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## **PREFACE**

### **A Plan for a Better Tomorrow**

*“A climate of hope and confidence must be restored.....”  
(Gerard Antle, Corner Brook)*

*Mr. Speaker*, on February 22, the people of Newfoundland and Labrador gave this Government a mandate to implement its plan for the future. That plan will meet our challenges and strengthen our opportunities for growth and development.

We have consulted the people, and we have listened. With their advice, we have made the choices to put that plan into action.

Our goal is clear - to ensure a better future for the people of this Province. Our strategy, as set out in our election platform is to:

- Deliver needed public services more efficiently;
- Maintain a sound fiscal position for the Province;
- Encourage the creation of jobs and economic growth;
- Renew our social policies to achieve greater fairness and opportunity;
- Manage our resources in a way that achieves the maximum benefits;

And do so in partnership with the people of the Province.

### **The People's Choices**

*“The fiscal position of the Province is a difficult one requiring difficult decisions and choices.”  
(President, Westviking College, Stephenville)*

During the first 60 days of this Government, all Newfoundlanders and Labradorians had the opportunity to participate in the choices leading to this Budget. These choices were not always easy, but the direction we received from the people during the pre-Budget consultations was straightforward and clear.

The people told us:

- The level of taxation on average families and individuals is already too high;
- Protect the quality and accessibility of essential services such as health and the level of assistance for the poorest among us;
- Be more efficient managers and cut the cost of Government;
- Maintain a sound financial position.

*Mr. Speaker*, we have listened to the people and we are acting.

In this Budget:

- The burden of taxation on average families and individuals is not increased;
- The quality and accessibility of essential services are protected;
- The cost of Government is reduced and new priorities established;
- A sound financial position is maintained.

## **ECONOMIC OVERVIEW**

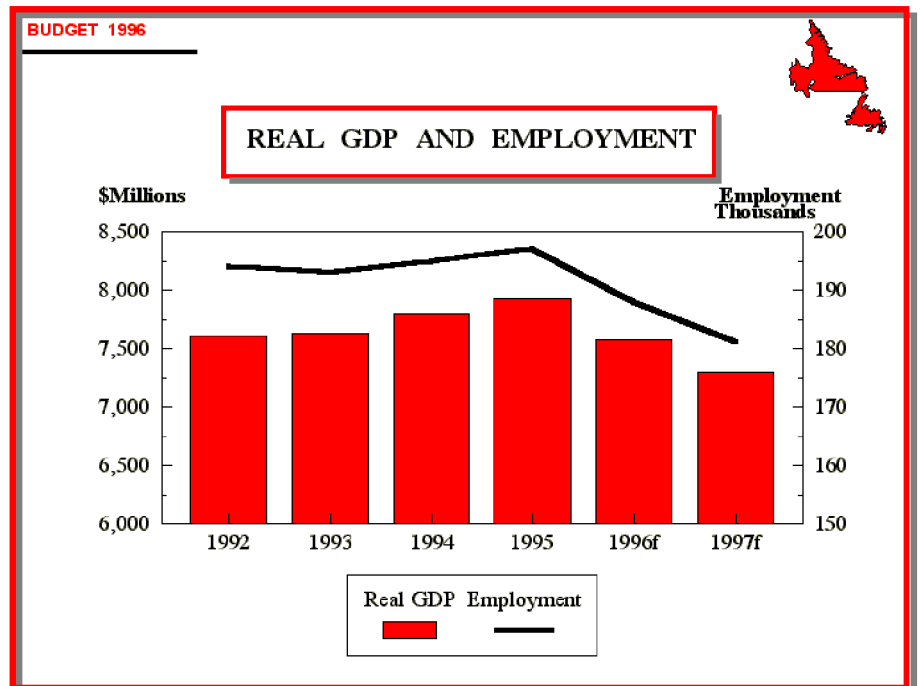
### **The Short Term**

*Mr. Speaker*, in the final analysis, the financial strength of Government and the well-being of the people depend on a strong economy.

During 1995, our economy grew for the third consecutive year, despite the continued shutdown of the groundfishery. Our major resource industries performed well, and there were positive developments in the mining and oil and gas sectors.

Our newsprint mills at Grand Falls-Windsor, Corner Brook and Stephenville have been operating near full capacity. During 1995, the value of newsprint production increased by approximately 40 percent. Our silviculture programs will help meet future demand for pulpwood.

During 1995, the value of our fish exports reached an all-time high due to our shellfishery. Aquaculture production was close to double the level of the previous year.



However, as all parties acknowledged during the recent election campaign, 1996 and 1997 will be difficult years for the economy. Real gross domestic product, employment and incomes in the Province will decline from last year's level. Hibernia spending and employment will lessen as construction ends and production begins.

In the short term, the social and economic adjustments due to the continued closure of the groundfishery will result in population declines.

<b>Table 1</b>		
<b>PROVINCE OF NEWFOUNDLAND MAIN ECONOMIC INDICATORS</b>		
(percentage change)		
	<b><u>1995</u></b>	<b><u>1996</u></b>
<b>Gross Domestic Product</b>		
Nominal	6.2	-2.4
Real	1.5	-4.3
<b>Personal Income</b>		
Nominal	1.3	-3.5
Real	-0.1	-4.5
<b>Retail Sales</b>		
Nominal	1.5	-3.5
Real	0.7	-4.7
<b>Capital Investment</b>		
Nominal	3.6	-18.2
Real	2.9	-17.7
<b>Consumer Price Index</b>	1.4	1.0
<b>Employment</b>	1.4	-5.0
<b>Unemployment Rate (percent)</b>	18.3	19.4

### **Our Economic Prospects**

*Mr. Speaker*, we will meet the current challenges. This Province will have a bright future. New industries, projects and business opportunities will foster economic growth and employment.

The Voisey's Bay mineral discovery in Labrador has revitalized our mineral exploration sector. A mine, smelter and refinery will be built in this

Province. Jobs will be created. Benefits will flow for all the people of our Province, especially those in Labrador. Revenues will be generated for all levels of Government. Other mining projects have commenced within the last year, and exploration continues at unprecedented levels.

The Province's petroleum industry will also be a source of growth. The first oil will flow from Hibernia next year. Development of Terra Nova will be concluded and other east coast offshore fields will follow. Hunt Oil will drill in the Port-au-Port basin during 1996. Amoco Canada is expected to drill two wells on the Grand Banks during 1997.

These developments will create economic benefits for Newfoundland and Labrador and for the Government of Canada.

*"It is imperative that we keep the benefits of these resources within our Province...."*

*(Newfoundland and Labrador Federation of Labour)*

We must respect our resources. We have learned the importance of conservation. The fishing industry sustained this Province and the livelihoods of the people who live in our hundreds of fishing communities for most of the last 500 years. Restructured, well-managed harvesting and processing, and proper aquaculture development, will maintain the integral role of the fishery in our economy and culture.

This cultural richness is our greatest tourism asset. Our unique and rugged character and country remain largely undiscovered. We must develop it properly - promote it aggressively.

*"We have something special on this island and the mainland of Labrador. We must market this Province as a safe and exciting place to visit."*

*(Gordon Ralph, Grand Falls-Windsor)*

## OUR BUDGETARY POSITION

*“Government must demonstrate that they are good stewards of our public revenues.”*

*(Dennis Coates, Eddies Cove East)*

### Meeting Our Deficit Targets

*Mr. Speaker*, while we made substantial progress in recent years, a significant structural deficit remained. Government tabled a balanced Budget in 1995-96 - with the help of \$90 million of one-time revenues. Last December we took corrective action totalling \$60 million to meet reduced federal revenues and increased expenditures.

As a result of those actions, the balanced Budget projected for 1995-96 has been achieved. For the first year since Confederation our debt has not increased.

Yet, despite this accomplishment, an underlying deficit remains. While our revenues decline, spending demands increase.

We must, therefore, use our limited financial resources prudently.

**Table 2****SUMMARY OF 1995-96 FINANCIAL PERFORMANCE**

(\$ millions)			
	<b><u>Budget</u></b> <b><u>1995-96</u></b>	<b><u>Revised</u></b> <b><u>1995-96</u></b>	<b><u>Variance</u></b>
<b>Current Account</b>			
Gross Expenditure	3,270.4	3,214.9	55.5
Related Revenue	<u>264.1</u>	<u>256.5</u>	<u>(7.6)</u>
Net Expenditure	3,006.3	2,958.4	47.9
Provincial and Federal Revenues	<u>3,134.2</u>	<u>3,115.9</u>	<u>(18.3)</u>
<b>Current Account Surplus</b>	<b><u>127.9</u></b>	<b><u>157.5</u></b>	<b><u>29.6</u></b>
<b>Capital Account</b>			
Gross Expenditure	272.8	273.9	(1.1)
Related Revenue	<u>146.8</u>	<u>120.2</u>	<u>(26.6)</u>
Net Expenditure	<u>126.0</u>	<u>153.7</u>	<u>(27.7)</u>
<b>Total Budgetary Surplus</b>	<b><u>1.9</u></b>	<b><u>3.8</u></b>	<b><u>1.9</u></b>

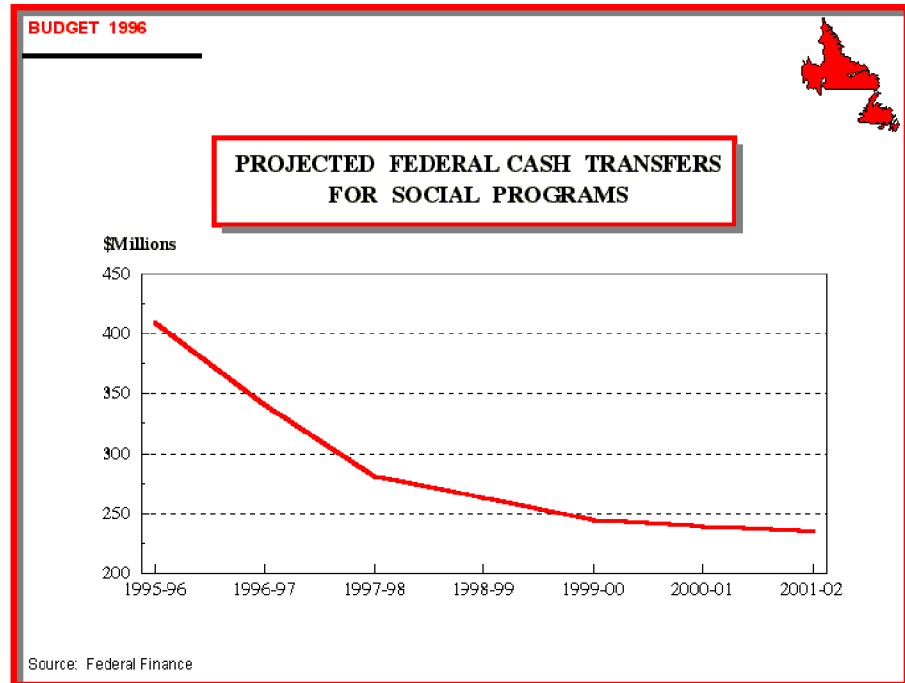
**Lower Transfers for Social Programs**

Governments everywhere are restraining their spending. The Government of Canada, in reducing its deficit, has lowered transfer payments for health care, post-secondary education, and social assistance.

Federal transfer programs must recognize the varying costs and needs dictated by differing social, economic and geographic circumstances. The Canada Health and Social Transfer (CHST) allocation mechanism announced in the 1996 Federal Budget does not provide this recognition. It places



increasingly greater reliance upon a simple per-capita allocation at a time when this Province's population is declining, and its needs increasing.



### Improving Our Tax System

Consumption taxes in the Province have long been the highest in the country. In April, a Memorandum of Understanding was signed with the federal government to harmonize the federal goods and services tax and the provincial retail sales tax into a combined 15 percent value-added tax. This will be the largest single tax reduction in the history of this Province. It will save taxpayers over \$100 million annually.

This new tax, with a rate reduction of almost 5 percent, will be implemented on April 1, 1997 - just 10 months from now.

This \$100 million shortfall will be offset over the first four years by \$348 million in transitional assistance from the Government of Canada. The economic benefits of harmonization will produce new revenues which will help offset the costs to both levels of Government.

The benefits of this initiative are many and directly respond to the people's wish for lower taxes, more jobs, and a stronger economy. The after-tax price of most goods and services will fall. The average tax burden will decrease at all income levels. We will be more competitive locally, nationally, and internationally. Our Province will be a more attractive place to do business. This sales tax reform will simplify business compliance and lower Government's costs.

*"A combined rate applied to a broader base will provide enhanced revenue benefits as the economy improves."*

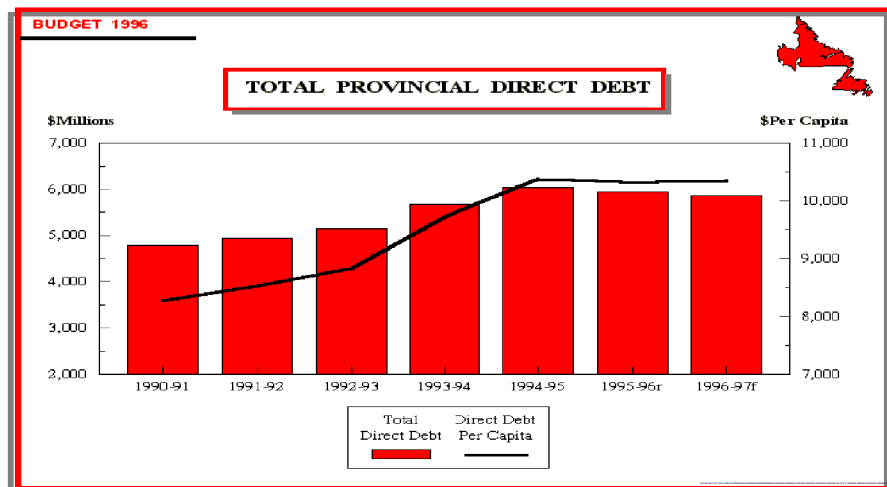
*(Larry Short, CGA Association of Newfoundland)*

### Our Public Debt

Our debt is high. As our population declines, our per capita debt increases. The \$550 million annual interest payment is our third largest expenditure after health and education. Each year that we incur a deficit we add to our interest and reduce the money available for public services.

*Mr. Speaker*, the reality is that we are now spending more to service the debt than to provide assistance to the more than 70,000 clients of social services. This money does not reduce the debt. It merely pays the interest on our collective credit card.

The time has come to take a new direction. A direction that is sustainable and responsible.



Another major issue is the unfunded liabilities of our pension plans, which add a further \$2.5 billion to our debt. The teacher's pension plan will run out of money nine years from now in the year 2005. Government and its employees must work toward a solution. We are resolved to do so with the NLTA this year.

### **The Challenge for 1996**

*"In dealing with the Province's shortfall, it is obvious that there is little room to manoeuvre."*

*(President, Newfoundland and Labrador Rural Development Council)*

*Mr. Speaker*, if we had not made the choices in this Budget, the deficit for 1996-97 would have been unacceptable. When the pre-Budget consultation document was prepared in early March, a deficit of \$230 million was forecast. Revised economic projections based on lower employment numbers indicated a greater decline in 1996 GDP. These factors pushed up our deficit projection by \$30 million.

Midyear budget corrections in recent years have created uncertainty in both the public and private sectors and diverted efforts from the real job of planning and providing services.

To help address this problem, the Budget contains a contingency reserve of \$30 million. These funds will be borrowed only in the event of an unforeseen decline in revenues or unforeseen emergency spending requirements.

The prudent choice of budgeting for this contingency brought our total projected deficit for 1996-97 to \$290 million.

### **OUR RESPONSE**

*"We must live within our means."*  
*(consultation comment)*

### **A Planned Approach**

*Mr. Speaker*, in our pre-Budget consultations we indicated that incurring a large deficit was not a choice. The people agreed. The projected deficit has to be reduced.

Our budgetary problem, however, did not begin this year. Our debt has accumulated over many years. It will be several years before we return to our previous levels of employment and income.

We have taken steps toward a lasting solution. The efficiencies achieved last fall have reduced the size of the deficit problem for 1996-97. Educational reform is underway. The health care system is being restructured. We have taken initiatives to lower future spending.

### **Strengthening Our Revenue Base**

*Mr. Speaker*, while revenues are needed to pay for programs and services, taxes influence people's spending patterns and business investment decisions. Government's revenue needs must be balanced against ability to pay and the effect of taxation upon the competitiveness of our business sector. Achieving the right balance at a time when we are faced with a structural deficit, limited borrowing capacity and the need for economic stimulation is a delicate task.

The people of the Province told us during the consultations that the average family already shoulders a heavy tax burden, and that Government must maintain a business environment which attracts new investment and jobs. We are acting upon this advice.

*"We believe there is limited room for increasing taxes in our Province."  
(Newfoundland and Labrador School Boards Association)*

We will not increase retail sales tax, we will not increase the gasoline tax, nor will we increase any other consumption taxes. There will be no increase in corporate income tax and no general increase in personal income tax.

There are only two new tax measures that will raise additional revenue from those with the greatest ability to pay.

Commencing with the 1996 tax year, to bring Newfoundland and Labrador in line with every other province, we will levy a high income surtax on individuals with taxable incomes in excess of \$60,000. This surtax applies to approximately 8,000 people, the top five percent of taxpayers in the Province.

Secondly, effective June 1, 1996, the rate of the financial corporations capital tax which applies to banks and trust companies will be increased from 3 percent to 4 percent.

*Mr. Speaker*, beyond these measures applied to banks and high income earners, no other tax measures are implemented in this Budget.

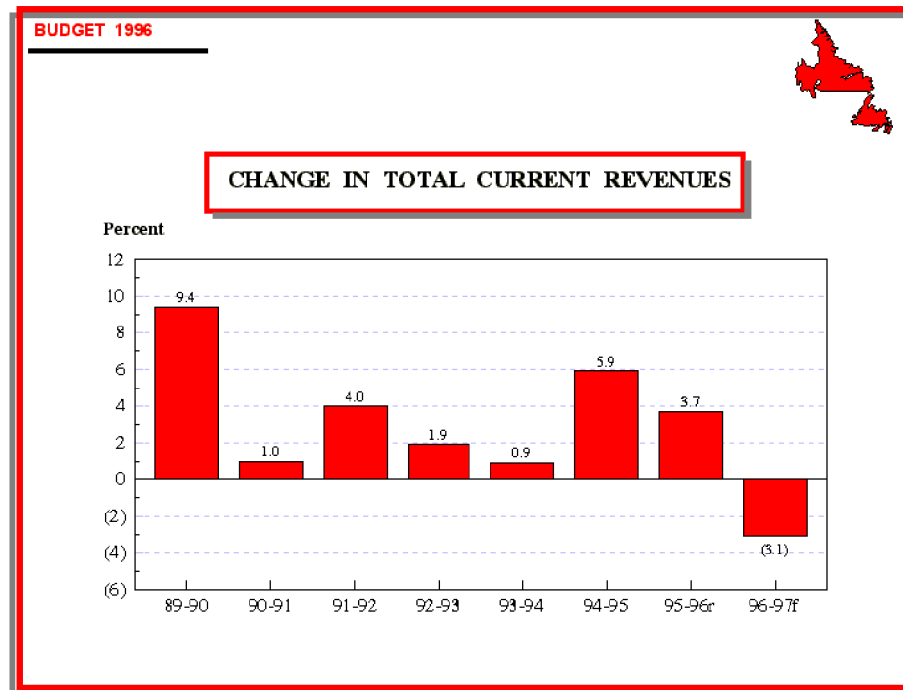
Revenues from Newfoundland and Labrador Hydro will increase by \$19 million to \$53.4 million. Hydro will not be seeking a rate increase as a result of this additional payment.

Under the Terms of Union, the Federal Government is committed to an \$8 million annual payment to the Province in perpetuity. In light of our unique economic and financial circumstances, the federal government will advance amounts payable under Term 29 over the next three years, when the funds are needed most. The regular annual payments of \$8 million will resume in 20 years.

We will receive \$50 million of the advance this year. The federal government has agreed to provide us with another \$80 million over the three year period.

The provision of these funds has allowed us to avoid cuts in the health care sector and the layoff of an additional 500 or more front-line workers. As a result of this advance payment, the health care budget will not be reduced this year.

*Mr. Speaker*, even after these adjustments, this year our revenues will decline by \$104 million from the 1995-96 revised estimate. This is a reduction of 3.1 percent.



### Spending Smarter

*“The solution to bringing in a fair budget does not lie in increasing tax revenues, but in reducing the cost of government.”*

*(Rob Crosbie, St. John’s Board of Trade)*

*Mr. Speaker*, if we did not reduce costs now, our deficit and debt would become unmanageable. We must have the opportunity to restructure Government in a planned and measured way that protects priorities.

This year we will spend \$3,408 million, \$81 million less than last year. That is a reduction of 2.3 percent.

We have achieved greater operational efficiencies and ensured that front-line spending on social and economic priorities is protected.

## **Groups We Fund**

Many public sector organizations rely on grants from Government to fund their operations. This sector must share our restraint. Others will be substantially reduced. Government will eliminate more than 20 agencies, boards and commissions to streamline operations and reduce costs. Several will be consolidated into one. There are close to 300 such agencies, all of which will be reviewed and made to justify their productive roles in the months ahead.

Government provides considerable financial support and assistance to municipalities. Effective January 1, 1997, municipal operating grants will be reduced 10 percent. Fire protection grants to St. John's and Corner Brook will be reduced 20 percent. The charge for municipal property assessment services provided by the Province will increase.

Government provides a significant operating subsidy to the Newfoundland Farm Products Corporation. A new board of directors will be appointed to commercialize the corporation, and pursue privatization.

Government will also continue to pursue privatization of the Marystown Shipyard. The board of directors is currently finalizing a plan for consideration by Cabinet which will see major restructuring of the operations to create efficiencies which will lead to a break-even operation.

Government will continue to identify those functions which can better be performed by or in partnership with the private sector.

## **Government Operations**

*Mr. Speaker*, departmental spending this year will be reduced significantly from last year:

- salary costs, supplies and travel and phone expenses will decrease 6 percent;
- purchased services have been reduced 9 percent;
- professional services will be 10 percent lower; and
- property, furnishings and equipment expenditures have been reduced 29 percent.

The reduction in the number of Members of the House of Assembly

will reduce the cost of operating the legislature by about \$400 thousand this year. As well, Members' allowances and benefits have been reduced by 11 percent.

There will be no more vehicles dedicated for the use of the Premier, other politicians, Government executives, or visiting dignitaries. Cars currently used for this purpose will be sold.

All those travelling at public expense, including the Premier, Cabinet Ministers, Leader of the Opposition, Members of the House of Assembly and executive will travel in economy class. There will be no more business class travel.

### **Public Sector Salaries**

Our public service workers make a valuable contribution to our Province through their efforts in providing needed services. Their wages and benefits comprise two-thirds of the cost of Government.

All governments in Canada have found it necessary to reduce their wage bills in recent years. Most have frozen wages. Several have cut salaries by up to 7.5 percent. Others have required employees to take unpaid leave. However, temporarily reducing salaries and benefits does not achieve a lasting reduction in the cost of Government. If the deficit is to be reduced we must have a smaller public service.

Accordingly, there will be no public service wage or benefit rollbacks in this Budget. However, we will reduce the size of the public service. Wherever possible, we have reduced administration rather than front-line service.

Restructuring in the health and education sectors will assist in decreasing the size of the public service. The Economic Recovery Commission has been dismantled. Enterprise Newfoundland and Labrador is being integrated into Government and its lending role reduced and reviewed.

*Mr. Speaker*, we are resolved to assist our employees affected by these decisions. A program has been put in place to help individuals who will be losing jobs, including counselling services, and first right of recall for job



openings. Approximately 500 people are directly affected by the measures in the Budget. Another 500 are affected by restructuring initiatives already underway.

### **Program Review**

*“Reduce spending and establish spending priorities.”  
( Bill Farquharson, Goose Bay)*

*Mr. Speaker*, the measures I am announcing today will deal with revenue declines in the fiscal year 1996-97. The fact is, our revenues will decline again in 1997-98, which will require further adjustments to our spending. To achieve maximum benefits from our limited dollars, I am announcing today the establishment of a process to examine all expenditures and programs of the Government of Newfoundland and Labrador. This program review will be carried out by a select committee of Cabinet to which all Ministers, their departments, commissions and agencies will report.

Our programs and services will be tested against these criteria:

- Does the program continue to serve a valuable public purpose?
- How can this program be provided most efficiently and effectively?
- Is this program still affordable?

*Mr. Speaker*, this program review will help us further rationalize our spending, and ensure a sound basis for making the right choices in the further restructuring of Government. At the end of this process, I will report the results of the program review as part of next year’s pre-Budget consultations. We will again seek public input before implementing the changes suggested.

### **Capital Spending**

Government will provide over \$165 million this year for capital projects, through a number of provincial and federal-provincial programs:

- \$64 million for highway construction and reconstructions;

- \$40 million under the Infrastructure Program;
- \$25 million in new commitments from the Province for municipal infrastructure;
- \$12.2 million for health and education facilities;
- \$8.2 million under the Economic Renewal Agreement;
- \$7.1 million for public buildings;
- \$3.9 million for the provision of water and sewer services in Coastal Labrador;
- \$5.4 million for miscellaneous projects.

### **Protecting Our Social Programs**

Our major social programs, health care, education and social services, account for about sixty percent of our current spending.

#### **Health Care:**

*“It would be hard to cut Health to the same levels as other departments but with that exception all departments must share reductions.”*

*(consultation comment)*

During the pre-Budget consultations, the people of the Province clearly indicated that health services were their first priority. They are also the most costly.

During recent years, Government has undertaken major reforms of our health care system to provide community-based services and cost-efficient management.

In meeting our fiscal challenges this year, we have reduced spending on most Government services. Health care has *not* been reduced. In fact, Government will *increase* health expenditures and will provide additional funding for cardiac care and community health services.

The health sector has sought a multi-year funding commitment to better plan changes and improvements to our health system. We are

guaranteeing the 1996-97 level of operating funding for this year, next year, and the year after. This commitment to health care for the people of this Province, is close to \$3 billion over this three-year period. We are empowering our health care managers to deliver services in the most cost efficient manner.

### **Education:**

*“Education: Bring in a logical, economical, efficient system.”  
(consultation E-mail message)*

A quality education system that leads to a well trained and a competitive workforce is essential to our economic well-being. Our ability to meet our educational needs is challenged by lower federal support and declining enrollments. Educational reform must and will proceed.

We have chosen to rationalize educational facilities to ensure that adequate funding is provided for students rather than administration. We understand and sympathize with the concerns that have been expressed about the closures of some programs and institutions. However, in order to continue to offer viable programs, the structure of post-secondary education must be rationalized.

The grant this year to Memorial University will be reduced \$8 million to \$107.5 million. Next year the grant will be reduced to \$104.5 million, and to \$101.5 million in the year following.

### **Social Services:**

Government has a responsibility to protect basic social services. The partnership with the federal government in meeting this responsibility is dissolving. Social assistance caseloads in the Province will continue to rise during 1996 because of lower employment, the expiration of TAGS benefits for many individuals, and reforms to unemployment insurance. This will increase our assistance costs by about \$6 million.

*“Less must be invested in administration and more in field workers and support for the service providers.”*

*(Catherine Donovan, Holyrood)*

The Department of Social Services is taking initiatives to streamline operations and improve client service, including delegating increased decision making authority to front-line workers. In recognition of the fact that those who have the least amongst us cannot contribute more to the cost of deficit reduction, the budget of the Department of Social Services will not be decreased, and will, similar to the Department of Health, receive a modest increase this year.

### **Building a Stronger Economy**

*Mr. Speaker*, although we must reduce spending, Government will continue to pursue policies that promote economic opportunity. All of us, whether in the public or private sector, must commit to and promote economic success.

Government has taken initiatives to substantially improve the business climate in the Province. We have reduced regulations. The Province now has one of the most competitive corporate tax systems in the country. Sales tax harmonization and EDGE incentives will create new business ventures and employment.

Together we can build a vibrant economy through resource development, tourism and technology, manufacturing and services.

The Canada-Newfoundland Agreement on Economic Renewal will provide almost \$23 million this year to encourage growth in key sectors of the economy. Funding is provided for aquaculture projects, advanced technology and tourism initiatives.

The Province in partnership with the federal government, the banks and the other Atlantic provinces will fund on a matching basis a \$30 million Atlantic Investment Fund which will make investments in businesses located in Atlantic Canada. Our contribution in this fiscal year will be approximately \$1 million.

**Tourism:**

*“One of the areas we have only begun to explore seriously and realize the potential of in this Province is the tourism industry.”*

*(President, Local Marine Workers, Marystown )*

The 1997 celebration of John Cabot’s voyage provides a tourism investment opportunity of international significance. The 500th anniversary events surrounding this celebration will showcase our exceptional culture and artistic talent. Government’s support and the effort of countless volunteers will make this celebration a success for not only the people of this Province, but also those in Western Europe and North America who share our heritage.

In fact, next week a delegation including 21 businesses from this province will go to Bristol to participate in the International Festival of the Sea. A total of 6 countries will be participating. We must take advantage of opportunities such as this to enhance our tourism industry. These celebrations will bring millions of new tourism dollars to this Province.

**Labrador:**

The people and the vast resources of Labrador make a significant contribution to this Province and to the country. This Government believes that it is time to increase our investment in Labrador. Improving the Trans-Labrador Highway is one of the great capital needs in this Province. During 1996-97, despite our financial constraints, Government is committing \$8 million for improvements to the Trans-Labrador Highway. We are inviting the Government of Canada to assist in further improvements.

*Mr. Speaker*, the \$8 million this year is a doubling of any previous annual commitment to the highway.

We have preserved to the greatest possible extent those programs that provide special consideration for those who live in Labrador.

**Budgetary Outlook 1996-97**

*Mr. Speaker*, the choices we have made have reduced our projected budgetary deficit from \$290 million to \$44.8 million.

<b>Table 3</b>		
<b>ESTIMATED BUDGETARY POSITION</b>		
(\$ millions)		
	<b>Estimates <u>1996-97</u></b>	<b>Revised <u>1995-96</u></b>
<b>Current Account</b>		
Gross Expenditure	3,207.4	3,214.9
Related Revenue	<u>208.3</u>	<u>256.5</u>
Net Expenditure	2,999.1	2,958.4
Provincial and Federal Revenues	<u>3,060.5</u>	<u>3,115.9</u>
<b>Current Account Surplus</b>	<b><u>61.4</u></b>	<b><u>157.5</u></b>
<b>Capital Account</b>		
Gross Expenditure	200.5	273.9
Related Revenue	<u>124.3</u>	<u>120.2</u>
Net Expenditure	<u>76.2</u>	<u>153.7</u>
<b>Contingency Reserve</b>	<b>30.0</b>	-
<b>Total Budgetary (Deficit)/Surplus</b>	<b><u>(44.8)</u></b>	<b><u>3.8</u></b>

## CONCLUSION

The Province cannot avoid prevailing national and provincial economic conditions. Our 1996 Budget is set in a time of significant social and economic change. We must respond positively to these influences to secure lasting change to Government.

The first Budget of this administration adjusts the Province's course to take into account today's financial realities. *Mr. Speaker*, the people of the Province are our first priority. Despite severe constraints we have preserved basic public services for our people.

While we must deal with today's difficulties, we will not lose sight of tomorrow's opportunities. We will seize them, and secure their benefits, not only for ourselves, but also, and perhaps more importantly, for our children.

Finally, *Mr. Speaker*, it is insufficient simply to make choices. They must also be sound and justifiable. We are confident that with the assistance of the people we have made the right ones.

*"The time has come for the Government of Newfoundland and Labrador to exercise sound fiscal responsibility and create an environment for sustained economic growth."*

*(Dr. Ray Malik, Labrador West Chamber of Commerce)*