

Scotia.

What was finally decided was the form of a subsidy from the Dominion treasury. The difficulty however was to decide on a method of subsidy which would not appear unfair. For instance, to make up Nova Scotia's deficit on account of loss of revenue, it would require \$1.70 per capita, \$1.33 for New Brunswick, and but 38 cents for Quebec and Ontario. They argued that if Nova Scotia was to receive \$1.70 per head of population so should the other provinces. The Quebec Conference very nearly broke up over this matter. That was the Quebec Conference in 1865, I think it was.

Mr. Smallwood 1864.

Mr. Hollett Thank you. What really saved the day was that Nova Scotia, through Dr. Charles Tupper, undertook to try to carry on with \$371,000 instead of the \$667,000, the actual cost estimated in 1864, a reduction of 40%; Prince Edward Island cut 27%, and New Brunswick 12.5%. Thus, Nova Scotia's position after confederation would be as follows:

Revenue	\$107,000
Expenditure	371,000
Deficit	\$264,000

This deficit amounted to 80 cents per head of population, and this was made the basic subsidy rate for all the provinces, and if you look at your tax agreement you will find that that is still existing in the tax agreement which is offered us today.

Now how the finance ministers of Nova Scotia and New Brunswick ever hoped to carry on under this static financial arrangement is anybody's guess. The proof that this financial arrangement was a hopeless one is to be found in the fact that Nova Scotia ran a heavy deficit almost immediately, and had to seek better terms from the Dominion government within a year. By 1874 Nova Scotia was expending \$755,000 on necessary services, and could hardly be expected to carry on with \$371,000 as agreed in 1867. Hence Nova Scotia, as well as the other provinces, had to go repeatedly to the Dominion government to beg for an adjustment, and they have been doing that ever since.

No provision seems to have been made for any expected form of economic or social evolution. Nor is any made today under the various agreements which the provinces have with the

Dominion government. There is no flexibility in the system of subsidy per capita per year, or as some provinces have agreed upon now, for a period of five years. For instance, the economic and social revolution in Canada during the 70 years from 1867 to 1937 is indicated most pointedly by the fact that whereas in 1867 the total Dominion, provincial and municipal expenditure was \$25 million, in 1937 it was \$1,000 million. And it is interesting to note that in 1930, the provinces and their municipalities or town councils were providing 70% of the total outlay on the primary functions of government in Canada. The municipal system of government along with the provincial governments bears most of the burden, so much so that the Hon. Charles Dunning was able to say, "The Dominion government does not render to the people of Canada anything like the volume and value of services performed by the provincial and municipal bodies of Canada".

Now, the sources of revenue left to the province after confederation were mainly four in number:

1. Revenues from fees, licenses and permits.
2. Revenues from lands, forests and mines.
3. Revenues from direct taxation.
4. The annual subsidy from the Dominion government.

The first of these in the provinces, as in Newfoundland, amounts to very little. The second yields but a very modest revenue. The fourth was to be a fixed amount. And it was upon the third — direct taxation — that both the province and the town councils had to rely. The unfortunate circumstances were, however, that the Dominion government also has had to invade the field of direct taxation. Thus it comes about that in Canada we have both the provincial government, Dominion government and town councils, under the provisions of the British North America Act, all resorting in the past in large measure for their revenues, to some means of direct taxation.

Prior to the war, the Dominion and provincial governments were taxing incomes, and the provinces were collecting succession duties; for the Dominion government, as before stated, can raise money by any mode or system of taxation whatever, in spite of the fact that the provinces, under the British North America Act were given the exclusive right to direct taxation.