



**First Session - Thirty-Sixth Legislature**

**of the**

**Legislative Assembly of Manitoba**

**Standing Committee**

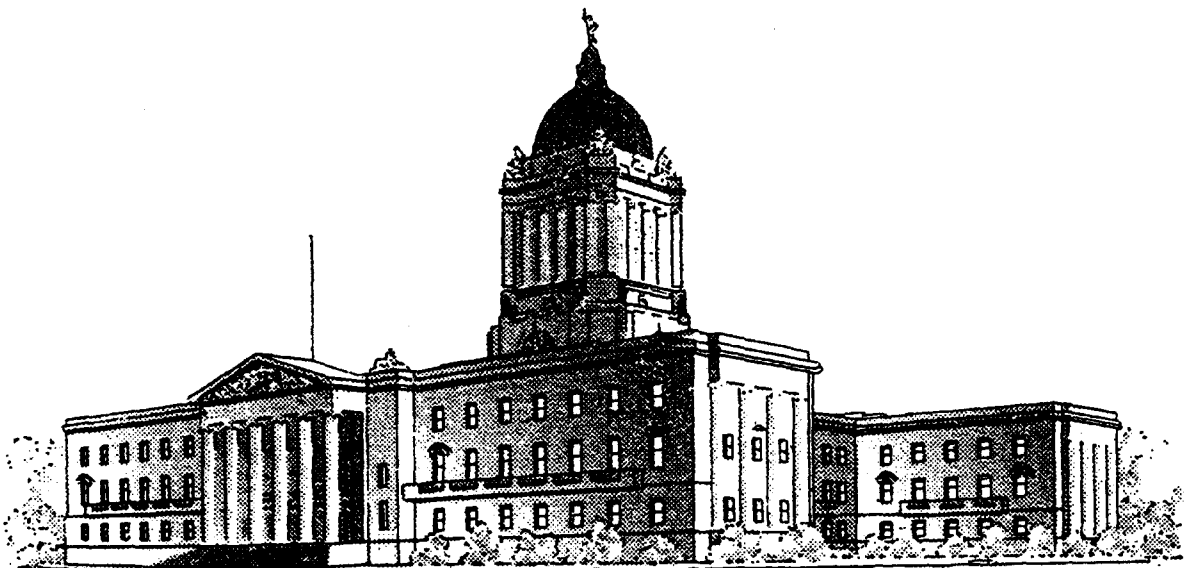
**on**

**Economic Development**

*Chairperson*

*Mr. Mike Radcliffe*

*Constituency of River Heights*



**Vol. XLV No. 5 - 1:30 p.m., Friday, October 20, 1995**

**MANITOBA LEGISLATIVE ASSEMBLY**  
**Thirty-Sixth Legislature**

**Members, Constituencies and Political Affiliation**

<u>Name</u>	<u>Constituency</u>	<u>Party</u>
ASHTON, Steve	Thompson	N.D.P.
BARRETT, Becky	Wellington	N.D.P.
CERILLI, Marianne	Radisson	N.D.P.
CHOMIAK, Dave	Kildonan	N.D.P.
CUMMINGS, Glen, Hon.	Ste. Rose	P.C.
DACQUAY, Louise, Hon.	Seine River	P.C.
DERKACH, Leonard, Hon.	Roblin-Russell	P.C.
DEWAR, Gregory	Selkirk	N.D.P.
DOER, Gary	Concordia	N.D.P.
DOWNEY, James, Hon.	Arthur-Virden	P.C.
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DYCK, Peter	Pembina	P.C.
ENNS, Harry, Hon.	Lakeside	P.C.
ERNST, Jim, Hon.	Charleswood	P.C.
EVANS, Clif	Interlake	N.D.P.
EVANS, Leonard S.	Brandon East	N.D.P.
FILMON, Gary, Hon.	Tuxedo	P.C.
FINDLAY, Glen, Hon.	Springfield	P.C.
FRIESEN, Jean	Wolseley	N.D.P.
GAUDRY, Neil	St. Boniface	Lib.
GILLESHAMMER, Harold, Hon.	Minnedosa	P.C.
HELWER, Edward	Gimli	P.C.
HICKES, George	Point Douglas	N.D.P.
JENNISSEN, Gerard	Flin Flon	N.D.P.
KOWALSKI, Gary	The Maples	Lib.
LAMOUREUX, Kevin	Inkster	Lib.
LATHLIN, Oscar	The Pas	N.D.P.
LAURENDEAU, Marcel	St. Norbert	P.C.
MACKINTOSH, Gord	St. Johns	N.D.P.
MALOWAY, Jim	Elmwood	N.D.P.
MARTINDALE, Doug	Burrows	N.D.P.
McALPINE, Gerry	Sturgeon Creek	P.C.
McCRAE, James, Hon.	Brandon West	P.C.
McGIFFORD, Diane	Osborne	N.D.P.
McINTOSH, Linda, Hon.	Assiniboia	P.C.
MIHYCHUK, MaryAnn	St. James	N.D.P.
MITCHELSON, Bonnie, Hon.	River East	P.C.
NEWMAN, David	Riel	P.C.
PALLISTER, Brian, Hon.	Portage la Prairie	P.C.
PENNER, Jack	Emerson	P.C.
PITURA, Frank	Morris	P.C.
PRAZNIK, Darren, Hon.	Lac du Bonnet	P.C.
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REIMER, Jack, Hon.	Niakwa	P.C.
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STEFANSON, Eric, Hon.	Kirkfield Park	P.C.
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TOEWS, Vic, Hon.	Rossmere	P.C.
TWEED, Mervin	Turtle Mountain	P.C.
VODREY, Rosemary, Hon.	Fort Garry	P.C.
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**LEGISLATIVE ASSEMBLY OF MANITOBA  
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT**

**Friday, October 20, 1995**

**TIME – 1:30 p.m.**

**LOCATION – Winnipeg, Manitoba**

**CHAIRPERSON – Mr. Mike Radcliffe (River Heights)**

**ATTENDANCE - 10 – QUORUM - 6**

*Members of the Committee present:*

Hon. Mr. Stefanson

Messrs. Ashton, Evans (Brandon East), Laurendeau, Newman, Penner, Radcliffe, Rocan, Sale, Tweed

**APPEARING:**

Ms. Jean Friesen, MLA for Wolseley  
Mr. Gary Kowalski, MLA for The Maples

**WITNESSES:**

Ms. Diane Beresford, Private Citizen  
Mr. Ken Pearce, Manitoba Teachers' Society  
Mr. Glen McRuer, Manitoba Teachers' Society  
Dr. John Loxley, Choices  
Mr. Mark Francis, Private Citizen  
Mr. Darrell Rankin, Communist Party of Canada-Manitoba  
Mr. Dan Kelly, Canadian Federation of Independent Business  
Mr. Peter Olfert, Manitoba Government Employees' Union

**WRITTEN SUBMISSIONS:**

Mr. Peter Holle, Manitoba Taxpayers Association  
Manitoba Nurses' Union

**MATTERS UNDER DISCUSSION:**

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

**Mr. Chairperson:** Good afternoon, ladies and gentlemen. Would the Standing Committee on Economic Development please come to order. The committee met last evening to begin public hearing on presentations on Bill 2, The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act.

The business before the committee this afternoon is to continue hearing from those persons registered to speak to Bill 2. At this point, I will read out the names, as they stand this afternoon, of those persons who are registered to speak out on the bill, so they can be assured that their name is on the list and what order they are in.

The first presenter, Betty Edel, President, Community Education Development Association; 2, Ken Pearce, President of Manitoba Teachers' Society; 3, John Loxley from Choices; 4, Mark Francis, Private Citizen; 5, Darrell Rankin, Communist Party of Canada, Manitoba branch; 6, Ian Fillingham, Private Citizen; 7, Dan Kelly, The Canadian Federation of Independent Business; 8, Peter Olfert, Manitoba Government Employees' Union; 9, Lawrie Deane, Community Action on Poverty; 10, Ron Schmalcel, Private Citizen; 11, Dr. Sid Frankel, Canadian Mental Health Association; 12, George Harris, Private Citizen; Nancy Paterson and Pat Isaak are No. 13, Transcona/Springfield Teachers' Association and the Seven Oaks Teachers' Association, respectively; 14, Robert Brazzell, Manitoba Chamber of Commerce; 15, John Wiens, Seven Oaks School Division; 16, is Victor Olson, Private Citizen; 17, Diane Beresford, Private Citizen; 18, Peter Sim, Manitoba Association for Rights and Liberties; and 19, Carl Ridd, Private Citizen.

If there is anyone present in the audience this afternoon who wishes to appear before the committee and has not yet registered, you may register at the back of the room and your name will be added to the list.

Before we go any further, I would canvass the committee at this time to establish a time for rising this

\* \* \*

evening. I would like to tell the members of the public at this point that if we do not reach you this afternoon, this committee has also been called for presenters in this room starting at nine o'clock on Monday morning.

I will now entertain a motion or suggestion for time for rising.

**Mr. Leonard Evans (Brandon East):** I would like to suggest 4:30, just three hours.

**Mr. Chairperson:** Is there any comment on that? [agreed]

I would just like to remind the committee and members of the public that the committee agreed at its meeting last night to limit each public presentation to 20 minutes. Is the committee agreed to re-establishing this time limit today on the length of the presentations from members of the public? [agreed]

Finally, before beginning with hearings from the public presenters, I would like to comment to the committee and to the public on the nature of the process of the public hearings last night. There were times during the meeting last night in which the questioning to some of the presenters by different members of the committee got out of hand; and, in fact, on reflection I would classify some of the questions as out of order.

\* (1340)

Questions to the presenters were not questions of clarification of a person's presentation but were rather framed as a means of engaging in debate. Such a line of questioning to members of the public, who come here on their own time and with a personal commitment to present their views on public policy, is out of order in this committee. It is, frankly, discourteous to the person making the presentation and to all other members waiting to make their presentation. I attempted several times last night to remind members of the correct practice of the committee and, quite frankly, there was not a lot of adherence to those rules.

As the Chairman, I must submit to the rule of the committee. However, I am responsible, on the other

hand, for ensuring that correct practices and procedures are adhered to and that the public are treated with respect and, quite frankly, not being harassed.

I am, therefore, telling the committee at this point that when it comes to asking a question of a public presenter, the questions must be questions of clarification as to the presentation that these people make to the committee. Questions that engage the presenter in debate are not acceptable and will be ruled out of order.

This is not a forum for cross-examination and debate. It is a forum for the public to present their views to you, and I ask that all members abide by the correct procedure of the committee. I thank you in advance for anticipated co-operation. [interjection] That is right. I will do my best.

We are ready now to begin to hear public presentations. On that issue, there is an individual, George Harris, individual No. 12, who has identified himself to the Clerk who has indicated that he is taking a flight out of town this afternoon and would like consideration to appear early. Is that the will of the committee? [agreed]

Then there was a woman by the name of Diane Beresford, item 17, who is an out-of-town presenter. She has also identified herself to the Clerk. I am advised that she had been informed last night that she was not going to be able to hit the list and so she chose not to come. She comes from out of Winnipeg and is here today in the audience, and I would ask if we could give her the courtesy of early hearing as well? [agreed]

Well, then, perhaps we will commence by calling George Harris. Well, I am proved a liar. Would the usher call in the hall for Mr. Harris. George Harris is not present. Is it the will of the committee then if he is not here to leave him in his place and if he does appear that he can be identified at a future time? [agreed]

The usher has indicated that there is no answer to the summons from the hall. Thank you.

I would next summon Diane Beresford to come forward for her presentation. Ms. Beresford, I see that

you are handling a number of papers. Have you got a written presentation to circulate?

**Ms. Diane Beresford (Private Citizen):** Yes.

**Mr. Chairperson:** Thank you, Ms. Beresford. I think we all now have copies of your presentation. Would you please proceed.

**Ms. Beresford:** Thank you. This presentation is on behalf of myself and my husband, Terrance House, who is also here.

We are very worried about Bill 2 and how it will affect us and our children. It seems that the bill commits the government of Manitoba to balance its operating and capital budget year to year, pay out huge sums of money every year against the debt, while at the same time not giving itself any leeway to raise that money by raising taxes. Where will all this money come from? From our daughter's school? From our son's community college? From my mother's health care?

We can see that having the operating budget balance, averaged over several years, is a good idea. Does not requiring the same of the capital fund mean that major investments will be difficult or impossible to make? After all, if we want to buy a house or a car, we do not expect to pay for it all in the same year that we buy it. If a new hydro plant needs to be built, why would the people of Manitoba expect it to be paid for in one year? Why would the government of Manitoba want to tie its own hands?

The ever increasing amounts of money committed to the Debt Retirement Fund will further hobble the government. Even if we agree that reducing how much money Manitoba owes is a good idea, why is this bill so much more drastic than similar legislation in Alberta or anywhere else in the country? Why will we be paying at twice the rate as Albertans?

We cannot understand the provision that calls for paying the debt fund back 7 percent of any payments made against the debt as well as the base amount. With that rule the debt fund could end up with a plus balance at the end of the exercise, and how with this

unreasonable commitment will the Manitoba government be able to support health care, public education, social services and so on?

Have the people who drafted this bill considered the effect on the economy of taking these huge sums out of the province? Money that would be going to pay nurses or highway workers' salaries and from there into the Manitoba economy will be in foreign coffers. Nurses, teachers and civil servants will have their incomes reduced or will lose their jobs. What effect will that have on the economy of Manitoba?

Many economists seem to think that carrying a reasonable amount of debt makes sense for the province, just as it does for business or family. What good does paying down the debt quickly do if it hurts the economy, eliminates essential services and makes life harder for the average Manitoban?

Making most tax increases possible only with a referendum is the really risky part of this bill. It is the nature of people that they are unlikely to volunteer to pay more in taxes. Experiments in other places, such as California with its Proposition 13, have shown that relying on referenda on taxation is a sure way to money shortages and undermined programs and services. Again our bill goes too far. Alberta has to go to the voters to get a sales tax, which it does not have at the present, not to increase the taxes that raise the bulk of the money for the province.

The government should do its job of making the hard decisions that need to be made. We are already among the lowest taxed in Canada and this bill is virtually ensuring that no matter what happens anywhere else in Canada or how tough things get trying to meet the debt requirements they will not be able to raise the tax rates. Keeping taxes low in Manitoba certainly has not resulted in the great economic boom and improved job market the government predicted seven or so years ago.

Maybe a tax increase to support job creation would, and keeping taxes low at the same time that we are trying to pay down the debt makes no sense at all. How much would a tax referendum cost? Surely the money spent on this would be better spent on health care, schools or job training.

Our conclusions are that we think the rate at which the bill requires the debt to be paid is too drastic. The yearly amount should be reduced. Do away with the 7 percent of debt fund payout to be added to the yearly base amount paid to the fund. Require governments to balance their operating budgets during their term of office, not year to year, and exclude capital investments from the requirement to be balanced over the term of a government. Do away with the referendum requirement to give the government the ability to make the fiscal decisions as needed, and do not set up a situation that will make it impossible to maintain the programs and services that Manitobans need and want.

**Mr. Chairperson:** Thank you very much, Ms. Beresford. Do any of the members of the committee have any questions of this presenter?

**Mr. Leonard Evans:** I thank Ms. Beresford for a very interesting and insightful presentation. I have argued that—I am getting to the question Mr. Chairman—the government or any government can do what it will year by year with the budgeting process in terms of debt repayment, tax changes, expenditure cuts or increases, and that therefore balanced budget legislation is not required. Every objective that the minister and the government has stated for this legislation can be achieved without legislation simply by exercising the parliamentary power that the government has year by year. Would you agree with that observation?

\* (1350)

**Ms. Beresford:** Yes. In fact, I think it was Gary Filmon that mentioned at one time when there were discussions about having a referendum on the Jets' question, a burning political question, and he made a lengthy and eloquent speech about the responsibility of government to make decisions, and that the reason people were elected to public office was to make the right decision. Surely that could be applied to fiscal policy as well, in that the government of the day elected by the people is expected by them to be honourable, ethical and able to make the right decision year to year. So my preference would be to do away with this legislation and hope that we have or elect future governments that do the right thing. But failing that, our Plan B would be to get the legislation

modified so that it does not put this huge burden on the backs of Manitoba's people.

**Mr. Jack Penner (Emerson):** Mr. Chairman, just very briefly, being a businessman and a farmer and having operated a business for the last 30 years, it always disturbs me when I hear people say that government should be able to keep on borrowing money as we have in the past, and then when I look at the huge amount of money that we pay in interest costs today, some \$650 million a year, you have to wonder, if you operated as you do a normal business, that on a regular basis you make your debt paydowns, and if government operated that same way, we would not be staring at a \$650 million bill every year. Then when you turn around and look at the opposite side of the issue, I wonder what your views are as to how fiscally responsible or how fiscally better managed the government might be had we not had the ability to borrow those huge amounts of money on a continuing basis without giving any thought to repayment and what we could do with that additional \$650 million annually now to support child development, to support education, to support our health care facilities, support our highway system and family services, and those kinds of things?

**Ms. Beresford:** Rather a convoluted question. I think there may have been two or three questions or maybe no question in there. I think if you read the brief, and it is a very brief brief, I know, carefully, you will see that we are not against perhaps reducing the debt load. We are not against having some sort of plan for balancing budgets over time, particularly operating budgets. We expect that a responsible government would make those things their aims.

What we are against is putting in place a structure that is a recipe for disaster. This government and the previous government since about the mid-'80s have been bringing down budgets that have forgiven taxes to various sectors that over the years have added up to hundreds of millions of dollars in lost revenues to the government of Manitoba. That money alone would probably pay the interest, but because of those tax breaks that have been instituted by this government and the previous government, all of that revenue has been lost.

So I would suggest to you that thinking that you can reduce taxes and at the same time balance books and at the same time pay back the debt without causing enormous devastation across the province, particularly to the neediest members in our society, I think is either cynical if it is all a game or very naive if it is not a game.

**Mr. Chairperson:** Thank you, Ms. Beresford. Mr. Sale, do you have a question?

**Mr. Tim Sale (Crescentwood):** Thank you, Mr. Chairperson. I appreciate the brief very much. On the first page at the bottom, you reference the Manitoba bill in comparison to the Alberta requirement. I presume the reference is to the payback amount, but could you just clarify your statement that why is this bill much more drastic than similar legislation in Alberta or elsewhere and why would we be paying at twice the rate? What is the meaning of twice the rate in your brief?

**Ms. Beresford:** When we compared it, we looked at the total revenue of Alberta and the total revenue of Manitoba, and we found that Alberta requires \$100 million a year to be paid back, to be paid in the Debt Retirement Fund, and that represents about 0.7 percent of their annual revenue. In Manitoba, we have a much smaller revenue. We are mandated to supply about \$75 million for the first year, and that represents about 1.3 percent of our total revenues, so that is almost double.

But the kicker is that this peculiar thing that the debt has to be paid back 7 percent of any payouts, not just one time but that is tacked onto the yearly rate ever after, means that this \$75 million beginning rate that is already almost double the Alberta rate escalates incrementally, so by the end of the term, the amount that is going to have to be deposited every year is going to be huge, with no plan in place that we can see for providing this money other than by cuts to social programs, services to Manitobans and so on.

If you put a referenda system in place, we know from the devastation that happened with Proposition 13 in California that people are not altruistic enough to say, sure, tax me another \$300 a month, I will pay gladly, or

certainly my business can bear a higher health and education tax, tax me some more. People do not do that, and it is up to our elected officials to make those tough decisions if they need to be made. Part of being fiscally responsible is not just paying the bills; part of being fiscally responsible is raising the money to pay those bills.

**Mr. Chairperson:** Thank you, Ms. Beresford. Are there any other members that have any questions? If not, thank you very much, Ms. Beresford, for your time and skill with your presentation today.

The next presenter is Betty Edel. Is she present in the committee room today? Betty Edel. Would the usher please call for Betty Edel. The Clerk is indicating no response from Betty Edel. She will go to the foot of the list.

The next presenter is Ken Pearce, president of the Manitoba Teachers' Society. Mr. Pearce, I see you have some written presentations to be circulated, for which I thank you.

For purposes of the record, when I was calling the list I indicated that the second presenter today was Ken Pearce, president of the Manitoba Teachers' Society, and this is a substitution for Linda York.

We all have a copy now, Mr. Pearce, of the presentation. Would you please proceed.

**Mr. Ken Pearce (Manitoba Teachers' Society):** For clarification, Chair, thank you for the invitation to submit. Linda York could not be present today. I am the president-designate of the society and she asked me to read on her behalf the society's position into the record.

**Mr. Chairperson:** You are welcome, sir.

**Mr. Pearce:** The Manitoba Teachers' Society appreciates the opportunity to talk to you about Bill 2 of 1995 and its implications for both the province as a whole and education in particular. The society has serious concerns regarding the series of proposals presented by Bill 2 and their combined effect on the economy of Manitoba, its citizens and public schools.

In general, the requirements being proposed by the legislation ensure declining operating revenues to fund government of Manitoba programs and in consequence unacceptable cuts to health care, public education and social services and the programs and services that Manitobans need. The bill also seeks to dictate fiscal policy for both the present provincial government and future governments. Citizens normally expect the government of the day to make fiscal decisions based on the needs and wishes of the people and current fiscal realities.

This legislation restricts this process and future governments by putting into law a series of requirements that will have the effect of paralyzing the fiscal decision-making abilities of the government of Manitoba, not during the next few years, but well into the next century.

The proposal to disallow provincial deficit during each 12-month fiscal period—the proposal for provincial government revenue to equal provincial government expenditures is impractical, given the limited confines of each 12-month period and the definition of expenditure presented in Bill 2, which pertains to both operating and capital appropriations.

There is justification for seeking to balance the operating account with provincial revenues over some number of years, for example the five-year elected term of a provincial government. However, requiring a yearly balancing of the capital account is neither realistic nor logical.

Just as a family might borrow to make a major purchase, the government of Manitoba should have the continued flexibility to spread the costs associated with major capital expenditures over many years.

The proposal to eliminate the provincial debt in full—while it is prudent to reduce the debt load carried by the Province of Manitoba, the total elimination of the debt over the next 30 years is neither practical nor desirable if it means greater hardship for its citizens and a grimmer economic picture than carrying some amount of debt. Every government has operated with a certain level of debt. Carrying loans to invest in capital projects and to support necessary programs is sensible.

\* (1400)

The society believes the mandated contributions to the Debt Retirement Fund will produce negative economic impacts, difficulties for all Manitobans and real misery for those Manitobans in need. The dual requirements of annually balanced operating and capital accounts coupled with the obligation to deposit ever escalating amounts of provincial revenue into the Debt Retirement Fund will induce a detrimental impact on the Manitoba economy and severely reduce resources to provide citizens with the services and programs they need.

The society questions the extremely onerous burden Bill 2 seeks to inflict on Manitobans. Similar legislation in Alberta where total annual provincial revenue exceeds \$13.3 billion fixed the debt retirement deposit at \$100 million per year. Manitoba, with a total annual provincial revenue of \$5.5 billion, will be required initially to contribute \$75 million a year towards debt retirement and then significantly increasing amounts after each five-year period.

In contrast to Alberta's annual deposit rate of 0.7 percent of total provincial revenue, Manitoba's annual deposit rate begins at 1.3 percent of total provincial revenue and then escalates. The burden to be placed on Manitobans is far in excess of what is practical and is much more radical than methods for debt repayment in other Canadian provinces or, indeed, in other OECD countries.

The society believes the 7 percent escalator built into the debt retirement deposit schedule to be impractical. Because the legislation calls for the annual deposit to the fund to be repeatedly increased to include 7 percent of all amounts paid out from the fund to offset debt, the initial yearly deposit of \$75 million will rise sharply.

An annual deposit schedule that begins at twice the rate of obligation in relation to revenues required in Alberta increases at least every five years as payments against the debt are made.

The debt retirement requirements will further limit the amount of money available to the Manitoba government, both present and future, to meet the needs of its citizens.



**The Proposal to Provide Taxpayer Protection:** The requirement for a referendum for any increase in most forms of provincial taxes ensures that the government of Manitoba will only be able to balance its budget and raise the money for its ambitious debt repayment scheme by cutting and eliminating programs and services to its citizens. As the largest consumers of provincial revenue, Health, Education and Family Services are bound to be hit hardest. These cuts will affect the weakest and neediest in our province: children, the poor and the sick.

The society questions, again, why this government is instituting a process which is such a departure from normal fiscal policy making. Alberta's legislation only requires a referendum to introduce a provincial retail sales tax, something that province has never had. The Manitoba legislation requires referenda for most major forms of provincial taxation.

The elected representatives forming the government of Manitoba should continue to be responsible for making decisions about revenues and expenditures as changing conditions warrant over time. Should the need to raise revenue arise, a decision to raise taxes should not require a costly and probably unsuccessful referendum to allow it.

**Added Commitments Towards the Fiscal Stabilization Fund:** At present, the Fiscal Stabilization Fund is virtually empty. The legislation proposes that it will be maintained at 5 percent of total annual operating expenditures, about \$260 million. Substantial transfers of provincial revenues will be necessary to raise it to this level and maintain it, a further diversion of provincial operating revenues away from the support of essential programs and services.

**The Approach Towards Provincial Economic Policy Proposed by Bill 2:** The society understands that the general purpose debt of Manitoba has been rising over the years. The society also recognizes the obligatory annual costs facing the provincial Department of Finance to service this debt load.

To place questions pertaining to the provincial debt in context, it is useful to examine economic indicators to gauge the dimension of the general purpose debt of

Manitoba in relation to other Canadian provinces. How does the amount of debt being managed by the Province of Manitoba compare to the other provinces of Canada? Is the amount relatively excessive?

The economic indicators available for the opening years of the 1990s indicate that as a percentage of gross domestic product, the net general purpose debt of Manitoba closely approximates the average percentage of net debt relative to GDP for Canadian provinces. The source is Statistics Canada, Public Sector Finance, '94-95.

In terms of total net debt, economic indicators identify Manitoba to be in the middle of the 10 provinces, which range from the high of Ontario to the low of Prince Edward Island. The conclusion to be drawn is that the level of total net debt for the Manitoba government is not exceptional or substantively out of line relative to other Canadian provinces—the same source for the statistics.

The society recognizes it would be prudent to take steps to limit further growth in the net general purpose debt. The society agrees efforts to pay down some measure of the provincial debt represents sound economic policy. The Public Accounts of Manitoba indicate that the total amount of net general purpose debt has been reduced for certain fiscal years during the past decade.

It is the overall approach towards locking the fiscal policy of the Province of Manitoba into the particular system proposed by Bill 2 for future decades which the society believes to be unwise.

In order to address the issues of deficit and debt facing Manitoba in a constructive and practical manner, the factors which have contributed towards the growth in the general purpose debt should be remembered. The society recalls the enthusiasm of the Manitoba government in presenting the provincial budgets of 1988-89 to 1992-93 which reduced a number of provincial tax rates.

In total, these so-called tax expenditures have curtailed the amount of tax revenues available to the provincial Treasury in each fiscal year by hundreds of

millions of dollars. Today, the Manitoba government points to the rising amount of provincial debt.

The approach toward repaying the provincial debt set out by Bill 2 represents an extreme method. The specific fiscal policy objectives proposed by the Manitoba government in Bill 2 exceed the revenue capacity designed and maintained by the Manitoba government since 1988.

The proposed method will lock the provincial government into paying down the general purpose debt by diverting funds from the annual operating and capital accounts of the provincial budget and thereby starving provincial programs for health care, public education, family services and so forth.

The society questions the 7 percent escalator mandated by Section 8(4). In upcoming years, Bill 2 seeks to withdraw 200 million per year, 300 million per year and then 400 million per year from the budgets for vital programs and services funded by the provincial government. Forced debt repayment in these ever larger amounts year after year does not represent practical economic policy.

These program dollars, which would have been spent for the most part within the borders of Manitoba, will be paid to debt holders in the United States, Europe and Japan. This diversion of dollars will have a deep and lasting impact on the Manitoba economy.

The society is troubled by the ever greater reliance on user fees for public services which will result. Public school finance will be further eroded by the continued escalation of property taxation by the special levy within those public school divisions with a more affluent assessment base. Those school divisions which do not have the assessment base to generate revenue to replace lost provincial funding will be forced to continue to curtail education programs.

The consequence of the user fees and local government property taxes which will be induced by Bill 2 to provide revenue for public sector programs and services is that equal access to programs and services will be denied to an ever larger number of Manitobans.

In conclusion, the society believes the components of Bill 2, when analyzed singly, represent an abandonment of the responsibility of the government of Manitoba to adjust its revenue and expenditure patterns over time in order to meet the needs of its citizens.

When appraised as a package, Bill 2 as it now reads will lead to the elimination of essential programs, services and investments throughout the province and will cause hardship and misery for many Manitobans. Stipulations for a balanced operating and capital account in each single fiscal year, onerous and unrealistic targets for the complete repayment of the general purpose debt and referenda requirements to provide revenue will result in a heavy burden on Manitobans, coupled with the decimating of essential programs and services.

Dealing with the debt should not be more onerous for the citizens of Manitoba than carrying the debt. This legislation locks us into a solution that the society fears is worse than the problem.

\* (1410)

To mitigate further growth in the general purpose debt of Manitoba, the society suggests that the government of Manitoba apply a balanced budget requirement to the operating account of the province and average it over the five-year elected term of a provincial government.

To begin the scheduled repayment of the general purpose debt of Manitoba, the society proposes that the government of Manitoba adopt a more practical plan, one more in line with the revenue patterns of the province and less onerous for its citizens.

The society upholds the responsibility of the elected representatives of the government of Manitoba to continue making decisions about required levels of provincial revenue and expenditure. A system of general referenda for provincial taxation is unnecessary.

**Mr. Chairperson:** Thank you, Mr. Pearce.

**Ms. Jean Friesen (Wolseley):** Thank you, Mr. Pearce, for your presentation. I know you were here late last night as well, so thank you for returning.

You have mentioned, in your brief, in a number of ways, your fears for the future of public education, and of course it is one of the fundamental institutions of this society. I wonder if you could give us some account of the kind of impact of the cuts and the history of public education financing that you have seen in the last few years. What state are we at now?

**Mr. Pearce:** In brief response, if we get into very technical details I would prefer to defer to a colleague who has much more background on the technicalities. If you are asking me what the effect has been felt in the classrooms and so forth, they are certainly being felt. The class sizes are larger. We have been expected as teachers to take on a lot of the load of society, and I refer I guess in particular to Department of Justice referrals of difficult adolescents to all classrooms and the increasing needs of mainstreamed special needs students without the supports we need to enable us to continue to teach. A general sense of being social workers and, in some cases, substitute parents for many of our troubled children is something I personally have felt as a teacher. Many of my colleagues have told me, in my position in the Manitoba Teachers' Society, they are experiencing increasing frustration in the classrooms as they attempt to do a job which they want to do well.

**Ms. Friesen:** Do you have a sense of how these cuts are being applied across the province? Do you have a sense of any differences in urban and rural areas?

#### Point of Order

**Mr. Marcel Laurendeau (St. Norbert):** Mr. Chairman, on a point of order. You made it quite clear at the beginning of the meeting that we were here to seek clarification of what was brought forward. I do not think we have to get into debate with the presenters on where the budgets of the past are being allocated today.

**Ms. Friesen:** On the same point of order, I think this particular presenter represents a very large number of people across the province. He is dealing with a range of issues in classrooms across the province, and I am trying to get some clarification as to the base-line that we are starting from. The brief addresses the issue of

further cuts to education as a result of Bill 2, so I am looking at what is the base-line. Where are we now? This is a presenter who has a great deal of experience in that area.

**Mr. Chairperson:** I would rule that the question is in order and that this is for clarification on the base-line for cuts and for level of education.

\* \* \*

**Mr. Chairperson:** Would you please proceed, sir, with a brief response.

**Mr. David Newman (Riel):** I was going to speak on the same point of order.

**Mr. Chairperson:** I am sorry. I did not see your hand, Mr. Newman, and I have already ruled. So I think we should proceed in the interests of brevity.

**An Honourable Member:** I will raise it higher next time.

**Mr. Chairperson:** Thank you.

**Mr. Pearce:** I would like to defer to Glen McRuer, a colleague of mine who has a handle on the situation you have described in great detail. Would that be in order, Mr. Chair?

**Mr. Chairperson:** Is this gentleman in the audience today?

**Mr. Pearce:** Yes.

**Mr. Chairperson:** Is it the will of the committee to listen to an additional presenter on this technical field? What is the will of the committee? [agreed] Mr. McRuer, if you could very briefly address this issue.

**Mr. Glen McRuer (Manitoba Teachers' Society):** Yes, Mr. Chair. You just might want the spelling of my name. It is M-c-R-u-e-r.

The question posed was the impact in recent years of diminished provincial funding on the capacity of Manitoba public schools to deliver services. First and

foremost, I think the society would cite the loss of some 600 teaching positions over the period of the 1990s thus far, from 1990 to 1995. So when you take 600 teaching professionals out of a school system that now stands at about 13,500, there is an obvious impact there on the capability of that system to provide services.

The further question about regional impact, we then get into a question of school boards making a variable effort according to their tax bases to supplant revenues that are being withdrawn by the government of Manitoba. Just in short, the higher level of provincial government financing, the more accessibility, the more equity there is in terms of program and service delivery within Manitoba public schools. As provincial funding wanes, you get into a very fragmented program and service delivery system which has been going on now for about 10 years because of the various capabilities of school boards—

**Mr. Chairperson:** Mr. McRuer, I think we have your position, and I think that the response was, 600 positions. You have been able to outline a general forecast, and I would thank you for that information.

**Mr. Penner:** Further to the question that has been asked, Mr. McRuer, could you articulate for us what the global amount of reduction has been in dollars over the last three years on a per-year capita to education from the Province of Manitoba?

**Mr. McRuer:** A very intricate question, as I am sure members of the committee know. I will try and encapsulate it to the best of our ability.

The society, as you are no doubt aware, tracks all matters of public school finance very, very carefully. There is a good deal of mythology, I would suggest to the committee, regarding Manitoba public school finance.

On a constant dollar basis, real dollar value, real purchasing power from 1981 through to fiscal '94-95, the amount of real dollars that the government of Manitoba has been putting in to support Manitoba public schools has been virtually flat. In fact, it has decreased marginally. So any suggestion that there is

a tremendous burden on the provincial Treasury to continue a rate of contribution towards Manitoba public schools, the society would suggest, is not based in fact.

**Mr. Penner:** I just want to be clearly understood. I asked whether you could articulate on a year-by-year basis over the last three or four years what the actual amount of dollar reduction had been from the Province of Manitoba to the education system?

**Mr. McRuer:** Approximately, in current dollars now, \$35 million.

**Mr. Penner:** In real dollars.

**Mr. McRuer:** Real dollars, a little bit less because inflation is relatively flat in the province, \$32 million, \$33 million.

**Mr. Penner:** Is it not fair to say, Mr. Chairman, that there really has been no reduction in funding to education except for the last year?

**Mr. Chairperson:** Mr. Penner, may I interject at this point. I believe that now we have transgressed into the field of debate. I thank you for the previous questions where you have been eliciting information from this presenter.

Are there any other questions of this presenter?

\* (1420)

**Mr. Sale:** I am not sure whether the staff person or the president would want to respond.

On an issue that I know is of concern to schools, the whole question of the capital financing of schools, my understanding, and I will check this with Mr. McRuer and Mr. Pearce, is that we do debenture schools over approximately a 20-year period and that from the point of view of capital financing, schools are in effect debentured, as we would argue most public assets ought to be, but only schools and hospitals are.

Is that your understanding of how the current system works?

**Mr. McRuer:** Yes, the system that has been in place for a number of years is based on sinking funds, what

the government of Manitoba refers to as sinking funds for both hospitals and the education system at large, community colleges, universities and what have you.

So the major capital cost is within sinking funds. Bill 2 only governs capital accounts to the extent they are included within the annual estimates of the Department of Education and Training. There is a subset there.

**Mr. Sale:** Could the delegation comment on the advisability of being able to sell assets of the province and apply the proceeds to the general operating revenues, which is one of the possibilities under Bill 2. Assets of course include all classes of provincial assets.

**Mr. McRuer:** I would just advise the members of the committee that the society in terms of its economic policy statements and what is debated and considered in detail by the teachers of Manitoba pertains specifically to Manitoba public school finance, not some of the larger questions of public sector finance within the province of Manitoba. So I would tend to defer on that one.

**Ms. Friesen:** Is it your understanding of Bill 2 that it applies to the special operating agencies in government? As you know, there is one in Education now called MERLIN which is dealing with distance education.

As you read this bill and as you presented your critique, do you believe that the bill covers special operating agencies?

**Mr. McRuer:** Our reading of Bill 2 is that, yes, indeed, any education-related agency or unit that falls within the annual Estimates of the Department of Education and Training will fall under the mandate of Bill 2.

That is why we are very vitally concerned that the medicine prescribed by Bill 2 could do more harm to the patient than is being suggested. We do not want the medicine being prescribed to inflict further injury, to further wound the patient, in this case, the Manitoba public school system.

**Mr. Chairperson:** Mr. Evans, I believe you indicated you had a question, sir.

**Mr. Leonard Evans:** Yes, I have some questions of clarification for the delegation.

On page one, reference to The Proposal to Disallow a Provincial Deficit During Each Twelve-Month Fiscal Period, you note that it is impractical to try to balance in each 12-month period.

Are you suggesting that you would be in favour of some other kind—I know you mentioned various years—but would you be in favour, would the society be in favour of attempting to balance the budget over what has been called the business cycle? In other words, during a business cycle you have your prosperous times, you have your recessionary times. In prosperous times, presumably, revenues expand; in recession times revenues often fall off while at the same time expenditures such as welfare tend to increase.

**Mr. McRuer:** In response, Mr. Chairperson, in the discussions that the society has had within its committee structure looking at various models in place in different jurisdictions in North America, we find some merit in balancing the books—the deficit side of the question—over the life, over the mandate of a government. So that would be a little different than necessarily the business cycle which may plague a government over two terms or three terms or buoyancy in the economy or what have you. The life of a government seems to be a fairly adequate duration for the balancing of a deficit—describing a deficit.

**Mr. Chairperson:** Mr. Evans, you have another question, sir.

**Mr. Leonard Evans:** My only concern is five years may not coincide with the business cycle.

I guess, implied in here—are you implying in here that The Manitoba Teachers' Society would be concerned that you are putting the automatic stabilizers in reverse? In other words, we do have a built-in stabilization effect when you consider that in times of recession certain expenditures increase, such as those on welfare, which have an ability to offset the recession. So what you are implying in here is that this proposal of annualized approach to balancing the budget may put the automatic stabilizers in reverse.

**Mr. McRuer:** Beginning to legislate fiscal policy is a very, very tricky approach to managing the affairs of a government within the public sector. That is a fundamental concern of the society.

**Mr. Leonard Evans:** Just one last quick question, Mr. Chairman. In the conclusion, the society made some very specific suggestions, but might I ask you, would the society be in favour of a total withdrawal of this bill?

**Mr. McRuer:** As it now reads, yes, our conclusion would be that it should be withdrawn.

**Hon. Eric Stefanson (Minister of Finance):** Mr. Chairman, I just have one or two questions.

Picking up on Mr. Sale's question a minute or two ago, if you go to the first page of your brief, the second-last paragraph, you make the suggestion that "the Government of Manitoba should have the continued flexibility to spread the costs associated with major capital expenditures over many years . . . ."

You indicated your understanding that our system currently provides that we do amortize the building of our schools over approximately 20 years. We do amortize the building of our hospitals over 20 years. Those form a very major part of our capital expenditures each and every year.

I am assuming that you fully understand that will not change, that when you talk about cash payments, they are in the areas like our highways where we have an annual requirement of anywhere from \$93 million to \$103 million each and every year, have had it in the past and will probably have it for many years into the future.

I just want to be clear that you understand that the capital program here in Manitoba is a blend of cash payments on some types of capital programs and a blend of amortized payments on others.

**Mr. McRuer:** Through you, Mr. Chairperson, to the minister, the minister will, of course, be familiar with the approximately, oh, \$25 million a year vis-à-vis the Manitoba public school system, which is the capital

account at the back end of the Department of Education and Training Estimates that goes towards debt servicing, school buses, those types of items. That is our area of concern.

If that is constrained within the departmental envelope, then we get into some very tough choices that will face the Minister of Education in terms of what has to give in order to accommodate some Treasury prescription, or what have you, to observe Bill 2.

We are aware of the sinking funds and what have you, but approximately it has been running at about \$25 million a year in terms of capital.

**Mr. Stefanson:** I just want to be clear though. So you are aware that that accounting treatment will not change and does not change under Bill 2; it continues in the same fashion in terms of the treatment of schools and health care facilities here in Manitoba.

**Mr. McRuer:** But it will require the Minister of Education again to make choices to comply on a 12-month-over-12-month basis with Treasury prescriptions, whatever stipulations are forthcoming in terms of finalizing the budget.

**Mr. Stefanson:** Another question. You indicated your support for balancing over a term of a government. Are you suggesting that it would cumulatively balance over the term of a government? Are you saying you can run four deficits and one balance or surplus? I am just curious of what your meaning of balancing over the term of a government is.

**Mr. McRuer:** I think, again, in our discussions about the preferences of the society in terms of the question of deficit is that there be an honest effort on the part of the government not to contribute further to the general purpose debt of the province. So, over the life of a government, there would be that balancing, so the approximately \$7 billion now that we are having to grapple with as people of Manitoba would not continue to be augmented year over or government over government.

**Mr. Chairperson:** Are there any further questions of this presenter?

I thank you very much. Thank you, Mr. McRuer and Mr. Pearce, for your able presentations this afternoon.

The next person I would call would be Dr. John Loxley for and on behalf of Choices. Mr. Loxley, are you present, sir? Do you have a presentation, sir?

**Dr. John Loxley (Choices):** No, I do not have a written presentation.

**Mr. Chairperson:** Thank you very much. Would you please proceed?

**Mr. Loxley:** Mr. Chair, I should say that I was here last night for the whole of the time, and I did indicate to the Clerk that I have a plane to catch this afternoon. I am already running late, so I will make my presentation and I am afraid I will not be able to participate in what I had hoped would be the enjoyment of my afternoon, the give and take of questions.

\* (1430)

**Mr. Chairperson:** Well, we will certainly look forward to your presentation, and I thank you and would invite you to proceed.

**Mr. Loxley:** I would like to thank the committee for giving me the opportunity to address you. I do not approve of this bill, and I would like to add my support to the presentations which have preceded me opposing the bill.

I feel that the bill is in some ways an incidental because it is really reflective of an underlying fiscal policy with which I would disapprove. Last night, Peter Holle used the term "simplistic" well over a dozen times in reference to critics of the bill. I would say that the legislation and the fiscal and social policy underlying this legislation is simplistic.

It is an accountant's bill, more reflective of a Treasury Board approach than a finance approach. It is based on simple arithmetic, and arithmetic is important. Revenue minus expenditure equals deficit or surplus; opening debt plus deficit or minus surplus equals closing debt; average interest rate times

outstanding debt is equal to the debt charges. This is arithmetic. All of it is important.

But the really interesting issues are not arithmetical. Budgets are statements of social and economic policy put to numbers. They are driven to some extent by the state of the economy, but in turn, they have an important impact on the economy. This is not arithmetic; this is algebra. In turn, the economy will have important implications for social well-being. Unemployment drives the demand for social assistance, and in turn, this drives the demand, as we now know, for health care. This is algebra.

Let me elaborate these themes by referring to the general fiscal context in which the legislation is being passed. I refer you to page 4 of Budget Paper C in the current year's budget. The government plans to keep recurrent program spending constant in current dollars for the next four years at exactly \$4.465 billion. This is the context and this, I think, is what we have to start from. These forecasts make no provision for population growth, they make no provision for inflation, and they make no provision for the impact of cuts in federal transfers.

These cuts to federal transfers, at least some of them, are listed on the very same page in which these forecasts are made, but they are not factored into the medium-term fiscal forecast. One has to ask why this was not done. The answer seems clear enough to me as the arithmetic is quite simple, provided we can agree on what is happening to federal transfers, and here lies the rub. One, federal transfers will fall on account of the CHST, and we should join and I would Choices would join the provincial government in opposing these cuts in federal transfers. These are the cuts which are mentioned on that page but which are not factored into the projections.

But, secondly, with the increase in equalization the cuts will not be as great as those the government suggests on page 4, and the people of Manitoba should know this because these federal transfer cuts that you list in isolation, we suspect are going to provide a justification for much more severe cuts in spending than are warranted. Once you factor in equalization, the cuts will be closer to \$34 million to \$65 million

rather than the \$87 million to \$160 million stated by the province.

Now the recent tax cuts by the Ontario government will further reduce transfers by reducing equalization. Here again the problem is algebraic at the national level, not arithmetical and my numbers have not included that. They would have to be adjusted for that. The main point is there will be revenue shortfalls over the next four years, and these will have to be offset either by raising taxes or by reducing spending. In the opinion of Choices the government knows this and deliberately chooses not to mention it. You knew this at the time of the budget and you chose not to mention it. Given the tax restrictions in this act or this bill, which we hope will be withdrawn so it will never become an act, and given the ideological bent of the government we believe that it will be expenditures which will be cut.

Our concern in Choices is over the likely impact of these fiscal projections on the poor, on the quality of social services in the province, health, education and employment. Choices would argue that there is no deficit crisis in this province. There is no explosive out-of-control spending contrary to what you heard last night from Mr. Holle. Government is not exploding relative to the private sector as he claimed. Operating expenditure which was 21 percent of GDP in 1987 is now down to 19 percent. Real per capita expenditure has fallen by about 4 percent since 1990. We would not argue for unlimited access to public dollars. That is not the point of our presentation. Again I am quoting the Manitoba Taxpayers brief.

We would argue instead, and we thank you for giving us the opportunity to think through carefully what it is we would argue because the balanced budget legislation, if it has done nothing else, has done that. We do not believe, by the way, that it is balanced budget legislation, we believe that this is imbalanced budget legislation requiring huge surpluses.

But what we would argue is that budgets are important for all kinds of reasons and we would ask you to consider the importance of budgets in (1) economic growth, (2) managing the economy on a cyclical basis, (3) income distribution because every

tax and every spending has an implication for the distribution of income and wealth, and (4) the provision of social programs.

To us this is what budgets are really all about. We believe that this legislation totally ignores all of those factors and, instead, emphasizes only another aspect of budgets, the arithmetic.

A sustainable fiscal framework is important. We do not disagree with the government on that, but we believe this can be achieved without complete debt retirement and without balanced budget legislation. We believe that the nonfiscal and nonarithmetical, if you like, aspects of budgeting have to be addressed explicitly by governments, and they are not at this time.

Some of these points were elaborated upon last night, and I will not go into that. We would say that this legislation is extremely deficient, because it makes no provision or no mention of these items.

There are problems with the legislation as it stands. We believe it should be withdrawn. We think it does limit very severely the government's ability to pursue countercyclical activity. The act is actually not very clear in a number of areas, certainly on how the Fiscal Stabilization Fund is going to be managed. So it is not altogether clear exactly how this is going to work.

But it seems to suggest to some in the Canada West Foundation, as they put this interpretation on the bill, at best you have a two-year cycle—at best.

Your requirements are stated purely in terms of revenue, as well, in terms of fluctuations, but of course in a downturn expenditures tend to go up; certain types of expenditure, like social assistance payments, will go up. With the current plans of the federal government to abolish CAP, you no longer have an automatic contribution of 50-50 on the dollar from the federal government.

The cyclical fiscal impact of a recession on expenditures is going to be greater from the point of view—net effect—is going to be greater from the point of view of the province. I do not think there is any mention of this, and there is no provision for this.



By the way, in the debt reduction calculations, which are arithmetical, there is absolutely no provision for what will happen if there is a cycle. It is a purely straight-line, linear kind of projection, and that is not going to happen. I mean, I can assure you, speaking as an economist, the one thing we are assured of is instability.

\* (1440)

There is no recognition of the legitimacy of borrowing for capital expenditures; that has been mentioned. The additional cyclicity that the minister mentioned in terms of the ability to borrow on debentures for health and education is certainly there, and that has to be acknowledged. At the present time, I am looking at the moment, as soon as I can get figures from Health, at how this has been used cyclically/countercyclically in the past. It seems to me that there is very little evidence that it has in fact been used countercyclically in the past. It would be interesting to see that. Besides, it is a minor portion of—the bulk of countercyclical capital spending takes place generally in other areas.

The bill will require very large up-front surpluses for the Fiscal Stabilization Fund and Debt Reduction Fund. These I would argue or we would argue in Choices will be quite damaging. We would add our voices to others in the audience who have argued that.

The referendum provision, as was stated, the only reference to referendums in other jurisdictions, in the four jurisdictions which have so-called balanced budget legislation, is that in Alberta, which is a kind of throwaway point, because they never have had the retail sales tax and are not likely to introduce it anyway. But here we have a referendum provision which is affecting the rates of tax of the major taxes, including the most progressive forms of taxation. I think that that is a serious limitation on the ability of the government to move in those areas.

I would remind you that the areas in which referendums have been used in Manitoba, and I should acknowledge for the sake of the historical record, I promised I would, to the research assistance of my daughter, Camille, in doing this, reviews referendums

essentially for daylight-saving time, controlling liquor licensing hours and constitutional issues, often of a very simple, black-and-white nature, like, for instance, should women vote? Anyway, we have not used them for budgets. I would throw my support behind those who quoted Premier Filmon last night in his very excellent statement on why referendums are inappropriate in dealing with funding the Jets.

They are not appropriate in fiscal issues and I would support that position, not that I would support funding the Jets, of course.

The legislation, therefore, is inflexible, very inflexible, and it is very simplistic. It is interesting that the Canada West Foundation, which gave, as you heard last night, an A-plus to this legislation, gave a B to Alberta, C to Saskatchewan and F to New Brunswick. In terms of the discretion and flexibility of the government, you would have to turn that right on its head and give an F to this budget and to this bill.

What is needed instead is a comprehensive fiscal plan which outlines the government's policy in the major areas four years ahead at least, and to do this within the framework of a sustainable debt and debt servicing framework. We do not argue that that is unimportant. We do not argue that that charge is not important. We would argue that we should aim, we should have some targets for the proportion of debt to GDP, somewhere around 25 is what we are advocating, as you heard from others last night.

Debt charges, we think should be stabilized again over the cycle but somewhere in the region of 11 percent of spending seems reasonable. Spending on revenue should also be stabilized, again, subject to cyclicity but in the region of 20 percent. We could discuss these numbers. We are not wedded to these numbers. These could be discussed if people felt that the ratio of debt to GDP should be lower, then of course you need to have a change in the other ratios so that you get a higher surplus at some point.

We are not against balancing the budget over the cycle, two years is not a cycle, four years is barely a cycle, but there are legislative constraints. Choices would, however, have a lot to say about what goes into

your expenditure and what goes into your revenue projections. We do not share, as you know, your views on spending priorities and we do not share your views on revenue priorities. We try not to be totally destructive all the time. We do try to be constructive all the time, and so we do try to offer alternatives and that, we have tried to do, year in and year out.

We have severe disagreements with many of your expenditure priorities. Also, we would have different views on the appropriate sources of taxation. Above all though what we need and what Choices would argue is that we need honest numbers and we need projections forward, like, for instance, in the last budget it would have been very helpful if the government had in fact tried to tell us how it will handle the very serious fiscal transfer problem which it faces, and we do not believe it did that.

We would also like a fairly serious discussion of the implications of this legislation. We do not really think that that has happened. We believe that fiscal policy is important and we believe that the underlying economic and social programs, the assumptions concerning these, should be specified very clearly and should be at the forefront of every budget.

This legislation makes no provision for this. It is extremely inhibiting. It is very counterproductive in a number of ways and we would recommend that it be withdrawn. Thank you.

**Mr. Chairperson:** Thank you, Dr. Loxley. We certainly will respect your comment that you are unable to entertain any questions. We certainly wish you God speed in your travel today, and thank you very much for coming before us with your presentation. It is much appreciated.

**Mr. Loxley:** Thank you. My apologies for leaving, but I would hope that we could engage at some other point.

**Mr. Chairperson:** We can look forward to that at a future time. Thank you very much.

The next presenter this afternoon is Mark Francis, who is a private citizen. Mr. Francis, would you come

forward please, sir. Mr. Francis, do you have a written presentation this afternoon?

**Mr. Mark Francis (Private Citizen):** No. I have brief notes. I will be speaking to a certain extent extemporaneously, but there is a bit of a guideline here. I believe the Clerk copied them last night. Thanks.

I very much appreciate the opportunity to come today. I am going to speak more philosophically than with any specific details in mind, although I do have some technical comments. I am going to refer to what you might call the wisdom of generations. Please forgive the spelling errors here. I will refer to a social outlook, democratic outlook and then some technical comments.

Speaking of the wisdom of generations, I am wearing my grandfather's shirt today. I got it from him when he died and one of the things my grandpa always used to tell me, he would say, son, remember, make it do, use it up, wear it out or do without. He also taught me a number of other things which I think were very relevant. In 1st Century Rome, Publilius Syrus said, debt is the slavery of the free.

That is so true. I do not know of a single major religion which praises debt. In fact, all of them carry admonitions and in many cases direct censures regarding debt, regarding leaving a positive inheritance and legacy for future generations. Whether it is the interpretations of Pharaoh's dreams where the recommendation, supposedly inspired by God—some of us would agree—is that things should be put away in the good times before the bad times, rather than borrowing in advance and then trying to pay it back in the future which may or may not come.

Almost every society has folk tales which relate punishment or difficulties for families or nations which have incurred debt. Now, some people may pooh-pooh myths, they may pooh-pooh folk tales, but the truth of the matter is that they embody the wisdom that people have accumulated over generations. I have read over 500 of these myths and folk tales, and they come from a variety of sources, native American, Celtic, Greek, Roman, Hindu, Russian, other Slavic. I have, in my recollection, not read a single one where there was a

positive reference to individuals taking on large amounts of debt and their long-term financial and family health or to countries that did. There were many references to the reverse.

Every nation which has taken on substantive debt has eventually suffered repercussions when there is a crisis, repercussions which resulted in severe damage to the poor and those who are less flexible. So those who argue that this legislation will harm the poor are actually setting the poor up for a greater fall. Such has happened, not to a dramatic extent but certainly hardship in Mexico this last time around, but in the 1980s severe hardship for every Third World country which borrowed extensively. That was not kind to the poor, but it was done in the name of helping the poor.

I think that this issue is a corollary of the issue relating to the environment. My mother supported civil rights in Detroit in the '60s in a blue-collar neighbourhood, and, yes, our windows were egged because of it. My mother supported environmental legislation before it was popular, and this is the same issue. It is the flip side of the same coin. We cannot degrade our environmental assets, and we should not degrade our financial assets. It is so much more difficult to build them back up. The damage that is caused takes far more resources to recover it than is required to safeguard against it in the first place. That is the sin of debt, and it is a sin in every major religion.

\* (1450)

Speaking democratically, I would like to comment that all parties across this country have representatives which have demonstrated an understanding of the need for fiscal prudence, for fiscal integrity. At the risk of personalizing it, I would say that Mr. Romanow and Mr. Blakeney, New Democrats from Saskatchewan, have had a fundamental understanding of this, whereas the Conservative counterpart, Mr. Devine, was grossly irresponsible. I would say that Frank McKenna in New Brunswick certainly deserves a good pat on the back for the work he has done.

I do not want to make it partisan here locally, but there are other Conservatives across the country who have done a good job, and there are Conservatives who

have done a bad job, the same as there are New Democrats and Liberals. This is not a right-left issue. This is an issue of fiscal prudence. This is an issue of respecting the wisdom of generations.

Is this antidemocratic, as I heard last night? No. It does not stop a political party from campaigning on spending more or spending less and campaigning on a commitment to introduce a referendum on a tax increase and specific tax increases. Contrariwise, it forces them to specifically spell out what they intend to do. That is democratic. It is far more undemocratic to assume a debt for future generations who are not privileged to vote in a voting booth in that particular election. Now, what is undemocratic about that?

It is not a kindness to bequeath a debt. The next generations should not be unduly burdened, and they are being, and I am on the cusp. There are those who are younger. I have a number of younger cousins who are going to be terribly burdened, partly by the CPP but also by the debts, which have been growing as a percentage of GDP. The interest expense in Manitoba may not have been growing as a percentage of the budget, but that is because successive governments have increased the budget as a percentage of the provincial economy. Now that is a much better measure. What is the interest expense as a percentage of the provincial economy? You have to take that. The percentage of the interest expense relative to the government budget is not relevant if the government budget as a percentage of the economy has been fluctuating.

I guess a final comment on the democratic issue, and I may return to the democratic issue. In the 1800s in England, children were required to carry the burden of their parents' debt. This was deemed, wisely so over time, to be immoral. If this is the case, why should we in a bit of a twist assume that it is right to bequeath a debt onto the generation after us? Is that not inuring them to the same bondage? I think that there is a common principle here. It may have taken us a hundred years to get there, but there is a common principle.

Technically I think you need to have some pretty tough standards. The unfunded pension liability is a

real one. It is truly incurred every year. Companies in the private sector and nonprofit organizations must account for it in the year in which it is incurred. It is a liability which rests on future generations and it should be included.

Perhaps you want a provision which would allow for a disagreement with the Provincial Auditor if you could point to a majority of provincial auditors across Canada that have a different point of view, but otherwise what I think what the Provincial Auditor says should stand. I happen to agree.

Similarly when you talk about assets in government, one thing we should recognize is that most government assets result in greater spending in subsequent years, not less. They do not result in economies; they do not result in actual return on capital. We do it because we think it should be done, because we can see the rationale for doing it, but it does not mean we are going to save money, and for that reason government assets have to be treated differently. They most certainly should be incurred in the year of expenditure unless they are of a distinctly capital nature relating to the Crowns.

When you get to Crown companies, almost every single company that gets a clean bill of health from the Auditor has to take proceeds of sale of assets as an extraordinary item or an unusual item, not as earnings in that year, and I have spent nine years in the investment industry. I do not know a single investment analyst who recommends that you buy a stock on the basis of extraordinary earnings from one year and extrapolating them out.

Governments of all political stripes have done this, so I do not think anybody should be too sanctimonious about my making this point at this table. Certainly if a Crown asset is sold, it should be applied against the debt.

There are a number of other points. Does this take away from government's ability to be countercyclical? In a sense, yes, but maybe the people need to be protected from this because in the investment industry we watched how governments forecast recessions and recoveries. They are notoriously poor at it. In fact

most of the evidence now, although governments do not like to admit it, is that governments do such a bad job of countering the cycle that they actually build onto the cycle. The RRSP assets being utilized for the acquisition of homes was brought in at the very bottom of the housing cycle nationwide. This happens time and time again. The government does not minimize cyclicity, it accentuates it.

As a taxpayer, I see nothing wrong with taking away a tool which tends to be one based on emotion which piques psychological emotion in crowds. I recommend you read a book that deals with the excesses of crowds relating to markets, tulipomania, et cetera. It will always be the same. You will not get away from this.

Do not try and pretend that government is going to be able to balance off cyclicity. Nobody forecast the Depression of the '30s. Nobody forecast the 1987 market correction. Nobody forecast the very deep recession in 1981-82.

You are not going to be able to do it, and do not pretend you can.

Returning briefly to the democratic issue, special interest groups will no longer be able to use a divide-and-conquer method against members, the elected members, because they will, rather, have to establish the primacy of their needs against those of other special interest groups. Special interest groups are not bad. They have a focused interest. They have a particular desire to see money spent in a particular fashion, and that is the legitimate role of people, to try and make their case with their elected representatives.

If the government does not have the flexibility to go into their fudge zone on spending, then special interest groups will have to have their needs balanced off against everyone else's needs.

This gets down to the basis of budgeting. We budget because one dollar spent somewhere is better spent than another dollar spent somewhere else.

Now, I may not always have agreed with this government's decisions or the previous government's decisions, but that is what a budget is about. In fact,

the very first dollar you spend has the very greatest benefit, and the last dollar you spend in your budget has the least benefit.

The further down we go, the less effective our spending is, at least in theory. As a general rule, it is true. There are exceptions. There are errors but, as a general rule, the first dollar you spend is the most effective.

That is what you do in a household, that is what you do in a corporation, that is what you do in a nonprofit organization, and while the budget group in government, for whichever party they are working, have a much larger, more complex task because it is harder to measure the benefits and the costs, that is what they are attempting to do. This legislation will ensure that there is a cutoff at the point where the people say, no more money, do the best with what you can.

A very interesting corollary of this is very similar to what happened with environmental degradation in the socialist countries behind the Iron Curtain. With governments trying to assume too much of the direction of the economy, they estimated that eastern block countries produced five times as much pollution as each western industry per unit of production. There were many environmentalists in the western world who said, hey, before we spend another dollar on environmental safeguarding here in the western world, let us spend it in the eastern world, we get five times the bang. Budgeting fiscally is the same thing.

\* (1500)

I would like to deal briefly with what government deficits in Manitoba do. We have heard that they supposedly spur the economy. They do modestly, but we import a very great percentage of what we consume. If we increase what we consume by putting more money out through government as a result of borrowing, typically from the future or from abroad or outside our boundaries, we end up subsidizing the production in other provinces and other countries.

The spin-offs leak out at a dramatic rate. Indeed, one of the precepts that Keynes had was that (a) you made an assumption that you had a closed-loop economy and (b) we are operating on a gold standard.

In fact, there is an interesting quote in a discussion between Hayek, who was a Viennese economist in the '30s, and Keynes. There was an argument about funding contracyclicity in government, and Keynes was quoted as saying, if he ever saw the time when people used his argument as an excuse to run continuous deficits, he would renounce what he had said, because it would be plain that it was untrue.

I must confess, I do not have that readily accessible. I have got it somewhere in my files. I have just sold my house and I have 10 days to move, but in a couple of months I would be pleased to produce this document on von Hayek. It is about 10 years old and it is about 30 pages long. So government deficits end up helping a lot of folks who produce outside of the province and leave the burden entirely on us. Spending on government service jobs does not in the long run reduce the deficit; it only adds to the burden.

I guess just a couple of other things. We heard, why would the government want to sell assets if proven to be efficient? The following is an example of why government has difficulty dealing with assets and with economics and why a balanced budget would be very good, a requirement for it to be so.

The statement was made that Manitoba Hydro was the most efficient producer of hydro in North America because it had the lowest cost. That is not proof. We do not know that it is the most efficient; we would like to think it. But if I operate a gold mine that has one ounce per ton gold and my cost is the lowest cost because everyone else has a deposit that is .15 ounces per ton gold, does that mean that I am the most efficient producer? No, it means I happened to be blessed with the best asset. Am I being the most efficient in its use? Unproven.

So we have to be very careful about these issues. Does Manitoba Hydro produce a revenue stream for government? Yes. Even after we account for the additional unfunded pension liability which is incurred each year at the hydro level.

But if we use the proceeds of sale, would it reduce the debt and thereby the interest expense on an annual basis? Probably. In fact, the average PE multiple on the Toronto Stock Exchange today I think is in the

range of 15 times, 14 times. The average PE multiple of Nova Scotia Power over the last two years has been about 12 times, I think.

You are going to have additional tax revenue as a result. There are going to be a number of benefits if it were done. I am not recommending that it be done, only that if you do it the proceeds of the sale of the assets should go against the debt and not against this year's expenditures. I would be happy to entertain questions.

**Mr. Chairperson:** Thank you very much, Mr. Francis. Are there any members of the committee that have any questions of Mr. Francis at this time?

**Mr. Stefanson:** I just have one, Mr. Chairman. I would like to thank Mr. Francis for some very interesting comments this afternoon. His research is certainly very well done.

There has been some discussion—you were here last night. I saw you in the audience part of the evening, I believe, and you sat through this afternoon's discussions. There has been comment about this concept of balancing over a so-called business cycle.

I guess the theory is that you run deficits when the economy is performing not so well, and you run surpluses when it is performing better. I guess when one hears that one might say, well that makes some sense. I look back over the 1980s and early '80s, the economy was not performing very well. In mid-'80s, late-'80s it was moving along at a tremendous clip, yet we still ran deficits.

I would just be interested in your comments on that concept, Mr. Francis.

**Mr. Francis:** In theory it is great if you could forecast the business cycle. We heard one speaker last night say that the business cycle is seven to nine years. There are economists who say the business cycle is four years. There are metals people who will tell you that the consumption of metals actually reflect the fundamental activity that goes on in the economy and that that is every six years, and some metals have a super cycle every 12 years.

I will not tell you what my grandfather used to say when he watched the news and he also repeated when he was dying, but he said it is all mmm-mmm, and I am tempted to recollect that as I wear this shirt. I do not think you can forecast the business cycle.

Now, was it Joseph's dream that was being interpreted with the seven baskets and the birds? I cannot recall. I am afraid I do not know my Old Testament that well. But the message to Pharaoh was not use the grain now and borrow from the future when the hunger strikes. The message to Pharaoh was save the grain now, put it in the silos today and take it out in the times of few.

We have truly had times of plenty. It has been better than any other time in our memory, in our history. We have had better times. There will always be problems. My grandfather used to remind me: son, every generation will have its challenges.

Every generation will have its challenges, but times are getting better. Health care is better than it has ever been before. We can do more.

My uncle was just in the hospital, got very good service. They did a skin graft on his tongue. They took out a piece of his tongue the size of the shadow of an egg, three-eighths of an inch thick, and they grafted skin onto it. He is in good humour, but he might not be in any humour if we could not do that. Fifty years ago they would not have dreamed of doing that.

\* (1510)

We are more efficient in the private sector than we have ever been before. We have more square feet of living space in North America and in Canada per capita than we have ever had before.

The cost of food as a percentage of the average income, the cost of basic foodstuffs, not the Dorito chips and all the special fancy things that folks might like to have, but the basic cost of producing food is the lowest it has ever been. In fact, we spend a lower percentage of our GNP worldwide—or I guess that is our GWP—on agricultural production than we ever had. This is a good thing, by the way; it means we are being more efficient.

So why have we not been saving during the good times? I do not believe that politicians, when faced with the desires and the pleadings of the public, historically, have the willpower to stand up to that. This bill protects the taxpayers from that. All of you on both sides of the House are human, you are subject to imperfections, as am I, and you are subject to the pressures of people. The people need protection from that. This bill represents that protection from it.

I guess that is my answer to the business cycle. It would be great if you could forecast it but you cannot.

**Mr. Chairperson:** Mr. Evans, do you have a question of this presenter?

**Mr. Leonard Evans:** Just one question, Mr. Chairman.

Mr. Francis criticizes the ability and questions the ability of governments to adequately forecast business cycles and that rather than offset business cycles, they may make them worse. But would he not agree that government finance, in itself, and the way that it operates has built-in stabilizers. In effect, it is not a matter of forecasting, is it not true? It is not a matter of forecasting, but when you do have a recession, your tax expenditure, your tax receipts usually fall—we have the example, we have evidence in here—they fall, and government expenditures automatically increase.

Nobody has to do any forecasting. It is a matter of automatic stabilization of the economy. It is not a matter of forecasting.

Would Mr. Francis agree that, therefore, if we were to attempt or any government were to attempt to balance the budget, given the fact, let us say, that we do experience a recession, that that government is going to make the recession deeper and worse because it is going to cut in? By reducing expenditures, it is going to cut general demand in the economy; it is going to have a dampening impact on consumer spending at that time, and therefore make the recession a lot worse and create a lot more unemployment than we would have otherwise.

**Mr. Francis:** Yes and no. Yes, government, as it stands, is countercyclical to a certain extent, but that remark was made in reference to the abilities of governments to respond, in other words, with additional program decision making to counterbalance cyclicity. I would say government cannot do that.

The other comment I would make, in terms of no, would government cuts during a recession necessarily hurt? Perhaps on a very localized provincial basis in the short term, yes. But when viewed on a national basis—and unfortunately some of our brethren are tending, perhaps half of them in the province of Quebec, not to think of things on a national basis—but when the government borrows, it pushes out private-sector borrowing. It reduces the amount of capital available for economic activity that can be measured in terms of its performance, in terms of its return and evaluated—not perfect, but very frequently better. Private-sector economies that have a greater degree of the private-sector involvement tend to, over the long term, be much healthier than economies which are run by governments.

So in the short term, yes, government cuts to hit a deficit target might cause some pain, but in the long run it is going to be better.

Secondly, my other argument against this is that if governments—and you are going to have a government in power for four years—put a little extra aside in the good year, they are going to have that little extra for the bad year. So this requires the government of the day to make some provision for that. Do I agree? Yes.

**Mr. Chairperson:** Mr. Sale, you have a question?

**Mr. Sale:** Just a brief observation. I enjoyed discussing Mr. Francis's views at the doorstep during the election. I just hope he is not moving out of my riding. It was a good discussion that we had at the door. I thank you for the brief. I will be very sorry if I do not get a chance to have a similar discussion with you again.

**Mr. Francis:** You will.

**Mr. Sale:** Thank you. So you are going to stay in the riding then.

**Mr. Francis:** I intend to.

**Mr. Sale:** Good.

**Mr. Chairperson:** Are there any other questions of this presenter?

**Mr. Francis:** As I recall, it was one o'clock in the afternoon when I was busy trying to do work, and it was pre-election, I believe. Right, Mr. Sale? [interjection] Yes.

**Mr. Chairperson:** Are there any other questions of this presenter? If not, thank you very much, Mr. Francis. We enjoyed your presentation this afternoon, and thank you for your time.

**Mr. Francis:** Thanks for the opportunity.

**Mr. Chairperson:** The next presenter this afternoon, members of the committee, is Darrell Rankin on behalf of the Communist Party of Canada, the Manitoba branch.

Good afternoon, sir. Do you have a written presentation?

**Mr. Darrell Rankin (Communist Party of Canada-Manitoba):** Yes, I do. It is right here.

**Mr. Chairperson:** Good. Thank you. We will ask the Page to circulate it.

**Mr. Rankin:** On behalf of the Communist Party of Canada-Manitoba, I would like to thank the members of the standing committee for this opportunity to present our views on Bill 2 to you.

I represent the Communist Party, which has been active for 74 years in this province and across the country fighting for jobs, health, social programs, equality, peace, Canadian independence, democracy and socialism, even in this Legislature.

In our view, Bill 2 should be withdrawn from the Manitoba Legislative Assembly. It is fundamentally flawed from an economic point of view. Moreover, we

know federal funding for Manitoba's health, social assistance and educational spending is going to be cut drastically or completely in the next 13 years, by the year 2008. Cuts to unemployment insurance, pension and housing will probably occur in the next federal budget, adding to provincial program spending if it can compensate.

In our view, the Manitoba government wants to use this bill to carry out the will of the federal Liberal Party and pass these cuts on to the people of Manitoba. The real target of this legislation is not the debt. It is working people who rely on social programs. It is the social wage that, until now, reduced the competition of workers for a job in times of high unemployment to some degree. Until now, health care, to a degree, was consistent with the needs of corporations for a large number of healthy, unemployed workers, not because it replaced the barbaric two-tier system of medicine that existed before medicare but because it returned injured or ill workers to the labour force quickly.

But now that unemployment is higher for other reasons and cuts to other social programs, and these cuts of the social programs are making workers more desperate to work for lower wages or to scab any strike, corporations have less need for health care. Workers in the health care system, including doctors, now face unemployment or lower wages and salaries in the privatized health sector.

To illustrate the point about the real target of this law, there is nothing in Bill 2 which would prevent the Manitoba government from doing what the Alberta government has just done. That government led by Ralph Klein has ruthlessly chopped health care spending in the name of deficit reduction. One would think that having balanced the budget ahead of schedule, the Klein government would increase the social wage. No, instead that government has abolished the machinery and equipment tax, a gift of \$150 million a year, mainly to Alberta's oil and gas companies.

\* (1520)

Canada's biggest corporations are the real political force behind these cuts, and the Manitoba and federal



governments are carrying out their will, be they Liberal or Conservative. So the balanced budget law is more than a tool for this corporation to carry out the Liberal agenda in Ottawa. It is a tool the government wants to help its big corporate friends. Corporations want these cuts because it helps drive down wages and the standard of living for working people, boosting corporate profits. These cuts are happening now because free trade is forcing corporations into an ever more fierce battle for survival to earn more profit than the next corporation.

Bill 2 is the Manitoba government's way of doing all it can to boost profits for Manitoba's largest corporations by lowering the social wage. No law is required for paying down Manitoba's provincial government debt.

The debt can easily be paid for by adopting a serious program of job creation and by taxing the wealthy and the corporations. There is no debt crisis. The numbers do not show it. The real crisis is in growing unemployment and impoverishment.

Canada has the lowest corporate tax rate of any G-7 country and one of the lowest in the industrialized world. In the meantime, taxes on working people are increasing without regard to relating taxes to income or ability to pay, and taxes for the rich are being cut.

It is improbable that the present government in Manitoba will conduct a referendum to compensate for the federal Liberal government's draconian cuts or for any drop in revenue which will happen in the next economic downturn or crisis.

Even if the provincial government holds a referendum, the present legislation does not allow for a fair debate of the issues because the timing, the wording of the referendum question and the financial means to conduct a campaign will be in the hands of the government almost completely. This is not democratic. It is manipulation.

In our view, when people are not working all day in order to make ends meet and support a family, when students, children and the poor have enough to eat, when everyone has a home and does not have to worry

about finding a job, only then will Manitoba have a much healthier democracy. It is only then that the majority of people will have what is now the privilege of participating in the political process fairly. Until then, the biggest corporations will continue to set the agenda.

A final word about the economic common sense of this balanced budget law, balanced budgets used to be the tradition in the early years of capitalism, especially in free-trade Britain in the last century. They were dear to the hearts of people like Canadian Prime Minister R.B. "Iron Heel" Bennett. There is nothing new about them.

The balanced budgets of that era led to such economic crisis and such strained relations between the working and capitalist classes that governments were forced to reject balanced budgets to save capitalism and reform the economy.

Economist John Keynes advised governments that balanced budgets, in fact, worsened economic crises and proposed increased government spending in times of underconsumption and overproduction. The only difficulty is that nothing Keynesian seems to improve the economy anymore.

Jonathan Friedman, a monetarist who rejects public spending and ownership by the government in the economy, noted before 1974 even that Keynesians and monetarists had similar points of view, saying that henceforth we are all Keynesians.

This was a broad definition, part of a trend of non-Marxist political economy that began in the late 1960s called neoclassical synthesis. It indicated that the time was at an end when governments could actively intervene in the economy at the expense of corporate profits or in an effective way to prevent and possibly ease crises.

The balanced budget law in Manitoba will only accelerate the existing contradictions in the economy, reduce the ability to reform the economy by tying the hands of the government and help create an impoverished, sick, short-lived, ignorant and unemployed workforce.

Ending on a point of detail, this law now includes capital spending on the portion of the budget to be balanced. This is bound to exaggerate the negative features of the next economic crisis and act as a fetter on economic growth.

Last March, when this law was announced, our party called it an ideological straitjacket. It is attached to the brief.

We feel fully justified in saying it here again that the government can no longer think in terms of job creation or other democratic issues and instead adopts antiquated and bankrupt economic tools or ideas such as the balanced budget. This law should be withdrawn.

The Communist Party will work with all and any groups to defeat this law in the Assembly and outside and to turn the agenda of the Manitoba government toward job creation, to abolish poverty, to tax the wealthy and corporate profits and to improve social health and education programs. Thank you very much.

**Mr. Chairperson:** Thank you very much, Mr. Rankin. Do any members of the committee have any questions of this presenter with regard to clarification of his brief or any further additional information?

On hearing none, I would thank you very much, sir, for your time today and the scholarship presented in your brief. Good afternoon.

**Mr. Rankin:** Good afternoon.

**Mr. Chairperson:** The next presenter is Mr. Ian Fillingham. He is a private citizen. Is Mr. Fillingham in the audience? I would ask the usher to call for Mr. Fillingham.

It appears that Mr. Fillingham is not present. He will go to the foot of the list.

The next presenter then is Mr. Dan Kelly on behalf of the Canadian Federation of Independent Business. Mr. Kelly, do you have any written presentation? Thank you.

We have now circulated your brief, Mr. Kelly. I would invite you to proceed.

**Mr. Dan Kelly (Canadian Federation of Independent Business):** I will have to change my first line; it is no longer evening.

Good afternoon. On behalf of The Canadian Federation of Independent Business, our 4,500 members here in Manitoba and our 85,000 across Canada, I would like to bring our congratulations and our thanks to the Manitoba government on this historic piece of legislation.

The Balanced Budget, Debt Repayment and Taxpayer Protection and Consequential Amendments Act is truly one of the most important pieces of legislation in this province's history. Very often, at the CFIB, I have the opportunity to bring forward areas of great concern and problem to government: unfair labour laws; Workers Compensation premiums; government competition or grants and loans to business. But today I stand before you on behalf of our 4,500 small- and medium-sized business owners who are very pleased with a law that will turn the tide on years of government overspending and waste.

As many of you may know, CFIB was championing the cause of rising taxes and burgeoning debt long before they became the attention-grabbing headlines of recent years. In fact, these issues were behind the very foundation of the CFIB almost 25 years ago.

It is also important to note that all of CFIB's positions are adopted by a majority vote of our entire membership. We are the most heavily survey-research-based business organization in the country and have polled our members on a variety of small business issues. Late last year, we surveyed our members through a vehicle called Our Members' Opinions, which is delivered through face-to-face visits with our membership. We asked our Manitoba members their opinions on the introduction of balanced budget legislation.

Almost 88 percent of members felt that binding balanced budget legislation is an important step forward in eliminating the provincial deficit. It is important to note, however, that a balanced budget law alone is not enough. Our members have told us that Manitoba needs to balance its books without increasing

taxes. We most certainly do not want to see the government adopt the Saskatchewan model for balancing the budget through large-scale tax increases.

Forcing the government to eliminate the deficit on the backs of small business and other taxpayers is a recipe for disaster.

To gain some insight on this issue, CFIB members were surveyed, and over 90 percent of those who support balanced budget legislation believe that tax increases should not be permitted.

According to our members, they want to see tax and expenditure limitation legislation as the necessary counterpart to a balanced budget law. Without an assurance that spending will decrease and taxes will not rise, a balanced budget law is a risky proposition.

A full 81 percent of our members want TEL legislation to be put in place to put an end to the ever-spiralling level of taxes with which they are faced.

Wrestling the deficit to zero is an important step on the road to fiscal recovery in Manitoba, but it is just that, a step. It is also important to consider the accumulated effects of government overspending. As a province, we have an enormous debt problem, one that will not go away on its own. As in their own businesses, CFIB members want, not only to see the government stop borrowing but to pay off the accumulated debt.

Looking at this research in total, Manitoba's small business community has voted very strongly in favour of balanced budget legislation.

Armed with this wealth of survey data, CFIB conducted a detailed look at other balanced budget laws in Canada and the U.S. Clearly, there were provisions of a number of pieces of legislation that were of great appeal and others that would not work in a Manitoba context.

Following this research, CFIB developed a submission entitled, Five Principles to Effective Balanced Budget Legislation in Manitoba, and presented it to Finance Minister Eric Stefanson and

Premier Filmon through correspondence and personal meetings.

Based on the results of our member research and external study, CFIB recommended that the government of Manitoba include the following five principles in introducing balanced budget legislation.

\* (1530)

I will not read you the detail behind each one of them. It is a document that I have written previously: (1) Rigorous Balanced Budget Rules; (2) Penalties for missing targets; (3) Votes before any tax increases; (4) Debt repayment plan; (5) Accountability.

The 1995-96 provincial budget was truly written for small business. In fact, the budget on a number of occasions references the CFIB's work and the comments that we have made.

We must congratulate the government on accomplishing what few other jurisdictions in the world can boast—a seven-year tax freeze on all major taxes—sales, corporate and personal. The importance of this kind of tax stability cannot be overstated. Our members report that they have hit the tax wall and cannot endure any increase or new forms of taxation. There No. 1 concern in every CFIB survey is the total tax burden with which they are faced, and this concern has been steadily increasing over time.

For the first time in over 20 years, the government has introduced a balanced budget. This kind of action presents a very different blueprint for the province. We will, for the first time in many years not use the provincial credit card to service our day-to-day expenses. After years of persistent lobbying, the government has introduced balanced budget legislation. Our five principles—rigorous balanced budget rules, strict penalties for missing targets, votes before tax increases, a debt repayment plan and accountability—have all been accepted.

By far, this legislation is the toughest in the country. In fact, last week CFIB president Catherine Swift was in Winnipeg and stated that Manitoba has broken new ground with this legislation. Even if one were to forget

the legislated balanced budget, or forget the penalties to cabinet ministers' salaries, or forget the debt repayment plan, the single most important provision would remain. The taxpayer protection rules mean that if a government wants to increase the personal or corporate income taxes, the sales tax, or the payroll tax, it will have to go to a full referendum.

These four forms of taxation account for over 70 percent of the province's own source revenue. No other government in Canada has entrusted such a large portion of provincial revenues to the electorate. Alberta requires a vote before the introduction of a sales tax but makes no similar requirements on existing forms of provincial revenue.

More than anything else, this type of legislation will provide a guarantee that all future tax increases will have to be supported by the people. Many commentators have said that this allows the government to avoid the need to show leadership in making the tough decisions necessary to balance the fiscal books. However, we believe that this proposal will have the effect of renewing the faith in elected politicians rather than harming it. It shows that the government trusts the people who elect them to make the fundamental decisions that will affect their lives. This is a true example of democracy in action.

I would also like to address the criticism that such legislation would reduce the flexibility of a government to respond to urgent priorities or to build major new projects that will pay off over the longer term. Allow me to quote from CFIB president, Catherine Swift. At her speech in Winnipeg last week, she said, of course there has been the usual opposition to this legislation from the usual groups who have promoted the kind of government spending that has got us into this situation in the first place.

Those opposed to this legislation base their case primarily on the belief that such measures will limit the government's room to manoeuvre in the future. This is truly ironic in light of the fact that the ultimate factor limiting government action is the size of the accumulated debt and its financing costs. In reality pursuing a balanced budget approach will greatly

increase government freedom and flexibility as the debt constraint is removed.

For the first time in Manitoba history, this legislation will outline an orderly plan for removing the crushing burden of debt from the business and personal taxpayers of this province over the next 30 years. The Debt Retirement Fund will require the government to make annual deposits toward paying off the results of years of accumulated debt. While we suggest that the debt elimination period be reduced from 30 to 15 years, at the very least, we are now speaking of debt elimination rather than merely reducing the size of its growth.

Eliminating the debt is not a partisan issue or even an ideological one. Let us look at what would happen if we eliminated the provincial debt. Without the \$650 million in debt servicing costs, we could realistically afford to wipe out the provincial sales tax or cut personal income taxes in half. We could also afford to make a more substantive commitment to our essential social services and programs. On all fronts, this legislation would serve to change the course of this province permanently and for the better.

This is most certainly not a debate of ideology or party preferences, but one of fiscal reality. In fact, as the debt servicing charges exceed the costs of operating dozens of government departments, a debt-free province would be able to make a more substantial commitment to our vital programs and lower the burden of taxation at the same time. We must work to remove the social legacy of debt from our future generations.

However, although we are very pleased with the balanced budget legislation, there are still a few areas that we would like to ask government to examine in the coming months and years. As I mentioned earlier, we would like to see the debt repayment period reduced from 30 years to a much shorter time horizon, such as 15 years. It is important to note that the severely negative impact compounding interest can have when a government is getting into debt can have the opposite effect when coming out. As we begin to pay off portions of our outstanding debt, issue by issue, we will

slowly see the cost of servicing the remainder reduce as well.

We would also like to request that the government consider its other outstanding obligations, most notably the unfunded pension liability. This is a hidden time bomb that just continues to tick louder every year. Over the coming years, the province should begin to pay off its unfunded pension liabilities through a similar mechanism to the debt repayment plan.

In addition, we urge the government to start priming the pump now through meaningful spending reductions to prepare the province for the effects of the dramatic reductions in federal transfer payments that have been announced and are likely to continue. As the federal Liberal government is witnessing, the cost-saving impacts of budget cuts or employee layoffs is not felt until the second or third year after implementation. With the improved economy and relatively stable revenue projections, there is no better time than now to act on spending cuts.

Most importantly, regarding the taxpayer protection provisions, we have two major concerns. In examining this legislation, it is not clear if the government could make changes to the small business corporate tax rate or the exemption threshold for the payroll tax. Small business vitally depends on the payroll tax exemption to create jobs and stimulate the economy. Changing the exemption threshold, in many ways, that would be worse than a tax increase and must be avoided. In the same way as the lower small business corporate tax rate is simply a reduction from the regular corporate tax rate, it appears that the government could reduce the benefit to small business without contravening the act. This is a major concern and something I would like to enter into dialogue with the government on in future days.

While this type of manoeuvring would certainly break the spirit of the act, it appears that there would be nothing to stop a government from doing so. We urge the government to tighten up these provisions to further protect Manitoba's small business taxpayers.

Despite these few words of friendly advice, Manitoba's small- and medium-sized business

community is extremely gratified to see their advice put into action. While we have been, and will continue to be, critical of many government actions, policies and programs, it is important to reflect on the magnitude of the bill that is before you.

The implications of this bill are many. As I have stated, tax stability is so vitally important for the small business sector to create new jobs. Late last year over 31 percent of CFIB members told us that they would create more jobs in 1995 if they had the assurance that government taxes and policies would remain stable. An additional 24.2 percent said that they would hire more if they believed the government would eliminate their deficits in the near future.

This legislation will go a long way in providing the assurances necessary that doing business in Manitoba is a good idea, not just this year but for the long term.

With no exaggeration, this legislation has the potential to create a very different province for us. Both business owners and general residents will have a much greater say in how they are governed. We can tell government if we would prefer tax increases or spending reductions. We can tell the rest of Canada that we are on our way to becoming a "have" rather than a "have not" province. Finally, we can move on to the important objectives of growing our businesses and number of employees rather than simply our taxes and our debt. Thank you very much.

**Mr. Chairperson:** Thank you, Mr. Kelly.

Are there any of the members this afternoon of the committee that have any questions of Mr. Kelly on requesting further information or clarification on his presentation?

**Mr. Leonard Evans:** On page 6, when you note room for improvement and you talk about debt repayment in a shorter time horizon, such as 15 years, and then you go on to the need to reduce spending and so on to achieve this, I would like to ask Mr. Kelly just what advice does his organization have in terms of cutting expenditures because the shorter time horizon, of course, means more drastic cuts in spending. Has your organization specific recommendations for government

as to how much should be cut, let us say, from our annual spending and just where would you cut?

\* (1540)

**Mr. Kelly:** We do a great deal of research on this very topic. We ask our members all the time, in fact, our 4,500 members are polled on an annual basis, every single one, to ask questions just like that. Where would they like to see the cuts made? Most notably they tell us that the No. 1 thing that they would like to see cut is government administration and public sector payroll.

I mean government is a service business. If we want to have any effect in terms of how we are going to reduce the costs, rather than reducing the total number of employees which we would also like to see happen, we want to see governments reduce the payroll that they have to pay, or the existing complement of staff. Our research shows that the public sector in Manitoba is paid 21 percent more than similar occupations in the private sector. That is on an occupation-by-occupation basis using Statistics Canada information.

We cannot afford, as a province, to have our best paid employees be those only in the public sector. People in the private sector—you know, what is very shocking to me is when I talk to people and I hear their dream job is to go and work for government, whether that is at the provincial, municipal or federal level, that to me is very disturbing and says that we have got to turn the system on its ear and dramatically reduce public sector payrolls in this province.

**Mr. Leonard Evans:** The bulk of the spending—I know everyone who comes along suggests, well, look for more efficiencies in administration. That is much easier said than done. Those people who propose that, I would often like to give them the responsibility, whether they be a Minister of Finance or a Premier or someone else who has some responsibility to try to find those administrative savings that people often refer to. But the bulk of the spending in Manitoba goes out of the direct government control into health care, about a third of the money; education, social services take up another third, and a lot of those expenditures are engaged in by institutions that have certain responsibility under law and make those decisions.

So how do you propose that a government could, even if it wished to, readily go about these cuts? The other question, supplementary I had, was whether your organization had any idea of how much reduction in spending should occur. We spend on current programs now in Manitoba roughly \$4.5 billion, that is current program spending. So how much do you want to see cut? As I said, just precisely where can those cuts occur without creating a lot of social unrest and problems, social problems that could emanate from such drastic cuts?

**Mr. Kelly:** One of the things, very clearly, I mean if you go to a hospital or you go to a school, the largest expenses in our hospitals and schools are also payroll. We cannot afford to pay our people much more generously than they would earn in a private sector operation.

A good example, a member of mine, a prominent member of the CFIB is Ron Hoppe who owns We Care Health Services in Manitoba, a private sector home care delivery agency. Very recently I gave him a name of someone to consider for employment. That person also had, I guess, put in an application to the public sector, the Department of Health's Home Care program as well, and the salary ranges that he was offered in the private sector versus the public sector were vastly, vastly different.

I think if we look at that as a case study and expand that to the larger public sector, we can see occupation by occupation, job by job very clearly that we are paying civil servants in Manitoba far too much. I think that is the answer not just for the core civil servants in the provincial government's control but those that are working for government-funded agencies as well.

I can list off hundreds of examples of areas that government is involved in currently that they do not need to be in right now. We do not need to have the government own private sector labs that compete against the private sector. We do not need to have the government involved in a nursery in Hadashville when there are private sector companies that can do the same thing. We do not need to have the government involved in a whole litany of areas where the private sector can also pick up the slack, and unfortunately, we have a long way to go.

We are very pleased as an organization, because the government currently has taken this very seriously and has slowly over the years been pulling back the forces that are causing the civil service in other provinces to expand. However, we want to see this happen a lot more quickly.

**Mr. Gary Kowalski (The Maples):** You talked about the record of the present government not increasing taxes for seven years, and I would like to understand your view to see how you see in the future. Do you see offloading to other jurisdictions, such as causing school divisions to pay for busing that previously came from provincial grants or causing municipalities to pay for maintenance of highways that previously the provincial government cared for? Do you see that as a tax increase if it is passed on to another jurisdiction of government?

**Mr. Kelly:** Well, the government of Manitoba has been faced with some very serious challenges. The amount of money that we receive as a province from the federal government has been dramatically reduced.

I think that the record of the Manitoba government in not offloading to lower levels of government has been the best of any province in Canada. I talk to my counterparts in Saskatchewan or Alberta where they have had massive offloading of expenses onto their municipalities and to their school divisions. Nothing similar to that has happened here in Manitoba.

Both the school divisions that you mention and the municipalities have their own crises afoot, and they have created that themselves to a large extent, so I would like to see a similar bill. In fact, I have lobbied for a similar bill to be brought forward by by-law at the City of Winnipeg. I would like to see—obviously not the balanced budget provisions because they do, by law, have to balance their budgets whether that is by borrowing or increasing taxes—but what I would like to see the municipalities do is offer the same taxpayer protection that you are considering here at the provincial level, granted to school division taxpayers and also to those in municipalities. Its time has come.

**Mr. Kowalski:** Well, as a former member of a school board that had to come up with funds to cover

reductions in funding from the provincial Education department, I would beg to differ that the crises were of their own making, but I would like to go on to user fees.

User fees such as increased Pharmacare deductibles and reduction in provincial property tax credit, do you see that as increases in taxes?

**Mr. Kelly:** The user fee question is one that we get very often, and the research that we have—again, I want to remind you that none of the positions that I put forward here is my own. They are from 4,500 small- and medium-sized businesses in this province. What they are telling me is that they do not mind user fees for themselves. I will not get into the issue of user fees for health care premiums or anything like that, but user fees for their own sets of core services that they ask from government.

However, what has happened is the government has been implementing user fees at the same time as it has not been decreasing the taxes. If the business community saw increases in user fees and new fees being established on them to actually pay for the level of services that they use and, at the same time, saw their total tax burden at the provincial, municipal or federal level coming down, I think that that would be a very different question than user fees being added as an addition to the tax burden with which they are faced.

We have no conceptual problem to user fees. The problem is, again, the devil is in the detail, and unfortunately we have had some very bad examples of user fees being implemented at the same time as taxes being stable or increasing.

**Mr. Chairperson:** Mr. Kowalski, do you have another question of this presenter with regard to either further information being elicited or a point of clarification?

**Mr. Kowalski:** Yes.

**Mr. Chairperson:** All right. Would you please proceed sir?

**Mr. Kowalski:** Can you imagine any circumstances that would cause your organization to—or projects that

the members of your organization would support increased taxes for?

**Mr. Kelly:** I think basically what we are looking at right now, our members would answer that question by saying they pay such a significant portion of their income in taxes right now that, based on the current level of taxation, no, there would be nothing that would justify increased taxation at this current point in time.

\* (1550)

You know, small businesses are not the large corporations in town that try to flip their profits into outside countries and everything else; 50 percent of the members of my association have under five employees. These people are every bit as much a member of the community as anyone else. These are not greedy, corporate people that take their money and go to corporate board meetings in Bermuda.

I think, though, that is the perception of the business community in general, and I am here to tell you it is just wrong. There is maybe half a percent of the business community that has the luxury of doing those kinds of things. The common business person, the ones that I speak to every day, care about what happens in their community, wants the hospitals and the schools to continue to operate. They want to see the programs that they depend on continue to operate.

Now, whether that is operate in the exact form that they are today, or whether that is operate more efficiently through private-sector/public-sector partnerships, or something like that, is another question entirely. But based on the current level of taxation that we are experiencing, the government has far more than enough money to fund all of the programs that Manitobans would like to see.

**Mr. Chairperson:** Thank you, Mr. Kelly.

Mr. Sale, you have a question?

**Mr. Sale:** I have a couple of questions. Is the mike on?

**Mr. Chairperson:** The Chair recognizes Mr. Sale.

**Mr. Sale:** I have a couple of questions. On page 3, you discussed the question of paying down the

accumulated debt more quickly. I think your arithmetic and mine would be similar on this. Roughly \$150 million would be required at minimum, according to the government's arithmetic, to put this act in place on an annual basis. We are going to lose a \$160 million in transfer payments, so that is a little over \$300 million, and potentially another \$40 million from Ontario's tax cut that is proposed.

My question is, as small business people, many of whom I know in my own riding are very hardworking and very locally based, do you not have some concern that we will be taking about \$350 million out of the economy in total in order to meet these requirements? In effect, when you reduce the purchasing power of the economy by that amount, small business is one the groups that is going to be hurt first.

**Mr. Kelly:** There certainly are ways to try to modify and ameliorate any of the damages that can come. Certainly, we are nervous because we want to see the services that we depend on continue to deliver. However, our experience has been, as a small business community, that the services that are delivered right now are not done in the most efficient way. There are businesses that talk to me every single day that ask how they could get involved and be of assistance to government in terms of delivering some of the present services that are delivered.

I talked to dozens of people in the health care community alone that have money-saving ideas for government in terms of how things can be delivered. Unfortunately, for whatever reason, they have not been acted upon to the extent that they would like.

I think that, certainly, we would go through the balanced budget legislation. We will, as a province, have some tough times ahead of us in terms of trying to meet the dramatic budget cuts, the dramatic spending cuts that this would entail. However, I really do not see that there is any option. We have tried, as a province, the other point of view for years and year and years. Unfortunately, we have seen services actually decline at the same time as taxes and spending have gone up.

I do not think that is working any better than this system may. I really strongly urge the government to



consider that, and all parties, to consider this legislation as a vital step forward in trying to get our fiscal books in order.

**Mr. Chairperson:** Mr. Sale, do you have another question of this presenter with regard to eliciting further information or a point of clarification on his presentation?

**Mr. Sale:** I only asked one.

**Mr. Chairperson:** I am just asking if you had another.

**Mr. Sale:** Obviously, yes, I do.

**Mr. Chairperson:** All right, would you please proceed.

**Mr. Sale:** Thank you, Mr. Chairperson.

On page 5, Mr. Kelly, you call the crushing burden of debt and the requirements for servicing that debt, you use the term "crushing burden." I do not want to impose my arithmetic on you, but I think you may have done this anyway, I believe that the debt service costs are approximately 2.4 percent of GDP this year, 625 million, 640 million on a base of 26 billion, something in the order of 2.4 percent of GDP. I am wondering if you would characterize that as a crushing burden.

**Mr. Kelly:** Absolutely. The fact that our debt is so high, the fact that we spend \$650 million a year just to service the debt alone is a crushing burden. In fact, that is only going to increase in time unless we get control over it. It is a crushing burden.

The burden is going to only increase unless we take measures such as this legislation to try to get it under check.

The problem is, if this was the only debt that we had as a province, the only debt that the government had, and it was not going any further ahead and we were not increasing it year after year after year, then I think that we probably could manage that much more effectively than we are today.

The fear that we have is that the debt, unless we get it under control, is just going to increase year after year. That is the power of compounding interest.

As I have said before, if we start paying off the debt, it will be a lot easier than we might imagine right now. We have had 20-some-odd years where all we have done is build on the debt every single year. If we start having a few years where we begin to pay off even a portion of that debt—the same is true of my own mortgage: if I start attacking the principal of that debt that I have incurred, I am going to have less in interest costs in future years. The Manitoba government is no different than that.

**Mr. Sale:** I have one further question, Mr. Chairperson, and that is on page 6 at the bottom. I believe the thrust of the last paragraph is to argue that you would like similar protection for the business corporate tax rate, as the referenda for the other tax requirements. Is that the thrust of that paragraph?

**Mr. Kelly:** The concern that I have—and, again, I have been only recently apprised of the situation in talking to a couple of tax lawyers—but they tell me that they are unsure—and this is a question at this period of time—whether the small business corporate tax rate would be folded in under the terms of this legislation, and that is of great concern to us.

In the same way that you have argued on the property tax credit that the government could eliminate that and that would be a tax increase in the same way as increasing the rate, I would argue that eliminating the exemption on the payroll tax, the \$750,000 exemption on the payroll tax, or raising the small business corporate rate while keeping the general corporate rate frozen would be tantamount of a tax increase as well.

At this point, what I am urging the government and the committee to do is to consider those points and to bring them to the forefront over the next little while.

**Mr. Sale:** Mr. Chairperson, I really did not actually finish my question before Mr. Kelly began to answer. I appreciate his answer.

I simply would ask you, do you think, then, that the general public should vote on a referendum on business taxes?

**Mr. Kelly:** I have no problem with that. What we have done in recent years is we have looked—look what is happening at the City of Winnipeg level right now where we have a candidate who is running for mayor, Peter Kaufmann, who is proposing that the business tax in the city of Winnipeg be eliminated. I think that there has been a great deal more public support for that kind of idea than anyone would have imagined a few months or years ago.

I think the people of Manitoba, the general public of Manitoba, are bright enough to realize that, if we start taxing the heck out of our business community and specifically our small business community, we are all going to be losers. If we tax small businesses, the only ones in the last decade that have created any new jobs in the economy, they are not going to have the jobs with which they would like to become employed. I think that people of Manitoba are smart enough to realize that, and so, yes, I do not have a problem at all with allowing the general public to consider the issues of business taxation in the same way they would to the general business community.

**Mr. Chairperson:** Mr. Evans, you indicated to the Chair that you had a question.

**Mr. Leonard Evans:** One more question, Mr. Chairman. I gather from Mr. Kelly's recent answers that the organization he represents is against debt, period. There should be no debt. Is he therefore implying that the government should never incur a debt for capital spending such as building the Winnipeg Floodway which has benefits for many years thereafter or the construction of schools or hospitals that have benefits that accrue to the population for many years, just as in private enterprise a private corporation may incur a debt for good sound business management purposes? To pay for a factory in one year is ridiculous. That debt is incurred for a very productive, developmental reason, and, similarly, would you not agree that provincial governments or federal governments cannot incur debt for developmental

purposes that should be incurred and not be paid off in one year?

\* (1600)

**Mr. Kelly:** The first part of my response to that question would be that we have tried the system where we have incurred large sums of debt for, in many cases, very valuable projects. However, seldom have we done the other side of that which is begin to start paying that off, and this legislation would force us to do that.

No, the government is still going to have to have the ability to borrow in certain circumstances, but the government is different than a business in one respect in that there is no one single project that would be so vast that it would deplete all of the resources of the provincial government, as would be the case for an individual business. The province has \$5 billion roughly of revenue and expenses every year. They have a much greater ability to finance that debt. Also, they have a built-in captive market of people to tax to try to get that revenue out of. So I think that there are more tools available to the government to be able to finance that than are available to a private business.

The concern that I have is that unless we as a province start to get control of our debt and consider that as an obligation rather than something that we are just going to build upon year after year, we are not going to be any further ahead.

**Mr. Leonard Evans:** Well, just as a supplement then, is Mr. Kelly saying that, really, the intent of the legislation or the goal of the legislation is to bring us down to zero debt in 31 years, that that is not a realistic goal?

**Mr. Kelly:** I think that is a very realistic goal. I think what we have to look at doing is get our debt eliminated so that we can then start from square one and either at that point then examine proposals such as a large-scale reduction in taxes or spending projects that if we need to build something that is so massive, we could at that point then start considering those kinds of things.

Right now, we are at a crisis level where there is no other priority in my mind that is greater than trying to get our books in order. I mean, essentially, we are at the point where, if we do not start doing this kind of thing right now, it is not going to take too many years before the federal offloading kicks in. Then we are going to really start to feel the crunch in terms of services, and that is what we want to avoid.

I get asked the question all the time about the flexibility argument, that this kind of legislation is going to reduce the government's flexibility in responding to large capital projects. The answer that I would have and that my members would have is that the opposite is every bit more serious than this, than the present system that we have right now.

The reason we have no flexibility as a government to respond to priorities that the people of Manitoba have established is that we have so much debt. We cannot go and build something new that we would like to see as Manitobans simply because we have such a huge level of debt in the financing costs that we are forced to pay on that debt, and I would like to see that changed so that we do truly have more flexibility as a province to respond to those kinds of priorities.

**Mr. Leonard Evans:** Mr. Kelly, then, are you suggesting, in the next 31 years, the government in Manitoba should not undertake any capital projects, should not engage in any debt, whether it be— [interjection] Well, I am asking for clarification, because this seemed to be implied.

**Mr. Chairperson:** I am sorry, Mr. Evans, I think that this question now is crossing over the line, and this is deteriorating into a debate with this presenter. If you would like the opportunity for a further question, I certainly welcome you to present the question, but I would invite you not to frame it in the form of debating the issue with him.

**Mr. Leonard Evans:** I am not trying to engage in the debate. I rather enjoy listening to Mr. Kelly. I am not trying to engage in a debate with him, but it seemed to me, listening to his statements, I am confused, and I think maybe other members may be confused, because it seemed to imply from his statements that he was

suggesting that there be no further capital projects undertaken for many, many years in order to get down to this magical zero position.

**Mr. Kelly:** The government has already built into their projections a large degree of capital spending. I do not think that is going to change. We need, as a province, to reinvest in some of the capital projects that are in front of us, but that has to be done in the context, as would any business, of how much money they have available to be able to service that debt that they have incurred.

Companies are not going to build a new plant every single year and then never pay them off. The banks just would stop lending to it. We, as a province, unfortunately have, to a certain extent, adopted that logic, and we have to change that.

**Mr. Stefanson:** I just have one question, and it is really just concluding on that issue, but first I want to thank Mr. Kelly for a very comprehensive presentation.

But just finishing on that point, I am sure your members, Mr. Kelly, are aware that not very long ago back in 1981, the cost to service debt in Manitoba was about \$100 million. By 1988, it had grown \$500; today, as you pointed out, I think, it is \$650 million. To compare that to probably what your members do or what I would think even a typical Manitoban would do, that is the complete opposite of what most people's objectives are, what your membership represents, what their objectives are.

Normally, you take on debt and the debt declines. The debt does not continue to crowd out the ability to reinvest in your business to do other things. Is that sort of a fundamental issue, a fundamental difference that leads to the kind of response we see in the polling that your organization provides?

**Mr. Kelly:** That is very true. What our members do is when they borrow money, they borrow it for a specific purpose and then they begin to pay it off. Unfortunately, we, as a province, have adopted the attitude that we will borrow and we will just continue to borrow and never pay it off; at least that has been the attitude over the last 20 years.

We have to start turning the tables on that kind of equation. We have to look at some of the important spending priorities that we have as a province and do not forget them. I mean, we are going to need money to reinvest in some of the capital infrastructure that we have. We have some serious challenges ahead of us as a province in terms of just maintaining some of the infrastructure that has been built already. We have to make sure that we have the ability to do that.

The only way we are going to have the ability to do that is by reducing the amount of money that we spend every year in terms of interest. This legislation is designed to do exactly that.

**Mr. Chairperson:** Thank you, Mr. Kelly.

Are there any other members of the committee that have any further questions? On seeing none, I thank you very much, sir, for coming forward today and spending the time and presenting the quality brief that you have and, certainly, it has been much appreciated.

Ladies and gentlemen of the committee, the Clerk advises me that the Clerk's Office has just received a correction to the written brief by Mr. Peter Holle on behalf of the Manitoba Taxpayers Association, who presented last evening. Is it the will of the committee to accept the correction to that brief? [agreed]

I notice the hour is 4:10 p.m. I would suggest that we proceed and invite one more presenter to come before the committee.

Is there a Mr. Peter Olfert—is Mr. Olfert present representing the Manitoba Government Employees' Union?

Good afternoon, Mr. Olfert, do you have a written presentation?

**Mr. Peter Olfert (Manitoba Government Employees' Union):** Yes, I do, and I have copies for committee members.

**Mr. Chairperson:** Wonderful. Thank you, sir.

The Pages have now circulated your brief, I would invite you to proceed, Mr. Olfert.

**Mr Olfert:** Thank you, Mr. Chairman, members of the committee. For those of you who do not know me, my name is Peter Olfert, and I am president of the Manitoba Government Employees' Union. I just want to thank the committee for allowing me to speak here today.

Bill 2 is, I believe, one of the watershed pieces of legislation. The effects of this bill will be heard for a long time to come, and the effects will not be positive for the future of this province of Manitoba.

Our union, the Manitoba Government Employees' Union, represents some 25,000 workers in the public sector. They are the ones who are responsible in a very real way for the quality of life in Manitoba. They deliver the services which people need to maintain a decent way of life. Without them, the province would not be familiar to any of us. The bill now before you will be a major step in the dismantling of that way of life.

The choices that a government makes when it designs its budget often says a lot more about the vision of that government than it does about the economic situation. During a time of declining federal revenues and a prolonged recession, your government has made choices which illustrate this tendency very clearly.

For example, in recent years, corporations have enjoyed nearly \$100 million in tax breaks. Government funding for private schools such as St. John's-Ravenscourt has increased to more than 63 percent of their budgets, while support for the public school system has been allowed to dwindle to only 66.1 percent in 1994.

\* (1610)

Community college funding has been cut by \$10 million, putting an end to—and I must say it is a net loss of—120 jobs through the elimination of some 20 courses in the community college system. Health care continues to manifest itself with hospital cuts, home care reductions and long line-ups.

At the same time, business has received more than \$30 million in grants and tax breaks through the

questionable Workforce 2000 program. In other words, your government has been making choices about the future shape and quality life for all Manitobans. Life is getting better for the top 2 percent of our citizens and worse for all the rest of us.

The other thing this legislation would definitely do is make it impossible for the government to stimulate the economy during a time of downturn. The long history of Manitoba as a public economy as well as a private economy one will be permanently undermined to the detriment of all.

If the government were truly interested in deficit reduction, why would it deliberately turn away from revenue sources which would help it balance the budget, or is the legislation really about something else altogether? If the deficit is really a crisis, did this take place only in the last year? A brief look at the last years shows that there have been deficits since 1988-89 fiscal year, but, during this recent election year, suddenly balanced budgets became a mantra with your government.

Briefly, it is my contention that this legislation is an attempt to prevent future governments from being in a position to ever make our tax system more progressive, more equitable and more sensitive to problems of poverty, educational opportunities, unemployment and illness.

By requiring a referendum to determine changes to personal income tax, corporate income tax, retail sales tax and the health and post-secondary education tax levy, this bill is saying that the government is opposed to fairness. It also says that elected representatives should not do their job of making choices for the good of all Manitobans.

Even the Premier (Mr. Filmon) acknowledged this last June, when he rejected the idea of a referendum on the issue of use of public money to bail out the Winnipeg Jets, saying his government had been elected to make judgments that are ultimately in the best interests of the province and its future. I wish he had the same view of elected representatives' roles today. Rather, they are now expected to meet the arbitrary requirements of Bill 2, regardless of the costs to those less able to defend themselves.

I believe that those who continually defend the special interests of the few over the many would do well to remember the words of Benjamin Disraeli who observed in 1848 that the palace is not safe when the cottage is not happy. If, as many suspect, this legislation causes major cuts to health care, social services and education, expect that increased social unrest, increased crime, spousal abuse, poverty and an unhealthy way of life for the rest of us will be the result.

There are other problems with the referendum clause. A referendum on a specific matter where voters have all the relevant information is sometimes well advised. However, it is not a particularly useful tool for building budgets. Deciding to raise or lower taxes must be made in the context of a broad economic and social strategy. These decisions are often very complex and impossible to deliver to the broad population in a coherent and understandable manner. Simply put, people generally say no to tax increases, no matter how needed or fair the proposed tax increases may be. This fact is widely understood and is certain to make wealthy Manitobans sleep easier at night, but it will do nothing to ensure a decent and healthy way of life for everybody else.

California's Proposition 13, for example, limited the ability of government to finance education and other important public services through the taxation of business, industry and privately owned property. Orange County, California, is now in crisis in the delivery of essential public services such as education, a crisis that the present government has found is impossible to contain. They have been forced to sell off libraries, courthouses and drug treatment centres to stave off bankruptcy. The only large capital construction going on in that state is the building of prisons, not schools, not hospitals, not libraries, but prisons. I trust there is some kind of contingency plan for raising the capital that would be needed for prisons here in Manitoba.

This brings me to another major problem with Bill 2. The legislation does not make a distinction between current account spending and capital spending. In a household, groceries, gas, heat, light and so on are the current account spending equivalent, but mortgage

payments, a car loan or any other large item is not viewed in the same way. There would only be about 1 percent of homes owned in Manitoba if families had to budget in the manner prescribed by this bill. A mortgage is no different than the government taking on debt to increase the assets owned by the state for the good of all citizens.

I submit to you that we will never again see any major capital construction in this province if this legislation passes. There will be no more Winnipeg Floodways built, no more major highway upgrades, no more large infrastructure programs, not ever.

That is not my vision of a good government, and it is certainly not the vision of most people in this province. We believe that people tend to vote in tax referenda with the short-term objective of reducing or limiting taxes without fully appreciating the resulting unacceptable loss of the quality of life for themselves and for their children. We also believe that you know this fact very well and are doing it for those who live in Tuxedo, not Point Douglas.

In conclusion, I urge all of you to vote against this bill. It is ill conceived, elitist and antidemocratic. It will further erode our system of health care and education and will only exacerbate the already huge gap between the haves and the have-nots.

In short, it is a bad piece of legislation and does not deserve to be passed in to law. Thank you very much.

**Mr. Chairperson:** Thank you, Mr. Olfert. Are there any members of the committee who have any questions of this presenter?

**Mr. Sale:** Just one and perhaps two depending on whether I make my first question clear enough to Mr. Olfert.

Mr. Olfert, in previous presentations today I think we have come to the conclusion that to meet the demands of this bill we would have to withdraw something in the order of \$300 million to \$400 million from current spending and instead allocate it to either covering off reductions in federal transfers or the requirements for the Debt Retirement Fund, et cetera.

Can you estimate from your experience how many jobs—

**Mr. Chairperson:** Yes, Mr. Minister. Excuse me, Mr. Minister, on a point of order.

#### Point of Order

**Mr. Stefanson:** Mr. Chairman, on a point of order. The member for Crescentwood said that we came to the conclusion that \$300 million-plus would be required. If he is referring to we being this committee, that is absolutely incorrect. That has never been acknowledged or agreed to in any way whatsoever. So I think he should withdraw that reference and say maybe he has come to that conclusion, but that is the extent of it.

**Mr. Chairperson:** I do not believe that is a point of order, Mr. Minister. It may be a correction.

\* \* \*

**Mr. Chairperson:** I would ask Mr. Sale to continue, taking in light, of course, the comments that have been exchanged.

**Mr. Sale:** Mr. Olfert may have understood my question already. I am asking for an estimate of the employment impact of the withdrawal of, let us use the lower bound, \$300 million from the current provincial expenditure levels. Do you have any estimates what that would cost?

**Mr. Olfert:** If I understand, the question is, how is the government going to offset the losses of Bill C-76 in terms of funding from the federal government and make that up in terms of revenue in the context of the balanced budget legislation.

I would agree, first of all, that there is going to be a massive shift on to provincial responsibility in terms of funding that is being pulled away for a number of services—health care, education and social services.

\* (1620)

So, as a province, we will have to make up something I think on the order of \$240 million over the

next three years or something like that, and I certainly have some real concerns about that in the context of this legislation and how tight it is and the restrictions placed on it in terms of flexibility of the government to provide that funding to maintain the services that we have got today.

I would say that, as we have in the past, the government will continue to privatize, potentially sell off, some pieces of assets in an attempt to provide and comply with the legislation. I see services in the public sector, whether they are assets that are sold or whether they are services that are pulled off from the public in this province. I see a combination of that occurring, you know, being forced by this bill. There is no question.

**Mr. Leonard Evans:** Very briefly, Mr. Chairman, I thank Mr. Olfert for an excellent presentation.

A lot of reference is made to accumulated debt and the burden of debt on Manitobans and so on, but the same critics fail to be cognizant of the accumulated assets that have been developed over the years in the province of Manitoba, and I was wondering whether the MGEU has done any research in this regard. They have all kinds of data on debt in the budget, but whether the MGEU has done any research on the assets that Manitobans have, what is our per capita value of assets?

I noted in a brief last night, I think it may have been from CUPE, I am not sure, but there was reference to an estimate being done in the United States where the assets per capita far exceeded the American debt per capita in recent years.

**Mr. Olfert:** We have not done a review of provincial assets. Obviously, the Minister of Finance (Mr. Stefanson) would probably be in a better position to enlighten us on that. However, I do agree with you on that issue, and it is no different than our own organization.

When we get an audited statement done at the end of the year, our auditor always sets in our liabilities, whether they are short term or long term, but they also include assets that we have accumulated, be it, you

know, our involvement in our own building or various assets that we may have accumulated over years. So it is, I think, something that certainly should be made available to the public.

That should be public information. All Manitobans should be aware of the fact that they are stakeholders in a lot of assets that provide very valuable services and a good return for their investment, whether they were made 10 years ago or 50 years ago, whether it was Manitoba Telephone System or MPIC or whatever. Those are valuable assets that I believe Manitobans should be made aware of and I believe are very important to people as taxpayers.

**Mr. Leonard Evans:** Mr. Chairman, I thank Mr. Olfert for that response.

Again, so much discussion about debt and the level of debt, but we very seldom refer to the composition of debt. I wonder if Mr. Olfert would agree that when you look at the debt historically we are not necessarily looking at the same debt. In other words, the composition of debt depends on government policies. At one time, some years back under Premier Roblin, a good chunk of it would have been the Floodway; another time, the Leaf Rapids town site. You may have a spurt of social housing construction or perhaps school construction, so that at some other point in time a good chunk of it could have been accrued for education. So what I am asking is whether Mr. Olfert has given that any thought and whether he would agree that, virtually, we are not talking about the same debt. We may be looking at different numbers, different amounts, but that debt composition, the quality of the debt, does change over time.

**Mr. Olfert:** Well, there is no question. Again, it is something that one would have to track to see exactly what kind of investments were made and what kind of returns were received by the citizens over time on an investment. You are right. I mean, it is like any other sort of business that people are in. There are different projects that you may borrow for and pay off, and then you expand over here, you upgrade your machinery, buy new technological equipment. So the reason for the debt at any given time will change over a number of years, and decades for that matter.

**Mr. Leonard Evans:** Just one last question. I guess, as in the case of private industry where corporations often engage in debt financing to enable them to have an expansion, a new factory or whatever, that government too can be looked upon as utilizing debt from time to time for either economic or social development. I think specifically of debentures, the Public Schools Finance Board, the borrowing of the Public Schools Finance Board to enable this province to provide the necessary school buildings around the province in order to maintain, as part and parcel of the thrust of maintaining a high quality education which surely, but surely everyone would agree is a key to economic development in this province.

**Mr. Olfert:** I certainly agree. I think I touched on that, the concern about Bill 2 and the inability of future governments and this government to stimulate the economy when required to provide—and when I say infrastructure I mean much more than just building a highway or building a bridge or a road. Infrastructure, as far as I am concerned, is the quality of public service within the province, and that would flow into agencies such as the Addictions Foundation or the Main Street Project or a health care facility that is built, schools that are built. All those things are infrastructure and the quality of life.

There are many comparisons and arguments between health care in Canada and health care in the U.S. and the not-for-profit that we have here and the profit scenario that they have in the U.S. But I believe that Canadians fundamentally believe that there are very important infrastructure programs: health, education, social service infrastructures, roads, highways, bridges, schools, all those things that need to be in place for a quality of life that all Manitobans can enjoy. So I truly believe that we have to continue to invest in our future on behalf of all Manitobans.

The bill, I believe, does not give the government the ability to go out and create and stimulate for economic recovery, during a recession as an example, when there is a downturn in the economy. I think their hands will be tied in trying to work ourselves out of a recession, so I have that concern.

**Mr. Kowalski:** Yes, I apologize. I was not here for the entire presentation, so if this has already been

covered, I apologize. I just want to understand your union's position. Does it believe that it is good government policy to balance their budget and good government policy to set as an objective to retire the debt?

**Mr. Olfert:** I believe that we did not get into the debt we have, the long-term debt overnight, and certainly it is something that we cannot get ourselves out of overnight. I think there has to be a strategy, a plan, but it cannot just be a piece of legislation and a proposed debt retirement process. I think that we have to look at a number of other things that this bill will not allow, that being the stimulation of the economy when required to provide jobs, to provide income, to have people move into the province instead of leaving the province, to build our economy as a whole. So I believe that there should be a plan to retire debt over a long period of time.

\* (1630)

The problem that I have with this specific bill is that it ties the hands and cyclical economic downturns in the economy. There are cycles that we go through, whether they are eight, 10 years or whatever, I guess there is debate on whether it is a 3-year cycle, five or eight or 10, but anyway, there are cycles that businesses go through where the economy is good, it is fired up and it is producing a lot of revenue, and times when it is not that good. So I think that we have to use those good years to pay down and maintain during the bad times. That would be our general position on that.

**Mr. Stefanson:** I just have two questions. The first one—and I thank Mr. Olfert for his presentation that he just concluded on. I am really curious. He said that he would support doing things in the good times and allowing deficits and so on to accumulate in the more difficult years, and I am curious whether anybody from his union made that kind of representation to the government of the day in the mid-'80s when we had come through a recession in the early 80s, running deficits, then we went to the mid-'80s, probably some of the best economic times in the history of Manitoba, and we still consistently ran deficits from '84, '85, '86, '87. Are you aware if your union ever made any representation along those lines during that period of time?



**Mr. Olfert:** Now to just get this on the record correctly here, you are saying that were we chastising a former government for not paying down the debt during a boom time?

**Mr. Stefanson:** Mr. Chairman, I am not suggesting chastising. Your concluding remark there to Mr. Kowalski was that you think there is a sort of a validity to running deficits in the poorer times when the economy is not as good. You talked about stimulant job creation and so on, but you said when the times were good there should then basically be surpluses and start to pay down the debt, is what you suggested. I am just saying if you look at the 1980s as a window of the time, a seven- or eight-year period, in the early 1980s we were in a recession, but by the mid-1980s we were well out of that recession and probably having some of the best growth that Manitoba has ever seen, yet we still ran deficits right through '84, '85, '86, '87.

I just asked a simple question. That principle that you just enunciated here in the committee, was that a principle that CUPE believed in, and did they put that message forward back in the 1980s?

**Mr. Olfert:** Not that I am aware, but then we were not debating a Bill 2. We were not debating this piece of legislation, so this is the reason I am here today. It is not because I have other issues I want to talk about, whether they happened 10 years ago or 15 years ago or last round of bargaining. I am here to address this specific bill.

**Mr. Stefanson:** Thank you. So you are not aware that any representation was made. My second question—I just want to clarify because I am not sure, I am confused reading your brief whether or not there is a clear understanding of how our capital projects and our debt servicing currently work in Manitoba and will continue to work under Bill 2.

We currently amortize the debt for all of our schools and educational facilities and we currently amortize our debt for all of our health care facilities. That is a significant amount of our capital budget every year. That approach will continue under Bill 2, so this argument about the inability to continue to borrow for schools or health care facilities is incorrect and should

stop being perpetuated because it is incorrect. It is just incorrect information. The fact is that that will carry on. So I am partly confused in terms of your arguments in that area and I just want to be sure you understand in your comments and that, and secondly the reference to—

**Mr. Sale:** Mr. Chairperson, I cannot find in the brief any reference, and I am wondering if the minister could point out the page in the brief at which the presenter indicates that hospitals and schools are not going to be paid for. I am wondering what the point is.

**Mr. Chairperson:** Mr. Minister, did you wish to respond to Mr. Sales's remark?

**Mr. Stefanson:** No.

**Mr. Chairperson:** That is not a point of order, Mr. Sale, but certainly the committee will take that into account.

**Mr. Stefanson:** Mr. Olfert, I will conclude, so I referred to that, but you do refer on pages 9 and 10 to this whole concept of mortgages and so on, so it is clearly in your brief. You also, then, in that same section, talk about no money for major highway upgrades and so on, and I am assuming that you have had the opportunity to follow our budgets and to look at our budget, our 1995-96 budget that also projects for the next three years and shows capital spending over those three years at \$300 million or more in each and every of those years, the highest spending on capital expenditures in Manitoba's history consistently over the last few years.

Are you then saying that over the last 10, 20, 30 years we have not been able to provide highways, we have not been able to provide all of these things under all types of governments? If we have done it with less money, we certainly will continue to have the capacity to do all of those things with more capital dollars available looking ahead, Mr. Olfert. So I just want to be sure that you clearly understand that. Particularly when I read that section of your brief on pages 9 and 10, I got the impression that that is not clear to you or your organization. I would hope my comments have helped you, and I would appreciate any comments you would have in that area.

**Mr. Chairperson:** Mr. Olfert, would you be responsive to that?

**Mr. Olfert:** Sure, and it may lead to another question. I do not know that, but I guess my understanding in dealing with highways as you have just outlined and saying that they are projecting a \$300-million expenditure over the next number of years.

**Mr. Stefanson:** Mr. Chairman, the total capital expenditures in the budget will be \$300 million or more, projecting out for the next—in this budget, it projects out for the next three years. This year's capital program, I believe, is \$337 million in 1995-96. Next year, it goes to \$307 million; the year after, \$300 million; the year after, \$300 million. If you track capital expenditures back during the earlier part of the '90s, through all of the '80s and so on, you will see that they have been lesser amounts. I acknowledge, there has been a little bit of inflation, but it has not been all that high the last several years. So, in terms of money that has been available in the past and compare it to money that will be available in the future, there will be as much or more money to meet all of the same needs that we have had over the last 20 years under at least two types of government.

**Mr. Chairperson:** Mr. Olfert, would you be responsive to that? I do not know if there was a question there or not, and I would caution you as a presenter, sir, that this is not the position or place, either from the minister's side or from the presenter's side, to enter into any debate at this point in time. I would certainly give you the opportunity to be responsive if you wish to do so.

**Mr. Olfert:** Okay. Thank you.

While I think I understand now what you are saying in terms of—and I do not have the document here you are speaking about. I guess the overall concept that concerns us is the fact that this legislation, while you are projecting into the future, you are not taking into account, I believe, things that are going to occur in terms of more and more reduced funding from the federal government. You may be projecting that as well, but those are only projections. We have seen projections for the last, you know, 100 years in this

province that are out of sync, you know, next month when you make them today. So, I just worry that the inability or the restrictions that are placed here in terms of doing some of those capital works and capital projects that you are saying we are going to do are going to somehow disappear. When reality strikes in the budget and the feds are cutting back or this is happening or the economy goes into another tailspin, you do not have the ability to then recover some of that

**Mr. Chairperson:** Thank you very much, Mr. Olfert.

Are there any other members of the committee? I believe—sorry, Mr. Newman, you had a question.

**Mr. Newman:** With reference to page 10 of your brief, Mr. Olfert, and particularly the last three lines, you indicate that you regard the bill ill conceived, elitist and antidemocratic. Given that the draft bill was part of the throne speech prior to—and given that sort of publicity in the Assembly, given that it was tabled and well known before the election in its complete form as it is presented here today and went through an election and the people spoke, given that it has been debated in the Assembly, given that it has been debated here, given that briefs have been submitted, I just wondered what you meant by antidemocratic.

**Mr. Olfert:** Well, I guess I harken back to the Premier's words that he talked about when he talked about referendum, which is part of the bill. Part of the bill talks about referendums. The fact that the Premier himself said that there was no point in us taking a referendum during the \$37-million debate that was happening here in the Legislative Building, that politicians and political people were elected to make decisions.

\* (1640)

I just think that the fact that the government cannot—I think it is a sad day when the government needs to sort of put the handcuffs on, if you will, on the till or close the till through this kind of legislation when in fact they are elected to make decisions and really should be doing this without legislation. They should be using various means and resources at their disposal to look at all the implications in terms of the social requirements,

the infrastructural needs, the economic needs of the province and judge themselves accordingly as they have for over 125 years in this province.

I think what has worked in the past should still be the course of action that politicians should be judged on every four years in this province, and I do not believe that there is a need for this kind of legislation.

**Mr. Newman:** For further clarification, I take it what you are saying, then, is that this is addressing two things. One is the concept of a referendum or direct democracy, which you take issue with as being a democratic process which you approve of, and the other aspect of it is that you somehow regard the process of imposing a discipline on yourself as a government through legislation as somehow being an antidemocratic process.

**Mr. Olfert:** No, what I am saying is that the members at committee here and all members of the Legislature were elected through a democratic process to govern. I think the public has given you the right to govern, and I do not think that you need this kind of legislation to do that. I think the system of electing people to carry out and make decisions is the responsibility of members here.

They have been elected for four years, and budgets have to be done. I understand the political process that you have to obviously look at being re-elected at some point, and governments start working on that as soon as they are elected, I am told. I think that the democratic process is one that has been given to you, Mr. Newman, and I think that the members here and the government will come forward with a budget over the next four or five years that Manitobans will accept, and they will judge you, if I can say that, at election time.

The elitist remark, I believe, is fairly straightforward inasmuch as I believe that there are tax advantages, and the bill is weighted through the whole process of referenda, and the cost of those, which we have not even talked about, the cost of a \$6 million, \$8 million, \$10 million referendum on an issue in the first place to deal with these issues.

**Mr. Chairperson:** Mr. Penner, I believe you had a question of Mr. Olfert.

**Mr. Penner:** Just a very brief one, Mr. Chairman. On the bottom of page 4 and top of page 5, you refer to "an attempt to prevent future governments from being in a position to ever make our tax system more progressive and more equitable and more sensitive to problems of poverty, educational opportunities, unemployment and illness. By requiring a referendum to determine changes in personal income tax, corporate income tax and retail sales tax and the health and post-secondary education tax levy . . . ."

Now, is it your view, Mr. Olfert, that under this bill there are any restrictions imposed upon government that would not allow it to reduce taxes that might be deemed to provide more equitable type of situations to eliminate or reduce poverty? It would appear to me that under this bill there are no restrictions that would speak of reducing taxation to any sectors in society that might deem to have been hard done by by taxation or adjustments to be made within the taxation system except where we speak about significant increases.

**Mr. Olfert:** Well, that is correct. There is nothing in this legislation that prohibits you from reducing anything. It just means that you cannot increase without referenda, I understand that. Except the other side of that is that you can increase, even getting around this by user fees. I mean that is the other issue, you know, tax rebates and tax points and all those kinds of things. There are ways of increasing revenue, if you will, without increasing those major taxes.

**Mr. Leonard Evans:** I would like to ask one final question, for me at least, of Mr. Olfert; I cannot say for others. Would you not consider an essentially undemocratic feature of this legislation to be the fact that it imposes a straitjacket on future legislators, 10, 15, 20, 30 years from now and the people of Manitoba in the future being forced to go along with a particular set of fiscal approaches that is set into this legislation, that, therefore, it is undemocratic because it takes away decision-making power and ability of future elected representatives, future people of Manitoba who, I believe, have a responsibility to make a decision in the best interests of the people of Manitoba at that time?

**Mr. Olfert:** Yes, to some extent but, again, a future government can take this legislation and put it where I believe it should be now.

I believe that any government is elected on and given a mandate to govern. I understand what you are saying in terms of, once you get into this kind of a mode or mental—or once you have, I guess for a better word, convinced the population that this kind of legislation is good for you, it will be more difficult for another government to undo what is here today.

That I certainly agree with, and I can see that undoing this will potentially be a problem.

However, as we all know, governments can override collective agreements, so I guess they could probably change Bill 2.

**Mr. Chairperson:** Thank you very much. I do not believe there are any other questions from the committee this afternoon, Mr. Olfert. Thank you very much for your patience and the quality of your presentation this afternoon.

Before we adjourn, ladies and gentlemen, I would like to inform the committee that the Clerk's Office has received two written briefs, one from Mr. Ron Schmalcel, listed as a private citizen, and one from the Manitoba Nurses' Union, who presented last night but did not have a written brief.

Is it the will of the committee to accept these written submissions and agree that they should be printed as an addendum to the transcript? [agreed]

The hour is now 10 to five. What is the will of the committee? I can advise the committee that there are a few other parties in the audience, particularly Nancy Paterson and Pat Isaac, who are the Transcona-Springfield Teachers' Association, Seven Oaks Teachers' Association, and Mr. Ian Fillingham, a private citizen, both of whom are in the audience.

Is it the will of the committee to defer those presentations till Monday?

**Mr. Leonard Evans:** Mr. Chairman, I believe we agreed to adjourn at 4:30. It is 20 minutes past that. You announced to everyone at that time that this was the proposed adjournment time and that we would reconvene on Monday at 9 a.m.

**Mr. Chairperson:** Is that the will of the committee? [agreed] Thank you very much. The committee will now rise. Oh, excuse me. [interjection] Yes. I just would reiterate, although I have repeated before, this committee will sit again at nine o'clock on Monday morning. Thank you very much for your attendance here today.

**COMMITTEE ROSE AT: 4:49 p.m.**

### WRITTEN SUBMISSIONS PRESENTED BUT NOT READ

Corrected copy: Why Spending is Biased to Increase, submitted by Mr. Peter Holle of Manitoba Taxpayers Association.

#### A) Executive Summary

**Background on the Manitoba Taxpayers Association:** 13,000 supporters across Manitoba; nonpartisan and nonprofit; overall objective is to promote the responsible and efficient use of tax dollars; an effective balanced budget to protect taxpayers is a key priority.

**The Challenge for Manitoba:** governments have ample revenue, taxes have exploded, we have a spending problem not a revenue problem; tax competition that will erode our economic base; creating an environment that creates jobs by promoting investment; stopping the spending dynamic that is not sustainable; protecting taxpayers and our children from unnecessary taxes and debt.

**Why Spending is Biased to Increase:** concentrated benefits vs. disbursed costs problem; easier to raise taxes than control spending; short political time horizon creates spend-now-pay-later mentality; archaic organizational structure of the public sector rewards expanding spending, not effective service delivery; Manitoba government spending has exploded relative to population growth; provincial government staffing is up 95 percent since 1969 while population has grown by only 14 percent.

**BBL Benefits for Manitoba:** will attract investment, create jobs and expand taxbase; will control the power of interest groups to manipulate politicians; will

remove easy revenue options that perpetuate archaic and low performance public sector service delivery framework; this act is considered to be most effective legislation in Canada, possibly North America; Switzerland has high quality services, lower taxes and the highest living standard in the world, it has a BBL.

Peter Holle  
Manitoba Taxpayers Association  
Winnipeg, Manitoba

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Presentation to the  
Legislative Committee Hearings on  
The Balanced Budget, Debt Repayment and Taxpayer  
Protection Act

October 1995

I am presenting on behalf of the Manitoba Nurses' Union, which represents 11,000 nurses working in various settings across Manitoba. I thank the members of the committee for allowing me the time to present our union's concerns regarding the legislation The Balanced Budget, Debt Repayment and Taxpayer Protection Act.

I want to talk about the impact of this legislation on nurses and on our health care system. Health care spending is the largest single expenditure undertaken every year by the provincial government. Government allocates about one-third of its resources to health care. Any changes in government spending will affect health care more than any other program government administers.

Sound fiscal management is essential in government, as it is in health care. Nurses are not opposed to good management of resources—quite the contrary. The MNU has made many contributions to public debate on how to improve the cost effectiveness of the way we deliver health care. Health care facilities in Manitoba are accustomed to fiscal restraint. In 1988, the provincial government announced it would stop funding the budget deficits of health care institutions. "Cost containment" is a part of nurses' everyday vocabulary. Nurses and other health care providers live with the need for fiscal responsibility every day.

Yet we see with this legislation that living within our means in health care is not enough. Despite the fact that health care requires no more of Manitoba's economic resources than it did a decade ago, the government believes it must cut spending. The reality is that per capita public spending on health has been shrinking for several years. Per capita public spending on health care in Canada declined from \$1,425 in 1991 to \$1,394 in 1993. There is no rational justification for further cuts to health care spending.

The government denies that this legislation will cause "cutbacks and hardship." However, this cannot be the case, for many reasons, and I wish to stress three:

1. The act requires more than balancing the budget each fiscal year, which is in itself very restrictive. The act also requires setting aside large amounts of money to "retire" the debt. Although we are currently financing public debt within a reasonable proportion of total government expenditures (11.9 percent in 1995-96), the current government is stressing the need to eliminate the overall debt. This is not necessary or desirable if it means the loss of vital social services like health care, which it will.

2. The government is not accurately presenting Manitoba's fiscal situation to the public. Critics, from the Dominion Bond Rating Service to the Provincial Auditor, have pointed this out. Questionable accounting practices have allowed the government to claim it has balanced the budget when it has not. Just as serious is evasiveness around the future impact of Bill C-76, the federal Canada Health and Social Transfer, which replaces current federal-provincial funding arrangements for health. This legislation will cut close to \$400 million per year from funding for health, education and social assistance in Manitoba and will end all federal cash contributions to health care in 12 years. We would wish to see a concrete plan from the provincial government for maintaining health care services without federal contributions. Within the framework of balanced budget legislation, it appears impossible that there will not be significant cuts in all social programs.

3. This legislation prohibits certain tax increases, but it does not prohibit user fees. Manitobans may not

wish to pay higher income tax rates, but user fees and other regressive forms of revenue generation are still open to the government, as are cuts to support programs like Pharmacare. These are, in truth, tax increases. And they will hit the ill and the poor hardest.

Manitobans are not being given fair and true representation of what the legislation before us will mean to their quality of life and health. Unionized nurses have a number of serious concerns. We foresee a great loss of nursing jobs and a continuance of the devaluation of nurses' work, which is already underway. We expect deteriorating health and well-being among nurses themselves. The physical infrastructure of hospitals and nursing homes will decline.

Without a strong provincial role, meaningful improvements in health care delivery will be more difficult. Long-term strategies for health care policy will suffer from a short-term focus. For example, new preventative measures requiring short-term commitment of resources for long-term gain will be difficult to achieve in a cost-cutting atmosphere.

The reduction of other social services such as education and social assistance will be felt in health care. The equitable distribution of income and resources is one of the most important contributions public policy can make to health. As social programs are cut, the health care system sees the results in poor mental and physical health.

The greatest risk of all in the approach being taken by the government is the privatization of health care.

Private spending on health care increased from \$482 per capita in 1991 to \$502 in 1993. As Stephen Lewis, a member of the National Forum on Health, has stated, "Prices in the private health sector tend to rise faster in the absence of the bargaining and regulatory power of government." As the private sector moves in to

provide services cut by governments, individual health care costs, whether they be paid as taxes, directly out of pocket, or through private insurance premiums, are going to go up. Without government control of health care dollars, we will all pay more for health care.

In conclusion, we wish to emphasize that balanced budget legislation will not solve the problems we are facing in health care. It will only worsen the situation. The government has failed to implement progressive health care policies such as community-driven primary health care which would provide cost-effective alternatives to current health care delivery. The government's focus on short-term cost cutting will not result in long-term improvement.

Improvement will not occur in a demoralized, deteriorating health system. Improvement requires investment in people, in programs and in the future. Families and individuals borrow to provide long-term needs. This is how we purchase our homes and how we finance our education. We plan wisely. Government should do the same.

There are alternatives to slashing social programs and limiting the role of government. The Balanced Budget, Debt Repayment and Taxpayer Protection Act is portrayed as a benevolent piece of legislation, essential to Manitoba's fiscal health. Yet it imposes severe limitations on the ability of the government to plan and provide for the social and economic needs of its citizens. We need strong leadership in terms of economic and social hardship. We need government policies which articulate compassion and show a willingness to invest in our people. This legislation reveals a lack of faith in government and in the democratic process.

For these reasons, we wish to see the legislation withdrawn.

Manitoba Nurses' Union  
Winnipeg, Manitoba