

# LEGISLATIVE ASSEMBLY OF MANITOBA

Monday, 16 March, 1987.

Time — 8:00 p.m.

**MADAM SPEAKER, Hon. M. Phillips:** The Honourable Minister of Finance.

**HON. E. KOSTYRA:** Thank you, Madam Speaker.

I move, seconded by the Deputy Premier, the Minister of Community Services, that this House approve in general the budgetary policy of the government.

**MOTION presented.**

## BUDGET ADDRESS

**HON. E. KOSTYRA:** Tonight, I am pleased to present my second Budget to the Legislature and to the people of Manitoba.

Our commitment to the fundamental New Democratic Party belief - that economic and social progress go hand in hand and depend on policies of fairness and equity - is at the heart of the 1987 Budget. I believe this Budget will protect and enhance the quality of life enjoyed by Manitobans throughout our province.

Economic progress - working together and developing our province's full potential through effective private-public cooperation - will be complemented by taxation and expenditure measures that emphasize fairness and the necessity for continued social progress.

Our NDP Government responds to the needs of people. In preparing for tonight's Budget, I spoke with and listened to many Manitobans - farmers, workers, senior citizens and those from cooperatives, labour, business, public and private agencies - Manitobans from all walks of life and all regions of the province.

I wish to thank all of them for their time, interest and their advice. They provided valuable insights. Not everyone providing advice will agree with all the Budget measures I will announce tonight. Nonetheless, I believe that, as a result of those discussions, there exists today a better, shared understanding of both aspirations and objectives and of the limits and constraints facing our province.

Manitobans are justifiably proud of their accomplishments. Over the past five years, our economy has been revitalized through cooperative efforts and plain hard work. But there are more challenges to meet. There are severe problems in agriculture. Commodity prices are too low. Unemployment remains too high. There are outstanding debts. We must - and we will - continue our careful economic and fiscal management and strive for sustained progress toward both our social and economic goals.

Many Canadians have seen the results of traditional Liberal and Conservative policies which put short-term fiscal balance sheets ahead of balanced social and economic development. Such policies have exacted a terrible price in greater inequality, lost jobs and human dignity. Not surprisingly, such policies have also failed to produce balanced budgets. Those policies simply do not work.

In Manitoba, economic growth has been enriched by our social progress. Putting people and their needs first - works.

Tough choices and difficult decisions are a part of every Budget. But today's Budget was made more difficult by ongoing erosion in the federal commitment to health and higher education, a major reduction in equalization support, and the continuation of an unfair tax system.

Manitobans have told this government that our farmers must be supported as much as possible in the current crisis. Manitobans have told us that our hospitals, Medicare programs, our education system and our social services must be protected. We pledge to follow that advice. Manitobans have also told us that they are willing to pay their fair share to protect these vital services.

The Budget will propose measures to:  
maintain a commitment to economic and social progress;  
promote even greater efficiency and effectiveness in program and service delivery; and  
provide a sound fiscal framework to secure needed public services, not just for today, but for future generations.

This Budget proposes new measures to aid farmers and low-income Manitobans.

This Budget provides necessary funding for job creation, health care, education, farmers, seniors, child care, and other priority services for people of our province.

New revenue measures will be fair and balanced, ensuring that all participants in our society contribute a fair share to maintaining our vital social services, based upon ability to pay.

Manitobans together have built a stronger economy which is providing more jobs. Our record in social services is second to none. The quality of life enjoyed in our province has never been higher. Our challenge tonight and for the future is to build upon these strengths, to achieve an even stronger, fairer and more compassionate Manitoba.

Since our New Democratic Government was elected in 1981, our economy has moved from nation-trailing to nation-leading, and Manitobans are sharing the benefits of the economic and social revitalization.

We have built an active partnership with business and labour and cooperated with other governments in order to strengthen our economy. Our government's efforts range from direct investment, to encouragement and assistance to industry, to training, to standing firmly for the interests of Manitoba.

More Manitobans are working today than at any other time in our history. Last year 13,000 new jobs were created, a record not matched since 1974 and equalled only four times in the last quarter century.

In seven provinces unemployment rates in 1986 were higher than in the recession year of 1982. Manitoba was among only three provinces with lower unemployment rates - and at 7.7 percent - we had the

second-lowest rate in Canada, for the fourth consecutive year. And last month our province recorded the lowest unemployment rate in the country.

The government is prepared to act in partnership with enterprising Manitobans to build our economic foundations and to enhance job opportunities throughout our province.

Manitoba Jobs Fund development agreements have provided an innovative way for government and business to work together to preserve and to create jobs, diversify production and achieve historic milestones in social development.

As an example, with assistance under the Manitoba Jobs Fund development agreement, Carnation Foods Ltd., has expanded its plant in Carberry - creating at least 50 new jobs, increasing demand for Manitoba potatoes, and contributing further to agricultural diversity and expanding international markets for Manitoba products.

Employment programs have provided many Manitobans with valuable work experience to launch their careers and helped others to start co-operative enterprises.

The Manitoba Jobs Fund Employment Co-operative Program encouraged the incorporation of 23 co-ops since it was implemented a year-and-a-half ago.

An imaginative example is a Reforestation Co-op formed by three young people. A Jobs Fund guarantee of a credit union loan helped launch the venture and create many more jobs for student and non-student workers.

All Manitobans - northern and southern, urban and rural - recognized that agriculture is not only the backbone of the rural economy but also integral to the health and vitality of the entire province.

In my own urban riding of Seven Oaks, constituents told me of their concern over the fate of our family farms. When our farm community suffers, we all share the pain.

Our grain farmers are confronted by depressed prices. Their livelihoods and the viability of their farms are threatened by national and international forces beyond their control. Prospects of continued massive subsidies by major grain exporting countries, and even lower prices in the year ahead, leave a great many Canadian producers facing a more uncertain future.

Farmers were only beginning to recover from the tragic effects of the record high interest-rate policy of the early 1980's. While many livestock and dairy farmers managed to pull through that crisis, to re-establish a better financial basis for their operations and to begin to repay debts, our grain farmers are hit once again.

Our government has made support to Manitoba's farm community a top priority. We introduced interest relief programs with our very first Budget.

We have focused assistance on meeting the urgent concerns of our farmers. Measures have included the following:

Financial support through the lending authority of the Manitoba Agricultural Credit Corporation including Interest Rate Relief, Operating Loan Guarantees, the Part-Time Farmer and Comprehensive re-Financing programs and Direct Loans. Loan, interest assistance and related activity over the past five years amounted to more than \$300 million.

The recently announced FarmStart Program will ease the transfer of farms from one generation to the next

by providing beginning farmers with low-cost mortgage credit and giving retiring farmers a secure income and a continued investment in agriculture.

The Manitoba Mediation Board has been established to provide assistance to farmers in severe financial distress.

Stabilization programs have been strengthened to assist farmers to maintain herds and breeding stock and to protect income from severe declines due to volatile prices.

The Manitoba Beef Stabilization Plan provided \$6.5 million in net support to producers in 1986, bringing total assistance to \$58.6 million since it began in 1982.

The National Tripartite Hog Plan replaced the Manitoba Hog Income Stabilization Plan in 1986. Provincial Government premiums for 1986-87 totalled \$3.5 million. Since the Manitoba Plan began in 1983, total assistance has amounted to \$16.1 million.

The provincially administered Crop Insurance Program provides farm income protection against crop losses. Our government has successfully worked with farmers to extend coverage of the program, and in 1986-87 contributed \$5 million to its operation.

Agricultural research at the University of Manitoba was supported by a grant of close to \$900,000.00.

Special Child Related Income Support Program payments of \$360 per child for farm families were provided in 1986 and the asset limit was increased so that more farm families could receive benefits. An estimated 1,250 farm families will qualify for \$1.2 million in special benefits during the 1986-87 program year.

Exemptions are provided by the Provincial Government from the retail sales tax for all agricultural inputs, from fuel taxes, and from corporation capital tax, and there are a number of special provisions for farmers under the income tax system. The value of these measures is more than \$80 million annually.

Members will recall last year that our government acted when the oil industry denied farmers the benefits of the provincial fuel tax exemption, by charging higher prices on tax-exempt coloured fuel. We instituted the border dyeing program so that farmers could purchase fuel in the more competitive U.S. market. That program resulted in the oil industry reducing prices and providing farmers with more than the full benefit of the fuel tax exemption. To permanently by-pass the oil industry and pay farmers directly, we also approached the Federal Government to arrange a Manitoba fuel tax credit on income tax returns. However, the Federal Government refused to permit this benefit to be delivered through the income tax system.

The Manitoba Tax Credit Programs provide about \$19 million in assistance to Manitoba farmers.

Much has been done. In my recent consultations, Manitobans from Beausejour to Swan River recognized the value of our government's many programs which support our rural and farm communities. They also said more must be done for our farm community. Whether or not they are farmers, Manitobans know the vital role our family farms play in the social and economic well-being of our province. And more will be done. Tonight, I am announcing a number of new initiatives to help support our farm community.

First, the border fuel dyeing program will be repeated again this year starting on April 13, 1987. We have ensured that lower-priced American fuels will be

available to Manitoba farmers at the same low prices offered to American farmers.

Second, special arrangements are now being finalized with the Manitoba petroleum industry to enable farmers to receive tax-free coloured unleaded gasoline throughout the province.

Third, for farmers in severe financial distress and where potential viability exists, the Manitoba Agricultural Credit Corporation will offer client farmers long-term lease arrangements with an option to repurchase their farms. This initiative - which I hope will be followed by other private and public financial institutions - will improve the cash flow of farmers and assist many of them to continue farming in Manitoba.

Fourth, the Guaranteed Operating Loan Program will be expanded to encourage credit unions to participate in the provision of operating capital to farmers. The province is prepared to guarantee losses incurred by credit unions, up to 12.5 percent of the operating capital extended to their farm members.

Fifth, an interest rate buy-down program will be initiated to reduce the annual debt obligations of Manitoba Agricultural Credit Corporation clients. This \$29 million initiative will be focused on younger and beginning farmers with limited net worth, and financed through additional capital authority.

Sixth, a special Farm School Tax Assistance Program will be introduced to provide \$12 million to help with one of the significant fixed costs facing farmers - school taxes. The program provides maximum benefits of \$500 per farmer, to supplement other Property Tax Credit Programs.

Together with existing property tax assistance, the special Farm School Tax Assistance Program will effectively eliminate school taxes for 25,000 or two-thirds of Manitoba's individual farmers. We are asking the cooperation of municipalities to ensure the assistance is delivered quickly.

My colleague, the Minister of Agriculture, will be announcing full details of all of these new initiatives in the near future.

The problems in agriculture cannot be resolved by Manitoba alone. Concerted national action is also essential. We will continue to urge the Federal Government to fulfill its commitment to farmers. We will remind Ottawa of its promise to institute a national loan guarantee program - a program of crucial importance to farmers during these difficult times. We will also urge the Federal Government to make a long-term commitment to grain farmers by protecting them against declines in income caused by unfair subsidization by the European Economic Community and the United States. As well, the province will be calling on Ottawa to conduct a major review of all federal and provincial support and stabilization programs and to examine the possibility of developing a comprehensive national program aimed at guaranteeing farmers a reasonable minimum income - an income which will allow them to continue farming and to live in dignity.

In summary, budgetary spending for agriculture will increase \$14 million or 20 percent to \$85 million - the largest percentage increase for any department this year and more than twice the amount budgeted by the Conservative Government in 1981-82. In addition, farm financial assistance through the Manitoba Agricultural

Credit Corporation is expected to total \$84 million in 1987-88.

Small businesses, and the men and women who manage and work in them, make important contributions to the economy. Our government has developed a strategic partnership with industries and individual enterprises to help small business get started, grow and prosper.

The Manitoba Jobs Fund Venture Capital Program has led to the establishment of 67 corporations supporting 1,200 jobs. With \$5 million in public funds, some \$20 million in private business investment has been secured.

The Manitoba Jobs Fund Technology Commercialization Program gives financial assistance for adaptation or commercialization of new products or process technologies. Some 30 firms were involved in the program in 1986-87 primarily in technology transfer and new business assistance.

Our government has also reduced the small business corporation income tax, increased the capital tax exemption to \$1 million, increased sales tax commissions to smaller retailers, and exempted 18,000 smaller employers from the Levy for Health and Post-Secondary Education.

In the last three years, the number of establishments in Manitoba employing fewer than 20 persons increased by more than 5,000 to over 32,000. That is 5,000 new establishments in our province and it is evidence of the success of our policies.

The programs I have just mentioned are but a few examples of the innovative approach to which the efforts of government, business and individual Manitobans have been coordinated to create jobs and secure opportunities.

Tonight, I am pleased to announce a new initiative to strengthen further our small business sector.

Our government has worked with the Winnipeg Business Development Corporation to establish a Manitoba Small Business Growth Fund. The purpose of the fund will be to provide equity investment to finance the creation and expansion of small- and medium-sized businesses, primarily those needing up to \$250,000 in equity financing. The province will provide 25 percent of the initial \$5 million capitalization for this fund.

The new Manitoba Small Business Growth Fund will complement the Small Business Development Bond and Venture Capital Programs to secure greater access to the equity financing needed by small business to create jobs.

Manitoba has attained new, higher levels of investment spending and construction activity in recent years. From the recession low in 1983 to 1987, non-residential capital investment growth is second only to Ontario's. And, in 1987, total investment is expected to reach \$3.6 billion.

The availability of high-quality, affordable housing for Manitoba families has never been better. A significantly greater proportion of houses are purchased by young people in Winnipeg than in other major cities. Renters of one-bedroom apartments can expect to save between \$600 and \$900 annually compared with renting similar accommodation in Halifax, Ottawa, St. John's, Vancouver or Toronto.

Housing starts, which increased by 17.4 percent last year, included 4,791 single-family homes, the greatest

number since 1974. Existing homes and apartments have been upgraded. The newly renovated Warwick co-op apartments are a good example of what can be accomplished in restoring older neighbourhoods.

The construction of the Limestone Generating Station, brought forward by the successful negotiation of long-term export power sale contracts, is now providing a major impetus to the Manitoba economy.

In 1987, construction will employ 1,650 women and men, with related economic activity adding significantly to this total. Northern Manitobans, in particular, appreciate the significance for the North, and for Manitoba as a whole, of the development of a northern and northern native skill base - journeymen, carpenters, mechanics, electricians, surveyors, technologists and engineers.

The individuals themselves best exemplify the impact of these initiatives:

- the woman from Norway House, for example, who is now in the second year of the engineering program at the University of Manitoba;
- the unemployed father from Gillam, one of the first to complete the rebar course at Thompson, is now working at Limestone;
- the individual from South Indian Lake who trained as a heavy equipment operator and now works as an instructor for the Limestone Training Agency in Thompson.

With most major Limestone contracts awarded, Manitoba content has reached 90 percent of the value of all contracts - providing more benefits for Manitoba firms and our economy. This means even more jobs for Manitobans.

Building upon the Core Area Initiative, the current phase of downtown North Portage Development in Winnipeg involves more than \$150 million in private investment. The new \$37.6 million Investors Group head office is scheduled for completion this year. The retail complex will involve some \$68 million of private investment, and established retailers have undertaken additional renovation and upgrading in anticipation of renewed vitality in the area.

The Jobs Fund is playing a role in the enhancement of Manitoba's cultural and arts mosaic. The Jobs Fund presence is being seen in the new Winnipeg Royal Winnipeg Ballet facility and the new Portage Place project, featuring the impressive IMAX theatre.

More people will be living and working in the central area of Winnipeg. Our government initiated the Infill Housing Program under which single-family ownership homes have been built in the core area neighbourhoods - many for single-parent and low-income families. Private developments are further revitalizing the inner city by building on available land. With assistance from the RentalStart Program, a 376-unit residential complex is under construction in the Portage Place housing project.

This Budget confirms our commitment to job creation with an investment of \$566.8 million in budgetary authority for economic development complemented by a non-budgetary capital spending program of \$948.1 million. Our total economic initiative of services and financial investments is up by \$49.3 million or 3.4 percent from 1986-87.

Manitobans' successes, achieved through cooperative public and private sector initiatives, are

reflected in more jobs, continued economic growth, a high level of investment and increased personal incomes.

Gross Provincial Product in Manitoba has risen faster in Manitoba than in Canada in the 1980's. As a result, from 1981 to 1986, personal income in Manitoba also increased from 90 to 94 percent of the national average per person. Average income per person reached \$15,760 last year, an increase of nearly \$4,900 since 1981, representing average annual growth of 7.7 percent compared with 6.9 percent in Canada.

In 1986, Manitoba's real output of goods and services was up by 3.5 percent, well above the national average increase of 3.1 percent. However, lower prices for agricultural and other primary exports, continued price increases for many imported goods and weaker markets in some sectors, such as manufacturing, constrained nominal growth. As a result, current dollar Gross Provincial Product increased by 5.3 percent in 1986, somewhat less than might have been expected on the basis of Manitoba's above-average real output performance.

Gross Provincial Product in Manitoba remains about 6 percent or \$1,200 per person lower than the national average. This is why our fiscal capacity to raise provincial revenues is lower than the national average. And it explains why we continue to need a fair, national equalization program.

For the Canadian economy, 1986 marked the slowest growth since recovery began in 1983. A further reduction is likely in 1987 as more moderate rates of expansion are realized in the fastest growing parts of the country and the eastern and western regions continue to experience relatively slow growth.

Manitoba is expected to be a growth leader among provinces again in 1987, with real growth of close to 3 percent. Employment is expected to increase by a further 2 percent, and the unemployment rate will decline for the fourth consecutive year in Manitoba.

The economic health and vigour of Manitoba provide one basic part of the security and opportunity which make for a high quality of life for Manitobans. It provides jobs, incomes, homes and business opportunities. But economic growth must be complemented by a progressive social policy if its rewards are to be fairly shared by all our citizens.

Our New Democratic Government rejects the Liberal and Conservative philosophies which are leading some governments to drastically cut back the share of the nation's resources being devoted to vital services. In fact, a recent study by the International Monetary Fund stated, "in 1980, Canada's Government social expenditure ratio was among the lowest of the seven major industrial countries." And since then, as the Library of Parliament noted, the Federal Government has further reduced the share of Gross Domestic Product for social services - including health and higher education.

In these times of renewed economic growth, is it fair that governments should allow our health care system to deteriorate?

Is it fair to reduce access to services for the poor?

Is it fair to reduce the level of services provided to our senior citizens whose efforts laid the foundation for our economic prosperity?

Our New Democratic Government believes the answers are clear - services for people must be

protected. Governments have the responsibility to ensure that economic growth is shared fairly and translates into improved quality of life for all.

Our Affirmative Action Program ensures that jobs and opportunities are available for more Manitobans. Pay equity, essential for economic equality in the workplace, will ensure fair payment for the value of work performed without reference to gender. We are proud to have increased the minimum wage to ensure that large numbers of working Manitobans have a more adequate income to meet their needs and those of their families. We have acted to remove the unjustified differential in minimum wage protection for young people.

This Budget proposes a \$209 million or 9 percent increase for social programs bringing the total to over \$2.5 billion. Over half the increase will be devoted to protecting and improving health care and for meeting expanding health care needs. An additional \$41 million will be invested in education. A further \$49 million is proposed for needed social services provided through the Departments of Employment Services and Economic Security and Community Services.

Over 900,000 Manitobans use their hospital or Medicare programs each year. Our government is committed to maintaining quality health care for all and, in particular, for the growing numbers of elderly Manitobans who require more from our health care system. Over 31 percent of budgetary expenditure is required for meeting health care needs.

In order to provide better care, meet the needs of our seniors more effectively, and to reduce demand on high-cost acute-care hospitals, this Budget proposes a 40 percent, \$9.6 million increase in the Home Care Assistance budget to \$33.5 million.

In total, resources for health care will increase \$118 million or 9.8 percent to \$1.327 billion. In keeping with our priorities, an estimated \$7 million of surplus lottery revenue will be targeted for health care for Manitobans. In light of rapid growth in lottery revenues of over 200 percent since 1983-84, this will be accomplished without any reductions in support to current recipients by using surplus lottery revenue. The Minister of Culture, Heritage and Recreation will continue her consultations with community groups to ensure that their concerns are taken into account fully and fairly.

This Budget invests an additional \$41.5 million or 5.9 percent in education for students in schools, community colleges and universities. Support to elementary and secondary education will grow by \$26.5 million or 6.4 percent, providing continuing evidence of the high priority our government places upon quality education for our children. Under our government, the increase in support for public education has far exceeded inflation since 1981-82. Per-pupil student support has increased more than 55 percent since that time. This year, each school division will receive at least a 3 percent increase in block and equalization grants.

Grants to universities will total \$174.8 million, a 5.1 percent increase.

In addition, I am pleased to announce a new \$20 million Manitoba Fund for University Development. High-quality university education requires additional investment. The Minister of Education will announce details of the fund following consultations with the

universities and the Universities Grants Commission. This five-year program will complement the universities' fund-raising efforts such as the "Drive for Excellence" campaign currently under way at the University of Manitoba.

Manitoba has protected the interests of social allowance recipients. We increased allowances at a rate which exceeded the rising costs of basic necessities. We have also maintained the Child Related Income Support Program payments for families and doubled benefits under the 55-Plus Program.

To help further, Manitoba recently concluded a new agreement with the Federal Government on Employability Enhancement for Social Assistance Recipients. This agreement will considerably expand employment and training opportunities for Manitobans on social assistance, helping about 1,800 recipients to gain skill and work experience each year.

\$10 million has been allocated for Job Training for Tomorrow. This program offers wage assistance to encourage the creation of positions which provide on-the-job training and skill development for unemployed Manitobans.

Special school tax assistance of up to \$175 now will be extended to all people age 55 or over on the basis of income. This initiative builds on the benefits available through our 55-Plus Program. Those with incomes below \$15,000 will qualify for full benefits and people with higher incomes will receive reduced assistance. Previously, only people with pension income qualified for benefits irrespective of their income level. More than 26,000 people - almost 20,000 more than previously - in the age group 55 to 64, will now be eligible for school tax assistance. Farmers will be major beneficiaries under this initiative. About 4,600 more farmers will now qualify. With the change, some 10,700 farmers will receive benefits of \$1.7 million under this program.

Manitoba's accomplishments in child care are second to none in Canada. This Budget proposes an additional \$5 million or 21 percent increase for child care to provide more spaces, staff enhancement and parental subsidies. Funded spaces will surpass 11,000 in 1987-88, up 35 percent since 1981-82. The commitment to quality within the program includes funding for staff training and salary enhancement, facility upgrading, and expanded infant care grants. Single parent and other families with low income qualify for assistance to ensure affordable quality care for their children. Manitoba will continue to be a leader in making available quality, not-for-profit, public day care.

Support to municipalities provided through the Departments of Municipal and Urban Affairs, including the Local Government General Support Grant, and to local taxpayers through property tax credit payments will total \$323.9 million this year, up 5.3 percent from last year. In addition, provincial-municipal tax sharing payments will increase by \$4.3 million or 12 percent to a total of \$39.8 million.

The New Democratic Party Government of Manitoba remains committed to providing the public services essential to the quality of life enjoyed by Manitobans. They must be delivered in an effective and efficient manner. Internally we have taken measures to better direct resources to priority areas. Manitobans appreciate the dedication of the many agencies and



employees delivering services to Manitobans. Together we will sustain social progress in Manitoba.

Over the years, Manitobans collectively have incurred debt where necessary to secure opportunity, improve our quality of life and to invest in our future. Major investments have immeasurably improved our province. Some examples are obvious - our hospitals, universities and schools. Others, although less obvious also yield significant paybacks - the Winnipeg Floodway, roads and bridges in Northern and Southern Manitoba, new water and sewage facilities, and so forth. As well, Manitoba has invested in public enterprise, including our hydro and telephone systems.

Canada has passed through a recession in which all governments' revenue growth was inadequate to protect public services, sustain our economy, maintain programs and to meet the needs of people added to the unemployment rolls. One option for governments in response to the recession and revenue shortage was to reduce services - in essence to choose short-term fiscal balance sheets ahead of people's increasing needs, and in so doing, add to unemployment, wasted human resources and suffering. Some chose that route.

Our course was different. We chose to protect services, to create jobs, to help agriculture and to support the economy. In Manitoba, our economy strengthened and a high rate of job creation has been achieved. At the same time, our province's share of the debt of all provinces, as reported by the Bank of Montreal, actually declined from over 6 percent in the late 1970's to under 5 percent in 1985. In other words, our policies of putting jobs, the economy, service and people first, is now achieving better fiscal results than those of jurisdictions which have made fiscal results their first, primary short-term priority.

Nonetheless, there are interest costs to be met. And dollars paid in interest are not available to fund public services. Our government is committed to managing our fiscal position so that resources continue to be available to improve further the economic and social vitality of our province.

Each year, public debt costs are affected by interest rates, exchange rates and the need for both new borrowing and refinancing. The combined effects of these factors led us to budget for \$438.2 million in public debt payments this year, including close to \$50 million resulting from foreign currency appreciation over the last year.

I would now like to turn to the matter of fair electrical energy prices in Manitoba.

In 1979, the former Conservative Government imposed a rate freeze on Manitoba Hydro and it approved The Energy Rate Stability Act, which provided that provincial taxpayers rather than electricity users would assume all foreign currency translation risks - gains or losses - associated with foreign borrowing for Manitoba Hydro.

This policy has had some very negative financial consequences.

In contrast to the former government's hope that this policy would permit Manitoba Hydro "to rebuild its reserves to a more appropriate level," losses totalling \$64 million were incurred and Hydro's reserves were cut almost in half. Faced with this deterioration of Manitoba Hydro reserves, in 1983 our government was forced to end the rate freeze in order to protect the

financial viability of Manitoba Hydro. With subsequent moderate rate increases, Hydro's reserve levels have slowly increased and the financial base of Manitoba Hydro has been strengthened.

The Energy Rate Stabilization Program has also resulted in considerable cost. Since its implementation, the net cash cost to the government has amounted to some \$203 million.

This inappropriate policy cannot be allowed to continue. The Energy Rate Stabilization Program will therefore be amended. Responsibility for any new translation gains or losses on all U.S. denominated debt and all new foreign borrowings for Hydro purposes transacted on or after April 1, 1987, will be assumed by Manitoba Hydro. The provincial taxpayer will retain responsibility for existing foreign debt denominated in other than U.S. currency.

To assist Manitoba Hydro in adjusting to these changes, and also in response to requests from the City of Winnipeg, I am announcing a 24 percent reduction in the provincial water power rental rates from \$11.75 to \$8.96 per horsepower-year effective April 1, 1987. A special one-time 4.7 percent increase in Hydro rates effective April 1, 1987, will be required to maintain Manitoba Hydro's current financial position.

For the typical Manitoba Hydro residential customer, this will mean a monthly increase of about \$1.46, based on a monthly consumption of 700 kilowatt-hours from \$31.11 to \$32.57.

Energy Rate Stabilization costs for 1987-88 will be reduced by \$36.7 million. Water power rental revenue will also be reduced.

The changes will improve Winnipeg Hydro's profit position by more than \$1.5 million this year, providing greater flexibility for the City of Winnipeg.

Manitoba will still have electrical rates among the lowest in Canada and the United States.

I'd like to now turn to federal-provincial cooperation. Manitoba needs a strong national government which acts in the best interests of all Canadians. That includes protecting the interests of smaller provinces who cannot make their voices heard in Ottawa. It includes ensuring that development is encouraged in all regions, not just in central Canada. And it includes maintaining fair federal funding for vital services.

Along with most Canadians, Manitobans were hopeful that the election of the federal Conservatives in 1984 would herald a new era of fairness and a new era of federal-provincial cooperation. These hopes have not yet been fulfilled.

The federal decision over the CF-18 contract, involving \$1.4 billion and over 7,000 person-years of employment, was particularly disappointing, and I know members opposite thought it was disappointing. That decision is also costing Canadian taxpayers at least \$30 million more than necessary.

The Conservative Government's decision to limit federal health and higher education funding to 2 percent less than growth in the economy, following earlier Liberal reductions, disappointed many Canadians. We believe that expanding health care needs of an ageing population must be met.

This year federal cash support for health and higher education is to increase by \$13 million while health care requirements alone are increasing \$118 million.

Equalization support to Manitoba is to drop to \$469 million from the \$511 million budgeted and the latest

estimate of \$506 million for 1986-87, despite increasing need as measured under the equalization formula. In the past, the Federal Government has acted to maintain fiscal stability and cash flow to provinces under the program. Last week measures were announced to protect Quebec and the Atlantic provinces from reductions due to the 1986 Census population adjustments. Manitoba is seeking fairness and equity in federal treatment of all provinces. In the light of our increasing need, we have requested that, at a minimum, our equalization support be maintained at 1986-87 levels.

Manitoba has consistently called on the Federal Government to honour its 1984 election commitments and to restore fair federal funding to help protect vital services for all Canadians, especially in the equalization-recipient provinces of Canada. We encourage the Opposition parties to join us in standing up for the interests of Manitobans.

Raising revenues to provide services to Manitobans - New Democrats understand that fair taxes are crucial to continuing our country's progress. We believe that every Canadian - rich or poor - should be guaranteed the most fundamental elements of life with dignity.

Some Conservatives and Liberals tell Canadians that we cannot "afford" essential social programs; that we are "living beyond our means," and that "belts must be tightened," and that "hard decisions" must be made.

The major reason our taxes and programs are under pressure is that some individuals and companies are getting much more from Canadian Governments, and paying much less.

Through the 1970's and into the 1980's, the federal Liberals dramatically increased the level on spending on business subsidies and grants. The Conservatives added some and failed to remove others, with the results that these expenditures grew almost five times as fast as federal support for social programs between 1970 and 1985.

The Liberals reduced income tax rates in the higher-income brackets. The federal income tax reduction for lower- and moderate-income Canadians was reduced and, under the Conservatives, wiped out completely. Federal sales and fuel taxes were greatly increased.

The half-million dollar Capital Gains Exemption and RRSP increases to subsidize \$60,000-a-year pensions comprise another \$2 billion in annual tax breaks.

The cumulative effect of these measures has been a dramatic shift in the tax burden from high-income, wealthy corporate shareholders to average working Canadians. The tax reductions for corporations have been heavily concentrated among large businesses.

Canadians, with good reason, no longer believe that the tax system is fair. And ordinary Canadians are being asked to pay the price in higher taxes and reduced services.

When our government first took office, we were alone in calling for balanced spending priorities and for fair and comprehensive tax reform. Now other provinces have joined us, and the Federal Government has promised a major overhaul of the Canadian tax system.

However, we cannot put the needs of Manitobans on hold pending the outcome of federal tax reform or fairer transfer payments.

Normal growth in our own source revenue cannot offset the decline in federal transfers and still provide

sufficient revenue to meet our requirements for agriculture, health, education and social services.

In considering the revenue measures for the 1987 Manitoba Budget, our government adhered to one central principle.

The changes had to be fair.

The package of revenue measures I will present tonight is fair and balanced. There are tax reductions for lower- and moderate-income people; there are tax reductions for small businesses; and there are special tax reductions for farmers.

The increases are based on the ability to pay principle. The new revenue measures strive to secure a fairer share from the individuals and big businesses who have benefited the most from the tax policy at the national level over the last several years.

The personal income tax is the single most important source of revenue for both the Federal and Provincial Governments. In principle, income taxes are directly related to ability to pay and should be the fairest forms of taxation. In practice, this is far from the truth.

The personal income tax system has become riddled with preferences for some forms of income, incentives, deductions, exemptions, exclusions and loopholes. The tax reductions introduced in recent federal budgets were concentrated in the highest-income groups, while tax increases were concentrated among lower- and middle-income Canadians.

Since Manitoba income tax is a percentage of federal income tax, the provincial income tax shares all the inequities and abuses which the Liberal Federal Governments introduced, and the federal Conservatives have added to or failed to correct. These considerations led our government to conclude that simply increasing the Manitoba income tax rate would not be fair.

In the interests of greater fairness, we are proposing to by-pass as many of these preferences as possible by applying an income tax directly against net income.

The tax will take effect July 1, 1987, at a 2 percent rate. Since the tax will only apply for the last half of 1987, the effective rate for 1987 will be 1 percent.

To further improve the fairness of the tax, a major new Manitoba Tax Reduction related to family size and income will be introduced. It will affect both the net income tax and regular income tax. This measure will reduce Manitoba personal income taxes for approximately 100,000 low- and moderate-income Manitobans, including virtually all those with incomes under \$10,000.

It will also eliminate Manitoba income taxes altogether for 15,000 lower-income people.

The tax on net income will apply at a reduced rate for most middle-income Manitobans. In 1987, a single wage earner with income under \$11,400 will pay lower income taxes and would not pay the full net income tax until earnings exceed \$22,400.00.

A working couple earning equal incomes and supporting two children will pay lower combined provincial income taxes on incomes under \$25,100.00. If their children are in day care, taxes will be lower on earnings up \$29,200, and the full net income tax would not be payable until the family earned income exceeded \$54,000.00.

A senior citizen couple will pay lower Manitoba income taxes if their combined income is under \$22,000.00. The full net income tax would not take effect until their income exceeded \$40,900.00.

The new tax will apply to all net income including some income which now enjoys significant tax preferences. Most importantly, it will apply to capital gains which are now tax-free as a result of the \$500,000 lifetime capital gains exemption introduced in the 1985 federal budget.

Since 1982, a surtax has been levied on higher-income individuals. For the 1988 taxation year, this surtax will be replaced by surtax levied on net income tax. The new surtax will generate approximately the same revenue as the present surtax, but people who receive their income from employment will pay a smaller share. No one with net income of less than \$30,000 will pay the surtax.

I would like to express appreciation to the Federal Finance Minister who has agreed to the administration of these measures for the 1987 and 1988 taxation years.

The net income tax will be administered by Revenue Canada and will increase revenue by \$83.7 million for the 1987-88 fiscal year.

I am also announcing an important reform of Manitoba's land transfer charges, effective May 15, 1987. The new system will consist of a flat fee and a progressive Land Transfer Tax based on the value of the property. The new system will:

- redress the inequity under the present system which taxes land transfers with a mortgage at almost double the amount for transfers without a mortgage;

- it will reduce taxes for lower-priced homes and leave the taxes for average-priced homes about the same;

- it will apply significantly higher taxes to large property transfers;

- and it virtually eliminates the charges on farm property transfers.

The new Land Transfer Tax and fee changes will increase revenue by \$9.7 million.

Effective May 4, 1987, the sales tax and Revenue Act 1964 rates will be increased to 7 percent. The sales tax base will also be broadened to include cigarettes, cigars, and other tobacco products, computer applications software, prepared take-out foods over \$6, insulation materials and some energy-saving devices. The sales tax measures will increase revenue in 1987-88 by \$102 million.

To ensure that the impact of these revenue measures is fair, the cost of living tax credit for 1987 will be increased from 3 to 4 percent of personal exemptions. This change will mean increased tax credits of:

- \$42 for single people with incomes up to \$13,680;

- \$95 for couples with two children, and with income up to \$29,450;

- \$84 for single parents with two children with earnings of up to \$26,230;

- \$68 for single seniors with incomes up to \$20,580.00.

Cost of Living Tax Credit increases will be phased out gradually for people with incomes above these levels. As a result, it is estimated that 293,000 Manitobans will receive \$23.1 million more in 1987 Cost of Living Tax Credits. Of these, an estimated 74,000 are senior citizens and 29,000 report farm income for taxation purposes.

Let me now turn to business taxes. The erosion in corporation income taxes is a matter of ongoing concern

for all Canadians. Corporation income tax revenue has not increased in line with growth in corporate profits.

Manitoba's corporation income tax revenue has been subject to similar unfair erosion. We believe action is urgently required to secure a more reasonable contribution from big business toward protecting public services.

A Corporation Capital Tax surcharge of 0.2 percent will be applied on corporations with more than \$10 million in taxable paid up capital. The change will affect about 900 of the largest corporations operating in Manitoba. The Corporation Capital Tax rate applied to trust and loan companies will be equalized with the 3 percent rate applied to banks. These measures will take effect on July 1, 1987, and increase revenue by \$14.6 million. These taxes are deductible for income tax purposes.

I am also pleased to announce that the exemption for small businesses under the Levy for Health and Post-Secondary Education will be doubled from \$50,000 to \$100,000.00. Employers with total payrolls of under \$150,000 will have their Levy liabilities reduced through a phase-in provision. As a result, over 3,700 employers will be removed from the Levy rolls. Some 1,800 will pay less than the full rate.

The Levy for Health and Post-Secondary Education will be increased from 1.5 percent to 2.25 percent effective April 1, 1987. In total, only 8,400 employers will make any contribution through the Levy for Health and Post-Secondary Education. Only the largest 6,600 will pay the full rate. These adjustments will increase 1987-88 revenue by \$52.8 million.

There will be no increases in gasoline taxes. The general diesel fuel tax rate will be increased by 0.7 cents per litre to 9.9 cents per litre. Dyed fuel used by farmers will continue to be exempt from all fuel taxes. The rate applied to railway locomotive fuel will be increased to 13.6 cents per litre, the same as in Saskatchewan. Most other fuels taxed under The Motive Fuel Tax Act will increase in line with the general rate increase.

The changes are effective April 1, 1987, and will increase revenue by \$10.8 million in 1987-88.

Effective midnight April 12, 1987, tobacco taxes will be increased by 0.5 cents per cigarette raising \$5.5 million. Liquor Commission prices will be adjusted to increase revenue by \$5 million in 1987-88.

To summarize, the changes announced in this Budget are moderate, fair and balanced. With the special tax reductions for farmers and extended school tax assistance, these measures provide personal tax reductions for about 156,000 or 36 percent of Manitoba households. The increases are necessary to protect vital programs and to provide additional support in priority areas.

They begin to address the growing imbalance between personal and corporate taxes and between large and small businesses. They reduce taxes for lower-income Manitobans. They are progressive and equitable among taxpayers with incomes from different sources. They are not a substitute for national tax reform but they are fair and they are based on the ability-to-pay principle.

Our New Democratic Government places great value on improving fiscal management and accountability. It is an integral component of our overall objective of



balanced social and economic development. This year a number of initiatives are being implemented.

A new Planning and Priorities Committee of Cabinet will add further perspectives to our government's review of the whole policy spectrum. The integration of economic and social policies will continue to be a hallmark of this government.

Treasury Board will be strengthened to ensure that government expenditure yields the greatest value for tax dollars.

A new Cabinet Committee on Crown Reform will improve the fiscal management and accountability of Crown corporations and agencies.

To further improve financial accountability, we recognize the need for better information which can be more widely understood and reviewed. To that end, a number of initiatives are being introduced to present the financial position of the government in a manner which will encourage more informed review by the public, the Provincial Auditor and members of the Legislative Assembly.

Both total budgetary requirements and the government's net operating position will be displayed distinctly in the Budget, each shedding light on a different facet of the government's financial position.

To estimate more accurately the government's year-end financial position and to provide an improved basis for assessment, provisions for Crown corporation losses, as well as anticipated year-end savings resulting from unspent funds, will be made in the Province's Budget. Beginning with losses incurred in 1987-88, Crown investment losses will be incorporated into government expenditure and the Public Accounts in the fiscal year immediately following the year in which they are incurred. The allowance for year-end savings will be included in the 1987-88 Budgetary Expenditure Estimate.

The Manitoba Jobs Fund has been an important government tool in helping our economy create jobs for Manitobans. The 1987-88 Estimates have been expanded to describe more fully the activities undertaken in several key sectors, including natural resources, technology, business development, human resources, infrastructure and administration/communications.

We will continue our efforts to improve the level of information provided to Member of the Legislative Assembly. The provision of Estimate Supplements, introduced as a pilot project three years ago to enhance information on departmental programs and operations, will be provided this year for every line department in the government. As well, all line departments will be required to provide annual reports to the Legislature.

Let me now turn to the Fiscal Plan. This Budget proposes total expenditure of \$4.188 billion, up 8.2 percent from the 1986 Budget. Expenditure, excluding the \$116 million increase in public debt costs, is up by \$202 million, or 5.7 percent. Revenue is projected at \$3.773 billion, up 11.6 percent from the 1986 Budget. As a result, the shortfall between total revenue and total budgetary expenditure, known as the net budgetary requirement, will be \$415 million, \$74 million or 15.1 percent lower than last year.

Tonight I am tabling with the Budget the Third Quarter Financial Report for 1986-87. The report projects a modest \$20 million improvement to \$567 million in the

Net Budgetary Requirement from the Second Quarter Report. The Third Quarter projections show expenditure of \$3.941 billion, and revenue of \$3.374 billion.

The fiscal plan for 1987-88 proposes a 6.3 percent increase in expenditure, an 11.8 percent increase in revenue and a 26.7 percent drop in net budgetary requirement from the 1986-87 Third Quarter interim projections.

The significant reduction in the net budgetary requirement provided in the fiscal plan means borrowing will be less than the level which would otherwise be necessary. As well, the fiscal plan provides a higher revenue base which will provide a stronger fiscal foundation for the future.

The Expenditure Estimates contain provision for \$257 million of capital expenditure. This expenditure creates assets and provides benefits for many years. Although they are a part of our net budgetary requirement, they must be viewed separately in assessing the current operating cost of government.

Capital expenditure will include: Health Care Facilities; Education; Rural and Agricultural Infrastructure; Highways; Direct Local Government Assistance; Economic and Resource Development.

The Net Operating Position, which recognizes that a portion of the Province's net budgetary requirement supports capital projects, provides additional information which portrays more accurately the relationship of the government's revenue to its requirements for day-to-day operations.

The Net Operating Requirement for 1987-88 will be \$158 million, down \$66 million or 29.5 percent from the 1986 Budget. The Operating Requirement will be down by one-half of that projected in the Third Quarter Report for 1986-87. This reflects the progress made in reducing current operating requirements.

Our government plans a Non-Budgetary Capital Investment Program of \$948.1 million for 1987-88, about \$54 million over 1986-87. This will be financed with \$201.8 million of internally generated funds, \$511.8 million in capital authority voted in previous years, and \$234.5 million in incremental capital authority in this year's Loan Act.

The total Non-Budgetary Capital Program includes \$80 million for the Manitoba Hospital Capital Financing Authority to provide financing of capital expenditure already incurred by various health facilities.

The \$948 million Non-Budgetary Capital Investment Program includes \$391 million for Manitoba Hydro, of which \$255 million is for Limestone; \$165 million for Manitoba Telephone System; \$138 million for Manitoba Housing and Renewal Corporation; \$84 million for Manitoba Agricultural Credit Corporation; and \$54 million for the Manitoba Jobs Fund.

Tonight I am pleased to announce the introduction of Manitoba Investment Savings Certificates. These certificates will give Manitobans a new opportunity to invest in our province and its future. It is another way we can join together in building a stronger Manitoba.

Manitoba Investment Savings Certificates will be offered annually through caisses populaires, credit unions, chartered banks, investment dealers and trust companies.

The total borrowing requirement for 1987-88 amounts to \$1.56 billion, only slightly higher than last year's borrowing requirement of \$1.43 billion. The total

includes net budgetary cash requirement, non-budgetary requirement and refinancing of debt issues maturing during the year. The Canada Pension Plan and other off-market sources will provide about \$140 million with the remaining \$1.42 billion to be raised through public bond markets, at least 50 percent of which is expected to be in Canadian dollar markets.

Fairness, Compassion, Building for the future: That is what this Budget is all about.

Over the last five years, Manitobans together have worked hard to rebuild our province. Tens of thousands of Manitobans have benefited from new job opportunities. We all have benefited from the economic revitalization.

This Budget lays down a solid foundation for the future - programs to build our economic and human resources - to make our province even stronger.

This Budget assists farmers:

with \$85 million of budgetary resources, a 20 percent increase for the Department of Agriculture, including \$12 million in special Farm School Tax Assistance;

with \$84 million in financial support from the Manitoba Agricultural Credit Corporation, including \$29 million for a new interest rate buy-down;

with tax credits, tax exemptions and other programs to improve the viability of farms and farm communities in Manitoba.

This Budget provides Personal Income Tax reductions to more than 100,000 Manitobans.

This Budget eliminates the Levy for Health and Post-Secondary Education for an additional 3,700 small business employees.

This Budget raises needed revenue fairly, in accord with ability to pay.

This Budget protects our vital health, education and social services with \$209 million in new funding.

This Budget expands our initiatives in areas such as child care for families and home care for seniors.

This Budget provides new opportunities for Manitobans to invest in our province.

This Budget puts the economic and social health of our province first, while securing some level of reduction in deficits from the recession-induced levels of previous years.

This Budget promises continued progress.

We will measure our progress not by the simple totalling of balance sheets alone, but by improvements in our communities, and in the quality of our lives and through continued advances in fairness and equity for all.

We face many challenges - challenges I know Manitobans are prepared to meet. Together, we will achieve further economic and social progress and enhance the quality of life of Manitobans throughout our province.

**MADAM SPEAKER:** The Honourable Leader of the Opposition.

**MR. G. FILMON:** Madam Speaker, I move, seconded by the Member for Pembina, that debate be adjourned.

**MOTION presented and carried.**

## MESSAGES

**MADAM SPEAKER:** The Honourable Minister of Finance.

**HON. E. KOSTYRA:** Madam Speaker, I wish to advise that I have two messages from His Honour the Lieutenant-Governor.

**MADAM SPEAKER:** The Honourable Administrator of the Government of the Province of Manitoba transmits to the Legislative Assembly of Manitoba, Estimates of sums required for the services of the Province for Capital Expenditures, and recommends these Estimates to the Legislative Assembly.

L'Honorable administrateur de gouvernement de la province du Manitoba transmet à l'Assemblée législative du Manitoba, le budget des sommes relatives à l'immobilisation qui sont requises pour l'administration de la province et recommande ce budget à l'Assemblée législative.

The Honourable Administrator of the Government of the Province of Manitoba transmits to the Legislative Assembly of Manitoba, Estimates of sums required for the service of the Province for the fiscal year ending the 31st of March, 1988, and recommends these Estimates to the Legislative Assembly.

L'Honorable administrateur de gouvernement de la province du Manitoba transmet à l'Assemblée législative du Manitoba, le budget des sommes requises pour couvrir les dépenses relatives à l'administration de la province pour l'année financière se terminant le 31 mars 1988 et recommande ce budget à l'Assemblée législative.

## MINISTERIAL STATEMENTS AND TABLING OF REPORTS

**MADAM SPEAKER:** The Honourable Minister of Finance.

**HON. E. KOSTYRA:** Thank you, Madam Speaker. I'd like to table the Quarterly Financial Report for the nine months, April to December 1986.

## MESSAGES cont'd

**MADAM SPEAKER:** The Honourable Minister of Finance.

**HON. E. KOSTYRA:** I move, seconded by the Minister of Agriculture, that the said messages, together with the Estimates accompanying the same, be referred to the Committee of Supply.

**MOTION presented and carried.**

**HON. E. KOSTYRA:** Madam Speaker, I move, seconded by the Attorney-General, that this House will, at its next sitting, resolve itself into a Committee to consider of the Supply to be granted to Her Majesty.

**MOTION presented and carried.**

**HON. E. KOSTYRA:** I move, seconded by the Minister of Industry, Trade and Technology, that this House will,

at its next sitting, resolve itself into a Committee to consider of Ways and Means for raising of the Supply to be granted to Her Majesty.

**MOTION presented and carried.**

**MADAM SPEAKER:** The Honourable Government House Leader.

**HON. J. COWAN:** Madam Speaker, I move, seconded by the Opposition House Leader, that the House do now adjourn.

**MOTION presented and carried** and the House adjourned and stands adjourned until 1:30 p.m. tomorrow. (Tuesday)