

Legislative Assembly of Alberta

Title: **Thursday, May 9, 1991**

8:00 p.m.

Date: 91/05/09

head: **Committee of Supply**

[Mr. Jonson in the Chair]

MR. DEPUTY CHAIRMAN: Good evening. I'd ask the Committee of Supply to please come to order.

head: **Main Estimates 1991-92**

Treasury

MR. DEPUTY CHAIRMAN: The department's estimates are located starting on page 347 of the main estimates book and page 145 of the summary of elements.

Before proceeding, I'd like to welcome our special guests in the gallery. This is, some would say, the key department in terms of budgetary matters for the provincial government, and this evening you will see the general direction and the specifics of this department's proposed expenditures debated.

I would ask the hon. Provincial Treasurer if he has any opening remarks.

MR. JOHNSTON: Mr. Chairman, I don't think anyone would want me to start without making a couple of comments. I think there's a time in the evolution of the process that we have to set some of the groundwork, establish the parameters of what we're going to be talking about tonight. I know there will be a fairly furious exchange of views and ideas, comments, criticisms, and maybe some witticisms, I hope, as the day unfolds.

I, too, wanted to welcome the council of young Albertans, who have joined us over the past day. They've even had an opportunity to talk to Hawkesworth and Chumir. I know that when they hear the comments of my hon. Treasury critics, they'll put it in the context of intellectual debate, trying to move forward the policy questions that all Albertans are concerned about, and will understand that when we swear at each other, we still have a great deal of respect for each other. That certainly will be one of the ground rules that will flow from this.

MR. CHUMIR: Speak for yourself.

MR. JOHNSTON: Chumir has already reneged on that promise. Well, that's like those Liberals over there. It is in the spirit of good fun and the exchange of ideas that we discuss this.

As the Chairman of the committee has pointed out, Treasury has very far-reaching responsibilities. In this case it reaches through not only the fundamental budgetary problems and the finance problems, but we deal with an awful lot of issues in which, to some extent, the jurisdiction is not perfectly clear. For example, Treasury deals with something called Alberta farm fuel distribution allowance, and I see my colleague the Minister of Agriculture here tonight. Now, this is really one of the significant programs of my colleague, where in fact the costs of farming are paid by the government to ensure that farming operations have a fair and equitable way to compete in the world markets. It's done, however, through Treasury. Again, I see my colleague the Minister of Energy. In Treasury we have something called Alberta royalty tax credit, which is essentially an Energy program but happens to be delivered through the department of Treasury. So you can see that Treasury in its

entirety really reaches across most of the operations of government.

I usually take a second at this point to talk about the key players in Treasury. This department of Treasury – and I like this term, the provincial Treasury, because it does talk about the way in which the operations of Treasury are established. First of all, we have in Treasury two elements which are normally found in other governments as two departments. Number one, we have the so-called budgetary and fiscal control side, often referred to as the Treasury Board side, and we have the finance side. Both of these are blended together in this department under the so-called heading of provincial Treasury. Two people head up these departments: Al O'Brien is on the budget side. All of you know Al, a long-time civil servant whose major claim to fame is that in 1970 he recommended that Alberta have a sales tax. He still is with us, Mr. Chairman. We have a great deal of fun talking about that thesis he wrote when he was struggling as a student at the University of Alberta. As well, Allister McPherson heads up the finance side. These two gentlemen, I think it's generally agreed, are probably two of the finest civil servants we have in government, devoted to not only serving the government but certainly to serving Albertans, and I think in terms of comparisons anywhere in Canada, you'll find them top civil servants.

I always send my appreciation as well to the people who have kept me in government for so long. This is now – let me think – my 16th year, I guess, that I'm starting. My memory is failing a bit over the ages, of course. I have in my office four important people. The number one person, and her name is Sharon Tymkow, in fact started in my office two days before I did. She's been there for that period of 16 years. Don't say it: how could she stand it? I know the comebacks. And Arlene Breitreuz has been there for 15 years. I think they have certainly kept me on the straight and narrow and have in many ways served other MLAs, because they are the ones who are the front line of contact. I have Loretta Pelegrino, who is also with us, and of course Randy Dawson needs to be noted as well, who does an awful lot for me in terms of the political side. There seems to be some political agenda that we have to adhere to, and he has some interest in that side of it, as well as other aspects of it.

Well, it's interesting, Mr. Chairman, to introduce the Treasury Department estimates. What we have this year, as I've said, are cuts across a lot of areas. Some of the key areas that I think we need to at least reflect on briefly deal with the broad economic profile. I think it is that setting as much as anything that allows us to do one major thing in this province today; that is, to say that we have a balanced budget. A balanced budget. They say that in government we have to be involved in retail politics. They say that we have to be selling political ideas door to door. In fact, that's how you get elected. I'll tell you, there's one thing that sells in Alberta pretty well right now, folks: balanced budget. Yeah, balanced budget. I tell you, it doesn't matter how these chaps across the way carve it up, how they use their old policies of disinformation, how they pick with the most narrow point of view, my folks in Lethbridge, certainly, and I think everybody on this side of the government knows one thing, including my colleagues of the Conservative persuasion across the way: everybody out there said, "Go balance the budget and don't give us any excuses." We did it, and now they know that we're the government of their choice. It's very, very clear, Mr. Chairman.

You know full well, Mr. Chairman, that in 1986 the price of oil collapsed. Our deficit was driven by external forces. Our

deficit was one of the largest and sharpest changes in any economy ever experienced in Canada. We adjusted; we accommodated; we did the following: first of all, we knew that we could not make any sharp changes in action. The people of Alberta wanted to have the best educational system, the best hospitals, and the lowest taxes, and they wanted a government that gave them a plan of action. They wanted to have confidence in a government that would say to them: "We all have a problem in Alberta. We're going to draw together right now, and we're going to work our way out of it."

We laid forward a plan of action in 1986-87 and said: "In five years we'll get you to a balanced budget." Okay, so it took us six. We admit that. But we used a gradual approach. We went from a deficit of about 3 and a half billion dollars, ramped it down in terms of our expenditures, got to the balanced budget, and now today we can say the following – and that's where I wanted to compare and contrast here. We took it from a 3 and a half billion dollar deficit down to the balanced budget. We had to look inside that area which belongs to government; that is, the expenditures of government. People wanted us to control our expenditures. They said, "You're the government. You don't spend too much. If we're a family and we haven't got the dollars, we have to control our own family budget. You should do the same thing": the traditional kind of values that Albertans understand, and we did it for them. We controlled our overall expenditures from 1985-86 through to today by an expansion of only 1.9 percent per year. That's the best expenditure control record of any government in Canada bar none, Mr. Chairman. People said that, and we did it.

8:10

The second thing that we had to do was accommodate a deep recession, a recession that was driven by external forces, we admit, but we had to accommodate that. We used the spending power that we had in government. We had the resources in the heritage fund and elsewhere. We used the tax from them to some extent, yes, but we used that to gradually move towards this balanced budget as well. At the end of the day what do we have? Let's recount it: we have the lowest taxes of any province in Canada, we are the only province with more assets than liabilities, and we have a diversified economy.

It's this diversified economy that really causes my colleagues across the way some frustration. I tell you, these boys don't know what to do with it. They don't like the word "success." They are the ones who claim that they're concerned about jobs. They say that they're the ones who have the interests of the job people in mind. Nothing could be further from the truth, Mr. Chairman. Look at this diversified economy here in Alberta. What is the diversified economy? Well, let me tell you. Let me just think about the headlines over the past little while, here, for just a minute. I think it was three weeks ago that an external organization, an economic think tank said: "Do you know what? Alberta in 1991-92 is going to have the best economy of any province in Canada."

MR. WOLOSZYN: Despite the Treasurer.

MR. JOHNSTON: Despite the Treasurer. But the economy is going to be that good, Mr. Chairman: 1.5 to 2 percent real growth in '91-92 when the rest of the economy of Canada is in a recession. Other provinces are in a recession, and I'll come to Ontario in a minute. You know I will. A week ago the Conference Board came down and said that historically in 1990 Alberta had the best real growth rate of any province in Canada

and a nominal growth rate of 7 percent, the best in Canada. Now, if you look at the statistics as well: the lowest unemployment of any province in Canada – well, we swing back and forth with Saskatchewan, but they have a major outflow of people; we have a major inflow of people – secondly, real economic growth that I just touched upon; thirdly, retail sales per capita are the highest of any province in Canada; fourthly, more investment-driven decisions in Alberta than anywhere else; and fifthly, we're generating more jobs than any other province in Canada. At the same time, people are moving in here because they like the government. They want to be here, Mr. Chairman. The people are coming to this province. The immigration has been up since the third quarter of '89 consistently. Those people are coming here because they know something: jobs and opportunity. That's why in this province we're so fortunate to have the great prospects we have today.

A year ago I called on the federal government to reduce interest rates, and they probably were listening to some extent. In any event, interest rates are coming down.

MR. SIGURDSON: Oh, you did it.

MR. JOHNSTON: Well, I'm not claiming it. I'm just saying that we argued for it, and they're coming down. That's fair.

The interest rates have been reduced over the past year 450 basis points, but still have some way to go. The United States bank rate is down to 5.5. They may see that the recession in the United States may last a little longer than they expected, and of course, as soon as the pickup takes place in the U.S., the pickup will take place in Canada. The interest rates are key to us in Alberta. If those interest rates trend down and stay down, you will see a rebound again in the second half in the province, because people are sensitive to interest rates. People can buy houses now that mortgages are down, and that generates new construction. Investment will take place because interest rates are down, and even you and I can go out and buy those consumer goods that we probably have parked for some time. So interest rates are extremely important. In the fall of 1989 our Premier called for the reduction of interest rates, and he called for the reduction of fiscal spending, the deficit problem. We've done it; other provinces haven't. This interest rate is so important to us that in fact it's going to cause our economy to snap back like no other economy. It's ready to go, it's in place, and the power of investment, the power of the private sector, is going to drive this economy through '92.

Let's look at Ontario for just a minute. Yes, Ontario has a recession. That recession was triggered some time probably in July or August of 1990. Now, I'm not too sure which one of the socialist parties was behind it. Oh, hold it. By the way, they no longer cringe when the word "socialist" is used, because they are now unapologetic for being called socialists. It's the new trend that's taking place over here. I mean, I used to call them socialists and worry about it, but now they call themselves socialists and don't make any apologies for it. Well, one out of four anyway. The rest haven't read the new manuscript yet. It's coming down: "Manifesto '91". It's in your desk drawer. [interjections] Well, Marxist/Leninist. I mean, it's the same thing. They're not apologetic for being socialists now, and they're not going to be kind to capitalists, they're not going to allow any investment to take place, and they're going to spend, spend, spend their way out of it. We have the model of Ontario. My goodness, I don't know. Both parties couldn't be fast enough off the mark when the Ontario budget came down. They weren't too sure which one was going to take the full

blame, whether it was the Liberals, who had just as much profligacy in their spending as in fact the current ND party in Ontario.

AN HON. MEMBER: Worse.

MR. JOHNSTON: About the same or worse. In any event, Alberta had to bear the responsibility and the cost of the spending during the hot period because our interest rates went up, and now they're going to do the same thing again to us. What did they do? A \$10 billion deficit in Ontario.

MR. SIGURDSON: Less than yours.

MR. JOHNSTON: That's the particular point. That's the very point, Mr. Chairman. We looked to ourselves to solve the problem. We used a conscious approach. We did do some spending to move out, to maintain the priority in those areas, but we got to a balanced budget. What do these boys do? They just spend, spend, spend. Just terrible the way they operated.

Do you know what else? They haven't even got to their socialist agenda yet. Now, what did they run on? What did these good folks over here run on in Ontario? Tax the rich, capital taxes, and more taxes on profits. What did we see in Ontario? They left their agenda behind, just a bit, except for one thing: they taxed the small business corporation. Just terrible. Absolutely terrible. Here in Alberta the small business corporation is the one that generates all the investment, generates a lot of jobs, has diversified the economy, and in Ontario they taxed it, went after the small businessman. Now, these people used to stand up and say, "You've got to look after the small businessman." Well, what do they do when they get a chance? Tax, tax, tax. As I say, they haven't even got to the socialist agenda yet. That's coming next.

What we have to remember, Mr. Chairman, is that any time you have a deficit of that size, it's going to have implications for the rest of the economy. One-third of the Canadian economy is in Ontario. They now have a terrible borrowing problem. Their deficit is over \$10 billion, growing steadily, and no apologies for the next two years.

MRS. BLACK: What's their total debt?

MR. JOHNSTON: That's a very good question. Under their own plan by the end of 1995 the debt in Ontario will be \$75 million, about \$7,500 per capita. My colleague the Intergovernmental Affairs minister, who keeps track of these numbers, says it's billions, not millions. Billions of dollars and \$7,500 per capita: that's their plan. Increasing debt in Ontario from \$4,200 to \$7,500. Terrible, just terrible. Everybody in Canada knows it's terrible. They have no responsibility to any other province, and we're going to have to bear the cost again. First, under the Liberal party, because they pumped up the economy, interest rates went up, and poor old Alberta had to bear it again. Our inflation was about 3 percent, and we had a real interest rate of about 7 or 8 percent on top of that. Now we have the same problem again.

I thought the greatest point was when these chaps across the way got up and said, "You've got to start spending more on education." Funny story. About 65 percent of the funding of education is paid for by the province, on top of the massive infrastructure which is already there. Now, in Ontario they said, "When we get elected, you'll see 60 percent of the funding of the school boards being paid by the province." That was their

campaign slogan, the "60 percenters." Well, we're over that right now in Alberta. But what did it turn out to be? Just about 40 percent. Now, what kind of promise is that, I ask you. The veiled, veiled promises, Mr. Chairman. No real delivery mechanism. As I say, they're going to tax and drive the private sector out of Ontario, and that's why. I ask you, Albertans, to never let those socialists get hold of the reigns of government in this province. It would be the demise of this province if that ever happened.

8:20

Mr. Chairman, let me turn my attention just briefly to guarantees, because in this area the opposition has been having some fun. There's nothing much rational in what they've said, but they certainly have been having some fun with it. The public accounts include all the information on guarantees. Every guarantee that we have is in the public accounts, and I've said that time and time again. So on the first point we're providing all the information possible. Every bit of information we have is provided. In fact, in my current budget not only did I provide the information for the end of the year but I also updated it to January of '91, the most recent number I had. Total guarantees outstanding at the end of the last fiscal year are about \$3.2 billion. Of that, approximately 2 to 3 percent will become bad debts through the year. That's all. That's all that are going to take place.

Now, the guarantees are fixed in amount. Everybody knows that if you put a \$100,000 guarantee in place, you can measure it; it's \$100,000. And we disclose it: \$100,000. Everybody knows about it: \$100,000. What these boys over here forget is that when the \$100,000 is in place, something else has happened. The first thing that's happened is that somebody's made an investment. They have generated a real capital formation. They've built a building. They've invested in some kind of equipment. They have generated jobs. They have generated economic growth. And maybe they've even generated a profit, Mr. Chairman. That's what's happened. The second thing is that there's an asset backing that guarantee. You can measure the liability, because we measure it for you and provide the information, but there's an asset sitting there. In most cases the asset is far above the violated liability.

We take very great care to ensure that we attached that asset if in fact we give a guarantee. Now, my colleague the minister of economic development has talked to you about that, about the rigorous approach we use to evaluate it, setting in place a system to ensure that the criteria are upheld. I've already talked about the taking of security in particular. Fundamentally it then comes back to what has happened when the guarantees have been used. I've talked to you about that already. We have economic diversification, real economic growth, jobs, and a hot and good economy. An opportunity for the young people to go work, for example, is one of the outcomes of guarantees.

There have to be losses. Well, let's look at the losses, Mr. Chairman. Some of the losses are in those very high-tech areas where in fact we stepped out and said, "We want to take an extra risk in this area." So we categorized some of our investments, some of our guarantees. We said that some of them will be in those high-risk areas and, still further, others will be in a very modest category, such as forestry, and still further, some will be in student loans. Now, I wouldn't imagine any of the students up there would listen to the opposition when they say to cut back the student loan guarantees. I haven't heard them say that. In fact, we have gone the other way; we've expanded the student loan guarantees so you have a chance to go to

universities and colleges, and it's working very well: the best student loan program in Canada right here in Alberta. We have made the same kinds of decisions on student loans as we do on investing in fixed assets. These students haven't got an income flow right now, but we're banking on their success in the future, and that future success is going to give them an income stream. Now, some of them may become lawyers, some may become engineers, some may become school teachers, but they're going to have an income flow in the future.

MR. EVANS: Accountants.

MR. JOHNSTON: I'm not recommending that, Mr. Evans.

They're going to have an income stream, and we're saying to you, "You have an asset potential here, and we're going to take a risk on you, and we're going to guarantee your loans so you can go to school." The lowest tuition fees, the highest financing per capita of any government for universities and colleges, but on top of it, the best student loan program. We're taking a bet that the future's going to be strong here, and you students in particular are going to have an opportunity to succeed here. This is where it's at, Mr. Chairman, and that's how the student loans work. It's not much different at all from the guarantees or assistance to the private sector. We're betting on the future, we're taking a risk, and we're making things happen. That's how this guarantee program has operated. It has operated very effectively, by the way, and the numbers on the economic side are there to prove it.

So this nonsense, which I consider to be a disinformation program – and that's clearly what it is – in fact is not working. People are looking through it. It's now quite transparent. People know darned well when you say to them: "Now what do we have here? Do we have the strongest economy in Canada or do we not?" And they say, "Yes, you do." "Well, how do you think it happened?" They think about it for a moment and say: "Gee whiz. Maybe those guarantees and direct investments, the jawboning, the targeting that you did is in fact working." And it is. It is working, Mr. Chairman, and we're going to continue to see that this economy rebounds, expands, and grows and is as strong as any province in Canada. That's what's happening, that's how it's going to operate, and anything else you hear from the opposition today is just disinformation. That's exactly what it is, Mr. Chairman.

Well, you know I could go for a while, but I would . . .

MR. WOLOSHYN: Forever. You don't know when to stop. Come on, Dick; we're just getting into it.

MR. JOHNSTON: The truth is always upsetting to the opposition. You know, I think it's a good opportunity for the young people to see the opposition at work. I don't tell jokes any more when I go to make speeches; I just observe the opposition, report the facts, and it brings the house down every time, Mr. Chairman.

I'll sit down right now and take some notes. I know this is going to be a very objective, sound discussion about economic potential, the budget, some of the elements of the program. I'll take copious notes, I'll try to respond where possible, and I look forward to the debate.

MR. DEPUTY CHAIRMAN: The Member for Calgary-Mountain View.

MR. HAWKESWORTH: Well, thank you, Mr. Chairman. I'd like to tell the Provincial Treasurer how entertained I've been with his little monologue this evening.

Mr. Chairman, the essential question in front of us tonight, as much as the Provincial Treasurer likes to entertain us and himself, is the extent to which these estimates in his budget are accurate, the veracity of these estimates, and indeed the credibility of the Provincial Treasurer himself. You know, I find it absolutely amusing that on one hand we've got the Alberta Treasury estimates in front of us tonight and the Treasurer spends all this time talking about Ontario. Then we hear the Provincial Treasurer tell us that when things go bad in Alberta, it's because the world economy out there is what's wrong; it's external factors. When things go right in Alberta, when things go well, the Provincial Treasurer takes total responsibility. One objectively has to conclude that there's very little credibility when the Alberta Treasurer comes in to talk about the Ontario estimates and makes the point that when things go bad, it's everybody else's fault except his own, and when things go well, he'll take full responsibility. He loses a lot of credibility when he does that.

There is no doubt about it; this government has already lost a lot of credibility with this budget. Whether we talk about failed business ventures or loan guarantees that go bad, the public in Alberta loses its trust in this Treasurer and in this government. This Treasurer loses credibility. One only has to see what's happening with the senior citizens in Alberta to know what credibility has been lost by this Treasurer and by this government with this budget. To see the cuts in Education, the cuts in health care, the robbing of our future: when ordinary Albertans see that, this government loses a lot of credibility. People don't like being told one thing and finding out later that the truth is something else, so I'm going to take a few minutes, Mr. Chairman, to set the Provincial Treasurer straight. I'm not prepared to accept a lecture from the Provincial Treasurer, and he's right: I do have a lot of respect for him. But I will not accept a lecture from the Provincial Treasurer about deficit management in the province of Alberta.

Let me give you a couple of examples. I was here in this Assembly on June 8, 1989, just re-elected, as was the Provincial Treasurer. The Provincial Treasurer came into this Assembly with his Budget Address and said to the people of Alberta, "We're budgeting for a \$1.49 billion deficit." Well, Mr. Chairman, it was only a few weeks ago that we got the final figures for that fiscal year. What did we find in the provincial public accounts for the province of Alberta? We found that the Provincial Treasurer had actually run up a deficit of \$2.32 billion. I thought, "Let's do a little arithmetic to just figure out what it is he has done here." These were the most recent audited financial statements for the province of Alberta. I took the population of Alberta and divided it into our Provincial Treasurer's deficit. He can do the arithmetic as well as me. He'll discover that the deficit is slightly less than \$1,000 per person in this province.

8:30

Now, I've heard him rail away tonight about a terrible travesty, what a terrible thing the Ontario New Democrats have done by bringing in an estimated \$9.7 billion deficit. He can't comprehend what a terrible thing this government in Ontario has done. But if we work out the arithmetic – and I'm sure the Provincial Treasurer can do it just as easily as me – with 9.1 million Ontarians, what does it work out to? Mr. Chairman, \$1,076 per person, slightly more than \$100 per person higher

than the deficit this Provincial Treasurer brought in in the province of Alberta only two years ago. So that's why I'm not prepared to accept a lecture from my esteemed and respected colleague across the way about deficit financing. He knows whereof he speaks, but I certainly will not accept his criticism of the Ontario government.

Just to give another statistic, Mr. Chairman: the net debt for the province of Alberta for the year ended 1990. That's the debt for which we have the most recent audited statements. We know that last year it went up considerably. In fact, I think the Provincial Treasurer brought in a Bill last year to increase the debt of the province by another \$2 billion. I'm going to take the \$12 billion debt of the province of Alberta identified in the most recent public accounts. Let's work that out on a per capita basis, seeing that virtually all of it has been accumulated in five short years under the tenure and stewardship of my esteemed and respected colleague across the way. That means that in the province of Alberta the deficit has gone up by close to \$5,000 per capita under the tenure of the hon. Provincial Treasurer. That compares to the estimated per capita increase in debt under the Ontario New Democrats of about \$3,000 per person, if I take the figures he gave us just a few moments ago. So I'm not going to accept the lecture from the hon. gentleman. He can rail as long as he wants, but I would ask him: does Alberta still have a triple A credit rating? That's something we've lost under his tenure and stewardship.

Let's say something in passing about the Ontario government. At least they're honest about what they're doing. It's not like a government that would pose and pretend they're trying to balance the budget when in reality they can't or won't. At least in Ontario they're up front about what it is they're doing and why they're doing it, and there's a plan behind their budget estimates.

Now, in the budget the Provincial Treasurer introduced, the one we've had the last few weeks to debate, the Provincial Treasurer pretends that it's balanced. He tries to show it on paper. But what he's telling us is that all he's worried about balancing is the General Revenue Fund, and he uses all kinds of sleights of hand and tricks of accounting for numbers to slough off a lot of the debt and deficit into other areas, such as the Capital Fund or the capital projects division of the Heritage Savings Trust Fund. So even on paper he can't show us a balanced budget for the consolidated revenues and expenditures of the province of Alberta.

I'm just going to concentrate this evening on the General Revenue Fund itself, Mr. Chairman, and I would put it to the Provincial Treasurer that the revenues in this budget are overly optimistic and the expenditures are underestimated. Even though on paper it looks like it's balanced, I believe in reality he's going to find out at the end of the day that we're far from the balanced budget he pretends we have. The Provincial Treasurer has had considerable difficulties over the years in correctly predicting the final bottom line at the end of the year for provincial revenues and expenditures.

AN HON. MEMBER: Always gets it a little low.

MR. HAWKESWORTH: He always gets his deficit a little low. That's quite correct, hon. member. We've had numerous examples of it, the most recent one being the financial year I previously referred to.

The question of why the Provincial Treasurer has this problem: well, let me start with the expense side of the ledger. One of the reasons they have difficulty is the cavalier way this

government gets itself tied into loan guarantees. We've had considerable debate in recent weeks about the large numbers of loan guarantees that have gone bad and the difficulty the Provincial Treasurer has and the difficulty it creates for the provincial financial situation. But one only needs to go to the most recent Auditor General's report and we find - I'll just repeat it, and I'll repeat it a number of times in the future as well - that the provincial Auditor General makes note of the fact that "payments made on account of losses incurred by the Province have increased from \$8 million five years ago to \$115 million" in the most recent fiscal year for which the public accounts are available, and this is under the Crown guarantees and indemnities in his most recent report. Now, that's a tremendous increase, a hundreds and hundreds of a percent increase in the number of losses being incurred under these loan guarantee programs.

As well, the Auditor General has been highly critical of the practice in the Provincial Treasurer's department to do damage control by the way they account for losses under the loan guarantee program. They, in essence, decide, "Well, I guess this year we'll account for that loss," whereas others will say, "Well, maybe we can wait before we have to be up front with the losses we've had in that program." One only needs to look not just at the ad hoc program for loan guarantees that has got this government into trouble to the tune of \$115 million a year but at all the other programs and businesses they've got themselves embroiled in and the costs that are accruing to the revenues of this province. NovAtel Communications: there's an indemnity payment to cover 1990 losses; total, \$131 million. Buy-back from Telus Corporation: another \$160 million. There's \$300 million right there. We discovered earlier this week that there was another \$43 million payment which, as far as I've been able to tell from the kinds of answers we received, is outside the indemnity payment. So we're still not sure in what year or how that \$43 million is going to be accounted for.

8:40

The guarantee for the Magnesium Company of Canada: \$103 million. The loan to Syncrude, the write-off of that: \$81 million. Then we find in the public accounts, Mr. Chairman - I'd refer the Provincial Treasurer, if he wishes, to statement 8.2 - a whole schedule about write-offs and compromises and implemented guarantees, loans, and advances. In fact, we find for the department of Treasury an item totaling \$82 million, which I understand is a write-off for a single corporate tax in that fiscal year - \$82 million just like that. The Provincial Treasurer made no reference to that in his remarks and some of the difficulties that creates in balancing the budget.

For credit union indemnity payments there's close to \$3 million. Then the Principal Group collapse: another \$150 million. Losses to date on failed companies: \$300 million. The grand total, Mr. Chairman, is \$1.3 billion, and the Provincial Treasurer chooses to use the time available to him in his opening remarks to talk about Ontario. Given this track record, I can quite understand why the Provincial Treasurer would use all his time in defending his own estimates to talk about the estimates in another jurisdiction. I wouldn't want to talk about them if they were my responsibility either.

The Auditor General identified a large number of other problems in Crown-controlled organizations: Gainers, Northern Steel, North West Trust, 354713 Alberta Ltd. There's a whole raft of them identified in the Auditor General's most recent annual report. Again, the conclusion: many of these entities are staying afloat only at the discretion or the best wishes of the

province. The company's ability to continue is entirely dependent on the good will of the Provincial Treasurer to keep it afloat. This adds up to major problems for the Provincial Treasurer. I might add, Mr. Chairman, that in a year of so-called restraint it's no wonder the Provincial Treasurer needs a 10 percent increase in his office budget. Perhaps that's for all the aspirin he's had to buy in the last 12 months.

I would like to just briefly come back to that \$81.7 million write-off of an account receivable in the Treasury Department and simply ask the Provincial Treasurer what that was all about. Why was it required, and is there something about it that will be repeated with other corporations in this fiscal year or future fiscal years? That is, is this a problem that's going to be repeated?

I'd like to now turn, Mr. Chairman, to page 357 in the government estimates book which the Provincial Treasurer tabled. It is a schedule that is entitled Statutory Budgetary Expenditure under the Treasury Department. We find in this section a breakdown of what's called Valuation Adjustments, and there is a list of them. There's a budget for Accounts Receivable, \$20 million. Implemented Guarantees and Indemnities: almost \$53 million for Credit Union Stabilization Support. They're winding up Rocky Mountain Life Insurance Company; there's still another \$3 million. Then of course there's this figure that says Other, totaling \$56 million, meaning they're budgeting some kinds of losses. One could argue that the \$61 million alone that's outstanding on Gainers should be written off, which would make that figure pale by comparison. It would certainly use up all that and more just in a single write-off.

What's even more of a concern to me, Mr. Chairman, is that when we look at these estimates in comparison to the actuals for 1989-90, particularly in the entire area of comparable evaluation adjustments, we find the figure \$291 million was forecast for the 1990-91 fiscal year. That was up; it doubled. It was almost \$170 million more than was budgeted. Yet when I come to this year's line in the budget, all I see is that the Provincial Treasurer has budgeted only \$152 million, which is far less than the forecast for the fiscal year we've just finished. It causes me a great deal of concern that the Provincial Treasurer hasn't adequately budgeted for what I think is happening in that particular line of the budget. He was over \$200 million in 1989-90, he was close to \$300 million last year, and yet he's only budgeted \$152 million for this year. Obviously there's something unusual in such a low estimate, and it's part of what I consider the underestimation of the costs inherent in this budget.

He also makes allowance for debt servicing costs that are lower than last year's forecast figure. Most of the financing the Provincial Treasurer does is over an extended period of time. He doesn't borrow the bulk of his borrowings on short six- and three-month bases, as far as I'm aware. Just for example, the most recent announcement made today regarding the Alberta capital funds: the new rate is something in the order of 9 and an eighth percent, if memory serves me correctly, yet he's going to have to pay 11 percent on bonds that he sold in the last couple of years because that was the minimum guaranteed amount that would be paid. So even though the interest rates are falling – and we're all pleased they are falling – they're not going to have that rapid an impact on the interest costs this Provincial Treasurer has to pay on his debt, and so it won't be effective for this fiscal year. What we find is that the debt is going up, interest rates are not coming down as rapidly as he predicts, and yet his estimates for debt servicing costs are lower than last year's forecast amount. Again I submit this is a reason why his expenditures are underestimated and why I don't believe

he's going to achieve his goal of a balanced budget in this fiscal year.

Now, I also found it interesting, Mr. Chairman – and I alluded to this in my opening comments – that even on paper the Provincial Treasurer acknowledges that the financial state of the province will not be in a balanced position for this fiscal year. One only needs to go to page 31 of his Budget Address and we find that he acknowledges the \$131 million indemnity payment from the General Revenue Fund relating to the loss reported by NovAtel. He also makes note that the \$159 million investment in NovAtel may be subject to a reduction at year-end. Such a reduction would affect the province's consolidated net assets, not the General Revenue Fund. So one can see what it is that the Provincial Treasurer is trying to do here by putting some of these unusual, exceptional costs somewhere in the budget that's not in the General Revenue Fund. He can brag that the General Revenue Fund is being balanced, but the reality is that the debt of the province and the cost to the province and the deficit continue to rise. As I mentioned, there's another \$400 million in expenditures under both the Capital Fund and the capital projects division of the Heritage Savings Trust Fund, so right there we have an additional \$400 million debt not accounted for in this budget under the General Revenue Fund.

8:50

I'd like to briefly turn to the question of revenues, Mr. Chairman. We could have a long debate about how accurate the Provincial Treasurer's estimates are going to be. If he knew there was going to be a war last year in the Gulf, he certainly didn't tell us that when he was debating his oil price estimate last year. Fortunately, he was able to achieve what he had budgeted for. I wish him well this year as well, but I would just point out that the Conference Board, which this government often likes to rely upon for predictions, has predicted an oil price in the low 20s, \$20 per barrel U.S. for west Texas. The Provincial Treasurer may make his \$23, and I wish him well if he does, but the private sector and the large number of layoffs and pink slips that seem to be issued have less confidence in his \$23 per barrel price than he has.

I honestly can't believe the natural gas estimates in this budget, Mr. Chairman. The prices have continued to drop and have dropped precipitously. I appreciate what the Energy minister has said in the past about added volumes coming on stream, but I honestly don't believe they're going to make up the kind of difference being budgeted for in this year's budget.

The Canadian dollar most recently has been trading at 86 cents U.S. As I understand the prediction in the budget, it's closer to 84 cents U.S. The difference of 2 cents does make a significant impact if it continues over the full year and will make the revenue figures look pretty shaky if the 86 cents continues to hold steady.

I must say, Mr. Chairman, that I am concerned about the serious job losses that are occurring and have occurred recently in the Calgary area. I know the Provincial Treasurer took great pleasure in his figures earlier this evening, but by golly, when we have 8.7 percent unemployment in one of our major cities in this province, 34,000 people unemployed and looking, that doesn't indicate to me any kind of vibrant or buoyant economy. As we've pointed out elsewhere and other times in this Assembly recently, the latest additions we can total of announced layoffs in the Calgary area since January 1991 are close to 4,500.

I might also just point out that I was concerned in reading a small item in one of the city of Calgary's newspapers just this past week. I know that when I was a member of city council,

one of the indicators often used to predict budgetary revenues for the city had to do with building permits. It is an indicator of economic activity in our province and certainly in the city of Calgary. It concerns me when I read that for the first four months of the year total building permit values have decreased 48 percent from the same period in 1990. That indicates to me, Mr. Chairman, that economic concerns in the southern part of the province are serious. I do acknowledge that likely they are better in other parts of Alberta, but still Calgary and southern Alberta are significant contributors to the Alberta economy, and these figures have to be of concern and may very well have an impact on the Provincial Treasurer's budget.

Furthermore, moving to the Heritage Savings Trust Fund, the Provincial Treasurer is estimating that he's going to get over \$200 million more in revenue from the trust fund than he did last year. The reason he got as much as he did last year was from the sale of shares in Telus Corporation. Of course, that doesn't take into account the costs – and we've seen the high costs to this government – of privatizing Telus. What I would then like to ask the Provincial Treasurer: in order to achieve the objectives he's laid out in his budget for the Heritage Savings Trust Fund, will he confirm tonight that the provincial government is planning a major share issue of their sales in Alberta Energy Company?

MR. DEPUTY CHAIRMAN: The Member for Calgary-Buffalo.

MR. CHUMIR: Thank you, Mr. Chairman. It's nice to see the Provincial Treasurer his usual laconic self. He handles his portfolio with that degree of reticence one might expect of a man with siblings who never let him get a word in edgewise when he was a child and is intent on making up for that deficiency. I'm sure I could speak for his staff when I say that they would probably prefer getting a bonus instead of the baloney he hands out once a year when the budget estimates are presented.

I note that the minister's office expenditures are up 9.3 percent this year, which is another nice increase. As I noted last year, his curiously loyal staff are obviously not getting enough, at least not as much as they deserve, for having to work with the Treasurer, and I'm wondering just what it is that results in these increases when the minister is cutting back so heftily in other areas.

There are other items which I would like to ask the Treasurer about briefly in terms of some cuts. Under vote 3, the Risk Management and Insurance expenditure has been reduced by 76.7 percent, approximately \$3 million. I'd appreciate an explanation of that. The Regulation of Financial Institutions has been reduced 57.5 percent, about \$3 million again, and I'd appreciate some information with respect to that. I note that the workers' compensation expenditure in respect of government employees has been reduced some \$550,000 or so, by 18.7 percent, and I think that calls for some comment. I note that the other big cut in the minister's budget, the prime cut so to speak, is in respect of the farm fuel distribution program, which is down for the second year and requires some explanation from the minister in terms of rationale in light of the fact that input costs for the agricultural industry are particularly important at this time when the grains section is on its knees.

As usual, the Provincial Treasurer has been somewhat unsurprisingly selective in presenting the good and ignoring the bad news with respect to our financial status. There's no one else in the province who takes the same view of matters that I've

heard of, in any event. However, why shouldn't the Provincial Treasurer live in a world of his own? After all, he's only budgeting for 2 and a half million Albertans, and why should he be in touch with reality? Let us take, for example, the issue of the deficit as irony, sir. Let's take the issue of the deficit. Now, the predictions of the minister should secure for him a place in the comedians' hall of fame. Over the past five years he's given us numbers with respect to his deficit predictions which are \$2.7 billion shorter than the actual deficits accumulatively over those years.

9:00

What does this \$2.7 billion consist of? Are these valuable programs? Well, what we have are a hundred million dollars to cover the government's negligence in the Principal Group affair. We have the minister's department itself blowing \$80 million of public money down the drain on the Alberta stock savings plan. But what's \$80 million? We have over a hundred million going into their ridiculous mortgage subsidy program subsidizing mortgages for Albertans regardless of whether there was any need in respect of the individual. We have tourism grants that the Minister of Tourism now says were a mistake. We have \$40 million of interest being given to the purchasers of Telus shares for reasons that I certainly can't explain and I think are totally insupportable. We have millions of dollars of loans and guarantees being given out to companies like Gainers and Norstar which were clearly unacceptable risks. Of course, these are just two examples of many.

Now I'd like to talk about some of the defects that we see in the current budget process and certainly in terms of the predictions of the minister that we're going to have a \$33 billion deficit, which is sheer fantasy in terms of real economics and certainly any reasonable accounting principles. The first defect is that a budget should, I believe, Mr. Chairman, be a conservative and realistic document and not reflect wishful thinking. This document is anything but conservative. I mean, let's look at the \$23 a barrel prediction for oil. The other day the Minister of Energy: there was sheer comedy as well as he read out three or four analysts' predictions with respect to the price of oil. There was \$21.50 and \$22 and \$22.50 and then there was \$23.

MR. ORMAN: World Bank: \$24.50.

MR. CHUMIR: Yeah, he grabbed for the big one later.

Which one do you pick? He gives four, of which \$23 is the highest, and it reflects exactly the attitude of the minister by picking the \$23. Then the minister's going around saying, "Well, we've been right in the past." Well, it's an ill wind – or an ill war – that doesn't blow a Provincial Treasurer some good somewhere.

Then we have natural gas revenue predictions up \$200 million at a time of declining natural gas prices, unhappily, and the minister's betting on a cold winter. We now find that everybody else in the market in the United States is saying: regardless of whether the winter is cold or not, we see the price prediction as very bleak. The futures contract for natural gas in the New York Mercantile Exchange went down in respect of January within the last two weeks.

The 84-cent dollar: unrealistically low.

MR. JOHNSTON: Give us your estimate. Tell us what it's going to be, Sheldon. Get on the record.

MR. CHUMIR: I'm getting on the record the stuff that I want on the record. If you want to let me give a budget speech, and that probably won't be very long from now, we'll give the predictions.

MR. JOHNSTON: Go on the record.

MR. DEPUTY CHAIRMAN: Order please. Order in the committee.

MR. CHUMIR: Crown land sales. Well, I'm sure the Minister of Energy could hardly keep a straight face when he saw a prediction that Crown land sales were going to be up \$150 million over last year. I mean, they're already in steep fall decline, and the industry's in a state of depression over what the prospects are over the next year.

MR. ORMAN: Au contraire.

MR. CHUMIR: Au contraire. They are down. Shall we have a little wager as to whether they're down so far this year? Down significantly. Unhappily, I'm sorry to say.

Then we have the inability of the government to forecast expenses. I mean, over the past five years we've had \$1.8 billion in special warrants in total, close to \$600 million last year. Who can believe that there won't be additional expenses once again?

I want to mention the failure of the government to account for the guarantee losses that are in the bush but have not been counted. The guarantee program, let's face it, has been a major disaster. The Auditor General himself has stated that the amount of losses is understated. What he says, and I think the government should be ashamed, the minister should be ashamed, is that what the government is doing is using mechanisms to control the timing of the losses. Shame. So what do we have? We have a situation in which we have the people's magnesium company. They'll do everything they can to avoid booking that loss. The people's packing company: no losses. We have Centennial packers where the loan guarantee was called, and it was in such bad shape that they went and transferred it to what appears to be a perpetual loan, with interest payable only out of profits if any. We can't get the full details.

MR. JOHNSTON: Are you for it or against it? Let's be clear here.

MR. CHUMIR: We were against all this financing of the packing industry to begin with.

What about the \$81 million Syncrude loan of which \$20 million has already been written off? What about the other \$60 million? What's the delay on that? If \$20 million is bad, why isn't the other \$60 million? Alberta-Pacific is the real good one. The minister talks about how good all these programs are. Well, the reason why many of these programs aren't good is that the loans have gone to pals of the government. They haven't been made on the basis of sound business judgment. I mean, you get former ministers of the government, MLAs leaving, with announcements to the press that they're off to take advantage of opportunities in the private sector, and a few months later they're appointed to this job and that other job and here lobbying their former cronies on behalf of business interests. You get cronies, you get friends, you get donors to the party, you get pals, you get bagmen, neighbours, secretaries' sons: all at the trough. This has been a great party.

Now we have NovAtel with the Treasurer's old pal, the pal of all the Tories in Lethbridge, Mr. Weatherup. Lord knows what qualifications he had to be in there as second in command of a board running a sophisticated international operation, but he was there. It's small wonder that with that type of judgment and helmsmanship we had a \$204 million loss. Well, the minister indicates in his budget document that he's booked 131 and a half million dollars of loss in respect of the indemnity payment. What about the balance of the \$204 million, Mr. Minister? Might we have some comment as to what happened to that? What treatment is that going to have?

We also have a statement that additional loss with respect to the \$159 million investment is anticipated or is possible. Amazingly enough, although the \$335 million that the government made in respect of the sale of the Telus shares has been booked as income, if there's a loss or write-down in respect of the \$159 million in Telus, this isn't going to be reflected in the General Revenue Fund; this is somehow going to be shuffled into a capital account of some kind. The minister is shaking his head no. I don't know; maybe he'd like to explain exactly what he means, then, when he says in the budget document at page 31 that "such a reduction would affect the province's consolidated net assets, not the General Revenue Fund." It may be that he's talking merely about a book write-down rather than a disposition, but if there's a write-down, there's a write-down, and you should be booking that in the General Revenue Fund.

This is one of a great bag of accounting tricks that the minister has that I want to talk about briefly – the bottom line, as they never tire of telling us – but what they really need to do, what the Premier needs to do to the cabinet ministers and what the people of this province need to do to the Premier is to take the cheque books away, and that means the Treasurer's cheque book as well.

9:10

Now, I mentioned the concerns we have with respect to the accounting methodology of the minister. He's a very creative accountant. I've seen many in my days in tax law. Here we have, effective 1986, hundreds of millions of dollars a year previously reported in General Revenue Fund expenditures being funneled over to the Capital Fund, the only government in Canada that I'm aware of that does that.

MR. JOHNSTON: Ontario. Check Ontario.

MR. CHUMIR: We'll check Ontario.

The heritage fund. Capital projects last year of \$110 million not reported as expenses. They used to be in the budget document as a consolidated budget deficit, and they disappeared mysteriously one year. It certainly makes things look better, but does it give the people of this province a better indication of the expenditures? Certainly not.

Then we have suggestions of assets being sold in the heritage fund with gains coming out. Well, what about the losses that we have in there in respect of loans to Crown corporations, \$697 million deficit cumulatively? We're never going to see that money, and there are independent individuals, independent authors, of which the minister is well aware, who are telling him that those should be written off.

Then we have a few additional little tricks that I've pointed out to the minister – as he gives me a rather glassy-eyed look saying no comprende – to the effect that \$15 million of what were previously reported as operating expenses to the General Revenue Fund re expenses of Alberta Agricultural Development

Corporation and Alberta Opportunity Company are now being paid through the heritage fund. So if we had some more realistic accounting, even absent these glowing and rosy views of our revenue and our understatement of the expenses, even with appropriate accounting, Mr. Chairman, there is no budget deficit. That's a dream.

Now, the minister also says that assets . . . He likes to say it. I don't recall him saying it this year; maybe he said it in previous years. It certainly is not true that assets exceed our liabilities.

MR. JOHNSTON: I said it today, Sheldon.

MR. CHUMIR: I note that he said it again today. Well, it's not accurate. As of March 31 it's true that his statement in the public accounts reflects consolidated net assets of \$2.7 billion, but this excludes accounting for the \$9 billion of pension liabilities which the Auditor General says should be in there, which his accounting body, the Canadian Institute of Chartered Accountants, says should be in there. I'm wondering: when will the minister wake up and report these matters accurately?

Also, when is the minister going to get down to addressing this serious problem that we have? Some steps are now being taken to deal with the teachers' pension portion of this, but what about the balance of the difficulty, and what about the minister performing an unnatural act and providing us with the information that we've been requesting and that Lou Hyndman promised way back in 1984 with respect to calculations, actuarial assumptions? Give us the wheelbarrow of stuff, Mr. Minister.

Now, it's interesting also that the government in general statements refers to the debt as being in the range of \$10 billion. As the consolidated financial statements show, it's actually over \$14 billion when you consider the Capital Fund and the Alberta Municipal Financing Corporation debt. Indeed, Moody's uses that number: over 14 and a half billion dollars. There's another little item. I mean, it's relatively trivial; it's only \$295 million. That's what the Auditor General advises us is a liability in respect of credit unions that the Treasurer has declined to record as a liability.

Now, Mr. Chairman, a brief word again on the Treasury Branch, which I have spoken on the past several years. This is very much an independent fiefdom. The superintendent is vested with all of the powers subject to direction of the minister, which the minister says he doesn't give. I'd like to urge again that the minister establish a board of directors. We need greater accountability. I must say that there is the unhappy impression that the Treasury Branch is used for political purposes. This may or not be true. One thing that I am concerned about are statements in the Auditor General's report this year at pages 21 and 22. In the past these same statements have been made, and that is that there has been the usual tendency of financial institutions, to do its best to delay recording losses. There are several instances in which there is a reference to loans being "advanced to replace unpaid interest or overdrafts" not being adequately dealt with and room for "further improvement with regards to non-accrual loans." Those are of some concern.

On the other hand, I must say I am pleased to see evidence that there are at least occasions when the Treasury Branch has declined to provide funding where adequate banking security is not available. Alberta-Pacific is a good example where the moneys were advanced by the Treasury Branch but only after the provincial government agreed to provide a \$9 million guarantee. So I think we need more accountability. There's too much public money at stake in that company.

[Mr. Moore in the Chair]

In terms of income tax measures, we have been ceaselessly critical of the direction of fiscal policy of the government in terms of taxation. In particular we are very unhappy with the reality that since 1986 the taxation policies of the minister have been very regressive. They hit the low-income individuals disproportionately. This reflects a clear philosophical difference of direction between this government and ourselves as the Alberta Liberal Party. Of course, the New Democratic Party's philosophy is: lower taxes and more services, lower taxes and more services, lower taxes and more services. Since 1986 the fuel tax has gone up by 7 cents, medicare fees are up, the rental tax credit has been eliminated, fees and permit charges are up, the utility rebate has been eliminated at the expense of the consumer, and we have a flat tax which, as I noted last year, is contrary to the agreement with the federal government. Should I waste my breath and renew my request for the minister to file with the House any amendment or correspondence which would authorize the minister to break the law in that regard?

Now, I suppose it gives the government great pleasure to be able to brag that the millionaire senior friend that the Premier referred to recently pays the lowest income tax rate. The reality is that the rate is pretty close to that of other provinces. But what pleasure does it give to crow about how our highest income individuals are paying the lowest rate in this country when you find lower income people being required to pay two to three times as much as they have to do to the provincial government in respect of items such as medicare and gasoline taxes while higher income people are paying only marginally more? It just reflects a poor sense of values, Mr. Chairman.

9:20

I talked about the utility tax rebate a moment ago. I want to ask the Provincial Treasurer to pay specific attention to this because this is one of the worst decisions. I'd ask maybe the Minister of Energy to pay attention again. I spoke of it the other night. Yoo-hoo. I think one of the worst decisions that this government has made in recent years is that of eliminating the rebate in respect of the power companies. Now, power costs are crucial to business opportunity in this province, and the rebate of federal and provincial taxes to our power companies was done to put them on the same level playing field in terms of taxation as are the public power companies in other provinces. Two years ago the federal government froze what was the previous rebate of 95 percent of the tax. Well, what does the Alberta government, the private enterprise party, do in respect of this attack on private power? Does it protest? No, it doesn't protest. It goes ahead and doesn't just freeze the rebate that puts these companies on a level playing field; it eliminates the rebate in total, thereby signaling to the federal government, that's crying for sources of money, that they should go ahead and eliminate it as well. How can we say that they shouldn't be taxing the private power companies if we're going ahead and taxing them?

So here we go blowing hundreds of millions of dollars of public money supporting businesses often run by cronies of the government - often; not always but often - and we're now moving to help reduce a basic natural advantage of low power costs that we have in this province. They're basically low without having to go through the special deals that we've seen in Quebec, but they've got their heads screwed on right. Here we have power rates up in the 4 to 5 percent range because of this taxation initiative. Do something about that.

I wonder if the minister could also explain the changes in the financial capital tax that was effected through, I believe, regulations in December of 1990. I'm not necessarily critical of that, Mr. Minister, but I certainly think the House might get an explanation from you as to what's going on.

The collapse of the Principal empire, the Code inquiry. Might we get an update as to the total cost of the Code inquiry and how much has been paid to whom. I asked that. I know: "Put it on the Order Paper." It's been on the Order Paper, and it's been rejected. We'd like to have that. How much, might we ask, has been paid to investors to date? It's time for an update. How many investors have taken up the government's offer? I assume they have all taken it up, but there may be some who haven't. Could we get a bit of an update and talk about the total cost?

MR. JOHNSTON: Bill Code knows. He's one of your supporters, Shel.

MR. CHUMIR: You'd be surprised who our supporters are.

Let's talk a bit about income tax jurisdiction. I read in the newspapers – that's the only people that the Treasurer actually says things to from time to time – that the Provincial Treasurer wants to take control of our personal tax system. Well, let's try and think about where that takes us. Now, is there any possibility that the federal government is going to get out of personal income taxes completely? I say no, I don't think there is. So if the minister wants in the personal taxes, then he must be proposing for Alberta that wonderful system that Quebec has whereby the taxpayers in that province have to file two separate personal income tax returns, one for Quebec and one for Ottawa. Well, that's all Albertans need, Mr. Chairman, is to have to go and file another income tax return with separate rules for the provincial government on top of what they're filing for Ottawa.

Is that what the Provincial Treasurer is proposing? Is that what he thinks the people of this province want? Or does he in fact think, on the other hand, that contrary to all reason the federal government is prepared to abandon the whole field of personal taxation, a federal cash cow, altogether to the provinces? Well, if that is the case, if that's what the minister is suggesting, what the heck do we have left at the federal level in terms of fund-raising capacity? It sounds to me like the Allaire report is very moderate in terms of comparison to the expectations of this Provincial Treasurer in terms of what the provinces are going to be doing. But then we know – we know, Mr. Chairman – what great allies this government and the government of Quebec have been in their efforts to decentralize this country to a degree that would balkanize and fragment this nation into a confederation of fiefdoms run by the successors to the Weatherups of this world.

A question quickly with respect to the federal stabilization grant. There's \$195 million in dispute. What is the timing and the mechanism with respect to a decision? There's some reference in the budget re June of this year. How is it being decided? What's the mechanism? What exactly is the character of the dispute with respect to the Alberta royalty tax credit? Is it whether the Alberta royalty tax credit amount is ever income of the province to begin with, which presumably the feds would be arguing – we would be arguing no – as opposed to the view that it's income first, which the feds would be arguing, then a tax expenditure for which they're not responsible but we are? Is that the characterization, and did you understand what I was saying?

Finally, information. Mr. Chairman, there's a need for more information with respect to fiscal matters in this province. There's a cri de coeur running throughout the Auditor General's report with respect to that need. It permeates the Auditor General's report. I haven't asked the questions with respect to many areas that I've asked in the past and that I would like to know about and I believe the people of this province deserve to know about, because this Provincial Treasurer has in the past made it very clear that basically he doesn't answer questions. I must say that to him still goes the title of the most secretive minister in the most secretive government in the country.

MR. JOHNSTON: The only thing the Member for Calgary-Buffalo had right was his timing tonight.

I thought I might just deal with a couple of questions that have been raised so that we can blunt some of the subsequent comments which I am sure are going to follow. I wanted to deal primarily with some of the, I suppose, questionable statements that have been made by both the Treasury critics. Most of them are founded on misunderstanding, lack of work on the review of the documentation, and generally rhetoric and biased opinions, so it's somewhat difficult to take on all the issues, but there are some urgent items that need to be dealt with.

First of all, we have time and time again in this Assembly talked about the Telus/NovAtel issue. While I understand it to be complex in the way in which it was handled, let me say the following are the principles that are involved. First of all, the shares of the company were owned in the General Revenue Fund, and therefore all the profits essentially were taken in the General Revenue Fund. There were no profits taken in the heritage fund, with the possible exception of a trace. Therefore, anyone who suggests that we have for some reason transferred money last year to the General Revenue Fund from the heritage fund as a result of the Telus share sale was just wrong. The profits were in fact taken in the General Revenue Fund, and that amount has been shown in the financial statements.

Now, it gets even more complex when you deal with the NovAtel issue. NovAtel, in fact, had a \$202 million accounting loss. That's where some of the confusion has crept in, and I guess some legitimate questions have been focused on that point: why is it that we book the \$131 million when in fact the accounting loss is \$202 million? The reason is quite simple. The \$202 million included about \$60 million or \$70 million of so-called accounting adjustments, which were non cash items. Obviously, to balance our own position in terms of our cash demands, we made and acknowledged the indemnity of \$131.5 million, and that cash indemnity is reflected in last year's adjustments.

The second thing that's important is that the \$150 million or so that we invested in NovAtel was in fact returned to us once already by the privatization because it was part of the 10 percent of the \$1.2 billion of the company that was sold. So we, in fact, got part of that back, don't forget. However, we did put \$159 million into an investment. What we said in the statements is: it's possible when we get inside the company that there's going to be an additional write-down, and that write-down would in fact adjust the valuation of the \$159 million to some other amount. Like our accounting for other adjustments, that amount would be an asset adjustment and would not be shown in the General Revenue Fund; it would, in fact, be one of the statutory adjustments that take place below the line. So you can't say that because we have a \$159 million investment in NovAtel and that we have in fact put guarantees in place to the extent of more than \$300 million, that there is now a \$500 million to \$600

million loss. That just is nonsense. We have taken the loss of \$130 million, we expect to have additional losses in the first quarter, we're in the process of restructuring the company, and finally, there may be some valuation adjustments on the \$159 million. There may not, however, be any valuation adjustments. There could be a profit. Yeah, it's quite possible there could be a profit. When you get inside it, we'll see.

9:30

Now, the \$300 million in guarantees are normal course guarantees: not at all losses; not at all new, Mr. Chairman. These are guarantees we had in place before when the company went from being owned by AGT Commission to being owned by Telus. During the period when Telus was privatized, obviously our guarantees ended. We had no guarantees at that point, and when the company came back to us on December 31, 1990, we had to put the guarantees back in place because Telus had sold it to us. That's what happened to those \$300 million. So that's a very simple, straightforward process: no difficulty, except for the opposition's understanding it, and I wish they'd stop in this disinformation saying there's a billion dollar loss in NovAtel. It just isn't there.

The other curious thing – and I may as well correct it now; my colleague the Minister of TRT attempted to correct it and give the information – was the \$43 million amount. Now, somewhere along the line they think this is some extra amount, some new dollar calculation that we have put into it. Nothing of the kind; absolutely nothing of the kind, Mr. Chairman. Again remember what I said. In September, the company NovAtel was owned by Telus. When it was operating, NovAtel had to find some money to operate on its losses, and those losses have been revealed here. It had to borrow it, so it borrowed it from Telus. Telus advanced the money to NovAtel, \$43 million at the end of the day, and at the end of December 1990 NovAtel paid it back to Telus. That money was obviously the same amount of money that we just paid for on December 31, 1990, when we put the \$131 million back in the company. Some of the operations of NovAtel as it continues through '91 will be financed in normal course transactions, borrowed in the same way you and I would borrow from the bank. The \$43 million is not at all new, it's already covered off, and the confusion that it left in the member's mind I understand. He's confused most of the time, but he's more confused in this issue than before. There's nothing different. The full amount has been accounted for; the \$43 million was part of the financing during the period of September to December when the company NovAtel was owned by Telus.

Now, what might happen in the future – and that's where it becomes interesting, because of course the heritage fund, despite the protestations of the Member for Calgary-*Buffalo*, now has a \$150 million profit on the shares of Telus alone. We've made up \$150 million, so the value, the costs in the heritage fund, is in fact, on a market value, and you can check the paper – for the Member for Calgary-*Buffalo*: look under T for Telus; you'll find it there in the listings; it's alphabetical, the access on that basis . . .

AN HON. MEMBER: The yellow pages.

MR. JOHNSTON: Yellow pages, too, if you wanted to. Yeah, let your fingers do the walking in this case.

It's right there. It's trading about 13 and a half to 14 dollars, depending on how the market is. That profit is in the heritage fund: about a hundred and fifty million dollars. We haven't realized it; it's sitting in the heritage fund right now, Mr.

Chairman. At any point we can take the \$150 million out of the heritage fund, leave the capital in the heritage fund, take the \$150 million to the General Revenue Fund and buy down debt. Take the profits from the heritage fund, using it one more time for the objectives of the people of Alberta: to diversify the economy, to put private-sector activity back where it should be in the private sector, and take profits. That's what we're doing. There's been no other money in the heritage fund up to March 31, '91, except normal course transactions: no privatization income; all interest earned.

Now, the interest earned has been very positive last year. We're making 13, 14, 15 percent in some cases on the liquid assets of the fund, \$12 billion, and that money has gone, has moved over to the General Revenue Fund, as everyone knows.

This year, what will happen is we'll privatize some assets in the heritage fund, just as I've said. We'll take the profits out, but right now we can account for over \$700 million in profits just on three or four of our asset items: \$700 million of profits, Mr. Chairman. We could sell those assets. These are entities controlled by boards already; they're at arm's length to the government. We've achieved the objective of diversifying the economy, of developing a risky resource in the case of the synthetic oil. Its proven technology is working, jobs are in place, the economy's growing, cash is coming to the province. We can sell them to the private sector where they should be, free up the dollars in the heritage fund for additional investment, take the profits in the General Revenue Fund to buy down the debt, put the asset back in the marketplace, where it's driven by market forces. That's the process, a very simple process. Once again, as I've said, the heritage fund is at work for Albertans, working well: diversifying, generating jobs, new investment. So, then, we have the transactions I've explained.

One other final point that the Member for Calgary-*Mountain View* talked about is on the cost of borrowing forecast. I said in my opening comments that our borrowing costs have come down at least 4.5 percent, 450 basis points, and will continue down even further, and that is only in the first quarter of 1991. For example, within the first month of our borrowing costs, April 1 to April 30, the T-bill rate, the prime rate, has all moved in the right direction. We expect, with the serious recession driven by political frailties in Ontario, that interest rates will continue down even further, Mr. Chairman, and that's why we can obviously borrow at a less cost regime.

Now, some of our money is, in fact, borrowed on the short-term side because we anticipated this reduction in interest rates. So we do have a short-term exposure. For that short-term exposure, instead of borrowing at 12 or 13 percent off the current T-bill or commercial paper market, now you can borrow well below the 9 percent level. Our T-bill number right now I think is about 9.6 percent or so, down from something like 13.15 or so, so you can see the 4 percentage point pickup already, and that's only in the first month of this fiscal year. Still further pickup can be expected as you move through the year. That's why the cost of borrowing is down. I had to explain it because there have been some funny statements from my friend from Calgary-*Mountain View*, and I wouldn't want him to go on saying that because not only would it be embarrassing for us but he would feel badly himself when the truth was pointed out to him by others.

On the revenue forecast: well, what can I say? My colleague the Minister of Energy just this week had an interesting visitor in the province. What was he? He used to be the minister responsible for energy in . . .

MR. ORMAN: He was an Iranian who went to Turkey.

MR. JOHNSTON: Exactly.

AN HON. MEMBER: Who?

MR. JOHNSTON: A wise man, somebody who follows the energy markets, who knows the energy situation, who understands the OPEC.

What's the price of oil today, by the way, smart guys?

AN HON. MEMBER: Twenty-one.

MR. JOHNSTON: Twenty-two dollars. Guess what? We're into the soft period right now. The oil price is holding at \$22. Guess what it was a year ago at this time? A year ago today it was \$18.99. So already we've picked up quite a few dollars at the very soft period. In our view the worst of the adjustment downward is probably behind us. We have the rest of the year moving through to March 31, '92, to make an average of \$23. Now, what we have been is accurate three times out of four. In fact, we've been more accurate than ever: three times out of four. We put this price out. We say to Albertans: "We're giving you information. We're letting you judge with us what are the parameters of our forecast of revenue. This is the proxy for oil and gas revenue." Albertans can then judge it for themselves. They can look at it, and they know that if the price goes down, we may have a little problem; if the price goes up, we have savings. That's what we're doing, Mr. Chairman. If we hadn't put the price out, first of all, these people would have nothing to talk about, but in any event, they would criticize us for not having the price out there. That's the illogical nature of their comments.

Let me say that in listening to my colleague from Calgary-Buffalo I'm reminded of an old friend of ours, Jethro Tull. To paraphrase, Jethro onetime said, and I think it applies to the Member for Calgary-Buffalo: too old to rock and roll. And here's where I make the change: too old to learn. He's got to get into contemporary time, Mr. Chairman. Surely the Member for Calgary-Buffalo, who used to be the greatest rock and roller around the world, now is too old to rock and roll. We all agree with that; we go through that transition ourselves. No question about it. But now he's too old to learn. That's where it's really difficult, because he used to have a sharp mind. He used to understand these difficult transactions. Now he's making these very ridiculous statements that to my way of thinking I just can't understand.

He talks about our tax system for example. Well, he would know that anytime you have a tax in place, you have lost your progressivity. Anytime you have a tax levied, it becomes immediately regressive. Every time you tax someone a dollar, no matter what your income level is, by definition it becomes regressive. What I can tell you, though, is that here in Alberta we have one of the most progressive tax systems of any province in Canada. I'd like to say we're the most progressive, Mr. Chairman. Do you know what? We're not. Darn it, we're not. We're only the second most progressive in terms of our tax arrangements.

9:40

MR. SIGURDSON: What about health tax?

MR. JOHNSTON: Well, I'll give you the reference if you like. There's going to be a publication coming in the Canadian public

administration in the next two months which will do a very detailed analysis on this. Manitoba has the most progressive tax regime. The only reason they have the most progressive tax regime, and you have to think about it for a minute, is because they tax the higher income levels higher than other provinces do, not because they relieve the low-income people; it just happens in this particular calculation that they're one province that taxes high-income people more. Alberta has the second most progressive tax regime of any province in Canada. The publication is coming in the Canadian public administration. It'll be out in the next couple of months or so, and it shows that Alberta is in fact the second most progressive tax system in Canada.

Why is that? First of all, we have the lowest personal tax of any province in Canada. We have eliminated or reduced the tax for more than 500,000 Albertans through our own selective tax reduction program. I know it's a booming population, 2.5 million people, but only about 1.2 million or 1.3 million pay tax, so of 1.2 million, say, 500,000 Albertans get some break. That's why we have the most progressive tax system in Canada. I don't want to mention the fact that we're the only province that has no retail sales tax, Mr. Chairman, but we are, and that certainly adds to the progressivity of the overall tax regime. It certainly does.

The member talks about the Principal Group. Well, at one time I heard him say that there was \$22 million worth of payments to lawyers. I just forget what the member's profession is, but he knows that somewhere along the line there's a way in which this system pays lawyers more than the rest of us. I don't know how it is, Mr. Chairman, but that's how it is. He knows how it works. He said \$22 million. How did he get the amount? I bet he went to the public accounts. I bet he took his \$400,000 or \$500,000 of research money and said, "Have a look at the public accounts and see what you find," and he came up with \$22 million. That's a good estimate; that's good enough for me. I think it's pretty close to \$22 million. The point is that it's in the public accounts. That's why, when he asks his foolish questions that even the member at the back can't understand and the House leader can't interpret, in fact the answers are available elsewhere. Twenty-two million dollars: available in the public accounts - check it yourself. Look under Code, for example, one of your colleagues, one of the people who ran with you, and see how much he got. The total is about \$22 million. The total costs are provided right here. That's why, in the estimates that the member talks about, the Regulation of Financial Institutions is down so much: primarily because we've reduced our payments for Principal Group. That's exactly what happened.

Now, on stabilization: a reasonable question - one out of 50 ain't bad. Maybe I shouldn't say he's too old to learn; at least he can still read, Mr. Chairman. Stabilization is a fascinating process. We've been fighting the federal government on this approach over five years, because the reduction in our income in the province in 1986 was far greater than any other province, driven by external forces and not discretionarily. Whereas the NDP in Ontario could have taken some more discretionary steps to correct their problem, we had it driven by external forces.

We made a claim against the federal government for over \$560 million. On December 24 we settled part of it. A \$150 million cheque or so, plus or minus \$2 million, was given to us by the federal government to settle part of the claim. Now, \$200 million remains unsettled, and that has now gone to an arbitration board. It was our view that an arbitration board is much more effective and swift in coming to a conclusion than the court system, so both governments opted for the arbitration process. I don't have the names of the people who are involved, but they

are lawyers. They are well-recognized lawyers across Canada. Some have been in the court system and are now back in private practice. A three-man panel appointed by the federal and provincial governments is now sitting on this issue, looking at the arguments, and hearing the views of both sides. We expect that by June of this year we'll have a final determination on the question of the \$200 million outstanding claim under stabilization.

Now, the member from Buffalo is fairly accurate. He says, "What happens with respect to . . ."

MR. FOX: Calgary-Buffalo.

MR. JOHNSTON: There's only one Buffalo, as there's only one Vegreville. You know, if you said "West," then they'd say, "Is that Lethbridge-West or Calgary-West?"

MR. FOX: "East is East, and West is West."

MR. JOHNSTON: Even we can interpret that, Derek.

MR. HORSMAN: There are a lot of socialist dinosaurs though.

MR. JOHNSTON: That's right. "Give me a home . . ." eh?

The stabilization is the following, Mr. Chairman. As you know, we have in Alberta our own corporate income system, and the corporate income tax system allows us to establish economic objectives and to drive decisions which encourage private-sector development, allows us to set our own policies, to trigger investment. We collect, and therefore on that basis we have a very efficient system. The cost of the system, in fact, is below what we expected because of the collections and because of the allocation of revenue as between provinces comes back to Alberta more efficiently. We use the corporate tax system to deliver the Alberta royalty tax credit. It's administratively efficient. You can simply allow the dollars to flow through the quarterly payments by deduction, or we can in fact collect it back on one basis. So we use the corporate tax system to deliver the ARTC redistribution of dollars on royalties back to the oil companies.

The federal government claims that it should be a deduction from corporate income tax. Because it's delivered through the corporate tax system, we're arguing that in fact it's a royalty reduction, and that's where this whole disagreement lies. We have a very strong case. The evidence, in fact even the federal government's position suggests that our treatment has been consistent with the way in which they have handled this before in terms of their own reporting systems, and we have now, I think, essentially finished our arguments. We'll have a satisfactory settlement, I would guess, sometime before the end of June. At least we'll have a conclusion. We think we have a very good case. The amount at risk is \$200 million; obviously, it's quite a significant amount.

In part, the difference in our deficit has been accounted for by this very stabilization question. I've explained it to the House before. On one hand, if you've got a \$500 million claim, you have to have it into the account somewhere. It drives the accountants crazy, I know. They don't know when you earn it, when you're not going to earn it; they don't really understand all the ways in which the income can be triggered. But the second thing we have to do is make sure that the perception is there that in fact we are aggressively claiming the \$500 million amount, and so we have to disclose it. So everyone knows the amount. To date we've already collected over \$225 million, I

believe, Mr. Chairman. I've explained the \$200 million. So totally, of the some \$560 million, we're now down to the fine-tuning on approximately \$425 million, but we had a difficulty in terms of timing because we couldn't get the federal government to the table in terms of the negotiation of process. We now have it done, and we now think we're on the road to conclusion. So that is where we are on that aspect.

One other item with respect to the Public Utilities Income Tax Transfer Act. My colleague the Minister of Energy heard the comments, I'm sure, but I think the federal government is not going to change its view with respect to its own position on rebating that tax. Other provinces keep the federal income tax rebate for themselves; we flow it through to the consumer. The federal government has already brought down a budget between the time we adjusted our own tax on utility companies and the present time, and they did not adjust it. So it's likely they will not adjust it in the future. That's roughly where we are, Mr. Chairman.

Just let me take a second to scan some of these items. I think there were some questions about the ministerial office. I don't make any apologies for an expansion to my costs of operation. We have to be efficient. We have to be out there doing things, and we have to be aggressively traveling, seeing people who are involved in Alberta, telling them about the opportunities here, triggering investment.

MR. ORMAN: And responding to motions for returns.

MR. JOHNSTON: All the time it takes to respond to motions for returns is a big cost. The other thing is that every time I go out of town with O'Brien, he makes me pay. So I make no apologies for that whatsoever. It costs more to be in government. We're going to continue doing our job as effectively and as aggressively as we can, and if you don't like it, too bad. We're going to continue to spend the money that's necessary to get the job done with respect to our own staff.

In the case of risk management, the 76.7 percent decrease is due to suspension of premiums paid to the Risk Management Fund. Equity exists in the fund to meet the projected costs. We don't have to charge the departments any more for that.

I've already explained the regulation of financial institutions. I think those are clearly talked about. AFFDA, Alberta farm fuel distribution allowance: you've seen the adjustments outlined in the budget, a two-step adjustment to AFFDA. The theory there is that we can best assist the farming community by a direct income side as opposed to cost assistance side, and we've been to some extent moved in that direction by the federal government's own programs on GRIP and NISA and others. In any event, that's where the movement is, so we've had to back away in terms of the envelope to adjust some of the redistribution of dollars in that budget led by my colleagues the two ministers of Agriculture, who have done a superb job on that side.

I think those are the fundamental questions. Obviously I look forward to other comments, and I think to date that covers off at least 90 percent of the comments and questions raised by my colleagues.

Thank you.

MR. ACTING DEPUTY CHAIRMAN: Edmonton-Kingsway.

9:50

MR. McEACHERN: Thank you, Mr. Chairman. I'm delighted to be here in time to hear the Treasurer rebut some of the

comments of my colleagues and the Member for Calgary-Buffalo, because the Treasurer, as usual, is pretty good at throwing out a lot of numbers and passing over things in a rather strange way.

I loved his Telus analysis. I'm not going to take a lot of time to rebut it, particularly at this stage, except to just point out a couple of minor things like, for instance, that we paid \$160 million for the company and gave Telus another \$15 million management contract, so that's \$175 million. The \$204 million in losses added to another \$525 million in guarantees of sales of one kind or another does add up to \$900 million. So the Treasurer is totally underestimating the liability of the taxpayers on that particular thing.

But TR and T is coming up next Monday, so I'll save most of the stuff on that for then, except to say one thing. That is that when we bought the company for the \$160 million at the end of December, everybody made the assumption and passed out the information as if that was the final dollars, the final figure for 1990. Lo and behold, two or three months later along comes this \$204 million whammy, plus the \$43.3 million that's thrown into the middle of there somewhere. Some people say it's in; some people say it's out. It's a little hard to figure out. The principals of the company said it was part of the \$131 million; the Auditor General's office said it wasn't. We'll see as the long run goes. What we do know is that they certainly were not up front with the people of Alberta. The \$160 million was supposed to be "that's it; that covers 1990." Oh, yes. That's the way it was passed off.

A few other areas. I like the analysis he made of the stabilization request of \$539 million from the federal government. He's right, you know. He was in a bit of a bind. He had to put it in the books in order to try to convince the feds that he really expected to get it. So that did make the books look kind of funny when you came down the road and didn't get it all. Well, he did get it in parts. But the reason that I want to mention it particularly is in this year's budget speech, when you look at the forecast for 1991. Now, the Treasurer has included on page 34 for the stabilization fund \$344 million that he expected to get from that fund. Now, he did get \$148.5 million. I remember the numbers better than he does, from what he just said a few minutes ago. The \$195 million that he didn't get is still included in here as if it were part of the budget, actually. So when you get to the balance statement, instead of \$1,086,000,000 – this is on page 32 – as the deficit, you've got to add \$195 million. The Treasurer, I think, would admit that. We may get some of this \$195 million this year, but we aren't going to get it last year. I mean, that's clear; that year is gone.

If you then go over to page 38 and read this budget the way it's supposed to be read – follow on page 38, Mr. Treasurer – you will see Net Cash Requirements, which is the difference between your income and your expenditures, of \$1.76 billion at the bottom of page 38. Now, that does not include the \$195 million that he claimed he was going to get in the figure at the top of that column, which is the Budgetary Deficit of \$1,086,000,000. So add that other \$195 million in, and you're almost at \$2 billion.

MR. JOHNSTON: That's a revenue, remember.

MR. McEACHERN: No. This is Net Cash Requirements I'm looking at.

What the Treasurer should be admitting is that the budget deficit for last year is going to be \$2 billion, within \$100 million or \$200 million, yet he has organized the books in such a way

that most people look at page 32 and say: "Oh, he was right. He just had a billion dollar deficit last year like he said he was going to have." Yet, clearly, if you know how to read the books, you can use the Treasurer's own numbers to show that it will be \$2 billion. Now, how he's going to doctor that one for next year, for when the public accounts come out – well, he just isn't going to. The public accounts will show a \$2 billion deficit for 1990-91, and the Treasurer's own forecast shows that to be the case. That will raise the debt of this province to \$12 billion. The public accounts show that it was \$10 billion for March 31 of 1990, and so last year's forecast, using his own figures, will add another \$2 billion to that.

Now, Mr. Chairman, that makes the \$12 billion debt equivalent to the heritage trust fund assets even by the Treasurer's own rather inflated reckoning, because of course some of those assets aren't as good as they might be. Others are better, I'll admit, although I can't help but be amused by the Treasurer's analysis of what he's going to do with the assets that are worth more than the book value. He's going to sell off some of the value of the heritage trust fund – that is, the ones that have more value than the book value – put the excess into general revenues to help pay down the debt, return to the heritage trust fund the book value, yet he still thinks he's going to raise as much money out of that as he was when it was worth more.

I'll just make up an example for you. If you take the commercial investment division of the heritage trust fund – and I'll round the numbers off a bit. But say we put the book value as \$400 million, and say that the market value is \$500 million. What the Treasurer is trying to tell us that he can do is take that \$500 million out for a moment, take \$100 million of it and put it toward the debt, return \$400 million to a different section of the heritage trust fund – I assume the cash and marketable securities section; that's what always gets all the money – return the \$400 million to there, and somehow that \$400 million will continue to earn the same kind of money as the \$500 million was earning. Of course, that can't be done. I mean, he's sort of manipulating the numbers and trying to count money twice, in a sense, in his analysis of how he's going to do that.

Now, while we're on the debt business, I would like to point out that if you look in the budget, you'll also find – I think it's page 41; yes – you'll find that the unmaturing debt of the province is \$9.98 billion. Right? It says it right there on page 41. Now, if you consider that the Treasurer just borrowed another \$500 million in February at 10 and five-eighths percent . . .

MR. JOHNSTON: What?

MR. McEACHERN: You just borrowed \$500 million in February at 10 and five-eighths percent.

MR. JOHNSTON: No.

MR. McEACHERN: Well, that was what the advertisement was indicating that you intended to do, and I assume you did, and that's what the order in council said you were going to do.

Considering that he's also now in the process of borrowing another \$500 million at 9.75 percent – that's to be done by June 7 – we have now borrowed \$11 billion, and if I remember last year's amendment to the Financial Administration Act of the province, the Treasurer has a limit of borrowing allowed of \$11.5 billion. He is pushing awfully close on that, and I'll be interested to see if he brings in another Bill this year raising it to 12

and a half billion dollars or 13 and a half billion dollars or whatever he thinks the debt is really going to be instead of the balanced budget that he has claimed, the balanced budget, of course, being a sheer fiction of the Treasurer's imagination. I mean, any cursory glance at the revenues that he's projecting would indicate that he's overestimating revenues in the taxation sector by a couple of hundred million.

He was bragging a minute ago about the taxes of this province. I've got a couple of little gems for him. For one thing, in his own book he says that the corporate income taxes amount to 7 percent of the revenue pie and personal income tax amounts to 24.4 percent. Well, that's three and a half times as much personal tax as it is corporation tax in this province. It used to be 50-50 not so many years ago. But he brags about the wonderful tax system we have. Now, he continues to forget that the health care premiums are really a tax, but that's okay; we're used to that argument. If you throw that in, of course our taxes aren't any better than hardly anybody else in Canada.

But the one that he really likes to brag about is his corporate tax structure in this province and how it's really a great climate for the businessmen of this province. I want to read him something from the Canadian Manufacturers' Association, Alberta section, called *How to Achieve Manufacturing Competitiveness in Alberta*, put out in December 1990, so it's fairly current.

10:00

If you leaf through - it's a fairly brief document with incredibly sharp points and details in it. I'm going to skip straight to the most interesting section, on the government. It says:

1. The Alberta government either does not understand the importance of manufacturing or does not care to understand.
2. The Alberta government either does not understand the meaning of diversification or does not care to understand.
3. The Alberta government either does not understand competitiveness associated in the global economy or does not care to understand.
4. The government continues to try to pick "winners" such as Pocklington, GSR, Myrias, Climate Master, Northern Steel, all unsuccessfully.
5. There is no central body responsible for or interested in the manufacturing sector.
6. There is no vision or orderly plan for development of Alberta's economy or the diversification potential associated with Alberta's resource sector.

On taxes specifically, they say this:

1. Taxes on Alberta's manufacturing establishments are now 2 1/2 to 3 times greater than Ontario and Quebec and 4 to 5 times greater than areas in the United States where we must compete.
2. The Alberta government continues to claim that Alberta has the best tax regime in Canada even though they have been shown that this is incorrect.

Well, Mr. Chairman, so much for taxes and the Treasurer's brags. Absolute nonsense.

I want to go back to the heritage trust fund for just a moment. It's most interesting to me that the Treasurer claims that the revenues from the heritage trust fund will be \$1.555 billion on this \$12 billion heritage trust fund, yet he's only going to pay \$1.050 billion on the \$12 billion debt, on the same size of debt, the same amount of money. Now, it's true that he may have some contracts so that there will be a difference, but I guess what he's really saying there is that that \$500 million extra is going to come from selling assets of the heritage trust fund. It

would seem to me, Mr. Chairman, that the Treasurer should be more specific about what he intends to do there.

The accounting for the heritage trust fund plan changes for 1991-92 is a very shoddy bit of work and very poor reporting. I mean, they make up this nice pie and indicate how the various sections are going to change, but there is really not much in the way of details and serious accounting to show what the intentions of the government are with the heritage trust fund. So this wonderful thing that the Tories have called the heritage trust fund and keep holding up as a mark of how wonderfully they've managed the economy is being changed severely. There's a number of adjustments and changes being made - the Alberta Mortgage and Housing portfolio being sold down; Telus shares and AGT's were sold; some were shifted over and became assets in a different section - but there's very little specific information about what the government intends to do with this trust fund. I think that the people of Alberta deserve a better accounting and to be taken into the confidence of the Treasurer and told what their intentions really are, rather than this rather glib sort of, "We're going to sell off some assets, keep the excess profits in to pay down the debt, return the book value to the fund," yet continue to make the same kind money out of the book value that they were making out of the higher value or the market value. It cannot be done, Mr. Chairman.

Now, that answers some of the nonsense that the Treasurer was trying to put forward earlier. I want to get on to an agenda of my own just a little bit, and I want to start by saying that it's rather odd that we are doing the Treasurer's estimates and talking about a few million dollars in the Treasury Department when what's really at stake in the way the government is running the province is something like \$3.5 billion in loans, loan guarantees, and investments, and that's in the ad hoc program. Not entirely; some of that is in specific programs as well: Alberta Opportunity Company, Vencap, the export loan guarantee program. Something the Treasurer might do in terms of looking at some of those economic policies and practices is that he might commit himself to giving to the people of Alberta a summary of what happened with the Alberta stock savings plan. It's been dropped. It no longer is in effect. How did it make out?

We used to get some information about the companies that got tax benefits under the Alberta stock savings plan. The Treasurer has discontinued doing that. We have had no summary of that program as to what was good about it, what was bad about it. The Quebec stock savings plan is still in effect; it's still going and seems to be doing some good for that province. I can't help wondering why the Treasurer hasn't at least put that on the agenda, talked about the good points and the bad points and why he dropped it. Why didn't he improve it or change it if there were some problems with it?

The same with the SBECs, the small business equity corporations; there was no summary, no analysis of that. We know that most of the money got fiddled away in rollovers, but we really haven't had an analysis of that as to why it was shut down, what could have been done to make it better, what it cost the taxpayers, and what benefits there were from it, if any.

The critique that this party has been doing on this side of the House of the ad hoc programs is a very serious critique. The numbers are horrendous. The Treasurer's own budget shows that in 1989-90, 35 percent of the dollars in those programs was lost. The 1989-90 public accounts show that 31 percent was lost in those ad hoc programs. Yet the Treasurer and the Minister of Economic Development and Trade have consistently tried to say that they've had a 95 percent or better success rate. The numbers are strictly fictional; they just make them up off the top

of their heads. Even the export loan guarantee program, which they try to confuse with these ad hoc programs – and we have not made that confusion. It's always been the Minister of Economic Development and Trade quoting what he thinks are export loan guarantee program figures when we talk about the ad hoc programs, because, you know, they're better, and it is a better program, of course, because at least it's a program that's got some criteria. But even that had an 8 percent loss in '89-90, yet he consistently tries to say in their own public accounts that there's less than 3 percent losses.

The fact of the matter is that the Treasurer and the Minister of Economic Development and Trade keep trying to throw in some of the program funding, like the farm credit stability program or like the student loan program, to muddle up the waters in terms of analyzing the figures. We don't know what the farm credit stability program losses are; they're not easy to work out, considering that most of the loans are made through banks. I mean, the government puts up all the money, the banks do the administering, the government takes all the losses, but nonetheless it's not clear and easy to see how that one works out. Alberta Agricultural Development Corporation obviously has extraordinary losses every year, which we cover out of the general revenue account. Alberta Mortgage and Housing Corporation has extraordinary losses, which we cover every year and allow them to stack up a big debt. So for the government to talk about this 95 percent success rate or less than 3 percent failure rate or .1 percent failure rate is sheer nonsense, Mr. Chairman. The public accounts do not bear them out.

[Mr. Jonson in the Chair]

What we have is a discussion supposedly on the estimates of the Treasurer, but in fact the most interesting action is not in the Treasurer's estimates for his department at all. The most interesting economic problems and questions arise from what the cabinet does in secret, mostly, or through some of this program funding. That's where the real action is. The Treasurer is responsible; he is responsible whether it's the Minister of Economic Development and Trade's department, the TR and T department, the transport department, or any other department that is putting up money; the forestry department, for example, in its \$400 million loan guarantee to Al-Pac. The Treasurer is the one that's supposed to keep a tight rein on the books, and he's not been doing it.

Unfortunately, in the ad hoc programs in many, many cases it turns out that the Treasurer and the government are merely bailing out a friend, often connected with donations back to the Tory Party, rather than trying to diversify the economy or save jobs, which is their usual excuse. Furthermore, not only do they get involved in giving money out of the ad hoc program, but some of those same companies are then sent to some of the program funding like Alberta Opportunity Company, like Vencap, or like the export loan guarantee program, and in fact maybe all four. Myriads had money from all four and so did GSR. That's just a way of diffusing the amount of money you're putting in or making it harder for anybody to track down how much those companies actually got from the government. Quite frankly, it's a scandalous way to run a province.

10:10

Now, perhaps the most scandalous thing that the government is doing in terms of the economy of the province: right now we're riding a little bit of a boom out of the building of pulp mills in this province, if you call a 1.6 projection for profits a

boom. Now, 1.6 isn't a heck of a lot to brag about. I'll admit that it's better than the rest of the country except Newfoundland, which is 1.5, practically the same. Of course, they're getting it out of the Hibernia, a sort of artificial capital from outside, probably an uneconomic project, probably more tax dollars going to be wasted than the oil is worth that we get out of it. But the companies will make money, that's for sure, because that's the way the Tories at the federal level work, and that's the way the Tories at the Alberta level work. It's going to be the same with our pulp industry here. You'd think we would have learned from how we developed the oil industry that going out and getting big corporations from outside Alberta to come in and giving them sweetheart deals to take our resources at a cheap price would not be a way that anybody would want to repeat as a way of developing an economy. But this government learned nothing from the oil industry. They've now deregulated.

I'm going to just stop for a minute on that deregulation back in 1986. This government did that just in time to lose 3 and a half billion dollars in oil revenues and had a \$4 billion deficit that year, which was bigger – it was \$1,600 per person in Alberta lost in 1986, yet this Treasurer's got the gall to stand up and complain that Ontario had a \$1,000 loss. Ontario today is in much the same position we were in 1986.

AN HON. MEMBER: Increased their spending 13.5 percent.

MR. McEACHERN: Yeah, but the Treasurer spent \$13 billion, which was much higher than was planned to spend in 1986, and he only took in \$9 billion, for a debt of \$4 billion. So that is bigger per capita by far than what's happening in Ontario right now. At least Ontario has recognized that a recession needs something proactive done to stop it from getting worse, and that recession . . .

MR. JOHNSTON: It's socialism.

MR. McEACHERN: No, it's Keynesian economic theory, and it works. It's just the supply-siders and the monetarists who have given up on it, and of course, because they've mucked it up for the last 10 or 15 years.

It's the federal Tories that are responsible for the recession in this country, the first purposely perpetrated recession in the history of this country since World War II. The Canadian government, the Tory government, your friends, ran high interest rates and a high dollar to the point where we went into a recession. They did it on purpose. Between that and the free trade deal, it has decimated the Ontario economy. The New Democrats are not responsible for the recession. They're just picking up the mess made by the Liberals and the Tories.

I want to get back, though, to the pulp mill development. If ever anybody thought of developing an economy in this province by bringing in Mitsubishi and Daishowa and giving them a chunk of land, in the case of Al-Pac the size of England, and saying, "Here, it's yours; do what you like with it" – I mean, how can any government be so ridiculous? After what you've done with the oil industry and the billions of dollars this province lost in the oil industry compared to what it could have had out of the oil industry, you're now turning around and doing the same kind of thing with the pulp mills. Here we are, building 13 pulp mills overall, with the ones that are already there, and one paper mill. Now, isn't that great manufacturing . . . No wonder the Manufacturers' Association said that this government has no plans for manufacturing. There's nobody interested in manufac-

turing. They're not interested in secondary development of industries.

Well, they are sometimes. Actually, they have done some things, like in the agricultural industry, through the heritage trust fund; they had some secondary development there. They made small little attempts. But here we are, taking the major new industry of this province, and instead of going to local people and encouraging the development of parks and recreation kinds of things like hunting and fishing, like swimming and campgrounds and maybe trapping among the natives, instead of going to the small sawmill companies and saying, "Saw some of these trees into lumber," instead of trying to develop maybe a manufacturing industry based around furniture using that lumber, this government goes out and asks Mitsubishi to come in and rip us off and pollute our rivers and turns over a chunk of Alberta the size of England to them and says: "Here; this is an FMA. You've got it for 20 years, you can renew it after the 20 years, and you can do what you like with it."

They're going to mow down our trees like they were wheat fields, and they're going to pollute our rivers, all for a few jobs now and very few jobs in the long run, because they are so highly mechanized that there are not going to be a lot of jobs associated with that. The price of pulp is already going down. Al-Pac does not have to pay back the \$400 million you gave them unless they make a profit. Well, they'll keep track of the books, and they won't make a profit. They'll never pay it back. They are allowed to act as if they owned that land. They're allowed to say to the oil companies that might come in and want to run a seismic line through or clear a site for a well – they're allowed to charge them eight times as much for the timber they cut to do that as what they're paying the Alberta taxpayers for the right to cut down our trees.

Mr. Chairman, it is the most ridiculous economic development plan I've ever heard in my life. It is true that we're getting a little bit of a shot in the arm right now through a bit of construction of plants, so Alberta isn't having the same kind of recession as the rest of the country. But consider the amount of oil money we've had around this province and have squandered; consider what we could have done with this province if we had looked after ourselves first instead of jumping into a free trade deal with the United States that is going to gut this country of its manufacturing. Now we're going to go into a Mexico free trade deal that's going to pit Canadian workers against Mexican workers that work for under a dollar an hour.

I want to talk a little bit about free trade and the free trade deal. If we're going to develop an economy, we have to look at it in the world context because we are a trading nation. I agree. I'm not suggesting that we hide our head in the sand and not try to get involved in international trade, but to make a trade deal that is far more than just trading goods, which is what it purports to be, sounds nice. You talk about trading goods. You're talking about tariffs and a few quotas, and you think that sounds all right. Let's lower them gradually, and let's have more free trade in the world. Nobody would be against that if it's fair trade and brought in gradually, but under that name of free trade we are allowing foreign investment into this country at an unprecedented rate. We already have far too much. We are the most foreign-owned economy of the modern industrial nations. We are not going to stay industrial very long or have manufacturing very long at the rate things are going. Also, intellectual property, services, and agriculture are on the chopping block.

The agenda of George Bush, Brian Mulroney, and the big multinationals is not a kind agenda for the people of this country. It is basically an agenda that says that big corporations

should have free sway, that there should be no national boundaries in the way to slow things down or to make sure that the people are getting a good deal out of any of the economic activities carried on by these big corporations. These same big corporations that are pushing that very vicious kind of free trade, the globalization process, in North America are lining up to get into Europe, knowing that they will have to live by a different set of rules. In Europe they have a social safety network and a system set up that they are not going to erode for any multinational corporations. It is well enough entrenched even in the Conservative countries. Old Ma Thatcher wrecked it a little bit in Britain. Nonetheless, basically the Germans, the French, the British, and most of the countries of Europe have a solid enough commitment to a social system that allows workers some freedom of choice, allows them to retrain, allows them to change jobs. It allows them a social safety net that means there's some security in that country for those people. The North American corporations that are trying to get into Europe are prepared to live by the rules that will allow that to continue to exist, yet in North America the whole purpose is to treat the worker as if he had no more rights than a lump of coal or a ton of iron ore. [interjections]

10:20

MR. DEPUTY CHAIRMAN: Order in the committee, please. Provincial Treasurer.

MR. JOHNSTON: Mr. Chairman, that was the nicest 30-minute end I've ever seen. I tell you, when I listen to the NDP Party – and by the way, *Hansard*, that's s-i-c, NDP Party – they are absolutely carving out for us a strong Conservative future in this province. Very, very good. That speech did it.

Now, we have hinted from time to time that there may be some possibility that there could be some corporations looking at their investments in Ontario. Some corporations may say that given the size of the deficit for whatever reason, given the socialist agenda which has been spelled out, and given the economic propensity of this government to drive away foreign investment, maybe Ontario isn't the place to be. We're saying to all comers in terms of new investment: Alberta is, in fact, the place to be. We want you here.

Now, I've heard a lot of economic nonsense in my time, but that member is an economic troglodyte. You know that for sure. He's a prehistoric economist if I've ever seen one, and the more he talks, the more he drives investment in our direction. Now, the only thing we have to guarantee – and we will do it; I know we'll do it – is keep him in the opposition. We're going to do that just as clear as we're standing here today. I mean, I can't believe . . . [interjections] The real thing. He had the audacity to talk about Europe, and Eastern Europe in particular. There's only one thing you have to remember with respect to the debate between capitalism and socialism. This debate started in 1920-some; it's lasted up until about a year and a half ago. Do you know what the outcome was? Guess what? Socialism lost. That regime is over. That economic theory is an economic troglodyte. It's a caveman approach to it.

The more and more the member talks, the more and more we feel stronger, the Conservative Party position becomes stronger, and we as a province start to attract more investment. That's why Ontario investors must look themselves in the eye in the mirror and say, "Where is the best place for us to invest?"

MR. KLEIN: Move west, young man; move west.

MR. JOHNSTON: The Turner hypothesis, the Klein hypothesis: move west, young man; move west. That's what's going to happen. It's exactly what's going to happen, Mr. Chairman.

The economic necessity is that we're now in a global investing world. Companies are no longer national companies or provincial companies. They're global companies, and they invest wherever the marginal rate of return is best, where there's a strong labour market so they can have highly skilled people, and they become good corporate citizens within that region. Even Mr. Pashak will tell you that at one time we had to attract foreign investment here in the oil industry. What did it do? It gave us a quantum leap into economic growth, brought the technology here, and allowed us to accomplish an awful lot in terms of developing our own resource. [interjections] I know that at least Mr. Pashak understands some of those marginal economics. He should take the time to explain it to the Member for Edmonton-Kingsway.

MR. DEPUTY CHAIRMAN: Order, hon. member. The Member for Calgary-Forest Lawn.

MR. JOHNSTON: That's right: Mr. Pashak, the Member for Calgary-Forest Lawn.

Mr. Chairman, I don't even have to debate the issues that have been brought up by the Member for Edmonton-Kingsway. It is, in fact, one of the most remarkable outlines I've ever seen. I only say one thing to you, my friend: keep it up; just keep it up.

Mr. Chairman, there were some comments about the amount of debt. I might just take a second to dwell on the debt amounts. I won't deal with the classic of all comments, though: we aren't going to get this year what we didn't get last year, or words to that effect. There's only one answer to that, and that's accrual accounting. In fact, I should say that in this year's cash flow we'll actually make more cash this year than the \$33 million surplus; we'll make about a \$92 million, \$95 million positive cash flow. One of the reasons is because, of course, we're going to be collecting on the Telus shares. We'll get the cash this year, but the second installment of that cash payment has already been accrued into last year. Accrual accounting: check it up. It's under A, a-c-c, a-c-c-r. You'll find it if you look for it, and it'll explain to you what's happening in terms of our disclosure here. That's all I have to say with respect to that.

I will say that the net debt of the province right now is \$10.094 billion. Of course we have to go to the market, Mr. Chairman. Of course we go to the market. We're in the market. We're in fact the best players in the capital market of any province in Canada, and the reason we are the best players now is because of – guess what? – Ontario's deficit. Again, I can't thank them enough. We can go to the market. I'll tell you; here's what it means. We can be in the market – he mentioned the February issue. Normally, Ontario borrows on the market about 60 basis points over government of Canada. That's the so-called provincial risk premium or the spread above government of Canada's. This issue that the member referred to – we were in the market at 53 and a half basis points above, a full 10 percent better than the province of Ontario, and it was a blowout. People want our bonds. They're now avoiding the Ontario bonds, and you're going to see that 60 basis points spread that I referred to widen out to 60 or 70.

MR. McEACHERN: They still have a triple A rating.

MR. JOHNSTON: The rating is immaterial. Our rating, in fact, is lower, but we can, in the market's view, borrow money cheaper than Ontario can. Why? Because of the NDP Party deficit. Because of the NDP Party deficit; sic, NDP Party deficit. Yeah, that's why, and we thank you for that.

Now, the second point I want to make here is, in fact, that we're going to have to borrow more money this year. It's not going to increase our deficit. It's not going to increase our debt. It's called rollover, not "roll over, Beethoven." It's called rollover. We're going to roll the debt over. As it matures one day, we're going to refinance it over here in the same amount of money. It's called a rollover. In fact, we do have about \$2 billion of rollover money taking place. In June of 1986 we borrowed \$1.7 billion or so dollars. We have to roll it over. We're not going to repay it. We're not going to increase it. We're simply going to roll the debt over. The reason we can do it is because (a) we have a balanced budget – capital markets appreciate that – (b) we have the strongest economy of any province in Canada, and (c) nobody wants to borrow the socialist paper. They don't want to buy it. They're tired of it. It's too risky, Mr. Chairman.

Now, with respect to the rating, Ontario, since its deficit budget's been raised, is now on credit watch. It's now on a credit watch. They've got a very poor economy, they've got a socialist government, and they have a deficit beyond all proportions, Mr. Chairman. The market knows it, the market's responded, and right now Alberta is the best in terms of borrowing of any province in Canada. In fact, in many cases we can borrow as cheap as some sovereigns in Europe. That's how well respected we are in the market, and I have to give my appreciation to the members of my department in particular, who have made that possible.

Mr. Chairman, that's about all I have to say today. With respect to my colleague's views, it is very clearly a strong difference of opinion about the economy, about the resolution of the economy, about dealing with change, about dealing with this question of dynamics that we're facing in the world. We know that the people of Alberta believe in the Conservative Party in terms of its management and its leadership and will continue to reject the socialist view as to the future. We know that, it's happening now, Mr. Chairman, and on that basis I would sit down and listen for other comments.

MR. HORSMAN: Before I make the appropriate motion, I can assure members of the Assembly and the committee that I will be making sure that I use my communication allowance to circulate the speech by the hon. Member for Edmonton-Kingsway to my constituents, because it is without any doubt the worst example of economic mishmash I've ever heard in this Assembly.

I know I shouldn't get involved in the debate; therefore, I move that the committee rise, report progress, and request leave to sit again.

[Motion carried]

[Mr. Jonson in the Chair]

10:30

MR. ACTING DEPUTY SPEAKER: Order please.
The Member for Lacombe.

MR. MOORE: Mr. Speaker, the Committee of Supply has had under consideration certain resolutions of the Treasury Department, reports progress thereon, and requests leave to sit again.

MR. ACTING DEPUTY SPEAKER: Are you agreed with the report by the Member for Lacombe?

HON. MEMBERS: Agreed.

MR. ACTING DEPUTY SPEAKER: Opposed? Carried.

[At 10:31 p.m. the Assembly adjourned to Friday at 10 a.m.]

