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**FEDERAL SUBSIDIES TO THE
PROVINCIAL GOVERNMENTS
IN CANADA**

BY

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To

MY FATHER AND MOTHER

P R E F A C E

MODERN federalism is essentially a compromise. It grows out of an attempt to reconcile the views of those who prefer a unitary government and those who prefer provincial or state independence. Between these two groups stand the trimmers, who frame a scheme which strikes a balance and enables union to take place. Some functions are handed over to the new federal government; some are kept under provincial control. But agreement about the division of functions is not enough, because sources of revenue have also to be divided so as to meet the needs both of the federal government and of the provincial governments as a whole, and so as to satisfy the diverse requirements of the different provincial governments. This is a difficult task. In order to provide the provincial governments with adequate revenues, a further adjustment is often necessary.

The Canadian federation has had to face these problems, and the aim of this monograph is to show how they were handled. The main device used in Canada has been payment of unconditional subsidies by the federal government to the provinces. This device infringes what has been called by Professor Adarkar the "principle of independence and responsibility" — that "the responsibility of raising revenue and the freedom of spending it ought to go hand in hand"; and it has seldom been regarded as more than a necessary compromise. The framers of the Canadian scheme of union were certainly of this opinion, and they therefore attempted to restrict these subsidies within narrow limits. But the constitutional barrier which they set up was broken through almost immediately, and all subsequent attempts to repair it have failed. The unconditional subsidies have been altered on numerous occasions, and quarrels about them have affected almost every phase of federal-provincial relations.

It is, of course, desirable that the terms of a federal union

should have some flexibility, and there has been a growing feeling in Canada that some redistribution of functions and revenues is due. There are many obstacles in the way, but progress might be made by utilizing the system of conditional subsidies which has developed in recent years. This development has been haphazard, and achievement has fallen far short of reasonable expectation. But the system has possibilities for good which have not been utilized, and through it federal-provincial financial relations may yet be readjusted on a satisfactory basis.

Much of the research for this monograph was made possible through the generosity of the Social Science Research Council, which granted me a research fellowship for 1930-31. I am under obligation to numerous people to whom I can make only a general acknowledgment, but a few names should be mentioned. Professor C. J. Bullock as a teacher first stimulated my interest in federal finance. My debt to him I gratefully acknowledge. I benefited greatly from discussions with the Honorable N. McL. Rogers, although he bears no responsibility for the views stated here. I wish also to express my appreciation of the courteous assistance given me by officials of the Library of Parliament, particularly the Honorable Martin Burrell, Mr. F. A. Hardy, and Mr. M. C. MacCormac, and by Dr. J. F. Kenney of the Dominion Archives.

The editors of the *Canadian Bar Review*, the *Canadian Historical Review*, the *Canadian Journal of Economics and Political Science*, the *Dalhousie Review*, the *Journal of Political Economy*, and *Queen's Quarterly* have kindly allowed me to reproduce portions of my articles which have appeared in their pages.

J. A. M.

Worcester, Mass.
July, 1936

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PART I
UNCONDITIONAL SUBSIDIES

INTRODUCTION

HISTORIANS in recent years have made clear that before 1864 many men had toyed in their minds with the idea of federation of British North America.¹ Most of these schemes did not face the difficulties inherent in the proposal. They were inspired sometimes by an acute realization of the ills of the existing situation, and sometimes by the natural desire of statesmen to be nation-builders. Not until the Quebec Conference was a scheme of union formulated which really took account of the complexity of the task. Then a practical plan was drawn up, which, with modifications, was to provide a constitution for the Dominion of Canada.

But a constitution, no matter how carefully it may be devised, is only a framework. No complicated piece of legislation works out exactly according to expectations, and the British North America Act was no exception. It was the task and the test of Canadian statesmen after 1867 to make their new constitution work, to reconcile the divergent elements which had been brought together under a federal government, and to forge organic bonds of union which would supplement and even replace the legal bonds of a man-made statute.

Both in framing a constitution for Canada and still more in making that constitution work, questions of federal-provincial finance were of vital importance. At Quebec in 1864 a dispute over finance almost wrecked the conference. After 1864 the opponents of confederation directed their most telling attack against the financial clauses of the Quebec resolutions; and when in 1866 the delegates from Upper and Lower Canada, Nova Scotia, and New Brunswick met at London, the most important changes made by them in the Quebec resolutions had to do with finance. After the Dominion had been created, the first

¹ W. M. Whitlaw, *The Maritimes and Canada before Confederation* (Toronto, 1934).

serious dispute between a province — Nova Scotia — and the federal government was settled by an adjustment of financial terms. When in 1871 and 1873 British Columbia and Prince Edward Island asked to be admitted to the union, the decision hung upon questions of finance. On numerous later occasions disputes between a province and the federal government have been settled by a financial readjustment. There is nothing surprising about this. A federal union brings together communities which have conflicting interests, and very frequently it is through the touchstone of finance that reconciliation is effected.

The most important aspect of federal-provincial finance in Canada has been the system of unconditional subsidies introduced in 1867 and since greatly extended. This system has not worked well. The need for subsidies at the outset can hardly be disputed, but with the passage of time defects have multiplied. In recent years a set of conditional subsidies has been added, with mixed results. A candid review may serve both to disclose mistakes and to suggest remedies.

CHAPTER I

THE FINANCIAL TERMS OF THE BRITISH NORTH AMERICA ACT

IN ONLY one of the many discussions previous to 1864 about union of the provinces of British North America was there any realistic examination of the financial basis upon which this union should rest. Alexander Galt, in his famous letter of October 25, 1858, to Sir E. B. Lytton, did make specific suggestions looking toward (1) federal control of customs and excise, (2) federal assumption of provincial debt, (3) distribution of federal subsidies to the provincial governments. All these propositions were later incorporated into the Quebec resolutions.¹

On the very first day (October 10, 1864) of the Quebec conference Galt, speaking as a delegate from Lower Canada, repeated the ideas which he had expressed six years earlier:

Provision must be made for the Local Governments. All the revenues from Customs and Excise would go to the general government. The expenses of the Local Government would be lessened by the works they now have to provide for being lessened. In Canada it

¹ There was, however, a difference in the method by which subsidies were provided. In 1858 Galt proposed that federal subsidies be of two sorts: first, a "fixed contribution" toward provincial expenses "for a limited time"; and second, distribution yearly to the provinces, on the basis of population, of the surplus revenue of the federal government (O. D. Skelton, *The Life and Times of Sir Alexander Tillock Galt*, Toronto, 1920, p. 243). This second type of subsidy had the merit, so Galt believed, that it would give each province "a direct pecuniary interest in the preservation of the authority of the Federal Government." He did not remark upon its demerits, but they are glaring. The amount distributed would vary from year to year, thereby introducing instability into the provincial budgets, while if the federal government had no surplus revenue, the provinces would get no subsidies. These are obvious weaknesses, and they explain why this proposal was not considered in 1864. Furthermore, by this year everyone felt that if, perchance, the federal treasury should secure a surplus—and that seemed doubtful—many undertakings were lurking in the background to swallow it up. The Intercolonial railway was to be built, the Northwest was to be acquired and communication with it provided, the canal system was to be extended—schemes such as these seemed to mortgage any surplus federal revenue far into the future.

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was thought that the General Government could contribute towards the wants of the Local Governments. The debts of the Provinces offered no material objection in our view. Many of us are of the opinion that direct taxation is what is best, but we must not insist on our individual opinions.²

Not until ten days later did these financial questions come up for detailed discussion, and then they threatened to wreck the conference.³ A committee consisting of the finance ministers of the provinces was appointed to iron out the difficulties, and on the following day it reported back a number of resolutions which, after debate, were accepted by the conference.

DIFFICULTIES IN THE ALLOTMENT OF FUNCTIONS AND REVENUES

Before examining these resolutions it will be well to make clear why it was that a dispute over questions of finance so nearly wrecked the conference. At this time all the old provincial governments, without exception, were drawing the bulk of their revenue from import duties.⁴ Yet it was perfectly clear that the new federal government must have control of external trade and have, therefore, the sole right of levying such duties. Thus what had been the major source of income for the provincial governments would be taken away. But as a counter-balance they would, under the new federal constitution, have less extensive functions to perform and less heavy expenditure to make. If, for each province, the decline in revenues had been compensated by a decline in functions, and therefore in expenditures, no problem would have arisen. Unfortunately, this was

² A. G. Doughty, ed., "Notes on the Quebec Conference," *Canadian Historical Review* (henceforth *C.H.R.*), March 1920, p. 30. It should be remembered that these notes, taken by A. A. Macdonald, a delegate from Prince Edward Island, were not a verbatim report.

³ J. H. Gray, *Confederation* (Toronto, 1872), p. 62; *C.H.R.*, March 1920, p. 40. Besides these two reports of the Quebec conference there is also that of Hewitt Bernard (see Sir Joseph Pope, *Confederation: Being a Series of Hitherto Unpublished Documents*, Toronto, 1895, henceforth *Confederation Docs.*). Bernard does not mention the financial debates of October 21, and there are discrepancies between his and Macdonald's reports about the times of meetings and adjournments which seem irreconcilable.

⁴ J. A. Maxwell, "Better Terms," *Queen's Quarterly*, Winter, 1933, p. 126.

not the case. The old provincial governments in the Maritimes were, so it appeared, performing much more extensive tasks than the provincial governments in the Canadas. In the Maritimes the government had been a "nursing mother" to the localities, aiding them with their roads, schools, wharves, while in the Canadas a municipal system had been developed by which such tasks were put upon the local units themselves. A few figures will illustrate this point. In 1863 nearly 12 per cent of the current expenditure of Nova Scotia was for roads and bridges, while in Canada this expenditure was just above 1 per cent. The same point can be illustrated more forcibly in another way. The new federal government would, under the plan first proposed at Quebec, have assumed 77 per cent of the existing expenditures of the Canadas, while it would have taken over only 45 per cent of those of Nova Scotia, 49 per cent of those of New Brunswick, and 28 per cent of those of Prince Edward Island.⁵ In short, any uniform division of functions and of revenues between the new provincial governments and the Dominion which would balance the budgets of the upper provinces would start the Maritimes with unbalanced budgets.

These, then, were the difficulties which the committee of finance ministers had to solve. There were, broadly speaking, two possible solutions. A municipal system was a good thing. If the Maritimes adopted it, functions and expenditures would be shifted from the provincial to the local governments, and the budgets of the former might be balanced. Some of the delegates — notably Galt and Brown — favored this solution, but obviously it was objectionable. Even granting that a municipal system was desirable, the people of the Maritimes could hardly be expected to accept both federation and municipal reform in one dose.

SUBSIDIES AND DEBT ALLOWANCES PROVIDE A SOLUTION

The other solution was that subsidies should be paid to the provincial governments from the federal treasury, and to this

⁵ These figures are derived mostly from A. T. Galt, *Speech on the Proposed Union of the British North American Provinces* (Montreal, 1864), p. 23.

the committee consented only with great reluctance. It went over the estimates of provincial expenditure carefully, making considerable reductions, in order to get at the figure of minimum expenditure necessary for each province.⁶ Then it considered what subsidies would have to be paid in order to bring provincial revenues up to these expenditures. Again the original difficulty arose — that governmental functions were differently distributed in the Maritimes and in Canada. For this reason, subsidies apportioned upon a uniform per capita basis⁷ which would balance the budgets of the former would give both Upper and Lower Canada large surplus revenues. Obviously, there was no possible solution which could reconcile all points of view, and the resolutions which the committee of finance ministers finally agreed upon represent a compromise. In the main, subsidies were to be distributed upon the basis of population, though a few deviations were permitted; and they were made large enough to balance the budgets of the Maritimes, even though the balance was precarious. The resolutions of the committee were accepted by the conference without any alteration.

In these resolutions population of the respective provinces in 1861 was, as far as possible, made the basis upon which financial assistance was to be given by the federal government. This assistance was to be of three sorts: (1) A yearly grant of 80 cents per capita was to go to the provincial governments. (2) By the device of "debt allowances," provincial indebtedness equal to \$25 per capita was to be assumed by the federal government. (3) Exceptional grants were allowed in certain cases. Each of these will be considered in turn.

The per capita grant was simple. Each province was to be paid yearly 80 cents a head upon population as shown by the

⁶ *Debates on Confederation* (Quebec, 1865), pp. 69, 93. Gray (*op. cit.*, p. 62) also makes the very interesting statement that, as a result of the dispute, "the general government assumed the burden of every expenditure that could possibly be considered of a general nature." Thus the dispute had some effect upon the division of functions between the federal and the provincial governments. Doubtless the advocates of "legislative union" were not averse to advancing their cause in a practical way on this occasion.

⁷ Everyone at Quebec assumed without argument that subsidies, like representation, should be distributed according to population.

census of 1861.⁸ On this basis the provinces would be entitled to receive annually the following sums:

Ontario	\$1,116,880
Quebec	888,480
Nova Scotia	264,686
New Brunswick	201,634
Prince Edward Island	64,608
Newfoundland	104,000
	<hr/>
Total	\$2,640,288

It is especially to be noted that the grants were fixed in amount, with no provision for increase or decrease with population.

The provision of "debt allowances" was more complicated. There seems to have been no dissent from the general proposition that the federal government should assume provincial indebtedness. Most of this debt had been contracted for property, such as railroads, which the federal government was to take over, or for functions which would in the future fall upon the federal government. Some part of the debt, indeed, had not been so contracted, but it would have been extremely difficult to separate out this portion, and no attempt at separation was made. Calculations were based upon total net indebtedness, including debt liabilities contracted for, but not actually outstanding in 1864.

In working out precise terms it was essential that the provinces be treated approximately alike. If the federal government simply assumed all provincial debt this would not be achieved, because per capita indebtedness was not equal for all the provinces. As a solution the device of "debt allowances" was hit upon. The federal government was to assume *all* provincial debt; but if the debt of a province exceeded an allowance of approximately \$25 per capita, that province was to pay to the federal government interest at 5 per cent a year on the surplus, while if its debt was less than its allowance it was, similarly, to be paid interest on the deficiency.

⁸The last census in Newfoundland had been taken in 1857, but its population was assumed to be 130,000 in 1861.

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Let us now examine the method by which the amount of the debt allowances was determined. The net debts of the provinces in 1864, counting both actual and prospective liabilities, were as follows: ⁹

Canada	\$67,264,000
Nova Scotia	7,859,000
New Brunswick	7,003,000
Prince Edward Island	241,000
Newfoundland	946,000

On a per capita basis Canada had borrowed the most heavily. If, therefore, its debt was entirely covered by a debt allowance, the other provinces would be entitled to receive substantial sums as interest from the federal treasury. This seemed undesirable, and the committee of finance ministers decided that a better plan would be to give debt allowances which would cover the indebtedness of Nova Scotia and New Brunswick, leaving Canada to pay interest to the federal government on any surplus debt it might have over a debt allowance for it calculated upon a similar basis. Since the per capita debt of Nova Scotia and New Brunswick together was about \$25,¹⁰ it followed that the debt allowance for each province would be obtained by multiplying its population in 1861 by \$25. Something like this was done, but, as the following table shows, certain deviations were allowed:

	Actual Debt Allowance	Allowance at Rate of \$25 Per Capita
Canada	\$62,500,000	\$62,666,000
Nova Scotia	8,000,000	8,270,000
New Brunswick	7,000,000	6,300,000
Prince Edward Island	2,019,000	2,019,000
Newfoundland	3,250,000	3,250,000

⁹ For Nova Scotia \$3,000,000, for New Brunswick \$1,300,000, was prospective. Besides, all of the figures in the table were approximations. Precision was not necessary. The important thing was to set a *limit* to the amounts of provincial liabilities to be assumed by the federal government. Accurate determination of net liabilities could be left for the future. See Pope, *op. cit.*, p. 83.

¹⁰ *Debates on Confederation*, p. 66. Populations of Nova Scotia and New Brunswick were 330,857 and 252,047 — a total of 582,904. This figure, divided into the net debt of the two provinces, gives \$25.49. It should also be noticed

Why was the debt allowance for Nova Scotia \$270,000 less and that of New Brunswick \$700,000 more than what uniformity of treatment required? No explanation was given, but undoubtedly the weak fiscal situation of New Brunswick seemed to make special favors necessary. Its allowance had to be raised to \$7,000,000 if the existing liabilities of the province were to be covered.

Other peculiarities of the method by which debt allowances were calculated are obvious, but only one of them merits special mention. As has already been noticed, no attempt was made by the committee of finance ministers to separate that portion of provincial indebtedness incurred for public works or functions which would be taken over by the federal government, from that portion which would remain in provincial control, and no distinction was made between the two. Yet the distinction was of some importance, because the Maritimes on the one hand and Canada on the other had pursued divergent policies in contracting debt. In the former, railways had mostly been built as government works, while in the latter they had been privately constructed with the aid of liberal governmental subsidies. Thus in both cases indebtedness for railways had been incurred which would be assumed by the federal government, but only in the case of the Maritimes was this debt represented by governmental assets which would come into federal possession. Tilley and Tupper, the premiers of New Brunswick and Nova Scotia, both saw this point. Tilley said: "Our Railway now pays one and one-half per cent on the cost of the road or \$60,000 over working expenses, wear and tear. Mr. Galt proposes to take this from us and allow us nothing in return."¹¹ In spite of this complaint, nothing was done. As has been shown, debt allowances were allotted upon the rough and ready basis of population.

There can be no doubt that this decision was wise. Any at-

that a method of calculating debt allowances substantially different from that explained here is given by Macdonald ("Notes on the Quebec Conference," *C.H.R.*, March 1920, pp. 40-41). But on this point Galt's explicit statements in the *Debates on Confederation* and in his Sherbrooke speech must be accepted.

¹¹ "Notes on the Quebec Conference," *C.H.R.*, March 1920, p. 41. See also Pope, *Confederation Docs.*, p. 83.

tempt to evaluate assets and to segregate one type of debt from another would have required much time and would have been an inexhaustible source of dispute, without any assurance that an equitable result could ever be obtained.¹²

The third type of financial assistance to the provinces recommended by the committee of finance ministers consisted of several exceptional grants. The most important of them was "an additional allowance of \$63,000 per annum" for ten years to New Brunswick. That province in 1864 was in an unfavorable financial condition. It was spending 38 per cent of its current revenue for interest, and further large additions to its debt were imminent. After careful examination it appeared that, if New Brunswick were treated approximately as were the other provinces, its revenue would normally be about \$63,000 less than the minimum to which its expenditures could be reduced. The committee therefore decided to grant an additional subsidy. This departure from uniformity of treatment was most grudgingly made. The extra subsidy was definitely limited to a period of ten years, and during that time New Brunswick was expected to develop its provincial revenues or to curtail its expenditures.¹³

¹² The trouble which arose later in dividing up the assets and liabilities of Upper and Lower Canada between Ontario and Quebec illustrates the type of difficulties which must crop up in all such cases. It should, however, be noticed that this evasion has had one unfortunate aftermath. The Maritimes, and in particular, Nova Scotia, discovered that the plan of debt allowances had not been entirely fair to them. As early as 1869 A. W. McLelan argued that the assets which Canada turned over to the Dominion were relatively less valuable than those turned over by Nova Scotia, and he asked for compensation. John Rose, the Dominion minister of finance, made an effective reply. Admittedly there was some justice "in principle" to McLelan's request, but any "comparison [of assets and liabilities] obviously involves many particulars, which would make it difficult and even impossible to arrive practically at an equitable solution" (Nova Scotia Journals of the House of Assembly—henceforth J. of A.—app. 1, p. 92). It would be wiser to compensate Nova Scotia by a grant of a larger debt allowance. This was done. Nevertheless, the same grievance has been raised repeatedly by the province in later disputes with the Dominion.

¹³ The reluctance with which the subsidy was conceded is evidenced also by a sentence which was added—probably by George Brown (see *Debates on Confederation*, p. 93)—to the original resolution after debate in the conference. This sentence provided that, if the debt of New Brunswick proved to be less than its debt allowance and if, therefore, the province became entitled to receive interest at 5 per cent on the credit balance, the amount of this interest

An exceptional grant of \$150,000 a year was also promised to Newfoundland in return for cession of its territorial rights to the federal government. Again the reason was the apparent inability of the colony to finance itself as a province without this special subsidy. Since Newfoundland did not enter the Dominion this resolution never became effective, but it is worth mention as a precedent for the subsidies in lieu of land given later to Manitoba, Saskatchewan, and Alberta.¹⁴

Another exceptional grant, which was not allowed, but which was considered at the conference, had to do with Prince Edward Island. That province hoped in 1864 to get a remedy for its vexatious land question, and its delegates presented a resolution which asked for payment to the province by the federal government of a sum equal to the interest on the amount which might be necessary to purchase the proprietary lands.¹⁵ To this the conference would not agree, much to the dissatisfaction of the Islanders.

These, then, were the payments from the federal treasury to the provincial governments planned at the Quebec conference. For the four provinces — Ontario, Quebec, Nova Scotia, and New Brunswick — they amounted to less than \$2,534,700 a year. All the evidence goes to show that the payments were held to a minimum. Furthermore, of the four men — Galt, Brown, Tupper, and Tilley — who framed the subsidy resolutions, the two former stated explicitly that they would have favored complete elimination of subsidies. Galt and Brown had reached this opinion partly because they had seen, in the operation of the

should be deducted from the subsidy of \$63,000. This petty provision is important only in that it shows the jealousy with which any special favors were regarded and the care taken in 1864 to keep the subsidies to the provinces as low as possible.

¹⁴ Objection to the special grant was raised at the conference (see Gray, *op. cit.*, p. 64, and *Debates on Confederation*, esp. p. 516) on the ground that the apparent *quid pro quo* was worthless.

¹⁵ "Notes on the Quebec Conference," *C.H.R.*, March 1920, pp. 45-46. In 1767 the British government alienated the lands of the Island to favorites of the Crown, thereby creating the "land question," which was a cause of agitation for many years. Aside from the land question the Island could make no case for special financial concessions. Its subsidy and the revenue which it would receive as interest on its surplus debt allowance were adequate to balance its budget.

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municipal loan fund, the evils which grow out of distribution of revenue by superior to inferior governments, and partly because they were acquainted with and influenced by current English fiscal doctrine, which condemned grants-in-aid as economically unsound.¹⁶ What Tupper and Tilley thought is less clear. At no time did they defend subsidies as anything more than a convenient expedient, and it is fair to assume that about the principle of subsidies they had no views.

Upon one further point contemporary opinion should be noticed. The Quebec resolutions provided for subsidies which were to be rigid in amount. It has in later years been asserted that this was an oversight and that the fathers of confederation had forgotten that fixed grants would become inadequate as population grew and expenditure of the provinces mounted. Such an assertion assumes that the men who framed the resolutions were financial simpletons, and they were not. The fixity of the subsidies was explicitly discussed in 1864¹⁷ and vigorously commended. Galt insisted that the amount of the grants "should be definitely settled now and not doubled when the population of any province doubles." Such a plan would force provincial governments to exercise "a rigid and proper control" over expenditures, while any other would lead to unceasing demands upon the federal treasury.¹⁸

This was the opinion which the delegates accepted, and they embodied in the Quebec resolutions a "finality clause" which declared that the subsidies were to be "in full settlement of all future demands upon the General Government for local purposes." There can be no doubt that the declaration was literally meant and was literally given.¹⁹

¹⁶ See *Debates on Confederation*, p. 92, where Brown declared that he was "one of strongest advocates" of a scheme which would avoid subsidies altogether and make the provinces provide for their expenditures by direct taxation. Galt (*ibid.*, p. 68) said that if public men understood "their own interests in the true light of the principles of political economy," such a plan would be best.

¹⁷ See Pope, *Confederation Docs.*, p. 83.

¹⁸ "Notes on the Quebec Conference," *C.H.R.*, March 1920, p. 41; *Debates on Confederation*, p. 70.

¹⁹ If further evidence is needed to show that in Canada there was substantial unanimity about the undesirability of subsidies and the need of restricting them

FACTIOUS RECEPTION OF THE QUEBEC RESOLUTIONS

The fathers of confederation left Quebec eminently satisfied with their labors, and the reception given their resolutions in Canada was all that could have been hoped. The Canadian legislature met in January 1865 and eight weeks later framed an address to the Queen praying for union of the provinces of British North America upon the basis of the Quebec resolutions. No similar address was ever framed by any other provincial legislature.

In the Maritimes the idea of union was not received with enthusiasm, and after the Quebec resolutions became public a storm of opposition arose.²⁰ In Prince Edward Island the friends of union were almost completely silenced. The course of events in New Brunswick governed what was done in Nova Scotia. Tilley and Gray presented the Quebec scheme to the people of St. John at a public meeting on November 20, and even the *Daily News*, an ardent supporter of Tilley and of union, admitted that the "enthusiasm usual at political gatherings" was not displayed.²¹ The problem Tilley had to face was whether or not the scheme should be submitted directly to the electors. At Quebec there had been agreement that it was to be submitted only to the legislatures, but Tilley faced special difficulties. If he followed this plan a split in his executive council was certain. On the other hand, delay offered no solution, because the term of the legislature was about to expire, and in

within the narrowest of bounds, it is supplied by the men who opposed confederation. In their speeches they complain about subsidies and declare that, despite the finality clause, the subsidies will be increased. The most important attack was made by Christopher Dunkin, and one quotation from his very long speech will show how shrewd and how prophetic was his criticism: "The provincial governments will, in a quiet way, want money...and where is it to come from?... The easiest way...to get the money will be from the General Government.... I am afraid the provincial constituencies, legislatures and executives will all show a most calf-like appetite for the milking of the one most magnificent government cow" (*Debates on Confederation*, p. 519).

²⁰The Prince Edward Island *Monitor* published the resolutions early in November 1864, and from it the other Maritime newspapers got their first complete version.

²¹Nov. 21, 1864.

the coming elections the Quebec scheme was certain to be an issue whether he wished it or not. Furthermore, Lieutenant-Governor Gordon was at this time determined on an early election.²² After anxious thought Tilley decided to risk appeal to the electors.

At once the friends and the opponents of union entered upon an acrimonious debate. The opponents centered their fire upon the fiscal clauses of the Quebec scheme. They declared that the subsidies given New Brunswick were wholly insufficient, that as a result the provincial government would have to impose heavier direct taxes upon the people, that the higher tariff of Canada would become the tariff of the Dominion, with serious consequences to the economic life of the province. Even construction of the Intercolonial railway, held up for commendation by the friends of union, was disparaged by the assertion that Portland was and would continue to be the natural port for Canada.²³

The elections were held in March, and the friends of union were literally swept away, returning only six out of forty-one members to the House of Assembly. But the events of the next fourteen months were to show that responsible government had not been wholly attained in New Brunswick. Lieutenant-Governor Gordon plotted against the anti-union government, headed by A. J. Smith, and finally forced its resignation. In the elections which followed, the unionists triumphed as completely as they had previously failed. Why did the people of New Brunswick reverse their position? Union of the provinces had by 1866 become an imperial policy and that counted for something in a province with United Empire Loyalist traditions; the Fenian scare was at its height during the elections, and union was declared to be an alternative to annexation; Tilley and his friends were well financed and compactly organized; and, finally, the Smith government had waned both in general popu-

²² See George Wilson, "New Brunswick's Entrance into Confederation," *C.H.R.*, March 1928, for an exhaustive examination of the New Brunswick situation.

²³ The St. John *Freeman* presented the anti-union view most vigorously and ably. See also New Brunswick Assembly Debates (henceforth D. of A.), 1865, pp. 111-118, 133-134.

larity and as an opponent of union, and many people voted against it rather than for union.

Meanwhile, in Nova Scotia and in Canada a waiting policy had been pursued. In Nova Scotia so formidable was the opposition to the Quebec scheme that any man less resolute than Tupper would have lost heart. After the defeat of Tilley in 1865, Tupper's best efforts were required to prevent a vote hostile to union from being passed by the legislature. In Canada the need of watchful waiting was also obvious. Public sentiment there was strongly for union. The only question was when the Maritimes would fall in line, and some Canadians waited with calm assurance for this event. T. C. Baring, on a visit to Canada in 1865, was surprised

to find how little importance the Canadians attach to the apparent unwillingness of the three lower provinces to accept the proposed union. They seem to think that the members of the New Brunswick and Prince Edward Island legislatures only require a little pecuniary persuasion and the promise of a place or two to change their minds, and there is some talk of Lord Monck making a tour through the provinces to apply the necessary means.²⁴

This cynical opinion seemed justified after Tilley was victorious in 1866, but Canadians had to realize that it would no longer be possible to carry the Quebec resolutions "en bloc and without alteration."²⁵ Tilley and his friends had not appealed to the electors on the basis of the Quebec resolutions; they had merely stood as supporters of some scheme of union which was not precisely defined but which was to be more favorable to New Brunswick.

This shift in position was not without embarrassment to the unionists in Canada. Canada had accepted the Quebec resolutions verbatim and preferred to adhere to them.²⁶ But John A.

²⁴ Letter to T. Baring, Mar. 28, 1865, Baring Papers Relating to Canada, New Brunswick, et cetera, 1856-70 (Public Archives of Canada).

²⁵ Joseph Pope, *Memoirs of the Right Honourable Sir John Alexander Macdonald* (Ottawa, 1894), I, 305.

²⁶ Joseph Pope, *Correspondence of Sir John Macdonald* (Toronto, 1921), pp. 32-33, letter to Peter Mitchell, Mar. 26, 1866.

Macdonald was willing to give tactical aid to Tilley, and accordingly he delayed calling the Canadian legislature in 1866 until after the New Brunswick election. An earlier meeting would have given opponents of union an opportunity to raise troublesome questions which might have endangered Tilley's chances.²⁷

With Tilley once more in office, the stage was set for progress toward union. Tupper made the first move. He introduced into the House of Assembly not the Quebec scheme but a general and vaguely worded resolution asking for permission to appoint delegates "to arrange with the Imperial government a scheme of union which will effectually secure just provision for the rights and interests of this Province. . . ." ²⁸

During the subsequent debate both Tupper and Archibald declared that, while still believers in the Quebec scheme, they would endeavor to secure more favorable terms for Nova Scotia than it provided. The resolution carried, and then Tilley placed an identical resolution before the legislature of New Brunswick. When asked in the House of Assembly if he and his colleagues had promised their constituents that the Quebec scheme would be modified, he replied: "Yes, Mr. Speaker, and we should have been recreant to our duty and unfit for the trust reposed in us had we not, when we found that certain sections of that Scheme were obnoxious, promised to see that the very best terms possible should be obtained." ²⁹ The legislature was satisfied by this assurance.

There was now some delay. A tentative arrangement was made that delegates from all the provinces should sail for Lon-

²⁷The developments in the Maritimes did not pass unnoticed by opponents of union in Canada, and after the legislature was called Dorion introduced a resolution asking that any alterations made in the Quebec resolutions be submitted for approval of the legislature (J. of A., Canada, 1866, p. 367). This was voted down, and the Canadian government was able to keep its hands free.

²⁸J. of A., N. S., 1866, p. 60. On Jan. 4, 1865, Tupper had written to Macdonald: "The more general the terms of a resolution approving the report of the Quebec Conference the better" (Macdonald Papers, Confederation, 6, Public Archives of Canada). He promised to draw up a tentative resolution and to send it around for suggestions.

²⁹D. of A., N. B., 2 sess., 1866, p. 31.

don late in June,³⁰ but a number of circumstances, notably the Fenian scare, caused Macdonald to hold back, despite the vehement protests of Tupper that "any further delay would be most dangerous to Confederation." The Maritime delegates sailed alone, and for five weary months they waited impatiently in Great Britain for their friends from Canada.³¹ Not until December 1866 did the deliberations begin at which union of the provinces was to be consummated.

COMPROMISE AT LONDON

It has been customary to say that the alterations made at London in the Quebec resolutions were comparatively slight,³² and as a generalization this may be accepted. But in the narrow field of federal-provincial finance two changes of importance were made. In the first place, certain duties which, at the Quebec conference, had been classified as provincial were assigned to the federal government; and second, the provincial governments were given larger subsidies. Both changes were designed to meet the objection, raised in the Maritimes, that the provinces had not been given sufficient revenues to meet their duties. Both, moreover, illustrate the inevitable tendency of practical statesmen to solve grievances by the touchstone of better financial terms.

The first of the alterations has not received much attention, and it can be properly evaluated only by a student of constitutional law. But it is not unimportant that at London the federal government was given, as new functions, control over sea-coast and inland fisheries, the duty of establishing and maintaining penitentiaries, and the right to take out of provincial jurisdiction "such works as, although wholly situated within the province, are before or after their execution declared by the parlia-

³⁰ E. M. Saunders, *Life and Letters of Sir Charles Tupper* (London, 1916), I, 128. See also Macdonald Papers, Letters from Tupper, 1864-91; Pope, *Memoirs*, I, 304-308.

³¹ This enforced leisure gave the Maritime delegates a chance to formulate the changes they wished to make in the Quebec resolutions (see D. of A., N. B., 1867, p. 11). They also made an abortive attempt to get Prince Edward Island into the union.

³² Cf. R. G. Trotter, *Canadian Federation* (London, 1924), p. 133.

ment of Canada to be for the general advantage of Canada or for the advantage of two or more provinces.”⁸³ This increase of federal and decrease of provincial functions served, of course, to strengthen the fiscal position of the provinces. But it is possible to suspect that the aim of strengthening the authority of the central government was also kept in mind by Macdonald and his friends.

The second alteration affected the subsidy provisions of the Quebec resolutions in two respects. For Nova Scotia and New Brunswick the calculation of the grant of 80 cents per capita was changed so as to rest, not upon population in 1861, but upon actual population, as established by each decennial census, until it amounted to 400,000 persons. Since the populations of Nova Scotia and New Brunswick in 1861 were respectively 330,900 and 252,000, this provision gave them an extra subsidy for the future above that provided by the Quebec resolutions and above that given to Ontario and Quebec. Why, it may be asked, was the limit of population on which a subsidy would be paid set at 400,000? While no conclusive documentary evidence can be presented, the answer is not obscure. The obvious way to make a financial concession to the Maritimes was by allowing the subsidy to grow with the growth of population. The only debatable question was what *limit* should be set. At London Tilley suggested “that the 80 cents be continued as a regular increase until population goes up to half a million.”⁸⁴ Evidently the delegates from Canada thought this excessive, and, as a compromise, the limit was set at 400,000. It could hardly have been put lower if Nova Scotia was to receive benefit from this concession.

The other change in the subsidy provisions provided a new set — the so-called annual grants for the support of governments and legislatures.⁸⁵ These amounted to \$80,000 for On-

⁸³ *British North America Act*, sec. 92, sub-sec. 10 (c). The Quebec resolutions had only given the federal government control over “such works as shall, although lying wholly within any Province, be specially declared by the Acts authorizing them to be for the general advantage.”

⁸⁴ Pope, *Confederation Docs.*, p. 114.

⁸⁵ In the “rough draft” of the bill prepared at London this designation was not used. Instead these new grants, along with the per capita sub-

tario, \$70,000 for Quebec, \$60,000 for Nova Scotia, and \$50,000 for New Brunswick. Clearly, upon a per capita basis, the two smaller provinces were favored.

Thus at the London conference certain functions were transferred from the provincial to the federal government, and the annual subsidy payments to the provinces were increased immediately by \$260,000 and prospectively by a further sum which at its maximum would be \$173,700. By such changes some friends were won in Nova Scotia and New Brunswick, and, although George Brown, who was not at London, attacked them bitterly through the *Toronto Globe*, the breach made in the Quebec resolutions did not seem serious. The danger was that departure from the principle of fixity of the subsidies might whet the appetite of the provinces for further concessions. But the delegates at London had taken the same precaution against this possibility as had those at Quebec, for they declared that the grants now provided were to be "in full settlement of all future demands"; and this declaration was embodied in the British North America Act itself.⁸⁶ Here certainly was a portion of the Canadian constitution which was expected by the fathers of confederation to be inflexible.

One other expectation of the fathers of confederation should be noticed. Very many of them believed that, under the new form of government, the net governmental expenditure would actually be reduced. This idea was based partly upon the conviction that separation of Upper and Lower Canada would destroy the extravagant financial practices engendered during the union, and partly upon the naïve belief that the people of the Maritimes were naturally frugal about government expenditure. Furthermore, it was hoped that the division of functions between the federal and the provincial governments would prove economical. The federal government would handle great questions, undistracted by local issues; the provincial governments, in touch with local issues, would handle them expe-

sides, were lumped together and declared to be given "in consideration of the transfer to the General Parliament of the powers of taxation" (*ibid.*, p. 109).

⁸⁶ Sec. 118.

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ditiously and efficiently. Moreover, increased provincial expenditure could be met only by means of direct taxation. "If the men in power," said Galt, "find that they are required, by means of direct taxation, to procure the funds necessary to administer the local affairs, for which abundant provision is made in this scheme, they will pause before they enter upon any career of extravagance."³⁷ The course of events has shown the frailty of these expectations.

³⁷ *Debates on Confederation*, pp. 68, 70, and 94. For a prediction more nearly borne out by events see the speech by Dunkin, *ibid.*, pp. 519-520.

CHAPTER II

THE BETTER TERMS OF 1869

RESISTANCE IN NOVA SCOTIA

THE resolutions framed at London were not submitted either to the people of Ontario, Quebec, Nova Scotia, or New Brunswick, or to any of the four provincial legislatures. Instead, they were incorporated into a bill which was passed by the British parliament and signed by the Queen. In this way the Canadian constitution was created. There can, of course, be no doubt that Ontario, Quebec, and New Brunswick would have approved of the London resolutions; but neither can it be doubted that the people of Nova Scotia would have declared strongly against them.

In no small measure the dissatisfaction in Nova Scotia became significant through the leadership of Joseph Howe. He was her favorite son; he had been the leader in the fight for responsible government; his eloquence and ability had made him the most influential figure in the province. Tupper knew the hold which Howe had on the people, and he had asked him to be a delegate to the Charlottetown conference. But Howe had declined, and Tupper went forward with the negotiations in the belief that Howe was "neutralized" because of his position as imperial fishery commissioner.¹ Tupper was mistaken. Howe turned again to active political life and tempestuously led the fight against confederation.

The anti-confederates could put up a strong case. They claimed first of all that such a momentous step should not be taken without submitting the question to the people. Confederation had not been an issue in the election of 1863; it had not even been mentioned in the governor's speech opening the legislature in 1866, but had been pressed forward and forced through

¹ Pope, *Correspondence*, p. 21.

by Tupper in spite of vehement opposition in the once docile Assembly where his majority had been overwhelming. To ignore the sentiment throughout the province, where the fervor of resistance was much more significant, seemed an affront to representative government.

But such a constitutional argument was not the reason for the opposition of the mercantile classes. They put forward economic reasons to demonstrate the unfavorable effect confederation would have. It was necessary to consider the geographic situation of Nova Scotia. The province was almost an island and was separated by a great area of thinly-settled, densely-wooded country from the populous part of Canada. The attempt to bridge this gap by the construction of a railway held forth little promise, for competent engineers had declared that such a road must be unprofitable. Even for purposes of defense it would be of small value, since it had to run for many miles at a short distance from the United States border. Commercially, a railway from Halifax to St. John and Portland held out brighter prospects.

Nova Scotia was a maritime country and sold her exports to distant countries, carrying them in her own ships. To urge, as some did, that confederation would give her free trade with Canada was fallacious. In the first place, the boon was valueless, for the trade statistics showed that Nova Scotia had little trade with this region. While in the two years 1865 and 1866 over 40 per cent of her exports had gone to the United States, and 21 per cent to the British West Indies, only 6 per cent had gone to Canada.² Of Nova Scotia's imports, over 42 per cent came from Great Britain, 29 per cent from the United States, and only 4.4 per cent from Canada.³ In the second place, the opponents of federation contended that the supposed boon was not only valueless but a positive injury. Canada had at this time adopted a protective policy, while it had long been the boast of Nova Scotia statesmen that her tariff was the lowest in the world. With union, the policy of the larger and more popu-

² *J. of A., N. S.*, 1867, app. 2, p. 432.

³ *Ibid.*, p. 345.

lous section would be imposed on the whole area, and Nova Scotia could no longer secure the goods she required in the cheapest market but must purchase them from Upper Canada.

What, asked the anti-confederates, could union offer to counterbalance these disadvantages, except platitudinous phrases? In this union there could be no strength, for it proposed to unite three million people, homogeneous neither in race, customs, nor political institutions, and strung out in a thin line along the artificial border between them and the United States. The vaunted defense which federation was to provide was fictitious, for such an attenuated combination exposed a long border to the very country from which, at that time, aggression was most feared. In fact, here also union meant risks and burdens rather than safeguards and benefits. And the pride which the acquisition of a national consciousness might bring, would yield little advantage of a material sort.

Under Howe's leadership the opposition grew rapidly. A delegation headed by Howe went to London in July 1866. Howe interviewed members of the British government, he circularized members of parliament, he wrote for the press. His efforts were of no avail. The British North America Act was passed, and Nova Scotia was legislated into confederation.

But Howe and his friends retained hope. If in the first federal and provincial elections the people of the provinces showed their opposition to union, repeal might, perhaps, be possible. The results of the elections seemed decisive. Of the nineteen members elected by Nova Scotia to the federal House of Commons, Tupper alone supported confederation; of the thirty-eight members elected to the provincial House of Assembly, thirty-six were anti-confederates. Again Howe journeyed to London, and again he was disappointed. In parliament a few independent members, like Bright and Mill, espoused his cause; but the government made it emphatically evident that efforts for repeal would be futile.

Only two alternatives remained. The anti-confederates, in control of the provincial government, might attempt to untie the bonds of union by unconstitutional means; or they might

capitulate on condition that the province be given certain concessions. For a time the decision hung in the balance, and again Howe's choice was conclusive. Diplomatically approached by Tupper and Macdonald, he disassociated himself from the extreme wing of his party, gathered a few influential friends about him, and planned a conditional surrender.

HOWE'S CAPITULATION

The negotiations which followed were conducted by Howe and A. W. McLelan on the one hand, and by John Rose, the federal minister of finance, and John Langton, the auditor-general, on the other.⁴ Aside from some preliminary skirmishing, only economic and financial issues were raised. McLelan, more adept at such matters than Howe, endeavored to show in what ways the existing terms were unfair to Nova Scotia, while Rose made a counterargument and also pointed the way to a reconciliation.

The objections set forth by McLelan can be grouped under two heads. He argued, first, that in the adjustment of public property and indebtedness between the federal government and the provinces Nova Scotia had been unfairly handled; and second, that certain exceptional features in the economic situation of Nova Scotia had been entirely overlooked. The latter argument will be considered first.

The divergence between the economic interests of Nova Scotia — and indeed of all the Maritimes — and those of Upper and Lower Canada has already been noticed. One aspect of this divergence seemed to McLelan to be of special significance. Nova Scotia had relatively more imports than Upper and Lower Canada. In the four years 1864-1867, the average value of the per capita imports of Nova Scotia was \$36.92, while that of Canada was \$18.33. Since the chief source of federal revenue was to be customs duties, this meant that Nova Scotia would bear a disproportionate burden of taxation. The figures of actual receipts from customs told the same story. In the period

⁴ *Ibid.*, 1869, app. 1.

1864-1867 the average yearly amount paid in customs by Nova Scotia was \$3.28 per capita, while in Canada, with duties at a considerably higher level, it was only \$2.60. McLelan argued that this situation called for a modification of the financial terms of union. Both Rose and Langton admitted the merit of this claim, although they pointed out the difficulties in the way of any precise adjustment.

The objections raised by McLelan to the distribution of assets and liabilities between the federal and the provincial governments were of a more literal sort. He pointed out that the debt allowance given Nova Scotia was not equal, on a per capita basis, to that of the other provinces. Moreover, the debt charged against Nova Scotia was, in McLelan's opinion, too large, because the public works of the province taken over by the Dominion were more valuable than those taken over from Upper and Lower Canada. For example, a considerable railway mileage in Nova Scotia, built and owned by the provincial government, was to become federal property; while for Canada this was not the case. McLelan suggested, therefore, that the assets turned over by the provinces to the Dominion should be evaluated, as a step toward revision of the provincial liabilities which were to be charged against debt allowances. Again Rose admitted that Nova Scotia had some claim to consideration; but he believed that the proposal of an evaluation was not feasible. Such a move would, he said, involve many "particulars which would make it difficult or even impossible to arrive practically at an equitable solution."⁵

As a final plea McLelan put forward the plain, unadorned fact that federation had put the provincial government in an unfortunate financial position. Over 90 per cent of its sources of revenue, but only 55 per cent of its items of expenditure, had been taken from it, leaving a deficiency which the subsidies from the Dominion did not make up. Admittedly some of the tasks handled by the provincial government in Nova Scotia would, in Canada, have been put upon the municipalities; possibly some such devolution was overdue in Nova Scotia. But

⁵ *Ibid.*, p. 92.

the immediate problem was political as well as financial. The people of the province, suffering from a depression arising out of the termination of the reciprocity treaty with the United States, were in ill-humor with union. Practical wisdom seemed to indicate the need of concessions.

The whole discussion had made it clear that Nova Scotia possessed some real grievances, and Rose was prepared to alleviate them by the grant of better terms. But he had, apparently, some fear that the case of Nova Scotia might not be appreciated by the other provincial governments and that they also might present grievances. He wished, therefore, to make it appear that the favors to be given to Nova Scotia were merely in the nature of a rectification of an original mistake. It happened that New Brunswick had, by the British North America Act, been given a special subsidy of \$63,000 a year and that its debt allowance amounted to more, per capita, than that of Nova Scotia. Rose fastened upon these facts as precedents. The most equitable solution of the difficulty with Nova Scotia would, he declared,

be to submit to the favourable consideration of parliament the propriety of placing the province of Nova Scotia, as far as practicable, on the same footing as the province of New Brunswick, and to allow it to come into the union with the same debt [allowance] per head of population, as established by the last census, on the terms stated in the British North America Act, and to pay it, for a limited period of ten years, an additional annual grant at the same rate per head of population as is given to New Brunswick.⁶

This was satisfactory to Howe and McLelan; and at the next session of the federal parliament an act was passed⁷ which granted to Nova Scotia, for ten years from July 1, 1867, an additional subsidy of \$82,698 a year, and which increased its debt allowance from \$8,000,000 to \$9,186,756.

By these manoeuvres the back of the anti-confederate party was broken. Howe entered the federal cabinet, and without

⁶ *Ibid.*, p. 95.

⁷ Dominion Statutes (henceforth Dom. Stat.), 1869-70, c. 2. The debt allowance given was \$2,000 less than Rose recommended, because of a clerical error.

him the anti-confederates were impotent. The provincial government of Nova Scotia accepted the better terms ungraciously "as an installment of the money justly due this province, reserving the right to demand . . . such further sums of money as upon a full investigation of the statistics in relation to population, public property and increased taxation, will more fully appear."⁸ Some ill-humor had to be displayed in order to save face. For a time talk of repeal, even of annexation to the United States, continued. But it palled with the subsidence of popular feeling.

Thus ended the first assault upon the financial terms of the British North America Act. It was undoubtedly true that Nova Scotia had real cause for complaint, but it was also true that the remedy set an unfortunate precedent and made a breach in the constitution which has never been repaired. The federal government was beyond doubt faced by a very difficult situation. It had somehow to calm the storm raised by "that pestilent fellow Howe."⁹ But a different procedure might have obviated certain unfortunate consequences.

"BETTER TERMS" AS A CONSTITUTIONAL ISSUE

In order to appreciate the significance of this procedure it is necessary to keep in mind that the Canadian constitution contains no statement as to how it should be amended. Amendments have, in practice, been made through joint address to the Crown of the House of Commons and the Senate, and subsequent legislation by the imperial parliament. But the sections of the British North America Act which relate to subsidies possess the singular distinction that, while repeatedly altered, they have been altered by action of the federal parliament alone.¹⁰

This distinction has an ironical feature. Granted that the fathers of confederation recognized that the constitution which they drew up would be amended, they intended that one portion

⁸ D. of A., N. S., 1869, p. 25.

⁹ The phrase is John A. Macdonald's.

¹⁰ J. A. Maxwell, "A Flexible Portion of the British North America Act," *Canadian Bar Review*, March 1933, pp. 149-157.

of it — that which provided for subsidies — should stand unchanged. The evidence of this intention has already been noticed — the “finality” clause in the Quebec and London resolutions and in the British North America Act, and the explicit statements of Galt and Brown. We have, therefore, the anomaly that this portion of the constitution, which was meant to be inflexible, has been amazingly flexible; and that this flexibility has been achieved not through the ordinary process of address to the Crown but by action of the parliament of Canada.

The process started with the better terms given to Nova Scotia in 1869. When the resolutions for this purpose came before the House of Commons, they were fought fiercely by Edward Blake and Alexander Mackenzie. Blake endeavored to put aside altogether the merit of Nova Scotia’s case for better terms and to concentrate entirely upon the constitutional issue by moving an amendment which declared that the British North America Act had “fixed and settled” the debt allowances of the provinces and the amount of the subsidies, that assumption of the power to make changes would “shake the stability of the constitution,” that the proposed resolutions assumed this power, and that “therefore this House, while ready to give its best consideration to any proposals to secure in a constitutional way any needed changes in the basis of Union, deems it inexpedient” to accept the method submitted.¹¹ Sir John A. Macdonald rested the defense of the government upon two grounds. Avoiding the constitutional issue, he insisted, first of all, that the question at stake was whether or not Nova Scotia should be pacified. But, in the second place, he maintained that the decision was simply whether or not the government had the right to spend its revenue as it saw fit. Blake’s amendment was, of course, voted down, and the resolutions were passed. However, Sir John took care to reinforce this action. The measure providing better terms was forwarded to Granville, the secretary of state for the colonies, as one about which there might be some question. Granville took “the opinion of the Law Officers of the Crown,” and he was “advised that the Act is one which

¹¹ Journals of the House of Commons (henceforth J.H.C.), 1869, pp. 231-232.

it was competent for the Parliament of Canada to pass under the powers vested in it by the 91st section of the British North America Act, 1867." ¹²

Still the question did not rest. In December 1869 the Ontario legislature voted an address to the Queen, praying that the imperial parliament pass a measure which would provide that the Dominion parliament should not have "the power to disturb the financial relations established by the British North America Act, as between Canada and the several Provinces";¹³ and four months later Blake introduced a parallel resolution into the House of Commons. Accepting the view that the federal parliament now *had* the power, he aimed at binding its hands for the future. Again Sir John insisted that the issue was merely one of the right of parliament to spend as it saw fit, and again he was upheld. But then the House, by the large majority of 130 to 10, passed a curious resolution, which declared that, in its opinion, "no further grant or provision, beyond those made by the Act of Union and the Act respecting Nova Scotia, should in the future be made out of the revenue of Canada for the support of the government or legislature of any of the provinces of Canada."¹⁴ Therefore, the upshot of the long fight over the better terms given Nova Scotia seemed to be that the right of the federal parliament to grant better terms, and thus to alter the constitution in this one respect, was put upon fairly firm ground; but also that this particular parliament affirmed that this right, which it had exercised, ought not to be exercised in the future. Unfortunately, the affirmation was mere *blague*, and no government in later years ever gave it the slightest consideration.

One final bit of lip-service by the parliament of 1869 ought to be noticed. The statute giving better terms to Nova Scotia had a concluding clause which stated that "the grants and provisions made by this Act and the British North America Act, 1867, shall be in full settlement of all future demands on Canada

¹² Sessional Papers, Dominion (henceforth S.P., Dom.), 1870, no. 25.

¹³ *Ibid.*, p. 2.

¹⁴ J.H.C., 1870, p. 126.

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by Nova Scotia.”¹⁵ Hence the very words of the British North America Act, which passage of this measure demonstrated to be futile, reappear by a curious irony in the statute itself.

With one notable exception, all the later alterations in subsidies rest upon no firmer constitutional basis than the opinion given in 1869 by “the Law Officers of the Crown.” It is, of course, useless to debate the legality of these alterations; but it is worth noting that they assume that the finality clause of the British North America Act meant nothing. Yet those who framed the clause believed that the financial terms of the constitution were equitable, and fair to all the provinces, and that the clause, by debarring any province from securing additional subsidies, would prevent the equity from being upset.

Looking back, it seems unfortunate that the federal government did not grant better terms to Nova Scotia by formal amendment of the British North America Act. Such a procedure would have set a modest barrier in the way of importunate demands for better terms. That it was not followed was due to no more abstruse reason than the intensity of party feeling. Blake, who suggested this method, was a Liberal, and he had opposed the grant of better terms to Nova Scotia. His advice, therefore, received no consideration.

¹⁵ Dom. Stat., 1869, c. 2, sec. 5.

CHAPTER III

THE ADMISSION OF MANITOBA, BRITISH COLUMBIA, AND PRINCE EDWARD ISLAND ¹

PREMATURE CREATION OF MANITOBA

THE first new province to be added to the Dominion was carved in 1870 out of the territory acquired in the Northwest from the Hudson's Bay Company. The creation of this province was wholly premature. Its inhabitants numbered about 12,200, of whom only 1,600 were white. They had no experience with democratic institutions, and a vast, barren stretch of land separated them from the nearest settlements in Ontario.

Why, then, was not this area left in the status of a territory? The reason was the Red River rebellion of 1869-1870. The government of Sir John A. Macdonald desired to show its conciliatory intentions toward the inhabitants of the Red River territory, and therefore, while Riel was still in arms at Fort Garry, the Manitoba bill was introduced into parliament. It was certain that a measure designed for this purpose, and designed in haste, would prove deficient as an instrument of government.

Of the many disputes which arose between Manitoba and the federal government none were more important than those concerning finance, and certainly none were as chronic. The provincial treasury was perpetually empty, and the constant effort of the provincial government was to replenish it by larger grants from the Dominion. Other grievances — lack of public domain, extension of boundaries, disallowance, et cetera — were voiced, but almost all of them, at least during the early years, were related to and centered around the demand for an increased subsidy. It is, therefore, important to understand at the outset just what was given to the province by the Dominion.

¹ See J. A. Maxwell, "Financial Relations between Manitoba and the Dominion, 1870-86," *C.H.R.*, December 1934.

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The financial provisions of the Manitoba Act were, in the main, modeled upon those of the British North America Act and consisted of (1) a subsidy of 80 cents per capita, (2) a debt allowance, (3) a grant in support of government. For the purpose of computing the amount of these grants, Manitoba was assumed to have a population of 17,000. The 80-cent subsidy thus amounted to \$13,600. The debt allowance, at the rate of \$27.77 per capita,² was \$472,090; and, since Manitoba had no debt to deduct from the debt allowance, it was to receive on this sum interest at 5 per cent a year, amounting to \$23,604. The grant in support of government was set at \$30,000. Altogether Manitoba was entitled to be paid \$67,204 a year from the Dominion treasury.

It has in later years been asserted that this sum was pitifully inadequate.³ Such a conclusion is unwarranted. The subsidy of \$67,200 does seem to be a small sum, but it amounted to \$5.50 per capita, which was, as the following table discloses, more than four times as much as Nova Scotia and New Brunswick,

Grants Per Capita Paid to the Provinces in 1871	
Ontario	\$.64
Quebec .....	.67
Nova Scotia	1.21
New Brunswick	1.20
Manitoba	5.50

and more than eight times as much as Ontario and Quebec were receiving from the federal government. It should be stated at once, of course, that comparison on a per capita basis alone is unfair; but it should also be realized that at the Quebec conference population had been accepted by the framers of confederation as the most satisfactory guide by which to arrange financial terms. When the Manitoba delegates came to Ottawa in 1870, precedent indicated that the financial terms given the new province should be analogous to those given the older provinces. Here was a major error, because there was no analogy

² This was the rate given to New Brunswick and Nova Scotia (the adjustment of 1869 being included) upon population in 1861.

³ Chester Martin, *The Natural Resources Question* (Winnipeg, 1920), p. 45.

between the situation of Manitoba and that of the older provinces. The problem of an equitable financial arrangement between Manitoba and the Dominion was unique, and it could not be handled properly without substantial departure from previous practice.

There was a vague realization of this by the delegates and by the Dominion representatives, but a new approach was blocked by substantial obstacles. In all negotiations over financial terms the aim had been to secure an amicable settlement, and it had often been forgotten that temporary amity might be secured through sacrifice of sound principles. In the Manitoba negotiations the tendency to make this mistake was reinforced by other circumstances. The delegates, with perhaps one exception (Judge Black), lacked the education and the background to make them realize the importance or the difficulty of the task they were to perform, and they had no existing framework of government, no provincial budget, by which the fiscal needs of the new province could be reckoned. Besides, the delegates from Fort Garry, invested with a dubious authority, were interested above all in securing peace and in safeguarding certain rights thought to have been imperiled by the Canadian government. It was thus entirely natural that they should be willing to accept something like the subsidies given the other provinces. On the other hand, the Dominion representatives should have thought it essential to formulate a statesmanlike financial arrangement, instead of giving merely whatever Manitoba was willing to accept. But for such a broad-minded attitude there was no precedent. In all negotiations about financial terms the Dominion authorities had taken a passive position and in most cases had tried merely to see that the demands made upon the federal treasury were not excessive. Sir George Cartier, acting for the Dominion, thought of the delegates as bargainers who were to be satisfied.

Another feature of the Manitoba Act, of great importance in future disputes over better terms, provided that the ungranted public domain of the province was to be retained in the hands of the federal government. There were the most cogent reasons

for this step. The Dominion planned construction of a Pacific railway, and everyone was agreed that this could be accomplished only by the utilization, through grants or sales, of the lands of the Northwest. Yet in 1870 not even the route of the railway was known. If, therefore, Manitoba had been given the public domain within its boundaries, either the grant would have had to be conditioned by a provision that later some portion would be handed back for railway purposes, or else an indefinite area would have had to be retained under Dominion control. The inconveniences of either alternative are obvious. It was not as if any given area of land in Manitoba could be specified, because what was wanted was an area which would border on the railway. Thus, granted the federal policy of financing the Pacific railroad by means of the western land, retention of the public domain under Dominion control was the *natural* thing. A second major reason for retention was that the free homestead scheme of the United States forced upon Canada adoption of some analogous plan. Additional considerations could doubtless be added, but these may be passed over. The two major aims cited above are sufficient to explain and to justify the action of the Dominion.

But why did not the federal government, while retaining the domain, give Manitoba a subsidy in lieu of it? For the very simple reason that in 1870 the idea of such a subsidy had not yet evolved.⁴ The delegates from Fort Garry did not ask for this. Their chief concern was that their domain be so administered as to promote rapid settlement. Federal control of the domain, coupled with the promise of a free homestead policy, was satisfactory to them.⁵ Not until later, after British Colum-

⁴ A different explanation has often been given. It has been contended that Manitoba from the beginning was made "the Cinderella of confederation" (Martin, *op. cit.*, p. 121) and that the federal government, exasperated at the Riel rebellion, withheld a land subsidy in order to shackle the provinces by bonds of poverty. For a brief discussion of the origin of the subsidy in lieu of land, see Maxwell, "The Dispute over the Federal Domain in Canada," *Journal of Political Economy*, December 1933. It should be noted that the Cinderella sobriquet was first used in 1884 by John Norquay in his budget speech, and it was, so the official report records, received by the legislature with laughter.

⁵ Four lists of rights were drawn up by the people of the Red River settlement (see Alexander Begg, *The Creation of Manitoba*, Toronto, 1871, for three

bia and Prince Edward Island had been given subsidies in lieu of land, and after it was obvious that these subsidies were merely grants of better terms, did Manitoba request that it should receive similar treatment.

The fundamental fault to be found with the financial provisions of the Manitoba Act was that nobody looked beyond the immediate situation; nobody considered how the provincial government was to secure a revenue for requirements bound to increase vastly within a few years; nobody suggested that a subsidy scheme which was satisfactory for a province with an adequate machinery of government and with a population which would grow only moderately ought not to be applied inflexibly to a province which was literally a diametrical opposite. If a province was to be carved prematurely from an area which ought to have been left in the status of a territory, then it ought not to have been fitted out from a pattern which was suitable only to a more mature community. It is along this line that criticism of the negotiators who drew up the Manitoba Act should be directed. The federal government, for reasons of public policy, gave provincial status to an area which was essentially primitive; and it gave financial terms modeled improperly upon those given to the older provinces. The fault was not that the public domain was retained in federal control or that no subsidy was allowed in lieu of it; nor was it that Manitoba received inadequate grants from the Dominion. (The sum of \$67,200, small as it may now seem, amounted to \$5.50 per capita, and it was much more than had ever before been spent upon government in the area.) But there was no provision for future alteration of the terms of union, and the actual alterations made later were made badly and at the cost of much ill-feeling. In short, the Manitoba Act bears on its face evidence both of the inexperience of the delegates from the Red River settlement and of the lack of mature consideration given to the

of these, and the *Winnipeg Free Press*, Dec. 27, 1889, for the fourth). In three of these lists a demand was made for provincial control of the domain, and in two of them was a demand for a free homestead and preëmption act. The demands were incompatible, and there is no evidence showing that the former was regarded as more essential than the latter.

measure by the federal government. The former circumstance was unavoidable; the latter can hardly be condoned.

EXCEPTIONAL TERMS FOR BRITISH COLUMBIA

The government of Sir John A. Macdonald did not rest content when the vast territory between Ontario and the Rocky Mountains had been added to the Dominion. Its vision reached across the continent. The distant colony of British Columbia was to be brought into the federation.

In the late sixties British Columbia was suffering from a severe depression. The gold boom had subsided; there was bitter feeling between Vancouver Island and the mainland; and the financial burdens of the colony were very heavy. It is startling to find that in 1870 the government of British Columbia, representing only some 10,000 white people, had a net debt of over \$1,000,000, and that it was spending annually more than \$500,000, of which one-quarter went for interest and one-third for administrative and legislative expenses. The people of the colony, daunted by urgent fiscal difficulties and uncertain about the future, were casting about for a method of deliverance. To the majority of them confederation was the most attractive alternative. The imperial government gave this plan its blessing and its active support, and soon the road was cleared for direct negotiation between the Dominion government and the government of British Columbia.

In May 1870 a delegation from British Columbia set out for Ottawa. It was instructed to ask the Dominion to pay approximately \$213,000 net in annual subsidies to the provincial government,⁶ and, in addition, to make certain other important

⁶ The subsidies asked for by British Columbia were of the same type as those sanctioned by the British North America Act. But, in its computations, the province made the extravagant assumption that it had a population of 120,000, whereas actually the population consisted of about 9,100 whites and 25,000 Indians and Chinese. The figure of 120,000 was arrived at by a curious process. A comparison of the yield from customs and excise in Canada and in British Columbia showed that the per capita yield in the former was \$2.75, while total yield in the latter was \$330,000. If equality in per capita yield were postulated, then the population of British Columbia would be placed at 120,000. On this basis the 80-cent subsidy for the province would amount to \$96,000 a year. Debt

commitments which would put a heavy financial burden upon the federal treasury. Of these the two most important were that the Dominion should guarantee interest at 5 per cent on a provincial loan not in excess of £100,000 to be used for the construction of a "graving dock" at Esquimaux, and that it should construct a wagon road connecting British Columbia with Fort Garry within three years and thereafter spend not less than \$100,000 a year in constructing a Pacific railway.

The delegation was received in a most friendly spirit by the Dominion government. There were a few difficulties over the financial terms. Sir George Cartier, who was in charge of the negotiations because of the illness of Sir John A. Macdonald, objected to the computation of subsidies proposed by the delegation, because this computation was based upon the assumption that population of British Columbia was 120,000, whereas actual population, including 25,000 Indians and Chinese, was only 34,100. But the objection was only tactical. Cartier was willing to give to British Columbia the total of subsidies that it asked, provided that the form and basis of the grants could plausibly be defended before parliament.

The outcome was a curious scheme which was later to be the occasion of many disputes. Population of British Columbia was assumed to be 60,000. On this basis the 80-cent subsidy amounted to \$48,000 a year. Debt allowance, at the rate of \$27.77 per capita, totaled \$1,662,000, and, since the actual debt of British Columbia to be assumed by the Dominion was about \$1,000,000, the Dominion would pay interest at 5 per cent upon the difference, i.e., \$33,000 annually. The yearly grant for government would amount to \$35,000. Altogether this would give British Columbia approximately \$116,000 a year from the federal treasury, a sum less by \$100,000 than the pro-

allowance, at the rate of \$22 per capita, would amount to \$2,640,000, and since actual debt of British Columbia was approximately \$1,000,000, the Dominion would pay interest at 5 per cent on the difference, i.e., \$82,000 annually. As a grant in aid of government, the province asked for \$35,000 a year. The total annual amount of the subsidies would thus be \$213,000. See S.P., Dom., 1871, no. 18; E. O. S. Scholefield and F. W. Howay, *British Columbia* (Vancouver, 1914), II, chap. xviii.

vincial delegation had been instructed to accept. This gap had to be bridged. For the purpose Sir George Cartier hit upon an ingenious subterfuge. The province was to be given an additional subsidy of \$100,000 a year, provided that it turned over to the Dominion a belt of land running for twenty miles on each side of the proposed Pacific railway.⁷ It must be emphasized that the connection between the cession of the land and the grant of the subsidy was adventitious and that the \$100,000 was in no sense a valuation of the land. The amount of the subsidy was entirely arbitrary, since it represented merely the minimum additional sum thought necessary by the government of British Columbia to balance the provincial budget; the quantity of land was equally arbitrary, since it represented merely the extension through British Columbia of a belt of land of the same thickness as the Dominion proposed to cede in the Northwest in aid of a Pacific railway. The scheme was definitely a stratagem, invented because of the fiscal need of British Columbia and because the federal government desired to bring another province into the federation.

Besides promising annual grants amounting to \$216,000, the Dominion more than met most of the other demands of the province. It agreed to guarantee a loan for a dock at Esquimalt, and to pay pensions to certain officials who might be deprived of their posts by union. Of much greater significance was its promise that construction of a Pacific railway would be started within two years and that the line would be completed within ten years. In view of this, Governor Musgrave of British Columbia voiced the common opinion when he declared that the terms of union were "not only satisfactory, but liberal to the colony."⁸

In eastern Canada the reception given the agreement was less favorable, and Sir John A. Macdonald saw that he would have

⁷ Scholefield and Howay, *op. cit.*, II, 298. The opinion of most people was that the land would be of slight value, and this opinion has turned out to be correct. The Canadian Pacific Railway refused to take it as part of its land subsidy, and the area remained in the hands of the federal government. Expenditure upon it always exceeded revenue derived from it, and by 1930, despite a liberal settlement policy, only 10 per cent had been alienated.

⁸ S.P., Dom., 1871, no. 18.

difficulty in the House of Commons. At once he began to prepare. He wrote to Governor Musgrave, urging that the provincial legislature should ratify the terms of union at an early date and without making the slightest alteration. This would enable him to argue that the agreement was a quasi-treaty and that, since British Columbia had accepted it *in toto*, any alteration by the Dominion parliament would be, in effect, a refusal to admit the province to the federation.⁹

By such tactics Sir John strengthened his position, and it was well that he did. For in the House of Commons the whole strength of the Liberal opposition was thrown against the terms given to British Columbia. A bevy of amendments was proposed, only to be voted down. But during the parliamentary contest there were two developments of importance for the future. The government declared that the promise to build a Pacific railway within ten years ought not to be taken literally: it meant merely that the Dominion would see that the line was built "as soon as possible."¹⁰ Furthermore, the House of Commons passed a resolution which declared that the aid given by the Dominion to build the railway was not to be such as to lead to an increase in federal taxation. This resolution helped to get the agreement with British Columbia through parliament, but on its face it was absurd, and later it gave rise to a dangerous controversy.¹¹

PRINCE EDWARD ISLAND YIELDS TO FISCAL NEED¹²

At the Quebec conference in 1864 the delegates from Prince Edward Island were, according to J. H. Gray,¹³ "restive and perhaps exacting"; yet four of them — J. H. Gray, W. H. Pope, T. H. Haviland, and Edward Whelan — were favorable to the resolutions, and of the other three — George Coles, A. A. Mac-

⁹ "The true course for your advisers to pursue is to press the adoption of the whole as being a quasi-treaty . . ." (Macdonald Letter-Books, Public Archives of Canada, Macdonald to Musgrave, Dec. 3, 1870). See also letter of Sept. 29, 1870.

¹⁰ Scholefield and Howay, *op. cit.*, II, 363.

¹¹ See J. A. Maxwell, "Lord Dufferin and the Difficulties with British Columbia, 1874-77," *C.H.R.*, December 1931, pp. 377-378.

¹² See J. A. Maxwell, "Prince Edward Island and Confederation," *Dalhousie Review*, April 1933.

¹³ Gray, *Confederation*, I, 65.

donald, and Edward Palmer — only Coles and Macdonald maintained a fairly consistent record of opposition. Palmer, at festive occasions in Canada following the close of the conference, spoke in glowing terms of the proposed federation. But apparently he had his tongue in his cheek, because as soon as the hostility of his constituents toward the Quebec resolutions became unmistakable, he declared himself unalterably opposed to their adoption. For this reversal Palmer gave a most disingenuous excuse. "I do not," he said, "deem my consistency called in question by what may have fallen from me during an unstudied complimentary speech at a Déjeuner."¹⁴

There cannot be the slightest doubt that at this time the people of the Island were wholeheartedly against union. And when on June 24, 1865, Edward Cardwell, the secretary of state for the colonies, sent a dispatch to Lieutenant-Governor Dundas declaring it "the strong and deliberate opinion of her Majesty's Government" that union should be consummated,¹⁵ the House of Assembly refused to yield an inch. In reply it framed a vigorous address to the Queen which affirmed that "any federal union of the North American Colonies that would embrace this island would be as hostile to its feelings and wishes as it would be opposed to the best and most vital interests of its people."¹⁶ Thus the prospect that Prince Edward Island would voluntarily enter confederation seemed remote, and there were some, like W. H. Pope, who believed that the only way to handle "this insignificant but most troublesome dependency"¹⁷ was by compulsion. Of course, this was extreme counsel, and the imperial authorities were not prepared to go so far, but they were determined to put unrelenting pressure upon the government of the Island. In addition, the Dominion stood ready to do its part by holding out the bait of better terms. Between the two it might seem to be only a question of time before the Island capitulated.

The first significant move was made by the delegates from Nova Scotia and New Brunswick while they were loitering in

¹⁴ W. H. Pope, *The Confederation Question* (Charlottetown, 1866), p. 8.

¹⁵ J. of A., P.E.I., 1866, app. F.

¹⁶ *Ibid.*, p. 95.

¹⁷ *Op. cit.*, p. 26.

London in the autumn of 1866, awaiting the arrival of their friends from Canada. They proposed granting Prince Edward Island \$800,000 from the federal treasury for the purpose of buying out the absentee proprietors. It turned out, however, that the delegates from Canada were unwilling to be so generous, and the official resolution of the London conference recommended merely that the Dominion should deal with the Island land question "in the most liberal spirit."¹⁸ Any slight hope that this might bring results was dashed when, by the elections of February 1867, George Coles, a determined opponent of union, became premier.

But Lieutenant-Governor Dundas, advised by the imperial government to let "no trifling obstacle" interfere, kept on the alert, and in August 1867 he was optimistic enough to think that a "bid" from the Dominion would be favorably received. It was his impression that the Coles administration, attempting to settle the land question, had experienced difficulty in negotiating a loan. "Prince Edward Island's difficulty," he wrote to Lord Monck, "is Canada's opportunity."¹⁹ But Dundas was ill-informed. The negotiations had fallen through chiefly because the absentee proprietors refused to come to a settlement.

This refusal gave the imperial authorities another opportunity to show their position. The Coles administration, balked in the attempt to reach agreement with the proprietors, prepared an address to the Queen, asking that sale be made compulsory and that the imperial government guarantee a loan which would be used to buy out the proprietors. Granville, the secretary of state for the colonies, replied in frigid language that the prospect of a guarantee was most remote, and that he refused to reopen a question which, if the Island entered confederation, would no longer concern the imperial government.²⁰ Here was an explicit enough suggestion that the Island fall in line; and meanwhile the screws had been applied by another method. For many years the salary of the lieutenant-governor

¹⁸ Joseph Pope, *Conf. Docs.*, p. 308.

¹⁹ Macdonald Papers, Provincial Government, Dundas to Monck, Aug. 23, 1867.

²⁰ J. of A., P.E.I., 1869, app. S, letter dated Mar. 13, 1869.

had been paid from the imperial treasury. But late in 1867 a dispatch from the colonial office announced that, after the present officer left the post, the charge would have to be assumed by the Island, and despite protest the decision stood.

The Dominion might well believe that under these circumstances the Island would incline to union, and it appears that people in Charlottetown, friendly to union, encouraged this belief. In August 1869 three members of the cabinet — Tilley, Cartier, and Kenny — visited the Island and consulted with members of the provincial government. They went away satisfied,²¹ and in December, upon their recommendation, the federal government made an offer which came to be known as “the better terms of 1869.” In part, the terms corresponded with what had been given to other provinces by the British North America Act: the annual grant for the support of government was to be \$25,000, debt allowance approximately \$25 per capita upon population in 1861, annual per capita subsidy at the rate of 80 cents upon population in 1861. The unusual features were that the Dominion promised to maintain an efficient steam service, winter and summer, between the Island and the mainland, and to pay the provincial government \$800,000 to enable it to buy out the absentee proprietors.²²

The offer was not accepted. Possibly the terms were not sufficiently attractive, but it was Sir John A. Macdonald’s opinion that the negotiations had been principally a game of humbug. Haythorne, the premier of the Island, had, so Sir John wrote privately to Rose, “humbugged Tilley and our Government into making an offer” for no other reason than to discredit his opponents — Gray, Haviland, and Pope — by showing that better terms than they had accepted could be secured.²³ Thus at the close of 1870, despite pressure from London and despite bids

²¹ Tilley telegraphed to Sir John, Aug. 15, 1869: “Have been spending week in Island doing good service. Sir George, Kenny and I had satisfactory conversation yesterday with Island Government preparatory to sending proposals after Government meet” (Macdonald Papers, Correspondence with Tilley).

²² J. of A., P.E.I., 1870, app. F.

²³ Haythorne, “under the pretence of desiring union, humbugged Tilley and our Government into making an offer. He proved afterwards that he never had any intention of supporting union, and that his object was by getting a

from Ottawa, the Island stood as far outside confederation as ever.

In the next year, however, when the government undertook construction of a railway, a step was taken unwittingly which was to be decisive in making Prince Edward Island a province of the Dominion. The railway became the chief issue in Island politics, and successive administrations bemired themselves more deeply in attempting to finance it. On January 31, 1871, the debt of Prince Edward Island amounted to only \$506,000. Two years later it had risen to \$1,609,500, and contracts for railway construction had been entered into which would take \$2,240,500 more. Thus the liabilities of the Island amounted to \$3,850,000—\$41 per capita—a sum greater by eight times than its debt when it refused the offer of 1869. Examination of the ordinary expenditure and revenue of the Island is also enlightening. For the fiscal year ending January 31, 1873, these appeared to be approximately in balance. But the current payments for interest amounted to only \$36,000, because the bulk of the debentures for railway construction had not yet been issued, and because on most of those already issued interest had not come due. The government was therefore confronted by the immediate necessity of finding an additional \$70,000 to meet new interest charges, and by the likelihood that within a few months its interest payments would amount to \$200,000. Unless the new railway could be expected to be remunerative beyond all belief—and nobody thought that it would—the government might well be aghast at the prospect. In these circumstances, entry into confederation offered an inviting alternative.

Let us now look more closely into the events of 1872-1873. By the elections of April 1872 a new government, with R. P. Haythorne as premier, took office,²⁴ and it proceeded to add to

better offer than the terms of the Quebec Conference to kill our friends Haviland, Col. Gray, W. H. Pope and others who had agreed to the original arrangement. This treacherous policy was successful, and our friends were for the time politically snuffed out" (Macdonald Letter-Books, no. 19, letter to Sir John Rose, Dec. 13, 1872).

²⁴The Haythorne government had been defeated in the elections of August 1870, J. C. Pope becoming premier.

the already large railway obligations by contracting for the construction of branch lines. Bad trade conditions precipitated trouble. Imports fell off, and by the autumn collections from customs were appreciably below those of the year previous. Moreover, the prices of exported goods — mostly agricultural produce — declined, and sterling exchange, necessary to meet interest payments due in London, was hard to secure. These difficulties were promptly reflected in the market for government securities. By the agreement entered into with the contractors who were building the railway, payment was made in government debentures at par — the interest and principal were due in sterling or currency at the option of the contractors — and the contractors in turn sold the debentures to the banks. When the credit of the government became precarious, the debentures went to a discount; the banks of the Island, already large purchasers, were unwilling to buy; and the contractors soon practically suspended their operations. There were other indications of the weak credit of the government. It had to purchase a right of way for the railway and also to pay property owners incidental land damages. To provide funds debentures were issued, but the government soon found itself unable to sell except at a heavy discount. Thus even in the autumn of 1872, at the very beginning of its railway enterprise, the finances showed signs of serious strain. In desperation Albert Hensley, the colonial secretary, was sent to the mainland to negotiate a loan; but rumors had preceded him, and the best he could obtain was a four-months' loan (due May 1, 1873) of about \$26,000 at the high rate of 7½ per cent from the Maritime Bank in St. John.

The situation was fully known to Sir John A. Macdonald. He had two sources of information: Lieutenant-Governor Robinson was corresponding privately with the governor-general, Lord Dufferin; and Sir John Rose from London was retailing news of the financial difficulties of the Island. In the fall of 1872, Charles Palmer, the president of the Union Bank of Prince Edward Island and the brother of Edward Palmer, attorney-general in the Haythorne administration, attempted

unsuccessfully to sell in London some of the heavy holdings of Island debentures of his bank. Rose, in whom Palmer confided, did not fail to point out that if Prince Edward Island joined the union, the debentures would be readily marketable at a good price. Palmer was impressed, and on his return home he had interviews with leaders of the government. They were in a receptive mood, and on December 16 he wrote to Rose that he was "quite sure that the way is open for our joining the Dominion of Canada on fair terms, and that as soon as the matter can be brought about without prominent advances on our part."²⁵ Rose was asked to broach the subject of union to members of the Dominion cabinet, and this he did promptly.

Mindful of the "treacherous policy" of Haythorne in 1869, Sir John was wary. When Lieutenant-Governor Robinson urged that the Dominion make a bid, he had Dufferin reply that, while the federal government stood by its offer of 1869, it was unwilling "to initiate any fresh negotiations."²⁶ The Island government was thus forced to move, and on January 2, 1873, it sent a cautious, yet grasping, letter to Ottawa. Tilley at once wrote back that nothing could be done by correspondence and that the proper course would be to send up a delegation. As a result, R. P. Haythorne and David Laird journeyed to Ottawa in February.

Terms of union considerably better than those of 1869 were soon agreed upon.²⁷ Instead of a debt allowance of approximately \$25 per capita upon population in 1861, \$45 per capita upon population in 1871 was now conceded, i.e., \$4,230,945 instead of \$2,021,500. The justification for this increase was that the heavy expenditure which the Dominion was making, or planned to make, upon railways and canals would be of no benefit to Prince Edward Island and that, besides, a readjustment of the debt allowances of the existing provinces was in

²⁵ Macdonald Papers, Provincial Government, Palmer to Rose, Dec. 16, 1872. Rose sent the letter to Sir John.

²⁶ Macdonald Papers, Correspondence with Dufferin, letter of Dufferin to Robinson, Nov. 27, 1872.

²⁷ J. of A., P.E.I., 1873, app. A.

prospect. Instead of the promise of 1869 that \$800,000 would be given in settlement of the land question, the federal government now agreed to make an *annual* payment of \$45,000. The Island government could at its own discretion capitalize this grant and draw out a sum not in excess of \$800,000, interest being deducted at the rate of 5 per cent upon any withdrawal. Since the annual grant of \$45,000, capitalized at 5 per cent, comes to \$900,000, the net effect of the new clause was, roughly, to add \$100,000 to the offer of 1869; or, if we put it another way, to add \$5,000 to the annual payment. The per capita subsidy of 80 cents was not altered, but the subsidy in support of government was increased from \$25,000 to \$30,000. The Dominion also promised to assume certain public works, none of which need to be mentioned here.

The Haythorne administration had bound itself to submit any scheme of union to the people; and Haythorne and Laird, highly pleased with the terms which they had obtained, telegraphed to Lieutenant-Governor Robinson advising immediate dissolution. This was done, and in March and April the astonished electors were confronted with a puzzling choice. Practically none of the candidates declared against union, but J. C. Pope, leading the Conservatives, did take the position that the new terms were inadequate and that he, as a Conservative, could get more. Lieutenant-Governor Robinson, aware of the alluring nature of this appeal, endeavored to spike it by telegraphing to Dufferin, asking for a statement that the new terms were all that would be given. Dufferin, after consultation with Sir John, telegraphed back congratulating the Island on "having obtained such liberal terms" and adding the explicit statement: "My Ministers are of the opinion — an opinion in which I fully coincide — that no additional concessions would have any chance of being accepted by the Parliament of Canada."²⁸ But Pope and his followers were not deterred, and the election returns proved that they had gauged public sentiment and that the

²⁸ Macdonald Papers, Correspondence with Dufferin, telegram, Robinson to Dufferin, Mar. 10, 1873; Dufferin to Robinson, Mar. 12, 1873.

people of the Island were in favor of holding out for still "better terms," for Haythorne was turned out and Pope put in.²⁹

Thus once more union was rejected, but not for long. The new government, faced by the same financial perplexities as its predecessor, proposed to meet them in the same way, and another delegation, composed of J. C. Pope, T. H. Haviland, and G. W. Howlan, was promptly (May 3) sent to Ottawa. There were no fresh facts upon which a case could be built, and, although the delegates made a pretense at starting *tabula rasa*, everyone knew that they were asking simply for a larger slice. Their first proposals to the Dominion cabinet were rejected, and the delegates were left in a perplexing position. To return home empty-handed seemed, however, somewhat more ridiculous than to make a new appeal. Accordingly, they prepared what can only be described as a begging memorandum, and now the cabinet relented. On May 15 an agreement was reached which enabled the Pope delegation to save its face and to say that it had won still better terms. In fact, only one new concession of significance was made: debt allowance was to be at the rate of \$50 instead of \$45 per capita, i.e., a total of \$4,701,050 rather than \$4,230,945.³⁰

That was enough. Immediately upon the return of the delegation the scheme was submitted to the legislature. It was accepted unanimously by the Legislative Council and with only two dissenting votes by the House of Assembly.

In conclusion, one question may be asked. Why was Prince Edward Island given such generous treatment by the Dominion? Certain practical reasons may be suggested. The Island might have been made a depot for smuggling operations, if its tariff

²⁹ "Better terms" was not the only reason for the defeat of the Haythorne government. The question of sectarian schools entered the election, and the Catholic vote swung to Pope.

³⁰ J. of A., P.E.I., 1873, app. O. On May 17 Dufferin wrote to Sir John (Macdonald Papers, Governor-General's Correspondence, 5):

My dear Sir John,

I am sure you will be pleased to hear that Lady Dufferin had a little girl and both she and the baby are very flourishing.

This with Prince Edward's [*sic*] Island makes twins.

Yours ever,

DUFFERIN.

were kept lower than that of Canada. However, it seems unlikely that this possibility had much weight. The border of Canada was and is so open that the continuance of the Island as a foreign territory would probably be of slight importance.³¹ A related consideration has to do with fisheries. The Dominion would have been hampered in regulation of and negotiation concerning them if the Island had remained a separate province. But the significance of this also had been lessened by the Washington Treaty. Probably less material reasons had a greater influence. The express wish of the imperial government that the Island be brought into union counted for much, and so, likewise, did the desire to round out the Dominion.

³¹ But see Pope, *Memoirs*, II, 146, letter of Sir John to the governor-general, Dec. 8, 1869. The curious expedition of Gen. B. F. Butler to the Island in the summer of this year undoubtedly gave the Canadian government a scare.

CHAPTER IV

THE ADJUSTMENT OF DEBT ALLOWANCES IN 1873 AND 1884

BETTER TERMS THROUGH DEBT ALLOWANCES

FROM 1840 to 1867 Upper and Lower Canada had been united under one government. With confederation, the two were severed, and they emerged as the provinces of Ontario and Quebec. The constitutional severance left many practical questions for solution in the future. One of the most important and difficult of these questions was how the assets and liabilities which Upper and Lower Canada had jointly acquired should be divided between the provincial governments of Ontario and Quebec. In the British North America Act¹ it was declared that this task was to be performed by three arbitrators, one chosen by Ontario, one by Quebec, and one by the Dominion. The three selected were D. L. MacPherson, Judge C. D. Day, and Col. J. H. Gray. They had a ticklish job. If they had proceeded upon a common-sense basis and had used some obvious rule of division, such as population,² a prompt and equitable solution might, perhaps, have been achieved. Unfortunately, the arbitrators indulged in legalistic hair-splitting, and a complete settlement was long postponed.

At the beginning of the arbitration Ontario was in a tractable mood. Freed from an incompatible and burdensome union, and in a strong fiscal position, it could afford to be generous. The position of Quebec was less satisfactory. Confederation had, indeed, been acceptable to it, but the provincial government was not in a strong fiscal position, and it approached the arbitration fearful lest the outcome might mean new charges upon its revenues. This difference in the attitude of the two provincial governments was reflected in the arguments pre-

¹ Sec. 142.

² In 1865 Galt had suggested a division based on population. See *Debates on Confederation*, p. 68.

sented by their representatives on the board of arbitration. The argument of Ontario was direct and straightforward; that of Quebec was involved and ambiguous. In such case, Colonel Gray, the Dominion representative, was in a strategic position, but he did not make the most of his opportunity. Overlooking the merits of a solution upon the simplest possible basis, he proposed a formula for the division of liabilities and assets which was distinctly complex. D. L. MacPherson, acting for Ontario, was willing to accept it; Judge Day, acting for Quebec, was not, and he emphasized his dissent by resigning from the board. As a result the decision of the arbitrators was rendered by Gray and MacPherson alone.³

The actual debt of Ontario and Quebec, which was assumed by the Dominion in 1867, amounted to about \$72,900,000, while their joint debt allowance had been set at \$62,500,000. There was, therefore, an excess debt of \$10,400,000, and on it the two provincial governments were to pay interest to the Dominion at the rate of 5 per cent. The most serious problem before the arbitrators was: In what proportion should the liability for this surplus debt be divided? Quebec made the legalistic and artificial proposal that it be divided on the assumption that from 1840 to 1867 Upper and Lower Canada had been associated in a partnership. Upon dissolution of a partnership, the indebtedness incurred *during* the partnership ought to be divided equally between the partners, provided, however, that each was charged with his indebtedness at the time the partnership was begun. It happened that in 1841, when the union of Upper and Lower Canada was formed, Upper Canada had a debt of \$5,900,000, while Lower Canada actually had a credit balance of \$190,000. Thus the Quebec proposal meant that Ontario would be charged with a debit balance of \$6,090,000 (\$5,900,000 plus \$190,000). The remainder of the surplus debt — i.e., \$4,310,000 — Quebec magnanimously offered to share equally with Ontario. The result would thus be that, of the \$10,400,000 of excess debt, Quebec would be

³ S.P., Dom., 1873, no. 27.

charged with \$2,155,000, and Ontario with \$8,245,000.⁴ Of course, this was wholly unreasonable, and neither Gray nor MacPherson would accept it.

The proposal made by Gray was based upon the assumption that an equitable division of debt would depend upon discovering how much of it had been incurred for the benefit of each province. As Gray put it, the division of the surplus debt should "be based upon the origin of the several items of the debt . . . and be apportioned and borne separately by Ontario and Quebec as the same may be adjudged to have originated for the local benefit of either. . . ." ⁵ MacPherson had no objection to this scheme, and on September 3, 1870, he and Gray made known their decision. They estimated that of the total debt of Upper and Lower Canada, \$18,587,500 had been incurred for property or for purposes properly called provincial (as distinct from federal). Of this \$9,808,700, or 52.8 per cent, had been for the benefit of Ontario, and \$8,778,800, or 47.2 per cent, had been for the benefit of Quebec. The surplus debt ought, they declared, to be divided in the same proportion.⁶ Thus, assuming surplus debt to be \$10,400,000, Ontario would be assigned \$5,488,100 and Quebec \$4,911,900.

The justice of this decision cannot readily be either affirmed or denied. The basis upon which the decision was reached was logical enough, but it assumed a precision in governmental bookkeeping which had not existed. Even if the joint accounts of Upper and Lower Canada had, in the quarter-century after 1841, been kept on a business basis and with a view to separation, a division of assets and liabilities would have been difficult. In fact the accounts had not been so kept, and a disentanglement of them could only proceed upon an empirical basis.

⁴ *Ibid.*, pp. 72-76 for the argument of Quebec. On the basis of population in 1861 Ontario would have been charged with \$5,700,000 and Quebec with \$4,700,000.

⁵ *Ibid.*, p. 23. Assets were to be divided upon the same principle.

⁶ They did not attempt to state what was the exact amount of the surplus debt. The joint assets of Upper and Lower Canada were also divided, those given to Ontario having a book value of \$6,990,100 and those of Quebec a book value of \$4,384,300. Valued on the basis of income yield, Ontario's assets were worth about 30 per cent, and those of Quebec about 48 per cent, of book value (*ibid.*, pp. 67-68).

Whether or not the award was just, it was received by Quebec with marked disapproval. The provincial government determined to fight it both in the courts and in parliament. In the courts the fight was unsuccessful, and it was, in any case, perfunctory. The real assault on the decision was in the political field.

The important reason for the hostility of Quebec was not the deliberate conviction that the award was unfair but the inescapable fact that the provincial finances were in bad shape. For the year ending June 31, 1871, expenditure and revenue had just balanced. The award meant that a new annual burden of \$250,000 — interest at 5 per cent upon an excess debt of \$4,911,900 — would fall upon the provincial revenues. Either new taxes or curtailment of expenditure seemed necessary. And the discontent of Quebec with these unpleasant alternatives was not abated when it contemplated the fiscal position of its neighbor. At this time the provincial government of Ontario had, literally, more revenue than it could spend. Why, asked Quebec, should another financial favor, in the form of an award, be handed to this affluent province?

The question was brought before the House of Commons in 1871 by two Liberal members from Quebec,⁷ who proposed that the Dominion should assume the excess debt of Quebec and Ontario. Sir George Cartier, the acting leader of the government, asked that this proposal be defeated, and the House, by an overwhelming vote, gave him its support. But he had gained part of this support by an evasive argument. He pointed out that, since Quebec was contesting the award in the courts, the whole question was *sub judice*. In his opinion a favorable vote for the proposal might actually endanger the case of Quebec.⁸ This argument was sufficient to hold the Quebec Conservatives in line. But obviously the issue was only postponed, and two years later, despite the fact that the award was still *sub judice*,

⁷ J.H.C., 1871, pp. 50, 52.

⁸ Debates of the Dominion House of Commons (henceforth C.D.), 1871, p. 361. The same argument was effective against a motion, moved by Mills, that the Dominion government accept, and make effective, the award.

the federal government took the very step which it had declined to take in 1871.

What was the explanation? Sir John A. Macdonald declared that the aim was to rectify a mistake made when the British North America Act was framed. Then the excess debt of Upper and Lower Canada had been left as an "apple of discord" between Ontario and Quebec. Assumption of this debt by the Dominion would restore harmony between the two provinces.⁹ This explanation is plausible, but it leaves out essential details. In particular, it gives no inkling of the important part played by Quebec in forcing the hand of the Dominion. Ontario had made no complaint about the decision of the arbitrators. Quebec alone was hostile, and the Dominion was compelled to act because otherwise it faced disaffection from its Quebec supporters.¹⁰

By the measure passed in 1873 the Dominion assumed the excess debt of Ontario and Quebec by scaling up their joint debt allowance by \$10,506,100. Such a step made it necessary to increase by a proportionate amount the debt allowances of the other provinces.¹¹ The following table shows the alteration:

	Original Debt Allowance	Addition in 1873
Ontario and Quebec	\$62,500,000	\$10,506,100
Nova Scotia	{ 8,000,000	{ 1,344,800*
	{ 9,181,800	{ 1,544,300
New Brunswick	7,000,000	1,176,700
British Columbia	1,662,000	280,100
Manitoba	472,100	79,400
Total		\$13,586,600

* Not a part of the total.

In the case of Nova Scotia a problem at once arose. Ought the increase to be calculated upon the original debt allowance of

⁹ See the report of his speeches in the *Ottawa Times*, May 17 and 19, 1873. Tilley's explanation (*ibid.*, May 17) is simply fantastic.

¹⁰ According to J. G. Robertson, the treasurer of Quebec, the bill presented to the House of Commons was actually drawn up by representatives of the provincial government (Budget Speech, Quebec, 1874, p. 6).

¹¹ Dom. Stat., 1873, c. 30.

\$8,000,000 of 1867 or upon the revised debt allowance of \$9,186,800 given in 1869? The Dominion auditor-general took the former view; but the provincial government protested vigorously, and it gained its point. The Dominion agreed to increase the debt allowance of Nova Scotia by \$1,544,300.¹²

QUEBEC SECURES A RETROACTIVE ADJUSTMENT

The adjustment of 1873 restored the finances of Quebec to a sound condition. Indeed the provincial government felt so prosperous that it granted extensive subsidies to railway companies and, in 1875, itself entered the field of railway construction. This last venture grew out of its desire to connect Quebec, Montreal, and Ottawa by rail. Two railway companies, the North Shore Railway, building from Montreal to Quebec, and the Montreal Colonization Railway, running from Montreal to Ottawa, had been chartered for this purpose and had been given liberal government aid. But neither had been able to fulfil its engagements, and the provincial government made the rash decision that it would do the job itself.¹³ The cost was much more than had been anticipated. In the eight years 1874-1882 the provincial government spent more than \$12,500,000 on the Quebec, Montreal, Ottawa and Occidental — its own line — and it also spent nearly \$2,500,000 on other railways.

Practically all these expenditures were financed by borrowing, and the result was that the provincial government, which in 1874 had been nearly debt-free, had by April 30, 1882, a debt of \$15,000,000 upon which annual debt charges amounted to \$885,000. It had, moreover, incurred other obligations by promising railway subsidies which had not yet been earned, but which would ultimately make more borrowing necessary. While provincial borrowing and expenditures were mounting, provincial revenues, consisting principally of the Dominion subsidies (approximately \$1,000,000) and the income from Crown lands (approximately \$850,000), were very inflexible. Little

¹² *Ibid.*, 1874, c. 3.

¹³ *Que. Stat.*, 1875, c. 2. See the optimistic estimates of cost presented to the House of Assembly by J. G. Robertson in his Budget Speech of 1875, pp. 27-60.

wonder that the government became seriously perturbed about its financial situation. Appeals to Ottawa for financial assistance brought no response, and therefore, in 1882, J. A. Chapleau, the premier, decided to sell the provincial railway to private capitalists. The eastern section of the line, extending from Montreal to Quebec, was disposed of to the North Shore Railway Syndicate; the western section, extending from Montreal to Ottawa, went to the Canadian Pacific Railway.¹⁴ The gross price received for both lines was \$7,600,000, payable in yearly installments to 1902.

By this transaction the most pressing fiscal difficulties of the provincial government were relieved. But frugality and even curtailment in expenditure were still necessary. Sir John A. Macdonald, who at this time kept in close touch with the Quebec government, himself urged such a policy. In a letter to J. A. Mousseau, who had replaced Chapleau as premier, he gave the following advice: "Take a lofty and patriotic tone with the opposition and say that you will, if necessary, go to the country on the question of economy and retrenchment."¹⁵ Such a plan was not likely to commend itself to any provincial government, least of all that of Quebec. Quebec looked for relief in another direction because it had by this time developed a substantial set of grievances, and a corresponding set of claims, against the federal government. These now will be examined.

One of these grievances concerned federal railway policy. When the project of a Pacific railway was first mooted, the federal government anticipated that it would have to give a significant amount of aid only to that part of the line which ran west from Lake Nipissing to the Pacific. Private enterprise, assisted by provincial and municipal grants, was expected to make the necessary connection with the eastern railways. In 1874, however, the federal government gave a subsidy of \$12,000 per mile to the Canada Central to assist construction from Lake Nipissing east to Pembroke.¹⁶ The justification was that this line ran

¹⁴ Que. Stat., 1882, c. 19, c. 20. The sum received was much below provincial outlay on the railways.

¹⁵ Macdonald Letter-Books, no. 21, letter of July 26, 1883.

¹⁶ *J.H.C.*, 1875, pp. 219-221.

through a sparsely settled region and that it was national in function. The provincial government of Quebec contended that the same reasons which justified the subsidy of \$12,000 per mile to the Canada Central made imperative an equal grant to the line which it had built from Ottawa to Quebec. This, then, was the first of the claims pressed by the provincial government.

A second claim reverted to the question of the surplus debt of Upper and Lower Canada. In 1873 the Dominion had, seemingly, made a generous settlement by assuming this debt. But in such matters the granting of one favor seems to lead only to the demand for another. The provincial government of Quebec was soon declaring that the debt allowance of Ontario and Quebec ought, in 1867, to have been set high enough to cover their total debt, and that the act of 1873 had been passed, in the interest of justice, to rectify an original mistake in the British North America Act. But, so the argument continued, the rectification had been tardy, and it had been incomplete, because from July 1, 1867, to July 1, 1873, Ontario and Quebec had been charged by the Dominion with interest on this surplus debt. Complete justice would not be rendered until these sums had been repaid by the federal treasury.¹⁷

The federal government at first paid no attention to the persistent representations of the provincial government, and this neglect caused the Quebec Conservatives to grow more and more resentful. They felt that Sir John A. Macdonald was peculiarly indebted to their province. Had not Quebec, in successive elections, returned docile majorities pledged to his support? Had not the provincial government worked in willing subordination to the government at Ottawa, asking only that due rewards be given to its political friends and due punishments to its political enemies? The intimacy of the relationship between

¹⁷ Budget Speech (Quebec, 1884), p. 45. The provincial treasurer of Quebec, J. G. Robertson, made the bold declaration that the adjustment of debt allowances in 1873 had been intended to accomplish what Quebec now demanded. There is every reason to believe that Robertson's memory was at fault. Certainly in none of his earlier budget speeches did he mention this discrepancy. See also S.P., Que., 1883-84, no. 88, p. 79.

the two governments was evidenced by a frequent interchange of officers. Thus in July 1883 J. A. Chapleau resigned from the premiership of Quebec and became secretary of state in the federal cabinet, while J. A. Mousseau resigned the portfolio of secretary of state to take the office which Chapleau had left. Both men in both positions had pressed the demands of their province upon the Dominion, and both were aggrieved at the lack of response.¹⁸

In the middle of February 1884 several members of the provincial government went to Ottawa to see if any concessions could be secured. They were received courteously, but once again they had to return home empty-handed. Their resentment, and that of their friends in the House of Commons, was intense; and by force of circumstances this resentment soon found a vent. At this very time the federal government had before parliament certain resolutions which provided for the grant of extra assistance to the Canadian Pacific Railway, especially by way of a loan. Quebec had never been cordial toward the railway, and now its smoldering discontent flamed into open insurrection. The Quebec Conservative members of the House of Commons, at a caucus held on February 18, decided to insist that a favorable answer be given to the demands of the provincial government as the price of their support of the Canadian Pacific Railway resolutions. Sir John A. Macdonald was so informed, he came to the meeting, and he assured the insurgents that the major portion of the demands of their province would be conceded.

The evidence about these events is clear. But Sir John attempted later to brush aside certain natural implications. He declared that the decision to grant the demands of the provincial government had been made before he was summoned to attend the caucus. He was present, therefore, not because a pistol had been held at his head, but merely to make the announcement of a decision which had already been taken.¹⁹ But why

¹⁸ Jealousy of Ontario was always cropping out. The success of the Liberal party in Ontario and the fiscal prosperity of the provincial government were bitter pills for Quebec.

¹⁹ C.D., 1884, pp. 1565-1566. For a critical analysis of Sir John's statement see pp. 1568-1570.

had Sir John not hinted at this good news to the accredited provincial delegation which had come to Ottawa asking for favors and which had been sent home completely disgruntled? A strong suspicion must remain that the concessions had been won through the meeting, and certainly this was the belief of the French-Canadian press.²⁰

What was Quebec now given by the federal government? With respect to the railway from Quebec to Ottawa, an act was passed²¹ which declared that, since the provincial government had constructed it as a link between the Atlantic and the Pacific, a federal subsidy was properly due and should be given. For the western section, connecting Montreal and Quebec, the subsidy was to be \$12,000 per mile for 120 miles — a total of \$1,440,000; for the eastern section, between Montreal and Quebec, the subsidy was to be \$6,000 per mile for 159 miles — a total of \$954,000. These sums were to be “capitalized” — treated almost as additions to debt allowance; and interest on them at 5 per cent was to be paid to the provincial government.²² Why, it may be asked, was only \$6,000 per mile given to the line between Montreal and Quebec? The reason was that the federal government had decided to give the other \$6,000 per mile to the Canadian Pacific Railway, and despite vigorous protest from the provincial government this was done.²³

If, in this respect, the provincial government was somewhat disappointed, its expectations about what would be done about its surplus debt were exceeded. It had asked that the interest charged on this debt for the six years 1867-1873 should be repaid to it. This was conceded in full. But, in addition, the Dominion undertook to credit the province with interest on this interest. By this unexpected generosity Quebec was

²⁰ See the explicit quotations given by Laurier, *ibid.*, p. 1542.

²¹ Dom. Stat., 1884, c. 8.

²² Obviously, this was a poor proposition for the Dominion, since it could borrow at not more than 4 per cent. In 1904 the rate paid by the federal government was reduced to 4½ per cent, and after 1908-09 the item disappeared because the capital sum was withdrawn in order to reduce the debt of the province.

²³ C.D., 1884, pp. 1493-1494. See also Macdonald Papers, Provincial Government, Quebec, for strong letters of protest from Ross, Robertson, and Masson.

given a sum greater by 70 per cent than it had requested. The reason for this generosity was that the government of Sir John A. Macdonald had decided to use the occasion to make a general grant of better terms to all the provincial governments.²⁴

In order to understand the procedure adopted, one must revert to the adjustment of 1873. Then the Dominion had assumed the excess debt of Ontario and Quebec by scaling up their joint debt allowance by \$10,506,100. In 1884 it went a step further. The interest which it had charged against this excess debt from July 1, 1867, to January 1, 1873, was to be assumed by adding it to their debt allowance. This interest, calculated at 5 per cent, appears to have amounted to a total of \$3,151,800. But the addition did not stop here. Arrears of interest on this interest, calculated at 5 per cent up to July 1, 1884, were considered to be due the provinces, and these cumulative arrears, amounting to \$2,245,700, were also to be added to their debt allowances. Thus the result of this portion of the adjustment was the addition of \$5,397,500²⁵ to the joint debt allowance of Ontario and Quebec; and the Dominion declared that this was to be divided between the two in the same ratio as that by which the arbitrators in 1871 had divided surplus debt, Ontario being credited with \$2,848,300 and Quebec with \$2,549,200.

What was given the other provinces? For Nova Scotia and New Brunswick, which had come into confederation in 1867, the calculation was simple. Their debt allowances were increased in proportion to the increase given Ontario and Quebec; and this meant an addition of \$793,400 for Nova Scotia

²⁴ Dom. Stat., 1884, c. 4.

²⁵ I have not been able either to make a computation which will derive the figures given above or to secure an explanation from official sources. Both the amount — \$3,151,800 — given as the interest paid on excess debt, and the amount — \$2,245,700 — given as arrears of interest seem to be wrong. The debate about the resolution in the House of Commons makes clear that everyone was confused over the arithmetic of the calculations and that the confusion was not cleared up. (See C.D., 1884, pp. 1584–1585.) I have, therefore retained the figures used by Tilley, the minister of finance, because, rightly or wrongly, they were the basis of the adjustment.

and \$604,500 for New Brunswick.²⁶ For British Columbia, Manitoba, and Prince Edward Island, provinces which came into confederation after 1867, the calculation was more involved. The increases in their debt allowances were to bear "the same proportion to the respective populations of the said Provinces, as ascertained by the census of 1881, as the total of the amounts to be added under this Act as capital owing to Ontario, and Quebec, Nova Scotia and New Brunswick, bears to the combined population of the four last named provinces, as ascertained by the said census of 1881."²⁷ An illustration will make the meaning of this clear. The population of Prince Edward Island in 1881 was 108,900; that of the four old provinces was 4,047,700; and the "total of the amounts to be added under this Act" to their debt allowances was \$6,795,400. Thus the increase in debt allowance due Prince Edward Island was \$183,000.²⁸ A parallel computation could be made for Manitoba and British Columbia.

The following table shows the additions made to debt allowances at this time:

Ontario	\$2,848,300
Quebec	2,549,200
Nova Scotia	793,400
New Brunswick	604,500
Manitoba	110,800
British Columbia	83,100
Prince Edward Island	183,000
	<hr/>
Total	\$7,172,300

The total capital liability assumed by the Dominion was thus \$7,172,300, and on this sum it was obligated to pay interest, at 5 per cent, amounting to \$358,614 a year.

It ought to be clear that the effect of this involved piece of

²⁶ To illustrate the calculation for New Brunswick: its debt allowance in 1873 became \$8,176,700, while that of Ontario and Quebec together became \$73,006,100. Since this latter figure in 1884 was increased by \$5,397,500, the former was increased by \$604,500.

²⁷ Dom. Stat., 1884, c. 4.

²⁸ $x : 108,900 : : 6,795,400 : 4,074,700$
 $x = 183,000$

legislation was, in summary, to make the act of 1884 retroactive to 1867. The Dominion assumed that in 1867 the provincial debt allowances had been set too low, and it proceeded to compensate the provincial governments for this mistake. But this assumption, which underlay the legislation of 1873 and of 1884, was without the least factual or historical foundation. The Dominion adopted it, under pressure, in order to give better terms. On both occasions the most direct pressure came from Quebec, but in 1884 other provinces were clamoring for financial favors, and the Dominion went beyond the demands of Quebec in the hope that they might be quieted. Quebec had asked merely for a refund of the interest which it had paid on its excess debt from 1867 to 1873. If this had been conceded, and if proportionate additions had been made to the debt allowances of the other provinces, these additions would have been paltry in amount. The Dominion therefore amplified the Quebec demand in the manner which has been indicated.²⁰

In conclusion it should be observed that, by making a general increase of debt allowances in 1873 and 1884, the federal government had further bedeviled the financial terms of the British North America Act. The debt allowances, devised to equalize the amounts of provincial indebtedness assumed by the Dominion, had been twisted into a scheme for giving better terms. To the objections which can be raised against any alteration of the subsidy terms, one further objection, peculiar to this scheme, can be added. On the additions to the debt allowances the Dominion was committed to payment of interest at the rate of 5 per cent. This was definitely uneconomical, because it could borrow in the money market at a rate of 4 per cent.

²⁰ Discussion of the measure in the House of Commons was not enlightening. Tilley, the minister of finance, declared frankly that the purpose was to aid the provincial governments which were financially embarrassed. Many of them had got into trouble because of overgenerous grants in aid of railway construction, and this, Tilley felt, gave them a special claim to federal largess. The federal government had in 1883 undertaken to give subsidies in aid of provincial and local railways. If that policy had been adopted earlier, many of the provincial subsidies might have been unnecessary. The tenuous character of Tilley's argument is too obvious to require comment.

CHAPTER V

MINOR CONCESSIONS TO THE MARITIMES TO 1887

THE demonstration by Nova Scotia in 1869 that pressure upon the federal government, skillfully applied and not stopping short of the threat of secession, would secure better terms, was not lost upon the other provinces. It was not difficult to find circumstances upon which to base claims. The financial terms given to the new provinces of Manitoba, British Columbia, and Prince Edward Island transgressed in several respects the terms given the older provinces. Moreover, every subsequent concession to a particular province by the Dominion could be made the basis for claims by the other provinces. From the outset every plaintiff province insisted that what it wanted was merely "equality" of treatment with its neighbors. If, perchance, that equality was conceded, some of the neighbors discovered that thereby they had been put on an "inequality." So the game went on without the slightest prospect that any provincial government would ever be satisfied.

NEW BRUNSWICK SELLS A RAILWAY

In 1871 the legislature of New Brunswick, inspired by "the Nova Scotia concessions and the very generous terms granted to the provinces of Manitoba and British Columbia, and offered to Newfoundland and Prince Edward Island,"¹ sent a delegation to Ottawa. Nothing was accomplished, and in the next year a new delegation took up the task. This time there were results, but they came in a way which the provincial gov-

¹ J. of A., N.B., 1872, app. 10. The memorandum was incredibly long-winded and loosely argued. The attitude of the *Toronto Globe* to these moves by New Brunswick was so typical as to be worth quotation. It declared: "If now or at any other time the Local Government of New Brunswick should want more money for schools and for roads and bridges, it might copy the system in vogue in this province and provide that the municipalities raise money for these purposes" (July 20, 1868).

ernment had not foreseen and through circumstances over which it had no control.

In order to understand what was done it is necessary to go back to the provision in the British North America Act by which New Brunswick was, in effect, given the right to levy an export duty on provincial lumber.² Many years earlier the provincial government, finding the expense of collecting stumpage dues too great, had substituted an export duty on lumber. At the Quebec conference, New Brunswick had insisted that it must retain this right of taxation, and this was conceded by the Quebec resolutions and by the British North America Act itself.

But the right was not retained for long. When the Washington Treaty was being negotiated by the Dominion, a minor difficulty arose over this clause, since the treaty looked to abolition of the duty on United States lumber floated down the St. John River and shipped to the United States. This could not be done without the consent of New Brunswick. The Dominion therefore decided to offer compensation to it for complete abolition of the export duty.

At this time about \$60,000 to \$70,000 was being collected through the duty. Little increase could be expected, because the provincial government had not the right to raise the rate and because the amount of timber floated down the river was on the decline. Yet the federal government promised New Brunswick \$150,000 a year as compensation.³ The provincial government was really being given better terms. This surreptitious method had the advantage that it did not disturb the regular subsidy provisions and that it did not give the other provinces the opportunity to ask for a similar concession.

For the next four years the provincial government continued to press numerous claims upon the federal government, only to be rebuffed. Alexander Mackenzie and still more his finance minister, Richard Cartwright, firmly believed that the subsidy

² Sec. 124. See also resolutions 29 and 43 of the Quebec conference and S.P., Canada, 1866, no. 23.

³ Dom. Stat., 1873, 2 sess., c. 41. The *St. John Daily News*, a strong supporter of the provincial government, suggested (Mar. 21, 1837), shortly before the act was passed, that \$125,000 a year would be a fair compensation.

provisions of the British North America Act ought not to be upset, and, in the main, they lived up to their belief. In 1877 the special subsidy of \$63,000 given New Brunswick for ten years was due to lapse. The provincial government asked for an extension, and its argument was simplicity itself. If in 1867 the financial condition of New Brunswick was such that a special subsidy was warranted, then certainly in 1877 the need was as great. Cartwright, however, viewed the matter differently. He pointed out that New Brunswick had, during the intervening ten years, received several grants of better terms. If, despite these, its financial position was not satisfactory, surely the fault lay with the provincial government. In Cartwright's opinion, it was spending too much of its revenue upon education and highways; and he flatly refused to consider extension of the special subsidy.

But when in 1878 Sir John A. Macdonald gained office once more, and when Sir Leonard Tilley left the post of lieutenant-governor of New Brunswick to become minister of finance, the provincial government took heart. The most important of the claims which it now pressed upon the Dominion had to do with the so-called Eastern Extension railway, and about this a brief explanation should be given.

The Eastern Extension railway, running from Painsec Junction to the border of Nova Scotia, was constructed as a provincial line shortly after 1867. The railway proved expensive to build, and the provincial government of New Brunswick, heavily in debt to the contractors, decided that a good plan would be to get the Dominion to purchase the road in order to make it a link in the Intercolonial railway. Sanford Fleming, the chief engineer in charge of construction of the Intercolonial, raised serious objections to this plan. But he was overruled by the federal railway commissioners, who offered to purchase the Eastern Extension for \$894,000 — \$24,000 per mile. This was done, but the transaction had an aftermath. Of the sum paid for the line, \$644,000 went to the contractors, leaving only \$250,000 for the provincial government. It had given as subsidies approximately \$400,000, and it now claimed that the Dominion

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really owed it \$150,000. Of course, this claim had no legal basis. What then made it plausible? For one thing, the provincial government declared that it had made the sale under coercion. Unless it sold, a competing line, serving the same territory, would have been constructed. This was true, but the provincial government had only itself to blame for its awkward plight, since it had known, long before any important expenditure was made on the Eastern Extension, that the Intercolonial was to be built through this territory. A second and more significant argument in support of the provincial claim was that the sum — \$24,000 per mile — paid for its line had been based on the assumption that this would be the cost of construction of the Intercolonial. In fact, the cost had been considerably greater, and the provincial government therefore urged that the payment due to it should be reconsidered.⁴

The case of the province was certainly far from conclusive. But Tilley desired to make some concessions, and after much delay the Dominion in 1884 paid over \$150,000 to the provincial government.⁵

Meanwhile, a significant political event had taken place in New Brunswick, when in 1883 Andrew G. Blair became premier. Through astute political deals and by virtue of his masterful personality, Blair was to control the province for twenty years. At this time party lines had not been drawn in provincial politics in New Brunswick, and the executive council contained both Liberals and Conservatives. Hitherto, however, the Conservative element had been in the ascendant, and Sir John A. Macdonald had been given no reason for serious worry about the political docility of New Brunswick. Now there was to be a change. Blair was willing to fish in troubled waters in an effort to strengthen his political status. When in 1887 the premier of Quebec, Honoré Mercier, sent him an in-

⁴ J. of A., N.B., 1877, p. 185. It should, however, be remembered that the Eastern Extension was longer by several miles than the route favored by Fleming. Moreover, the argument of the provincial government would require only that the additional payment to it be in proportion to the error in the estimated cost of the Intercolonial.

⁵ C.D., 1884, p. 1627.

itation to attend a provincial conference, Blair accepted in the face of the sharp disapproval of Sir John.

NOVA SCOTIA THREATENS SECESSION

The better terms of 1869 did not satisfy the extreme anti-confederates then in control of the provincial government of Nova Scotia. They insisted in one breath that the province should be taken out of the union, and in the next that the provincial revenue was bound to be utterly inadequate unless still better terms were obtained. A few years passed, and it appeared from the surpluses in the treasury that the revenue was more ample than had been imagined. The provincial government left off complaining and began to spend, especially by railway subsidies, on a lavish scale. In the five years 1874-1878, nearly \$1,500,000 was given to railway companies, but the contracts were so ill-conceived that only twenty-seven miles of new line were put into operation.

During these years it was not to be expected that the relations between the federal government and the provincial government would be cordial. Bickering over petty questions was continuous. And during the tenure of the Liberal prime minister, Alexander Mackenzie, there was no respite, because Mackenzie refused to give any favors to his friends in Nova Scotia. It will be remembered that as a result of Howe's agitation Nova Scotia had been given a special annual subsidy of \$82,700 to run ten years from July 1, 1867. As the date approached on which this subsidy was due to lapse, the provincial government pleaded for its continuance. But Mackenzie and Cartwright were no more friendly to this request than they had been to a similar request from New Brunswick, and payment of the subsidy ceased.⁶ This loss was serious, because the provincial government had got itself into a bad fiscal condition.⁷

⁶ J. of A., N.B., 1877, app. 9.

⁷ The chief cause was excessive expenditure on railways. The provincial government had at Ottawa a capital credit, consisting of the excess of its debt allowance over the amount of debt charged against it by the Dominion. This excess debt allowance was drawn upon, with the consent of the Dominion, to provide funds for railway expenditure, as well as for other purposes. As a result

The elections of 1878 brought into office for four years a Conservative government, the first in Nova Scotia since 1867 and destined to be the last until 1925. It made a courageous attempt to meet a most difficult situation. A municipal system was introduced, and drastic economies were effected. But Premier Holmes and his attorney-general, J. S. D. Thompson, also believed that they might get some assistance from the Conservative government at Ottawa. Accordingly, a variety of claims, old and new, was advanced. None of them received favorable consideration. On the contrary, J. M. Courtney, the deputy minister of finance, wrote a memorandum in answer which exposed brusquely the dominant consideration behind this and every other request for better terms. "I beg to point out," wrote Courtney, "that throughout the whole of the documents submitted [by Nova Scotia] lies this fallacious argument, that because the Province is financially embarrassed the Dominion must come forward and rescue it from its unfortunate position. Whilst I deeply regret that Nova Scotia should be in its present state, I think it but right that this plan should be condemned. To allow it to stand unnoticed would be, on the part of the Dominion Government, to tacitly consent to its being correct; and if such an idea becomes general, it would materially destroy any economical tendency in the Provincial Legislatures, and might be fraught with dangerous consequences to the Dominion."⁸

In 1882 the Liberals again came into office in Nova Scotia, and for the next fourteen years the provincial government was dominated by W. S. Fielding. Unhampered by political friendship for Sir John A. Macdonald, the Liberals pressed vigorously

the amount of interest received by the provincial government from the federal treasury declined.

⁸ J. of A., N.S., 1882, app. 14, p. 32. One small claim, indeed, was settled. The federal government in 1878 had refunded \$59,000 to the provincial government because of railway and other supplies taken over in 1867. It occurred to Holmes that the province was entitled to arrears of interest on this sum. This was conceded, and \$33,000 was paid over. But, on Courtney's advice, the federal government decided to retaliate against such petty pilfering, and it proceeded to charge against the debt allowance of Nova Scotia certain old items outstanding since confederation (*ibid.*, p. 3).

for better terms, only to be rebuffed. The agitation then took a surprising turn. Talk of withdrawal from confederation was bandied about and finally, on May 10, 1886, Fielding himself moved a series of secession resolutions. These resolutions recited the grievances of Nova Scotia; they affirmed that redress had not been granted; and they concluded that the solution should be withdrawal from federation if such a step was approved by the people in the impending elections.⁹ On June 15 the people went to the polls, and only seven Conservatives were returned in a house of thirty-eight members. The decision seemed unequivocal, and action imperative. But a ready excuse for postponement was found. A federal election was scheduled for February 22, 1887, and Fielding thought it prudent to wait until the people had spoken once more. To the surprise of most observers, the Conservative party secured thirteen of the twenty-one members from Nova Scotia.¹⁰ The people, so it was declared, had evidently changed their minds about secession. This Delphic expression of the popular will was not at all unwelcome to many Liberals, including Fielding himself, and the second anti-confederation agitation collapsed even more ingloriously than the first. It is, indeed, apparent that the affair was fundamentally political byplay, designed to frighten the Dominion into the offer of better terms. The bluff did not work,¹¹ and a few months later Fielding accepted an invitation to attend a provincial conference at Quebec, thereby signifying that he had returned to constitutional methods of agitation.

PRINCE EDWARD ISLAND DISCOVERS NEW CLAIMS

For a few years after 1873 Prince Edward Island was contented. The people were moderately prosperous, and the provincial government was comparatively affluent. The govern-

⁹ D. of A., N.S., 1886, p. 394.

¹⁰ There can be no doubt that the return of Sir Charles Tupper to the political arena had much to do with this result.

¹¹ See Macdonald Papers, Nova Scotia Affairs (4), for a letter, dated June 17, 1886, from John F. Stairs about the provincial election. Stairs was worried over the prospects, but he warned Sir John that Nova Scotia "must not get one cent of financial help as better terms upon the threat of repeal."

ment was not economical. It increased its expenditure rapidly even in the face of a falling revenue. The debt allowance credit of the province at Ottawa was drawn upon heavily to pay for railway construction. Thus, while at union the Island had a net credit above debt of approximately \$2,600,000, this had declined to \$831,900 by the end of 1877. This meant, of course, that the receipt of interest from the Dominion treasury had fallen from \$130,000 a year to \$41,600. The credit of the province in land account was also reduced rapidly by withdrawals to make purchases from the absentee proprietors. By the end of 1877 almost \$641,000 had been so used, and instead of a land subsidy of \$45,000 a year the province received only \$9,600. The result of the falling revenues and growing expenditures had been a series of deficits.

In 1877 a coalition government, with L. H. Davies as premier, came into office pledged to financial reform. It passed an assessment act¹² imposing a poll tax upon males over twenty-one years of age and a tax upon real property. This measure was unpopular, and it was an important factor in the defeat of the Davies government in 1879. The new government, with W. W. Sullivan as premier, promised prompt repeal of the assessment act, but once in office it made haste slowly and gave most attention to pressing a number of claims upon the federal government. Indeed, for the next ten years Sullivan and his colleagues earned for themselves the title of "the jolly beggars," because of their ingenuity in formulating demands upon the Dominion.

In one of these demands all the Maritime provinces were directly interested. By Article 22 of the Washington Treaty a commission had been appointed to determine the excess value of the fishing privileges granted citizens of the United States over those granted British citizens. In 1877 the commission made an award of \$5,500,000 to Great Britain. Of this Newfoundland was conceded \$1,000,000, and the remainder was handed over to the Dominion government. Prince Edward Island, Nova Scotia, New Brunswick, and Quebec promptly

¹² P.E.I. Stat., 1877, c. 2.

asked that this remainder be divided among them, on the ground that the privileges for which the award had been made were their territorial rights. This contention the federal government refused to accept. Sir John declared that the fisheries were a federal responsibility and that the award "constitutionally and of right" belonged to the Dominion.¹³

The case of Prince Edward Island differed somewhat from that of the other Maritimes, and it was pushed more persistently. The Island government had ratified the fishery clauses of the Washington Treaty on June 29, 1872, before entry into federation, and it therefore declared that it was entitled to a share of the award just as was Newfoundland. The answer of the Dominion was that since the fishery clauses of the treaty did not come *into effect* until July 1, 1873, after entry of the Island into federation, the special claim was not legitimate.¹⁴ The provincial government then appealed to the imperial government by an address to the Queen,¹⁵ but without success; and, although in later years the same claim was often urged, the federal government remained obdurate.¹⁶

Another claim, which was of great political importance for many years, had to do with the so-called "continuous communication" clause of the act of union. By this clause the Dominion declared in 1873 that it would establish and maintain an "efficient steam service for the conveyance of mails and passengers between the Island and the mainland of the Dominion, winter and summer, thus placing the Island in continuous communication with the Intercolonial Railway and the railway system of the Dominion."¹⁷ The meaning of the phrase "continuous communication" was not explained, but certainly nobody gave it a literal interpretation, because no one believed that a

¹³ C.D., 1880, p. 1187.

¹⁴ S.P., Dom., 1879, no. 73d.

¹⁵ J. of A., P.E.I., 1880, pp. 257-264; 1881, app. M; 1883, app. H.

¹⁶ Sullivan endeavored to get the federal government to take the question to the courts for a judicial decision, but Sir John refused, declaring that the province might, if it chose, obtain such a decision by petition of right (Macdonald Papers, Provincial Government, P.E.I., telegram to Sullivan, Mar. 26, 1881).

¹⁷ Dom. Stat., 1873, 1 sess., p. xii.

boat could force its way through the ice of Northumberland Strait throughout the winter season.¹⁸

For some years after union the clause received no attention. In the winter of 1876-77 the Dominion put a screw steamer into operation on the strait which was able to cross continuously with the exception of about two months each year. Not until 1881 was there any real protest from the Island that this service was inadequate. But then Premier Sullivan introduced resolutions into the Assembly which more than made up for lost time. The resolutions declared that "one of the principal inducements held out to the province to enter Confederation was the promise of continuous communication with the mainland," and that there had been a "serious derangement of trade and immense inconvenience to the entire community" because this promise had not been kept. Sullivan demanded not only that "vigorous and immediate measures" should be taken to fulfil the pledge for the future, but that compensation be paid to the provincial government for non-fulfilment from 1873 to date.¹⁹ Of course, historically and factually the resolutions were absurd, and Sullivan had no expectation that his demands would be met. But he did hope that he might win some financial concessions from the Dominion if he could convince the people of the Island that the federal government was doing them an injustice.

At first the federal government refused to take Sullivan seriously.²⁰ Voluminous correspondence with Ottawa got no results, and at last Sullivan threatened that unless his demands were met he would appeal to the imperial government. Still the fed-

¹⁸ In view of the many absurd statements made in later years, it may be well to insert some contemporary evidence here. In 1870 a committee of the House of Assembly made an inquiry into the question of communication between the Island and the mainland during the winter months. It decided that the best plan would be to put into operation "a screw steamer of moderate size," and it hoped that such a boat might be able to run up to the middle of January (D. of A., P.E.I., 1870, pp. 259-260). At the very time that this report was made, the legislature was considering terms of union which contained the promise of continuous communication.

¹⁹ J. of A., P.E.I., 1881, p. 251.

²⁰ In 1883 it decided to improve the service between the Island and the mainland by building branch lines from the Island railway out to Cape Traverse and from the Intercolonial out to Cape Tormentine.

eral government remained apathetic, so Sullivan and his provincial secretary, Ferguson, journeyed to London to see what could be done. As might have been foreseen, this delegation, like most delegations to Downing Street, got no results. Granville, the secretary of state for the colonies, declared that the imperial government had no power to interfere in the dispute, and Sullivan had to return home empty-handed.²¹

In the meantime the provincial government had been pressing a number of petty demands upon the Dominion, and with considerable success. One of these was for a refund of expenditure which it had incurred in the maintenance of penitentiary prisoners. By the British North America Act all penitentiary charges were federal. But there had been some delay in defining what was a penitentiary and some delay in the extension of the federal criminal law to the Island, with the result that the provincial government had borne all prison charges until 1878. It asked to be indemnified for its expenditure on these federal functions from 1873 to 1878, and its right to an indemnity was readily conceded. But the amount which it asked was regarded by the Dominion as excessive. After much wrangling the provincial government in 1882 was paid \$20,700 as a settlement in full.²²

Another claim on the Dominion was promptly discovered. This time the inspiration came from a decision of the federal supreme court. In the case of *Holman vs. Green*, the court declared²³ that the foreshore of a public harbor was vested in the

²¹ J. of A., P.E.I., 1885, pp. 40-43; 1886, app. L. The delegation served to bring into prominence a proposal which, for many years, had an extraordinary vogue. This was that a tunnel, or "metallic subway," be built under the Northumberland Strait. The scheme was utterly chimerical, but it served a purpose as election bait. One notable example was a letter written on Jan. 28, 1887, by Sir John A. Macdonald to Senator Howlan of Prince Edward Island. Sir John made no unguarded promises about the tunnel, but he did raise hopes, and the letter was good election propaganda. When taunted by Edward Blake in the House of Commons, Sir John jokingly admitted his guilt and advised Blake to use the letter as a model for his own political correspondence (C.D., 1887, pp. 536-538).

²² S.P., Dom., 1885, no. 34, p. 463. The precedent for such a payment had been set earlier in the case of British Columbia.

²³ Reports of the Supreme Court, vol. VI, pp. 707-724.

Dominion and that "the property in public harbours . . . should likewise be vested in the Dominion." The provincial government had, of course, been spending money for years on the construction and maintenance of small wharves and piers in public harbors, i.e., on property which, according to the decision, was federal. It therefore announced that it would no longer contribute toward such public works, and it asked that its net expenditure on "piers" from July 1, 1873, to December 31, 1882, amounting to \$124,200, be repaid to it. The federal government promised that a survey would be made in order to determine what piers were a federal responsibility and what the repayment should be. The survey was made, and in 1884 the provincial government was offered a refund of \$64,200, but only on condition that an order in council be passed, accepting this payment as "in full of all demands" for wharves and piers.²⁴ At first the provincial government demurred, but after \$12,000 had been added to the refund it did what the Dominion requested.

Despite these extraordinary feats of begging, Sullivan had never been able to balance the provincial budget. All the wind-fall receipts from the Dominion were used as ordinary revenue, but they were not enough. Year after year small deficits were piled up, and the floating debt of the province grew until it amounted in 1887 to \$220,000. The obvious cure was increased taxation, but Sullivan was afraid of the political consequences. He was nearing the end of his political career, and he decided once more to act the part of financial conjuror. To wipe out the floating debt, he drew \$250,000 from the capital credit of the province at Ottawa. To balance the budget, he appealed again to Sir John A. Macdonald for an increased subsidy. The appeal rested upon the basis of political friendship. His government,

²⁴ J. of A., P.E.I., 1884, app. H. An interesting incident arose during the final stages of the negotiations which illustrates again how these affairs were used to make political capital. On Feb. 18, 1884, Sullivan wrote a note to Sir John A. Macdonald (Macdonald Papers, Provincial Affairs, P.E.I.), calling to his attention that an important by-election was to be held in Prince Edward Island four days later, and that favorable word about the piers claim would help the Conservative candidate. On the next day Sullivan was able to send a satisfactory telegram.

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as he once declared, "was solidly Conservative," and its interests were "identical" with those of the federal government.²⁵ His plea was successful. The Island was given an additional annual subsidy of \$20,000.²⁶ Two years later Sullivan retired from political life to the haven of a judgeship.

²⁵ *Ibid.*, letter to Sir John, dated Mar. 19, 1887.

²⁶ Dom. Stat., 1887, c. 8.

CHAPTER VI

DISCORD AND RECONCILIATION IN MANITOBA AND BRITISH COLUMBIA

MANITOBA GETS PETTY CONCESSIONS

FROM the very outset the provincial government of Manitoba was in fiscal difficulty. In 1871 expenditure was \$95,000, while revenue was only \$70,000, leaving a deficit of \$25,000. Why was this bad start made? One might expect the explanation that Manitoba was a pioneer province, lacking public works, and that it had made expenditure to acquire these. There were, however, other reasons. Examination of the public accounts shows that more than 30 per cent of the expenditure of Manitoba was for legislative expenses. This small province, with a population of 12,200 people, had twenty-four members in its House of Assembly and seven in its Legislative Council, each of whom was paid \$300 a year as salary, as well as miscellaneous amounts for perquisites; and it had an executive council of five members, each paid \$2,000 a year. The situation was ludicrous and ludicrously costly. That the federal government acquiesced to this multiplication of office-holders is proof of the complete lack of judicious consideration it had shown in launching this new province upon its career.

For the provincial government the simplest solution of its difficulties was an appeal for larger subsidies. At once pilgrimages from Winnipeg to Ottawa were begun. For a time they got no results.¹ Then in 1874 R. A. Davis became premier, after a campaign in which he attacked the extravagance of the provincial government. He hoped that he would be able to get a favorable response to the claims of his province. A Liberal government, headed by Alexander Mackenzie, was in power at Ottawa, and Davis was a Liberal. He was willing, moreover, to

¹ See *J. of A., Man.*, 1872, app., and p. 37; *ibid.*, 1873-74, app.; *ibid.*, 1874, app.

carry out a program of economies. On the other hand, Mackenzie and his chief followers had always taken an uncompromising stand against increase of subsidies. Davis presented his plea, and, after he had given practical evidence of economical administration by abolition of the Legislative Council and by creation of county municipalities, he got a modest reward. Manitoba was given an increase of \$26,750 in the grants it was to receive from the federal treasury.²

For the next three years there was a lull. The Davis administration by strict economy was able to balance its budget. In any case, it was clear that nothing more could be wheedled out of the government of Alexander Mackenzie. But when, late in 1878, Davis resigned from the premiership to be succeeded by John Norquay, and when Sir John A. Macdonald became prime minister in place of Mackenzie, the agitation entered upon a new phase. Norquay had no intention of imitating the policy of his predecessor. It was his opinion that in the past expenditure had been kept down by a "system of economy sometimes incompatible with the dignity of our institutions, and by ignoring persistently the ever-increasing requirements of the province."³ His policy would be to encourage construction of railways, to build highways and public buildings, to assist education, and to inaugurate a drainage system for the purpose of reclaiming the wet lands of the province. From what source were the funds to be provided? Norquay looked to

² Dom. Stat., 1876, c. 3. The increase was given only until 1881, in which year the province would receive an increased subsidy based upon the census of that year. This limitation was due to Edward Blake. The case of Manitoba had been referred to him for recommendation and he had satisfied himself that Manitoba deserved assistance. But he also believed that subsidies were, at best, a necessary evil (S.P., Dom., 1876, no. 36).

The precise status of the Manitoba subsidies at this time should be noticed. The original yearly grant had amounted to \$67,204, of which \$23,604 was interest on debt allowance. In 1873 an addition of \$79,357 was made to the debt allowance of Manitoba as its portion of the increase given all the provinces; and on this sum interest at 5 per cent was \$3,968, raising the total of interest receipts to \$27,572. But Manitoba had been given advances at various times which amounted to \$158,386, and these were, in 1876, deducted from the debt allowance, the interest receipt becoming \$19,653. The total grant payable thus amounted to \$63,253. The Mackenzie government raised this to \$90,000, an increase of \$26,747.

³ J. of A., Man., 1879, app., p. 174.

Ottawa, and it soon became clear that the Conservative government had not the doctrinaire convictions on the question of subsidies which had been held by its Liberal predecessor.

In its first effort to win larger grants from the Dominion treasury, the Norquay administration scored a modest success. The federal government promised in 1879 to insert an item in the estimates which would provide the province with "plain, but sufficient" public buildings,⁴ and also to increase its total grant from \$90,000 to \$105,650 a year.⁵ These concessions, slight in themselves, were sufficient to tantalize the province and to convince it that further appeals might get more substantial results.

Two years later a definite promise of better terms was given. The federal government passed legislation enlarging the boundaries of Manitoba and declared that, as soon as statistical information was secured from the census of 1881, it would deal with the financial requirements of the province "in an impartial spirit."⁶ In the next year the promise was fulfilled. The grants to Manitoba were scaled up from \$105,650 to \$286,730 per year.⁷ In detail the revision was as follows: (1) The grant for government was made \$50,000 (instead of \$30,000).

⁴*Ibid.*, pp. 180-181. The dispute over public buildings had an interesting history, and it provides another illustration of the negligence shown by the framers of the Manitoba Act. Nothing could be more obvious than that the new province would have to be provided either with buildings or with the funds to construct them; and it seems, from a letter of Father Ritchot (*ibid.*, 1874, app.) that the delegates from the Red River had raised the question and had been given some sort of verbal promise that buildings would be provided. But nothing was put in the act, and for years the Dominion and the province bickered. In 1879 the federal government committed itself definitely, and a few years later buildings were actually constructed. Again, however, there was extraordinary carelessness, and a quarrel arose as to whether or not the cost of the buildings was to be charged against the debt allowance of Manitoba. Not until 1898 was a settlement made (Dom. Stat., 1898, c. 4), and then the Dominion not only refunded to Manitoba the cost of the buildings, but added also interest at 5 per cent on this sum from 1885. Interesting memoranda and letters on this dispute can be found in the Papers of Sir Mackenzie Bowell, vol. XII (Public Archives of Canada).

⁵Dom. Stat., 1879, c. 2. The increase was only until 1881. It was done in a way which made an important alteration in the basis of the grants. The temporary grant of \$26,750, given by the Mackenzie administration, was wiped out and the 80-cent subsidy, which had been \$13,600, was raised to \$56,000 by basing it upon an estimated population of 70,000. The net gain was thus \$15,650.

⁶J. of A., Man., 1881, app., pp. cxxv-cxxvi.

⁷Dom. Stat., 1882, c. 5.

(2) The 80-cent subsidy was based on an assumed population of 150,000 (instead of 70,000) — actual population in 1881 being 64,800 — and it therefore became \$120,000. (3) A new grant of \$45,000 a year — the amount allowed to Prince Edward Island in 1873 — was given in lieu of lands. It will be observed that debt allowance was not altered, but the total of Manitoba's subsidies had been more than doubled; and when Tilley, as minister of finance, brought the bill before the House of Commons, he expressed the belief ⁸ that Manitoba would be satisfied by the new terms for the next ten years.

This belief proved to be an optimistic delusion. Even before the measure was passed, Norquay declared that the revision was merely to cover present emergencies;⁹ and during the discussion in the Manitoba legislature none of the members expressed gratitude for the new terms. On the contrary, most declared them to be paltry and insignificant. The fact was that a begging attitude had been ingrained in Manitoba by the repeated grant of petty favors.

THE NATURAL RESOURCES QUESTION EMERGES

By this time Manitoba had a substantial list of grievances against the federal government. It complained about federal retention of its natural resources, about the Canadian Pacific Railway and exercise of the power of disallowance, and about the federal tariff. These grievances might seem, at first sight, to have no relationship to the question of better terms. In reality the relationship was close, because most of the grievances had their price. The provincial government used them in order to win better terms, and the federal government gave better terms in the hope of quieting agitation.

⁸ C.D., 1882, p. 1420. Tilley's explanation of the failure to increase the debt allowance is curious. There were, he said, constitutional reasons against such a step, and the government on that account thought it better to compensate Manitoba by making a generous overestimate of the population upon which the 80-cent subsidy would be paid.

⁹ S.P., Dom., 1883, no. 108, p. 8, letter to the executive council, May 1, 1882. Sir John A. Macdonald was apparently of the same opinion. See also C.D., 1882, p. 1569.

Let us survey these grievances hastily. First in importance was the so-called "natural resources question." The federal government in 1870 had retained the natural resources of the province within its control, because it desired to utilize them to build a Pacific railway and because it wished to pursue a homestead policy. At the time no real objection was raised to this policy by Manitoba, and until 1881 all the provincial government asked was that the Dominion should give it a subsidy in lieu of its natural resources. But gradually the agitation broadened, and the demand was made that full control of the natural resources be placed in the hands of the provincial government. The grievance of Manitoba about the Canadian Pacific Railway had also emerged slowly. At first the province had been very favorably disposed toward the railway, but after the line reached Winnipeg there was a change in attitude.¹⁰ The "monopoly clause," which blocked construction of lines to the United States border, was much criticized, as was the protection which the federal government gave the Canadian Pacific Railway by using its power of disallowance to kill provincial railway measures. The complaint about the federal tariff was understandable. But it should be noted that Manitoba had voted for the "National Policy" in 1878 and that until 1888 it maintained a Conservative government in office at Winnipeg.

About none of these questions was there a decisive opinion in the province. Certainly the Norquay administration looked upon them chiefly as tools which could be used to secure the more important object of larger subsidies. The grievances were, however, tools which were double-edged, since they placed an important strategic weapon in the hands of the opposition party in the legislature. Whenever "better terms" were secured, the opposition could insure that the government would get little

¹⁰ The change in public opinion can be traced through the files of the *Free Press*. In an editorial of May 10, 1878, it declared: "Beside the immense interest which this Province has in the early completion of the Pacific Railway and its branches, everything else affecting Manitoba appears dwarfed in importance." It also defended the plan of assisting the Canadian Pacific Railway by land grants, and it approved of the early policy and efforts of the company. (See, e.g., editorials of Oct. 4, 1882, July 25, 1882, Dec. 13, 1880, Mar. 17, 1880.) Later it became a leading critic of the railway.

credit by alleging that the pecuniary concessions were only a bribe for yielding up vital liberties of the province. More specifically, it would charge that Norquay was a servile henchman of Sir John A. Macdonald.

The course of economic and political events in the 1880's made Manitoba a peculiarly fertile field for this sort of byplay. Agriculture, the lifeblood of the province, was seriously depressed. In 1883 the land boom, which had begun with the building of the Canadian Pacific Railway, collapsed disastrously; the wheat crop was injured by frost; the price of wheat fell and continued to fall. Agrarian discontent was rampant, and radical organizations were formed to voice the grievances of the farmers. To add to the excitement, the Norquay government plunged into a dangerous quarrel with Ontario at Rat Portage over the boundary between the two provinces. It must be stressed that the dispute was political in origin. Sir John A. Macdonald wished to discredit his arch-opponent, Oliver Mowat; and he therefore egged Norquay into taking a stand against the pretensions of Ontario.¹¹ Of course, Norquay expected some sort of compensation. He hoped that his stand at Rat Portage would secure him a generous grant of better terms. In that event, the allegation of his enemies that he was a laggard in pressing the grievances of his province would be harmless.

OTTAWA EXACTS A "FINAL" SETTLEMENT

In 1884 he went to Ottawa to secure his reward, and he soon was promised substantial concessions. Debt allowance, the very

¹¹ Evidence for this can be found in the Macdonald Papers and Letter-Books. I will give only two extracts. On July 25, 1883, Sir John wrote to Lieutenant-Governor J. C. Aikins that Ontario was taking possession of the country at Rat Portage and that he should "rouse Norquay to some action in the matter." Dominion support would be given, but Manitoba would have to take the initiative. On Aug. 17, 1883, Sir John wrote to Norquay: "I am greatly pleased to see the manly stand you have adopted at Rat Portage. The conduct of the Ontario government has been most indecent. It has shown an utter want of self-respect and an utter disregard of the claims of a sister province. Keep your ground and you will have all the support that I can give you" (Macdonald Letter-Books, no. 22). See also Alexander Begg, *History of the North-West* (Toronto, 1894-95), vol. III, pp. 31-46. Begg's statement that the Dominion "looked calmly on while Ontario and Manitoba struggled for possession" (p. 46) is hardly correct.

thing which Tilley in 1882 had declared could not be scaled up because of constitutional obstacles, was to be raised so that the same per capita rate given on an assumed population of 17,000 would now be given on an assumed population of 150,000.¹² This meant an addition of approximately \$181,000 to the annual revenue which the province would receive from the Dominion. Manitoba was, besides, to be given all its swamp lands; and 150,000 acres of other land were to be set aside as an endowment for the University of Manitoba. However, the federal government made a significant reservation. "These very liberal propositions" were to be submitted to parliament only if they were accepted by the provincial legislature as a final settlement.¹³

The new terms were at once brought before the legislature, and they were received with a hostility which was quite unexpected. The obvious target for attack was the so-called "finality clause." Was Manitoba to barter away its right to bring its grievances before the federal government for the sake of some \$180,000 a year? With this as a theme the most impassioned speeches were delivered; and Norquay, fearful that the proposed settlement would be rejected by the legislature, made a bold decision. The tempting financial terms were refused. By this step the thunder of his critics was stolen. Nobody could now allege that his administration was subservient to Sir John A. Macdonald. Nobody could make it appear that he was less solicitous of the interests of Manitoba than was Greenway, the leader of the opposition.

Sir John was in close touch with the province through Lieutenant-Governor Aikins; and as soon as the Manitoba legislature had acted, Aikins wrote explaining the situation. It was his belief that:

Norquay could not get the House to accept them [the terms] as they are. Had he made the attempt, he would surely have been defeated. . . . I can well understand the desire on your part to put an end to the persistent appeals from the Province for financial aid.

¹² Exactly what this meant was later in dispute.

¹³ *J. of A., Man., 1884, app., p. 180.*

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Notwithstanding this I think it a pity that such a condition as the finality clause was attached. . . .¹⁴

This opinion Sir John refused to accept, and he penned a vigorous reply:

You say that Norquay would have been defeated if he had pressed for acceptance of the "better terms." I think he made a great mistake in not pressing them and voting for them. A defeat would have had no disastrous effect on his Ministry as it could in no way be considered as a vote of want of confidence in them. I think too the Legislature made a great mistake. If it had been asked to abandon any legal rights it might have been different, but no one of Manitoba's demands are [*sic*] legal in the sense that they would be enforced before a legal tribunal. . . . The government here took all this into consideration and took the responsibility of agreeing to ask Parliament for these better terms as being highly expedient and not as being legally due Manitoba. This was done first for the purpose of relieving Manitoba, and then for peace' sake. It is obvious that Parliament will not sanction favours (not rights) being granted, if there is still to be a pressure and an agitation whenever a demagogue like Greenway chooses to get up a cry and a Ministry is in power afraid of the effects of such a cry. Depend upon it Parliament won't agree to this. In 1869 when Parliament granted "better terms" to Nova Scotia, Blake moved that they should be in full of all demands and you will find a clause to that effect in the Statutes of 1869, page 18. Last session here British Columbia was granted better terms and acts were passed here and in Victoria accepting them in full. I don't think Nova Scotia has suffered from the provision and British Columbia was not a bit afraid that she would suffer. As matters now stand our offers for the sake of peace have been rejected and therefore do not exist and may never be repeated. At all events everything is thrown over for a year. . . .¹⁵

¹⁴ Macdonald Papers, Provincial Affairs, Manitoba, letter of May 30, 1884.

¹⁵ Macdonald Letter-Books, no. 22, letter of June 1, 1884. In a later letter, July 28, 1884, Sir John wrote Aikins that he should press upon his minister the need of "agreeing to the liberal terms offered by the government here. Never was such folly as the refusal of those terms."

A letter from Aikins to Sir John, July 13, 1884, gives an interesting sidelight on the prevalent discontent. "A good crop will do more to allay the petulant feeling that exists than any concessions you could make to the provincial government. The disappointed speculators are largely at the bottom of the loud-mouthed talking there has been here" (Macdonald Papers, Provincial Affairs, Manitoba).

Despite this rebuke, Norquay did not sense the growing irritation of the federal government at his begging expeditions. But when he arrived at Ottawa once more, he got a cool reception. The sub-committee of the cabinet which met him was positively bellicose. Upon what grounds, it asked, did Manitoba demand unconditional control of its natural resources? Had not the Dominion purchased the Northwest from the Hudson's Bay Company? Had it not incurred a heavy expenditure to secure and to settle this area? And what could the provincial government of Manitoba do, if it had the natural resources, that the federal government was not already doing? In this manner every complaint of Manitoba was dissected. Clearly the sub-committee was attempting to out-Herod Herod by adopting a mode of argument even more injudicious than that of the provincial government.¹⁶

For two weeks after this first meeting Norquay was left to cool his heels at Ottawa. Faced by an uncompromising attitude on the part of the federal cabinet, he must have felt that his strategy of defiance was proving to be singularly ineffective. At last Sir John relented. Norquay was given a new set of concessions; but, as before, these concessions were to be made only if Manitoba accepted them "as a settlement of all questions in discussion" between the province and the Dominion.¹⁷

The difference between the first and the second arrangement was principally a difference in form. The subsidy in lieu of lands, amounting to \$45,000 a year, had not been touched by the first scheme; but now it was raised to \$100,000 a year, an increase of \$55,000. On the other hand, the debt allowance was now to be calculated — at \$32.44 per capita — on an assumed population of 125,000 rather than 150,000. This amounted to a decrease of \$811,000, and it meant that receipt of interest from the Dominion would be less by \$40,550 than under the previous proposal. The net financial gain was, therefore, only \$14,450 a year.

When the new scheme became known, Norquay's opponents, temporarily silenced by his gesture of defiance, took up the old

¹⁶ *J. of A., Man., 1885, app., p. 27.*

¹⁷ *Ibid., p. 38.*

line of attack with redoubled vigor. He was denounced roundly for his "humiliating surrender to the federal authorities," for his "betrayal of his Province." He was not, however, the man to remain passive under attack, and on presenting the new agreement to the legislature (March 25, 1885) he made a powerful appeal for its acceptance. Previous concessions made by the Dominion had been, he declared, merely acts of charity, but this time Manitoba was at last placed upon an "equality" with its sister provinces. The grant of \$100,000 a year in lieu of lands was, he thought, exceptionally favorable. If the Dominion had granted the precise request made of it and had turned over the public domain not yet alienated, the provincial government could not have expected to draw any such sum from its disposition. It was certainly true that some of the demands made by the province had been denied; but these were, Norquay discovered, in no sense vital. Disallowance was a "bug-bear of the agitators,"¹⁸ and its importance had been greatly exaggerated. What railways in Manitoba were today unbuilt because of it? If the legislature really wished to forward railway construction, the practical course to take would be to accept the settlement, because its generous financial terms would make possible a progressive program of grants-in-aid.

In this manner Norquay defended the new terms. Of course, the opposition in the legislature was not converted. But, after a stormy sitting, it was voted down, and the agreement was ratified. The *Winnipeg Times*, the principal newspaper which gave support to Norquay, now hoped for peace; and it made a suggestion to this end:

We can now turn to the consideration of our material interests and bend our energies to their advancement in every way possible. Let all the people throughout the province settle down to a rational state of

¹⁸ Not Norquay, but an editorial in the *Winnipeg Times*, Feb. 25, 1885. The point was that many of the railway schemes, which were checked by federal disallowance of their charters, were outright speculations. Their sponsors brought them forward, not because they intended to build lines to the United States border, but merely so that they could be sold later for their nuisance value. See *Free Press*, May 29, 1883, report of a speech by E. P. Leacock.

mind, give over the folly of conventions and unions and apply ourselves to raising No. 1 hard.¹⁹

Judged on fiscal grounds, it might seem that Norquay had scored a real success; and certainly the federal government felt most emphatically that the new terms were exceedingly generous. Manitoba now drew \$441,400 a year from the federal treasury,²⁰ and, on a per capita basis, this was much more than any other province. But Norquay got no credit for his achievement, and the federal government got none for its generosity. The explanation is simple. Agitation had become a settled policy in the province and went forward from its own weight. The people were not content to apply themselves "to raising No. 1 hard." The functions of farming and of speculating were indissolubly combined, and speculation both lived upon and created an atmosphere of excitement. Under these circumstances the opponents of the government were fortunately situated. Unencumbered by responsibilities, they could meet the wishes of the electors by advocating extreme policies; and the government, in self-defense, was soon forced into new agitation and new promises.

Another reason why the grant of "better terms" failed to purchase peace for the Dominion was the "finality clause." Some

¹⁹ Editorial, Mar. 28, 1885.

²⁰ The \$441,400 was divided as follows: subsidy in lieu of lands, \$100,000; grant for government, \$50,000; interest on debt allowance, \$171,400; per capita subsidy, \$120,000. The interest received on debt allowance requires some explanation. By the general adjustment of 1884 the sum of \$110,800 was added to the net balance of \$203,900 which Manitoba then had, raising its total to \$314,700. By the 1885-86 revision (Dom. Stat., 1885-86, c. 50; 1886, c. 9) the previous basis was wiped out. A substitute allowance, calculated at the rate of \$32.43 per capita, amounted to \$4,054,700. From this, however, a deduction was made, because of previous advances allowed the provincial government, leaving a net debt allowance of \$3,311,900 on July 1, 1885.

Another important concession, which concerned the manner of calculating the 80-cent subsidy, was made in 1885. The rule was for this subsidy to be based upon population as shown by each decennial census. But for Manitoba a quinquennial census was to be taken, an estimate of population was to be made midway between each census, and payment was to be based upon population as found on each of these occasions. The justification for this special treatment was that, for a province which was increasing rapidly in population, a decennial basis was unfair. It should be noticed that actual population had never been used in previous calculations of the subsidies due to Manitoba.

sceptics warned that Manitoba was being bound with ropes of sand.²¹ But even they must have been astonished by the sequel. Not only did the "finality clause" fail to check agitation; it was itself a most effective inspiration of new assaults upon the Dominion. In later years the clause was held up to view as a peculiar humiliation put upon Manitoba during its infancy.²² There can be no question as to the polemical effectiveness of this sort of description, but it involved clear misrepresentation. If Manitoba was humiliated, if the finality clause in any way restricted its demands upon the federal government, the evidence has not been disclosed. Not one of the major grievances presented by the provincial government in 1884 was excluded from later controversy.

For the next decade financial demands did not occupy a prominent place in disputes between Manitoba and the Dominion. Late in 1886 Norquay went to the people for reflection and was successfully returned, although with a reduced majority. It can be asserted that there was popular endorsement of Norquay's success in getting "better terms." But the new weapon which the opposition used more and more to belabor the government was disallowance, and Norquay was soon forced into a hopeless contest with the Dominion which was directly responsible for his downfall.

This graphic story can only be summarized here. In July 1887, after the Dominion had disallowed several railway charters granted by Manitoba, Norquay began construction of the so-called Red River Valley line — which had been disallowed — as a provincial work. The Canadian Pacific Railway re-

²¹ From the letter quoted above it can be seen that Sir John A. Macdonald did not take the clause literally. During the debate in the House of Commons he made some ambiguous remarks about the finality clause and he refused to state just what were the questions now declared to be settled. By way of illustration, however, he did say that there was finality with respect to the swamp lands dispute (C.D., 1885, p. 2783). Even this cautious and apparently safe prediction was, of course, falsified by later events.

²² See Martin, *The Natural Resources Question*, p. 87. "Increased subsidy of \$100,000 in 1885 was made contingent upon 'finality clause' which has left a sense of humiliation deeper even than 'disallowance' and 'the monopoly clause' of the C.P.R. upon the political traditions of the province." It is to be noted that the increase of subsidy is here understated by approximately \$95,000.

garded this as "an act of undisguised hostility,"²³ and it prepared for a fight. Van Horne, on a visit to Winnipeg, declared that he would "teach those Red River fellows some tricks,"²⁴ and he proceeded to obstruct construction of the provincial line in every possible way. A much more serious check upon the provincial government was its inability to float bonds to finance its project. Finally, late in November, irregularities in the government accounts were disclosed, and Norquay had to resign. Early in 1888 the Liberals led by Greenway took office.

What can be said, in summary, about federal subsidy policy toward Manitoba during these first sixteen years? That it was bungling beyond all excuse and that it generated an unfortunate attitude in the province is clear beyond dispute. But if any injury was inflicted upon Manitoba by the federal government, deficient subsidies were not a cause, and larger subsidies would not have been a remedy.²⁵ The whole myth that, in the matter of financial terms, Manitoba has been the Cinderella of confederation is inherently unreasonable. John Norquay, premier from 1878 to 1887, was a supporter of Sir John A. Macdonald, and it was not part of the policy of Sir John to discriminate in this way against provincial governments which were his friends.

²³ *J. of A., Man.*, 1887, p. 65.

²⁴ *Free Press*, Aug. 18, 1887.

²⁵ The following approximate figures of per capita subsidies show that Manitoba received more, relatively, from the federal treasury than any other province except British Columbia.

	1871	1882	1886
Manitoba	\$5.50	\$3.04	\$4.12
Ontario	.64	.61	.67
Nova Scotia	1.21	.85	.97
British Columbia	5.96	3.70	2.90

Too great emphasis should not be put upon these figures, because they are not strictly comparable. Part of what Manitoba received, even before there was explicit avowal, was in lieu of natural resources, and for this doubtless some deduction should be made. There is, however, no feasible method by which this can be done. Another alternative might seem to be to add to the subsidies which the other provinces received from the Dominion the sums which they derived as revenue from their natural resources. A fair sample of the results which might thus be obtained are the following figures for 1885-86. In that year British Columbia secured \$1.97, New Brunswick \$46, Nova Scotia \$31 per capita as revenue from public domain. For Manitoba the subsidy in lieu of land of \$100,000 represented \$.93 per capita. But against this method also obvious objections can be urged.

PACIFICATION OF BRITISH COLUMBIA

The generous financial terms given to British Columbia, and the promise of a Pacific railway had more than satisfied the people of the province. Indeed, their enthusiasm had been so aroused and their imagination so inflamed that no thought was taken about the difficulties which might hinder fulfilment of this promise. There was to be a rude awakening.

For the twelve years after 1870 the Pacific railway was to be the major issue in British Columbia. The Dominion had undertaken, by Clause 11 of the act of union, to begin this line within two years and to complete it within ten. To be sure, the government of Sir John A. Macdonald had declared that the time limit of ten years meant only "as soon as possible"²⁶ and that, whatever aid was given the railway, there would be no increase in taxation. But these qualifications were not included in the act of union, and the provincial government could demand fulfilment of the letter of the contract.

In 1873, when the Mackenzie government came into office at Ottawa, a portion of the promise had been broken, since construction of the Pacific railway had not been begun. Already British Columbia was apprehensive, and the apprehension was increased by the knowledge that the bulk of the Liberal party was opposed to the project of a Pacific railway. Questions were asked, evasive answers were given, and soon the governments at Ottawa and at Victoria were engaged in wordy war. The aim of the Dominion prime minister, Alexander Mackenzie, was to secure some modification of Clause 11. The aim of the provincial government was to force the Dominion to complete the Pacific railway as soon as possible. The quarrel was complicated by the interference of Lord Carnarvon, the colonial secretary, and Lord Dufferin, the governor-general, as well as by the lack of unity of the Liberal party. Mackenzie made a sincere effort to secure a compromise settlement, but with no success.

²⁶ Scholefield and Howay, *British Columbia*, II, 363.

Work on the railway went forward haltingly, until in 1878 Sir John A. Macdonald again became prime minister.²⁷

Meanwhile, the provincial government of British Columbia had been making heavy financial weather. It had received generous subsidies from the Dominion; but it spent lavishly, and deficits were continuous. Instead of curtailing expenditure, it preferred to gamble upon the advent of good times with construction of the Pacific railway, and to keep itself afloat by borrowing and by drawing upon its debt credit at Ottawa. Naturally enough, it could not borrow on easy terms. In 1877 its debentures sold to yield 6¼ per cent and in 1878 to yield 7 per cent.

One of the extravagances of the provincial government led to another important dispute with the Dominion. By Clause 12 of the terms of union the Dominion had undertaken to guarantee for ten years the interest on a loan not exceeding £100,000 to be used by the provincial government for construction of a graving dock at Esquimault. This assistance proved to be insufficient to secure construction of the dock, and in 1873 the provincial government asked, in lieu of the guarantee, that the Dominion should make it "advances" of £50,000. This promise was given. But it soon appeared that there had been a complete misunderstanding as to the meaning of the word "advances." The Dominion meant that the advances were merely temporary loans which would later be charged against the debt credit of British Columbia; the provincial government meant the advances to be outright gifts.²⁸ The quarrel over this dragged on during the whole term of office of the Mackenzie government. Then in 1880 Sir John A. Macdonald yielded. British Columbia was given an outright grant of \$250,000 toward construction of the Esquimault dock. Even then the provincial government was unable to carry the work to completion. Every phase of construction was bungled, and again the Dominion came to the rescue.

In 1884, after the Canadian Pacific Railway had been com-

²⁷ See Maxwell, "Lord Dufferin," *C.H.R.*, December 1931.

²⁸ *S.P., B.C.*, 1877, pp. 359-372.

pleted, the long-standing disputes between British Columbia and the Dominion were settled by an agreement in which both sides made concessions.²⁹ On the one hand, the Dominion agreed to take over, complete, and operate the Esquimault dock, and to give a subsidy of \$750,000 in aid of a railroad to run from Nanaimo to Esquimault.³⁰ On the other hand, British Columbia agreed to drop all claims which it might have because the Pacific railway had not been completed within the time limit set by the act of union. It also agreed to turn over to the Dominion a block of three and a half million acres of land in the Peace River district. It had, of course, originally promised to cede a belt of land stretching for twenty miles on either side of the railway. The new grant was to compensate for deficiencies in that grant.³¹ In conclusion, both the province and the Dominion subscribed to a finality clause which declared that this agreement was "in full of all claims up to this date" which each had against the other.

It seems clear that both sides, and certainly the provincial government, had cause for satisfaction with the settlement. The opposition in British Columbia tried to create a different impression. It declared that this time the Dominion had won, rather than conceded, better terms; and in the next elections it made the "give-away" policy of the provincial government a main issue. But the electors refused to rise to this bait, and the

²⁹ Dom. Stat., 1884, c. 6. The settlement was virtually made in 1883, but the provincial government misinterpreted its terms and passed a bill which was unacceptable to the Dominion. There is some evidence that the misinterpretation was not altogether unintentional and that the provincial government hoped to get the Dominion to promise too much. Certainly Sir John thought that Smithe, the premier of British Columbia, was guilty of "uncandid" behavior (Macdonald Letter-Books, no. 22, letter to Trutch, May 29, 1883).

³⁰ When the Pacific railway was first projected, the expectation was that the western terminus would be Esquimault; and the Macdonald government in 1873 had so declared. When later Burrard Inlet was made the terminus, the people of Vancouver Island were aggrieved, and the provincial government of British Columbia pretended that the Dominion ought at least to build the so-called Island railway from Nanaimo to Esquimault. It was to quiet this claim that the subsidy of \$750,000 was given in 1884.

³¹ The first plan was that the railway should cross the Rockies via the Yellow-head Pass, but finally the Kicking Horse Pass was chosen, and this necessitated a relocation of the belt. To this the provincial government now agreed.

Smithe government gained a decisive victory. For years thereafter there was no discussion of the settlement of 1884 in provincial politics.⁸²

⁸² It appears, however, that Smithe had some fears that the tactics of the opposition might be effective, and in the spring of 1884 he tried to show that he was not behindhand in making demands on the Dominion. His complaints got little attention, and finally he charged the Dominion with a "breach of faith" because it had not begun work on the Esquimault dock (Macdonald Papers, Provincial Affairs, B.C., 2, letter of June 11, 1884, Smithe to Macdonald). Sir John lost his temper and wrote a hot reply. Smithe's language was, he declared, "altogether inexcusable." "With respect to the dry dock at Esquimault the course of the Dominion has been liberal in the highest degree. . . . To all appearances the dock would never have been finished had it not been that the Dominion bought it from the Province and agreed to pay all the provincial expenditure (some of which was mere waste) and finish it at Dominion expense." Smithe should learn to "exercise a little patience and not expect impossibilities." Sir John ended his vigorous letter as follows: "You [Smithe] may perhaps think that I use rather strong language in this letter, but you must remember that a charge of breach of faith against a government is equivalent to telling a man that he is a liar" (Macdonald Letter-Books, no. 22).

CHAPTER VII

THE PROVINCIAL CONFERENCE OF 1887

THE SETTING

IN THE 1880's the achievements of confederation seemed to many to be singularly slight. The prosperity so confidently predicted in 1867 had not materialized. At first, to be sure, there had been noteworthy progress. The census of 1881 showed that the population of the Dominion had increased by 17 per cent in a decade. But thereafter growth slackened. Population in the Maritimes remained virtually stationary, and in Ontario and Quebec it increased less than 1 per cent a year. In 1878 a protective system had been erected. But industrial growth had not followed, and critics alleged that the National Policy had worked merely to the benefit of a few manufacturers who produced inferior products and who paid disgracefully low wages. The Intercolonial railway had been completed at a cost far in excess of all estimates, and it was piling up annual deficits, which the federal treasury had to stand. The Canadian Pacific Railway might, perhaps, be listed as a real accomplishment; but few people at this time saw its significance for national development, and many saw the strain which it put upon the federal treasury. Throughout the 1880's the governments of every province, excepting Ontario, were financially embarrassed, and in 1884 even Ontario had a deficit.

To the Liberals it seemed that Sir John A. Macdonald had won power from them, and proposed to keep it, by making politics a game without rules. In this game subsidies were a most useful instrument. When for any reason a province grew restive and threatened to vote against Sir John, then a discreet grant of better terms would be made, and the province would fall in line. This was, the Liberals asserted, nothing short of bribery; and it was, besides, an infringement of the constitution itself, because the subsidy terms were there declared to be a "final settlement." Such tactics were, they believed, bound in the long run

to be disruptive of union. Province would be set against province, sectional jealousies would be aroused, and ultimately secession would result.

No one can doubt that the Liberal analysis had some cogency. At certain federal elections Sir John was saved by the "shreds and patches" of the Dominion, where the candidates did not pretend "to be actuated by any principle save that of securing a good slice of booty for themselves and the sections or constituencies which they respectively serve."¹ And certainly the *Globe* was right when it declared that repeated grants of better terms were a "bribe to restiveness"² and a violation of the wholesome maxim that the political body which spends money should have the responsibility of raising it. But the Liberal leaders expressed their opinions with a doctrinaire rigidity which left no room for reasonable compromise, and with an Ontario slant which gave offense to the other provinces. Blake, Mackenzie, Cartwright, were all Ontario men. They never appreciated that the doctrines of Ontario Liberalism, modeled in the clear Grit tradition, were wholly unadaptable to federal politics. Moreover, the rudeness of these men to the other provinces was both unnecessary and inexcusable. Only one example will be given. In 1880 Blake made a speech in which he calculated the expense which the various provinces put upon the federal government and declared that none of the smaller provinces paid their way. "Ontario," he concluded, "settles the balance. That province asks no special advantages. She claims no special favours."³ It was this sort of thing which made the opportunist tactics of Sir John A. Macdonald and Sir Charles Tupper successful.

MERCIER, MOWAT, AND THE CONFERENCE

Until 1887 the hold of the Conservatives on Quebec had been complete. Except for the brief tenure of Henri de Lotbinière in 1878-1879, the provincial government had been Conserva-

¹ These words were written by Cartwright during the election campaign of 1891. They were quoted in C.D., 1891, p. 14.

² Apr. 16, 1884.

³ C.D., 1880, p. 1467.

tive, and the premiers had been close political friends of Sir John A. Macdonald, asking for and taking his advice without being in the least agitated over the question of provincial rights. After the death of Sir George Cartier, Sir John had been given some anxious moments by the jealous bickering of rival aspirants to leadership of the party in Quebec. But he had retained his hold. The people of Quebec trusted him, the friend of Cartier, as instinctively as they suspected Blake and Mackenzie, the friends of George Brown.

This undisputed ascendancy of the Conservatives was broken in 1885 by the execution of Louis Riel. This time Sir John was unable to satisfy both the Orangemen of Ontario and the French-Canadians of Quebec. And the man who roused Quebec against the Conservative party was Honoré Mercier. In 1887 he became premier, and the policies which he pursued were not such as to allow Conservative hatred of him to be allayed.

Mercier was hardly in office before he invited the premiers of all the provinces to join with him in a conference at Quebec. His letter of invitation mentioned two questions for discussion: (1) provincial autonomy, and (2) federal subsidies to the provinces. Something should be done, Mercier thought, to check the centralizing bias of the federal government and to remedy "the inadequacy and injustice of the financial arrangements" made at confederation.⁴ The response was gratifying. Mowat for Ontario, Fielding for Nova Scotia, Blair for New Brunswick, Norquay for Manitoba accepted promptly. Premier Sullivan of Prince Edward Island and Premier Davie of British Columbia held aloof. But with 90 per cent of the population of the Dominion represented, Mercier could be satisfied. He had, indeed, received one marked rebuff. Sir John A. Macdonald, when invited to be present, had declined in a manner which left no room for doubt that he disapproved both of Mercier and of his conference.

The idea of a conference was shrewdly devised. There was no shortage of grievances against the federal government in any of the provinces. In Nova Scotia the policy of secession had

⁴S.P., Ont., 1887, no. 51, p. 2.

just been advocated by the government and endorsed by the electors. In New Brunswick and Prince Edward Island the governments were desperately hard up, and the people were believed to be hostile to the National Policy. British Columbia had always been at odds with the government at Ottawa. In Manitoba Premier Norquay had rebelled. The great province of Ontario was ruled by "that little tyrant," Oliver Mowat, and he could be depended upon to fight the federal government.

The conference met on October 20, 1887. Mercier, in an opening speech to the delegates, took a conciliatory and moderate tone. This meeting was, he suggested, a natural successor to the historic conference at Quebec in 1864. Then the basis of confederation was formulated; now, after twenty years of union, the object was to find remedies for the defects which experience had uncovered. Oliver Mowat was elected chairman, and after deliberating in secret for a week, the conference drew up and passed by a unanimous vote no less than twenty-two resolutions. Broadly speaking, these resolutions proposed changes of two sorts: (1) constitutional reforms, and (2) a grant of better terms. The constitutional reforms — abolition of the federal power of disallowance, Senate reform, et cetera — were sponsored by Mowat.⁵ The other premiers regarded them with indifference. On the other hand, Mowat was not, and the other premiers were, interested in better terms. This conflict in opinion was reconciled in a manner which has become traditional. Mowat agreed to the subsidy scheme on condition that the other premiers accept his constitutional proposals.⁶

The seventeenth resolution of the conference dealt with the subsidy question, and it was at a later date to be of great importance. The resolution set forth, first of all, the justification for larger subsidies. Two reasons were advanced: (1) that the provincial governments were in serious need of additional revenue; and (2) that the Dominion had ample revenues to relieve this need, since its income had expanded faster than its pay-

⁵ Manitoba was, to be sure, interested in disallowance, and Quebec in a few other resolutions.

⁶ See S.P., Ont., 1887, no. 51, p. 3.

ments of subsidies to the provincial governments. Surely this was a reduction of the argument for better terms to its simplest and most naked form; but equally surely did this argument destroy the pretense that this conference was a successor to the conference of 1864. The view that an increased provincial expenditure and increased federal revenues should justify larger subsidies was wholly repugnant to the opinions of the framers of the constitution. It was, besides, wholly out of line with orthodox Liberal opinion in 1887, and yet the delegation at the 1887 conference was predominantly Liberal.

This paradoxical situation can be made explicit by considering the case of Oliver Mowat and the *Toronto Globe*. Mowat had been a delegate to the conference of 1864, he was an orthodox Liberal, and he was from Ontario. The *Globe*, still the leading Liberal newspaper, had always used its sharpest invective to condemn grants of better terms. Why did Mowat and the *Globe* now capitulate? One reason has already been given: in order to gain the consent of the conference to the resolutions which dealt with constitutional questions, Mowat was willing to assent to larger subsidies. There was another reason for the capitulation which was still less high-minded. In past raids upon the federal treasury Ontario had not received its share of the booty. If, as seemed probable, there was to be another raid, Ontario should secure a portion. In the words of the *Globe*: "That she who pays the greater part of the Dominion revenue should be forced to see the money paid by her people distributed among others and herself receive no addition to the revenue assigned to her by the British North America Act was always felt to be unfair. It has become intolerable." The wise plan would be to get a complete revision of the subsidies and to provide that, thereafter, further grants of better terms should "be rendered absolutely impossible."¹

The subsidy revision propounded in 1887 need only be summarized at this point, because it was later the basis of legislation. In the first place, the so-called grants for governments and legislatures were to be more than trebled. In the second place,

¹ *Globe*, July 14, 15, 1887.

the limitations upon the number of the population upon which the subsidy of 80 cents per capita was to be paid were lifted. For the future, payment of 80 cents was to be upon actual population as disclosed by the census, until population of a province was in excess of 2,500,000, and at the rate of 60 cents on the excess. This provision would have occasioned an immediate increase of 18 per cent in subsidies. The total immediate increase would have averaged about 40 per cent. The conference expressed the opinion that this revision ought to be "final and absolute and not within the power of the federal parliament to alter, add to or vary."⁸

THE RESPONSE OF SIR JOHN A. MACDONALD

The 1887 resolutions were accepted by the legislatures of all the provinces represented at the conference, and it might have been expected that they would become a significant political issue. That they did not, must be attributed to the tactics of Sir John A. Macdonald. From the beginning he saw that the conference might be a threat to his government, and he set himself to discredit it. He refused to attend its meetings; he refused even to give Mercier a private interview in which to discuss the conference;⁹ and he saw to it that no province which would accept his advice was represented by a delegation. Ontario, Quebec, Nova Scotia, New Brunswick, and Manitoba were out of his control, but Prince Edward Island and British Columbia were not. Premier Sullivan, in the former province, was a stalwart Conservative, and he readily promised to stay away from Quebec. British Columbia proved equally amenable. Late in September 1887 John Robson, the provincial secretary, came to Ottawa on provincial business, and Premier A. E. B. Davie wrote to Sir John as follows:

[Robson] will be guided by you as to the advisability of attending the meeting [at Quebec]. We have discussed the [Mercier] telegram and fear that the real object of the meeting will be anti-Do-

⁸ *Provincial Conferences, 1887-1913* (Ottawa, Parliamentary Library), p. 37.

⁹ Pope, *Correspondence*, pp. 399-401.

minion, in which event, so far as we are concerned, it will be left severely alone.¹⁰

Sir John could not but be pleased at this evidence of friendliness, and before passing on the letter to his minister of the interior he wrote on the back: "Robson is coming in the right spirit, it appears from this note, and should be cultivated."

The aim of Sir John was to brand the conference as partisan. It could then be treated by him simply as a scheme of the Liberals. Opposition to it would become a party duty. This strategy was entirely successful. When some of the provinces did not send representatives to Quebec, the attempt by Mercier to draw an analogy between his conference and that of 1864 was defeated. The Conservative press all over the Dominion ridiculed the conference, and the Conservative members of the provincial legislatures declared its resolutions to be the result of a deal between the Ontario Grits and the Quebec Rouges.¹¹ The only thing that might have saved the resolutions from becoming innocuous would have been their endorsement by the leading Liberals in federal politics. But this was not given. Blake and Cartwright had denounced better terms too often and too vigorously to be able to champion proposals which sanctioned them. As a result the resolutions of 1887 had the stigma of partisanship put upon them without gaining the support of the partisans to whom they were credited. And when in 1891 the meteoric career of Mercier was abruptly terminated by the revelation of corruption within his executive council, the conference of 1887 was, for a time, completely forgotten.

¹⁰ Macdonald Papers, Provincial Affairs, B.C., 1884-87.

¹¹ See, e.g., D. of A., N.B., 1888, pp. 43-49.

CHAPTER VIII

LIBERAL POLICY ABOUT BETTER TERMS

INTRODUCTION

IN 1891 the death of Sir John A. Macdonald removed from Canadian politics its dominant figure. During the last years his party had been held in power chiefly by his personal prestige. Province after province was captured by the Liberals, and in 1891 only British Columbia had a government which was willing to take orders from Ottawa. This shift had led to an important change in tactics. When a provincial government was headed by his supporters, Sir John was content to make an occasional grant of better terms as a token of his present friendship and as a bond for the future. But it was no part of his policy to give financial favors to his opponents, and therefore after 1886 requests for better terms were in the main coldly received. If federal money was to be spent for purposes which might secure political credit, it should, Sir John believed, be controlled by federal officials and not handed over to hostile provincial governments. It was, for example, better to build an addition to the Intercolonial railway in Nova Scotia than to enlarge the subsidies of the Fielding government.

On the other hand, the leaders of the Liberal party were not willing to take up the weapon which Sir John had abandoned. Instead, they attacked his government on other issues. In particular, they pointed to the deplorable instances of lax federal administration and of outright corruption which touched even members of the Dominion cabinet. It seemed for a time that these attacks were to be successful and that the Liberals would ride into power in 1891 as they had in 1873. But the disclosure of scandals in Quebec showed that "boodling" was not confined to one party, and it left the people with no surety that, by their votes, they could punish corruption and reward virtue. Sir John

reorganized his cabinet, made a personal appeal to the people, and for one last time was able to win through.¹

For the next five years subsidy agitation did not revive. The leadership of the government was discontinuous, and, besides, the Manitoba school question pushed all other issues to one side. But when in 1896 the Liberals gained office at Ottawa, it was certain that the demand for better terms would soon be raised.

MINOR GRANTS OF BETTER TERMS

NOVA SCOTIA

Although the threat of secession in 1886 failed to frighten the federal government into granting better terms to Nova Scotia, Fielding had little difficulty in keeping his government in office.² For some years the fiscal situation of the province was troublesome, but after 1890 a remarkable expansion of the coal industry in Cape Breton brought a growing revenue to the provincial treasury. Then in 1896 Fielding became minister of finance in the Laurier cabinet. At once certain claims upon the Dominion, which he had made while premier of Nova Scotia, rose to confront him.

The most important of these claims had to do with the so-called Eastern Extension railway, running from New Glasgow to the Strait of Canso. In 1883 the provincial government had acquired this line by purchase, expecting either to be able to sell it to the Dominion or else to receive as a gift from the Dominion the so-called Pictou branch, running from New Glasgow to Truro. At first both plans stalled, greatly to the embarrassment of the provincial government. But at last in 1884 it sold the Eastern Extension to the Dominion at a price practically equal to that which it had paid some months earlier.³ The pro-

¹ The Letter-Books of Sir John disclose his worries. See in particular the letters of Dec. 26, 1890, and Jan. 19, 1891, to A. R. Angers.

² In 1888 Nova Scotia received a refund of \$72,000 from the federal government for expenditure which it had made on piers and wharves. This claim grew out of a similar claim in Prince Edward Island, which has been explained.

³ J. of A., N.S., 1884, app. 11; 1885, app. 14.

vincial government, however, had previously given subsidies to private contractors, amounting to \$611,700, in aid of construction of the line, and it soon decided that the Dominion ought to refund these to it.

For more than a decade this claim got no attention at Ottawa. But after Fielding became finance minister, his old colleagues in Nova Scotia expected him to secure them a favorable settlement. This he did. The Dominion submitted the claim to arbitrators, and they, in 1901, brought down an award which gave the provincial government not only the \$611,700 paid by it as subsidies, but also an additional \$60,100 which had been paid to settle a lawsuit with a contractor.⁴

It might, perhaps, be supposed that an award made by a board of arbitrators would be judicial in character, and that it ought not to be classed as better terms. Any such supposition would be a mistake, because the arbitration was a pretense. On legal grounds the provincial government had no semblance of a case. It had, therefore, to base its argument on grounds of equity, and to allege that in 1884 it had sold its line to the Dominion under coercion. But this allegation was incorrect. It is true that the Dominion had put the provincial government in an awkward position when it raised legalistic objections to ceding the Pictou branch. But it is also true that the provincial government was eager to have the Eastern Extension joined to the Intercolonial. And when the sale of the line to the Dominion was brought before the House of Assembly for ratification, Premier Pipes, instead of talking of coercion, had declared the transaction to be satisfactory.⁵ The provincial government had no reason to expect a refund of subsidies which it had gladly paid to secure construction of the railway. One must, therefore, conclude that the award of the arbitrators — which the Dominion accepted — was dictated by political expediency. It was a grant of better terms.

⁴This was a clear windfall. Discussion in the provincial legislature as late as 1896 shows that there was no expectation of a refund of this sum.

⁵D. of A., N.S., 1884, p. 134.

NEW BRUNSWICK

In New Brunswick the Blair government continued in fiscal difficulty. After 1892 it found a few new sources of revenue, but the balance between income and outgo remained precarious. When, therefore, Blair became minister of railways in the Laurier cabinet, his former colleagues in New Brunswick expected him to do them a good turn by seeing that some of the claims of his province got attention at Ottawa.

The claim urged most tenaciously by New Brunswick was one which supposedly had been settled in 1884. The Dominion had then paid \$150,000 as a refund of expenditure made by the provincial government on the Eastern Extension railway. But this had only served to raise a new claim. The provincial government argued that the payment was a plain acknowledgment by the Dominion that the claim was just. If it was just in 1884, it was equally just, and should have been paid, in 1869. The conclusion drawn was that the Dominion ought to place the government of New Brunswick "in the same pecuniary position it would have occupied, had the full payment been made at the time the road was taken over by Canada."⁶ If, in 1869, the \$150,000 had been added to the debt credit of New Brunswick, half-yearly interest on this sum at the rate of 5 per cent — i.e., \$3,750 — would have been paid by the federal treasury. The provincial government therefore asked for the arrears which had accumulated in this way, and it maintained that interest at 5 per cent on these arrears was also due.

The claim was obviously of the most flimsy sort. It would never have been raised if in 1884 the Dominion had not used a preposterous method in scaling up provincial debt allowances. This method suggested to the provincial government that it might make a parallel calculation. The fact that the method was utterly arbitrary, and that it rested upon no more substantial basis than the intention to give better terms, did not deter the provincial government.

For a number of years this claim was ignored. But Blair, like

⁶ *J. of A., N.B.*, 1885, app., p. 134.

Fielding in a similar case, felt the necessity of appeasing his friends; and in 1900 the Dominion agreed to submit the claim to arbitrators. Their decision was to be made, not "according to the strict rules of law or evidence, but . . . upon equitable principles";⁷ and these led them to make a very generous award. The provincial government was given a total of \$275,600 as arrears of interest on the \$150,000 and as interest on the interest.

There cannot be the slightest doubt that this was a grant of better terms, given as a political favor. The government of New Brunswick obtained more than it had dared to hope. Pugsley, the attorney-general, had not expected an award in excess of \$110,000. But, as he jubilantly explained, there was a banker on the board of arbitration, and bankers were "great people for interest."⁸

PRINCE EDWARD ISLAND

In 1889, N. McLeod succeeded W. W. Sullivan as premier. His government fell upon evil days. Scandals were uncovered, the budget was out of balance, the Dominion would no longer grant financial concessions; and in 1891 the Liberals came into office. The new government imposed some new taxation, but after 1896 it hoped to get relief from its fiscal difficulties through better terms. All the old claims were resurrected, and L. H. Davies, who had once been premier of the Island, and who was now in the federal cabinet, recommended them to the "favourable consideration" of his colleagues.⁹

In 1901 something was given. An additional annual subsidy of \$30,000 was to be paid to Prince Edward Island; and this subsidy was declared to be in "full settlement of all claims of the said province against the Dominion of Canada on account of alleged non-fulfillment of the terms of union between the Dominion and the said province as regards the maintenance of

⁷S.P., Dom., 1901, no. 73b, p. 1.

⁸D. of A., N.B., 1902, p. 82. I pass over numerous other claims raised by New Brunswick because they received no attention.

⁹S.P., Dom., 1897, no. 56.

efficient steam communication between the Island and the mainland." ¹⁰

Here was another "finality" clause. As will appear later, it meant no more than its predecessors. If possible it meant even less, because W. S. Fielding, the federal minister of finance, admitted its futility to the House of Commons before the subsidy bill had been passed. "I venture to say," he declared, "that so long as we have a government or parliament at Ottawa, if any province makes a claim which seems to be fair and just, no matter what the past records show there will always be found a government and a parliament willing to give it fair consideration; and if justice be established in that claim, I have no doubt it will find recognition." ¹¹ Certainly this was a correct, if somewhat embellished, statement of the case. But what, then, was the use of a finality clause in the settlement?

BRITISH COLUMBIA

After 1884 British Columbia was for a time the most prosperous portion of the Dominion. It was, moreover, politically contented, and nowhere was the hold of Sir John A. Macdonald so secure. In 1886 Joseph Trutch wrote to him that, although some "latent germs of Grittism" might exist in British Columbia, "no one avowedly opposed to your administration would be tolerated as a candidate for any district of this province." ¹²

But Trutch foresaw that in time the Canadian Pacific Railway would "Canadianize" the province and bring about the formation of party lines. After 1896 this came to pass. At first, however, the names Liberal and Conservative were reserved for candidates seeking election to the federal parliament. In provincial politics the cleavage was delayed. Men stood for election as advocates of certain limited programs or as supporters of some particular leader. But this soon proved unsatisfactory. In the five years after 1898 no less than five governments held office. It became clear that establishment of party lines would

¹⁰ Dom. Stat., 1901, c. 3.

¹¹ C.D., 1901, pp. 5346-5347.

¹² Macdonald Papers, Trutch, 1882-89, letter of Feb. 9, 1886.

be wise, and in 1903 Richard McBride took this step. He went before the people as a Conservative with a Conservative following, and he was successfully returned.

Before this event British Columbia had once more embarked upon an agitation for better terms. As usual the force behind the agitation was the bad fiscal condition of the provincial treasury, but it is of interest to note that none of the claims which British Columbia now raised was a hang-over from earlier years. Instead Premier Dunsmuir, when he came to Ottawa as a plaintiff in 1901, started on a new tack. He urged that there were certain peculiarities in the situation of his province which entitled it to larger subsidies from the Dominion.¹³ In the first place, he made the assertion that the revenue collected by the Dominion from the people of British Columbia was disproportionate, as compared with collections from the other provinces. In the second place, he pointed to the exceptional geographical situation of British Columbia — its vast area, mountainous surface, and sparse settlement — and he urged that this entitled the province to larger subsidies.

For a time these claims got no attention at Ottawa, and even in British Columbia interest in them lagged. But McBride built up the agitation and made it the instrument of his political successes. Once he had assumed the Conservative tag, it was good politics for him to press claims which might embarrass the government of Sir Wilfrid Laurier.

MANITOBA

The Greenway government, which gained office early in 1888, was a bitter opponent of Sir John A. Macdonald. For a short time the old issues of disallowance and subsidies were the occasions of their disputes. But soon the Manitoba school question submerged all else. Only after it had been settled was the provincial government able to think once more of better terms. Then in 1898 Greenway brought certain claims to the attention

¹³ S.P., B.C., 1901, pp. 545-587. The originator of these new claims was probably R. E. Gosnell.

of the Dominion, and, since his friends were now in office at Ottawa, he expected favorable treatment.

About one of these claims the provincial government could make an unusually strong case. It will be remembered that in 1879 the Dominion had promised to provide Manitoba with "plain, but sufficient" public buildings. This promise was kept. But when in 1885 Manitoba was given a substantial increase in its debt allowance, federal officials in the department of finance interpreted a clause in the settlement to mean that they should charge the cost of these buildings against the new debt allowance of Manitoba. Norquay protested, and there can be no doubt that his protest would have been effective if he had not quarreled with Sir John A. Macdonald.¹⁴ But the quarrel and the dramatic events which followed led to repeated postponements. Not until 1898 was a settlement made. Manitoba was then given the \$267,026 which had been deducted from its debt allowance in 1885, and interest, amounting to \$231,575, on this sum from 1885 to 1898.¹⁵

This was the only financial concession Greenway got from his friends at Ottawa. But Manitoba was prosperous, the provincial treasury was full, and Greenway had every expectation that he would be sustained by the people. He was mistaken. In 1900 the Conservatives were returned to office. At once the new premier, R. P. Roblin, began an agitation for better terms.

THE CONFERENCE OF 1906 REVISES SUBSIDIES

From this summary statement it appears that the Laurier government had, early in its career, given small grants of better terms to each of the Maritimes and to Manitoba. It is not simply a coincidence that the governments of these provinces were Liberal.

What was the situation in Quebec? There a Liberal government had come into office in 1897. Its revenues, although suf-

¹⁴ Evidence to this effect can be found in the *Bowell Papers*, vol. XII, memorandum of Sir Charles Tupper, Apr. 4, 1887.

¹⁵ *Dom. Stat.*, 1898, c. 4. Some members of the Commons asked whether this payment did not infringe the finality clause of the 1885 settlement. The answer given was that it did not, since it merely rectified a mistake.

ficient to balance the budget, were not buoyant; and it decided that the best way to expand them would be by securing better terms. After some fumbling, Premier Parent took a cue from Mercier and decided to call a provincial conference to discuss the question of subsidies. His invitation was well received, and on December 18, 1902, representatives from all the provinces, except Ontario and British Columbia, met at Quebec. Both Premier Ross of Ontario and Premier Prior of British Columbia sent their regrets and declared that they did not stay away for any hostile reason. This unanimity of provincial opinion was, it might seem, a good augury. Moreover, the fatal allegation made against the conference of 1887, that it was anti-Dominion, could not be made against the conference of 1902, because all the provinces, except Manitoba and British Columbia, had Liberal governments. Indeed, Premier Parent hinted that Sir Wilfrid Laurier was well disposed toward the conference and that he would not be opposed to an adjustment of subsidies.

The resolutions agreed upon at the conference were cribbed directly from those of 1887. But there were omissions. This conference was not interested in the constitutional reforms that had been dear to the heart of Oliver Mowat, and all resolutions dealing with such matters were dropped. The conference was interested in better terms, and it found the resolutions of 1887 which dealt with this question satisfactory. But here also there was a significant omission. In 1887 a strongly worded "finality" clause had been attached to the subsidy resolutions; in 1902 this clause was dropped. The reason is obvious. In the latter year no delegate had deep-rooted convictions about the danger of raids upon the federal treasury; and therefore no one saw fit to close the door against the possibility of making future demands.

The resolutions of the conference were sent to Ottawa in the hope that they would be favorably received. For a time nothing happened. Then in 1905 there was a crisis in Quebec politics. Three members of the provincial government, one of them Lomer Gouin, resigned. A peace was patched up by the resignation of Premier Parent and the elevation of Gouin to his

place. But sore spots were left, and harmony within the party was not fully restored. In 1905 it seemed essential to Sir Wilfrid Laurier that the Liberals keep control of the provincial government of Quebec. When, therefore, Gouin insisted that increased subsidies were necessary to consolidate his position, it became almost certain that increased subsidies would soon be given.

Another event which in 1905 served to advance the agitation for better terms was the creation of Saskatchewan and Alberta. The financial terms given them aroused the envy of the older provinces, and R. L. Borden, the Conservative leader, declared that the time had come for a general revision of subsidies.¹⁶ Sir Wilfrid Laurier did not go so far, but he admitted that this was one of the questions which would "have to be taken up by the federal government in conjunction with the provinces at no distant date."¹⁷

In the negotiations which followed, the masterful Gouin took the lead. He visited Manitoba, Ontario, and the Maritimes; and he announced to the legislature of Quebec that persistent pressure for better terms would be maintained.¹⁸ Results soon followed. On September 10, 1906, Sir Wilfrid Laurier invited every provincial premier to attend a conference "to discuss the financial subsidies to the provinces."¹⁹ The invitation was unanimously accepted, and on October 8 the delegates assembled.

The stage had been carefully prepared. Gouin was elected chairman, and the delegates promptly agreed that the 1902 — that is, the 1887 — resolutions contained the terms which they wished the federal government to accept. But any province which had additional claims was asked to bring them forward at once. Premier McBride of British Columbia took advantage of

¹⁶ C.D., 1905, p. 5448.

¹⁷ *Ibid.*, p. 5437. See also pp. 2104-2105. Earlier in this debate Sir Wilfrid had spoken strongly against subsidies. "It is," he said, "a sound principle of finance and a still sounder principle of government, that those who have the duty of expending the revenue of a country should also be saddled with the responsibility of levying and raising it" (*ibid.*, p. 1434).

¹⁸ J. of A., Que., 1906, p. 8.

¹⁹ S.P., Dom., 1906-07, no. 29a, p. 1.

the opportunity.²⁰ He asked for appointment of a special commission to consider the claims of his province arising out of its geographical situation.

For three days the delegates and the representatives of the Dominion debated the proposal of British Columbia. Sir Wilfrid Laurier had set his heart upon securing a unanimous agreement, and for this reason he did not wish to break with McBride. But neither could he accept the latter's proposal, because that would mean postponement of a settlement of the subsidy question and it might induce other provinces to present special claims. In this dilemma Sir Wilfrid shifted the responsibility. In a felicitous speech to the delegates, he stated that, while himself unable to see the advantage of a commission, he would put the decision up to them. If they believed that British Columbia should have a commission, he would give that opinion great weight. But was there not a better alternative? Let it be admitted that the geographical situation of British Columbia entitled it to an additional subsidy, and let the conference decide what the addition should be.

The conference acted upon Sir Wilfrid's proposals. It declared that a commission was "inadvisable"; and it expressed the opinion that, "in view of the large area, geographical position and very exceptional physical features of the province of British Columbia, it is the opinion of the conference that the said province should receive" an extra subsidy of \$100,000 a year for ten years.²¹ But McBride now refused to accept this decision, and he withdrew in anger — political anger — from the conference.²²

²⁰ Ontario also submitted a memorandum, but it really did not make any special claims upon the Dominion. Its memorandum defies analysis. The general tenor seemed to be that, while Ontario wanted a revision of subsidies, it also wanted an arrangement which would not be subject to further alterations.

²¹ *Provincial Conferences*, p. 92. The vote on the various resolutions which arose out of the dispute was eight to one, each province having one vote and British Columbia voting in the negative.

²² McBride soon relented, and in a letter to Gouin he declared that he would be content to receive something less than he had asked, so long as it was more than what the conference had offered. But Gouin bluntly refused to reopen the negotiations, and the conference adjourned. Gouin was as important a figure during the meetings of the conference as he had been in getting it assembled (*ibid.*, p. 97).

112 FEDERAL SUBSIDIES TO PROVINCIAL GOVERNMENTS

The new subsidy scheme voted by the 1906 conference and accepted by the federal government provided: (1) that the grants for the support of government should be approximately trebled; and (2) that the limit of population, on which 80 cents per capita subsidy was to be paid, should be raised. Let us first consider the latter.

The plan of the Quebec conference of 1864 had been that the 80-cent subsidy should be paid upon the basis of population of the provinces in 1861. At London this was left unchanged for Ontario and Quebec, but for the other provinces payment was to be on the basis of actual population, as shown at each census, until population in each case reached 400,000. These general provisions had been applied to Manitoba, British Columbia, and Prince Edward Island when they entered the federation.²³ But when in 1905 Saskatchewan and Alberta were made provinces, they were promised payment of the 80-cent subsidy up to a limit of population of 800,000.

The new provision of 1907 was that this subsidy should in all cases be paid upon the basis of actual population. It was, therefore, especially favorable to Ontario and Quebec, and to a less degree to Nova Scotia (because its population had since 1881 been in excess of 400,000), although the possible future gain of Ontario and Quebec was curtailed by the qualification that, after the population of a province exceeded 2,500,000, the payment on the excess should be at the rate of 60 cents per head.

One would expect the other important change in the subsidy terms to be in favor of the smaller provinces. To some extent this was the case. The new grants for government were to be as follows:

Population of Province	Grant
under 150,000	\$100,000
150,000- 200,000	150,000
200,000- 400,000	180,000
400,000- 800,000	190,000
800,000-1,500,000	220,000
over 1,500,000	240,000

²³ But for Manitoba and British Columbia an estimated population, in excess of actual population, was used.

The following table shows how this affected the different provinces:

	Old Grant	New Grant
Prince Edward Island	\$30,000	\$100,000
British Columbia	35,000	100,000
Manitoba	50,000	150,000
New Brunswick	50,000	180,000
Nova Scotia	60,000	190,000
Quebec	70,000	220,000
Ontario	80,000	240,000

Thus the increase was about threefold, and on a per capita basis the smaller provinces gained relatively.

Let us now look at the total immediate increases in subsidies which each province received as a result of the terms. The situation is summarized by the following table:

	Old Subsidies *	Absolute Increase	Per-cent Increase
Ontario	\$1,196,900	\$789,500	66.1
Quebec	959,300	599,900	62.5
Nova Scotia	380,000	177,700	46.7
New Brunswick	314,900	130,000	41.3
Manitoba	342,600	130,000	38.0
British Columbia	177,900	215,000	121.0
Prince Edward Island	117,300	70,000	59.8
Saskatchewan	256,300	130,000	50.7
Alberta	250,000	130,000	57.0
Total	\$3,995,200	\$2,372,100	59.4

* These figures take no account of sums received from the federal government as special grants or as interest on debt allowances.

Leaving aside the cases of British Columbia, Saskatchewan, and Alberta, which are somewhat unusual, the striking thing is the immediate gains made by the two large provinces of Ontario and Quebec. The smaller provinces — Nova Scotia, New Brunswick, Manitoba, Prince Edward Island — made a poor bargain. Why did they do so? Certainly they were in a good bargaining position at the 1907 conference, because each province, regardless of its size or its population, had a single vote. The only explanation is that provincial statesmen tend to grasp at any offer of better terms, with little thought of remote consequences.

A NEW FINALITY CLAUSE

One other feature of the new scheme is of interest. Although Sir Wilfrid Laurier was willing to concede better terms, he regarded this concession as a price to be paid for stability in the future. How was this stability to be assured? In the first place, Sir Wilfrid had inserted in the 1907 scheme a clause which declared that the new terms were a "final and unalterable settlement of the amounts paid yearly to the several provinces of the Dominion for local purposes and the support of their Governments and Legislatures." This was no new thing. The original British North America Act had contained a finality clause, and so had the measures which provided better terms for Nova Scotia in 1869, for British Columbia in 1884, and for Manitoba in 1886.²⁴ In every case the clause had been futile. But in the second place, Sir Wilfrid planned to make the new terms effective — finality clause and all — by formal amendment of the British North America Act. There was, of course, no constitutional necessity for this procedure. All the numerous grants of better terms made after 1867 had been put into effect by authority of the federal parliament alone. Sir Wilfrid hoped, however, to establish a new precedent which might put some check upon indiscriminate grants in the future.

Unfortunately, this plan miscarried from the outset. When the 1907 terms were brought before the House of Commons, leading members of the opposition took pains to point out that they did not intend to be bound by any new precedent. Alteration of subsidies was, they insisted, a decision for the federal parliament, and finality clauses were empty gestures. Confronted by such an attitude, Sir Wilfrid confessed that there was "no other guarantee [of finality] but the determination of parliament itself."²⁵ And W. S. Fielding, the minister of finance, went further and declared:

I do not believe we can devise any means which would prevent the people or parliament of Canada spending their own money in the way

²⁴ See Maxwell, "A Flexible Portion of the British North America Act," *C.B.R.*, March 1933.

²⁵ *C.D.*, 1906-07, p. 5308.

they deem most advisable. If therefore in the face of an Imperial enactment, this Dominion parliament should see fit, for one reason or another, to make some special grant to any particular province, nothing that we or the Imperial parliament can do will prevent it.²⁶

Certainly this was the realistic view, but what then was the value of a finality clause and of amendment of the British North America Act? Yet perhaps some good might have been accomplished had there not been further mishaps at London.

These arose because of the recalcitrance of McBride. His stand at the conference awakened a popular response in British Columbia which astonished all observers. At once McBride made the issue his own. He announced that he would go to London to protect his province.

When, therefore, the imperial parliament came to consider the bill amending the British North America Act, McBride was on hand. It would, he insisted, be wrong to declare that the new terms were "final and unalterable," both because the grants given British Columbia were inadequate and because the province would be "deprived of the right" to have its claims "further recognized or considered."²⁷ The bill was in charge of Winston Churchill, the parliamentary under-secretary of state for the colonies, and he agreed to leave out the finality clause. For this he gave two reasons: (1) that the imperial government, although without any knowledge of the merits of the case, did not want to seem to take the side of the federal government against a province; and (2) that the words "final and unalterable" were unsuitable for an act of parliament.²⁸ This step appears to have been taken without consultation of any responsible Dominion minister, and it may be that Churchill committed an indiscretion. But the thing was done, and the bill went to the House of Lords. By this time the Dominion government had become aware of the deletion, and at its insistence the finality clause was reinserted; but only as a part of the schedule of the bill and not in the body of the meas-

²⁶ *Ibid.*, p. 5330.

²⁷ S.P., B.C., 1908, c. 17.

²⁸ *Parliamentary Debates*, 4 ser., vol. CLXXVI, p. 754; see also vol. CLXXV, p. 1617, and vol. CLXXVIII, pp. 467-468.

ure. McBride claimed a victory, and he returned home to receive the plaudits of his constituents.

Upon sober analysis the whole episode takes on the air of *opéra bouffe*. What was the substance of McBride's victory? Did deletion of the finality clause preserve the right of British Columbia to press for better terms? Most certainly not. Finality clauses had proved futile in the past, even after provincial governments had given unequivocal assent to them. How, then, was British Columbia to be bound by a clause to which it had objected? The whole history of better terms is strewn with examples which prove that, with respect to them, explicit language in the constitution is no bar. Thus McBride's achievement was essentially hollow. If the "final and unalterable" clause had been left in the imperial statute, the agitation for better terms would have gone on without interruption. The whole issue was a phantom, conjured up to serve political ends by an astute politician.

The reception of the better terms in the other provinces was apathetic.²⁹ In Ontario a few voices were raised to protest that federal subsidies were vicious in principle and that, by the new concessions, "the people of Canada put themselves under heavier tribute to a bad system."³⁰ But in the main, comment was favorable, and it can, I think, be asserted that the grant of better terms in 1907 marked the disappearance of one of the issues about which Liberals and Conservatives had long dif-

²⁹ In Prince Edward Island there was a stir because of the careless way in which the clauses affecting the province were drawn. In 1901 the census showed that the population of the Island had decreased. It appeared at first that, since the 80-cent subsidy was based upon actual population, the payment to the Island would decrease. But examination of the terms of union indicated that, while provision had been made for augmentation, none had been made for diminution in the grant. The question might have been taken to the courts for decision, but the amount of the subsidy was small, and the federal government decided to accord the Island the most favorable interpretation. It, therefore, agreed that henceforth the 80-cent subsidy would be calculated upon the maximum, rather than upon the actual, population of Prince Edward Island, i.e., that a decline in population would not bring a diminution of the payment. But the resolutions passed by the provincial conference had not taken account of this provision. Of course this was an oversight, and it was quickly rectified.

³⁰ *Toronto Globe*, editorial of Oct. 16, 1906. The *Montreal Witness* expressed a similar opinion.

ferred. During the years from 1867 to 1896 the Liberals had posed as financial purists on the question of subsidies, while the Conservatives, guided by Sir John Macdonald, had frankly used subsidies as a form of political patronage. It now seemed that purity in doctrine had been, in part at least, a product of long years spent in opposition.²¹

²¹ During the debate in the Senate over the 1907 terms, a former Conservative prime minister, Sir Mackenzie Bowell, said: "The whole thing is wrong in principle and if it were possible to prevent such an address [that giving better terms] being passed, I should vote against any demand of this kind either now or in the future" (S.D., 1906-07, p. 991).

CHAPTER IX

THE ADMISSION OF SASKATCHEWAN AND ALBERTA

AGITATION FOR PROVINCIAL STATUS

IN 1891 the Northwest territories had a population of less than 100,000 persons, and their governmental machinery was still primitive. But gradually the powers vested in the lieutenant-governor and his council were taken over by an elective assembly,¹ and in 1892 the assembly gained practically complete control over the revenue. Thereafter agitation was directed toward securing provincial status and toward gaining larger grants from the Dominion.

After 1896 a torrent of settlers poured into the Northwest. As a result roads and bridges had to be built, and educational facilities had to be provided. The territorial government, with limited financial resources, asked for federal aid. The federal government controlled the public domain of the Northwest; it had made large tax-exempt grants of this domain, particularly to the Canadian Pacific Railway; it had exempted the property of the Canadian Pacific Railway from taxation; it was responsible for the homestead policy; and, by allowing settlement only on even-numbered sections, it had hindered the development of local government. Thus the plea for assistance was not unreasonable, and the federal government gradually responded to it.

Until the opening years of the century discussion of provincial status was simply a means of forcing the federal government to give larger grants. As Frederick Haultain, the premier of the territories put it, "financial embarrassments, rather than constitutional aspirations, had led the North-west Territories Government and Legislature to discuss provincial status."²

¹ See E. H. Oliver, "The Contest between Lieutenant-Governor Royal and the Legislative Assembly of the Northwest Territories, 1888-1893," *Transactions of the Royal Society of Canada*, 1923. See also Macdonald Letter-Books, no. 26, letters to Royal, Nov. 6, 1889, Feb. 1, 1890.

² S.P., Dom., 1903, no. 116a, letter to Clifford Sifton, Jan. 30, 1901.

After 1903 the emphasis was altered. By dint of continual pressure for increased subsidies and by unrelenting criticism of federal policy, the Northwest hoped to induce the Dominion to grant provincial status. Precedent seemed to support this aspiration: Manitoba had been made a province when it contained a much smaller population than did the Northwest. But events had indicated that the action in the case of Manitoba had been premature and that the Dominion should make haste slowly in creating new provinces. As a result the proposals advanced by Haultain were for a time resolutely negated.³

During these years the Northwest flourished like a green bay tree, and the delay was probably fortunate. Population grew; a start was made at municipal organization; the rest of Canada became informed about the west; and the terms upon which provincial status should be given were sifted by discussion. But the time came when postponement was no longer feasible. The financial demands of the territorial government were mounting, and the Dominion might well conclude that the grant of provincial status and the assumption of provincial responsibilities would be the easiest way to check this importunity. Political considerations also made a decision necessary. The Northwest was Liberal, and it promised, if properly cultivated, long to remain a stronghold of Liberalism. Sound tactics required that the Conservatives should not be permitted to pose as the advocates of provincial status; and therefore, in September 1904, Sir Wilfrid Laurier declared that his government, if returned in the coming elections, would at once take up the question of provincial autonomy.⁴

THE FINANCIAL TERMS GIVEN TO SASKATCHEWAN AND ALBERTA

In February 1905 Sir Wilfrid introduced into parliament the so-called autonomy bills, providing for the creation of Sas-

³ For one of Haultain's proposals see *ibid.*, no. 116. It has been alleged that this delay was caused by a difference of opinion within the federal cabinet over the question of separate schools. See J. W. Dafoe, *Laurier: A Study in Canadian Politics* (Toronto, 1922), pp. 118-123.

⁴ S.P., Dom., 1905, no. 53, p. 4. Mr. Borden, during a tour of the west in 1902, had declared unreservedly in favor of provincial status.

katchewan and Alberta as provinces. At once there was an ominous outcry, particularly over the educational clauses. In addition, Mr. Haultain placed himself in flat opposition to certain other provisions of the bills, notably federal retention of the public domain. But these objections had been anticipated, and the federal government hoped to sidetrack them by the generous financial terms which it had provided for the two new provinces.

These financial terms require careful explanation. They comprised: (1) a grant for the support of government, (2) a grant for the construction of public buildings, (3) a subsidy of 80 cents per capita, (4) a debt allowance, (5) a subsidy in lieu of land. The first two can be passed over quickly. Since the population of both Saskatchewan and Alberta was estimated to be 250,000, it followed that they should get, as a grant for government, \$50,000 a year. The grant for the construction of public buildings depended upon a precedent set in the case of Manitoba in 1898. Then the Dominion had given \$267,026 to this province,⁵ and it now gave both Saskatchewan and Alberta \$468,750, payable over a period of five years.

The 80-cent subsidy was to be paid to Saskatchewan and Alberta on an estimated population of 250,000 for each⁶ at the outset, and thereafter upon population as disclosed or estimated every two and one-half years up to a limit of 800,000 persons. For the privilege of inter-censual payments there was the precedent of Manitoba. But for the provision of increase of payments up to a limit of population of 800,000 there was no precedent. The other smaller provinces had a limit of 400,000 persons.⁷

Saskatchewan and Alberta were each given a debt allowance of \$8,107,500. This amounted to \$32.43 per capita — the average per capita allowance used for the smaller provinces in the 1873 adjustment — upon a population of 250,000. Interest at

⁵ It also gave arrears of interest amounting to \$231,575.

⁶ A figure close to actual population for Saskatchewan, and above it for Alberta.

⁷ The effect of this discrimination was to strengthen the hands of those who declared that a limitation of this sort should be abolished.

5 per cent on this allowance amounted to \$405,375 a year.⁸ This procedure gave Saskatchewan and Alberta a financial favor of considerable importance. It was based upon two assumptions: first, that the debts with which the older provinces entered federation, and which were deducted from their allowances, represented public works left under provincial control; and, second, that the new provinces were unequipped with similar public works and would have to incur expenditure to acquire them. The first of these assumptions was incorrect. Some of the debts of the older provinces had been incurred for public works which were left in their hands after 1867; but most of them had been for assets, such as railways, which were taken over by the federal government. Obviously, a province which lost no assets of this sort and which, despite this, was given a debt allowance on the same basis as the older provinces, was in a favored position. The second assumption was more nearly correct. Saskatchewan and Alberta in 1905 — and still more Manitoba in 1870 — were pioneer provinces, lacking in public works.

The federal government had determined to retain possession of the public domain lying within the boundaries of the two new provinces, and inevitably a subsidy in lieu of it had to be given. Saskatchewan and Alberta were larger in area than Manitoba, and they might therefore expect a larger land subsidy; but there was no precedent to indicate how much larger this should be. In short, the proper figure for the subsidy was indeterminate: it could be set and plausibly justified at any amount within wide limits. For this reason the land subsidy was of considerable strategic importance in the negotiations about the financial terms to be given the two new provinces. It became the balancing item — the item through which the difference between the total amount of the grants which Saskatchewan and Alberta were willing to accept and the amount the Dominion was willing to give could be adjusted and reconciled.⁹ If this fact had been

⁸ The provision (sec. 19) was so worded as to provide that the right of Saskatchewan and Alberta was only to receipt of interest, without the right to withdraw the capital sum. See C.D., 1905, pp. 5465-5472.

⁹ Frank Oliver, the minister of the interior, stated this bluntly: "I may say that the question [of the amount of the land subsidy] is not so much what a

frankly accepted much future difficulty might have been avoided. Unfortunately, the attempt was made to give the land subsidy a quantitative basis which was utterly and absurdly fictitious.

The resolution which provided for the land subsidy was, when first presented to the House of Commons, most singular.¹⁰ It put an "estimated value" upon the public lands in Saskatchewan and Alberta by making two unjustifiable assumptions: first, that the area of arable public land in each province, which might be fit for settlement, was 25,000,000 acres; and, second, that the value per acre was \$1.50. Until population was 400,000, interest on this "estimated value" of \$37,500,000 was to be paid by the federal government at the rate of 1 per cent per year (i.e., \$375,000); thereafter, until population reached 800,000, interest was to be at the rate of 1½ per cent (i.e., \$562,500); thereafter, until population reached 1,200,000, at the rate of 2 per cent (i.e., \$750,000); and thereafter at the rate of 3 per cent (i.e., \$1,112,500). The only figures in the resolution which had any meaning were the amounts of the subsidy and the population limits which governed them. Nobody in 1905 knew the size of the arable area in Saskatchewan and Alberta. The figure of 25,000,000 acres was a guess, and the value of \$1.50 per acre set upon this area was unjustifiable. And, even if both acreage and valuation be accepted, why should payments start at a rate of 1 per cent? Clearly the whole computation was fantastic, and it is hard to understand why the cabinet permitted this resolution, designed to be a part of the constitutions of two provinces, to be placed before the House of Commons.

The explanation can only be guessed. There were two members of the cabinet who, because of their positions and knowledge, would probably have scrutinized the resolution with care. One of them, W. S. Fielding, the minister of finance, was out of

certain quantity of land in the Northwest Territories would be sold for, as a question of how much money is required to carry on the government of the new provinces in comparison with the amounts which are available for the other provinces to carry on their provincial business" (C.D., 1905, p. 5485).

¹⁰ *Ibid.*, p. 1439.

the country during the negotiations; the other, Clifford Sifton, was at odds with Sir Wilfrid Laurier over the Saskatchewan and Alberta bills, and finally resigned his post as minister of the interior before the resolution was framed.¹¹ Thus the two men most likely to have seen the defects of the resolution had no opportunity to pass on it.

When the Saskatchewan and Alberta bills were being debated in the House of Commons, Sifton exposed the defects of the land subsidy clause in words which were prophetic. The land subsidy should, he declared,

be fixed arbitrarily. . . . It should not be fixed by a reference to the number of millions of acres of land, nor the price per acre. . . . The moment I laid my eyes upon that clause, I felt it was a mistake. . . . The effect would be that our friends in the northwest, so soon as they desire to have their financial arrangements readjusted, will claim that while we have admitted their ownership of the land, they have not admitted our valuation of the land, and we will find that the territories [i.e., the new provinces] will raise the question of the readjustment of the financial arrangements. . . . It may, perhaps, appear to be a matter of detail at the present time, but it will not be found to be a matter of detail in future years, and it is not too late to remedy it. . . .¹²

Seldom is it the good fortune of a statesman so accurately to forecast the future. In only one respect have events proved Sifton to be in error: it was, even when he spoke, too late to remedy the original mistake. Fielding made the attempt. The most objectionable features of the clause—the estimate of area, the value per acre, and the percentage rates—were struck out by amendment. The amounts of the subsidy in lieu of land were thus left as arbitrary figures, varying with population, but resting on no explicit basis.¹³ Implicitly, however, the subsidies rested upon the estimated fiscal needs of the new provinces.

¹¹ The new minister of the interior, Frank Oliver, was not consulted about the terms, and he was absent from Ottawa, running his by-election, when the resolutions were brought down.

¹² C.D., 1905, p. 3097.

¹³ Dom. Stat., 1905, c. 42, sec. 20; c. 3, sec. 20.

The following table shows, in summary, the annual revenue which both Saskatchewan and Alberta drew from the federal treasury in 1905-06:

Grant for government	\$ 50,000
80-cent subsidy	200,000
Interest on debt allowance	405,375
Subsidy in lieu of land	375,000
Building allowance	93,750
Total	<u>\$1,124,125</u>

The building allowance was payable only for five years, but, as time passed and as population grew, the 80-cent subsidy and the subsidy in lieu of land would be augmented. There was, moreover, one other revenue, obtained through the Dominion, which was peculiar to the prairie provinces and which was to become of great importance to Saskatchewan and Alberta. This was the interest on the school-land fund. Following a precedent set in the case of Manitoba, two sections of land in every surveyed township were set apart as an educational endowment. The proceeds from their sale were to be invested in Canadian securities to form a fund, and interest derived therefrom (after deduction of the cost of administration) was to be paid over to the government of the province in which the alienated land was situated. At first the income going to Saskatchewan and Alberta from this source was small, but it was soon to grow enormously.

THE BARGAIN APPROVED

When the Saskatchewan and Alberta Acts were passed, governments were promptly set up in the two provinces. Haultain, who had been premier of the Northwest territories, and who might, therefore, have been considered a logical candidate for the premiership of one of the provinces, had debarred himself from consideration by his opposition to the terms of the autonomy bills.¹⁴ Accordingly, Walter Scott was designated as

¹⁴ Haultain was, besides, a Conservative. It was hardly to be expected that the Laurier government would pass up an opportunity to establish two Liberal provincial governments.

premier of Saskatchewan and A. C. Rutherford as premier of Alberta. Both were Liberals, and both were friends of the new provincial constitutions. Thus party lines were drawn, and although, in the ensuing elections, Haultain in Saskatchewan and Bennett in Alberta declared themselves to be leaders of a "provincial-rights" party, the people regarded them as Conservatives. The verdict was strongly in favor of Scott and Rutherford, and the Laurier government could feel that it had done a satisfactory job both for the Liberal party and for the people of the new provinces.

The generous revenues at the disposal of the provincial governments of Saskatchewan and Alberta were not left unused. Expenditure expanded rapidly, not only for the functions of government customary in the older provinces, but also for a variety of new tasks. Government telephone systems were established, and lines were pushed rapidly over the provinces; costly educational experiments were made; railway building was encouraged. Governmental policy reflected the optimistic spirit of the west. There was no member of the legislatures of Saskatchewan and Alberta who did not believe that government expenditure was seed sown in a fertile field and that a parsimonious counting of dollars would be an error. When current revenues were inadequate, borrowing was begun. In addition, heavy contingent liabilities were incurred by guarantee of the bonds of numerous railway undertakings.

The two Liberal governments went along without serious political opposition. In Saskatchewan the presence of Haultain insured that debate about the justice of the terms of union would be continued. In particular Haultain objected to federal retention of the public domain. The Liberals gladly accepted the challenge. They declared boldly that federal retention of the domain, coupled with a generous subsidy in lieu of it and a progressive settlement policy, was distinctly advantageous to the prairie provinces. The electors of both provinces appeared to endorse this view.

CHAPTER X

NEW SCHEMES FOR BETTER TERMS

THE hope of Sir Wilfrid Laurier that the better terms of 1907 would put a halt to agitation was completely disappointed. Rather did the concessions give an impetus to new demands, and, as usual, the lead was taken by governments hostile to the government at Ottawa. McBride in British Columbia and Roblin in Manitoba pressed claims upon the Dominion, and the Conservative leaders in the federal parliament soon gave their endorsement.

BRITISH COLUMBIA INVOKES GEOGRAPHY

Premier McBride had inherited from his predecessors the basis of an agitation for better terms. British Columbia had higher mountains and larger unsettled areas than any other province; and these facts, so it was argued, called for special subsidies by the Dominion¹ beyond the grant of \$100,000 for ten years given at the Dominion-provincial conference of 1906. But for a time events were against this argument, because the fiscal position of the province improved amazingly. From 1906 to 1911, despite a threefold increase in ordinary expenditure, the provincial government had enormous surpluses.

In one way, however, McBride built for the future by cementing a strong bond of friendship with the Conservatives at Ottawa. In the federal elections of 1908 and 1911 he threw his weight behind the Conservative candidates. In the latter year victory was achieved, and it was natural that McBride should expect a reward.

Less than a month after the Conservative government took office, McBride led a delegation to Ottawa. The new prime

¹S.P., B.C., 1905, D9-11. It is interesting to reflect that when Edward Blake, in 1874, described British Columbia as a "sea of mountains," his opponents fastened upon the phrase and held it up as a gross libel upon a great province.

minister, Mr. Borden, soon agreed to the appointment of a royal commission of three members — one to be named by British Columbia, one by the Dominion, and one by these two nominees, or, in the event of disagreement, one by the colonial secretary — to investigate the claims of British Columbia “for exceptional treatment by reason of permanent physical conditions.”² McBride was jubilant. He declared to the legislature: “I find it impossible, no matter how optimistic one may be, to convey to this House any idea of the results that may accrue to British Columbia when this matter shall have been adjusted in strict fairness to us.”³

At once the provincial government began the preparation of its case. It asserted that British Columbia had contributed to the federal treasury a disproportionately large amount of revenue and that it had received back a disproportionately small return in the form of federal expenditure. But the statistical evidence presented in support of these assertions was patently and grossly inadequate. Federal expenditure in British Columbia was understated because of the omission of certain items and because no reasonable attempt was made to charge a fair portion of the general overhead expenditure of the Dominion against British Columbia. Again, federal collections in British Columbia were overstated. The unwarranted assumption was made that receipts from customs at the ports of entry in the province represented contributions by the people of British Columbia to the revenue of the Dominion. But it was certain that a large portion of various articles on which a duty was paid — notably sugar, tobacco, spirits, and wines — did not remain in the province for consumption, and that, therefore, the duties collected upon them did not bear upon the people of British Columbia. Thus the statistical evidence upon which the provincial government rested this portion of its case was altogether inconclusive.

A more important claim was that the cost of government in British Columbia was much above — the provincial memoran-

² S.P., Dom., 1913, no. 67h, Minutes of Council, Jan. 26, 1912.

³ *Canadian Annual Review* (henceforth *C.A.R.*), 1912, p. 606.

dum said five times — that of the other provinces. Again a formidable array of figures was put forward, but again it was defective. Per capita figures of provincial expenditures in British Columbia were five times more than the average of the expenditures of the other provincial governments. But these figures did not represent cost of government, because there were essential differences between the provinces with respect to political organization. Many duties (e.g., education) handled in British Columbia by the provincial government were in Ontario and other provinces assumed in large part by the municipalities. To ignore or to brush aside complexities of this sort was fatuous, because the claim of British Columbia for special consideration rested upon presentation of trustworthy evidence. Even if it was established that it cost more to build roads, railways, schools in British Columbia than in another province, it might be questioned how far the Dominion ought to fight geography by giving larger subsidies to the former.

The outcome was an anticlimax. Two members of the royal commission — Z. A. Lash for the Dominion and E. N. Bodwell for British Columbia — were appointed. But before the third member was selected, war broke out, and the whole matter was dropped.

MANITOBA DEMANDS "EQUALITY"

From 1900 on, the government of R. P. Roblin slowly ferreted out the old questions about which, in times past, Manitoba had been in dispute with the Dominion. But when in 1906 Roblin attended the Dominion-provincial conference, he did not bring these questions to the attention of the delegates.⁴ It was his opinion that if Manitoba had presented its grievances, "it would have been treated summarily."⁵ Observing the reception given to British Columbia, Roblin decided that silence was golden. But in 1908, after the new scheme of subsidies had

⁴This was curious because at the conference every province was asked "to now submit memoranda in writing concerning any claims it may have to larger sums than those set forth in the new subsidy scheme . . . or to additional consideration or recognition."

⁵S.P., Dom., 1912, no. 110a, p. 21.

been made effective, Manitoba put forward elaborate demands for better terms, all of which were tied up with the question of boundary extension.

When in 1870 Manitoba was admitted to confederation, its area was only 13,500 square miles. In 1881 its area was increased to 73,732 square miles. At times thereafter there was talk of further extension of boundaries both northward and westward, but nothing was done. The creation of Saskatchewan and Alberta in 1905 settled the question of westward extension. It also raised in an acute form the issue of the enlargement of Manitoba, because Roblin pretended to regard the formation of two neighboring provinces as a direct affront.⁶ Why, he asked, should these *parvenu* provinces be more than three times larger in size, why should they have larger subsidies than the pioneer province of the west? With this as a theme he made an effective appeal to the electors. Likening himself to Sir Oliver Mowat, he proposed to fight until Manitoba was upon an "equality" with Saskatchewan and Alberta. Equality in area the federal government was willing to concede by extending the boundaries of Manitoba north and northeast. But this was not enough, for Roblin perceived that equality of status had other connotations; and a dispute was waged about what additional subsidies should accompany an enlargement of area. Roblin insisted upon nothing less than a complete duplication of the financial terms given Saskatchewan and Alberta, while Sir Wilfrid Laurier declared that, although something by way of a larger land subsidy should be given, Manitoba had no more right to ask for other changes than had any other province.

Meanwhile, the Roblin government was having fiscal difficulties. Coming into office at the beginning of the twentieth century, with the treasury in good condition and with Manitoba on the verge of a rapid expansion in wealth and population, it had been able to increase expenditure at an unprecedented rate. All the old services were expanded, and new ones were created. A government telephone system was developed; grain elevators

⁶ Of course, Manitoba was still larger by 30 per cent than all the Maritimes together.

were built and operated. These new ventures were mismanaged until by 1911 the situation was a scandal. Moreover, revenue ceased to grow, and the prospect of serious fiscal difficulties was at hand.

In these circumstances it is not difficult to imagine the joy with which the Roblin government greeted the victory of the Conservatives in the federal election of 1911. And when two members of the executive council of Manitoba — Robert Rogers and W. J. Roche — were chosen members of the federal cabinet, Roblin had every reason to expect that the claims of his province would receive favorable consideration. So it proved. At the first session of the new parliament an act was passed⁷ which gave Manitoba even more than had been claimed. It got: (1) extension of boundaries, (2) a new debt allowance, (3) a new allowance in lieu of land, (4) compensation because the Laurier government had lagged in putting it on an equality with Saskatchewan and Alberta. Boundary extension needs no further explanation, because this coincided with what had been offered in 1908. The others will be taken up in turn, and it should be remembered that, in every case, the aim was to give Manitoba equality with Saskatchewan and Alberta.

Consider first the debt allowance. That of Saskatchewan and of Alberta amounted to \$8,107,500. That of Manitoba was made equal to this figure by an addition of \$4,052,700, which meant, of course, that the receipt of interest by Manitoba was increased by \$202,636.⁸

The new subsidy in lieu of land was similarly modeled upon that of Saskatchewan and Alberta. But some complexity was introduced because Manitoba had earlier been given special grants of land — 150,000 acres as a university endowment and some 2,000,000 acres of swamp lands — while Saskatchewan and Alberta had received nothing of this sort. Deductions for these concessions had to be made, and therefore, instead of an annual land subsidy of \$562,500 (the amount received by Sas-

⁷ Dom. Stat., 1912, c. 32.

⁸ The net debt allowance of Manitoba after the adjustment amounted to \$7,631,700 rather than \$8,107,500, because Manitoba had earlier withdrawn \$475,800 from its credit balance at Ottawa.

katchewan and Alberta), Manitoba received \$409,100.⁹ In this way the prairie provinces were, for the future, put upon an equality in land subsidy.

But what about the past? Had not Manitoba been on an inequality with Saskatchewan and Alberta in land subsidy ever since the formation of the new provinces? And should it not, therefore, receive "arrearages" of land subsidy from 1905 to 1912? So it seemed to Roblin; and the federal government, although at first unwilling to accept this outrageous proposition, finally sacrificed logic for political friendship by a compromise which gave Manitoba "arrearages" from 1908 rather than from 1905.¹⁰ The calculation was as follows: from the annual land subsidy of \$562,500 was deducted the land subsidy — \$100,000 — actually paid to Manitoba, and also interest, amounting to \$116,800, on the proceeds from the sale of swamp and university lands. This left a net annual arrearage of \$345,700. Thus total arrearages for four years amounted to \$1,382,800, and that sum was paid over to Manitoba in a lump.¹¹

What criticism can be made of this legislation? The argument by which the concessions were supported was that Manitoba ought to be put upon an "equality" with Saskatchewan and Alberta. Now equality in area had an understandable meaning, and there were sound practical reasons why the boundaries of Manitoba should be extended. Equality in land subsidy was

⁹ Briefly, the arrangement was as follows: Manitoba reconveyed all unsold swamp lands in its possession to the Dominion. It was considered to have received from sales the net sum of \$2,768,000, and interest on this at 5 per cent, i.e., \$138,400, made one deduction. A value of \$300,000 was put upon the university lands, and interest on this at 5 per cent, i.e., \$15,000, made another deduction.

¹⁰ As a rickety logical foundation for the compromise it was pointed out that in 1908 the Dominion had passed resolutions which recognized the right of Manitoba to extension of its boundaries, subject to agreement about the appropriate financial terms. The resolutions never became effective; but it was argued that since now, in 1912, the federal government admitted the correctness of Manitoba's contentions, the rectification should be dated back to 1908. (See C.D., 1911-12, p. 4651, speech of Sir Robert Borden.)

¹¹ There was another small arrearage. It arose because Saskatchewan and Alberta had, in 1905, been allowed \$468,750 toward construction of public buildings. Manitoba had, in 1898, been given only \$267,026 (together with \$231,575 as arrears of interest), and now the difference — \$201,724 — was handed over.

also defensible. It may be that the land subsidy given to Saskatchewan and Alberta was too large; but that step had been taken, and it was not unreasonable to contend that the land subsidies of all the prairie provinces should be made uniform.

For the other concessions there was much less excuse. Why was Manitoba any more entitled to equality in debt allowance with Saskatchewan and Alberta than was British Columbia or any other province? No reason can be given, and the truth is that the increase of allowance was an outright grant of better terms. The arrearages were a still more flagrant handout, given as part of the spoils of victory and in order to quiet an agitation. There was wisdom as well as irony in the remark of one member of the House of Commons,¹² that the other provinces might well conclude from the example of Manitoba that the proper step was "to get busy and work up a grievance."

It is, therefore, not possible to agree with Sir Thomas White¹³ that the purpose of the legislation was "to do simple, plain, everyday justice" to Manitoba. Abstract tags, like "justice" and "equality," have, in questions of this sort, usually been introduced to conceal the lack of sound arguments. They were to be repeated in later years. Manitoba was to discover that its equality was incomplete; the Maritimes were to discover that they were on an inequality with the prairie provinces. A host of claims, based upon the premise of equality, were to plague the federal government.

A NEW GRANT FOR PRINCE EDWARD ISLAND

The opening years of the twentieth century did not bring relief to the treasury of Prince Edward Island. The provincial government continued to have deficits, and even the better terms of 1907, which added \$70,000 to the grants received from the Dominion, proved inadequate. As a result, agitation for further revision of subsidies was continuous. And when the Conservative party gained office at Ottawa in 1911, the people of the Island promptly elected a Conservative government at Char-

¹² C.D., 1911-12, p. 4333.

¹³ *Ibid.*, p. 3848.

lottetown, in the belief that it would have the best chance of gaining concessions for the province.

Almost the first act of the new provincial government was to send a delegation to Ottawa. It carried a memorial in which all the old grievances were recapitulated. Non-fulfilment of the promise of continuous communication, lack of a public domain, inadequate federal expenditure on public works in the Island — these and many other discontents were recited. And the memorial ended on a plaintive note: "It is the opinion of your memorialists, almost unanimously supported by the people of our Province, that Confederation has caused the destruction of the industries of the Island and has driven those formerly engaged therein to other lands."¹⁴ One might expect the conclusion to be drawn that secession was the only remedy. But this was not the case. Instead the memorialists looked hopefully toward the future. If better terms were given, if an improved ferry service with the mainland was provided, all would be well.

The negotiations at Ottawa were left to Premier Mathieson and Sir Thomas White, the federal minister of finance. It did not take long to reach agreement, because White became, so he declared, "enthusiastic"¹⁵ about the case of the Island. An extra subsidy of \$100,000 a year was to be given, and White decided that it would be best not to "particularize" as to which of the claims of the Island had been settled by this concession.

The Island government had not received so large an accession to its revenue since 1873. When, soon afterwards, the ferry service across Northumberland Strait was much improved, and when a new industry, fox-farming, sprang up, the people were jubilant. The government, infected by the spirit of optimism, began to spend on a scale wholly beyond that of its predecessors.

THE PROVINCIAL CONFERENCE OF 1913

In the other provinces the better terms of 1907 had been accepted as satisfactory, and there was no immediate development of an agitation for further concessions. But when, after

¹⁴ J. of A., P.E.I., 1921, app. C, p. 15.

¹⁵ C.D., 1911-12, p. 5861.

1911, the new Borden government increased the subsidies of Manitoba and Prince Edward Island, and seemed prepared to increase those of British Columbia, the opinion got around that the time was opportune for a new raid on the federal treasury. This opinion was fortified by the emergence of fiscal difficulties in almost every province. Mostly as a result of excessive aid to railways, the treasuries of all the smaller provinces were embarrassed. Ontario and Quebec were in sound condition, but neither Premier Whitney nor Premier Gouin was an enemy of federal subsidies; and the former had committed his government to extensive public works which made additional revenues desirable.

It was in such circumstances that a provincial conference was convened at Ottawa in October 1913. Like the conference of 1906, it had at least the tacit approval of the federal government, and Sir Robert Borden made a speech of welcome to the delegates. Avowedly, its business was the problem of Maritime representation in the House of Commons. But at the very first meeting the ubiquitous question of better terms came up, and a committee was appointed to prepare resolutions about it.

The resolutions which resulted were notable, above all else, for the brazen manner in which certain demands upon the Dominion were stated. In 1887 and in 1906 the delegates had been somewhat apologetic; they had made excuses for themselves. But in 1913 all this hesitancy had vanished. The naked claim for better terms was put forward bluntly and without shame. It was assumed that the federal government ought properly to act as a collector of revenue for the provincial governments.

The resolutions were notable also in that they proposed a new basis for additional subsidies. Besides the existing subsidies, the Dominion was asked to give an extra grant "equal to 10% of the Customs and Excise duties collected . . . from year to year."¹⁶ In 1913 this addition would have amounted to \$13,321,200. It was to be divided as follows: (1) The grants for government were to be scaled up by 50 per cent, a total in-

¹⁶ *Provincial Conferences*, p. 110. The paternity of the proposal is in doubt. There is some evidence pointing to Premier Whitney.

crease of \$870,000. (2) The remainder — \$12,451,200 — was to be divided according to population as determined by the last census. Roughly speaking, this proposal would have doubled the amount of subsidies. Yet only six years had elapsed since the revision of 1907, a revision which had been generous and which had, besides, been declared to be “final and irrevocable.”

The proposal that a percentage of federal collections through customs and excise duties should be paid over to the provinces has come up on later occasions. But no semblance of an argument can be adduced in its support. If a large portion of the subsidies was made dependent upon these receipts — customs being much the more important — every shift in the scale of customs and excises would tend to decrease or augment provincial receipts. Provincial governments would come to have a vital interest in the framing of every federal budget — and who can doubt that they would make those interests felt? The serious consequences of such a situation are obvious, and they are more than sufficient to condemn the proposal. One other less important objection may be mentioned. The amounts collected through customs and excises vary yearly because of changes in the rates charged and also because of changes in economic conditions. Thus the extra subsidy, under the 1913 plan, would have decreased from \$13,321,000 in 1913 to \$9,740,000 in 1915, from \$21,150,000 in 1920 to \$14,250,000 in 1922. This great variability would constitute a menace to the solvency of provincial governments.

The resolutions of the conference were formally presented to Sir Robert Borden, and at this time he made a brief speech in which he declared that “he saw no objection to the Provinces coming at stated intervals — say every ten years — to discuss and conclude any financial arrangements as between Canada and the Provinces, if circumstances warranted it.”¹⁷ This statement might seem to be sufficiently qualified, but nobody familiar with the history of better terms can doubt that the delegates regarded it as an assurance that their demands would receive consideration. In any case, Sir Robert endorsed the proposition

¹⁷ *Ibid.*, p. 115.

that there should be periodic revision of subsidies and that this should be done through a provincial conference. No previous prime minister had gone so far. Sir John A. Macdonald had frequently given better terms, but he had never invited the assistance of the provincial governments in framing these terms, and he had never committed himself to any plan. His decisions were as flexible and as undefined as the political situation. In the main he had preferred to make subsidy alterations piecemeal, because that gave better opportunity of rewarding political friends and refusing political enemies. The attitude of Sir Wilfrid Laurier was different in two respects: he desired to curb grants of better terms, but if concessions seemed expedient he preferred a general revision made with the advice of the provinces through a provincial conference. Thus the position taken by Sir Robert Borden in 1913 was both like and different from that of his two great predecessors. He accepted the provincial conference as the instrument through which policy about better terms might be determined, but he did not intend to put a check on frequent revisions; and he was willing to consider frequent revisions without the assurance that his political friends would get the favors.

The expectation of the provincial governments and the forecast of many political observers that the conference of 1913 would be followed by a grant of better terms was frustrated by the outbreak of war. The federal treasury was for many years to be in no position to assume unnecessary burdens.

CHAPTER XI

MARITIME RIGHTS

GENESIS OF THE AGITATION

THE heavy financial burdens put upon the federal treasury by the war, together with the onset of depression in 1920, made it necessary for the Dominion government to make claims for better terms wait upon the return of prosperity. In the Maritimes prosperity was slow in returning, and as the years dragged on without any appreciable improvement in economic conditions, the people stirred restlessly. The Conservatives were at this time in opposition, and it fell to them to capitalize upon the depression by preaching the doctrine of discontent. They did so by blaming all the ills of the Maritimes upon confederation. Surely this was a topsy-turvy alignment. From the days of Howe this grievance had been a monopoly of the Liberals. During the prosperous years after 1900, it had been dormant. The people of the Maritimes, and especially those of Nova Scotia, seemed to have become Canadians in sentiment as well as in law. But the appearance was deceptive. The continuance of hard times brought a recrudescence of the old agitation not only for better terms but for secession as well. That the agitation should be well received was, perhaps, less astonishing than was the effective manner in which the Conservative party and press gave it direction and force. They announced their intention to fight for "Maritime Rights," and they rallied to their support a motley group which included even avowed secessionists.

The agitation at first was not taken seriously by the Liberals. At Ottawa the government of Mr. King was dependent upon the support of the Progressive members from the west, and the Maritime members — almost all of them Liberal — exercised little influence on governmental policy. This situation inevitably played into the hands of the Conservatives in the Mari-

times, how much so was made evident by the provincial election of June 1925 in Nova Scotia, when they won an overwhelming victory. Two months later there was an election in New Brunswick, and again the Liberals were turned out and the Conservatives put in. In both cases the causes of the overturn were complex, but the advocates of Maritime Rights claimed that the victories belonged to them. Beyond dispute there was evidence that the people of the Maritimes had a rod in pickle for the Liberal party.

In the federal election of October 1925 the King government lost ground, and it was clear that, even with Progressive support, it could not long retain office. In the Maritimes the number of its followers had shrunk from twenty-five to six, and Mr. King had to consider how this loss could be regained.

THE DUNCAN COMMISSION DOUBLES SUBSIDIES

When parliament met early in 1926, the government announced at once that it intended to appoint a royal commission "to enquire into the claims that the rights of the Maritime Provinces in regard to the operation of the Intercolonial railway have not been observed, and that in regard to transportation, immigration, and other economic factors these provinces have suffered prejudicially in their position under Confederation."¹ Soon afterwards the members of the commission were named, Sir Andrew Rae Duncan being chairman. The commission had hardly begun its investigation before Mr. King resigned as prime minister. For a brief space Mr. Meighen held this post, and then in September an election was called. Thus the commission did its work in the midst of a violent political campaign, and it did not emerge unscathed. The Conservatives looked upon it as a Liberal makeshift, designed to catch votes in the

¹ C.D., 1926, p. 11. I have passed over the agitation carried on through non-governmental channels, such as chambers of commerce and boards of trade. A conference at Charlottetown in November 1925 drew up resolutions about the various Maritime grievances which were carried to the conference of the Dominion boards of trade and chambers of commerce. The conference passed a sympathetic resolution. Moreover, at an inter-provincial conference, held in June 1926 a resolution was passed unanimously asking the federal government to take action to relieve the Maritimes.

Maritimes. The Liberals declared that it was their answer to the demand for Maritime Rights. The effect of this controversy was most unfortunate.

A voluminous and ill-digested mass of evidence was placed before the commission by the Maritime governments, by representatives of industries and of a few cities and towns, and by private individuals. All the ancient grievances were resurrected, and a great variety of remedies was suggested, although in no case was a convincing or thorough argument presented. *Ex parte* statements, misleading analogies, bold assertions, garbled statistics — these formed the “evidence” from which the commission was expected to draw conclusions. One must believe that the chief purpose served by the public hearings was to give people a chance to let off steam.

Of the numerous grievances brought before the commission, only those concerning better terms can be examined.² About the need for them the Maritime governments were unanimous. Every incident in previous agitations was dragged out and furnished up once more. The whole course of provincial history since the 1860's was distorted, and even falsified, in an attempt to convince the commission that the Maritime governments

² In a broad sense all the demands of the Maritimes were manifestations of economic protectionism and all would have put new burdens upon the federal treasury. A few of these demands may be mentioned. With respect to federal railway policy, the complaint was that after 1912 freight rates in the Maritimes had been advanced more rapidly than elsewhere — although a deficit from the operation of the Intercolonial railway had continued. The contention was that this advance was contrary to the understanding upon which confederation had been negotiated and that it had brought economic injury to the Maritimes. Another issue, about which there had been debate for years and which was now placed before the commission, was whether or not Canadian trade should be forced to go through Canadian ports, e.g., through Halifax and St. John rather than through Portland. Obviously a decision about both of these questions depended upon how far the federal government was prepared to go in a policy of economic protectionism. If the Maritimes were given what they desired, a burden would be put upon the federal treasury and upon the rest of Canada. Besides requests of this sort, favors were asked for specific industries — bonuses for steel production, a tariff on coal, establishment of a federal department of fisheries, subsidies for technical and agricultural education, et cetera. Many of these requests were absurd; some merited consideration; a few were wise. But all were lumped together indiscriminately, and all were argued so inadequately that no commission could judge of their soundness without an independent and protracted investigation.

were entitled to larger subsidies.³ There were, indeed, a few reasonable claims, but so much chaff was mixed in, that an impatient reader might conclude that all was chaff.

One other aspect of the hearings should be mentioned. At the basis of almost every presentation made before the commission was the historical argument that the Maritimes had been badly used by the Dominion. If this was so — if the Maritimes had suffered either from the indifferent neglect or from the deliberate policy of the federal government — what change could be expected for the future? Here there was a difference of opinion. Some people declared that there was no cure for the economic disabilities of the Maritimes within confederation. In Nova Scotia talk of this sort was widespread, and it became almost respectable. According to this opinion, larger federal subsidies were a dole; lower freight rates and the multifarious devices for special favors were merely sedatives which deadened the perceptions of the people and prevented them from observing the deep-lying obstacles — notably high tariffs — in the way of Maritime prosperity.⁴ The true remedy was either secession or some lesser form of federal union. But most people did not press their logic so far. They preferred to declare that a remedy could be found “within the four corners of confederation” if the Dominion, by granting lower freight rates, larger subsidies, et cetera, took “the steps necessary to place the Maritime provinces in the position of equality with the rest of the Dominion which they deserve to occupy.”⁵

Let us glance next at the report submitted by the commission. It opened with a few sane paragraphs about the influences of confederation upon the economic development of the Mari-

³ The case presented by Nova Scotia was by far the most elaborate, and it was accepted by New Brunswick and Prince Edward Island except in so far as they desired to supplement it by special statements.

⁴ Thus the League for the Economic Independence of Nova Scotia declared: “While appreciating that a case can be made by litigious ingenuity for an increase in provincial subsidies and lower freight rates, we respectfully submit that such alleviation is as futile as it is immoral, and as Nova Scotians with yet some pride of race, we wish to disassociate ourselves from all such pettifogging and suppliance” (*The Position of Nova Scotia*, Kentville, 1926, p. 5).

⁵ Province of Nova Scotia, *A Submission of Its Claims with Respect to Maritime Disabilities within Confederation* (Halifax, 1926), p. iv.

times. Those who found in confederation the major cause of the difficulties of this area had left out of account a number of important economic changes, such as the shift away from wooden ships, which were independent of political events. Yet doubtless, the report went on, there had been some neglect of the Maritimes by the federal government.

It is not possible in such an undertaking as the making of Canada, with its geographical and its physical conditions, and its variety of settlement and development, to maintain always an accurate balance, apportioning to every section of this extensive country the exact quality of benefit and quantity of advantage which would be theoretically and justly desirable. But reasonable balance is within accomplishment if there be periodic stock-taking. We venture to regard the present occasion as such a period of stock-taking, so that in the future progress of the great common enterprise the prospects of the Maritime Provinces may be brought into line with the prospects of other parts of Canada and the prospects of the Dominion as a whole.⁶

It is unfortunate that the directness and clarity of the earlier pages of the report are not maintained in the pages which follow. Instead, *obiter dicta* are scattered about profusely without any supporting arguments. It is, for example, not enlightening to read the bald statement that the subsidy system set up in 1867 "was clearly too rigid and inelastic,"⁷ or "that Nova Scotia had been peculiarly unfortunate" in the treatment accorded to the claims which it had, at various times, pressed upon the Dominion. Sometimes the commission made a hit. Its opinion that the 1907 revision of subsidies had been of less relative advantage to the Maritimes than to the other provinces was understandable. But, on the other hand, this bargain had been arrived at openly and by consent; and there is force in the rule that an agreement deliberately made should not be lightly broken.

The commission also discovered that the Maritimes were "small provinces with stationary populations," that the expenditure of their provincial governments was "reasonable" and

⁶ *Report of the Royal Commission on Maritime Claims* (Ottawa, 1926), pp. 9-10.

⁷ *Ibid.*, p. 12.

“frugal,” and that, despite this frugality, outgo and income did not balance. From these facts it concluded that the Maritimes had “made out a case for a revision” of their subsidies.⁸ But is it not clear that acceptance of these criteria implies that fiscal and economic need is a proper basis upon which to grant subsidies?

The argument of the commission about debt allowances was sufficiently precise. It pointed out that the net indebtedness of the provincial governments of the Maritimes (and of all the older provinces except Manitoba) had been charged against the debt allowances with which they entered union. Some two-thirds of this debt had been incurred for construction of railways which had been taken over by the Dominion. The procedure used for Saskatchewan and Alberta had been different. In 1905 they were given per capita debt allowances equal to those of the older provinces; but these allowances were not reduced by the subtraction of debt, because they had no debt. Here was an “inequality” which made an impression upon the commission.

The correctness of this argument must be admitted. There was, however, a compensating feature which the commission overlooked. Debt allowances are fixed and are not subject to adjustment with changes in population. As a result, the per capita allowances of provinces like Saskatchewan and Alberta, which had grown rapidly in population, had shrunk steadily as compared with the per capita allowances of provinces which, like the Maritimes, had grown only slowly. In the following table the approximate amounts of the railway debt at union are charged against the debt allowances of the Maritimes so as to get figures of *net* debt allowances. If these figures are compared on the basis of population in 1926 — and comparative population has always been the basis of debt allowances — then the Maritimes in 1926 were not in a position of inequality. The maladjustment of which they complained had been offset and rectified with the passage of time. A revision of debt allow-

⁸ *Ibid.*, p. 16.

ances, which gave them credit for their railway debt at union, would not improve their position as compared with Saskatchewan and Alberta.

	Debt Allowance in 1926 *	Approximate Railway Debt at Union *	Net Debt Allowance * †	Per Capita in 1926
Nova Scotia	\$11,530	\$6,000	\$5,530	\$10.23
New Brunswick	8,781	5,000	3,781	9.29
Prince Edward Island	4,884	3,000	1,884	21.67
Saskatchewan	8,108	....	8,108	9.89
Alberta	8,108	....	8,108	13.35

* 000's omitted.

† Col. 1 minus col. 2.

Another phase of the demands of the Maritimes for better terms centered around the use made of the federal domain in western Canada. The most extreme statement of the claim was that the Maritimes had a proprietary or partnership interest in this domain. Put in this form the claim was absurd. Even if the acquisition of the Northwest in 1869 had been a gigantic land speculation — as the Maritime contention seemed to suggest — the federal government, and not the provinces, had been the purchaser.

It might seem that, if any consideration was accorded to such a claim, Ontario and Quebec would have a parallel claim. But here the Maritimes gave a new turn to their argument which increased its effectiveness. The boundaries of both Ontario and Quebec had been greatly extended since 1867 — they had been given large slices of federal domain. The Maritimes, because of their geographical position, had never been and could never be given a greater area; but they ought, so the argument ran, to be given adequate compensation in the form of increased subsidies.⁹ The commission was in sympathy with this view, although it expressed its approval in vague language.¹⁰

⁹ Sir Robert Borden had made a statement which seemed to indicate that he thought this was a fair proposition (C.D., 1911-12, p. 6156).

¹⁰ *Report*, p. 18.

I come now to what the commission called its "conclusion on financial arrangements." This was that

both in respect of grants for the machinery of governments and in respect of debt allowances, the Maritime Provinces have a genuine claim to a readjustment of the financial arrangements that exist between the Dominion and themselves, and that in any readjustment their territorial limitations entitle them to still further consideration.

But this "conclusion" was not to be conclusive, for the commission next declared:

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

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

These interim payments should be continued until the Dominion Government has had time to complete its investigation and reassessment.¹¹

These sums were, the commission believed, "the minimum additions that the Maritimes should have in any revision."

Clearly, here were better terms on a most generous scale. They meant that the total sum which Nova Scotia was receiving from the Dominion was to be more than doubled, that the sum received by New Brunswick was to be almost doubled, and that

¹¹ *Ibid.*, p. 19 (italics mine).

the sum received by Prince Edward Island was to be increased by one-third. Furthermore, the Dominion was enjoined to give "immediate consideration" to a more complete revision of subsidies; and the commission seemed to believe that, when this was done, further increases would be forthcoming. The advocates of Maritime Rights had reason to feel that their agitation had brought results.

The Dominion government had less cause for satisfaction. It had handed over a problem to a royal commission, and the commission, instead of providing a solution, had redeposited the problem upon its doorstep. The mischief inherent in this step is obvious. Even a cursory examination of subsidy agitation will disclose that precision in the assessment of claims is utterly impossible. The claims are always intangible; their meaning is not easily defined; and this meaning has been distorted by political byplay. If a commission shirks the task of making a definite decision, it fails to justify its existence.

Certain excuses can, of course, be made for the Duncan Commission. Its appointment grew out of a complex political situation: the King government hoped, through it, to show that the Conservatives were not the real friends of Maritime Rights. The result was that the commission became a political football.¹² It should, besides, be remembered that the commission was investigating an agitation which, in its extreme form, demanded withdrawal from the union. Looking backwards, it is easy to see that this threat was devoid of vitality. But it was not so easy to be wise at the time; and the commission, cast in the role of peacemaker, may have looked upon better terms as the price of reconciliation.¹³

THE CONFERENCE OF 1927 APPROVES

The report of the commission was, naturally enough, given an enthusiastic reception in the Maritimes. But in the west

¹² No counsel representing the Dominion appeared before the commission.

¹³ Other features of the *Report* can only be mentioned. Most important were its recommendations for a 20 per cent reduction of freight rates on Maritime traffic, for the establishment of coking plants in the central provinces, for a bonus to steel plants when they used Canadian coal.

there was a strong undercurrent of opposition. The western provinces also had claims against the Dominion: they wanted a settlement of the natural resources question; and their representatives in the Dominion cabinet balked at concessions to the Maritimes.¹⁴ As a result of this schism the King government accepted the subsidy increases recommended by the Duncan Commission with a very significant reservation. The increases were to be granted only for a year, and a decision about the future was to wait upon the advice of a provincial conference which would be called together during the summer.¹⁵

What lay behind the reservation? What did Mr. King hope to accomplish through a provincial conference? The aim was, of course, to reestablish the link of connection between the claims of the Maritimes and the claims of the west. The Maritime delegates would come to the conference conscious that their better terms might be endangered unless the western delegates were appeased; the western delegates, on the other hand, had to recognize that the report of the Duncan Commission was an accomplished fact and that opposition to it should be carried only far enough to secure Maritime acquiescence to a settlement of the natural resources question.

At every provincial conference there is a strong temptation for the provinces as a whole to unite against the federal government. One reason why Sir John A. Macdonald had set his face against the first provincial conference in 1887 was that he foresaw this danger. The provincial delegates, by a process of give and take, can formulate a program upon which they are able to agree, even though portions of the program may be obnoxious to each. This had happened in 1887, and something like it happened at the conference of 1927. It was easy for the delegates from the west and from the east to conclude that the best plan would be for the federal government to make concessions all around. The result was that the western delegates agreed to allow the federal government to pay better terms to the Mari-

¹⁴ The *Report* was in the hands of the government late in September 1926. Not until six months later did Mr. King announce his acceptance to the House of Commons.

¹⁵ C.D., 1926-27, pp. 1336-1337.

times — i.e., the subsidies of the Duncan report; and the Maritime delegates agreed to allow the federal government to give better terms to the western provinces — i.e., to return their lands and to continue their land subsidies without diminution.¹⁶ And the federal government was not unwilling. Its revenues, as a reflection of the general prosperity of the Dominion, were distinctly buoyant. It was prepared to take a “generous attitude”¹⁷ towards the demands of both sections.

After 1928 the “interim lump-sum increases” in subsidies recommended by the Duncan Commission were paid regularly to the Maritimes. But the further recommendation, for an “immediate” and “complete” revision of subsidies, received no attention until 1935.

¹⁶ The connection between the natural resources question, the Duncan award, and the provincial conference of 1927 was stated in explicit terms by Mr. King on several occasions. One statement was as follows:

“The maritime claims investigation took place in 1926, and the Dominion-provincial conference was held in 1927. It is necessary to refer to that conference because in my opinion it was an essential step towards the ultimate solution of this question. When the conference met there was before its members the record of what had been done by the government with respect to the appointment of the royal commission on maritime claims and its recommendation as to action which should be taken by the government as to voting additional subsidies to the maritime provinces. Before that conference there was also the position of the western provinces in the matter of their claim to the return of their resources. The western provinces had asserted that the time had come not merely when they should be given back their resources but that they should be permitted to receive as well the subsidies which at the outset had been given in lieu of resources. The situations of both the maritime and the western provinces were as a consequence considered at that conference, and the attitude towards the western provinces taken by those representing the maritime provinces and the provinces of Ontario and Quebec was that the Dominion government in dealing with these western provinces should do so in a generous and liberal manner. *That was the treatment accorded western Canada by the eastern part of Canada in return for the attitude the western provinces through its [sic] representatives in this parliament had taken in regard to the maritime situation.* There was cordial reciprocation. As a consequence the government felt that it was free to reopen negotiations with the western provinces on a basis more liberal than it had theretofore found possible to adopt. When the next conference was held with the western provinces the government kept in mind the attitude of the Dominion-provincial conference and to a considerable degree governed itself accordingly” (C.D., 1930, pp. 1606-1607, italics mine).

¹⁷ *Ibid.*, 1928, p. 44.

CHAPTER XII

THE NATURAL RESOURCES QUESTION

THE LIBERAL POSITION AFTER 1911

THE event which gave new life to the agitation about the natural resources question was the federal election of 1911. The attempt of Haultain after 1905 to arouse the electors of Saskatchewan and Alberta over federal retention of their public domain — the natural resources question — met with a decided rebuff. In two successive provincial elections the Liberals won sweeping victories, and Walter Scott, the premier of Saskatchewan, went so far as to doubt “the sanity of any Saskatchewan man who complains of the land terms.”¹ But the federal elections of 1911 altered the whole current of the agitation. So long as Sir Wilfrid Laurier held office at Ottawa, the two Liberal governments in Saskatchewan and Alberta were friendly to the Dominion. When Sir Robert Borden became prime minister the relationship altered, and Saskatchewan and Alberta began to develop grievances against the federal government. Here the natural resources question offered attractive possibilities.

Sir Robert Borden, while leader of the opposition, had taken a strong stand in favor of cession of the natural resources to the prairie provinces.² Consistency might seem to require that, after 1911, he should attempt to carry out this policy, and that Walter Scott and A. L. Sifton (the premier of Alberta) should refuse to accept it. In fact events developed differently. Sir Robert gave “better terms” to Manitoba by increasing its subsidy in lieu of land and by taking under federal control a considerable area of swamp land which had earlier been handed over to the province. Clearly he had no immediate intention of

¹ C.D., 1911-12, pp. 4390-4391; C.A.R., 1906, p. 465; 1908, p. 479; 1909, p. 502.

² See C.D., 1905, pp. 5986-5992.

returning the natural resources to the prairie provinces. At once Scott and Sifton took the initiative. They declared that Sir Robert should carry out his pledge, and then made sure that he could not do so by adding further demands of a curious nature. They wanted the return of their natural resources, but in addition they wanted the continuance, without diminution, of the subsidies paid in lieu of them.³ There cannot be the slightest doubt that to both Sir Robert Borden and Sir Wilfrid Laurier this seemed to be an astounding proposal. The prairie provinces wanted to have their cake and to eat it as well. Nor can there be any doubt that Sifton and Scott expected their proposal to be refused. What they wanted was to forestall action by Sir Robert Borden. They knew that return of their natural resources, if it meant loss or diminution of the land subsidy, would be fiscally ruinous. The federal government had for years been administering the natural resources at a loss, and under provincial administration the result was bound to be similar. But, although the position taken by Scott and Sifton was disingenuous, it was of great significance for the future of the agitation, because it meant that the Liberal party in the prairie provinces was no longer a defender of the *status quo* with respect to the natural resources. Henceforth, the federal government, no matter of what political faith, was certain to be faced by agitation against its policy of retention.

As might have been expected, the result was a stalemate.⁴

³ C.D., 1914, pp. 1073-1074. A letter of Dec. 22, 1913, signed by Scott, Sifton, and Roblin, asked that the natural resources be returned and that the existing land subsidies "should stand as compensation for lands already alienated." The scheme is, I believe, to be credited to A. L. Sifton.

I should mention briefly certain previous negotiations. In 1911 a resolution of the Saskatchewan Assembly (J. of A., 1910-11, p. 26; see also J. of A., Alberta, 1910, p. 47), while affirming the right of the Dominion to retain the agricultural lands of the province, requested that the hinterland in the north and "all natural resources of purely local concern" be handed over. Sir Wilfrid Laurier replied bluntly that this scheme might be worthy of consideration, but that, if adopted, it would "constitute a material alteration of the basis on which the financial terms were calculated and that consequently those financial terms would have to be revised" (C.D., 1914, pp. 1072-1073).

⁴ The stalemate was strengthened by the statement of Borden that, in his opinion, the Maritime Provinces ought to have a voice in deciding upon the terms of any natural resources settlement. He submitted the proposals of the prairie provinces to the Maritime premiers for comment, and they replied in

Sir Robert Borden pointed out that the requests of Scott and Sifton went far beyond any promises made by him; and there the question rested during the World War. With peace the agitation was to develop in a manner which would have surprised its originators.

The first important post-war negotiations were initiated by the prime minister, Mr. Arthur Meighen, in 1920. He pointed out to the premiers of Manitoba, Saskatchewan, and Alberta that, if they persisted in asking for both a return of the natural resources and a continuance of subsidies, progress toward a settlement would be blocked. Agreement by them upon some sort of self-denying ordinance seemed advisable.⁵ His hint was not favorably received. Manitoba, in particular, proved recalcitrant. Its premier, Mr. T. C. Norris, was against all compromise. To get a proper solution of the natural resources question, it was, he declared, necessary to "go back to first principles" and to consider whether the action of the Dominion in retaining the resources had or had not been constitutional.

This pseudo-constitutional argument received much attention in later debates. The most elaborate presentation of it is to be found in a pamphlet, *The Natural Resources Question*, written by Professor Chester Martin at the instance of the government of Manitoba. In brief, Martin's contention was that "the beneficial control of the public domain is implicit in provincial status under responsible government."⁶ Federal retention of the domain of Manitoba, Saskatchewan, and Alberta was, therefore, wholly contrary to British practice; and it meant that those provinces had been "living in respect of [their] natural resources under colonial conditions in some respects more reactionary than those which prevailed a hundred years ago in the provinces of British North America."⁷ At best

unison that a return of the resources and a continuance of the subsidy would disturb the whole basis of provincial subsidies and make necessary a general revision of financial terms (C.D., 1914, p. 1075, letter of Premier George H. Murray).

⁵ S.P., Dom., 1922, no. 142b, pp. 7-8.

⁶ Page 25.

⁷ *Ibid.*, p. 24.

the federal government had merely held the domain "in trust" for the prairie provinces, and it should now give an "accounting" as to how the trust had been fulfilled. This meant that all alienations should be examined and assessed in order to arrive at a proper dissolution of the trust and in order that a new settlement, based upon true constitutional principles, might be drawn up.

Quite apart from the practicability of this proposal, its premises were specious. Without question, control of the public domain had, as a rule, been an accompaniment of provincial status; but this practice had been established on grounds of expediency and not as a matter of abstract right. On numerous occasions after 1870 — the year in which Manitoba was created — the imperial government seriously considered retention of control of the public domain of certain of its overseas possessions. The decision was against this plan for two very realistic reasons: (1) that retention might make necessary payment of a subsidy in lieu of domain; and (2) that there was no possibility of exercising an effective control over the domain if it was retained.⁸ Thus Martin's statement of imperial policy is misleading; and the analogy which he drew between imperial and Canadian policy is, as Keith points out, "illusory," because the Canadian government gave subsidies in lieu of land and could exercise an effective control over the domain which it retained.

The practical difficulties of the Manitoba proposal, quite apart from its soundness as a matter of law, were pointed out by Mr. Meighen at once. How could there be a satisfactory "accounting"? A substantial portion of federal expenditure on immigration, railways, irrigation, et cetera, had arisen out of its retention of the western domain, but what this portion was could not be ascertained. In any attempt at "accounting," principles would come into conflict with counter-principles. In short, Mr. Meighen thought that debate about a policy adopted

⁸ See A. B. Keith, *Responsible Government in the Dominions* (Oxford, 1928), p. 775. Martin drew heavily upon this book, in its first edition, for support of his own argument.

many years ago and never seriously questioned was bound to be futile.⁹

The federal elections of 1921 lifted the responsibility of handling the natural resources question from Mr. Meighen and put it upon the new Liberal government, headed by Mr. W. L. Mackenzie King. Two months after his cabinet had been sworn in, he expressed to the premiers of the three prairie provinces his desire for a settlement; and it is interesting to find that his stand was almost precisely that of his predecessor, as well as that taken by Sir Robert Borden and Sir Wilfrid Laurier years before. He wrote: "We [the cabinet] do not see how the Prairie Provinces could seriously expect to receive the lands and at the same time continue to receive the land subsidy." It would be wisest "to ignore the transactions of the past and make a fresh start."¹⁰ This seemed to offer small prospect of agreement, and a conference at Ottawa shortly afterward led merely to the manufacture of certain vague formulas. The federal government, in equivocal phrase, declared itself willing to place the prairie provinces on an "equality" with the other provinces.¹¹ Such circumlocution was designed only to conceal the lack of real progress in negotiation with Saskatchewan and Manitoba. With Alberta, however, it seemed for a time as if a settlement could be reached. Alberta was willing to pass over without dispute the "principles" of constitutional law about which Manitoba and Saskatchewan made such a fuss. What is the explanation? It is that the "principles" were a subterfuge. Manitoba and Saskatchewan knew that possession of their natural resources, coupled with loss or diminution of subsidy, would bring burden rather than relief to their treasuries, and they therefore raised constitutional objections. Alberta, on the

⁹ Saskatchewan supported the Manitoba contention, but only for the negative reason that it was unwilling to accept the position taken by the federal government. Its attorney-general, W. F. A. Turgeon (later to be chairman of the royal commission on the natural resources question), declared that, while the contention of Manitoba might be "strong in equity," it was "weak in law" (S.P., Saskatchewan, 1920, p. 27). The other prairie province, Alberta, was willing to break away from Saskatchewan and Manitoba and to negotiate upon the basis suggested by the Dominion.

¹⁰ S.P., Dom., 1922, no. 142a, letter dated Feb. 20, 1922.

¹¹ C.D., 1922, p. 1018.

other hand, could expect that its public domain would bring in a substantial revenue to the provincial treasury, and it therefore passed over such objections. The prairie provinces were united in the hope that the natural resources agitation might serve as a means of getting better terms, but on this very account they advocated different methods of settlement.

Early in 1926 negotiations with Alberta seemed to have reached a satisfactory conclusion. An agreement was signed by which the province was to receive its unalienated domain and a continuance of the land subsidy for a period of three years.¹² Then an unforeseen obstacle, entirely unrelated to the natural resources question, cropped up when certain Quebec members of the House of Commons demanded that the educational rights of the Catholic minority in Alberta be safeguarded before the agreement should be ratified. At even the vague prospect of revival of a sectarian dispute both the provincial and the federal government turned tail precipitately, and the impending legislation was dropped.¹³

The abortive agreement with Alberta represented a compromise between the terms advocated by the federal government and those advocated by the provincial governments of Manitoba and Saskatchewan. If it had been completed the future history of the natural resources question might have been different. But it was not; and thereafter the swing of events weakened the bargaining power of the federal government. After the report of the Duncan Commission and the deliberations of the provincial conference of 1927, concessions had to be made to the western provinces.

THE TURGEON COMMISSION MAKES A COMPUTATION

It was agreed by all that the case of Manitoba should be handled first. In July 1928 Mr. King for the Dominion and Mr. Bracken for Manitoba settled upon procedure. The Dominion was to place Manitoba "in a position of equality with

¹² S.P., Dom., 1926, no. 75.

¹³ See C.D., 1926, pp. 557 (speech of Bourassa), 3902, and S.P., Dom., 1926, no. 75a (not printed).

the other provinces of confederation with respect to the administration and control of its natural resources as from its entrance into Confederation in 1870." A royal commission was to be appointed to "report as to what financial readjustments should be made to secure this end"; and after its findings had been given legislative enactment, the unalienated natural resources of Manitoba were to be placed under provincial control.¹⁴ Thus at the outset the federal government promised to yield up the public domain; and it admitted what it had not previously been willing to admit—that its retention of the domain had placed Manitoba in a position of inequality for which compensation was now due.

The commissioners appointed were Mr. W. F. A. Turgeon, judge of the Saskatchewan Court of Appeals, Mr. T. A. Crerar of Winnipeg, and Mr. C. M. Bowman of Waterloo, the first-named being the chairman. They held hearings and heard evidence during the winter of 1928-29; and nobody can read the proceedings without noticing that, while the case of Manitoba was prepared and presented with the greatest care, that of the Dominion was makeshift. The explanation is simple. For the provincial government the successful establishment of its claims meant "better terms" and enhanced prestige; for the federal government success before the commission would, politically, be worse than defeat. Finally in May 1929 the commission made its report.

Throughout the investigation the commissioners were plagued by the vagueness with which their task had been defined. The terms "equality" and an "accounting on a fiduciary basis," while eminently adapted to political agitation, were now an encumbrance. In the opening pages of the *Report*, which are devoted to a historical survey of conditions prior to confederation, the awkward implications of the word "equality" are apparent. The commissioners found that, when, in the first half of the nineteenth century, the imperial government gave its colonies in British North America control of their public domain, it did

¹⁴ *Report of the Royal Commission on the Transfer of the Natural Resources of Manitoba* (Ottawa, 1929), p. 5.

not see that they were put on an "equality" with each other and did not give an accounting for the large and wanton alienations which it had made. They found also that, when in 1867 these colonies formed themselves into a Dominion, no provision was made in the terms of union for placing them on an "equality" with respect to their natural resources. Did not this destroy the very basis of Manitoba's claim? If the other provinces had been on an inequality at confederation, why should it complain?

The commissioners now introduced an ingenious sophistry. This inequality in the relative positions of the older provinces must, they reasoned, really be taken to mean "equality."¹⁵ "Equality" meant simply that each, upon entry into the confederation, retained control of its unalienated resources; and by this definition Manitoba had been put upon an inequality in 1870. Since in 1870 Manitoba was practically unsettled and since its resources were almost intact, the definition placed upon the Dominion the responsibility of accounting for the greater part of the alienations that had ever been made.

This was eminently favorable to Manitoba; and having taken one plunge, the commissioners promptly took another. It was, they said, "one of the fundamental principles of Confederation that each province was to enjoy, as a source of revenue, the administration and control of all the Crown lands, mines and minerals within its territory. . . ."¹⁶ Of course, this was wrong. "Fundamental principles" about control of the domain had not governed in the slightest degree. Indeed, the fathers of confederation in 1864 made contradictory decisions. They decided, after debate, in favor of federal assumption of the domain of Newfoundland; and they decided, without debate, against federal assumption of the domain of the other provinces. The "principles" which bulked so large during the hear-

¹⁵ "It appears from the foregoing that the four original provinces of Confederation received equal treatment in regard to their natural resources in this respect—that each retained what it possessed previously, regardless of differences of volume and value, and regardless of all past acts of administration affecting this value" (*ibid.*, p. 13).

¹⁶ *Ibid.*, p. 14. Yet the commissioners stated earlier that the fathers of confederation had, in this respect, been guided only by "practical expediency."

ings of the Turgeon Commission were not even suggested. And the subsidies in lieu of land offered to Newfoundland in 1864 and given in 1871 and 1873 to British Columbia and Prince Edward Island do not, as the commissioners thought, "illustrate the importance attached in the scheme of Confederation to the possession by the Provinces of their public domain as sources of revenue,"¹⁷ but they do illustrate the importance of satisfactory federal subsidies. Possession of the domain by a province was of no importance; possession of a good source of revenue was all-important; and it was in this latter respect alone that the terms given Manitoba in 1870 might be open to objection.

We see, then, that the commissioners had decided that Manitoba had a claim against the Dominion for all alienations of its land made after 1870; and, by a convenient modification of their terms of reference, they now asked themselves the question: Has Manitoba "received in the past adequate [financial] consideration" for these alienations? It was, of course, clear that for one class of alienations — those for "purely provincial purposes" — no compensation was due. But those made "for the purposes of the Dominion"¹⁸ did require compensation; and it therefore became necessary to determine the extent of the alienation of the two types.

Total alienations up to 1929 amounted to 20,948,200 acres. Of these nearly 5,500,000 acres could, without much question, be declared to have been disposed of for provincial purposes. Of the remainder, the large alienations were 7,508,000 acres for homesteads, 2,958,800 acres for railways, and 2,560,500 acres as sales. The acreage disposed of by sale could naturally be classed as alienated for the purposes of the Dominion. Did the alienations for railways and for homesteads also belong in this class?

Consider, first, the grants to railway companies. What portion of these had been for provincial and what for Dominion purposes? After some hesitation the commissioners decided to include in the former class only the grants of land, amounting

¹⁷ *Ibid.*, p. 17.

¹⁸ *Ibid.*, pp. 8, 23, 31-32.

to 575,000 acres, going to branch railways "running from point to point in the Province."¹⁹ The remaining alienations for railways, amounting to 2,978,800 acres (of which 2,182,800 acres were for the main line of the Canadian Pacific Railway), were regarded as for the purposes of the Dominion.

The commissioners marshaled some historical evidence in support of their distinction. The National Transcontinental was, they pointed out, built at Dominion expense, without contribution from Ontario, although the line ran through, and was of great value to, that province. Was it not, then, a "discrimination" that Manitoba should make a special contribution to the Canadian Pacific Railway, another national line, through grant of its lands? The commissioners thought it of no significance that Manitoba had to have the Canadian Pacific and was willing that its lands be used to aid it, because one might argue "with equal plausibility, that if Canada had not built the National Transcontinental through Northern Ontario, the Provincial Government would have been compelled to build the line through that territory some day, at the expense of its own resources."²⁰ Of course, the "plausibility" is not "equal." The interest of Manitoba in the Canadian Pacific was vastly more urgent than that of Ontario in the National Transcontinental. One admission may be made. Dominion policy about aid for railways had changed notably between 1880 and the first decade of the twentieth century; and it can be surmised that, if the Canadian Pacific had been built in 1904, the federal contribution would have been greater and the contribution of Manitoba less than was actually the case. In this sense only did Manitoba have a claim to retroactive compensation.

What about the homestead alienations? Had they been made for Dominion or for provincial purposes? The commissioners

¹⁹ At first the commissioners defined a provincial purpose as one "towards which the Provincial Government would have contributed of its lands if it had owned them" (p. 36). But they refused to follow this definition, for they admitted in one breath that the government of Manitoba would certainly have given land to the Canadian Pacific Railway, and yet went on to insist that this fact was irrelevant and that the Canadian Pacific Railway was a national line (p. 38).

²⁰ *Ibid.*, p. 38.

admitted at once "that the use made of these lands redounded, in part, to the interest of the Province." But by another ingenious bit of sophistry they evaded the implications of their admission by making a distinction between the effects of the homestead policy upon the finances of the provincial government and its effect upon the development of Manitoba as a whole,²¹ and by insisting that the former was all that they had to consider. This position is patently artificial. Surely the important thing is how Manitoba progressed under the homestead policy. Only if the commissioners had been able to show that the alleged poverty of the provincial government had held back development of the province would their distinction have had meaning. And such a proposition was not established. It may be admitted that the increase of population resulting from free homesteads put some burdens upon the provincial treasury, and that the provincial government, in full control of its natural resources, could not have adopted a homestead policy, but would instead have been forced by fiscal need to sell its lands in order to secure a revenue. In that event the economic development of Manitoba would have been retarded; and there cannot be the slightest doubt that this would have been regarded by the people of the province as a great misfortune.²² The west was, until recently, overwhelmingly in favor of a homestead policy; and the federal government, by retention of the public domain and at the cost of a heavy net expenditure, made free homesteads possible. The argument of the Manitoba government before the Turgeon Commission, that the province should get compensation because the Dominion had alienated its lands to settlers, was, therefore, tinged with irony. What would have been said had the Dominion pursued any other policy? ²³

²¹ *Ibid.*, p. 34.

²² The historian of the future, blessed with hindsight, may decide that the homestead policy was a mistake. Such an opinion is not pertinent here because it was never held either by the provincial or by the federal government.

²³ It is noteworthy that the *Winnipeg Free Press*, the most influential paper in western Canada, and throughout its career a staunch advocate of the rights of Manitoba, declared in an editorial of July 4, 1928, that a list of the lands alienated for the purposes of the Dominion "would not presumably include homestead lands."

The commissioners knew the weakness of classifying homestead alienations as for the purposes of the Dominion, and they took this step only with reservations. They promised to put a "light appraisal" upon the loss suffered by the province through these alienations.²⁴ We shall soon see that this promise was not kept, because they did not make an appraisal at all.

Since the whole argument of the commissioners was directed toward discovering what lands of Manitoba had been alienated for the purposes of the Dominion, it was to be expected that their findings on this point would determine their recommendations with respect to financial compensation. But there were obvious difficulties. Even supposing that the actual acreage so disposed of could be determined, what value should be placed upon this acreage? The alienations had been spread over a period of sixty years. What was the commercial value of a homestead taken up in 1870, in 1890, or in any other year? The facts were not known and could not be found out. The Manitoba government had not been unaware of these difficulties. Why, then, had its representatives so shaped their arguments as to lead to an apparent *cul-de-sac*? Because, while arguing along the lines suggested by past agitation, they were prepared to suggest that a settlement might be arranged upon a different basis. The incongruity of leaving a complete hiatus between argument and conclusion did not disturb them, and, what is more surprising, it did not disturb the commissioners, who accepted the Manitoba suggestion almost in its entirety.

In order to explain what was recommended by the commission, it will be necessary to refer again to the subsidies given in lieu of land to Saskatchewan and Alberta. Evidence was presented earlier to show that these had been determined upon no "principle" more abstract than fiscal need. It was possible, however, to allege that they had been formulated upon another basis by going back to the original resolution about them presented to the House of Commons in 1905. By it the land subsidy was to be 1 per cent upon a hypothetical valuation — at \$1.50 per acre — of a portion of the area of each province.

²⁴ *Report*, pp. 42, 36.

Why a rate of 1 per cent? Why a value of \$1.50 per acre? Why an area of 25,000,000 acres? This resolution was never enacted into law; it defies explanation; and it is nothing more than a congeries of imaginary figures. Yet it was resurrected a quarter of a century later by the members of the Turgeon Commission, who assumed that a real attempt had been made to value the lands of Saskatchewan and Alberta, and who declared their intention of making a valuation of the land of Manitoba in 1870 upon a basis which would parallel the method of 1905. The task was, they asserted, to do "retroactively what we must assume should have been done from the first."²⁵

The commissioners state nowhere in their report the details of the computation which they made. But these details can be deduced, and they are of considerable importance. In any attempt to make a literal application of the Saskatchewan and Alberta terms to Manitoba certain difficulties would crop up. For one thing, the legislation of 1905 had fixed a minimum land subsidy upon the presumption that the population of a province was not less than 250,000, and it gave no hint as to what subsidy would be appropriate for a smaller population. But the population of Manitoba did not number 250,000 until 1901, and the problem thus was: What subsidy should be assigned to it, on a retroactive basis, for the years before 1901? A second difficulty was about area. In 1912 the area of Manitoba became 161,172,500 acres, approximately the same as that of Saskatchewan and Alberta; but from 1870 to 1881 its area was only 8,914,200 acres,²⁶ and from 1881 to 1912 it was only 47,188,500 acres. The land subsidy of Saskatchewan and Alberta had ostensibly been calculated upon a basic acreage of 25,000,000 acres — about 15 per cent of their total area. Ought the same percentage to be used now for Manitoba? A third difficulty was about the value per acre. For Saskatchewan and Alberta in

²⁵ *Ibid.*, p. 42. It will be remembered that this was the second occasion upon which the subsidy terms given to Saskatchewan and Alberta were used to justify concessions to Manitoba. In 1912 the Manitoba subsidy was made equal to that of Saskatchewan and of Alberta for the future, and it was made retroactive to 1908. The Turgeon Commission, in effect, recommended that the subsidy should be made retroactive to 1870.

²⁶ I neglect a small addition made in 1878.

1905 this was declared to be \$1.50. What would be the proper figure for Manitoba for each of the thirty-five years back to 1870?

The table below shows that the commissioners found a summary solution for these perplexities. During the years when the population of Manitoba was less than 250,000 (i.e., before 1901), they calculated the subsidy at the rate of $\frac{1}{2}$ of 1 per cent instead of 1 per cent; with respect to area they assumed a basic acreage of 8,000,000 acres from 1870 to 1880, and thereafter one of 25,000,000 acres; and, finally, they put the value per acre at \$1.50 for the whole period.

Years	Population	Basic Acreage Assumed	Value at \$1.50 per Acre	Subsidy Rate, Annual	Total
1870-1880	Under 250,000	8,000,000	\$12,000,000	$\frac{1}{2}\%$ = \$ 60,000	\$ 660,000
1881-1900	Under 250,000	25,000,000	37,500,000	$\frac{1}{2}\%$ = 187,500	3,750,000
1901-1907	Over 250,000	25,000,000	37,500,000	1% = 375,000	2,625,000
1908-1928	Over 400,000	25,000,000	37,500,000	$1\frac{1}{2}\%$ = 562,500	11,812,500
Total					\$18,847,500

In this way the commissioners arrived at the sum of \$18,847,500, which might seem to represent the total land subsidies due to Manitoba from 1870 to 1928. But the Dominion was not in arrears by this amount, since it had paid as land subsidies \$11,193,400 and had given swamp lands and university lands from which \$3,306,900 had been derived by the province. There was left a balance of \$4,584,200, and this the commissioners recommended should be paid as a lump sum to the provincial government.

It is thus clear that there never was an attempt at an "accounting" by the commissioners. Since any such attempt would have been futile, it may perhaps be averred that the commissioners showed wisdom in adopting a short cut which had at least the cardinal virtue of simplicity. And their short cut had another virtue, namely, that it was politically defensible. The endorsement of both parties to it could plausibly be claimed. In 1905 the Liberals had formulated the basis of the Saskatchewan and Alberta land subsidies upon which the

Turgeon Commission now modeled its recommendation; in 1912 the Conservatives had adopted and used this basis in the adjustment given to Manitoba. Political precedents of this sort were a strong fortification against attack; and if a high value is put upon political expediency, this portion of the report was shrewdly framed.

But the commissioners went on to recommend further favors for Manitoba which it is difficult to justify on any conceivable ground. Not content with recommending that the Dominion should pay to the province the lump sum of \$4,584,200 as arrears of land subsidy and that it should return those lands which were unalienated, they also declared that it should continue without diminution the old land subsidy. That is to say, despite the fact that the federal government was to divest itself of its public domain in Manitoba, it was to continue payment as if it were still in possession; and despite the fact that it was to pay to Manitoba arrears of land subsidy back to 1870, it was to continue the subsidy for the future. What was the explanation? The commissioners give none. They do not state anywhere in the report that the scale of arrears which they calculated was defective and needed to be supplemented; and, certainly, if such a retroactive computation was justifiable at all, it should have been complete. The consequence of this inexplicable provision is that the last vestige of consistency in the report is destroyed.

During the hearings of the commission there was much talk about the confusion which engulfed the natural resources question because, in the past, the various negotiations had followed no consistent "principles"; and at the conclusion of their report the commissioners repeated these complaints.²⁷ About this there cannot be two opinions. In the past a diversity of methods and a lack of logical approach had kept old claims alive and had generated new ones. But a commission which saw these things ought all the more to have avoided the same morass; it

²⁷ *Ibid.*, p. 45. "The great delay in establishing the principles of a permanent settlement . . . and the various arrangements, devoid of any clear principle, which have been entered from time to time, have complicated the situation almost beyond the possibility of clear, unanswerable solution."

ought to have taken care that the settlement which it proposed was free from unnecessary confusion; and it ought to have remembered that in years to come its statements would be explored by provincial governments seeking grounds upon which to base claims for "better terms." Unfortunately the report of the Turgeon Commission did not rise above its ancestry. It is on a par with the numerous antecedent reports made by sub-committees of the cabinet upon the natural resources question.

AGREEMENTS WITH SASKATCHEWAN AND ALBERTA

The appointment of a royal commission for Manitoba had naturally been of interest to Saskatchewan and Alberta. They waited eagerly for its report; and when in June 1929 Mr. King and Mr. Bracken reached agreement about its recommendations, the former took care to announce that his government stood ready to give Saskatchewan and Alberta "treatment similar to that granted to Manitoba."²⁸ In December an arrangement was made with Alberta. That province was, in the current phrase, to be put "in a position of equality with the other provinces"; and this required (1) transfer of its unalienated resources, (2) continuance of the land subsidy without alteration, (3) a royal commission to inquire whether or not any further compensation should be given. Saskatchewan at first held off, principally because in September 1929 the Liberals were defeated, and a new government, headed by Mr. J. T. M. Anderson, came into office. But finally, in March 1930, an agreement was negotiated which paralleled the Alberta one, except that the royal commission was to be different in composition and that Saskatchewan reserved certain demands pending judicial determination of the right of the Dominion to hold land except as an "administrative trustee." Alberta then asked for a similar modification of its agreement, and this was conceded.²⁹

²⁸ S.P., Dom., 1930, no. 108a; see also *ibid.*, 1929, no. 42 (not printed).

²⁹ The contention of Saskatchewan and Alberta that the Dominion had no constitutional right to hold land other than as an "administrative trustee" for provinces which had been or might be created, would, if established, have

In 1930 legislation was passed at Ottawa implementing the recommendations of the Turgeon Commission and the agreements made with Saskatchewan and Alberta. Discussion in the House of Commons was brief and in the nature of an anticlimax. The old questions which had been talked and fought over for years were not even raised. This was surprising. Shortly before parliament met the *Edmonton Bulletin* had editorially declared:

There will be pretty general agreement that these terms are as good as the province [Alberta] could in any reason ask for or expect to get. . . . If the bargain as it stands goes through Parliament without a formidable protest from the members representing the older provinces, that will be a new departure in reference to the subject.⁸⁰

The expectation of a "formidable protest" was entirely legitimate; and that it did not materialize is a matter for regret. If the absence of criticism had indicated the unanimous belief that the terms were neither more nor less than just, the silence would have been excusable. But this was not the case. There was a conspiracy of silence simply because of the impending federal election.

Although the federal government by the legislation of 1930 had made concessions all along the line, it was not wholly without solace. One cannot, indeed, believe with Mr. King that his government had "reinforced the foundations of confederation by an equitable readjustment of the financial relations between the Dominion and the provinces";⁸¹ at best a protracted and dangerous agitation had been checked. But it is true that by

meant that Saskatchewan and Alberta were entitled to date their claim to compensation from 1870 rather than from 1905. But a recent decision of the Privy Council (see *Dom. Law Reports*, IV, 1931, pp. 712-720) has declared that in law their contention has no validity. In spite of this, it is probable that the question has not yet been brought to a conclusion. A much larger area of land was alienated by the Dominion within the boundaries of Saskatchewan and Alberta than within Manitoba—as grants to railways, three and a half and four and a half times as much; and the circumstance that Manitoba happened to be given provincial status in 1870, while Saskatchewan and Alberta did not receive it until 1905, will not seem conclusive against dating the claims of the latter provinces from 1870.

⁸⁰ Dec. 17, 1929.

⁸¹ C.D., 1930, p. 11.

1930 the chief purposes for which the Dominion held the domain had been achieved. Further settlement and exploitation of the natural resources of the west can, perhaps, be handled satisfactorily by the provincial governments themselves. If this is so, then the Dominion, by giving over the domain, gave over tasks which would, in the future even more than in the past, have cost it a large expenditure.³² On the other hand, the provincial governments of Manitoba, Saskatchewan, and Alberta may find their natural resources a costly asset.

³² From 1872 to 1927 (inclusive) the federal government spent for the administration of its domain in Manitoba \$15,184,600, and it received as revenue \$9,294,000; from 1905 to 1927 (inclusive) it spent \$20,270,500 in Saskatchewan and received \$23,055,500; and during the same period it spent \$39,305,700 in Alberta and received \$29,664,600. These figures, taken from the files of the Turgeon Commission, include no expenditure for such a purpose as immigration. They were, however, questioned later by the Dysart Commissions.

CHAPTER XIII

THE "FINAL" SETTLEMENTS AND THE CLAIMS OF BRITISH COLUMBIA

AFTER 1930 the problems growing out of the depression put all else in the background. Not until 1934 were steps taken to settle the two outstanding subsidy questions. Then royal commissions were appointed (1) to consider what, if any, financial consideration should be paid to Saskatchewan and Alberta because of federal control and administration of their natural resources after 1905; and (2) to deal with the recommendation of the Duncan Commission that the financial arrangements between the Dominion and the Maritimes be revised. Before the hearings were over it had been demonstrated once more that the two questions were intimately related.

THE SASKATCHEWAN AND ALBERTA COMMISSIONS ATTEMPT AN ACCOUNTING

The Royal Commission on the Natural Resources of Saskatchewan, consisting of Mr. A. K. Dysart, judge of the Court of the King's Bench of Manitoba, Mr. H. V. Bigelow, judge of the Court of the King's Bench of Saskatchewan, and Mr. G. C. McDonald, was appointed first, and it held hearings during the winter and spring of 1934. The Alberta Commission had the same membership except that Mr. T. M. Tweedie, judge of the Supreme Court of Alberta, replaced Mr. Bigelow, and it held hearings late in the year. The reports of both commissions were issued together, and, as far as possible, their wording was parallel.

It will be remembered that, in accordance with the agreement of 1930, both Saskatchewan and Alberta had received their unalienated resources as well as continuance of an annual subsidy equal to the previous subsidy in lieu of land. The prob-

lem was to determine whether any additional compensation was due to the two provinces because of the "inequality" suffered by them through federal administration and control of their natural resources from September 1, 1905 — when they were given provincial status — to October 1, 1930.¹ A similar problem had been faced by the Turgeon Commission for Manitoba, and to its report the new commissioners went for guidance. But they found there few "principles" from which to start. No "accounting" had been made of alienations for Dominion and for provincial purposes. Instead the award had been reached by a computation which, by virtue of certain arbitrary assumptions, put Manitoba upon an "equality" with Saskatchewan and Alberta. If this result was accepted, then any new award to Saskatchewan and Alberta would disturb this equality.² Clearly this was not helpful, and the commissioners therefore decided that they should make an attempt at the "accounting" which their predecessor had passed over.

This task was exceedingly complex. Not only had the amount of the alienations to be determined, but a division into alienations for provincial and for Dominion purposes had to be made. Here the questions were almost insoluble. How much of the homestead alienations was for provincial purposes? In order to reach a conclusion some assumption had to be made about what would have been the policy of Saskatchewan and Alberta had they been in control of the lands. And how were the alienations, spread over a period of twenty-five years, to be valued? A great number of hypothetical answers could be

¹ What had been done before 1905 was not in question because the courts had decided that Saskatchewan (and Alberta) had no pre-provincial rights in the resources.

² The report of the Turgeon Commission is definitely ambiguous, and several interpretations are possible. The line of reasoning which will make it logically consistent with itself and with the Saskatchewan and Alberta reports is perhaps as follows: the lump-sum award of \$4,584,200 given to Manitoba was for the purpose of placing it upon an "equality" with Saskatchewan and Alberta up to 1908, while the continuance of the subsidy in lieu of land after 1930 was to put Manitoba upon an "equality" with the other provinces. In that case, if between 1908 and 1930 Saskatchewan and Alberta lost more from Dominion control of their natural resources than did Manitoba, a further adjustment might be necessary beyond continuance of the land subsidy. This sort of rationalization seems to underlie the dissenting report of Mr. Bigelow.

given. Difficulties of this sort forced the commissioners to generalize their problems. The "primary test" which they applied was to "seek to put Saskatchewan [or Alberta] in the position of being as well off financially in 1930 as the Province would have been had it received the control and administration of its resources in 1905."³

In comparing the actual policy of the Dominion with that which Saskatchewan and Alberta might fairly be assumed to have pursued, the commissions⁴ made sensible observations. They refused to accept the sharp distinction, which counsel for the provinces sought to draw, between Dominion and provincial purposes. "Colonization and settlement were the avowed purposes of the Dominion, they would also have been purposes of a provincial administration."⁵ But the commissions felt that, "under provincial administration, policies which would probably have been adopted for settlement purposes would have been influenced by the province's need for using the lands and other resources in some measure for revenue purposes."⁶ For example, the provincial government might, for some years after 1905, have continued the free homestead policy, but "eventually the time would have come when, with a rapidly lessening supply of good available agricultural lands, coupled with an almost equally rapid growth of the need for revenues, the province would probably have modified the homestead policy."⁷ Homesteads accounted for 20,500,000 acres out of the total of 29,475,000 acres of surface alienations, 1905-1930, from which revenue might have been obtained by Saskatchewan, and for 15,800,000 acres of the total of 20,300,000 acres in Alberta.⁸ But since the first ten years of the period accounted

³ *Report of the Royal Commission on the Natural Resources of Saskatchewan* (Ottawa, 1935), p. 36 (see also pp. 37, 23); *Report of the Royal Commission on the Natural Resources of Alberta* (Ottawa, 1935), p. 38 (see also pp. 39, 24).

⁴ The *Saskatchewan Report* was signed by only two commissioners.

⁵ *Sask. Report*, p. 25.

⁶ *Ibid.*, p. 23.

⁷ *Ibid.*, p. 28.

⁸ It should not be understood that the figures of 29,475,000 acres for Saskatchewan, and of 20,300,000 acres for Alberta represent the totals of surface alienations in the two provinces, 1905-1930. They are merely the surface acreage which the commissions took into account as being a partial basis for the provin-

in Saskatchewan for three-quarters, and in Alberta for four-fifths, of the net area homestead, it was clear that the modification could not have been productive of much revenue.

Each of the other main types of alienation was reviewed by the commissions. They decided that "a substantial part" of the alienations of half-breed lands — a total of 873,100 acres was patented in Saskatchewan, 1905-1930, and of 128,250 acres in Alberta — would not have been made if the provincial governments of Saskatchewan and Alberta had been in control. Soldier bounties in the form of lands had been given by the Dominion to veterans of the South African War and of the Great War. (The totals patented or disposed of in Saskatchewan, 1905-1930, were respectively 1,200,000 acres and 650,000 acres, and in Alberta 1,000,000 acres and 750,000 acres.) These were, the commissions believed, to discharge a Dominion and not a provincial responsibility, and they constituted "a substantial ground for claim."⁹ A large acreage of land was conveyed to railway companies, but in Alberta all of it was in fulfilment of commitments entered into before 1905 and thus outside the scope of the inquiry, and in Saskatchewan all but 2,200,000 acres was in the same category. This last amount was alienated to subsidize railways built in Manitoba, and it constituted a claim of Saskatchewan against the Dominion.

Besides surface acreage the Dominion had also alienated some under-rights. For Saskatchewan this total was small and, in any case, not of importance. For Alberta, however, the

cial claims. From them are excluded a large acreage, conveyed after 1905 but in fulfilment of antecedent commitments of the Dominion, particularly to railways and to the Hudson's Bay Company. The following table shows actual surface acreage conveyed, by main headings, in Saskatchewan and Alberta, 1905-1930:

	Saskatchewan	Alberta
To Settlers (mostly homesteads) ..	28,309,400 acres	17,126,400 acres
Railways	6,113,300 "	2,396,800 "
Hudson's Bay Company	1,244,800 "	1,016,800 "
Sales	1,384,100 "	1,741,000 "
Miscellaneous	2,060,200 "	1,867,200 "
Total	39,111,800 acres	24,148,200 acres

⁹ *Sask. Report*, p. 29.

under-right alienations (including only the baser minerals — coal, petroleum, and natural gas) were of considerable value, and the commissioners decided that the provincial government might well have secured “a net revenue considerably larger than that which the Dominion, less intent upon revenue purposes, actually derived.”¹⁰

Both provincial governments pressed further claims which rested upon the inadequacy — Saskatchewan said the inefficiency — of federal administration of the resources, particularly with respect to school lands, grazing leases, timber berths, mineral lands.¹¹ The whole course of federal administration was searched to uncover instances where action had been taken which, conceivably, the provincial government might not have chosen, or which, in the light of events, turned out to be a mistake.

Most attention was paid to administration of the school lands. Admittedly the Dominion had sold them at opportune times and at satisfactory prices, but the complaint was raised that after sale — made on a ten-year basis — the federal officials were dilatory and lax in collecting arrears of principal and interest. As a result money was lost which, so it was alleged, a more zealous and thrifty provincial administration would have secured. These complaints the commissions refused to entertain. The record of the Dominion was, of course, not without blemishes, and it was easy, with the advantage of hindsight, to pick out instances where mistakes were made. But would provincial officials, with the advantage only of foresight, not have made mistakes which were at least as serious? The Dominion received in both Saskatchewan and Alberta over \$16 per acre on the net sales of school lands, and the commissions did not be-

¹⁰ *Alta. Report*, p. 33.

¹¹ In the argument as presented by counsel for Saskatchewan emphasis was upon the inefficiency of the federal administration. The Alberta argument was more restrained. It stressed the proposition that the attitude and aims of federal and of provincial officials were different. Federal officials were, so the argument ran, concerned with a settlement policy. Provincial officials would have been forced to adopt a revenue policy. A long-range federal administration was, besides, likely to make mistakes which a provincial administration, in touch with the local situation, would avoid.

lieve that a provincial administration "could have attained better results on the whole."¹²

The other administrative claims can be passed over. With respect to grazing leases and timber sales and rentals, the provinces contended either that the revenue collected was inadequate or that the federal expenditure (e.g., on forest conservation) was too great. The commissions appear to have given these claims little credence. Federal administration of mineral lands in Alberta, while satisfactory from the Dominion standpoint in that it encouraged development, was not, however, what the province, "guided by its need for revenue," would have followed.

Besides weighing the claims of the provinces — the debits against the Dominion — the commissions had to review the credits claimed by the Dominion. Most of these were definite enough. It had paid as current revenue arising out of school-land sales \$16,350,000 to Saskatchewan and \$10,570,000 to Alberta during the period 1905-1930; and on October 1, 1930, it had turned over as principal sums \$17,800,000 to Saskatchewan and \$9,500,000 to Alberta, as well as assets in the form of agreements for sale with a nominal value of \$16,600,000 for Saskatchewan and \$8,000,000 for Alberta. It had paid annual subsidies in lieu of resources, 1905-1930, which totaled \$14,200,000 for Saskatchewan and \$12,750,000 for Alberta, and it had agreed to pay for the future an annual sum equal to these land subsidies, which had a capital value (at 3 per cent) of \$33,000,000 for Saskatchewan and \$29,000,000 for Alberta. The Dominion had also spent \$23,000,000 in administering the resources of Saskatchewan and \$30,000,000 in administering those of Alberta.¹³

Here, then, was the "accounting" which had so frequently been demanded. During the hearing a tremendous mass of evi-

¹² *Sask. Report*, p. 31; *Alta. Report*, p. 33. The net sales of school lands in Saskatchewan were 2,100,000 acres (Alberta 1,240,000 acres).

¹³ The commissions felt that these last two figures of Dominion expenditure were too high. They also gave little weight to the claim of the Dominion that it should have credit for expenditure on branch railway lines in Saskatchewan and Alberta.

dence was presented, and undoubtedly the commissions made as careful an investigation as was possible. Yet a real accounting had not been achieved. The Dominion credits were, in the main, easily assessed. But the debits were not, and the commissions nowhere ventured to set a precise evaluation upon the financial loss suffered by Saskatchewan and Alberta through federal control of the domain. Only general statements were made. Fourteen years earlier, in 1921, when talk of an accounting was first being bandied about, the prime minister, Mr. Meighen, had cogently remarked that such a task would be comparable to unscrambling an egg. The only way to make progress would be to present "some concrete proposal in figures, that will appeal to a fair-minded man as a square, bald, rough but honourable solution." The commissions quote this statement with approval, and, without any attempt at apportionment, they recommend as their solution that both Saskatchewan and Alberta be awarded \$5,000,000 by the Dominion.¹⁴ This sum,

when added to all the purely provincial benefits that Saskatchewan [or Alberta] has received or is yet to receive from the Dominion in respect of its natural resources will, in our judgment, balance the amount of net revenue which the province would probably have obtained from those portions of its resources alienated or otherwise disposed of by the Dominion during the course of its twenty-five year administration.

No attempt was made in the reports to expound "the arithmetic" of the awards. Indeed, it was frankly admitted that there was agreement only as to the result. Mr. George C. McDonald, who sat upon both commissions, declared in a supplementary note that he "found it difficult to put aside the opinion that without further payment the Province of Saskatchewan [and of Alberta] had already been well compensated in respect of natural resources."¹⁵ But he subscribed to

¹⁴ *Sask. Report*, p. 36; *Alta. Report*, p. 38. The sum was to "bear interest at the rate of five per cent per annum from October 1, 1930, to March 31, 1935, and thereafter to such date and at such rate as the . . . Governments may agree upon."

¹⁵ *Sask. Report*, p. 40; *Alta. Report*, p. 42.

the awards because settlements were "urgently desirable." Mr. H. V. Bigelow took a very different position. In a vigorous dissenting report he declared that Saskatchewan should receive an award of \$58,242,700. This amazing figure was reached by a double-barreled argument. As one approach let the following question be considered. If Manitoba received a certain sum from the Dominion for alienations of a certain acreage of domain, 1870-1929, was not Saskatchewan entitled to receive a proportionate sum for the alienation of a certain acreage of its domain, 1905-1930? This computation would put Saskatchewan upon an "equality" with Manitoba, and it would indicate an award, not of \$5,000,000, but of \$63,000,000.¹⁶ The alternative approach was to assert that Saskatchewan, if in control of its lands, would have adopted a revenue policy, and that its administration would have been more "business-like" and its expenditure less "unreasonable" than that of the Dominion. On these assumptions an award of \$58,242,700 was calculated.

The dissenting opinion is, of course, based on very unreasonable assumptions. The one plausible feature was the analogy drawn between what was awarded Manitoba and what should be awarded Saskatchewan. The chairman of the Saskatchewan Commission, Mr. A. K. Dysart, pointed out the defects of this analogy: that the lump sum award of the Manitoba Commission was computed not on the basis of acreage alienated, but as arrears of land subsidy, and that the period during which the Dominion had control of the resources was sixty years for Manitoba and only twenty-five years for Saskatchewan. Such considerations made quantitative comparisons of acreage alienated by the Dominion both "impracticable and valueless."¹⁷

¹⁶ The detailed figures are not worth presentation (see *Sask. Report*, p. 55). Mr. Dysart declared, and correctly, that Mr. H. V. Bigelow overstated the amount of the Manitoba award by nearly \$3,000,000 and understated the alienations by at least several million acres (p. 41).

¹⁷ *Ibid.*, p. 38. If approximately the same royal commission had dealt with the natural resources question for all three prairie provinces, it would have been more difficult to complain that they had not been given uniform treatment. The failure was due to political events. In 1929 the intention was that Mr. W. F. A. Turgeon and Mr. C. M. Bowman should be members of the royal commission for Saskatchewan and Alberta as well as for Manitoba. But a change of government at Regina and at Ottawa upset this plan.

The agreements made in 1929-30 about the natural resources settlement required that the report of each royal commission be accepted both by the government of the province concerned and by the government of the Dominion. This was an unnecessary and an unwise provision, because the provinces approached the Dominion as suppliants and not of right. It operated also so as to put the commissions in an unfortunate position. During the Saskatchewan hearings Mr. Dysart, the chairman, made a revealing comment. It would, he declared, be impossible to please everybody, but it was vital "to get the approval of the two governments to the award and report, because without that approval our whole enquiry will be fruitless."¹⁸ This approval has not yet been given. The dissenting report of Mr. Bigelow both aroused and reflected the feeling of Saskatchewan that the award of the Dysart Commission was inadequate, and the provincial government has, therefore, been unwilling to act. The government of Alberta appears to be satisfied with the award, but it can be expected to wait upon developments in Saskatchewan, and these final negotiations may be the genesis of a new set of demands upon the Dominion.

BRITISH COLUMBIA PARTICIPATES

During the war, and in the years immediately following, the provincial government of British Columbia was in desperate financial straits. Federal assistance by way of a loan was given in 1918, and with peace the province endeavored to get additional relief by making a variety of demands, some of which concerned subsidies.¹⁹

The agitation by the prairie provinces about their natural resources gradually led British Columbia to discover that it also had a similar grievance. It will be remembered that, by the terms of union, British Columbia had promised to cede to the Dominion a belt of land extending for twenty miles on both sides of the Pacific railway. About this and about fulfilment

¹⁸ Proceedings of Saskatchewan Royal Commission, vol. VI (unprinted stenographic copy), p. 2325.

¹⁹ The agitation for lower freight rates and for federal assumption of the Pacific Great Eastern Railway must be neglected.

of other terms there was a prolonged dispute. In 1884 a settlement was made of all these questions which was accepted by British Columbia as final and complete, and which beyond a doubt was generous to the province. Yet in the 1920's the provincial government raised these dormant issues and alleged that certain features of the 1884 agreement had been unfair.

Most of the provincial arguments were so ill-founded as not to merit consideration.²⁰ They rested upon changes which had been made in the original terms of union; and, while numerous changes had been made, these gave no ground for complaint, because British Columbia had given its consent to them, and it had consistently bettered its position. Thus the original intention of the Dominion to give aid to the Pacific railway only by land grants had been dropped, but surely this had speeded construction and had been to the advantage of the province. Again, the lands ceded by British Columbia to the Dominion had not been alienated to the Canadian Pacific Railway, but only because the railway did not want them. Left in the hands of the Dominion these lands had been thrown open to free settlement, and they had been a drain upon, rather than an asset to, the federal treasury even when the land subsidy paid to the provincial government is left out of account.²¹ If the railway belt and Peace River block had been left in the hands of British Columbia, a more effective settlement policy could not have been pursued. In short, the land contribution of the province toward the Canadian Pacific Railway was negligible.²² The Canadian Pa-

²⁰ Most of the material submitted was unprinted. But see John Oliver, *Memorandum Respecting the Claims of British Columbia for a Reconveyance by the Governments of Canada of the Lands Conveyed by the Province to the Dominion* (Victoria, 1926).

²¹ As late as Mar. 30, 1883, Sir John A. Macdonald in a letter to Trutch (Macdonald Letter-Books, no. 22) declared that since the Dominion was put to heavy expense for railway construction and had to pay a land subsidy to British Columbia, the lands "should be sold at some adequate price and not given away." In fact most of the small acreage alienated was given away, and the deficit for administration was over \$650,000.

²² The Dominion thought it was securing the mineral as well as the surface rights in the lands of British Columbia. But in 1889 the privy council decided that rights to the precious metals had not been ceded (10 *Appeal Cases*, 36). Because of administrative difficulties the Dominion in 1890 practically turned over to the provincial government all minerals except coal.

cific Railway was, to be sure, a national undertaking, and the contention, advanced so often in the 1880's, that it was for the special benefit of British Columbia, was superficial. But certainly this province, while making no special contribution either in lands or in taxes, obtained very great advantages from its construction.

A deficiency of sound arguments has, however, been no barrier to agitation for better terms, and the federal government, after it had given concessions to the Maritimes and was preparing to give them to the prairie provinces, could hardly refuse consideration to British Columbia. In 1927 a royal commission of one member, Mr. W. M. Martin, judge of the Saskatchewan Court of Appeal, was appointed to consider whether the railway belt and the Peace River block should be reconveyed to British Columbia.

The report, submitted in 1928, needs only a brief examination. It examined the provincial arguments in the most guarded and tentative fashion, and not until the final paragraph were the grounds for a decision stated.²³ Then the statement is made that British Columbia was the only province which had granted land toward the building of a railway, national in character. Of course, this was wholly disingenuous, because in reality British Columbia made no special contribution. But the recommendation that the Dominion lands in question should be turned over to the province may, nevertheless, be approved. Administration of them had always been costly, and after cession of the domain in the prairie provinces, retention of an area in British Columbia would have been inexpedient.

In 1930 a settlement was made which paralleled the settlement with the prairie provinces. The federal domain in British Columbia was to be placed under provincial control, and in addition the land subsidy was to be continued.²⁴ The Martin report had not recommended the latter step, although it had hesitat-

²³ S.P., Dom., 1928, no. 76a, p. 34. It appears that neither Dominion nor provincial counsel used the correspondence of Sir John A. Macdonald and of Alexander Mackenzie which is available in manuscript at the Public Archives. Consultation of these documents would have cleared up many historical issues which were treated as conjectural.

²⁴ Dom. Stat., 1930, c. 37.

ingly endorsed the provincial argument.²⁵ This argument was that the subsidy was not compensation for the railway belt, but simply an extra grant which had been given to induce the province to enter confederation. The explicit language of the act of union — that the subsidy was "in consideration of the land" — was brushed aside. The explanation for it was that Sir George Cartier in 1870 wanted some plausible ground upon which a special subsidy could be defended against criticism. The land grant was thus a result, and not a cause, of the subsidy.

In this case the provincial contention was historically correct. But the federal government in 1930 did not decide to continue the subsidy in order to correct a subterfuge of sixty years' standing. Its action was part and parcel of the whole natural resources adjustment. If the prairie provinces got both their lands and their land subsidy, so also should British Columbia.

Of course, the demands of the provincial government were not quieted by these concessions. It soon declared that it had not received a full measure of justice, compared with the prairie provinces, because they obtained also a retroactive adjustment.²⁶ Why should not British Columbia be given a royal commission to examine whether any additional financial consideration was due to it because of federal control of certain of its natural resources?

Here again is an instance of the perpetuation of a bad precedent. Because the federal government, in the dispute over the natural resources question, made unjustifiable concessions to the prairie provinces, it was pressed to make parallel concessions to another province. And it should be noticed at once that the case of British Columbia was even more untenable. During the whole period of Dominion control of the railway belt and the Peace River block, alienations totaled less than a million acres in the former area and less than half a million in the latter.²⁷ In short, in 1930 the Dominion reconveyed to the province al-

²⁵ *Report of the Royal Commission on the Reconveyance of Land to British Columbia* (Ottawa, 1928), p. 31.

²⁶ T. D. Pattullo, G. McG. Sloan, John Hart, *British Columbia's Claim for Readjustment of the Terms of Union* (Victoria, 1934).

²⁷ By Aug. 1, 1930, about 888,400 acres had been disposed of in the railway

most all of the lands which had earlier been placed under its control. Even if the acreage alienated is regarded as a debit against the Dominion, it should be remembered that, as a credit, it had paid a land subsidy of \$100,000 a year, 1871-1930, and was to pay this same amount for the future. The most cursory calculation will indicate that British Columbia had already received a very generous equivalent for its lands.²⁸ Moreover, 85 per cent of the alienations in British Columbia had been in the form of homesteads. The acreage disposed of for Dominion purposes (e.g., as grants to railways and as bonuses to soldiers) was negligible. It is difficult to avoid the conviction that, if any further claims are to arise out of Dominion policy concerning its lands in British Columbia, they can be advanced more plausibly by the other provinces.

In 1934 British Columbia revived other old demands upon the Dominion. The province was still large in area and mountainous in topography; it professed to pay a disproportionately large amount in taxes to the federal treasury and to receive a disproportionately small amount as subsidies. These issues have already been analyzed. But in 1934, before the Dysart Commissions for Saskatchewan and Alberta, and the White Commission for the Maritimes had made reports, they appeared to make an impression upon the federal government. It was announced that British Columbia would be given an additional interim grant of \$750,000 a year. This grant was not recommended by any royal commission, but the provincial government looks upon it as proof of the justice of its claims, and it expects, after a complete investigation, to secure a much larger permanent increase in subsidy. Thus here again the federal government is confronted by a formidable demand for better terms.

The history of the natural resources question is concerned largely with unedifying and intricate political legerdemain. A

belt, and 170,400 acres in the Peace River block. An additional 113,000 acres in the former area and 364,900 acres in the latter had been entered for or sold, but not patented.

²⁸ Mr. Bigelow has made some calculations of this sort (*Sask. Report*, p. 59).

heterogeneous set of grievances was built up, and every concession made to the provincial governments provided them with a precedent for new claims. Agitation of this sort feeds upon success, and it uses whatever instruments come to hand to achieve its purposes. The blessed word "equality," which was really a euphemism for "better terms," was repeated until the people of the prairie provinces were led to believe that federal policy about the natural resources was unjust. When this conviction was established, the opportunity for reasonable consideration had passed. What was then needed was conciliation rather than investigation. This may explain, as well as excuse, the recommendations of the Turgeon Commission; and, once its report had been accepted, the two Dysart Commissions had somehow to complete the settlement. But the net result has not been such as to recommend the use of royal commissions in subsidy questions. Every *ad hoc* investigation of and recommendation about subsidies passes over the repercussions of its award upon the whole subsidy system, because a commission dealing with one or a few provinces has not the opportunity, the interest, or the authority to go beyond its own task. It must make a decision based upon partial data and without a full apprehension of the consequences. Inevitably this method creates more problems than it solves.²⁹

THE MARITIMES COMMISSION AIMS AT FINALITY

While the hearings before the natural resources commissions were being concluded, hearings before a related royal commission had begun. It will be remembered that the Duncan Commission had recommended interim increases in subsidies for the

²⁹ The Saskatchewan and Alberta Commissions were not unaware of this. They said: "We have endeavoured to keep within the limits of our particular task but we realize that, directly or indirectly, the resources question as we have had to deal with it . . . , touches closely the whole problem of the subsidizing of provinces by the Dominion. We make the suggestion that a re-examination of this subsidy system in its entirety might be undertaken with advantage both to the provinces and to the Dominion. The readjustments made in recent years have been chiefly on the basis of *ad hoc* investigations affording little opportunity or authority to consider the full effect of such adjustments in relation to the subsidy system as a whole" (*Sask. Report*, p. 39).

Maritimes, pending a complete investigation and revision of the financial relations between them and the Dominion. The interim increases were paid yearly after 1926, and there the matter rested. The Dominion made no serious investigation, and the Maritimes did not demand it until the depression. Then increased budgetary difficulties caused the premiers of the Maritimes to press for a settlement, and in the autumn of 1934 a royal commission was appointed, consisting of Sir Thomas White, chairman, Mr. J. A. Mathieson, judge of the Supreme Court of Prince Edward Island, and Mr. E. W. Nesbitt.

In the arguments presented before the commission the provincial governments stressed as never before the plea of "fiscal need." Baldly put, this argument was that if a provincial government could show that, because of comparative poverty, it was unable to discharge the accepted functions of government with the revenues at its disposal, the Dominion ought to come to the rescue by grants of better terms. Admittedly the existence of deficits and of a large debt did not demonstrate fiscal need. A province had to show that these existed in spite of taxation at least as high as in the other provinces, and in spite of a scale of expenditure which was less than in the other provinces.³⁰ A mass of historical and statistical material was presented by the Maritimes as evidence of their genuine fiscal need. Comparisons of wealth and taxable capacity, of expenditure and revenue — both past and prospective — were made, and these did show the relative poverty of the Maritimes. In an effort to allay the charge that the basis suggested was a dangerous departure from precedent, earlier grants of better terms were examined, and it was argued that these had been conceded because of fiscal need. But this was wrong. What most of these cases really showed was that, while the fiscal need of a province had inspired requests for larger subsidies, the Dominion had not granted the favors on any such basis. Instead it had used a great variety of grounds, almost all of them narrow in scope and

³⁰ Nova Scotia urged that a major reason for its poverty was the protective policy pursued by the Dominion, and it asked for better terms as a *quid pro quo*. The same argument is, of course, applicable to New Brunswick and Prince Edward Island.

temporary in application.³¹ The truth was that the doctrine of fiscal need was both new and revolutionary. Latent in it were implications of great significance for Dominion-provincial relations.

Of this the commissioners³² were not unaware. They pointed out that:

A rule or practice whereby the Government of a Province, supreme within its own jurisdiction and not subject in its financial administration to supervision by the Dominion Parliament would be authorized or permitted, as a matter of course, to demand from the Dominion Treasury any sums necessary to meet recurring deficits, could only lead to disastrous results, encouraging Provincial governments to disregard sound principles of administration, and making the Dominion responsible for, so to speak, underwriting Provincial expenditures over which it could exercise no control whatsoever. It is a sound general principle, under our constitutional system, that the Governments of the Dominion and of the several Provinces should be held strictly responsible to their respective electorates for the conduct of their administrations. Responsibility must go hand in hand with authority. Power to spend must entail responsibility for expenditures.³³

And if, to meet this objection, an attempt were made to apply tests of fiscal need, this would mean that:

The Government of the Dominion would have to sit in judgment upon the questions as to whether the Provincial administration had or had not been economical; whether or not a Provincial Government had exhausted all available sources of revenue; and whether all the functions which it was exercising were necessary in the degree to which they were being exercised.³⁴

To expect satisfactory performance of such tasks in a federal and democratic country was wholly visionary. The commission, therefore, rejected the basis of fiscal need, and for this it should be commended.

³¹ In the report of the Duncan Commission is to be found the first clear-cut avowal that fiscal need, as defined above, was the basis of increased subsidies. See *Report*, pp. 15-16.

³² Not Mr. Mathieson.

³³ *Report of the Royal Commission on Financial Arrangements between the Dominion and the Maritime Provinces* (Ottawa, 1935), p. 6.

³⁴ *Loc. cit.*

But while the commission ceremoniously ushered out the new basis by the front door, they brought in by the back door other considerations of much the same type. There were, it appeared, "special conditions" which differentiated the Maritimes from the other provinces. Growth of population in the Maritimes had lagged; their wealth and taxable capacity were relatively low; and, while they had made mistakes in financial policy, these were understandable in the light of their handicaps. In short, the fact that the Maritimes had not "shared proportionately with the other provinces of Canada in the economic advantages accruing to the Dominion as a whole from Confederation"³⁵ seemed to the commission to justify an award of better terms. Nowhere in the report was it asserted that the lag of the Maritimes was attributable to Dominion policy—as Nova Scotia had alleged. Yet if this explanation of the lag is discarded, then the grounds just cited come to something very much like fiscal need.³⁶

The old complaints about debt allowances and public lands were also examined. The Duncan Commission had declared that the debt allowances given the Maritimes were unfair as compared with those given the western provinces because the former had transferred public property, notably railways, to the Dominion upon entry into confederation, while the latter had not. The White Commission was more sceptical. It pointed out that the railways taken over were not commercially valuable, but had forced the Dominion to meet heavy deficits and to make additional capital outlay.³⁷ Nevertheless, the com-

³⁵ *Ibid.*, p. 20.

³⁶ In arguments about better terms logical consistency has played no part in the past, and without a complete shift in basis it can play no part in the future. The explicit disavowal by the White Commission of the dangerous doctrine of fiscal need may do some good, even though the premises of the doctrine are implicit in its recommendations.

³⁷ Other objections made to the Maritime argument were not to the point, and one of them was invalid. Thus the White Commission argued that "the debt allowance to the Western Provinces was justifiable on the ground that, coming into the Union as Provinces, they severally became sharers of the burden of the heavy debt of the Dominion existing at that time, and as they had no debts of their own they were entitled to allowance in respect of the then Dominion debt if they were to be dealt with equitably as compared with the other Provinces already in the Union" (*Report*, p. 14). But the new pro-

mission refused to abide by its logic. It preferred to agree with the Duncan Commission that some "consideration" should be given to this claim.

The claim about public lands fell into two main parts. In the first place, the Maritimes insisted that in 1930 Manitoba had received not only an award as compensation for federal alienations of its natural resources, but also, and unjustifiably, continuation of the subsidy in lieu of land. About this the commission expressed no opinion whatever except that it would "give due consideration to the argument."³⁸ In the second place, the Maritimes asked for compensation because of the vast additions of northern territory granted by the Dominion to Ontario and to Quebec. The Maritimes had, of course, no proprietary interest in these alienated areas. They could only urge that aggrandizement of certain provinces was unjust unless accompanied by the grant of compensation — say better terms — for the remainder.³⁹ Here again the commission said ambiguously that the claim should be dealt with "in a broad general way, giving it equitable consideration as a factor of importance to be taken into account in reaching conclusions on the whole question of a just revision of subsidies as between the Maritime Provinces and the Dominion."⁴⁰

These, then, were the conclusions upon which the commission was to base its award. The claim about debt allowances was grudgingly included, that about public lands was declared to be "a factor of importance," that about relative lack of economic progress was endorsed as "one of the most impressive elements"⁴¹ in the Maritimes case. It will be remembered that the Duncan Commission had recommended a "detailed determination and assessment" of the claims. This was absurd, because the claims were "not susceptible of detailed appraisal."

vincial governments did not assume any portion of the federal debt. The people living in these areas, both *before* and *after* the provinces were created, shared in the Dominion debt. Provincial status in this respect made no difference.

³⁸ *Ibid.*, p. 16.

³⁹ The Maritimes would, however, exclude the prairie provinces from this claim.

⁴⁰ *Ibid.*, p. 17. The special land claim of Prince Edward Island was summarized by the commission and given "due weight" (p. 18).

⁴¹ Page 20.

The White Commission considered them in the aggregate and made an award with no attempt at allocation under the various heads. The award was, moreover, to be regarded "as a final equitable settlement of the claims brought before us [the White Commission] for adjudication."⁴²

The recommendation of the commission was that additional annual subsidies should be paid as follows:

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

These were to replace the interim subsidies arising out of the Duncan report, and therefore the net increase was \$425,000 for Nova Scotia, \$300,000 for New Brunswick, and \$150,000 for Prince Edward Island. The arithmetic by which these figures were reached was not disclosed.

The report was signed by only two members. Justice Mathieson of Prince Edward Island wrote a vigorous dissent. He declared that the majority award would "give but partial and temporary relief,"⁴³ and he endorsed uncritically and rhetorically the basis of fiscal need.

CONCLUSION

In previous chapters the connection between the natural resources agitation and the claims of the Maritimes has been noticed. When in 1926 the Maritimes were given better terms, it was inevitable that some sort of equivalent should be given to the west. The appointment of the Turgeon Commission and the acceptance of its award (together with the parallel negotiations with Saskatchewan and Alberta) were meant by Mr. King to be this equivalent. But the natural sequence of the two sets of concessions was not given formal recognition. As a result, the Maritimes after 1931, reversing the true sequence of events, argued that the natural resources settlements entitled them to new concessions beyond those growing out of the Dun-

⁴² Page 21.

⁴³ Page 23.

can report; and this argument the White Commission did not refute. The prediction may be ventured that before long the western provinces will demand better terms because of the White award.

The net result of the tortuous negotiations has thus been that the Dominion treasury has been saddled with new charges, while the claims of the provinces have in no sense been quieted. Indeed the emphatic dissenting opinions of Commissioners Bigelow and Mathieson may quicken into life demands which might never have been raised. In view of the *mélange* of claims only one ground for optimism can be detected. It is that a situation so confused cries aloud for a remedy. In the next chapter the suggestion will be made that this remedy should be a surgical operation which will eliminate the whole system of unconditional subsidies.

CHAPTER XIV

A PROPOSAL ABOUT UNCONDITIONAL SUBSIDIES

THE shameful history of unconditional subsidies has been set forth in the foregoing pages. Time after time better terms have been granted to pay political debts or to win political support, and each concession has raised fresh demands. At present the case is particularly bad. In the first place, the provincial governments are in desperate financial straits. Loaded down with a heavy burden of debt, they are looking to Ottawa for salvation. In the second place, the inept handling of claims in the past few years has quickened many dormant issues into life. Some solution must be found, and it is important that, so far as possible, the mistakes of the past should be liquidated rather than repeated.

The issues have all been brought forward at the recent Dominion-provincial conference,¹ and provision has been made for further investigation. At too many provincial conferences the federal government has acted the part of a fairy godmother and has made gifts which brought the provinces no real benefit and which confused, rather than clarified, federal-provincial relations. The federal government can no longer afford to play this role. If it is to make concessions, it ought to take some surety against future raids; if it is to help the provincial governments to get on their feet, it ought to see that they start along the right road.

RECENT EXPERIENCE OF AUSTRALIA

The sorry history of unconditional subsidies has not deterred some people from hoping that the system in Canada can be reformed. Those who advocate reform can point to recent developments in Australia. There a Commonwealth Grants Commission has been set up to inquire into and report upon all

¹ *Dominion-Provincial Conference, 1935, Record of Proceedings* (Ottawa, 1936).

questions relating to grants to the states, and it is attempting to make an apportionment on a non-political and rational basis. The two excellent reports of the commission contain an elaborate examination of the device of unconditional grants.

The most important objection to unconditional grants from one government to another is that they infringe the principle of financial responsibility.² Briefly put, this means that a government should raise and spend its own revenues. The commission does not deny the force of this principle,³ but it believes that "its application to the various members of a federal group is subject to special conditions." A federation unites areas which are in some measure heterogeneous in resources and in economic development. The policies of the federal government will, therefore, to a much greater degree than those of the government of a unitary country, bring an uneven incidence of benefit or injury to the members. The policy of protection, for example, will bring gains to some areas and losses to others, and the question arises: Are not the injured states (or provinces) entitled to compensation? This plea, which has also been advanced in Canada, is wholly rejected by the commission. It declares bluntly that, quite apart from the impossibility of measurement, "the adverse effects of federal policy — even the net effects — are not in themselves ground for assistance to the Government any more than they are to the people of a State."⁴

² "Thus the basic principle of practical public finance that, as far as practicable, the responsibility of raising revenue and the freedom of spending it ought to go hand in hand, must be granted as more or less fundamental to federal, as to other, financial systems" (B. P. Adarkar, *The Principles and Problems of Federal Finance*, London, 1933, p. 219). "A State which claims to be sovereign should accept the financial consequences of the policy it determines to pursue, and, if it is entitled to call upon another State to assist in bearing those consequences, its responsibility is weakened" (Commonwealth Grants Commission, *Report on the Applications made in 1933 by the States of South Australia, Western Australia, and Tasmania, for Financial Assistance from the Commonwealth under Section 96 of the Constitution*, Canberra, 1934-35, p. 15).

³ "The principle of the financial responsibility of governments is such an important factor in keeping politics healthy that we are reluctant to suggest that there is any qualification to it" (Commonwealth Grants Commission, *Second Report*, Canberra, 1935, p. 86).

⁴ *Ibid.*, p. 39. Disabilities which arise from other causes — change in world price-structure or demand, bad developmental policies, et cetera — provide no cause for compensation in the form of grants, except as they affect fiscal need.

But another basis of grants is recognized by the commission. If the government of a state is in serious financial need, the federal government cannot afford to ignore the need even when no blame can be assessed upon federal policy. Only in exceptional circumstances can a federal government allow a state to become insolvent. Ordinarily it must come to its relief when in distress and enable the state government to function at some standard. This is the real basis upon which the commission has established its grants. The idea of compensation is pushed aside. If a state, adversely affected by federal policy, is still able to function upon some reasonable standard, there is no ground for federal grants.⁵ But if a state is in financial difficulty, even though this condition may be due to its own mistakes, the federal government ought to come to its assistance. As the commission puts it, the "determining condition of finance is independent of the cause. The necessity to keep a State solvent is equally paramount, whatever the cause may be."⁶

From this argument certain important corollaries are indicated. It would seem to follow that unconditional grants ought to be regarded as temporary devices, in the nature of palliatives. If a state (or province) gets into fiscal difficulty because of economic trends which were world-wide in scope, or because of the adoption of some federal policy which, nevertheless, seemed to be of advantage to the country as a whole, then this fiscal difficulty should be relieved. But in time both the need

⁵ *Ibid.*, p. 36. "The only ground for this assistance [federal grants] is the inability of the State to carry on without it. It follows, then, that the adverse effects of federal policy — even the net effects — are not in themselves ground for assistance to the Government any more than they are to the people of a State. If in spite of the effects of federation the State can continue to function at what has been decided on as the minimum standard, there is no ground for assistance. It is only where the effect of the net disabilities is to impair the necessary efficiency of the Government that the case for assistance stands." The commission puts aside the idea of compensation as a basis for grants not only upon this general ground, but also on the practical ground that "no measure of net disabilities is possible" (p. 35). This does not deter it from making an examination of disabilities due to federal policy, of which the most important is the tariff. Against these it places numerous offsetting advantages and concludes that in no case is the position of relative financial inferiority "due to any appreciable extent to federal policy" (p. 94).

⁶ *Ibid.*, p. 37. It should, perhaps, be stated that the corollaries drawn below are not stated explicitly by the commission.

and the assistance should disappear. Population and capital should move out of the state in which economic development has become retrograde, and the state government should gradually adjust itself to a new and inferior scale of expenditure. It is also clear that if a state gets into fiscal difficulty by reason of unwise policies of its own, then the relief given to it by the federal government ought only to be temporary. These are hard conclusions, but the Australian commission has been forced to them by the logic of analysis and of events.

In still another direction the analysis of the commission is very significant. If the federal government is to relieve the fiscal difficulties of states, it must be sure both that they tax themselves adequately and that they do not spend extravagantly. The commission has had, therefore, to examine the complete financial position of states in relation to their neighbors. It has been forced to pass judgment upon the weight of their taxation and the scale of their expenditures, and to determine the minimum standard of state expenditure which it seems proper to allow. These are difficult and delicate tasks.

At the very outset the commission encountered the obstacle that the states did not keep their records of revenues and of expenditures on a comparable basis, and it recommended that immediate steps be taken to bring about uniformity in the presentation of accounts. Here is a relatively simple problem, but it has not proved easy of solution in Australia.⁷ And, of course, this is only an initial problem. Its solution leaves the more intricate and invidious tasks untouched. The commission has had to decide whether certain expenditures have or have not been justified, and it has not hesitated to apply the terms "extravagance," "reckless financing," "inefficiency" to some of the projects of Western Australia and South Australia, and to declare that these states should expect to "put up with taxation higher than normal."⁸

⁷ In Canada the obstacles would be much greater. The distribution of expenditures of the Australian states appears to be less divergent than that of the Canadian provinces, and their systems of revenue are much more comparable because of the great importance of the income tax, which brings in no less than two-thirds of total state taxation.

⁸ *Ibid.*, pp. 73, 79.

The plain fact is that, in spite of its defense of unconditional subsidies, the Australian commission in the performance of its duties has felt impelled to return to the principle of financial responsibility. Unconditional grants as such infringe the principle, and this could not be and has not been overlooked. Safeguards and controls have been set up; standards of taxation and of expenditure have been devised; and "the Commission has imposed a more severe standard on all claimant States and has made it still more severe when financial difficulties have been increased by faults of policy."⁹ This has been done in order that "the sacrifice or effort required should be sufficient to give ample stimulus to a State to try to escape from its position of financial inferiority — should give it no encouragement to rest contentedly in the position of being supported by special grants."¹⁰ Certainly all of this means that the principle of financial responsibility has not been neglected in Australia. Instead, it is being applied, indirectly to be sure, but with a consistency and severity which could not at present be achieved in Canada. Yet none of the devices of the Australian commission are superfluous. Indeed, any new scheme of unconditional subsidies for Canada would, because of a discreditable past, need even stricter safeguards. It can hardly be doubted that Canada is not ready for such a commission.

FISCAL NEED AND COMPENSATING ADVANTAGE
IMPRACTICABLE

To use either fiscal need or compensating advantage as a basis for the determination of unconditional subsidies in Canada would, therefore, be impracticable and utopian. The former contemplates an equalitarian theory with respect to government expenditure which is inadmissible. The well-tested proposition that responsibility for spending and for raising revenue should be united, must not be lightly put aside. If, indeed, there

⁹ Page 88.

¹⁰ Page 51. The commission lets drop an aside which may be a forecast of future policy. If the weak fiscal position of a claimant state is attributable appreciably to its own mistakes, then "it might be necessary to recommend that a grant should be given only under specified conditions" (p. 52).

are vital functions of government which a province, through poverty, cannot provide, it is in the national interest that some action should be taken. This action might be federal assumption of the functions, or federal grants-in-aid for their performance. But the award of larger unconditional subsidies is not indicated, because there is no surety that the provincial governments will take steps to relieve the situation out of which the award grew.

The idea of compensating advantage would be even more dangerous. The effect of any one federal policy is difficult to measure, and the problem which is relevant here is much more complex, because it would require estimation of the net effect of many conflicting federal policies. The high tariff of the Dominion may, for example, put a disability upon Nova Scotia. The extent of this disability cannot easily be ascertained; but, if it could, one would have to go on to determine the effect of subventions upon shipments of Maritime freight to central Canada, of special assistance for the marketing of Nova Scotia coal, of bounties to fishermen, of expenditure in the development of Maritime ports, and a wide range of similar measures. Clearly these are matters about which dependable conclusions cannot easily be reached.

The concept of compensating advantage is, in any case, peculiarly susceptible of abuse. A province which feels itself injured by a federal policy should strive to have that policy altered. But the philosophy of economic protectionism which lies behind the idea of compensating advantage leads the province to strive to offset the policy which is offensive to it by another policy which is offensive to another section. Thus the Maritimes, injured by a high tariff, may seek as their compensation special concessions in freight rates. Both policies are uneconomical, both injure the national dividend, and multiplication of such offsets would be suicidal. It would not, therefore, be wise to endorse a principle which would tend both to prolong the life and to stimulate the growth of economic perversions.¹¹

¹¹ Measures of economic protectionism, as applied in Canada, appear to have

Unconditional subsidies as a fiscal device have been condemned by almost all authorities in the field of public finance.¹² In no case are they more than a second-best choice. Instead of attempting to make reforms, it would be wiser to discard the tangle of past mistakes and to start with a clean sheet.

CAPITALIZATION OF SUBSIDIES

Debt charges constitute the heaviest burden upon the budgets of most provincial governments. Contracted in good times, these charges are out of line with the present level of prices and interest rates. The provinces have no easy method of relief. But may not a scheme be devised which will lighten this burden of debt and at the same time remove the canker of subsidies from the federal system? Suppose the federal government, in return for complete abolition of unconditional subsidies, offered to lift a substantial portion of debt from the shoulders of the provinces.

The unconditional subsidies (including interest on debt allowances) provided for the provinces for the fiscal year ending March 31, 1936, amounted to \$16,994,000. But it should be kept in mind that these payments will increase in the future because of existing statutory provisions and because of the indomitable importunities of the provincial governments. If, therefore, the subsidies could be abolished, the federal government would be rid of an annual charge in excess of \$16,994,000. Just *how much* more can only be guessed; but, in order to get a reasonable basis for the scheme, let it be supposed that this annual grant — and the individual grants comprising it — be capitalized at the low rate of 3 per cent. The results are shown in the following table:

the additional defect that they fail to achieve the aims which were used to justify their enactment. Thus the Maritime freight rates act of 1927 has, it appears, not been a success. The results of any economic legislation cannot, of course, be predicted with accuracy, but the error in prediction concerning measures which are compensating appears to be exceptionally high.

¹² In Canada three prime ministers, Sir Wilfrid Laurier, Sir Mackenzie Bowell, and W. L. Mackenzie King, have made public pronouncements against unconditional subsidies. See C.D., 1905, p. 1434; 1929, p. 316; S.D., 1907, p. 991.

PROVINCIAL SUBSIDIES AND ASSUMED CAPITAL VALUES

	Subsidy for the Year Ended March 31, 1936	Capitalized at 3%
Prince Edward Island *	\$ 656,900	\$21,896,600
Nova Scotia	1,953,000	65,103,300
New Brunswick	1,593,000	53,100,000
Quebec	2,592,000	86,400,000
Ontario	2,941,400	98,046,700
Manitoba	1,716,500	57,216,600
Saskatchewan	2,145,000	71,500,000
Alberta	1,771,500	59,049,800
British Columbia	1,624,600	54,153,300
Total	\$16,994,000	\$566,466,300

* Some special arrangement would have to be made about Prince Edward Island, because its debt is less than the capital sum given above. No other province even approaches a similar situation.

If the federal government offered to assume amounts of provincial debt corresponding to these capital sums, might not the provinces regard the proposal with favor?

One further feature requires attention. At present the federal government would appear to be able to float long-term bonds to yield approximately 3½ per cent. The yield of outstanding provincial securities varies from 3¾ per cent to 6 per cent. It follows that federal assumption of certain provincial issues would bring a significant appreciation in their price. Such a windfall ought not to accrue to the existing holders. The holder of a Saskatchewan bond, selling at 100 to yield 5½ per cent, ought not to find himself in possession of a bond which has jumped in price to 130.

To avoid this contingency, might not the federal government require that all provincial securities, which it undertook to assume, be turned in and exchanged for a new Dominion issue? The basis of the exchange might be the value of the provincial issues, as compared with the federal issue, at an appropriate point of time or over a period of time. If, for example, it is assumed that the federal government could float at par a conversion loan maturing in 1954 and yielding 3½ per

cent, then the Saskatchewan bond mentioned above ought to be exchanged on a one-for-one basis. The Saskatchewan holder could hardly complain of any substantial injustice, and he would bear no appreciable sacrifice. If he desired, he could sell the federal conversion bond and reinvest in another security comparable to the Saskatchewan issue which he was forced to give up. The conversion would, therefore, be different from the Australian one, where the domestic holders had to take a definite loss. For this reason it ought to be applicable, without substantial modification, both to foreign and to domestic holders. It is, indeed, possible that a compulsory conversion would not be necessary, and that the basis of exchange between a federal bond and specified provincial bonds might be made attractive enough to induce voluntary exchanges.

The objection may be raised that the scheme offers only a slight fiscal gain to the great provinces of Ontario and Quebec. This is correct. But they also are the provinces which have been least interested in agitation for better terms, and they ought not to need special inducement to assent to abolition of the subsidy system. And the scheme need not be acceptable to all the provinces in order to be useful. Those provinces which did accept it would, in the future, throw their weight against subsidy concessions to the others.

Certain advantages may be claimed for the scheme here advanced. It would eliminate those unconditional subsidies which run, like a streak of shoddy, through the fiscal systems of the Dominion and the provinces; by lifting some part of the burden of provincial debt, it would strengthen the fiscal position of the provinces without weakening that of the federal treasury; it might lead both the Dominion and the provinces to see the need for coöperative control over many phases of their fiscal — and particularly over their borrowing — policies. Moreover, the gain from abolition of agitation for better terms cannot be measured solely or chiefly in terms of money. More important would be the removal of an apple of discord in federal-provincial and inter-provincial relations. For years provincial statesmen have been diverted from calm consideration of their real prob-

lems by futile quarrels about better terms. They have, indeed, sometimes commuted valid grievances about federal policy into the doubtful boon of an extra subsidy. This has been doubly unfortunate. It has enabled the federal government to evade the real issues and to continue the injurious policy, and it has complicated the basis of subsidies beyond the possibility of reform.

To suggest that the present system should merely be reformed¹⁸ is to neglect these vital defects. So long as unconditional subsidies are retained, the provinces will search for arguments in a historical grab bag in which fact and fiction have been intricately conjoined. This "history" must be devitalized by being made useless as an instrument of agitation, before the true facts will be considered. Then only will the valid grievances of the provinces be brought into plain view and considered on their merits without the risk of being shelved by a deal for better terms.

To advocate abolition of the system of unconditional subsidies is, however, not to deny that further revision of federal-provincial relations is desirable. But here also progress is more likely to be achieved if the pseudo-issue of better terms is discarded.

¹⁸ See N. McL. Rogers, *A Submission on Dominion-Provincial Relations and the Fiscal Disabilities of Nova Scotia within the Canadian Federation* (Halifax, 1934), chap. XIV; also *Report of the Royal Commission, Provincial Economic Inquiry* (Halifax, 1934), pp. 69-78; app., pp. 36-40.

PART II
CONDITIONAL SUBSIDIES

CHAPTER XV

AGRICULTURAL INSTRUCTION; TECHNICAL EDUCATION

BESIDES the unconditional grants paid by the federal treasury to the provincial governments without any restriction as to how these shall be spent, the federal subsidy system in Canada includes conditional grants paid in aid of specific provincial activities (e.g., technical education), and to these the federal government attaches strings. Such subsidies in Canada are a product of the last twenty-odd years. Beginning in 1912, the federal government has enacted five measures of this sort, and there is every prospect of extension in the future, both by the enactment of new measures and by the enlargement of the grants already being paid. A critical analysis of the experience already accumulated may be of some value.

AGRICULTURAL INSTRUCTION

In the years after 1905 there was much vague talk in Canada about the exodus of people from the farm to the city, about the need of encouraging a more diversified agriculture, and about the need of carrying scientific knowledge from the laboratory and the agricultural college to the man on the farm. This talk was soon echoed in the House of Commons. The Conservative opposition, following the regular practice of all oppositions, declared that the government was at fault for inaction; and, what was more important, it declared itself in favor of "granting liberal subsidies to the provinces for the purpose of supplementing and extending the work of agricultural education and for the improvement of agriculture."¹

When the Conservatives were placed in power in 1911 they had a chance to implement their promise. The minister of agriculture, Mr. Martin Burrell, casting about for a course of action, asked the advice of Mr. C. C. James, then deputy minister of

¹ *Montreal Gazette*, Aug. 15, 1911.

agriculture in Ontario. Mr. James had ideas about what should be done, and he consented to come to Ottawa to assume the new office of agricultural commissioner. The legislation which soon resulted was, in the main, shaped by him.

In 1913 the agricultural instruction act was passed.² The federal government was to distribute \$10,000,000 over a ten-year period to the provincial governments in aid of agricultural education. The distribution of the annual grant to each province was to be based upon population as determined by the last decennial census, except that each province was, first of all, allotted a flat sum of \$20,000 per year.³ The purposes for which the grants were to be spent and the manner of expenditure were indicated only in the most general terms. The act stated that agreements about this matter were to be drawn up by the federal minister of agriculture and the provincial ministers. Obviously this left wide discretion to the federal minister. There was not even a 50-50 clause, providing that provincial governments had to supplement the federal grants by an equal expenditure. In short, the act itself contained no statutory restrictions to insure that the provinces would spend the grants as the federal government desired.

² Dom. Stat., 1913, c. 5. This measure repealed Dom. Stat., 1912, c. 3, which the federal government had passed as an experiment in order to enable it to discover in what ways it could coöperate with the provinces. It should be noted that the Dominion was not bound in any way by the British North America Act, since, by sec. 95, agriculture was subject to concurrent jurisdiction.

³ \$20,000 was also given each year in aid of certain veterinary colleges. The total grant of \$10,000,000 was not merely split into ten pieces. For the year 1913-14 the annual grant was to be \$700,000, for 1914-15 \$800,000, for 1915-16 \$900,000, for 1916-17 \$1,000,000, for 1917-18 \$1,100,000, and this last amount each year for the rest of the ten-year period. The act was also extended for another year with a grant of \$900,000. The distribution of the total grants by provinces for the eleven years was as follows:

Prince Edward Island	.... \$ 331,500	Manitoba	..... \$776,300
Nova Scotia	..... 810,400	Saskatchewan	..... 829,100
New Brunswick	..... 642,900	Alberta	..... 684,500
Quebec	..... 2,640,400	British Columbia	..... 699,200
Ontario	..... 3,265,700	Veterinary Colleges	..... 220,000
		Total	..... <u>\$10,900,000</u>

Grants to Nova Scotia of \$20,000 a year for six years, and to New Brunswick of \$5,000 a year for five years after 1923 were made in order to help them pay off debt incurred for farm buildings built as a result of the act.

The commissioner, Mr. James, got promptly to work. A schedule was prepared setting forth the sort of work which would be regarded as coming under the act, and it became evident at once that "agricultural instruction" was to be very widely defined. The commissioner also explained that, while he would make suggestions, no coercion was to be put upon the provinces. The needs of the provinces were different, and diversity in methods was to be expected. The commissioner apparently relied upon three devices by which to unify the work done under the act. First, an annual conference was to be held at Ottawa, attended by federal and provincial officials and by persons engaged in agricultural instruction. Second, there was to be inspection of provincial work by federal officers. Third, an *Agricultural Gazette* was to be published monthly at Ottawa and distributed for free circulation among people interested in agricultural work. In fact, none of these devices worked well. One conference was held in 1914, but this first conference was also the last. An adequate system of federal inspection was never set up, and from the outset only casual and haphazard visits were made to the provinces. The *Agricultural Gazette* was founded and continued, but its influence was not significant.

Agreements with all the provinces were soon made, and the federal grants were used to finance a very diverse set of activities. It will be remembered that the provinces were not called upon to supplement the grants by contributions from their own treasuries. As a result they used them, in very many instances, to *extend* activities in which their departments of agriculture were already engaged and also to construct buildings. For example, Ontario had already inaugurated a system of "district representatives" by which a trained agriculturist was placed in a district with the task of serving as the focus for, and as director of all its agricultural work. The district representative was to carry scientific knowledge to the farmers, to organize agricultural clubs, et cetera. The federal grants enabled Ontario to extend this service rapidly. Ontario also used the grants to construct new buildings for the provincial agricultural college, and during the first four years one-third of its total went

for this purpose. Moreover, the teaching staff of the college was augmented, the salaries being paid from the federal grants. Other provinces followed a similar course.

Some of the work done under the act was new. Alberta began a system of agricultural schools — institutions designed to serve a purpose analogous to that of ordinary high schools, except that they were given a vocational slant. Quebec, Ontario, New Brunswick, and Prince Edward Island also started these schools. Some provinces, notably Prince Edward Island, British Columbia, New Brunswick, and Nova Scotia, spent considerable portions of their grants on elementary agricultural education: courses were introduced into the school program, boys' and girls' clubs were started, school fairs were subsidized. In all the provinces, but especially in Manitoba, there was expenditure on women's work, in which was included a heterogeneous set of activities — courses in dressmaking, millinery, cooking, nursing.

It is impossible to go beyond this summary description of the many sorts of work financed through the federal grants. There was great diversity from province to province, and no classification of expenditure would be accurate. A salary was paid or supplemented here, labor was hired there, courses were begun, buildings were erected. Even if it be supposed that each and every activity was, in itself, desirable, the lack of a definite plan and of a consistent policy impaired accomplishment. Things were started and then dropped; much money was frittered away to no purpose.

The war interfered with the orderly administration of the act. It brought, to be sure, an interest in stimulating production, but not through the slow process of agricultural education. Events were against the act in another way. Mr. James, the commissioner, died in 1916, just when his plans were being put into execution. The next commissioner, Mr. W. J. Black, was a competent agriculturist, but inevitably he could not carry out a scheme fathered by another man — a scheme, moreover, which was very loosely knit. New plans could not be made, because the provinces were already committed and because the

life of the act was only ten years. After two years Mr. Black resigned, and no successor was appointed to the position of commissioner.

In 1921 the Liberals came into office, and they had to decide whether or not the life of the act should be extended. The decision was in the negative.⁴ For this there were three reasons. First, the fiscal position of the Dominion was difficult. Federal indebtedness was large, and taxation was heavy. It seemed unwise to make grants from the federal treasury to provincial governments which had, in most cases, adequate resources of their own. Second, the act was a Conservative measure. The Liberals were not anxious to carry on a scheme inaugurated by their opponents, and this party feeling was reinforced by the fact that the prime minister, Mr. King, was opposed, in principle, to subsidies. Third, there was considerable feeling against the act among the officials in the Department of Agriculture at Ottawa. In part this was based upon no higher motive than jealousy. For example, there was resentment because Ontario had been able, through federal grants, to construct a new building for the provincial agricultural college at Guelph which surpassed anything used by the department at Ottawa. But the feeling was also based upon the reasonable and well-merited belief that the act had few accomplishments to its credit.

The phraseology of the agricultural instruction act was, as has been indicated, so broad that it left most of the important questions for the determination of the commissioner. Why did he not exercise his power by restricting more closely the sort of work which would be considered as earning grants? It must, of course, be admitted that this would not have been an easy task. The act was the first of the federal aid measures, and there was no administrative experience upon which to draw. The provinces were diverse in their agricultural methods and needs, and no simple plan would suit all of them. Still more important, the provinces would have resented any attempt at

⁴ An extension was given for one year.

restriction, particularly when the act itself seemed to preclude it.

But the commissioner made little effort to direct the provinces. An enthusiast for agriculture, he seemed often to believe that money spent for that occupation had a peculiar value. The provinces were allowed to use the grants much as they pleased. Sometimes they extended the scope of activities in which they were engaged; sometimes they simply used the grants to pay expenses which they would have incurred if the act had never been passed. Of course, this was altogether wrong, but no system of inspection was built up to prevent such a diversion of the federal grants. In certain cases the provincial governments were stimulated by the grants to enter new sorts of activities, but because this was done without control or coördination, the result too often was an overlapping and duplication of work already being handled by the federal government. Energetic provincial ministers of agriculture invaded certain fields, notably that of research, which the Dominion had already entered. To some extent this was inevitable, but surely it ought not to have been encouraged by grants-in-aid.

The act had, of course, some good results: the \$10,900,000 which was spent was not thrown away. Ontario, Alberta, and Nova Scotia seem to have used their grants with care. All three constructed substantial buildings which have served and will serve as colleges or schools, although it may be questioned whether this sort of expenditure is properly defined as in aid of agricultural education. Expenditure of the grants to build up a system of district representatives also brought some good results, and the Dominion might well have insisted that a larger portion of the grants should be used for this purpose.

But on the whole the accomplishments of the act were distinctly disappointing.⁵ A federal aid act ought to do much more

⁵ Mr. Duncan Marshall was asked in 1922 to report on the operation of the act, and, while recommending its continuance, he made a number of criticisms (S.P., Dom., 1923, no. 86a). It was "rather doubtful" if there had been an adequate increase in the number of boys and girls getting agricultural instruction. "If the vote was used for fewer purposes and concentrated upon a few definite educational efforts, the result might be more satisfactory, as well as more apparent."

than distribute money to the provincial governments. Before any such step is taken, the federal authorities ought to have a clear conception of what they desire to accomplish, and they ought to make a thorough investigation to learn what is feasible with provincial coöperation. Here the agricultural instruction act was weak. Its proponents, filled with lofty, but vague, aspirations, secured enactment of a statute which did not define what they hoped to do or how they might do it. This was a bad start. The terms of the act gave them no refuge from pressure, and they had no plan which might have prompted them to resist the importunities of the provincial governments.

TECHNICAL EDUCATION

In Canada, as in other countries, the old type of education was under fire during the opening years of the twentieth century. Industrialism was growing, but the apprentice system in industry had broken down. Debate arose as to how a remedy should be provided. Ought the government to see that children of thirteen to fifteen years of age had the opportunity to receive special technical training? This question interested a very diverse group of people: manufacturers, desirous of getting better workmen; labor organizations, anxious to raise the standards of living of their members; educators and citizens generally, hopeful of promoting the national welfare.⁶ The discussion finally entered the federal parliament,⁷ and in June 1910 a royal commission of inquiry was appointed. This commission traveled extensively in Canada, the United States, and Europe; and finally in May 1913 it submitted its report.

⁶ See an address delivered to the Canadian Club of Ottawa, Feb. 25, 1911, by J. W. Robertson.

⁷ In 1909 Mr. Guthrie brought forward a resolution which asked for a commission of inquiry "to investigate the needs of Canada with respect to technical education and to report on ways and means by which these needs may be best met" (C.D., 1909-10, p. 1023). Mr. Mackenzie King, the minister of labor, raised the issue of whether the Dominion had "the power to go into this question" (*ibid.*, p. 1075). This doubt did not trouble either Mr. Borden or Mr. Fielding—Borden declared that it was "absolutely perfect folly" to talk of constitutional objections. But there was a brief delay until Mr. Guthrie's proposal was submitted to the provincial governments (S.P., Dom., 1913, no. 191d, p. viii).

At no place in its elaborate report did the commission give any adequate argument in support of federal aid for technical education. It assumed, however, that since technical education might give a stimulus to national development, the federal government had both an interest and a responsibility. It seemed, furthermore, to believe that, without federal assistance, some provinces and some communities would lag in the provision of this service, thereby retarding industrial progress.

The commission made two recommendations for federal grants. First, the sum of \$350,000 a year for ten years was to be provided by the Dominion, three-quarters of which would be distributed among the provinces, on the basis of population, in aid of "the teaching of drawing, manual training, nature study, experimental science and pre-vocational work including domestic or household science in elementary schools."⁸ Second, and more important, the sum of \$3,000,000 a year for ten years was to be provided by the Dominion, three-quarters of which would be distributed among the provinces, on the basis of population, for the encouragement of industrial training, technical education, and scientific industrial research. In both cases the remaining one-quarter of the grants was, presumably, to be spent directly by the Dominion for administrative and developmental purposes. The commission outlined a very elaborate administrative and executive set-up. There were to be local (urban and rural) industrial development boards, provincial development councils and commissions, a Dominion development conference, and a Dominion development commission. The country was to be dotted with bodies engaged in the promotion of technical training and research. The contrast between this feature of the scheme of the commission and what was actually done is most striking.

The report was shelved because of the intervention of the war. But in 1919, as a part of the program of reconstruction, a technical education act was passed. The federal government was to distribute to the provinces the sum of \$10,000,000 over

⁸ *Ibid.*, p. 11.

a period of ten years. A flat grant of \$10,000 a year was to be given to each province and the rest was to be distributed according to population.⁹ But, unlike those made under the agricultural instruction act, the grants were contingent upon expenditure for technical education by a province of an amount at least equal to what it received from the federal government. Technical education, as broadly defined in the act, was "any form of vocational, technical or industrial education or instruction approved . . . as being necessary or desirable to aid in promoting industry and the mechanical trades and to increase the earning capacity, efficiency and productive power of those employed therein." But the intention was to leave the choice of the type of work which would be acceptable to the minister of labor, and agreements for this purpose had to be negotiated by him with the provincial authorities before any payments could be made. Not more than one-quarter of any annual grant to a province was to be used for acquiring land, buildings, or equipment, and each province was to submit annual reports to the minister of labor.

There are significant differences between this measure and the scheme of the royal commission. The shrinkage in the grants was natural enough in view of the financial burdens resting upon the federal government as a result of the war. But there were curtailments in other respects. The elaborate system of boards and councils, proposed by the commission for the purpose of administering and improving upon its scheme, was neglected. Moreover, the purposes for which the grants could be used were restricted in two respects. In the first place, expenditure for work at the bottom of the scale in elementary schools — manual training, domestic science, et cetera — did not earn a subsidy. The reason appears to have been the fear that the federal government would be accused of tampering with a provincial function. In the second place, provincial expenditure for work at the top of the scale — professional train-

⁹ The ten-year period began Mar. 31, 1919. The first annual grant was to be \$700,000, and this sum was to be raised by \$100,000 a year until it amounted to \$1,100,000 (Dom. Stat., 1919, c. 73).

ing in technical or teachers' colleges — was excluded because this phase of technical education was not thought to be in need of federal assistance. The result thus was that the sort of expenditure which earned a subsidy was (1) for education that would fit young people for employment in industry, and (2) for education designed to improve the quality of adult workers already employed in industry. Expenditure for land, buildings, and equipment for such education, not in excess of one-quarter of an annual grant, was eligible, and so also was expenditure for training teachers of vocational or industrial subjects.

All the provinces brought themselves under the act by signing agreements. At first they were unable to earn the full amount of the federal grant, but most of them made heavy expenditures, particularly for buildings and equipment, in order to expand their offerings of vocational and industrial training. The federal director of technical education, Mr. L. W. Gill, admitted that mistakes were being made. "If," he said, "a reasonable standard of efficiency were demanded before payments of federal money were made, about one-half of the work which is now receiving a benefit from the grant would be excluded."¹⁰ But he hoped for better things in the future.

Unfortunately, a number of untoward events intervened. Most important was the depression of 1921. It crippled the finances of the provincial governments and made rigid economy a necessity. The building program, which had been launched a year earlier, now smacked of extravagance. Another event of significance was the defeat of the government which had fathered the act. The new Liberal government was not interested in giving sympathetic administration to a measure of its opponents; and it was, besides, faced by the need of curtailing expenditure. A further misfortune was the resignation of Mr. Gill. He had put the act into operation, and he had been determined to hold the provinces up to reasonable standards.

The outcome was that, for the next few years, vocational and industrial training, in every province except Ontario, marked

¹⁰ S.P., Dom., 1922, no. 37, p. 107, report for the year ending Mar. 31, 1921.

time or actually retrograded. In the western provinces and in New Brunswick there was a decreased enrollment in the classes; in Quebec no provincial director of technical education was appointed, and the reports called for in the agreement were not sent to Ottawa; in Prince Edward Island and in Saskatchewan the provincial governments were interested only in agriculture; in Nova Scotia there was slow progress. The federal director, Mr. Crawford, had to fight continually against the attempts of provincial governments to get subsidies for expenditure unrelated to the act.¹¹ He became more and more convinced "that it was unwise to pay grants without exercising a certain amount of control over the manner in which the money is expended and limiting the scope and nature of the work for which it may be used."¹²

The return of prosperity might have been expected to cure some of these difficulties. But a new obstacle arose when the federal government announced that it intended to allow the technical education act to lapse. At once there was a protest. But the prime minister, Mr. King, was opposed to subsidies and he held to his decision. He also contended that the act had accomplished its purpose of giving the provinces a start, but that now the federal government, while recognizing its responsibility with respect to industrial and technical research, should withdraw from the field of vocational training. The Conservative opposition challenged this position and declared itself in favor of additional federal aid.¹³

Mr. King was willing to make one concession. Certain provinces had not been able to earn all of their annual allotments, and as a result unexpended balances had accumulated. In the ten-year period ending March 31, 1929, \$7,964,600 of the \$10,000,000 grant had been distributed. The residue of \$2,035,400 was due to the provinces as follows:

¹¹ "There is," he declared, "an increasing tendency on the part of some provinces to include for purposes of federal grants, courses of study which have no direct relationship to any branch of industry" (*ibid.*, 1925, no. 26, p. 89).

¹² *Report of the Department of Labour, 1924-25*, p. 70.

¹³ C.D., 1930, pp. 584-585, speech of Mr. Bennett.

		Per Cent of Total Grant
British Columbia	\$ 68,500	10.8
Alberta	21,800	3.2
Saskatchewan	695,100	82.0
Manitoba	528,300	73.5
Quebec	125,300	4.9
Ontario .....	.....	.....
New Brunswick	106,800	20.8
Nova Scotia	363,100	54.8
Prince Edward Island	126,500	63.8
Total	<u>\$2,035,400</u>	

But of this more than one-half had lapsed under a provision of the act which permitted only 25 per cent of an unexpended balance to be carried forward.¹⁴ The government in 1929 passed a new measure which made available for distribution over the next five years the total unexpended balance of \$2,035,400.¹⁵

Since then there have been no developments and no progress. As the depression deepened, all the provincial governments made heavy cuts in their expenditure for technical education. In 1934, at the end of the extra five-year period given to earn the original grants, Saskatchewan, Manitoba, and Nova Scotia still had unexpended balances to their credit, and the Dominion again extended the act for five years.¹⁶

¹⁴ Dom. Stat., 1919, c. 73, sec. 8.

¹⁵ *Ibid.*, 1929, c. 8.

¹⁶ *Ibid.*, 1934, c. 9. The table below shows the total allotment by provinces, and the unexpended balances on Apr. 1, 1934:

	Allotment	Unexpended
Prince Edward Island	\$ 198,200	.....
Nova Scotia	662,100	\$120,800
New Brunswick	512,500	.....
Quebec	2,569,700	.....
Ontario	3,178,600	.....
Manitoba	719,700	351,400
Saskatchewan	847,600	144,600
Alberta	678,500	.....
British Columbia	633,100	.....
Total	<u>\$10,000,000</u>	<u>\$616,800</u>

The table given above epitomizes, in a rough way, the progress made by the different provinces. During the ten-year period contemplated by the original act, Ontario alone used up all its grants. Indeed, in 1929 it was spending over \$1,000,000 on vocational education — much more than enough to earn the federal subsidy. Alberta, Quebec, British Columbia, and New Brunswick had almost exhausted their allotments. Alberta had early plunged enthusiastically into heavy capital expenditures for buildings and equipment, and had later to curtail its program for technical education. Quebec had lagged until 1923; but in that year a provincial director was appointed, and expenditures grew rapidly. In British Columbia and New Brunswick expansion had been steady. It will be seen that on March 31, 1929, the other four provinces — Saskatchewan, Manitoba, Prince Edward Island, and Nova Scotia — had not used up half their allotment. The first three provinces were primarily agricultural, and this was the most important reason for their lack of interest in the development of industrial training. Nova Scotia was in a different position. The provincial government had started a technical college in 1907. But expenditure on it was not regarded by the federal government as coming under the act and as earning a subsidy. The province added vocational and industrial work only slowly, and by March 31, 1929, somewhat less than half of its allotment had been received. It thus appears that Ontario alone had successfully initiated a system of technical education. Alberta, British Columbia, New Brunswick, and Quebec made a beginning, and they secured some buildings and equipment through federal aid. In the other provinces the gain was very doubtful.¹⁷

The greatest weakness of the technical education act was the inadequate administration which it was given. Compared, indeed, with the agricultural instruction act, there was improvement. The very fact that the federal grants had to be matched put some check — doubtless very rough and ready — upon expenditure. Besides, a more precise plan was drawn up in ad-

¹⁷ For a survey of the work done under the act, see *Federal Aid to Provinces under Technical Education Act . . . 1919-29* (Ottawa, 1930).

vance, and more rigid limitations were put into the provincial agreements. But no scheme will execute itself. The generalities of the agreements have to be translated into specifications, varying from province to province, and performance of these tasks has to be checked by inspection. These administrative requirements were particularly necessary because in 1919 vocational and industrial training had hardly made a beginning in Canada. A strong administrative staff, controlled from Ottawa, ought to have been set up.

This was never done. The first federal director, Mr. Gill, had the help of an assistant-director, Mr. Crawford. When the former resigned, Mr. Crawford was left to carry on alone. For the work of these two men there can only be praise. But their task was impossible. The provinces had, in the main, to be permitted to go their own road. The result was a heterogeneity of standards, with much work of an unsatisfactory quality.

There is still some history to record. The Conservative party had disapproved the termination of the act, and, on being returned to power, it passed in 1931 a new measure "for the promotion of vocational education."¹⁸ Federal aid, amounting to \$750,000 annually, was to be made available for a period of fifteen years. The distribution to the provinces was to be on the basis of population, after agreements had been negotiated by the minister of labor and the provincial authorities. There was no requirement in the act that the provinces should match the federal grants and no limitation of the percentage to be used for buildings and equipment. It may be that these and other restrictions will be embodied in the agreements,¹⁹ but so far agreements have not been entered into because of the difficult financial position of both the federal and the provincial governments.

Before the new act is put into effect, the federal government might attempt to mend the mistakes disclosed by experience.

¹⁸ Dom. Stat., 1931, c. 59. The substitution of the word "vocational" for "technical" was in accord with current usage except that the meaning was extended to include agricultural education.

¹⁹ The minister of labor, Senator Robertson, made rather ambiguous statements about these matters (S.D., 1931, pp. 487-498, 490-491).

A survey should be made to discover both what vocational education is being provided in Canada and what is needed. Those activities which are already efficiently handled by the provinces, and, at the other extreme, those which are of dubious merit, ought not to be given federal aid. A strong staff ought to be centered in Ottawa. The experience of the Federal Board for Vocational Education in the United States should be drawn upon. Finally, work under the act should be coördinated with the industry (and agriculture) of each province. The futility of training which is obsolete, or which is out of line with the needs of industry, needs no elaboration.²⁰

²⁰ A serious obstacle in the way of effective federal administration of any measure connected with education is the attitude of Quebec. Whether the fears of this province can be assuaged, or whether they make impossible the sort of administration which seems desirable, I cannot pretend to say. If the latter is the alternative, one may doubt that federal aid to vocational education is worth while.

CHAPTER XVI

HIGHWAY CONSTRUCTION; EMPLOYMENT OFFICES; COM- BATING VENEREAL DISEASE

HIGHWAY CONSTRUCTION

INTEREST in the construction of good motor highways came later in Canada than in the United States. But in the federal elections of 1911 the Conservatives promised aid for highway improvement, and, upon being placed in office, they introduced a bill for this purpose.¹ The Liberals fought the measure with great vigor, and, in two consecutive sessions of parliament, they were able to defeat it in the Senate.² No further action was taken until after the war. Then in 1919 an act was passed proposing to distribute \$20,000,000 in federal aid over a period of five years (starting April 1, 1919). Each province was to be allotted annually a flat sum of \$80,000, the remainder of the annual grant being apportioned according to population. The federal grant was limited to 40 per cent of the cost of construction or improvement of a highway.³ Agreements were to be negotiated with the provinces, and the governor-in-council was given the power to make such regulations as seemed necessary to give "effect to the objects and purposes" of the act.

After consultation with the provinces, regulations were formulated.⁴ Only main highways were to receive aid, and provincial expenditure under the act was to be in addition to the

¹ C.D., 1911-12, p. 1571.

² The Liberals declared the bill to be unconstitutional, and they complained about the form in which it was cast, since neither the amount of the federal grant nor the basis of distribution was specified. During the debate, Sir Richard Cartwright made the last of his "blue ruin" speeches. He said: "Were I to suggest a short title for the Bill, I would recommend the following — that this should be declared a Bill to make the British North America Act so much waste paper and to provide a permanent corruption fund for the use of the government of the day" (S.D., 1911-12, p. 517).

³ Dom. Stat., 1919, c. 54. In sec. 2 (b) "improvement" was defined to include reconstruction, but not maintenance.

⁴ See *Canada Gazette*, Dec. 13, 1919.

usual expenditure for highways. The provinces were to submit a five-year program of construction, together with a classification of roads according to their importance. If this program was approved, a province might make application to bring specific portions of its system under the act by submitting a "project statement," which would explain why a project was to be carried out, what it was to cost, and how it was to be financed. Expenditures for right-of-way, incidental damages, bridges, subways, and administration were not to be included in the cost, but expenditure on culverts not over twenty feet long might be.⁵

After each project statement was passed upon by the federal officials, work was begun. Actual construction of highways was done under supervision of the provincial engineer, subject, however, to federal inspection. The whole initial cost was borne by the province, but after a federal engineer had reported that the work was satisfactory, and after a federal auditor had reported upon the provincial accounts, 40 per cent of the cost was paid to the provincial government from the Dominion treasury. It should also be noticed that, by agreement, the province promised to maintain the federal-aid highways in good condition.

Obviously the procedure was stricter and more carefully planned than that of any previous subsidy act. Why was this so? A very important reason was that the objectives to be achieved under the highways act could be formulated with some precision. In the case of technical or agricultural education, the aim was vague, and the means to accomplish it were undefined. But the engineers did know, within limits, what sort of highway should be built in a given area, how it should be built, and what it should cost.

At this time good motor highways in Canada were almost nonexistent, and the responsibility of the different provincial governments for highways varied greatly. In the Maritimes it was broadly true that the provincial governments undertook the construction and maintenance of all important roads outside the cities and towns. In Ontario and Quebec, however, these

⁵ S.P., Dom., 1921, no. 20, pp. 83-84.

functions were mainly local, although the provincial governments gave some assistance and had assumed control of certain trunk highways. The prairie provinces followed the practice of Ontario, except that they had no provincial systems. In British Columbia the provincial government had practically the entire responsibility for roads. There was, naturally enough, a great difference in the type of road built in the different provinces. British Columbia, with a density of population of 1.11 per square mile and with a mountainous surface, had needs different from those of Nova Scotia, with a density of 23.37, or Saskatchewan with a flat terrain. Another difficulty was that, in most provinces, highway expenditure had been used to disperse political patronage.

The federal-aid act resulted in the reorganization and extension of every provincial highway department. A vast program of construction was begun. Federal engineers were placed at strategic points, and they attempted to hold the provinces up to reasonable standards. In those provinces where road-building had been a local function, there was delay. Moreover, the high costs of labor and materials in 1919-1920, and then the onset of depression in 1921, checked progress. It became clear that most of the provinces would not be able to earn their allotments of federal aid within the five years specified by the act. Accordingly, an extension of two years was given, followed by a further extension of two years in 1925.⁶

⁶ Dom. Stat., 1923, c. 4; 1925, c. 4. The following table shows the amounts of the provincial allotments and the amounts earned by Mar. 31, 1924:

	Allotment	Earned
Prince Edward Island	\$ 603,500	\$ 374,100
Nova Scotia	1,468,700	1,394,800
New Brunswick	1,163,800	1,107,500
Quebec	4,748,400	2,801,200
Ontario	5,877,300	4,751,700
Manitoba	1,602,300	1,074,700
Saskatchewan	1,806,300	1,098,700
Alberta	1,477,800	.....
British Columbia	1,251,900	1,251,900
Total	\$20,000,000	\$13,854,600

The distribution of the grant was as follows: \$80,000 per year was first assigned to each province, the remainder being divided on the basis of population as

The table following gives, in summary, the type of work done under the act:

Miles of Road Placed under Agreement to March 31, 1928

	Earth	Gravel	Other	Total
Prince Edward Island	742.9	5.3	2.4	750.6
Nova Scotia		413.0	61.8	474.8
New Brunswick		1,226.5	10.7	1,237.2 *
Quebec		630.9	374.3	1,005.2
Ontario		225.6	412.2	637.8
Manitoba	487.6	881.9	.....	1,369.5
Saskatchewan	1,901.2	45.6	.....	1,946.8
Alberta	352.0	599.6	.....	951.6
British Columbia	283.3	39.1	41.2	363.6
Total	3,767.0	4,067.5	902.6 †	8,737.1

* Includes a large mileage on which only maintenance work was done.

† 309 miles of hard-surface roads and 593 miles of water-bound macadam.

In Prince Edward Island, Saskatchewan, and British Columbia the mileage was principally earth roads. Prince Edward Island has no deposits of gravel, and construction of other than earth roads would have involved the provincial government in a greater expense than it was prepared to assume. The federal highway commissioner was unduly influenced by this opinion, and it appears that he should have insisted upon construction of a larger mileage of gravel roads.⁷ Under the act Prince Edward Island was allotted a disproportionate amount of federal aid. It got twice as much per capita as New Brunswick and more than three times as much as Ontario. It had, besides, a high density of population. In such circumstances a higher standard of construction would have been reasonable. Sas-

shown by the last census. For Manitoba, Saskatchewan, and Alberta, this meant the census of 1916; for the other provinces, that of 1911. After the census of 1921 was taken, distribution was based on it.

⁷ Two other unusual features should be noticed. Because Prince Edward Island is deeply indented by bays and rivers, many bridges are necessary. Under the highway act the cost of bridges did not earn a subsidy. The provincial government asked that this provision be relaxed, and this was conceded, partly because the request was reasonable and partly because a denial might lead to devious routing of highways. Again, a clause in all the provincial agreements declared that no aid was to be given for the construction of connecting streets in places of over two thousand people. But the provincial government took over and spent money on roads in Charlottetown and Summerside, and, by applying political pressure, got grants for this work.

katchewan, like Prince Edward Island, lacks gravel deposits. It has, besides, a low density of population and a tremendous road mileage. In British Columbia, because of the difficulty of the terrain, the immediate task was to get roads sufficiently wide and not too precipitous to be passable. Although nearly 80 per cent of the roads constructed in British Columbia were of earth, the cost per mile was greater than in any of the provinces except Ontario and Quebec.

One-third of the federal-aid mileage in Manitoba and Alberta was earth roads. These provinces had a large area and a widely scattered population, and the aim was to secure well-graded and well-drained roads, leaving surfacing for the future. In the main, this was a reasonable proposition.⁸

The greater part of the federal-aid roads in New Brunswick and Nova Scotia was gravel-surfaced. New Brunswick had easy gradients and good supplies of gravel, and it was able to build a large road mileage. The federal engineers tried to insist that the provincial government should not economize too much in approaches to bridges and in making fills. In Nova Scotia a vigorous start was made, but in the fall of 1920 a grave scandal was uncovered, involving the construction of two federal-aid projects. This slowed up the program, but it had the effect of a horrible example both to Nova Scotia and to the other provinces, and thereafter no graft appeared.

Ontario and Quebec built more hard-surface roads than did the other provinces. Ontario earned its whole federal grant of \$5,877,300 on six hundred and thirty-eight miles of road. It wished, indeed, to concentrate its expenditure still more narrowly, but the federal authorities believed that the grants should not be of benefit only to a restricted area of the province. Construction in Quebec occasioned more disputes between the federal and the provincial engineers than in any other province. Its highways and its rights of way were tortuous and narrow, and it was difficult to convince the provincial government that these things, above all else, ought to be remedied. The province

⁸In Alberta the provincial government was prepared to push this too far and to pass over the need of a provincial system of highways.

also objected to the requirement that work had to be done by contract (rather than by day-labor). Only after much wrangling and many unsatisfactory compromises did the program go forward.

As with the other acts which granted aid for a limited period, a quarrel arose over the question of continuance. The provincial governments pressed for new grants, but the prime minister, Mr. King, refused to yield. He took an uncompromising stand against a system of subsidies. It was, he declared, "thoroughly vicious," and it might, if allowed to develop, become "thoroughly destructive to economy with respect to the expenditure of the people's money."⁹ The leader of the opposition, Mr. Bennett, favored federal aid for highways. Such expenditure would, he thought, "pay large dividends in a very short time."¹⁰ But since the federal election of 1930 no new aid to highways has been given, except as part of the program of unemployment relief.

There can be no doubt that the highways act accomplished the purposes for which it was passed much more effectively than the agricultural education and technical education acts. A tremendous stimulus was given to road-building. Inevitably the rise of the automobile would have forced the provinces to act — and several of them had made a start in 1919; but their action was reinforced and brought to a head by the federal aid. Moreover, the federal act led to better provincial planning. More careful surveys were made, and the need of inter-provincial connections was considered. The federal engineers also stressed the need of proper location of a road, the value of good drainage and a broad right-of-way, and the necessity of minimizing curves. Federal inspection led to more uniform classification of expenditure and better systems of accounting. A start was made at the study of proper road materials and designs to meet traffic requirements. In brief, it is very probable that the federal act not only encouraged a greater provincial expenditure on highways, but also that the expenditure got better results than would have been achieved without federal advice and

⁹ C.D., 1929, p. 316.

¹⁰ *Ibid.*, p. 234.

supervision. Road expenditure in many provinces had been enmeshed in an evil system of patronage, and although something of this remains, a step forward was taken after 1919.

A further fact which distinguished the highways act from other measures of federal aid was that its grants were for capital, and not for recurrent ordinary expenditure.¹¹ When the grants ceased, the provinces were left with a certain mileage of completed highway. Expenditure for maintenance had, of course, to be made, but that put no additional burden upon the provincial budget.

Of course, the act was not perfect. It may be asked why population (modified by a flat grant of \$80,000 a year to each province) should be the basis for distribution of subsidies in aid of highway construction. The result was that some provinces, notably Prince Edward Island, obtained too great a share, while others, notably British Columbia, obtained too little. No categorical method of distribution can be suggested, but certainly some weight should be given to area and road mileage.¹² Again, disjointed projects were authorized, and federal money was scattered piecemeal over a province. Other mistakes were made, but most of them were excusable. If the highway act is to be condemned, it must be on those general grounds which can be brought against any grant of conditional subsidies.

The reasons for the success of the measure are not obscure. They are, first, that the aims to be attained were comparatively simple; and second, that the federal administrative staff was adequate and did its job. The two reasons obviously are complements. The objective of better highways was definable, as the objective of improved agricultural and technical education was not, and the administration of the highway act was adequate, as that of the agricultural and technical education acts was not, because it was easier to evaluate provincial achievement. But

¹¹ This is not quite an accurate statement because part of the expenditure under the agricultural and technical education acts was on capital account.

¹² The parallel measure in the United States distributed one-third of the grants in the ratio which the area of a state bore to the total area of all the states, one-third in the ratio which population of a state bore to total population, and one-third in the ratio which the mileage of rural delivery routes and star routes in a state bore to total mileage of such routes.

the lesson to be learned still remains, that no scheme of federal aid has a reasonable chance to succeed without strong central supervision.

EMPLOYMENT OFFICES

In Canada just before the war considerable sentiment had grown up in favor of governmental, rather than private, employment exchanges. The marked seasonal character of employment in Canada seemed also to emphasize the need of an employment service which would be inter-provincial in scope.¹³ The war temporarily removed the problem; but in 1918, when people began to think about how to absorb the demobilized soldiers into industry, the need of labor exchanges again received attention. Conferences were held between federal and provincial representatives, and, as a result, the federal government prepared legislation.

At this time the provinces of Quebec, Ontario, and Saskatchewan had established provincial employment offices, while British Columbia and Manitoba were moving in this direction. The federal government had no desire to establish a system of national labor exchanges, but it wished to encourage the establishment and expansion of provincial offices and also to make provision for their coördination. The employment offices coördination act was therefore passed, holding out a federal subsidy to provincial bureaus.¹⁴ The total amount to be distributed was \$50,000 for the fiscal year ending March 31, 1918, \$100,000 for the next year, and \$150,000 a year thereafter. This was to be divided among the provincial governments, subject to an agreement, in proportion to their expenditure on the maintenance of provincial employment offices, with the proviso, however, that no province was to receive a subsidy in excess of half its expenditures. The administration of the act was to be under the minister of labor.

¹³ See *Labour Gazette*, March 1915, p. 1063.

¹⁴ Dom. Stat., 1918, c. 21. For a fuller account of the origin, development, and administration of the offices see Industrial Relations Counselors, *Administration of Public Employment Offices and Unemployment Insurance—Canada, France, Sweden, Switzerland* (New York, 1935).

A director of employment service, Mr. Bryce M. Stewart, was appointed, and he proceeded, after conference with provincial officials, to negotiate agreements with the provinces. Standard forms and records were settled upon; regulations regarding expenditure which would earn a subsidy were formulated; and provision was made for the establishment of an employment service council on which there would be representatives from the provinces, the Canadian Manufacturers' Association, the Trades and Labor Congress, war veterans, the Canadian Council of Agriculture, and the federal Department of Labor for the purpose of advising about the administration of the act.

The first task which had to be handled was the demobilization of the soldiers. In this the new employment service was of much assistance to the Department of Soldiers' Civil Reestablishment. Especially was this so in the Maritimes, where no provincial employment offices were yet formed and where the Department of Labor undertook to conduct offices itself until April 20, 1920.

But the other features of the work were not neglected, and in all the provinces, except the Maritimes, provincial employment offices were soon in operation. By agreement, no more fee-charging commercial employment agencies were to be licensed by the provinces, and it was hoped soon to eliminate those already in existence. The provincial offices were to operate without charging a fee, and they were to attempt to cover all occupations. Again, although the federal department believed that the local labor problem could be handled more efficiently by the local offices, and although it wished the development to be provincial, it was obvious that the inter-provincial placement of labor required coördination by centralized direction. Accordingly, it organized a system whereby the local offices reported daily to a provincial office or clearing house the positions they had unfilled and the applicants they had unplaced. From these reports, the provincial offices endeavored to redistribute labor within the province more satisfactorily. If a residue was left, a report was made to an inter-

provincial clearing house which was operated by the federal Department of Labor. To facilitate the clearance of labor, the railways were asked, and they agreed, to grant reduced fares upon the certification of the employment offices. In this way an attempt was made to coördinate the provincial offices into a national system. The employment offices were used also to collect unemployment statistics upon a uniform basis, and these figures were compiled at Ottawa and published in the *Labour Gazette*.

Partly because of the demobilization work put upon the employment service and partly because of the success of the director in building up his branch, the total federal grant was increased, in 1919-1920, from \$150,000 to \$250,000; and it appeared that further expansion was to come. But when demobilization was concluded numerous offices were closed. Again, the federal elections of 1921 brought a Liberal government into office. It was not sympathetic to the development of federal aid, and it was disturbed by the seriousness of the fiscal situation. Some of the new activities which had been started were cut off, and gradually the annual grant in aid of employment offices was curtailed to \$150,000, the amount authorized by the original act.

The later developments have been uneventful. All the provinces, except Prince Edward Island, have come under the act and have established employment offices.¹⁵ On March 31, 1934, the offices numbered sixty-six, with three in Nova Scotia, four in New Brunswick, eight in Quebec, twenty-six in Ontario, three in Manitoba, nine in Saskatchewan, five in Alberta, and eight in British Columbia. There were two offices for inter-provincial clearance of labor, operated by the federal government at Ottawa and at Winnipeg. Commercial employment agencies were legal only in Prince Edward Island, New Brunswick, and Ontario, and the number had been greatly reduced. The provincial offices have been operated at moderate cost,¹⁶ and no serious complaints against them have been made. A

¹⁵ In New Brunswick the offices are operated by the municipalities.

¹⁶ See *Labour Gazette*, October 1929.

marked seasonality in the demand for labor in Canada is inevitable, and the employment service has facilitated the movement of labor from province to province, especially movement to the west during the harvesting season. The employment statistics collected from the provinces are quite inadequate, but, until an independent attempt is made to do this job on a national scale, the figures printed in the *Labour Gazette* must suffice.

A number of miscellaneous tasks has been put upon the employment service. The unemployment relief expenditures of the federal government in 1921 were supervised through it. Since 1923 it has handled, except in Quebec, the task of placing veterans who are physically disabled, and it appears to have done this in a satisfactory manner. It has also advised the Department of Immigration and Colonization about the condition of the labor market in Canada, with a view to selecting the sort of immigrants who could be placed. With the onset of the present depression, the employment service council, at its annual meeting, formulated the first plan of relief which was accepted by the government,¹⁷ and it has since assisted in the administration of the measures which have been undertaken.

These accomplishments are modest, but the federal government secures them at the modest price of \$150,000 a year. This sum amounts to less than one-third of the expenditure of the provinces for maintenance of their offices.¹⁸ The grant, it is to be remembered, is divided in proportion to actual maintenance expenditures, so that a province with an expenditure equal to

¹⁷ See *Report of the Department of Labour, 1930-31*, pp. 94-97.

¹⁸ For the fiscal year ending Mar. 31, 1934, the grants were distributed among the provinces as follows:

Nova Scotia	\$ 4,000
New Brunswick	3,800
Quebec	30,800
Ontario	63,500
Manitoba	9,900
Saskatchewan	14,000
Alberta	11,700
British Columbia	12,200
Total	\$150,000

one-quarter of total expenditure of the provinces for employment offices gets one-quarter of the \$150,000. The condition is attached, however, that no province may get as subsidy more than half of its expenditure. This basis of distribution has some advantages. But it is obvious that the need of a province for employment offices is not always evidenced by its expenditure on them. A province may neglect this service simply because of its relative poverty. No ideal scheme of distribution can be advanced, but more weight ought to be given to the labor problem in each province and to its general economic position.¹⁹

COMBATING VENEREAL DISEASE

As one of the steps toward social reform and reconstruction after the war, the federal government in December 1919 offered to the provincial governments grants-in-aid for the combating of venereal disease. The total sum provided for distribution was, at the outset, \$180,000 a year,²⁰ which was to be apportioned among the provinces according to population. The general plan had been worked out at a conference of representatives from the provinces and the Dominion — a body which became the Dominion Council of Health and which aimed to coördinate the health activities of the provinces and of the Dominion. As usual, an agreement between the federal and provincial officials had to be made for each province, and this called for the establishment by the province of free clinics for the treatment of venereal disease, hospital beds for indoor patients, treatment of jail inmates, and appointment of a specially trained medical director to oversee and guide the work in each province.²¹ There was, moreover, to be inspection by a federal officer to see that the agreements were being carried out.

¹⁹ By the employment and social insurance act (Dom. Stat., 1935, c. 38) the employment offices act was to be repealed by proclamation. But in view of the recent decision of the Supreme Court that the former measure is unconstitutional, the offices will for the present be continued.

²⁰ \$10,000 a year was also to be given to the National Council for the Combating of Venereal Disease (later to become the Social Hygiene Council).

²¹ S.P., Dom., 1921, no. 12, report of the deputy-minister of health for the year ended Mar. 31, 1920, p. 19.

All the provinces except Prince Edward Island prepared to earn the subsidy, and by 1922 practically the whole grant was being distributed. Over fifty clinics were in operation, and educational work was being carried on by lectures and by distribution of literature.

The federal grant, it will be noted, was not statutory, and its continuance depended upon the annual vote of parliament. In 1924 the amount was cut to \$150,000. Against this there was considerable protest, and when in 1925 the government prepared to cut the grant to \$100,000, the reaction was so vigorous that \$25,000 was added in the supplementary budget. The government declared, however, that the organization period for this work was over, and that the provinces ought to carry on alone and were able to do so. Two years later (for the year 1927-28) the subsidy was cut to \$100,000, and in 1932 it was eliminated.

It would seem that for this expenditure — a total of \$1,722,-300 over a period of thirteen years ²² — the federal government gained excellent results. The grant was begun at a time when public interest in this and related questions of public health was at its height. The provinces were ready to follow a lead. Undoubtedly, many of them would have developed agencies for combating venereal disease without federal aid; but some would have lagged. Besides, a coördinated plan was of considerable value.

It should be noticed that here again the grant was for a task which, however difficult of complete accomplishment, was definable and definite; and that officials with technical training for the task were at hand both in the provinces and at Ottawa. Moreover, the federal government could participate only by means of a subsidy policy. The work of combating venereal

²² The grants to the provinces were as follows:

1919-20	\$ 93,800	1926-27	\$119,100
1920-21	181,600	1927-28	98,900
1921-22	195,300	1928-29	98,900
1922-23	189,900	1929-30	98,000
1923-24	186,500	1930-31	98,500
1924-25	142,900	1931-32	99,400
1925-26	119,500		
		Total	\$1,722,300

disease must be done principally by the provinces. The federal government could and did aid by giving them a stimulus. It may, perhaps, be agreed that the stimulus was withdrawn too soon, but in any case this grant must be looked upon as a successful application of federal aid.

CHAPTER XVII

OLD-AGE PENSIONS

THE effort to secure federal legislation concerning old-age pensions has a fairly long history. In 1906-07 the question was debated in the House of Commons,¹ and in the next year a committee was appointed to investigate. There the question rested until the Borden government took office. Again a committee was appointed, and it accumulated considerable evidence at its hearings.² The war intervened, but in 1919 one of the resolutions passed by the Liberal convention declared in favor of federal coöperation with the provinces in framing a scheme of insurance against old age.³

But the Liberal government, after the elections of 1921, was in no haste. Certain members in the House of Commons were, however, active in pressing the question, and in 1924 a report made by a committee recommended adoption of a scheme of old-age pensions at the "earliest possible moment," one-half of the cost to be contributed by the Dominion and one-half by the provinces, with the provinces bearing the cost of administration.⁴ The federal government was to communicate with the provincial governments to see what progress could be made. The answers of the provincial governments were ambiguous. Some provinces — Saskatchewan, Alberta, and British Columbia — were insistent that the federal government should assume a larger, or even the entire, burden. Others were noncommittal or evasive in their answers.⁵ Since the question of constitutional jurisdiction had been raised, the committee proceeded to get an opinion from the Department of Justice. This opinion was that old-age pensions came under the heading of property

¹ C.D., 1906-07, p. 3374 *et seq.*

² J.H.C., 1911-12, app. 2; *ibid.*, 1912-13, app. 4.

³ C.A.R., 1919, p. 606.

⁴ J.H.C., 1924, app. 4.

⁵ *Ibid.*, 1925, pp. 455-456.

and civil rights (section 92, sub-section 13 of the British North America Act), and as such were a provincial function. The Dominion had, therefore, no authority to establish a compulsory scheme to which individuals were forced to contribute. Consequently, the committee favored the offer of federal grants-in-aid to the provincial governments which would establish a non-contributory scheme. Since the contention could no longer be advanced that the responsibility for old-age pensions was primarily federal, it believed that the provinces would take advantage of such an offer.⁶

The general election of December 1925 intervened. It left the Liberal government dependent upon the votes of the small group of independent members in the House of Commons. What occurred with respect to old-age pensions is not yet history. The current version is that the prime minister, Mr. King, promised to introduce legislation as the price of the support of the left-wing members.⁷ In any case, a bill was passed by the House of Commons, providing that the Dominion would for ten years pay one-half of provincial expenditure on old-age pensions. But the Senate threw out this proposal.⁸ Then came the election of September 1926, and the Liberals were returned with a clear majority. A new bill was introduced, and this time it became law. It should be remembered that, during the exciting political struggle of 1926, no further progress had been made toward securing provincial coöperation about old-age pensions. And when the act was passed, everyone knew that some provinces were opposed to it and that some felt unable to

⁶ It should be understood that a compulsory scheme puts compulsion upon individuals to make contributions, and therefore, even if provincial governments were willing to allow enactment of a compulsory federal act, the courts would, it is supposed, hold it invalid.

⁷ C.D., 1926, pp. 560-561 for this interpretation. Mr. Woodsworth and Mr. Heaps wrote to Mr. King and to Mr. Meighen on Jan. 7, 1926, asking for a statement of their position about old-age pensions. Mr. Meighen made no promise; Mr. King declared his intention to introduce legislation. This led Mr. Woodsworth to declare that the "peculiar combination of circumstances which we find existing in the House at this time has seemingly made it possible to place upon the statute books long overdue legislation in the interests of some of the most needy, but least influential elements of our population."

⁸ S.D., 1926, p. 184.

take advantage of the federal aid. Despite this, the government went ahead, and the Conservatives, who had earlier been lukewarm, now seemed prepared to support legislation which would put the whole burden of old-age pensions upon the Dominion.⁹

The old-age pensions act¹⁰ was essentially a federal-aid measure. It laid down certain conditions upon which a provincial government, by enacting old-age pension legislation, would become entitled to aid. British subjects, seventy years of age and over, who had resided in Canada for the twenty years and in the province for the five years immediately preceding, were to be given, as a maximum, a pension of \$240 a year so long as their total annual income, including the pension, was not in excess of \$365. The governor-in-council had to approve the scheme of administration proposed by the province, and it could then enter into an agreement, undertaking to pay to the provincial government one-half of its expenditure for pensions.

When the federal bill was introduced into parliament, no province had an old-age pension scheme in operation. British Columbia, however, at once took advantage of the federal aid.¹¹ The other provinces were not so prompt. But in March 1928 Manitoba and Saskatchewan enacted legislation, and a year later Alberta and Ontario did likewise.¹² The Maritimes and Quebec held back. Quebec was handling, and seemed to prefer to handle, its aged poor through local institutions, to the support of which the provincial government contributed. It has always taken a conservative attitude toward social legislation, and it is, besides, apprehensive about federal invasion of its provincial rights.¹³ Not until 1936 did the Quebec legislature pass an old-age pensions act.

⁹ C.D., 1926-27, p. 331.

¹⁰ Dom. Stat., 1927, c. 35.

¹¹ British Columbia had been very insistent upon federal action. See *Old Age Pensions in Canada* (Ottawa, 1929), pp. 14-16.

¹² At the Dominion-provincial conference in November 1927 most of the provinces expressed the hope that the Dominion would assume a larger share of the financial burden. See *Dominion-Provincial Conference: Précis of Discussion* (Ottawa, 1927), pp. 34-35.

¹³ The provincial government secured the opinion of two eminent constitutional lawyers that the old-age pensions act was of doubtful constitutionality. Then, in 1930, it appointed a commission to study, among other matters, the subject

The Maritime governments simply could not afford to assume even half the cost of old-age pensions. In the first place, the age distribution of their population was and is abnormal. The following table shows that whereas, in 1921, for Canada as a whole only 28.12 of every 1,000 persons were seventy years of age and over, in Prince Edward Island the corresponding

PROPORTION PER 1,000 OF POPULATION SEVENTY YEARS AND OVER

	1921	1931
Canada	28.12	33.22
Prince Edward Island	60.24	64.81
Nova Scotia	47.26	50.93
New Brunswick	38.53	41.95

figure was 60.24, in Nova Scotia 47.26, and in New Brunswick 38.53. In the second place, it seemed probable that the percentage of persons seventy years and over who would be eligible for pensions would be unusually high.¹⁴ In the third place, a section of the federal act provided that, if a pensioner had in the previous twenty years resided in more than one province where he would have become pensionable, the province by which the pension was granted should be reimbursed according to the proportion which the period of residence bore to twenty years.¹⁵ Since the net movement of population had for many years been against the Maritimes, they would, upon enacting pension legislation, be compelled to make an abnormal net contribution for nonresident pensions.

It is clear that the Maritimes had a strong incentive to urge

of old-age insurance. In its report the commission declared against a non-contributory, and for an obligatory and contributory scheme. But it suggested that Quebec should accept the present system temporarily. See *Fifth Report of the Social Insurance Commission* (Quebec, 1933).

¹⁴ This might not be the case in Prince Edward Island. In Nova Scotia a commission investigated this question. It estimated that only 38.9 per cent of the persons eligible for pensions had an annual income in excess of \$200, and only 31.0 per cent in excess of \$300. The annual cost to the provincial government would, despite the 50 per cent federal grant, be nearly \$2,000,000—an addition of 25 per cent to the ordinary expenditure (J. of A., N.S., 1930, app. 29, p. 16).

¹⁵ Sec. 10. But when a part of the twenty years had been spent in a province which did not pay old-age pensions, the amount of the pension was reduced in proportion (sec. 11).

that the federal government should assume a greater share of the cost of old-age pensions. Unless this was done, they would be forced to forego that portion of the federal aid to which they were entitled, and their people would be deprived of desirable social legislation. The other provinces — always excepting Quebec — were also anxious to shift a part of their fiscal burden upon the Dominion.

At this time the Conservatives were in opposition, and they, naturally enough, responded to the pressure for modification of the federal act. In the elections of 1930 Mr. R. B. Bennett declared in favor of a national system of old-age pensions, supported entirely by the federal treasury. And on becoming prime minister, he introduced, as a partial fulfilment of his promise, legislation increasing the grant made by the federal government from 50 per cent to 75 per cent of the cost of pensions.¹⁶ The difficult fiscal position of the Dominion treasury precluded any greater step, but Mr. Bennett expressed the hope that later a national scheme, on a contributory basis, might be framed.¹⁷ Even after this increased federal contribution, the Maritime governments hesitated. But at last in 1933 Prince Edward Island, in 1934 Nova Scotia, and in 1936 New Brunswick enacted old-age pension acts.¹⁸

¹⁶ Dom. Stat., 1931, c. 42.

¹⁷ C.D., 1931, p. 3945. Mr. King took the following position: "I am not taking exception to any of the very worthy purposes that these grants are intended to secure, least of all do I take objection to a federal old age pension scheme, because I think where more than fifty per cent of the cost is met by the government at Ottawa, it should be an old age pensions scheme administered by the federal government . . ." (*ibid.*, pp. 3945, 3967). If there was a constitutional difficulty, it should be removed by amendment of the British North America Act. Mr. Bennett agreed that this was a reasonable suggestion. In his opinion, amendment of the British North America Act was not necessary. A national contributory scheme, "administered by a commission that would have the powers of a body corporate, but that would administer the act as a federal undertaking," would prove to be constitutional.

¹⁸ Although the agreement made by the Dominion with Prince Edward Island parallels that with the other provinces, Prince Edward Island is in fact providing a maximum pension of \$180, instead of \$240, a year. Undoubtedly there is considerable variation in living costs and standards from province to province, and this may justify variability in maximum pensions. But the practice of Prince Edward Island would seem to be in conflict with the present federal act. Prince Edward Island pays the other provinces at the regular rate for its outside proportion of pensioners.

The federal old-age pensions act is, as has been indicated, a measure providing grants-in-aid. The provincial governments secure this aid by enacting legislation which conforms to conditions laid down in the federal measure and by agreeing to observe regulations issued by the Department of Labor at Ottawa. An inter-provincial board was appointed, consisting of a Dominion representative and representatives from each province with which an agreement had been reached. It was supposed that this board would interpret and alter the regulations, but in fact it has not been active. The Department of Labor felt, particularly after the larger federal grant began to be paid, that it ought to take charge of such matters.¹⁹

The administration of the old-age pension measures is, however, almost entirely in the hands of the provinces. The Dominion requires much detailed information from the provincial authorities, but it has no inspectional staff in the field. There can be little doubt that administration differs from province to province, and that there has been misuse of funds. In Prince Edward Island and Nova Scotia the measures are too new to permit evaluation, although the centralized set-up of the administration and the small size of the provinces make for success. But in all the other provinces mistakes have been made because the administrative staffs were hastily recruited, poorly qualified, and inadequate in size. In most cases, also, reliance was put at first upon local officials who would receive applications for pensions and who, both because of inexperience and incompetence and for purposes of political patronage, put people improperly upon the lists. To some extent this has been rectified. Ontario appointed a provincial inspectional staff and required that all applications for pensions be forwarded to the provincial commissioner.²⁰ In British Columbia and Alberta

¹⁹ The revised regulations are to be found in the *Labour Gazette*, May 1932. Administration of the federal act was by Order-in-Council of Mar. 1, 1935, transferred to the Department of Finance.

²⁰ Recently the administration in Ontario has been reorganized in the interest of economy and more expeditious settlement of pensions. Applications are now received and completed by the local authorities. The pensions inspectors were released, but if further investigation is thought necessary, this is done by pro-

administration was centralized, applications were carefully examined, and safeguards were set up against overpayments. The depression, while increasing the number of pensioners, made provincial governments scrutinize expenditures more carefully. But there is still much room for improvement, and this cannot be looked for if the task is left entirely to the provinces. At present, provincial governments pay as a maximum 25 per cent of the cost of pensions, and in some provinces this is shared with the municipalities.²¹ The incentive to set up efficient administration is therefore weak. It is essential that the federal government, which is responsible for 75 per cent of the expenditure, should exercise greater powers of supervision and control.

A brief examination of some of the statistics will be helpful. When in 1924 a committee of the House of Commons was investigating the cost of a system of old-age pensions, it estimated that approximately 40 per cent of the population over seventy years of age would be eligible.²² The following table shows that this estimate was much too low:

PERCENTAGE OF PENSIONERS TO POPULATION OVER SEVENTY YEARS OF AGE, MARCH 31, 1935

Alberta	(Aug. 1, 1929)*	43.0
British Columbia	(Sept. 1, 1927)	37.2
Manitoba	(Sept. 1, 1928)	49.8
Ontario	(Nov. 1, 1929)	33.0
Saskatchewan	(May 1, 1928)	49.9
Nova Scotia	(Mar. 1, 1934)	46.3
Prince Edward Island ...	(July 1, 1933)	25.3
Northwest Territories ...	(Jan. 25, 1928)	7.9

*Date on which the act became effective.

In four of the seven provinces the percentage is above the estimate, and the peak has certainly not been reached in Nova

vincial relief inspectors. It may be doubted that this decentralization will be satisfactory.

²¹ In Manitoba 12½ per cent of the cost of pensions is put upon the municipalities; in Ontario 10 per cent; in Alberta 10 per cent; in Saskatchewan, British Columbia, Nova Scotia, and Prince Edward Island, none.

²² J.H.C., 1924, app. 4, pp. 4, 66.

Scotia or Prince Edward Island. In Quebec and New Brunswick, the two provinces which had not then adopted the scheme, the people are poor, and the number of pensioners can be expected to be relatively high. It follows, of course, that old-age pensions have been much more expensive to the federal and the provincial treasuries than was anticipated. For the year ending March 31, 1935, the amount paid in pensions (not including cost of administration) was \$19,999,100, of which the Dominion share was \$14,942,500.²³ The inclusion of Quebec and New Brunswick will increase the total cost by one-third, and in all the provinces the relative increase which is to be expected in the older age groups will bring more pensioners on the lists. On the other hand, two influences may work in the opposite direction. For one thing, the number of pensioners has been swelled by the prolonged depression. Aged persons have lost their savings, and families have become unable to carry the burden of the support of parents. The return of prosperity would alleviate this situation. For another thing, the act has been so loosely administered that some names have been fraudulently put upon the lists. A stricter and more efficient administration would eliminate such abuses. But these factors can at most only serve to moderate the increase of pension expenditure in the future.

The statistics indicate also that the administration of old-age pensions has varied in quality from province to province. The table above shows a wide provincial variation in the percentage of pensioners to persons over seventy years of age. The low figure for Ontario is, indeed, not surprising. It is due

²³ The federal grant has grown as follows:

1927-28	.....	\$ 131,500
1928-29	.....	832,700
1929-30	.....	1,537,200
1930-31	.....	5,658,100
1931-32	.....	10,032,400
1932-33	.....	11,512,500
1933-34	.....	12,313,600
1934-35	.....	14,942,500
Total	.....	<u>\$56,960,500</u>

less to superior administration ²⁴ than to a diversified economic development and higher general level of income. The high figures for Manitoba, Saskatchewan, and Alberta are explained in part by the very depressed condition of agriculture, but in Manitoba and Saskatchewan administration is lax. There is also considerable variation in the average amounts paid to pensioners. As the following table shows, British Columbia stood highest with \$18.89 a month, and Prince Edward Island lowest with \$10.44.

AVERAGE MONTHLY PENSION AS AT MARCH 31, 1935 *

British Columbia	\$18.89
Manitoba	18.20
Alberta	17.34
Ontario	17.79
Saskatchewan	16.23
Nova Scotia	14.39
Prince Edward Island	10.44

*The figure for the Northwest Territories is \$18.98.

The cost of living certainly varies appreciably between the provinces, and so also do the living standards of pensioners. These factors may be adequate to explain the variation. But it is more than probable that, in addition, a part is played by diverse provincial interpretations of the provisions of the act about such fundamental matters as income and residence, coupled with a diversity of administrative standards.²⁵

²⁴ In Ontario much responsibility for administration was, at the outset, put upon local boards until abuses cropped up. Then a provincial inspectional staff was formed, and in 1932 the rule was made that all applications for pensions should be forwarded to the provincial commissioner. But these reforms have been partly nullified by political interference which has caused recommendations by inspectors to be disregarded. Of all the provinces in the scheme, Ontario has been the least amenable to the few suggestions made from Ottawa. For example, it was found that Ontario—and several other provinces—had given pensions to lunatics. Such persons are wards of the province, and a federal grant to them was really a grant to the provincial government. All the provinces except Ontario readily admitted the invalidity of such grants. Ontario has also been ready to raise doubts about the authority of the Dominion to follow up its grants, and Ontario has bickered with the other provinces about proof of residence in inter-provincial cases.

²⁵ The auditor-general stated that, besides "irregularities"—fraud by provincial officials, award of pensions to persons under seventy years of age, and noncompliance with regulations about residence, income, and naturalization—

The present position of old-age pensions in Canada is unsatisfactory. Suggestions have been made that a system of compulsory contributory insurance should replace the present scheme, and this may well be the best long-run solution. But it faces an immediate constitutional obstacle, and, even if that is surmounted, such a plan can only be brought slowly into operation. Another suggestion is that while the present system might, in general, be retained, it should be taken out of the hands of the provinces and brought completely under federal control. The fact that approximately 75 per cent of the cost of pensions²⁸ is borne by the Dominion treasury makes this appear to be a reasonable proposal. Again, however, the constitutional obstacle must be removed, because the federal government has no jurisdiction over property and this would be a serious bar to administration of the measure. There is still another obstacle. Even if all constitutional obstacles were removed, it should be realized that, in the task of administering old-age pensions, an intimate and continuous knowledge of local affairs is essential. Otherwise bureaucracy and red tape on the one hand, and evasion and fraud on the other, will be difficult to avoid. In a country which is federal not only because of its history and institutions, but also because of its size and regional heterogeneity, a centralized administration would seem inadvisable.

What then should be done? For the present it would be best for the federal government to keep the existing act, but to tighten and extend its supervisory powers. The exercise of these thus far has been so slight as to be negligible. The provinces have been required to send information to Ottawa, and partial audits of the pension expenditures have been made. But the staff has been wholly inadequate both in size and in training. Federal officers have, indeed, expressed some doubt as to their right to follow up expenditure, and it is probable that, if

his officers "found that widely different policies existed in the various provinces respecting the granting of pensions, and a lack of uniform interpretation of certain sections of the Federal Act and regulations made thereunder was also apparent" (*Report of the Auditor-General, 1933-34, p. xxx*).

²⁸ The Dominion pays only 75 per cent of the cost of pensions, leaving cost of administration to be borne by the provincial governments.

they did, there would be some provincial complaint of federal interference. But the doubt is ill-founded and the complaint should not be heeded. What has been lacking is not the power, but the will to use it. The existing regulations seem to give adequate power to the Dominion,²⁷ but if they do not, then adequate power should be taken. And if a province is willing to allow the federal government to lift three-quarters of the expense of a function from its shoulders, it should be willing also to accept federal supervision. The one must and ought to be the price of the other, else the justification for federal aid disappears.²⁸

²⁷ See sec. 33 of the regulations made by Order-in-Council, Feb. 1, 1932.

²⁸ The recent transfer of administrative responsibility from the Department of Labor to the Department of Finance may indicate that the federal government is at last realizing its responsibilities.

CHAPTER XVIII

FISCAL NEED AND CONDITIONAL SUBSIDIES

READJUSTMENT OF FEDERAL-PROVINCIAL FINANCIAL RELATIONS

FOR many years after 1867 the fiscal systems of the federal government and the provinces were extremely simple. The federal government obtained its revenues almost exclusively from customs and excises. As late as 1913-14, out of a total of \$127,478,100 of tax receipts, customs provided \$104,691,200 and excises \$21,452,000. The revenue of the provincial governments was derived from unconditional subsidies from the federal treasury, territorial revenues, light taxes on corporations, and succession duties. Both federal and provincial expenditure had expanded at about the same rate. Thus ordinary expenditure of the federal government rose from \$5.90 per capita in 1881 to \$8.72 in 1901 — an increase of 48 per cent; that of the

PER CAPITA ORDINARY EXPENDITURE

	1881	1891	1901	1911
Federal	\$5.90	\$7.52	\$8.72	\$12.18
Provincial	1.89	2.41	2.63	5.29

provincial governments from \$1.89 per capita to \$2.63 — an increase of 39 per cent. During the next decade, in the belief that the twentieth century belonged to Canada, both the federal government and the provincial governments increased expenditures rapidly, but the relative increase was greater for the provincial governments. Yet it is broadly true that up to the war both provincial and federal expenditure had grown at about the same rate, and that the distribution of functions and fiscal resources between the governments appeared to be in balance. The war was responsible for a major dislocation. The federal government was forced to reach into the field of direct taxation, and the balance of fiscal superiority swung heavily in its favor.

During the post-war decade the trend of federal expenditure and debt was slightly downward; but, as the following table

FEDERAL AND PROVINCIAL ORDINARY EXPENDITURE
AND DEBT PER CAPITA

		<i>1919</i>	<i>1929</i>	<i>1933</i>
Ordinary Expenditure	{ Federal	\$35.51	\$35.06	\$33.60
	{ Provincial	9.19	17.70	18.75
Bonded Debt and Treasury Bills	{ Federal	312.00	224.00	261.00
	{ Provincial	37.00	90.00	117.00

shows, the trend of provincial expenditure and debt was sharply upward. If expenditure for interest is omitted, it will be found that the major increases in ordinary provincial expenditure were for social welfare purposes and for highways. Mothers' allowances and old-age pensions were provided; activities relating to health were extended; educational facilities were improved; the remarkable changes in transportation forced heavy expenditure upon highways. In short, the provincial governments were faced by new responsibilities which they had to handle in some way.¹

But the financial problems of the provincial governments led to greater pressure upon their capital than upon their ordinary budgets. The fact that interest payments grew more than twice as fast, 1919-1929, as the total of other ordinary expenditures, is an epitome of the situation. The provinces treated as capital items, to be covered by borrowing, not only outlays for commercial undertakings, such as hydroelectric and telephone systems, but also outlays for construction of highways, bridges, public buildings, et cetera. Against this latter class of capital items current charges for depreciation and obsolescence have never been set up, and the result has been the creation of a large dead-weight debt — a debt for items which did not yield a financial return and which often passed out of existence long before the bonds which financed them matured.² In 1929 debt

¹ It should be noted that in the decade 1919-1929 provincial revenues grew slightly faster than ordinary expenditures. Such sources of revenue as the gasoline tax, taxation of motor vehicles, income from liquor control, which were unknown or insignificant in 1919, were yielding large sums in 1929.

² In 1929 over 22.5 per cent of provincial revenues were needed to meet in-

contracted for highway construction was about one-third of gross provincial debt. The difficulty of the fiscal problems which the provincial governments had to face in this decade should not be minimized. But it is clear that the device of borrowing was too readily adopted.

The onset of depression thus found the provincial governments in a vulnerable fiscal position. Their revenue systems were relatively inflexible, their credit was weak, and yet they were confronted by imperative demands for new expenditure. Cuts in salaries and curtailment in ordinary programs were general in all the provinces, but expenditure for unemployment relief and for regular public welfare purposes rose sharply. The growth in the latter — old-age pensions, mothers' allowances, hospitals, et cetera — was in part an incident of the depression; when private provision for the poor and aged faltered, the provincial governments felt impelled to assume a larger share. But in part it was a continuation and an acceleration of tendencies which were visible earlier. Expenditure for unemployment relief was, of course, a result of the depression, and it was provided through borrowing. During the four years 1929-1933 provincial bonded debt and treasury bills grew from \$848,501,200 to \$1,255,713,300, and almost all of the increase was disbursed as unemployment relief.³ In 1931 the four western provinces reached the limit of their ability to tax and to borrow, and the federal government had to come to their assistance with loans and special grants in order to prevent default.⁴

terest payments. The American states were only spending 4.6 per cent of their revenues for this purpose.

³ The federal government, beginning in 1930, undertook to share the cost of provincial and municipal expenditure on programs of public works and on direct relief. In general the basis was 50-50.

⁴ On Mar. 31, 1936, the federal government had loans outstanding to certain provincial governments as follows:

Manitoba	\$ 15,504,900
Saskatchewan	48,368,600
Alberta	25,081,000
British Columbia	27,572,700
Total	\$116,527,200

This hasty survey has shown that in the post-war years the trends of economic development, notably new demands for social legislation and new methods of transportation, threw important and costly tasks upon the provinces. The provincial budgets were unbalanced, and when depression came the case was desperate.⁵ The conclusion which might be drawn is that governments ought not to load up with a heavy debt in prosperous times. If they do, that debt becomes a positive menace in depression. While this conclusion is not to be dismissed as trite, it is still inadequate. Even if the provincial governments had pursued far-sighted policies, their tasks would have been very difficult. The difficulties can be expected to become greater rather than less, because expenditure for highways, for education, for social welfare will grow, and, under the existing constitutional arrangements, the direct responsibility lies upon the provinces. With the sources of revenue at their disposal, it is unlikely that they can finance these growing functions, and some adjustment of federal-provincial relations seems to be necessary.

SOME PROPOSALS EXAMINED

A variety of solutions has been proposed.⁶ Some there are who favor the grant of larger unconditional subsidies to the provinces, these subsidies to be determined upon the basis of fiscal need. This solution has already been examined and condemned. Others suggest that certain sources of revenue be transferred from federal to provincial control. It is more than doubtful that this would help the provinces which are most in need, although some scheme of federal-provincial coöperation in tax administration might be desirable. A suggestion of a different type is that certain functions, now provincial, be transferred to

⁵ A comparison of the growth of interest payments and of debt indicates the weakness of provincial credit during the depression. From 1929 to 1933 provincial debt grew by 48 per cent, while interest payments grew by 52 per cent. In the same period federal debt grew by 25 per cent and federal interest payments by 14 per cent.

⁶ Some of these have been examined in my article, "The Adjustment of Federal-Provincial Financial Relations," *Canadian Journal of Economics and Political Science*, August 1936.

the jurisdiction of the federal government by amendment of the British North America Act.⁷ Broadly put, the aim would be to give the federal government the power to enlarge the scope of its legislation for social and public welfare purposes.

A serious objection to this last proposal is that extension of the powers of the federal government means centralization. Steps in this direction ought to be taken only after careful deliberation. Canada is a large country, and it is homogeneous neither in race nor in economic development. A policy satisfactory to Alberta may be unsatisfactory to Quebec; what appeals to Nova Scotia may not appeal to Ontario. The crux of most social legislation is administration, and administration from Ottawa might turn out to be bureaucratic, inflexible, and unsympathetic toward the variety of provincial needs. These dangers are intangible and difficult to appreciate, but that they are real is attested by the experience of every federal country. The Australian Commonwealth Grants Commission is acutely conscious of them. It points out that some confusion of policies is inevitable in federalism, but "this is better than that a unified authority should make an ineffective attempt to administer and control the details of the life of the whole group."⁸ It is not inconceivable that for Canada premature centralization might bring about a less rather than a more stable political organization, because it might aggravate the disharmonies inherent in a federation.

But the unsatisfactory character of these proposals does not alter the fact that some adjustment of Dominion-provincial financial relations is advisable. At present the provinces have control of and are responsible for functions which in many cases they cannot handle satisfactorily because their revenues are not capable of much expansion. Some of the functions which have in recent years weighed most heavily upon the provincial budgets, and which promise to weigh still more heavily in the future, are of national significance. Part of their burden might,

⁷ Some decision must, of course, first be reached about the *method* of amendment before progress can be made with specific amendments.

⁸ *Second Report*, p. 43. See also pp. 44, 47.

therefore, be borne by the Dominion treasury. But if the Dominion is to assume partial responsibility for certain functions, it ought also to secure partial control. On the other hand, the Dominion ought not to assume complete control of any functions unless it can administer them more efficiently than the provinces. In many cases this is not to be anticipated. What seems to be needed is local and provincial administration, combined with Dominion supervision in the national interest.

Certainly there is a possible means of achieving this combination which merits serious consideration. This is that the federal government improve, extend, and integrate its system of conditional subsidies. In this way a step could be taken which would be in accord with the federal nature of Canada and the immediate needs of the poorer provinces, and which would, besides, be more expeditious and less irrevocable than amendment of the constitution.

USE AND MISUSE OF CONDITIONAL SUBSIDIES

The policy of conditional subsidies — grants-in-aid — has been pursued in Canada with halting and ineffectual steps. The aims to be achieved have seldom been defined; the principles which should govern administration have seldom been formulated; and the administration itself has been fumbling and half-hearted. There can be no doubt that the results have been less than satisfactory, but it may be believed that the policy has not been given a reasonable test.

Certain valid and substantial criticisms may be raised against the operation of grants-in-aid. Most important is the charge that by them the federal government tempted the provinces to embark upon schemes which were beyond their fiscal strength, particularly after the grants had been terminated. Grants for technical and agricultural education provide illustrations. In these instances the federal government held out the bait of grants-in-aid, and no provincial government was able to resist the pressure put upon it to earn the grants. Yet the financial condition of certain provinces was no warrant for the addi-

tional expenditures that were necessary, and when after ten years the grants were stopped, the provincial governments were faced with the unpleasant alternatives of curtailing expenditures or of finding extra revenue. It may, of course, be alleged that no government was compelled to earn the grants. But this allegation is not convincing, because as a matter of practical politics the pressure was and always will be so great as to amount to compulsion. The people of a province feel that they ought to gain the same benefits from federal expenditures as their neighbors, and the provincial government which refuses the federal assistance is running serious political hazards. Unless the scheme is boycotted by all the provinces — a most unlikely contingency — or unless sentiment in a province is, for local reasons, hostile,⁹ the bait of federal aid will be snapped up.

It may also be said that a provincial government has no right to complain when a grant is stopped, because that stoppage was indicated by the legislation and contained no element of surprise. This again is not convincing. Discontinuance or curtailment of subsidies has not been the custom, and a provincial government can hardly be expected to take at its face value the legislative declaration that a grant will terminate in ten years. The natural and realistic attitude of a province is that it has been tempted into deep financial water and then left to flounder.

It by no means follows, however, that grants-in-aid are to be condemned, for these defects can be removed or mitigated. Grants-in-aid, wisely applied, can be used to lift financial burdens from the shoulders of the provincial governments. One hypothetical example will suffice. Most of the provinces make expenditure for mothers' allowances. If the Dominion gave grants for them, as for old-age pensions, obviously the provincial budgets would be relieved. It is, in short, no necessary feature of federal aid that it should be for the purpose of inducing provincial governments to assume *new* burdens.

Furthermore, the terminable provision has, in Canada, been used without discrimination. For certain types of federal aid it may serve a useful purpose; for other types it ought to be

⁹ Quebec is the only province likely to be in this category.

omitted. As an instance of the former sort, consider the assistance given to highway construction, 1919-1924. Here was a task which, for constitutional and economic reasons, had to be performed by the provinces. Yet the federal government wished to give a stimulus to construction, and it hoped to secure some coördination of provincial activity and some uniformity of standards. All these ends were achieved with some success, and the grants were terminated without a shock to the fiscal system of any province. For this happy circumstance there were several reasons, but the one worth attention here is that the expenditure was of a capital nature. A specified amount of construction was agreed upon, and when the grants for it stopped the construction had been completed. The provinces were not forced to assume and carry on a heavier expenditure as a result of the federal aid. Here is an instance of a terminable grant properly applied. One additional provision might, however, well be added in such cases. The grant ought to be so arranged as to taper off, instead of ending at one stroke.

Unfortunately, the terminable feature has also been applied to grants where its use was unjustifiable. In such cases the provincial governments have found themselves saddled with maintenance of an establishment and a personnel which put a heavy burden upon their budgets. So it was with the technical and agricultural education acts. If these grants were expedient — which may be doubted — they should not have been brought to a sudden termination. But this is only one of the criticisms that can be brought against these measures, since both of them were ill-conceived and weakly administered.

Why was this so? In part the explanation of their defects is that grant-in-aid legislation was new in Canada (and in the United States). This device had, of course, been used in Europe, but the example of the one country, Great Britain, to which Canada might have looked, had no direct significance. Great Britain is a unitary country. When the government at Westminster gives grants-in-aid to particular activities, it has no fear of constitutional difficulties with its inferior governmental units. It can and does lay down the conditions under which the

grants will be given; it can and does exercise supervision to see that the conditions are fulfilled. But in Canada the steps are not so easy. The Dominion government has been accused of invading provincial rights both when it has given grants for an activity lying within the provincial sphere and when it has set up conditions as necessary to receipt of the grant. Beyond a doubt, the fear of this accusation engendered a fumbling and an inefficient approach, especially evident in the case of the agricultural and technical education measures. To parry the accusation of invasion of provincial rights, the federal government declared that the grants would be for a limited time; it defined its aims in ambiguous terms; and it was afraid to supervise expenditure except in a nominal way. As a result the provinces spent the grants much as they chose, and money was frittered away to little purpose.

There were other obstacles of a more accidental nature which impeded the successful operation of the grants for agricultural and technical education. Administration of the agricultural education act, enacted in 1913, was dislocated by the war; that of the technical education act, enacted in 1919, by the election of 1921. The new Liberal government after 1921 was faced by serious fiscal difficulties, and the grants for agricultural and technical education seemed to be an extravagant use of federal money. For this reason, and because of their origin, it gave both measures unsympathetic administration.¹⁰

But again the defects associated with these two measures are not inherent in federal aid. Indeed, the experience with them should be regarded as providing clear lessons through which, with reasonable care, major mistakes can be avoided in the future. If the federal government decides to assist or to encourage the provincial governments in the performance of an activity, not only should the activity be chosen with care, but it should be carefully defined and the system of supervision should

¹⁰ The prime minister, Mr. King, also declared that it was a "thoroughly vicious system" to have one government hand out money for another to spend, thus linking grants-in-aid with those unconditional subsidies which have been a pernicious feature of Canadian public finance since 1867. It will be argued later that there are significant differences between the two kinds of subsidies.

be thoroughly prepared. In some cases precision in definition of and regulations about the activity will be impossible at the outset; and certainly in most cases there must be some flexibility in the application of regulations to the different provinces. But variation ought to be the exception and not the rule, because a major purpose of grants-in-aid is "to insure comparable standards of social service throughout the Dominion, so that those provinces in an inferior financial position may not suffer."¹¹ In all cases a strong federal supervision is vital; and in the infrequent instances where variation in provincial performance is permitted, the federal officials ought to act with their eyes open and with a knowledge of consequences.

It may, perhaps, be asked if there will be provincial opposition to any such federal supervision. Certainly there has been protest in the past, and doubtless there might be some protest again. But the attitude of the people toward an expansion of federal functions has become much more favorable. For this reason the provincial governments may safely be told that, in order to gain federal aid, they must submit to reasonable supervision.¹²

NEW USES FOR CONDITIONAL SUBSIDIES

The argument so far has been mainly negative: it has been designed to show that, if certain of the federal aid measures have not been successful in the past, the faults can be avoided for the future. But a more cogent positive argument remains. Grants-in-aid can be used to achieve desirable social ends for which no other instrument is available. Canada is a federal country, and a constitutional division of powers must continue to exist even if a method of amendment of the constitution is devised. The constitution is, in any case, likely to remain relatively inflexible, and separatist sentiment will endure because

¹¹ W. A. Carrothers, "Problems of the Canadian Federation," *Canadian Journal of Economics and Political Science*, February 1935, p. 31. Mr. Carrothers is here writing of redefinition of the functions of the federal government.

¹² The possibility of effective federal supervision is much greater in Canada, with only ten governmental jurisdictions, than in the United States, with forty-nine.

of the heterogeneity of the country. As a result, the political and financial set-up will at times not be in accord with current developments. Economic progress and changes in social philosophy will point out lines of activity from which the federal government will be debarred. Amendment of the constitution will be too slow and, by its nature, too general in pattern to permit of easy adjustments.

Cannot the device of grants-in-aid — conditional subsidies — provide a workable substitute for flexibility in the constitution and a more immediate remedy for current federal-provincial maladjustments? By enactment of a scheme of subsidies in aid of a specific function, the federal government stays within its constitutional rights, and it does not deprive the provinces of any power which they care to retain. If, with the passage of time, it becomes apparent that the function ought to be federal, and if, as is not unlikely, provincial sentiment in favor of federal assumption grows, then amendment of the constitution will be in order. But it may happen that the trend of events will be in the other direction, and in such case the federal government can gradually withdraw its subsidies and leave the provinces in unimpaired possession.

A further and related advantage is that conditional subsidies enable a country to combine the benefits of local and provincial administration with the benefits which flow from national oversight and coördination. There may be reasons why a certain service — e.g., old-age pensions — should be approximately uniform in its applicability from one end of the country to the other. This can be achieved through federal aid. But at the same time complete federal assumption might be unwise, because local administration and oversight may be essential for efficiency. In short, conditional subsidies will allow flexibility and even experimentation in the performance of governmental functions which, under a federal constitution, can be secured in no other way.¹³

¹³ B. P. Adarkar warns against financial centralization in federal countries. The lesson to learn is "that inferior political entities, like the states and local bodies, are more suitable agencies for carrying out the peaceful activities of social welfare and that though administrative coördination is an essential ele-

THE PERCENTAGE PROVISION AND THE BASIS
OF DISTRIBUTION

In Canada almost all grants of conditional subsidies have contained the provision that a stated percentage of the expenditure should be provincial. This provision is founded upon two premises: (1) that, since the activity is primarily a provincial responsibility, the provincial government should spend an appreciable amount of its own money; and (2) that the tendency of a government to spend carelessly money which comes to it in the form of subsidies will be checked if a substantial portion of the total expenditure is from its own resources. Both of these premises are founded upon experience and common sense. Just what should be the relative shares of the Dominion and of the provinces cannot be specified. One can only say vaguely that the Dominion's share might be larger when the activity seems to carry a considerable federal responsibility.

The objection may be raised that many of the provincial governments are so hard pressed that they cannot afford to take advantage of any new scheme of federal aid which calls for expenditure from their own resources. In so far as the Dominion would give grants-in-aid to activities already being carried on by the provincial governments, this objection is not pertinent. By such grants the Dominion might lighten existing burdens of the provincial treasuries, and it could assume a share of the responsibility for certain functions more quickly than by amendment of the constitution, and probably as effectively. But when the grants are for a new activity, the requirement that a uniform percentage of the expenditure be provincial might cause difficulty for certain provincial governments. It may be thought that this difficulty could be avoided if the percentage were variable, so that the poorer provinces might make an expenditure which would be a smaller percentage of the federal grant than the richer provinces. This plan has, however, obvious defects, and it cannot be deemed feasible for Canada at present.

ment in the matter, finance must be more and more decentralized . . ." (*The Principles and Problems of Federal Finance*, p. 4).

It would seem wiser to keep the requirement of a uniform percentage expenditure and to alleviate the fiscal need of the poorer provinces in other ways. There are two methods by which this might be done: (1) The federal grant might be varied from province to province according to some *general* index of fiscal need; or (2) the grant might be dependent upon the need for a *particular* service. Consider the former first. In Canada the one general index used in the past as a basis for the distribution of grants has been population. The grants for agricultural education, highways, and technical education were so distributed, except for a small flat allotment which operated to increase the share of the smaller provinces. As A. F. Macdonald, writing of the United States, points out, "population serves as a reasonably satisfactory basis of apportionment, since it is uniform, easily determined, and not subject to political manipulations."¹⁴ Population is, of course, only a rough and ready measure, but under certain circumstances it might be favorable to the poorer provinces. Suppose the federal revenue, part of which is to be distributed to the provinces according to population, is raised by a progressive system of taxation. The poorer provinces would then be contributing to the federal treasury not merely less per capita than the richer provinces, but less in proportion to income. If, in such case, grants-in-aid were distributed on a per capita basis, the poorer provinces would secure a greater relative benefit than the richer. Thus apportionment by population may take some account of fiscal need.

In Canada, however, the federal revenues are certainly not raised by a progressive system of taxation, and it may even be that the system is regressive in its incidence. In such circumstances population is an inadequate index of fiscal need.¹⁵ But it is not easy to devise a workable substitute. A more complicated index, based on wealth, income, taxable capacity, et cet-

¹⁴ *Federal Aid* (New York, 1928), p. 266. A major objection of those opposed to federal aid in the United States has been that the richer states, while contributing heavily to the federal revenue, have received back in grants less than their contribution (*ibid.*, pp. 242-245).

¹⁵ If the federal revenue system was made progressive—a step justifiable on its own merits—this objection might be remedied.

era, is not self-determinate, and there would be endless and continual bickering over its formulation. Furthermore, any *general* index of fiscal need might not be pertinent as a basis for the distribution of a *particular* set of grants-in-aid. For example, while the general index might show that the fiscal need of Nova Scotia was one-third greater than that of Ontario, it would by no means follow that federal grants for forest-fire protection should be greater relatively (say per capita) by one-third. The need of a province for a particular service may not be proportionate to its general need.

A second method by which federal aid might be distributed is by the apportionment of the grants according to the particular needs of the provinces. The old-age pensions act will serve as an example. Here the federal grant is dependent upon the number of pensioners in a province, and this basis — i.e., the number of persons eligible — could be used in other social legislation handled by grants-in-aid. The results are far different from what would be secured by distribution according to population. The table below shows a wide variation from province to province in the Dominion grants for old-age pensions, when these are reduced to a per capita basis. It is, of course, not sug-

DOMINION GRANTS FOR OLD-AGE PENSIONS, 1934-35
(APR. 1 to MAR. 31)

	Expenditure	Per Capita
Alberta	\$ 1,070,900	\$1.39
British Columbia	1,478,300	2.04
Manitoba	1,656,000	2.26
Nova Scotia	1,479,900	2.82
Ontario	7,671,600	2.15
Prince Edward Island ...	128,900	1.45
Saskatchewan	1,455,200	1.51
Total	\$14,940,800	\$2.03

gested that distribution on a per capita basis would be equitable. Certain provinces have not only a disproportionate number of persons over seventy years of age, but also a disproportionate number of such persons who are eligible for pensions, and those

provinces would obviously face a much heavier financial burden in providing old-age pensions than the more fortunate provinces. They might, indeed, find the task impossible. Yet it would seem no more than just that the aged poor should get approximately the same governmental assistance throughout Canada, and distribution of the Dominion grants on the basis of need makes this possible.

So far as is practicable, federal aid should be apportioned according to provincial need for a particular service. Unfortunately, in many cases this test cannot be applied, and it will be necessary to fall back upon some general index. This ought, however, to be modified and adapted to fit each piece of legislation. In the formulation, simplicity and definiteness should be sought after. Meticulous precision cannot be achieved, and it is not here of much importance.¹⁶

THE SUPERIORITY OF CONDITIONAL OVER UNCONDITIONAL SUBSIDIES

The superiority of conditional over unconditional subsidies — of grants-in-aid over better terms — has already been noticed. A long experience with unconditional subsidies in many countries has disclosed no redeeming feature, and condemnation of them by students of public finance is general. Conditional subsidies, on the other hand, have accomplishments to their credit, and competent students believe them capable of extended use.¹⁷ The two types have, however, the common feature that money raised by one government is handed over to another government to spend. It should be realized that this similarity is much less significant than certain basic differences.

The major difference between a conditional and an unconditional subsidy — from which other differences derive — is that by the former the government makes the grant subject to condi-

¹⁶ In one federal aid measure, the grants for employment offices, distribution is according to provincial expenditure (with the proviso that no province can earn a subsidy in excess of half its expenditure). This basis ought ordinarily to be avoided, because it may penalize the poorer provinces.

¹⁷ For a recent survey and appraisal see Adarkar, *op. cit.*, esp. pp. 233-235.

tions, while by the latter it does not. By a conditional subsidy the government which makes the grant asserts its control both by specifying the purposes for which it will give assistance and by reaching after the money to see that it is properly spent. Unconditional grants, however, are made without strings; there is a complete severance between responsibility and control. Of course, money may be and is wasted, regardless of the mode of expenditure. But the chances of waste are much greater under unconditional subsidies, because the spending government owes no responsibility to the government from which the subsidies have come, and its responsibility to its electors is tenuous because it has not raised the money from them by revenue measures of its own.

The fact that conditional subsidies are given for specific purposes is of great importance. In Canada certain provinces have asked for larger unconditional subsidies — better terms — on the ground of poverty. They assert their inability to provide their people with vital services. Unfortunately, the grant of better terms may not bring about the provision of these services. Provincial governments spend such subsidies as they please, and it has happened that services which, on national grounds, ought to be provided, have been slighted. If the Dominion desires certain services to be developed, with common standards in all the provinces, and if these services cannot be handled by direct expenditure through its own officers, it ought to give conditional and not unconditional subsidies to the provincial governments.

In recent years there has been a widespread feeling that some of the functions now provincial ought to be transferred to the Dominion. The particularist attitude of provincial statesmen, long an obstacle to such a step, has been appreciably blunted by the depression, and the prospect of an increase in the federal power was never brighter. Differences of opinion exist about how far the federal authority should be enlarged, but few can doubt that the subsidence of provincialism is desirable. Yet extension of unconditional subsidies would certainly give provincialism a chance to revive, because it would relieve the financial

necessities of the provincial governments and entrench them in maintenance of the *status quo*. This is the more certain because in Canada the whole history of better terms is interwoven with the maintenance of provincial rights. Conditional subsidies would have a different effect. Not only would they relieve the financial difficulties of the provincial governments; they would also stimulate development of a national outlook toward those problems which might be handled by coöperative action of the federal government and the provinces.

There is, of course, a danger in this plan. The government which controls the purse strings can use its power to get control of the activity. Some extension of federal authority is desirable; but this may easily go too far, and the Dominion may be persuaded to enter upon schemes which are unwise because they ignore the federal character of Canada. Against this contingency there can be no protection except the wisdom of our councils. If the dictates of experience and of analysis are not ignored, no great harm can be done by experimentation. Certainly, the danger of mistakes along this path is less than along any other, because in the present temper of the people some sort of experimentation with social legislation is necessary. So long as the constitution is inflexible, experimentation which takes the form of direct ventures by the federal government into this field runs two serious risks: (1) that it may be pronounced by the courts to be unconstitutional, and (2) that centralized federal administration may be relatively inefficient. The first risk may be removed if some method of amendment is found which makes the constitution flexible. But the second and more serious risk will remain. It can, however, be greatly reduced by conditional subsidies. Their use involves *some* centralization, because the federal government will secure a voice in matters which at present lie within provincial jurisdiction. But this centralization will rest upon an assured basis of national needs about which there is a reasonable uniformity of attitude from province to province; and it will be founded upon provincial consent and coöperation.

The device of conditional subsidies is peculiarly appropriate

to the needs of federal countries. In such countries a constitutional division of functions between the provinces (or states) and the federal government is unavoidable, but any given division will fail to meet the requirements of a changing world. Yet reapportionment of functions cannot be prompt, because constitutional alteration must necessarily be slow. The wisest way to meet many of the difficulties which arise is to supplement the financial resources of the governments which are in need. If, for example, the provincial governments have a plethora of functions and a paucity of financial resources, the grant of conditional subsidies will provide a safe and effective remedy for the immediate difficulties and may point the way to a more enduring solution. That this scheme may be criticized as circuitous must be admitted. But some circuitousness is inevitable in federalism.

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