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This budget is the tenth presentation in the development decade which began in the 1958 fiscal year. It reflects a turning point in the international, national and provincial economic experience.

One phase of our development has been well established and has given new basic strength to the Province. Power, roads, communications and essential public services of all categories have been expanded and improved, and education is perhaps the most dramatic example of vital and necessary progress over the decade.

Now the next stage begins. It will be more difficult in many ways. We must now build on the foundation of the ten years' work. Certain opportunities - such as the Nelson River - will be very large in their demands upon our resources. Hence our funds must be prudently allocated to those endeavours offering the greatest return in public advantage. We cannot afford to meet all desirable objectives at once. We must select the necessary tasks, and then carry them forward with determination.

The free world is grappling with monetary and financial challenges of historic magnitude. As the integrity of money and credit is tested by major elements in the world community, it is inevitable that a cloud of uncertain dimension should cast some shadow over the economic landscape. But we are moving with resolution - and without apologies for prudence. Financial irresponsibility is never tolerated in public affairs: it would be unforgiveable in current circumstances.

The Government of Manitoba is not alone on the path of prudent restraint. Every budget presented by other provinces this year reflects the need for stringent financial responsibility. The federal government has also come under tremendous pressure to reduce its expenditures and its calls upon the capital markets to give necessary reassurance of the strength of the Canadian economic and financial fabric.

Provincial governments have been faced with unexpected budgetary decisions because the federal government has turned its paring knife to programmes whose costs are shared with the provinces. This has increased the pressure on the provincial budget. Without any real consultation, the Minister of National Revenue announced in early December a wide range of budget cuts affecting joint programmes in the provinces. Even now there is still uncertainty as to what these cuts will mean in total. We can say, however, that programmes essential to the finances of Manitoba have been directly affected:

* Vocational training programmes
* The Canada Land Inventory Water control projects
* Emergency health, welfare and communications planning
* The Emergency Measures Organization

We certainly agree that budget restraints were necessary at both the federal and the provincial levels. However, the lack of genuine prior consultation with the provinces exhibited in many of these federal actions is clearly unacceptable. Where provincial programmes are involved, such practice not only affects provincial budgets by increasing costs or reducing service levels but it also succeeds in confusing the issue for the public. The taxpayer is unable to identify properly the government responsible for the resulting budgetary difficulties or restrictions on services.

We have a real concern that such budgetary practices may have the opposite results to those intended. The loss of national government support can only mean danger for the basic strength of the nation. Canada's strength falters or fails in proportion to the loss of essential momentum in the regions of this country. Any loss of momentum with resultant widening of the disparities which exist among the regions in Canada will not simply be an accident of history or geography in the circumstances that we are considering here. It will be the result of inadequate government planning and failure to coordinate budget practices to balance the needs and conditions that exist in all parts of Canada.

Our 1968 budget reflects the most serious intention of the Government to maintain the highest level of responsibility on public finance. We have set our programmes in 1968 to balance the budget on current account. Such new capital borrowing as may be necessary will be almost entirely for self-sustaining enterprises, including power and communication activities. This is sound investment in our future. The funds needed to service and retire the debts of these enterprises are derived from the economic wealth produced by these organizations themselves and not from the pockets of the taxpayers.

We have had to set specific limits on our operating departments and these have been applied selectively in accordance with priorities. Growth in the Civil Service has been restrained.

When the estimated expenditures for fiscal 1968 were first presented to the Treasury Board by the departments, the total greatly exceeded the previous year's expenditures. This meant that projects and improvements not immediately necessary had to be delayed or can+ celled. After intensive study and determination of essential priorities, the necessary expendi­ture reductions were made in each department's appropriations.

We were able to do this while still providing for the essential growth in education, health, welfare and economic development. In the difficult circumstances facing the world and our nation, we want our people and our business enterprise to have as much opportunity as possible to build upon the sound structure that now exists in Manitoba.

We have taken these actions while realizing that the demands on government grow rapidly as modern society is confronted by increasing change. Evidence of the enourmous tasks that await us in the near future was reflected in the forecasts of the Federal-Provincial Tax Structure Committee. These studies revealed that the demands for growth would fall much more heavily on the provinces and the municipalities than on the federal government.

DEVELOPMENT

The best source of the funds required for government to continue necessary advances in the public sector is from greater economic production. Over the past ten years we have enjoyed the increasing benefits and stability of a maturing economy. Appendix I at the conclusion of this statement provides a resume of the developments that have taken place in 1967 and outlines the expectations for our economy in 1968.

Economic development in Manitoba requires investment now to ensure growth in the future. Our approach to this end is a total approach. Provincial departments and agencies will continue to work together with industry, labour and agriculture, with local government, and with private individuals to create the necessary progress and to improve the economic climate.

Our objective is to help expand the economic base of the province as soundly and rapidly as possible. The greatest contribution to these efforts must be made by our business and financial partners. They must bring their management and technical skills to advance the capacity and efficiency of our business enterprise. They must be willing to put their capital resources into future development. But with all the will in the world and all the advances of modern technology, the provincial economy cannot expand on the efforts or private interests alone. Industries cannot operate without power, transportation and communication facilities and a trained, educated and healthy work force.

The government will continue to make the necessary social investment to sustain economic progress. Investments must continue to be made to provide roads, schools, hospitals and all the many other facilities required for a progressive community. Supporting services will continue to be needed to train and educate the population, to raise health standards, to attract economic enterprise, and to assist those who cannot always adequately help themselves. The quality of life in Manitoba has been brought to levels equal to and often far greater than those in many other parts of Canada. This progress must be maintained.

LOCAL GOVERNMENT

Local governments must continue to make an essential contribution to the development of the Province as the hosts to industrial and commercial enterprise which provide many of the direct services necessary to progressive business activity. They must meet the daily needs of the home-owner and some share of his requirements for those other opportunities and develop­ments which contribute to the quality of every day living.

The Provincial Government recognizes the importance of this contribution; it understands that to provide adequate levels of service local governments face rising costs.

Through such measures as the recent greatly enlarged school foundation programme, expansion of the provincial road programmes and of health and welfare services, the Province has shouldered a greater proportion of rising costs previously supported from local tax resources. Provincial resource development and recreation programmes, and tourism and trade promotion also help local communities grow stronger. Decentralization of provincial government services - in northern and southern centres alike - furnishes the focal points for local economic development across the face of the province. Had it not been for these provincial policies, local government costs would have risen far more than has been the case. A much greater proportion of provincial revenues is shared with the municipalities than the federal government shares with the provinces in relation to its fiscal capacity. Well over half of the total provincial revenues may be said to go to the direct and indirect support of local government.

There is, therefore, a special significance for municipal authorities in the difficulties being faced by the provinces in their continuing efforts to secure more adequate and equitable budgetary and fiscal treatment from the Government of Canada. For the Province, only the direct tax fields are available - and only in minor proportion for the most productive fields of personal income and corporate profits. The consumption taxes and the municipal property tax are the only other resources open to the provincial-municipal partnership.

The need, therefore, is to achieve a far greater equity in the federal-provincial partnership in order that the provinces may indeed reduce further the burden on property taxes for the municipalities. That is why the Federal-Provincial Tax Structure Committee grouped the provinces and their municipalities together on the one hand with the federal government on the other.

We have continued to absorb as much of these municipal burden as our own fiscal powers permit. Greater relief for local property taxpayers depends very largely on the Province's success in achieving sound and reasonable fiscal accommodation with the Government of Canada. We have yet to achieve that goal.

FEDERAL-PROVINCIAL RELATIONS

It is imperative that effective policies be developed to strengthen Canada. In the past few months, Manitoba has participated at meetings on both the federal and provincial levels to discuss Canadian federalism. These initial conferences dealt primarily with establishing linguistic equality for the French-Canadian communities across Canada.

But a wider and even more basic problem was also clearly identified. All provinces agreed that greater equality of economic opportunity was as essential to Canadian unity as linguistic equality. Significantly, this view was shared by the provinces with above average economic resources. Thus, there was general acceptance that all Canadians should not only be made to feel at home in every part of this country, they should also be given more nearly equal opportunity for a good home, a good job, and a good life.

The Federal-Provincial Meeting on the Constitution held in Ottawa this February concluded with the establishment of several important continuing committees. One of these committees is to examine regional disparity. This is a critical undertaking that is of major importance to the Province of Manitoba. Another committee is to consider the appropriate distribution of financial powers and responsibilities between the federal and provincial governments to achieve the objectives set for our nation in its second century. Other committees will examine aspects of our federal structure and fundamental rights of our citizens in Canada.

We do believe that the highest goals of confederation will not be achieved unless this country has a strong central government working in active cooperation with its ten provincial partners. The needs of the provinces differ according to geography, to the stage of their development, and to a multitude of other factors. National policies must ensure that a sound balance is achieved among the regions in Canada or the objective of equal opportunity for all citizens will not be reached. It is essential that the provinces and the federal government work out these policies together.

FISCAL AGREEMENTS

We have just completed the first year under the five year arrangements established by the federal government in 1967 for the transfer of federal funds to the provinces for support of post-secondary education. Last year we expressed certain reservations about these measures and are still dissatisfied with many aspects. The uncertainties have not diminished - in fact they continue to increase. Certain matters affecting provincial budgets have not been settled to this date. Our uncertainties are well illustrated by the fact that the regulations for administering the post-secondary transfers are only now being proclaimed. This fact fully justifies our caution in evaluating the federal assistance for post-secondary education.

A rather special situation exists this year in our fiscal relations with the federal government. The interim tax collection agreements end December 31, 1968. These are the arrangements by which the federal government collects provincial income taxes for the provinces. We still do not know what tax reform proposals will be brought forward by the federal government in response to the Carter Commission's recommendations, and now the constitutional aspects of the federal-provincial partnership are in a state of critical examination. This can only mean that fiscal arrangements will have to be examined anew.

Even though these wider examinations will be taken, an agreement must be reached before December 31st on whether this Province will continue to participate in the tax collection agree­ments with the federal government and, if so, in what form. Even on an interim basis, we cannot carry the responsibilities placed on regional governments without financial relief. Restraints can work only for a short period as they create pressures which cannot be contained indefinitely if our Province is to keep pace with the rest of the nation.

The Federal Minister of Finance has indicated that the system of taxation proposed in the Carter Report should not be adopted in total. We agree because we have found that the tax system proposed by the Carter Commission exhibits serious weaknesses. First of all, the Commission neglected to measure the economic impact of its proposals on the different regions of the country. Furthermore, the recommended taxation system was based on arbitrary concepts of uniformity which we do not believe can be applied realistically in a country exhibiting the social and economic diversity of Canada.

The Commission's proposals affecting financial institutions, mineral resource industries, farming enterprise and small business seem to overlook the economic development needs of the provinces. And, of immense consequence to the country, there is a real danger that certain of the proposals would damage the supply of capital coming into Canada. Far more certainty about the practical results of tax reforms must be assured before the future prosperity and progress of Canadians in all regions should be risked.

Progress has been all too slow in achieving recognition of the need for effective machinery of coordination and consultation between the two senior levels of government in Canada. Successful coordination and cooperation must be reflected in all aspects of the decision-making processes on matters of joint concern.

In respect to financial management, the senior governments in Canada must coordinate their budgetary positions, including the demands to be made on the financial markets and the total tax load to be placed on the Canadian people. In January of this year, Manitoba put forward a proposal to the Ministers of Finance Meeting recommending a practical first step to achieve this coordination. In this proposal we recommended that some neutral body be designated to receive budgetary information from all governments on a confidential basis and to compile and present this information on an aggregate basis to all the Ministers of Finance.

In this way, the governments and the people of Canada would come to know the aggregate budgetary demands to be made each year by all the senior governments in the country. At some stage, we hope the municipalities would be included as well. This proposal met with favourable response from the government representatives attending that meeting. We feel that unless cooperative machinery is developed, the events of recent months - which made our budgetary position so uncertain, will continue to be repeated.

EXPENDITURES AND REVENUES

FISCAL YEAR 1967-1968

Our most recent estimate of expenditures in the fiscal year just ended comes to about $347,350,000. Our revenue appears to be headed toward $347,850,000. The estimated surplus is $500,000.

FISCAL YEAR 1968-1969

Expenditures:

The expenditure estimates already placed before you come to $377,132,536. We have been able to hold our overall budget increase to 10 1/2 percent. This is among the smallest percentage increases of this decade. But these estimates are much less than the ones we first began to work with. Actually, the original proposals for next year's expenditures have been cut by $70,000,000 by the most rigorous kind of pruning and careful planning. I can assure you that most of those proposals were in themselves worthy and desir­able but the Government deliberately held the line to the present level in order to minimize the impact on the taxpayers of Manitoba.

However, increases occur through natural expansion of programmes established in previous years. They grow by themselves without fresh policy decision. Part of these increases come from rising wage rates and prices of materials and part from developments planned to take place over a period of years which must be implemented as promised or contracted for.

This factor is reflected in our policy of restraint in the number of civil servants. During the past year, we reviewed the establishments of all Departments and cut back the number of established positions in several of them. It is true that in other Departments some increases were necessary in order to provide for the growing needs of our mental hospitals, for teachers in our vocational schools, and for our growing park and recreational programmes, and, indeed, to look after the new sales tax which has just been introduced. However, I can observe that in the previous year 733 new positions were created while in the year just closing only 214 new positions were added to the overall establishment despite the growth in the services and activities of the Government.

It will be observed in the Estimates for 1968-1969 that education grants, including those to universities and to the regular public school system, are about $20,000,000 more than they were for the year just closing. Every province in Canada and every municipality is, and should be, deeply concerned over the rising costs of education which everywhere seem to limit the municipal and provincial taxpayer's ability or willingness to find money to meet those costs. The costs of our health and hospital services - to be met out of general revenue - have risen by over $8,000,000. Welfare costs have risen an additional $4,000,000. In other words, education grants to public schools and universities and our welfare, hospitalization and health costs in this new fiscal year are rising by $32,000,000 to a total of $253, 000,000.

I believe that people in Manitoba generally agree with the high priorities in our budget for health, welfare, and education, which take two-thirds of our available tax resources. We plan to continue our investment in highways and roads - over $45 million in fiscal 1968 - and to begin planning for new highways in the North. This investment will lead to further developments in the Province.

Few, if any, would disagree with our spending over $8,000,000 on agricultural development since this industry is and always has been one of the mainstays of our very existence. You will find too that we are planning as part of our capital expenditures next year to put several new millions into urban renewal and housing development. We still have to provide for the general protection of people, for industrial development, for unconditional municipal grants, and for public debt costs. Once all these kinds of expenditures have been taken care of on the most economical scale, there is really no room left in our budget.

TAXATION

As a result of being able to hold the line as well as we have, I am pleased to say that, first, we are not going to introduce new taxes; secondly, there will be no increase in our general tax rates. This result, of course, did not come about by any particular magic. We have experienced in the year just ended only nine months of actual sales tax collection receipts. In the fiscal year 1968, we are therefore going to have available to us the extra one-quarter of the year. We cannot expect, in subsequent years, to have such large increases in sales tax revenues in such a short period of time.

With the economy moving still further ahead, we expect additional revenues from the income tax fields which we share with Ottawa. All of us recognize that most of the taxpayers of Manitoba will be paying surcharges on the Federal tax levies. It is quite clear that munici­palities and school boards, despite our sharply increasing school grants, are in many cases going to be facing increased mill rates.

I should observe that the Hospital Commission has again been asked to review the cost projections of the hospitals whose activities it supports. If the Commission finds that the present premium levels are inadequate, it will be necessary to consider an adjustment to the rates. It was with these concerns in mind that the Government determined in its budgeting for the new year to hold its expenditures in reasonable balance with its existing tax resources.

Fiscal Year 1968-1969 - Revenues

I am tabling the revenue estimates and you will observe from them that our general revenues will total $377,844,128. With expenditures at $377,132,536 it will be evident that we are forecasting a surplus of $711,592. I am sure you will be pleased to realize that we face the year ahead with a forecast of a small surplus, with a further probable decrease in our general purpose debt, and without an increase in the rates of taxation.

DEBT AND FINANCE MANAGEMENT

We have been looking closely at our public debt expenditures and I am pleased to report that we have been able to reduce these costs by somewhat over a million and one-half dollars in the new year, while still maintaining the purpose of retiring the original amount of any dead-weight expenditure debt of the Province in at least 24 years. There will be no change in this policy which was established in 1947 but the funds required for the purpose can be some what reduced. This can be done on two accounts. Since many of our Manitoba Savings Bonds have been redeemed, we can reduce the annual payment being made into the sinking fund. At the same time, our sinking funds are beginning to develop a surplus which is available for the repayment of our annual serial debt charges. The steps we have taken this year not only absorb the rise in charges for interest but also give us a reduction of one and one-half million dollars from last year's estimate.

We have also this year strengthened our financial management in other useful ways. We are consolidating bank accounts to reduce overdraft charges and we have equipped ourselves with daily cash flow controls so we can better manage the flow of funds and take advantage of temporary cash excesses to earn interest on short-term investments. These measures are resulting in substantial savings.

DEBT POSITION

Direct Provincial Debt

Many have been confused by the variety of ways that the public debt of our Province has been shown in various publications throughout Canada. Manitoba must show a picture which is complete and which fairly presents our outstanding liabilities. For this reason, I have shown the debt of the Province in two ways. First, the traditional direct debt comparison on Page 42 of the Budget Address and the new presentation which is shown on Page 45. From this new presentation, it will be observed that with a population of 966,000 and net direct public debt of $102 million, the per capita debt of the Province is just over $100.

The traditional presentation as at December 31, 1967, shows the net general purpose debt at $176,243,868, a decrease of $2, 384,545 from last year. In the new presentation we show as offsets against the public debt of the Province our revenue producing and realizable assets and, also, bring into the picture those unfunded debts which do not otherwise appear in our debt picture. It is the type of presentation which some other provinces use in Canada and it is recognized as an informative presentation for investment purposes.

In this new presentation as will be observed in the table on Page 45, the net direct public debt after taking into account these other kinds of off-setting assets came to $102,077,739 as of March 31, 1967 - the most recent date for which this more comprehensive debt statement is available.

Guaranteed Debt

It will be seen from the table of guaranteed debt included in this report that the debt of our big utilities, the Hydro and Telephone Systems, as well as our other self-sustaining enterprises has risen from $484,000, ODD to approximately $587,000,000 in the twelve months ended December, 1967. These self-sustaining investments represent the continuing drive of the Government to enlarge and strengthen the developmental basis of the Province - a basis which is essential to our economic growth. The Nelson River Project is now well underway and for it and other Hydro purposes we expect to have to borrow upwards of $90,000,000 in the coming year. The Telephone System will be spending out of borrowed monies something in the order of $20,000,000 in the year abead. Some of that money has already been borrowed in the past several weeks.

The Agricultural Credit Corporation will need new funds in the amount of about $2,500,000. With $1,500,000 of monies coming in by way of repayment, that Corporation will have about $4,000,000 for its purposes. As well, we will require $15,000,000 to assist the school boards in the financing of local school building.

A relatively new kind of borrowing is being provided for this year to make way for the Government's new movement into the urban renewal and housing business. We are asking for a capital authorization for these purposes in the amount of $8,300,000. Much of this money will be available to us for borrowing from the Central Mortgage and Housing Corporation.

It is expected that the Manitoba Development Fund may require as much as $20,000,000 to be provided to it by the Provincial Treasury in the coming year and we are providing new authority for additional Regional Vocational high schools in the amount of $2, 000, 000. This amount, with the recoveries we expect to make from the federal government for this shared-cost programme, will enable us to undertake new and very desirable regional vocational high school construction amounting to about $5,000,000. Capital expenditure in the field of new water supply and water control projects should come to something in the order of $8,000,000.

With monies available to us from the Canada Pension Plan, from the Central Mortgage and Housing Corporation, from other sources available tous, and from funds generated internally, it would appear as though we can finance upwards of $175,000,000 of capital expenditure, while at the same time requiring only to find something in the order of $100,000,000 from the long-term public bond market in the twelve months just ahead.

Even so, when the next twelve months are completed I am confident that I can again report to you a still further reduction in the net general debt of the Province. In other words, the debt burden resting on our general taxpayers will be gradually dropping,' even though self-sustaining enterprises are having to increase their debt which we usually are required to guarantee.

CONCLUSION

This budget has been framed in the serious economic and financial circumstances imposed on us by national and international developments and by the actions of the federal government to restrain its rising levels of expenditure. Against this background, I am nevertheless optimistic that the Province can continue to achieve substantial progress and prosperity in 1968. As our economy achieves new levels of maturity we have every right to feel a growing confidence that our aspirations for Manitoba will be realized.

In this annual report, I have indicated to you some of the steps we have taken, some of the problems we have faced, and some of the favourable results that we are now able to forecast.

May I briefly summarize:

In the past year we took steps to restrain very sharply the growth of the Civil Service.

We are continuing a diligent and intensive survey of all Government operations and expect to be able to make interesting and important improvements and savings for the future.

From the original proposals for next year's expenditures we have cut $70,000,000 by the most rigorous kind of pruning.

We made room for a $20,000,000 expansion in our grants to schools and universities, an additional $8,000,000 for our Health programmes, another $4,000,000 for our Welfare plans. We are maintaining the level of our highway programmes. We are undertaking expansion of the improvement and development programmes for our agricultural areas. We are stepping up our development work in the field of Industry and Commerce. We are undertaking new and greater commitments in the fields of Urban Renewal and Public Housing.

We have been able to reduce the cost of servicing our general purpose debt. These steps have been achieved without an increase in provincial taxation.

We have been able to anticipate increased revenues from our first full year of sales tax collection and from our expected revenue from the income tax fields which we must still share with the federal government.

There is a real need in Canada for co-operation and co-ordination between the provinces and with the federal government on matters of economic and fiscal policy. Unless this is achieved we will be unable to develop and implement effective policies that will give this country and this Province the climate for sound, balanced growth. The best assurance for the achievement of our full potential remains, as always, in the efforts of our individual and corporate citizens.

Mr. Speaker, at the close of this speech there are copies which will be distributed. In them will be found tables and graphs which illustrate many of the figures that I have mentioned and others beside, and attached will be an appendix describing the performance of the Manitoba Economy in 1967 and the Outlook for 1968. I do not propose to read that appendix at this time, but it will be found attached to the copies of the address.

And now, Mr. Speaker, I beg to move, seconded by the Attorney-General, that Mr. Speaker do now leave the Chair and the House resolve itself into a Committee to consider of ways and means for raising of the Supply to be granted to Her Majesty.