PROVINCE OF NEWFOUNDLAND

THIRTY-SEVENTH GENERAL ASSEMBLY
OF
NEWFOUNDLAND

Volume 1 | 1st. Session | Number 38

VERBATIM REPORT

FRIDAY, MARCH 26, 1976

SPEAKER; THE HONOURABLE GERALD RYAN OTTENHEIMER

The House met at 3:00 p.m.

Mr. Speaker in the Chair.

MR. SPEAKER: Order, please!

The hon. the Minister of Finance.

SOME HON. MEMBERS: Hear, hear!

On motion that the House resolve itself into Committee of Ways and Means, Mr. Speaker left the Chair.

INTRODUCTION

MR. SPEAKER,

These are decisive times in the history of the Province of Newfoundland and Labrador and the presentation of my second Budget to this Honourable House in just over four months reflects that fact.

On November 24th, 1975, I presented a Fall Budget which took the necessary steps to correct unfavourable budgetary trends and which outlined Government's program to achieve expenditure restraints in line with the national Anti-Inflation Program and within our own financial capabilities. Today, my 1976 Budget measures the significant results of the 1975 Fall Budget and contends with the realism of the economic situation both in our Province and the Canadian Nation. It indicates that those financial decisions have indeed alleviated the more serious financial problems with which we were faced at that time.

Many of the economic uncertainties which existed in 1975 remain with us in 1976. The declining growth rate in expenditures by the Government of Canada will spill over to the Provinces and adversely affect our growth. Inflation, while showing signs of slowing down as a result of the Anti-Inflation Program, remains a very major concern of all Governments in Canada. In addition, there are concerns over our future Federal/Provincial fiscal relationships and as federal transfer payments represent 50 percent of total provincial revenues, the current comprehensive review of all fiscal arrangements for revised implementation in 1977 is a matter of great significance and importance to this Province.

It is against this background that I present the sixth Budget of the Progressive Conservative Government of Premier Frank D. Moores. It is a tough, realistic and necessary fiscal document.

REVIEW OF FALL BUDGET – 1975

The financial situation which was unfolding in the 1975–76 fiscal year was not encouraging at the time of the November Budget. The rapid rate of inflation, the significantly higher than budgeted wage settlements in the public service and the declining revenues from the Federal Government had forced us to address the prospect of a $30,000,000 deficit on current account. Government decided that such budgetary trends could not be tolerated and had to be expeditiously reversed. Therefore, we took several difficult but necessary steps to deal with the situation, including:

(i) an increase in the retail sales tax from 8 percent to 10 percent, modified by the introduction of a complete exemption on clothing purchases and by the raising of the minimum purchase subject to tax from 8 cents to 20 cents;

(ii) the elimination of commissions paid to businesses and corporations for the collection of retail sales, tobacco and gasoline taxes;

(iii) an increase in the cost of motor vehicle registration and driver licences;

(iv) an increase in personal income tax from 40 percent of the basic federal tax to 42 percent, effective July 1st, 1976;

(v) the deferral of several major capital expenditures, particularly in the area of hospital construction; and

(vi) the implementation of a freeze on the creation of new positions in the Public Service and on the filling of vacant positions.

Mr. Speaker, these Fall Budget decisions, along with earlier actions announced by our Premier when he endorsed the national Anti-Inflation Program, have had a significant and favourable effect on the projected results for the fiscal year about to end March 31st, 1976.

The Fall Budget projected an $11,322,200 deficit on current account and a total borrowing program of $222,143,200. Present estimates now indicate, however, that the current account deficit has been completely eliminated and when the figures are finalized a small contribution to capital account of $3,348,000 will have been achieved. Equally as important, total borrowing requirements have been reduced to $203,937,700 or $43,000,000 less than the trends in existence prior to the Fall Budget:

TABLE I

COMPARISON OF 1975 FALL BUDGET

WITH LATEST ESTIMATES 1975–76

	Fall Budget 1975–76	Revised Budget 1975–76	Increase or (Decrease)
	$	$	$
Current Account:			
Gross Expenditure	715,543,300	705,901,600	(9,641,700)
Related Revenue	152,531,100	149,908,600	(2,622,500)
Net Expenditure	563,012,200	555,993,000	(7,019,200)
Provincial and Federal Revenues	551,690,000	559,341,000	7,651,000
Contribution to Capital Account	(11,322,200)	3,348,000	14,670,200
Capital Account:			
Gross Expenditure	237,035,700	231,244,400	(5,791,300)
Related Revenue	70,123,100	67,867,100	(2,256,000)
Net Expenditure	166,912,600	163,377,300	(3,535,300)
Total Budgetary Requirements	178,234,800	160,029,300	(18,205,500)
Debt Retirement	43,908,400	43,908,400	—
Total Borrowing Requirements	$222,143,200	$203,937,700	$(18,205,500)

The favourable swing from a deficit on current account to a contribution to capital account is largely due to positive revisions of revenues associated with personal income taxes and with revenue guarantee payments from the Federal Government. While total positive revenue revisions were $18,800,000, there were other negative revisions of $11,100,000 comprised of $2,500,000 due to slower growth in sales of alcoholic spirits; $5,800,000 in retail sales tax due to the magnitude of several major industrial disputes and a higher than forecasted effect on revenues of the clothing exemption and a $2,000,000 reduction in equalization payments due to prior years adjustments. In total, therefore, revenues are estimated to have increased by $7,700,000 over the Fall Budget projections.

In addition, measures to restrain expenditures have been mainly responsible for net savings of approximately $7,000,000 more than was estimated in the Fall Budget thereby producing the overall contribution to capital account. These results are encouraging even though the financial performance for 1975–76 is still not as strong as we would have liked. Total expenditure growth averaged an unacceptably high rate of 19.8 percent and our revenue base grew at 18.4 percent and the Province borrowed in excess of $200,000,000 inclusive of debt retirement.

The financial outcome for the year ending March 31st, 1976, does, however, demonstrate the determination of this Government to implement its financial policies. The difficult taxation and expenditure decisions on current account and the deferment of major capital expenditures have produced a contribution to capital account and resulted in a reasonable borrowing program for the 1975–76 fiscal year. More importantly, these decisions have set the stage for a more manageable approach to the 1976 Budget.

ECONOMIC OUTLOOK 1976–77

The year 1975 was a difficult one for most Western economies and a particularly tough one for Canada. The Canadian economy has experienced its first decline in real growth since 1954, caused by a continuance of excessive inflation, a deterioration of the competitiveness of Canadian goods in foreign markets, a continued escalation in the prices of key imports and an unenviable record of industrial disputes. However, there is now some indication that the Anti-Inflation Program is beginning to have a positive effect on wage settlements and recent statistics indicate a decline in the rate of inflation.

It is expected that there will be modest improvement in most sectors in the Canadian economy during the first half of 1976 with further acceleration in the second half. The favourable outlook for the United States economy is a major factor in the optimism with regard to this recovery. Conservative estimates for Canada point to between 4 to 5 percent real growth in 1976. The restraints on Government expenditures will, of course, offset many of the growth prospects for the next year but it is generally recognized that Governments are correct in giving top policy priority to the control of inflation.

Newfoundland Economy

The latest available indicators show that in 1975 the Newfoundland economy real growth was less than one percent reflecting a small improvement over 1974. This low rate of growth reflects the national recession in general and the downturn in forest products, fisheries, manufacturing and construction industries in particular. Major industrial disputes also negatively affected output in 1975. The main areas showing substantial improvement were the mining and energy sectors.

The outlook for 1976 is dependent upon an economic recovery nationally and internationally. We expect that Newfoundland's Gross Provincial Product will grow in real terms by 2.0 percent to $2,576,000,000. We feel that we can look with some optimism towards the forestry sector, now that labour problems have been settled and that foreign markets are improving. In the mineral sector, it is reasonable to anticipate a continued expansion of output because of improving production and market conditions. The fishing industry as well is expected to show an improvement over 1975 with better market and labour conditions.

These positive aspects are expected to be tempered by slower growth in the manufacturing and construction sectors. In addition, the employment situation is not expected to change as people are added to the labour force at a similar rate to new job creation. Consumer expenditure is not expected to provide the economic impetus which is usual in an economic recovery period as it will be impeded by the wages and prices policy of Government, coupled with a reduced rate of growth in Government expenditure.

A summary of the 1976 economic outlook is presented in Table II:

TABLE II
ECONOMIC OUTLOOK FOR 1976 *

	1976	1975	Percent Increase
Gross Provincial Product ($ Millions)	2,576	2,280	13.0
Personal Income ($ Millions)	2,379	2,105	13.0
Personal Income Per Capita ($)	4,271	3,834	11.4
Population (000's)	557	549	1.5
Labour Force (000's)	181	177	2.8
Employed (000's)	156	152	2.0
Consumer Price Index (1971=100)	157.5	143.0	10.1
Retail Sales ($ Millions)	1,073.9	958.8	12.0

* Detailed economic data are contained in Exhibit I.

1976–77 FINANCIAL OBJECTIVES

The achievement of a financial turnaround in the 1975 Budget position is important. The 1975 taxation decisions have provided an increased revenue base for 1976–77 and the restraint on current and capital expenditures have halted a deteriorating budget position. However, we must keep in mind that it did not significantly alter the fundamental problems of rapid expenditure growth and the high borrowing requirements facing this Province.

We must realize that the restraint program started just four months ago and which had been labelled an eighteen-month period of restraint, will have to be continued for all of the next fiscal year. This is particularly necessary considering that in 1976–77 we will bear the full financial effects of the substantial salary settlements which were negotiated in 1975. We will also experience the full effects of the restraint program on our revenue projections and will continue to feel the effects of inflation on our expenditure programs.

This Government is determined to achieve two financial objectives in its 1976 Budget and these are (i) a reduced borrowing program which would not exceed $200,000,000 inclusive of debt retirement, and (ii) a contribution to capital account in excess of $10,000,000. Difficult but necessary decisions have had to be taken in order to achieve these objectives and to reflect responsible financial management.

Expenditures on current and capital account total $1,040,496,500 and when we add the expenditures of our Government agencies and also include debt retirement needs, Government's Budget for 1976 will approximate $1,250,000,000. Education and Health continue to be the largest areas of Government expenditure with Education requiring $264,319,000 and Health totalling $194,213,900. The magnitude of Government's budget continues to be highly significant and expenditure increases on both current and capital accounts total $103,350,500 over 1975–76 or an 11 percent increase. This is considerably lower than the percent rate of increase experienced in the 1975 Budget.

The projected financial position for 1976–77 as compared with 1975–76 is shown in Table III.

TABLE III

COMPARISON OF 1976–77 BUDGET
WITH REVISED ESTIMATES 1975–76

	Budget 1976–77	Revised 1975–76
	$	$
Current Account:		
Gross Expenditure	819,127,300	705,901,600
Related Revenue	177,880,100	149,908,600
Net Expenditure	641,247,200	555,993,000
Provincial and Federal Revenues	651,661,000	559,341,000
Contribution to Capital Account	10,413,800	3,348,000
Capital Account:		
Gross Expenditure	221,369,200	231,244,400
Related Revenue	63,292,800	67,867,100
Net Expenditure	158,076,400	163,377,300
TOTAL: BUDGETARY REQUIREMENTS	147,662,600	160,029,300
Debt Retirement:		
Redemptions	29,969,600	28,394,500
Sinking Funds	18,801,000	15,513,900
TOTAL: DEBT RETIREMENT	48,770,600	43,908,400
TOTAL: BORROWING REQUIREMENTS	$196,433,200	$203,937,700

CURRENT ACCOUNT 1976–77

Expenditures on current account continue to grow and in 1976–77 will total $819,127,300 (see Table IV). These expenditures reflect the growing demands and expectations of the people of this Province for new and improved services. It also, reflects the high cost of providing services in Newfoundland because of the rapid pace by which we have been required to build up our essential social and capital structure. The need for new construction in hospitals, highways, schools and water and sewer systems in the last decade has been financed through borrowings and the on-going costs of these expenditures are clearly indicated by interest costs which will total $106,490,600 in 1976–77. Government has had to grapple with this fundamental problem in arriving at a final position on current account in 1976–77.

The other major current account items include hospital operating costs ($141,108,100), teachers' salaries ($125,000,000), general salaries ($119,775,200), social assistance ($49,500,000) and maintenance of highways ($44,164,400). I should explain that the apparent growth in salary costs represents the full effect of settlements negotiated in 1975.

TABLE IV
MAJOR CURRENT ACCOUNT EXPENDITURE ITEMS

	Budget 1976–77	Revised 1975–76
	$	$
Hospital Operating Costs	141,108,100	119,362,600
Teachers' Salaries	125,000,000	101,795,000
General Salaries	119,775,200	106,656,800
Interest on Outstanding Debt	106,490,600	84,797,000
Social Assistance	49,500,000	46,246,200
Maintenance of Highways	44,164,400	42,141,700
Memorial University—Grant	37,500,000	32,900,000
Grants to School Boards	22,000,000	20,000,000
Maintenance of Public Buildings	14,822,300	13,557,900
Transportation of School Children	11,322,000	9,600,000
Rural Electricity Authority	11,100,000	9,579,000
Water and Sewerage Systems	9,600,000	8,900,000
Grants to Councils	9,540,000	8,614,100
Newfoundland Medical Care Commission	9,100,000	9,813,000
Pensions and Gratuities	9,030,800	8,246,000
Medical School—Grant	5,800,000	4,575,000
Provision of School Supplies	4,607,900	5,480,900
Other	88,666,000	73,636,400
TOTAL	$819,127,300	$705,901,600

The projected contribution from current account of $10,413,800 is only 1.6 percent of current revenues which total $651,661,000. Yet it has demanded a tough budgetary review process in addition to a continuation of our restraint policies. In order to achieve this current account position

Government was obliged to look at harsh options related to existing programs, particularly those which are more generous or in fact do not exist in other parts of Canada. We examined the elimination of the free dental care program for children under age 11, charging for school books which are now free up to Grade IX, introducing options for public contributions for medical treatment, re-introducing pro-ration on doctors salaries, reducing the recently announced sales tax exemption on all clothing and reducing student aid and scholarships. We looked at these and other options but have decided not to take any budgetary action on them.

However, the decision not to proceed with these items necessitated decisions in other areas of our Budget and Government has therefore made tough decisions with respect to (i) hospital services, (ii) public service salary limitations, (iii) public service staff reductions, (iv) general areas of expenditure restraint, and (v) additional taxation measures. These actions are burdensome but financially necessary alternatives if we are to realistically live within our means.

Hospital Services Restraint

To be effective, our policy of financial restraint must apply to all Government services and while our health services are some of the most essential we provide, they cannot be made immune from financial reality. This is especially true when we examine the rapid increase in health care costs in recent years and the continuing efforts of the Federal Government to withdraw or reduce their share wherever possible in the health service field.

Accordingly, the decision has been made to close approximately 200 acute care hospital beds during the fiscal year 1976–77. In making this decision Government realizes that additional pressures will be placed on remaining hospital beds and to minimize these pressures we will concentrate an intensive effort at inaugurating less costly alternative health care programs such as home care and day care programs. Similar actions have been taken in other Provinces during the past several months.

It must be emphasized that no closures of hospital beds will take place until there has been full consultation with the hospitals concerned. The staff reduction made necessary by these bed closures will, wherever possible, be achieved through attrition rather than lay-offs. In taking this decision to close beds, our intent is not to reduce costs without regard to consequences, but rather to economize in areas where we feel this can reasonably be accomplished. With the co-operation and support of the medical, para-medical and non-professional staff involved, the quality of our health service will not be seriously affected.

Collective Bargaining Restraint

In this fiscal year twenty-seven public service collective agreements are due for re-negotiation between March 31st and December 31st, 1976. These contracts which were negotiated in 1975 provided for unprecedented improvements in the salaries and working conditions of employees in our Public Service. Given the inflationary trends at the time and the need for catch-up in some areas, these improvements were justified and necessary.

However, Government has to provide for approximately $350,000,000 in public service salaries and we are faced with the reality that we must exercise restraint in collective bargaining. In recognition of this necessity, the Government of Newfoundland and Labrador entered into an agreement with the Government of Canada under the Anti-Inflation Act on Febraury 2nd, 1976.

We will continue to negotiate on a reasonable basis and while we do not expect public service employees and their bargaining agents to be happy with the consequences that restraints impose, we request and expect to obtain a responsible recognition by all concerned of the realities of our economic situation.

Other Restraint Areas

Government realizes it must set an example in limiting expenditure growth and cutting back wherever possible. The decisions in the Fall Budget to cancel the third phase of improvement in the pupil/teacher ratio and to defer action on an expanded recreation program have been implemented resulting in reduced expenditures on proposed new programs of $6,200,000. In addition, growth in our highway maintenance program will be curtailed and expenditures are expected to total $44,164,400 or an increase of 5 percent over 1975–76. Grants to School Boards will be limited to $22,000,000 or 10 percent over the 1975–76 provision. An operating grant of $37,500,000 will be provided to Memorial University compared to $32,900,000 in 1975–76. It is anticipated that these amounts will necessitate difficult decisions by School Boards and by the University to live within their budgetary provisions.

Government will be introducing a program of public service staff reductions with an initial objective of totally eliminating a minimum of 500 positions through attrition and program cancellation. These staff reductions will be in addition to continued freezes on new posts and restrictive practices with respect to filling of vacancies. Initial areas of review for staff reduction will be the Emergency Measures Organization, the Tuberculosis Control Division, and various other areas of Government activity particularly in the social and services field. Government will also be asking the various Crown Agencies to undertake similar staff reduction programs.

In the Fall Budget Government deferred the cost of living increase for those individuals on the social assistance program. The increase had been due to be effective January 1st, 1976. Government has reviewed the overall situation and will be proceeding with an increase of 10 percent on existing social assistance rates effective April 1st, 1976.

With a view to assisting our financially strained municipalities, Government will increase the ceiling on its revenue grant program for municipal governments. This action is not inconsistent with the austere theme of this Budget. At the present time Government gives to municipalities revenue grants which bear a direct relationship to tax collection by the municipalities. There is an existing ceiling of $100,000 on the grant and we intend to increase the ceiling to $150,000, thereby giving greater incentives to the local authorities to increase their tax levies and to improve their tax collection efforts. At least 18 of our larger municipalities are expected to be directly affected including Wabush and Labrador City, and the additional grants will approximate $750,000.

Taxation Measures

In addition to expenditure restriction and in order to achieve a meaningful contribution to capital account, it will be necessary, for Government to introduce additional taxation measures. These are undertaken with great reluctance and with the full knowledge of the existing tax burden on Newfoundlanders, but these measures are necessary to complete our plans of firmly placing current account on a sound basis. We have, therefore, decided to increase the provincial corporation income tax from its present 13 percent to a revised rate of 14 percent effective January 1st, 1976. This measure will result in an additional $1,300,000 in revenue during 1976–77.

In addition, we have decided to place an extra 2 cents per gallon on the price of gasoline in order to bring in additional 1976–77 revenue of $3,000,000. The gasoline tax increase was a difficult step to take particularly in view of the already high cost of gasoline in Newfoundland and Labrador. While the provincial gasoline tax has remained fixed since 1968, the oil companies have been increasing their prices dramatically in the last three years and the Federal Government has added 10 cents per gallon as recently as June, 1975, in the form of increased excise tax.

The two new taxation measures combined will result in additional revenue in 1976–77 of $4,300,000. The total current account revenue for 1976–77 is estimated at $651,661,000 as shown in Table V:

TABLE V

MAJOR 1976–77 ESTIMATED REVENUES COMPARED WITH 1975–76 REVISED

	Budget 1976–77	Revised 1975–76
	$	$
Tax Equalization	225,000,000	192,700,000
Retail Sales Tax	145,872,000	121,000,000
Personal Income Tax	109,179,000	89,905,000
Gasoline Tax	40,169,000	34,100,000
Newfoundland Liquor Corporation	33,000,000	28,555,000
Corporate Income Tax	20,845,000	16,000,000
Revenue Guarantee	13,500,000	20,300,000
Tobacco Tax	11,330,000	10,300,000
Vehicles and Drivers' Licences	11,600,000	8,800,000
Mining Tax and Royalties	9,000,000	7,800,000
All Other	32,166,000	29,881,000
TOTAL	$651,661,000	$559,341,000

Tax increases are not long term solutions to our budgetary problems and Government recognizes this fact. Under present economic and financial conditions, expenditure reductions and controls aided by program elimination are the only answer. It is quite evident that this Province has to seriously question its ability to support existing programs at present levels. While tax increases have been necessary in recent months to meet expenditure demands, future tax reductions can take place if significant areas of expenditure are eliminated on current account and if capital programs are reasonably and responsibly curtailed.

Expenditure cuts on current account free up funds to introduce new programs of high priority or to maintain existing programs with lower tax levels. Expenditure cuts on capital account help keep down future interest costs on borrowed money and future operating costs on capital assets. This Government is pledged to intensify its efforts in the next twelve months to accomplish a significant program of expenditure reduction and with the support of the people of this Province will create a new efficiency in Government spending. The ultimate objective of such a program must be to reduce the current tax burden carried by the average Newfoundlander and his family.

CAPITAL ACCOUNT 1976–77

Our budgetary objective to achieve a borrowing program of less than \$200,000,000 inclusive of debt retirement has been met but it has meant many tough decisions in priority capital spending areas. The major capital account spending areas are shown in Table VI.

TABLE VI

MAJOR CAPITAL ACCOUNT EXPENDITURE ITEMS

	Budget 1976–77	Revised 1975–76
	$	$
Transportation Development	31,700,000	28,000,000
Highway Improvement	20,862,000	28,850,000
Labrador Linerboard Limited	25,000,000	28,000,000
Industrial Development Corporation	10,075,700	-
Building and Equipping Schools	11,000,000	10,000,000
Newfoundland and Labrador Housing Corporation	10,848,300	8,160,000
Canada Summer Games	3,005,000	2,325,000
Community Sports Facilities	2,600,000	2,829,000
Hospital Construction	8,592,400	14,326,300
Health Sciences Complex	9,994,300	12,800,000
Rural Electricity Authority	5,301,000	4,125,000
Forest Access Roads	5,500,000	3,100,000
Forestry Equipment and Property	4,283,300	2,018,000
Fishery Development	10,457,000	15,320,000
Burgeo Fish Industries	2,500,000	535,000
New Machinery--Highways	3,000,000	4,300,000
Replacement of Old Bridges	2,300,000	1,000,000
Public Buildings--Construction	7,013,400	13,841,000
Paving Grants	2,458,000	1,720,000
Other	44,878,800	49,995,100
TOTAL	\$221,369,200	\$231,244,400

Highways expenditures including cost-shared projects under the DREE program will be maintained at high levels in 1976–77 as an estimated \$52,000,000 will be spent. In addition hospital completions totalling \$14,400,000 are scheduled for the Health Sciences Complex, Carbonear, the Waterford, Twillingate and Corner Brook. Government will also be continuing with expenditures in resource and social programs for school construction ($11,000,000), community sports facilities ($2,600,000), rural electrification ($5,301,000) forest access roads and equipment ($9,783,300), Gros Morne National Park ($6,125,000), marine service centers ($3,625,000) and municipal paving grants ($2,458,000).

The capital requirements for Labrador Linerboard Limited for 1976–77 are estimated to be $25,000,000. This compares with $28,000,000 advanced to Linerboard in 1975–76 and is based on the major assumption that the plant will sell 240,000 tons of linerboard product. The company has implemented a cost reduction program during the past several months with an objective of improving operating efficiency wherever possible. The projected cash operating losses for the Linerboard mill total $8,900,00 and the remaining cash requirements are for debt servicing charges. The fundamental problem with Linerboard continues to be the availability of wood at economic prices, a problem which the company and Government are currently addressing with a view to an early solution.

Despite the austere nature of this Budget its economic effects on the construction industry should be minimal. When we take into account the capital expenditures related to construction and add in the construction program of Newfoundland & Labrador Hydro, which is expected to exceed $50,000,000, and the housing program of Newfoundland & Labrador Housing Corporation, which is expected to approximate $56,000,000, then total construction activity stimulated by this Budget is well in excess of $200,000,000.

Some major projects will have to be deferred in 1976–77 in order to keep within our borrowing objective. These projects include all the proposed hospital construction which was deferred in the Fall Budget and necessarily include (i) the new and essential Constabulary building, (ii) the proposed Polytechnical Institute, (iii) the University Library, (iv) the very vital residence at the College of Trades & Technology, and (v) the Labrador West Arts & Culture Centre. Expenditures on new water and sewer systems will also be restricted.

BORROWING REQUIREMENTS

The borrowing requirements for 1976–77 will be less than in 1975–76 and represent the achievement of a significant financial objective. The Province's debt has been growing at a rapid rate in the past and must be restrained in future years.

The total cash requirements of the Province in 1976–77 after taking into consideration the projected contribution to capital account of $10,413,800 is $196,433,200. The financing program for the Province will represent an increase in net debt of $134,433,200, as redemptions, sinking funds and earnings on sinking funds total $62,000,000. The cash requirements will be obtained from the following sources:

General Market Borrowing	$155,000,000
Canada Pension Plan	32,607,000
Government of Canada Loans	8,826,200
	$196,433,200

The requirements for capital market borrowing should not cause difficulties as the Province's credit rating has remained stable and it has been successful in raising long term debt in various markets during the past several years. In 1975–76 the Province continued its policy of raising its long term debt only in Canadian and United States dollars.

In addition to the financing requirements of the Province, the Newfoundland and Labrador Hydro Corporation will likely require approximately $50,000,000 in long term financing for its capital expenditure program (exclusive of Gull Island) and Newfoundland Municipal Financing Corporation will have to borrow $25,000,000.

FEDERAL/PROVINCIAL FISCAL RELATIONS

One of the most significant components in the long-range financial planning of the Province is the fiscal relations which exist between the Government of Canada and the Province of Newfoundland. Federal shared-cost programs and programs under the Financial Arrangements Act such as equalization, revenue guarantee and post-secondary education, represent approximately 50 percent of the total revenues of the Province.

During 1976 negotiations will be held between the Government of Canada and all of the Provinces on most areas of Federal/Provincial fiscal relations. These meetings have already begun, concentrating mainly on the Financial Arrangements Act which expires March 31st, 1977. One of the major objectives of the Government of Canada is to reduce the rate of growth in its expenditure programs. This means that revenues from equalization and post-secondary education are likely to grow at a slower rate in the period 1977 to 1982. The revenue guarantee program is proposed to be be terminated after 1977. In 1975–76 this program represented $20.5 million of revenue to the Province. In addition, shared-cost programs are to be completely reviewed. The Government of Canada is proposing to limit the growth in these programs, the major ones being Medicare and Hospital Insurance.

Canada has experienced a major shift in fiscal balance during the past five years due to the dramatic increases in natural resource revenue, particularly oil and gas, and the relative slow-down in the economy. Therefore, new policies on Federal/Provincial fiscal relations must be developed and while regional disparities have been narrowing, it is essential for the Government of Canada to recognize the limited tax base of the lesser developed Provinces and the fact that disparities still exist.

The Province will be negotiating these issues during the next several months, however, in light of the shift in fiscal balance and the Federal Government's Anti-Inflation Program, it can be expected that in the future the growth in Federal Revenues will be slower and have consequent repercussions on our provincial financial capacity.

FUTURE DEVELOPMENT PLANS

The control of Government expenditures and the achievement of financial objectives with respect to revenue sources and borrowing guidelines are desirable policies of Government, but they do not address the fundamental economic and social issues in this Province. These issues can only be faced with a more rapid creation of new employment opportunities and an extreme effort at expansion and diversification of our economic base.

This Government has been working steadily over the past four years towards a strengthening of the economy, particularly in the areas of resource development. This has not been an easy task during a period of high inflation, high interest rates and relatively slow economic progress nationally. During the four years 1971 to 1975 the employed labour force grew by 17,000 new jobs or a growth of 3.5 percent per annum. However, our employment level as a percentage of the total labour force did not improve. Despite significant steps in job creation, our unemployment has continued to increase. This situation must be changed.

Our strategy for development will be based on the conviction that economic progress depends upon the best use of our natural advantages. Some of these advantages arise because of our geographical position. Other advantages arise from our abundant natural resources and from the advantages based on the skills and resourcefulness of our people. These advantages have not yet been fully realized and hold great promise for the near future.

This Government intends to build upon these natural advantages in order to ensure that we will benefit through expanded job opportunities and an improved standard of living. We have already achieved significant progress in the mineral and the pulp and paper industries and both continue to expand to make a major contribution to the Newfoundland economy.

In terms of new development, this Government places top priority on realizing the full potential of our fishing industry. At present there are almost 2,000,000 tons of fish caught off the shores of Eastern Canada, of which only slightly more than 400,000 tons are landed in Canada. In view of the Canadian fishing capacity Canada will have to allow potential landings to be caught by other countries and processed in Eastern Canada. Our fishery resources are enormous and in a world short of protein they must be managed properly. We have taken the position that our fishermen have first claim to this resource, which has the potential to create many high income jobs.

The key to the long term management of our fishery resources is the enactment of a 200-mile limit. When it is declared, it is of critical importance that our commercial position be established so that our people can benefit immediately in a meaningful manner. It is our hope that the 200-mile limit will be declared by January 1st, 1977. As a result, it is hoped to see at least the doubling of fish landings into this Province within the next several years, along with a dramatic expansion into advanced fish product processing. Fish processing is a very sophisticated but labour intensive industry.

It is imperative that we prepare immediately to realize increased landings through co-operative arrangements with European fishing interests by planning suitable landing and distribution facilities. At the same time we must ensure that any such program would not be to the detriment of our Newfoundland fishermen and that their best interests are protected.

Our fish processing industry is now operating at less than 30 percent of capacity and is highly seasonal in nature. Increased landings have the potential to reduce the seasonal nature of employment and create many new jobs. The repercussions and potential for the revitalization of a major fish processing industry are enormous, and this Government intends to intensify its efforts in bringing about such a revitalization as rapidly as our financial resources allow. We will also be seeking special assistance from the Government of Canada because of the national significance of the potential which exists.

Another of our initiatives in marine-related industry is based upon the natural geographic advantage which we have in Newfoundland for trans-shipment of supplies into the high Arctic region, and the transfer of the processing of raw materials originating in that region. Another initiative relates to the construction of concrete platforms in our deep water ports to service oil and gas production in the Northwest Atlantic. A further example is shipbuilding and ship repairs and it is our hope that expanded dry-dock facilities will enable us to capitalize on our geographic proximity to major shipping activity. We must capitalize on all of these opportunities if we are to survive economically and we must rejuvenate the initiative and spirit of the natural productive abilities of our people in order to make it successful.

This Government intends to promote a series of pilot projects in 1976–77 which will form the basis for expanded economic activities in the area of small business. For example, we plan to undertake pilot projects in fish-farming for trout and salmon. We intend to assist our sawmills to become more viable by more productive utilization of its by-products and we intend to promote the manufacture of wood products to take fuller advantage of our forest resources. We also plan to promote a pilot project for the further processing of blueberries and other native fruits into food products. We will also initiate pilot projects for the utilization of our marble deposits and for the production of clay and shale products. The concept of a Newfoundland marketing agency to promote all high quality Newfoundland products produced by small industry is being assessed. Such an agency would assist producers; provide continuous access to the various markets and through the use of distinctive Newfoundland brand names provide an efficient marketing image.

These are important steps to diversify the industrial base of the Newfoundland economy. We do not want to concentrate our economic development only on large capital intensive industries which often bring social and environmental difficulties and do not take advantage of our labour skills and natural resources.

HYDRO DEVELOPMENT

The development of the Province's hydro resources has been identified as one of the most important financial and economic factors for the Province of Newfoundland and this Government has worked hard to re-organize the administration of the Province's energy sector. However, the magnitude of the expenditures required for hydro development, the uncertainty with respect to the costs of construction, along with the uncertainties of the economic climate have made the task of developing our hydro resources extremely complex and difficult in the context of the financial resources of this Province.

In the November 1975 Budget, Government announced that after many months of study and exhaustive discussions, it had reluctantly concluded that the construction of the hydro site at Gull Island would have to be postponed for at least one year. The construction of the transmission system and the tunnel and interties for the 1800 megawatt Gull Island project has continued. The major reason for this postponement was the sharp increase in the estimated construction costs which now total in excess of $2.3 billion including escalation and interest charges during construction. In addition, the necessary agreement on the sale of surplus power during the early years of the project had not been completed.

Since the November Budget this Government has been working on a revised approach to the development of Labrador hydro resources. A major issue in the determination of whether the construction of the transmission lines, tunnel and interties should continue as phase one of the Gull Island project is the negotiation of a purchase agreement with Hydro-Quebec to obtain sufficient power from the 5225 megawatt Upper Churchill Falls site on a long term basis. In addition another major issue is the necessary arrangement with the Federal Government for financing the transmission line, tunnel and interties. These issues are still outstanding.

In addition to the work which is continuing on the Gull Island project, the Newfoundland and Labrador Hydro Corporation is completing the expansion program at the Bay d'Espoir Hydro site and has undertaken the necessary planning to ensure on-island installed capacity will be adequate in 1981. The major component in increasing on-island capacity would be installation of additional units at the Holyrood Thermal Station.

CONCLUSION

In conclusion, Mr. Speaker, the 1976 Budget is a tough but realistic financial plan for the fiscal year 1976–77. It represents the commitment of this Government to a financial philosophy of restraint during a period of grave economic uncertainty, provincially, nationally and internationally. The long rapid growth of the post war period has ended and a different economic framework must be created if the social, economic and political systems in the Western world are to survive.

The tax base of the Province is strained by the taxation decisions of the past and those outlined in this Budget. The people of Newfoundland should not be asked to carry any further tax burdens. Government is taking too much from the economy without accurate measurement of the need for expanded programs and of the contribution these programs are making. Growth in government spending and government structure must be reduced. In the short term, inflation, expectations of society and slow economic recovery make it almost impossible for Government to extricate itself from many of its commitments. However, this is not to say that the overall objectives cannot be realized and the initial steps taken as demonstrated by this Budget.

The philosophy and goals of the Government of Canada indicate quite clearly that growth in federal revenues will be slower and therefore Federal/Provincial programs will be revised and growth reduced. The Canadian and Provincial economies are not expected, in the short term, to grow at a rate fast enough to relieve these financial pressures.

In the short term this Province can expect little relief from the present taxation levels. All Government programs must and will be reviewed and decisions will be taken to eliminate those of low priority. I plan to outline my course of action on this financial policy in the debate on the Budget and in the months ahead as the plans develop and are implemented.

In the longer term the expansion of the Newfoundland economy and creation of additional jobs will depend on the success of this Government and the people of Newfoundland to take advantage of the opportunities natural to us. The fishing industry must be planned and managed properly, the forestry sector must be expanded into employment opportunity areas and our great hydro potential must be developed for the people of this Province. The enormous potential for offshore oil and gas must be realized.

This Budget is a responsible financial plan which achieves our critical financial objectives. It continues the restraint on Government spending yet it contains in excess of $200,000,000 in capital expenditures throughout the public sector of Newfoundland and total spending on current account of approximately $820,000,000.

While we must take action to bring about a sound fiscal position it is equally if not more important to get economic programs underway which maximize our resources, broaden our industrial base and combat our high unemployment. This is a decisive year for Newfoundland and I know its people have the courage, the energy and the capabilities to respond to its challenge.

SOME HON. MEMBERS: Hear, hear!

On motion debate adjourned until tomorrow.

MR. DOODY: Mr. Speaker, I would like to inform the House that I have received a message from His Honour the Lieutenant-Governor:

MR. SPEAKER:

"I, the Lieutenant-Governor of the Province of Newfoundland, transmit Estimates required for the public services of the Province for the year ending 31 March, 1977, in the aggregate of Eight Hundred And Eighty-Eight Million, Nine Hundred And Ninety-Three Thousand, Two Hundred Dollars ($888,993,200) and in accordance with the provisions of the British North America Act of 1867, as amended, I recommend these Estimates to the House of Assembly.

(Sgd) Gordon A. Winter

Lieutenant-Governor."

MR. DOODY: Mr. Speaker, I move that the message, together with the Estimates be referred to a Committee of Supply.

On motion that the House resolve itself into Committee of Supply, Mr. Speaker, left the Chair.

On motion that the Committee rise, report progress and ask leave to sit again, Mr. Speaker returned to the Chair.

MR. CHAIRMAN: Mr. Speaker, the Committee of Supply have considered the matters to them referred and have directed me to report progress and ask leave to sit again.

On motion report received and adopted.

The hon. the Minister of Finance.

MR. DOODY: Mr. Speaker, I give notice that I will on tomorrow ask this House to resolve itself into a Committee of the Whole to consider certain resolutions relating to the imposition of a tax on the income of corporations. And, Mr. Speaker, I further give notice that I will on tomorrow ask this House to resolve itself a Committee of the Whole to consider certain resolutions relating to the imposition of a tax on individuals who purchase gasoline at retail sales.

On motion the House at its rising adjourned until tomorrow, Monday, March 29, 1976, at 2:00 p.m.

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