

REPORT

OF THE

**ROYAL COMMISSION ON FINANCIAL  
ARRANGEMENTS BETWEEN THE DOMINION AND  
THE MARITIME PROVINCES**

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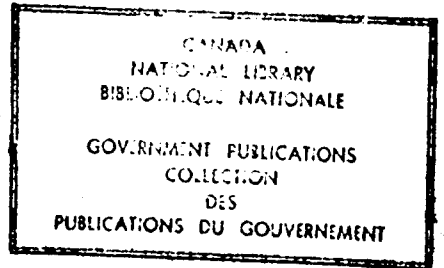
The Right Hon. SIR THOMAS WHITE, P.C., K.C.M.G., *Chairman*

HON. J. A. MATHIESON

E. W. NESBITT, Esq.

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C. H. PAYNE, *Secretary*



OTTAWA  
J. O. PATENAUDE  
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY  
1935

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OTTAWA, February 9, 1935.

The Right Honourable R. B. BENNETT,  
Prime Minister of Canada.

I have the honour to transmit, herewith, the Report of the Royal Commission on Financial Arrangements between the Dominion and the Maritime Provinces, pursuant to the Order in Council of September 14, 1934, P.C. 2231.

I have the honour to be, Sir,

Your obedient servant.

W. T. WHITE,  
*Chairman.*

[L. S.]

BESSBOROUGH

CANADA

GEORGE THE FIFTH, by the Grace of God of Great Britain, Ireland and the British Dominions beyond the Seas KING, Defender of the Faith, Emperor of India.

To all to whom these Presents shall come or whom the same may in anywise concern, GREETING:

WHEREAS by Order in Council of the 7th day of April, 1926 (P.C. 505), a Commission composed of Sir Andrew (Rae) Duncan, Kt., His Honour W. B. Wallace, Judge of the County Court, District No. 1, in the Province of Nova Scotia, and Professor Cyrus Macmillan of McGill University, was constituted under Part I of the Inquiries Act to inquire into and report upon certain representations which had been made by the Governments of the Maritime Provinces.

AND WHEREAS the said Commission submitted its report on the 23rd day of September, 1926.

AND WHEREAS the said Commission made certain recommendations with regard to the readjustment of the financial arrangements between the Government of the Dominion and the Governments of the three Maritime Provinces.

AND WHEREAS in a letter dated the 16th day of January, 1934, addressed to the Prime Minister of Canada by the Premiers of the Maritime Provinces it was suggested that a Commission be set up to take into consideration and deal with the recommendation of the Duncan Commission that there be a revision of the financial arrangements between the Dominion Government and the Maritime Provinces.

AND WHEREAS pursuant to the provisions of the said the Inquiries Act, His Excellency the Governor General in Council by Order, P.C. 2231, of the fourteenth day of September in the year of Our Lord one thousand nine hundred and thirty-four, copy of which is hereto annexed, has authorized the appointment of Our Commissioners therein and hereinafter named to take into consideration and deal with the recommendation of the said Duncan Commission that there be a revision of the financial arrangements between the Dominion Government and the Maritime Provinces.

NOW KNOW YE THAT by and with the advice of Our Privy Council for Canada, We do by these Presents nominate, constitute and appoint the Right Honourable Sir Thomas White, K.C.M.G., P.C., of the City of Toronto, in the Province of Ontario, the Honourable John Alexander Mathieson, Chief Justice of the Supreme Court of Prince Edward Island, and Edward Walter Nesbitt, Esquire, of the City of Woodstock, in the Province of Ontario, to be Our Commissioners to make such inquiry and examination and to formulate such recommendations.

To HAVE, hold, exercise and enjoy the said office, place and trust unto the said the Right Honourable Sir Thomas White, the Honourable John Alexander

Mathieson and Edward Walter Nesbitt, together with the rights, powers, privileges and emoluments unto the said office, place and trust of right and by law appertaining during Our pleasure.

AND WE DO HEREBY authorize Our said Commissioners to have, exercise and enjoy all the powers conferred upon them by the Inquiries Act, Part I, including the powers and authorities mentioned and described in Part III of the said Act.

AND WE DO FURTHER appoint the said the Right Honourable Sir Thomas White, K.C.M.G., P.C., to be Chairman of Our said Commission.

IN TESTIMONY WHEREOF, We have caused these Our Letters to be made Patent and the Great Seal of Canada to be hereunto affixed. WITNESS:

Our Right Trusty and Right Well-beloved Cousin and Counsellor, VERE BRABAZON, Earl of Bessborough, a Member of Our Most Honourable Privy Council, Knight Grand Cross of Our Most Distinguished Order of Saint Michael and Saint George, formerly Captain in Our Territorial Army, Governor General and Commander-in-Chief of Our Dominion of Canada.

AT OUR GOVERNMENT HOUSE, in Our City of OTTAWA, this fourteenth day of September, in the year of Our Lord one thousand nine hundred and thirty-four and in the twenty-fifth year of Our Reign.

BY COMMAND,

W. STUART EDWARDS,  
*Deputy Minister of Justice, Canada.*

W. P. J. O'MEARA,  
*Acting Under Secretary of State.*

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 14th September, 1934.

The Committee of the Privy Council have had before them a report, dated 13th September, 1934, from the Right Honourable Sir George H. Perley, the Acting Prime Minister, for the Minister of Finance, submitting:—

That by Order in Council of the 7th April, 1926 (P.C. 503), a Commission composed of Sir Andrew (Rae) Duncan, Kt., His Honour W. B. Wallace, Judge of the County Court, District No. 1, in the Province of Nova Scotia, and Professor Cyrus Macmillan of McGill University, was constituted under Part I of the Inquiries Act to inquire into and report upon certain representations which had been made by the Governments of the Maritime Provinces;

That the said Commission submitted its report on the 23rd September, 1926;

That the said Commission made certain recommendations with regard to the readjustment of the financial arrangements between the Government of the Dominion and the Governments of the three Maritime Provinces;

That on January 16, 1934, a letter was addressed to the Prime Minister of Canada by the Premiers of the Maritime Provinces in the following terms:—

The undersigned Premiers of the three Maritime Provinces respectfully request that a commission be now set up to take under consideration and deal with the recommendation of the Duncan Commission that there be a revision of the financial arrangements between the Dominion Government and the Maritime Provinces.

You will recall that this matter was discussed with you after the last Inter-Provincial Conference in January, 1933, by the then Premier of New Brunswick, Hon. Mr. Richards, the late Hon. F. C. Bleck, Acting Premier of Nova Scotia, and Hon. Dr. MacMillan, of the Prince Edward Island Government, at which time it was understood that a commission would be set up. We are unanimously of the opinion that this commission should be set up forthwith.

Yours very truly,

L. P. D. TILLEY, *Premier of New Brunswick.*

ANGUS MACDONALD, *Premier of Nova Scotia.*

W. J. F. MACMILLAN, *Premier of Prince Edward Island.*

The Minister is of the opinion that it is expedient in the public interest that a Commission, as requested by the Premiers of the three Maritime Provinces, be set up to take into consideration and deal with the recommendation of the said Duncan Commission that there be a revision of the financial arrangements between the Dominion Government and the Maritime Provinces.

The Minister, therefore, recommends that for the purpose of making such inquiry and examination and formulating such recommendations a Royal Commission be constituted under Part I of the Inquiries Act, Chapter 99 of the Revised Statutes of Canada, 1927, such Commission to have the special authority specified under Part III of the said Act, and to be composed of the following persons, namely:—

The Right Honourable Sir Thomas White, K.C.M.G., P.C., of the City of Toronto;

The Honourable John Alexander Mathieson, Chief Justice of the Supreme Court of Prince Edward Island, Charlottetown, P.E.I.; and

Edward Walter Nesbitt, Esquire, of the City of Woodstock, Ontario, of whom the first named shall be Chairman.

The Minister further recommends that the Commission be instructed to make its report as speedily as possible.

The Committee concur in the foregoing recommendations and submit the same for approval.

(Sgd.) E. J. LEMAIRE, *Clerk of the Privy Council.*

# FINANCIAL ARRANGEMENTS BETWEEN THE DOMINION AND THE MARITIME PROVINCES

## (1) TERMS OF REFERENCE

Under the terms of reference we are required to "take into consideration and deal with: the recommendation of the Duncan Commission that there be a "revision of the financial arrangements between the Dominion Government and "the Maritime Provinces." The Duncan Commission was constituted for the purpose of examining into and reporting upon representations which had from time to time been made to the Dominion Government relative to the economic condition and claims of the people of the Maritime Provinces, and was composed of Sir Andrew Rae Duncan, His Honour W. B. Wallace and Professor Cyrus MacMillan. Their Report was made under date of September 23rd, 1926.

The recommendation of the Duncan Commission above referred to is contained in the concluding paragraphs of that part of its Report dealing with the subject of financial arrangements between the Dominion and the Maritime Provinces. Respecting these arrangements the Duncan Commission, after a comprehensive and thorough inquiry, reported as follows:—

## (2) CONCLUSIONS OF THE DUNCAN COMMISSION

"It follows from what we have said, that both in respect of grants for the machinery of governments and in respect of debt allowances, the Maritime Provinces have satisfied us that they have a genuine claim to a readjustment of the financial arrangements that exist between the Dominion and themselves, and that in any readjustment their territorial limitations entitle them to still further consideration.

"The terms of readjustment are obviously a matter for detailed determination and assessment, so that the actual amount—as well as the reasons and purposes attaching to it—can be recognized by the rest of Canada as fair and equitable. It is not possible, therefore, to make a final recommendation as to the increase and form of Dominion aid which is required to satisfy the just claims of the Maritime situation, but we recommend that the Dominion Government should give immediate consideration to the whole of this subject, with a view to a complete revision of the financial arrangements as between them and the Maritime Provinces. We do not feel, however, that it would be right or wise that the Maritime Provinces, in their present state of grave necessity, with deficits accumulating against them in their ordinary revenue and expenditure, should be left in suspense until a reassessment is made by the Dominion Government, and accordingly we recommend that immediate interim lump-sum increases should be made in the payments to the three Maritime Provinces as follows:—

"Nova Scotia.....	\$875,000
New Brunswick.....	600,000
Prince Edward Island.....	125,000

"These interim payments should be continued until the Dominion Government has had time to complete its investigation and reassessment.

"We are strengthened in making this recommendation as to an interim payment by the resolution passed unanimously at the Inter-Provincial conference held at Ottawa in June, 1926, brought to our notice by the Nova Scotia Government as follows:—

"That this conference expresses its sympathy with those provinces which by reason of conditions peculiar to them have not progressed as anticipated and urges upon the Federal Government that it should favourably consider affording relief to each of such provinces in a form that will ameliorate these conditions."

"In suggesting the foregoing sums we have fixed what we believe to be the minimum addition that the three Maritime Provinces should have in any such revision, particularly taking into account past history and the fact that in some aspects of their claim there is a retrospective or retroactive feature. They claimed that any revision should provide for a fixed sum in respect of the retroactive element. We are unable to recommend that form of payment, but have preferred to take the retrospective feature into account in naming a mini-

mum. We believe it is a sufficient minimum interim payment to ensure that the governments of these provinces will approach any stable settlement of their financial relationships with the Dominion not in a spirit of meticulous bargaining but in the broad spirit which arises from a feeling of their being met with sympathy and fairness rather than with narrow compromise. These payments, also, will enable the provinces to undertake the more extensive program in relation to agriculture, colonization, education and other spheres of administration, which, they represented to us, they were precluded from undertaking now because of the inadequacy of their assistance from the Dominion Government."

The interim lump-sum increases mentioned have been duly voted annually by Parliament and paid to the respective governments of the Maritime Provinces.

### (3) SCOPE OF THE PRESENT COMMISSION

It is for us, accordingly, under the terms of reference in our Commission to consider and recommend, in such detail as may be practicable, terms of readjustment of the financial arrangements between the Dominion and the Maritime Provinces "so that the actual amount—as well as the reasons and "purpose attaching to it—can be recognized by the rest of Canada as fair and "equitable."

While we have set out the conclusions of the Duncan Report in so far as it deals with the subject-matter of our inquiry, we do not appear to be restricted by our terms of reference to consideration only of the grounds upon which its conclusions were reached and we have felt ourselves free to hear all relevant evidence and argument submitted to us and to make use of additional statistical information now available covering the period which has elapsed since the publication of the Report eight years ago.

The subject with which we are to deal is, we think, one calling for broad equitable consideration having regard to the exceptional geographical and, in a sense, isolated position of the Maritime Provinces in relation to the rest of the Dominion and the economic disabilities imposed upon them in consequence whereby they claim to have failed to share proportionately with the other Provinces the benefits and advantages of Confederation, and having regard also to the alleged more favourable treatment accorded by the Dominion to other members of the Union in respect of financial subsidies and territorial enlargement. The public of Canada will, we are confident, approve of any reasonable settlement calculated to remove from the minds of the citizens of these Provinces who have themselves made such notable contribution to the intellectual, moral and material progress of the nation any sense of unrecognized and uncompensated disadvantage under which they may labour owing to conditions or treatment peculiar to themselves and not common to the sister Provinces of Canada. It is manifestly in the national interest that the feeling of discontent in this regard which has so long prevailed in greater or less degree and has become at times acutely intensified should be permanently allayed by such measures of amelioration as may be just and equitable to the end that so vital, essential and integral a part of Canada may be enabled to share equally with the other Provinces the benefits and advantages of Confederation.

We have received and carefully considered comprehensive briefs filed on behalf of the Governments of the three Maritime Provinces and the Dominion, and have heard argument founded thereon.

The Maritime Provinces were represented before the Commission as follows:—

#### *Nova Scotia*

Hon. A. L. Macdonald, LL.B., Premier.

Mr. Arthur S. Barnstead, LL.B., Deputy Provincial Secretary and Clerk of Executive Council.

*New Brunswick*

Hon. L. P. D. Tilley, K.C., Premier.  
 Hon. W. H. Harrison, K.C., Attorney General.  
 Mr. Nigel B. Tennant.

*Prince Edward Island*

Hon. W. J. P. MacMillan, M.D., C.M., F.A.C.S., Premier.  
 Hon. H. F. MacPhee, K.C., Attorney and Advocate General.

Mr. C. G. Heward, K.C., and Mr. F. S. Rugg, K.C., appeared for the Dominion Government.

To all these gentlemen we desire to express our appreciation and gratitude for their thorough and painstaking preparation and able presentation of their respective cases.

Broadly speaking, the submissions of the Provinces relate to:—

(1) The general question above mentioned, viz., the alleged exceptional economic disadvantages of the Maritime Provinces since Confederation as compared with the other Provinces, and

(2) The specific claims enumerated and discussed in the Duncan Report, and

(3) "Fiscal Need" as a ground for increased subsidies in aid from the Dominion.

**(4) CLASSIFICATION OF PRESENT PAYMENTS**

The existing financial arrangements between the Dominion and the three Maritime Provinces embrace the following classes of payments by the Dominion to these Provinces:—

(1) Annual grants for the support of their Governments and Legislatures and in aid as provided in the British North America Act 1867 (Section 118) and the Imperial Order in Council effecting the admission of Prince Edward Island to the Dominion (1873).

(2) Interest in respect of debt allowances.

(3) Further aid voted by Parliament from time to time by way of readjustment of then existing arrangements or of special grants to one or other of these Provinces or of rearrangement of subsidies applicable to all Provinces of the Union (revision of 1907).

Subsidy payments by the Dominion to the several Provinces of Canada for the fiscal year 1933-34 are as shown in the following table:—



ROYAL COMMISSION

THE FOLLOWING SUMMARY SHOWS THE SEVERAL AMOUNTS OF THE SUBSIDIES PAID TO ALL THE PROVINCES DURING THE FISCAL YEAR 1933-1934

Province	Allowances for Government	Allowances per head of Population	Special Grants	Interest on Debt Allowances	Duncan Report	Total
	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.	\$ cts.
Ontario.....	240,000 00	2,559,069 80		142,414 48		2,941,424 28
Quebec.....	240,000 00	2,294,533 00		127,460 68		2,592,013 68
Nova Scotia.....	190,000 00	410,270 80		32,770 92	875,000 00	1,528,047 72
New Brunswick.....	190,000 00	326,379 20 (1)	150,000 00	26,464 96	600,000 00	1,293,040 16
Manitoba.....	190,000 00	571,255 60 (2)	562,500 00	381,584 18		1,705,339 78
British Columbia.....	190,000 00	555,410 40 (2)	100,000 00	29,151 06		874,561 46
Prince Edward Island.....	100,000 00	87,262 40 (2)	155,879 90	38,789 58	125,000 00	506,931 88
Saskatchewan.....	220,000 00	753,514 00 (2)	750,000 00	405,375 00		2,128,889 00
Alberta.....	190,000 00	599,442 00 (2)	562,500 00	405,375 00		1,757,317 00
	1,750,000 00	8,087,299 20	2,280,879 90	1,669,385 86	1,600,000 00	15,327,564 96

(1) Allowance in lieu of export duty on lumber 36 Vic. Chap. 41, 1873.

(2) Allowance originally granted in lieu of Public Lands.

(3) Includes Allowance of \$45,000 in lieu of Public Lands, less deductions on Land Account balance, O.C. Windsor, June 26, 1875. \$

Additional allowance to compensate for large expenditures made by the Dominion in other Provinces for railway construction

--50-51 Vic. Chap. 8, 1887.

Allowance in settlement of Steamships Service Claims--1 Edward 7, Chap. 3, 1901.

Special Grant made to Prince Edward Island, 2 Geo. 5, Chap. 42, 1912

5,879 90

20,000 00

30,000 00

100,000 00

\$ 155,879 90

## (5) PAYMENTS FOR THE SUPPORT OF THE PROVINCIAL GOVERNMENTS AND LEGISLATURES AND IN AID

It will be convenient under this heading to consider first the argument advanced by the Maritime Provinces that "fiscal need" is a factor to be taken into account in any revision of the financial arrangements between the Dominion and any or all of the Provinces of Canada. This theory was most strongly pressed by Hon. Mr. Macdonald, Prime Minister of Nova Scotia, who claimed that the financial necessity of the Provinces has been, in fact, the basis of most if not all subsidies of every kind provided for by the B.N.A. Act 1867, and the governing factor in all subsequent revisions of such subsidies and in the determination of the amounts of the various subsidies granted by the Dominion Parliament to those Provinces which have entered Confederation since that date. "In all revisions of subsidies," he argued, "the object can be traced back to financial necessity of the Provinces and the willingness of the Government of the day to yield when the situation was sufficiently exigent." He was quite willing to rest the case of his Province upon that principle if it should be adopted by our Commission, but if it should not be favourably regarded, then, in the alternative, he would rely upon the specific and general grounds set forth above which had been considered and acted upon by the Duncan Commission. If "fiscal need" should be adopted as the principle, the claim of Nova Scotia was for a sum in excess of five million dollars annually from this forward, this amount being based upon the requirements for a "Model Budget" which his Province hoped to attain by the year 1941. He contended and sought to establish by citation from the speeches of leading statesmen of Canada both at the time of Confederation and subsequently, that notwithstanding the authority granted to the Provinces by the B.N.A. Act to levy direct taxation, such taxation had not in fact been in contemplation and that if it had been, Confederation could hardly have been brought about. On this same ground of "fiscal need" New Brunswick seeks an annual additional subsidy of \$1,800,000 to meet the requirements of its "Model Budget" also submitted to the Commission, and Prince Edward Island on the same ground and for like purpose asks for an annual increase of \$600,000. All these additional subsidies, so requested, are in addition to the increases recommended by the Duncan Commission and voted by Parliament as interim additional subsidies since the date of its Report.

With reference to this theory of "fiscal need" as a compelling ground for increased subsidies from the Dominion Treasury when the condition of any Province "has become sufficiently exigent," it must be admitted that as a matter of fact financial necessity has lain at the basis of most, if not all, of the revisions and special grants of subsidies to Provinces since Confederation. In the case of the first members, financial necessity on the part of one or more has induced the Dominion, however unwillingly, to come to their relief, and make some further provision in amelioration, for the time being. As new Provinces were admitted, provision had to be made owing to the necessity of ensuring that they would be possessed of revenues adequate to discharge the legislative and administrative functions assigned to the Provinces under the terms of the Constitution. That this object was accomplished in guise of grants "for the support of Governments and Legislatures," "in aid," or as "debt allowances," or, "special circumstances" is not of moment. No doubt endeavour was always made to exhibit uniformity of treatment under these headings, but the object was to supply such a reasonable measure of assistance to the Provinces so dealt with as to enable them to carry on the functions of Government. But while all this may be admitted, we do not think that a policy which has prevailed whereby certain Provinces in financial distress from time to time have been aided to a limited extent by the Dominion,

should be deliberately adopted as a rule of action generally applicable in the matter of the financial arrangements between the Dominion and the several Provinces. To do so would inevitably lead to conditions harmful and dangerous in the extreme to both the Dominion and the Provinces themselves. A rule or practice whereby the Government of a Province, supreme within its own jurisdiction and not subject in its financial administration to supervision by the Dominion Parliament would be authorized or permitted, as a matter of course, to demand from the Dominion Treasury any sums necessary to meet recurring deficits, could only lead to disastrous results, encouraging Provincial governments to disregard sound principles of administration, and making the Dominion responsible for, so to speak, underwriting Provincial expenditures over which it could exercise no control whatsoever. It is a sound general principle, under our constitutional system, that the Governments of the Dominion and of the several Provinces should be held strictly responsible to their respective electorates for the conduct of their administrations. Responsibility must go hand in hand with authority. Power to spend must entail responsibility for expenditures. Mr. Macdonald quite readily admitted the difficulties in the way of acceptance of the principle of "fiscal need" as a sufficient justification for demands upon the Dominion Treasury by necessitous Provinces, no matter what the cause of their necessity.

He contended, however, that test of "fiscal need" might be fairly applied if in the case of a Province applying for aid on this ground it could be shown that the functions which the Province was discharging were necessary; that such functions were being economically carried on; and that the Province had exhausted all available sources of revenue. He and the other Premiers endeavoured to show that their respective Provinces had fulfilled the conditions of this test and that therefore their "fiscal needs" constituted a justification for such financial assistance as was required to meet these needs. But the objections to the adoption of even this principle are apparent. The Government of the Dominion would have to sit in judgment upon the questions as to whether the Provincial administration had or had not been economical; whether or not a Provincial Government had exhausted all available sources of revenue; and whether all the functions which it was exercising were necessary in the degree to which they were being exercised. Upon these different questions there is room for serious differences of even impartial opinion. Under our political system from which the spirit of strong partisan bias can never be wholly excluded grave abuse through favouritism towards individual Provinces and consequent discontent on the part of other Provinces whose Governments were not so favourably regarded would surely follow the acceptance of even this modified test of "fiscal need" in the case of Provinces seeking further subsidies in aid from the Dominion Treasury. It must also be borne in mind that what might appear even to the taxpaying public of a Province as economical administration in a period of abundant revenue might transpire in the light of a subsequent period of depression to have been the very opposite of economical. In a period such as the first mentioned the Dominion Government, even if convinced that the Provincial administration in question was laying, by its expenditures, the foundation for subsequent acute financial distress, would have no power to exercise any measure of supervision and control.

When any Province is in such a necessitous condition, with its own credit exhausted, it is, of course, proper for the Dominion Government, if it deems the maintenance of Provincial credit to be of national importance, to come to the aid of that Province by way of a guarantee of its temporary borrowings or of a direct loan to be repaid with interest as soon as, by reason of improved conditions or of economies effected by the Province, its credit has been restored and it is thus enabled to extricate itself from its financial difficulties. But this is quite different from saying that, in such a case, the Dominion should assist by

voting a special subsidy in aid, because such a subsidy is a gift and not a loan and would be provided at the expense of all the people of Canada and not solely by the people of the Province in question.

For the foregoing reasons we feel obliged to reject this proposed test of "fiscal need" and proceed to consider upon other grounds the claims of the Maritime Provinces for increased subsidies under the caption to this section.

Dealing with this subject the Duncan Commission expressed the following view:—

The policy adopted in 1867 regarding these payments to all the Provinces entering the Union was "clearly too rigid and inelastic when we bear in mind the development which has taken place in the intervening years in the conception of the machinery and functions of Government. As time and ideas developed Dominion income was expanding from those sources which the Provinces had yielded up to it while Provincial revenue derived from the Dominion grants remained stationary and the Provinces had either to accommodate themselves to fresh avenues of revenue in spite of popular disfavour or make claims to the Dominion Government for special consideration. The relations of provincial governments to the Dominion Government became a record of complaint and demand and yet there was no general revision of these grants until 1907." Nova Scotia was (in the opinion of the Commission) particularly unfortunate in the treatment which was accorded to the claims she pressed forward to the Dominion Government from time to time. . . . to meet what she regarded as her special wants and interests" and the Report goes on to say that "in view of the feeling that had been engendered in the Province and in view also of the unfortunate commercial and industrial reactions which had accompanied Confederation—whether or not caused by it,—it would have been wiser if the Dominion representatives had looked on Nova Scotia's claims from a broad equitable standpoint rather than from strict legal and contract considerations. The result has been to prevent the healing which time and sympathetic understanding might well have achieved, to leave on the mind of Nova Scotia a sense of continuing injustice and a feeling that, had her numbers and influence been greater better treatment would have been accorded to her."

The Duncan Report recites the various arguments put forward by the Maritime Provinces, viz., "that the rearrangement of 1907 in respect of all provinces was an inadequate assessment of what the Dominion Government should concede by way of grants for the machinery of provincial governments and legislation," and "that not only was the 1907 settlement inadequate when it was made but it is still more inadequate to-day (1926) in the light of the further changes that have taken place within the last twenty years in the accepted activities of governments"; that owing to the fall which has taken place in the purchasing power of money—as a consequence of the war and post-war conditions, costs of goods and services which governments like individuals must buy, have risen, and in consequence the sums fixed in 1907 do not give the provinces the financial assistance (in money value) which the Dominion then intended they should have; that, whatever view may be held as to the adequacy or inadequacy of the 1907 arrangement, for small Provinces, such as the Maritimes, the allowance is inadequate having regard to the very small percentage of increase in population of the Maritime Provinces as compared with that of Ontario and Quebec, the Western Provinces and British Columbia, and that there exists a broad maximum which must be regarded as a necessary overhead expense below which the provinces cannot maintain their Government activities and that that minimum is in their circumstances too low under the 1907 arrangement and still farther too low in the light of costs to-day (1926)."

The Duncan Commission regarded these arguments as raising considerations beyond their terms of reference. They did not "conceive themselves to be empowered to pass judgment upon the character or adequacy of the settlement of 1907 in so far as the challenge rests on general grounds applicable to all other provinces as well as to the Maritimes." The Commission did, however, regard themselves as empowered "to form a judgment on the argument by the Maritime Provinces that the settlement does not afford them as small provinces with stationary populations a sufficient minimum and that the fall in the purchasing power of their allotted grants bears therefore much more harshly on them than on other provinces."

They then proceed to examine the question of whether the expenditure which these provinces are incurring is unreasonable and whether they are "accepting in a reasonable measure the underlying principle of the whole of this branch of finance, namely that provinces are expected to supplement their revenues from sources of their own or are they expecting to be free to spend as they like and look to the Dominion to foot the bill." After stating that they have gone over the provincial accounts of the three Provinces in detail, examined the various items of public expenditure and considered the question of adequacy of their provincial taxation, they express the view that "the present financial position (of the Maritime Provinces) does not arise from any misconception such as that Provinces should be free to spend as they like and to look to the Government (of Canada) to meet the bill. A review of their financial operations over a long period suggests frugal expenditures. On a full consideration of their arguments and their circumstances we think the Maritime Provinces have made out a case for a revision of the grant from the Dominion in support of their Government machinery and activity."

We set forth these statements and conclusions of the Duncan Commission under this head because we believe they took the proper view as to the scope of their reference and that a like view is appropriate in the case of our own, viz., that we are not empowered to pass judgment upon measures in aid which have been adopted by Parliament by their terms applicable to all the Provinces of Canada but only to consider in what respect the special conditions in the Maritime Provinces should differentiate them in the matter of these payments from other Provinces of Canada or as to the treatment accorded them in the matter of these subsidies as compared with that accorded to some of the other Provinces. In other words, is there anything unfair or inequitable in the whole situation as regards the financial arrangements between the Dominion and the three Maritime Provinces or any of them having regard to exceptional conditions not prevailing in other Provinces or the financial arrangements existing between the Dominion and some or all of the other Provinces. We shall discuss first the question whether such exceptional conditions exist.

#### ARGUMENT BASED ON POPULATION

The following table shows by decades the population of the Provinces of Canada since the census of 1871:—

	1871	1881	1891	1901	1911	1921	1932
Prince Edward Island.....	94,000	109,000	109,000	103,000	94,000	89,000	88,000
Nova Scotia.....	388,000	441,000	450,000	460,000	492,000	592,000	513,000
New Brunswick.....	286,000	321,000	321,000	331,000	352,000	388,000	409,000
Manitoba.....	25,000	62,000	153,000	255,000	461,000	610,000	705,000
Quebec.....	1,191,000	1,360,000	1,489,000	1,649,000	2,006,000	2,361,000	2,904,000
Ontario.....	1,621,000	1,927,000	2,114,000	2,183,000	2,527,000	2,934,000	3,459,000
Saskatchewan.....				91,000	492,000	757,000	971,000
Alberta.....				73,000	374,000	588,000	740,000
British Columbia.....				179,000	393,000	525,000	704,000
All Canada.....	3,689,000	4,325,000	4,833,000	5,494,000	7,207,000	8,788,000	10,506,000

From these figures it will be observed that in the case of Prince Edward Island there has been a steady decrease in population since 1891; that Nova Scotia in the like period shows an increase of only 13 per cent and New Brunswick 25 per cent, while the population of Quebec has doubled, that of Ontario has increased by more than 50 per cent, Saskatchewan (since 1901) more than 900 per cent, Alberta (since 1901) by more than 900 per cent, British Columbia (since 1901) by more than 300 per cent, and that of Canada as a whole by more than 100 per cent. During the period 1921 to 1932 Prince Edward Island and Nova Scotia showed decreases and New Brunswick only a very small increase, while quite considerable increases were registered in all the other Provinces.

Taking the Maritime Provinces as a group the increase in population from 1911 to 1932 was only 10 per cent as compared with an increase of 50 per cent in that of the other Provinces taken as a group. The following extract from "*The Maritime Provinces in their relation to the national economy of Canada*," a recent study by the Department of Trade and Commerce, summarizes the statistical record relating to the population of the Maritime Provinces:—

"Emigration from the Maritimes has been in evidence in every decade since Confederation, although the most considerable movement occurred in the last decade and in the eighties and nineties. From 1891 to 1901 the immigrant arrivals were not even sufficient to balance the departures of former immigrants; while emigration from the Maritime Provinces almost cancelled the natural increase of the native-born. The magnitude of the emigration of the native-born may be illustrated by stating that, in each decade since 1881, the three Provinces have lost a native-born population practically equal to that of Prince Edward Island.

"Of the male population between 5 and 65 who were living in the Maritimes in 1891, over one-third of the survivors were living elsewhere in 1921. There were in 1921 at least 325,000 former residents of the Maritimes who were living elsewhere—about three-quarters in the United States. This emigration of the native-born was not entirely due to the impossibility of making a living in the Maritime Provinces, for from 1901 the immigrant population was increasing. The latter increase occurred chiefly before the war, but has also been in evidence on a small scale since.

"The effects of this emigration upon the Maritime Provinces may be briefly summarized as follows:—

"The emigrants are mostly drawn from desirable classes of the population, the majority being young native-born of British races. Most of the emigrants leave the Maritimes between the ages of 15 and 30, after having been educated at the expense of the Provinces, and when they are young, vigorous, ambitious and enterprising. By their departure the Maritime Provinces lose not only the most efficient type of labour power but also enterprising ability on which further development depends."

#### WEALTH AND TAXABLE CAPACITY

The Maritime Provinces contend that their per capita wealth is very low compared with the average per capita wealth of the Dominion; that their provincial taxation on the gross value of production is more than the average of such taxation in Canada as a whole and that the Maritime Provinces are, unlike the other Provinces, not able to adequately finance expenditures for public welfare, in particular Old Age Pensions, Mothers' Allowances and Child Protection, while in the matter of education the amount contributed by the Maritime Provincial Governments per capita falls far below that of the other Provinces. New Brunswick has no Old Age or Mothers' Pensions system. Prince Edward Island has provided Old Age Pensions on a limited scale but has no Mothers' Pensions system. —

The Maritime Provinces also claim that the weight of provincial taxation in their provinces when measured in relation to net production and average earnings of their population is very much in excess of the weight of the provincial taxation in Ontario and Quebec and that their provincial taxation cannot be increased without imposing an added and disproportionate burden upon them.

"If the Maritime Provinces are to be enabled to maintain educational and public welfare services comparable to those existing in other Provinces, the additional expenditure required for the purpose must be supplied through an increase in the subsidies received from the Dominion Government." (From Submission of the Maritime Provinces to the Government of Canada.)

## COMPARISON OF COSTS OF GOVERNMENT IMPRACTICABLE

The Provinces of Canada differ so widely in their geographical position and extent of territory, variety of resources, accumulated wealth and degree of development and settlement, that it is manifestly impossible to institute a reliable comparison of their respective costs of government and administration or to say whether in some cases such costs are economical and in others extravagant. Lacking uniformity in the features mentioned, no finding of logical or mathematical exactitude can be made by relating population to public expenditure with a view to determining whether the subsidies to the various Provinces are on a fair or equitable basis with respect to one another. But while this is so, the remarkable disparity, shown by the statistical figures as to population cited above, as between the Maritime Provinces and all the other provinces of the Dominion clearly demonstrates that the former group have suffered from some continuing disability not common to any of their sister provinces and that in consequence the burden of public administration, constantly increasing with the generally accepted extension of the functions of Government, must have fallen with disproportionate weight upon them.

In endeavouring to estimate the comparative burden of current taxation within the various Provinces levied by or under Provincial authority for such purposes as education and other Provincial objects local municipal taxation must be considered as well as taxation levied directly by the Legislatures. Degree of municipalization of the various Provinces must therefore be taken into account. Nor can the comparative burden be fairly estimated by relating the aggregate of such taxation to the aggregate of wealth of the respective Provinces because the question of the distribution of that wealth is an important factor. Unfortunately reliable statistical information upon these aspects of the subject is not available. It is useful, however, to observe from the comprehensive study of the Department of Trade and Commerce above alluded to that by the tests of unit production, income tax in relation to population, the number of motor cars, telephones and radios per capita and of life insurance and other evidences of individual prosperity the Maritime Provinces rank lower than any of the other provinces of Canada.

## FINANCES OF THE MARITIME PROVINCIAL GOVERNMENTS

Statements have been presented to us showing in detail the existing budgetary position of each of the three Provinces and the amount of its funded debt. From these statements it appears that during the years which have elapsed since the Report of the Duncan Commission serious annual deficits have occurred in the case of all. Briefly speaking, according to the statements, the average annual deficit of Nova Scotia since 1926 has been in round figures \$1,000,000 per year, the figures ranging from \$275,000 in 1927 (the year when the interim lump-sum subsidy recommended by the Duncan Commission was first received) to \$1,618,000 in 1933 and \$1,297,000 in 1934. The average deficit mentioned does not include relief expenditure and expenditure upon relief work, both of which were funded. The revenue of the Province in 1929 was \$7,390,000; in 1933, \$7,226,000; for 1934, \$8,050,000 (approximately). Revenues have not materially fallen in recent years but—and here is the real financial difficulty in the situation—40 per cent of the total revenue of the Province is required to meet interest and sinking fund charges in respect of the funded debt. Sinking fund payments alone in 1927 were \$226,000 and had risen to \$403,000 in 1933. Interest charges in 1927 were \$1,254,000; in 1933 they were \$1,989,000. The funded debt of the Province in 1921 was \$20,000,000; in 1926, \$36,000,000; in 1933, \$68,000,000. Under the "Model Budget" presented to the Commission it is estimated that, if its programme is carried out, the funded debt will have risen to \$100,000,000 by 1941. Inquiry as to the cause of the great increase which has taken place in the Provincial debt since 1925 showed that it had been mainly due to capital expendi-

tures for highways and bridges (\$20,000,000), and to construction of the Provincial Hydro-Electric System (\$14,000,000), the latter of which is expected to become gradually self-sustaining. The net debt of the Province after taking into account revenue-producing assets and accumulated sinking funds is about \$44,000,000.

It is manifest that the budgetary difficulties of the Province are due almost wholly to this large increase in its public debt incurred for the purposes mentioned. The same general statement may be made with respect to the budgetary position of New Brunswick and Prince Edward Island. The figures, of course, vary but their present difficulties are mainly due to the same cause, viz., the fixed charges and sinking fund payments upon their greatly increased public debts. In the case of Prince Edward Island it should be pointed out that a substantial percentage of the increase in its public debt has been due to the necessity of funding recurring deficits which could not be met owing to lack of further taxable capacity of her people.

New Brunswick's net debt in 1921 was \$24,000,000; in 1926, \$33,000,000; in 1933, \$48,000,000. Its average annual deficit over the period since the Report of the Duncan Commission is claimed to have been \$380,000. Its estimated deficit for the past year is placed at \$715,925. Its Premier points out that the Province has not been able to make provision for Old Age Pensions and Mothers' Allowances, as has been done in nearly all of the other Provinces. To do so at a total cost of \$559,000 per annum and provide also \$300,000 for maintenance of roadways and other services which he desires to establish under a Model Budget, also presented to the Commission, he estimates a total additional annual requirement of about \$1,800,000.

The figures of Prince Edward Island are, of course, smaller. Her debt has risen from \$858,000 in 1921 to \$1,800,000 in 1926; to \$3,900,000 in 1933. Her average annual deficit for the past four years was stated as \$165,000. For 1933 it was \$129,000 and for 1934, \$140,500. Under the "Minimum Budget," submitted to the Commission, which includes provision for Old Age Pensions, Mothers' Allowances, further grants for education, road maintenance, etc., an estimated deficit would result of \$600,000.

The above figures as to past and present budgetary deficits were questioned by counsel for the Dominion who submitted statements from official sources in which the sums shown were quite materially less.

It would be possible to draw entirely erroneous conclusions as to the heavy increases in the public debts of the three Maritime Provinces. It might be suggested that their successive Governments had been prodigal in their expenditures on capital accounts, particularly in the construction of highways and bridges. No doubt these expenditures have been excessive in the light of their financial situation as it now appears. This was not denied by the representatives of the Provinces. They pointed out, however, that in the era of the automobile it is necessary for Provinces such as theirs, if they are to promote their important tourist business, to provide safe, modern highways.

It is also to be recalled that immediately following the War the Dominion Parliament voted large appropriations to supplement Provincial expenditures for this purpose. The object was to provide employment and stimulate business in the first post-war period of depression. The Duncan Commission drew special attention to this Federal Legislation, making the sagacious and prescient observation that "it is an inevitable consequence of this form of percentage subvention that provinces are encouraged to undertake special expenditure which they may not be able to support unless and until the scheme on which the expenditure is made increases their prosperity." We cordially agree with this opinion expressed by the Duncan Commission not only with respect to subventions by the Dominion for the purposes of aiding the provinces in highway construction, but "in other



schemes for which Dominion subvention is available." Once such subvention becomes available the pressure upon provincial governments, under our political system, is almost irresistible.

From comparative statistics which we requested it appears that the Maritimes are not singular among the provinces of Canada in the matter of greatly increased public debt. This is a feature which is unfortunately common to all the provinces of Canada and which more than any other cause is responsible for the serious financial problems with which many of them are now confronted. At no period, whether of prosperity or depression, is the incurring of heavy indebtedness to be lightly regarded by any government, federal or provincial. The comparative statistics referred to show, however, that while their capital expenditures ever since 1920 have unquestionably been excessive, they have not exhibited a higher scale of increase from year to year than some of the other provinces. Their increase in this respect appears, however, to be higher than the average of all the provinces of Canada. Outside of capital expenditures the administration of all three Maritime Provinces appears to us to have been quite economical and even, as characterized by the Duncan Commission, "frugal." The salaries paid to their ministers of the Crown, officials and other public servants and the limited provision made for social services are on a much lower scale than that prevailing in the other Provinces. Every other provincial government in Canada has or has had during recent years heavy budgetary deficits. It was inevitable that they should have, owing to their vast capital expenditures in the "boom" years and relief necessities during the period of depression. We should, however, under this heading consider that in ability to meet, out of their annual revenues, the servicing of their public debts and their other ordinary expenditures the Maritime Provinces are handicapped by the conditions, to which we have alluded, of an isolated economic position with respect to the rest of Canada, a stationary or declining population and less per capita wealth and taxable capacity than most if not all of the other provinces of the Dominion. We feel it is impracticable to assign any definite sum as the additional aid under this heading which it would be equitable for the Dominion to supply in respect of this claim for a larger grant in aid. We shall first review the other claims and then upon a consideration of the claims as a whole endeavour to determine the aggregate amount of aid which may be justly afforded in final settlement of them. Whatever further aid we recommend, no matter upon what claim or claims founded, will, if voted by Parliament, find its way into the revenue side of their public accounts and assist, to the extent of its amount, these Governments in the immediate and urgent task of endeavouring to balance their respective budgets. It will also enhance the public credit of their Provinces and thus assist them by the use of this credit to bridge the further period of budgetary deficits resulting from the depressed economic conditions through which Canada, in common with other nations of the world, has been passing and from which we are now gradually emerging. The Model Budgets submitted which call for much higher expenditures than existing budgets, although no doubt carefully considered and making provision for many desirable expansions in public services, cannot be regarded by us as factors entitled to material weight in our task of determining the question of what further subsidies in aid may be equitably awarded under this heading to the Maritime Provinces, taking into account only those circumstances which differentiate these provinces from the other provinces of Confederation all of whom are labouring under like adverse conditions of budgetary deficits and confronted with the necessity of economizing their expenditures.

#### (6) PUBLIC DEBT ALLOWANCES

The principle underlying these allowances and the claims put forward by the Maritime Provinces in respect thereof are set out in the Duncan Report as follows:—

"At Confederation, the Dominion assumed responsibility for the debts and liabilities of each province, entering Confederation, and fixed a debt allowance, having regard to the assets of the provinces at the time, up to the amount of which their public debt, whether attaching to the assets or otherwise contracted, would be met at the expense of the Dominion. If the public debt fell short of the sum allowed, they received 5 per cent interest on the difference from the Dominion, and if it exceeded the sum allowed they paid 5 per cent to the Dominion.

"The burden of the case made in the Maritime Provinces, in respect of public debt allowances, fixes itself down to a very definite point. The greater part of their public debt at the time of Confederation represented railway construction costs, and although the Dominion took over as their property railways, and railway stocks, mortgages, and other debts due by railway companies' (British North America Act, 1867, Third Schedule), they charged against the provincial debt allowance the bonds of the provinces issued for railway purposes then outstanding. The Maritime Provinces were, in this regard, dealt with no differently from other provinces, until the western provinces were constituted. In the case of the western provinces, a debt allowance was fixed on the same basis of amount as for the other provinces, but not, in their case, on the basis of assets which were to be transferred to the Dominion, for they had no assets. So that in fact, a new principle was imported into the conception of public debt allowances. The Maritime Provinces argue that they are, as from the date of that change in principle, entitled to have that portion of their public debt which attached to assets taken over by the Dominion, eliminated in determining the extent to which the debt allowance originally given to them should bear a reduction.

"The following table shows the payments made in respect of interest on debt allowance to the Maritime Provinces, and to the western provinces, for the financial year 1924-25:—

" Nova Scotia.....	\$ 52,784 07
New Brunswick.....	26,464 96
Prince Edward Island.....	39,789 58
Manitoba.....	381,584 18
Alberta.....	405,375 00
Saskatchewan.....	405,375 00

Note: (The figures are practically the same for 1933-34.)

"The capital amount of Maritime provincial railway debt as at date of Confederation (on railways taken over by the Dominion at Confederation) is in round figures as follows:

" Nova Scotia.....	\$6,000,000
New Brunswick.....	5,000,000
Prince Edward Island (entered Confederation 1873).....	3,000,000

"These capital amounts have been deducted from the debt allowance in calculating the interest on debt allowance paid annually by the Dominion to the provinces. In addition, the Maritime Provinces have drawn on their debt allowances since 1867 for railway expenditures, and these also would have to be taken into account in any reconsideration and assessment under this heading."

The Duncan Commission stated its agreement with the contention of the Maritime Provinces that "they have been and are being dealt with differently from the western provinces and we think they are entitled to have their allowance reconsidered." In respect of this conclusion by the Duncan Commission it is to be observed that the Maritime Provinces, as admitted by the Duncan Commission, were in regard to these debt allowances and the taking over of certain properties by the Dominion from these Provinces "dealt with no differently from other provinces until the western provinces were constituted." As regards Ontario and Quebec (then the Province of Canada), therefore, from which also the Dominion took over at Confederation debentures of railway companies, bank balances, consolidated revenue funds and other assets entered in the books of the Dominion as of a nominal value of \$62,000,000 (Public Accounts 1868), as well as other items of property described in the Third Schedule, B.N.A. Act, 1867, the case of the Maritime Provinces is not exceptional.

They claim, however, the value of the railway assets which they turned over to the Dominion at Confederation, viz., \$6,000,000 in the case of Nova Scotia, \$5,000,000 in that of New Brunswick, and \$3,500,000 in that of Prince Edward Island with interest at the rate of 5 per cent semi-annually for 30 years in the case of Nova Scotia, since 1870 in the case of New Brunswick and since 1873 in the case of Prince Edward Island.

The report of the Duncan Commission states that the debt allowance granted to the Western Provinces was fixed "on the same basis of amount as for the other provinces but not in their case, on the basis of assets which were to be transferred to the Dominion, for they had no assets." It is not correct to say that the debt allowances of the original members of Confederation were fixed on "the basis of assets which were to be transferred to the Dominion." The debt allowances of Nova Scotia and New Brunswick at Confederation were fixed respectively on a basis of \$24.18 and \$27.71 per head of population, regard being had in this calculation, not to the value of assets transferred but to the average (about \$25) per capita debt and liabilities of all the Provinces then entering Confederation, considered as an aggregate. This was only fair, because the Dominion was to assume this aggregate of debt and liabilities and as the people of Nova Scotia and New Brunswick were as citizens of the new Dominion to bear their share of this burden, they were entitled to debt allowances based upon the per capita average, as their own respective per capita debt and liabilities were less than the per capita debt and liabilities of the then Province of Canada (Ontario and Quebec). In the case of Prince Edward Island, which entered Confederation at a later date (1873), the debt allowance was fixed at \$50 per head of population, owing to exceptional circumstances set out in the Imperial Order in Council which effected its admission as a Province of the Dominion. It is to be noted also that the railways taken over from the Maritime Provinces by the Dominion were not, in the financial or commercial sense, profitable undertakings but involved provision to meet continuous deficits in operation of which the Maritime Provinces were henceforth relieved. The Dominion received no net revenues from them at all adequate to meet the interest upon the debt which it assumed, representing their cost of construction. Had the net revenues been sufficient to meet such interest, the argument of the Provinces would be upon a sounder foundation. Evidence submitted to us showed also that the Dominion, after acquisition of these railways, expended upon them many millions of dollars not charged to debt allowance.

It is also to be pointed out that the debt allowance to the Western Provinces was justifiable on the ground that, coming into the Union as Provinces, they severally became sharers of the burden of the heavy debt of the Dominion existing at that time, and as they had no debts of their own they were entitled to allowance in respect of the then Dominion debt if they were to be dealt with equitably as compared with the other Provinces already in the Union. Moreover, it must be remembered that their case was very exceptional owing to the vast extent of unsettled or very sparsely settled territory which their Governments were called upon to administer. This fact may well be considered as at least a partial offset to the claim of the Maritime Provinces that the latter have not been dealt with fairly in the matter of debt allowances because the Western Provinces transferred no public property to the Dominion upon their entry into the Union. It was undoubtedly in the interest of the entire Dominion that these Western Provinces, whose settlement was deemed so vitally important to its welfare and prosperity, should be established under conditions of such financial aid as would enable them to carry out the constitutional functions assigned to Provincial Governments by the B.N.A. Act. There is also the fact, established in evidence, that readjustments have from time to time since Confederation been made by Parliament in the cases of some or all of the Provinces (including the Maritimes) in respect of debt allowances and by way of special grants in aid. The original arrangements have been so altered by these readjustments designed to meet changed and changing conditions that it is not possible to make an accurate comparison of the treatment accorded the various provinces in this regard. We agree, however, with the Duncan Commission that consideration should be given to the claim of the Maritime Provinces in respect of railways taken over by the Dominion from the Provinces at Con-

federation. Even if those railways should be considered local in character and not, in their operation, of general benefit to the new Dominion, the fact is that the Dominion did acquire them and there must have been some reason, deemed in the general interest of the Dominion, for doing so.

### (7) PUBLIC LANDS

Upon this branch of their inquiry the Duncan Commission reported as follows:—

"The Maritime Provinces also submitted a claim in respect that the extra-provincial lands which came into the possession of the Dominion Government at the date of Confederation were acquired by purchase and they have been developed and given value at the expense of the Dominion.

"Of the original parties to Confederation, Nova Scotia and New Brunswick alone have received no accession to their territory. Quebec and Ontario have both had considerable addition to theirs, and the rest of the vast lands acquired, containing resources of incalculable value, is being held in trust for, or being allotted to other provinces of the Dominion.

"The Maritime Provinces claim was put forward partly on the ground of proprietary (partnership) right, and partly on the ground of equitable consideration. Particular attention was directed to the arrangements made in connection with school lands in respect of Manitoba, Saskatchewan, and Alberta. It was recognized by the Maritime Provinces that any adjustments that might be thought right for the Dominion to make in their favour on this branch of their claim raised questions of policy and assessment which it would not be possible or proper for us to attempt to adjudicate upon in any final form, and they did not, therefore, submit a claim in detail. They did, however, emphasize to us that the amounts derived from school lands and made available to the western provinces for the purposes of education, were many times greater than the appropriations which the Maritime Provinces are making, or could possibly make out of their own revenues for the maintenance of their system of public instruction—even remembering the revenue they derive from their natural resources—and that the disabilities which they, as Maritime Provinces, were now suffering in this respect, made a revision of the whole question of their Dominion grants the more pressing."

The finding of the Duncan Commission with respect to this claim was:—

"We do feel it right to say that it is a subject-matter upon which—quite apart from any question as to whether an argument could reasonably be sustained on proprietary right—consideration should be given to the Maritime Provinces."

Supplementing this statement of the Duncan Commission the Maritime Provinces point out that since the Report of that Commission,

"Their natural resources have been returned to Manitoba, Saskatchewan, and Alberta. Prior to that time these provinces had been deriving a revenue from school lands sold by the Dominion Government,—a revenue so large that they were enabled to pay vastly more per capita upon education than the Maritime Provinces. Moreover the Maritimes shared the cost of administering the public lands of these Provinces down to the year 1930 which administration showed a net loss to the Dominion of \$8,459,625.98.

"While these lands were being administered by the Dominion the Western Provinces were also in receipt of an allowance in lieu of lands graduated according to population.

"When the natural resources were turned over to the Prairie Provinces the allowance in lieu of lands was continued and those provinces have been in receipt of that special allowance ever since.

"The revenues from the natural resources including the school lands and the funds derived therefrom are quite comparable to any revenues of the Maritime Provinces from their natural resources and it is therefore submitted that on the basis of equality of treatment the Maritime Provinces are entitled to the same subsidy as the Western Provinces under the heading of allowances in lieu of lands.

"It does not follow from this that Ontario and Quebec are entitled to similar treatment since both these Provinces have received enormous additions to their public lands, the actual and potential value of which are admittedly very great."

The Maritime Provinces claim that in the early years of the Prairie Provinces the "money required to meet the cost of administering their natural resources must have come almost entirely from Ontario, Quebec and the Maritime Provinces." While admitting that "the sacrifice has been well repaid,

the fact," they contend, "remains that the Prairie Provinces were developed largely at the expense of the original Provinces and the further fact stands out prominently that the Prairie Provinces are now enjoying much greater Federal assistance than New Brunswick, Nova Scotia and Prince Edward Island."

Since the Report of the Duncan Commission the remaining natural resources of the Prairie Provinces have (as stated above) been transferred to them (1930) by the Dominion. These Provinces complained of inequality of treatment by reason of having been deprived of their lands from the dates of their entry to Confederation. In the case of Manitoba before the transfer took place, a Royal Commission was appointed to determine what financial readjustments should be made to place the Province "in a position of equality with the other Provinces of Confederation with respect to the administration and control of its natural resources, as from its entrance into Confederation in 1870." That Commission reported in 1929 recommending that a sum of roundly \$4,584,000 be paid to Manitoba and that in future Manitoba should receive an annual subsidy (previously designated as "Subsidy in lieu of Public Lands.") graduated according to growth of population and reaching a maximum of \$1,125,000 per year, when the population of Manitoba reaches the figure of 1,200,000. These recommendations have been implemented by the Dominion Government. As regards Alberta and Saskatchewan continuation of existing annual subsidies was agreed upon between the Dominion and the respective governments and provisions to that effect were incorporated in the agreements covering the transfer of the resources. Two Commissions are now engaged in making inquiry as to whether any further compensation should be paid to Alberta and Saskatchewan over and above what they are to receive from their subsidy payments so continued. As in the case of Manitoba the object of these two Commissions is to determine the financial readjustments which would place each of these provinces "in a position of equality with the other provinces of Confederation with respect to the administration and control of its natural resources since its entrance into Confederation in 1905."

(Alberta Agreement—Schedule to 20-21 Geo. V, Chap. 3, par 22 (page 9).

Saskatchewan Agreement Schedule to 20-21 Geo. V, Chap. 41—par. 24 (page 9).

From the foregoing it is clear that the Prairie Provinces did not regard their subsidies "in lieu of lands" as at all equivalent to the value of these lands. In the case of Manitoba the Commission to which reference has been made reported that in reaching their recommendations they had taken into account all proper credits to the Dominion including that of the payments received by the Province from the proceeds of the lands set aside as an endowment for the purposes of education within the province, and also in respect of the acreage of lands contributed to railway branch-line construction within the Province.

It is to be presumed that the Commissions now dealing with the matter of readjustment of the financial arrangements as between the Dominion and the Provinces of Alberta and Saskatchewan will, in making their findings, have regard to the credits to which in an accounting the Dominion would be entitled and to the value of the continued subsidies previously paid annually to each of these Provinces in lieu of lands, and award only the amount by which the estimated net value of their natural resources alienated by the Dominion during the period of its administration exceeds these amounts. It is not for us to question in any way the conclusions reached by the Turgeon Commission or to critically examine the grounds upon which those conclusions were reached, or to anticipate the findings of the two other Commissions whose inquiries have not yet been completed. We can only state and give due consideration to the argu-

ment of the Maritime Provinces that on a fair interpretation of the award of the Turgeon Commission and the reasons given therefor, it would appear that although the full annual subsidy "in lieu of lands" is continued to Manitoba, the Commission omitted to take into account and debit the Province with the value of this continued subsidy, and that consequently the Province received cash to the full value of its natural resources alienated by the Dominion and will continue for all time to receive the subsidy "in lieu of lands" as well.

Under this same heading of public lands the Maritime Provinces claim compensation by reason of the vast additions of territory granted by the Dominion in enlargement of the boundaries of Ontario, Quebec, and Manitoba—particularly the two former. In the case of Ontario the territory transferred by the Dominion and now known as the District of Patricia embraced 93,000,000 acres of land. In the case of Quebec the territory added at the same time is estimated at 218,000,000 acres less 54,000,000 acres lost to that Province under the Labrador Boundary decision of the Judicial Committee of the Imperial Privy Council. The Maritime Provinces claim that these accessions of territory to the Provinces mentioned constitute assets of great potential value to them both as sources of revenue as they are being settled and developed and for the impetus and expansion which will result to general business and industrial employment within their respective areas. Of course, as contended by counsel for the Dominion, the territories so added were the property of the Crown in the right of the Dominion and not in the right of the Provinces. From a strictly legal standpoint, therefore, the Maritime Provinces had no proprietary or partnership interest in them. They were held and disposed of by the Parliament of Canada in which the people of the Maritime Provinces like those of all the other Provinces, have representation. But while this is manifestly the case the Maritime Provinces naturally feel that as the Dominion, of which they are an important part, could not, owing to their geographical limitations, transfer to them a portion of these vast areas or any other areas, they are entitled to some special compensation by reason of their transfer to other Provinces not so circumscribed in their boundaries.

It is admittedly impossible to place any definite money value upon these vast accessions of territory, remote and for the most part unexplored as they are, which while they may be, as claimed, potential sources of revenue and advantageous in other ways also entail heavy Provincial expenditures for their administration and development. We feel we can only deal with this claim as to public lands added to other Provinces in enlargement of their original boundaries in a broad general way giving it equitable consideration as a factor of importance to be taken into account in reaching conclusions on the whole question of a just revision of subsidies as between the Maritime Provinces and the Dominion.

### (8) SPECIAL CLAIM OF PRINCE EDWARD ISLAND

In the matter of public lands the Province of Prince Edward Island submitted to the Duncan Commission a special case as follows:—

"Prince Edward Island joined the Confederation in 1873. The Province never had Crown lands in the general meaning of the term. Its lands were held by proprietors who had received them in grant from the British Crown, and who leased them to settlers. In 1853 the legislature of the then colony empowered the Government to purchase the land from the proprietors and to sell it outright to settlers. Approximately three-fifths of the land was bought from the proprietors before Confederation, either by the Government, which paid for it out of current revenue, or by the tenants themselves.

"One of the terms and conditions of that Province's entry into Confederation was:—

"That as the Government of Prince Edward Island holds no land from the Crown, and consequently enjoys no revenue from that source for the construction and maintenance of local works, the Dominion Government shall pay by half-yearly instalments, in advance, to the Government of Prince Edward Island, forty-five thousand dollars per annum, less interest at five per centum per annum, upon any sum not exceeding eight hundred thousand

dollars, which the Dominion Government may advance to the Prince Edward Island Government for the purchase of lands now held by large proprietors.'

"Advances were drawn by the Province against the sum allowed in the foregoing provision to nearly the full extent for the purpose of buying out the remaining absentee proprietorships and transferring the lands to their own settlers.

"In the nature of things, the transaction was a costly one to the Province, both from the point of view of its administrative expense and loss of interest. There was, in addition, a net cash loss of \$190,000 on the principal outlay. The Government submitted to us a detailed claim showing a very considerable gross loss on these land transactions.

"The consequence has been that, in point of fact, the Province has never had any beneficial enjoyment of the provision which was made for them "in lieu of public lands" on their entry into Confederation, and they argue that the special circumstances surrounding the transactions are so different from what was in contemplation both by the Dominion Government and themselves when the provision was made, that they should not be deprived of their annual payment in its full amount."

It is a fact that the special circumstances surrounding the transaction were different from what was contemplated by both the Dominion and the Province.

It was contemplated that the \$800,000 would enable the Province to effect the purchase from the absentee and other landowners and the resale to the leaseholders and tenants without loss. As it turned out, the Province, after all expenses were taken into account, actually received only \$550,000 instead of the full amount of the advance drawn—\$783,000. Taking into account, also, that, if interest were calculated in respect of the amount paid out in the transaction as against incoming amounts received after long lapses of time, it is claimed that the loss to the Province would be not only the sum of \$233,000 as shown above but would entirely eliminate the whole amount received from the Dominion.

As recommended by the Duncan Commission we have given this claim, described by the Duncan Commission as "a very belated one," due weight, bearing in mind, however, that the facts mentioned were partly taken into account by Parliament in 1912 when on this and other grounds an additional annual subsidy of \$100,000 was granted to Prince Edward Island.

Prince Edward Island in its brief calls special attention to the recommendation of the Duncan Commission respecting the subject of railway transportation service on the Island and to the rates charged for the transfer of motor cars on the car ferry between Tormentine and Borden which it is claimed seriously affects tourist travel to the Province, and asks that the recommendation of the Duncan Commission respecting harbour improvements at the ports of Charlottetown, Georgetown and Summerside be carried out. As these topics do not come within the scope of our reference it is not competent for us to express any opinion upon the matter. We simply record the request.

### (9) RAILWAY CONSTRUCTION IN THE WEST

As some reference has been made to the vast sums expended by the Dominion or by Government-controlled railway systems upon the construction of trans-continental lines and local branch lines in the Western Provinces it seems desirable to point out that such expenditure was regarded as essential by the various governments of the Dominion in pursuance of the policy of promoting settlement as rapidly as possible in those extensive areas in the interest not alone of the Western Provinces but of all the Provinces of Canada. The express purpose of Confederation was to bind together the scattered Provinces and territories of British North America as a national and economic unit capable of unlimited growth and development to the benefit and advantage of all its inhabitants. For the realization of this great undertaking in nation-building the construction of transcontinental railways linking together east and west was

a paramount necessity. It is not too much to say that the policies of all Dominion Governments during the fifty years following Confederation were directed to this end. The various forms of public assistance given in promoting the construction of the Canadian Pacific, the Canadian Northern and the Grand Trunk Pacific Railway systems and the construction by the Government of the Intercolonial and the eastern section of the National Transcontinental System were all motivated by this policy. That we have built in excess of our real transportation requirements is undoubtedly true and that Dominion Governments or Dominion-owned railway systems in respect of the construction or acquisition and betterment of local lines in various provinces (including the Maritimes) have had regard to local conditions or local benefit is also true but the latter action was not exclusively taken in the case of the Western Provinces and the former with the object of benefiting all parts of the Dominion. It must also be remembered that hand in hand with our railway development, has gone the development, at the general expense of the Dominion, of our ports and harbours on the Atlantic and Pacific Coasts. This development although in its physical aspect confined locally to British Columbia and the Maritime Provinces has enured like that of our railway systems to the benefit and advantage of all Provinces of Canada and not exclusively to those in which it has actually taken place. The Dominion has also made large expenditures in the development of ports and harbours not forming parts of our national transportation facilities but local in character and purpose. The inland provinces of Canada have naturally not shared proportionately in such development although bearing a part of the expense.

#### (10) THE GENERAL CLAIM OF THE MARITIME PROVINCES

Apart from these special claims which we have been considering, the Maritime Provinces strongly press the general claim that they have not shared proportionately in the advantages flowing from Confederation and that the financial arrangements between them and the Dominion should be reviewed in the words of the Introduction of the Duncan Report, "with sympathetic consideration and understanding, so that in approaching the future a better balance of territorial prosperity can be assured and the original hope of Confederation—unity, prosperity, and contentment for all the Provinces, as well as for the whole of Canada, can be made capable of realization." This statement by the Duncan Commission had reference to the whole range of matters forming the subject matter of their inquiry which embraced not only the question of financial arrangements dealt with in the first section of their report but such additional and vitally important subjects as the freight rate structure of the Intercolonial Railway and its effect upon the Maritime Provinces, the policy of the Dominion Railway Commission, transportation for Prince Edward Island, port development and export trade, harbour commissions for Halifax and Saint John, harbour facilities in Prince Edward Island, trade policy as to forest produce, fisheries, coal and steel, the customs tariff and bounties, agriculture and immigration, New Brunswick railways, trade development generally, fisheries organizations, tourist traffic, technical education and many other topics of economic importance. These are the main factors to be considered by the Dominion Government and Parliament in seeking to carry out the recommendations of the Duncan Commission with the object of assuring "a better balance of territorial prosperity for the Maritime Provinces" because it is only by the development of natural resources through the application of capital, industry and technical skill and of trade through the establishment of adequate facilities for the profitable marketing of products, that prosperity can be attained. These larger and more important aspects of the subject were dealt with comprehensively by the Duncan Commission and do not expressly fall within the scope of our inquiry. We are concerned only with the matter of revision of financial arrangements. The broad



economic problems of the Maritimes like those of the other Provinces are for the Government and Parliament to consider and deal with. Increase of money grants to individual Provinces will not alone bring about prosperous conditions within their areas although it may indirectly assist by promoting, through educational and public welfare services, economic efficiency or by reducing taxation within the Province and thus lessening the burden upon trade and industry.

In connection with this general claim the following observations from the Duncan Report may be quoted as representing the considered view of that Commission after careful study of the events of leading to Confederation in 1867 and of the economic conditions prevailing before and since that date:—

"The outstanding fact, it seems to us, is that the Maritime Provinces have not prospered and developed either in population or in commercial, industrial and rural enterprise as fully as other portions of Canada. We are unable to take the view that Confederation is of itself responsible for this fact. The trend and nature of economic development generally throughout the last sixty years has made within the Maritimes changes in the structure of business and employment which are unrelated to Confederation and which would have taken place whether or not the Maritime Provinces had been independent units outside of Confederation. Even within Confederation there has been such a measure of responsibility resting on each Province for its own development that much at least of what has happened within the Maritime Provinces must be related to their responsibility and not to the responsibility of the Dominion"—but "we are far from saying that the Dominion, within its sphere of control, has done all for the Maritime Provinces which it should have done. It must not be overlooked that the task which has been placed upon the Federal authorities in bringing such a vast territory as Canada to its present point of growth and prospect has been colossal. The calls made upon its attention and resources by that task may well have prevented it from rendering to the older and well settled communities of the East as much help as these communities were entitled to expect, or as much help as it has afforded to other parts of Canada. It is not possible in such an undertaking as the making of Canada, with its geographical and physical conditions, and its variety of settlement and development, to maintain always an accurate balance, apportioning to every section of this extensive country the exact quality of benefit and quantity of advantage which would be theoretically and justly desirable. But reasonable balance is within accomplishment if there be periodic stocktaking."

We are in accord with the claim of the Maritime Provinces and with the finding of the Duncan Commission that these Provinces have not shared proportionately with the other provinces of Canada in the economic advantages accruing to the Dominion as a whole from Confederation and in our recommendations have taken it into account as one of the most impressive elements in their case for more favourable financial arrangements.

#### (11) RECOMMENDATIONS FOR REVISION

It is recommended by the Duncan Commission that a detailed determination and assessment should be made of these various claims of the Maritime Provinces "so that the actual amount as well as the reasons and purpose attaching to it can be recognized by the rest of Canada as fair and equitable." The briefs and arguments submitted on behalf of the Provinces and the Dominion and the documentary and other evidence adduced before us have enabled us to make the suggested detailed examination so far as it is practicable to do so. An assessment in detail of each claim is not possible as the claims are for the most part based upon broad and general considerations of fairness and equity having regard to the treatment enjoyed by other Provinces under the same headings and to the economic disadvantages to which the Maritime Provinces are peculiarly subject owing to their isolated geographic position in relation to the central and Western parts of Canada towards which the trend of Canadian development has continuously and increasingly set ever since the establishment of the Dominion. Such claims are by their nature not susceptible of detailed appraisal by any process of mathematical calculation as the basis for accurate comparison is wanting on account of the diversity of condition and circumstances of development of the several Provinces.

As an assessment in detail of each of the claims presented before us is, for the reasons given, manifestly impracticable, we adopt the only course available to us, viz., to consider equitably the claims in the aggregate assigning to each its due weight according to our best judgment and making our recommendation in the form of special additional annual subsidies to the Maritime Provinces respectively as a final equitable settlement of the claims brought before us for adjudication. These additional annual subsidies so recommended are to be in substitution for the interim annual subsidies recommended by the Duncan Commission. They should commence in the fiscal year 1935-6 and the interim annual subsidies recommended by the Duncan Commission should cease at the end of the fiscal year 1934-5.

The additional annual subsidies which we recommend are as follows:—

To Nova Scotia . . . . .	\$1,300,000
To New Brunswick . . . . .	\$ 900,000
To Prince Edward Island . . . . .	\$ 275,000

We agree with the Duncan Commission that it is preferable to make our recommendations in the form of annual subsidy payments only and not in the form partly of subsidy payments and partly of a fixed sum in respect of the retrospective feature of the claims. We have, however, like the Duncan Commission, taken this retrospective feature into account in making our recommendations and also the fact that the increased subsidies which we have recommended are to begin in the fiscal year 1935-6 and not as of the fiscal year following the date of the Duncan Report.

In our opinion the payment heretofore made by the Dominion of the interim subsidies recommended by the Duncan Commission and the payment for the future of the annual subsidies which we now recommend in their stead constitute a fair, just and equitable settlement of the claims of the Maritime Provinces for revision of their financial arrangements with the Dominion. These annual subsidies which we have recommended and which, as stated above, are to take the place of the interim annual subsidies recommended by the Duncan Commission, represent, on a five per cent per annum interest basis, capitalized sums as follows:—

Nova Scotia . . . . .	\$26,000,000
New Brunswick . . . . .	\$18,000,000
Prince Edward Island . . . . .	\$ 5,500,000

Honourable Chief Justice Mathieson finds himself unable to concur in the recommendations of our Report. His Memorandum of Dissent is attached hereto.

In concluding our Report we deem it advisable to say that in reaching our conclusions we have endeavoured not to be influenced by conditions in the Maritime Provinces due to the present world depression in which all the Provinces of Canada have shared, nor by a comparison of grants made for relief purposes by the Dominion to the several Provinces, because such conditions are common to all and in some present more acute problems for temporary assistance than in others. We have dealt with the claims presented to us on the evidence of specific facts pertinent to the subject-matter of our inquiry and of long-continuing conditions peculiar to the Maritime Provinces and not common to the other members of Confederation.

We wish to express our appreciation of the very efficient services of Mr. C. H. Payne, Secretary to the Commission, and our thanks to Mr. R. H. Coats, Dominion Statistician, to Mr. W. C. Ronson of the Department of Finance, and to other Departmental officials who have furnished us with statistical information during the course of our inquiry.

C. H. PAYNE,  
Secretary.

W. T. WHITE,  
Chairman.  
E. W. NESBITT.

## MEMORANDUM OF DISSENT

Honourable John A. Mathieson, C.J.

I find myself reluctantly compelled to dissent from some of the opinions expressed, and the conclusions arrived at, by the majority of this Commission.

The Report minimises the importance of "Fiscal Need" as a guiding principle in determining the amount of subsidy which provinces are entitled to receive from the federal government in support of provincial governments and legislatures.

From early days one first requisite to granting additional aid by the Dominion to a province was proof of "Fiscal Need" arising from causes for which the province was not responsible.

Such proof would, of course, not be required where the claim rested on damages as for breach of the Confederation Contract, or for compensation for the alienation of Dominion lands to other provinces.

There is no doubt that when the financial terms of union were first being considered, one controlling principle accepted was that in return for the surrender by the contracting provinces of their principal sources of revenue—the customs and excise—the Dominion was to grant such subsidies as would enable these provinces to carry on their local administration without resort to direct taxation. The records of the negotiations preceding Confederation, and of the statements officially made by prime ministers, ministers of finance and other leading statesmen then and since that time, are replete with declarations to that effect. I shall quote but three.

On March 25th, 1907 (Hansard 1906-7, vol. III, p. 5292), Sir Wilfrid Laurier said:—

"Lower Canada would not have entered Confederation if, as a consequence, she had been obliged to resort to direct taxation to levy the revenues necessary to carry on her domestic affairs. What was true of Lower Canada was equally true of the maritime provinces. Nova Scotia, New Brunswick, Prince Edward Island, would not have agreed to enter Confederation if, as a consequence, direct taxation had to be resorted to. . . . Therefore it is not to be wondered at that when the provinces represented at that conference agreed to surrender to the central government the exclusive power of taxation by way of customs and excise, they should at the same time have stipulated as a condition precedent that a certain portion of the revenue thus collected should be returned to them, and a portion sufficient to permit them, without having recourse to direct taxation, to carry on their provincial affairs."

and on March 25th, 1907 (p. 5322), Honourable W. S. Fielding said:—

"The provinces existed before the Dominion, the provinces had to be brought together in order that the Dominion might be formed, and the provinces had the right to determine the terms and conditions upon which the Dominion should be created."

and again (p. 5323):—

"When the provinces were asked to become parts of a great Dominion they had the right to stipulate the terms and conditions upon which they would enter, and they determined that they would not accept the principle of direct taxation. They determined that they must receive out of the federal treasury a proper proportion of those customs and excise duties which they were called upon to surrender. The principle of avoiding direct taxation, of raising money not only for the purposes of the Dominion but for the purpose of the provinces as well by indirect taxation, was recognized by the provinces from the beginning, had to be recognized from the beginning, one is justified in saying; otherwise, the provinces would not have come together. . . . It is not reasonable to suppose—as has been suggested in the discussion today—that the provinces entered Confederation with the expectation that they should be called upon to resort to direct taxation, in a general form, for the purpose of maintaining their provincial governments and provincial legislatures."

and in the same debate (p. 5310), Sir George Foster said:—

"Unless compromise had been resorted to and the smaller provinces had been provided for so as to relieve them from the necessity of facing immediate and even approximate taxation, we would today be a string of disunited provinces without confederation."

It is a fact difficult to explain that by degrees this fundamental principle has been departed from in practice. These Provinces have ceased to rely upon Dominion subsidies alone for many of their necessary public services and through the years have steadily increased in area and amount the exercise of their provincial taxing power until it practically covers, in the Maritime Provinces at least, the whole provincial field, while the Dominion Government has also invaded the provincial field, notably in the case of income tax, and still the provincial deficits grow.

There has been a long drift from the firm anchorage which the Fathers of Confederation thought they had secured.

Some other notable developments have taken place in Confederation. The fields of taxation surrendered by the provinces to the Dominion have proved prolific sources of revenue, far in excess of what the "Fathers of Confederation" could have anticipated or even dreamed; while, on the other hand, the rigid limitations imposed upon the amount of subsidy to be granted to each province, in return for the surrender of its fruitful and expanding source of revenue, has left the Maritime Provinces, in particular, in a position of financial embarrassment that urgently requires a remedy.

The Report greatly minimises, if it does not quite repudiate, the relevance of the question of "Fiscal Need," when it says the provincial premiers "endeavoured to show that their respective Provinces have fulfilled the condition of this test, namely, that the functions which the Provinces were discharging were necessary, that such functions were being economically carried out and that each Province had exhausted available sources of revenue." The Report objects to the acceptance of such evidence as a justification for such financial assistance as might be required to meet these needs. The objection is upon this ground, namely, "The Government of the Dominion would have to sit in judgment upon the question as to whether the provincial administrations have, or have not, been economical; whether or not a Provincial Government had exhausted all available sources of revenue; and whether all the functions which it was exercising were necessary in the degree to which they were being exercised." The Report continues, "Under our political system, from which the spirit of strong partisan bias can never be wholly excluded, grave abuse through favouritism towards individual Provinces, and consequent discontent on the part of other Provinces whose governments were not so favourably regarded, would surely follow the acceptance of even this modified test of 'Financial Need' in the case of Provinces seeking further subsidies in aid from the Dominion Treasury." With all due respect, let me say that it was to obviate such objections and to answer these questions that the Duncan Commission and this Commission were appointed and empowered.

There can be no advantage in re-arguing or stating more fully now the questions which were so ably presented by the representatives of the Maritime Provinces before this Commission and so strenuously opposed by counsel for the Dominion, but I may shortly state my opinion on the result, which is: That vital questions referred to this Commission remain undetermined by this Report, and that the increase of subsidy proposed will give but partial and temporary relief. The lapse of more than eight years since the Duncan Report went into effect granting provisional subsidies only, has witnessed such necessary increase in government expenditures in the case of all the Provinces as will quickly absorb the present proposed increases, and still leave them in a position to compel diminution of necessary expenditure on provincial services, or a further increase of provincial debt or of local taxation, or of all three combined.

These old British Colonies that formed the Atlantic bulwark of British North America, after bearing their full share of the cost of Canadian organization and development, should not be treated with less justice and consideration than is being accorded the Provinces whose lands they helped to purchase, to protect and equip for settlement.

The evidence produced before this Commission showed from early days a total absence of equality in the treatment of the different Provinces in Canada, both in regard to money grants by way of subsidy and in the gifts of vast areas of Dominion lands to some Provinces without any uniform plan and without any compensation to Provinces that did not share in the partition of the common property.

It was made clearly to appear on this inquiry that one of the major problems facing Canada today is the devising of some general plan for the adjustment of Dominion and provincial financial relations.

The practice which has existed from early days of dealing with single Provinces or groups of Provinces without due regard to the interests of all, may bring about a condition of grave unrest not free from danger to Canadian unity.

I wish to join in my expression of appreciation of the courteous and competent assistance of Mr. Payne, Secretary of this Commission, and also of my old friend, Mr. MacCormac, of the Parliamentary Library, whose many kindnesses now and in former days I recall with gratitude.

OTTAWA, February 16, 1935.

J. A. MATHIESON.