



PROVINCE OF NEWFOUNDLAND

**THIRTY-SIXTH GENERAL ASSEMBLY
OF
NEWFOUNDLAND**

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VERBATIM REPORT

Wednesday, May 31, 1972

SPEAKER: THE HONOURABLE JAMES M. RUSSELL

The House met at 3:00 P.M.

Mr. Speaker in the Chair.

MR. SPEAKER: Pursuant to my understanding of statements made at the end of yesterday's sitting we shall proceed to the Orders of the Day.

ORDERS OF THE DAY:

MR. SPEAKER: It has been moved and seconded that the House resolve itself into a Committee to consider Ways and Means of raising the Supply to be granted to Her Majesty.

HONOURABLE JOHN C. CROSBIE (MINISTER OF FINANCE) Mr. Speaker, as Minister of Finance in the first Progressive Conservative Administration in this Province since Confederation, I have the honour of presenting the Budget for the financial year that ends on March 31st, 1973.

I have promised the people of Newfoundland and Labrador that they would be given the facts concerning the financial position of the Province so that they will know the exact state of affairs following twenty-three years of Liberal Administration, and so that they will know the situation that faces the new Progressive Conservative Administration of Premier Moores. The Moores Administration wants the people of Newfoundland to know the problems that face them and their Government. This Administration wants them to know how their Government plans to attempt to deal with the many and serious problems that now face this Province as a result of the lack of planning, the lack of a system of priorities, and the extravagance for political reasons of the Liberal Administration whose rule was terminated by the people of Newfoundland in October 1971 and March 1972. I believe that this Budget honours this commitment and that this Budget will go much further in disclosing many of the objectives of the Moores Administration.

Since we assumed office on January 18th, 1972, we have confirmed what we had concluded in Opposition, that this Province is experiencing three serious effects of the inept and wasteful policies and practices of the previous administration. These are:

- (1) Public expenditure growth patterns grossly and excessively out of line when compared to private production, investment and consumption in this Province;
- (2) Rapidly increasing levels of expectations by our people as a result of a deliberate policy of promising everything: a deliberate policy of never putting forward unpleasant facts particularly the fact that the real resources are not now available to satisfy the levels of expectations aroused among our people: and
- (3) Mr. Speaker, persistently rising costs and increasing unemployment.

The objective of this Administration is, and must be, the establishment of our real position, followed by the planning of the most effective and efficient allocation of our resources so that we can maximize future benefits in this Province. The achievement of this objective is a difficult and complex challenge.

If we are to achieve these aims then there must be a tremendous involvement and a tremendous effort made by many departments of Government, organizations and people. These aims cannot be accomplished in one month, or in one year or, perhaps, in one term. However, for the first time since Confederation, we intend to make rational planning the basis of all decision-making. There is no point in discussing long-range strategies, economic growth, reduced taxes or full employment without a sincere commitment to the investigation and to the establishment of exactly where we stand. We must first decide what the priorities of this Province are to be and attempt to match our present and potential resources against the requirements of the present and the future.

In this first Budget of the Progressive Conservative Administration it must also be realized that this Administration was faced with commitments of, and steps taken by the past Liberal Administration.

We have been forced into many expenditures because of commitments made and contracts entered into that could not be reversed without serious financial consequences for the Province.

The first Budget of this Administration takes the initial step in a new approach to management of this Province. This Budget spells out, as best we can, the true financial position of the Province of Newfoundland and Labrador. We will be undertaking a series of comprehensive studies this year to develop a four-year plan for this Province and this Government. In the meantime, we are operating under a preliminary set of priorities and a one-year plan as I outline in this Budget. It is our intention to supervise closely this one-year plan and to make any adjustments found necessary to co-ordinate it with the long range strategy that we will be formulating this year.

Before I present the details of the financial and economic conditions which we presently face, I wish to comment briefly on the new Budget format for this year. The Budget will have five supplementary sections which present information vital to the public interest. The first supplement is the Estimates for 1972-73 as prepared by Treasury Board for presentation to this honourable House. The second supplement comprises the Salary Estimates for 1972-73 which will also be tabled today. These two supplements and the Budget Speech are the three normal budget documents.

In addition, this year there will be three further supplements. Supplement Number Three consists of financial and economic statistics and statements relevant to the financial position of the Province. These statements give the details of the financial information referred to in the Budget. Anybody that wants to know the financial position of the Province can find it from this Supplement Number Three as well as the Budget Speech. Supplements, Number Four and Five deal with the industrial projects underway at Stephenville and at Come-by-Chance. We feel it is timely and important to give our people progress reports on the Linerboard Mill at Stephenville and the Oil Refinery

at Come-by-Chance because of their importance to the future development of this Province.

It is clear, Mr. Speaker, that the fantastic errors made in the past with respect to the Linerboard Mill Project, the mismanagement and, indeed, corruption that surrounded that Project, have laid very heavy burdens upon this Province. The vast investment of this Province in that Project and the continuing need to support that Project is a factor that will prevent public expenditures in other areas. These mistakes we must live with and overcome as best we can. It is our pledge that mistakes of this nature will not occur while we are in office.

Supplement number five deals with the present situation respecting the Oil Refinery Project at Come-by-Chance. There also, the past Liberal Administration failed to give information to the public: information we now present for the first time. This supplement illustrates that the Oil Refinery Project at Come-by-Chance will not cost \$160,000,000 as previously pretended but, between \$175,000,000 and \$180,000,000, not including obligations in connection with the public wharf under construction by the Government of Canada, amounting to a further \$20,000,000. So that the total expenditure for which the Crown Corporation and indirectly the Province will be responsible for will be between \$190,000,000 and \$200,000,000.

It is my hope and my firm belief that the reputation of this Administration in the financial markets of the world will be strengthened by a budget which outlines the details of our total financial position: which does not attempt to hide the unfavourable; but which at the same time outlines the steps which we realize must be taken in the short and long-term to come to grips with the difficulties which face us.

What are our Fiscal Objectives?

The process of budgeting is an incremental process. You cannot create a budget for one year only since the largest determining factor of the size and content of the Budget for this year is,

obviously, the expenditure programmes and decisions of last year. This Government has had very little opportunity for flexible decision-making in developing the Budget for this year because of the tremendous number of commitments made last year by the Liberal Administration. The decisions of that Administration were not made as a result of planning or priorities but solely dependent upon the fact that the Liberal Administration had to face a General Election during the year 1971. The result was an outpouring of money, contracts, commitments, loans and guarantees of loans in a futile attempt to keep that Administration in power for a further five years. It is unfortunate that this year and for years to come we must suffer the consequences of that reckless, cynical and desperate approach.

The expenditures of Government in this Province are rivalling the private sector of the economy in spending power. During the period 1965-66 to 1971-72, expenditures of this Government rose 184.9 percent from \$187,817,000 five years ago to the staggering total for the last financial year of \$535,151,000. This increase represents an annual growth rate in expenditures of 19.1 percent.

During the period 1965 to 1971 our gross provincial product increased from \$745,000,000 to \$1,310,000,000, which represents an annual growth rate of 9.8%. Thus the expenditures of Government have been growing at almost double the rate of growth of our provincial economy.

It is against this background and this financial climate, operating under such an unrealistic degree of momentum, that we must present our first Budget and establish our initial fiscal objectives.

This Administration, Mr. Speaker, is committed to establishing economic stability in this Province but not stability without growth. The economic stability I refer to can only be created through rational

planning. We must and will bring the rate of increase of government expenditures under control. Mark the words "rate of increase," Mr. Speaker, not that Government expenditures are not going to increase but their rate of increase must be brought under control. We must and will review thoroughly all present government expenditure programmes and we must and will formulate and implement economic development strategies that will provide this Province with increasing revenues.

I am confident that this new approach to a very complex economic situation will yield the best returns for us consistent with the expectations of our people and with the risks involved.

The major objective of this Administration is to reduce the high level of unemployment in this Province. In April of this year there were approximately 24,000 persons unemployed in the Province compared with approximately 25,000 in April, 1971 and 20,000 in April, 1970. The number of unemployed in April of this year represents an unemployment rate of 15.1%. Such a rate is totally unacceptable to a Government whose policies and priorities will be directed to the struggle for acceptable levels of employment.

The problems of the unemployment situation are compounded by the rapidly increasing size of our labour force. From 1970 to 1971 the labour force grew by 6.2% while the number of persons employed in this Province grew by only 4.7%. The creation of several thousand new jobs, therefore, must be the first priority of this Government and must be the central concept in our strategies for economic development, particularly in the planning of the natural resources programmes.

The alarming increases in short-term and long-term social assistance are closely related to our unemployment situation. In 1971 there was an average of 9872 short-term assistance cases as compared with an average of 8363 in the year 1970, an increase of 18% for 1971. The total expenditure by the Government of this Province on both short-term and long-term social assistance in 1971 was \$38,317,000, up 14.5% from the

expenditure of \$33,477,000 in 1970. That certainly, Mr. Speaker, is alarming.

This is the economic and employment legacy left to us by the previous Administration after their twenty-three years in office, during a period when tremendous sums of money were available to that Administration and during a period when tremendous expenditures were made.

I wish to make it clear, Mr. Speaker, that wherever we have a choice, our priority in expenditures will be directed toward industrial development, development of fisheries and our other natural resources. Only by increasing the productivity of this Province in these areas can we create the foundation upon which the rest of the services of Government depend. By industrial and natural resource development, I do not mean assisting any enterprise or accepting any suggestion. We will assist only where we are satisfied that a suggested project appears feasible, appears to be a risk worth taking and has prospects for success. We are not going to fall for anything that comes along and is suggested but if they meet these tests we will assist.

The objectives to be established for economic development in this Province will result in the most important decisions that our new Government will make. The success of this Province depends heavily on the successful implementation of a well-formulated long range plan. It is only through such a strategy that we can achieve the generally accepted objective of increased employment, higher per capita income and sustained economic growth. The success of this strategy will determine the level of social services that this Province will be able to afford in the future.

Mr. Speaker, I can assure the people of Newfoundland that the Progressive Conservative Government has begun to gather the necessary information to perform the pertinent analyses and to plan overall

strategies. There is no doubt that we will be proceeding through a difficult period in the short run. This difficult period cannot be avoided since we have to untangle the complex and confused economic situation into which this Province has, unfortunately, been placed during the last 23 years.

I wish now, Mr. Speaker, to look at the Financial Management of the Province from 1965-66 to 1971-72. First the Debt Position.

One of the most difficult tasks that awaited our attention as a new Administration was establishing completely and accurately the financial position of this Province.

In the six-year period from 1965-66 to 1971-72 it appears the former Liberal Administration completely discarded any semblance of financial sanity. The total debt of this Province, direct and guaranteed, less sinking funds, rose from what was already a national high of \$674 per person to the present figure of \$1,955 per person. The total debt outstanding of this Province, direct and indirect, has increased from \$332,153,000 six years ago to the staggering total of \$1,035,930,000, an increase of \$703,777,000 or 212 per cent in the six years.

This incredible growth in direct borrowings and in guarantees during this six year period represents an annual compound growth rate of over 21 per cent. If this growth rate were to continue, which it most certainly will not, our total debt would double to more than \$2,000,000,000 in approximately three and one-half years if that growth rate were to continue, the growth rate cannot continue and we have to insure it does not continue.

It is interesting to note that the total direct and indirect debt of this Province today is surprisingly close to the projected figures disclosed in the 1967 Report of the Royal Commission on the Economic State and Prospects of Newfoundland and Labrador. That Report estimated that if the trends it then saw continued, and if the steps it suggested

were not adopted. that the total debt of this Province would be \$1,286,000,000 by March 31, 1972. If we include the outstanding debt of the Come-by-Chance Oil Refinery of \$130,000,000, the Report's projection is in error by only 10 per cent.

Honourable Members of this House and the public will recall that one member of that Royal Commission was our present Premier, the Honourable Frank Moores, and that the Report was labelled 90 per cent trash and quickly discarded by the previous Administration. In fact, the Report of that Royal Commission was not 90 per cent trash but rather 90 per cent accurate and it is a great pity that no attention was paid to it.

A close examination of the borrowings of the Province during the period from 1965-66 to 1971-72 discloses that \$388,054,000 of the increase was in direct debt, less sinking fund. This represents an annual growth rate of 22.7 per cent and an increase in direct debt from \$161,536,000 in 1965-66 to \$549,590,000 at March 31, 1972. The Direct debt of Crown Corporations under lease-back arrangements totalled \$59,480,000 as at March 31, 1972.

With respect to guaranteed debt, the Province was obliged by the former Liberal Administration in these six years to an additional \$327,677,000. This increase brought the total guaranteed debt of the Province to \$427,219,000. Of this total approximately \$203,900,000 is debt of the Newfoundland and Labrador Power Commission; \$96,300,000 is guaranteed debt of the Stephenville Linerboard Mill Complex and some \$72,000,000 is guaranteed debt of other government agencies and corporations.

I must point out here that one project alone accounts for 29.4 per cent of the \$327,000,000 increase in guaranteed debt. In that period the Linerboard Mill Complex at Stephenville and Goose Bay involved the Province in guaranteed obligations totalling \$96,315,518.

I have not included, Mr. Speaker, in the total guaranteed debt the \$130,000,000 direct debt of Provincial Building Company Limited, the wholly-owned Provincial Corporation that is building the Oil Refinery at Come-by-Chance. While this amount is not a legal liability of the Government of this Province, it is, nevertheless, difficult to conceive of this Province permitting a default in connection with this wholly-owned Provincial Corporation if that situation ever arose. We do not visualize that this situation ever will arise.

These dramatic and apparently, Mr. Speaker, care-free increases in borrowings were undertaken by the past Liberal Administration during a period of historically high interest rates. The Liberal Administration was forced, because of these tremendous borrowings, to borrow in the capital markets of Canada, the United States and Europe at rates as high as 9 3/4 per cent. The resulting increases in annual interest payments are substantial.

An analysis of the last three years of the Liberal Administration's term of office further demonstrates their unplanned, careless and dangerous borrowing pattern. In 1970-71 direct borrowings increased from \$49,500,000 of the previous year to \$97,500,000. In 1971-72 the total direct borrowings were \$74,000,000. In this same period guaranteed debt also increased sharply, rising \$28,000,000 in 1970-71 and \$72,399,000 last year.

Surely, Mr. Speaker, it is obvious that this growth rate in borrowings, direct or indirect, cannot continue. It will not continue.

Now I would like to look, Mr. Speaker, at Budgetary Expenditures for the same six years.

Any analysis of the financial management, more properly, financial mismanagement of this Province during the period 1965-66 to

1971-72 will show that the outstanding feature is the growth pattern in Expenditures of Government. There are Exhibits attached to the Budget Speech with the figures.

From 1965-66 to 1971-72 the Liberal Administration increased the total annual expenditure from \$187,817,000 to last year's revised estimated total of \$535,151,000. The growth was, therefore, as I said, Mr. Speaker, a staggering 184.9 per cent or an annual compound rate of 19.1 per cent. The cumulative spending of the Liberal Administration during this period was \$2,383,180,000. A sizeable amount of money.

The major increase during this period occurred in the field of education. In education Current Account spending climbed from \$29,411,000 in 1965-66 to \$105,152,000 last year for a growth rate of 23.7 per cent per year.

The largest percentage increase in spending occurred in Natural Resource and Industrial Development. Even if we exclude, Mr. Speaker, the Stephenville Linerboard Mill, spending in economic development still increased at an average rate of 40.3 per cent per year. The total current and capital expenditures on Natural Resource and Industrial Development during this period was \$277,512,000, a gigantic sum of money when you relate it to the almost complete lack of benefits.

An expenditure that has frightening social and economic implications is the spending on social welfare during this period. From 1965-66 to 1971-72 the total outlays on long and short-term social assistance climbed from \$12,113,628 to \$41,623,800. The growth rate in welfare spending was 22.8 per cent per year and is increasing rapidly. In 1971 the annual average number of Newfoundlanders on short-term and long-term social assistance was 90,028.

This sorry statistic, Mr. Speaker, is the only comment necessary in considering the success or failure of the "develop or perish" theories, the professed strategy of job creation, and the vast expenditures on so-called economic development by the previous Liberal Administration. When you have the figures you need say nothing more as to the success or failure of those theories and strategies "develop or perish".

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The remaining major expenditure is that of debt servicing charges. These charges include annual interest payments on the outstanding debt of the Province and the payments in respect of sinking funds. It does not include the redemption of maturing debt. In 1971-72, the last financial year, our expenditure for this purpose climbed to \$55,379,000 from \$16,246,000 in 1965-66, an annual compound growth rate of 22.7 per cent for interest and payment to sinking funds. It is now the fourth highest category of spending in Government - Education, Health, Welfare and Interest in payment to sinking funds.

I have no doubt, Mr. Speaker, and I am sure that Honourable Members have no doubt, that our Province must expend hundreds of millions of dollars annually so that we can maintain adequate public services and so that we can assist growth and development. It is obvious from this analysis of expenditures during the past six years that spending occurred on a gargantuan scale without adequate planning or control. The instruments, Mr. Speaker, for adequate planning and control were developed in the Treasury Board and the Department of Finance but the will of those in charge of Government was that planning and control be ignored when it interfered with personal and political considerations. During this period there was no establishment of priorities. In fact it was announced Government policy that priorities was a word that you did not mention. You could not have such things in Newfoundland. That was the official policy. There was no establishment of priorities. The only priority was to attempt to purchase re-election by vast expenditures of public funds on a multitude of unrelated programmes, many of which had little priority as compared to the real needs of this Province.

These vast expenditures of money did not create a comparable increase in productivity as shown by our examination of the increased costs of social welfare, our examination of the lack of increased revenues from the so-called economic development policy, and our examination of the greatly increasing deficits during the six year period.

This Administration, Mr. Speaker, is dedicated to restoring this Province to financial sanity, to economic stability and planned growth. If this is to be accomplished expenditures must now be controlled on both current and capital

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accounts, and all programmes reviewed to decide whether they should continue or be replaced by something more suitable to our changed conditions.

Budgetary Revenues 1965-66 to 1971-72

Mr. Speaker, if I were now to terminate the financial analysis of this Province having discussed only the expenditures, then the patterns of growth might leave the impression of prosperity and development. This would give a false impression since expenditure is merely one side of the financial management of Government.

From 1965-66 to 1971-72 while expenditures were soaring in an unplanned and irrational manner, our revenues were lagging behind at an increasing rate. The simple fact is, Mr. Speaker, that the revenue base of this Province has not expanded fast enough to handle the expenditure programmes. The result has been annual deficits for each of the last six years of the Liberal Administration growing at a dangerous rate.

During the same period the total revenue of this Province grew at an annual compound growth rate of 16.6 per cent. This would certainly be encouraging were it not for the fact that expenditures during the same period were growing at the annual compound growth rate of 19.1 per cent. (Exhibit VI).

Our revenue position is even less attractive when broken into revenues coming from the Government of Canada and revenues coming from this Province. The revenues from the Government of Canada grew at a rate of 17.0 per cent during this period and now represent 57.9 per cent of our total sources of revenue. (Exhibit VII).

The major increase in revenues received from the Government of Canada occurred in tax equalization payments. The Federal-Provincial Fiscal Arrangements Act was revised in 1967 to include a much wider base in attempting to equalize the per capita revenues of the Provinces of Canada. In 1967-68 the tax equalization payment received by this Province jumped from \$29,007,000 to \$67,866,000. In 1971-72 our tax equalization revenue amounted to \$120,551,000.

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Other major increases have occurred in grants-in-aid from the Government of Canada and from capital account revenues. All of these revenues from the Government of Canada are tied to specific expenditure outlays under such programmes as the Hospital Insurance Programme and the Canada Assistance Plan. This is with the exception of the Term 29 money. They are tied to programmes like that.

The reaction of the Liberal Administration to these increases in assistance from the Government of Canada was to continue its unplanned course, to borrow more vigorously and to spend more vigorously in anticipation that something would occur to buoy up these irresponsible expenditure programmes.

Here was this tremendous additional assistance, Mr. Speaker, coming to us from Ottawa, no planning done, just spend it and spend and borrow more because this was coming in and forget the future, something would come along.

The major increase in provincial sources of revenue during this six year period occurred in the Social Security Assessment Tax (Sales Tax) and in personal income taxes. Newfoundland has the second highest retail sales tax in Canada, 7 per cent, and our revenue from this source increased from \$20,033,000 to \$50,307,000 during this period. Only the Province of Quebec, New Brunswick and Prince Edward Island have higher sales tax rates. These being 8 per cent in each case (Exhibit VIII).

The payment of individual income tax in this Province also substantially increased during this period with the revenue from personal income tax increasing from \$6,153,000 six years ago to \$28,041,000 last year.

With respect to provincial revenues there were also major increases in Gasoline Tax revenue and in the trading profits of the Newfoundland Liquor Commission. As we all realize Newfoundlanders pay the highest prices in Canada for these products.

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A very disappointing area and a very disturbing fact, Mr. Speaker, of revenue generation in this Province is the field of Corporation Income Taxes. Our share of corporation taxes amounted to \$8,951,000 in 1971-72, a decrease of \$344,000 from the amount received six years ago in 1965-66. This was in spite of tax rate increases that made corporations in Newfoundland among the highest taxed in Canada.

Our revenue from the Corporation Tax has decreased in this six year period. This is an extremely significant indicator of the condition of our business sector and is a direct result of the ill-conceived economic development policies of the past administration. There is something very much wrong in this Province, Mr. Speaker, when our revenue from the Corporation tax decreases over six years not increases. This means that our businesses are either making less money or if they are making the money they are getting it tax free some how or other. But it is a very significant indication of the fact that we have not been having economic development in this Province.

This financial analysis of the revenue of the Province shows that the major strengths are the financial support we receive from the Government of Canada and the increasing per capita income of the people of Newfoundland. However, it is evident from this analysis that more revenue must be generated simply to support current levels of Government services and programmes in this Province. We need more revenue if we are to support the services we have now at the level we have now. (For a detailed analysis of the sources and uses of funds from 1965-66 to 1971-72 refer to Exhibit IX).

Service Costs of Provincial Debt.

The difference between the amount of expenditures and the revenues of our Province during the past six years has had to be

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financed by increased borrowings. Despite the large increases in revenue contributions from the Government of Canada, the gap between our expenditures and our revenues is widening. In 1965-66 our total provincial budgetary deficit was \$16,901,000. That was the total deficit. In 1971-72 the deficit had grown 523 per cent to the amount of \$105,248,200 or an annual growth rate in deficit increases of 35.6 per cent. The obvious result of such a financial policy on the part of the past Liberal Administration has been rapidly increasing costs in servicing the provincial debt. In 1965-66 the annual cost of interest and payments to sinking funds was \$16,246,000 (Exhibit X).

By 1971-72, the total cost of interest payments and payments to sinking funds was \$55,379,000 an increase of \$39,133,000, or 241 per cent compared to 1965-66. On an annual basis the compound growth rate in interest and payment to sinking funds was 22.7 per cent (Figure 2).

It must be noted that as a percentage of the net current revenues of this Province debt servicing charges, that is interest payments and payments to sinking funds, required 19.4 per cent of available funds in 1971-72.

In considering the borrowing programme of this Province during the next five years I must point out that there is \$102,427,048 in debt maturing, for which we must arrange refinancing (Exhibit XI). This obviously will make it more difficult to borrow for capital works programmes during these five years. We will have to borrow \$105,000,000 to re-finance debt incurred by the previous Administration. - \$102,000,000.

This Government intends to stabilize and improve our financial position by implementing sound financial debt management and by implementing four year planning and strict control over revenues and expenditures.

It is obvious that we must continue to rely on capital market borrowings, as well as borrowings from the Government of Canada and other sources, to cover deficits and to cover necessary capital expenditure programmes of the highest priority. It is equally obvious that the rate of increase must stop. It will stop.

REVISED FINANCIAL RESULTS FOR 1971-72

In the Budget for the financial year that ended March 31, 1972, the Liberal Administration estimated a Current Account surplus of \$1,048,900. The revised figures, subject to review, disclose a Current Account deficit of \$3,918,200. There are large variations from the figures given in that Liberal Budget as the following table illustrates:

TABLE I
CURRENT EXPENDITURE & REVENUE DIFFERENCES

	1971-72		
	Original Estimate	Revised Estimate	Difference
Gross Current Expenditure	353.9	369.9	16.0
Appropriations-in-Aid	86.2	80.2	6.0
Net Current Expenditure	267.7	289.6	21.9
Current Revenues	268.7	285.7	17.0
Surplus (Deficit)	\$ 1.0	\$ (3.9)	\$ 4.9

What happened, Mr. Speaker, the Current Account Expenditures were underestimated by the past Administration by \$16,000,000 and the related appropriations-in-aid were overestimated by \$6,000,000. The evidence in Government records indicates that these differences arose because of arbitrary and unjustifiable adjustments in the 1971-72 Estimates so that an artificial surplus would appear in Current Account. In other words, it was the practice of the Liberal Administration to artificially cut the Estimates by whatever percentage was necessary to show a surplus on Current Account. This would be done in the full knowledge and realization that the additional moneys needed would be obtained through the use of Lieutenant-Governor Warrants during the financial year and thereafter through Supplementary Supply.

With respect to the year 1971-72 the Liberal Administration was saved from a Current Account deficit that could have been as high as \$20,000,000 but for the receipt of an unexpected windfall in tax equalization revenues. This windfall came about mainly through prior years adjustments made by the Department of Finance of Canada. The past Administration thus expected to have a Current Account deficit of some \$15,000,000 to \$20,000,000 but chose to show a Current Account surplus of approximately \$1,000,000.

The 1971-72 Budget Estimates of the past Liberal Administration were also understated in Capital Account. The overall requirements to cover the deficit on Capital Account were estimated at \$98,300,000 whereas the revised figures indicate a deficit of \$101,330,000. The breakdown of this difference of \$3,030,000 is shown in Table II.

TABLE II
CAPITAL EXPENDITURE & REVENUE DIFFERENCES

	1971-72		
		(\$ Million)	
	<u>Original</u>	<u>Revised</u>	<u>Difference</u>
Gross Capital Expenditure	153.8	165.2	11.4
Appropriations - in - Aid	<u>55.5</u>	<u>63.9</u>	<u>8.4</u>
Net Capital Requirements	<u>\$ 98.3</u>	<u>\$101.3</u>	<u>\$ 3.0</u>

The total requirement of \$105,248,200 to cover the current and capital account deficit was financed through Canada Pension Plan borrowings of \$17,600,000, DREE loans of \$8,582,400, Special Development Loans Programmes of \$6,700,000 and general borrowings of \$72,365,800.

The summary of revised departmental expenditures for 1971-72 is shown in Exhibit XII. The detailed revised 1971-72 figures are included in the 1972-73 Estimates which will be tabled today.

Misleading Budgetary Procedures

Those of us who were in Opposition during the past several years felt that the Liberal Administration was presenting unrealistic estimates to the House of Assembly and to the people of Newfoundland. This assumption was strongly supported by an analysis of the Supplementary Supply Bills which were presented to the House of Assembly between 1965-66 and 1971-72. In that six year period, Mr. Speaker, no less than \$256,000,000 was spent by the Liberal Administration without the prior consent of the Newfoundland House of Assembly.

TABLE 111
 SUPPLEMENTARY SUPPLY
 1965-66 TO 1972

<u>YEAR</u>	<u>\$ MILLION</u>
1965-66	14,639,300
1966-67	54,009,300
1967-68	54,454,665
1968-69	22,999,495
1969-70	21,046,985
1970-71	42,742,918
1971-72	6,512,700
TOTAL:	<u>\$256,405,700</u>

That money was all spent, Mr. Speaker, without the prior authority of this House.

My investigation into the preparation of the 1971-1972 Estimates revealed arbitrary adjustments totalling \$18,865,900. These adjustments were made by the Cabinet against official advice, arbitrarily and artificially, purely to pretend to the House of Assembly and to the people of Newfoundland that the Current Account of the Province was in a surplus position.

The results of these inquiries are a shocking substantiation of the unrealistic and arbitrary estimating procedures of the Liberal Administration. That budgetary pretense and process has ended with the change of Government. It is the policy of this Progressive Conservative Administration to control rigorously departmental expenditures; to present, as we are doing, realistic estimates of expenditure to the House of Assembly, to present, as we are doing, realistic estimates of revenue to the House of Assembly; and to restrict the use of Lieutenant-Governor's Warrants ("Special Warrants") except in the most serious and urgent circumstances.

The presentation today of realistic Estimates to this House of Assembly for this year is the first stage of our implementation of this new policy. Honesty, not deception, will be our policy. This needs to be stated only, Mr. Speaker, because of the scandalous abuses of the last Administration in this respect.

Now I would like to look, Mr. Speaker, at development programmes for this year:

Since the Progressive Conservative Administration took office on January 18th of this year we have placed our priority emphasis on economic and resource development in Newfoundland. We believe that further expansion of the many services required by Newfoundlanders can only come if there is high growth in the various sources of revenue, and growth in the productive resources that produce such revenue. This Government is therefore undertaking a concentrated and expert review of the economic and human resources of our Province.

Our major economic development thrust will be in the development of natural resources, with a strategy of regional diversification. A Committee has been appointed to analyse and to list our existing and potential resources in co-operation with various departments of Government and the Department of Economic Development. This Administration has appointed a Natural Resource Development Committee to review and make recommendations on the policy we should adopt with respect to permits for offshore oil exploration, and what policies should be implemented so that this Province will obtain the greatest benefit from any discovery of oil or gas off our coasts.

Already, we have discovered a complete lack of policy with respect to oil and gas exploration. No steps have been taken to protect the interests of the people of this Province, both, with respect

to the granting of interim permits for exploration as well as with respect to the developing of the service on shore, which would employ thousands of Newfoundlanders once gas and oil are discovered off our shores. Interim permits were given by the last Administration without any of the financial and technical requirements usually required by oil companies in other parts of the world. The past Administration issued permits for large areas off our shores to persons and companies who can only be described as speculators and who will do nothing to develop or explore such areas, but who hope to become rich through the "farming out" of their interests to large international oil companies.

In other words, Mr. Speaker, the past Administration has issued interim permits, for no consideration, to friends of that Administration. This is an attempted give-away of huge areas of resources on which most of the future of this Province depends. We are taking steps to correct this scandalous and deplorable situation. There will be more information on that from other Ministers, in due course.

New policies and new procedures are being undertaken with respect to our fishery industry and the forest industry. The whole question of the rational adjustment of timber limits on the Island of Newfoundland and the rational use of our forest resources is now under intensive study. The potential of the agriculture, mining, power and tourist industries is also under study.

Our underlying objective, Mr. Speaker, in economic development is to create additional jobs and to increase revenues accruing to the Province. We are placing much of our emphasis, therefore, on opportunities that have a comparative advantage in terms of labour cost per unit of production. We are emphasizing products that can be further processed in this Province, including fish products, forestry products, minerals, and when discovered, as they surely will be, petroleum products.

ECONOMIC DEVELOPMENT PROGRAMMES:

Newfoundland and Labrador Development Corporation: One of the priorities of this Government has been the creation of the Newfoundland and Labrador Development Corporation. We expect this Corporation to be the cornerstone of our approach to stimulating new small and medium sized business enterprises. There are still a substantial number of products brought into this Province despite their high transportation costs. In addition, we must encourage enterprises to produce specialty products for sale outside Newfoundland. It is our hope that the Development Corporation will foster these types of new enterprises as well as others.

Our negotiations are now completed with the Government of Canada. I expect that the Agreement providing for the formation of the Development Corporation will be signed within the next week or so, and that the Corporation will be operating by July. The final version of the Agreement has just arrived, I believe yesterday or today, and if the Cabinet agree with it, then it will certainly be signed within the next week. The initial Board of Directors will be appointed by the Province and by the Government of Canada and will be announced once the Agreement is signed.

The major objective of the Newfoundland and Labrador Development Corporation will be to assist existing and potential businesses with less than \$1,000,000 in fixed assets. We expect that a considerable portion of the Development Corporation's efforts will be spent on enterprises with assets of under \$100,000.

The Corporation is expected to be concerned with two main functions in the formative stages, management advisory services and debt and equity financing.

The Government of Canada will be a major contributor to the capital structure of the Development Corporation thereby providing initial funds to finance promising opportunities. The Government of Canada will inject an amount of \$20,000,000 in the form of a loan to be used for debt financing. The Provincial Government will initially provide \$2,000,000 to be used for equity financing.

The Progressive Conservative Administration, Mr. Speaker, has formed Labrador Linerboard Limited as a Crown Corporation to operate the Stephenville Linerboard Mill and associated activities. This Mill, which as the House knows, is a legacy of the mismanagement, incompetence and irresponsibility of the Liberal Administration, will now cost approximately \$160,000,000 to complete, including necessary working capital. The Mill is to produce Kraft Linerboard from the forest resources of Labrador and the Island of Newfoundland. When the Mill operates at normal capacity it will employ, at the Mill and in the woods, approximately 1,200 Newfoundlanders and produce 1,000 tons of linerboard per day.

The necessity to put such a high proportion of our financial resources into this operation severely restricts the amounts we will be able to spend in the next few years on other necessary services in this Province. The Mill must operate. The Mill will operate. We must, however, realize that continuing assistance will have to be given to the operation, certainly during its initial years.

It will have to have more assistance next year, the year after, for the next three or four years, Sir.

I draw your attention to the progress report of the Linerboard Mill attached as Supplement Number Four to the Budget.

The Come-by-Chance Oil Refinery Project, the second major industrial project commenced by the past administration and still underway in the Province is the Oil Refinery at Come-by-Chance. This controversial complex is now 60 per cent completed and is scheduled to begin the first stage of producing in March, 1973 and to enter full production in June, 1973.

The Refinery will have a rated capacity of not less than 100,000 barrels per day and will employ approximately 400 people permanently. During the construction stages employment could be as high as 2,000.

The House had the latest figures yesterday. The Refinery is being constructed under an agreement made between the Government, Newfoundland Refining Company Limited (a Shaheen enterprise,) Provincial Building Company Limited, Provincial Refining Company Limited, and Provincial Holding Company Limited, all wholly owned by the government and entered into as intervenor by Shaheen Natural Resources Inc. The "turnkey" contract price was \$155,000,000 which was in addition to the original \$5,000,000, "bridge" financing provided by the Government, that is going to be a long bridge, that bridge is still outstanding and is now included in the long-term financing provided by the Government. That was \$160,000,000.

A detailed progress report is presented as Supplement Number Five. I need only point out, Mr. Speaker, that in addition to the \$160,000,000, it is now clear that some \$15,000,000 to \$20,000,000 must be found to complete the oil refinery. This additional amount is to cover Canadian customs duties and sales taxes which were not included in the original contract price, to cover currency fluctuations under the Procon contract, to cover additional pollution equipment required and to cover change orders and other items that should have been anticipated at the time of the original financial arrangements. That is also to cover fees to be paid Newfoundland Refining for construction supervision. This administration takes the position that this additional financing requirement must be arranged by the Shaheen interests under the agreements entered into.

They have suggested that this is not so because they had certain letters from the leader of the leader of the past administration. We do not agree with that. We are only going by the legal agreements that were presented in this House, master agreements.

The wharf and dock facilities, now under construction by the

the Government of Canada at Come-by-Chance, is an additional financial obligation of this project since the companies involved have had to guarantee to the Government of Canada that funds expended on the wharf and dock facilities will be repaid over a period of years through user charges.

So the total cost of the project will be somewhere between \$190,000,000 and \$200,000 which hopefully the oil refinery will generate sufficient monies to repay itself.

Economic Development Expenditures 1972-73

The Department of Economic Development will be restricted and circumscribed in its development programmes during the current year because of the need to commit \$40,000,000 to complete the Linerboard Mill at Stephenville. Without this vast financial commitment, Mr. Speaker, this Administration could have begun this year to implement many of the early stage programmes in our long-range plan. But it is there and it is a fact and we have to look after it.

The \$40,000,000 cost to complete the Linerboard Mill is almost the total economic development capital budget of \$48,965,000. The remaining expenditures on capital account for economic development will be spent mainly on National Sea Products in connection with draggers for their new plant in St. John's, that is \$1,900,000; to purchase the shares of Burgeo Fish Industries Limited (\$2,600,000); to complete certain landing strips (\$601,000); to provide rural electrification (\$1,100,000); and to provide \$1,746,000 for the Oil Refinery at Come-by-Chance which is the balance under the original Agreement to invest \$30,000,000.

The current account expenditure of the Department of Economic Development will total \$24,031,000 which is an increase from \$22,630,000 last year. Tourism will account for \$1,000,700 and the operations of the Rural Electricity Authority for \$4,785,000.

Here is an interesting thing, Mr. Speaker. The major current

account expenditure in economic development is \$13,237,000 for payments to the Newfoundland and Labrador Power Commission. There are two major components of this payment. The first is payments under the Industrial Incentives Act totalling \$7,237,000 which is required to service existing agreements of the Power Commission. This represents cash deficiencies between the Power Commission and its customers as a result of fixed price contracts without provision for escalating costs of generating the power. The major customer under this heading is the Electric Reduction Company of Canada Limited which will account for \$4,000,000 of this total in 1972-73. But there are other fixed price contracts which make up the balance of \$3,237,000. It should be noted that the Province has paid a total of \$10,300,000 to cover cash deficiencies in the ERCO power contract since they began production in 1969.

The other component in our current account expense of \$13,000,000 under this heading is a payment of \$6,000,000 for the Power Commission representing the cost of surplus generating capacity of the Holyrood Thermal Plant. This payment will decrease as power generation is increased at Holyrood. The financial position of the Power Commission is therefore one where its costs will exceed its revenues in these two areas this year by \$13,237,000. This situation, Mr. Speaker, is a result of past decisions and poses a real question of the planning and competence of the past administration. The Power Commission was instructed to provide a generating capacity to be available last year to meet the needs of the mythical third mill at Come-by-Chance, the needs of the linerboard mill which was supposed to be ready last year, the needs of the oil refinery which was supposed to be ready last year, and the needs of other great fantasies such as aluminium plants. The projected industries did not materialize or were slow in materializing so that there is now surplus generating capacity which hopefully will be taken up by customers, but for which, in the meantime, the people of

Newfoundland must pay, and for these decisions, this effect, this result of lack of planning and fantasy and the rest of it, it is going to cost us in our current account this year - \$13,237,000. That is where planning and priorities come in.

NATURAL RESOURCE PROGRAMMES

Fisheries

The fishing industry has been the cornerstone of the Newfoundland economy since 1497. During that long period in history our fisheries have had their good and bad cycles but never the lack of emphasis consciously displayed in the past two decades. The Progressive Conservative Administration feels that the future is sound for the Newfoundland fishing industry if the right measures are taken. Already new programmes have been announced involving the establishment of regional offices, the setting up of regional advisory councils and the development of special incentive programmes dealing with gear and equipment, and multi-purpose boats. Current Account expenditures are estimated at \$700,000 for fishing gear bounties and in-shore gear replacement insurance. The Government is taking steps to form a corporation which will own or lease rights on a new trawler fleet and will further spend \$80,000 on community and \$900,000 on fishing demonstrations in 1972-73. The total Current Account expenditure for the Department of Fisheries this year will be \$2,633,000.

Our capital expenditure emphasis in the Department of Fisheries has been directed to expanding our fishing fleet and to encouraging a widening of the fisheries base. The total capital expenditure for this year will be \$5,200,000 of which \$3,800,000 will go towards capital works and loans. The total expenditure programmes in the Department of Fisheries will be \$7,833,000, an increase of \$1,882,000 from the \$5,950,000 spent last year.

Agriculture

The Government's policies on the development of our agricultural resources will commence and be implemented this year. A total of \$1,644,000 will be spent for construction of production and marketing facilities and vegetable storage depots. Blueberry development expenditures will increase to \$100,000 while land development spending on activities such as bogland clearing, pasture lands, regional pastures and agricultural surveys will total \$1,156,000. We will also spend \$416,000 on the development of the hog and sheep breeding industry and \$942,000 to facilitate the marketing of farm products. The conditions governing loans for agricultural purposes have been broadened.

Mr. Speaker, the forests of Newfoundland and Labrador will be carefully managed and studied this year. An amount of \$997,000 will be spent on forestry conservation and development, \$566,000 on a Provincial forest inventory and \$1,507,000 on a crown lands surveys.

The old question of the best utilization of the forests of Newfoundland and Labrador has high priority in the present Administration's programme. As I stated the whole question of timber limits, sustainable yield of available timber and the best overall utilization of our forest resources will be decided early during the term of this Administration.

Mr. Speaker, in 1960 exclusive rights to explore and investigate the timber resources of all crown lands on the Island were vested in Newfoundland at Come-by-Chance for the manufacture of paper or pulp or both. Twelve years later there is still no mill at Come-by-Chance, yet the remainder of the timber resources of the Island remain frozen.

Legislation in 1970 provided that the Company must notify the Government if it planned to proceed with the construction of the first stage of the Mill, and further provided that the company would substantially complete the construction of the first stage of the Mill on or before December 31, 1972. There has been no such notification, nor any start of construction.

In addition, Mr. Speaker, the past Administration advanced \$2,500,000 to Newfoundland Pulp and Chemical Co. Limited in 1967. That money is outstanding, as is accrued interest of approximately \$710,000.

The position of the Progressive Conservative Administration is that this situation with respect to this Mill can no longer be permitted to continue to stifle the use of the remaining wood reserves on the Island of Newfoundland. Therefore unless the Shaheen interests meet the terms of the present Agreements as amended over the last twelve years so that substantial completion of the first stage of the Mill is achieved by December 31, this year, the Agreements will not be renewed. In addition, the Government will take whatever steps it can to recover the funds advanced to Newfoundland Pulp and Chemical Limited by the previous Administration including the accrued interest.

Our position is that the present agreement will be observed but that no further extension of time can be granted. It is not reasonable to permit the remaining timber limits on this Island to be held in reserve for further long periods of time for a project which has not effectively proceeded beyond the talking stage for the past twelve years. It is now time for these timber limits to be utilized in the best interests of the people of this Province as part of a co-ordinated forest development policy.

If, however, Newfoundland Pulp and Chemical Company Limited does present a feasible proposal to the Government for the construction of the Mill this year, on reasonable terms and conditions, such a proposal will certainly be carefully considered and proceeded with if found to be in the best interests of the Province. Well it must be now. We do not intend to enlarge the time period under those agreements.

MINES

A review will be conducted of the mineral resources of Newfoundland

and Labrador in 1972-73. This examination of resources will include geological surveys and a major \$1,000,000 mineral development programme undertaken with the aid of the Government of Canada. We are reviewing and intend to revise the mineral concession system in this Province. In the past too many large areas have been conceded to too few for too little, too long and without sufficient results. We are, therefore, going to study and revise the mineral concession system in this province. It does not need to be said, Mr. Speaker, that any one who is doing their job and giving us good value has nothing to worry about. Of course, any change in the mineral concession system applies only to the future.

HUMAN RESOURCE DEVELOPMENT POLICIES

Mr. Speaker, it is a truism today that the long-term success of any country or province depends largely upon the development of its human resources. Without a highly motivated and highly skilled group of workers the most elaborate and well formulated strategies of resource development for economic expansion cannot succeed.

EDUCATION

The Department of Education and Youth has been the largest spending body on current account in recent years and will continue to receive the largest share of the Budget in this year. The current account expenditure programmes of that Department are estimated at \$117,891,500 as compared with \$107,659,000 last year and that "ain't" savory. Mr. Speaker, the major components of this large expenditure are Memorial University, the Vocational and Training Schools, the primary and secondary schools and the College of Trades and Technology.

It is significant that the payment of teachers and superintendents require \$52,000,000, transportation of school children \$5,910,000 and operational grants for school boards \$11,700,000 out of the \$70,880,400 directly budgeted to the various school boards.

The total current account expenditure for University education, not including the medical school, is \$23,000,000. Of this, \$18,676,000 represents grants-in-aid to Memorial University, \$3,780,000 for tuition and grants to qualifying students and \$544,000 to Dalhousie University, Nova Scotia.

The amount for Memorial on current account constitutes a grant of \$2,030 per student for an estimated full time equivalent enrolment of \$9,200. The contribution to the operating costs of the professional schools at Dalhousie University is presently being renegotiated and it is possible the amount will be reduced.

The estimated cost of vocational training this year is \$14,400,000. Of this total \$9,177,000 is for current account operating costs of the eleven district vocational schools, while \$ 5,223,000 is on capital account. Construction and equipment of the five new vocational schools will account for \$4,884,000 of these capital expenditures. The College of Trades and Technology will receive a grant-in-aid totalling \$3,060,000 this year.

Now, Mr. Speaker, apart from these outlays under the Budget of the Department of Education there are other education outlays. The College of Fisheries will receive a grant-in-aid totalling \$2,517,000. That is in the Estimates of the Department of Economic Development. In addition, \$11,917,000 will be used for new school construction, covered in the Estimates of the Department of Community and Social Development.

We have had to make cut-backs in the capital programme of the Department of Education and Youth. It has become unavoidable, Mr. Speaker, to limit the number of capital projects undertaken this year. Total capital spending on education and youth will therefore be decreased from \$21,050,000 last year to \$17,285,000 this year. A major postponement will occur at Memorial University where total capital spending will amount to only \$1,350,000 this year. We do not intend, Mr. Speaker, to vote them vastly increased sums as was done last year and then not permit them to spend it. This does not include the very large amount of \$14,500,000 to be spent on the Medical School and Health Science Complex. The necessity to spend such a large amount on the Health Science Complex this year has had an inevitable effect on what other capital account moneys we would allocate for the University. The future capital expenditure programme of Memorial University will be dealt with in our proposed four year financial plan.

The Government has decided to reduce the amount of money paid out under

the heading Parents Subsidy this year. Only \$975,000 the portion normally paid up to September 1972, will be paid. The Parents Subsidy of \$20 per year per child will be eliminated when the present school year is completed thereby creating an annual savings on our current account of approximately \$3,200,000.

This decision has been taken in the light of the Government of Canada's new family income security plan (FISP) which is expected to commence on January 1, 1973. There is a greatly diminished need for the provincial programme with the introduction of the new Family Income Security Plan of Canada. Under the present parents subsidy system each child receives a yearly allowance of \$20 without regard to the income of the family. Under the proposed Family Income Security Plan of Canada, family income will be the major factor determining the amount of allowance each child receives. High income families will not receive any allowances in future while low and medium income families will receive substantial increases.

The impact of the new Family Income Security Plan of Canada in this Province will be very favourable. Mr. Speaker, this is because we have the lowest family income structure in Canada, combined with relatively large families. The overall impact in this Province of FISP will be to increase the total amount paid out to Newfoundland parents for their children from \$19,100,000 this year to a total amount of \$37,600,000 in 1973. The average child in Newfoundland will receive \$14.60 per month under the new plan as compared to the present average of \$7.01 per month from the present family allowance payment.

Mr. Speaker, it is obvious that this Province cannot seek further special assistance from the Government of Canada when it maintains programmes not in effect in the wealthiest provinces of Canada and programmes whose need is greatly diminished by the institution of new programmes for Canada generally. The new Family Income Security Plan will very amply look after our needs in this province in that direction Mr. Speaker.

The Government, Mr. Speaker, will also reduce expenditures by approximately \$250,000 this year through a revised student tuition and allowance programme and a reduced university graduate fellowship programme. Students at the University

will be required to borrow the first six hundred dollars of their needs from the Canada Student Loan Plan, an increase of two hundred dollars in the existing programme, before they are eligible to apply for Provincial Assistance. This compares favourably, Mr. Speaker, with the present programmes in effect in Prince Edward Island, Nova Scotia, and New Brunswick which require an initial loan of \$1,400 from the Canada Student Loan Plan, before they can get assistance. We are only requiring \$600. The Government has reduced the number of graduate fellowships from one hundred and thirty to ninety.

The assistance programme to pupil teachers has been substantially reduced. With the existing student aid programme at the University and with increasing numbers being attracted into the teaching profession, it is quite realistic to discontinue the special assistance of \$400 to students in the Education faculty. An amount of \$50,000 has been included in this year's estimates compared to \$520,000 last year. Despite these reductions the heavy priority given to education as demonstrated by the total current and capital account estimated expenditures of \$135,176,000 on education this year, an increase of \$6,466,000 as compared to last year.

HEALTH

The second largest current account expenditure will be in the Department of Health. In this financial year the total costs of providing the necessary medical services, hospital services and providing various drugs and supplies will amount to \$76,295,000, an increase of \$5,800,000 from last year. All of these major expenditures in health care are to maintain existing hospital and medical services to the people of this Province.

Grants to hospitals not operated by the Government account for the largest portion of the Department of Health budget. This amount is estimated at \$43,936,000 for this year. In addition, the Hospital for Mental and Nervous Diseases will spend \$5,756,000 while the Hospital for Chest Diseases will spend \$1,520,000.

Other large expenditures on current account for this year will include \$6,148,000 for the Cottage Hospital system and a further amount of \$5,418,000 for the James Paton Memorial Hospital at Gander, together with the Sir Thomas Roddick Hospital at Stephenville and the Walter Templeman

Memorial Hospital at Bell Island.

Capital account expenditures on health services this year totalled \$27,652,400, a stupendous amount for a province of this size. The major amounts comprising this total are \$14,500,000 for the Health Sciences Complex at Memorial; \$2,600,000 to complete St. Clare's Hospital; \$3,000,000 for the Carbonear Hospital; \$3,900,000 for the Western Memorial Hospital at Corner Brook; \$1,800,000 for the new Hospital at Twillingate and \$100,000 for certain improvements at the Hospital for Mental and Nervous Diseases.

Mr. Speaker, this administration finds itself in a difficult situation with respect to capital expenditure on Health facilities. In the years from 1966 to 1970 the Liberal Administration made no major capital expenditure on Hospital construction with the exception of the expansion programme at St. Clare's Hospital. The previous Liberal Administration, with its usual lack of planning and abhorrence of developing any system of priorities, did not work out a plan of hospital construction in accordance with what the overall Government priorities should have been. In 1971 with the certain knowledge that a general election had to be held that year, that past Liberal Administration committed the Government of the Province to simultaneous construction programmes for the Health Sciences Complex at Memorial University, a new hospital at Carbonear, a major extension to the Western Memorial Hospital at Corner Brook and a new hospital at Twillingate. Contracts were let and work has begun on all these facilities. The result of this is that the present Administration and the people of Newfoundland are now faced with tremendous expenditures on capital account for this year and the following three financial years as illustrated in Table IV.

The total programme is \$88,100,000 on these five projects. This year \$25,800,000; next year, \$25,900,000; 1974-75, \$17,500,000 and 1975-76 a final amount of \$5,700,000 for the Health Sciences Complex at Memorial. The Health Sciences Complex at Memorial will cost \$45,300,000. St. Clare's Hospital which is being finished this year will cost \$13,300,000. Carbonear Hospital will cost

\$7,000,000. The extension of Western Memorial Hospital will cost \$18,000,000 and the new hospital at Twillingate will cost \$4,500,000.

The previous Administration spent only \$13,200,000 on the above hospital projects including \$10,700,000 on St. Clare's Hospital in St. John's. That they spent, Mr. Speaker, over a five year period from 1966-71. They should have started the programme much earlier. Yet that Administration in its expiring months entered into commitments for further spending on these projects totalling \$25,800,000 this year and in excess of \$49,000,000 for the next two years after that. While these facilities, Mr. Speaker, are necessary and desirable this programme creates a tremendous financial burden on this Province for the next four years and will result in capital spending on other areas having to be restrained until this tremendous capital expenditure on the Health services is concluded.

While there is little doubt of the need and we do not doubt the need Mr. Speaker, this programme should have been commenced in 1966-67, carried on over the past four or five years, given priority over the past four or five years and then carried on naturally through the next two or three for it all to be accomplished. But rather than that being done, when the election came, all five projects were started at once for obvious purposes and now the whole programme will have to be done in the next three years.

A further consequence of these commitments is that funds are just not now available to commence the very necessary extension to the St. John's Hospital for Mental and Nervous Diseases. That extension will be commenced once we have the capital account expenditures of this Province under control and the Province nursed back to some semblance of financial health. It will occupy a very important priority in our four year programme that we will be developing for capital account during the present year.

May 31, 1972

LB-3

The total amount to be spent under the Health expenditure programmes for this year is estimated at \$103,948,100, or an increase of thirty-two percent from the amount of \$78,299,600 spent in 1971-1972. The Government of Canada through its Hospital Insurance Plan and the shared-cost programmes on Medicare as well as other health care programmes, will provide the Province with \$43,432,900, leaving a net amount of \$60,515,200 to be supplied from our own provincial revenue sources.

It should be pointed out that these extensions and improvements to the hospital facilities must result in vastly increased operating costs. At the same time, the Government of Canada is moving to place a ceiling on the amounts which they will contribute to the hospital facilities by the provinces under the Health Insurance Plan. This is a development that must be carefully watched by this Province and is a significant warning that we must consider placing ceilings on the ever-increasing costs in the field of health and hospital services.

If the Government of Canada, its great cornucopia overflowing with revenues and money, is going to place a ceiling, Mr. Speaker, on health care costs in Canada, what is this little Province going to do if faced with having to meet these increases in costs by itself. So that is something that has to be given very careful attention.

I would like to say, Mr. Speaker, a few words about the Health Sciences Complex at Memorial University:

I must now devote some time to outlining the position of the Health Science Complex at Memorial University since it is going to be a very heavy expense on the people of this Province, both with respect to its operating costs and its capital costs. This picture is not anywhere near as rosy as was painted by the last Minister of Health in the Liberal Administration, the present Leader of the Opposition.

May 31, 1972

LB-4

One of the main arguments of the proponents of the establishment of a Health Sciences Complex at Memorial University was that seventy-five per cent of the capital costs of constructing the Complex would be met by the Government of Canada through the Health Resources Fund.

The total estimated cost of this Project, including the construction of buildings for the Medical School and the construction of a University Hospital comprising 340 beds, is now \$45,300,000. The Government of Canada have guaranteed a contribution from the Health Resources Fund amounting to \$30,000,000 or sixty-six per cent. Now if the cost goes to \$50,000,000; \$60,000,000; \$70,000,000, the Government of Canada is only committed to \$30,000,000. At the present time it is sixty-six per cent of \$45,000,000. This Administration understands that this guarantee was a significant factor in the commitment of this Province to proceed with this Project.

In the original estimates for 1972-1973 as submitted by the Department of Health, an amount of \$14,500,000 was included for the Health Sciences Complex. It was estimated at that time that there would be an appropriation-in-aid from the Health Resources Fund of seventy-five per cent of the expenditures,

totalling \$10,875,000. This is what the last government thought, the Department of Health thought we would get from Ottawa to help the Health Sciences Complex this year, \$10,875,000 towards the \$14,500,000. This meant that the net expenditure to the Province would have been \$3,625,000. This Province received a severe setback when a meeting was held on April 25th between the various provinces and the Government of Canada in connection with the Health Resources Fund. At that meeting the Government of Canada confirmed that only \$37,000,000 would be available for the whole of Canada this year from the Health Resources Fund. As a result Newfoundland was assured of receiving only \$4,000,000 from the Health Resources Fund despite the fact that we were committed to expenditures of \$14,500,000. Subsequent discussions with the Government of Canada now lead us to believe that our allocation this year from the Health Resources Fund will amount to \$6,200,000, the figure we have included in the Estimates as an appropriation-in-aid. In addition, we do not have definite assurance of receiving the full contribution from the Government of Canada through the Health Resources Fund for the Health Sciences Complex until 1980. In other words we will not receive the contribution from the Government of Canada as construction progresses; or as funds are expended, but instead it will be received in accordance with the arbitrary ceilings placed on the annual allocations from the Health Resources Fund.

I can only state, Mr. Speaker, that the feeling of this Government is one of outrage at this turn of events. The Health Sciences Complex is being proceeded with largely because 75 per cent of the construction cost was to come from the Government of Canada. What the Government of Canada now proposes is that this Province, as well as other provinces, borrow the funds to complete construction and bear the consequent interest costs until we receive our \$30,000,000 share from the Health Resources Fund in dribs and drabs over the next seven or eight years. This is intolerable.

We intend to place our case before the Government of Canada in the most strenuous terms for a reversal of these arbitrary ceilings. The financial burden placed on this Province in this manner appears to us to be a breach of good faith.

If it had been possible the Government would have stopped the Health Sciences Complex as soon as these facts became known late in April of this year. This was not possible since we had four years of medical students at the Medical School, plans had been completed, contracts had been entered into, and the course had been irrevocably set.

The Medical School will turn out, when in full operation, some 80 graduates each year. These graduates will practice in Newfoundland, in Canada, and elsewhere. A Medical School, Mr. Speaker, is a national institution and not just a provincial institution. A province of our financial means cannot bear the burden of a medical school. The operating costs of the Medical School are already \$2,300,000 per year and projected to rise to \$4,000,000 a year by 1976. All of these operating costs must be met by the Province alone. In addition the operating costs of the new General Hospital on campus are estimated to be \$11,000,000 annually. Further, the former General Hospital on Forest Road which is to be used solely as an institution separate from the Medical School, providing convalescent beds, will have operating costs of \$3,700,000. Therefore, the total operating costs for the new University Hospital and the old General Hospital as a convalescent hospital will total \$14,700,000 annually.

Under the present federal policy, Mr. Speaker, we receive no federal assistance for the operating costs of the Medical School. However, we will have federal financial assistance under Hospital Insurance Plan for the operating costs of the University Hospital and the old General if the present Hospital Insurance Scheme continues to operate without restrictive ceilings as are now threatened by the Government of Canada. Now, in addition to this apart from the operating costs which are going to require us to borrow money each

year and pay interest while they dribble and drabble out allotments in the Health Resources Fund until the year 1980.

Social Services and Rehabilitation

The Government of Newfoundland and Labrador supports a wide range of social assistance programmes for older citizens, for those in need and those requiring rehabilitation. The estimated current budget for this year for the Department of Social Services and Rehabilitation is \$58,280,000, an increase of \$4,758,900 over last year's cost of \$53,521,500 making this the third largest spending department.

Short and long-term social assistance will account for \$46,154,000 or 79 per cent of this budget. These estimates include provision made by the Progressive Conservative Administration since we assumed office for modest increases in the maximum amounts which may be provided to persons for food, clothing and fuel during the winter months. We have also instituted substantial changes in the conditions under which persons in need become eligible for assistance.

At the urging of the present Minister of Social Services and Rehabilitation we have made provisions in the Estimates for 40 additional posts for welfare officers. We are convinced that the addition of these welfare officers will enable the Department to discharge more efficiently its responsibilities and provide better control and service.

Regional Welfare Services will require an amount of \$2,832,300, while Child Welfare and Corrections will require \$1,797,100. Among the current programmes of this Department are the Hoyles Home (\$1,843,100), the operation of Harbour Lodge at Carbonear (\$856,900), and the operation of the Children's Homes (\$1,573,700). Various current expenditure projects under Northern Labrador Services will require \$2,848,200 this year.

A striking feature of the programme of this Department in recent years is that of expenditures on assistance with housing for welfare recipients,

particularly repairs to housing which have increased alarmingly. In the year 1971-72, which Honourable Members will remember was an election year, expenditures on assistance with housing totalled \$1,270,000 as compared to \$540,000 in the previous year. Over double. A very considerable increase in expenditures under this heading occurred in the last two years in the District of Bell Island whose Member was the then Minister. Expenditures on housing and repairs on Bell Island during 1969-70 were only \$2,334. This expenditure climbed to \$20,284 in 1970-71 and mushroomed to \$257,163 in 1971-72. In other words in 1971-72 in the District of Bell Island alone over one-fifth of the total spending and repairs to welfare housing took place on Bell Island one-fifth the total amount spent. Climbing from \$2,300 two years ago to \$257,163 last year. The need for and the manner in which these funds were spent are now the subject of careful study.

Measures will be introduced this year which will control and hopefully reduce expenditures for this purpose. A system of controls in the purchase and supply of building materials will be among the improvements made.

The capital account estimates amount to \$1,633,800 this department of which \$1,275,000 will be spent in Northern Labrador Services.

Highways

The current account expenditures of the Department of Highways this year will total \$19,629,500. The major portion of this amount will be spent on maintenance of roads and bridges totalling \$17,813,000. On capital account Mr. Speaker, there will be spending totalling \$21,640,000 for highway improvement and new construction. In addition, it should be noted that \$31, million will be spent by the Department of Community & Social Development on highway construction under the DREE Agreement, of which \$9,250,000 is for the St. John's Harbour Arterial Road and \$4,570,000 is for the Burin Peninsula Highway.

Municipal Affairs and Housing

In the Department of Municipal Affairs & Housing current account spending will decrease this year to \$9,479,000 from \$12,675,000 last year. Grants and other assistance under the Local Government Administration Programme will account for \$7,930,000 while the Housing Corporation, Newfoundland & Labrador will require \$568,000.

Capital expenditures by this Department will be \$5,073,000. Again, it should be noted that the Department of Community and Social Development through the DREE Programme will be providing funds of \$6 million for municipal services, industrial parks, water and sewerage and other infrastructure. Housing will have a high priority in our four-year financial plan and this year it is estimated that the Newfoundland and Labrador Housing Corporation's capital spending will exceed \$12,500,000 of which the Province's share will be \$3,500,000.

As I point out later in this Budget it is necessary this year to arrange, if possible, long-term borrowings of \$10,000,000 for the Newfoundland Municipal Financing Corporation to repay municipal bank loans guaranteed by the Government in connection with capital works programmes covering water and sewerage systems, street paving and other municipal services. The former Liberal Administration has left us, as a legacy, guarantees of bank loans to municipalities totalling approximately \$30 million. These are guarantees of loans many of which have not yet been fully utilized as the work is still proceeding. The fact remains that these \$30 million in bank loans have to be refinanced by the Province on a long-term basis. What this means is that only municipal projects of the very highest priority can be considered for guarantee purposes within the next several years as a result of the hyperactivity in such guarantees by the Liberal Administration during the year 1971. We promise Mr. Speaker, equal treatment, even treatment and first priority for absolutely essential services. The rest must wait, until we can get this \$30 million refinanced.

Community and Social Development

The Department of Community and Social Development will spend \$4,436,000 on current account programmes this year. This is an increase of \$555,000 compared to last year. This includes \$1,541,000 on resettlement, \$1,521,000 on rural development, and \$389,000 on planning and programme development. The major spending in this Department is on capital account. Through the Regional Development programmes of the Government of Canada this Province will receive \$49,523,000 from the DREE Agreement this year. Of this amount \$31 million is allocated to transportation development, \$6 million to industrial and residential services, \$11,900,000 for training and educational development and only \$500,000 to resource development.

The recent visit to Ottawa by the Premier and certain Cabinet Ministers confirmed what already appeared obvious. Despite the talk that the people of this Province have heard for the last five years concerning an overall plan for the development of this Province, no such plan is in existence. Immediate steps are being taken to change this situation with the co-operation of the Department of Regional Economic Expansion in Ottawa and it is hoped to develop plans for various sectors of our economy as quickly as possible. We are assured by the Government of Canada that they will co-operate in every way. We are further assured that if the necessary planning is done and priorities determined we can expect every possible assistance. While this Province up to now has not cared about priorities the Government of Canada apparently does. We do the necessary planning and determine priorities they will help. Therefore the emphasis of this Government will be, and must be, the present Administration, resource development, because only by developing our resources will we be increasing our productive wealth and our revenue base.

I must also point out that the expenditure figures for the Department

of Community and Social Development on capital account this year are realistic and attainable. This is a complete turn-about from the last three years when the Liberal Administration continually showed artificial figures in the Estimates for the capital account of this Department. The figures produced in the Estimates by the past Liberal Administration were designed to create an impression of major DREE programmes which, however, Mr. Speaker, were never completed due largely to the lack of adequate planning. To prove this statement, I provide a comparison of the estimated expenditures and actual expenditures under this Department for the years, 1969-70 to 1971-72.

TABLE V
ESTIMATED AND ACTUAL DREE EXPENDITURES
1969 - 1972.

	<u>Estimates</u>	<u>Actual</u>	<u>Unexpended</u>
1969-70	\$ 1,500,000		\$ 1,500,000
1970-71	47,495,100	15,849,700	31,645,400
1971-72	53,129,000	43,632,100	9,496,900
	<u>\$102,124,100</u>	<u>\$59,481,800</u>	<u>\$42,642,300</u>

Thus close to \$43 million or 42 per cent of the amounts estimated under the DREE agreements were not spent.

This Progressive Conservative Administration is firmly committed to the principle of long-range planning. A major point of departure from the practice of the past will be the establishment of a committee of Cabinet to work with our officials in the planning process. A second major change in our planning approach will be the integration of long-range physical and development programme plans with financial planning for the Province. We intend to utilize all of the expertise at our disposal in this effort.

A word on collective bargaining, Mr. Speaker. The rapid increase in spending of the various government departments and agencies is forcibly demonstrated by the wages and salary bill of the government last year. Last year we paid out a total of \$173,806,000 in wages and salaries to almost 25,000 employees. Table VI gives a breakdown of this.

In government departments we had 7,677 employees. They received \$51.5 million. Hospital employees, 7,200 of them received \$42,750,000. 6,500 teachers received \$52 million. 1,600 people at Memorial received \$15 million. 1,015 people working with commissions received \$5,304,000. 363 with corporations \$2,439,000. 572 with boards, authorities and other agencies received \$4,797,000. From our revenue we paid \$24,927 employees \$173,806,000. A vast expenditure.

During the past eighteen months the wage and working conditions negotiations of the various employee groups have been handled by the Collective Bargaining Division of the Treasury Board. As a result of these negotiations fourteen agreements have been reached with nine unions representing 16,500 of the nearly 25,000 employees whose wages and salaries are provided by the Government of the Province.

I would like to say here as President of the Treasury Board that the Collective Bargaining Division is handling these negotiations on behalf of the Government in a most satisfactory manner. They have done excellent work.

I have to make clear, Mr. Speaker, to all employees of the Government and to the general public of this Province that the growth rate, not the growth, the growth rate in wages of the past several years just cannot continue. The deficiencies and low wage and salary rates of the past have now been, for the most part, corrected. We must face the fact that every one percent increase in wage and salary costs adds approximately \$1,700,000 to our current account expenditure, every one percent adds \$1,700,000. The growth rate of eight to ten percent of the past several years if continued would mean annual additions to government

spending on current account of between \$13,900,000 to \$17,400,000 every year if those growth rates continue. Without increases in provincial productivity and in the provincial revenue base, there cannot be increases in services, in wages or in salaries at the growth rates of the past. That is just the fact. Now, Mr. Speaker, I do not want to be misunderstood, I did not say there will not be increases in wages or salaries, I said that they cannot continue at the rate of increase of the past.

It is imperative that we control the spending of the various departments and review our present wage requirements and productivity. This Administration has commenced this approach with the recent appointment of the Committee on Government Administration and Productivity. That Committee is now active and will be reporting and recommending what steps should be taken with reference to the proper division of functions among government departments and agencies, and what steps should be taken to improve administration and productivity throughout the Public Service.

To summarize for this year, Mr. Speaker, on current account. I have dealt at length with the details of this year's expenditure policies and programmes. I have endeavoured to show the position in which we were left by the past Administration and the problems we, as a people, face. It should certainly be evident that the new Progressive Conservative Administration has been left in a difficult financial situation. We have had to reduce and eliminate various expenditures but, I feel that the decision made will result in future benefits to the people of this Province.

Despite our best efforts our attempts to balance Current Account this year has not been realized. The Estimates I am presenting to the House are as accurate as human endeavour can make them. The overall current account position for this year will therefore show a deficit of \$2,922,500 despite the fact that our current account revenues should increase by over \$25,000,000. Despite that fact, the revenue will be up \$25 million, we are going to have a deficit of \$2,922,000.

We are going to have Cross Current Expenditure this year of \$404,659,400. Towards that we have appropriations-in-aid of \$90,566,600.

Our net current expenditure that we have to find is \$314,092,800. Our current revenues are estimated at \$311,170,300, and therefore, we will have a deficit of \$2,922,500.

It is hoped that stringent financial controls during this year may in fact turn this projected deficit into a balanced or even surplus current account position. If this is humanly possible, it will be accomplished with the aid and assistance of my colleagues in the Cabinet who I know I can depend on. (That was not in the script.)

AN HON. MEMBER: It sounded good anyway.

AN HON. MEMBER: (Inaudible)

MR. CROSBIE: Well, I hope it is in the cards. The aim of this Government is that our financial planning must lead to a position where we establish current account surpluses. As a result of the reckless financial practices of the past Administration, this will not be an easy position to achieve.

It was obvious to the Members of this Administration that the Estimates for 1972 - 73 must be financially reasonable if we are to retain credibility in the capital markets and with the people of Newfoundland. An artificial surplus on current account would not enhance this objective. A projected current account deficit of from \$6,000,000 to \$8,000,000 certainly would not have been financially reasonable. Therefore it is necessary for this Government to provide additional revenue on current account during 1972-73 by an increase in the tax on tobacco. Effective immediately the tax will be doubled. Such an increase in tax on a non-essential product will provide approximately \$4,000,000 in additional revenue to the Province. Now, Mr. Speaker, note that the tax is being doubled, not the price of cigarettes is being doubled. If a pack of cigarettes before today, the old tax rate was ten cents per pack, after today or upon the completion of this speech it will be twenty cents per pack. So, a pack of cigarettes will go up from, say sixty-five cents or whatever it is to seventy-five. Cigars four cents or less, you will all be glad to know there is no increase. But cigars that cost from five cents to seven cents, the tax is going from two cents to

three cents. Then as you get up toward the more expensive cigars you get a bigger increase. Cigars forty-six cents and over, (I did not know there was a forty-six cent cigar) the tax is going up from ten cents to twenty cents. Loose tobacco; a half ounce is going up two cents. Plug tobacco, no increase.

HON. MEMBERS: Hear! hear!

MP. CROSBIE: I knew that would be popular.

Mr. Speaker, the people of Newfoundland will recall however that the Progressive Conservative Administration in March of this year eliminated the seven percent sales tax on children's clothing, a very essential product. We have decided to increase the taxes on the non-essential product, smoking. These are the only cigarettes I have, plug tobacco is my next.

Mr. Speaker, Capital Account. Spending on Capital Account this year will amount to \$184,513,300. I never fancied myself as being such a wild spender. \$404 million in Current Account and \$184 million in Capital Account. The major expenditures as mentioned earlier, are \$48,965,000 for Economic Development of which \$40 million is for the Linerboard Mill, \$27,652,000 on Health Facilities, \$21,640,000 on Highways and \$49,523,000 in the Department of Community and Social Development.

Of the total amount of our Capital account spending of \$184,513,000 we found ourselves committed to approximately \$170 million by the previous Administration, or ninety-two percent of the total. In other words, the previous Administration had awarded contracts or commenced work on projects that involved additional spending this year of \$170 million. The effects of commitments made and contracts entered into, by the previous and now discredited Administration will continue, as has been shown earlier, Mr. Speaker, into the next year. In other words, Mr. Speaker, in Capital Account we have had to take the situation as we found it. We will only be able to present a budget dictated by our own priorities next year. This year we have had to go on the position we found when we came in.

The following table summarizes the capital account position for this year. Gross Capital Expenditures \$184,513,000. Appropriations-in-Aid \$48,742,000, Net Capital Expenditure \$135,771,000. This net Capital account expenditure requirement of \$135,771,000 together with the current account deficit of \$2,922,000 results in a total budgetary deficit for this Province of \$138,693,500 this year.

In addition to the borrowing requirements indicated by the Estimates, Mr. Speaker, the Province will have to borrow \$40,149,000 to cover debt retirement (there are \$29 million in debts coming due this year that has to be retired, has to be refinanced and another \$11 million in sinking funds that has to be borrowed) \$10 million for the Newfoundland Municipal Financing Corporation, to repay bank loans guaranteed for municipal projects during the past two or three years. It should be noted that these non-budgetary borrowing requirements do not increase the total net debt of the Province since the proceeds will be used for retirement of outstanding debenture issues, guaranteed bank loans, and payments to sinking funds. The effect of these requirements is that our total borrowings this year will amount to \$188,842,800.

These funds will be obtained from the following sources; general borrowings \$141 million. From the Canada Pension Plan \$20 million, from DREE loans \$14,690,000, from the Capital Markets - under Guarantee, that is Newfoundland Municipal Finance \$10 million, Development Loans \$3 million. Total - \$188,842,000.

The general borrowings of \$141,152,000 will not be totally raised in the capital markets this year because of completed borrowings, existing cash balances, treasury bill financing and the Province's bank line of credit. In addition, with respect to the linerboard mill, we hope to borrow a considerable amount of that working capital through the bank not on the bond market and perhaps from some other source. We estimate that between \$50 million and \$60 million will have to be borrowed in the capital markets before the end of the present fiscal year.

It is obvious that these heavy borrowings caused by the practices and policies of the previous Administration, must result in a decreased borrowing programme in the coming years, leaving little scope for the commencement of any new capital works programmes for the next several years. This situation is not a matter of choice but a matter of absolute necessity.

I must also point out the implications of this heavy borrowing programme with respect to budgeting for next year and the years after. Obviously, Mr. Speaker, if the Province borrows these amounts the current account for '73-'74 must increase by the interest costs on these borrowings, a cost that will total some \$11 million to \$12 million, additional if we will have to have a current account next year. What we spend in increased interest costs and payments to sinking funds we cannot spend on new or improved services.

What is our approach then, Mr. Speaker, to these problems? In my first budget on behalf of the Progressive Conservative Administration of Premier Moores, I have departed from the practice of the Budgets of this Province in the past and I have attempted to give the real facts concerning our true financial position and the problems that we face. I have introduced a new approach to financial planning insofar as we had any discretion this year. While the total expenditure programme is increased for this year, in many individual situations we have reduced expenditures or maintained them at the previous levels. We have actually cut from the Estimates that we were presented with, Mr. Speaker, \$42 million

in capital accounts despite the tremendous spending that this Budget envisages we have cut \$42,000,000 from capital account and \$30,000,000 from current account. All of the expenditures in the Estimates for this year have been reviewed and analysed before they were accepted. We do not intend to end this process upon delivery of this Budget.

Our intention is to commence immediately an in-dept review of all government programmes and services on current and capital account. Our decisions on current account spending for the next financial year will be made in the early fall. These decisions will be communicated to the Departments, agencies and institutions concerned so that they will know well in advance what monies will be available for the next financial year. They will then have to make their own plans to meet the established spending limits. It is not what they need, it is going to be what we can afford in the light of these facts.

The next stage of our financial planning strategy is the formulation of a four year financial plan. We have already begun the initial steps in developing and implementing such a plan. Following this Budget an intensive review of all capital works requirements of every government department and institution financed by Government will be undertaken. When we have ascertained what the requirements are on capital account we will determine which of these projects should have the greatest priority. We will then decide, based upon the context of the borrowing programme forced on us this year by the previous Administration and the commitments imposed for the following year, what is a safe and proper level of borrowing for the Province over the following four years. We will advise the various departments and organizations, once this four year review is completed, just what the projection is for that particular department or organization. In this way they will be able to plan accordingly.

This four year plan will assist the Government in setting objectives

and in determining the means of achieving our objectives over the next four years and will give added flexibility to the decisions that have to be made. I feel confident, Mr. Speaker, that it will also improve the reputation of this Province in the eyes of the financial community and may help decrease the price we have to pay for funds.

While we are restricted by the effects caused by the reckless, wasteful, unplanned and politically motivated actions of the past Administration, I do not believe, and this Government does not believe that we must remain handcuffed during our first term by the mistakes and recklessness of the past Administration. With the assistance of this four year plan, with discipline, by establishing priorities and by planning, we will create an expanding future for this Province based on better utilization of our resources.

I believe, Mr. Speaker, that the people of Newfoundland and Labrador share the concern of this Government about the present financial position of the Province. If this were not so, the people of this Province would not have voted to end the Liberal Administration. This Government will have to make decisions from time to time that will not be popular nor easy to accept in the short run. We are not discouraged despite what we have found in our first four months in office. We are more thankful than ever that the change of Government has occurred in time to give this Province a fighting chance to reverse the course it has been on.

In preparing for this Budget Address I took some time to read over copies of Budget Speeches delivered in this Honourable House of Assembly by my grandfather, Sir John Crosbie, in 1926, 1927, and 1928 when he was Minister of Finance in the Government of those days. Our problems are surprisingly similar. The major difference, Mr. Speaker, is just the magnitude. The problems in those days were problems of industrial and economic development, of deficit financing, of planning and of

priorities. In fact, they had problems that we no longer have including those of the burden of the railway, the burden of war pensions and the debt created as a result of World War 1. What a pity it is that after the expenditure of billions of dollars of public funds we have so little to show for it. We have vastly improved public services and standards of public services since Confederation but we still do not have the industrial or economic base that these vast expenditures should have created. The methods of those years have not worked.

We believe that our kind of approach together with a careful and well-managed combination of both our proven and our potential natural resources with our abundance of human resources can result in a prosperous and meaningful future for the people of this Province.

Now it is lucky that there are some particularly bright spots on our horizon which I should mention here, Mr. Speaker. The Iron Ore Company of Canada Limited, which has shipped a total of 136,000,000 tons of iron ore since it first shipped ore from Newfoundland-Labrador in July 1954, is now well along in a vast expansion programme. When that expansion programme is completed the Company will have invested \$500,000,000 in this Province without any direct Government financial assistance.

The Iron Ore Company of Canada is now expanding its concentrating capacity at Labrador City so that it will be able to produce 22,000,000 tons of concentrates per year, an increase of 10,000,000 tons. In addition, I have been informed by the Iron Ore Company of Canada that at a meeting of directors held within the past week, a decision was made to install further processing equipment comprising a magnetic separator which will give a further 1,000,000 tons of productive capacity per year. Of this production of concentrates approximately 10,300,000 tons is being further processed through their Pellet Plant at Labrador City, while the remainder is being shipped as concentrates

to their customers in Japan, Germany, France and elsewhere.

This expansion should be completed by September 15th of this year, and will result in an increase of 550 jobs, raising the total number of people on the payroll at Labrador City to 2550.

This is an encouraging development for this Province and a development which we can expect to see repeated since our reserves of iron ore and other minerals are still relatively untouched.

As the Members of the Honourable House of Assembly know, the Upper Churchill Hydro-electric project is well ahead of schedule. The financial benefits of that Project to this Province are not as great as were originally indicated nor as high as we had hoped. We have included in our Estimates of Revenue for this year approximately \$1,000,000 which we expect to receive from the Upper Churchill Development as a result of the charge of fifty cents per horsepower provided for in the Agreements relating to the Upper Churchill Development. The Government of this Province is also entitled to a charge of eight per cent of profits before taxation, but after depreciation. Receipts under this heading will be insignificant for several years to come. The Province is also entitled to an amount approximately fifty per cent of the corporation tax paid. However, corporation tax paid by Churchill Falls (Labrador) Corporation Limited will depend on various considerations such as amounts permitted to be deducted for depreciation, and will likely result in little

being paid in the early years of the project. Our best estimate at the moment is that our revenue from the Upper Churchill Project should increase to \$5,000,000 a year by the year 1975, and will not be anything really substantial until after the year 1990 or 2000.

The Government has also been discussing with Churchill Falls (Labrador) Corporation Limited the issue of the recapture of power from the Upper Churchill Development for use in Labrador. The House will remember that up to 400,000 horsepower of power was to be reserved for the use of this Province. We have requested the recapture of a portion of this power for use in the expansion of the facilities of the Iron Ore Company at Labrador City. However, negotiations are still continuing to settle the price which must be paid for this recaptured power. Full information will be given the House concerning these negotiations and the problems caused by the lack of protection provided to this Province in the original arrangements.

The Question of the development, of the development of the hydro-electric power potential of the Lower Churchill, is also a matter that will be given early attention by the Government of this Province. British Newfoundland Corporation has indicated to the Government that they wish to proceed with the development of the Lower Churchill, and negotiations on the terms and conditions that will govern such a development will soon begin. It is quite clear that the export of hydro-electric power from this Province for sale elsewhere is not desirable but may be necessary. If the development of the Lower Churchill is to be undertaken, ample and adequate provision must be made for the recapture of such blocks of power as may be needed in Labrador as opportunities occur. There must be adequate safeguards for this Province if this development is to proceed at this time. The price of recaptured power, the quantities of power to be recaptured, the provision of power to the Goose Bay area, the question of revenue for this Province from the development and other issues must all be carefully covered. We are dealing with one

of the great resources of this Province and it will not be cheaply hartered away.

The future of this Province, Mr. Speaker, also depends upon the search for and discovery of oil and natural gas on the Continental Shelf both off the Island and the Mainland of Labrador. Agreements must be reached as to jurisdiction over these great resources, and steps taken to correct the scandalous give-away of permits by the previous administration. An intensive effort to develop in this Province the service industries that will be needed once producing oil and gas wells are in operation off our coast is also commencing. Little work was done on this until we assumed office but we are now commencing an intensive study, and developing the policies that are needed to protect this Province. We must take every advantage of our position relative to these resources. So what is our course of action?

In addition to the development of a four year financial plan, this Administration will undertake to increase provincial revenues and to implement greater efficiency and control in our expenditure programmes through the following actions:

- (i) A review of all government programmes of expenditures;
- (ii) A review of all Federal-Provincial programmes, those we presently participate in, and those we may not now be utilizing but which we should utilize;
- (iii) A review of present exemption policies in all areas of taxation;
- (iv) A review of all contractual obligations of the Province particularly in such areas as the leasing of space and the provision of services;

- (v) A review of all industrial loans, grants and guarantees, with particular emphasis on taking whatever action is necessary to see that defaults are corrected and our legal rights enforced;
- (vi) A review of policy and procedures with respect to the granting of guarantees of loans by government generally with centralized direction and control of all such guarantees;
- (vii) A review of policies relating to co-ordination with the Government of Canada in planning and setting realistic goals for this Province.
- (viii) A review of the financial management of all Crown Corporations;
- (ix) A review of the structure and operations of the Newfoundland Liquor Commission with respect to its merchandising policies and practices, its efficiency and its present system of licensing;
- (x) A review of policies governing the granting of permits for oil exploration and the implementation of a programme to ensure maximum economic benefits for this Province arising out of oil and gas discoveries off our shores.

Our major strategies to turn this Province around and to put us on the road to progress, Mr. Speaker, therefore include a review of the economic and financial policies of Government, the establishment of honest and realistic priorities, and the implementation of the recommendations that will result from the studies we propose to undertake.

In this Budget I have tried to outline the facts in relation to our financial position and our future prospects. This Budget is a complete and, I hope welcome, departure from the past. So long as the Premier wishes me to continue as Minister of Finance and President of the Treasury Board I intend to do my best to put this Province on a sound financial footing. Suggestions for increased expenditure on either capital or current account this year will receive little sympathy. The success of this approach will be seen next year in the amount, if any, that may have to be requested in Supplementary Supply.

In ending my First Budget Speech I have to thank those officials of Government who participated in the preparation of this document. I, myself, take full responsibility, but it gives me pleasure to inform the people of Newfoundland that in my opinion we have, in the Treasury Board and the Department of Finance, officials of such ability and capacity as any government in this nation can lay claim to. I would also like to mention one other person who was involved in the preparation of this Budget and who is not a civil servant, Mr. Roland Martin, of the Department of Commerce of Memorial University, who was retained to work on the preparation of this Budget with Government officials and who also has done a tremendous job.

Mr. Speaker, we must face our situation, not just as a Government but as a people. Do we, the people of Newfoundland and Labrador have the fortitude and spirit, as well as the resources, to resolve these problems and to overcome them? The opinion of this Government is unequivocally, that we do.

We know the problems, we know the prospects, we know what is required, and we hope and expect that the people of this Province wish us to face them honestly, openly and unhesitatingly. This is what we feel the people of this Province expect of us and that is what they are going to get. I am happy, Mr. Speaker, to be serving a Government, under a leader who wants this approach taken, who wants dialogue with the people of the Province and who wants progress based on fact, consistent with reality and allied with fortitude.

I therefore move, Mr. Speaker, that you do now leave the Chair.

I would move, Mr. Speaker, that this motion be adjourned until tomorrow:

Motion, that this motion be adjourned until tomorrow, carried:

MR CROSBIE: Mr. Speaker, I have received a message from His Honour the Lieutenant-Governor.

"The Hon Minister of Finance: I the Lieutenant-Governor of the Province of Newfoundland transmit estimates required for the public services of the Province for the year ending March thirty-first, nineteen hundred and seventy-three in the neighbourhood of \$486,415,600 and

according to the provisions of the British - North America Act of 1867 as amended, I recommend these estimates to the House of Assembly.¹³

Signed, the Lieutenant Governor.

MR. CROSBIE: Mr. Speaker, I move that the message from the Lieutenant Governor together with the estimates, be referred to the Committee of Supply.

On motion, Mr. Speaker left the Chair.

COMMITTEE OF SUPPLY

MR. CHAIRMAN: Order!

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

MR. DUNPHY: The Committee of Supply have considered the matters to them referred, have made some progress and ask leave to sit again on tomorrow.

On motion report received and adopted, committee ordered sit again on tomorrow:

MR CROSBIE: Mr. Speaker, I give notice that I will on tomorrow ask leave to introduce the following Resolution; to move the House into a Committee of the Whole to consider Certain Resolutions Respecting the Amendment of the Tobacco Tax Act, 1964, as amended.

MR MARSHALL: Mr. Speaker, I move that the Orders of the Day stand deferred and the House at its rising do adjourn until tomorrow, Thursday, at three o'clock in the afternoon and that this House do now adjourn.

On motion the House at its rising adjourned until tomorrow, Thursday, June 1, 1972, at 3:00 P.M.