation, as it is badly needed.

It has been said that those who fail to learn the lessons of history are condemned to repeat the mistakes of the past and, as I have listened to the comments of New Democratic members, I am afraid that they have failed to learn from the history of this province.

The fact of the matter is that the New Democratic Party's so-called approach to money management in the 1980s was not really an approach at all. The fact of the matter is, if the member would listen, he will learn. The fact of the matter is that it could be summarized in two words, and those two words would be spend and tax.

In 1982 the New Democratic Party came to power, unfortunately for the people of this province, at a time when our public debt, which had taken over a century to get to the level of \$1 billion, and by the time they left just six years later the public debt had grown to over \$5 billion.

If the member for Dauphin (Mr. Struthers) understands even the finest, smallest, basic details of elementary finance, he understands what compound interest is, and he should understand that the New Democratic Party, at a time when revenues were growing faster than at any time in the history of this

province, increased expenditures over 11 percent annually, on an annualized basis, faster than those exceptionally fast growing revenues—11 percent per year over and above.

The reality is that the members opposite fail to recognize that they quadrupled—the government which these members were not part of, to their credit—but they quadrupled the provincial debt in just six years of incredible mismanagement.

Now, at a time when revenues were growing at an incredible rate, this brings me to the second word that is descriptive of that particular party's approach to money management. Rather than deal with the spending side of government, because they would rather just hand out cheques, they decided to deal with the revenue side. They decided that they did not have enough money to hand out, and the solution to their problem was to get more.

So they launched six years of the biggest tax grab in this province's history, six years of tax increases that bear not a reflection at all of an understanding of true compassion and not an understanding of decent management that would reflect the desire to see job creation or economic growth, simply with their minds locked on one thing, to get their hands on more money from the people of the province in the form of additional taxes.

Let me read just a general summary of some of the taxes that were increased under this particular government's administration, the Pawley government, of which I speak. They increased retail sales tax, not once but twice, from 5 percent to 7 percent. They introduced a personal net income tax and surtax. They introduced a tax on jobs, a payroll tax, 2.25 percent of payroll. They increased the corporation income tax from 15 percent to 17 percent. They increased the corporation capital tax. They increased the gasoline tax. They increased the diesel fuel tax.

For the member for Transcona (Mr. Reid), I know he takes particular pride in defending the railways, which is good that he does, but he should recognize that the government under the party of which he is a member increased the railway fuel tax, and he knows this, from

3.8 cents per litre to 13.6. They introduced the land transfer tax, and they increased the tobacco tax from 1.4 cents to 5.5 cents per cigarette.

(Mr. Mike Radcliffe, Acting Speaker, in the Chair)

Now, this is a summary of some of the tax-grabbing techniques of the members opposite, so when they ruminate over their ability to manage money and imply for those in this House who have not arrived here, like myself, since the time that the NDP was in power, they show a distinct lack of regard for the true history of their particular political parties, irresponsible money management. I think, once again, that they failed to learn from history.

A respected political analyst in this country categorized the three worst managed governments in this country over the last half century, and that Pawley government was one of the three worst, and rightfully so. As a matter of fact, Mr. Acting Speaker, this brings to mind the night the member for Concordia (Mr. Doer) was elected as Leader of that reminiscent and prehistoric group. That night, a prominent labour leader and close personal friend of the member's, I believe, was heard to proclaim as the ballot came in, the last ballot to cause that member to be elected leader, the machine works.

But one has to ask, for whom does it work? It might work for members of privileged special interest groups; it might work for those. It might work for those who are buddy-buddy with the Leader of the New Democratic Party, whom you used to work for in the public sector unions of this province, but I do not really think it does in the long term.

* (2050)

That is what Vaclav Havel was trying to get at when he talks about conducting yourself as if you were to live on this Earth forever, because big handouts to public sector unions are a threat to the members of those unions.

The reality is that our role is something that each of us will have to determine within ourselves, but I believe that one of the roles of politicians is to assume

their share of responsibility for the long-range prospects of our world and to set an example for the public in whose sight we work.

Our responsibility is to think ahead boldly, not to fear the disfavour of the crowd.

I believe what characterized the NDP mismanagement of the 1980s was a willingness to assume that the citizen was a shortsighted fool. Playing to that folly is the record of that particular group through the 1980s. That is a wrongheaded approach to governing because it is a shortsighted view that believes the citizen is a fool and one that will and is being proven wrong.

The current basketball coach at Brandon University, I guess I am proud to say that he was my basketball coach many years ago so that tells you he has been there for a long time. He used to say, he was heard to say, because we did not win all our games, he would be heard to say something like this at half time. He would say: Fellows, it took us 20 minutes to get 15 points behind and it is going to take us 20 minutes to get it back.

He knew in basketball, in sports of any kind that if you try too hard to get back too quick you just get further behind. It is common sense. So many of the comments of members opposite do not reveal a basic understanding of something as simple as that, where they blame this government for running deficits.

They blame us, on the one hand, for running deficits, saying you should have done a revolutionary and radical change in the way in which you governed this province. You should have done what Bob Rae did in Ontario. They lost 10,000 people. You should have done what Klein was forced to do in Alberta. You should have done what the great guru now of socialism, Roy Romanow, held up by some of the members opposite as the greatest success and perhaps the only person who can be held up as a success for that creed, that he did the right thing in closing 52 hospitals—whack. That was the right thing? I do not think so, but then it is easy to make decisions for other people and easy for the members opposite to be critical, far too hard to think long term, far too hard to look ahead.

But that is what this government has done, so it is to the eternal credit of the Finance minister in 1988, who began to repatriate our debts, because we in Manitoba had among the very highest degrees of debt for our gross domestic product in foreign currencies thanks to the incredible mismanagement of Tricky Vic, and—what was Kostyra's nickname anyway?—and Eugene Kostyra, that is the fellow, who felt that we should owe a lot of money to people in Japan and Germany in their currency, and so we did, record amounts of money in foreign currencies.

It is to the eternal credit of Clayton Manness that he repatriated that debt and brought it back to Canadian and American currency and got us out of the currency speculation market that the New Democratic Party had us in. That was a credit to him.

A further credit to him was the fact that the average size of the deficits that this government was forced to accumulate in response to the need to gradually get out of the quagmire that we had inherited was less than half the size of those run during a far more productive, in terms of revenue to government, era. We came through a period that was the second worst recession this century and we managed to run the lowest deficits in this country, and that is to the eternal credit of all members on this of the House, all members. Raising money within Manitoba was another positive initiative of this government through such mechanisms as the Crocus Fund and Grow Bonds and Builder Bonds and these types of mechanisms. This is a gradualist approach that is observed by many and accepted by many more.

The fact is that during the provincial election—Mr. Acting Speaker, in my riding, I have the highest percentage of public servants, I am told, than any of the members in this House, and I went to every door in my constituency, as I know some of the members here did. I can tell you that there is widespread support among public servants for this legislation, and my comments would be echoed by the former president of the Manitoba Federation of Labour, I believe, Susan Hart-Kulbaba, who has made that observation herself.

Now, as opposed to what the opposition party members would have you believe, that these people are

simple minded and wrong, I can tell you that some people are so smart they are stupid, and the members opposite reveal that fact when they make comments such as the comments made frequently in debate on Bill 2.

The fact is that civil servants, many of them, have a lot of common sense and a great deal of understanding of the need for this type of legislation. Why? Because they, like people in private sector businesses, understand that there is no job security in a money-losing company. There is absolutely no security in a company that is losing money, and so it is that public sector people understand that the need for balanced budgets is a very great need for them, because the first place that governments have looked right across this nation, and in fact in the western world, to get out of their difficulties on the expenditure side is to lay off public servants, to put them out of work. That is one thing that this government has every reason to be particularly proud of, the fact that they have not done that.

They have not done that to the degree that it has been done by most other jurisdictions in the western world. If you analyze the situation thoroughly, you will understand that, and it can be supported with good statistics if the member opposite would like. The reality is, public sector workers want some form of security, just as all of us do, in their workplace, and the only way that they will ever achieve that is in an environment of fiscal sanity and stability, and that is what this bill will provide.

There is a great deal of research that has been done. The members opposite like to proclaim that this is unnecessary. I heard the member for Brandon East (Mr. Leonard Evans) say that in several ways, and so he should make that speech and carry those comments to 48 states of the United States and, currently, I guess, four or five provinces in this country, because all of those jurisdictions seem to feel that it is not unnecessary, though the member would like us to think so. He tries to pull the wool over our eyes, because the fact is, this is more than necessary. This is essential for the reasons I mentioned earlier. There has been a lot of research done, and the fact is that the balanced budget laws, tax and expenditure legislation are not perfect.

They are not perfect. They do not work perfectly, and neither do most things, but they do work. Some work better than others.

Here are some of the principal characteristics of those pieces of legislation that are working more effectively than those that are not. Number one, should originate with and be approved by the voters wherever possible. I would suggest, and the members opposite know, that this was certainly a key election issue, at least it was in my riding, and many of the members I have talked to from other political parties echoed that comment. So I believe that in that respect this legislation has that characteristic. It was approved by the voters and, I would say, resoundingly approved.

Secondly, it should apply on the broad basis to all government expenditure. This essentially is true. Thirdly, it should cap spending rather than revenue or taxes. In that respect, this legislation does deal on the spending side very heavily. Granted, there are restrictions in this legislation that members have talked about, that they suggest are unreasonable or that would handcuff future legislators. I do not believe that that is true. I believe the legislation can be, by any subsequent Legislature, withdrawn or repealed. So I do not believe that the hands-being-tied argument is one that has any validity at all.

Frankly, apart from very broad categories, as the member for Brandon East (Mr. Leonard Evans) has mentioned, such as emergencies, such as revenue losses of 5 percent or more, which has never occurred in our history but may, these are broad-based exceptions that are reasonable and that have a place in the legislation. Finally, another characteristic of the ideal tax and expenditure legislation is it should require voter approval for its provisions to be circumvented, and that is the referendum aspect in terms of tax increases that the members allude to.

The member's only argument on that particular front that has really any validity at all is that it should apply to all forms of tax, and that is possibly an argument that could be debated. But the reality is that the principal forms of taxation in this province and others are sales and income tax. Those are the principal taxes that governments in other jurisdictions, not in this one but

in others, have used as a way to fleece the taxpayer, to dip into the permanently and very well-worn pocket of the taxpayer on a repeated basis, a simpleminded approach certainly that members of the New Democratic Party are well aware of, one that they have used all too numerously.

(Mr. Marcel Laurendeau, Deputy Speaker, in the Chair)

So in respect to the ideal tax and expenditure legislation, I would say that in most key respects this legislation has those strengths that are common to effective tax and expenditure legislation. The one thing that sets this legislation apart, however, is the fact, as opposed to most jurisdictions that have such legislation which simply require the tabling of a balanced budget, this requires the attainment of it. More than that, this requires the attainment of it or a penalty will be paid. That penalty in essence will affect only members of the Executive Council and be a loss of their income for that role that they perform of 20 percent the first time and 40 percent if it happens again.

This will apply to the member for Rossmere (Mr. Toews), who perhaps at this point is considering relinquishing his seat to his predecessor.

When one considers that the actual consequence of a deficit, if I or any member of our cabinet were to be part of a government that accumulated a deficit, that saw a deficit occur under our management, the consequences of that would be that someone else would have to pay that money back, plus of course the interest costs on it. Those consequences are significant. Those consequences will be borne by people of the future, younger people coming up hopefully in Manitoba. So those people will be saddled with the responsibility for repaying that debt. [interjection]

* (2100)

It is unfortunate that the member for Crescentwood (Mr. Sale) remains constantly muzzled in Question Period but is so loud and insistent in his comments this evening. In any case, another way of looking at this particular aspect is to think about the generational accounts, to think about what is owed by people of

certain ages and what the consequences to people of certain ages will be of the accumulated debt that we have in Canada, for example.

In reading some research I am told that a 25-year-old can expect to contribute 49 percent of their remaining lifetime labour income to the government. That would be by paying 85 percent of remaining lifetime labour income as taxes and receiving approximately 35 percent of remaining lifetime labour income as transfers.

So, in essence, half of what a 25-year-old would accumulate in terms of the labour income would be lost to governments, whereas people who are older, those aged 50, for example, would contribute not 50 percent, but rather 10 percent of their remaining lifetime labour income.

The reason for that is that there is a significant accumulated debt which will be handed to younger people to repay. Younger people, unfortunately, will be saddled with that burden if things do not change in this country, and they must change because those younger people are my daughter and the sons and daughters and grandchildren of the members of this House and of all Manitobans. We have to bear responsibility for those people as much as for the people of today.

For it is not just those people that the members opposite pretend to want to serve in a compassionate manner today that concern me. It is those people in this province who will need the protection and support of these social programs, which we value so highly, in the years to come, many years. Many years ahead, we will need to have these programs maintained for their benefit as well as for the benefit of those today.

So it is that I believe that this province's government, good government under this Premier (Mr. Filmon), has recognized that. It has recognized something that the members opposite fail to recognize, something my father—I will tell you a little story that happened to my dad that I think you might like.

One time a city fellow came to visit our farm, and it was late summer. He said to my dad, boy, you grow

wonderful crops, Bill. Dad said something that I will always remember: You know, John, I do not grow the crops. The visitor said, what do you mean? Dad said, I am not responsible for the crops growing; I am responsible for creating an environment here where the crops may grow. They may grow. They may grow well, they may not, but I do not take the credit or the blame for that. I just do my best to create an environment for growth.

That is exactly what good governments understand they do, and that is exactly what this government understands. That is precisely what the members opposite with their bleating—it continues to escape them that we are here to establish an environment for growth, an environment where good crops can grow. Those good crops will be jobs, and they are created not by us here so much as they are created by people who put money at risk.

People cannot put money at risk if, as the member for Crescentwood (Mr. Sale) suggests, more taxes would be fine because when he picks the pockets of Manitobans, he takes money out of those pockets which are responsible for creating jobs by putting money at risk. The reality is—

Mr. Deputy Speaker: Order, please.

Point of Order

Mr. Tim Sale (Crescentwood): Mr. Deputy Speaker, I made no such comments as the minister referred to in his remarks. I did not call for higher taxes. I did not make any comments in regard to increases in taxes, and the member opposite knows that.

Mr. Deputy Speaker: Order, please. The honourable member did not have a point of order. It is clearly a dispute over the facts.

* * *

Mr. Pallister: The member defending the record of the previous NDP government defends the increases in taxes and, I would just assume, shares his philosophy, shares the philosophy of Howard Pawley and all those who mismanaged our government through the 1980s.

The reality is that an environment for growth is critical, and the environment for growth is best created in a stable tax environment. We do not have the lowest taxes in this country, but, certainly, we are holding the line and have a stable tax environment. The reality is that the best definition of a job is, perhaps, a job is created when money is put at risk, and people do not put money at risk when they are pessimistic like the members opposite would like them to be. I look at the frowns and scowls in this House on an almost daily basis as tremendous announcements are made by the Minister of Agriculture (Mr. Enns), for example.

The Minister of Agriculture has had a good month; he has had a good month, a great month. We have seen announcements in Portage la Prairie, hundreds of jobs, millions of dollars of investment; announcements in Ste. Agathe, major, major dollar investments in this province, and jobs will come from those investments. Major booming things are happening in this economy in the area of meat processing, the Schneider's plant, and many more to come, the minister assures us all.

I look opposite, I look for a glimmer of understanding of the positive effects that that will have on Manitobans and their families, and what I hear and what I see is glum pessimism, daily doom and gloom.

We announced the McCain project in this House. I remember, I think it was the Minister of Industry (Mr. Downey) who made that announcement, a positive announcement, and the member for Crescentwood (Mr. Sale) rose in his place and complained. He complained about it. Rather than talking in praise of a company and a community that had forged a partnership that would see a wonderful community, Manitoba's second largest city outside of the city of Winnipeg—[interjection] Third largest, I am sorry, with apologies to the member for Thompson (Mr. Ashton), the third largest—he rose in his place and complained and yet the recovery—

Point of Order

Mr. Leonard Evans: Mr. Deputy Speaker, I always thought that in second reading, discussing the principle of the bill, we kept with the principle of the bill at hand. I have been listening very carefully to the member. I

have been enjoying listening to the member, and I must say for the last several minutes, he has not been debating this bill. So I would ask you to call him to order.

Mr. Deputy Speaker: I thank the honourable member for that. As a matter of fact, I was just about to rise on that issue. The honourable member does have a point of order. The honourable minister has been drifting a little bit. We are dealing with Bill 2, and I would ask the minister to be a little bit relevant.

* * *

*(2110)

Mr. Pallister: Continuing on my theme of creating an environment for growth, which this government is so admirably doing, this bill assists in creating that environment and furthering that environment of stability and of confidence and of good, reasoned fiscal policy that is essential for the small-business community to put further dollars at risk and create more jobs, which will see us continue to have as we do today. We should all be proud of this, and not frown as the member for Brandon East (Mr. Leonard Evans) continues to do: the lowest unemployment in this nation. The member for Brandon East rises and speaks of housing starts. It is the lowest unemployment in this nation so that people can continue to work.

This legislation reflects a courageous government, reflects something that is overdue, something that I was proud to speak to as a private member's resolution some two years ago, something that I believe is necessary and essential in fact for following through on the environment, for growth and stability that this government has worked so hard to create.

I am proud to see this legislation come forward, and I encourage the members of all parties to support it and to add their comments on the record in support of it.

I will just conclude by again referencing the comments of that gentleman, Vaclav Havel, President of the Czech Republic. He said: It is important for politicians to think ahead boldly, not fear the disfavour of the crowd.

After all, politics is a matter of serving the community, which means that it is morality in practice.

I would say, above all else, this is very moral, very spiritual legislation. It makes great sense but reflects an understanding of the need and knowing the essential fact that we must govern as if we were to be here on a long-term basis, perhaps forever.

The member for Brandon East (Mr. Leonard Evans), the member for Lakeside (Mr. Enns), having been here for almost that long, should nod and understand when I make that point. For if we are going to continue to serve the people of this province who are truly in need, who truly depend on the programs that are so valuable

to them and essential to them, then we have to operate in a sustainable manner financially, and that is what this bill will allow us to do. Thank you, Mr. Deputy Speaker.

Mr. Deputy Speaker: As previously agreed, this matter will remain standing in the name of the honourable member for St. Johns (Mr. Mackintosh).

Is it the will of the House to call it ten o'clock?
[agreed]

The hour now being ten o'clock, this House now stands adjourned until tomorrow (Tuesday) at 1:30 p.m.

LEGISLATIVE ASSEMBLY OF MANITOBA

Monday, October 16, 1995

CONTENTS

ORDERS OF THE DAY

(continued)

Debate on Second Readings

Bill 2, Balanced Budget, Debt
Repayment and Taxpayer
Protection and Consequential
Amendments Act

L. Evans	3905
Pallister	3913