

LEGISLATIVE ASSEMBLY OF ALBERTAhead: **BUDGET ADDRESS**Title: **Thursday, March 24, 1988 8:00 p.m.**

Date: 88/03/24

[The House resumed at 8 p.m.]

[Mr. Speaker in the Chair]

MR. SPEAKER: Please be seated.

MR. JOHNSTON: Mr. Speaker, I have received certain messages from Her Honour the Honourable the Lieutenant Governor, which I now transmit to you.

SERGEANT-AT-ARMS: Order!

MR. SPEAKER: The Lieutenant Governor transmits estimates of certain sums required for the service of the province for the 12 months ending March 31, 1988, and recommends the same to the Legislative Assembly.

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The Lieutenant Governor transmits an estimate of a certain sum required from the Alberta Heritage Savings Trust Fund for the 12 months ending March 31, 1989, for the purpose of making investments, pursuant to section 6(1)(a) of the Alberta Heritage Savings Trust Fund Act, in projects which will provide long-term economic or social benefits to the people of Alberta but which may not necessarily by their nature yield a return to the trust fund, and recommends the same to the Legislative Assembly.

The Lieutenant Governor transmits estimates of certain sums required for the service of the province for the 12 months ending March 31, 1989, and recommends the same to the Legislative Assembly.

Members, please be seated.

head: **GOVERNMENT MOTIONS**

2. Moved by Mr. Johnston:

Be it resolved that the messages of Her Honour the Honourable the Lieutenant Governor, the estimates, and all matters connected therewith, be referred to the Committee of Supply.

[Motion carried]

3. Moved by Mr. Johnston:

Be it resolved that the Legislative Assembly do resolve itself into Committee of Supply, when called, to consider the supply to be granted to Her Majesty.

[Motion carried]

4. Moved by Mr. Johnston:

Be it resolved that the Legislative Assembly approve in general the fiscal policies of the government.

MR. JOHNSTON: When I presented my last budget to the Legislative Assembly a year ago, our economic outlook was uncertain and we'd experienced the largest deficit in our history. This government proposed swift, decisive action to bring the deficit under control and lead Alberta out of adverse times. Albertans have come through one of the most difficult economic adjustments ever experienced by any province. Alberta's economy started to recover in 1987 and is poised to do even better in 1988. Our fiscal plan proved right for the times.

This budget builds on the leadership demonstrated by our actions. It reports the very real progress we have made in putting the province's fiscal house in order and in positioning Alberta for long-term prosperity. This government remains committed to its medium-term fiscal plan to balance the budget for 1990-91. The 1988 budget keeps the government's pledge to be fair and balanced in our approach to deficit reduction. It proposes measures to meet the priorities of Albertans. This budget will strengthen our quality people programs. Alberta is building again. This budget assists the economic recovery by sharing the rewards of sound fiscal management with Albertans.

Economic Situation and Outlook

Before I describe our budget plan in detail, I would like to provide an overview of Alberta's economy.

The Price Shocks in 1986

Alberta's sensitivity to world events was never demonstrated more clearly than in 1986. World oil prices fell by over 50 percent. Natural gas and grain prices also dropped sharply. The steep decline in prices caused the value of Alberta's economic output to fall by almost 10 percent. No province has experienced a drop of this magnitude since the Second World War. Adjustments to the new economic environment continued into early 1987. The situation would have been even worse had it not been for the resilience of Albertans. As well, this government shielded Albertans from much of the immediate impact of the drop in commodity prices by running a deficit of nearly \$3.5 billion in 1986-87. We provided major fiscal stimulus to the economy when it was most needed.

Recovery began in 1987. By the spring of 1987 the Alberta economy began to turn around and a solid recovery got under way. Oil and gas investment rebounded significantly in response to higher oil prices, improved exports, and our provincial assistance programs. Oil prices rose from about \$16.50 U.S. per barrel in late February to over \$20.00 U.S. per barrel in June. Our massive \$1 billion energy initiative, introduced in late 1986, played a major role in stimulating oil and gas drilling. Federal assistance for the energy sector also helped. The volume of our gas sales increased in 1987, although prices remained weak. Exports to the United States climbed by 30 percent due to Alberta's greater penetration of the United States' midwest and California gas markets. In addition, oil exports to the United States rose by 7 percent, due in part to the expansion of the pipeline system.

Nineteen eighty-seven was a mixture for our agricultural sector. The livestock industry benefited from higher prices and lower input costs. In spite of record export volumes grain farmers suffered from low prices brought on by high world inventories and the subsidy war between the United States and

Europe.

Our secondary processing industries, a key area of diversification, expanded strongly in 1987. Shipments of forest products increased by 12 percent. The food and beverage industry grew by 16 percent.

This government's leadership in bringing the provincial deficit under control increased confidence in the future of the Alberta economy. Seventeen thousand new business were registered in 1987. Investments in manufacturing, commercial construction, and other business sectors increased by an estimated 5 percent. Housing starts increased by 28 percent, assisted by lower interest rates. As a result, employment in the construction industry increased by one-third or 19,000 jobs.

Alberta has consistently led the country in per capita investment. In 1987 over \$5,400 per person was invested in Alberta. As business and consumer confidence improved, retail sales also recovered, increasing by about 10 percent between March and December 1987 on a seasonally-adjusted basis. Alberta still has the second highest per capita retail sales in Canada, a remarkable achievement given what we have been through.

By December 1987 employment had recovered the losses experienced in 1986 and early 1987; 31,000 new jobs were created during the year. As a result, the number of unemployed Albertans fell by more than 15 percent and the unemployment rate dropped to 8.7 percent by year-end. Alberta continues to have more of its working-age population employed than any other province. Two-thirds of Albertans of working age were employed in December 1987, compared to the Canadian average of about 61 percent. We are now positioned to expand our employment opportunities further.

For 1987 I estimate that real economic activity grew by about 2.5 percent. Continued weakness in grain and natural gas prices limited the growth in the value of output to about 3 percent. Nineteen eighty-seven was a transition year. We entered the year in some difficulty, but by midyear we had started to build again. Albertans moved aggressively to take advantage of opportunities.

World Economy in 1988

Albertans can look forward to a further expansion of economic activity in 1988. World economic developments will be important. After a strong showing for most of 1987 oil prices weakened at year-end. In the first two and a half months of 1988 the price of West Texas Intermediate fluctuated between \$15 and \$18 U.S. per barrel. As events of the past few years have shown, we can expect continuing volatility in oil prices. A key issue will be OPEC's effectiveness in controlling production.

The sharp decline in world stock markets last October underlined some of the global problems we face. The key issues are the imbalances in the world economy, especially the large budget and trade deficits of the United States. The high debt load of developing countries is also cause for concern. Co-ordinated international action on fiscal, monetary, and trade policies is needed to resolve these imbalances.

Despite these problems a recession in the United States does not appear likely this year. I forecast that real economic growth in the United States will be about 2 to 2.5 percent in 1988, down from the 2.9 percent recorded last year. I also expect real growth in Canada to slow from the exceptional rate of about 4 percent last year to a little less than 3 percent. Although weaker than in 1987 Canada's growth rate will still be among the high-

est in the developed world. Investments should remain the prime source of growth, assisted by the recovery in the energy sector and improved corporate profits. The continuing strength of the Canadian economy and high real interest rates are increasing the value of our dollar relative to the American currency. There is concern that the climb of the Canadian dollar will reduce Canada's competitiveness in world markets.

Solid Growth in 1988

Although there are questions about world economic conditions, I am confident that Alberta's recovery will continue in 1988. Alberta will be one of the fastest growing provinces in the Canadian economy. Our growth will be led by exports and investment.

Natural gas exports to the United States will enjoy still another strong year after the excellent performance in 1987. As a result, total natural gas sales in 1988 should be close to 10 percent higher than in 1987 and well above the previous record set in 1985. Oil exports are forecast to increase again this year. In addition, oil and gas prices are expected to improve later in the year.

I also expect another solid year for manufacturing exports. Improving export markets should spur investment in the energy sector. Investment in other areas of the economy will also strengthen this year, reflecting the increased confidence of Albertans. Housing starts should increase by about 10 percent in '88. Investment in Alberta's increasingly diversified manufacturing sector is expected to be up substantially.

The outlook for agriculture remains mixed. The smaller crop in '87 will make it difficult to maintain last year's record export volumes; however, grain prices appear to have bottomed out, and a modest increase is likely. The livestock industry should continue to be a source of strength.

Overall I forecast that Alberta's real gross domestic product will grow by about 3 to 3.5 percent in 1988. Most private-sector forecasters share my positive view of our economic prospects. The Alberta economy is growing, and that means more jobs and higher incomes for Albertans. I expect employment to increase by at least 2 percent in 1988. The strong growth in employment in the latter half of 1987 continued into 1988. In February the unemployment rate fell to 8.3 percent the lowest rate since 1982. Employment reached 1.178 million, a new record for the province. Our priority commitment to employment in last year's budget has paid off in more jobs for Albertans.

Medium-Term Opportunities

Looking beyond 1988, prospects for the Alberta economy are even brighter. We have the economic and social foundations needed to take advantage of the opportunities which lie ahead. We have a record of stable, consistent government policy, which is essential to attract new investment and businesses. We have well-educated, highly skilled people who can compete in the world marketplace.

Demand for our oil and natural gas will continue to grow. Our enormous reserves of oil sands and heavy oil will become increasingly important as sources of supply for all Canadians in the 1990s. We must begin planning now to ensure that these supplies are available when they are needed. The fundamental strength of our agricultural sector will ensure its long-term competitiveness. Alberta strongly supports multilateral trade negotiations to end the world subsidy war that has hurt our grain

exporters.

Diversifying the Economy

The energy and agricultural sectors will continue to be sources of strength for the economy. However, continued diversification is essential if we are to reduce our vulnerability to fluctuations in commodity prices. We have established a highly competitive, world-class petrochemical industry in Alberta. Demand for ethylene and its derivatives is strong, and prices are climbing. Methanol supplies are tightening. We are well placed to take advantage of the opportunities which will result from the elimination of American tariffs on petrochemicals. Expansion plans are under active consideration by the industry.

The forestry industry is a major success story. Construction is already under way on the Millar Western pulp mill at Whitecourt and the Champion Forest Products pulp mill at Hinton. As announced earlier, Daishowa Canada Ltd. will begin construction this year of a \$500 million pulp mill near Peace River. Alberta Newsprint Company will start a \$360 million newsprint mill near Whitecourt. When completed these projects will create over 5,000 direct and indirect jobs for Albertans. This government's leadership and assistance have helped make these world-scale projects a reality for Alberta.

Tourism holds great potential for economic growth and job creation. The Calgary Winter Olympics received worldwide acclaim. It has been reported that well over 1 billion people around the globe viewed the opening ceremonies. Much of the credit for the success of the Olympics must go to the army of volunteers whose boundless energy added so much to the spirit of the games. We can expect the Olympics to provide a boost to tourism, investment, and exports for years to come. The Olympics have also left a legacy of over \$300 million of first-class facilities which will be enjoyed by generations of Albertans.

This government's programs and policies are attracting more and more high-technology firms. These firms locate where the business climate is supportive of risk-takers, where highly trained people are available, and where quality family life is a priority. Alberta is that location. By 1987 there were over 1,000 high-technology firms operating in Alberta, generating sales of over \$1.5 billion. We have an innovative communications industry operating at the leading edge of technology. The Alberta Heritage Foundation for Medical Research has helped place Alberta at the forefront of medical research. Our universities and research agencies are playing an increasing role in the transfer of technology to commercial initiatives.

This government's policies to create a balanced and diversified economy are working. Diversification will be a major source of growth in the 1990s.

Free Trade

The new Canada/U.S. Free Trade Agreement will also provide a significant boost to Alberta's growth in the 1990s. Trade is the economic lifeblood of Canada and Alberta. To survive and prosper in the global marketplace, we need to be competitive and have access to world markets. The Free Trade Agreement secures improved access to the world's largest and richest market, a market that is vitally important to Alberta's industries. We also support the Uruguay round of multilateral trade negotiations, and we are increasing our efforts to promote trade with the Pacific Rim. The agreement with the United States will be a model for future trade arrangements.

We believe that Albertans will measure up to the challenges of free trade. Increased productivity of our industries will make Alberta's products more competitive not just in the United States but also here in Canada and in other markets around the world.

Consumers will be major winners from free trade. Prices will be lower as tariff and nontariff barriers are removed and Canadian industry becomes more efficient. Enhanced economic growth will create new jobs and increased real incomes. Free trade will strengthen Alberta. It will provide the foundation for future prosperity.

Summary

In summary, Alberta has gone through some tough times. We experienced a major downturn in the early 1980s as a result of the national energy program and a recession in 1986 due to the drop in world oil prices. This government's fiscal strategy of providing major stimulus in 1986 worked. Our economy is growing again; 1987 was a good year, and 1988 should be even better. The future looks bright given our resource base, our diversification successes, and the opportunities created by free trade.

Fiscal Situation and Strategy

The 1988 budget is the second step in the medium-term fiscal plan which this government introduced last year. Our objective is to take the province progressively from a deficit of nearly \$3.5 billion in 1986-87 to a balanced budget by 1990-91. The fiscal plan is an integral part of our strategy to position our province for the tremendous opportunities that lie ahead. Albertans want quality programs and services they can depend on. The best way to guarantee this is to make sure our programs are affordable. Fiscal responsibility requires that we live within our means and not transfer the costs of our high living standards to future generations. That is why this government made difficult but responsible choices in the 1987 budget and adopted a four-year fiscal plan to balance the budget.

Fiscal Plan is Working

The fiscal plan is working; a year into the plan I am pleased to report that it is working. We targeted for a deficit of \$1.9 billion in 1987-88. Our revenue estimate was based on an average oil price of \$17 U.S. per barrel. Even though oil prices have been below \$16 per barrel recently, I expect that for 1987-88 as a whole, oil prices will average higher than originally anticipated. As a result of higher average oil prices and a higher than expected oil production, crude oil royalties for '87-88 are forecast to be \$310 million more than previously estimated. Growing optimism in the energy sector and our attractive royalty regime led to an increase of \$470 million in revenue from the sale of drilling rights.

In addition, our tax revenue received an unexpected boost of \$90 million from a special federal acceleration of personal income tax remittances. Mainly due to these factors and firm controls on expenditure I forecast the combined deficit to total just over \$1 billion in '87-88. This is approximately \$900 million better than estimated in the 1987 budget.

While the 1987-88 results are encouraging, we cannot count on world market forces to solve our deficit problems. As the experience of the last few months has shown, oil prices remain

subject to wide fluctuations and are difficult to predict.

Albertans played a major role in helping to reduce the deficit. This government asked Albertans to support some of the toughest decisions that any government has made in recent times. We received that support. We will not forget the contribution made by Albertans toward the success of our fiscal plan.

1988-89 Strategy

In discussing the fiscal strategy for 1988-89, it is important to realize that even with the expenditure and tax measures implemented in the last budget, Alberta continues to have the highest per capita spending on services to our citizens and the lowest overall rate of taxation of any province in Canada. In Alberta most of our revenue goes to pay for services to Albertans. Less than 5 cents of each dollar of revenue is needed to pay interest on our debt. By comparison, other provinces spend on average approximately 13 cents of each dollar of revenue on debt costs, and the federal government needs 30 cents of every dollar to meet the interest on the national debt. We do not need to repeat the mistakes of other governments to learn that continuing high deficits do not lead to prosperity. Lasting prosperity is built not by hiding from tough decisions but by rising to the challenges before us.

This government's actions to reduce the deficit are born out of necessity and common sense. Albertans do not want to be locked into chronic deficits and see more and more of their taxes go to make interest payments. It is essential that we tackle our deficit problem now. In the last two years of deficit financing the provincial debt in respect of the General Revenue Fund and the Capital Fund has grown from \$125 million at March 31, 1986, to an estimated \$5 billion at December 31, 1987. High deficits make governments vulnerable to economic shocks and limit future choices. We must get the provincial finances in shape to meet the priorities of tomorrow.

We are determined to keep the costs of government down. Our fiscal strategy is to encourage private initiative and investment by providing the best business climate in the country. Good economic performance is essential to our goal of providing quality programs and services to Albertans. This government's action plan for 1988-89 is, first, to lower personal income taxes for Albertans, second, to provide expenditure increases to meet the priorities of Albertans - education will receive priority support - third, to continue reducing the deficit in line with our fiscal plan. The heritage fund will be fully utilized to meet the needs of Albertans.

Heritage Fund

The heritage fund is an essential component of the government's fiscal strategy. Since September 1982 all heritage fund investment income has been used to fund services and programs for Albertans. By the end of 1988-89, the fiscal year-end, over \$9.6 billion of investment income will have been used to support programs for Albertans.

Until last year 15 percent of resource revenue was transferred to the heritage fund. Since April '87 all of the revenue from our nonrenewable resources has been used to fund people programs and reduce the deficit. Because the heritage fund no longer receives any portion of nonrenewable resource revenue and because all the investment income generated by the fund is transferred to help reduce the deficit, the asset base of the fund has ceased to grow.

The capital projects division of the heritage fund, which finances projects with long-term economic or social benefits, is currently limited to 20 percent of the fund's total assets. The assets of the capital projects division at March 31, '88, are forecast at nearly \$3 billion or 19.3 percent of the total assets of the heritage fund. To accommodate the estimated 1988-89 expenditure of \$164 million under the capital projects division, the government will be introducing legislation in this session to raise the limit for the capital projects division.

The support of the heritage fund is critical to our ability to provide the best quality services at the lowest rates of taxation. The revenue from the heritage fund investments provides income equivalent to a 6 percent sales tax.

1988-89 Expenditure Plan

In developing our 1988-89 expenditure plan, we reviewed our programs carefully. We focused our attention on the priorities of Albertans. We directed departments to reduce overhead without impairing program delivery. In times of financial constraint families and individuals must select their priorities and reduce expenditures where possible. A responsible government can do no less. The 1988-89 expenditure plan promotes the economic and social well-being of Albertans. It continues to build for the long term by providing quality education to our children and assistance for economic diversification and job creation. The expenditure plan provides strong support to families and our communities through an unmatched range of health and social programs.

Education: Our First Priority

Building for the future must begin with our children. Their skills and knowledge provide the foundation for a strong, prosperous Alberta. It is important that our young people be armed with the skills needed to work and compete in a rapidly changing, high-technological environment. Preparing our youth for tomorrow's challenges has always been a high priority of this government. Alberta ranks near the top in per capita spending on education in Canada.

In keeping with the expectations of Albertans, the education of our children has been given top priority for 1988-89. Basic operating grants to school boards are being increased by 2 percent, the highest increase among the major grant programs. On a school-year basis, total provincial operating support for basic education will increase by over 4 percent. In the 1988-89 school year school boards will receive over \$1,060 in basic operating grants for each child enrolled in the early childhood services program, \$1,830 for each student in grades 1 to 6, nearly \$2,000 for each junior high student, and over \$2,100 for each senior high student.

Special education grants to school boards will be increased by 2 percent to nearly \$74 million or approximately \$5,300 for each special education student. As well, school boards that are fiscally disadvantaged will receive equity grants amounting to over \$56 million, an increase of 6.6 percent. An additional \$4 million will be made available to implement the new junior and senior high school curricula. These funds will be used to purchase new learning materials and prepare teachers for the new, improved courses.

To enhance and strengthen the educational opportunities available to our children in small rural communities, funding for the special distance education pilot project will be more than

doubled. The enrichment of existing programs and funding of new programs means that total provincial support for the basic education of our children will reach almost \$1.4 billion in 1988-89.

In a knowledge-based economy postsecondary education is a key ingredient for success and growth. The government's basic operating grants to postsecondary institutions will increase by 1.5 percent to a total of \$725 million. In addition, over \$3 million will be spent to improve equity of funding among postsecondary institutions. A number of new initiatives are being funded to enrich educational opportunities available to Albertans. Over \$5 million will be provided for new programs at Grant MacEwan Community College, Athabasca University, and several other postsecondary institutions. Financial assistance to postsecondary students will be increased by 9.6 percent to \$112 million. Our unequalled level of support for students ensures that no Albertan will be denied a quality education.

Including the \$83 million from the Capital Fund for the construction of postsecondary education facilities, this government is budgeting over \$1 billion for postsecondary education. Total spending in 1988-89 on basic and advanced education is targeted at over \$2.4 billion, a new record. This is equivalent to almost \$2,900 per household and will build a solid base for the future of our province.

Economic Development and Diversification

Just as Alberta's standard of living is mainly determined by our economic performance, the government's ability to provide high-quality services is also dependent on the strength of our economy. We must continue to develop and diversify our economic base. This government has targeted tourism, forestry and high technology as the main elements of our diversification strategy.

Tourism is a major strength of the Alberta economy. We have an exciting province with much to offer Albertans and visitors alike. The government has funded the development of world-class recreation and cultural facilities. These include Kananaskis Country, the Tyrrell Museum of Palaeontology in Drumheller, and the Head-Smashed-In Buffalo Jump park near Fort Macleod.

Two new projects will be started in 1988-89: the \$20 million Reynolds-Alberta Museum in Wetaskiwin, and the \$11 Remington-Alberta carriage centre in Cardston.

We are also implementing two new tourism programs which will be funded from lottery revenues. Thirty million dollars will be provided over five years for the community tourist action program to support municipalities with the cost of developing their own tourism projects. Twenty million dollars will be allocated over five years to the new Team Tourism program to assist local tourism organizations in promoting their community and regional attractions as distinct travel destinations. We also want to keep our own tourism dollars in Alberta. The Take an Alberta Break program has been highly successful in meeting this goal. It will be expanded in 1988-89 to draw tourists from Saskatchewan and Montana.

Forestry is a major success of this government's diversification strategy. Several new world-scale projects are already under way. They will create many new jobs for Albertans, especially in smaller communities such as Whitecourt, Hinton, and Peace River.

To facilitate future development, we will introduce two new programs in 1988-89: \$30 million will be provided to build the

transportation system to assist the development of Alberta's forest resources. This investment will also increase public access to our forests and enhance recreational and other land uses. Over \$6 million will be provided in 1988-89 for a new program of forest regeneration.

Promotion of high technology and research is the third element of our diversification strategy. Alberta's support for research and development is already more than double that of any other province. Additional funding will be provided in 1988-89.

Grants to the Alberta Research Council will increase by over 9 percent. Work will begin on an \$8 million capital project in Edmonton to support the Alberta Research Council's oil sands and heavy oil research activities; \$4.5 million will be provided for the recently announced new facility for the Centre for Frontier Engineering Research in Edmonton. Over \$11 million will be invested in developing new applications in biotechnology and other emerging technologies.

Diversification also results from greater processing of our agricultural products. Assistance to firms processing and marketing agricultural products will more than triple to \$16 million. We will also provide up to \$1 million in matching funds in each of the next three years to support a marketing program by the Alberta Food Processors Association.

Expanding the base of our economy is not a test of government alone; it is a challenge to us all -- to our drive, enterprise, and ingenuity. This government will act as a catalyst to encourage diversification. By working together with the private sector, we can expand and build on our economic base.

Support for Our Base Industries

While this government has made significant progress in diversifying our economy, we must continue to build on our strengths in agriculture and energy. The health of agriculture is of fundamental importance to our rural communities. Our unequalled support for agriculture has two main objectives: stabilizing farmers' and ranchers' incomes and reducing their input costs. In addition to crop insurance, we participate in stabilization programs for red meat products, sugar beets, and dry edible beans.

Our programs to reduce farm input costs will be continued. We will provide \$84 million in 1988-89 to lower farmers' fuel input costs. Close to \$18 million will be available to reduce fertilizer costs. The natural gas rebate for primary agricultural producers and financing assistance under the Alberta farm credit stability program will continue. We will also continue to press the federal government to have the Crow rate benefit paid to grain producers rather than the railways. In 1988-89 we will provide over \$50 million to offset the feed grain market distortion facing our livestock producers.

Irrigation is important in many areas of Alberta. One hundred and thirty-three million dollars will be provided for irrigation and water resource management projects from the heritage fund and the Capital Fund. The farm water grant program will be extended for three more years to assist with on-farm water distribution projects. Work on the Oldman River dam will continue.

Agricultural research is essential to maintain the competitiveness of Alberta's farmers, ranchers, and food processors. The Farming for the Future program will receive \$5 million from the heritage fund. In tandem with the federal government \$3.1 million will be allocated to the Agricultural Research Institute, and \$1 million will be provided for soils research

programs. This government will provide over \$500 million for agriculture in 1988-89. In addition, work to provide private telephone service to rural families will continue at a cost of \$57.5 million in '88-89. We do more to help our farmers and ranchers than any other province in Canada.

In the energy sector we continue to assist the development of conventional oil and gas. Our \$1 billion initiative, announced in October 1986 to reduce royalty rates and increase incentives, is a major factor in the upturn in drilling activity. It will provide lasting benefits. The development of our oil sands, heavy oil, and coal resources will become increasingly important to meet the energy needs of Canadians. Over \$45 million will be provided in 1988-89 for research in these areas. Funding will also be provided for preliminary work on proposed new oil sands projects.

This government's commitment to agriculture and energy recognizes the fundamental role these industries play in the economic and social life of all Albertans.

Employment

Only a healthy, growing economy can provide quality long-term jobs for Albertans. This government's responsible management of provincial finances and our economic development programs have created the climate for the private sector to invest and create permanent jobs. Small businesses are the major source of new jobs. Our incentives for them are second to none. They benefit from low corporate tax rates and fixed interest rate loans under the Alberta small business term assistance plan.

The small business equity corporations program has been a major success. We will provide increased funding in 1988-89 to encourage business ventures by native Albertans and to assist small business incubators across the province.

Career Development and Employment continues to assist businesses, especially small companies, to create new employment. Now that the economy is growing again, emphasis will be shifted to training programs to ensure that Albertans have the skills required by our expanding economy. Funding for training in schools and industries will be increased by 8 percent to \$110 million.

The Alberta municipal partnership in local employment program provided \$22.5 million to local governments in '87-88 to create employment opportunities. In 1988-89 payments to municipalities under the program will more than double to \$57.5 million.

Our capital program also creates jobs for Albertans. Departmental capital spending through the General Revenue Fund and Capital Fund is budgeted at over \$1.4 billion. This includes over \$570 million for transportation.

In addition to the previously mentioned \$30 million program for roads for forestry resource development, the budget includes \$83 million for the improvement of secondary roads, an increase of \$12 million.

Twinning of highways 1 and 16 continues to be a priority for the government. Ten million dollars is budgeted as part of the province's \$62 million commitment to a new major transportation project in Red Deer. The urban transportation program has been extended to March 31, 1989.

Heritage fund capital projects are estimated at \$164 million, and Crown corporations will support \$900 million in capital activity. [interjection]

MR. SPEAKER: Order please.

MR. JOHNSTON: In total this government's capital expenditure is expected to reach \$2.5 billion in 1988-89.

Quality Family and Community Services

This government recognizes the vital role families and communities play in building a vibrant and prosperous society. Our 1988 budget strengthens the vast array of government services and programs designed to assist and strengthen our families and communities.

Our excellent day care system makes it possible for many parents, especially mothers, to participate in the labour force. Alberta has the greatest number of day care spaces per capita in Canada; 28,600 children are currently enrolled in subsidized day care in Alberta. The average annual subsidy for each child is \$2,300, the highest in Canada. The government is reviewing our day care system to ensure that these subsidies are provided to families with the greatest need. Funds are also provided to assist communities to establish out-of-school care programs.

The handicapped children's services program helps families to care for their handicapped children at home. Currently, over 4,100 children and their families are supported by this program. It is the only program of its kind in Canada. In response to a growing need, the budget is being increased by 44 percent.

Foster parents play a vital role in caring for children who cannot remain with their families. The support rates for foster parents will be increased by 4 percent effective May 1, 1988.

Albertans are proud of their independent spirit. The government assists Albertans to remain in their homes when dealing with health setbacks. The co-ordinated home care program provides services such as Meals on Wheels and homemaking. The 1988 budget includes \$32 million for these services.

In order to raise awareness of issues affecting women, the budget for the Women's Secretariat and the Alberta Advisory Council on Women's Issues is being increased by 11 percent. Funding for women's shelters will increase by 8.5 percent.

Over \$15 million will be provided to those Albertans requiring legal aid.

This government is steadfast in its commitment to help families in need. We have budgeted an additional \$24 million to increase social allowance food rates by 13.5 percent effective May 1, 1988. We will continue to provide social assistance recipients with incentives to earn and learn through participation in our successful employment alternatives program. In 1988-89 funding will increase by 69 percent to \$22 million. This program together with Alberta's strengthening economy has provided jobs for social allowance recipients, thus reducing our social allowance spending.

In 1988-89 this government will spend \$11.5 million more to provide basic income support under the unique Alberta assured income for the severely handicapped program. To expand vocational rehabilitation programs for young handicapped adults, we will increase funding by 21 percent. To encourage and promote the fullest participation by disabled persons in our society, \$678,000 has been provided for the first full-year operation of the Premier's Council on the Status of Persons with Disabilities.

Senior Citizens

This government has always recognized the contribution made by our seniors towards building and maintaining strong, viable, stable communities. We provide numerous programs to help them live full and satisfying lives. To provide our seniors a dig-

nified retirement, we will maintain our unmatched benefits under the Alberta assured income plan and the unique widows' allowance program.

Health is of prime concern to our seniors. They will continue to enjoy basic health and Blue Cross coverage, premium-free. Our extended health benefits program for seniors covers dental and optical services and specialized medical equipment and supplies. Seniors do not pay any premiums for this coverage.

Living independently is vitally important to seniors, and this government helps make it possible. Fourteen million dollars in additional funds will be allocated to the senior citizen renter assistance and property tax rebate programs. Senior citizens who reside in their own homes will continue to receive a rebate of \$100 per year under the senior citizen home heating protection program.

When circumstances require longer term care, our seniors have access to the finest auxiliary hospitals and nursing homes in the country. We will provide \$407 million for these facilities.

In 1988-89 this government will spend over \$900 million on programs designed to support our senior citizens.

Quality Health Care

Albertans in all communities of the province have access to the best medical system in the country. In 1988-89, to meet the health care needs of Albertans, this government will spend over \$3.3 billion or nearly \$4,000 per household, another new record. This includes funding from the General Revenue Fund, the Alberta Health Care Insurance Fund, the Capital Fund, and the heritage fund. Alberta spends more per capita on health care than any other province in Canada.

I am pleased to announce that there is no increase in health care premiums in this budget. The government, however, remains concerned about the rapid rise in health care costs. The operating budget for hospitals and medicare has more than tripled in the last 10 years; it will rise by another 6.9 percent in 1988-89. Clearly, if we are to maintain our quality services, we must get the best value for every health care dollar.

Part of the strategy for reducing health care costs must include increased emphasis on disease prevention and good health. To strengthen preventative care, our basic support for health units will increase to \$102 million in 1988-89. To allow individuals to manage their health programs outside of institutions, over \$47 million is budgeted in 1988-89 for the Alberta Aids to Daily Living and extended health benefits programs. A new impaired drivers program costing nearly \$1 million will be developed to discourage driving while impaired and improve the monitoring of suspended drivers. All these programs assist in containing the long-term cost of health care.

To ensure that Alberta's health care system makes the best possible use of our resources, this government has established the Premier's Commission on Future Health Care for Albertans. The commission will study the issues and options for health care and report its recommendations by December 31, 1989. The commission has also been requested to prepare an interim report on the concerns of nurses regarding their role in the delivery of health care.

Support for Local Governments

The public services delivered by local governments are an integral part of the programs accessed by Alberta families and

communities. Only by working together in partnership can we best meet the needs of Albertans. To foster this spirit of co-operation, a new Provincial Municipal Premier's Council has been established.

As announced in January this year, a new \$147 million Alberta partnership transfer program will be introduced in 1988-89. The program combines funding previously provided through basic municipal grants, municipal police assistance grants, and public transit operating assistance grants. This change will further strengthen decision-making at the community level by allowing municipalities to allocate the funds in accordance with their own priorities. The province will spend nearly \$63 million to meet commitments to reduce the capital borrowing costs of municipalities through the municipal debenture interest rebate program. As previously mentioned, municipalities will also receive \$57.5 million under the Alberta municipal partnership in local employment program. Through this program municipalities will receive over \$500 million over an eight-year period.

This government's basic grants to municipal, regional, and community library systems will increase to \$11.3 million. The Shortgrass regional library system in southeastern Alberta, the fifth and most recent regional library to be organized in the province, will receive an establishment grant of over \$600,000. In addition, a new lottery-funded program will help expand and develop our library systems by providing \$4.6 million for capital development.

The family and community support services program assists municipalities in providing a wide range of programs for families and senior citizens. Funding is being increased by \$500,000 to allow additional communities to take advantage of the program.

Improving Government Productivity

In order to fund increases in our priority areas, budgets for government administration and general overhead will be reduced by a further 2.6 percent in 1988-89. In addition, government departments and agencies will be required to absorb any cost increases resulting from inflation. Due partly to the success of our early retirement incentive program departmental full-time equivalent employment is reduced by over 1,000 or 2.9 percent. Minimal layoffs are anticipated, as departments are expected to deal with staff reductions primarily through attrition and redeployment.

The government is closely monitoring public-sector wage settlements. We are concerned that public-sector settlements not lead the private sector. We will expand the use of private-sector firms in the provision of services required by the government. In 1988-89 the private sector will provide over 50 percent of our warehousing services, 25 percent of our property management services. As well, 90 percent of the computing system design of our central data services will be done by the private sector. This government will continue to streamline its operations in order to provide the best value for the taxpayer's dollar.

Expenditure Plan in Summary

Based on the plan I have just outlined, combined program spending of the General Revenue Fund and the heritage fund will be increased slightly to almost \$10.2 billion in 1988-89. Approximately 70 percent of the province's spending is in the form of grants to hospitals, universities, schools, municipalities,

businesses, and individual Albertans. To pay for increases in these grants, funding for government manpower, supplies, and services will be reduced by 3 percent. We need to have the ongoing support of grant recipients if we are to be successful in holding the line on expenditure. Through co-operation we can best serve Albertans.

Four hundred and sixty million dollars is expected to be required in 1988-89 to service the provincial debt. This is an increase of 15 percent over 1987-88. Including debt costs, combined government spending is budgeted at almost \$10.7 billion, nearly \$12,600 for each household in Alberta. This expenditure plan meets the needs and priorities of Albertans. It is fair. It is consistent with our fiscal plan to put the provincial finances on a sound footing. This plan ensures that Albertans will continue to receive the best services and programs in Canada.

Taxation

Albertans enjoy the lowest overall tax rates in Canada. Low tax rates help maintain our competitive edge by encouraging initiative and rewarding success. I am pleased to announce that Alberta's personal income tax will be reduced. The flat rate tax on personal income will be cut by one-half effective January 1, 1988. This will leave Albertans with \$165 million more in take-home pay. Further, our support of the federal income tax reduction will result in a lowering of provincial taxes by another \$20 million. In total about \$185 million more will remain in Albertans' pockets. This will boost our economy and create jobs.

Low-income Albertans will receive the largest percentage reduction from our tax cut. Nearly one-half million Albertans will benefit from the Alberta selective tax reduction. The reduction in the Alberta flat rate tax will benefit all Albertans. It will result in an after-tax income gain of \$183 for a one-income family of four with \$40,000 employment income; a gain of \$116 for a single-parent family of three with \$25,000 employment income; and a gain of \$132 for a senior citizen couple with \$30,000 in pension income.

Because of the federal government's requirements for advance notice taxes withheld from pay will not be reduced until July of this year. The amount of reduction in the second half of 1988 will take into account the fact that the tax cut applies to income for the whole year.

As Albertans we pay no provincial sales tax and enjoy the lowest overall taxes in the country. The tax cut I have announced tonight will lower our taxes even further.

Revenue Outlook

After allowing for the personal income tax reductions, total revenue from taxes is estimated at nearly \$3.5 billion in 1988-89. Nonrenewable resource revenue is estimated at \$2.8 billion, which is a 12 percent increase over the 1987-88 forecast. Underlying the royalty estimate is an average oil price assumption of \$18.50 U.S. per barrel. Resource revenue will account for 28 percent of total revenue.

Heritage fund investment income is estimated at \$1.2 billion, a decline of 8.5 percent over the 1987-88 forecast. This decrease is due mainly to lower market interest rates on reinvestments. Nevertheless, the income from the heritage fund will provide nearly 13 percent of our total 1988-89 revenue.

Payments to Alberta from the government of Canada are expected to be nearly \$1.5 billion, an increase of 4 per cent from

the 1987-88 forecast. We have applied to the federal government for compensation under the revenue stabilization provisions of the federal fiscal arrangements legislation. This application is in respect to the large drop in our revenue in 1986-87. The application involves consideration of complex financial issues. Although it is too early to predict the outcome of the negotiations, we will pursue our claim vigorously.

I estimate total revenue for 1988-89 at \$9.8 billion. This represents an increase of 3.6 percent over the 1987-88 forecast.

Financial Plan

Based on the revenue outlook and expenditure plan I have outlined, the combined General Revenue Fund and heritage fund deficit is estimated at \$835 million in 1988-89. This is a decrease of over \$192 million from the 1987-88 forecast.

Provincial Borrowing

The net cash requirement for the General Revenue Fund and the Capital Fund are estimated to total \$946 million during 1988-89, a decrease of \$74 million from the 1987-88 forecast. As of December 31, 1987, the province had borrowed approximately \$5 billion for these two funds.

Medium-Term Fiscal Plan

Last year this government developed a four-year plan to balance the budget by 1990-1991. We have surpassed our 1987-88 target thanks to higher than expected resource revenue and our expenditure control measures. As mentioned earlier, resource revenue accounts for 28 percent of our total revenue. It remains susceptible to large fluctuations. This underlines the need to control our expenditure. Successful completion of our fiscal plan will still leave Alberta with a significant debt that will have to be repaid. By 1990-91 the debt of the General Revenue Fund and the Capital Fund is expected to be approximately \$6 billion.

Summary Highlights

To summarize, the highlights of the 1988 budget are:

Provincial personal income taxes are reduced by \$185 million; \$165 million is from this government's reduction in the Alberta flat rate tax. Low-income Albertans received the greatest percentage reduction.

Education of our youth is our first priority. Over \$2.4 billion or almost \$2,900 per household is budgeted for education. On a school-year basis total provincial operating support for basic education will increase by over 4 percent. Financial assistance to postsecondary students is increased by 9.6 percent to \$112 million.

Economic diversification and job opportunities are strengthened. Two new community tourist initiatives and two new cultural projects will receive \$81 million over five years. Thirty million dollars is budgeted for new infrastructure in support of forestry and \$6 million for a new program of forest regeneration. Grants to the Alberta Research Council will rise by 9 percent. Support for agricultural processing will be tripled to \$16 million.

To assist employment, this government's capital budget will total \$2.5 billion and the Alberta municipal partnership in local employment program will more than double to \$57.5 million.

Our vital agricultural sector will receive over \$500 million in

support.

This government's commitment to families and communities and those in need is enhanced. The unique handicapped children's services program will receive a 44 percent increase. Social allowance food rates are increased by 13.5 percent and foster parents' rates are increased by 4 percent, effective May 1. Over \$900 million will be spent on seniors' programs. Funding for women's shelters will increase by 8.5 percent. The operating budget for Hospitals and Medical Care increases by 6.9 percent. In total we will spend over \$3.3 billion or \$4,000 per household on health care. This government's commitment to reduce the deficit in a fair and balanced manner is maintained.

In conclusion, Alberta is on the rebound. The tax reductions will accelerate the economic recovery. Alberta will be one of the fastest growing provinces in 1988. Albertans are talented, enterprising, and determined. Ours is a responsible, caring, and supportive government. All of us, individual Albertans, businesses, and governments, working together in partnership can realize the exciting opportunities that lie ahead.

MR. MARTIN: Mr. Speaker, I beg leave to adjourn debate.

MR. SPEAKER: Having heard the motion by the Leader of the Opposition, those in favour, please say aye.

HON. MEMBERS: Aye.

MR. SPEAKER: Opposed, please say no. Motion carries.

MR. YOUNG: Mr. Speaker, I request consent to revert briefly to Introduction of Bills.

MR. SPEAKER: Having heard the motion by the Government House Leader, those in favour, please say aye.

HON. MEMBERS: Aye.

MR. SPEAKER: Opposed, please say no. Motion carries.

head: INTRODUCTION OF BILLS

Bill 14

Appropriation (Interim Supply) Act, 1988

MR. JOHNSTON: Mr. Speaker, I request leave to introduce Bill 14, Appropriation (Interim Supply) Act, 1988. This being a money Bill, Her Honour the Honourable the Lieutenant Gover-

nor, having been informed of the contents of this Bill, recommends the same to the Assembly.

[Leave granted; Bill 14 read a first time]

Bill 15

Appropriation (Alberta Heritage Savings Trust Fund, Capital Projects Division) Interim Supply Act, 1988-89

MR. JOHNSTON: Mr. Speaker, again I request leave to introduce Bill 15, Appropriation (Alberta Heritage Savings Trust Fund, Capital Projects Division) Interim Supply Act, 1988-89. This being a money Bill, Her Honour the Honourable the Lieutenant Governor, having been informed of the contents of this Bill, recommends the same to the Assembly.

[Leave granted; Bill 15 read a first time]

Bill 16

Appropriation (Alberta Capital Fund) Interim Supply Act, 1988

MR. JOHNSTON: Mr. Speaker, I request leave to introduce Bill 16, Appropriation (Alberta Capital Fund) Interim Supply Act, 1988. This being a money Bill, Her Honour the Honourable the Lieutenant Governor, having been informed of the contents of this Bill, recommends the same to the Assembly.

[Leave granted; Bill 16 read a first time]

Bill 8

Natural Gas Rebates Amendment Act, 1988

MR. ADAIR: Mr. Speaker, I beg leave to introduce Bill 8, the Natural Gas Rebates Amendment Act, 1988. This being a money Bill, Her Honour the Honourable the Lieutenant Governor, having been informed of the contents of this Bill, recommends the same to the Assembly.

Mr. Speaker, the purpose of this Bill is to permit the extension of the primary agricultural producers' rebate program beyond the currently scheduled expiry date of March 31, 1988, for natural gas rebates.

[Leave granted; Bill 8 read a first time]

[At 9:09 p.m. the House adjourned to Friday at 10 a.m.]

