CHAPTER VI

THE DEPRESSION

1. WORLD DEPRESSION AND RECOVERY

Economic Dislocations in the Post-War World—Effects of the War, peace treaties and technological changes required basic readjustments in international economic relations

The economic progress of the world during the twenties was impressive. Between 1920 and 1929 the per capita world production of primary commodities, and of manufactured goods rose 31 per cent and 38 per cent respectively. The quantum of world trade per capita increased by at least 30 per cent. It is remarkable that these striking advances in the world economy were possible while serious structural weaknesses continued to exist and were even intensified.

The war-stricken world of 1920 faced an economic order which was drastically changed from that which obtained prior to 1914. The demands of the conflict, the terms of the peace treaties and technological changes greatly altered the basis of international economic relations. There was a very substantial increase in the production of foodstuffs and raw materials in overseas countries. The manufacturing industries of the United States, the British Dominions and Japan received a strong impetus from the War-time decline in European exports. During the twenties machine methods of production spread throughout the world with increasing rapidity. Non-European countries were in the better position to benefit from important technological improvements and assumed the leadership in the production of automobiles, electrical appliances, radios, and the new textiles. New sources of power weakened the influence of coal as a dominant factor in the localization of industry. Northwestern Europe languished while one of its basic natural advantages was disappearing and areas with abundant supplies of water-power and petroleum came to the fore.

The shifts in manufacturing production were accompanied by equally important shifts in the production of cereal foodstuffs and industrial raw materials. The mechanization of agriculture greatly altered the competitive balance between the European peasant and the large-scale specialized farmer in overseas countries. The tractor, the combine, power-driven machinery, and the motor truck were most effective on the semi-arid plains of America and Australia. Between 1914 and 1930 the number of acres of improved land per person engaged in agriculture on the Canadian Prairies rose by about 50 per cent. As a result of the War and lower costs in overseas countries, Europe's contribution to the total world (except Chinese) production of wheat fell from 56 per cent in 1909-13 to slightly over 40 per cent in 1926-29. During the same interval the European production of all cereals, sugar and potatoes decreased from 43 per cent to 39 per cent of the world total. The pre-War situation with respect to the geographical sources of industrial raw materials and the relative costs in the different areas was likewise greatly altered by technical improvements and new discoveries. In 1913 about 50 per cent (in value) of the world's non-ferrous metals were produced in America and Africa; by 1929 this proportion had risen to nearly 70 per cent. The share of new countries in the total physical output of petroleum, timber, newsprint, wood-pulp and vegetable oils showed similar increases. Furthermore the competitive relationship between old and new producers of bulky foodstuffs and raw materials was strongly affected by the abnormally depressed ocean freight rates of the twenties. In terms of the general price level, tramp steamer freights were fully 30 per cent below the pre-War rates. The opening of the Panama canal greatly shortened the distances of Pacific countries from Europe and the eastern shores of America. The substantial reductions in the costs of shipment brought many newly developing areas within the scope of the world market and increased the flow of heavy commodities to distant importers. These changes had wide-spread repercussions, but perhaps none was more significant than the increased pressure upon the peasant farmers of Europe.

The readjustments in international economic relations required by the rise of manufacturing in overseas countries, technological improvements and reduced costs of transportation were intensified by the post-War situation in international finance. The nature and the net balances of international indebtedness had greatly changed. A large proportion of the debts were for unproductive purposes. The financial world was entangled in a maze of inter-governmental War debts and reparations. The United States emerged from the conflict as the world's second largest creditor, Germany as the largest debtor. The pre-eminent position of London as the regulator of the international gold standard by virtue of being the clearing centre of international transactions, the greatest lender on foreign account and the largest free import market, was immensely weakened. Its rivals, New York and Paris, played increasingly important parts, but neither had the experience or willingness to follow the long-range policies necessary for the maintenance of stable international monetary conditions out of which a rising volume of world trade could develop. International lending during the post-War period was sporadic; much of it was to governments which squandered the money on ill-advised and unproductive projects. The large proportion of short-term loans in international indebtedness added further to the instability of foreign investment. The restoration of the gold standard had brought with it the problem of undervalued (the United States dollar, the French franc and the Belgian belga) and overvalued (the British pound and the Italian lira) currencies. The strain resulting from the failure of national price levels to become adjusted to the re-established gold parities was temporarily relieved by the expedient of short-term borrowing. This factor, together with the general feeling of uncertainty and the development of the gold exchange standard, created a large volume of liquid funds which flowed nervously back and forth across the international exchanges. The solvency of important monetary centres came to be dependent upon a thin thread of confidence which temporary setbacks, political disturbances or rumours would quickly break.

Failure to Achieve Solutions to International Problems—resort to national controls and temporary makeshifts; development of agricultural crisis and over-extension of raw material production

The widespread economic dislocations and the unstable condition of international finance which were the outcome of war and of technical progress required substantial readjustments and a new integration of the economic world. They required extensive reallocations of resources, alterations of wage and price levels, a reduction of restrictions on trade and the sacrifice of vested interests. The magnitude of the changes involved was such that they could only be accomplished with international co-operation to lower tariff barriers, maintain stable exchanges and make capital available. However, the efforts to achieve international co-operation failed dismally in the economic sphere as in the political. Nations sought the solution of these problems by the use of their own national controls and national policies. All the weapons in the arsenal of economic autarky were brought into play. Weak positions were protected, high cost producers were kept in production and obsolete equipment was preserved by rising tariffs, import quotas, cartels, government subsidies, "rationalization", restriction schemes, stabilization of prices, etc. A large part of the economic history of the first post-War decade chronicles superficial efforts to defy serious underlying dislocations. Europe struggled desperately to regain her pre-War position in an economic world which was greatly changed. This was particularly the case in agriculture. The peasant populations of Europe who in many instances formed the backbone of the state and whose political and social importance was great in all countries could not be sacrificed on the altar of cheap food. The consequences of the readjustment to the revolutionary increases in output and decreases in the costs of production in overseas countries were too drastic. This circumstance, together with the rising barriers against European exports of manufactures and the desire for self-sufficiency arising out of the fear of war, produced an extreme form of agricultural protectionism. The boundary revisions of the peace treaties intensified the harmful effects of this policy. Eight small states, each with its own currency and customs sovereignty, were carved out of three large empires. The economic system of Austria-Hungary, based on regions which "had grown up in mutual interdependence in the course of centuries", was broken into small parts and choked with tariff barriers. As European output expanded behind customs restrictions, and production in overseas countries continued to increase on the basis of natural advantages, a major crisis in world agriculture developed.

The unbalanced agricultural situation was accompanied by an increasing deterioration in the position of the raw materials. The old high-cost producers everywhere were threatened by new supplies and new processes. Obsolete or submarginal capacities were not withdrawn from production but were maintained in production by artificial means. For commodity after commodity, prices were artificially maintained or raised to bolster up uneconomic enterprises. None of the various stabilization or restriction schemes had control over the total output and these attempts at increasing or fixing prices in the end served only to induce an abnormal expansion of production on the part of the non-restricted or non-conforming producers. Between the beginning of 1925 and the beginning of 1930, world stocks of twelve important raw materials rose by 40 per cent. During the same period world stocks of agricultural products increased by 50 per cent. These stocks hung menacingly over the markets ready to come down upon the price structure like avalanches.

The policies of creditor countries contributed much to the accumulating weaknesses in the structure of the world economy during the twenties. The attempt to collect increasing interest payments, to sell more and buy less, encounters an arithmetical impossibility. The unwillingness of the United States and France to lower, or even to stabilize, their tariffs so as to adjust their import balances in a manner consistent with their creditor positions produced an increasing disharmony between the flow of world trade and the requirements of international indebtedness. As the debts of borrowing countries rose it became continuously more difficult for them to export goods of sufficient value to meet the interest charges. They were forced to attract short-term funds by high interest rates and to lose their gold reserves with the result that their monetary systems were placed in an extremely weak condition. The strain was particularly great in Germany and in a number of agricultural countries especially those of south-eastern Europe.

The post-War world failed utterly to achieve a satisfactory compromise between the advantages of international specialization and national stability and security. For a time world economic activity and trade rose sharply because international lending and the constant renewal and increase of short-term balances filled the gaps in the balances of payments; because boom conditions were maintained by reconstruction in Europe and by the demand for investment and durable consumers' goods in the United States, and because heavy capital expenditures were being made for the exploitation of natural resources in new countries. However, by 1929 these temporary makeshifts and stimulants began to play out. The reconstruction boom in Europe was virtually completed. After the middle of 1928, international lending contracted rapidly. It became increasingly evident that productive capacities in a number of raw material industries were seriously over-extended. Cereal prices were sagging and the agricultural crisis was imminent. At this conjuncture, a spectacular stock market boom in the United States sucked short-term funds to New York thus creating a world-wide stringency of credit. When this boom collapsed the catastrophe was at hand.

World Depression—cessation of international lending; strangulation of trade; breakdown of gold standards; sharp and disproportionate decline in raw material prices; severity of impact on debtor countries and exporters of primary products

In the United States confidence was severely shaken by the collapse of the stock market and the tremendous activity in capital investment was abruptly curtailed. The contraction of international lending, the attempt of creditors to recall their short-term funds and the general monetary tightness, put a heavy strain on the balances of payments of debtor countries. Germany was forced to cut down her imports sharply. Other debtors, who were mainly agricultural or producers of raw materials, were obliged suddenly to increase their exports. It was not long before many of the control schemes broke and loosed a flood of goods on the market. Russia reappeared as a big seller of raw products, chiefly wheat and timber. While the pressure upon the world market for agricultural goods and other raw materials was rising, Europe's ability to export manufactures to the United States and, therefore, to import foodstuffs and raw commodities was drastically curtailed by the Hawley-Smoot Tariff (1930). In order to protect their precarious financial and foreign exchange positions, or to shield the livelihood of their peasant populations, European countries imposed insurmountable duties and other restrictions upon the importations of foodstuffs. The impact of increased supplies upon mounting trade barriers and decreasing consumption resulting from the world-wide decline in investment produced an unprecedented fall in the prices of agricultural products and raw materials. In particular, the reduction of lending, weak and exposed monetary systems, and the general heightening of tariffs concentrated the full force of the depression upon those surpluses of goods which had to find an international market. Eventually, practically every country, creditor and debtor alike, had to, or chose to, make its adjustments not by an increase of trade, but by a reduction of imports.

Between 1929 and 1931 the value of world trade fell by 42 per cent. The drastic effects and uneven character of this decline are indicated by the 40 per cent drop in the export prices of seven leading overseas agricultural and raw material producing countries, compared with but a 15 per cent drop in the prices of their imports, which were mainly manufactured goods. The disparity revealed by this relation was one of the most characteristic and disruptive features of the world depression. The number and importance of the rigid elements in the economic system had greatly increased. The relative decline of equity investment in favour of bonds, and the extension of large-scale corporate enterprise added substantially to interest and other fixed costs. Wage rates acquired almost the rigidity of contractual interest charges. The elaborate economic overheads and frills that go with a rising standard of living proved to be particularly inflexible. The invariable costs were translated into administered or rigid prices most readily in the manufacturing and distributive industries where monopolistic conditions are most prevalent. The cartels were far more effective than their counterparts, the restriction or stabilization schemes for the raw materials. The producers of manufactured goods and the distributive trades, countered the declining demands by *restricting* output and maintaining prices; the primary industries, where small-scale individual enterprise is most general, tended to *increase* output against sharply falling prices. The former discharged their employees thus creating the problem of mass unemployment; the latter had to reduce drastically their standards of living and to default on many of their debts.

The divergence between the prices of raw materials and those of manufactured goods was a general phenomenon. It produced serious dislocations between the primary and secondary producers in nearly every country and placed a severe strain on the economic relations between raw material countries and those which exported finished goods. Between 1929 and 1931 the cost of the imports of the former rose approximately 30 per cent in terms of their exports; in two years the real burden of servicing their external debts increased by about 40 per cent. These abrupt changes quickly caused a number of breakdowns in the mechanism of international finance. Australia, New Zealand, and most of the Latin American countries were soon forced off the gold standard. The failure of the Austrian Kredit-Anstalt in the spring of 1931, which revealed the precarious situation in South-eastern and Central Europe, started a succession of financial crises which sent the world headlong down the incline of depression. There was an immediate drive to liquidate the short-term foreign loans in Central Europe, especially Germany. The run on foreign funds brought on the failure of a number of important German banks, and the entire German financial system began to totter. In order to prevent complete collapse, Germany instituted a rigid control of her foreign exchange, obtained a "standstill" agreement with her short-term creditors delaying the withdrawal of funds, sought and secured a postponement of reparation payments and imposed further restrictions upon imports. Standstill agreements and similar measures were applied in other Central European countries. Following these events the financial crisis shifted to London.

The overvaluation of sterling and Britain's declining share of world trade had progressively weakened her financial position. Partly as a result of this condition London was both a large borrower and lender of short-term funds. As the general uneasiness became acute, foreign deposits were rapidly withdrawn from London. These withdrawals were possible only so long as British loans in Central Europe could be liquidated. When these became "frozen" the drain could no longer be met and the pound was forced off the gold standard. The British abandonment of gold in September, 1931, was temporarily at least, a severe blow. Credit conditions tightened everywhere and international lending ceased altogether. The sharp fall in the gold value of the monetary unit of the biggest import market in the world pushed prices in terms of other currencies, particularly prices of foodstuffs and primary commodities, further down the deflationary spiral. The pressure on debtor countries and on exporters of raw materials and agricultural commodities was intensified. This brought another wave of nationalistic measures to protect the exposed economic and financial structures against collapse. Many of the countries which had close economic relations with Great Britain, namely the Scandinavian countries, most of the British Empire, Egypt and Portugal, followed her off the gold standard immediately. Between September, 1931 and the middle of the next year, seventeen countries departed from gold. Nearly thirty countries established controls over their foreign exchanges. The disorganization of international finance and the continued decline in gold prices were accompanied by an increase in restrictions to trade. In addition to the raising of tariffs in nearly every country on the globe, there was a virtual stampede in the adoption of import quotas, licensing systems, import monopolies, milling regulations, etc. Great Britain, long the stronghold of free trade, succumbed to a system of moderate protection. Under the growing paralysis caused by these measures the value of international trade fell precipitously. The economic world lay prostrate and apparently helpless under a succession of disasters.

By 1933 the value (in terms of pounds sterling) of world trade had fallen nearly 50 per cent from the level of 1929. About half of this contraction was due to the fall in prices and half to the shrinkage in volume. These decreases, because of their nature, fell with particular severity upon the debtor countries and the exporters of primary commodities. In order to maintain solvency supplies were pressed upon the export markets intensifying the disproportionate decline in prices. The volume of world trade of foodstuffs and raw materials dropped only 15 per cent, compared with a decrease of 40 per cent in manufactures. The prices of the former, however, fell about 15 per cent lower (from 1929) than the latter. The effects upon agricultural exporters of import restrictions and the attempts to attain self-sufficiency are illustrated by the fact that, while in 1933 the total world production of foodstuffs was slightly greater than in 1929, world trade in these commodities had fallen by nearly a fifth. The agricultural crisis together with the strangulation of trade and the widespread dislocation of the international exchanges were the major factors contributing to the unusual severity of the depression. At the bottom of the decline world industrial production had fallen 37 per cent from 1929. Three out of every ten of the world's industrial wage-earners were out of work.

Recovery—failure of international efforts and intensification of economic nationalism

It seemed to be impossible to overcome the international economic anarchy which so intensified and prolonged the slump. The failure of the World Economic Conference of 1933 emphasized the apparent futility of the attempts to promote recovery through international co-operation. Each country turned to its own national policies to bring about economic revival. Everywhere defences were thrown up to shield the national economies against depressing or limiting external influences. Great Britain sought to stimulate recovery by a policy of easy money behind an exchange depreciated against the gold bloc, encouragement to home investment by the restriction of foreign and governmental assistance to housing, moderate protection to industry and protection and subsidies to agriculture. The Scandinavian countries and the British Dominions likewise tried to promote easy money, price raising and investment, behind depreciated exchanges and greater restrictions against imports. The United States endeavoured to raise the internal price level by increasing the price of gold; to remove the disparities between agricultural and industrial prices by restricting farm output to domestic requirements; to spread employment and raise wages by shortening hours, regulating competitive conditions, and strengthening the power of organized labour; to promote investment by credit expansion and easy money; and to increase consumers' purchasing power by a gigantic program of government spending. In contrast to the expansionist policies of the nations with depreciated currencies, the gold bloc countries (chiefly France, Switzerland, Belgium and the Netherlands) attempted the vigorous program of deflation demanded by the maintenance of the gold standard. As the deflation continued confidence waned, the depression deepened and tariffs, import quotas and import licences became more and more exclusive. The restrictive measures proved unsuccessful and eventually expansionist policies were adopted which forced the bloc to abandon the gold standard in 1936. The Central European countries, particularly Germany and Italy, used the methods of the totalitarian state to increase employment and to expand economic activity. Exchanges were rigidly controlled; imports were rationed; prices and wages were fixed; profits were limited; the direction of investment and industrial expansion were dictated by the state; huge public works and armament programs were undertaken.

While the devices of national self-help were being employed to hasten readjustments and to promote recovery in individual countries, international efforts were put forth to improve the position of the raw materials which were sold on world markets. Old schemes were revived and new ones started, in some cases under the aegis of the governments concerned and in others merely by direct agreement among the producers. Eventually, nearly every important commodity was subject to some form of control. The newly constituted schemes generally had greater control over total output than those of the past and hence were able to achieve their objectives without the same unfortunate consequences. Thanks to rising demands they were able to work off surplus stocks and to engineer a considerable rise in prices. However, very few international difficulties were so smoothly overcome. The agricultural depression was relieved temporarily only by a succession of disastrous droughts in North America. The most pressing problems of international indebtedness were solved mainly by arbitrary and unilateral methods. A number of countries in Latin America and South Eastern Europe suspended the services on their external debts. The large inter-governmental payments on account of War debts were defaulted. The attempt to collect reparations had to be finally abandoned.

The national efforts, the reduction in the weight of unproductive debts, and to some extent the restriction schemes achieved a considerable success in promoting recovery. Expansionist policies and easy money helped to raise prices; inventories were depleted, capital equipment had worn out and needed replacement, technical improvements accumulated, costs were reduced, the buying of durable consumers' goods revived in the United States and an armaments boom got under way in Europe.

Economic Isolationism and Self-Sufficiency—reduced importance of world trade and unfavourable circumstances of debtor countries and exporters of foodstuffs

In 1937 world industrial production was greater than and world industrial employment was about equal to that of 1929. The price disparities between agricultural products and raw materials on the one hand and manufactured goods on the other had disappeared. However, during the eight years the structure of the world economy had changed significantly. The level of economic activity in Germany, Great Britain, Sweden and Japan was from 15 per cent to 40 per cent higher than in 1929, whereas in the former gold bloc countries, the United States, and Canada it was still slightly lower. While world manufacturing production and the production of industrial raw materials were nearly 20 per cent greater than the pre-depression peak, agricultural production was only 7 per cent greater; the production of non-ferrous metals was 21 per cent greater; wood-pulp 38 per cent greater; electricity 47 per cent greater. The new age of alloys, plastics, and synthetic textiles brought new industries and areas to the fore and left others mired in the depression.

By 1937 total world production was considerably above that of 1929, but the volume of world trade was slightly lower. The divergence between world production and trade was particularly pronounced in the case of foodstuffs and manufactured goods. The world exports of wheat were one-third less and those of finished articles about one-sixth less. The absence of international lending, the heightening of trade barriers as defences against depression and the emphasis upon national efforts to promote recovery, reduced the importance of foreign trade in the world's economic life. This tendency was intensified by the struggle for self-sufficiency which arose out of the deterioration of political relations between nations and the fear of war. The heavy expenditures on armaments reduced the amount of foreign exchange available for imported foodstuffs and other consumers' goods. The choice between "guns or butter" was dictated first to the nations as a whole and then to their individuals. The universal limitation to standards of living, which was involved in the efforts to attain national security, and military power, fell with particular severity upon those who had the greatest stake in the advantages of international economic co-operation—the countries with an overwhelming dependence upon a few specialized exports.

2. The Incidence of the Depression on Canada

Impact of World Depression—its full force falls upon Canada's staple exports; the drastic slump in agricultural and raw material prices

The implications of the nature and extent of the world depression to Canada are obvious. The effects upon this nation, which obtains over one-third of its national income directly from abroad and two-thirds of whose exports consist of raw materials, were extremely drastic. For upwards of thirty years external influences and technical changes had played favourably upon Canada's resources and produced an era of almost unbroken expansion and prosperity. The Canadian economy had become delicately geared to the increasing foreign markets for foodstuffs, newsprint, lumber and minerals. For the production of these commodities a large and expensive transportation system was built and huge amounts were invested in power projects, processing plants, implements and machines. Much of the capital required for the provision of this immense equipment was borrowed from other countries. The application of this capital and of advanced techniques to virgin resources became the principal basis of our economic life. It involved a narrow specialization in the production of a few export staples, heavy fixed charges, and a precarious dependence upon the commercial policies of other countries.

As long as the conditions of international trade were favourable, specialization yielded a high standard of living and heavy commitments were undertaken with great confidence. Our social and economic institutions became closely related to the nature of the economy and rested on the condition of continuous expansion. When the bases for progress along the old lines disappeared and the full force of the world depression fell upon our specialized exports, the problems of adjustment were extremely difficult. Canada's political, public finance and economic organizations were not adapted to deal with sharp and prolonged economic reverses. When a specific and co-ordinated program was required, there was bewilderment; when positive action was needed there were only temporizing and negative policies; when a realization of the far-reaching effects of the altered circumstances was demanded, there was but faith in the speedy return to the old conditions of prosperity.

The general vulnerability with which Canada entered the world depression was intensified by a number of particular circumstances. The market situation for the two leading exports, wheat and newsprint, was especially weak. The unusually large world and Canadian wheat crops of 1928 created a burdensome surplus which threatened a slump in prices even before the depression began.[1] As world agriculture was rapidly approaching a crisis, this factor was particularly menacing. By 1929 Canadian newsprint capacity was over-extended and the price situation was very unstable. Since Canada supplied 40 per cent of the world exports of wheat and 65 per cent of the world exports of newsprint, she would suffer the full impact of unfavourable developments.

In addition to the dark outlook for the two principal exports, there was the over-extended condition of the internal credit structure. Canada was closely affected by the investment and speculative boom in the United States. Her citizens participated extensively in the New York stock market and assumed large capital commitments with typical North American optimism. These tendencies were facilitated by the nature of the Canadian monetary system which was without anchor and without control.[2] Under the Finance Act the Canadian banks were able to extend their loans and increase the money supply without reference to the restrictions of the gold standard, which in fact had to be abandoned as early as the end of 1928. Consequently, in the atmosphere of the time, credit was over-expanded giving rise to much speculative and inflationary activity. Wage-earners were thus drawn into the capital goods industries in undesirably large numbers and when the depression struck the problem of unemployment and the shock to confidence was all the more severe.

The decline in world economic activity and prices was immediately communicated to Canada and her weaknesses were quickly exposed.

TABLE 41.—THE DECLINE IN EXPORT PRICES AND ECONOMIC ACTIVITY, 1929-33

—	The Prices of 17 Major Exports	Export Prices of Farm Products[(a)]	All Wholesale Prices	Index of Employment[(b)]	Index of Industrial Production[(c)]
1929 July	100	100	100	100	100
1930 June	82	70	90	93	80
1930 December	66	42	80	87	74
1931 June	62	42	74	83	64
1931 December	61	41	72	80	61
1932 June	54	37	68	72	59
1932 December	47	30	66	67	52

(a) Includes Wheat, Barley, Potatoes, Cheese, Bacon and Cattle.
(b) Dominion Bureau of Statistics Index of Employment.
(c) Dominion Bureau of Statistics Index of Industrial Production.

It was the sharp fall in export prices which pushed Canada down the incline of depression. The level of export values was directly the basis of the income of a large section of the economy; it determined the incentives for capital investment and the size of the market for the protected manufacturing industry. When these values shrank, the repercussions were widespread. In twelve months (January, 1930 to December, 1930) the average of the prices of 17 major exports fell 30 per cent; wheat was down 57 per cent, cattle 36 per cent, copper 38 per cent, dried codfish 31 per cent, and lumber 20 per cent. The factors which were responsible for these sudden and drastic declines became increasingly unfavourable as the

[1] Between August 1, 1928 and August 1, 1929 the world wheat carryover rose from 697 million bushels to 957 million bushels.

[2] "An examination in the light of contemporary conditions of the rates charged from time to time on Finance Act advances suggests that these rates were not used as an instrument of credit expansion and contraction, but were mainly varied to meet the exigencies of the Dominion Government's finances. The volume of advances was not subject to the restriction of a gold reserve. The Treasury Board did not assume the responsibility of ensuring that the uses made of the Finance Act were consistent with the requirements of a convertible currency. The banks, on the other hand, which could take the initiative of expanding the credit base through advances of Dominion notes under the Finance Act, were under no obligation to use this initiative in maintaining the gold standard. Thus the Finance Act did not provide Canada with the organization needed to undertake the tasks which the maintenance of the restored gold standard implied." *Report of the Royal Commission on Banking and Currency in Canada,* 1933, p. 59.

world depression deepened. Agricultural products particularly were dealt a succession of hard blows. In 1930 the German, Italian and French tariffs against wheat were raised to the prohibitive levels of $1.62, $1.07 and $0.85 per bushel respectively. Later such duties were supplemented by all manner of quantitative restrictions which almost completely closed these important markets and decreased the export outlets by upwards of 150 million bushels a year. During 1930 the currencies of Canada's principal competitors in the wheat market, Australia and Argentina, began to depreciate rapidly. When Britain abandoned the gold standard and the monetary unit of the largest purchaser of wheat went to a discount in terms of Canadian dollars, Canada's disadvantages were intensified. By the end of 1932 the Australian pound and the Argentine peso were 46 per cent and 40 per cent, respectively, below their former gold parities. Furthermore, during 1930-32 Russia suddenly pushed large supplies of wheat into the world market, the Danubian countries began to subsidize exports, and the United States Federal Farm Board started to unload its stabilization holdings. In December, 1932 the Winnipeg wheat price fell to 38 cents per bushel, the lowest in history. The agricultural problem was generally aggravated by the Hawley-Smoot Tariff of 1930. During the twenties an important export business in cattle and potatoes, and a border trade in milk and cream was done with the United States. The new tariff rates put an end to these and the surplus production flooded the domestic market.[3] By February, 1933, the average of all Canadian farm prices had fallen nearly 60 per cent from 1929.

Primary products other than those of agriculture suffered similar, if not quite such drastic, price declines. The producers of lumber were especially affected by the sharp curtailment in construction activity. Furthermore, the free entry of lumber into the United States was terminated by the tariff of 1930 and the high duty imposed by the Revenue Act of 1932.[4] In the British market the Canadian exporters faced increasing competition from Russia and the Baltic countries, which with the depreciation of their currencies after 1931, had an exchange advantage.

As in the case of lumber, the exports of base metals were heavily dependent upon the world boom in capital investment. When this boom broke and the buying of automobiles and electrical appliances was abruptly curtailed, the consumption of these metals dropped precipitously.[5] At the same time, a large amount of new, low-cost, productive capacity arising from projects initiated earlier, and based on improved processes and new discoveries, was just coming into operation. The cartels were unable to control output, stocks piled up and prices slumped disastrously. The 4 cents per pound duty on copper, imposed by the United States in 1932, depreciated currencies, and the efforts of European countries to promote domestic production by means of tariffs, quotas and subsidies, contributed to the unfavourable circumstances. Canada, however, was in a relatively advantageous position. She had a virtual monopoly of nickel and a fixed price was maintained. Nearly all the copper, lead and zinc were produced as by-products of nickel, gold or silver, or vice versa. Furthermore, a number of large capital programs for new and extended mining and refining operations involving the latest low-cost processes were just being completed as the depression broke. Nevertheless, with the fall in copper, lead, zinc and silver prices to less than half of the 1926-29 averages,export values contracted sharply.

In the case of newsprint, 85 per cent of the market was in the United States where the depression was particularly severe. Between 1929 and 1933 United States consumption of newsprint fell 30 per cent while Canadian productive capacity increased by nearly 20 per cent. Under the peculiar conditions of the newsprint market and the financial organization of the Canadian newsprint industry these changes wrought havoc with the price structure. On the supply side there were relatively few and unorganized producers, each with a heavy bonded debt, to whom the maintenance of volume was extremely important.[6] The demand side was dominated by a few powerful organized buyers whose requirements were decreasing. The sellers had to keep up output in order to meet the large fixed charges and avoid bankruptcy. The buyers took advantage of this situation and because of mutual distrust and divergent interests, the Canadian producers were unable to maintain a united front against the united pressure of the buyers. Consequently, the price tended to be forced down

[3] Between 1929 and 1933 the exports of cattle to the United States fell from $13,800,000 to $400,000, of milk and cream from $5,700,000 to $40,000, and of potatoes from $3,800,000 to $700,000. These declines were partially due to the general fall in prices and the decrease in United States consumption, but the higher tariffs were undoubtedly the main cause.

[4] The exports of Canadian lumber and timber to the United States dropped from $58.6 million in 1929 to $13.1 million in 1933.

[5] Between 1929 and 1932 the world consumption of nickel fell 52 per cent, of copper 46 per cent, of lead 37 per cent, of zinc 42 per cent.

[6] Even at the 1929 price the industry had to operate at 80 per cent of capacity in order to meet its full interest charges.

to the out-of-pocket operating costs leaving little or no margin for fixed interest charges. In 1933 the Canadian newsprint industry was working at 53 per cent of rated capacity, the price [7] had fallen nearly 40 per cent (from 1929), and seven companies representing 50 per cent of the total Canadian capacity had defaulted on their indebtedness and were bankrupt.

The depression added greatly to the unfavourable circumstances which have long harassed the Atlantic fishing industry. Beginning in 1930 the world's largest importers of dried cod, Spain, Portugal and Italy, imposed prohibitive trade restrictions which severely curtailed consumption. The purchasing power of Canada's important outlets in the Latin American countries, which was tied to coffee and sugar, was drastically reduced.[8] In these markets there was also increasing competition from the subsidized exports from Europe and from the British, Norwegian and Icelandic producers whose currencies had depreciated further than the Canadian dollar. The trade agreement (1926) with the British West Indies was of little assistance to the Nova Scotia fishermen since Newfoundland enjoyed the same preferences. Furthermore, this treaty which transferred Canadian sugar purchases entirely to Empire sources,[9] practically closed Canada's important outlet for fish in Cuba. The fresh fish trade with the United States and Central Canada suffered considerably from the low prices for substitute foodstuffs, meat, eggs and dairy products. At the bottom of the depression the average of the export prices of Canadian fish was cut in half; the price of dried cod was down nearly 70 per cent.

By 1933 the average of all Canadian export prices (except gold) had fallen 40 per cent from 1929. This drop was nearly one-fifth greater than the fall in the cost of imports and 10 per cent greater than the fall in the general wholesale price level. The important staples of agriculture and Atlantic fisheries suffered the most drastic declines.

TABLE 42.—CANADIAN EXPORT PRICES, 1929-33

—	All Exports (ex. gold)	Wheat	Cattle	Lumber	News-print	Copper	Dried Cod-fish
1929..	100	100	100	100	100	100	100
1930..	84	70	87	87	100	75	82
1931..	66	44	59	75	91	50	56
1932..	60	41	46	67	79	38	44
1933..	60	45	37	68	62	44	42

[7] F.o.b. Canadian mills.

[8] Between 1929 and 1933 the exports of raw sugar from Cuba fell from $178 million to $39 million, and coffee from Brazil fell from $327 million to $127 million.

[9] The sugar preferences in the British West Indies Treaty were extended to the other Empire countries.

Effects of Severe Decline in Export Prices—sharp increase in burden of external interest payments, increase in real cost of imports, and drastic curtailment of construction activity

The result of the steep fall in export prices was, of course, to reduce sharply Canada's income from abroad. This reduction, aside from its other far-reaching effects, greatly increased the burden of external obligations. The Canadian economy was like a huge bonded corporation in which the export producers held the equity interest. The large amount of capital required (for railways, canals, power plants, community equipment and factories) for the most profitable exploitation of its domain was most rapidly obtained by the sale of bonds to foreigners. The first charge on the income (exports) consisted of the interest on this bonded debt; the export producers received what was left and, therefore, this remainder rose and fell with the corresponding changes in export prices but at a much faster rate. Hence it was very large when prices were high and extremely small when prices were low. Those farthest out on the long arm of this lever were the farmers, the fishermen, the lumbermen and the miners, in whose rigid costs (freight rates, taxes, mortgage interest and cost of equipment) the fixed interest charges were expressed.

In 1930 about 40 per cent of all the capital invested in Canadian business (excluding farms) and government securities was owned abroad. Over one-half of this total Canadian capital was in the form of bonded debt of which about two-fifths was held in Great Britain and foreign countries. Since the residents of other countries had provided such a substantial part of our total capital, they naturally had a substantial claim on our total income. These claims could be met only by the exports of goods and services, the prices of which would determine the weight of the burden. At the bottom of the depression this burden had increased by 40 per cent. In 1928-29 external interest obligations and dividends absorbed less than one-sixth of the total receipts from the exports of goods and services; in 1932-33 they took one-third. During the former period over $1,500 million was left annually after interest and dividend payments; in 1932-33 this had fallen to less than $580 million. Canadians had lost one billion dollars of income from abroad with which they formally bought goods and services from other countries. Furthermore, the real cost of foreign goods had risen. In 1933 nearly one-fifth more of Canadian exports were required to buy the same quantity of imports as in 1929.

TABLE 43.—CANADIAN PAYMENTS AND RECEIPTS FROM ABROAD[a]

(Millions of Dollars)

—	Payments Abroad				Receipts from Abroad				
	Interest and Dividends	Net Capital Exports	Available for the Purchase of Commodities and Services	Total Payments[c]	Total Receipts[c]	Monetary Gold + Export − Import	Net Capital Imports	Receipts from Commodity Exports and Tourists[b]	Receipts from Investments Abroad Freight and Other
1928........	274	82	1,530	1,886	1,930	+ 49	—	1,671	210
1929........	322	—	1,639	1,961	1,933	+ 37	168	1,516	212
1930........	348	—	1,276	1,624	1,653	− 36	315	1,193	181
1931........	330	—	826	1,156	1,116	+ 33	36	902	145
1932........	301	11	610	922	891	+ 3	—	775	113
1933........	263	32	559	854	844	+ 6	—	731	107

(a) Compiled from *The Canadian Balance of International Payments*, 1939, The Dominion Bureau of Statistics, Tables 40-51.
(b) Includes exports of non-monetary gold.
(c) The differences between total receipts and payments are due to errors and omissions in the estimates.

An immediate effect of the slump in export prices was the drastic curtailment of construction activity. A large part of the capital investment of the twenties was directly concerned with increasing the capacity and efficiency of the export industries, i.e., railways, hydro-electric power, pulp and paper plants, development of non-ferrous metal mines, etc. When the profitability of these industries was sharply reduced the incentives to embark on new ventures disappeared. The value of construction contracts awarded in 1933 was one-sixth as large as in 1929 and nearly two-thirds of the thousands of workers formerly engaged in construction were out of work.

Great Disparities in Incidence of Depression—burden fell on unemployed, primary producers and investors in equities; effects of immobility, specialized activity, rigidities of interest and wages, monopolistic conditions, tariffs

The impact of the loss of export income fell most directly upon the export producers and the construction and engineering trades. From these it spread in widening circles throughout the economy.

The manner in which the losses were distributed, however, was anything but uniform. The unequal incidence of the burden on the different groups and regions in the country was the outstanding feature and the basis of the most serious problems arising out of the depression. The extent to which the disturbances in one sector of the economy may be shifted to others depends upon the flexibility of prices and costs and the mobility of labour and capital. In these respects the Canadian economy is highly rigid. Canadian economic life rests on the specialized exploitation of a few natural resources whose products are exchanged in the international market for the many manufactures, raw materials, and services which enable Canadians to enjoy a high standard of living. When the export markets shrink the climate and limited variety of resources preclude the development of alternative occupations. The huge amounts of capital in the export industries cannot be transferred to other uses. Furthermore, much of the capital is in the form of fixed commitments. Over one-fifth of all the capital in Canadian private industry is bonded debt. Nearly 30 per cent of the capital invested in the farm property of the Prairie Provinces is money borrowed in one way or another at contractual interest rates. In addition there are the outstanding debts of Canadian governments which amount to the substantial figure of $707 (1937) per capita. Altogether Canadian industry and governments have to meet a fixed interest bill of about $500 million annually. The decline in the cost of living substantially increased the real value of such fixed interest payments but none of the depression burdens could be shifted (except by taxation on a national scale) to the recipients of this income without default and bankruptcy.[10]

[10] Reductions in interest charges are possible by refunding and voluntary conversions but these are dependent upon special circumstances and usually take place with a considerable lag.

TABLE 44.—FIXED INTEREST CHARGES AND THE NATIONAL INCOME, 1929-33

—	The National Real Income[a]	The real value of the average rate of interest paid on Government debt[b]	Bond interest and interest on farm mortgages received by Canadian individuals as a percentage of the National Income[c]	Bond interest and interest on farm mortgages received by Canadian individuals and paid abroad as a percentage of the National Income[c]
	1929 = 100	1929 = 100	%	%
1929........	100	100	3·1	6·5
1930........	89	100	3·8	7·9
1931........	83	108	4·5	9·6
1932........	74	119	5·6	11·6
1933........	72	123	6·2	12·6

(a) The indices of the national money income divided by the Dominion Bureau of Statistics indices of the cost of living.
(b) The indices of the average rate of interest paid on the outstanding debts of the Dominion and the provinces, divided by the Dominion Bureau of Statistics indices of the cost of living.
(c) Includes investment income of life insurance companies accruing to policy holders.

TABLE 45.—THE INCIDENCE OF THE DEPRESSION, 1929-33

—	The National Real Income per capita[a]	Real wages, mainly in the skilled trades[b]	Average annual real salaries and wages received by all employed wage-earners[c]	Number of unemployed wage-earners[d]	Purchasing power of farm products in terms of manufactured goods	Real value of dividends received by stockholders[e]
	1929 = 100	1929 = 100	1929 = 100	(000)	1929 = 100	1929 = 100
1929.....	100	100	100	107	100	100
1930.....	87	101	97	341	87	111
1931.....	81	108	102	442	70	102
1932.....	71	111	105	639	64	77
1933.....	68	111	102	646	67	72

(a) Indices of the national money income per capita divided by the Dominion Bureau of Statistics indices of the cost of living.
(b) Dominion Department of Labour indices of wage rates divided by the Dominion Bureau of Statistics indices of the cost of living.
(c) Annual average salaries and wages were obtained by dividing total salaries and wages paid out as estimated in the Commission's study on National Income by the total number of wage-earners employed receiving salaries and wages as estimated by the Dominion Bureau of Statistics. (*Canada Year Book*, 1939, p. 812). The resulting averages were converted to indices and divided by the Dominion Bureau of Statistics indices of the cost of living.
(d) Dominion Bureau of Statistics estimates, *Canada Year Book*, 1939, p. 812.
(e) Indices of dividends paid to Canadian stockholders by Canadian and foreign corporations, divided by the Dominion Bureau of Statistics indices of the cost of living.

While fixed interest charges are an onerous burden during periods of declining values, rigid wage rates are perhaps far more productive of strains and dislocations since they comprise a much larger share of the total cost of production. Wage rates and salaries, particularly in the skilled and semi-skilled trades and professions, have everywhere become extremely inflexible. The maintenance of wages during periods of shrinking purchasing power resulting from the fall in export incomes or the collapse of investment means that prices cannot be reduced to the levels at which the product of industry at full employment may be sold. The necessary adjustment is, therefore, made by a reduction in the volume of output which deprives a large number of workers of their jobs. Thus the burden is thrown on the unemployed, who have completely lost their income, and on the primary producer, the prices of whose products have fallen sharply, while the things he purchases (services and manufactured goods) have not.

On the average, employed wage-earners and persons receiving salaries suffered no reduction in real income. Most of the workers in the skilled trades, the professions and the white-collar occupations who retained their jobs actually enjoyed a considerable improvement in their real position. The losses were completely borne by the 500,000 to 600,000 unemployed who depended on past savings and private or government charity, by the farmers and other primary producers, and by the investors in common stocks, and others who received the profits of industry and trade.

While fixed interest charges and the inflexibility of wages were important factors in the rigid prices and costs which spread the losses of the depression so unequally, they were by no means the only ones. Business organization has everywhere become increasingly monopolistic. In Canada industry, commerce and finance are highly centralized and in many branches a few enterprises dominate the field. Under such conditions the maintenance of prices is possible in the face of declining demands. The monopolistic producers may consider that they are better off by selling less at higher prices than by selling more at lower prices. Consequently, the burden tends to fall upon the workers who lose their jobs through the reduction in output and on the exporters whose costs are thus held rigid while their prices on world markets are sharply reduced.

An important condition of monopolistic practices and of the rigidity of certain prices is the absence of foreign competition. Such competition is limited mainly in two ways: artificially, by protective tariffs and import regulations; naturally, by the costs of transportation and the necessity for rendering the services or producing the commodities on the spot as in the case of trade, banking, professional services, government services, the production of bread, milk, etc. Industries which are artificially or naturally sheltered, selling only or principally in the domestic market, can adjust their prices to costs, whereas the exporters have to adjust their costs to the prices they can get on the world market. Since the prices of the protected industries determine in part the costs of the exporters, it is clear that the latter are in an unenviable position.

The Canadian manufacturing industry, except that portion of it engaged in the processing of export staples and certain naturally sheltered branches, grew up behind a protective tariff. The steep increase in duties during 1930 and 1931 and the intensification of administrative restrictions greatly widened the scope for the maintenance of prices. The exporter and the raw material producer could get little relief from a reduction in costs forced by external competition.

TABLE 46.—INDICES OF SHELTERED AND EXPOSED PRICES

1929 = 100

—	Cost of Living[a]	Prices of Tariff Protected Manufactured Goods[b]	All Wholesale Prices[a]	Export Prices[a]	Farm Prices[a]
1929	100	100	100	100	100
1930	99	93	91	84	82
1931	90	88	75	66	56
1932	81	86	70	60	48
1933	78	86	70	60	51

(a) Dominion Bureau of Statistics Indices.
(b) Includes all iron and steel products, manufactured textiles, boots and shoes, chemicals and allied products, glass and its products, cement, gasoline and pottery.

The higher tariffs imposed early in the depression were effective in diverting an important part of total demand from the foreign to the home producer. Consequently the Canadian manufacturer had a considerable cushion against the contracting market. Total salaries and wages in the tariff-protected manufacturing industry fell proportionately much less than earnings in many other occupational classifications.

The naturally sheltered industries and occupations were even more thoroughly shielded against the losses of the slump. The costs of many professional and personal services, and of the distributive and administrative overhead of the country, could not be sharply reduced. With the decline in the cost of living, most of those engaged in these services were better off in 1933 than in 1929. Far from assuming any considerable part of the depression burdens, they received a considerable increment in their share of the national income.

TABLE 47.—THE UNEQUAL INCIDENCE OF THE DEPRESSION ON THE EXPOSED AND SHELTERED GROUPS, 1929-33

—	Net Income of Farmers as a percentage of National Income[a]	Salaries and Wages in Selected Export Industries as a percentage of National Income[b]	Sub-total: Exposed Industries	Salaries and Wages in Manufacturing mainly dependent on Tariff Protection as percentage of National Income[c]	Salaries and Wages in the Naturally Sheltered Industries and Occupations as a percentage of National Income[d]	Sub-total: Sheltered Industries
	%	%	%	%	%	%
1929	15	8	23	14	29	43
1930	10	8	18	15	31	46
1931	6	7	13	15	33	48
1932	5	7	12	15	35	50
1933	7	7	14	15	35	50

(a) It should be noted that an important cause of the steep decline in agricultural income was the drought in the Prairie Provinces. However, in 1932, when agricultural income reached its lowest point, the crop on the Prairies was the second largest in history.
(b) Includes salaries and wages in agriculture, logging, primary mining, flour mills, fish curing and packing, pulp and paper, saw-mills and non-ferrous metal smelting and refining.
(c) Salaries and wages in all manufacturing, excluding central electric stations and the industries included in (b).
(d) Includes salaries and wages in transportation and communication, merchandising, government and education, banking, insurance and the professions.

Another important influence determining the incidence of the depression was the differing behaviour of the demand for capital and consumers' goods. One of the main factors in the collapse of the boom was the sharp curtailment of construction activity. The undertaking of large projects virtually disappeared, and the building of houses, the purchase of machinery and equipment, and normal maintenance and repair expenditures, were drastically reduced. In the psychological atmosphere of the depression everything that was not immediately necessary was postponed. Hence the industries producing the goods required for capital investment suffered a severe reduction in demand. On the other hand, the consumption of food, clothing, fuel, etc., could not be substantially cut down regardless of the uncertainty, lack of confidence or shrinkage of income. The industries producing consumers' goods were thus able to maintain a relatively high level of output. The closer the industry is to supplying the basic necessities of life, the more constant is the demand. At the other extreme, consumer buying of luxuries, semi-luxuries and durable goods such as furniture, automobiles and electrical appliances, is almost as unstable as investment. The greater the proportion of the national income which is devoted to the purchase of the latter classes of commodities, the greater are the possible economic fluctuations. Canada, with her high standard of living, was especially vulnerable in this respect. On the whole, however, the consumers' goods industries bore relatively little of the depression burdens.

TABLE 48.—INDICES OF THE PRODUCTION OF CONSUMERS' AND PRODUCERS' GOODS, 1929-33

—	Consumers' Goods[a]	Producers' Goods, (mainly capital goods)[a]
1929	100	100
1930	93	83
1931	89	62
1932	82	46
1933	84	48

[a] Dominion Bureau of Statistics Indices.

Disparities in Incidence of Depression on Different Regions—loss of income most severe in Western Canada, declines range from 72 per cent in Saskatchewan to 36 per cent in Nova Scotia

The incidence of the depression on the various regions and provinces was determined by their relations to the factors discussed above. Owing to the rigidity of wages, fixed interest charges, monopolistic practices, the effects of protective tariffs, the importance of highly specialized activity, and the immobility of capital and labour, there was no reason to expect anything approaching a uniform distribution of losses.

The depression burdens which could be shifted only with great difficulty, in the end fell almost completely on the exporters, the unemployed, the investors in defaulted farm mortgages, and the receivers of income from equities. In Central Canada and Nova Scotia, where the amounts obtained from salaries and wages in tariff-protected and naturally sheltered occupations and from fixed interest investments were relatively the greatest, the total incomes fell least. In Western Canada, where the proportions of the receipts from export production were the highest, the total incomes fell most. The Prairie Provinces, almost wholly dependent upon the export of wheat, suffered the most severe declines.

TABLE 49.—DEPRESSION DECREASES IN NET MONEY INCOME

—	Percentage Change 1932-33 Average Income from 1928-29 Average Income
	%
Agriculture—Prairies	− 94
Fisheries	− 72
Salaries and Wages in Construction	− 68
Agriculture—Eastern Canada and British Columbia	− 64
Salaries and Wages in the Exporting Industries[a]	− 50
Total National Income	− 41
Dividends received by Stockholders	− 40
Salaries and Wages in the Protected Manufacturing Industries[b]	− 37
Income of Small Business men and the Professions—Individual Enterprisers	− 36
Salaries and Wages in the Sheltered Occupations	− 30
Miscellaneous Income[c]	− 18
Bond Interest, Property Income from Life Insurance and Interest on Farm Mortgages received by Individuals	+ 13

[a] Includes salaries and wages in agriculture, logging, primary mining, flour mills, fish curing and packing, pulp and paper, saw-mills and non-ferrous metal smelting and refining.
[b] Salaries and wages in all manufacturing excluding central electric stations and the industries included in [a].
[c] Includes net income from urban housing and municipal public welfare and education.

TABLE 50.—THE DECLINE IN PROVINCIAL PER CAPITA INCOMES, 1928-29 TO 1933

—	1928-29 average $ per capita	1933 $ per capita	Percentage Decrease
Saskatchewan	478	135	72
Alberta	548	212	61
Manitoba	466	240	49
Canada	471	247	48
British Columbia	594	314	47
Prince Edward Island	278	154	45
Ontario	549	310	44
Quebec	391	220	44
New Brunswick	292	180	39
Nova Scotia	322	207	36

The large disparities shown in the above table are striking testimony of the extreme differences in the incidence of the depression and of the great problems of public finance and economic policy which they created.

3. The National Economic Policies During The Depression

The policies of the Dominion had played a significant part in determining the direction of Canadian economic development and in shaping the structure of the economy. The costs and markets in every region and industry in the country had been basically affected by the conditions of transportation and by the protective tariff. The nature and operation of these policies were obviously important factors in the incidence and course of the depression.

The policies of Western settlement, all-Canadian transportation, and industrialization by protective tariffs had been designed to promote, and to function under the influences of, expansion. They had set the stage and in some measure had provided the incentives for the activities of private enterprise which were counted on to bring general prosperity and build an economically integrated and united nation. The success of the whole scheme depended upon the availability of extensive virgin resources and expanding foreign markets. In 1930 when the external influences became extremely unfavourable and the supply of new land suitable for agriculture had become virtually exhausted, the old policies became largely negative. They were important conditions under which the economy had grown up and under which individuals had obtained their opportunities and produced their incomes and thus could not be sharply reversed without severe repercussions. On the other hand, the nation's prosperity could no longer be maintained simply by settling immigrants and subsidizing the construction of railways.

The depression brought a set of problems almost entirely new in Canadian experience. Their solution or amelioration required new departures in federal policy. Broadly there were two alternatives. One was to try to *counteract the factors which were responsible for the slump* by attempting to maintain export values, to keep up activity in construction, and to prevent prices and costs from getting too far out of line. This would have involved what then appeared to be risky and unorthodox monetary measures. The other was carefully *to avoid risky and unorthodox monetary measures and to endeavour to maintain income in the sheltered and protected sectors of the economy* by drastic restrictions against imports, by following "sound" financial policies which would maintain confidence, preserve the public credit both internally and abroad, and thus facilitate the operation of the natural forces of recovery. While there could be no absolute certainty about which course would hold the total national income at the higher level, the latter would widen the disparities in the losses falling on the various groups (because of the relative increase in exporters' costs, the increase in disparities between price levels, and the harmful effects on foreign markets) and hence would greatly increase the transfers of income which would have to be made through the public finance system to support the casualties of the unequal incidence of the depression. The second alternative describes briefly the policies which were actually adopted by the Dominion.

Monetary policy—difficulties and uncertainties of currency management in Canada, maintenance of equilibrium in balance of payments by tariff and orthodox monetary policies, failure to shield exporters against drop in external prices

The failure to take any positive steps to soften the impact upon the exporters or to forestall the wide disparities which developed arose to a considerable extent out of the economic difficulties and uncertainties which were involved. It must be emphasized that this review is made with the wisdom of hindsight. It is obvious that after the event many things become clear which were not so before. The most direct and general attack on the problem was in the field of monetary policy, where the issues, at least at that time, were particularly obscure. Should the country in the confident security of monetary orthodoxy undergo the full effects of a deflation communicated from abroad, or should it assume the risks connected with opposing that deflation by monetary expansion? The effects of the rapidly shrinking purchasing power of the exporter could have been lessened by the creation (on a sufficient scale) of purchasing power connected with the financing of temporary government deficits by borrowing the otherwise unused savings of individuals and by the expansion of bank credit. Among other things this would have tended to lower the value of the Canadian dollar in terms of foreign currency and thus to raise the Canadian dollar prices of goods sold abroad. This or some other type of monetary expansion and exchange depreciation, carried out with deftness and restraint, could have done much to prevent the drastic disequilibrium between the prices of primary products and costs and to avoid many of the gross inequities in the incidence of the depression. It is probable that the better balance between the incomes of different groups and regions in the economy and between prices and costs brought about in this way, would have maintained the national income at a higher level and lessened the degree of unemployment. Because of the importance of fixed interest charges and the rigidity of wages (in both cases in Canadian currency) it would have been easier to resist the drop in exporters' prices (in Canadian dollars) than to force a reduction in their costs by allowing them to be fully exposed to external deflationary influences.

Early in the depression certain representatives of Western agriculture, seeking an escape from the pincers of falling prices and inflexible costs, urged upon the Dominion a policy of monetary expansion and currency depreciation. The proposals (the financing of public works with Dominion notes) were loosely formulated and suggested straight inflation. The Government was firmly opposed to such measures and announced its resolve to maintain adequate gold coverage for the currency.[1] The view that unbalanced budgets, financed by the expansion of bank credit and the issue of fiduciary currency, were desirable in certain contingencies, was regarded as rank heresy. The adoption of such measures was held as a sign of extreme weakness which should only be resorted to as a last effort to stave off complete collapse. The deliberate increase of purchasing power or the depreciation of the exchange in this manner, merely to counteract shrinking incomes from a temporary collapse of export prices or investment, was not regarded as a sufficient justification. This palliative was considered worse than the disease; it would shake confidence, harm public credit, impede the necessary readjustments, and hence merely delay recovery. These views of the Government faithfully reflected the most widely held opinions of businessmen, bankers and professional economists. The depreciation of the exchange, either directly or because of unorthodox monetary expansion, unless forced by extreme circumstances, was regarded as an act of "international immorality", carrying with it the stigma of default. For Canada, which was so heavily dependent on international trade and foreign credit, such action, it was thought, would be fraught with the most dire consequences. Canada, it was argued, should do nothing to weaken the confidence of either the internal or foreign investor; it should do everything in its power to keep the economy functioning without monetary manipulation and thus facilitate the natural forces of readjustment and hasten the return of prosperity.

At the onset of the depression the Canadian foreign exchange position appeared to be extremely weak and the Canadian dollar seemed headed for depreciation. At the height of the boom the Government found it necessary to place restrictions upon the export of gold which was rapidly flowing out of the country. At the same time the foreign assets of the banks were being quickly depleted.[2] The principal factors in the pressure on the country's liquid reserves were the large outflows of capital connected with the extensive participation of Canadians in the New York stock market and the credit expansion of the banks who were able to maintain their cash reserves in spite of the loss of gold by borrowing Dominion notes under the Finance Act. But when the test came in 1930 the Canadian dollar did not depreciate. Canada, unlike other debtor countries, had not over-borrowed in the immediately preceding period; in fact she was a net capital exporter during all but the last year of the boom, and the economy was therefore not geared to a high rate of capital imports. In other debtor countries cessation of capital imports had had disastrous consequences and Canada was fortunate in not being vulnerable in this respect. In addition, Canada had an ample reserve of credit in New York which was a source of considerable strength. Much capital was required for the completion of projects initiated during the boom. The Dominion required funds for uncompleted transportation improvements, the provinces for public utilities and highways, the railways for branch lines, and private corporations for hydro-electric power developments, paper mills and mining projects. In 1930 Canada was able to sell abroad $400 million of new securities, the greatest amount in its history, with the exception of 1913. During the same year, maturities of externally held debt which had averaged $176 million annually since 1924, fell to $110 million. With the collapse of the New York stock market boom the outflow of capital for the purchase of foreign securities virtually ceased. Consequently, net capital imports rose to $315 million, nearly double those of 1929, and the highest since 1914. This large amount of foreign credits was more than enough to meet the deficiency in the exports of goods and services over the payments for imports and interest. There was thus no scarcity of foreign exchange and no reason for the Canadian dollar to depreciate. In fact, there was a surplus

[1] The country, however, had been technically off the gold standard since the end of 1928, when the Government placed unofficial restrictions on the free export of gold by the banks.

[2] During 1928 and 1929 the total of the exports of monetary gold and the sale of foreign assets of the banks amounted to $136 million and $125 million respectively.

of foreign funds available for the importation of $36 million of monetary gold which greatly eased the cash position of the banks and enabled them to repay nearly all of their borrowings under the Finance Act.

The external position of Canada during 1930 was in sharp contrast to that of Australia and Argentina, its principal competitors in the export wheat market. The ability of both these countries to borrow abroad on long-term came to an abrupt end early in 1929. When in 1930 the value of their exports fell by one-third they were unable to muster, as Canada did, sufficient foreign exchange to fill the gap in their balances of payments. There was thus severe pressure on the exchanges. At first Australia tried energetically to prevent depreciation by restricting imports and by mobilizing its liquid reserves and using them freely for the maintenance of the currency at par. During 1930 Australia lost over $100 million of gold and liquid foreign assets.[3] Despite this large effort the exchange could not be held and by the end of January 1931, the Australian pound had depreciated to 23 per cent below its former gold parity.

Argentina departed from gold in December 1929, when the country's gold reserves were still very large.[4] But the inelasticity of the currency system, the large amount of unfunded government obligations held by the banks, and continued government deficits made it extremely difficult to deflate the credit structure to the extent required for the maintenance of the gold standard. Furthermore, the repercussions of a very large fall in export prices were extremely drastic because of the dependence of the solvency of the financial system on land values and the overwhelming importance of agricultural exports. It was economically impractical, as well as politically inexpedient, to impose the deflationary measures necessary for the maintenance of the exchange. Consequently, the Government permitted the peso to depreciate. Equilibrium in the balance of payments was thus achieved while,

TABLE 51.—THE CANADIAN BALANCE OF PAYMENTS,[a] 1928-34

(Millions of Dollars)

—	1928	1929	1930	1931	1932	1933	1934
Receipts and Payments for Commodities, Services, Interest and Dividends—							
Receipts	1,880	1,728	1,374	1,047	888	838	1,040
Payments	1,804	1,961	1,624	1,156	912	823	961
Surplus (+) or Deficit (−)	+ 76	−233	−250	−109	− 24	+ 15	+ 79
Capital Movements—							
New Canadian Securities Sold Abroad	207	297	400	200	104	134	111
LESS: Retirements of Canadian Securities held Abroad	200	150	110	202	105	166	169
Net Sales (+) or Retirements (−)	+ 7	+147	+290	− 2	− 1	− 32	− 58
Net Purchases (−) or Sales (+) by Canadians of Outstanding Securities held Abroad	−188	−105	− 13	− 24	− 16	+ 51	+ 9
Net Inflow (+) or Outflow (−) of Capital on account of Direct Investments, Insurance transactions, Government transactions, etc.	+ 12	+ 38	+ 38	+ 34	− 32	− 75	− 48
Net Sale (+) or Purchase (−) of Foreign Assets of Canadian Banks	+ 87	+ 88	—	+ 28	+ 38	+ 24	− 19
Total Net Capital Inflow (+) or Outflow (−)	− 82	+168	+315	+ 36	− 11	− 32	− 116
Inflow (−) or Outflow (+) of Monetary Gold	+ 49	+ 37	− 36	+ 33	+ 3	+ 6	− 4
Errors and Omissions in the Estimates	− 43	+ 28	− 29	+ 40	+ 32	+ 11	+ 41
Total Amount of Foreign Exchange (+) or Canadian Dollars (−) required to pay for excess or deficit of imports of commodities, services, etc., over exports	− 76	+233	+250	+109	+ 24	− 15	− 79

[a] Compiled from *The Canadian Balance of International Payments*, 1939, the Dominion Bureau of Statistics, Tables 40-51.

[3] "Through the whole of 1930 persistent efforts were made to keep the rate as near as possible to par with sterling." *Royal Commission on Monetary and Banking Systems*, Commonwealth of Australia, 1937, p. 49.

[4] In December 1929, the Argentine gold reserve was equal to 77 per cent of the total outstanding currency. The amount of currency in circulation was relatively large since the bank cheque system was not highly developed.

at the same time, the money incomes of the exporters and the internal price structure were at least partially shielded against the sharp declines in external prices. The readjustments to the world depression were largely made by alterations in the relations between the Argentine and foreign currencies, rather than by alterations in the internal price and cost levels and the contraction of credit.[5]

The favourable factors which enabled the maintenance of equilibrium in the Canadian balance of payments with relative ease disappeared in 1931 as the world depression deepened. Capital imports virtually ceased, involving a decrease from the previous year of nearly $300 million in available foreign exchange. Exports of commodities and services fell by nearly $330 million. Yet the Canadian dollar did not depreciate until the British abandonment of gold in September. The rapid decline in the national income, the curtailment of construction and the higher tariffs of 1930 and 1931 sharply reduced the purchases of foreign goods. The reduction in imports, however, was not sufficient to maintain the balance between the demand for foreign funds and the available supply. It was necessary to sell $61 million of monetary gold and foreign banking assets.

In 1931 the continued fall in export prices and the increasing pressure from the depreciated currencies of Canada's principal competitors in the wheat market gave rise to an agitation in Parliament by independent Western members for the depreciation of the Canadian dollar. Such a policy, they argued, would relieve the farmer from external deflationary influences and help to keep his prices more in line with his rigid costs. The Government, however, was stoutly opposed to any policy which would result in the depreciation of the currency because it feared (1) that it would be regarded as a form of international default and harm Canada's credit, and (2) that it would lead to inflation.

Although Canadian export prices fell drastically and the problems of readjustment to world deflationary forces were extremely difficult, the balance between the advantages and disadvantages of a policy of currency depreciation was at that time by no means clear. The Canadian balance of payments, in the total size of the transactions relative to the economy, in the number of unstable factors and in the close relations with each of the two most important international financial centres, is unlike that of any other country in the world. In addition to the highly fluctuating exports and capital imports, there was the unstable element arising out of the peculiar nature of Canada's external indebtedness. Over one-half of the total debt of all Canadian governments and over four-fifths of the bonded debt of Canadian corporations were either solely or optionally payable in a foreign currency.[6] Because of their payment features, these obligations constitute a huge mass of international securities which readily flow back and forth across the boundaries, according to financial conditions in Canada, New York and London.[7] The external obligations of other debtor nations are usually held by the foreign investors until they

TABLE 52.—MONTHLY AVERAGE PRICES OF THE UNITED STATES DOLLAR AND THE POUND STERLING IN TERMS OF CANADIAN DOLLARS, 1930-34

—	1930		1931		1932		1933		1934	
	$ U.S.	£	$ U.S.	£	$ U.S.	£	$ U.S.	£	$ U.S.	£
January	1·01	4.92	1.00	4.86	1.17	4.03	1.14	3.85	1.00	5.07
February	1.01	4.89	1.00	4.86	1.15	3.96	1.20	4.10	1.01	5.08
March	1.00	4.87	1.00	4.85	1.12	4.06	1.20	4.13	1.00	5.11
April	1.00	4.86	1.00	4.86	1.11	4.17	1.18	4.23	1.00	5.15
May	1.00	4.87	1.00	4.86	1.13	4.16	1.14	4.50	1.00	5.10
June	1.00	4.86	1.00	4.88	1.15	4.21	1.11	4.61	.99	5.01
July	1.00	4.85	1.00	4.87	1.15	4.08	1.06	4.93	.99	4.99
August	1.00	4.86	1.00	4.87	1.14	3.97	1.06	4.79	.98	4.95
September	1.00	4.85	1.04	4.69	1.11	3.85	1.04	4.84	.97	4.86
October	1.00	4.85	1.12	4.38	1.10	3.72	1.02	4.79	.98	4.84
November	1.00	4.85	1.12	4.19	1.15	3.76	.99	5.08	.98	4.87
December	1.00	4.86	1.21	4.09	1.15	3.79	1.00	5.10	.99	4.89

[5] The Argentine wholesale price level dropped remarkably little during the depression. Between 1929 and 1933 it fell but 10 per cent compared with about 30 per cent in Canada.

[6] A large portion of these optionally payable securities, however, are held in Canada.

[7] At times the gross amount of transactions in outstanding securities across Canada's border reaches a billion dollars a year.

mature and in the meantime are not likely to be sold back to the borrowing country. Whenever confidence in Canada's credit is seriously weakened, she may be confronted with large-scale dumping of securities into her market. Furthermore, the extensive United States branch-plant investments in Canada give rise to a considerable volume of liquid funds required as working capital or accumulated from profits which, under certain conditions, may be suddenly withdrawn. Normally the movements in the optional-pay securities and the branch plant balances are akin to the operations of a huge equalization fund which smooth out temporary or small scale fluctuations in the exchange. Under some circumstances, however, they constitute a serious danger since anything that causes foreigners to take an extremely pessimistic view of Canadian conditions may precipitate a large withdrawal of capital which might shatter the Canadian financial system and completely destroy Canadian credit, both internally and abroad. The effects on foreign confidence were, therefore, a main consideration in Canadian monetary and exchange policy during the depression. The Federal Government, confronted with the early maturity of hundreds of millions of optional-pay public securities and facing the necessity of financing increasing deficits was inclined to be cautious. Furthermore, any measures leading to the depreciation of the exchange would add to the cost of interest charges and thus heap increased burdens on governments already harassed by falling revenues. Many private corporations, selling mainly in the domestic market, had no means of financing higher debt charges and would have been forced into bankruptcy.[8]

The risks attached to a policy of exchange depreciation or monetary expansion were magnified in the minds of the Government by the absence of any reliable machinery. Lacking a central bank or some other established institution it would not be possible, it was thought, to carry out such a policy in a manner which would command the confidence of either the Canadian or foreign financial community. The proposals to issue fiduciary currency or simply to buy foreign exchange in some undefined way smacked of pure inflation. While these methods would have brought about depreciation of the exchange, the Government was not certain that it could keep either inflation or depreciation within control. In any case, the Government felt that inflation in whatever form or for whatever purpose was neither a cure nor a palliative for the ills of the country.[9]

Because of the dangers and uncertainties which the Government thought were involved in any aggressive monetary measures to combat the deflation, it stuck resolutely to "sound" and orthodox policies. When Britain abandoned the gold standard in September, 1931, it simply allowed the Canadian dollar to find its own level.[10] Thereafter, until the United States devaluation in 1933, the Canadian dollar moved roughly half-way between the United States dollar and sterling with an average discount below the former during 1932 of about 13 per cent and a premium over the latter of 22 per cent. The unpredictable course of sterling, together with the considerations already discussed, restrained the Government from linking the dollar to the pound despite the disadvantages suffered by exporters to the United Kingdom. Having important relations with each of the two principal monetary centres, Canada followed the lead of neither. The position of exporters would have been improved by tying the dollar to sterling but debt charges in the United States would have risen.

After October, 1932, some positive measures were taken to promote easy money and the groundwork was begun for the establishment of a central bank by means of which, among other things, such a policy could be methodically carried out.[11] The Dominion sought to refund as much of its obligations as possible at lower interest rates which, besides reducing the cost of the debt service, tended to lower the whole structure of interest rates. In November, 1932, and again in June, 1934, the Government endeavoured to expand bank cash

[8] Higher debt charges arising out of currency depreciation were not a serious problem in the case of Argentina. Less than one-fifth of the total external debt of Argentina was payable in a foreign currency.

[9] "Much has been heard in recent months about inflation. Some of the advantages claimed for inflation may seem alluring to industries harassed by falling prices and declining turnover. But let the sponsors of inflation never forget that apart from the other difficulties and dangers involved in their program, one inevitable result would be a flight from our dollar, a withdrawal on a large scale of the capital invested by foreigners in this country in the form of securities and bank deposits. There are also to be considered internal reactions to any steps which might impair confidence in a country's currency. Against policies which might lead to such dangers, this government has resolutely set its face." Hon. E. N. Rhodes, Minister of Finance, *Budget Speech*, March 21, 1933, p. 5.

[10] "There are some who advocate that our dollar should be tied to sterling at the old parity and still others who criticize what they mistakenly believe to be a policy of pegging our dollar in terms of New York. This is not the time to enter into a discussion of this broad and complicated question. Suffice it for me to say that our dollar has been allowed to find its own level and that as a result it has been fluctuating about half-way between the United States dollar and the English pound. In so doing it may be working out a not unsatisfactory compromise between those of our national interests which would be benefited by close and stable relations with sterling, and those on the other hand which would be seriously harmed by a heavy and fluctuating discount in terms of New York." Hon. E. N. Rhodes, Minister of Finance, *Budget Speech*, March 21, 1933, p. 5.

[11] For a more detailed treatment of the Government's efforts to promote easy money after 1932 and of other phases of Canadian monetary policy during the depression, see F. A. Knox, *Dominion Monetary Policy* (1929-34). (Mimeographed.)

by the issue of $35 million and $52·5 million respectively of Dominion notes. The former had involved an equal amount of borrowing under the Finance Act and was not very effective. The latter issue which was used to finance expenditures on public works added substantially to the cash reserves of the banks. By that time, however, the worst had passed. Export prices were rising; the United States had devalued and the Canadian dollar was again at par with sterling. The easy money policy was then very largely a matter of keeping in step with rising business activity and with the easy money policies of the United States and Great Britain.

In view of the possible dangers connected with deliberate currency depreciation, which so greatly influenced the attitude of the Government, it is important to make a general, even if non-quantitative estimate, of the probable gains which exporters would have derived from such a policy. The two main exports, wheat and newsprint, were in the weakest position to benefit. Large surplus stocks and the import restrictions of European countries were unfavourable factors in the case of wheat. Furthermore, the Government's activities in the wheat market introduced an arbitrary and unpredictable element. It is conceivable that depreciation would simply have reduced the Liverpool sterling price by an equal proportion, thus eliminating any improvement in the dollar receipts. However, marketing policies could have been adopted which would have retained a large portion of the benefits of depreciation for the Canadian producer. If the Government had undertaken to depreciate the exchange for the purpose of assisting the exporters, it is reasonable to expect that it would have adapted its marketing policy in accordance with that objective. In any case, the disadvantages of the Canadian producer in competition with the depreciated currencies of Australia[11a] and Argentina would have been reduced.

Newsprint was in a particularly precarious situation. Over-capacity, high fixed charges, and competitive conditions made it extremely unlikely that the producers of this commodity would have benefited from the lower value of the Canadian dollar.

There was a wide range of products, however, whose internal prices would have been improved by the depreciation of the exchange to the level of sterling. Gold, base metals, fish, meat and dairy products, live stock, lumber and exports of manufactures were all in the position to retain the whole or some of the higher Canadian dollar values of foreign currencies. This group of goods constituted about one-half of the total exports. Better prices for these commodities would have been an important influence in reducing the disparities in the incidence of the depression. The immensely important tourist trade would also have benefited considerably as American tourists would have been attracted by the premium on their dollars. It is improbable that the beneficial effects of a better balance between prices and costs in important industries and regions of the country would have been completely offset by the higher costs of imports and increased debt charges. If the increases in the prices of imports were an important limiting factor they could have been compensated for to a considerable extent by a reduction of tariffs without lowering the level of protection previously enjoyed. It is true that the main industry of the most seriously affected region, the Prairie Provinces, would perhaps have gained very little. However, many of their minor products, such as live stock and dairy products, would have benefited and in any case they could hardly have suffered from more favourable conditions in the other exporting areas of the country.

The monetary and exchange policies which were followed rendered the disparities in the incidence of the depression greater than they needed to have been. The decline in the national income was also probably greater. The risks and dangers connected with monetary expansion and currency depreciation were great and a mistaken or careless procedure would undoubtedly have brought the consequences which the Government feared. But a skilful policy, which perhaps was not too much to expect in view of the serious problems of the time, could have avoided them. It would have been possible by any one of a number, or by a combination, of methods, such as restricting the outflow of gold, restraining the contraction of credit, avoiding an increase of protective tariffs, and purchasing foreign exchange, to depress the exchange value of the dollar without causing a wild flight of capital or a serious loss of foreign confidence in Canadian credit. The lack of a central bank or other ready-made machinery was not an insuperable obstacle. A suitable organization could have been readily set up as was done in other countries far less favourably situated.

[11a] "The Australians who appeared before me in London regarded the abandonment of the gold standard early in the depression as having operated to the benefit of the exporting producers more than anything else." *Report of the Royal Grain Inquiry Commission*, 1938, p. 132. See also *Royal Commission on Wheat Flour and Bread Industries, Second Report*, (Australia), 1934-35.

Prior to September, 1931, a policy of currency devaluation was impractical in view of the nature of public opinion and the attitude of the financial community. With the British abandonment of gold, however, the dollar could have been depreciated, directly with sterling or independently, without producing a serious shock to confidence. Had such a course been followed, Canada would have been at least partially shielded against the deflationary influences arising out of the discount on the monetary unit of one of her principal markets. She would also have been spared increased exchange disadvantages in competition with the important group of countries whose currencies fell with the pound.

Tariff Policy—sharp tariff increases and other import restrictions to maintain employment in manufacturing intensified cost rigidities of primary producers and enhanced burden of depression falling on exporters

A positive depression policy of the Federal Government was the attempt to maintain employment in Canadian manufacturing industries by increasing restrictions on imports. The Government announced as a principle that it was unsound to import goods which were or could be produced in Canada as long as Canadian labour and equipment were unemployed.[11b] It argued that a reduction of purchases from abroad would also produce a

TABLE 53.—TARIFF CHANGES, 1928-36

—	Year	Equivalent *Ad Valorem* Tariff Rates [a] (Unweighted Averages)			Ratio of Imports to Gross Value of Production [b]			
		Preferential	Treaty	General	Preferential	Treaty[c]	General[c]	Total
All Manufactures	1928	12	17	21	4	2	20	25
	1933	14	25	30	4	1	8	13
	1936	10	24	30	4	6	4	14
All Textiles	1928	17	23	28	18	7	13	39
	1933	21	39	45	10	2	4	17
	1936	20	41	49	11	4	2	16
All Iron and Steel Products	1928	11	17	19	3	1	51	54
	1933	10	23	25	8	1	24	33
	1936	6	21	25	5	21	8	34
Electrical Apparatus and Supplies	1928	15	23	27	2	—	29	32
	1933	16	30	34	2	—	15	17
	1936	12	29	33	2	14	2	18
Glass and its Products	1928	13	19	22	9	16	47	72
	1933	12	23	26	11	7	38	56
	1936	7	20	25	13	38	16	67
Petroleum Products	1928	9	12	14	—	—	33	33
	1933	10	15	21	—	—	13	13
	1936	7	16	18	—	8	4	12
Leather Boots and Shoes	1928	16	27	29	2	—	4	6
	1933	24	37	43	1	—	1	2
	1936	20	37	43	1	2	—	3
Furniture	1928	18	28	30				
	1933	22	32	49				
	1936	18	31	49				

(a) Unweighted arithmetical averages of *ad valorem* rates and *ad valorem* equivalents of specific rates on each tariff item of manufactured goods imported calculated from duties collected and customs valuations. Since the necessary information was not available dumping duties were not included and no adjustments were made for arbitrary over-valuations. The averages, therefore, tend to understate the tariff increases between 1928 and 1933. See, W. A. Mackintosh, *The Economic Background of Dominion-Provincial Relations*, pp. 90-94.

(b) The value of Canadian production is "gross," *i.e.*, includes cost of materials purchased and the value of imports includes commodities in various stages of manufacture. Hence the absolute size of the ratio of imports to gross value of production does not necessarily measure the relative importance of imports and domestic production. However, *changes* in the ratio from one year to another do show the *changes* in the volume of imports in relation to home production. All that is intended here is to show such *changes* between 1928, 1933 and 1936.

(c) Note that, after the United States Trade Agreement of 1935, the Treaty, and not the General Tariff as previously, applied to most of the non-preferential trade.

11b ". . . every import brought into this country, from abroad, represents foreign trade to some other country. Our business is to see that we do not expand the foreign trade of any other country when we ourselves are producing or can produce the goods so imported". Minister of Finance, *Budget Speech*, June 1, 1931, p. 45.

favourable balance of payments, prevent the depreciation of the exchange, and thus help to maintain Canada's credit. Accordingly, during 1930-32 the tariff was sharply raised. Every major secondary industry[12] was granted higher duties and Canada changed from a country of moderate to one of high protection. The averages of the General and Intermediate rates (which applied to over four-fifths of the total imports) on all manufactured goods were raised by nearly 50 per cent. All the important commodities of general consumption were made subject to substantially increased duties. The average of the rates on textiles rose by about one-fourth in the Preferential schedule and by two-thirds in the Intermediate and General. Wool and artificial silk duties were approximately doubled. Tariffs on boots and shoes, furniture, and petroleum products were boosted by about one-half. Virtually every branch of the iron and steel industry received added protection by an increase in duties in the Intermediate and General schedules of approximately one-third.

The raising of tariffs, however, was but one phase of the Government's efforts to reduce imports. During 1930-33 administrative restrictions were greatly intensified. Devices for the exclusion of goods which the regular tariff did not keep out were multiplied and made more effective. The Minister responsible for the administration of customs was given sweeping powers to levy special dumping duties on the basis of arbitrary valuations. The Minister, among other things, was empowered to fix for duty purposes, the value of any imports which, in his opinion, were harmful to Canadian producers. Prior to the Trade Agreement with the United States in 1935, arbitrary valuations were regularly applied to such important items as textile fabrics, rubber footwear, wearing apparel, fruits and vegetables, automobiles, and electrical apparatus which, in many cases, raised the real rates of protection to fantastic heights.[13] In addition to arbitrary valuations the Government also used its power to fix arbitrarily the exchange rate for duty purposes of any foreign currency which had depreciated. Thus, when sterling went off gold, its value for the purpose of calculating the duty on imports from Britain was fixed considerably above the actual rate.[14]

Higher tariffs, administrative restrictions and the increasing weight of specific duties on falling prices, were effective in causing a considerable diversion of demands from foreign to domestic producers. Whereas in 1928 the value of imports of all manufactured goods was equal to 25 per cent of the total gross value of Canadian manufacturing production, by 1933 this ratio had fallen to 13 per cent. The reduction of imports relative to home production was particularly pronounced in the case of textiles, automobiles, electrical apparatus, gasoline, furniture, implements, and machinery—all of which are important items either in the cost of living or the cost of production of primary producers. Employment in the protected manufacturing industry was better maintained than in other branches of goods production (except mining). The decline in salaries and wages paid by the former was appreciably less than the fall in the national income.[14a]

Efforts to check the fall in employment by reduction of imports were helpful mainly to the manufacturing areas of Central Canada and to the coal and iron industries of Nova Scotia. In so far as the relative improvement of incomes in these places was due to the maintenance of prices resulting from higher tariffs, they were harmful to the rest of the country.

For upwards of 40 years there had been no substantial change in the general level of tariff protection. The settlement and development of the Prairie Provinces and British Columbia had been begun and carried to an advanced stage of maturity under approximately the same tariff conditions. Industries, governments and homes had been established with the tariff as one of the given factors, like the climate and the natural resources. It is true that the tariff limited the extent of the development and the rise in the value of the natural resources but it did not deprive either individuals or governments of opportunities and incomes which they had ever actually enjoyed. Nor did it, under conditions of expansion and high mobility, reduce the earnings of capital and labour below what they would have obtained elsewhere in Canada.[15]

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[12] The duties on many agricultural commodities were also raised but in most instances they could have no effect, since for nearly all of these items Canada was on an export basis.

[13] See *Report of the Royal Commission on the Textile Industry*, 1938, pp. 13-16.

[14] "The rates in our tariff schedules were made having in mind parity of exchange. Consequently when the pound sterling became depreciated, it was necessary to value it for purposes of special or dumping duty at $4.40, in order to offset in part the advantage which the British exporter obtained in our markets as a result of the depreciated pound." Hon. E. N. Rhodes, Minister of Finance, *Budget Speech*, March 21, 1933, p. 23.

[14a] See Table 49, p. 150.

[15] For a more complete exposition of the nature of tariff "burdens" and the relation of the tariff to Canadian economic development, see W. A. Mackintosh, *The Economic Background of Dominion-Provincial Relations*, Chap. VII.

In the case of the Maritime Provinces, however, the effects were different. The Maritime economy had reached a mature development before the National Policy tariff was adopted. Its introduction (1879) constituted a drastic change in the conditions under which the population and its economic activities had grown up. The higher duties suddenly increased the costs of production of the important export industries. This reduced net incomes and the value of property in these industries below what was already established or what they would otherwise have been. The failure of the Maritimes to expand economically and to prosper to the same extent as the rest of Canada was due to more basic circumstances but the tariff was an important contributing factor. It hastened the decline of the old export industries and retarded the growth of the new. Since many of the local resources were of a marginal character, the restrictions of the tariff to their development for export was a serious disadvantage. The rise of the Nova Scotia coal and iron industries was almost entirely dependent upon protection and bounties but this expansion was not sufficient to offset the losses suffered in other Maritime industries.

Prior to 1930 the protective tariff was not a "burden" on Western Canada in the sense that it lowered earnings of capital and labour below those received in the rest of Canada or reduced the value of investments previously made. The sharp increases of duties and administrative restrictions during 1930-32, however, were entirely different in this respect. The rise in tariffs and the maintenance of the prices of manufactured goods which this permitted brought a relative increase in costs and greatly worsened the conditions under which exporting industries were operating—and this at a time when the prices of their products were falling drastically. The share of exporters in the national income was reduced below what it otherwise would have been, the decline in the value of their property was intensified, and the burden of their debts was increased. The only way in which exporters could adjust themselves to the fall in the prices in foreign markets was by reducing their costs. Since the cost of living and the prices of manufactured goods were everywhere more rigid than the prices of raw materials, costs would have fallen more slowly than exporters' receipts even if the tariff had remained unchanged. The raising of tariffs greatly worsened a situation which already was highly unfavourable. As a result the standards of living were further reduced and the defaults of debt became more general.

The increase in protection widened the domestic market for the Canadian producer and thus helped to maintain employment and income in the manufacturing industry. But had tariffs not been raised the purchasing power of exporters would have been greater, debt defaults would have been less and the expansion of such industries as gold mining and electric power would have been more rapid. It is possible that these circumstances would have contributed just as much to the maintenance of the market for Canadian manufacturers as did the rise in duties, and that the national income would have remained at a higher level. While no definite conclusion can be reached on this point, one thing is clear; the increased restrictions to imports added considerably to the wide disparities in the incidence of the depression on the various industries and regions.

TABLE 54.—COST TO PURCHASERS OF TARIFF PROTECTED MANUFACTURED GOODS[a] IN TERMS OF EXPORT COMMODITIES

1929 = 100

—	All Export Prices	Wheat	Lumber	Livestock	Fish	Non-Ferrous Metals
1929	100	100	100	100	100	100
1930	111	132	107	104	103	114
1931	134	201	118	144	123	135
1932	145	209	130	176	142	145
1933	143	189	125	192	143	132

[a] Includes all manufactured textiles, boots and shoes, pottery, glass and its products, chemicals and allied products, cement, gasoline, and all manufactures of iron and steel.

Some of the disabilities of exporting industries under the higher tariffs were reduced by the Empire Trade Agreements in 1932. The British preferences on lumber, apples, and bacon were valuable. The former two were important to British Columbia and the Maritimes but the agricultural industries in the Prairies got little help. Because of surplus Empire production, the 6 cent preference on wheat was of no assistance. Moreover, the reduction in Canadian duties was not significant in lowering the costs of production of exporting industries generally. Further relief did not come until the Trade Agreement with the United States in 1935. Under this Agreement valuable concessions were obtained for lumber, cattle, fresh and frozen fish, whiskey, and potatoes. The general reduction in tariffs against United States goods, special reductions in the case of farm implements, certain classes of automobiles, electrical apparatus, gasoline, many kinds of machinery, and abolition of arbitrary valuations on a large list of items were important. However, the average level of the Canadian tariff remained far above that existing prior to 1930.

4. Public Finance, 1930-37

Severe Strain of Unequal Incidence of the Depression on the Decentralized System of Canadian Public Finance—large inter-regional transfers of income by Federal Government

Perhaps the outstanding feature of the great depression in Canada was the enormous strain which was placed on the public finance system. The severity of this strain was closely related to the nature of the economy, the constitutional division of powers and responsibilities, and the economic policies of the Dominion. It must be emphasized at the outset that the nature of the economy made it inevitable that serious public finance problems would have to be faced, whatever economic policies were adopted. The slump in export prices and the consequent worsening in the terms of trade with other countries, the increase in the heavy burden of external debts, and the collapse of investment, made it impossible to escape a sharp reduction in the real national income. The manner in which this reduction was distributed over the various regions, industries, classes and occupational groups was nevertheless highly significant, especially in a federal state. When a country is divided up into a number of parts with distinct economic characteristics, each with separate and independent political authorities responsible for costly government services within their respective areas, the incidence of a decline in the total income is immensely important. If the distribution of the decline is fairly uniform each separate governmental unit could perhaps carry the increasing burdens without great difficulty. If the losses fall very disproportionately upon certain regions, the public finances of some areas may be carried on with relative ease, while others are likely to break down with serious repercussions upon the financial, economic and constitutional structure of the entire country.

It is clear from the review in section 2 of this chapter that the disparities in the impact of the depression on various regions and provinces were extremely great. The controls over the tariffs and monetary conditions were powerful instruments in the hands of the Federal Government for the modification of the unequal incidence. However, the national economic policies which were adopted, whether or not they were wise in view of all the circumstances, did little to improve this situation and in some respects intensified it. In so far as these policies were not used to bring about a more even distribution of losses, the greater was the strain on the decentralized system of Canadian public finance. The larger the decline in the income and the larger the consequent rise in government expenditures in the most unfavourably situated provinces, the more rapidly did local revenues and credit become hopelessly inadequate and the larger was the support which had to be obtained from the Dominion.

The nature and course of the depression in Canada inevitably involved large inter-regional and inter-governmental transfers of income by the Federal Government. These transfers took several forms—assistance to a few severely depressed industries, assistance to all provincial governments to help in financing costs of relief, and special assistance to the most hard-pressed provincial governments to prevent defaults of debt and enable continuation of essential services.

Federal Assistance to Industry—the heavy burden of the overhead costs of the National Railways; assistance to wheat and coal

The most important federal transfers to industry consisted of the payment of the deficit of the Canadian National Railways, the cost of the intervention in the wheat market, and the payment of transportation and other subventions to the coal industry. There were few activities which were more severely affected by the depression and the technical changes of the thirties than that of railway transportation. The Canadian railways, besides being built on a scale which involved a highly optimistic estimate of the future of the country, were heavily dependent upon the large investment and developmental expenditures which expansion to such a future would entail. The factors responsible for the collapse of investment brought both a sharp reduction of revenues and an increase in the burden of carrying over-extended facilities. The drought in Western Canada and the slump in wheat prices struck at the heart of the Canadian railway structure. The design of the transcontinental lines through all-Canadian territory was dependent upon the mid-continental location and the prosperity of the country's principal exporting region. When crop failures and large unsold surpluses reduced the amount of bulk freight to be hauled out and sharply curtailed the more remunerative back-haul of manufactured goods, the full burden of the tremendous overhead of long connecting lines of railway through unproductive territory was felt. While the drop in investment, the fall in wheat prices and the drought brought a drastic reduction to long-haul bulk traffic in both directions, motor truck competition was rapidly cutting into the profitable high class, short-haul traffic in Ontario and Quebec. Under this combination of unfavourable circumstances railway revenues fell by more than 50 per cent between 1928 and 1933. Over the same period the deficit of the Canadian National Railways, which had to be met by the Federal Government, rose by over $60 million (including interest on government investment and advances), a figure twice as great as the Dominion's share of all relief costs in the latter year.

Railways were unable to bolster their falling revenues by an increase in freight rates and it would have been undesirable, from the point of view of the national income, to do so. In fact, there is a strong argument that certain rates ought to have been reduced as part of the Dominion's economic policies to soften the impact of the depression on exposed groups. However, even with railway freight rates substantially unchanged, the burden falling on the taxpayers rose rapidly. During 1932-34 the Dominion paid nearly 40 per cent of the total transportation costs of all the freight hauled by the Canadian National Railways. This load on the taxpayer was perhaps more in the nature of a transfer to investors than it was a transfer to the users of railway facilities. In the case of the Canadian Pacific Railway and the privately-owned railways of other countries, the depression losses fell mainly upon the owners of railway securities. Such a shifting of losses is not possible under government ownership. Canada had in part forsaken the flexibility of private ownership in favour of government guarantees and government ownership in order to build an economically integrated and united nation and to stimulate nation-wide expansion. These purposes, together with past mistakes, converted an enormous transportation overhead into the inescapable fixed charges of government. This was one of the more important of the many rigidities which so greatly enhanced the difficulties of readjustment to the world depression.

The plight of Western agriculture was quickly recognized. The Federal Government, whose economic policies did little to soften the impact of the depression on the wheat farmer, undertook to alleviate his position by means of public finance. When wheat prices began to fall precipitously in the autumn of 1930, the Dominion guaranteed the initial payment set by the Pools and a General Manager of the Central Selling Agency having the confidence of the Government was appointed to take charge of the carry-over and to market the 1930 crop. In the following year the contract pools were terminated and the initial payment or minimum price system was abandoned. In that year (1931) the Federal Government paid a bonus of five cents per bushel on all wheat marketed.

TABLE 55—EXPENDITURES ON TRANSPORTATION BY THE DOMINION—CURRENT ACCOUNT, 1928-37

(Thousands of Dollars)

—	Canadian National Railway Deficit[a]	Harbours Steamships and Marine	Canals and other Transportation	Total Transportation	Percentage of Total Current Revenues of the Dominion
					%
1928.....	47,788	9,627	15,295	72,710	16·2
1929.....	64,487	11,574	17,554	93,615	21·7
1930.....	86,542	11,044	20,191	117,777	34·1
1931.....	112,186	10,237	14,747	137,170	42·3
1932.....	112,807	8,531	10,377	131,715	44·1
1933.....	109,234	8,419	9,327	126,980	40·6
1934.....	91,160	9,222	10,780	111,162	31·8
1935.....	92,414	10,262	11,960	114,636	31·7
1936.....	71,868	9,115	11,528	92,511	20·9
1937.....	67,635	9,584	11,468	88,687	17·7

[a] Includes interest on government investment and advances.

The bonus was discontinued in 1932 and instead a "stabilization" policy was begun. Throughout the period, 1932 to September, 1935, the Government, through the General Manager of the Central Selling Agency, made large purchases of futures on the Winnipeg Exchange for the purpose of maintaining or raising the open market price at which farmers sold their wheat. While these efforts at times held the Canadian wheat price above comparative world prices, they did not, however, prevent it from falling to disastrously low levels. The attempt to "stabilize" the value of Canada's principal export sold on a shrinking world market was a bold venture. The unsold stocks which accumulated and were held by the Government assumed large proportions and involved an increasingly hazardous risk to the taxpayer. When the Wheat Board was established in the autumn of 1935 and the "stabilization" operations came to an end, the Government had on hand some 205 million bushels of wheat. However, the continuation of the drought in North America, a short crop in the Argentine, and world economic recovery brought a sharp rise in prices during the following year and the Wheat Board was able to sell the whole of the carry-over in a relatively short period with a small net profit to the Government. The minimum prices set by the Board for the 1935 and 1936 crops resulted in losses of about $12 million.

Although the Government's wheat marketing policy during the depression entailed considerable risks, the total cost to the taxpayer proved in the end to be relatively small—a total of about $20 million (including the five cent bonus) during 1930-37, or less than an average of one cent per bushel over the period. The drastic impact of the depression on Prairie agriculture was not significantly reduced by government assistance.

collapse of investment, the falling markets for exports and the contraction of manufacturing had to be looked after in other ways. Canada had never experienced an unemployment problem of such magnitude. During previous periods of economic depression the problems of unemployment and destitution had usually found their solution in the self-sufficiency of the household, in the solidarity of the family, in the establishment of new homes on the agricultural frontier, in the decline of immigration, and in the increase of emigration to the United States. By 1930 such opportunities for self-reliance and methods of adjustment had all but disappeared. The livelihood of hundreds of thousands of citizens seemed to be entirely dependent upon public charity. The cost had to be met through large transfers of income from the employed to the unemployed and from one region to another by means of taxation and government borrowings.

TABLE 56.—TOTAL RELIEF AND OTHER PUBLIC WELFARE EXPENDITURES

(Millions of Dollars)

—	Relief[a]	Old Age Pensions	Other Public Welfare				Total Relief and Other Public Welfare	Percent of National Income
			Dom.	Prov.[b]	Mun.	Total		
								%
1928	—	1.9	6.2	21.3	24.5	52.0	53.9	1·2
1929	—	3.5	6.7	22.8	26.4	55.9	59.4	1·3
1930	18.4	11.8	7.6	24.4	28.3	60.3	90.5	2.2
1931	96.5	16.2	6.4	24.7	28.5	59.6	172.3	4.9
1932	95.0	16.4	5.6	24.7	28.6	58.9	170.3	6.0
1933	97.9	16.7	5.4	23.8	28.9	58.1	172.7	6.6
1934	158.5	20.0	5.3	26.5	30.8	62.6	241.1	8·4
1935	172.9	22.8	6.2	26.5	32.7	65.4	261.1	8·4
1936	160.3	29.6	6.6	28.5	35.4	70.5	260.4	7·6
1937	165.1	38.9	6.8	34.8	35.6	77.2	281.2	7·3

(a) Includes all expenditures on relief, *i.e.*, agricultural, public works, direct and miscellaneous.
(b) Less refunds from municipalities.

The financial help received by the coal industry from the Federal Government was important. The transportation subventions for the movement of Canadian coal to Central Canada were started in 1928 but they did not have much effect until the thirties. These subventions together with the bonuses to Canadian coal used for coking, which were begun during 1930-32, became a considerable factor in the provision of markets. In 1936 the total subsidies received by the coal mines in Nova Scotia amounted to about 15 per cent of the total wages paid by the industry.

Federal Assistance to Provinces—municipal-provincial revenues hopelessly inadequate to finance the whole cost of relief

The problems arising out of the wide disparities in the incidence of the depression were dealt with to only a minor extent by the federal transfers to industry. The destitute wheat farmers, the wage-earners who were thrown out of work by the

The constitutional responsibility for unemployment relief rested with the provinces. The municipalities, however, were generally regarded as primarily responsible since up until this depression it had been seldom necessary to recognize the distinction between cyclical mass unemployment and "poor relief". The conditions which arose after 1930 soon demonstrated that provincial and municipal responsibility could not be rigorously insisted on in practice. The relief problem related broadly to two quite different situations—the prairie wheat farmers stricken by drought and ruinous prices, and the unemployed wage-earners who tended to concentrate in large urban centres and in single-industry towns. It became clear that neither of these situations could be dealt with on the basis of local responsibility. The municipalities in the drought area which had lost the whole of their income could not maintain existing essential services, much less pay out large sums to meet the operating costs of the farms. Real estate values in many urban centres would have collapsed completely under the taxation and debts necessary to take care of the local concentrations of unemployed. However, even if the relief burden had been uniformly distributed over all the municipalities of the country it would have been necessary to increase tax collections from real estate by 50 per cent. This was quite impossible.

assistance of the Dominion with its powers of taxation and borrowing was essential. When the problem became acute in 1930 the Dominion began the temporary arrangements for extending financial help to the provinces which were continued throughout the depression. The constitutional responsibility of the provinces (and their municipalities) was still adhered to in form. The Dominion undertook merely to assist the former because of the "extraordinary conditions" and because the problem had "become so general . . . as to constitute a matter of national concern". Administration and initiation of relief projects remained the responsibility of the provinces and

TABLE 57.—THE BURDEN OF RELIEF ON THE PROVINCES AND THE MUNICIPALITIES 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	492	479	480	479	484	508	530	558
Total Mun.-Prov. Current Expenditures[a] excluding Relief	491	492	490	479	482	485	483	514
Surplus available for Relief or **Deficit**	1	**13**	**10**	—	2	23	47	44
Total Relief Costs Expended through Mun.-Prov. Agencies	17	92	92	90	141	134	134	152
Deficiency of Mun.-Prov. Revenues	**16**	**105**	**102**	**90**	**139**	**111**	**87**	**108**
Less Share of Relief Assumed by Dominion	3	34	34	28	43	41	52	55
Mun.-Prov. **Deficit**	**13**	**71**	**68**	**62**	**96**	**70**	**35**	**53**

[a] Including municipal sinking fund contributions and debt retirement.

The relief costs could only be met with the wider revenue and credit sources of the senior governments. The resources of the provincial governments, however, were not by themselves sufficient. Over the whole period 1931-37 the relief expenditures amounted to more than 25 per cent of the total municipal-provincial revenues. In nearly every province during the early thirties these revenues fell short of the requirements for ordinary purposes. There were distressing deficits even before anything had been provided for relief. In not one province in any year following 1930 did the municipal-provincial revenues left over after provision for ordinary services meet the total cost of relief. The amount of borrowings necessary to pay for the whole of the remaining requirements would have bankrupted most of the provinces and municipalities in the country.

The magnitude of relief costs hopelessly exceeded the financial capacities of the provinces and the municipalities. During the eight-year period their combined revenues fell short of total relief and current expenditures by over $750 million. The

municipalities. Aside from its own public works programs and relief for unemployed single transients, the Dominion simply gave grants-in-aid to help finance the expenditures of other governments. In this manner the federal authority assumed about 40 per cent of the total outlays on relief during the 1930-37 period. In addition it loaned $106 million to the four Western Provinces to enable them to meet their portions of the cost.

The problem of financing sharply rising outlays for relief would have been difficult enough had the costs fallen evenly upon the various sections of the country. The extreme differences which occurred, however, greatly aggravated the situation. The wide disparities and the regional incidence of the depression had, as a consequence, large variations in the incidence of the burden of relief and other welfare costs upon the several provinces.

The costs of relief varied inversely with the ability to meet them. In Western Canada, where incomes fell most rapidly, relief costs were relatively the highest. The weight of the burden in Saskatchewan, the Province most severely affected, was about five times as great as that in the Maritimes and Ontario, the Provinces least affected. Total relief expenditures during the eight-year period amounted to nearly two-thirds of the total municipal-provincial revenues in Saskatchewan compared with about one-fifth in the Maritimes and Ontario. A burden with such extreme variations in its incidence could not be entirely carried with local resources. The Dominion not only had to come to the aid of all the provinces, but it had to help some provinces more than others. It was necessary to use the national powers of taxation and borrowing to transfer income from one region to another. The greater the disparities in the incidence of the depression and the greater the failure to use national economic policies to reduce these disparities, the larger were the transfers which had to be made.

TABLE 58.—DISPARITIES IN THE BURDEN OF RELIEF ON THE VARIOUS PROVINCES, 1930-37

—	Ratios of Total Relief Costs to Total Provincial Incomes	
	Relative Severity of Burden-Index of Ratios-National average = 100	Percentages[(a)]
		%
Saskatchewan	367	13·3
Manitoba	115	4·2
British Columbia	100	3·6
Alberta	100	3·6
All Provinces—National Average	100	3·6
Quebec	90	3·2
Prince Edward Island	76	2·8
Ontario	76	2·7
Nova Scotia	70	2·5
New Brunswick	67	2·4

(a) Percentage of total relief expenditures in the province to total provincial income.

We shall now examine the financial situation which developed in each of the provinces.

Prince Edward Island

Relief expenditures in Prince Edward Island, the most rural province in Canada, were relatively small. There were no large industries or urban concentrations in which mass unemployment could arise. The self-sufficiency of the farm household and the farm family was still an important feature of the economy. Consequently per capita costs for relief of unemployment were the lowest in Canada. Over four-fifths of the expenditures incurred for this purpose were devoted to public works instead of direct relief. This outlay was more of an effort to use idle labour for the provision of community facilities rather than an unavoidable expense for the relief of destitution. While the total expenditures were small compared with those of the rest of Canada, they nevertheless weighed heavily upon the finances of the Province which had no large incomes nor large accumulations of wealth. Virtually the whole of the provincial-municipal share of the relief costs were borrowed, and this added nearly 50 per cent to governmental debts during the period, 1930-37. This increase in the deadweight load placed a considerable strain on the meagre revenue sources.

TABLE 59.—PRINCE EDWARD ISLAND—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	1.58	1.56	1.63	1.64	1.67	1.79	1.95	2.06
Total Mun.-Prov. Current Expenditures[(a)] excluding Relief	1.55	1.79	1.58	1.61	1.76	1.97	1.76	1.92
Surplus available for Relief or **Deficit**	.03	**.23**	.05	.03	**.09**	**.18**	.19	.14
Total Relief Costs expended through Mun.-Prov. Agencies	.03	.32	.24	.06	.41	.94	.62	.58
Deficiency of Mun.-Prov. Revenues	—	**.55**	**.19**	**.03**	**.50**	**1.12**	**.43**	**.44**
Less Share of Relief Assumed by Dominion	.02	.18	.05	.02	.22	.29	.32	.18
Mun.-Prov. **Deficit** or Surplus	.02	**.37**	**.14**	**.01**	**.28**	**.83**	**.11**	**.26**

(a) Including municipal sinking fund contributions and debt retirement.

Nova Scotia

Although the prices of Nova Scotia's exports fell drastically the burden of relief was relatively small. The nature of the economy prevented the widespread destitution which appeared in other parts of Canada. The exporting industries were composed largely of small-scale individual enterprisers, namely, fishermen, farmers, and lumbermen, who retained a relatively high degree of self-sufficiency. When their prices dropped their standards of living had to be sharply reduced but they were not entirely without food and shelter. Aside from the coal and steel industries there were no large industrial concentrations. Tariff increases and Dominion transportation subventions to coal helped considerably to maintain employment in the steel mills and the coal mines. Hence no severe or protracted problem of mass unemployment arose. However, there were many on the farms and in the towns who, in one way or another, obtained a livelihood but could not find satisfactory jobs, and there were many who lived on the margin of subsistence. Emigration which had been an important outlet in former years was greatly reduced. There were not sufficient opportunities for the growing population. Thus in Nova Scotia the main problem was to find permanent means for employment rather than to relieve a temporary situation. The provincial government undertook a large-scale program of highway construction with the object of providing both immediate employment and of expanding the capacity of the economy by encouraging the tourist trade and reducing the costs of transportation. During the eight-year period 1930-37 capital outlay on highways was nearly four times as great as the total expenditures by all governments on direct relief. The latter added only $2 million to the provincial debt, but highways added over $30 million. The Province took advantage of its high credit standing, low interest rates and idle labour to provide facilities which it hoped would stimulate economic development. Whether or not the highways will turn out to be a significant factor in helping to overcome some of the long-run economic difficulties of the area, they have greatly intensified the problems of provincial government finance. The limited revenue sources of the Province cannot easily carry the heavy fixed charges of large deadweight debts.

TABLE 60—NOVA SCOTIA—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	15.2	16.0	15.7	14.9	15.9	18.3	18.7	19.3
Total Mun.-Prov. Current Expenditures[(a)] excluding Relief	15.0	15.7	15.5	16.0	16.6	18.6	17.3	18.2
Surplus available for Relief or **Deficit**	.2	.3	.2	**1.1**	**.7**	**.3**	1.4	1.1
Total Relief Costs expended through Mun.-Prov. Agencies	.1	2.6	3.8	3.2	2.4	3.0	2.7	2.6
Deficiency or Surplus of Mun.-Prov. Revenues	.1	**2.3**	**3.6**	**4.3**	**3.1**	**3.3**	**1.3**	**1.5**
Less Share of Relief Assumed by Dominion	.1	.9	1.4	1.1	.8	1.3	1.3	.7
Mun.-Prov. **Deficit** or Surplus	.2	**1.4**	**2.2**	**3.2**	**2.3**	**2.0**	—	**.8**
Capital Expenditures on Highways not included in Relief	**1.9**	**1.3**	**.5**	**1.8**	**1.1**	**4.4**	**5.5**	**7.8**

[(a)] Including municipal sinking fund contributions and debt retirement.

New Brunswick

The situation in New Brunswick was similar to that in Nova Scotia. The forest and agricultural industries which dominated the economy of New Brunswick afforded considerable scope for alternative employment and self-sufficiency. The sale of pulpwood to the pulp and paper mills which continued to operate at a high rate of capacity throughout the depression provided a source of income to many farmers and labourers. The British preferences granted in the Empire Trade Agreements brought a considerable revival in lumber production after 1933. Prices of farm products and the earnings that could be obtained from working in the woods were tragically low but for nearly everyone it was possible to get the means of subsistence which greatly reduced the extent of government relief. The most important development in provincial finance during the depression in New Brunswick as in Nova Scotia was the large capital outlays on highways. However, the scale of the

TABLE 61.—NEW BRUNSWICK—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	12.0	11.7	11.3	11.0	11.4	12.1	12.8	14.1
Total Mun.-Prov. Current Expenditures[a] excluding Relief	12.0	11.4	11.3	11.2	11.4	12.1	12.3	12.9
Surplus available for Relief or **Deficit**	—	.3	—	**.2**	—	—	.5	1.2
Total Relief Costs expended through Mun.-Prov. Agencies	.3	2.6	.5	1.9	1.3	2.4	2.5	1.5
Deficiency of Mun.-Prov. Revenues	**.3**	**2.3**	**.5**	**2.1**	**1.3**	**2.4**	**2.0**	**.3**
Less Share of Relief Assumed by Dominion	.3	.7	.4	.6	.4	1.1	.9	.6
Mun.-Prov. **Deficit** or Surplus	—	**1.6**	**.1**	**1.5**	**.9**	**1.3**	**1.1**	.3
Capital Expenditures on Highways not included in Relief	**6.6**	**2.3**	**1.6**	**.3**	**.7**	**3.9**	**3.1**	**9.1**

[a] Including municipal sinking fund contributions and debt retirement.

expenditures relative to the economy was considerably greater. Consequently the finances of the Province got into an even more vulnerable position. In 1937 the accumulated per capita outstanding debt incurred for highways in New Brunswick was one-third higher than in any other province. During that year net debt charges, about nine-tenths of which were due to highways, absorbed 37 per cent of the total current revenues of the Province.

Quebec

Relief in Quebec was very largely concerned with the problem of mass unemployment in the metropolitan area of Montreal. This area, the largest urban concentration in the country, contains nearly 40 per cent of the population of the Province and is very closely dependent upon Western Canada. Montreal, with its railway termini, shipping, manufactures, financial and distributive facilities, constitutes the entrepôt to the great exporting industries of the West which are the bases of the transcontinental economy. The sharp drop in the purchasing power of that exporting region reacted directly and severely upon Montreal. The destitution which arose from the resulting unemployment could only be relieved with government assistance. In such a large industrial concentration there were few opportunities for self-sufficiency or alternative employments. The burden upon both municipal and industrial finances was great. The assistance from the Dominion took care of less than 30 per cent of the costs. The portions left to the local governments far exceeded the amounts that could feasibly be raised by provincial or municipal taxes and virtually the whole of the requirements were borrowed. The total relief capitalized by the Provincial Government during 1930-1938 was almost equal to the total outstanding debt of the Province at the beginning of the period. Relief was largely responsible for the rise in the municipal debt of

TABLE 62.—QUEBEC—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	115.0	111.2	110.4	110.2	116.5	123.4	126.7	141.8
Total Mun.-Prov. Current Expenditures[a] excluding Relief	110.5	110.8	115.8	115.8	117.2	125.5	127.2	136.7
Surplus available for Relief or **Deficit**	4.5	.4	**5.4**	**5.6**	.7	**2.1**	**.5**	5.1
Total Relief Costs expended through Mun.-Prov. Agencies	2.0	17.3	18.8	22.2	31.8	26.5	35.4	30.8
Deficiency or Surplus of Mun.-Prov. Revenues	2.5	**16.9**	**24.2**	**27.8**	**32.5**	**28.6**	**35.9**	**25.7**
Less Share of Relief Assumed by Dominion	.3	5.1	5.8	4.7	11.3	7.9	10.4	8.0
Mun.-Prov. **Deficit** or Surplus	2.8	**11.8**	**18.4**	**23.1**	**21.2**	**20.7**	**25.5**	**17.7**

[a] Including municipal sinking fund contributions and debt retirement.

metropolitan Montreal from $252 million to $345 million between 1930 and 1937. The Quebec municipalities were required to assume a considerably larger share of the total relief expenditures than municipalities elsewhere in Canada (28 per cent in Quebec compared with 15 per cent in all the rest of Canada). Consequently, the municipal finances of Quebec, especially of Montreal, emerged from the depression in a far more weakened condition than was the case in other parts of the country.

Over 70 per cent of the total outlay for unemployment was for direct relief. At the beginning and at the end of the period large expenditures were made on public works. These, however, proved to be extremely costly in comparison with other methods of dealing with the relief of distress. In certain circumstances it may be most economical in the long run to choose a time of idle resources to construct needed capital facilities, but desirable results cannot be obtained without careful planning, adequate financial resources and control of monetary affairs. The experience of Quebec along with that of other provinces demonstrated that the municipal-provincial revenue systems cannot support the huge expenditures which are involved in dealing with prolonged unemployment by means of public works.

While the sums which were spent on what was formally classified as relief reached large proportions, they did not include all the outlays for this purpose. The aid given by the Church, which had long fulfilled an important role in providing social services in Quebec, greatly reduced the costs which fell on governments. Furthermore, the Provincial Government undertook a number of activities which were not regarded as relief but whose main object nevertheless was to alleviate distress and provide employment. Between 1930 and 1937 the Province spent $26 million on colonization of settlers, $54 million on highway construction, and $14 million on loans to farmers. These activities, whether or not they were necessary or wise, were all more or less closely associated with the depression. Together with expenditures for relief, they brought a threefold increase in the provincial debt, a rise more rapid than that in any other province. Between 1930 and 1937 the per capita municipal-provincial deadweight debt rose from one of the lowest to one of the highest in the country.

Ontario

Unemployment in Ontario was largely the result of the contraction of manufacturing output and the collapse of the investment boom of the late twenties. The condition was most serious in industries which were directly dependent upon the markets of Western Canada and in the construction trades. While the situation was severe in certain industrial areas, such as Windsor and Toronto, and in a number of one-industry towns, the problem of meeting the costs of relief for the Province as a whole was not nearly as difficult as that in other parts of Canada. The total relief expenditures amounted to 19 per cent of the municipal-provincial revenues of the period compared with 27 per cent for the remainder of the Dominion. Ontario, in which were concentrated the greater part of the country's large individual and corporate incomes and wealth, had relatively easy access to additional government revenue. The Province also was the centre of gold mining, the nation's most rapidly developing industry, which both directly and indirectly provided many opportunities for employment and new sources of government income. Total municipal-provincial revenues

TABLE 63.—ONTARIO—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	189.2	188.3	187.8	188.6	185.9	198.3	212.5	216.1
Total Mun.-Prov. Current Expenditures[a] excluding Relief	188.8	189.2	189.3	182.4	185.9	179.0	179.6	195.4
Surplus available for Relief or **Deficit**	.4	**.9**	**1.5**	6.2	—	19.3	32.9	20.7
Total Relief Costs expended through Mun.-Prov. Agencies	2.4	21.3	33.4	32.4	60.7	54.5	38.5	28.2
Deficiency of Mun.-Prov. Revenues	**2.0**	**22.2**	**34.9**	**26.2**	**60.7**	**35.2**	**5.6**	**7.5**
Less Share of Relief Assumed by Dominion	1.2	9.4	9.5	11.9	15.5	15.5	15.1	7.4
Mun.-Prov. **Deficit** or Surplus	**.8**	**12.8**	**25.4**	**14.3**	**45.2**	**19.7**	9.5	**.1**

[a] Including municipal sinking fund contributions and debt retirement.

fell but slightly between 1930 and 1934, and rose considerably thereafter. After 1934 the Province and its municipalities were able to meet a substantial portion of their share of relief costs out of current receipts. The amount per capita of relief capitalized in Ontario was the lowest of any province in the Dominion with the exception of the Maritimes. The outstanding municipal-provincial debt rose by 18 per cent compared with 40 per cent in the rest of the country. Although the burden of relief brought a number of municipalities into default, the total municipal debt of Ontario declined by 13 per cent during the period.

Ontario spent a much larger proportion of her total relief outlay (36 per cent) on public works than did any of the other provinces with the exception of the Maritimes. This was partly due to the rapid development of the northern areas which provided better opportunities for useful works than appeared elsewhere. However, it was also a reflection of the relatively greater revenue and credit resources of this Province.

Manitoba

The burden of relief in Manitoba was more severe than in any other province except Saskatchewan. Eighty to 90 per cent of the total costs were incurred in the metropolitan area of Winnipeg. The depressed conditions in that centre were associated only in a small way with circumstances within Manitoba itself. The drought was a minor factor and agriculture is of far less relative importance than in the other two Prairie Provinces. The prosperity of Winnipeg is very directly dependent upon the vast flow of commerce between the East and the great wheat-growing area to the West which lies mainly beyond the boundaries of the Province. When the volume of that commerce was drastically curtailed by ruinous farm prices and a succession of unprecedented droughts in Saskatchewan the economic support of nearly 40 per cent of Manitoba's population virtually collapsed. The problem of unemployment was intensified by the accumulation of idle workers from the whole Prairie area. Winnipeg normally contains a large pool of labour from which many of the seasonal workers needed on the wheat lands are recruited. When jobs disappeared the labourers remained on the relief rolls of the city. Winnipeg was, therefore, required to take care of a substantial share of the misfortunes of the large industrial reserve army of the wheat-growing industry for whose condition the city was in no way responsible.

There was no surplus of municipal-provincial revenues with which to meet the sharply rising expenditures for relief. Between 1931 and 1933 the Province imposed sharp increases in taxation, including a wage tax which raised the provincial tax structure to the highest level in Canada. However, the receipts from the new and additional imposts did no more than make up for the declines in municipal-provincial revenues from previous sources. The greater portion of the outlays on relief had to be borrowed. By 1932 the credit of the Province and its municipalities was exhausted. Most of the suburban municipalities around Winnipeg had defaulted on their debts. Thereafter the money for capitalized relief and current deficits could only be obtained by means of provincial loans from the Dominion. The Province in turn made loans to

TABLE 64.—MANITOBA—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	34.5	32.8	33.7	35.1	34.7	34.1	34.3	35.4
Total Mun.-Prov. Current Expenditures[a] excluding Relief	34.3	34.7	35.9	34.6	32.8	32.1	31.1	31.4
Surplus available for Relief or **Deficit**	.2	**1.9**	**2.2**	.5	1.9	2.0	3.2	4.0
Total Relief Costs expended through Mun.-Prov. Agencies	1.6	8.6	7.4	7.1	7.5	9.8	12.2	9.8
Deficiency of Mun.-Prov. Revenues	**1.4**	**10.5**	**9.6**	**6.6**	**5.6**	**7.8**	**9.0**	**5.8**
Less Share of Relief Assumed by Dominion	.3	3.3	2.8	2.5	2.2	3.3	5.1	3.5
Mun.-Prov. **Deficit**	**1.1**	**7.2**	**6.8**	**4.1**	**3.4**	**4.5**	**3.9**	**2.3**
Dominion Loans to the Province for Relief, and General Purposes[b]	—	2.9	1.6	1.2	4.4	4.2	4.9	2.7

[a] Including municipal sinking fund contributions and debt retirement.
[b] $805,000 of these advances were written off by the Dominion in 1937.

municipalities. For several years, also, the maturing obligations of the Province were refunded with Dominion advances. At the end of 1937 the indebtedness to the Federal Government was $22 million, or nearly one-fifth of the total outstanding provincial debt. In addition, the Dominion had guaranteed provincial bank loans amounting to $12 million. The municipalities owed the Province $4 million.

Saskatchewan

Canada's most serious economic troubles during the thirties had their origin in the impact of the world depression and drought upon the wheat-growing industry of Saskatchewan. This industry, upon which the interdependence and economic integration of the country were chiefly based, suffered the most unfavourable coincidence of circumstances in its history. If the repercussions upon other sections of the Dominion were widespread and severe, the conditions in Saskatchewan were nothing short of disastrous. Economically this area was the most vulnerable in Canada. No other province was so completely dependent upon the fluctuations in the export market. Nowhere was production so dependent upon the vagaries of the climate.

Ruinous prices and drought were about equally responsible for the disaster. The forces which so intensified the world depression fell with particular severity on wheat. The national economic policies of the Dominion did virtually nothing to soften the blow. The full exposure to the adverse world influences drove the prices received by the farmer to levels which during the period 1930-35 averaged less than one-half that of the decade of the twenties. Such a decline, in the face of the high fixed costs of Western agriculture, would have caused general and drastic hardship. The addition of the drought brought outright and widespread destitution, as well as complete inability to operate farms without government assistance.

The area affected by successive crop failures was about equal to one-quarter of the total improved farm acreage of Canada. It contained nearly one-half the rural inhabitants of Saskatchewan. In 1931, one-half; in 1933-4-6, one-third; and in 1937, two-thirds of the total farm population of the Province was destitute. Not only was this large section of the population dependent for livelihood upon public charity, but the operating expenses of from one-third to two-thirds of Canada's largest export industry had to be met by the Government. It was the latter which chiefly distinguished Saskatchewan's problem from that in the other provinces. In the other provinces it was mainly a matter of providing food, fuel, clothing and shelter for unemployed wage-earners. In the case of the Saskatchewan wheat farmer the failure of a crop involved not merely the loss of the means of livelihood but also the working capital invested in that crop. This working capital had to be made available before there was another chance of the farmer becoming self-supporting. The provision year after year of seed, feed, fodder and supplies to tens of thousands of large-scale farmers entailed a huge financial burden not encountered in the relief of industrial unemployment. The per capita costs in Saskatchewan for agricultural aid alone (seed,

TABLE 65.—SASKATCHEWAN—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	41.5	37.9	39.4	38.7	36.5	36.8	35.4	38.3
Total Mun.-Prov. Current Expenditures[(a)] excluding Relief	43.0	41.0	39.4	38.5	38.1	37.6	35.7	36.7
Surplus available for Relief or **Deficit**	**1.5**	**3.1**	—	.2	**1.6**	**.8**	**.3**	1.6
Total Relief Costs expended through Mun.-Prov. Agencies	5.9	24.0	13.2	10.3	21.1	18.6	22.7	62.3
Deficiency of Mun.-Prov. Revenues	**7.4**	**27.1**	**13.2**	**10.1**	**22.7**	**19.4**	**23.0**	**60.7**
Less Share of Relief assumed by Dominion	.5	7.9	7.1	2.4	8.0	7.2	11.3	27.5
Mun.-Prov. **Deficit**	**6.9**	**19.2**	**6.1**	**7.7**	**14.7**	**12.2**	**11.7**	**33.2**
Dominion Loans to Province for Relief and General Purposes[(b)]	—	11.5	5.3	3.1	13.5	11.1	6.1	11.5
Seed Grain Bank Loans Guaranteed by Dominion	—	—	—	—	—	—	2.6	14.5

[(a)] Including municipal sinking fund contributions and debt retirement.
[(b)] $17·7 million of these advances were written off by the Dominion in 1937.

feed, etc.) was greater than the total per capita disbursements for all relief purposes in the other provinces.

The costs of direct and agricultural relief completely overwhelmed the finances of the Province and its municipalities. These costs during 1930-37 never fell to less than 27 per cent (1933) of the total municipal-provincial revenues, and in 1937 they rose to 163 per cent of such revenues. For the whole period the relief expenditures amounted to 60 per cent (compared with 21 per cent for the rest of the country) of the total ordinary receipts of the Province and its municipalities combined. Although new taxes were imposed and rates increased, revenues could not be maintained at levels required to provide adequate ordinary government services, much less to pay for any part of relief costs. It was manifestly impossible to meet any significant portion of the outlay on relief by means of local taxation when total expenditures for this purpose for the eight-year period exceeded the total net farm cash income of the whole Province.

TABLE 66.—RELIEF EXPENDITURES IN SASKATCHEWAN AND THE REST OF CANADA

—	Total Relief Expenditures 1930-37	
	Saskatchewan	Other Canada
Percentage of Total Income	13·6	3·1
Percentage of Municipal—Provincial Current Revenues	60·5	20·1
Per Capita (dollars)	196	76

During 1929 and 1930 there were severe droughts in the central and south central sections of the Province. The greater portion of the cost for agricultural aid fell on the municipalities who borrowed the money by means of provincially guaranteed bank loans. In 1931, when the crop failure was even more widespread, the municipalities were at the end of their tether. The Provincial Government was not in a much better position. For three decades the expansion of Saskatchewan's wheat industry had been a major factor in the prosperity, in the growth of large incomes and in the accumulation of wealth in some of the older regions of Canada. The Province had no access either by taxation or borrowing to this surplus, which its industry had created during prosperity, to tide it over the years of adversity. Such a transfer of income, which was absolutely essential to prevent widespread starvation and the collapse of the wheat industry, could only be brought about by means of national taxation and the borrowing powers of the Dominion. After 1930 the Dominion assumed substantial portions of the total relief expenditure. For several years the Federal Government paid 100 per cent of the cost of rural relief and agricultural aid in the drought area. However, the share of the burden left with the Province proved to be far in excess of its credit resources. After 1932 its borrowing powers were gone. Henceforth the Dominion provided nearly the whole of the funds required for relief either by direct payment of the cost or by loans directly to the Province or by guarantees to the banks. The share of relief disbursements assumed by the Federal Government in Saskatchewan was larger than that in any other province, viz., one-half, compared with one-third in the rest of the country. Direct and guaranteed Dominion loans supplied 35 per cent of the total outlay. Only about 15 per cent of the funds required for relief were raised by the Province and the municipalities. Nevertheless the share (50 per cent) of the burden left as the responsibility of the provincial and municipal governments involved the addition of large amounts to the provincial debt. The portion which the municipalities as a whole were able to assume was less than 5 per cent of the total cost (that is after write-offs and subsequent adjustments). The Provincial Government undertook, either directly or indirectly, virtually the whole of the liability in excess of the Dominion share. Between 1930 and 1937 the total debt of the Provincial Government was more than doubled. Three-quarters of this increase was due to relief. In 1929 the per capita deadweight debt of the Province of Saskatchewan was the lowest in Canada with the exception of Quebec; in 1937 it was the highest.

Alberta

The severity of the relief burden in Alberta was approximately equal to that of the average for all provinces. On a per capita basis the outlay was the lowest in Canada with the exception of the Maritimes and Quebec. Total expenditures for unemployment and agricultural aid in Alberta amounted to only slightly more than one-fourth of that in Saskatchewan and three-fourths of that in Manitoba. While there were a number of crop failures in some sections of the Province, the total area affected was relatively small. The average yield per acre of wheat during 1930-37 was only slightly below normal and exceeded that of Saskatchewan by nearly 60 per cent. Furthermore, irrigation in the southwest and a considerable degree of mixed farming elsewhere made Alberta's agriculture more self-sufficient than that of her wheat-growing neighbour to the east. The total cost for agricultural aid in Alberta for the eight-year period amounted to $6·4 million, or less than one-fifth of the cost in Saskatchewan for the single year of 1937.

The incidence of ruinously low prices, however, was perhaps more severe than elsewhere. Owing to the more recent development of Alberta fixed debt charges were relatively higher than in any other province. In addition, farmers had not had time to become as well established. Under these circumstances, the drastic fall in prices of agricultural products produced a relatively greater strain on the farming industry and on governments. Alberta's depression problem was more one of debt and high overhead costs than one of widespread destitution.

However, despite large expenditures, the relief burden did not intensify the municipal debt problem. Over the period, Alberta municipalities as a whole were able to reduce their total outstanding debts by over 20 per cent, a percentage reduction greater than in any other province. This, however, was only accomplished with a heavy burden of taxation on falling real estate values.

During the first half of the period the share of relief assumed by the Provincial Government was entirely financed out of borrowings. After 1932, Alberta, like other Western Provinces, could no longer borrow on her own credit. Thereafter, the Dominion supplied the necessary loans. After 1934 the imposition of new taxes, increases in rates together with a measure of recovery produced a rise in revenues, but the Province remained unable to meet the full costs of its portion of relief. However, following the arbitrary reduction of debt charges by one-half in 1936, the Province was able to finance without further borrowings. Between 1930 and 1937 the provincial debt rose by $32 million, over 50 per cent of which was due to relief. This represented a rate of increase less than half as rapid as that which took place on the average in other provinces. Alberta's per capita deadweight debt, however, was one of the highest in Canada.

TABLE 67.—ALBERTA—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	36.6	34.4	35.5	35.2	36.1	36.3	38.7	39.2
Total Mun.-Prov. Current Expenditures[(a)] excluding Relief	38.0	39.4	36.7	35.6	35.2	35.1	33.2	33.2
Surplus available for Relief, or **Deficit**	**1.4**	**5.0**	**1.2**	**.4**	.9	1.2	5.5	6.0
Total Relief Costs expended through Mun.-Prov. Agencies	2.4	6.7	5.9	4.9	6.0	7.0	9.2	7.6
Deficiency of Mun.-Prov. Revenues	**3.8**	**11.7**	**7.1**	**5.3**	**5.1**	**5.8**	**3.7**	**1.6**
Less Share of Relief Assumed by Dominion	.2	2.6	2.6	1.5	1.6	1.8	3.6	3.7
Mun.-Prov. **Deficit** or Surplus	**3.6**	**9.1**	**4.5**	**3.8**	**3.5**	**4.0**	**.1**	2.1
Dominion Loans to Province for Relief and General Purposes	—	1.0	1.9	2.1	3.9	7.7	.8	.2

[(a)] Including municipal sinking fund contributions and debt retirement.

Alberta's relief expenditures arose very largely out of the unemployment which prevailed in the cities, principally Calgary and Edmonton. These cities were mainly dependent on the distribution of goods and supplies to the farms, and upon investment resulting from rapid settlement of the frontier. When low prices and heavy fixed costs sharply curtailed farm purchasing power and reduced agricultural expansion, opportunities for employment declined. Furthermore, these centres became havens of refuge for workers and farmers who had left the land. Alberta municipalities were required to assume a slightly larger share of total relief costs than in other parts of Canada. Since their ability to borrow quickly disappeared, the whole of the funds had to be raised by taxation and by loans from the Provincial Government.

British Columbia

The British Columbia economy was fully exposed to the unfavourable influences of the world depression. Employment was heavily dependent upon production for foreign markets. As the prices and markets for raw material exports fell, unemployment became chronic. Unlike the Maritimes or the Prairie Provinces, British Columbia's export industries are operated by large-scale corporate methods in which the workers are wholly dependent upon wages. In the former Provinces, where individual enterprise located in rural areas is predominant, at least some degree of self-sufficiency is possible. In British Columbia, when export markets and prices decline sharply, large numbers of labourers are left completely without means of support and must be looked after by public relief.

municipalities were tided over by the provincial assumption of a larger portion of the total costs of relief and by provincial loans. During the last two years British Columbia municipalities were required to contribute less than 9 per cent of the total outlay. This easing of the burden by the Province avoided dangerous increases in the municipal debt which would otherwise have been necessary.

TABLE 68.—BRITISH COLUMBIA—THE COST OF RELIEF AND MUNICIPAL-PROVINCIAL FINANCES, 1930-37

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
Total Mun.-Prov. Current Revenues	46.8	45.4	44.1	44.0	45.8	47.4	48.6	52.1
Total Mun.-Prov. Current Expenditures[a] excluding Relief	47.5	47.7	44.8	43.2	43.0	43.3	44.4	47.6
Surplus available for Relief or **Deficit**	**.7**	**2.3**	**.7**	.8	2.8	4.1	4.2	4.5
Total Relief Costs expended through Mun.-Prov. Agencies	2.2	8.4	8.9	8.1	9.9	11.3	10.0	9.0
Deficiency of Mun.-Prov. Revenues	**2.9**	**10.7**	**9.6**	**7.3**	**7.1**	**7.2**	**5.8**	**4.5**
Less Share of Relief Assumed by Dominion	.3	3.4	4.1	3.4	3.2	2.3	3.5	3.1
Mun.-Prov. **Deficit**	**2.6**	**7.3**	**5.5**	**3.9**	**3.9**	**4.9**	**2.3**	**1.4**
Dominion Loans to Province for Relief and General Purposes	—	1.6	2.2	1.9	4.0	6.6	4.0	2.9

[a] Including municipal sinking fund contributions and debt retirement.

Prior to the depression British Columbia was the most rapidly growing province in Canada, and a relatively larger number of workers than elsewhere were drawn into the construction industry. When the investment boom collapsed the unemployment problem on this account was relatively more severe. The difficulties were enhanced by the fact that most of the expansion took place in the metropolitan area of Vancouver which contains nearly half the population of British Columbia. This concentration of the population in one urban centre was greater than that in any other province. The relief problem was further intensified by the migration of many unemployed labourers from the Prairie Provinces to the milder climate of the coast city.

As a consequence of these various factors, per capita relief expenditures in British Columbia were the largest in Canada with the exception of Saskatchewan. Relative to the provincial income, however, they were less burdensome than in any of the Prairie Provinces. During the first half of the period none of the relief costs were met out of current revenues. Debts rose rapidly and by 1933 the credit of the Province and the municipalities was exhausted. Henceforth the necessary loans had to be obtained from the Dominion. The

After 1933 higher taxes and improvement in export prices produced a sharp rise in provincial revenues. In 1937 these revenues were almost 30 per cent higher than they were in 1930. In each of the years 1934 and 1937 substantial portions of the relief expenditures were met out of current receipts. Thus, in spite of a continuing heavy relief burden, increases in provincial debt were held at a relatively low level. Between 1930 and 1937 total liabilities rose 35 per cent compared with 57 per cent for all provincial governments. British Columbia's per capita deadweight debt, however, was for many years the highest in Canada. In 1937 it was only slightly below that of Saskatchewan.

Results of Dominion Insistence on Primary Prov.-Mun. Responsibility for Relief—large Dom. expenditures without adequate control, large deficit spending with wasteful results, creation of unwieldy prov. and mun. debts, virtual breakdown of finances of several provinces

It is clear from the above brief review that there was no co-ordinated or carefully planned relief policy in Canada during the depression. It was a policy of expediency which failed either to promote maximum welfare under the circumstances or to safeguard the financial position of the various governments. The Dominion, from whom alone leadership could have come, was mainly concerned with steering a day-to-day course between insisting on the constitutional responsibility of the provinces and the necessity of preventing widespread starvation. Although the Dominion provided nearly one-half of the total funds, and over 70 per cent in the case of the Western Provinces, it did not have adequate control over the money which was spent and administered by nine different provinces and by hundreds of municipalities, each trying to get along as best it could without much thought of the others. Because of limited financial resources and dependence upon the Dominion no province could carry out an efficient and economic program of its own. The grant-in-aid policy of the Federal Government, which involved an expenditure of federal money amounting to $162 per capita in Saskatchewan and only $23 to $12 per capita in the Eastern Provinces, resulted in large transfers of income from one section of the country to another under conditions that gave no assurance that the transfers were spent in a manner which produced the greatest national benefits. Because of the wide disparities in the incidence of the depression and the effects of the national economic policies large transfers were inevitable, but their basic purpose should have been to enhance the national welfare. As it turned out, glaring and unjustifiable differences in relief standards arose;[1] large amounts of federal money were either directly or indirectly loaned to farmers and municipalities without proper safeguards as to repayment; free movement of labour to jobs was impeded by a maze of local relief regulations; many homeless unemployed were pushed from pillar to post; and large sums were wasted by conflicting and offsetting policies which were followed in different parts of the country.

Although a large amount of federal funds was spent the conditions under which the money was given did not prevent breakdowns in municipal-provincial finance. The grant-in-aid policy was based on the premise that the province (with its municipalities) was constitutionally responsible and that it should, therefore, carry as much of the burden of relief within its area as possible. The province in turn tended to hold the municipalities responsible and to push the financial burden as far as possible on their shoulders. As a consequence nearly all the provinces and many municipalities were drawn to the edge of financial solvency and some were pushed over and became bankrupt. Some municipalities and governments of every province, with the possible exception of the two Central Provinces, acquired heavy deadweight relief debts which their limited taxing powers cannot carry indefinitely. The Western Provinces either temporarily or permanently lost their financial independence and could only continue to function with Dominion loans and in some cases with partial default of debt charges. In 1937, one-fifth of the total municipal-provincial revenues were absorbed by the interest on non-self-supporting debts.

Table 69.—Dominion Relief Expenditures in each of the Provinces through Municipal-Provincial Agencies, per Capita and Portion of Total Funds Provided, 1930-37

—	Per Capita (dollars)			Percentage of Total Funds Provided by Dominion
	Dom. Share	Dom. Loans	Total	
				%
Prince Edward Island	14	—	14	40
Nova Scotia	14	—	14	37
New Brunswick	12	—	12	39
Quebec	17	—	17	29
Ontario	23	—	23	32
Manitoba	33	29	62	69
Saskatchewan	96	66	162	85
Alberta	23	23	46	71
British Columbia	31	31	62	68
TOTAL	26		37	46

Deficit spending occurred on a large scale, but because of the unrelated policies of numerous governments, it did not produce, assuming it was necessary and desirable, the most efficient results. Some provinces spent large amounts on public works while others drastically curtailed such outlays. Some endeavoured strenuously to minimize the increases in debt to preserve their credit while others borrowed extensively with consequent harm to the credit of their more cautious neighbours as well as to their own; some fulfilled their portions of national projects while others could not, or would not, do so. Had the relief deficits been centralized in the one authority which had control of monetary policy and possessed the national powers of taxation, the money could have been obtained at considerably lower interest rates and could have been spent effectively as part of a general and co-ordinated employment and recovery program. In the latter case the country could have emerged from the depression with government finance as a

[1] See Appendix 6.—A. E. Grauer, *Public Assistance and Social Insurance*, pp. 22-28. See also this Report, Book II, Sect. A, Ch. 1 for further discussion of this problem and for recommendations thereon.

TABLE 70.—THE EFFECT OF RELIEF ON MUNICIPAL-PROVINCIAL DEBTS—1930-1937

(Millions of Dollars)

—	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	TOTAL
Outstanding Debt 1930	4·4	79·0	69·4	458·7	1,064·3	202·9	163·7	204·5	237·5	2,484·4
Total capitalized Relief and Current Deficits	2·0	11.9	6.2	138.4	108.0	31.4	87.1	22.9	29.2	437.1
Other Capital Expenditures and Advances Net	3.0	29.4	28.9	211.8	189.4	**14.6**	30.0	2.5	28.5	508.9
Less Contributions to Municipal Sinking Funds and Debt Retirement	**.9**	**3.5**	**2.1**	**49.1**	**106.7**	**10.2**	**7.2**	**8.8**	**10.5**	**199.0**
Outstanding Debt 1937	8.5	116.8	102.4	759.8	1,255.0	209.5	273.6	221.1	284.7	3,231.4
Percentage of Debt Charges to Current Revenues, 1937	16	20	27	21	17	21	23	15[a]	21	19

[a] At reduced rates.

whole in a much stronger position, the virtual breakdown of provincial finance could have been avoided and there could have been much more to show for the debts both in terms of human welfare and in material productive equipment. The decentralization of the deficits made it extremely difficult to obtain the best results from the huge expenditures of public money.

TABLE 71.—DEFICIT SPENDING AND THE INCREASE IN GOVERNMENT DEBTS, 1930-37

(Millions of Dollars)

—	Dominion	Provinces and Municipalities	Less Duplications	Total
Capitalized Relief and Current Deficits	770	437	—	1,207
Capital Expenditures—not wholly self-supporting	147	477	**5**	619
Less—Municipal Contributions to Sinking Funds and Debt Retirement	—	**199**	—	**199**
Total Deficit	917	715	**5**	1,627
Increase in Cash and Liquid Assets	159	32	**129**	62
Total Increase in Outstanding Debt, 1930-37	1,076	747	**134**	1,689

Current Expenditures—rising debt charges, relief and other public welfare force contraction in other expenditures; important services in some provinces reduced below desirable standards

Relief and public welfare overshadowed all other government activities during the depression; aggregate expenditures of all Canadian governments on every other service, apart from net debt charges and defence, declined. If relief be excluded the total per capita outlay of governments on current account was practically the same in 1937 as in 1930. However, this stability was entirely due to the decreasing expenditures of the municipalities. The senior governments assumed an increasing share of government costs; the Dominion-plus-provincial per capita outlay (excluding relief) rose slightly. While total government expenditures were not altered significantly they constituted a rising proportion of the national income, e.g., 20 per cent in 1930 and 26 per cent in 1937. Such increases of government expenditures as occurred were in connection with services (except defence) arising chiefly out of destitution caused by the depression. The per capita disbursements for public welfare (excluding relief) rose by nearly 60 per cent. As unemployment continued public health service had to be extended. The Old Age Pension scheme was adopted in four additional provinces and a rapidly increasing number of those over 70 were given assistance. After 1930 the Dominion increased its contribution from 50 per cent to 75 per cent of the cost of these pensions. During the eight-year period the outlay on old age pensions increased by $27 million. The other significant rise in government costs, namely debt charges, was closely related to the capitalization of relief and other capitalized expenditures associated with the depression.

In 1930 relief and other public welfare absorbed 11 per cent of the current receipts; by 1937 the proportion had risen to 25 per cent. In the latter year these two items together with net debt charges took 53 per cent of the total revenues. The narrowing margin of the remaining income put a severe pressure on other government activity, particularly that of the provinces and the municipalities. The per capita expenditures on education were reduced 16 per cent (in Saskatchewan there was a reduction of 41 per cent). The per capita outlay on the maintenance of roads and streets fell by 27 per cent on the average and by 41 per cent on the Prairie Provinces. In spite of the additional staffs required for expanding public welfare activities the cost of general administration was decreased, again the largest cuts being made by the Prairie governments. Thus the burden of relief which was left to the provinces and municipalities and the rising debt charges produced in many cases an undesirably large retrenchment in essential services. The upkeep of highways and buildings was skimped for the purpose of immediate savings which would later result in much greater expenditures. The outlay on public domain, particularly in British Columbia, was decreased to a point which hampered development and conservation of resources. Certain helpless groups such as the infirm were in some provinces inadequately cared for. The sums devoted to education in Western Canada were cut below those necessary for the maintenance of desirable standards.

TABLE 72.—GOVERNMENT EXPENDITURES ON CURRENT ACCOUNT, 1930 AND 1937—ALL GOVERNMENTS

(Thousands of Dollars)

—	Municipal		Provincial		Dominion		Total[(b)]	
	1930	1937	1930	1937	1930	1937	1930	1937
Net Debt Charges	55,740	54,313	29,476	50,911	149,098	167,043	232,522	271,339
Defence	—	—	—	—	23,256	33,614	23,256	33,614
Pensions and Aftercare	—	—	—	—	55,341	54,437	55,341	54,437
Public Welfare	31,510	53,223	34,678	87,806	17,698	109,998	83,882	251,010
Education	84,705	76,506	33,775	32,121	702	272	119,191	108,899
Agriculture and Public Domain	—	—	21,241	20,636	23,298	17,909	44,484	38,545
Transportation	42,159	30,559	28,328	25,191	29,083	18,000	99,570	73,750
Subsidies to Provinces	—	—	—	—	19,036	21,210	—	—
General Expenditures— Justice, Legislation, General Government and Miscellaneous	71,614	66,936	35,902	41,835	[(a)]70,332	55,685	[(a)]177,849	164,456
TOTAL	285,728	282,037	183,400	258,500	387,844	478,168	836,095	996,050

[(a)] Includes Post Office Deficit—6,081.
[(b)] Less duplications.

prices and luxury expenditures. About one-fifth of the total revenues (40 per cent for the Dominion) were obtained from customs duties on imports which fluctuated closely with the value of exports, capital movements and the volume of investment. Over 10 per cent of total government receipts was derived from imposts on cigarettes and liquor and was, therefore, sensitive to the wide swings which occur in the consumption of luxuries and semi-luxuries. Another 5 per cent came from amusement taxes, public domain, sales of commodities and services and from miscellaneous sources which were immediately affected by changes in economic conditions. Thus about 35 per cent of total government revenues were obtained from sources which fluctuated more widely than the national income. Between 1929 and 1933, this group of revenues fell by 53 per cent.

Current Revenues—vulnerability of revenue structure, increases in revenue sought mainly by imposts on consumption and costs; inadequate use of progressive taxes on net incomes and inheritances

Canadian government finance entered the depression with a highly vulnerable revenue structure. A considerable proportion of the receipts were directly tied to the extreme variations of export

At the beginning of the slump, one-third of the public receipts consisted of municipal taxes on real estate which fell sharply in value as economic expansion ceased. Slightly over one-fourth came from corporation taxes, gasoline taxes, sales taxes, miscellaneous taxes and licences and fees. Less than 7 per cent was derived from progressive taxes on personal incomes and inheritances.

With the onslaught of the depression, governments were immediately harassed from two sides —rapidly falling receipts from vulnerable revenue sources and sharply rising costs due to relief, other public welfare and debt charges. The urgent problem of finding new revenues was greatly intensified by the wide differences in the decline of incomes in the various regions and areas and by the constitutional division of taxing powers. The municipalities had virtually only one source of revenue—taxes on real estate. With this source nearly one-fifth of the relief and 14 per cent of the increase in other public welfare costs had to be financed. There were few places where savings could be made. Interest and sinking fund provisions respecting municipal debt constituted a large annual outlay that could not be reduced. These increases in cost and fixed charges made it impossible to avoid increases in levies and the maintenance of assessments. Due to the adoption of such increases receipts from real estate taxes declined only slightly in spite of rapidly falling earnings from real property. In the metropolitan area of Montreal levies on real estate were supplemented by a municipal sales tax. The sharp contraction of income from real estate after payment of taxes was an important deterrent to a revival of construction without which a substantial measure of recovery was not possible.

The provinces were restricted in their search for revenues both by the constitution and by practical circumstances. Indirect taxes were not within their powers. The income tax field was occupied by the Dominion. In any case, with the exception of Ontario, Quebec and British Columbia, the provinces could hope to get comparatively little from income taxes owing to the scarcity of large incomes and the prevalence of small-scale, individual enterprise in their economies. Although succession duties were imposed solely by provincial governments, revenues from this source could not be greatly expanded except in the Central Provinces because of the relative absence of large concentration of wealth in other provinces. Consequently increases were concentrated in the main on corporation taxes, gasoline taxes and motor licence fees. This group brought in over one-half of the $70 million that was added to provincial revenues between 1930 and 1937. Income taxes were imposed by all the provinces except the Maritimes and Quebec, and the rates, along with those on inheritances were raised, but one-half of the $25 million increase in receipts from these sources was collected in Ontario. The most hard-hit provinces ventured into new fields, Manitoba imposing a wage tax, and Saskatchewan and Alberta levying retail sales taxes.

The plight of some of the provinces was recognized by the Dominion by granting increases in unconditional subsidies. The special grants to Prince Edward Island, Nova Scotia and New Brunswick were increased by $150,000, $425,000 and $300,000 respectively in accordance with the report of the White Commission. During the same year British Columbia was given an additional $750,000. In 1937, special temporary grants were made to Manitoba and Saskatchewan of $750,000 and $3,500,000 respectively to help finance essential government services which would otherwise have had to be continued at far below desirable standards. The total increase of $7 million in the Dominion's unconditional subsidies, however, took care of only a small part of the increased provincial burdens. In 1937 large deficits on current account continued to exist in Saskatchewan and Alberta, and the other provinces were just barely in balance. However, few could long survive even a slight recession in economic activity without the reappearance of deficits.

The Dominion with its vulnerable customs and excise receipts was quickly confronted with the need to find new revenues. In 1931 the federal deficit rose to $151 million (a figure almost equal to one-half of the total revenues for that year) and it never fell below $74 million until 1937. In its efforts to raise additional income the Dominion resorted mainly to increases in consumption and corporation taxes. The progressive tax field was either left to the provinces, as in the case of the succession duties, or was not aggressively utilized. The sales tax was successively advanced from 1 per cent to 8 per cent. Corporation income taxes, excise duties on liquors and tobacco and revenue customs duties on a number of items of general consumption were sharply raised. Personal income tax rates were increased and exemptions lowered but not sufficiently to take care of more than a small part of the total requirements. Between 1930 and 1937 total Dominion revenues rose from $314 million to $464 million; almost three-fourths of this increase was produced by the sales tax.

The impact upon the constitutional framework of the exigencies of public finance during the depression added greatly to the confusion and inefficiency of the Canadian taxation system. The joint occupation by the Dominion and the provinces of the progressive tax field (except inheritance taxes) and the corporation tax field led in the one case to inadequate use and in the other to wasteful duplication. As a consequence far too great a proportion of the load of government expenditures was carried by regressive consumption taxes, by real estate taxes, and by economically harmful taxes on corporations and business.

TABLE 73.—GOVERNMENT REVENUES ON CURRENT ACCOUNT, 1930 AND 1937—ALL GOVERNMENTS

(Thousands of Dollars)

—	Municipal		Provincial		Dominion		Total	
	1930	1937	1930	1937	1930	1937	1930	1937
Federal Subsidies	—	—	14,276	21,184	—	—	—	—
Taxes—								
Customs Import Duties	—	—	—	—	131,209	112,077	131,209	112,077
Excise Duties	—	—	—	—	57,747	52,037	57,747	52,037
Manufacturers' Taxes	—	—	—	—	10,474	17,185	10,474	17,185
Sales Taxes	—	4,412	—	1,893	20,147	138,055	20,147	144,360
Corporation Taxes	—	—	18,520	34,002	45,961	71,742	64,481	105,744
Succession Duties	—	—	20,780	35,757	—	—	20,780	35,757
Income Taxes on Persons	2,381	1,870	2,122	11,884	26,624	50,597	31,127	64,351
Gasoline Taxes	—	—	23,487	38,906	—	—	23,487	38,906
Real Property Taxes	257,118	244,936	6,708	5,875	—	—	263,826	250,811
Amusement Taxes	—	—	4,525	2,838	—	—	4,525	2,838
Other Taxes	23,275	20,337	1,534	3,005	4,531	7,391	29,340	30,733
Sub-Total—Taxes	282,774	271,555	77,676	134,160	296,693	449,084	657,143	854,799
Motor Vehicles, automobile licences, etc.	(a)	(a)	19,907	25,937	—	—	19,907	25,937
All Other Licences, Permits and Fees, Fines and Penalties	11,294	10,454	10,024	8,905	3,703	2,539	25,021	21,898
Public Domain	—	—	17,037	21,135	2,297	2,484	19,334	23,619
Liquor Control	—	—	30,985	29,798	—	—	30,985	29,798
Sale of Commodities and Services	3,171	6,175	1,159	965	2,745	(b)6,269	7,075	(b)13,409
Other	19,916	20,881	2,759	2,390	8,605	3,948	29,457	25,753
TOTAL	317,155	309,065	173,823	244,474	314,043	464,324	788,922	995,213

(a) Particulars not available; included with all Other Licences, Permits and Fees.
(b) Includes Post Office Surplus—3,250.

CHAPTER VII

THE ECONOMY TODAY

1. CANADA'S PLACE IN THE WORLD ECONOMY

Canada holds a particularly important place in the world economy, or at least in that section of the world economy which has been, or remains, organized on a basis of interdependent trade and financial relations and which operates as a functional whole. Although containing less than one per cent of the world's population, Canada ranks sixth among the leading world traders,[1] first among debtors,[2] fifth among creditors,[3] third or fourth among security dealers,[4] and first in tourist trade[5] —in fact she ranks high in all the major activities which make up the balance of payments.[6] On a per capita basis the Canadian figures in all these transactions substantially exceed those of the leading world economic powers—United States, United

[1] In 1937 fourth in exports, eighth in imports, sixth in total trade.

TABLE 74.—WORLD MERCHANDISE TRADE

Net Imports	$ million	Domestic Exports	$ million	Total Trade	$ million	$ per capita
1. U.K.	5,081	1. U.S.A.	3,298	1. U.K.	7,659	165.72
2. U.S.A.	3,008	2. U.K.	2,578	2. U.S.A.	6,306	49.10
3. Germany	2,476	3. Germany	2,611	3. Germany	5,087	63.02
4. France	1,601	4. *Canada*	1,110	4. France	2,556	60.99
5. Japan	1,073			5. Japan	1,972	20.18
6. Belgium	923			6. *Canada*	1,919	174.01
7. Netherlands	853					
8. *Canada*	809					

[2] Nominally, Canada is slightly exceeded by Germany.

[3] Approximately, based on the following estimates of foreign investments—

	$billion
U.K.	19
U.S.A.	12
Netherlands	4
France	4
Canada	1¾

Estimates for Belgium and Switzerland are not available.

[4] Complete statistics not available. The gross Canadian turnover is approximately $1,000 million a year; this figure would be greatly exceeded by U.K. and U.S.A. transactions, and roughly equalled by Netherlands transactions.

[5] Foreign tourist expenditures in Canada were formerly less than in France, but in recent years Canada has apparently become much the largest tourist centre. It is interesting to note, however, that tourist expenditures in the State of California are double total expenditures in Canada.

[6] TABLE 75.—CANADA'S BALANCE OF PAYMENTS

Current Account	1937 Credit	1937 Debit	1938 Credit	1938 Debit	1939 Credit	1939 Debit
Merchandise	+1,009.7	−796.4	+847.1	−665.2	+933.6	−731.6
Gold	+ 145.1	− 0.1	+156.5	—	+184.4	—
Tourist Trade	+ 294.7	−124.4	+282.7	−121.0	+275.0	−110.0
Interest and Dividends	+ 78.8	−325.0	+ 66.0	−317.0	+ 53.2	−314.0
Freight	+ 111.7	−137.2	+ 79.6	−105.0	+ 86.0	−126.8
Miscellaneous Services	+ 25.2	− 63.9	+ 23.4	− 66.9	+ 29.1	− 69.9
Total Credits and Debits	+1,665.2	−1,447.0	+1,455.3	−1,275.1	+1,561.3	−1,352.3
Capital Account						
New issues and retirements of securities	+ 89.5	−177.9	+ 88.6	−150.5	+144.5	−234.7
Sales and Purchases of outstanding securities	+506.6	−511.4	+369.2	−340.3	+311.0	−238.9
Other capital movements	+ 24.0	−129.6	—	−102.0	—	−144.0
Net Outward Capital movements	+620.1	−818.9	+457.8	−592.8	+455.5	−617.6
Residual Item	+ 19.4		+ 45.2		+ 46.9	

Kingdom, Russia, Germany, France, Japan.[7] The Canadian national income per capita was exceeded only by that of the United States in 1929, although in 1937, in part as a result of the drought, Canada was in sixth or seventh position.[8] Industrially Canada is ranked eighth in the world (although only thirtieth in population); Canadian railways are the fourth largest in the world;[9] and the volume of shipping from Canadian ports is about the fourth largest.[10]

These details are highly significant illustrations of the Canadian economy and of the role which Canada plays in international business. It is only by playing this role that Canada can maintain anything near her present standard of living and can support the great capital investment which has been made to equip her for this role. Because Canada is one of the least self-sufficient countries in the world her prosperity and her very existence depend on making the most of her own specialized resources, and on trading them as advantageously as possible for her other requirements. Her success will depend not only on her own skill and efforts, but also on the continuation of an interdependent and integrated international system of trade and finance. Everything which tends to restrict the operation of that system, such as barriers to the international movement of population, goods or capital, or the detachment and artificial isolation of large blocs from the world economy on a self-contained basis, reduces the scope for an advantageous international division of labour—the principle on which the existing Canadian economy and standards of living are built.

A very brief review of Canada's resources in relation to the international economy will make clear why Canada plays such a relatively large part in that system, and is so profoundly dependent on it. Canada can produce large surpluses of many agricultural products (cereals, potatoes, apples, cattle, pork, and dairy products), of many forest products (pine and fir lumber, spruce and poplar and balsam pulpwood), of many mineral products (gold, silver, copper, nickel, lead and zinc), and hydro-electric power more cheaply—i.e., with the application of relatively less capital and labour—than can be done in most other countries. On the other hand, either Canada cannot produce, or cannot produce as cheaply as some parts of the world, her own requirements of such essential industrial raw materials as iron, coal, oil, rubber, and tin; of tropical fruits, fibres, and other natural products; and of many iron and steel, chemical, and textile manufactures based on special local resources and techniques. Every country could display a list of surplus and deficit resources, but in few would both sides of the balance sheet contain such basically important products in such volume, and in few would the extremes be so great. Thus Canada is at once the world's largest exporter of wheat, newsprint and non-ferrous metals, and one of the world's largest importers of coal, oil and steel products. It is in this distribution and peculiar character of Canada's resources, and in her lack of resources, that we find the explanation for many of Canada's distinctive economic, and related public finance, problems.

Some of the salient characteristics of Canada's trade may be noted. Both the staple imports and exports are mainly bulky, relatively low-value articles, and the sources of supply are distant from the markets, and therefore cheap transportation is of vital importance. Of the chief staple exports, wheat required a very large capital investment in handling and shipping facilities and to-day requires an increasing capital investment in facilities for mechanized production. The forest and metal products, partly because of the technical character of Canadian resources, also required a very large capital investment in plant and in associated hydro-electric power developments. If these resources were to be developed at all, they had to be developed on the largest possible scale in order to secure the economies of mass production and to contribute to the support of the heavy initial overhead. But in order to achieve this end very large foreign markets were necessary; Canada produces five times her own consumption of wheat (excluding seed requirements

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[7] But the per capita figures are higher in some smaller countries:

Per capita Gross Trade, in order of size of countries with larger per capita aggregate than Canada—1937

	$
1. New Zealand	323·94
2. Belgium	214·93
3. Denmark	192·93
4. Norway	179·61
5. Netherlands	175·22
6. Switzerland	174·37
7. *Canada*	174·01

Source—Condensed Preliminary Report on Trade of Canada, 1938-39, pp. 46-48, and League of Nations Reports.

[8] NATIONAL INCOMES PER CAPITA, 1937
(In U.S. $)

	At Present Exchange Rates	At 1929 Parities with U.S. $
U.S.A.	536	536
U.K.	500	491
Australia	434	529
Germany	421	249
Sweden	380	398
New Zealand	412	503
Canada	377*	377

* Income Produced Method as estimated by the Bank of Nova Scotia as more comparable with incomes reported for other countries than Commission's calculations.

[9] Canada has the fourth longest railway mileage, ranking after U.S.A., Russia, and India, and the fourth largest ton mileage of traffic, ranking after U.S.A., Russia and Germany.

[10] The registered tonnage of vessels clearing with cargo in 1935 (latest available year) was largest for the U.K., next for the U.S.A., next for France, and Canada was almost exactly the same as Germany, Spain, and Belgium.

8335—12½

for export); ten times her own consumption of her chief forest product—newsprint; and twenty times her own consumption of her non-ferrous metal production. It is this surplus production which is necessary in order to bear the total overhead cost of developing these industries, and to keep unit prices down to competitive levels. As a result of this kind of development Canada now supplies about 40 per cent of the world export wheat market, two-thirds of the newsprint in the world export market, and 40 per cent of the non-ferrous metals in the world export market. Canadian production of these products is a very much smaller fraction of the total world production, and many countries, which are of some importance in the world market and consequently to Canada, are almost self-sufficient.

In other words, Canada, in spite of her comparative productive advantages, is pushed into the position of being a marginal source of supply for many of these commodities. If a country which is producing 90 per cent of its requirements and importing 10 per cent is forced, or deliberately chooses, to reduce consumption, the imported 10 per cent is likely to be the first sacrifice. Any substantial reduction in the proportion of the world market supplied by Canada is evidently bound to have profound effects on her ability to maintain competitive prices and support the huge investment made in expectation of large-volume production. In a period of world depression, of reduced purchasing power and of increasing trade restrictions, such as we have outlined in Chapter VI, the relative status of industries in this position suffers. There are weaknesses, not only because such a small proportion of their production is consumed domestically, but also because such a large proportion of the total international market is supplied by Canadian exports. Control of the marginal supply normally gives a bargaining advantage to the seller on a rising market, but reacts to his disadvantage on a falling market. The situation has been intensified by the continual narrowing of the international trading world in recent years, which has led to more abrupt and extreme price fluctuations than would occur in a broader market. When protected domestic industries develop in former markets, or when depression or war restrict demand for Canadian export staples, there will be excess productive capacity, and far more than the proportionate share of the excess capacity will inevitably appear in Canada.

The import staples, however, are in a somewhat different position. Large as are Canada's imports of basic industrial raw materials (such as coal, oil and iron) in relation to Canadian consumption and even in relation to total world trade in these products, they are but a very small fraction of the total production, and of their consumption in the domestic markets of the chief producers. A fall in the Canadian demand is important, but is not likely to have the same shattering effects on prices as a fall in the foreign demand for the chief Canadian staples.

The great bulk of Canada's trade is with the United States and the United Kingdom. This is a natural corollary of the distribution of resources and organization of the economy in each of those countries and in Canada, and is intensified by the virtual withdrawal of most of the rest of the world from the former international trade system. Canada's geographical position and special relations with each of these countries are responsible for certain advantages and elements of strength, but there are also some liabilities. Canada's trade with both the United Kingdom and the United States is of vastly greater importance to Canada than their trade with Canada is to them; Canadian exports to the United Kingdom and the United States are between $30 and $40 per capita in each case, as compared with their exports to Canada of between $2.50 and $4 per capita. Canadian trade with the United Kingdom is 30 per cent of total Canadian trade, while United Kingdom trade with Canada is only 5 per cent of her total trade. Canadian trade with the United States is 50 per cent of Canada's total trade, while American trade with Canada is only 15 per cent of total American trade. This great degree of concentration of Canadian trade has elements of weakness and danger, and changes in the trading policies of either of the two large countries, or automatic changes in the terms of trade in response to differential price movements, inevitably affect Canada relatively far more than they affect the United Kingdom or the United States. Because of the greater vulnerability and lack of diversification, Canada's bargaining position is on occasion weakened and she is put at a disadvantage in opposing unfavourable policies or in negotiating for more favourable policies.

But quite apart from the danger of directly unfavourable policies, which may be due to factors quite unrelated to Canada but which may incidentally deal Canadian trade shattering blows, is the inevitable swing in the terms of trade. Canadian trade with both the United Kingdom and the United States is of a complementary nature, and is a classic example of the working of a basically sound international division of labour. While

Canadian cereals feed Britain, British textiles clothe Canadians; while Canadian products of the forest and mine, processed by hydro-electric power, feed the industries of the United States, the coal and iron products of the United States equip Canadian factories. But in any exchange of this nature there may be, and are likely to be, wide variations in the price trends of the various classes of products, and Canada may at any time find the prices of most of her exports declining more rapidly, or rising more slowly, than the prices of what she buys; or the reverse situation may result. Because her trade with the United Kingdom and the United States is relatively of much greater importance to Canada than Canadian trade is to those two countries, because of the much more specialized nature of Canadian exports, and because of the lack of diversified markets, variations in the terms of trade are much more important to Canada than to her two chief customers and suppliers. In times of depression both the United Kingdom and the United States can look to some important increases in the real value of their exports (and of their other income from abroad) to help temper the wind to the shorn economy, but Canada finds the impact of the depression intensified by the fall in the real purchasing power of the bulk of her exports. (In the last decade gold has been an important exception.)

In all other external transactions Canada is also vitally affected by the policy of the United Kingdom and, even more, by that of the United States. As we have noted, these transactions bulk extremely large in relation to total Canadian income. The large investments of British and American capital made to equip and exploit the economy; the contra investments of Canadian capital in foreign securities and enterprises; the integration of a large portion of Canadian manufacturing, finance, service and amusement industries with those of the United States; the huge seasonal tourist exchange, the periodic migrations of labour, farmers, and professional men and the continuous exchange of individuals; the existence of international labour, business and professional organizations; all these generate a continual ebb and flow of funds on a very large scale, and a continual process of adjustment of prices, costs, and profits. The transactions on account of the "invisible" items in the balance of payments on current and capital account with the United States are far larger than the total transactions on merchandise account, and in some ways may have an even more direct effect on comparative price levels, and thus eventually on purchasing power parities. In some respects it is as difficult, and as artificial, to isolate the Canadian balance of payments as to isolate that of, say, the State of Pennsylvania, but in other respects there are Canadian policies in operation which do segregate the Canadian economy. These policies, however, cannot completely control the Canadian economy; they can only modify the impact of external influences on it. As has been indicated, these external influences are of great magnitude, and in experience Canada has followed virtually the full swing of violent fluctuations in the United States, modified only slightly by the greater stability of the United Kingdom. A vital difference in the impact of the notoriously abrupt and extremely fluctuating North American business cycle on Canada and on the United States is the substantially higher net income of the latter.[12] The relative fluctuations in business activity and in per capita income are approximately the same[13] in the two countries, but the Canadian fluctuations occur around a much lower average income, and Canada lacks the impressive reserves of diversified climate and resources, and of a huge internal market which distinguish the United States. In short, Canada is compelled to accept the full measure of fluctuation which accompanies the highest standard of living in the world—without as high a standard of living to absorb it. There are certain physical and climatic disabilities and limitations which would appear to make higher costs and lower net incomes permanent conditions in Canada as compared with the United States.

Canada's balance-of-payment transactions, other than trade, tend to transmit the full extent of economic fluctuations in the United States to Canada, and there are also some special features arising from the nature of these transactions which intensify the pressure on the economy in times of depression. The most important item on the income side is that of tourist expenditures, which are luxury expenditures and likely to be drastically reduced in time of depression. On the payment side, the most important item is that of interest and dividend payments—a major portion of which is a fixed amount, and a large portion of which is due from Canadian governments. The dollar amount of this

[12] PER CAPITA INCOME

(Income Paid Out)

	Canada	U.S.
1929	$470	$679
1933	246	360
1937	345	536

[13] 48 per cent decline in U.S. national income and 44 per cent decline in Canada's national income from 1929 to 1933.

payment can only be substantially reduced by widespread default, with all the long-run penalties which that entails, and in a period of falling prices the real burden increases. If in addition to falling prices there is also a fall in the exchange value of the Canadian dollar, the real burden of the large portion payable in foreign currencies increases even more. It is true that in the latter case there will tend to be a larger favourable balance on merchandise trade account, but the gains and losses will be unevenly distributed, and the increased burden of debt charges will put additional stresses and pressures on certain sections of the economy. In several years during the twenties Canada was on balance a capital exporter, and even in years when Canada was borrowing heavily abroad there was a cross current of Canadian investment abroad. But Canadian investments abroad went largely into equities, and often into merely margins of equities in the New York market, and into industries in Latin American countries which had economies every bit as vulnerable to world depression as that of Canada's. As a result Canada suffered heavy losses both on capital and income on her own foreign investments while she continued to meet the major portion of the debt payments due abroad. In the thirties favourable balances were used largely to retire Canadian debt rather than to make new investments abroad, and there has been an important reduction in the amount of outstanding debt payable in foreign currencies.

To summarize, Canada's position in both her trade and other financial relations with the outside world is largely that of her position in relation to the United States and the United Kingdom. This position is similar to that of a small man sitting in a big poker game. He must play for the full stakes, but with only a fraction of the capital resources of his two substantial opponents; if he wins, his profits in relation to his capital are very large, and if he loses, he may be cleaned out.

Canada's position in the world economy has both strengths and weaknesses. As long as it is correct to speak of a world economy, or even a partial world economy, in which any substantial measures of international division of labour and trade are permitted, Canada should enjoy a particularly high export income and national income, thanks to her possession of a few special resources. The provision of productive capacity to exploit these resources has involved heavy fixed charges; deficiencies in other resources and efforts to maintain past standards of living involve certain essential imports on a large scale. We have thus a picture of a normally high income and of high fixed costs, but even under normal conditions the income is likely to fluctuate much more sharply than the costs. Because of the character of Canadian resources, and of the nature of Canadian trade and other financial relations with the United Kingdom and the United States, fluctuations in gross income, and consequently even more in net income, at either extreme of the business cycle reach relatively huge proportions.

It is scarcely necessary to add that if the international trading system in which the Canadian economy was designed and built as an integral part should be further restricted, a new appraisal (which would be distressing) must be made of Canadian resources and of the Canadian position. Our "boundless resources" are worth only what we can sell them for. If the system under which we exchange our surpluses for our requirements breaks up, our surplus and chief staple resources will cease to be resources; the whole structure of government and private investment based on them will collapse; and our conception of a "normal" or attainable Canadian standard of living will have to be drastically revised.

2. Canada as an Economic Unit

In spite of the fact that the major Canadian industries are a part of an international economy, certain national policies have been adopted and national responsibilities have been assumed which create a distinctively Canadian framework within which Canadian industries operate. The framework is not a simple structure, largely because national policies have been aimed at two major objectives—the expansion of export staple industries, and the development of a protected domestic economy—which, although they have sought to achieve a common national purpose, were directly opposed to each other economically. The compromises which had to be adopted to reconcile divergent interests frequently destroyed the logical symmetry of either policy. Nevertheless certain common conditions affect all Canadian industries and, in spite of basic divergencies in interest, there is sufficient homogeneity to consider the Canadian economy as a unit. It is the purpose of the present section to examine the framework of national policies and responsibilities, and the influence which they have had on the form of the economy.

In the preceding chapters we have described how and under what conditions that framework was established. The events and circumstances which brought Confederation into being were not by themselves sufficient to ensure the maintenance of the union. In fact if the mutual interests and economic cohesion required for the growth of national unity, and the preservation of the political independence of the new transcontinental nation in North America were to be developed, the new Federal Government had the responsibility of devising and carrying out an appropriate economic program. It was necessary to link together the isolated regions with railways, to create a basis for internal trade, and to promote the development of the unsettled West as an integral part and a dynamic influence in the Canadian economy. It was for the accomplishment of these objects that the basic national economic policies of all-Canadian transportation, Western settlement and industrialization by protective tariffs were adopted during the first twenty years of the Dominion's history. These particular policies were not of course undertaken in response to any deliberate plan carefully thought out in advance to achieve the best possible results. They were rather the outcome of an evolution of political decisions which were strongly influenced by the requirements of politically workable compromises and by immediate circumstances. With a different course of events, perhaps a different set of policies would have been adopted to achieve the same general objectives. Perhaps a different set or a different emphasis would in any case have been desirable. That is not for us to say. We shall merely attempt to point out the significance of what was actually done (without going into all the day-to-day manœuvres and detailed compromises which were necessarily involved) in relation to certain broad national aims, and the effect on the nature of the Canadian economy.

We have seen how the national economic policies were put into effect and ultimately achieved their purposes under the influence of the wheat boom and the demands of the Great War. Three transcontinental railways connecting the various regions across long and difficult stretches of unproductive territory were built at tremendous public cost in the form of direct assistance or guarantees. The West was filled with settlers whose products and purchases created a rising volume of traffic moving over the railways and waterways through Canadian channels. The protective tariff directed the demands of the great exporting industry on the Prairies to Canadian producers and promoted a rapid growth of manufacturing in Central Canada. Thus the hitherto isolated regions were drawn together with an expanding flow of internal trade and economic integration. The transcontinental Canadian nation achieved a new level of prosperity, political security, and unity.

In the pursuit of these ends the three economic policies operated to effect a series of compromises which had a consistent objective; no one policy was complete in itself. Without the construction of all-Canadian transportation facilities and an appropriate structure of freight rates (and the huge public assistance which that entailed) each of the regions would have linked up with the railway systems of the United States. The connections between the various parts of the country would then have been made through the economically and politically aggressive neighbour to the south. This development would have been much less costly; it would have avoided the vast overhead of bridging great physical barriers; and it would have enabled the most intensive use of facilities already available. With the lower costs which this would have permitted, the export industries would have expanded further, the rise in the value of their natural resources would have been greater and the income obtained would have been larger. There would, however, have been no secure economic basis for a Canadian nation. Hence purely economic criteria were put aside for the creation and maintenance of a political entity. The same was true for the tariff, which in large part was complementary (although on purely economic grounds contradictory) to the settlement and transportation policies in the furtherance of this purpose. The railways and government assistance would have brought about the development of unsettled areas, but that by itself was not enough. Under free trade or with a much lower tariff the greater portion of the requirements of manufactured goods would have come from the United States. Each of the separate regions would have established its principal commercial relations with the external world rather than with the other regions. Traffic, excepting bulky exports for overseas, would have moved north and south. The tariff was designed to direct the demands into Canadian channels so as to provide east-west traffic to help support the vast overhead of the transcontinental railways and to furnish a stimulus to expansion in the older provinces who initially undertook the risks and heavy debts of the railway and developmental programs. Thus each of the three policies has exerted a consistent and an essential influence in the attainment of the national purposes. It is true that the tariff tended to restrict the growth of exporting industries which the railway and developmental policies sought to promote. Some examples are worth noting of the ingenious compromises which have been developed in the tariff system in an effort to reconcile conflicting interests; a three-deck structure, and in some instances a four- or five-deck structure, has been developed to facilitate bargaining and negotiation with individual countries, and to aid the national transportation policies by directing traffic east and west through Canadian ports and over Canadian railways. Special exemptions are given for some of the machinery and supplies for the primary export industries (although not for construction machinery and other construction materials, and for some industries with differential advantages, such as hydro-electric power). The rates on manufactures are graduated according to the degree of processing and by giving greater protection on the final processing, assembling or finishing than the simple rate (which applies to the total value of the product) would indicate, attract and nourish branch plants from a great many American industries. Drawbacks provided for material used in manufacturing for export, coupled with individually designed provisions concerning the required manufacturing industries, give these industries an opportunity to compete in export markets (and reduce their overhead unit costs). Seasonal tariffs and artificial valuations for duty purposes are provided to protect domestic fruit and vegetable producers when their crops are ready to market. These and other special provisions vividly illustrate both the difficulties and compromises which were involved in applying a protectionist policy to the Canadian economy.

Without the higher costs imposed by the tariff the developmental policies would have been even more effective in stimulating the exploitation of Canada's resources for the sale of their products abroad, but that result, without the enhancement of internal trade, would by itself have weakened rather than strengthened the economic and political cohesion of the country. On the other hand, the tariff alone could have done little to create a basis for inter-regional trade without the markets provided by expanding export industries. Each of the national economic policies was by itself incomplete, and on purely economic considerations, contradictory to the others. Together, they have blended in a general policy which has built an economically integrated nation and they have on the whole sought to promote the realization of consistent national objectives by which general prosperity and political unity could be achieved.

While the three national economic policies were in the main complementary, one or the other has at times been carried too far. The careful balance necessary for the attainment of optimum political and economic results from the major economic policies to which the country was committed has not always been maintained or appreciated. Mistaken optimism and regional pressures caused the over-extension of railways which has burdened the country with a needless overhead and encumbered the Dominion's finances with heavy fixed charges. The provision of essential all-Canadian transportation facilities would necessarily have involved large overheads and it was, therefore, all the more imperative that wastages should have been avoided.

For over forty years the Canadian tariff remained at a moderate level. During this period its provisions were gradually modified and adapted to the changing circumstances of the economy. The British preference was introduced, the rates on the implements of production of expanding export industries were reduced and special contrivances were adopted to enable the Canadian manufacturing industries to benefit from the technical and industrial progress of the United States. Thus on the whole no excessive restrictions were imposed on the growing export activities which constituted the basis of the economy, while at the same time a considerable manufacturing industry was built up. However, this careful balance and the cost price relationships which were established during four decades were suddenly broken by the sharp increase in protection during 1930-33. This unfavourable alteration in the circumstances of the export industries is particularly noteworthy since it occurred at a period when export prices were falling rapidly. The country was put into the position of carrying excessive debts incurred to promote the development of export production, while at the same time restraining the growth of such production by drastic tariff restrictions. Such extreme contradictions of policy were bound to reduce the real national income below what it would otherwise have been. Perhaps there may have been non-economic considerations which justified this high economic price. As debts pile up and the rate of expansion slows down the cost will become increasingly difficult to bear; it will place an increasing strain on public finance and consequently on Dominion-provincial relations.

While prices are rising and the national income is growing rapidly, overhead costs are easily borne and there is little conflict over the precise share of each region or industry in the total income. When prices are falling or the growth of the national income is halted, fixed charges and the weight of taxes arising out of extreme contradictions of policy may quickly become oppressive and there is likely to be increasing inter-regional friction with regard to those policies and the division of the total income.

During the first fifty years of Confederation the national economic policies operated as strongly cohesive influences in the Canadian economy. This success was mainly dependent upon the rapid growth of the wheat exporting industry of Western Canada. We have already recounted in Chapter V how during the twenties the unifying effects of these policies were weakened by the decline in the rate of expansion on the Prairies. With the onslaught of the depression this condition was greatly intensified. Drought and shrinking export markets for wheat brought almost a complete breakdown in the strongest dynamic factor making for east-west integration. Each area turned more than ever to the establishment of a more self-sufficient and independent regional economy. The possession of northern hinterlands with rich mineral deposits, the invention of new mining and metallurgical techniques, and water power have made possible the development of new northern frontiers for all but the Maritime Provinces. The separate regions established new contacts with external markets which rapidly decreased the relative importance of their economic relations with one another. In these circumstances the national economic policies were a limiting rather than an expansive influence. The railway policy no longer had any positive objectives. The new transport technique of the motor car has called for highway rather than railway expansion. Under these conditions leadership in the fields of transportation and development passed from the Dominion to the provinces. The Dominion was left to cope with the rising railway deficits.

The railway deficits were not the only consequences of the national economic policies with which the Dominion had to deal during the depression. When the industries which the national policies had helped to establish fell upon evil days, they naturally looked to the Dominion for assistance. The manufacturers called for higher protection against cheap imports. Western agriculture asked for relief and subsidized prices. The Dominion could not completely avoid responsibility for alleviating distress of interests which it did so much to create. The implications of this are clear in the steeply rising expenditures of the Federal Government during the depression.

Thus during the twenties and thirties the national economic policies ceased to produce their former expansionary and cohesive effects and gave rise to a set of difficult national problems and responsibilities. Yet they could not be sharply reversed since the economic, and to a considerable extent, the political unity of the country was still basically dependent upon them. Furthermore, great vested interests have become established under their influences. The adaptation of these policies to the changing circumstances of the present and the future will require the highest qualities of statesmanship. Above all, the pursuit of objectives involving extreme and unnecessary economic contradictions must be avoided. Wastages must be minimized, particularly in the field of transportation where solutions to the problem of railway deficits and to the problem of highway and railway co-ordination have yet to be found. In the making of tariffs there must always be the clear realization that the economic welfare of the country is, and will continue to be, basically dependent upon the prosperity of the export industries. The problems of public finance and of Dominion-provincial relations in the future will be closely related to the extent to which these considerations prevail.

Monetary policy, in the broadest sense of the term, has only recently become a part of the framework of national economic policies which we are discussing. In the past, the policy of the gold standard had always been implied, and accepted unquestionably, as the only conceivable basis for development. This was virtually a required condition for a Canada which was part of an international gold-standard-and-trading economy, and it facilitated the rapid adjustment of prices and costs which was essential for a country in its position. The chief concern was the evolution of a banking system which would meet the very special and seasonal requirements of the Canadian economy within the framework of the gold standard. The highly centralized but elastic system of banks operating on a national scale which developed, was remarkably successful in this respect. It was only when the gold standard broke down and national currencies began to drift about in apparently aimless and alarming fashion that any question arose (and even then it arose somewhat belatedly) as to whether Canada needed a monetary policy of its own and adequate machinery to carry it out. The creation of a central bank provided the machinery, but conflict over the ultimate objectives of policy remained. The opposing forces were not, however, exactly the same as those engaged in the conflict over trade and tariff policies. Export industries generally stood to gain from a measure of exchange depreciation, while protected industries competing with imports were generally bound to do so. The lines of conflict were not clearly drawn on either a regional or an industrial basis; it was rather a struggle between owners on the one hand—owners of farm, mine, and forest resources, and of equities in industry, who depended on entrepreneurial net income—and recipients of relatively fixed incomes on the other hand—bond and mortgage holders and wage earners. Owners and debtors naturally favoured a higher price level; salary- and wage-earners and creditors, a lower price level. The very novelty of this division of interests, which cut across traditional class and regional groupings, delayed its recognition. Variations in individual circumstances also confused the actual issues at stake. We have noted how the wheat exporters, for example, in desperate straits in the thirties pressed for some measure of exchange depreciation although it was very doubtful whether under prevailing conditions it would have yielded any net advantage to them. Protected industries, on the other hand, which were much more likely to benefit were in general inclined to lean on the tried and proven method of increased tariffs (which was not available to the exporters) and, perhaps partly because of their close relations with large creditor interests, to view any experiments in inflation or exchange depreciation with suspicion and alarm.

But to-day much of the initial surprise and confusion has passed, and it is recognized that the purchasing power of the dollar not only can be deliberately altered but that it is at times expedient, and now considered almost respectable, to do so. But while the direct results of such action on individual interests are now more clearly understood, the effects on the economy as a whole, or sectors of it, remain largely matters of surmise. For one thing, these effects will depend on action (and reaction) in other countries; for another they will depend on the relative bargaining position at the time of the different interests affected, either favourably or unfavourably, and their ability to pass on the losses or retain the gains; and they will also depend on the nature of the other economic polices adopted by the Government. But monetary policy has become one of the agencies by which the Dominion affects economic life and income in all parts of the country, and which makes Canada for certain purposes an economic unit.

Federal policies of taxation and expenditure form one of the most important groups of conditions which mould the development of the economy. These powers and functions have steadily grown in importance with the expansion in the scope of governmental activities, and it is important to note the manner and degree in which the public finance system in itself affects the economy and either stimulates or depresses the national income. The public finance system also provides a means of compensatory adjustments and transfers to counteract the adverse effects of other national policies. When, as a result of national policies undertaken in the general interest, one region or class or individual is fortuitously enriched and others impoverished, it would appear that there is some obligation, if not to redress the balance, at least to provide for the victim, and policies of taxation and public expenditure offer a convenient means. But as the field of public finance is shared by the Dominion with the provinces and their municipalities, the division of the field of taxation and the distribution of jurisdiction and hence of responsibility, have a major bearing on the equity and efficiency of the Dominion's public finance system, and of the public finance systems of all governments considered as a whole. For these reasons, and because of the basic importance of this particular subject to the Commission's inquiry, a separate chapter is devoted to a review of the present public finance system.

3. The Regional Economies

The international role of Canada and the national policies which have moulded the economy have been reviewed in the preceding sections and chapters. But as Canada is half a continent, she has very diverse regional characteristics and interests; and as a federation, she has different governmental systems for representing these interests and for carrying out regional policies of economic significance.

Economically Canada can be compared to a string of beads, and they are not all pearls. It is a long string in which the concentrations of productive resources are few and far apart. It has become traditional to speak of Canada in an economic sense as consisting of five regions,—the Maritimes, Quebec, Ontario, the Prairies, and

British Columbia, and in the main economic interests do tend to follow these regional lines. In many instances, of course, economic interests cut across regional boundaries—many sections of Quebec, for example, are more closely related economically to Saskatchewan than to neighbouring areas. Moreover, regional economies are constantly being modified,—Manitoba, for example, appears to be evolving toward the Ontario-type of economy, and away from the prairie-type. But each of the major regions has sufficiently distinctive characteristics to warrant separate discussion.

There is the more reason in view of the fact that the constitutional division of powers gives to the provinces important powers which may have a profound effect on the economy—control of the public domain, responsibility (implied if not express) for major social services and for local public works and highways, the power of direct taxation which has been broadly interpreted by the courts and which has been partly delegated to municipalities, and the power to borrow on the sole credit of the province. There is thus an important field in which each provincial government can influence its regional economy, and there are important functions in that economy which it must perform. The nature of the regional economy in each case is also of importance in determining the economic and public finance policies of a provincial government, and the degree of integration with, or conflict with, national policies that is likely to develop. It will be an advantage, therefore, to examine briefly the characteristics of the various regional economies and provincial economic policies.

The Maritimes

The Maritimes form the most mature, and the most chronically depressed, regional economy in Canada. Previous chapters have traced the long history of painful adjustment from the Golden Age, when wood and sail reigned supreme, to the present —a history in which the principal actors have been intangible but dynamic economic forces, playing on a stage set, and bounded, by national policies. Changing techniques and conditions of production, transportation and marketing affected the small but complex economy in diverse ways. A cross-sectional view today may indicate the factors which have determined the present economic position of the Maritimes, and suggest those which are likely to determine the future.

Perhaps the most significant feature, and one that has been an outstanding characteristic for a century, is the delicate balance of the economy, resulting from the interdependence and complementary character of the chief industries. This interdependence arises from the nature of the Maritime resources and is such that no one major industry can suffer, as did the shipbuilding and carrying trade after the introduction of steam and steel, without profoundly affecting the whole structure. Cessation of one of the major Maritime industries has much the same effect as taking a wheel off a tricycle.

Agriculture in the Maritime Provinces is a mature industry, and the relatively small proportion of land suitable for cultivation has long been farmed.[1] In the proportion of arable to non-arable land Prince Edward Island is an exception but even here the average acreage in improved land per farm is less than in Ontario and Quebec. Owing to the topography of Nova Scotia and New Brunswick even in the best areas only small pockets or strips along river valleys are suitable for cultivation, and as a result cultivated areas are isolated from one another and farms are small[2] and often contain a considerable proportion of waste land. Thus, it is difficult in the general agricultural industry to secure the adoption of improved agricultural practices, the production of high quality products, the maintenance of uniform standards, or the provision of economical marketing arrangements—in short, to attain a high degree of efficiency in farm management. As a result of the small scale of operation and the economic disabilities this entails, the individual surplus available to the individual after subsistence is small. Notable exceptions to these generalizations are dairying and the production of certain specialty, export staples—apples, potatoes and fox pelts. These export staples are the chief cash products and are dependent on foreign markets, foreign tariffs, and foreign purchasing power. As a result the returns from these products fluctuate widely and on occasion disastrously. While total farm income, including income in kind, fell by half from 1928 to 1932, net cash income fell by four-fifths. Only the greater degree of self-sufficiency in agriculture, and the more numerous alternatives for employment—although at very low incomes—prevented duplication of the complete destitution of prairie agriculture.

[1] Of the total area, 30 per cent is in occupied farms, and 9 per cent in "improved land" (Census, 1931)—See Appendix— S. A. Saunders, *Economic History of the Maritimes*, pp. 59-69 (Mimeographed).

[2] The average acreage of improved land per farm in the Maritimes (34 acres) is exactly half that per farm in Central Canada.

The primary industries most closely integrated with farming are forest industries and fishing, and these three F's form the basis for much of the processing and secondary manufacturing in the region. The farmer may work his wood-lot or, in areas where the pulp and paper industry or lumbering is of importance, work for the company on the annual cut during the winter months. Or he may combine farming and forest activities with fishing on his own account. In fact one-quarter of the farmers report their principal occupation as something other than farming (1931 Census) and one-sixth[1] of the gross agricultural income itself is derived from farm production of forest products.

In some respects forest industries and fishing fill the role of the frontier in the Maritime economy in times of depression. Individuals turn to these pursuits to augment or replace other income, since large portions of these industries are still organized on a basis of small, independent, and individual operation. In the fishing industry, for example, 10 per cent more were employed in 1933 than in 1929, and 20 per cent more in 1936, although total net income from the fisheries was two-thirds and one-third, respectively, less. The results of the interlocking relationship and great mobility of labour between the three key primary industries are, on the one hand, to communicate pressure on one industry very quickly to the others, but on the other hand to provide a degree of strength and insurance against complete destitution through the diversification and alternative employments provided.

The diversification is not as great as it might superficially appear, however, since farming, fishing and forestry have certain basic economic characteristics and disabilities in common and are all likely to be adversely affected by the same forces at the same time. The price structure and cash income of each industry is largely determined by uncontrollable developments in external markets and by foreign tariff and trade policies; the amount of assistance which can be given by national policies to the staple export industries when they are in distress has appeared in the past to be very limited; and the small scale and individualistic methods of operation has militated against securing the most economical and efficient methods of production and marketing and against the maintenance of high quality and uniform standards. With certain exceptions, such as the specialized apple, potato and fox industries where pre-eminent standards of quality have been developed, and the pulp and paper industry where mass production methods can be applied, the Maritime economy in general labours under these disabilities, and they are reflected in a very low surplus income.[1]

Manufacturing industries, which are based to a considerable extent on processing local raw materials, have suffered from the same disabilities, combined with pressure from the attraction of the larger markets of Central Canada for the newer industries, and from the depletion of some resources and from economic changes which have reduced the relative value of others. The relatively new pulp and paper industry is, however, a notable exception. National tariff policies have probably operated unfavourably in general, since Maritime manufacturing industries producing for home consumption have been exposed to the competition of the more advantageously located manufacturing industries of Central Canada; Maritime primary industries have been burdened with increased costs; and the great shipping, commercial, and financial service industries, which bulked so large at the time of Confederation, have either found it impossible to adapt themselves to changed techniques and the framework of national policies and survive, or have migrated to Central Canada. On the other hand, specific industries, of which coal mining and steel manufacturing are the outstanding examples, have benefited directly from national tariff policies and subventions for transportation, and special consideration in Dominion transportation and trade policies has been made for the benefit of the ports of Halifax and Saint John. Just where the balance lies cannot be precisely determined. To the extent to which the shift in manufacturing and service industries produced lower costs for Maritime consumers it was beneficial, but to the extent to which national policies made it impossible for the Maritimes to preserve and exploit whatever advantages they had, they were harmful. However, to a large extent the relative decrease in manufacturing in the Maritimes (from 13½ per cent of the gross Canadian production in 1870 to 4½ per cent in 1935) was simply a reflection of the passing of village-handicraft industry, and the concentration of industry in large-scale, highly mechanized units at the site most economical for production.

One important element of Maritime industry has received very large and important benefits from national policies—the closely related coal mining and steel manufacturing industries.[2] The Maritimes possess the only coal deposits on the North

[1] Seven per cent in Central Canada (1937) and negligible in the rest of Canada.

[1] See Appendix 4—*National Income.*

[2] One-fifth of the population of Nova Scotia is directly dependent upon its coal industries and subsidiaries.

Atlantic seaboard; of these the Nova Scotian fields are by far the most extensive and valuable. But their coal resources possess few other natural advantages. Because of the physical character of the deposits (half the tonnage is now raised from submarine mines, the seams are frequently faulted, and problems of raising, pumping, and ventilation are particularly important) operating costs are relatively high. In addition, the coal industry has had to face the same difficulties that have oppressed the industry the world over—the growth in alternative fuel and power sources (oil, natural gas, and hydro-electric power), and economies in the use of coal through improved processes and better equipment. The steel industry has also been adversely affected by the shift in demand from heavy railway steel to light consumers' goods, in which proximity to the market is a great advantage. The Dominion tariff on coal, the Dominion subsidies for coal used in gas and coking plants, the Dominion subventions for the transport of coal to Central Canada (which consumes nearly half the total Maritime output), the Dominion tariff on steel and special assistance to steel industries (which consume one-quarter of the Maritime coal) have alone made possible the maintenance of the industry on anything approaching the present scale. The transportation subventions and other direct forms of assistance of some \$2·3 million in 1937 were more than three times the amount of royalties and taxes collected by the provincial governments; the tariff of 75 cents per ton is approximately 20 per cent protection.

The alternative and diversified openings for employment and the small-scale individualistic character of business organization, which are so characteristic of the Maritime economy, have made mass unemployment and destitution less likely than in the more highly industrialized areas of Canada. Under the impact of unfavourable external factors whole industries may be reduced to very low levels, but still manage to provide a measure of subsistence. Certain specialized areas, such as the coal and steel district, are more vulnerable and their unemployed cannot readily find alternative employment at any level. But if unemployment has not emerged as a social problem on the same scale as in other parts of Canada, certain other social problems are more advanced. One is the greater proportion of elderly people who require assistance through old age pensions; another is the number of "special areas," such as the fishing villages, where chronic impoverishment resulting from years of continual economic pressure and difficulties in the industry is reflected in inadequate education, public health, and other public welfare services; other problems are those of depleted and submarginal resources, and of inefficient methods of production and distribution, problems which call for research, economic planning and improved co-operative organization, whether through independent voluntary agencies or by governments.

Yet the very factors which create these wants reduce the taxable capacity of the area and make it difficult for governments to provide for them. Where such a large proportion of the income of the primary industries is income in kind, where the cash proportion fluctuates so sharply, and where there are no large urban, industrial, and financial concentrations of wealth and surplus income, the tax gatherer's problem is a difficult one. Too much of the Maritime industry is now in a marginal position to make an increase in taxation on consumption and costs desirable, and too few Maritime industries produce sufficient surplus earnings to make direct taxation on net profits and incomes remunerative.

Nevertheless, in recent years Maritime governments have undertaken a relatively huge and ambitious capital program designed to strengthen the economy and alleviate existing distress. In 1937 expenditures by provincial governments alone on capital public works equalled 7 per cent of the total "national" income in the Maritimes. These expenditures were financed by borrowing, largely from outside the Maritimes, and they have had profound effects on both the present position and future outlook of the Maritime economy and public finance system. The very large capital expenditures, chiefly on highways, have benefited the construction industry, and through it large sectors of the economy. Construction activities have absorbed virtually all unemployed employables in the area and have afforded part-time employment and cash income in some of the distressed agricultural areas. The provision of a modern highway system will also have important influences on the economy in the future. It is hoped that it will attract more tourist trade. It will certainly have an important impact on existing centres of distribution and on tributary supply and market areas. Whether it will produce a sufficient reduction in costs and sufficient increased income from new enterprises and extension of marginal activities to prove self-supporting in the long run is still impossible to say, but it is the most distinctive and important feature of the Maritime economy at the moment. Although a large number of industries and individuals and the community as a whole have benefited from the program, and although aggregate figures of national income in the Maritimes have been prevented from falling proportionately as much as in other areas, it must not be overlooked that some groups and some areas, such as some fishing communities, have been reduced during depression years to distress scarcely exceeded in western drought areas.

To summarize, we find the Maritimes form a distinctive regional economy, with a large degree of self-subsistence and a very close and highly developed inter-relationship between the primary and many of the secondary industries, but largely dependent for cash income on a few specialized export staples which are extremely vulnerable to external conditions. The necessary small scale of operations in many industries, and the depletion of the best resources, are serious and continuing economic disabilities which are responsible for the low average income. The general effect of national policies has been to accelerate the natural shift of industry and finance, and of concentrations of wealth and income, to Central Canada, although specific industries (coal, steel, sugar, oil) have been bolstered up by tariff protection and other Dominion policies, and special assistance has been given the area by subsidizing railway freight movements and by subsidizing steamship lines, by diverting traffic to Maritime ports, and by extra subsidies to the provincial governments. At the moment the large capital programs of the Maritime governments themselves are the most important and stimulating governmental influences on the economy, but expenditures on the current scale cannot be continued indefinitely.

Quebec

Quebec contains such strikingly diverse regional economies that the area cannot be satisfactorily discussed in economic terms as a unit. Even provincial policies have had to adapt themselves to the differing regional circumstances, and consequently lack the simplicity and homogeneity found in some other provinces.

There are notably three distinct economies within the borders of Quebec. One is that which has grown around the Montreal metropolitan area, and which is one of the major integral parts of the transcontinental economy built by national policies. Montreal, it might be said, is the eastern bridgehead of the great east-west structure which connects the Prairies with the trade routes to the markets of the world. The major portion of Montreal's activities is based on handling and processing the staple exports (e.g., wheat to flour) and the staple imports (e.g. raw cotton to textiles) of the country. Dependent on and tributary to these activities are many ancillary industries—the provision of land and sea transportation services and equipment, brokerage and banking services, local agricultural construction and supply industries, and amusement facilities. The Montreal metropolitan area, and the industrial towns and agricultural and resort areas immediately surrounding it, thus form an integral part of the international trading system by which Canada lives. The fortunes of the area are as closely dependent on the successful operation of that system as are those of southern Saskatchewan. The national policies of transportation and development were designed to bring direct advantages from the exploitation of western resources to this area, and, through the development of domestic markets, to bring further advantages to the manufacturing strategically located there and fostered by national tariff policies.

An economy of another type is that found in the vast area north of the St. Lawrence where a scattered number of huge, modern, highly-mechanized, pulp and paper and metallurgical plants process local resources with local hydro-electric power. These plants are almost entirely dependent on external markets, and on the maintenance of the existing international division of labour, but they do not form an integral part of the traditional national trading system and economy as does the Montreal area. Their connections with their markets are much more direct and simple, and although each unit has all the vulnerability of any highly specialized producer, they are not interlocked with and dependent on other factors in the national economy to the same degree. Perhaps their chief economic characteristic in common is their dependence on cheap hydro power, with consequent high capital but low operating costs.

The third type of economy characteristic of Quebec is the pioneer subsistence agricultural area. Some of the frontier agricultural areas (e.g., Abitibi, Lake St. John) are complementary and tributary to the neighbouring mass-production, export units of the mining and forest industries and should properly be considered as part of the highly specialized, electro-product economy previously noted. But there are many regions—the North Shore and the South Shore of the Lower St. Lawrence, Temiscouata and Matapedia, Gaspé and la Baie des Chaleurs, the Gatineau, Labelle, and Mattawinie, where mixed farming, usually combined with seasonal forestry or fishing operations, yields a relatively low but self-sufficient livelihood. The cash income of these areas depends largely on the sale of a few staple products in either local urban or export markets, and on tourist trade, but the failure to develop, or impossibility of developing, any notable specialties restricts income in these areas in general to the yield of their rather limited and submarginal resources, which are worked on a small scale and often inefficiently.

The foregoing analysis cuts across the more conventional industrial classification, but may help to bring out the particularly complex problems of Quebec's diverse regional economies and their relations to the national economy and national policies. The problems of the agricultural industry in the St. Lawrence Valley, for example, are of quite different nature from those of agriculture in the Lake St. John area, or, from those in Gaspé, and provincial policies which might be appropriate and desirable in one case are not necessarily so in another.

The Montreal area,[1] with its dependence on the transcontinental economy built by national policies; enjoys a high degree of prosperity when the economy is functioning as it was designed to do, and it was the natural point to which the excess population of the subsistence agricultural areas gravitated. The continual increase in the urban proportion of the population, and the actual depopulation of some rural areas, caused concern in the twenties, but it was not until the depression of the thirties that the full consequences of this development became apparent. The depression in the export industries, which was rapidly communicated to the heavy capital goods and construction industries, to railway and shipping business, and to a lesser degree to consumers' goods industries, hit Montreal directly. The drastic tariff increases of 1930 helped to maintain employment in some of the secondary industries at the expense in the long run of the primary industries on which Montreal depended. But with the shutting off of emigration to the United States and the West, the pressure of the enforced rural exodus on Montreal was intensified, and a huge pool of unemployed, and largely unskilled, labour collected there. It early became evident that unless progress along the traditional lines of Canadian expansion was rapidly resumed Montreal unemployment would become chronic and the hard core of the Canadian problem. When a measure of recovery in Canada did occur it came largely from expansion in new industries and frontiers which cut across the established national pattern and, although secondary Montreal industries benefited to some extent, the basic situation was scarcely alleviated. Unemployment in Montreal and the satellite industrial towns of the area became one of the outstanding economic and human problems of the time, and seriously threatened the solvency of local finances. Efforts to alleviate conditions by national policies were chiefly through tariff action, and efforts by provincial and local governments were through public works and back-to-the-land policies, but none of these proved effective on an important scale. Montreal steadily lost ground to the rival metropolitan centre of Toronto with its close relationship to the new and expanding industries. Since the Montreal area's great asset is its strategic position in a highly developed trading economy, and since its own local resources and commercial advantages in domestic markets are limited and inferior to those of some other centres, this decline in relative position, perpetuation of serious unemployment, depressed property values, and pressure on local services and finances would appear to be likely accompaniments of any general reorientation of policy from dependence on international trade to greater domestic self-sufficiency.

The mass-production, mechanized, export units of the Saguenay, St. Maurice, Gatineau, and Rouyn areas also have had their particular depression problems. In general volume of production was maintained, but whenever a large plant was closed down the whole structure of the local economy collapsed, local labour lost its only employment, local agricultural, retail, and service industries lost their market, the local government lost its financial basis. Even when operations were continued they were made possible by reducing prices to sacrifice levels at the expense of the wage-earners, the owners and creditors of the business, and the governments which depended on it for revenues, and in some cases important resources were depleted and sold at bare salvage prices. The natural advantages and technical efficiency of these large units were great, but their bargaining position in time of depression proved weak. Not only is the whole population of Quebec north of the St. Lawrence Valley (some 400,000) directly dependent

[1] The Montreal area is used here to designate not only the Island of Montreal itself, which accounts for 60 per cent of Quebec's manufacturing, but also the industrialized area from Valleyfield to Levis and Sherbrooke on the south shore of the St. Lawrence, which in general has much the same economic characteristics as Montreal industry, and produces some 17 per cent of Quebec's industrial output. Textile manufacturing is the chief industry, followed by the processing of food and metal products. There has been, in recent years, a notable decentralization and spreading of these industries throughout the whole southern section of the Province stimulated by lower labour taxation, and property costs in the smaller centres, and facilitated by the provision of electric power and highway networks.

on this highly specialized and vulnerable type of economy (which produces roughly one-quarter of Quebec's industrial output), but important groups of the supply, machinery, and construction industries, and of investors and financial institutions in Montreal and Ontario, are equally so. The process of applying mature techniques to Canadian virgin resources in this area requires a huge investment (i.e., huge in relation to the annual output) and in the short run, regardless of the efficiency of the techniques or the richness of the resources, the profitability of the investment depends on favourable conditions in uncontrollable external markets and on skilful marketing policies. When either of these conditions is absent it is not only the industry itself which suffers directly, but also the ancillary industries and dependent investments groups which make up an important fraction of the Canadian economy.

The third type of economy which we have noted is that of subsistence agriculture, chiefly on the frontier north of the St. Lawrence Valley and in the Lower St. Lawrence regions. The St. Lawrence Valley itself, which although only 5 per cent of the area of Quebec contains one-third of the occupied farm acreage and produces nearly one-half of the total agricultural production, is an integral part of the Montreal metropolitan economy. It is in this region that the most intensified and diversified agricultural output, the most progressive methods, the best markets, and the highest standards are found. The Abitibi and Lake St. John areas are largely complementary to the nearby mining, metallurgical, and pulp and paper export industries. The Eastern Townships are in a different category, and have declined as a general agricultural area under the pressure of competition from newer and richer regions, but have made efforts to adjust themselves to the production of some specialized products—live stock, dairy products, and maple products—in which they have some advantage or are at less disadvantage. The remaining agricultural areas are of the subsistence type, in which the production of hay, oats, potatoes and live stock for farm or local consumption is usually combined with woodcutting or fishing to yield a small cash income. The limited and frequently inferior quality of the resources, and the production and marketing disabilities of small-scale and irregular operations result in very low income levels, and make it difficult for these areas to maintain their existing population, and much more so to absorb the natural increase when any alternative employment is accessible elsewhere.

Both because of the distress in these areas themselves and because of the pressure of emigration from them on the cities, much attention has recently been given their economic problems. The physical limitations of resources are admitted, but a more efficient integration of farming, forestry, fishing and certain rural handicraft industries might be worked out to advantage. By the extension of research and experimental work, field demonstration and education, provision in certain cases of improved credit and marketing facilities, and by assistance in improving and standardizing qualities of marketable products, some increase in the net income and standard of living in these areas should be possible. Improvement of conditions in the chief complementary industry would be particularly beneficial, for the greatest hope of any permanent progress lies in working out a satisfactory equilibrium between forestry and agricultural activities—"il faut chercher à marier l'économie forestière à l'économie rurale." But the results of very large and costly programs of colonization, rural resettlement and agricultural assistance in recent years would not suggest that this sector of the Quebec economy will ever attain a high level of prosperity or realize the hopes of those who look to it to replace the present dependence on nation-wide and international trade.

This observation is not intended as a criticism of the efforts which have been made to develop and assist agriculture since any alleviation of conditions in these subsistence areas resulting from improved methods and organization is of great benefit to the whole economy. It should also be recognized that there are other than strictly economic criteria. A self-sufficient rural economy may be preferred for various social reasons to a greater income-producing, more industrialized and urbanized economy integrated with the rest of the country and the world, and thus subject to external and uncontrollable blows and pressures. But from the economic point of view it is necessary to note the physical limitations to large-scale development of a self-sufficient rural economy which do in fact exist, and the impossibility, under any conceivable conditions, of its providing a satisfactory substitute for the nationally and internationally integrated economy which now supports four-fifths of the population.

Enough has been said to indicate the major disabilities and vulnerabilities of the Quebec economies, and the complex nature of the problem which governments must face in attempting to formulate economic and public finance policies. To a greater extent than in other provinces economic criteria are on occasion subordinated to other social objectives, such as the maintenance of cultural values. As long as national policies worked to the advantage of the metropolitan area, as long as rapidly expanding markets were available for the new electro-product industries of the north, and as long as these two expanding sectors of the economy could help support the agricultural areas and absorb their excess population, there was a natural tendency for the provincial government to follow the let-well-enough-alone school of social and economic policies. Substantial portions of the cost of education and public welfare were left to the Church and the local authorities; the provincial government engaged in none of the public utility and other economic activities common in the other provinces; and a relatively larger share than in other provinces of the responsibility for highways was left to municipal governments. As one result provincial taxation, expenditure and debt were very much less (per capita, or in relation to provincial income) than in the other Canadian provinces although municipal and quasi-public institutional responsibilities were above the average. Another result was a tendency to ignore the potential social and economic problems which were an inevitable consequence of this type of development.

But when the combination of world depression and western drought of the thirties shattered the closely-integrated, national-trading structure, reduced markets and prices for electro-products, and undermined the elaborate financial structure of the economy north of the St. Lawrence, the Province was faced with a critical economic and social situation on all fronts. Governmental intervention on an unprecedented scale became imperative. In the metropolitan area it took the form of direct relief, public works projects, and assistance to back-to-the-land movements (in addition, of course, to the increased Dominion tariffs, which helped to maintain employment in some of the secondary industries). In the electro-product economy north of the St. Lawrence it included tentative efforts at enforcing cartel marketing organizations, exemption from certain public domain taxation, local highway and rural settlement programs, and direct relief. In the subsistence agricultural areas it consisted of increased research and technical instruction, cheap farm loans, increased premiums and bonuses to encourage improved production and marketing practices, and extensive direct assistance in the colonization areas. The aggregate cost of these efforts proved staggering, yet they did little more than tide the situation over, and made only a limited impression on the basic problems. Recovery in the United States and other external markets relieved the pressure on the export industries integrated with them, but the metropolitan area remained depressed. Unless the former trends of expansion of the transcontinental economy are resumed, or an internal stimulus comparable to the Northern Ontario gold mines is found, the most important sector of the Quebec economy will continue in the doldrums. This not only affects the other portions of the Quebec economy, but has far-reaching implications on the provincial public finance structure, on the responsibilities which the Province must be prepared to assume, and on the taxation system, which must support them.

Ontario

Ontario makes up such a large part of the whole Canadian economy that discussion of Ontario's salient economic characteristics frequently becomes a repetition of a description of the national economy. Ontario is not only the biggest but so outstandingly the wealthiest unit of the economy that its special advantages require some examination Ontario has 33 per cent of the population of Canada, but (1937) 42 per cent of the national income, and from 45 to 60 per cent of the telephones, automobiles, residential electric power consumption, federal income tax payments, investment income received, government bonds purchased, and other evidences of higher than average surplus income and standards of living.

Ontario's advantages arise in part from her rich and diversified resources, in part from her strategic position in the national economy, and in part from her situation in relation to the industrial empire of the Great Lakes and Middle West to the south.

A lengthy catalogue could be compiled of Ontario's resources: the timber and pulpwood of the Ottawa Valley and Northern Ontario; the rich agricultural lands of Southern Ontario and the Ottawa Valley; the gold deposits of Kirkland Lake, Porcupine and northwestern Ontario and the nickel-copper deposits of the Sudbury area; the hydro power and the great avenues of transportation provided by her waterways; but note should also be taken of her lack of coal, iron, and oil. Within Ontario itself a very high degree of integration in the exploitation of her resources has been developed. The forestry, mining, and agricultural industries are all to some extent interdependent, and very closely related to the secondary manufacturing, service, and financial industries.

Although the latter industries depend on nation-wide operations, the importance of their local market (and, in turn, their importance as markets to local agriculture) is great, and forms the basis of the greater development.

The character of the soil and the climate give Ontario agriculture the greatest diversification and the best balance in Canada. The ideal combination is possible of mixed farming which affords a basic subsistence and production of specialized staples for sale in either local urban or export markets to yield a cash income. The Ontario farmer has not, on the average, as high a cash income[1] as the Western farmer, but he has a very much greater degree of self-sufficiency, and his cash income is derived from a much more varied range of products—cattle and hogs, poultry and eggs, dairy products, tobacco, fruits and vegetables. On the other hand, his own subsistence production is more varied, and his cash income much higher than that of the average farmer in Quebec and the Maritimes. The primary agricultural industry thus contributes both an important stabilizing factor to the economy, and sufficient surplus production of marketable staples to serve as a basis for a profitable urban-rural exchange and division of labour.

1

TABLE 76.—INCOME PER FARM

—	1928	1933	1937
PRINCE EDWARD ISLAND—			
Gross cash income	769	312	476
Net cash income	453	80	205
Income in kind—produce	264	141	186
NOVA SCOTIA—			
Gross cash income	419	328	433
Net cash income	141	126	193
Income in kind—produce	296	183	241
NEW BRUNSWICK—			
Gross cash income	411	220	350
Net cash income	132	20	108
Income in kind—produce	309	190	248
QUEBEC—			
Gross cash income	790	357	628
Net cash income	425	89	313
Income in kind—produce	379	219	293
ONTARIO—			
Gross cash income	1,400	673	1,115
Net cash income	838	265	643
Income in kind—produce	320	179	234
MANITOBA—			
Gross cash income	1,515	594	1,434
Net cash income	828	186	939
Income in kind—produce	225	133	185
SASKATCHEWAN—			
Gross cash income	2,341	538	627
Net cash income	1,614	66	141
Income in kind—produce	188	100	124
ALBERTA—			
Gross cash income	2,164	682	1,203
Net cash income	1,506	201	689
Income in kind—produce	178	109	164
BRITISH COLUMBIA—			
Gross cash income	1,093	614	905
Net cash income	460	184	353
Income in kind—produce	284	207	245

Although these statements are generally true, it should not be overlooked that there are some agricultural areas, such as Huron and Bruce counties, which have been unable to meet Western competition in the production of their former staple or to find satisfactory alternatives. Some agricultural areas which depended on local mining markets or local lumbering activities as, for example, some in Eastern Ontario and the Ottawa Valley, or those about Cobalt and Gowganda, have been left stranded as the local resources were drained off. In other regions, such as the Rideau Lakes area, the Muskoka Lakes area, and the northern frontier, only small-scale, subsistence farming, combined with a little woodcutting, fishing and trapping, is possible, and in these, living standards are consequently very low and cash income, except where the tourist industry flourishes, virtually non-existent. On the other hand, in some areas such as the Niagara peninsula, specialization of production has been carried to a very high point, and in such cases fixed costs are high and net incomes consequently vulnerable and highly variable. But in spite of these exceptions Ontario agriculture as a whole, and particularly in the Western Ontario peninsula, is a well-rounded and basically stable industry which contributes importantly to the wealth of the Province and to maintaining Ontario in a leading position.

Ontario's lumbering industry was long the chief stimulus of the Ontario economy, and although the cream of the resources has been skimmed off and mining now takes precedence, pulp and paper production still plays an important role. Although the pulp and paper industry with efficient forest management and conservation methods could be a permanent and stable one, it still appears to be more profitable to the individual entrepreneur to gut the resources of one locality and move on. Whether this would be true if the industry were charged with the social costs of rehabilitating or salvaging the dependent labour and industries in the derelict areas, which are a necessary accompaniment of this practice, cannot be determined. But the development of conservation policies and the achievement of greater stability within the industry would appear to be necessary if these resources are to be exploited to the best advantage and are to contribute to the support of the whole economy as they have in the past.

The last decade has seen a very large increase in Ontario metal production, due chiefly to the increase in the price of gold. Nickel and copper production have also expanded notably following the Frood discoveries in the late twenties, and as a result of improvement of processing techniques, increased production facilities, and the armament demand of recent years. But of outstanding importance has been the expansion of the gold-mining industry, both through extension of operations at the established camps of Porcupine and Kirkland Lake which still account for four-fifths of the total provincial output, and through the development of new producers in northwestern Ontario. The tripling in value of gold production during the decade affected not only the mining industry itself, the labour employed by it and the capital invested in it, but also a wide range of ancillary industries—transportation, power, lumber, machinery, chemicals and explosives, and the financial promotion and security-trading activities which have done so much to add colour and romance to Canadian mining development. Because this development occurred during a period of general depression it was of particular value and importance, and because it was closely integrated with Ontario industrial and financial centres and agricultural and forestry industries rather than with industries outside the Province, it cut across the traditional east-west lines of the economy and perhaps tended to weaken Ontario's interest in the economic welfare of the rest of the country.

So far we have only discussed those industries which make Ontario on the strength of its own resources a large and wealthy section of the economy. Provincial policies have played an important part in development, the most notable illustrations being the construction of the Temiskaming and Northern Ontario Railway which opened the mining areas; the Hydro-Electric Power Commission which furnished cheap power to industries, rural areas, and consumers in general; the Farm Loans Board which provided agriculture with relatively cheap credit; and the extensive network of modern highways which Ontario early provided and has maintained in good condition. These policies not only hastened and assisted the development of the Ontario economy, but also did much to shape the character of the development and to integrate provincial industries and areas. The close relationship between frontier and metropolitan areas, and between primary industries and manufacturing and finance industries, creates a degree of interdependence which has its liabilities, but also makes for a diversified and well-balanced economy with inherent reserves.

But of at least equal importance with Ontario's natural resources are the strategic position Ontario occupies in the whole Canadian economy and the advantages which Ontario derives from national policies. Ontario's geographical position in relation to the rest of Canada, its resources, and its geographical position in relation to the coal and steel centres and the great industrial triangle of the central United States, made it the logical centre of Canadian manufacturing, and of the distributing, service, and finance industries which are dependent on industrial activity and urbanization. To the extent to which national policies stimulated this development, Ontario was the chief beneficiary. National policies stimulated the development in two major ways: aggressive policies of western development built up a market, and tariff policies directed the demands of this market to Ontario (and the Montreal area). Naturally the chief drive for this relatively advantageous combination of policies came from Ontario and Montreal. A special survey of 1,973 firms in 23 manufacturing industries in Ontario and Quebec, undertaken by the Dominion Bureau of Statistics for the Commission, revealed that between 25 and 30 per cent of their total domestic sales were made in the other provinces. Of course some of these sales would have been made without tariff protection, but on the other hand some of the sales in Ontario and Quebec would not have been made without tariff protection. Perhaps more direct evidence of the influence of the tariff in directing demand to domestic manufacturing industries (overwhelmingly concentrated in Ontario and the Montreal metropolitan area) is given by the 1930-32 tariff increases, which reduced the ratio of imports to the total value of production from 25 per cent in 1928 to 13 per cent in 1933.[1] This diversion of purchasing to the protected industries not only increases aggregate employment and income directly in the areas where they are located, but stimulates the development of satellite financial and service industries about industrial and metropolitan centres. A natural result of this concentration of industry and

[1] See Appendix 3—W. A. Mackintosh, ***Economic Background of Dominion-Provincial Relations***, pp. 89-96 for details and for qualifications necessary in use of these ratios.

finance is a trend toward highly developed corporate, and frequently monopolistic, organization which in turn further stimulates the concentration of entrepreneurial and managerial incomes.

It has been noted that, in addition to the national policies which assisted in developing a market for manufactured goods in Western Canada and then directed the demands of that market to Canadian sources, proximity to the industrial heart of the United States has been an important Ontario asset. It has made available cheaply[1] the basic industrial raw materials of coal and iron in which Ontario is deficient; it has facilitated the introduction of new techniques and mass-production economies, and the rapid development of modern industries by making specially skilled labour and machinery readily available; it has encouraged the development of United States branch plants manufacturing for export to Empire or other countries where Canada may have preferential trading advantages; it provides an important tourist trade; it is on occasion an outlet for skilled and professional labour which cannot be absorbed in the Canadian market; and the industrial region south of the Border is an important source of capital for Canadian industries. In spite of tariff barriers there is some degree of integration and complementary specialization both in production and in the provision of public works between Ontario and the adjoining states which reduces overhead costs and increases net income.

One consequence of Ontario's dependence on the adjoining states for many of its industrial raw materials is that increased manufacturing activity in Ontario is bound to be reflected in increased imports, and tariff increases on finished goods tend to increase imports of industrial raw materials. In this process, of course, there is a diversion of purchasing from United Kingdom and United States manufacturers to United States industrial raw material producers, but Canadian exports are still necessary in order to provide the necessary exchange. The original dependence on Western wheat exports to provide this exchange has been diminished, as we have noted, by drought and adverse marketing factors in the wheat industry and by the rise of new export industries within Ontario. The importance of developments on the new northern frontier in power, pulp and paper, and gold is thus far greater than that of providing merely a new source of production, and a stimulus to Southern Ontario; it has become the basis for a new pattern of economic organization cutting across the lines of the traditional transcontinental structure; it has tended to lessen the dependence of Ontario on the successful operation of the national system.

Nevertheless, there are weaknesses in the new structure which may have been concealed by its rapid expansion in a time of general depression. One is the exhaustive character of the gold-mining industry which is the mainspring of the whole development. Owing to the complex geology and structure of the chief deposits, estimates even approximately satisfactory of total ore reserves cannot be made as can be done, for example, in South Africa. There are, however, indications that both the Porcupine and Kirkland Lake camps have passed their zeniths. This is particularly important because, in spite of a 70 per cent increase in the gross selling price accompanied by some decrease in operating costs over a period of six years, no major new camp has been discovered. Some 80 per cent of the output still comes from Porcupine and Kirkland Lake, which have turned to the exploitation of former sub-marginal, low-grade ores to expand their production and prolong their lives. From the point of view both of owners and of society a large proportion of the returns from an industry of this nature should be treated as capital amortization, and the construction and capital equipment activities which it engenders must be recognized as non-recurring. Not only will the inevitable depletion of these resources reduce incomes directly and indirectly derived from them, but it will also create problems of social adjustment which will require extensive governmental intervention and assistance.

The wealth of the Ontario economy thus rests in part on a well-balanced and closely integrated development of its own natural resources, including its geographical position in relation to the rest of Canada and the United States. It has also depended in the past on the successful operation of the traditional national policies, which have combined with Ontario's natural advantages to divert a relatively large proportion of Canadian surplus incomes to advantageously located centres in Ontario. And in recent years it has been maintained by an intensive but ephemeral development of Ontario's own northern frontier. Whether or not it can be maintained in the future will obviously depend in part on the general prosperity of the Canadian economy, of which Ontario is such an important and integral part, and in part on Ontario's opportunities and ability to integrate herself with the Canadian economy in such a

[1] In a prosperous year the states bordering on the Great Lakes produce 40 per cent of the world's steel.

fashion as to make the most of her natural advantages, and to protect herself against the potential disabilities inherent in her position.

The Prairies

The Prairie Provinces form the region most directly affected by major national policies. The major objectives of these policies in the past—to develop the virgin resources of the Prairies, and to provide for internal markets for other regions—were directly concerned with Western expansion, while they affected the rest of the country chiefly in accordance with the degree to which the other regions were integrated with and dependent on the Prairie development. We have also noted how other than purely economic motives determined national policies, and added to their cost—an addition which could be easily borne as long as the virgin soil of the Prairies and favourable world marketing conditions combined to produce an exceptionally high net income.

The rise of the wheat industry, on which the whole Western economy and an important part of the rest of Canada were dependent, was a classic example of the income and prosperity which an area with very limited resources could yield through international specialization of labour. Much of the population of Great Britain and the Continent could be better and more cheaply fed on Canadian wheat, and the population of Western Canada could be better and more cheaply clothed with European textiles than either region could provide from its own resources. But with the decline, and in some cases complete breakdown, of the international trading system which made such specialization possible, the Prairies threatened to become an equally classic example of an area doomed to chronic depression. The coincidence of widespread and recurring drought was the final blow, for it prevented resort to the traditional defence of the individual producer—expansion of production which, as long as actual operating costs were covered, would enable him even at very low price levels to spread overhead costs and compete aggressively in world markets. In addition the drought made necessary widespread subsistence relief for families and stock and provision of seed and other supplies which would normally have been locally produced. It has been attempted in other parts of this Report to give some description of the situation resulting from the combined effect of drought and the collapse of wheat prices. It is sufficient to note here that total income in the area fell almost by half, and income from agriculture by almost four-fifths, from the 1926-1929 average to the 1930-37 average. These bare statistics, however, cannot convey the full measure of the Western débâcle with its shattering blows to living standards, to adequate nutrition, to health services, to educational standards, to community equipment such as highways, and to individual hopes and dreams and ambitions.

Although abnormal drought conditions are passing, the reduced world wheat market makes necessary a reappraisal of the whole Western situation and of the role of the West in the Canadian economy. The reduction in demand from Germany, Italy, and France alone, as a result of their policies of self-sufficiency, is roughly equal to the total surplus production of Saskatchewan; the effort to stimulate potato and root crop production in the United Kingdom, which is the one important remaining market, is directly aimed at reducing wheat imports; and the former dreams of expanding Oriental markets have been disturbed by the Japanese occupation of North China and its aftermath and by Canadian reluctance to accept Oriental goods in payment for exports.

In what is left of the international wheat market —say 500 million bushels a year as compared with the 750 million of the twenties—Canada's position is as strong as, or stronger than, it has ever been. Wheat producers in Australia, Argentina, and the United States have alternatives of production lacking in Canada, and Canadian producers have made notable advances in reducing their costs and improving their techniques. In the normal economic process Canada should gain a larger share of the reduced market. But this assumes a relatively lower level of wheat prices (excepting fluctuations due to crop variations) which will force marginal producers with alternative sources of employment out of wheat production. The implications of this for the Canadian West are that the better lands will produce a smaller net income than formerly, that much of the land occupied at present will prove submarginal, and that the possibilities of expansion are greatly reduced. In addition, we must take account of one of the factors which has been primarily responsible for reducing Canadian costs, and for enabling the West to compete with other wheat-producing areas —the mechanization of Canadian wheat farming, which greatly reduces the ratio of labour to acreage and production. But this development has left certain areas of the West with populations which, in relation to their resources, are excessive.

On the whole the wheat economy has reached maturity. It is a premature maturity owing to the general trend of international affairs, but from any realistic point of view it must be recognized as a given condition for the present. The implications of this dénouement to the national economy are many. The overhead created on the assumption that the West would support a very large population, and the national policies which were based on the assumption that the West would provide a continually expanding market, are both threatened by the destruction of their original justification—the expectation of almost unlimited expansion of the world wheat market.

But the disabilities of the area must not be overemphasized. Given a return of normal climatic conditions, the natural advantages of the industry are great, and there is some ground for hope that the United States will eventually provide a new and expanding market. But an economy accustomed to a rapid rate of expansion has suddenly to adjust itself to a long-term flattening out, or possibly even a measure of decline, in the basic trends.

Alternative outlets for employment and production are not hopeful.[1] Subsistence agriculture is possible in areas in northern Alberta and Saskatchewan, and eastern Manitoba, but the position of people dependent on subsistence agriculture in Western Canada is not encouraging. The volume and variety of local production in the West are limited by climatic and physical factors, and produce a relatively low standard of living. The lack of any marketable staple virtually eliminates cash income, and makes it impossible for these areas to secure any of the advantages of division of labour and specialization of production. From a social point of view they become rural slums, and centres of illiteracy and undesirable health conditions. From a public finance point of view they are potentially serious public liabilities in emergencies, and virtual ciphers at any time as contributors to public revenues. From the point of view of the economy as a whole, they contribute virtually nothing to the general overhead, while they exert a constant pressure on living standards in adjoining areas because of the enforced emigration of unskilled labour from them. So much has been said of the merits of self-subsistence agriculture and of developing a "peasant economy" on the northwestern frontier that it is necessary to refer to it. The most that can be said of it is that it can keep a certain number of people alive in deplorable living conditions. There are important exceptions to this sweeping generalization. Where there is opportunity for the development of some export staple, such as hogs or alfalfa seed, which will produce some cash income, living standards may undoubtedly be improved and the community may make some contribution to the economic welfare of the region as a whole. But the possibilities of developing such specialties appear to be distinctly limited.

Mining development is also looked on as a possible alternative but it has so far been limited. It includes the exploitation of one large and a couple of minor complex base-metal ore-bodies in northern Manitoba, the development of the Turner Valley oil field, and the discovery of a few small pockets of precious metals in the Prairie sector of the Pre-Cambrian Shield. In addition persistent efforts have been made to develop the large but low-grade coal resources of southwestern Alberta and southeastern Saskatchewan, but the difficulty is the lack of a local market of any great importance. These developments should not be disparaged, and they have all contributed to maintenance of regional incomes and employment to an important extent during the depression, but it must be recognized that the greatest contribution of this type of activity is during the developmental stage, and that it offers no permanent solution for the economic difficulties of the Prairie region, as far as can be judged from our present knowledge of western and northwestern mineral resources.

Governmental expenditures are proportionately larger in an economy of the Prairie type than in a more self-sufficient one, but as cash incomes are also proportionately larger, governments with appropriately designed taxation systems have an opportunity to recoup. In time of depression governmental expenditures are larger because of the extensive need for aid when the staple export, and the primary source of income for the whole economy, collapses. In times of prosperity governmental expenditures are larger because of the economy and acceleration of development which result from financing public works and community equipment through governmental agencies. As a result Prairie governments have undertaken many economic activities—the provision of railways, electric power, telephones, farm loans, grain elevators, irrigation works—in addition to the normal provincial functions of roadbuilding and education. Even in these normal spheres governmental activity bulked larger than in the East. In a trading economy a highway and railway network is of first importance and, owing to the speed of Western settlement, transportation facilities had to be provided in a very short space of time. Educational costs have been increased by the similar need for

[1] For extended discussion see Appendix by W. J. Waines, *Prairie Population Possibilities* (Mimeographed).

providing equipment speedily and the virtual absence of privately-endowed educational institutions.

It is obviously essential to all interests concerned to preserve the governmental structure and credit of Western Canada in view of the vital importance of community organization in such a vulnerable and specialized society. Whether the economic base of the governmental structure is wide and stable enough to finance the cyclical fluctuations of the chief industry of the region may be doubted in view of the extreme character of both the natural and commercial swings of fortune. In addition to the erratic course of regional income is another factor of great importance to Prairie public finance: the ability of the small, independently organized units of the individualistic, Prairie economy to bargain on equal terms with the monopolistic corporate organizations of Eastern Canada—to which the commercial relations of the area are largely restricted by national policies. The failure to secure advantageous terms of trade in the past has resulted in draining off the surplus income of the Prairies to the East and in efforts of the Prairie residents to use the economic powers of their provincial governments to redress the balance.

British Columbia

It is characteristic of the Canadian economy as a whole that rich concentrations of natural resources are separated by large barren areas, and in British Columbia this particular contrast is even more pronounced. Some of the mineral and forest resources are advantageously located on the coast, or in the relatively accessible Fraser River Valley, but many lie in the interior and can only be exploited after the provision of tremendously costly transportation facilities. Much of the Province is waste land, and even when some resources exist in pockets in these areas they are too distant or too difficult of access for profitable development. On the other hand, some of the Province's resources—the huge base-metal ore body of the Sullivan and many smaller deposits of gold, copper and coal, the stands of Douglas fir on the coast ranges, the rich agricultural lands of the Okanagan and lower Fraser Valley, the water powers of its rivers, the fine harbours of its coast, and the magnificent scenery of its mountains—are outstanding. The exploitation of these resources has on occasion yielded very large profits and has made possible the establishment of a high standard of living, including a high level of governmental services. But while the cost structure inherent in the geographical character of British Columbia and the standards which have been adopted is high and rigid, the income to support it is extremely fluctuating. Added to the customary uncertainties and hazards of an economy partly dependent on mining, are the risks of dependence on foreign markets for a few primary staples which are subject to wide fluctuations in both demand and price, and access to which is dependent on favourable shipping rates.

External transportation is as vital to British Columbia as internal transportation. The opening of the Panama Canal and the chronic depression in shipping rates which followed the post-War boom brought British Columbia very much closer to the markets of the world. This not only produced higher net incomes for British Columbia producers, but greatly expanded the commercial possibilities of the resources of the Province, and extended the area which found it profitable to trade through Vancouver. For example, every cent reduction in ocean rates on wheat from Vancouver to Liverpool in comparison with the rate from Atlantic ports to Liverpool moved the border of Vancouver's tributary area further east, and finally all of Alberta and nearly half of Saskatchewan was captured. The movement of bulk exports from this area through the port, and even the return flow and distribution of import requirements, contribute relatively little to the economy once the flow is established, but the activity during any period of expansion is of great importance.

In the last two decades British Columbia has enjoyed a fortuitous coincidence of several factors of major importance. The great reduction in shipping costs which in particular stimulated the export of wheat by the Pacific and the development and export of lumber and later of newsprint, the improvement in electro-metallurgical technique which made possible the exploitation of the complex Sullivan ores on a huge and profitable scale, the expansion and rising demand in Prairie markets (until the drought) and particularly in the areas tributary to Vancouver, the rise of the tourist and resort trade, and the development of new Oriental outlets, each in turn engendered a huge capital program and all together stimulated an almost uniquely high rate of expansion which to some extent fed on itself. Vancouver rapidly emerged as an important metropolitan market, encouraging the development of secondary and service industries.

The depression revealed the vulnerability of the whole structure as United States lumber markets were closed, as base-metal demand and prices collapsed, and as new construction activity dwindled. However, every primary exporting economy experienced much the same difficulties, and in the case of British Columbia there was some alleviation from the abnormally low ocean freight rates which improved its competitive marketing position and extended its tributary area, and from Imperial Preferential Agreements of 1932 and the Trade Agreement of 1935 with the United States. In addition, although the fixed costs of British Columbia industry were of necessity high, the operating costs of such important industries as base-metal mining, smelting and refining, and newsprint production, proved very low. As long as British Columbia enjoys below-cost ocean freight rates and retains important virgin resources to which the most modern and efficient techniques of production can be applied, it possesses a cushion in the most severe depression.

Nevertheless the acute depression of the thirties seriously threatened the financial solvency of the Government and, indeed, of the whole economy. It was a significant illustration of how precarious are an income and standard of living based on a few specialized resources and external markets, however profitable the combination may be in favourable periods. In addition, since some of British Columbia's most important resources are exhaustible and diminishing, since to some degree at least the high returns of the past have been achieved by treating capital depletion as current income, and since part of its expansion has been due to non-recurring capital development stimulated by the Panama Canal, it is evident that there are important problems and uncertainties in the future.

The special character of British Columbia's economy has influenced its public finances in many ways. The difficulties of transportation led the Government into the costly Pacific Great Eastern project which, if accrued interest due to the Province is included, accounts for half the present provincial debt. Geographical factors have also been responsible in part for the relatively small amount of municipally organized territory, and have probably inflated the cost of some governmental services. Even British Columbia's physical assets have their public finance implications; for example, the favourable climate attracts elderly retired people of means and thus augments the Province's succession duty revenues, but it also attracts unemployed transients and augments the Province's relief expenditures. Although the Government has incurred large developmental expenditures in order to make the Province's natural resources available, it has reaped a large revenue from its public domain and corporate taxation. The resources are of a nature best exploited by corporations rather than individuals, and this has led to a concentration of taxable income and the adoption of appropriate taxation policies considerably and significantly different from those in other provinces. The high net incomes enjoyed during the skimming of the cream of the resources established high standards of living and services in general. In the depression there was approximately as great retrenchment as elsewhere in Canada, but this still left the majority of British Columbia services substantially above the rest of Canada in costs, and they could only be reduced to the Canadian average under the most extreme pressure. It is not suggested in any way that this would be desirable, but it is important to note it as one of the high, and in practice, uncontrollable costs of the economy. There are also other types of expenditure, of which the chief examples are conservation and research, which are temporarily avoidable and consequently usually suffer the major reduction in times of depression, but which are of basic importance to the future in an economy built to such a large degree on wasting assets.

4. Conclusion

We have noted some of the salient features of the Canadian economy and of the regional economies which have developed within the main structure. The Canadian economy is one which under any circumstances would have certain disabilities and weaknesses—the necessary dependence on a few specialized exports and the consequent vulnerability and sharp fluctuation in income, the large proportion of unproductive area and the seasonal handicaps which increase overhead costs, and the consequent rigidities of the cost structure as a whole. But in addition to those disabilities, which are inherent in the nature and distribution of Canadian resources, are the increased costs which have been incurred for political and national reasons and which further increase the rigidity and vulnerability of the economy.

From our survey of the economies of the various geographical regions it is also apparent that there are wide disparities in per capita regional incomes. This condition, as the historical survey in previous chapters indicates, has been more or less constant, but in times of depression it is likely to be greatly intensified at least as between certain regions. This condition raises grave problems of provincial and municipal finances; it militates against equality of capacity as between provincial governments to withstand economic crises, and against equality of standards in provincial services, especially under the present division of revenues and responsibilities between the Federal and provincial governments. But the implications of this condition on public finance will be discussed at length in the following chapter.

There are clearly some elements making for national integration and interdependence, and some for division of interest and friction. With the passing of the period of expansion which was so greatly influenced by the traditional national policies, it may be necessary both for the preservation of national unity and the preservation of the national welfare that new policies should be inaugurated and developed to stimulate and give dynamic direction to new national expansion, although probably on very different lines and different frontiers. Several alternative policies are possible. In the vital field of external economic relations Canada might strive for closer integration with the United States, or with British countries, or for greater self-sufficiency. In internal management Canada might move toward a freer economy, with greater reliance on the unrestricted operation of the capitalist system and less responsibility for its casualties, or it might move toward a more controlled economy. A controlled economy might increase or reduce the national income, depending on the wisdom of its policies and the skill with which they were carried out, and it might increase or decrease the existing unevenness in the distribution of the national income, depending on the prevailing philosophy as to the functions of government in this respect. The most appropriate policy at any time will depend on a variety of circumstances. One of the most important fields of national activity, and the one most immediately relevant to this Report, is that of public finance. It is impossible to forecast developments, but with the knowledge we now have of the vulnerability and weaknesses of the economy we know that our economic and fiscal policies must be adapted to meet current conditions and to prepare for possible emergencies. The Commission's task is not to say what policy should be followed, but, within the scope of its terms of reference, to recommend adjustments in the federal financial system which will make it possible to follow some policy. Canada's present and prospective economic condition makes it clear that we can neither continue to afford the friction and waste of conflicting policies, nor the greater loss due to paralysis of policy arising from a possibly obsolete division of governmental responsibilities and powers.

Chapter VIII

CANADIAN PUBLIC FINANCE TODAY

1. Government Expenditures

Government expenditures in Canada have been equal to about 30 per cent of the national income in recent years. However, such a ratio is not valid as a measure of the "burden of taxation", or the "burden of government", for it may be highly misleading, particularly in comparison with that of other countries, and it must be qualified by analysis.

The various categories of government expenditure are of different significance: some expenditures are for the basic regulatory and protective functions of government; some are for collective services which the community believes it is advantageous to supply its citizens on a co-operative basis rather than to leave to private enterprise; and others are transfers from one group to another either on account of past obligations or to achieve some redistribution of the national income for social purposes. Any discussion of the relation of government expenditures to the national income must distinguish between these different categories. Expenditures on the first group of functions are necessary if the economic system, as we know it, is to operate at all. Expenditures on the second group purchase services which constitute part of the national income. Some of these services might have been purchased directly by the taxpayers had the Government not provided them. Or different services might have been purchased. It is not clear whether the intervention of government in these cases increases the national income, or decreases it, or merely changes its form. Expenditures in the third group are merely transfers which do not directly add anything to the income of the community as a whole, although they have long-run indirect effects which may be either stimulating or depressing.

Expenditures which may be considered as directly productive in relation to the national income include the cost of protection to persons and property, education, expenditures on development and transportation, and a portion of the costs of general administration and tax collection. These all represent the employment by government of labour, capital, and resources to supply services for the community. Expenditures of a transfer nature include direct relief, pensions, and other public welfare payments, and interest charges on non-productive debt. Here no productive resources are employed and there is no direct contribution to the income of the country as a whole.

In 1937 out of a total government expenditure on current account of \$996 million, approximately \$406 million consisted of transfer disbursements. That is, between 10 per cent and 11 per cent of the national income was diverted into government channels and redistributed to the unemployed, war pensioners, old age pensioners, children, indigent sick, and on account of debt service on unproductive assets. (Of course, in a country of equal but more evenly distributed wealth, these transfer expenditures would be proportionately less needed.) The remainder of the government expenditures, \$590 million, are a measure of the value of the collective services provided the community by government and constituted about 15 per cent of the national income.

Table 77.—Expenditures of All Governments, 1937

(Millions of Dollars)

Collective Services:—		
(Including their share of debt charges).		
Primary functions of government (Administration, legislation, justice, and defence)	212	
Education	123	
Development and Transportation	255	
		590
Transfers—		
Relief	127	
War pensions	54	
Other public welfare	125	
Interest on unproductive debts	100	
		406
		996
(The National Income, 1937		3,829)

The foregoing table merely indicates very briefly the relative order of magnitude of government expenditures in Canada. To review the chief characteristics of these expenditures a somewhat more detailed classification is necessary. It is first necessary to distribute the net interest payments (that is, the total amount of interest paid less interest received) of all governments according to the purposes for which the debts were contracted. The total outstanding debt (direct and guaranteed) of all Canadian governments was \$7,863 million at the end of 1937. Of this, \$1,413 million was represented by assets which were either liquid or self-supporting (or both). The purposes for which the remainder—\$6,450 million—was incurred are shown on the following table, classified according to the chief functions of government.

TABLE 78.—DEBTS OF ALL GOVERNMENTS WHICH WERE NOT DIRECTLY SELF-SUPPORTING[a], 1937

(Millions of Dollars)

—	Dominion	Provincial	Municipal	Total
Outstanding Debt Incurred for—				
1. Primary Functions of Government (Legislative, Administrative, and Judicial Buildings, and War Expenditures)	1,818	80	x	x
Less cumulative current surplus before special charges	−1,233	—	x	x
NET TOTAL	585	80	225	890
2. Education	—	50	180	230
3. Development and Transportation (including Railways, Highways, Harbours and Canals, Power Commissions, Telephones, Agricultural Loans, etc.)	3,250	975	275	4,500
4. Public Welfare (Relief, Public Health, etc.)	420	235	175	830
GRAND TOTAL	4,255	1,340	855	6,450

[a] These are the total debts, direct and guaranteed, of all Canadian governments *less* liquid assets (e.g., cash), investments which were completely self-supporting (i.e., which paid full contractual interest), and the capitalized value of interest earned by partially self-supporting assets.

The interest charges on this debt (ignoring for the moment any provision for amortization) were $271 million, or about 27 per cent of all government expenditures. Approximately $100 million of this interest bill was the cost of servicing unproductive debts, i.e., accumulated deficits, War expenditures, capitalized relief and capitalized losses. The balance, $171 million, was paid on debts incurred for public buildings, highways, railways, canals, and other developmental facilities which provide services for the community but which are not directly paid for by the individual users. In the following table of expenditures of all governments the net interest payments are distributed according to the chief functions.

TABLE 79.—EXPENDITURES OF ALL GOVERNMENTS, 1937

(On Current Account, before provision for debt retirement)

(Millions of Dollars)

—	Dominion	Provincial	Municipal	Total
1. *Primary Functions—*				
Legislation, administration, and justice	52	33	x	x
National defence, military pensions and aftercare	88	—	x	x
Miscellaneous, less refunds and sale of miscellaneous services	—	9	x	x
Sub-total	140	42	65	247
Debt charges	23	3	14	40
Total	163	45	79	287
2. *Education—*				
Current Expenditures	—	32	77	109
Debt charges	—	2	12	14
Total	—	34	89	123
3. *Development and Transportation—*				
Agriculture and public domain	20	21	—	41
Transportation	20	25	31	76
Sub-total	40	46	31	117
Debt charges	128	37	18	183
Total	168	83	49	300
4. *Public Welfare—*				
Relief	66	43	18	127
Other Public Welfare	44	45	36	125
Sub-total	110	88	54	252
Debt charges	16	9	11	34[a]
Total	126	97	65	288[a]
5. *Subsidies to provinces*	21	—	—	—
GRAND TOTAL	478	259	282	996[a]

[a] After elimination of double counting.

Primary Functions

The expenditures labelled "Primary Functions" are the cost of the traditional forms of government activity, namely, protection to persons and property, national defence, and general administration. In the past these were virtually the only functions of government, but with the growing complexity of society, the increase in the scope for and the efficiency of collective effort, and the changed conception of the role of government in the amelioration of social distress, they have declined in relative importance. In 1937, including the heavy burden of the last War's expenditures (against which, for the purposes of this analysis, all current surpluses have been credited), they accounted for 28 per cent of total public expenditures in Canada.

The administration of justice, legislation and general government requires little comment. These functions may tend to cost somewhat more in a federal than in a unitary state, partly as a result of a certain amount of governmental overlapping and duplication, and partly as a result of the perpetuation of historical divisions and boundaries which have been made obsolete by the development of improved communications and transportation. It is easy to exaggerate the importance of these factors, however, and the detailed investigation made by the Commission of possible duplication of Dominion and provincial services,[1] and of possible economies from provincial union in the Maritimes and the Prairies,[2] revealed little avoidable expenditure.

[1] See Book II, Sec. C., Ch. II.
[2] See Book II, Sec. C., Ch. I.

Defence.—The place and relative importance of national defence in public expenditures, on the other hand, depend on a variety of circumstances. In most European countries national defence has dominated public finance and has absorbed a major portion of governmental resources and efforts. Canada has enjoyed certain fortuitous geographic and political advantages which have profoundly influenced its national defence expenditures and, consequently, the balance available for other purposes. Before the Great War the cost of national defence was negligible, and it was this which permitted the extensive governmental aid to development and transportation which was such a striking and proportionately unique characteristic of Canadian public finance. Even after the War, including its legacy of debt charges and pensions, Canadian defence costs were still relatively low, although they had risen sufficiently to be a factor in curbing the Dominion's developmental program. However, the quadrupling of current expenditures on national defence from 1935 to 1939 has altered the picture somewhat and has materially reduced the comparative advantage in this field which Canada formerly possessed, and on which many of her other public finance policies were based.[3]

Education.—Expenditures on education increased from before the War, indeed from the beginning of the century, in almost exactly the same ratio as all government expenditures until the early thirties. Education then bore the brunt of depression retrenchment and total budgets were cut by a sixth. There has been some expansion since 1936, but the total expenditure is still (1939 estimates) some $10 million below the 1930 peak, and the ratio of education expenditures to all government expenditures has fallen from roughly

(3)TABLE 80.—CANADIAN DEFENCE EXPENDITURES COMPARED WITH THOSE OF OTHER COUNTRIES

For the fiscal years nearest to December 31, 1937

—	United Kingdom(a)	U.S.A.(a)	France(a)	Australia	Argentina	Canada
Per capita defence expenditures (Canadian Dollars)	27.26(b)	7.89	8.43	3.46	4.52	2.98
Percentage of total government expenditures	26·1	13·4(c)	18·4	7·0	14·6	5·8
Percentage of national income	5·4	1·4	4·1	0·8	(d)	0·8

(a) Only the published figures on defence expenditures were used in the calculations.
(b) Includes expenditures authorized under Defence Loan Act, 1937.
(c) Expenditures on Trust Account not included.
(d) Argentine National Income not available.

15 per cent during the first thirty years of the century to 11 per cent in 1937, and somewhat less currently.[4] It would not be realistic to assume

(4)TABLE 81.—PROVINCIAL AND MUNICIPAL EXPENDITURE

EDUCATION

—	1930	1933	1937
Prince Edward Island—			
Provincial and municipal expenditure on education ($000)	488	514	549
Per capita $	5.55	5.78	5.90
Percentage of total provincial-municipal expenditure	32·7	31·8	27·7
Percentage of provincial income	2·1	3·8	3·1
Nova Scotia—			
Provincial and municipal expenditure on education ($000)	3,786	3,950	4,216
Per capita $	7.37	7.57	7.78
Percentage of total provincial-municipal expenditure	26·0	22·7	23·0
Percentage of provincial income	2·3	3·7	2·7
New Brunswick—			
Provincial and municipal expenditure on education ($000)	2,823	2,619	2,675
Per capita $	6.95	6.24	6.08
Percentage of total provincial-municipal expenditure	23·9	21·8	20·8
Percentage of provincial income	2·4	3·5	2·5
Quebec— (Note discussion in the text of the contribution of the Church and of private fees in Quebec which make direct comparisons with educational expenditures of other governments impossible.)			
Provincial and municipal expenditure on education ($000)	20,201	22,566	22,701
Per capita $	7.15	7.60	7.24
Percentage of total provincial-municipal expenditure	19·2	17·2	15·3
Percentage of provincial income	2·0	3·5	2·4
Ontario—			
Provincial and municipal expenditure on education ($000)	47,496	44,481	44,576
Per capita $	14.03	12.48	12.01
Percentage of total provincial-municipal expenditure	27·2	22·2	23·2
Percentage of provincial income	2·8	4·0	2·8
Manitoba—			
Provincial and municipal expenditure on education ($000)	8,823	7,569	6,907
Per capita $	12.81	10.66	9.63
Percentage of total provincial-municipal expenditure	26·1	19·4	19·8
Percentage of provincial income	3·3	4·4	2·7
Saskatchewan—			
Provincial and municipal expenditure on education ($000)	13,362	9,829	8,191
Per capita $	14.80	10.55	8.72
Percentage of total provincial-municipal expenditure	30·8	21·8	17·6
Percentage of provincial income	5·8	7·8	4·2
Alberta—			
Provincial and municipal expenditure on education ($000)	11,715	10,080	9,447
Per capita $	16.55	13.48	12.14
Percentage of total provincial-municipal expenditure	31·4	26·4	27·2
Percentage of provincial income	4·6	6·3	3·9
British Columbia—			
Provincial and municipal expenditure on education ($000)	9,786	8,257	9,365
Per capita $	14.48	11.60	12.47
Percentage of total provincial-municipal expenditure	20·9	17·2	18·4
Percentage of provincial income	2·7	3·5	2·9

that this lower level will be maintained, nor from the evidence submitted to the Commission would it appear desirable. Since local governments bear more than three-quarters of the total cost of education, the most severe cuts in expenditure have occurred in the depressed areas. Yet it is in these areas that it is perhaps most necessary to maintain standards of education which will enable the younger generation to compete in all prospective fields of employment and which will thus assist desirable mobility of labour.

Transportation and Development.—The largest item in the expenditures of Canadian governments is that of transportation and development. Including current expenditures and net interest paid on debt incurred for these purposes, they account for nearly one-third of all government expenditures —a proportion that has scarcely varied since Confederation. The relative freedom from the burden of national defence, the geography of the country, and the extensive natural resources which could only be made available by the provision of extensive transportation facilities, have encouraged governmental promotion of economic expansion on a scale which is unique in capitalist countries. From the earliest days of responsible government the main objective of public policy has been the provision of transportation facilities and other public works which would stimulate the economic development of the country. The united Canadas strained their resources to construct canals and trunk railways in an effort to establish a commercial empire on the St. Lawrence. The Fathers of Confederation assigned to the new Federal Government the expensive task of uniting the colonies scattered across the northern half of the continent with railways, improved waterways and harbours. These projects were carried through at public expense or with public assistance to hasten the settlement of the empty spaces, to bring new resources into production, and to improve the inter-relationships between the various regions. More recently hundreds of millions have been spent on the construction of highways. In spite of the great economic expansion that has occurred it has not been possible, or at least it has not been deemed desirable, to charge the full cost of these facilities directly to users, and heavy burdens have been assumed by governments, mostly in the form of debt charges. Two-thirds of the total net debt charges are for interest on money borrowed for transportation and developmental purposes. While large expenditures have speeded up the economic growth and integration of the country, they have also added to the difficulties of adjustment to fluctuations in so far as they have converted the relatively flexible costs of private industry into the more rigid costs of government indebtedness. In other words, the outlay on transportation and development constitute in large part overhead costs of the Canadian economy assumed by government —costs which would have been less rigid if they had been borne by private industry, in which case citizens would have sustained losses as investors instead of heavier taxes.

The major portion of these costs had to be met, in one form or another, if the Canadian economy was to be developed and a Canadian nation built; but the necessary burden has been increased to a substantial extent by misdirection of investment. In the past this took the form of unnecessary duplication of railway facilities; today it is being increased on an even larger scale in the form of duplication of, and lack of co-ordination between, all the modern agencies of transportation—railways, highways, waterways, and airways. The lack of co-ordination, even more than direct competition, is a cost and waste which Canada cannot afford today, and as discussed in Book II[5] the problem is seriously aggravated by the existing division of jurisdiction and lack of unified financial responsibility. The rise of the automobile as an effective competitor in the most lucrative branches of short-haul revenue traffic has had far-reaching effects on the present position and outlook for railway finances (in which the Dominion Government is heavily involved); on the railway rate structure which evolved under very different operating and competitive conditions (and which subsidized the movement of low-grade, bulk freight at the expense of more valuable freight that is now being diverted to cheaper and more convenient channels); and on regional economies and vested interests of capital and labour which depend on the maintenance of existing transportation rates and differentials. In a country where cheap and efficient transportation is of such basic importance as in Canada, and where governments are already so very heavily involved,[6] the rise of new agencies of transportation and major alterations in competitive conditions have profound effects on public finances. Although a great deal of study has been given in Canada to the railway problem and particularly to the relations between the two big systems, relatively little attention has been given to the much broader problem of co-ordination of all agencies of transportation. The very fact that the existing division of jurisdiction makes it more difficult to deal effectively with the problem imposes greater responsibility on the governments concerned to attempt it.

Social Services.—Having noted the expenditures associated with the traditional functions of government, and the uniquely large Canadian expenditures on transportation and development, we come to the third major group of social service expenditures. These consist of expenditures for general public health, and, in larger and increasing amounts, for maintenance of individuals who cannot, either for physical or economic reasons, maintain themselves. The latter type of expenditure, and to some extent the former, are examples of the transfer type of expenditure which, in the same way as soldiers' pensions and interest on unproductive debt, redistribute the national income but do not directly increase or decrease it. Their rapid growth in recent years has effected a major change in the character of Canadian public finance, and has been responsible for the breakdown of the traditional division of financial responsibilities of the Canadian federal system.

The total expenditures of all governments on public welfare and relief (excluding soldiers' pensions) rose, but not notably more than all other expenditures (from 6 per cent of the total in 1913 to 8 per cent in 1929) until the depression, but then shot up to 25 per cent of the total in 1937. In dollars, expenditures quadrupled between 1929 and 1937.

It is not surprising that the huge increase in recent years has been generally looked on as an abnormal depression phenomenon, and that policies have been based on the wishful thinking that a return to prosperity would reduce the figures to pre-depression levels. As brought out in our previous chapters, however, fundamental changes were occurring and certain major forces operating which made very substantial increases in social service expenditures by governments inevitable even if a high level of general prosperity had been maintained. The increasing number of people in the older age groups (and the temporary, but at the time important, factor that some 60,000 of their potential supporters had been lost in the Great War); the increased specialization of the economy with its corollary of decreased local and family self-sufficiency; the growth of the cities and of the more vulnerable service and luxury trades;

[5] See Book II, Sec. D., Ch. II.

[6] See tables pp. 203 and 204. Outstanding debt of Canadian governments attributable to transportation and development $4,500 million; current annual expenditures, including debt charges, $300 million.

these were all normal features of a maturing economy. When, in addition to what we might call these normal economic changes which were operating to increase social service costs (although governments had not recognized them as normal and natural factors, and had not planned in any comprehensive way to make financial provision for them), Canada bore the full brunt of the world depression and of disastrous drought, government finances were particularly strained. The virtual inevitability, in any circumstances, of rapidly increasing welfare expenditures called for close examination of the governmental distribution of financial responsibility and of the appropriateness of the existing division of jurisdiction for administrative purposes, but when the depression expenditures were added to the already steeply mounting curve the need became urgent. It is important to distinguish between the increases in welfare expenditure which are directly due to the depression and those which would presumably have occurred in any case. The existing governmental framework and organization for public welfare purposes has proven woefully inadequate under depression conditions, but the present policy of meeting the situation by a series of *ad hoc* arrangements might conceivably be justified only if the new demands were of a temporary emergency character. If, on the other hand, the depression has simply intensified and brought to a head a situation which was developing in any case, and which the existing distribution of governmental powers and responsibilities had not been designed to meet, and has been proven incapable of meeting, a more comprehensive and constructive approach to the problem is necessary.

Public Welfare other than Relief.—Public welfare expenditures other than relief (including old age pensions, hospitals, asylums, public health and sanitation measures) rose from $72 million to $124 million between 1930 and 1937. To some extent, of course, this increase was due to the depression, but to some extent it was merely the continuation of a trend inevitably associated with the economic and social evolution of Canada. Old age pensions which were the largest item were introduced successively by all the provinces and it was discovered that there were both an increasing number of people over seventy, and an increasing proportion of those over seventy who were unable to support themselves (and whose relatives could not, or would not support them).[7] The provision of a minimum standard of subsistence and decency for the helpless and indigent aged is almost unanimously recognized as a proper and desirable function of government today, but it is a service which is open to serious abuses, and which may have far-reaching and quite unexpected results on the family and social structure. Certainly it was never contemplated, when the Act was introduced, that within twelve years half the population over seventy would be receiving its benefits. Whether the method which has developed of financing three-quarters of the total pensions by Dominion grants-in-aid has been conducive to the greatest possible measure of efficiency is discussed in the Commission's recommendations on the allocation of social service jurisdiction.[8] The substantial transfer of the cost burden for this particular social service from municipalities to the Dominion government (relieving municipalities of the necessity of providing old people's homes and poor relief on the same scale as formerly) is only one, although the chief, example of a general trend of great significance. The distribution of public welfare (other than relief) expenditures between the three levels of government may be summarized as follows, and shows the greatly increased portion borne by the Dominion in recent years.

TABLE 82.—DIVISION OF PUBLIC WELFARE EXPENDITURES

(Other than Relief)

—	1913	1930	1937
	%	%	%
Municipalities	53	40	29
Provinces	30	42	36
Dominion	17	18	35

In one of the Commission's research studies[9] impressive statistics are presented of the economic loss to the country caused by ill health which is in many cases preventable. To the extent to which it is thought desirable, for both economic and

(7)Total Dominion, provincial, and municipal expenditures on Old Age Pensions. Estimated, on basis of continuation of same terms as at present, and of same proportion of population over 70 in need:

($ million)

	$		$
1927	0.3	1941	46.0
1929	3.5	1951	62·0
1933	17·0	1961	82·0
1937	39·0	1971	93·0

[8] See Book II, p. 32.

[9] See Appendix—A. E. Grauer, Public Health (Mimeographed).

humanitarian reasons, to improve the health of the population there will be an increase in public health expenditures since the people who require attention are likely to be people who cannot afford it. In addition, it must be recognized that the public welfare expenditures, including both disease preventive services and institutions of several provinces are materially below the standards which are generally believed necessary and were formerly maintained. The general effects which an increase in expenditures of this nature are likely to have on the public finance situation are discussed in the following pages on relief. Certain increases in expenditure would appear likely simply because of the increased scientific knowledge we now possess, and the greater facilities in modern communities to provide for improved health services. Quite apart from humanitarian considerations, well directed expenditures on these services (and our knowledge and ability to direct these expenditures are developing rapidly) should prove directly remunerative to the whole community.

Relief.—The various factors which have been responsible for the rise of the Canadian unemployment and relief problem have been developed at length in the previous chapters, and the present situation is discussed in the section dealing with the Commission's recommendations on the allocation of jurisdiction in social services. It is only necessary here to note the relation of these new expenditures to total government expenditures and their distribution.

From a negligible amount before 1930 (which is not shown separately in the Commission's summary of accounts since it was included with municipal poor relief under the classification of public welfare) relief expenditures (including relief works charged to capital account) rose to $165 million in 1937. A brief summary of these is given below:—

TABLE 83.—TOTAL RELIEF EXPENDITURES (INCLUDING RELIEF WORKS CHARGED TO CAPITAL ACCOUNT)

(Millions of Dollars)

—	1930	1931	1932	1933	1934	1935	1936	1937
A. Through provincial-municipal agencies—								
(1) Dominion share	3	34	34	28	43	41	52	55
(2) Provincial share	9	42	37	39	74	70	59	79
(3) Municipal share	5	16	21	23	23	24	23	18
Sub-total	17	92	92	90	141	134	134	152
B. Dominion expenditures through own agencies	1	5	3	8	17	39	26	13
GRAND TOTAL	18	97	95	98	158	173	160	165

The grand total expenditure on relief, on all counts, during the 1930 decade may be put at approximately $1 billion.

Taking current account expenditures only, relief and other public welfare each accounted for one-eighth of the grand total of all Canadian government expenditures in 1937. These consequently provide transfer payments and a redistribution of income on a hitherto unprecedented scale in Canada. To an important extent the increased relief expenditures represent assumption by the state of responsibilities formerly borne by relatives—relatives who now cannot or, if given an alternative, will not bear them; to a minor extent they represent assumption by the state of responsibilities formerly borne by private charity; to some extent they are either an alternative or a supplement to very low paid labour, and in the latter case a form of subsidy to some employers. But in spite of individual abuses which have occurred, and the unpredictable social and political effects of the major shift of responsibility for economic security from the individual and his family to the state which has occurred in the last decade, existing relief scales are rarely adequate to achieve their objective efficiently, i.e., to maintain the unemployed workers in a physically fit condition, and to ensure that their children are properly brought up. To some extent this is due to the lingering tradition that the individual should be responsible, in part at least, for his own welfare and that of his dependents; to some extent to the general practice of basing relief allowances on former poor relief standards, which were calculated with the object of maintaining non-workers alive, rather than of maintaining unemployed workers in good condition; to some extent to the fact that in the early years of the depression many of the unemployed had certain reserves of their own—some savings, clothing and household goods, reasonably good health, etc.; and to some extent to the financial pressure on governments. Certain groups of the unemployed such as the transient and migratory labourers, and those who lived in areas where the local finances were in particularly bad condition, were worse off than the average, for no fault of their own, and suffered disproportionately and inequitably. Consequently, it is only realistic to assume that once the state accepts the responsibility of maintaining its unemployed under conditions which will keep them from becoming unemployable the cost will be higher than it has been in the past. (It must also be assumed that statutory minimum wages will be sufficiently above the relief scales to provide an incentive for work). On the other hand, it may be argued that the total cost in this case would be less than the present direct and indirect economic costs, to say nothing of the human values involved. Furthermore, organization of relief on a business-like basis would prevent many abuses and check many wastes which occur today.

The assumptions underlying this discussion are that unemployment, of some degree, is likely to be a permanent factor, and that the primary responsibility for maintaining the unemployed has become that of the state. Our economic analysis would suggest that the former assumption is now a probability, and, except under very unusual circumstances, a virtual certainty. The latter assumption, although representing a complete reversal of an earlier North American philosophy to which lip-service is still widely paid, has become, as a result of underlying economic changes, almost unconsciously but inevitably the ruling view. Given these premises the most important problem for the Commission is to determine how the responsibility can be most efficiently and equitably met. This problem will, however, be reserved for Book II.

The problem of large transfers of this nature, for which no immediate service is provided, is a new one in the Canadian public finance system, and because of the huge volume of the transfers (equal to total governmental expenditures in 1913) it is an extremely important one. Because of the breakdown of the accepted jurisdictional division of responsibility it has not been possible even to work out an efficient administrative technique to handle the problem. Even less has an approach been made to an understanding of the economic factors involved, and to exploration of constructive policies and preventive measures, through coordination of relief policy with banking and exchange policies, public works, deficit financing and taxation policies, and commercial and industrial policies. Of particular importance for our immediate purpose, no thorough studies have been made of the effect of the great increases in transfer payments on the size and distribution of the national income and of the appropriate tax structure in relation to the new forms of expenditure which have been assumed. Nevertheless, there is an important relationship; it is clear, for example, that, once government has undertaken to provide a fixed minimum subsistence for a section of the population, there is substantial waste in imposing taxation—usually indirect taxation which requires the consumer to pay more than the government receives—on the same section of the population at the same time.

Social service transfer payments, and relief in particular, have been popularly singled out as the most significant public finance developments of the period. To critics of the philosophy underlying them they are a growing evil, to be tolerated in emergencies only in preference to the greater disaster of revolution; to supporters they are a means of achieving a new measure of economic security, greater justice, and greater happiness for the population as a whole; to governments they present new problems of fiscal as well as social policy, and a challenge that both the expenditures themselves and the accompanying taxation should be as efficiently and equitably organized as possible. Under the present division of jurisdiction and taxation powers in Canada, whose drafters could not, of course, foresee the development of this type of expenditure with all its corollaries, no effective approach by governments has been made to such a goal.

2. Government Revenues

The revenues of Canadian governments are summarized for the approximate calendar year 1937 in the following table. It is extremely difficult to make a simple and realistic taxation classification. Neither the accounting division of itemized "tax" and "non-tax" revenues, nor the constitutional division of "direct" and "indirect" taxes has any particular significance or utility for economic description and analysis. Both these classifications have necessarily been developed, in great and precise detail, as useful tools for certain specific but limited purposes, and have, in their respective connections, acquired a pseudo-scientific weight.

Table 84.—Revenues of All Governments, 1937

(Millions of Dollars)

—	Dominion	Provincial	Municipal	Total
Group I—				
Customs (ex. liquor)	105	—	—	105
Excise (ex. liquor)	32	—	—	32
Manufacturers Taxes	17	—	—	17
Sales Taxes	138	2	4	144
Gasoline Tax	—	39	—	39
Liquor Taxes and Profits	27	30	—	57
Automobile Licences	—	26	—	26
Amusement Taxes	—	3	—	3
Property Taxes on Improvements	—	3	112	115
Surplus Utility Earnings	7	1	6	14
Miscellaneous (Stamp Taxes, etc.)	11	5	17	32[a]
	337	109	138	584[a]
Group II—				
Corporation Taxes	72	34	—	106
Company Fees	2	8	10	20
Public Domain	2	21	—	23
Business Property Taxes	—	—	14	14
Property Taxes on Real Estate	—	3	144	147
	76	66	168	310
Group III—				
Personal Income Taxes	51	12	2	65
Succession Duties	—	36	—	36
	51	48	2	101
Dominion Subsidies to provinces[b]	—	21	—	[a]
GRAND TOTAL	464	244	309	995[a]

[a] After elimination of double counting.
[b] Provincial subsidies to municipalities have been deducted from offsetting expenditures.

In Canada the distinction between "tax" and "non-tax" revenue is largely the reflection of the evolution of the technique of taxation which has been made necessary by the increasing complexity of the economy, constitutional difficulties, and the growing demands of government. When governments collected and spent a relatively small proportion of the national income, and when incomes were more evenly distributed, a revenue system of flat-rate licences, royalties, and taxation which approximated a per capita levy, was administratively the most simple; and it was adequate for its purposes without causing serious inequities or distress. But as more and more of the national income came to be collected and spent by governments such arbitrary methods of raising revenue became increasingly impracticable and inequitable. It became necessary to develop taxation systems which were more delicately adjusted to capacity to pay;—at first crude measurement of gross income was sufficient, but as government demands increased in successive waves, refined measurement of net income became necessary. Whether the particular method employed was a graduated "licence" or a "tax" was simply an accident of historical nomenclature. Today a substratum of "non-tax" revenues, which are really specific taxes on selected objects, exists, but it has become an integral (although minor) part of the whole tax system. (Some "non-tax" revenues are in quite different categories. Fines, sales of services and commodities at cost, and interest earnings are not properly part of the public finance system at all, and should be netted against the corresponding expenditures. Trading profits, such as derived from provincial Liquor Commissions, are, however, highly developed forms of taxation from which the Government derives a combination in indeterminate proportions of a tax, based on capacity to pay and ease of collection, a fine based on the contemporary standard of moral values, and a business profit or loss based on the efficiency and judgment of the government enterprise.)

Originally, "direct" and "indirect" taxation were useful economic concepts. Incorporated in the British North America Act the terms became subject to interminable legal and political controversy. The courts were compelled to work out a definition which was broadly applicable in a formal way. In doing so they cited John Stuart Mill's definition as an authority, and developed it in meticulous detail. Today the "direct" and "indirect" taxation terms apply only to what the courts have held to be *intra vires* or *ultra vires* provincial jurisdiction.

In the foregoing table Canadian government revenues are listed in three groups. This listing is not a classification, for reasons which will be noted, but it may serve to bring out some of the distinctive features of the Canadian revenue system.

Group I consists of taxes on specific commodities paid, normally, by the consumers of these commodities. Group II consists of business and property taxes, which fall to some extent on ultimate consumers, to some extent on monopoly and scarcity-value rentals, to some extent on entrepreneurial net income, and in some instances on entrepreneurial capital.[10] Group III contains the nominally "progressive" taxes—personal income taxes and succession duties.

Group I—Consumption Taxes.—Some of the limitations of this grouping should be noted. The first group which we may call consumption taxes, are in general regressive, yet individual consumption taxes may contain important elements of progressivity.[11] An obvious example of the latter case is the very high rate of taxation on certain selected luxuries, such as fine wines and liquors, which are presumably purchased chiefly by the wealthier classes. Even the general sales tax contains some element of progressivity as a result of the exemption of a number of necessities, although the exemptions are such that the incidence of the 8 per cent sales tax varies more between occupational groups—e.g., farmers and clerks—than between most income groups. Although there are modifications in the regressivity of consumption taxes made by special luxury taxation and the provision of exemptions on certain necessities, it must be remembered that these modifications apply only to expenditures on commodities. Expenditures on services and savings, which become increasingly important as income mounts, operate to reduce the proportion of consumption taxation to the total *incomes* of wealthier classes, although the proportion to certain categories of *expenditures* may increase.

In the lower income groups the 8 per cent sales tax may be estimated as taking from 3½ per cent to 5½ per cent of income, depending on the distribution of consumption. This is a very much higher proportion than taken by this particular form of taxation in other countries, but on the other hand, it is important and relevant to note that most other countries employ some form of payroll tax to finance at least part of their social service expenditures while Canada does not. It would not be strictly accurate to compare the sales tax with social service premiums and there is, of course, no relation whatever between the taxes paid and the benefits received by the individual. From the public finance point of view, however, it does extract about as much revenue from roughly the same class (in proportion to the taxpayers' incomes, and in proportion to social service expenditures) as social service premiums do in other countries—a fact which becomes of great importance when consideration is being given to the introduction of social insurance schemes. It would seem necessary to look on the sales tax at its present level as an alternative (and possibly an undesirable one) to social insurance premiums and not as a quite separate and independent revenue measure. It automatically provides for complete coverage (except in the cases of specified exemptions) and is relatively simple to collect, but has the serious flaw that consumers are required to pay more than the government receives, the difference representing the necessary mark-up in prices to provide for the higher overhead costs per unit on a smaller volume of business. It is impossible to segregate and earmark the amounts paid by low income groups.

It is not surprising that consumption habits will influence the amount of consumption taxation payable, but the extent of variation is notable. Individuals whose tastes run to beer, cigarettes, and movies (or to champagne, cigars, imported tweeds and super-charged cars), will pay proportionately several times as much in consumption taxation as abstemious citizens. Such comparisons illustrate the inevitable use of the powerful instrument of taxation for economic, social, and even

[10] Property taxes (including interest on tax arrears) have been divided between Group I and Group II on the basis of the division of property assessments between land and buildings. The latter is estimated (complete figures are not available) as 44 per cent for buildings and 56 per cent for land. Taxes on buildings are treated for this purpose as consumption taxes; taxes on land as business taxes falling on monopoly and scarcity value rentals.

[11] A regressive tax is one which takes a larger percentage of a low income than of a high one; a progressive tax takes a larger percentage of a high income than of a low one; a proportionate tax takes the same percentage of all incomes.

moral, as well as fiscal, objectives. Certain contradictions and clashes which arise in this process are important from the fiscal point of view. To the extent to which taxation is successfully used, for alleged moral or economic reasons (e.g., as a punitive deterrent to drinking whiskey, importing foreign goods, going to horse races, or accumulating large fortunes) it fails to raise revenue. When non-fiscal criteria become of dominant importance in shaping taxation policy, not only are new complexities and inequities introduced, but unexpected strains are thrown on other parts of the system. The outstanding example, of course, is the customs tariff which, to the extent it becomes protective, ceases to be revenue producing. Similarly, tobacco and liquor taxes (which in Canada yield considerably more than all personal income taxes) are frequently footballs of conflicting policies. Of less clear but possibly greater economic importance may be the effect of very steeply graduated income and succession duty rates, which have been established at penalty rates on very high incomes and large inheritances for other than purely fiscal reasons.

Group II—Business Taxes.—The business and property taxes listed in Group II not only possess highly diverse characteristics at any one time, but frequently alter in kind at different stages of the business cycle. Normally, a substantial portion of these taxes—say property taxes, public domain revenues, and perhaps one-third of corporation taxes—may be considered a levy on the rental values arising from scarcity of land and other resources. As long as business conditions are such as to justify the existing capitalization of these resources such taxes are not burdens on costs, but simply the transfer to society of the increase in incomes which has been created in large part by the development and expenditures of organized society. But if the earning power, and therefore the rental value, of these resources decline without a corresponding fall in taxation these taxes become a capital levy. Some of the business taxes (i.e., the fixed taxes on corporations) are normally consumption taxes, but, as in the case of other consumption taxes, under some conditions and for relatively short periods of time they may be absorbed by the producer. The remaining portion of corporation taxes are flat-rate levies on corporation net income. As this income belongs to the shareholders, such a tax (which is not permitted as a deduction from the income tax of the individual shareholder) is both discriminatory between different classes of assets (e.g., as between bonds and stocks) and, according to the principles of progressive income tax rates adopted in personal income taxation schedules, inequitable as between different income levels. On the other hand, it may be argued that this special levy is discounted in the market price of corporate securities, and that people who have purchased corporation securities under the existing tax rates suffer no relative disability. The special taxation on corporate profits may, however, have a significant effect on investment, and from the point of view of the individual investor may be sufficient to tilt the balance in favour of hoarding or bond investment as compared with investment in equities, or to influence a company promoter to bond his company to the limit rather than to finance by common stock.

It is unfortunate that the taxes in this group cannot be more precisely classified. Virtually their only common characteristic is that they are levies imposed at some intermediate point in the production-consumption cycle and are peculiarly subject to shifts in incidence as general business conditions change. Some of these shifts are on occasion highly inequitable and have disastrous economic effects (e.g., the shift in property taxation during a period of falling land values from a levy on socially created surpluses to one on capital). It is perhaps this group which should be particularly subject to constant review in framing the most desirable tax policy, and in which indiscriminate increases during periods of depression are likely to have the most harmful general effects. We have noted, however, that the existing constitutional straitjacket has virtually forced provincial governments into arbitrary increases of substantial amount in this form of taxation in recent years.

Group III—Progressive Taxes.—Personal income taxes and succession duties in Group III are (with the exception of straight proportional levies such as the special Income Tax in Manitoba), progressive taxes falling on surpluses (i.e., income in excess of that necessary for subsistence), and cannot, with very few exceptions, be shifted. It is only in this group that the final incidence of taxation can be exactly determined and delicately adjusted (presumably a *sine qua non* of equitable and efficient taxation), but it must be noted that the exemptions provided and the rate of progression are frequently determined by non-fiscal and non-economic influences and political pressures. Too little is known at present of the ultimate economic effects of different rate-curves and changes in these taxes to set up any objective economic criteria, and the need for planned research as a guide to Treasury policy is evident. The tremendous importance of these forms of taxation as instruments of social as well as fiscal policy makes it impossible to eliminate what may frequently be conflicting influences, but much would be gained by distinguishing and setting out the various factors as clearly as possible.

Characteristics of the Canadian Tax System.—The fact that more than half the total governmental revenues and expenditures are local and provincial makes it difficult and somewhat unrealistic to discuss as a whole, as if Canada were a unit, the incidence of the Canadian taxation system, the services provided by government, and the resulting transfers of income. However, complex and occasionally confused and conflicting as the Canadian tax structure is, there are some outstanding characteristics.

The system as a whole, as compared with that in other countries, is highly regressive, with the qualification that it is very steeply progressive in the higher income groups. As consumption taxes make up nearly 60 per cent of total government revenues (which in turn, it will be remembered, equal some 30 per cent of the national income), and as various forms of business taxes make up another 30 per cent, only 10 per cent of total government revenues are in forms to which any scientific principles of progressivity can be applied in order to redress the regressivity inherent in the heavy Canadian consumption taxes. Further, three-quarters of this 10 per cent comes from personal incomes of more than $10,000 and proportionately large estates and 35 per cent from the $50,000 a year group and over; the Dominion income tax on very large incomes is one of the highest in the world, and the combined Dominion-provincial tax in the four Western Provinces is perhaps the highest. When the combined Dominion-provincial income tax reaches such figures as 105 per cent of the total income (as in Alberta, for example, on an income of $1 million), the principle of progressivity has been carried to a fantastic extreme. Between the very wealthy man who is carrying one of the heaviest income tax loads in the world, and the very poor man who is carrying one of the heaviest consumption tax loads in the world is the large middle income group which escapes relatively lightly. It is primarily by adjustment of the income tax curve of progressivity that this trough in the curve of progressivity in the tax system as a whole can be removed, and the extreme impositions at each end of the curve modified. The present situation appears inequitable, although it must be admitted that it is impossible to define "equity" in this instance in absolute terms. Equity as between income classes is basically a matter of social philosophy, and it must be left to the political crystallization of the prevalent philosophy to determine, for example, whether taxation should be progressive, and if so, at what rate.[12]

But in this connection it is important to note the obstacles to the use of the income tax as an instrument of either social philosophy or efficient fiscal practice which are presented by the existing division of tax powers and the joint occupation of the field by the Dominion, provincial, and even municipal governments. In Book II[13] a table is given showing the amount of income tax payable by residents of each province on incomes of $3,000, $10,000, and $100,000. On the last income[14] the tax payable to Dominion and provincial (or municipal) governments varies from 33 per cent of the total income in Nova Scotia (Halifax) and Quebec (Quebec City) to 58 per cent in Saskatchewan (Regina). In addition to such substantial differences between the amount payable, there are major differences in exemptions and in determination of taxable income in different jurisdictions.[15] Quite apart from considerations of the apparent inequity of these variations is the fact that the joint occupation of the field makes it mechanically impossible to develop an income tax which will, in itself, apply to different income groups in what is currently considered an equitable manner, and which can be adjusted to the desired degree of progressivity of the tax system as a whole.

Another outstanding characteristic of the Canadian tax structure is the high proportion of taxation on costs, as contrasted with the low proportion of taxation on surpluses and net incomes, and the amount of taxation of a character which is likely to be shifted from surpluses to capital or costs in times of depression. Taxation which falls directly on business enterprises, as such; taxation which is based on an arbitrary capitalization of income which does not, in fact, materialize; taxation which increases the costs of living at a subsistence level, and which consequently either increases wage costs and the costs of operation of farmers and other individual entrepreneurs in the

[12] See Book II, Sec. B., Chap. VIII, for a discussion of equity and efficiency in taxation.

[13] Section B, Chap. III, p. 111.

[14] Prior to the September 1939 increase of 20 per cent in Dominion rates.

[15] See Book II, p. 158, for illustration of effect of double taxation of income in Western Provinces as compared with Ontario practice which exempts Dominion tax paid from the provincial definition of taxable income.

long run, or forces living standards of large portions of the population below the minimum desirable level;—all these are taxes on costs. The alternative is taxation designed to fall on the income of individuals which is in excess of that necessary for subsistence. This brings up the whole problem of the "efficiency" of the present tax system. "Efficiency" in its most narrow sense might be interpreted as economy in collecting the existing taxes. In a broader, and far more important, sense it is skill in collecting a given amount of revenue with the least possible burden on the national income. In both senses the Canadian taxation system fails. Duplicate taxation machinery, inadequate and divided jurisdiction (involving cumbersome and expensive devices to do indirectly what the constitution prevents from being done directly), and lack of uniformity, all contribute to unnecessary expense and reduced returns. Of immensely greater concern, the lack of co-ordination in tax policies, and the almost uniquely high proportion of the Canadian taxation burden on costs rather than on profits, reduce the Canadian national income seriously. The national income is depressed in both a positive way, through restriction of marginal investment, production, and employment, and in a negative way through obstruction of the use of fiscal policy as a stimulant. These are criticisms partly of general taxation policy, and partly of the current working division of taxation powers between the different levels of government. To what extent the latter is significant will be examined in more detail.

3. Federal Division of Revenues and Expenditures

It seems generally accepted that it was the intention of the Fathers of Confederation, and indeed the only basis on which the Dominion could be built, that the central government should possess the revenues and carry the expenditures which were national in scope, while to the provinces and municipalities should fall the revenues and expenditures of provincial or local nature. The difficulties lie in translating at any given time these general principles into terms of specific taxes and responsibilities, and, when the appropriate revenues and expenditures fail to balance, in providing for adjustments, without infringing on the autonomy of each government in its proper sphere. As our historical review has developed, an additional difficulty has been the changes in the character of many governmental responsibilities and revenues as the economy evolved, and as governmental activity and the public finance system expanded.

Table 85.—Division of Government Expenditures between the Dominion, Provinces and Municipalities, 1937

—	Share of each Government in Total Expenditures				Percentage Distribution of each Government's Expenditures			
	Dom.	Prov.	Mun.	Total	Dom.	Prov.	Mun.	Total
1. Primary Functions[a]—								
National defence, military pensions and aftercare	100	—	—	100	23	—	—	11
Legislation, administration justice and miscellaneous	31	25	44	100	12	18	28	18
Sub-Total	57	16	27	100	35	18	28	29
2. Education[a]	—	28	72	100	—	13	32	12
3. Development and Transportation[a]	56	28	16	100	35	32	17	30
4. Public Welfare[a]—								
Relief	54	33	13	100	17	19	7	15
Other	28[b]	37	35	100	9	18	16	14
5. Subsidies to Provinces	—	—	—	—	4	—	—	—
Total Debt Charges[c]	(62)	(19)	(20)	(100)	(35)	(20)	(20)	(27)
Total	48[d]	26	28	100	100	100	100	100

[a] Including debt charges.
[b] Excluding \$8·9 million to maintain annuities reserve.
[c] Already included in previous items.
[d] Including subsidies to provinces.

In 1937 nearly one-half of all public expenditures was made by the Dominion Government. Almost 60 per cent of the total federal outlay is in connection with national defence, the provision and maintenance of railway and waterway facilities, and development, all of which are essential national functions for which the Dominion was established. Another 12 per cent of Dominion expenditures is devoted to legislation, justice, and general administration, 4 per cent goes to unconditional provincial subsidies; and the remainder, 26 per cent covers relief and other public welfare. With the exception of the latter there are no noteworthy departures from the original conception of the purposes of the Dominion. Public welfare has been generally regarded as the primary responsibility of the provinces and municipalities. In the preceding chapters we have described how, under the pressure of circumstances, the Dominion was obliged to take over an increasing share of public welfare and relief costs. The manner in which the Dominion has assumed some of the financial obligations for these services, however, constitutes one of the weakest features of the Canadian public finance system. Although the Dominion pays for 44 per cent of all public welfare costs (75 per cent of old age pensions and 54 per cent of relief) it has very little control over the outlay of its funds or over general policy since the expenditure of the money and administration remain with the provinces and the municipalities.

The provinces and municipalities each take care of slightly more than one-fourth of the total costs of government. They provide nearly 70 per cent of the total outlay on the primary legislative, regulative, protective and administrative functions. Almost three-fourths of the total cost of education is dependent upon the highly decentralized revenue sources of the municipalities; the remaining 28 per cent is obtained from the somewhat broader sources of the provinces. Prior to 1914 by far the greater part of the burden of transportation and development was carried by the Dominion. With the coming of the motor car and the decline in the rate of national expansion, a rapidly growing portion of these responsibilities fell upon the provinces. At the present time highways, streets, outlays borne by the provinces and municipalities to support local industries and to encourage the exploitation of provincial resources, constitute 44 per cent of the total government expenditures on transportation and development. However, the

TABLE 86.—DIVISION OF GOVERNMENT REVENUES BETWEEN THE DOMINION, PROVINCES AND MUNICIPALITIES, 1937

—	Share of each Government in Total Revenues				Percentage Distribution of each Government's Revenues			
	Dom.	Prov.	Mun.	Total	Dom.	Prov.	Mun.	Total
GROUP I (Chiefly Consumption Taxes)—								
Customs (ex-liquor)	100	—	—	100	23	—	—	11
Excise (ex-liquor)	100	—	—	100	7	—	—	3
Manufacturers' Taxes	100	—	—	100	4	—	—	2
Sales Taxes	96	1	3	100	30	1	1	14
Liquor Taxes and Profits	47	53	—	100	6	12	—	6
Gasoline Taxes	—	100	—	100	—	16	—	4
Automobile Licences	—	100	—	100	—	11	—	3
Property Taxes on Improvements	—	3	97	100	—	1	36	12
Miscellaneous, Taxes and Receipts	37	16	46	100	4	4	7	4
	58	18	24	100	74	45	44	59
GROUP II (Chiefly Taxes on Business and Scarcity Values)—								
Corporation Taxes	68	32	—	100	15	14	—	11
Company Fees, Licences, etc.	11	39	50	100	—	3	3	2
Public Domain	10	90	—	100	—	9	—	2
Business Property Taxes	—	—	100	100	—	—	5	1
Property Taxes on Real Estate	—	2	98	100	—	1	47	15
	25	21	54	100	15	27	55	31
GROUP III (Progressive Taxes)—								
Personal Income Taxes	79	18	3	100	11	5	1	6
Succession Duties	—	100	—	100	—	15	—	4
	50	48	2	100	11	20	1	10
Dominion Subsidies to Provinces	—	—	—	—	—	8	—	—
Total	47	22	31	100	100	100	100	100

greatest increase in public responsibilities has occurred in the field of public welfare which has grown from virtual insignificance to where it absorbs almost 30 per cent of the total government expenditures. Although the provinces and municipalities are now receiving substantial financial aid from the Dominion for these services, they are still paying more than half the total cost.

The economic and social changes within the framework of the Canadian constitution have raised the provinces and the municipalities to a very important position in the public finance system—a position which they cannot efficiently occupy on the basis of their necessarily limited revenue sources. This situation is especially aggravated by the increasing load of deadweight debt, the interest charges on which now comprise one-fifth the aggregate municipal-provincial expenditures.

Reviewing the present division of revenues and responsibilities between the different levels of government, it is clear that certain taxes and functions are pre-eminently either national or local in nature, but that there are many which cannot be so simply and satisfactorily classified. Of Dominion revenues, customs and excise duties are not only essentially central government taxes, but they are the very essence of a central government. This is so generally recognized that it does not require development, other than to note the possibility of departing from the principle and thwarting the intention of this fundamental allocation of powers by devising protective forms of local taxation and expenditure.

Our historical and economic review has shown the extent to which Dominion tariff policy, Dominion railway policy, and other necessarily associated national policies have built up an interdependent economy. The whole nature of economic activity and structure of private enterprise in Canada have been moulded by these national policies, and, of particular concern to public finance policy, the localization of net income from national enterprises has been largely determined by them. Certain public finance implications follow as a natural consequence.

The Dominion, by its large-scale intervention in the economic life of the country, and as a corollary of its conscious policies of selected stimuli, protection, and control, has unconsciously committed itself to many responsibilities for the maintenance of economic welfare. On the other hand, it has created a claim for itself to tax whatever surplus incomes and fortunes are accumulated within the framework of its policies.

These implications, as noted in our historical section, have not been generally recognized, and a fortuitous sequence of events concealed the necessity for recognizing them until recent years. We have noted how the Dominion, faced successively with the emergencies of war, the financial débâcle of its developmental program, and depression, turned to an *ad hoc* and somewhat indiscriminate imposition of taxes throughout nearly the whole field, and how it also assumed, in a tentative, inefficient manner, some of the responsibility for developmental programs and unemployment and drought relief which overwhelmed the provincial and local governments. At no time has the situation been reviewed and realistically faced; as a result the Dominion system includes neither the direct responsibility for maintaining certain minimum standards of governmental services, nor the undisputed control of the chief instruments of taxation of national net income that one might expect as an essential corollary of its responsibilities, and of the type of economy which has developed under its guidance. Instead, the Dominion has added to its basic customs and excise revenue sources a uniquely high sales tax, heavy corporation taxation and a personal income tax that rises steeply in the upper brackets.

As a result of this undirected growth the Dominion's public finance system is open to criticism both for what it includes and what it omits. Its taxation system is not adjusted to the national net income and under the present division of revenue powers cannot be so adjusted. Even the personal income tax, producing 11 per cent of the Dominion revenue and 5 per cent of total provincial revenues, takes widely varying proportions of equal incomes from residents of different provinces. The corporate income tax (which provinces also impose to varying degrees) is a flat-rate levy regardless of the income of the corporate shareholder and owner, and as such violates our generally accepted canons of equitable taxation. The remaining Dominion taxes—three-quarters of the total—have no direct (although in cases they may have an indirect) relationship to net income, considered from either an income class or regional point of view.

The total revenues of provincial governments are about half those of the Dominion; total municipal revenues are about two-thirds those of the Dominion. But while municipal revenue is largely concentrated on real property taxation, provincial revenues come from widely diversified sources. Of first importance to provincial governments are consumption taxes, chiefly automobile (including gasoline) and liquor levies, accounting for nearly half the provincial revenues before subsidies. Taxes on business (including public domain revenues, which are, broadly speaking, alternatives of fundamentally the same character) make up a little more than a quarter of the total; taxes on income and inheritances, a little less than a quarter. The importance of the post-War development of provincial consumption taxes has been discussed in our historical review, but, although they now bulk largest in dollars and cents and have played a significant part in the shift in the balance of Dominion-provincial power, provincial business taxation, income taxation, and succession duties are perhaps of more particular concern for the present discussion. We have noted how the hard-pressed provinces branched out into new fields of taxation, and the cumbersome methods to which jurisdiction limitations compelled them to resort on occasion. Because of the very unequal distribution of corporate and entrepreneurial income and accumulated wealth throughout the country (partly as a result of the operation of national policies), this particular tax basis varies widely between provinces and has little relation to individual provincial responsibilities. It is in the employment of these forms of taxation that the greatest variations exist between provinces (and, of course, the greatest variations in incidence on individuals); vigorous application of these taxes in Ontario during a period of business recovery yielded the province a handsome surplus; no conceivable vigour of application could meet the western situation; reluctance to increase these forms of taxes left Quebec, and to a lesser extent the Maritimes, unable to balance their budgets.

4. Provincial Finances

In the following review of the financial position of the individual provinces per capita figures of revenue and expenditure have been used in order to facilitate comparisons. These figures must be considered in relation to the provincial income and particularly to the taxable surplus income, and also to the amount of services supplied through community agencies rather than privately, and to other special circumstances which may make direct comparison between two provinces misleading. In order to give for each province as accurate and comprehensive a picture of the financial position as possible, provincial and municipal revenues and expenditures have been combined. This is particularly necessary if comparisons are to be made between provinces, owing to the great variations in the division of responsibility for such functions as education, welfare, and highway maintenance. The proportion of the total cost of each of these services borne by the provincial government varies widely both as between provinces and in any one province as between periods. In all cases, although most notably in highway and relief expenditures, there has been a trend to assumption of an increasing share of the cost and increasing responsibility for administration by the provincial government.

All revenues and expenditures need not be discussed in the same detail in every province, and attention has been chiefly directed to those features which show significant variations between provinces and have a special bearing on Dominion-provincial relations and those which are of particular importance to the individual provincial fiscal system and economy. The major functions of education and public welfare (other than relief) which account for 35 per cent of provincial and municipal expenditures, are discussed together since they normally have similar characteristics. Relief expenditures in each province during recent years have been discussed in some detail in Chapter VI.

PRINCE EDWARD ISLAND

TABLE 87.—REVENUES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	P.E.I.	All Prov.	P.E.I.	All Prov.	P.E.I.	All Prov.	P.E.I.	All Prov.
Real Property Taxes	4.43	22.60	20	45	1.13	0.53	3.30	22.07
Gasoline Taxes and Motor Vehicle Licences	4.45	5.84	20	12	4.45	5.84	—	—
Public Domain	—	1.90	—	4	—	1.90	—	—
Liquor Control	0.43	2.68	2	5	0.43	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	3.14	6.85	14	15	1.36	1.64	1.78	5.20
Sub-Total	12.45	39.87	56	81	7.37	12.59	5.08	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	1.77	3.06	8	6	1.77	3.06	—	—
Income Taxes on Persons	0.37	1.24	2	2	0.37	1.07	—	0.17
Succession Duties	0.48	3.22	2	6	0.48	3.22	—	—
Total Revenue from Provincial Sources	15.07	47.96	68	96	9.99	20.11	5.08	27.84
Federal Subsidies	7.06	1.91	32	4	7.06	1.91	—	—
TOTAL	22.13	49.87	100	100	17.05	22.02	5.08	27.84

Revenue System

Statistical comparisons between a unit with a total population of about one-tenth that of the Toronto metropolitan area and, say, the Province of Ontario are of little value or significance. For many purposes Prince Edward Island must be considered quite separately. But if a comparison is to be made with other provinces, the most striking feature of Prince Edward Island's provincial and municipal revenue system is the relatively large amount derived from federal subsidies—more than three times the per capita average for all provinces. Total provincial and municipal revenues from within the Province, on the other hand, are only one-third as much as the per capita average for all provinces, and not one of the chief taxes or groups of taxes is up to the average. There are, of course, special circumstances which account for this and such a comparison in itself cannot be taken as evidence that Prince Edward Island is under-taxed. The subsistence nature of the economy, the low average net value of agricultural production, and the lack of urbanization are reflected in a total real property tax yield which is only one-fifth the Canadian per capita average. The Province's lack of any public domain is responsible, of course, for the absence of revenue from that source, and the Provincial Government's liquor control policy yields only a small fraction of the average receipts in other provinces. The absence of any notable concentration of corporate or personal income and wealth in the Island makes it impossible to secure a substantial yield from income taxes and succession duties, although special inducements have been granted companies to incorporate within the jurisdiction of the Island Government.

Not only is the revenue system affected by the lack of urban, industrial or individual concentrations of wealth in the Island economy, but also by the relatively low average income (scarcely more than one-half the Canadian average) which leaves little margin available for general consumption taxation. In spite of the fact that Prince Edward Island is the most perfect geographical entity of any Canadian province, it does not form a satisfactory unit from the point of view of public finance, and particularly for raising revenue. The manifest inability of a small agricultural economy, possessing no taxable surplus, to raise revenues and to finance services on the same scale as in the rest of Canada was recognized from the first in the special debt allowance, and subsidy in lieu of land, provided when Prince Edward Island entered Confederation. Much of Prince Edward Island's financial history since then has been one of subsidy claims and adjustments, and special increases in 1887, 1901, 1911, and 1935 maintained the subsidy as much the most important source of revenue.

As a result of the relatively large proportion of the revenue provided by the fixed subsidy and of the small proportion derived from such normally fluctuating sources as public domain, liquor control and progressive taxation, the Island Government's revenues are exceptionally stable but also inelastic.

TABLE 88.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	P.E.I.	All Prov.	P.E.I.	All Prov.	P.E.I.	All Prov.	P.E.I.	All Prov.
Net Debt Charges	3.61	9.52	17	20	2.38	4.59	1.23	4.94
Public Welfare—								
Relief	0.84	5.45	4	11	0.52	3.86	0.32	1.59
Other	2.96	7.26	14	15	2.74	4.05	0.22	3.21
Education	5.90	9.78	28	20	3.76	2.89	2.15	6.89
Agriculture and Public Domain	0.49	1.86	2	4	0.50	1.86	—	—
Transportation	4.35	5.03	20	10	3.60	2.27	0.75	2.75
General Government and Miscellaneous	3.17	9.80	15	20	2.26	3.77	0.89	6.03
Total	21.32	48.70	100	100	15.76	23.29	5.56	25.41
Per Capita Provincial Income, $	194	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	92	291	—	—	64	177	28	115
Percentage of Current Expenditures to Provincial Income	11	14	—	—	8	7	3	7
Percentage of Outstanding Debt to Provincial Income	47	84	—	—	33	51	14	33

Expenditures

In keeping with the rigid and limited character of governmental revenues, provincial and municipal governments have performed their functions with great frugality and economy. The small area and population of the Province have made it possible to dispense with an extensive municipal organization, but, on the other hand, there are certain basic essentials of provincial government which must be provided. Even when the overhead costs of these are kept at the possible minimum level they are uncontrollable and relatively high in relation to the small population. All the functions of government are provided for at substantially lower per capita costs than in other provinces, in part because these functions are much simpler in such a small unit, in part because smaller cash incomes can be paid in a community which largely lives on its own produce, and in part because the Government cannot afford to pay more.

Debt charges have in the past been held at a relatively low figure (about one-third of the Canadian average per capita) because the Province has not had to provide expensive transportation and frontier developmental facilities.* But this position has been somewhat altered by the Province's highway and relief work program in recent years, and net interest charges have more than doubled during the last decade. Borrowing has been done, however, at relatively advantageous rates, and the technical position of the provincial debt is exceptionally strong. There are no bonds payable in other than Canadian currency now outstanding; maturities are evenly spaced; and the sinking fund is strong.

Expenditures on education are some 40 per cent below the national average per capita and expenditures on public welfare (other than relief) 60 per cent less. It is true that a less varied and high

* It may, however, be noted that the Province became bankrupt through railway expansion prior to its entry into Confederation.

degree of specialization is necessary; that necessary physical plant is cheaper; that lower costs of living permit payment of lower salaries; and that family solidarity and a relatively high degree of self-sufficiency bear many burdens which are transferred to the state in other provinces, but in spite of all these factors, it is clear that standards are inadequate and below the average in many cases.

Direct relief expenditures have been kept to relatively negligible amounts, but the provincial government's public works program has been carried out on a large scale and has been responsible for aggregate expenditures on relief, relief works and other public works equal to the same percentage of the provincial income as similar expenditures in Ontario.

Transportation expenditures are closer to the national average than expenditures for most other services, and efforts to encourage the tourist trade may increase them. Expenditures on agriculture and development of other resources are low, in part owing to the lack of any provincial public domain, but this may be one of the fields in which enforced economy has been costly in view of the necessity of utilizing and co-ordinating the Island's limited resources to the maximum possible advantage.

Summary

With federal subsidies providing for approximately one-third of total provincial-municipal expenditures, and with some reserve of taxation (although in view of the general economic position of the Island's agricultural industry, no great reserve), it should be possible to maintain and gradually to improve services under the present system. Expenditures have been economically administered and the Island's credit and prospects of financial stability are good. On the other hand, there is little prospect under the present system of the Island Government being able to raise sufficient taxation from the sources open to them to bring the standards of governmental services to real equality with those in the rest of the country. This is a factor of growing importance owing to the cessation of the emigration which formerly absorbed the Island's natural increase of population. To provide for this population increase it would appear necessary either to foster some intensive domestic development, for which no economic base is at present evident, or to equip potential emigrants with at least as good training and education as possessed by other Canadians.

Nova Scotia

Table 89.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	N.S.	All Prov.	N.S.	All Prov.	N.S.	All Prov.	N.S.	All Prov.
Real Property Taxes	13.02	22.60	37	45	0.88	0.53	12.14	22.07
Gasoline Taxes and Motor Vehicle Licences	6.24	5.84	18	12	6.24	5.84	—	—
Public Domain	1.54	1.90	4	4	1.54	1.90	—	—
Liquor Control	2.66	2.68	7	5	2.66	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	5.43	6.85	15	15	0.73	1.64	4.70	5.20
Sub-Total	28.89	39.87	81	81	12.05	12.59	16.84	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	2.07	3.06	6	6	2.07	3.06	—	—
Income Taxes on Persons	0.09	1.24	0	2	—	1.07	0.09	0.17
Succession Duties	0.93	3.22	3	6	0.93	3.22	—	—
Total Revenue from Provincial Sources	31.98	47.96	90	96	15.05	20.11	16.93	27.84
Federal Subsidies	3.60	1.91	10	4	3.60	1.91	—	—
TOTAL	35.58	49.87	100	100	18.65	22.02	16.93	27.84

Revenue System

Nova Scotia's revenues per capita are about two-thirds the Canadian average, provincial revenues being 85 per cent and municipal revenues only 60 per cent of the average. The most striking features in comparison with most other provinces are the low returns from real property taxation, and the relatively high proportion of total revenues provided by the federal subsidy. The long history of adverse economic conditions, the depletion of some of the best resources, the prevalence of small-scale subsistence industry, and the vulnerability of Nova Scotia's specialized industries are responsible for the low taxable capacity. Government efforts to raise revenues without further reducing the provincial income are particularly difficult since the normal method—progressive taxation—would not be productive on an important scale in Nova Scotia. As a second best choice Nova Scotia has turned to consumption taxation of selected commodities. Liquor and gasoline taxation make up 25 per cent of the total revenue as compared with 17 per cent in all provinces. Public domain revenues, of which the great bulk are coal royalties, are of rather special character since a large proportion of the production is made possible only through Dominion subsidies and protection. Consequently, the provincial revenues from its public domain are in a sense paid by the Dominion Government. The revenue base is thus narrow and limited. Revenues from public domain must be related to the extent to which the Dominion is prepared to subsidize the mining industry. The gasoline tax rate is limited by the desire to attract tourists from the United States, although it should be noted that a high rate in Nova Scotia is less oppressive than in a province of much greater distances such as Saskatchewan. Liquor taxation, of course, is shared with the Dominion, and provincial revenues from that source will be affected by Dominion policy. Income tax and succession duty yields must inevitably be low unless relatively high taxation is imposed on quite small incomes. The marginal nature of the economy makes general consumption taxation, including property and sales taxes, undesirable. There is evidently great temptation to turn to corporation taxes and constant pressure to demand increased federal subsidies.

TABLE 90.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	N.S.	All Prov.	N.S.	All Prov.	N.S.	All Prov.	N.S.	All Prov.
Net Debt Charges	7.15	9.52	21	20	4.83	4.59	2.32	4.94
Public Welfare—								
Relief	1.15	5.45	3	11	0.83	3.86	0.32	1.59
Other	6.30	7.26	19	15	3.24	4.05	3.06	3.21
Education	7.78	9.78	23	20	2.37	2.89	5.41	6.89
Agriculture and Public Domain	1.06	1.86	3	4	1.06	1.86	—	—
Transportation	4.65	5.03	14	10	3.75	2.27	0.90	2.75
General Government and Miscellaneous	5.66	9.80	17	20	2.01	3.77	3.65	6.03
TOTAL	33.75	48.70	100	100	18.09	23.29	15.66	25.41
Per Capita Provincial Income, $	290	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	215	291	—	—	172	177	44	115
Percentage of Current Expenditure to Provincial Income	12	14	—	—	6	7	5	7
Percentage of Outstanding Debt to Provincial Income	74	84	—	—	59	51	15	33

Expenditures

Although the provincial government's net debt charges are at the same per capita level as in other provinces (and a higher proportion of provincial government revenues), municipal charges are only half the per capita average, making the total debt burden approximately three-quarters of the Canadian average. (In 1937 provincial income was 84 per cent of the Canadian per capita average.) Outstanding provincial debt doubled during the thirties, three-quarters of the increase being due to highway expenditures, and the balance to current deficits, including direct relief. The debt maturities are fairly evenly spaced up to 1952. Nearly half the debt is optionally payable in other than Canadian currency and is of relatively long-term and high-coupon rates. Recent borrowing at favourable rates has brought the average coupon rate below 4 per cent, but no refunding of the major portion of the high coupon debt will be possible for some time.

General government expenditures are less than 60 per cent of the national per capita average, and detailed comparisons indicate very frugal administration. On the other hand, it has been argued that a better paid civil service would make for long-run economy.

On education and public welfare (excluding relief) Nova Scotia is now spending proportionately more of total municipal-provincial revenues than other provinces, but still some 20 per cent less than the national per capita average. There has been notable improvement in these services since the granting of the Duncan and White Commissions' awards, and to some extent the lower than average level of expenditure is justified by lower costs and does not indicate inferior standards. Nevertheless some of the needs are greater—the high proportion of the population in the older age groups, the presence of some specially destitute rural areas, and the necessity of maintaining mobility of population, and of equipping emigrants with competitive techniques, all create special demands. The full importance of altered circumstances and competitive conditions was perhaps not appreciated for some time owing to the reserve accumulated from Golden Age days of an initially well-equipped and administered educational system.

The relief problem has been largely met in recent years by the provincial government's relief works and highways programs, and by the Dominion government's assistance to the coal and steel industry. The provincial government found the depression a favourable time at which to modernize its highway system with the advantages of cheap money and of using labour which would otherwise have been unemployed. It was hoped that this program would strengthen the economy by attracting tourist trade and lowering transportation charges, but it is still too early to determine whether the investment will prove self-supporting and what the employment situation will be when the program is terminated.

Transportation expenditures have absorbed a somewhat higher proportion of government revenues than average, but it is hoped that the new highway system will reduce maintenance costs. These expenditures afford a good example of the variation in provincial-municipal division of costs of various services throughout Canada. In Nova Scotia the provincial government supplies more than four-fifths of the total current expenditures on streets and roads; in the rest of Canada provincial governments supply less than half. Expenditures on public domain are small and have been kept fairly constant. Expenditures on agriculture have increased but those on forests have fallen perhaps below the minimum necessary in a region where conservation and protection are imperative.

Summary

Nova Scotia's provincial income reflects the long struggle of the region with serious economic disabilities. The relatively low and variable cash proportion of the income, and the fact that an important amount of the surplus income and wealth is drained off to Central Canada impose limitations on the tax system and at the same time create special demands for expenditures. The current effort to strengthen the economy by large scale capital expenditures has added substantial fixed charges, and the debt structure is such that there is little prospect of reduction in existing charges through normal refunding operations. Under the present system chronic pressure for increased federal subsidies and provincial services of less than average standards would appear inevitable.

New Brunswick

Table 91.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	N.B.	All Prov.	N.B.	All Prov.	N.B.	All Prov.	N.B.	All Prov.
Real Property Taxes	10.11	22.60	31	45	0.26	0.53	9.85	22.07
Gasoline Taxes and Motor Vehicle Licences	5.72	5.84	18	12	5.72	5.84	—	—
Public Domain	2.47	1.90	8	4	2.47	1.90	—	—
Liquor Control	2.51	2.68	8	5	2.51	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	5.37	6.85	16	15	0.55	1.64	4.82	5.20
Sub-Total	26.18	39.87	81	81	11.51	12.59	14.67	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	1.18	3.06	4	6	1.18	3.06	—	—
Income Taxes on Persons	0.29	1.24	1	2	—	1.07	0.29	0.17
Succession Duties	0.90	3.22	3	6	0.90	3.22	—	—
Total Revenue from Provincial Sources	28.55	47.96	89	96	13.59	20.11	14.96	27.84
Federal Subsidies	3.56	1.91	11	4	3.56	1.91	—	—
TOTAL	32.11	49.87	100	100	17.15	22.02	14.96	27.84

Revenue System

Total provincial-municipal revenues in New Brunswick are only two-thirds the national per capita average and, excluding Prince Edward Island, are the lowest in Canada. As in the other Maritime Provinces real property taxation is much below the average (in New Brunswick less than half the per capita average) and progressive taxation yields are negligible. Reliance has consequently been placed on selected consumption taxation (gasoline and liquor), public domain revenues, and on federal subsidies. The latter make up 11 per cent of total provincial-municipal revenues in New Brunswick as compared with the national average of 4 per cent. The nature of the provincial economy and of the provincial income (which is only 70 per cent of the national average) has been previously discussed in Chapter VII and accounts for the limited base of the revenue system. Where so many of the resources are marginal and so many of the incomes at bare subsistence levels, increased taxation on costs would submerge an important portion of the economy. In such a region there is little accumulated surplus wealth or surplus income. It is not clear, however, that the Province's efforts to tax what surplus income does exist have been as vigorous as possible; the income tax has been left to municipalities and succession duty rates are on balance lower than the average. The municipal income tax (with the exception of the Saint John income surtax) is levied on a frequently arbitrary assessment at the local real property tax rate with exemptions varying according to local conditions. It has become in fact a combination of a small poll tax and a rough approximation of a property tax but even when combined with real property taxation the total yield is less than half the Canadian per capita average. It is in this deficiency that much of New Brunswick's financial difficulty may lie. Municipalities cannot carry the same share of education, welfare and highway expenditures as they do in other provinces and the provincial government lacks the financial resources and tax basis to make good the difference. Nevertheless it is scarcely necessary to add that a doubling of real property taxation in New Brunswick is impracticable and even any substantial increase would require such a wholesale adjustment of rents and wages and lead to such an increased burden on the costs of many marginal enterprises that it would seriously damage provincial income and taxable capacity. The public domain revenues are above the average but are very dependent on the fluctuating fortunes of the lumbering industry, royalties and stumpage taxes, for example rising six-fold from 1933 to 1937. However, the relative decline in the competitive power of many of New Brunswick's natural resources limits their revenue possibilities. Corporation taxes have recently been extended and increased and the yield has been doubled, but it is evident that unless discriminatory forms of corporation taxation on extra-provincial companies are resorted to this source can never be a major revenue producer.

TABLE 92.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	N.B.	All Prov.	N.B.	All Prov.	N.B.	All Prov.	N.B.	All Prov.
Net Debt Charges	8.80	9.52	30	20	6.33	4.59	2.47	4.94
Public Welfare—								
Relief	0.59	5.45	2	11	0.42	3.86	0.17	1.59
Other	4.42	7.26	15	15	2.32	4.05	2.10	3.21
Education	6.08	9.78	21	20	1.66	2.89	4.42	6.89
Agriculture and Public Domain	1.49	1.86	5	4	1.49	1.86	—	—
Transportation	3.67	5.03	13	10	2.62	2.27	1.05	2.75
General Government and Miscellaneous	4.13	9.80	14	20	1.49	3.77	2.64	6.03
TOTAL	29.18	48.70	100	100	16.33	23.29	12.85	25.41
Per Capita Provincial Income, $	239	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	233	291	—	—	186	177	46	115
Percentage of Current Expenditure to Provincial Income	12	14	—	—	7	7	5	7
Percentage of Outstanding Debt to Provincial Income	97	84	—	—	78	51	19	33

Expenditures

The foregoing table does not show the marked increase in net debt charges in the most recent years. But, even in 1937, in spite of municipal debt charges which were only half the Canadian average, total provincial and municipal debt charges almost equalled the national average and absorbed 30 per cent of revenue as compared with 20 per cent for all of Canada. This is the highest proportion in Canada by quite a margin. It is the heritage of public works expenditures and other governmental efforts undertaken in the past to aid and strengthen the economy but which, in the face of the serious economic disabilities under which New Brunswick laboured, failed to stimulate income and taxable capacity significantly. The rate of increase in the last two years has been alarming, and in view of the already excessive amount of deadweight debt burden, the Province's credit is now seriously threatened. Nearly one-half the provincial government's debt is optionally payable in currencies other than Canadian and four-fifths of its bonds bearing 4½ per cent and higher coupons will not mature for ten years or longer. The result is that there is little prospect of saving from refunding in the near future.

General government expenditures, particularly on the administration of justice, were cut substantially during the depression and are the lowest per capita in the Dominion. There is some danger that this economy has been purchased at the expense of efficient administration. On education and public welfare New Brunswick spends only about 60 per cent of the national per capita average. Nevertheless as a consequence of the poverty which restricts New Brunswick's revenues the need for expenditures on the social services in general is greater than the average. New Brunswick has the highest proportion in Canada of very old and very young non-workers to its total population and has also a number of seriously depressed areas in which living standards have been reduced to very bare subsistence levels. Unemployment, as we have noted, has not recently been an important provincial problem but widespread and chronic poverty is a most serious one. Expenditures on welfare and education in relation to the needs are very low; even after adjustment for the lower costs resulting from less urbanization and lower salary scales, they are far below the Canadian average.

As in the other Maritime Provinces the self-subsistence nature of the economy reduced the necessity for extensive government relief but the most important factor in the employment situation in New Brunswick was the Government's extensive highway program. After severe curtailment of all capital expenditures in the depths of the depression a highway construction program was launched, and in recent years has been carried out on an unprecedented scale, directly contributing some 10 per cent of the total provincial income. Directly and indirectly this has met the unemployment problem for the time being, but has created fiscal problems of the first magnitude for the Government. It would seem clear that New Brunswick's program was initially a well-timed one and provided necessary and productive public works on very favourable terms, but it is also clear that the policy cannot be continued on anything approaching the same scale. It is still too early to weigh the costs and profits of the modern highway system which is being constructed and to determine whether it would be advantageous to fill in the network with secondary roads on an equally ambitious scale, but it must be recognized that substantial reduction of the Government's capital program will (unless some alternative stimulus appears) revive unemployment and relief problems.

Current expenditures on domain and transportation are somewhat larger in proportion to revenue, although somewhat less in dollars per capita, than the Canadian average. Highway maintenance expenditures have dropped and may drop further as a result of the improved roads now being constructed; public domain expenditures, however, may be too low to conserve and develop resources efficiently.

Summary

The Government's present highway program is only the most recent of a series of efforts to improve transportation facilities (which, owing in part to the large number of bridges in the "best watered country in the world," have always been costly) and encourage economic development. In the past the generally unfavourable trend of economic events has defeated these projects and has left the Province with both a costly burden of deadweight debt and inflated current expenditures. At the same time the economic difficulties of the Province have increased the need for positive action in the form of better education, research and development, and for defensive action through provision of public health and social service facilities. The low taxable capacity of the Province combined with reluctance to resort to direct taxation have made it impossible to raise sufficient revenues to finance both a positive developmental program and to provide educational, social service and public health services up to average Canadian standards. Debt charges and highway maintenance alone now take 55 per cent of provincial government expenditures as compared with the Canadian average of 30 per cent. Even substantial increases in provincial taxation would still leave New Brunswick hard pressed to carry her present burdens and forced to plead for increased federal subsidies as the chief hope for expanding those services which are at present much below the Canadian average.

QUEBEC

TABLE 93.—REVENUES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	Que.	All Prov.	Que.	All Prov.	Que.	All Prov.	Que.	All Prov.
Real Property Taxes	19.28	22.60	43	45	—	0.53	19.28	22.07
Gasoline, Taxes and Motor Vehicle Licences	4.62	5 84	10	12	4.62	5.84	—	—
Public Domain	2.03	1.90	5	4	2.03	1.90	—	—
Liquor Control	2.25	2.68	5	5	2.25	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	7.42	6.85	16	15	1.97	1.64	5.45	5.20
Sub-Total	35.60	39.87	79	81	10.87	12.59	24.73	27.27
Sales Taxes	1.41	0.57	3	1	—	0.17	1.41	0.40
Corporation Taxes	3.08	3.06	7	6	3.08	3.06	—	—
Income Taxes on Persons	0.54	1.24	1	2	—	1.07	0.54	0.17
Succession Duties	3.57	3.22	8	6	3.57	3.22	—	—
Total Revenue from Provincial Sources	44.20	47.96	98	96	17.52	20.11	26.68	27.84
Federal Subsidies	0.83	1.91	2	4	0.83	1.91	—	—
TOTAL	45.03	49.87	100	100	18.35	22.02	26.68	27.84

Revenue System

The Quebec revenue system as a whole conforms closely to the statistical average pattern, the chief differences being the exercise of income and sales tax powers by the municipalities rather than by the provincial government and the somewhat higher proportion of joint provincial-municipal revenues raised by municipalities. The most notable factor in relation to provincial income is the absence of highly developed progressive taxation. Per capita income in Quebec is somewhat less than average, but the extremes of distribution of income are far greater than average. The aggregate provincial income is made up of a small group of very high incomes and a large group of very low incomes. Nevertheless the personal income tax has been levied only municipally in the Montreal metropolitan area, and for the decade ending 1937 succession duty collections just equalled the national per capita average. To some extent this is explained by the historical fact that Quebec's finances were formerly in a uniquely strong position. Public domain revenues and liquor control profits were high and other taxation was unnecessary on the same scale as in the other provinces. But the fall in liquor profits from a peak of $12·3 million to a low of $2·4 million and of domain revenues from $7·4 million to $2·9 million during the depression completely altered the revenue picture. Provincial efforts to increase revenues were hampered, however, by the situation of the equally hard-pressed municipalities.

The municipal and real property tax situation was particularly complicated by the unique role which the Church plays in Quebec. Many functions, particularly in the field of public welfare and education, which are carried out by the local or provincial governments in other provinces are supported by the Church in Quebec. Although the personnel engaged on these services serve for merely nominal pay, there are substantial and unavoidable overhead costs which in the last analysis must be borne by the same incomes that support provincial and municipal taxation. As a result the Quebec taxpayer contributes more for services which in other provinces are largely supplied by the state than is evident from public finance statistics. These costs affect real estate in particular, both directly and through the exemption from taxation of the major portion of religious property. In part as a result of this situation some municipalities have turned to income and sales taxes, and to a number of licences and fees which are in effect corporation taxes in some cases, and this development has in turn restricted provincial freedom of action. Nevertheless the provincial government, in its search for additional revenues, has sharply increased corporation taxes.

The federal subsidy in the Quebec revenue system plays a relatively insignificant role, providing less than 2 per cent of provincial-municipal revenues. It is also worth noting the provincial subsidies to municipalities are only one-fifth those in Ontario.[16]

TABLE 94.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Que.	All Prov.	Que.	All Prov.	Que.	All Prov.	Que.	All Prov.
Net Debt Charges	9.44	9.52	20	20	2.19	4.59	7.25	4.94
Public Welfare—								
Relief	6.65	5.45	14	11	4.15	3.86	2.50	1.59
Other[(a)]	5.56	7.26	12	15	3.37	4.05	2.19	3.21
Education[(a)]	7.24	9.78	15	20	1.97	2.89	5.27	6.89
Agriculture and Public Domain	3.49	1.86	7	4	3.49	1.86	—	—
Transportation	4 87	5.03	10	10	2.37	2.27	2.50	2.75
General Government and Miscellaneous	10.10	9.80	22	20	3.98	3.77	6.12	6.03
TOTAL	47.35	48.70	100	100	21.52	23.29	25.83	25.41
Per Capita Provincial Income, $	299	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	242	291	—	—	91	177	151	115
Percentage of Current Expenditure to Provincial Income	16	14	—	—	7	7	9	7
Percentage of Outstanding Debt to Provincial Income	81	84	—	—	30	51	51	33

(a) See discussion in the text of qualifications necessary in comparing reported expenditures on these services in Quebec with expenditures in other provinces.

Expenditures

The net debt charges of the provincial government were still only half the national per capita average in 1937, but municipal debt charges brought the total to the average. The debt charges of religious institutions performing public services are unknown. Provincial net debt charges rose from the extraordinary low figure of 5 per cent of provincial revenue in 1930 (Canadian average then 17 per cent) to 12 per cent in 1937. Municipal debt charges, which have consistently been above the Canadian average as a percentage of revenue, increased further to 27 per cent of municipal revenues. With municipal debt charges per capita some 50 per cent above the Canadian average the rapid increase in provincial debt charges in recent years has been particularly serious. Provincial debt approximately tripled between 1929 and 1937. A little more than one-third of the increase was represented by tangible assets (chiefly highways) and the balance by relief, poor loans, and current deficits. The previous high credit standing of the provincial government permitted borrowing on favourable terms and, owing in part to this and in part to resort to shorter term securities, the average coupon rate on outstanding bonds was reduced from $4\frac{1}{4}$ per cent in 1929 to $3\frac{1}{4}$ per cent in 1937. Virtually all the borrowing during this period was in Canadian currency.. However, the relatively large amount of short-term securities outstanding leaves Quebec in a potentially vulnerable position if the Province's credit rating should weaken or if interest rates should rise. Municipal debts rose by one-third during the same period while in all other provinces they declined or rose only slightly. The greatest

[16] Book III, Table 61.

proportion of increase was in the Montreal metropolitan area but "other urban" and "rural" municipalities also showed important increases. Some advantage has been gained from refunding at lower interest rates but the deadweight burden is still increasing as municipal budgets as a whole are not yet balanced.

General government expenditures are slightly more, both per capita and in proportion to total expenditures, for both provincial and municipal governments than in the rest of Canada and have been consistently so in the past. Education and public welfare (excluding relief) expenditures are lower than the Canadian average, partly because of the previously mentioned contribution of the Church. These have also been restricted by the growing pressure of deadweight debt charges and relief on municipal budgets. There are many special problems in connection with these services in Quebec which reduce the value of a statistical approach or comparison and make it impossible to assess relative standards. The Church has not only traditionally assumed a direct responsibility for education and public welfare to an important extent, but it has also thrown the full weight of its influence behind the enforcement of family responsibility for provision of these services with important effects on the residual burden on governments. Thus comparisons with expenditures in other provinces must take account of the large contribution made by the Church, and of the greater than average contribution made by the recipients themselves and their relatives, but no precise monetary estimate of this contribution is possible.[17]

The particularly acute relief situation in Quebec has been discussed in Chapters VI and VII. The problem centred largely on the huge pool of unemployed, mostly of unskilled labour, which gathered in the Montreal metropolitan area. Direct relief payments on a very large scale in Montreal, back-to-the-land resettlement and colonization programs and sporadic public works projects piled up provincial-municipal deficits at the rate of about $20 million a year on current account, and were responsible for slightly more than one-half the $310 million increase in provincial-municipal debt from 1929 to 1937 (most of the balance was incurred for highways).

Public domain and development expenditures in Quebec are much higher than average as might be expected in a province with the extensive natural resources and the regional economic problems of Quebec.[18] These problems are serious, and adequate conservation, development, and research are essential if the Quebec economy is to achieve a stable balance and income.

Highway maintenance expenditures in Quebec have in the past been above the average, and have to some extent been a corollary of low capital expenditures. It is expected that the recent large investment in improved highways will be reflected in lower maintenance charges but it is doubtful whether Quebec received the same value from its expenditures on highway projects launched as relief works as did the Maritimes, for example, since the projects do not appear to have been as well planned and economically executed.

Summary

The financial position of Quebec, long considered the fiscal Gibraltar of the Canadian provinces, deteriorated alarmingly during the depression. The very strong financial position of the provincial government at the beginning of the depression, purchased in part at the expense of the municipalities and institutions, long tended to conceal the real position and the full importance of the change in circumstances. Quebec, faced with the collapse of the very large sector of its economy which was dependent on world trade and with widespread distress in both depressed urban and rural areas, was forced to make large-scale expenditures for relief and to launch positive and constructive remedial policies at a time when a number of its chief revenues were dwindling rapidly.

Municipal and institutional finances were also under severe pressure and those units were incapable of assuming any greater burdens. The provincial revenue system proved to be a fair weather one only, yet efforts to broaden its base were hampered by the plight of the municipalities. Delay in facing the need for a complete overhaul of both provincial and municipal revenue systems in the light of the radical changes in economic circumstances which had occurred was responsible for piling up a heavy burden of deadweight debt. Quebec would appear still to have some latent reserves of credit and taxation but will require a fairly drastic reorganization of the provincial and municipal division of revenues and responsibilities, and a substantial broadening of the joint provincial-municipal tax basis to provide for the new level of expenditures and debt.

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[17] Appendix 5, Esdras Minville, ***Labour Legislation and Social Services in the Province of Quebec***, pp. 47-49.

[18] See Chapter VII.

Ontario

Table 95.—Revenues on Current Account—Per Capita, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	Ont.	All Prov.	Ont.	All Prov.	Ont.	All Prov.	Ont.	All Prov.
Real Property Taxes	29.10	22.60	51	45	0.06	0.53	29.04	22.07
Gasoline Taxes and Motor Vehicle Licences	7.12	5.84	12	12	7.12	5.84	—	—
Public Domain	1.44	1.90	2	4	1.44	1.90	—	—
Liquor Control	2.82	2.68	5	5	2.82	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	6.18	6.85	11	15	1.50	1.64	4.68	5.20
Sub-Total	46.66	39.87	81	81	12.94	12.59	33.72	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	2.80	3.06	5	6	2.80	3.06	—	—
Income Taxes on Persons	1.63	1.24	3	2	1.63	1.07	—	0.17
Succession Duties	5.45	3.22	10	6	5.45	3.22	—	—
Total Revenue from Provincial Sources	56.54	47.96	99	96	22.82	20.11	33.72	27.84
Federal Subsidies	0.79	1.91	1	4	0.79	1.91	—	—
TOTAL	57.33	49.87	100	100	23.61	22.02	33.72	27.84

Revenue System

The outstanding feature of the Ontario revenue system is the high yield, both proportionately and absolutely, of real property taxation. This particular source has long been the backbone of Ontario public finance as might be expected from the highly urbanized character of the economy. It is chiefly through real property taxation that Ontario governments have taken advantage of the wealth and income which natural advantages and national policies concentrate in Ontario. In addition, Ontario has been in a particularly favoured position to develop income taxes and succession duties to tap the same taxable surpluses. In the decade ending 1937 Ontario collected $100 million of total succession duty collections of $180 million in Canada. In 1937 succession duties and income taxes amounted to $7 per capita, or nearly one-half the total revenue of the provincial government in Quebec, for example.

The other taxes are normally lower in rate but yield as much per capita as in the rest of Canada. Corporation taxes actually yield less per capita, in spite of the overwhelming concentration of corporations in Ontario, the generally strong financial position of the provincial government having allowed it in the past to avoid carrying this particularly undesirable type of taxation to the extremes found necessary by most of the other provinces. The closely related public domain revenues are also less than average, the important mining industry yielding less than one-half a million a year in royalties and licences. This is particularly notable in view of the wasting character of that industry's assets, its high current rate of profits, the large public expenditures which were made to facilitate mining development, and the large public expenditures which will have to be made when the mines are exhausted. Ontario has already seen the virtual extinction of former flourishing industries based on natural resources, such as Ottawa Valley lumbering and Cobalt silver mining, and adequate conservation measures where these resources can be economically maintained, or financial preparation for necessary future adjustments where the resources are exhaustible would seem desirable.

The high level of property taxation has put Ontario municipalities on the whole in a comfortable financial position. In addition, the relatively high yield of provincial taxation has enabled the provincial government to assist the municipalities. This position is in essence, of course, simply a reflection of the much higher average per capita income enjoyed in Ontario—in 1937, 43 per cent above the rest of Canada. But if national policies stimulate Ontario's income, national taxation takes a substantial amount of the cream, and Ontario's taxation to a greater extent than in other provinces is affected by federal tax policy. In the field of progressive taxation, in particular, Ontario's action is restricted and future development will be largely determined by federal policy. In return, federal subsidies are relatively negligible—in 1937 they provided less than 1½ per cent of provincial-municipal revenues.

TABLE 96.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Ont.	All Prov.	Ont.	All Prov.	Ont.	All Prov.	Ont.	All Prov.
Net Debt Charges	9.46	9.52	18	20	4.99	4.59	4.47	4.94
Public Welfare—								
Relief	4.15	5.45	8	11	2.75	3.86	1.40	1.59
Other	8.63	7.26	17	15	4.55	4.05	4.08	3.21
Education	12.01	9.78	23	20	3.19	2.89	8.82	6.89
Agriculture and Public Domain	0.98	1.86	2	4	0.98	1.86	—	—
Transportation	5.76	5.03	11	10	2.11	2.27	3.65	2.75
General Government and Miscellaneous	10.69	9.80	21	20	4.00	3.77	6.69	6.03
TOTAL	51.68	48.70	100	100	22.57	23.29	29.11	25.41
Per Capita Provincial Income $	430	345	—	—	—	—	—	—
Per Capita Outstanding Debts $	338	291	—	—	218	177	121	115
Percentage of Current Expenditure to Provincial Income	12	14	—	—	5	7	7	7
Percentage of Outstanding Debts to Provincial Income	79	84	—	—	51	51	28	33

Expenditures

Nearly one-half the debt of the Ontario Provincial Government, largely that portion represented by the Ontario Hydro-Electric Power Commission, is directly self-supporting, and while gross interest payments in 1937 were $33·2 million, net interest charges were only $18·5 million. Total net debt charges of provincial and municipal governments are almost exactly the Canadian per capita average and have increased somewhat less than the average during the thirties, although the provincial government's net debt charges alone have approximately doubled. Municipal charges have actually decreased and consequently aggregate provincial-municipal charges increased only from $30 million in 1930 to $35 million in 1937. The coupon rate on the provincial government's debt is relatively high (4·3 per cent in 1937) as a result of heavy borrowings at the high rates prevailing in the early twenties and again in the early thirties. However, $100 million of the 4½ per cent and higher coupon rate debt matures in 1942 and 1943, and nearly two-thirds of this debt matures by 1950. Maturities are fairly evenly spread, as a result in part of a number of serial issues which make up 30 per cent of the outstanding debt, but sinking fund provisions for the balance of the debt are relatively small. Slightly more than one-half the debt is now payable only in Canadian currency—in 1931 less then one-third was in this position. Municipal debt which in 1930 was nearly 50 per cent more than that of Quebec was less in 1937, and was being reduced at a rate of approximately 3 per cent per annum. The reduction is particularly striking in the case of highway debt incurred in the middle twenties and repaid in a relatively short term by serial retirements.

Education and public welfare expenditures reflect the high level of real property taxation which has been established in Ontario, and also the greater than average financial assistance which the provincial government has given municipalities. Municipal expenditures on these services are some 28 per cent above the national average and provincial-municipal expenditures together 21 per cent higher. Nevertheless, Ontario has lost some of the outstanding lead enjoyed in these services in the twenties.

Relief expenditures in Ontario, particularly in the industrial centres which depended on the purchasing power of the rest of the country, reached \$60 million in 1934 but dropped relatively quickly to less than one-half that amount by 1937. In addition to the measure of general recovery experienced in that year, the unemployment situation in Ontario was greatly alleviated by the spectacular expansion of the mining industry, which both directly furnished employment in the mines and stimulated supply and construction industries and incomes generally throughout the Province.

The expanding frontier provided a useful outlet for both provincial and municipal public works. Experience has shown how costly is a policy of attempting to meet unemployment by provision of unnecessary public works. Generally speaking, provincial and municipal governments had made what were considered to be adequate capital provision for the times during the twenties. When the depression struck, these facilities were in many cases found to be more than adequate and drastic retrenchment became the rule. Municipalities on whom the burden of unemployment first fell were thus led to undertake unnecessary projects and manufacture "boondoggling" jobs. Even at the peak this policy provided for only a small proportion of the total number on relief [19] and the cost and resulting deadweight debt burden proved out of all proportion to the cost of the alternative method of direct relief. This was partly because the municipality was a most inappropriate unit to plan and time suitable public works, and its credit base was too restricted to permit the necessary amount of deficit financing. The same considerations applied, although to a lesser extent, when provinces stepped in and adopted similar policies after municipalities had come to an end of their resources. In brief, in the absence of any long range and comprehensive planning of public works and administration by the Federal Government, which alone could pursue appropriate monetary policies to finance them, relief works programs by provincial and municipal governments were desirable only where some real need existed for new public works. We have already noted that the need for modern highways in the Maritimes provided an opportunity for a large-scale and basically sound public works policy. The mining development in Northern Ontario likewise created a need for both provincial and municipal works (roads, schools, etc.) and for this reason Ontario was able to resort to a public works policy more advantageously than other provinces.

On agriculture and public domain Ontario has found it necessary to make relatively small net expenditures, although the contribution of the Hydro-Electric Power Commission of Ontario, the Temiskaming and Northern Ontario Railway, and the Ontario Farm Loans Board to the development of the Province's resources should not be overlooked. It has already been noted that Ontario may not, however, be making adequate provision for the conservation and most economic exploitation of its natural resources, or for the situation which will develop when some of these resources are exhausted. The transportation expenditures of Ontario governments reflect the stronger than average financial position of the municipalities and the earlier assumption by the provincial government of responsibility for planning and carrying out a comprehensive and suitable highway policy.

Summary

Any discussion of public finance in Ontario must be in the light of the superior position Ontario holds in the national economy. In the field of public finance this has been taken advantage of largely through heavy real property taxation. As a result Ontario municipalities as a whole, and services jointly shared by municipalities (education, public welfare and roads), are in a more comfortable financial position than in the rest of Canada. (There are, of course, important exceptions such as one-industry towns and some metropolitan suburbs.) This superior financial position, however, has been purchased at the expense of a frequently inequitable burden on one class of wealth. Because Ontario possesses such a large proportion of the taxable income of the Canadian economy, federal taxation policy is a factor of major importance in the Province's financial outlook. In the past a sufficient field has been left to provincial tax authorities to enable them, with relatively moderate taxation, to establish a level of governmental services above the average. However, intensive federal direct taxation, added to the already high level of property taxation, would severely pinch the provincial government.

[19] Appendix 6—A. E. Grauer, ***Public Assistance and Social Insurance***, p. 12.

Manitoba

Table 97.—Revenues on Current Account—Per Capita, 1937

	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
—	Man.	All Prov.	Man.	All Prov.	Man.	All Prov.	Man.	All Prov.
Real Property Taxes	23.71	22.60	48	45	1.03	0.53	22.68	22.07
Gasoline Taxes and Motor Vehicle Licences	5.08	5.84	10	12	5.08	5.84	—	—
Public Domain	0.84	1.90	2	4	0.84	1.90	—	—
Liquor Control	2.44	2.68	5	5	2.44	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	6.73	6.85	14	15	1.48	1.64	5.25	5.20
Sub-Total	38.80	39.87	79	81	10.87	12.59	27.93	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	2.58	3.06	5	6	2.58	3.06	—	—
Income Taxes on Persons	3.89	1.24	8	2	3.89	1.07	—	0.17
Succession Duties	0.56	3.22	1	6	0.56	3.22	—	—
Total Revenue from Provincial Sources	45.83	47.96	93	96	17.90	20.11	27.93	27.84
Federal Subsidies	3.42	1.91	7	4	3.42	1.91	—	—
TOTAL	49.25	49.87	100	100	21.32	22.02	27.93	27.84

Revenue System

An important factor in the provincial-municipal revenue system of Manitoba is the substantial yield of real property taxation, particularly in Winnipeg. Another factor of particular interest in comparison with other provinces is the emphasis on direct taxation. The provincial income tax, which was long the heaviest in North America on low salary brackets, and provincial succession duties raised nearly one-fifth of total provincial revenues in 1937. This seems a high figure for an agricultural economy, but it is due in some degree to a greater economic diversity than is perhaps generally appreciated, and to the accumulation in the City of Winnipeg of a relatively large proportion of the surplus and taxable income of the Prairies. In addition, the provincial government took prompt and effective action to maintain revenues, and from their low point in 1931 provincial government revenues had recovered to the 1929 peak by 1933—the year in which aggregate provincial revenues touched their depression low and were some 20 per cent less than in 1929. In addition a special federal subsidy of nearly one-half again as much as the regular subsidy aided the provincial government in 1937. The revenue system of Manitoba has come through a period of abnormal strain as one of the soundest and most progressive in Canada.

TABLE 98.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Man.	All Prov.	Man.	All Prov.	Man.	All Prov.	Man.	All Prov.
Net Debt Charges	10.39	9.52	21	20	5.16	4.59	5.23	4.94
Public Welfare—								
Relief	6.96	5.45	14	11	4.10	3.86	2.86	1.59
Other	7.47	7.26	15	15	4.45	4.05	3.01	3.21
Education	9.63	9.78	20	20	2.33	2.89	7.30	6.89
Agriculture and Public Domain	1.02	1.86	2	4	1.02	1.86	—	—
Transportation	4.04	5.03	8	10	1.25	2.27	2.79	2.75
General Government and Miscellaneous	9.24	9.80	20	20	2.69	3.77	6.56	6.03
TOTAL	48.75	48.70	100	100	21.00	23.29	27.75	25.41
Per Capita Provincial Income, $	361	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	292	291	—	—	171	177	122	115
Percentage of Current Expenditure to Provincial Income	14	14	—	—	6	7	8	7
Percentage of Outstanding Debt to Provincial Income	81	84	—	—	47	51	34	33

Expenditures

Net debt charges (of provincial and municipal governments) roughly doubled in the early thirties, but in recent years have shown no increase. The provincial government's debt increase (1929-1937—$21 million) was almost entirely due to relief costs, and all capital expenditures were drastically curtailed. Although Manitoba's credit weakness prevented the government from making any economies through debt refunding, the new borrowing was done from the Dominion on 3 per cent Treasury Bills. Virtually all the outstanding 6 per cent bonds mature by 1947, but the major proportion of the $4\frac{1}{2}$, 5 and $5\frac{1}{2}$ per cent bonds do not mature until the fifties, and two-thirds of the debt is optionally payable in currencies other than Canadian currency. The interest charges are consequently rigid and vulnerable to exchange movements. The outstanding municipal debt, in spite of the pressure of relief costs on Winnipeg and of the drought in the southwestern corner of the Province, was reduced nearly 10 per cent from 1930 to 1937, owing largely to repayment of debt incurred for highway and public utilities.

Provincial and municipal expenditures on education and welfare (excluding relief) were reduced approximately 10 per cent from 1930 to 1937 although aggregate expenditures of all provinces and municipalities rose 5 per cent during this period. At the present figure Manitoba's expenditures on these services are almost exactly the Canadian per capita average, although there are some factors which would tend under normal circumstances to make them above the average. For example, in Manitoba, as in the other western provinces, there is a lack of privately endowed universities, hospitals, and other communal facilities which imposes a heavier burden on public funds than in the eastern provinces.

The major relief problem has been in the metropolitan area of Winnipeg, although drought relief was necessary in the southwestern municipalities, and the chronic distress of the interlake region grew worse. Winnipeg (and its suburbs) inevitably suffered heavily from its great dependence on the Prairie wheat industry, and in addition became the natural rallying point for the large body of floating labour which is such an essential element in the Prairie economy. Crop failures and the cessation of virtually all construction activities left this group destitute and added to the already serious unemployment problem of the Winnipeg area. A larger than average share of relief costs was left to municipalities (1930-1937—27 per cent as compared with the national average of 18 per cent) partly because Winnipeg's own financial position at the beginning of the depression was very strong. Several of its dormitory suburbs, however, entered the depression in a weak condition and, as their taxable capacity diminished almost as rapidly as relief costs grew, they were quickly forced into bankruptcy. The experience was both an indictment of the policy of leaving the costs of climatic and international trade disasters to small and arbitrarily segregated units, and of the obsolete form of municipal organization of metropolitan areas. The very good crops in recent years, combined with more than average severity of taxation and retrenchment of expenditure, permitted the provincial government and most of the municipalities to finance their shares of relief costs but at the expense of creating a sense of unjust and illogical treatment.

Expenditures on general government, public domain, and highway maintenance all reflect the severe policy of retrenchment pursued by the Manitoba Government. In some cases essential maintenance expenditures have been deferred to an extent which will prove costly in the long run. In the field of development there would appear to be room for some productive expansion of expenditure.

Summary

The financial position of Manitoba Governments reflects a picture of a very hard hit economy. The governments, however, rigorously reduced expenditures, discovered some unsuspected reserves of strength, and promptly chose a direct and efficient, although not particularly popular, method of maintaining revenues. These measures, with Dominion assistance, sufficed to weather the worst of the storm and Manitoba has recently been favoured with exceptionally good crops. Manitoba remains handicapped, however, by a rigid public debt structure and by a chronic metropolitan unemployment problem which affects the suburban municipalities in particular. Continuation of the present conditions threatens the credit and financial stability of both provincial and local governments.

SASKATCHEWAN

TABLE 99.—REVENUES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	Sask.	All Prov.	Sask.	All Prov.	Sask.	All Prov.	Sask.	All Prov.
Real Property Taxes	17.55	22.60	43	45	1.03	0.53	16.52	22.07
Gasoline Taxes and Motor Vehicle Licences	3.81	5.84	10	12	3.81	5.84	—	—
Public Domain	0.85	1.90	2	4	0.85	1.90	—	—
Liquor Control	1.35	2.68	3	5	1.35	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	7.75	6.85	19	15	1.87	1.64	5.88	5.20
Sub-Total	31.31	39.87	77	81	8.91	12.59	22.40	27.27
Sales Taxes	1.38	0.57	3	1	1.38	0.17	—	0.40
Corporation Taxes	1.30	3.06	3	6	1.30	3.06	—	—
Income Taxes on Persons	0.38	1.24	1	2	0.38	1.07	—	0.17
Succession Duties	0.26	3.22	1	6	0.26	3.22	—	—
Total Revenue from Provincial Sources	34.63	47.96	85	96	12.23	20.11	22.40	27.84
Federal Subsidies	5.98	1.91	15	4	5.98	1.91	—	—
TOTAL	40.61	49.87	100	100	18.21	22.02	22.40	27.84

Revenue System

The Saskatchewan débâcle is so well known that it is unnecessary to labour the point that statistical comparisons between Saskatchewan and other provinces for recent years are unrealistic. The per capita income of Saskatchewan, which for years exceeded the national average, was in 1937 only two-thirds of that average and, with the exception of Prince Edward Island, much the lowest in Canada. The revenue structure in Saskatchewan has been influenced by the nature of the economy and by the fact that during the period of expansion a few relatively simple tax measures yielded sufficient revenues to finance governments which were in general most economically administered. Our comparison shows that real property taxation in Saskatchewan was about three-quarters of the national per capita average in 1937, but this comparison is based on tax levies rather than on cash collections, and in 1937 only one-third of the municipal levy was collected. The other tax sources also tend to yield much less than the national average. Gasoline tax returns, for example, are reduced by exemptions for farm use; public domain revenues are low because of the limited range of resources and their unfavourable economic position at present; liquor profits are low because of the lack of purchasing power under present conditions; progressive taxation (income taxes and succession duties), in spite of high rates, yields relatively negligible returns, and the same circumstances—the lack of any individual or corporate concentration of wealth in Saskatchewan—restrict corporation tax yields similarly. The sales tax is an effort to broaden the base of taxation. It is more appropriate in an economy such as that of Saskatchewan's than it would be in other provinces, and has been productive in circumstances in which few other taxes could have been, but it cannot be looked on as a desirable permanent feature or precedent.

The marvel is not that Saskatchewan's revenues fell, but that they did not fall more. Provincial revenues, in fact, rose slightly between 1930 and 1937, and municipal revenues, on an accrual basis, fell only one-quarter. In 1937, 15 per cent of total provincial-municipal revenues was provided by the federal subsidy (including the special temporary grant). The special subsidy, the Dominion loans to the Province (and the subsequent write-offs), and the Dominion assumption of relief responsibility in the drought area form the leading example of the arbitrary financial transfers necessary on occasion, under the present division of powers and responsibilities, to maintain the framework of government.

TABLE 100.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Sask.	All Prov.	Sask.	All Prov.	Sask.	All Prov.	Sask.	All Prov.
Net Debt Charges	9.37	9.52	19	20	6.48	4.59	2.90	4.94
Public Welfare—								
Relief	11.44	5.45	23	11	10.91	3.86	0.53	1.59
Other	7.18	7.26	14	15	3.85	4.05	3.34	3.21
Education	8.72	9.78	18	20	3.36	2.89	5.36	6.89
Agriculture and Public Domain	1.35	1.86	3	4	1.35	1.86	—	—
Transportation	3.04	5.03	6	10	1.39	2.27	1.65	2.75
General Government and Miscellaneous	8.41	9.80	17	20	3.24	3.77	5.15	6.03
TOTAL	49.51	48.70	100	100	30.58	23.29	18.93	25.41
Per Capita Provincial Income, $	208	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	291	291	—	—	230	177	62	115
Percentage of Current Expenditure to Provincial Income	24	14	—	—	15	7	9	7
Percentage of Outstanding Debt to Provincial Income	141	84	—	—	111	51	30	33

Expenditures

The provincial government's debt interest charges (gross and net) tripled between 1930 and 1937, but an actual reduction in municipal debt charges has restricted the increase of aggregate provincial-municipal debt service during this period to little more than \$3 million (\$5·6 million to \$8·8 million). Even at the present figure the joint provincial-municipal debt (which is almost exactly the national per capita average) is not alarming, except in relation to the abnormally low provincial income of recent years. Any reduction through normal refunding processes of the interest rate on Saskatchewan's outstanding funded debt was not, of course, possible in the circumstances of the thirties, but the great bulk of the new debt consisted of Treasury Bills sold to the Dominion at artificially favourable rates, and interest on these has been paid by further Treasury Bill issues. Borrowing from the Dominion for relief purposes up to 1937 was greater than the total provincial debt in 1929. Slightly more than one-half the provincial funded debt is in optional payment securities and two-thirds of the $4\frac{1}{2}$ per cent and higher coupon bonds do not mature until the 1950's or later, thus introducing certain uncontrollable and rigid factors. But the special write-offs which the Dominion has already made on certain of its loans to Saskatchewan, the capitalization of interest due to the Dominion, and the assumption by the Dominion of the total costs of relief in the drought area all indicate that Saskatchewan's debt is considered as being in a special category, and can scarcely be appraised by conventional criteria. Although the financial position of Saskatchewan municipalities is desperate it is not revealed in their debt position because borrowings were held down to very moderate amounts during the twenties, and their credit was such that they simply could not borrow during the thirties.

Expenditures on education and public welfare (excluding relief) were cut between 1930 and 1937 by one-quarter. Education was particularly hard hit—joint provincial-municipal expenditures on education were reduced 40 per cent and rural municipal expenditures were cut by two-thirds. In the long run, when the personnel affected can find alternative employment, these reductions must produce serious deterioration in standards, and, as we have observed elsewhere, this concerns not only Saskatchewan but the whole country. The reduction in public welfare expenditures at a time when needs were increasing on a gigantic scale is the cold statistical reflection of a tremendous amount of human misery. It is not a surprising, although a tragic, commentary that the pressure on mental institutions became particularly acute and beds are lacking for one-third of the serious cases. It is true that expenditures on a per capita basis are not materially below the Canadian average, but in relation to the needs (and in relation to the previous standards which were maintained) they are pitifully inadequate.

Relief expenditures in Saskatchewan reached fantastic levels. In 1937, when two-thirds of the population were on relief, relief expenditures by all governments in Saskatchewan were double total provincial and municipal revenues, excluding subsidies. A great proportion of the burden was for agricultural aid, and the necessity of supplying the operating costs for the major industry, rather than merely subsistence for individuals, involved huge amounts of money. There is ground for serious criticism of the methods adopted. Although the Dominion had to supply the bulk of the funds, the loans to farmers were made through provincial and municipal agencies, and the unpopular task of collecting the loans to reimburse the Dominion was also in their hands; there is some reason for believing that they engaged in the former function with far more enthusiasm than in the latter. Of much greater importance than the inevitable financial losses in such a system was the penalty imposed on individual honesty and self-reliance. From the point of view of Dominion-provincial relations and the smooth working of the federal system the creation of a huge amount of inter-governmental debt, and the financial dependence of Saskatchewan on the Dominion were threatening. In addition to the necessity for agricultural aid in the drought area, which it could be hoped was a temporary phenomenon, it became evident that in some areas of submarginal land a large proportion of the population would have to be moved. The provincial government of course has not had the funds, either to attempt to rehabilitate the depressed areas or to transfer people to undeveloped northern lands and equip and support them on the necessary scale.

Expenditures on general government, agriculture, public domain and highways all reflect drastic retrenchment. Highway maintenance expenditures were cut most severely—from 1930 to 1937 by 45 per cent. These cuts fell on a province which had never, except for a brief period in the early thirties, been a lavish spender, and they have consequently reduced expenditures in many cases below the desirable minimum level. The long-run costs of deferred maintenance threaten to be very great.

Summary

Saskatchewan presents the outstanding example of the unsuitability of the existing public finance system in emergencies,—but it must be admitted that almost any system would have broken down in the circumstances. However, when we consider the unfavourable economic prospects for Saskatchewan's major industry and the need for very large rehabilitation expenditures, it seems evident that Saskatchewan will not, under the present system, be able to assist the recovery of its economy or to provide its population with services on a desirable scale. Although incomes are high in good years, they are not in easily taxable form, and there are no urban centres or corporate organizations of importance in Saskatchewan where surplus income accumulates and can be reached by provincial taxation. The rest of the country came to Saskatchewan's assistance on a very large scale in the emergency of the drought disaster, but there is serious danger that Saskatchewan will be left to its own inadequate resources to face the major long-run problems of readjustment and recovery.

ALBERTA

TABLE 101.—REVENUES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
	Alta.	All Prov.	Alta.	All Prov.	Alta.	All Prov.	Alta.	All Prov.
Real Property Taxes	22.35	22.60	45	45	1.52	0.53	20.83	22.07
Gasoline Taxes and Motor Vehicle Licences	5.63	5.84	11	12	5.63	5.84	—	—
Public Domain	2.17	1.90	4	4	2.17	1.90	—	—
Liquor Control	3.33	2.68	7	5	3.33	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	8.03	6.85	16	15	3.28	1.64	4.75	5.20
Sub-Total	41.51	39.87	83	81	15.93	12.59	25.58	27.27
Sales Taxes	0.77	0.57	2	1	0.77	0.17	—	0.40
Corporation Taxes	2.74	3.06	5	6	2.74	3.06	—	—
Income Taxes on Persons	0.85	1.24	2	2	0.85	1.07	—	0.17
Succession Duties	1.70	3.22	3	6	1.70	3.22	—	—
Total Revenue from Provincial Sources	47.57	47.96	95	96	21.99	20.11	25.58	27.84
Federal Subsidies	2.28	1.91	5	4	2.28	1.91	—	—
TOTAL	49.85	49.87	100	100	24.27	22.02	25.58	27.84

Revenue System

The distinctive features of the Alberta revenue system include the survival of provincial real property taxation (as in Saskatchewan) and of some features of it which still show the influence of single tax theories. Progressive taxation, in spite of high rates (and in spite of an abnormally high succession duty payment in 1937), yields less than average. Corporation taxes have recently been sharply increased—a step influenced by more than simply revenue considerations. There was also a short-lived experiment with a provincial retail sales tax in 1936 and 1937. The new Turner Valley oil field has been chiefly responsible for a rapid expansion in public domain revenues. Provincial revenues (excluding subsidies) dropped 23 per cent from 1929 to 1931, but since then have risen impressively and by 1937 were one-third above the 1929 peak, although provincial income was 30 per cent lower. Virtually all forms of provincial revenue show increases since 1929 with the exception of real property taxation. But, even the returns of this tax, both provincially and municipally, did not decline as much as might have been expected and total provincial-municipal revenues in 1937 were 7 per cent higher than in 1930. The fall in land values, however, has made the prevailing rates of property taxation extremely burdensome.

TABLE 102.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	Alta.	All Prov.	Alta.	All Prov.	Alta.	All Prov.	Alta.	All Prov.
Net Debt Charges	7.55	9.52	17	20	[a]4.58	4.59	2.97	4.94
Public Welfare—								
Relief	3.76	5.45	8	11	2.48	3.86	1.28	1.59
Other	7.11	7.26	16	15	3.82	4.05	3.28	3.21
Education	12.14	9.78	27	20	3.39	2.89	8.75	6.89
Agriculture and Public Domain	1.14	1.86	3	4	1.14	1.86	—	—
Transportation	5.35	5.03	12	10	1.72	2.27	3.63	2.75
General Government and Miscellaneous	7.66	9.80	17	20	3.00	3.77	4.67	6.03
TOTAL	44.71	48.70	100	100	[a]20.13	23.29	24.58	25.41
Per Capita Provincial Income, $	312	345	—	—	—	—	—	—
Per Capita Outstanding Debt,[a] $	284	291	—	—	218	177	66	115
Percentage of Current Expenditure to Provincial Income[a]	14	14	—	—	6	7	8	7
Percentage of Outstanding Debt to Provincial Income[a]	91	84	—	—	70	51	21	33

[a]Excludes unpaid interest.

Expenditures

National interest has been centred on Alberta's arbitrary reduction of debt charges. These have consistently been the highest of any province in Canada and it is perhaps not surprising that they were singled out for attack. Provincial net debt charges in 1930 were \$4·3 million annually, and in 1937 at full interest rates would have been (after adjustment for interest received) \$5·4 million; actually they were \$3·6 million. Only 22 per cent of the provincial funded debt is payable in Canadian currency only, and more than one-half the debt bearing 4½ per cent coupon rates or higher does not mature until after 1950. It is consequently evident that the provincial debt at its original coupon rates was in a technically rigid and vulnerable position, and only small reductions in carrying charges would have been possible through orderly refunding. Municipal debt is substantially below the Canadian average and per capita municipal debt charges in 1937 were only one-half the average. This is in part due to reorganization of the Calgary and Edmonton debts. The outstanding debt of rural municipalities is negligible. Roughly speaking, the savings from the interest cut have been used to pay for relief, thus holding debt increases on this account below the average. In addition, capital expenditures have been held down to moderate levels, resulting in the lowest over-all debt increase for combined provincial and municipal governments during the depression in any province except Manitoba.

Expenditures on welfare (excluding relief) and education are still 13 per cent above the national per capita average, although they have declined 3 per cent as compared with a nation-wide increase of 5 per cent between 1930 and 1937. Expenditures by the provincial government on these services have been increased, offsetting part of the enforced reduction in municipal expenditures on education. Certain factors, such as the cost of living and the scattered nature of settlement, tend to make the costs of these services higher than average in order to provide equal standards. In addition, Alberta has experimented more freely than most other provinces with advanced forms of public welfare and educational services. In this, as in the provision of community equipment, Alberta has consistently shown an inclination, characteristic of newly opened and rapidly developing economies, to use community effort and credit to accelerate development and provide the amenities of life. This policy inevitably involves, of course, a higher level of governmental overhead, but may in return provide a higher real provincial income.

Agricultural relief has been a serious problem in Alberta, although owing to materially better crops and greater diversification than in Saskatchewan not on the same tremendous scale as in that Province. Distress was caused by the combination of ruinously low prices and what are probably the highest fixed charges (in the form of agricultural indebtedness, railway freight rates, irrigation investments and government indebtedness) in Canada rather than by climatic disaster. The provincial government, which supplied the bulk of the funds necessary for agricultural relief, collected a much higher proportion of its advances than did Saskatchewan, where Dominion funds were re-loaned, in part because of the better crops in Alberta and the reduction in private debt charges. In Edmonton and Calgary, Alberta has a problem somewhat similar to that of Winnipeg's, although on a much smaller scale, as the unemployed floating labour of the Western Provinces tend to congregate there. The Turner Valley oil development and the mining activity in the Northwest Territories alleviated the problem in Calgary and Edmonton, but only to a limited extent. Advances to these cities of more than \$2½ million were made by the provincial government but nevertheless the burden proved excessive, and they were forced to reduce their debt charges. The Government's arbitrary reduction of interest rates has had important and probably unexpected reactions on the method of financing relief. In 1937 (i.e. fiscal year 1937-38), which was the first period in which the full effect of the halving of interest rates on government bonds was reflected in the budget and the latest period for which complete statistics on relief expenditures are available, the Province and municipalities spent some \$4 million on relief from their own funds. The provincial government reduced interest payments by \$3·4 million. In brief, relief was financed by a forced levy on bondholders rather than, as in other Western Provinces, by advances from the Dominion; from an immediate cash point of view the beneficiary of the Alberta action was the Dominion government which was relieved of the necessity of making further loans to the province, although it was the provincial government which bore the stigma of default.

Expenditures on public domain, agriculture and highways are influenced by the fact that Alberta possesses the last important undeveloped agricultural frontier in Canada. Development of this frontier, and also of the newly discovered mineral and oil resources, calls for substantial capital investment and for increased expenditures on current account. The nature of the terrain and the long distances which separate the settled areas make the provision and maintenance of highways more costly than average.

Summary

Alberta's financial position should be considered in relation to its present economy and its potential development, as well as to the condition of default which now exists. High debt charges have unquestionably been an outstanding and important characteristic, not only of Alberta public finance but of the whole economy, and they become extremely serious when income falls sharply. The pressure is intensified, of course, by the fact that most of the debt is held externally and the creditors are consequently not subject to the jurisdiction of Alberta taxing authorities. In these circumstances the rigidity of the debt structure will, on occasion, put great pressure on the economy, and, as a natural reaction, make the position of creditors highly vulnerable. A more elastic and appropriate form of financing than that of fixed interest rates for agriculture and other economic activities would add greatly to the Province's prospects of financial stability. The need for additional capital to finance the development which Alberta's resources would apparently justify makes this an extremely important factor. With a private and public financial structure designed in relation to its regional characteristics and economic disabilities, Alberta should be able to maintain a high standard of living and of community services.

BRITISH COLUMBIA

TABLE 103.—REVENUES ON CURRENT ACCOUNT—PER CAPITA, 1937

	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Revenue		$ Per Capita		$ Per Capita	
—	B.C.	All Prov.	B.C.	All Prov.	B.C.	All Prov.	B.C.	All Prov.
Real Property Taxes	26.11	22.60	38	45	2.74	0.53	23.37	22.07
Gasoline Taxes and Motor Vehicle Licences	8.03	5.84	12	12	8.03	5.84	—	—
Public Domain	5.88	1.90	8	4	5.88	1.90	—	—
Liquor Control	5.45	2.68	8	5	5.45	2.68	—	—
Miscellaneous Taxes, Licences, Fees, etc.	7.70	6.85	11	15	3.62	1.64	4.08	5.20
Sub-Total	53.17	39.87	77	81	25.72	12.59	27.45	27.27
Sales Taxes	—	0.57	—	1	—	0.17	—	0.40
Corporation Taxes	9.25	3.06	13	6	9.25	3.06	—	—
Income Taxes on Persons	2.67	1.24	4	2	2.67	1.07	—	0.17
Succession Duties	1.90	3.22	3	6	1.90	3.22	—	—
Total Revenue from Provincial Sources	66.99	47.96	97	96	39.54	20.11	27.45	27.84
Federal Subsidies	2.16	1.91	3	4	2.16	1.91	—	—
TOTAL	69.15	49.87	100	100	41.70	22.02	27.45	27.84

Revenue System

The most striking feature in the above table is the comparison between the per capita revenues of the provincial government of British Columbia and the average for all Canadian provinces. The British Columbia figure is nearly double the average. Municipal revenues are at the Canadian average, although a smaller portion of British Columbia is municipally organized than is the case in most provinces.

Nearly all the revenue sources produce higher returns than in the rest of Canada, but the most striking lead is in corporation taxation and public domain revenues. These are three times the Canadian average in yield per capita. They are made possible by the richness of some of British Columbia's natural resources and the highly concentrated corporate form of organization which has been adopted to exploit them. Gasoline taxes, liquor control profits and real property taxation all substantially exceed national averages and reflect the higher per capita income and purchasing power in British Columbia. On the other hand, succession duty yields are little more than half the national average, in part because sufficient time has not yet elapsed for the accumulation of large individual fortunes, and in part because provincial policy has been to encourage migration to the coast of wealthy retired people. Revenues, and particularly provincial corporation, gasoline, liquor control and public domain revenues, showed remarkable recovery from the low point in 1933. Provincial revenues in 1937 were almost one-quarter more than in 1929. Owing to a fall in real property tax yields in Vancouver, however, there was a slight decline in total municipal revenues, and aggregate provincial-municipal revenues increased only some 11 per cent between 1930 and 1937, or slightly less than the increase for all provinces and municipalities. The dominating importance of corporation taxes and public domain revenues will be noted from the foregoing table. These two revenue sources, on a per capita basis, are three-fourths as much as the total provincial government revenues of all provinces, or nearly as much, for example, as the total provincial government revenues of Quebec. They reflect the higher than average return derived from the large-scale development of British Columbia's natural resources made possible in the last two decades by technological advances and important reductions in ocean freight rates. Many of these resources are of a wasting character, and it has evidently been the Province's policy to secure a substantial share of the profits derived from their exploitation while it has the opportunity. In addition to the direct return derived by the provincial government from its natural resources, the higher than average income in British Columbia is based to an important extent on their very rapid development and on the ancillary construction industry activity in the last two decades, and this income is reflected in the generally high yield of consumption and other taxes.

The provincial income tax, which was the first to be imposed in Canada, starts at a relatively low figure (single person's exemption $600) and progresses to a rate of 10 per cent on all taxable income plus a surtax rising to 18 per cent on large incomes. As no exemption is allowed for Dominion income tax payments,* the tax is a relatively heavy one on higher incomes. It has proved a stable source of revenue, and yields substantially more per capita than does the Ontario income tax, for example, but the double taxation involved is resented.

TABLE 104.—EXPENDITURES ON CURRENT ACCOUNT—PER CAPITA, 1937

—	Provincial and Municipal				Provincial		Municipal	
	$ Per Capita		Percentage of Total Expenditure		$ Per Capita		$ Per Capita	
	B.C.	All Prov.	B.C.	All Prov.	B.C.	All Prov.	B.C.	All Prov.
Net Debt Charges	14.37	9.52	21	20	8.71	4.59	5.66	4.94
Public Welfare—								
Relief	6.09	5.45	9	11	5.09	3.86	1.00	1.59
Other	10.47	7.26	15	15	6.25	4.05	4.22	3.21
Education	12.47	9.78	18	20	5.69	2.89	6.78	6.89
Agriculture and Public Domain	2.53	1.86	4	4	2.53	1.86	—	—
Transportation	6.18	5.03	9	10	3.83	2.27	2.35	2.75
General Government and Miscellaneous	15.74	9.80	24	20	7.04	3.77	8.70	6.03
TOTAL	67.85	48.70	100	100	39.14	23.29	28.71	25.41
Per Capita Provincial Income, $	425	345	—	—	—	—	—	—
Per Capita Outstanding Debt, $	379	291	—	—	238	177	141	115
Percentage of Current Expenditure to Provincial Income	16	14	—	—	9	7	7	7
Percentage of Outstanding Debt to Provincial Income	89	84	—	—	56	51	33	33

Expenditures

Per capita net debt charges of combined provincial and municipal governments are 50 per cent above the Canadian average, but they increased only 10 per cent between 1930 and 1937 as compared with an average increase of 24 per cent. These charges have, in fact, declined slightly since 1932, when the premium on foreign exchange was an important item. Virtually all net increase in debt since 1933 has been borrowed from the Dominion on 3 per cent Treasury Bills, but some public borrowing, largely for refunding purposes, has also been done at 3 and 3½ per cent. There has also been some reduction in recent years in the outstanding provincial debt payable abroad but nearly four-fifths of the funded debt is still optionally payable in other than Canadian currency. Three-fifths of the provincial debt bearing 4½ per cent or higher coupons matures before 1950, with particularly large maturities in the early forties. The Government has maintained large cash balances and sinking funds in preparation for these maturities, and its technical position to refund them on

* Although income taxes paid by B.C. corporations to the provincial government are deductible from personal income taxes paid by B.C. dividend recipients.

advantageous terms would appear to be strong. There have been no significant variations in municipal debt in recent years.

Expenditures on education and public welfare (excluding relief) are about one-third above the national per capita average, although they do not absorb quite as large a proportion of total municipal-provincial revenues as in other provinces. The notably high return from public domain and corporation taxation has made it possible for the Province to provide higher than average services, and has enabled the provincial government to contribute a substantially larger proportion of the total than in any other province (except Prince Edward Island). This is particularly notable in the case of education, where the provincial government provides 45 per cent of the expenditure as compared with an average contribution of 30 per cent. In several important fields of public welfare British Columbia has pioneered and this, coupled with higher costs of living and of salaries and the sparseness of the population outside the metropolitan area of Vancouver, has contributed to the higher than average costs in British Columbia. However, even after allowing for these factors, it would seem clear that British Columbia provides better than average standards in these services.

Relief costs in British Columbia rose sharply at the beginning of the depression, and have throughout been substantially more than the national average. Although they were not as severe in relation to provincial income as in the Prairie Provinces, the Province was forced to resort to borrowing from the Dominion as early as 1931 and, in spite of the buoyant revenues of recent years, the relief burden has prevented the complete re-establishment of provincial credit. The extreme depression in the primary exporting industries (and in those supplying the Prairies), the impact on the service, supply and shipping industries of Vancouver, the immigration of unemployed attracted by the coast climate, and the higher standards maintained, all intensified the problem. In common with the rest of the country public works were undertaken on a large scale in the early years of the depression, but since 1932 the bulk of the expenditure has been on direct relief. However, since 1935 the municipal proportion of the total burden has declined as rapidly rising provincial revenues enabled the provincial government to assume a larger share. In addition, provincial government expenditures on public works, which were reduced to virtually nothing in the depths of the depression, have recovered to approximately pre-depression levels and have been a factor in reducing unemployment.

Expenditures on public domain and transportation, as might be expected from the topographical nature of the Province and the importance of developing its great but sometimes almost inaccessible resources, exceed the average per capita expenditures. It would seem clear that substantial additional expenditures on conservation of some types of resources, and on development of alternative means of livelihood for the population dependent on the exhaustible resources, will be necessary.

Expenditures on general government are strikingly higher than average. They are more than double the expenditures in the three Maritime Provinces together, for example, and nearly double expenditures in Manitoba or Alberta, which have each approximately the same population. To some extent this may be explained by the higher costs arising from the nature of the country, and from higher salaries necessary in order to develop a competent Civil Service in step with the rapid expansion of the Province, but the 10 per cent increase in these expenditures between 1930 and 1937 compares with a 4 per cent decrease in expenditures on general government by all Canadian governments over the same period.

Summary

British Columbia's high provincial income combined with its high rates of taxation yields a very much larger than average government revenue, and have made possible the provision of government services of superior standard. To an important extent, however, the Province has been living on its capital, and it can scarcely be expected that the fortuitous coincidence of economic events of the last two decades which proved so stimulating and advantageous to British Columbia will be repeated. The necessity for amortizing debt incurred for developmental projects, and particularly for those such as the Pacific Great Eastern which have already proved ill-advised and unproductive, before the best of the resources are exhausted, is clear. Equally important is the most economic utilization of the remaining resources, and the development of ways and means of strengthening the economy for the future. The high and apparently rigid character of governmental overhead costs will be a serious liability when resources are depleted, particularly as the present revenue system, which has been so strikingly productive in recent years, would in these circumstances be seriously crippled. However, in the meantime British Columbia residents have the advantage of better education and better communal services than has the average Canadian citizen, and they have shown a willingness to maintain these standards by submitting to higher than average taxation.

5. The Contrast: Confederation and Today

Within the brief compass of the preceding chapters we have attempted to portray the significant economic, financial, political and social changes which constitute the background of the present problems of Dominion-provincial relations and public finance. To obtain a proper understanding of those problems we have found it necessary to survey the history of Confederation, and to analyse the factors which have determined the course of Canadian development and have made Canada what it is to-day. We have outlined the forces which brought about Confederation, the federal distribution of financial powers and responsibilities which was set up in 1867, and the political and economic objectives of the new self-governing British Dominion in North America. We have described, with particular reference to the working of the federal fiscal system, how, within that political framework, the isolated regions and pockets of settlement with a population of less than three and a half millions have grown into an integrated transcontinental economy with a population of eleven millions; how small towns and cities have grown into large urban concentrations and great metropolitan centres; how the self-sufficiency of the household and the family has been superseded by highly specialized activities which are closely dependent upon the smooth operation of an intricate exchange economy; how the meagre but relatively stable incomes have risen to support a much higher but more precarious standard of living; and finally how the philosophy of government has changed from one of laissez-faire to one of increasing interference with a view to improving economic and social conditions. These far-reaching changes have had a profound effect upon public finance, and particularly upon that of our federal system.

Table 105.—The Growth of Government Expenditures Since Confederation and the Increasing Share Borne by the Provinces and Municipalities

(Millions of Dollars)

—	Total[a]		Dominion		Provinces		Municipalities		Percentage of Dominion to the Total	
	1874	1937	1874	1937	1874	1937	1874	1937	1874	1937
Net Debt Charges	6.6	271.3	5.4	167.0	0.6	50.9	[b] 1.8	54.8	82	62
National Defence and War Pensions	1.3	88.0	1.3	88.0	—	—	—	—	100	100
Public Welfare—										
Relief	—	126.6	—	66.1	—	42.9	—	17.6	—	52
Other	1.4	124.4	0.2	43.8	0.7	45.0	0.5	35.6	14	35
Education	3.0	108.9	—	—	1.4	32.1	1.6	76.5	—	—
Highways and Transportation	5.4	73.8	2.8	18.0	1.2	25.2	1.4	30.6	52	24
Highways and Transportation (including debt charges)	(9.8)	(240.4)	(7.2)	(143.0)	(1.2)	(51.6)	(1·4)	(45.8)	(73)	(59)
Public Domain and Agriculture	1.6	38.5	0.9	17.9	0.7	20.6	—	—	56	46
General Government and Miscellaneous	12.6	164.6	6.0	56.2	3.9	41.8	2.7	66.9	48	34
Subsidies to Provinces	—	—	3.8	21.2	—	—	—	—	—	—
TOTAL	31.9	996.1	20.4	478.2	7.3	258.5	8.0	282.0	64	48
Total Expenditures Per Capita, $	8.19	89.58	5.24	43.00	1.87	23.25	2.05	25.36	—	—
Percentage of Total Expenditures to the National Income	9%	26%	6%	12%	2%	7%	2%	7%	—	—

(a) Less Duplications.
(b) Estimated.

The revolutionary change since Confederation in the economic and social role of government is strikingly illustrated in Table 105 above. Between 1874 and 1937 total per capita government expenditures increased by eleven times. The portion of the national income spent by governments rose from less than one-tenth to more than one-fourth of the total. The collective efforts to promote economic development and the collective assumption of the responsibility for the alleviation of individual distress and for the provision of rising standards of public welfare and education have come to play an immensely important part in the economic affairs of the country—a part which could hardly have been envisaged at the time of Confederation and provided for in the framing of the constitution. The amounts expended to promote economic development, added to debt charges arising out of war and deficits, have risen from $14 million to $384 million. The cost of education and public welfare rose from the almost negligible figure of $4 million to $360 million. Such increases would in any case have created difficult problems for public finance, but under the federal system these difficulties were greatly enhanced. The division of powers and responsibilities devised at Confederation was made on the basis of conditions existing at the time. The Federal Government was charged with the responsibilities which were then national in scope—of which defence and economic development were the most important—and the provinces and their municipalities with responsibilities which were then predominantly local in nature, including education, public welfare and local works. The growth in government expenditures and functions has not fitted the simple pattern which was set up in 1867. Government responsibilities which were formerly of purely local significance have become national in character. The provinces have assumed heavy commitments for economic development. The invention of the motor vehicle has added heavy burdens to provincial expenditures on transportation. A number of essential or important public welfare services which have remained as primary obligations of local governments can now be provided efficiently only on a national basis. The provinces, which at the time of Confederation were not expected to incur any sizeable debts, had by 1937 assumed debt charges which absorbed over one-fifth of their current revenues. Public welfare, the outlay upon which was negligible in 1874, took more than one-third of the provincial revenues in 1937. Thus, expenditures which were virtually non-existent at Confederation absorbed nearly 60 per cent of total provincial receipts on current account in 1937. The development of these expenditures by the provinces in addition to the share supported by their municipalities has greatly altered the relative importance of the different layers of government in our federal system. The share of the total costs of government borne by the Dominion, which possessed the broadest base of taxation, fell from two-thirds to less than one-half. Furthermore, an important part of the Dominion's outlay at the present time, namely for relief and old age pensions, is actually expended by the provinces.

The increase in revenues required to support the immense rise in government expenditures has placed a heavy strain on the constitutional division of powers adopted at Confederation. The revenue sources used in 1874 (of which customs and excise collected by the Dominion made up two-thirds of the total), provided only one-half of all government receipts in 1937 including the taxes on real estate which have continued to support virtually the whole of the great increase in municipal services. The Dominion, which in 1874 depended almost entirely on the essentially national revenue sources of customs duties and excises on a few luxuries, has expanded its income mainly by a heavy impost on general consumption, by levies on corporations and by the taxation of personal net incomes. The provinces, which at Confederation were given power to levy direct taxation, but were expected to rely on the fixed federal subsidies, and on receipts from public domain and from various licences and fees, obtained less than one-fourth of their income from these sources in 1937. The unconditional federal subsidies comprised nearly two-thirds of total provincial revenues in 1874 and less than one-tenth in 1937. The great bulk of the present provincial revenues is collected from sources which have been interpreted as falling under provincial jurisdiction but which could hardly, if at all, have been envisaged at Confederation. Some of these sources are directly competitive with those employed by the Dominion; many of the others constitute onerous or uneconomic levies on consumption and the costs of production. With the joint occupation of the field of direct taxes, neither the Dominion nor the provinces nor both together have been able to employ the progressive taxes to the extent which is economically and socially desirable.

It is clear that the present situation in Canadian public finance represents a wide departure from the conception of the Fathers of Confederation and from the spirit of the financial settlement which

TABLE 106.—GROWTH OF GOVERNMENT REVENUES SINCE CONFEDERATION

(Millions of Dollars)

—	Total[a]		Dominion		Provinces		Municipalities		All Government Percentage to Total Revenues	
	1874	1937	1874	1937	1874	1937	1874	1937	1874	1937
Revenue from Sources used at Confederation—							[b]			
Customs	14.4	112.1	14.4	112.1	—	—	—	—	46	11
Excise	5.6	52.0	5.6	52.0	—	—	—	—	18	5
Public Domain	1.8	23.6	0.4	2.5	1.4	21.1	—	—	6	2
Licences, Permits and Fees	1.2	21.9	—	2.5	0.7	8.9	0.5	10.5	4	2
Taxes on Real Property	6.5	250.8	—	—	—	5.9	6.5	244.9	21	25
Miscellaneous	1.5	39.1	0.4	10.2	0.1	3.3	1.0	27.0	5	5
Sub-Total	31.0	499.5	20.8	179.3	2.2	39.2	8.0	282.4	100	50
Revenue from Sources Developed since Confederation—										
Sales Taxes	—	144.4	—	138.1	—	1.9	—	4.4	—	15
Gasoline Taxes and Automobile Licences	—	64.8	—	—	—	64.8	—	—	—	6
Liquor Control	—	29.8	—	—	—	29.8	—	—	—	3
Manufacturers Taxes	—	17.2	—	17.2	—	—	—	—	—	2
Amusement Taxes	—	2.8	—	—	—	2.8	—	—	—	—
Miscellaneous Taxes	—	30.8	—	7.4	—	3.1	—	20.4	—	3
Corporation Taxes	—	105.7	—	71.7	—	34.0	—	—	—	11
Income Taxes on Persons	—	64.4	—	50.6	—	11.9	—	1.9	—	6
Succession Duties	—	35.8	—	—	—	35.8	—	—	—	4
Sub-Total	—	495.7	—	285.0	—	184.1	—	26.7	—	50
Total Revenues Raised by Each Class of Government	31.0	995.2	20.8	464.3	2.2	223.3	8.0	309.1	100	100
Federal Subsidies to the Provinces	—	—	—	—	3.8	21.2	—	—	—	—
GRAND TOTAL	31.0	995.2	20.8	464.3	6.0	244.5	8.0	309.1	100	100
Percentage of Revenue Raised by each Class of Government to Total	100%	100%	67%	47%	7%	22%	26%	31%	—	—

[a] Less Duplications.
[b] Estimated.

they devised. Costly government responsibilities which have become national in scope are being supported by regional and local revenues. Revenue sources which have become national in character are being employed by regional and local governments to the complete or partial exclusion of the central authority. We have seen that the efficient administration of the functions of government under present day conditions requires some redistribution of the functions as between the Dominion and the provinces. In the same way, if the growing waste and inequities in taxation are to be avoided, a better allocation of taxing powers and responsibilities is imperative. A third essential step will be to adjust the revenue sources to the functions so as to ensure that every unit of government will be financially able to meet its recognized responsibilities.

CHAPTER IX

THE CONSTITUTION TO-DAY

In an earlier chapter the significant decisions on the meaning of the British North America Act given by the Privy Council before 1896 were briefly considered and their bearing on the future interpretation of the constitution was pointed out.[1] Between 1896 and the present the Privy Council has decided well over one hundred cases which involved the interpretation of various provisions of the British North America Act. Some of these cases dealt with matters of very minor importance but the vast majority of them have been woven into the texture of the constitution. An accurate and complete statement of what the constitution is at the present day must analyze these cases, considering the scope of the decisions and the qualifications, express or implied, imposed by later decisions on earlier ones. Such a minute examination is beyond the scope of this Report and would involve a lengthy excursion into constitutional niceties, of interest mainly to specialists.

But the interpretations of the Privy Council have marked out the limits of the legislative power of the Dominion and the provinces. Among other things, they have determined the scope of provincial taxing powers. In these ways the decisions of the Privy Council have fixed both the responsibility for carrying out new functions which it is considered desirable for governments to undertake and the limits of the revenue sources available to the province for financing its activities. In working within this framework to meet mounting demands for governmental action, many new aspects of Dominion-provincial relations have emerged. The interpretation of the constitution in relation to twentieth century demands has helped to shape the present financial relationships between the Dominion and the provinces and has led to the adoption of several expedients involving co-operative action by the Dominion and the provinces. These co-operative ventures have, in turn, complicated the relationships which the Commission is required, by its terms of reference, to examine.

Accordingly, a survey of the constitutional development is necessary for the understanding of present problems. It is also important to see how the provinces and the Dominion were forced into these co-operative ventures and to appreciate the inherent difficulties which they involve. A short survey of constitutional developments cannot hope to deal adequately with many constitutional complexities. An attempt to state briefly how the constitution allots responsibility for dealing with the problems which absorb the attention of legislatures today must speak in general terms without exhaustive reference to the legal decisions in which these matters have been explained. It cannot state all the qualifications to which any general proposition is subject nor grapple with the obscurities which still undoubtedly exist. What follows is a summary of those aspects of the constitution relevant to the inquiry conducted by the Commission and not a full exposition of constitutional law.

The Restrictive Interpretation of Section 91

In its interpretation of the British North America Act in the last forty years, the Privy Council has adhered to the general rule of construction laid down by Lord Watson in the Local Prohibition Case[2] in 1896 which accorded Dominion legislation under the enumerated heads of section 91 primacy over the provincial powers set out in section 92 but denied this primacy to the general clause of section 91 which gave the Dominion power to make laws for the "peace, order and good government of Canada". This rule of construction, coupled with a broad interpretation of the general expression "property and civil rights in the province", contained in section 92, has given a narrow application to the so-called residuary clause in section 91. Accordingly, with rare exceptions, if a proposed piece of Dominion legislation does not fall within the specific enumerations of section 91, it is beyond the enacting power of the Dominion and within the powers of the separate provinces. That is to say, most of the novel legislation of our day, which is not of a type actually contemplated and expressly provided for by the framers of the British North America Act, must be enacted, if at all, by the provinces. There is much truth, as well as some exaggeration, in the contention that the "property and civil rights" clause has become the real residuary clause of the constitution.

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[1] See pp. 30 *ff*.

[2] See p. 58 for a discussion of this case.

The Dominion power under section 91 (2) "regulation of trade and commerce" has received a restricted interpretation, improving on the limitations suggested in *Citizens' Insurance Company* v. *Parsons*[3] in 1882 until, in 1925, the Privy Council questioned whether it was operative at all as an independent source of legislative power.[4] More recent decisions show that it has some scope[5] but the narrow meaning given to it limits severely the power which it confers on the Dominion to regulate economic life.

The trend of interpretation, therefore, has been favourable to provincial power. However, between 1930 and 1932, the Privy Council handed down several decisions upholding Dominion legislation in a manner which seemed to involve qualifications on some of their earlier pronouncements[6] and, at the same time, to countenance freer and looser interpretation of the British North America Act than had hitherto been adopted.[7] Some regarded these decisions as marking a reversal of the trend of decision and a new emphasis on the scope and magnitude of Dominion powers. But this reversal of trend by the Privy Council, if reversal it was, turned out to be merely temporary, as its adverse decision in 1937 on a number of Dominion measures, commonly known as the Bennett "New Deal", clearly showed.

These decisions of 1937 scarcely came as a surprise but they served to underline again the wide scope of provincial powers and responsibilities in modern economic and social legislation. When related to the limitations on the taxing powers of the provinces under the British North America Act and the wide disparities in the yield of revenue sources in the different provinces, they placed the crisis which had been gathering in Canadian public finance in clear relief. In a sense, it may be said that these decisions framed the Commission's terms of reference and it is both appropriate and revealing that this discussion of the constitutional position today should revolve around them. With some reference to earlier decisions on particular points, a discussion of these cases illustrates the division of legislative power between the provinces and the Dominion in relation to the urgent issues of the present day.

In 1936 the constitutional validity of eight Dominion enactments was referred to the Privy Council and their decisions on them were rendered early in 1937.[8] The validity of two of these statutes was upheld in full,[9] and of one of them, in part.[10] These three statutes are not highly important for our purposes and they need not be discussed in detail. But the nature and the fate of the remaining five require careful consideration.

Three of the remaining five enactments, the *Weekly Day of Rest in Industrial Undertakings Act*, the *Minimum Wages Act* and the *Limitation of Hours of Work Act*, established, as their titles indicate, nation-wide standards for minimum wages and maximum hours of weekly work. They were enacted by Parliament pursuant to obligations assumed by the Dominion under conventions of the International Labour Organization and were thus, in substance, in fulfilment of treaty obligations of Canada. All three were held by the Privy Council to affect "Property and Civil Rights in the Province" and, therefore, to be beyond the powers of the Dominion Parliament to enact.[11]

Apart from the fact that the decision on these statutes denied the power of the Dominion to set up nation-wide standards of labour legislation, it established two general propositions of great significance. First, it interpreted section 132 of the British North America Act which empowers the Dominion Parliament to implement "the Obligations of Canada or of any Province thereof, as Part of the British Empire, toward Foreign Countries arising under Treaties between the Empire and such Foreign Countries." It held that the power of the Dominion under section 132 applies only to "British Empire treaties" negotiated by the Imperial Executive where the treaty obligations involved are assumed by Canada as part of the British Empire. In international treaties which the Dominion negotiates in its own right as an independent political unit, the power of the Dominion to implement the treaty by legislation depends entirely on whether the subject matter of the treaty falls within section 91 or section 92. That is to say, in view of the broad interpretation given to section 92, there are a number of matters on which

[3] See pp. 32-34 for these suggested limitations.

[4] *Toronto Electric Commissioners* v. *Snider*, [1925] A.C. 396 at p. 410.

[5] *Proprietary Articles Trade Association* v. *Attorney-General of Canada*, [1931] A.C. 310 at p. 326; *Attorney-General of Ontario* v. *Attorney-General of Canada*, [1937] A.C. 405.

[6] *Proprietary Articles Trade Association* v. *Attorney-General of Canada*, [1931] A.C. 310; *In re Regulation of Aeronautics*, [1932] A.C. 54; *In re Regulation of Radio Communication*, [1932] A.C. 304.

[7] See *Edwards* v. *Attorney-General of Canada*, [1930] A.C. 124.

[8] For a full discussion of these decisions, see the symposium by a number of leading constitutional authorities in [1937] 15 *Canadian Bar Review*, 401-507.

[9] Reference *re Section 498A of the Criminal Code*, [1937] A.C. 368; Reference *re Farmers' Creditors Arrangement Act*, [1937] A.C. 391.

[10] Reference *re Dominion Trade & Industry Commission*, [1937] A.C. 405.

[11] These three enactments were dealt with in a single opinion. See *Attorney-General of Canada* v. *Attorney-General of Ontario*, [1937] A.C. 326.

the Dominion cannot give effect to treaties which it alone has power to negotiate. The second proposition established by this decision is also involved in the decision on another of these statutes, the *Employment and Social Insurance Act*, and can be most conveniently discussed along with it.

The *Employment and Social Insurance Act* provided for a nation-wide system of unemployment insurance in specified industries to be supported, in part, by compulsory contributions of employers and employees and, in part, by contributions from the Federal Government. Such a scheme, the Privy Council held, was beyond the powers of the Federal Parliament to enact because it affected "Property and Civil Rights in the Province".[12] The argument that unemployment was a national evil, justifying national action under the "peace, order and good government" clause of section 91 was met by reference to a line of decisions holding that this clause of section 91 conferred on the Dominion an emergency power only.

In the interval between 1896 and 1937, Lord Watson's remark in the Local Prohibition Case that "some matters in their origin local and provincial might attain such dimensions as to affect the body politic of the Dominion and to justify the Canadian Parliament in passing laws for their regulation . . ." under the general clause of section 91 had been explained in several cases. In substance, these cases had decided that, during the stress of a severe crisis like the War of 1914-18, the Dominion Parliament had power to fix the prices of commodities and to regulate comprehensively other aspects of Canadian economic life under the "peace, order and good government" clause[13] but that as soon as the crisis was overcome, the power to impose such regulations evaporated.[14] Other decisions had emphasized the emergency nature of the general clause of section 91.[15] The two decisions of 1937 now being reviewed made it finally clear that this general power was operative only in temporary and overwhelming emergencies such as war, pestilence or famine.[16]

The Canadian dilemma over social legislation was thus sharply outlined. The constitution forbids the Dominion to establish uniform labour legislation of general application and, despite the unrestricted taxing powers of the Dominion, the possibility of framing any contributory social insurance scheme of nation-wide extent which could be validly enacted by the Dominion, is open to the gravest doubt.

Temporary evils of great magnitude may be grappled with by Dominion legislation under the general clause of section 91 but an enduring and deep-rooted social malaise, which requires the mobilizing of efforts on a nation-wide scale to deal with it, is beyond the power of the Dominion unless it is comprised in the enumerated heads of section 91. Generally, therefore, the power to deal with these pressing social questions rests with the provinces. But this makes it very difficult to secure the uniformity of standards which are desirable in many kinds of social legislation. Moreover, the provinces are limited in their access to revenues by the financial settlement of 1867 (and in practice by Dominion taxation in the same fields) and many of them are unable to carry the financial burden involved.

Of course, these difficulties had been encountered in practice long before the Privy Council decisions of 1937. Over a period of twenty-five years, several attempts have been made to overcome them by the method of Dominion conditional grants of financial assistance to the provinces. In various matters where uniform governmental action was deemed desirable in the national interest, the Dominion has made grants available to the provinces for special purposes on condition that the province undertake the work and maintain certain standards, designed to secure a fair degree of uniformity across the country.[17] The Dominion has tried to secure sufficient control over the administration of the particular activity by the provinces to enforce the maintenance of the desired standards. This has involved very substantial efforts in administrative co-operation between the provinces and the Dominion. The results obtained from this co-operation are far from reassuring.[18] The experience gained from these efforts will be discussed later.

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[12] *Attorney-General of Canada* v. *Attorney-General of Ontario*, [1937] A.C. 355.

[13] *Fort Frances Pulp and Paper Company* v. *Manitoba Free Press*, [1923] A.C. 696.

[14] *In re Board of Commerce Act*, [1922] 1 A.C. 191.

[15] *E.g.*, see *Toronto Electric Commissioners* v. *Snider*, [1925] A.C. 396 at p. 412.

[16] Under normal conditions, only a few matters of minor importance, not significant for present purposes, have been held to come within the scope of the general power in s. 91. For a list of these, see Plaxton, *Canadian Constitutional Decisions of the Judicial Committee; 1930-1939*, p. XXXII. (All important constitutional decisions in this period are included in this volume.)

[17] For an account of these grants see Wilfrid Eggleston and C. T. Kraft, *Dominion-Provincial Subsidies and Grants* (mimeographed), pp. 35*ff*. The constitutional validity of such grants is not entirely beyond doubt. *Attorney-General of Canada* v. *Attorney-General of Ontario*, [1937] A.C. 355 at p. 366.

[18] For a discussion of the working of the administrative relationships involved in these grants, see Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, Ch. VI; *cf.* Eggleston and Kraft, *op. cit.*

The fifth Dominion enactment to be held *ultra vires* by the Privy Council in 1937 was the *Natural Products Marketing Act*. It provided for regulation of the marketing and distribution of natural products by a Dominion Marketing Board. The Board was given power, under certain conditions, to determine the time and place of and the agency for marketing as well as the quantity, quality and grade of any natural product which was to be allowed to be marketed at any time. The Act was to be applicable to a particular natural product only when the principal market for it lay outside the province of production or when some portion of it went into export trade. When these conditions were satisfied, the regulations contemplated by the Act were applicable to all marketing transactions in the particular product, including those which were finally completed within the province of production. In other words, the Act was applicable to some portion of purely intra-provincial trade as well as to interprovincial and export trade.

The Privy Council found this measure to be beyond the power of the Dominion Parliament because the federal power to regulate trade and commerce under section 91 (2) did not extend to the regulation of trading transactions completed within a single province.[19] This ruling confirmed earlier decisions on the meaning of the phrase, "regulation of trade and commerce". Whatever its exact scope, it was confined to interprovincial and international aspects of trade. According to rulings of the Privy Council, it does not justify the regulation of the financial practices of insurance companies,[20] nor general regulation of the grain trade[21] through a system of licences. It does not cover prohibition of trade combinations and regulation of the supply and price of the necessaries of life.[22] Nor do compulsory provisions for investigating industrial disputes come within its terms.[23]

In each of these Dominion attempts at economic regulation just referred to, the common defect was that each involved an interference with trades and businesses carried on within a single province and was not applicable merely to interprovincial or international aspects of trade and commerce. Although the exact scope of the phrase "regulation of trade and commerce" is not yet clear, it is settled that it does not cover the regulation of purely provincial trades, businesses and business transactions. Power to establish such regulations belongs exclusively to the provinces.[24] On the other hand, it is equally clear that the provinces have no power to regulate interprovincial and export trade.[25] The Privy Council ruling of 1937 holding the *Dominion Natural Products Marketing Act* invalid emphasized again the fact that the power to regulate economic life is divided between the provinces and the Dominion, and that neither one can encroach upon the sphere of the other.

It should be pointed out by way of caution, however, that the Dominion, relying on other heads of section 91, has a considerable power of economic regulation. It has some power of control over the operations of companies with Dominion charters which are, in substance, its own creatures and, therefore, in some degree, subject to its supervision. By use of its power to declare local works to be for the general advantage of Canada, it has been able to exercise effective control over the grain trade.[26] As was confirmed by the Privy Council in one of the references concerning the social legislation of 1935 which is not specifically discussed here, the Dominion Parliament, under its power to enact the criminal law, has power to prohibit economic practices (e.g. certain kinds of trade combinations), provided the courts are satisfied that Parliament has acted in good faith in stigmatizing them as criminal offences and is not "using the criminal law as a pretence or pretext" to encroach upon provincial powers.[27] Under other specific powers, the Dominion has extensive control over banks and monetary matters, bankruptcy, railway and air transportation, shipping and interprovincial communications.[28] In other fields and other circum-

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[19] *Attorney-General of British Columbia* v. *Attorney-General of Canada*, [1937] A.C. 377.

[20] *Attorney-General of Canada* v. *Attorney-General of Alberta*, [1916] 1 A.C. 588; *Attorney-General of Quebec* v. *Attorney-General of Canada*, [1932] A.C. 41.

[21] *Rex* v. *Manitoba Grain Co.*, [1922] 2 W.W.R. 113; *The King* v. *Eastern Terminal Elevator Co.*, [1925] S.C.R. 434.

[22] *In re Board of Commerce Act*, [1922] 1 A.C. 191.

[23] *Toronto Electric Commissioners* v. *Snider*, [1925] A.C. 396.

[24] *Shannon et al.* v. *Lower Mainland Dairy Products Board*, [1938] A.C. 708.

[25] *Lawson* v. *Interior Tree Fruit and Vegetable Committee*, [1931] 2 D.L.R. 193; *In re Grain Marketing Act*, [1931] 2 W.W.R. 146.

[26] This power of the Dominion which is derived from the exception to s. 92 (10) was employed to declare all the grain elevators used in the western grain trade to be works for the general advantage of Canada. The validity of this use of the device has not yet been considered by the Privy Council but it is supported by the high authority of Duff, C.J., who suggested it as a means of establishing Dominion control over the grain trade. See *The King* v. *Eastern Terminal Elevator Co.*, (1925) S.C.R. 434 at p. 448.

[27] It is difficult to state exactly the scope of the Dominion power to make criminal law. Compare *In re Board of Commerce Act*, [1922] 1 A.C. 191 with *Proprietary Articles Trade Association* v. *Attorney-General of Canada*, [1931] A.C. 310. The latter decision is confirmed by the Reference *re* section 498A of the Criminal Code, [1937] A.C. 368 and it is believed that the statement in the text sums up the law as accurately as it can be stated at present.

[28] The extent of Dominion power over these topics depends upon the enumerated heads of s. 91.

stances, however, it cannot go beyond regulation of the interprovincial and international manifestations of business activity.

While the desirability of the sweeping kind of regulation contemplated by the *Natural Products Marketing Act* is the subject of considerable controversy, the pronouncement of its invalidity by the Privy Council confirmed earlier doubts about the validity of several much less drastic Dominion measures relating to marketing,[29] which were generally agreed to be desirable. Several Dominion statutes had set up compulsory grading legislation on a nation-wide scale for a variety of natural products. From time to time, most of the provinces had sought to cure any possible constitutional defects of these Dominion enactments by enabling legislation designed to authorize the Dominion to impose its grading regulations on purely provincial transactions.[30] In 1935 and 1936, several provincial Courts of Appeal held that this enabling provincial legislation, in the form in which it came before them, was invalid, being an unconstitutional delegation of power to the Dominion.[31]

The delegation of power by a province to the Dominion and vice versa would be a useful device for overcoming, in practice, the difficulties which arise from the division between the provinces and the Dominion of legislative power over many complex economic activities. Unified control and administration in the hands of a single government is sometimes desirable but it is very doubtful whether, as the constitution stands at present, the delegation of legislative power is constitutionally possible.[32]

Such a power of delegation would give the constitution a flexibility which might be very desirable. With the present degree of economic integration on a national scale, it is extremely difficult for either the Dominion or a province to frame legislation which will deal separately and effectively with the local or with the interprovincial aspects of business activity, as the case may be. When natural products are assembled for national or international markets and the manufacturing and distributive trades operate on a nation-wide or international scale, most of the large important trades and businesses are engaged at the same moment in both intra-provincial and extra-provincial activities. These activities are so intertwined that it is difficult to isolate purely intraprovincial activities so as to apply provincial regulations to them and equally difficult to select the interprovincial activities and foreign activities which are subject solely to federal regulation.

For example, the grading of natural products, in order to serve its purpose, should be done when the product passes from the producer into the hands of the dealer, but it is frequently impossible at that stage to tell whether the particular lot of produce is destined for intra-provincial or for interprovincial or export trade and, therefore, impossible to say whether provincial or federal regulations should be applied. In the absence of a power to delegate legislative authority and control to a single government in such situations, the only alternative where comprehensive regulation seems desirable is a scheme of joint Dominion and provincial legislation and administration. For reasons which are noted later, such schemes have inherent weaknesses which can be avoided by delegation of legislative power to a single authority.[33]

Several situations have arisen where regulation is admittedly necessary but the constitution divides the power of regulation between the provinces and the Dominion. The case of the marketing of natural products has already been noted. The fact that the ownership of inland fisheries goes with the public domain to the provinces while the Dominion has the ownership of the seacoast fisheries and the full power of regulation over all fisheries[34] has caused some confusion. The Dominion has power to enact compulsory legislation concerning industrial disputes in industries over which it has a comprehensive general power of regulation, such as interprovincial railways. The provinces have power generally to legislate respecting industrial disputes and, therefore, situations may arise where two or more governments are concerned in the settlement of a dispute.[35] In each of these cases, efforts have been made in the past to surmount the difficulties by delegation of power but they are now either embarrassed or being abandoned owing to the dubious constitutionality of the device.

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[29] *E.g.*, see *Rex* v. *Collins*, [1926] 59 O.L.R. 453.

[30] For an account of the nature of this provincial legislation, see Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, pp. 13-16.

[31] *Rex* v. *Zaslavsky*, [1935] 3 D.L.R. 788; *Rex* v. *Brodsky*, [1936] 1 D.L.R. 578; *Rex* v. *Thorsby Traders Ltd.*, [1936] 1 D.L.R. 592.

[32] For a discussion of the constitutional validity of the delegation of legislative power, see Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, p. 37*ff*.

[33] See Book II, Sec. A, Ch. V, Pt. 2.

[34] *The Fisheries Case*, [1898] A.C. 700; *Attorney-General of British Columbia* v. *Attorney-General of Canada*, [1914] A.C. 153. The division of jurisdiction in the Province of Quebec is somewhat different from that in other provinces. See *Attorney-General of Canada* v. *Attorney-General of Quebec*, [1921] A.C. 413. For further discussion and recommendations, see Book II, Sec. A, Ch. IV, Pt. 3.

[35] For further discussion and recommendations, see Book II, Sec. A, Ch. II.

Power to regulate the financial practices of insurance companies does not belong exclusively either to the Dominion or to the provinces. The Dominion has power to regulate companies with a Dominion charter. The Dominion also exercises supervision over British and foreign insurance companies doing business in Canada. The constitutionality of this practice is not beyond doubt.[36] On the other hand, the provinces have the power to regulate the activities of all insurance companies carrying on business within the province.[37] As a result, separate and overlapping systems of Dominion and provincial supervision have grown up causing duplication of government machinery and unnecessary expense and inconvenience to insurance companies.[38]

By way of summary then, the constitution as it stands today divides the power of regulating economic activity between the provinces and the Dominion. A great deal of the business activity of today is national in its scope and cannot be easily divided into intra-provincial and extra-provincial aspects for the purpose of regulation which may seem desirable. The delegation of legislative power by a province to the Dominion and vice versa, which would make possible a unified authority without any drastic amendments of the constitution increasing the power of the Dominion, is of doubtful constitutionality. Furthermore, the present division of legislative power under the constitution throws the main burden of modern social legislation on the provinces. The support of such legislation has become one of the heaviest financial charges which governments are obliged to meet. The division of taxing powers which gives the Dominion unlimited access to sources of revenue and restricts the provinces to a limited number of sources is discussed elsewhere.[39] The scope of the provincial power of taxation as explained by Privy Council must be considered briefly here.

Interpretation of Provincial Taxing Powers

Section 92 (2) gives the provinces power to levy "direct taxation within the province". Also, under section 92 (9) "shop, saloon, tavern, auctioneer and other licences" may be imposed for the purpose of raising revenue. The scope of section 92 (9) is not yet entirely clear. It is not entirely certain whether indirect as well as direct taxation is authorized under this head nor whether licences may be imposed on any kind of business activity or only on a limited genus of which those specifically mentioned are examples.[40] It is not highly important for purposes of this chapter because the great source of provincial revenues is direct taxation under section 92 (2). But if our recommendations (made in Book II) for the transfer of taxes are implemented, it would be very important that the scope of the power to raise revenue by licence fees should be clearly defined.

In an earlier chapter the criterion of direct taxation adopted by the Privy Council was discussed.[41] The rule laid down in the case of *Bank of Toronto* v. *Lambe* in 1887 that "a direct tax is one which is demanded from the very persons who it is intended or desired should pay it" has been explained and amplified in later decisions. In substance, it has been held that a provincial legislature, in levying a tax, must intend the natural consequences of its action and, therefore, "it is the nature and general tendency of the tax and not its incidence in particular or special cases",[42] which determine whether it is a direct tax within the power of the provinces to levy. Accordingly, if in the normal course of events, the burden of the tax is likely to be shifted to others by the person who is required to pay it, the tax is indirect.

The result of the application of this rule has been almost entirely to prevent provincial taxation on industrial production and wholesale turnover and to limit the productivity of provincial taxation by restricting it, in the main, to levies on the ultimate consumer. A percentage tax on the gross revenues of mining enterprises is an indirect tax.[43] So is a tax payable by the first purchasers of fuel-oil after its manufacture or importation.[44] So also is a tax levied on sales of grain for future delivery.[45] On the other hand, a tax payable by the consumer of fuel-oil according to the quantity consumed is a direct tax.[46] Thus the familiar

[36] Dominion legislation affecting these companies was held *ultra vires* by the Privy Council in 1932. See *Attorney-General of Quebec* v. *Attorney-General of Canada* [1932] A.C. 41. Following this decision, Parliament amended the legislation and the courts have not yet passed on it in its amended form.

[37] *Attorney-General of Ontario* v. *Reciprocal Insurers,* [1924] A.C. 328.

[38] See Appendix 7—J. A. Corry, ***Difficulties of Divided Jurisdiction,*** Chapter II. For further discussion and recommendations, see Book II, Sec. A, Ch. IV, Pt. 4.

[39] See pp. 40-46.

[40] See Kennedy and Wells, ***Law of the Taxing Power in Canada,*** Chapters V and VI.

[41] See pp. 44-46.

[42] ***City of Halifax* v. *Fairbanks Estate,*** [1928] A.C. 117 at p. 126.

[43] ***The King* v. *Caledonian Collieries Ltd.,*** [1928] A.C. 358.

[44] ***Attorney-General of British Columbia* v. *Canadian Pacific Railway Co.,*** [1927] A.C. 934.

[45] ***Attorney-General of Manitoba* v. *Attorney-General of Canada,*** [1925] A.C. 561.

[46] ***Attorney-General of British Columbia* v. *Kingcome Navigation Co.,*** [1934] A.C. 45.

gasoline tax and the retail sales taxes found in some provinces are direct taxes within the power of the provinces because, by making the retailer the agent of the government for purposes of collection, they are deemed to be levied directly on the consumer who cannot naturally and easily shift the burden of them to others.

Fortunately for the yield of provincial taxation, the provinces have been able to go beyond taxes on consumption in the corporation taxes and succession duties. The validity of a corporation tax as a direct tax was upheld in 1887.[47] A province has power to levy a tax on any corporation which is exercising its powers within the province.[48] The so-called succession duties which, in most provinces, are, in part, probate duties levied on *property* as such and in part, legacy duties levied on the *transmission* of property from the deceased to beneficiaries are validly imposed by the provinces under certain conditions.

A probate duty is a direct tax but the provinces, being restricted to taxation "within the province", can levy only on that portion of the property of the deceased which is found within the province.[49] A legacy tax, or succession duty proper, satisfies the test of "direct taxation within the province" when levied on beneficiaries domiciled or resident in the province in respect of the transmission of property to them by virtue of the law of the province. Under certain conditions, the province, by taxing the transmission of the property to a beneficiary domiciled or resident within the province rather than the property itself, is able to impose, in substance, a tax upon "movable" property situated outside the province.[50]

Under certain circumstances, provincial succession duty can reach property in another province. With two exceptions, all the provinces do extend their succession duties to property in other provinces. At the same time, they all levy a probate duty on property situated in the province. Thus estates of deceased persons are subjected to the inequity of double tax whenever "movable" property belonging to the estate is found in more than one province.

[47] *Bank of Toronto* v. *Lambe*, (1887) 12 A.C. 575.

[48] Kennedy and Wells, *Law of the Taxing Power in Canada*, pp. 66-78.

[49] *Rex* v. *Lovitt*, [1912] A.C. 212.

[50] An exact statement of the constitutional power of the provinces to levy succession (i.e. legacy) duties would require a preliminary examination of other branches of the law and a lengthy discussion which is not necessary for present purposes. The authoritative statement of the law is to be found in *Provincial Treasurer of Alberta* v. *Kerr*, [1933] A.C. 710. See Falconbridge, "Administration and Succession in the Conflict of Laws", [1934] 12 *Canadian Bar Review*, 67 at pp. 70-79 for a clear statement of the position.

Long efforts by the provinces to eliminate double taxation of estates by agreement have broken down completely under the stress of the depression.

Disallowance of Provincial Legislation

Before concluding this review of the constitution as it works today, it is necessary to refer to the present status of the federal power of disallowing provincial statutes. Although the scope of this power given by the British North America Act is legally unlimited, except as to time, it has been recognized from the beginning that it should be used with circumspection and in accordance with some guiding principles. The principles relied on by the Dominion Government in the exercise of disallowance have varied from time to time and it is, therefore, impossible to state them with precision. There has been no such consistent and unbroken practice as would be necessary to establish a constitutional, or conventional, limitation on the exercise of the power. There is reason for thinking that it will not again be used as freely as it was during the first thirty years of Confederation but this cannot be stated with finality.

As we have remarked earlier,[51] the Dominion made very extensive use of the power of disallowance between 1867 and 1896. Not only was provincial legislation disallowed on the grounds that it was *ultra vires* or in conflict with Imperial or Dominion interests or policies. Provincial legislation might also be struck down on a ground which had great potential scope, namely, that it was inequitable and unjust. From 1896 to 1911, the Dominion Government consistently disavowed this last ground as a sufficient reason for exercise of the power. After 1911, there was a tendency to reaffirm the propriety of disallowing provincial legislation which the Dominion Government thought to be inequitable and unjust but this ground was actually relied upon in two cases only, arising in 1918 and 1922.

The power of disallowance was in complete abeyance from 1924 until 1937 when it was used against a number of Alberta statutes. Again in 1938 and in 1939, Alberta legislation was disallowed. Apart from showing that the power of disallowance has not become generally obsolete, the recent use of it does not throw any new light on its scope. Most of the eight Alberta statutes disallowed since 1937 were invasions of the federal field of legislation, conflicting with the interests and policies of the Dominion. However, among the reasons given for disallowance of two of these statutes, specific

[51] See p. 49.

reference was made to the injustice of the confiscations which they proposed and to their discriminatory character.

Thus it is quite impossible to regard disallowance on grounds of inequity and injustice as obsolete.[52] It is true that in declining to disallow the so-called Padlock Law of Quebec in 1938 the Government disclaimed any intention to review the policy of provincial legislatures acting within their own field of competence. It is also true that in the Alberta cases, the distinct ground of interference with Dominion policy and interests was available in each case and relied on. But the only inference to be drawn from the recital of the unjust, confiscatory and discriminatory character of legislation is that these qualities are relevant to the use of the power. Nevertheless, the whole trend indicates a lessening use of the power. Up to 1900, 72 provincial acts were disallowed while only 35 have been disallowed since that time.[53] It seems unlikely that disallowance on grounds of inequity and injustice will ever resume the importance it had prior to 1896.

It must be remembered also that in 1867, the world had had little experience of widespread democratic suffrage and much thought was expended on finding ways to prevent legislatures from abusing their powers. In that temper of affairs, whatever may have been the special reasons for inserting the power in the Canadian constitution, there is little wonder that it was extensively exercised. As time went on, confidence in the self-restraint of democratic legislatures increased and willingness to accept their measures with resignation also grew. In other words, the principle of legislative sovereignty is more fully accepted now than it was in 1867. The decisions of the Privy Council that the provincial legislatures are sovereign in their own sphere have operated to secure for them also the benefit of this acceptance. Consequently, the trend towards a narrower use of the power is likely to be sustained, although it is impossible to say that a different policy would not be adopted in special circumstances.

Difficulties of Divided Jurisdiction

At two points in particular, the division of legislative powers has led to attempts at close co-operation between the Dominion and the provinces. First, where the financial resources of the provincial governments are not commensurate with their legislative powers and consequent responsibilities for maintaining desired social services, the Dominion has made money grants to the provinces to assist in the maintenance of such services. Hoping to ensure the nation-wide maintenance of certain minimum standards in the assisted services, the Dominion imposes certain conditions on the grant and conducts a periodic inspection of the service given by the province. Hoping to hold the provinces to careful stewardship of funds which they do not themselves raise, the Dominion supplements its inspection activities with a detailed audit of provincial expenditures. Agreements as to the conditions on which the provinces are to undertake and the Dominion is to assist such services must be made at the political level. Federal officials are constantly investigating specific activities of provincial officials at the administrative level. Disagreements at either level may prejudice Dominion-provincial relations.

Second, in the field of economic regulation, where legislative power is divided, the Dominion and the provinces have made some attempts at co-operation, particularly in establishing nation-wide regulations for the grading of agricultural products. At first a device was used which, in substance, amounted to a delegation of power by the provinces to the Dominion enabling the Dominion to impose grading regulations on all transactions. However, after doubts arose as to the constitutionality of this practice, the provinces began to meet the problem by enacting the Dominion grades and regulations as provincial legislation and appointing Dominion inspectors and officials to act as provincial officials. Whereas the device of delegation was a very simple arrangement for unifying the administration of grading regulations in the hands of a single government, the new method involves the continuous co-operation of ten legislatures and ten governments in joint administration, making necessary a higher degree of sustained harmony and agreement.

These co-operative ventures are opening a new chapter in Dominion-provincial relations. A certain minimum of co-operation is always necessary if separate governments are to share in governing the same area and the same people. The original purpose of the constitution was to set up a sharp division of powers enabling each government to manage separately without interference the affairs allotted to it and to reduce all intergovernmental difficulties to a question of power and legal competence. Because different governments were

[52] In the reference *re Power of Disallowance and Power of Reservation*, [1939] 2 D.L.R. 8, the Supreme Court of Canada held that the only limitation was the time limit fixed by the British North America Act.

[53] *Memorandum on Dominion Power of Disallowance of Provincial Legislation*, Department of Justice, Ottawa, 1937.

likely to disagree from time to time about the extent of their respective powers, such questions are always referred to the courts for their final determination as independent and impartial bodies. The co-operation required between governments in these circumstances was mainly of a negative character; each should abstain from interfering with the others.

But Dominion and provincial governments are now embarked on the joint administration of projects which require positive and constructive co-operation if they are to be carried out efficiently. Two separate governments, neither one of which has any authority over the other, must agree on objectives, on the means of reaching them, and on the daily application of these means to new situations. However, there are always a number of issues on which the interests of the Dominion and those of the separate provinces do not run side by side. These differences in interest lead to disagreements which cannot be solved by appeals to the courts because they do not involve questions of formal constitutional power at all. They are disagreements about matters which the constitution intended that the appropriate government should handle separately in its own way.

Accordingly, if the co-operative projects are to be continued, the governments involved must be their own arbitrators. Arbitration conducted solely by the interested parties leads to delay and sometimes to deadlock which is ruinous to administrative efficiency. It always leads in the end to a compromise. While compromise is inherent in the political process, it is rarely conducive to good administration. The evolution of political policies within the framework of the constitution is leading to joint activity between the Dominion and the provinces. This contrasts sharply with the original conception of federalism as a clear-cut division of powers to be exercised separately, and experience indicates that it is injurious both to sound public finance and to efficient administration. The problems raised by joint administration of activities where jurisdiction is divided between the provinces and Dominion may now be pointed out. The first step in any scheme of co-operation must generally be taken by the legislatures concerned. As indicated above, the divided legislative powers over the subject-matter in question could be pooled by one legislature delegating its share of power to the other if the constitutionality of such an expedient had not been rendered doubtful by the courts.[54] If it were constitutionally possible and the province or Dominion, as the case may be, were willing to delegate its powers in the specific instance, the act of delegation would complete the co-operation required. The legislature receiving the powers could then establish its regulations and provide for their enforcement just as if the entire matter had originally been within its jurisdiction. In such a case, no joint administration by province and Dominion would be involved and as long as the legislature delegating its powers was satisfied with the results obtained, through vicarious use of its powers, no further action by it would be required.

In the past, the Dominion and provincial legislatures have had no serious difficulty in agreeing on this kind of co-operation. Nation-wide schemes for the compulsory grading of natural products under the administration of the Dominion Government were set up and the provinces purported to extend the Dominion Industrial Disputes Investigation Act to disputes entirely within the jurisdiction of the provinces by essentially similar devices. The administration of the legislation was placed in the hands of a single government[55] and the difficulty arising out of the division of legislative power over the subject matter was surmounted. The constitutionality of this procedure was, however, challenged by the courts in 1935. As a result, the provinces have begun to abandon this method in favour of a more complicated one which escapes the constitutional difficulty but which involves joint administration. The new device requires that the province should enact legislation in substantially identical terms with that of the Dominion but covering intra-provincial as distinct from inter-provincial and export transactions. To be specific, in legislation providing for the compulsory grading of natural products, the province enacts the Dominion grades and regulations for enforcement and then appoints the Dominion graders and inspectors as provincial officials to enforce the provincial as well as the federal legislation.[56]

Close and continuous co-operation is necessary for success under this device. Any needed revision in the detailed regulations or definition of grades must be made by both the provincial and Dominion authorities concerned. They must be able to agree on the need for change and the exact nature of the change required. Moreover, the graders and

[54] *Rex* v. *Zaslavsky*, [1935] 3 D.L.R. 788.

[55] The extent and nature of these co-operative schemes are discussed in Appendix 7—J. A. Corry, *Difficulties of Divided Jurisdiction*, pp. 13-16.

[56] *Ibid.*, pp. 20-21.

inspectors are now subject to the control of two masters, the Dominion and provincial departments concerned. The intention, of course, is to leave the initiative and the general control of administration of grading legislation to the Dominion and thus far in the limited experience of the new device, this has been the practice. However, it can only be a matter of time until it is discovered that the principles of responsible government are being flouted when provincial legislation is administered by officials who get all their instructions from Ottawa. Administration will then become joint in substance as well as in form.[57]

Thus far, activities jointly administered by the Dominion and a province have not been of any significant magnitude or duration in Canada. As already remarked, however, the present division of legislative power and the present trend towards greater governmental regulation are rapidly leading in that direction. Although direct Canadian experience of joint administration is not available for assessing its probable efficiency, an appeal can be made to twenty years of experience in the administration of conditional grants in Canada. It has already been pointed out that, in the conditional grants made by the Dominion to the provinces to assist specific services, the Dominion attempts, by supervision and inspection of the provincial administration, to ensure that the grant is being properly applied to the purposes for which it was given. This involves a form of co-operation approaching joint administration and raises most of the problems involved in it. Before considering the manner in which conditional grants have worked in Canada, it is important to state some general considerations bearing upon all co-operative efforts in administration by separate governments.

It is clear that failure of Dominion and provincial government departments to pull together in such co-operative ventures will have disastrous effects upon administration. The purpose of all administration, whether in government departments or in private enterprise, is to get something done, to unify the efforts of the personnel in reaching objectives laid down beforehand. One of the principal differences between government and business is that the objectives and policy of government, in democratic states, at any rate, are generally arrived at as a result of bargaining and compromise among a wide variety of interests concerned. But once a policy is agreed upon, it is a maxim of all good administration that concerted effort in pursuit of the policy should not be frustrated by a multitude of counsel on the best means of arriving at it.

In business, unity of effort is secured by having a single manager responsible for administration as a whole. The Constitution of the United States aimed to reach the same result by concentrating all executive authority in the hands of the President. In the cabinet system of government, the conventions requiring unanimity and imposing collective responsibility are designed to secure a similar co-ordination of all administrative action.

Where the Dominion and the provinces co-operate in the execution of a single policy, there is no single authority which can impose its will and decide what daily action shall be taken in pursuit of objectives. The Dominion and the provinces occupy exclusive spheres of power in which no one can over-ride the others. If unity and harmony of administration are to be maintained, it must be through voluntary agreement between Dominion and provincial personnel on the best means of advancing the policy. And this agreement must be reached without delay and without serious compromise watering down the vigour of the measures employed.

It is one thing to get a legislature willing, at a single moment of time, to delegate some portion of its powers. Once the act of delegation is complete, it is not likely to reconsider its action until administration by the authority to whom the power was delegated becomes highly unsatisfactory. It is a quite different matter, however, to get sustained unanimity on the minutiae of administration from day to day. There are two main reasons for thinking it likely to break down from time to time.

It is no criticism of higher government officials to say that they generally like to extend the sphere of their authority. Like everyone else, the energetic official must try to express his personality in his work. He must try to prove the correctness of his ideas by putting them into practice and, in this way, prove himself to his superiors. Quite naturally, he wants credit for successful administration and he, therefore, cannot acquiesce in methods and practices which he thinks are prejudicial to it. In the nature of things, there are forces making for rivalry between Dominion and provincial officials who are co-operating in joint administration. Honest differences of opinion quite unconnected with personal ambitions are often sufficient to bring them into disagreement. Sooner or later, the incompatibility of their ideas or their ambitions are likely to lead to different views on

[57] A number of the difficulties which may be expected to attend the use of this device are set out in Corry, *op. cit.*, pp. 22-30.

administration. Such rivalries and differences of opinion have prejudiced Dominion-provincial co-operation in many instances in the past. They are to be found between officials within a single government where it is only the unified control of administration in the hands of the cabinet which prevents them from seriously impeding administration. Officials testify to their existence by saying that success in Dominion-provincial co-operation in administration depends entirely upon "personalities".[59]

Secondly, in joint administration the officials in the provincial department concerned are responsible through the minister to the provincial legislature, while the federal department is likewise responsible to Parliament. Politics and administration are closely linked by the cabinet system. The Government of the Dominion and the government of a province, as is well known, may be at odds over some question of policy. On occasion there are genuine conflicts of interest between the Dominion as a whole and one or more provinces. Moreover, where active administration affects the interests of particular persons or groups, representations are made by them to the government of the day, which is sometimes constrained, as a result, to intervene in administration on political grounds. Thus there will be a tendency for joint administration to get entangled in political issues. Where both Dominion and provincial politicians have access to administration, there will be constant danger of Dominion-provincial political friction being transmitted to areas of joint administration.[60]

There is no occasion to be critical of political differences between the Dominion and a particular province. It is the duty of a provincial legislature and government to pursue the interests of the province as they conceive them to be, just as it is the duty of Parliament and the Dominion Government to push forward what they believe to be the national interest. These apparent conflicts of interest can scarcely be avoided. But they should be fought out in the political arena and not permitted to engage one another in the sphere of administration where they will destroy vigour and efficiency.

In the United States the cabinet system of government is not used and members of the legislature cannot intervene in daily administration. Thus administration is, in a considerable measure, insulated from politics. Accordingly, joint administration of projects by federal and state governments escapes one of the serious difficulties to which it is exposed in Canada. It is dangerous therefore to argue from experience in this field in the United States.

These general considerations do not apply with equal force to all kinds of joint activity. In activities which can be largely reduced to a number of routine operations and which do not have to wrestle constantly with new situations and new problems, the danger of differences between officials is considerably less. The same is true of activities which consist mainly in the application of scientific standards. To some extent, the discipline of science compensates for the lack of a discipline imposed by a single superior and the recondite nature of the problems which arise tends to withdraw the activity from the intrusion of political differences between the provinces and the Dominion.

Limitations of Conditional Grants

On the whole, however, these general considerations suggest that joint administration by Dominion and provinces is not likely to be very satisfactory. The history of the administration of conditional grants in Canada points in the same direction. From 1912 on, the Dominion has made grants of money to the provinces for specific purposes on specified conditions. Grants for assisting agricultural instruction, highway development, technical education and control of venereal disease have expired and have not been renewed. Grants for employment offices, old age pensions and unemployment relief are still being made. The activities being assisted are in each case within the constitutional power of the provinces and accordingly they are administered primarily by the provinces. As indicated earlier, the Dominion agrees to give financial aid to a provincial service provided the province spends equivalent or specified sums on it and maintains certain standards in the service rendered. Thus it is necessary for the Dominion and the province to agree upon the standard and the means of reaching it. The agreement is embodied in a set of regulations which are to govern administration and the claim of the province to Dominion financial assistance depends on the observance of these regulations. In an attempt to ensure careful application and substantial observance of the regulations, the Dominion Government audits provincial expenditures on the assisted service and, where feasible, measures performance against the standard by supervision and inspection.[61]

[59] See Corry, *op. cit.*, pp. 9-10.
[60] *Ibid.*, pp. 17-18, 34-35.

[61] See Corry, *op. cit.*, pp. 28-36, for a discussion of the administration of conditional grants.

Such administration is, in a sense, joint. Dominion auditors and inspectors check provincial accounts and the actions of provincial officials, while provincial officials are obliged to get the approval of federal officials if there is to be no interruption in payments of the federal grant. Disagreements between the two sets of officials involved cause delay and confusion and lower the efficiency of administration. We are convinced that, on the whole, the administration of the services assisted by these conditional grants has fallen far short of reasonably good administration. The basic reasons for this failure are the two set out above in general criticism of joint administration.

To decide whether particular payments have been properly made or whether provincial performance comes up to the agreed standard, it is necessary to interpret the regulations which define the conditions on which federal assistance is granted. Dominion and provincial officials frequently disagree about the meaning of the regulations. General rules are never entirely clear in their application to particular cases and most of the disagreements are genuine honest differences of opinion as to how the activity should be carried on in cases where the regulations are not entirely clear. It is true that the disagreements arise in a relatively few cases but since there is no single superior authority to resolve them, they are enough to cause delay, and may generate friction which spreads through the administration, and generally reduces efficiency.

The difficulty is that in many of the activities assisted by conditional grants it is impossible to find a clear-cut standard which can be applied automatically in measuring performance. Really objective criteria are hard to find in human affairs and where the measuring-rod cannot be applied automatically, it leaves room for difference of opinion.[62] It is inevitable that federal inspecting and auditing officials should be primarily concerned with protecting the Dominion treasury while provincial officials engaged in active administration of the service are concerned with seeing that it meets what they conceive to be the needs for which it was established. Where there is room for difference of opinion, this difference in interest and purpose causes disagreements to emerge.

Federal officials cannot insist directly upon their interpretation of the regulations by giving orders to provincial officials in the field. Provincial officials must take their orders from the provincial government and not from federal auditors and inspectors. Thus disagreements in the field are referred back to higher officials and ministers in Ottawa and in the provincial capitals, and questions of administration become the subject of diplomatic interchange between governments, involving long delays in their settlement.[63]

When administrative questions rise to the political level, they tend to become entangled in political issues and to be treated as such. Nowadays Dominion and provincial policy impinge upon one another at many points. When, as a result of this fact, sharp differences emerge between the Dominion and a province, there is grave danger that the difficulties of joint administration will be intensified. The intrusion of politics in administration is always unfortunate but it is doubly so when a single government activity or service is disturbed by both federal and provincial politics.

In pointing generally to the difficulties in the administration of conditional grants, there is danger of creating false impressions. It must be emphasized that the exasperations noted are not found in all provinces nor at all times. If they were, conditional grants would never have survived their launching. But they occur with sufficient frequency to cause waste, friction and delay. Nor are they due to the perversity of officials and politicians. The federal scheme of government was devised precisely because of the lack of complete identity of interest between the whole and the component parts. Where differences of interest exist they become manifest simply through officials and politicians doing their duty. If these differences cut across fields of co-operative activity, they inevitably have a prejudicial effect.

Those who favour conditional grants as a means of overcoming constitutional difficulties are aware of the objection frequently made that governments which spend public money ought to be fixed with full responsibility of raising it. They argue that this objection is overcome and adequate control over provincial administration secured in two ways. In the first place, the grant is made for a particular purpose and the Dominion can define exactly what that purpose is. Then by supervision and inspection, it can determine whether provincial administration complies with the terms of the grant. If not, disallowances and deductions from the grant can be made as a penalty and a warning for the future. Secondly, if this sanction is not effective, the entire grant may be withheld until defects are remedied.

62 *Ibid.*, pp. 31-33.

63 *Ibid.*, p. 33.

This argument ignores certain stubborn difficulties. In the first place, we have already pointed out that in many of the services assisted by federal grants, it is impossible to devise exact standards for measuring performance. Opinions differ as to what amounts to an earning of the grant and disputes arise. Federal auditors may disallow particular provincial expenditures as not being authorized by the regulations. Because there is generally room for difference of opinion, the province does not normally acquiesce in such action. In resisting a disallowance which it considers unfair, the province feels justified in bringing pressure on the Dominion. As the province is in full control of administration, there are generally a variety of expedients which it can adopt to inconvenience or prejudice the Dominion. Thus the Dominion is obliged to be very chary of disallowing expenditures except in very flagrant cases which, of course, are rare.[64]

Moreover, in most cases, federal audit of provincial expenditures cannot go to the root of the activity. To determine independently the correctness of all provincial expenditures on an aided activity, it would be necessary to duplicate provincial field staffs. Such duplication of staff cannot, of course, be contemplated and federal audit is generally confined to a review of the documents and vouchers on file. Occasional test investigations by way of sampling are made and complaints of serious abuses investigated. We do not suggest that there is any need to inquire into the honesty of provincial administration but there may be occasions when its vigilance in these assisted activities is not as rigorous as if the province itself raised all the funds expended on them. In any case, federal audit and supervision cannot go to the root of these activities.[65]

Secondly, the power of the Dominion to withdraw the grant from a province which fails to conduct its administration in accordance with the conditions imposed on the grant can rarely be exercised in practice. The Dominion assists particular provincial services because they further some important national interest. Withdrawal of the grant to discipline a province must be at the expense of the national interest in question. Furthermore, it is a very serious matter to say that a provincial administration is so bad that assistance must be withdrawn. Obviously no Dominion Government could come to that conclusion about a provincial government of its own political stripe. And a Dominion Government would scarcely dare to withdraw a grant from a provincial government of a different political stripe because of repercussions in the province affected.[66]

Thus the Dominion must always hesitate long before withdrawing a grant. The provinces know this and they are not seriously impressed by threats of such action. The power to withdraw the grant is not an effective sanction except against the most flagrant of abuses. Experience shows that where flagrant abuses have been brought to light, the province in question has hastened to correct them. In the prosaic but much more common cases, where administration is hampered by honest and reasonable differences of opinion, withdrawal of the grant as a means of resolving such differences is out of the question.

On these grounds we are satisfied that, for permanent purposes, the conditional grant, as it works under Canadian conditions, is an inherently unsatisfactory device. It may be used in some special cases and for some limited purposes, as we shall indicate later.[67] But in most activities we believe it to be more costly than if the service in question were financed by a single government. It unquestionably leads to delay and to periodic friction between Dominion and provincial governments.

The experience with conditional grants leads us to doubt whether joint administration of activities by the Dominion and a province is ever a satisfactory way of surmounting constitutional difficulties. Where legislative power over a particular subject matter is divided, it is ordinarily desirable that these powers should be pooled under the control of a single government in order to secure unified effort in administration.

[64] See Corry, *op. cit.*, pp. 34-35.

[65] *Ibid.*, 29-31.

[66] *Ibid.*, pp. 34-35.

[67] See Book II, Sect. A, Chaps. I and III; Sect. B, Chap. V.

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