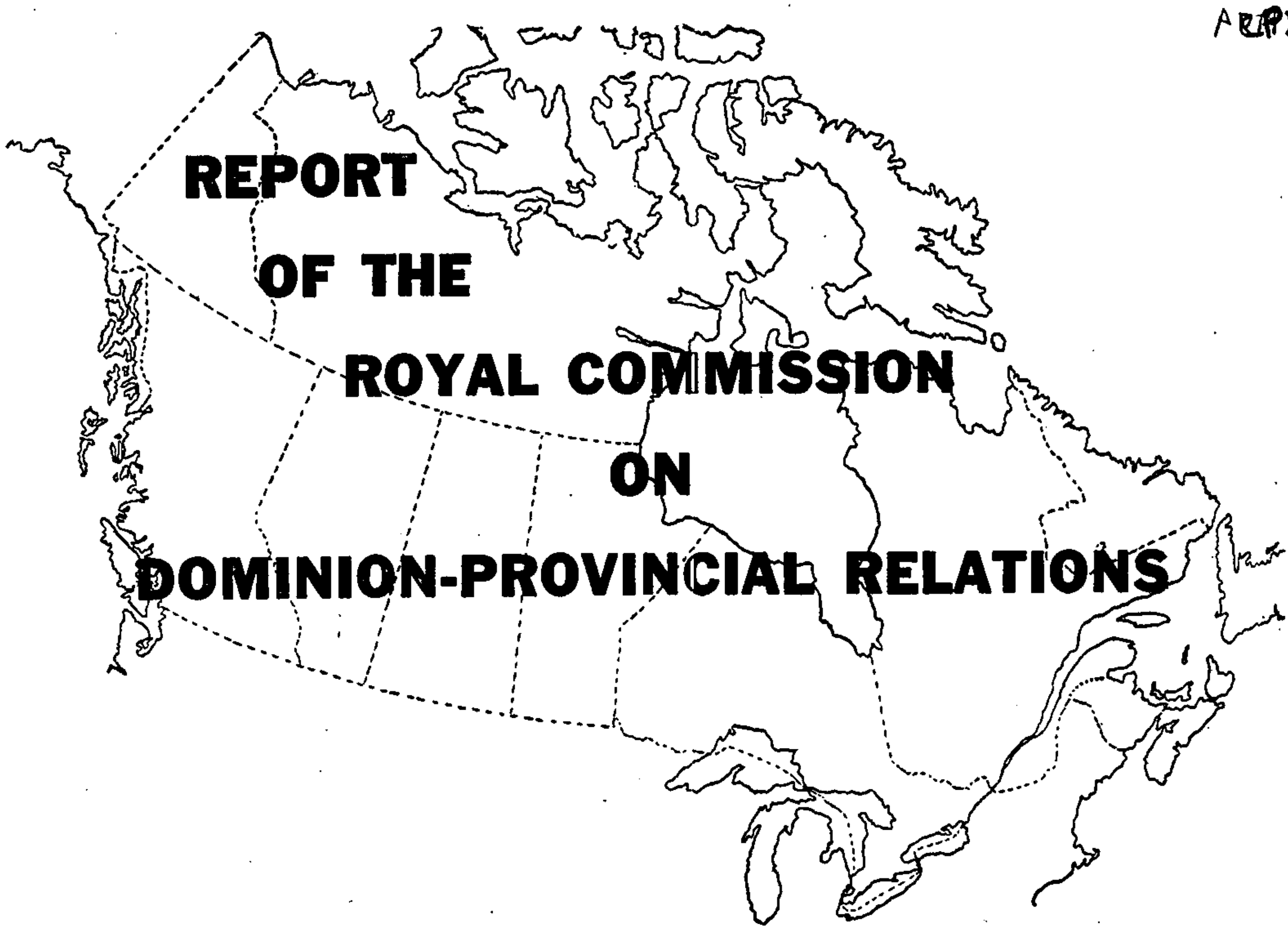

REPORT OF THE ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

BOOK I

CANADA: 1867-1939

OTTAWA, May 3, 1940.

Rt. Hon. W. L. MACKENZIE KING, P.C., M.P.,
Prime Minister of Canada,
Ottawa.

Dear Mr. King,

I have the honour to transmit, herewith, the Report of the Royal Commission on Dominion-Provincial Relations, pursuant to the Order in Council of August 14th, 1937, P.C. 1908.

As noted in the final Chapter, the decisions underlying the recommendations of the Report were reached before the outbreak of war. The Commission has since reviewed its recommendations and, in spite of the great and relative changes in the financial outlook for Canadian governments, it believes its recommendations to be appropriate to meet the new strains and emergencies of war conditions.

I have the honour to be,

Sir,

Your obedient servant,

J. L. Sirois

CHAIRMAN.

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NOTE.—The material contained in the research studies which have been published as Appendices (and which are listed on page 261) has been extensively used by the Commission in the preparation of Book I. It has not been thought necessary, however, to give exact citations or references to these studies except on occasion of actual quotation or long paraphrasing.

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

TERMS OF REFERENCE

PRIVY COUNCIL

CANADA

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by The Deputy of His Excellency the Governor General on the 14th August, 1937.

P.C. 1908

The Committee of the Privy Council have had before them a report, dated August 5th, 1937, from the Right Honourable W. L. Mackenzie King, the Prime Minister, submitting,—with the concurrence of the Minister of Finance and the Minister of Justice:—

1. That, as a result of economic and social developments since 1867, the Dominion and the provincial governments have found it necessary in the public interest to accept responsibilities of a character, and to extend governmental services to a degree, not foreseen at the time of Confederation;
2. That the discharge of these responsibilities involves expenditures of such a magnitude as to demand not only the most efficient administrative organization on the part of all governments but also the wisest possible division of powers and functions between governments. That particularly is this the case if the burden of public expenditures is to be kept to a minimum, and if the revenue-raising powers of the various governing bodies are to possess the adequacy and the elasticity required to meet the respective demands upon them;
3. That governmental expenditures are increased by overlapping and duplication of services as between the Dominion and provincial governments in certain fields of activity. That in other respects the public interest may be adversely affected by the lack of a clear delimitation of governmental powers and responsibilities;
4. That representations have been made on behalf of several provincial governments and by various public organizations that the revenue sources available to provincial governments are not in general adequate to enable them to discharge their constitutional responsibilities, including the cost of unemployment relief and other social services and the payment of fixed charges on their outstanding debt; that, consequently, if they are to discharge their responsibilities, either new revenue sources must be allotted to them or their constitutional responsibilities and governmental burdens must be reduced or adjustment must be made by both methods;
5. That representations have been made by provincial governments that municipal governments which have been created by, and derive their powers and responsibilities from, the provinces, are confronted with similar problems; that, in particular, necessary municipal expenditures have placed an undue burden on real estate and are thereby retarding economic recovery; also that the relations between provinces and municipalities are an essential part of the problem of provincial finances;
6. That, finally, it has been represented that unless appropriate action is taken the set-up of governmental powers and responsibilities devised at the time of Confederation will not be adequate to meet the economic and social changes and the shifts in economic power which are in progress without subjecting Canada's governmental structure to undue strains and stresses.

The Prime Minister, therefore, with the concurrence of the Minister of Finance and the Minister of Justice, recommends:—

1. That it is expedient to provide for a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years;

2. That for this purpose the following be appointed Commissioners under Part I of the Inquiries Act:—

   The Honourable Newton W. Rowell, LL.D., Chief Justice of Ontario;

   The Honourable Thibaudeau Rinfret, Justice of the Supreme Court of Canada;

   John W. Dafoe, Esquire, LL.D., of the City of Winnipeg, Man.;

   Robert Alexander MacKay, Esquire, Ph.D., Professor of Government, Dalhousie University, Halifax, N.S.; and

   Henry Forbes Angus, Esquire, M.A., B.C.L., Professor of Economics, University of British Columbia, Vancouver, B.C.

3. That, without limiting the general scope of their inquiry, the Commissioners be instructed in particular:—

   (*a*) to examine the constitutional allocation of revenue sources and governmental burdens to the Dominion and provincial governments, the past results of such allocation and its suitability to present conditions and the conditions that are likely to prevail in the future;

   (*b*) to investigate the character and amount of taxes collected from the people of Canada, to consider these in the light of legal and constitutional limitations, and of financial and economic conditions, and to determine whether taxation as at present allocated and imposed is as equitable and as efficient as can be devised;

   (*c*) to examine public expenditures and public debts in general, in order to determine whether the present division of the burden of government is equitable, and conducive to efficient administration, and to determine the ability of the Dominion and provincial governments to discharge their governmental responsibilities within the framework of the present allocation of public functions and powers, or on the basis of some form of reallocation thereof;

   (*d*) to investigate Dominion subsidies and grants to provincial governments.

4. That the Commissioners be instructed to consider and report upon the facts disclosed by their investigations; and to express what in their opinion, subject to the retention of the distribution of legislative powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national unity, will best effect a balanced relationship between the financial powers and the obligations and functions of each governing body, and conduce to a more efficient, independent and economical discharge of governmental responsibilities in Canada.

The Prime Minister, with the concurrence of the Minister of Finance and the Minister of Justice, further recommends that the Honourable Newton W. Rowell, LL.D., Chief Justice of Ontario, be Chairman of the said Commission.

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

E. J. Lemaire,
Clerk of the Privy Council.

Certified to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by His Excellency the Governor General on the 18th November, 1937.

P.C. 2880

The Committee of the Privy Council have had before them a Report, dated 18th November, 1937, from the Right Honourable W. L. Mackenzie King, the Prime Minister, stating that the Honourable Thibaudeau Rinfret, Justice of the Supreme Court of Canada, has, owing to ill health, tendered his resignation as a Member of the Commission on Dominion-Provincial Relations, appointed by Order in Council of 14th August, 1937—P.C. 1908.

The Prime Minister, with the concurrence of the Minister of Finance and the Minister of Justice, recommends:—

1. That the resignation of the Honourable Mr. Justice Rinfret be accepted; and
2. That Joseph Sirois, Esquire, LL.D., of the City of Quebec, Notary Public, Professor of Constitutional and Administrative Law at Laval University, be appointed a Member of the said Commission, in the place of the Honourable Mr. Justice Rinfret.

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

E. J. Lemaire,
Clerk of the Privy Council.

CERTIFIED to be a true copy of a Minute of a Meeting of the Committee of the Privy Council, approved by The Deputy of His Excellency the Governor General on the 22nd November, 1938.

P.C. 2946

The Committee of the Privy Council, on the recommendation of the Right Honourable W. L. Mackenzie King, the Prime Minister, advise that Joseph Sirois, Esquire, LL.D., of the City of Quebec, a Member of the Commission on Dominion-Provincial Relations established by Order in Council P.C. 1908 of the 14th August, 1937, be appointed Chairman of the said Commission vice the Honourable Newton Wesley Rowell, LL.D. resigned.

E. J. LEMAIRE,
Clerk of the Privy Council.

A. SKELTON, Esq.,
Secretary,
Commission on Dominion-Provincial Relations.

HISTORY OF THE COMMISSION

The Commission was appointed by Order in Council (P.C. 1908) dated 14th August, 1937, printed immediately preceding this section.

On August 31, 1937 Mr. Alex Skelton, chief of the research department of the Bank of Canada, was appointed by Order in Council (P.C. 2113) as Secretary of the Commission and Director of Research. Subsequently Miss M. K. Rowland was appointed as Assistant to the Secretary to aid in administration. Mr. Adjutor Savard was appointed French Secretary with particular responsibility for correspondence and relations with French-speaking Canadians. Mr. Savard acted as Secretary during the hearings at several provincial capitals and, in the later stages of the Commission's work, became responsible for the important task of supervising translation of the Report, appendices and other published studies. Mr. Wilfrid Eggleston was appointed Assistant to the Secretary with particular responsibility for supervision of reporting and travelling arrangements. After the public hearings Mr. Eggleston was transferred to the research staff of the Commission. Mr. R. M. Fowler of Toronto was appointed Registrar and Legal Secretary to the Chairman, Chief Justice Rowell, and after the retirement of the Chief Justice Mr. Fowler continued on the Commission's secretariat. Mr. Louis S. St. Laurent, K.C., of Quebec City and Mr. James McGregor Stewart, K.C., of Halifax, were appointed Counsel to assist the Commission in its public hearings, but except during certain sittings in Ottawa only one counsel was present at each hearing of the Commission.

Terms of Reference.—The Order in Council appointing the Commission imposed upon it a task of great complexity and magnitude. But wide and comprehensive as the terms of reference were, they were primarily concerned with one great problem, viz., the relations between the Dominion and the provinces. The Commission accordingly directed its inquiry strictly to this main problem. Many representations made to the Commission were concerned with other matters and, therefore, fell outside the scope of the inquiry.

The recital in the terms of reference set out certain conditions on which presumably the Commission was expected to report: the enlarged responsibilities of government due to economic and social developments; the need for "the widest possible division of powers and functions between governments"; the allegation that expenditures were increased by overlapping and duplication of services as between the Dominion and the provinces; the complaint of the provinces that their revenue sources were inadequate to enable them to fulfil their constitutional responsibilities; the representations of the provinces that their municipalities were confronted with similar financial difficulties and, particularly, that conditions were such as to place an undue burden on real estate; and finally, the representation that unless appropriate action were taken, the governmental structure would be subject to undue stresses and strains in meeting the economic and social changes and the shifts in economic power which are in progress.

The operative clauses of the Order in Council more precisely instructed the Commission to make "a re-examination of the economic and financial basis of Confederation and of the distribution of legislative powers in the light of the economic and social developments of the last seventy years." Without limiting the broad scope of such an inquiry the Commission was instructed in particular:—

(a) "*to examine the constitutional allocation of revenue sources and governmental burdens to the Dominion and provincial governments,* the past results of such allocation and its suitability to present conditions and the conditions that are likely to prevail in the future;

(b) *to investigate the character and amount of taxes collected from the people of Canada,* to consider these in the light of legal and constitutional limitations, and of financial and economic conditions, and to *determine whether taxation as at present allocated and imposed is as equitable and as efficient as can be devised;*

(c) *to examine public expenditures and public debts in general,* in order to determine whether the present division of the burden of government is equitable, and conducive to efficient administration, and to determine the ability of the Dominion and provincial governments to discharge their governmental responsibilities within the framework of the present allocation of public functions and powers, or on the basis of some form of reallocation thereof;

(*d*) to investigate Dominion subsidies and grants to provincial governments."

The Order in Council appointing the Commission clearly indicated that its task was two-fold: the Commissioners were instructed to consider and report upon the facts disclosed by their investigations; and *"to express what in their opinion,* subject to the retention of the distribution of legislative powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national unity, *will best effect a balanced relationship between the financial powers and the obligations and functions of each governing body, and conduce to a more efficient, independent and economical discharge of governmental responsibilities in Canada."* In short, the Commission was intended to be both a fact-finding body, and a body to make recommendations.*

Research Program.—In view of the many highly technical problems posed by the terms of reference the Commission decided in its first private meetings in September 1937, that it was impossible to fulfil its obligations by public hearings alone and that an extensive program of independent research should be carried on contemporaneously with the public hearings. This decision to engage research assistants was authorized by Order in Council (P.C. 2281) dated 15th September, 1937.

A comprehensive research program was accordingly organized and placed under the direction of Mr. Skelton, with Mr. J. J. Deutsch as Assistant Director. Broadly speaking, the program was grouped about three general heads: economics, constitutional matters, and public accounts.

The economic inquiry included such subjects of research as the economic background of Dominion-provincial relations, the national income, the financial history of Canadian governments, the economic effects of the Canadian taxation system, the role of municipalities and their relations to provincial governments, transportation, developments in Canada of services for social welfare, labour legislation. The following participated in research in economic matters:—

Stewart Bates, formerly Secretary of the Economic Council of Nova Scotia; Prof. George Britnell, Dept. of Political Science, University of Saskatchewan; J. J. Deutsch, Research Department, Bank of Canada; H. Carl Goldenberg, Economist, Canadian Federation of Mayors and Municipalities, Montreal; Prof. A. E. Grauer, Director, Dept. of Social Science, University of Toronto; Prof. Paul-Henri Guimont, Dept. of Social Science, Laval University; R. A. C. Henry, formerly Deputy Minister of Railways and Canals; Joseph Howes, Assistant Director, Citizens' Research Institute of Canada, Toronto; Lawrence B. Jack, M.A.; Prof. F. A. Knox, Dept. of Political and Economic Science, Queen's University; C. T. Kraft, Ph.D.; Henry Laureys, formerly Director, Ecole des Hautes Etudes Commerciales, Montreal: Prof. Paul LeBel, Ecole Supérieure du Commerce, Quebec; J. C. Lessard, Economics Branch, Canadian National Railways, Montreal; Prof. W. A. Mackintosh, Head of Dept. of Political and Economic Science, Queen's University; Prof. Esdras Minville, Director, Ecole des Hautes Etudes Commerciales, Montreal; Prof. D. C. MacGregor, Dept. of Political Science, University of Toronto; Prof. Robert McQueen, Head of Dept. of Political Economy, University of Manitoba; Prof. J. L. McDougall, Dept. of Political and Economic Science, Queen's University; Stanley Nixon, specialist in public finance, Montreal; J. B. Rutherford, Dominion Bureau of Statistics; S. A. Saunders, Ph.D., author of several studies on the economic problems of the Maritime Provinces; J. C. Thompson, formerly Provincial Auditor of Alberta; Prof. François Vézina, Ecole des Hautes Etudes Commerciales, Montreal; Prof. W. J. Waines, Dept. of Political Economy, University of Manitoba; J. A. Walker, economist, Toronto; W. H. Wynne, Ph.D., formerly engaged by the Citizens' Research Institute in a special inquiry on taxation.

Research in constitutional and historical matters included studies in the legal interpretation of the British North America Act, certain aspects of other federal systems, the historical background of Confederation, the growth of governmental functions since federation, etc. The following participated in research in constitutional and legal matters:—

W. A. I. Anglin, K.C., Saint John, N.B.; Prof. D. G. Creighton, Dept. of History, University of Toronto; Prof. J. A. Corry, Dept. of Political and Economic Science, Queen's University; Harold E. Crowle, LL.B., Calgary, Alta.; Brooke Claxton, Montreal; L. M. Gouin, K.C., Montreal; Miss Kathleen Kearns, Ottawa; Prof. W. P. M. Kennedy,

* Italics in above paragraphs added.

Head of Dept. of Law, University of Toronto; and Vincent C. MacDonald, Dean of Law, Dalhousie University.

The Commission was fortunate in securing Mr. J. C. Thompson, F.C.A., formerly Provincial Auditor of Alberta, as Director of the Public Accounts Inquiry. Under Mr. Thompson's direction a financial questionnaire was prepared and sent to the treasury department of the Dominion and of each province. In general the Commission received whole-hearted co-operation from these departments, and comprehensive reports on a comparable basis of public finance for each province and the Dominion over the past twenty-five years were compiled. The Commission wishes to emphasize that this is the first occasion on which the statistics of public finance of all the provinces and the Dominion have been compiled on a comparative basis. These statements accompany the Report as Appendix 1.

Certain research studies which the Commission considered to be of permanent value and general interest have been printed as appendices to the Report. Other studies which were of less general interest have been published in mimeographed form. A number of special studies, many of them dealing with constitutional and legal matters, were prepared for the assistance of the Commissioners and not for publication. Copies of these will, however, be filed with the records of the Commission. It must, however, be understood that for facts or opinions stated in these reports, whether these reports are published or unpublished, the authors and not the Commission, assume full responsibility. A list of the printed and mimeographed studies appended to our Report is set out at the end of Book I.

Retirement of Mr. Justice Rinfret.—Unfortunately, before the first public session of the Commission, the Hon. Mr. Justice Rinfret was compelled to resign from the Commission on account of illness. The Commission desires to express its great sense of obligation to Mr. Justice Rinfret for his valuable advice and assistance in organizing the work of the Commission and in aiding in the selection of members of the research staff. His retirement from the Commission was a source of deep regret to his fellow Commissioners. Mr. Justice Rinfret's place on the Commission was taken by Dr. Jos. Sirois of the City of Quebec, Notary and Professor of Constitutional Law in Laval University, Quebec.

Public Hearings.—With regard to the public hearings, it was decided at the organization meetings of the Commission that public hearings should be held at Ottawa and at the provincial capital in each province unless some other city were designated by the province concerned. Public representations were to be limited to Provincial and Dominion Governments and to recognized public organizations, but the Commission reserved discretion to call any individual witness, if it saw fit. If municipalities desired to present submissions to the Commission it was stipulated that they should make arrangements through their provincial governments which would decide whether the municipal representations should be made by the government of the province or by the municipalities themselves. Conditions were laid down as to the form in which briefs were to be prepared and as to the time within which they should be filed. A general announcement in the press concerning the procedure at public hearings was made.

It was decided that before holding any public hearings the Chairman (Chief Justice Rowell), accompanied by the resident Commissioner wherever possible, and by the Secretary, should visit each provincial Premier and explain the general program and methods of procedure planned by the Commission. These visits were made in September and October, 1937, and all provincial Premiers without exception agreed to give to the Commission their full co-operation.

Public hearings were opened at Winnipeg on the 29th November, 1937. Between this date and the 1st December, 1938, hearings were held at all provincial capitals and at Ottawa, as follows:—

Place of Hearing	Dates	No. of Days
Winnipeg	Nov. 29, 1937 — Dec. 8	9
Regina	Dec. 9 — Dec. 17	8
Ottawa	Jan. 17, 1938 — Jan. 31	10
Halifax	Feb. 3 — Feb. 8	4
Charlottetown	Feb. 10 — Feb. 12	3
Ottawa	Feb. 15 — Feb. 16	2
Victoria	Mar. 16 — Mar. 25	8
Edmonton	Mar. 28 — Apr. 2	6
Ottawa*	Apr. 21	1
Toronto	Apr. 25 — May 9	11
Quebec	May 12 — May 16	4
Fredericton	May 18 — May 23	5
Ottawa	May 25 — June 2	7
Ottawa**	Aug. 8	1
Ottawa	Nov. 24 — Dec. 1	6
	Total	85

* Evidence Dr. I. Jennings.
** Evidence Prof. L. F. Giblin.

In the course of its public hearings the Commission recorded over ten thousand mimeographed pages of evidence, and 427 exhibits were filed. The Commission arranged for duplication and distribution of the evidence by its own staff in co-operation with the reporting staff, and by this means made its evidence available to the public at a lower cost than has hitherto prevailed, and succeeded (after supplying all the governments concerned with copies free of charge) in covering the total cost of reporting.

In addition to the briefs prepared by provincial governments, evidence of many departmental officials was taken for the purpose of investigating the alleged existence of overlapping and duplication between the services of the Dominion and provincial governments. One hundred and fifty-four briefs were received from municipal bodies and from public organizations. A list of exhibits indicating all governments and organizations which appeared before us is printed elsewhere.[1] The Commission also called a number of witnesses to deal with special phases of the inquiry. These witnesses include Dr. Heinrich Brüning, formerly Chancellor of Germany; Dr. Ivor Jennings, Reader in Law in the University of London, England; Dr. Gunnar Myrdall, Professor of Political Economy, Stockholm University, Sweden, and member of the Senate of Sweden; Graham Towers, Esq., Governor of the Bank of Canada; Dr. Roswell Magill, Under-Secretary of the United States Treasury; D. W. Bell, Esq., Acting Director, Bureau of the Budget, United States Government; Prof. L. F. Giblin, Professor of Economics, University of Melbourne. formerly of the Australian Grants Commission; and Bryce M. Stewart, Esq., Director of Research, Industrial Relations Counselors, Inc., New York City. Some of these witnesses were heard privately for the purpose of presenting confidential information. The Commission also consulted privately a number of other private individuals and officials.

Although in the preliminary visit made by the Chairman and the Secretary in September and October, 1937, the Premiers of all provinces expressed their willingness to co-operate in the work of the Commission, it was found that full participation by all provincial governments was not forthcoming. The Government of Alberta subsequently declined to appear before the Commission or to participate in its activities. The position of the Government was set forth in a letter from Premier Aberhart to the Chairman in reply to a request for the Government's views on various questions:—

[1] See Book III.

OFFICE OF THE PREMIER

ALBERTA
EDMONTON, March 30, 1938.

DEAR SIR,

Owing to the fact that the legislature has decided against presenting a brief to the Commission on the grounds already outlined to the Federal Government, we would respectfully suggest to you that it would be inconsistent and contrary to the decree of the legislature to answer the questions you have directed to us.

It is our intention to present a comprehensive brief directly to the Federal Government, a copy of which will be sent to each of the provinces.

Yours truly,

(Sgd.) WILLIAM ABERHART,
Premier.

Hon. NEWTON W. ROWELL, Chairman,
Royal Commission on Dominion-Provincial Relations,
Edmonton, Alberta.

The Commission also inquired if the Government had any objection to its summoning various officials to appear before it to give evidence on the matter of overlapping, but the Premier objected in view of the resolutions of the Legislature.[2] At the hearings in Edmonton the Edmonton Chamber of Commerce, however, presented a comprehensive survey of the position of the Province within federation, and thereby a serious gap in information was avoided.

The Province of Quebec was represented at the opening session of the hearings in Quebec City by counsel who welcomed the Commission and presented a memorandum setting forth its reasons for not participating. The memorandum declared in part:—

". . . nous devons déclarer que le gouvernement de la province de Québec ne comparaît devant cette Commission, ni en qualité de demandeur, ni en qualité de défendeur; et qu'il n'entend être lié en aucune façon par les conclusions de votre rapport.

Si le gouvernement de Québec a cru devoir se faire représenter à cette séance initiale, c'est qu'il n'a pas voulu manquer de courtoisie envers la Commission; c'est aussi parce que son silence aurait pu être considéré comme un acquiescement au principe qu'a posé le gouvernement féderal, en confiant à une Commission nommée par lui seul la mission de faire enquête en vue d'amender l'acte fédératif de 1867."[3]

[2] Ev. pp. 6625-26.

[3] Ev. pp. 8130-31. Provincial translation.—" . . . we beg to state that we are not appearing before your Commission either as an applicant, nor as a defendant, and that we shall not feel bound, in any way whatsoever, by the opinions contained in your report.

The Government of this Province is appearing before you because, in the first place, it did not wish to be lacking in courtesy towards this Commission, and also because its silence might have been construed as an acquiescence in the principle laid down by the Federal Government, in appointing, of its own accord and without consulting the Provinces, a Commission whose report might form the basis of possible amendments to the Constitution. . . ."

The Government of Ontario co-operated fully in supplying the Commission with statistical information, and in public hearings at Toronto, with the exception of answering a number of questions addressed to the Government by the Commission, but later declined to co-operate further, alleging that there had been a breach of faith on the part of the Dominion Government which had changed the gift tax section of the Income War Tax Act prior to the Report of this Commission.[4]

Retirement of the Chairman, Chief Justice Rowell.—To the great regret of his fellow Commissioners, the Chairman of the Commission, Chief Justice Rowell, became seriously ill in the early part of May, 1938, and was unable to attend the public hearings in Quebec and Fredericton. For a time it was hoped that the Chief Justice would recover sufficiently from his illness to permit him to resume his work with the Commission. When it was found that this was impossible the Chief Justice's resignation as Chairman was tendered to the Dominion Government. After a lapse of several months the Dominion Government felt compelled to accept Chief Justice Rowell's resignation and Dr. Jos. Sirois was appointed Chairman, but no new member was added to the Commission.

The illness and retirement of the Chief Justice was to each of us a great personal loss, and we bear tribute here to his fineness of mind and character, his courtesy, patience, and consideration, which made working with him a pleasure and a privilege. As Chairman he guided the planning of the research program and arrangements for final hearings, and he took an active part in the supervision of the research program up to the time of his illness. He presided at the public hearings in seven of the nine provinces. His great knowledge of Canadian affairs and of constitutional law, his long experience in public life and private business, his courtesy, tact and precision of mind, were of inestimable value both in the conduct of the public hearings and in the private deliberations of the Commission. We deeply regret that it was impossible for Chief Justice Rowell to participate in the preparation of our Report, and he is not in any way responsible for the conclusions which we have reached.

Final Hearings.—During our hearings in provincial capitals it had been indicated to the provinces that an opportunity would be given to them to make supplementary representations replying to the contentions of other provinces and of reviewing the research studies. Arrangements were made for final hearings in Ottawa after the provinces had time to consider each other's evidence and the research material prepared for the Commission. With regard to the research studies the Commission wished to give the provinces and the Dominion full opportunity to examine and criticize them before they were put in final form or used for purposes of the Report. Accordingly, draft copies of the research material as completed were sent to the Dominion and all provincial governments which signified their desire for them (among them Alberta). Final hearings were held in Ottawa from November 24th to December 1st, 1938. The Governments of British Columbia, Manitoba, New Brunswick and Prince Edward Island were represented, and various supplementary representations were made on their behalf. (The representations of Manitoba were supported by Saskatchewan, while Nova Scotia made certain comments to the Commission in writing.) In addition, some of the research material was discussed at length. Comments on the research material, whether during these hearings or by correspondence later, were given careful consideration.

The fact that the Dominion Government and several provincial governments did not appear at our final hearings somewhat altered the character of our inquiry. Our task was, however, to some extent simplified though not abbreviated. We were obliged to continue with our inquiry without having to consider how far our proposals would be acceptable to any of the ten governments.

Form of the Report.—The form of the Report was naturally of much concern to the Commission, but after due consideration it has arranged its Report to correspond roughly to the nature of its task. As already pointed out, the Commission was both a fact-finding body, and a body to make recommendations. For convenience it has accordingly kept its recommendations separate in the main from the detailed data on which they are based. Book I of the Report represents a "pooling" of the research work of the Commission's expert staff into the economic and social developments of the past seventy years and their bearing on the working of the federal system. Book II consists of recommendations based upon the evidence submitted in public hearings and the facts disclosed in Books I and III and in special research studies. Book III consists largely of relevant statistical data including summary statements of the Commission's exhaustive inquiry into Dominion and provincial

[4] Letter, dated July 13, 1938, from Hon. M. F. Hepburn, Premier of Ontario, to the Secretary, enclosing correspondence between Mr. Hepburn and the Prime Minister of Canada.

public accounts, summary statements of municipal finances, and statistical statements illustrating in detail the Commissions's financial proposals contained in Book II. It should be fully understood, however, that all three Books are part of a single report which has been bound in separate volumes merely for convenience. In addition to the Report proper, for which the Commission must take full responsibility, it may be noted again that the Commission has published in addition a number of its special research studies which it believes to be of general interest and relevant to the Report. For these research studies the Commission, of course, does not assume responsibility.

* * * *

Although the Commission did not have the benefit of any representations from the Dominion Government it received full co-operation and assistance from every official of the Dominion services from whom it requested information. At the request of the Commission a number of deputy ministers, assisted by members of their staffs, appeared at public hearings in Ottawa and gave valuable information concerning the work of their departments. In addition, much information, statistical and otherwise, was prepared for us by these and other officials in answer to private inquiries. To all these officials we express our appreciation for their patience and co-operation, and it will not be inappropriate to mention the following who gave us special assistance: Dr. R. H. Coats, Dominion Statistician; Mr. C. Fraser Elliott, K.C., Commissioner of Income Tax; Mr. H. Marshall, Dominion Bureau of Statistics; Miss Margaret Mackintosh, Department of Labour; Dr. A. K. Eaton, Department of Finance; Mr. V. C. Phelan, Department of Labour; Mr. J. R. Beattie and Mr. J. E. Coyne of the Research Department of the Bank of Canada.

Particular mention must be made of the able and willing co-operation which the Commission received from the staffs of the Bureau of Translation and the King's Printer, who were required to work under great pressure and for long periods of overtime in the final stages of the preparation of the Report.

We desire to express our appreciation as a Commission and as individuals for the courtesy and hospitality which we have received in all parts of Canada. We thank especially those organizations which submitted briefs, and those officials and individuals who gave generously of their time and ability to provide information which the Commission required from them. The arrangements made by all provinces for the conduct of the hearings left nothing to be desired, and the general spirit of co-operation shown by provincial governments, municipalities and organizations which appeared before us was of great help to us in our difficult task.

The Commission also wishes to record its appreciation of the services and the fine spirit of co-operation of its secretariat, its research, reporting and clerical staffs. In particular it would mention the work of Mr. Skelton, who carried the dual load of administration and direction of research; of its other secretaries, Mr. Savard, Mr. Eggleston and Mr. Fowler; of Mr. J. C. Thompson who directed the Public Accounts Inquiry and Mr. J. A. Brennan, C.A., his principal assistant; of Miss Rowland and Mr. Deutsch who acted as Mr. Skelton's principal assistants in administration and the direction of research respectively; and of Professor Corry and Professor Creighton who assisted in co-ordinating research material. The research program of the Commission was the most comprehensive ever undertaken in Canada in a public inquiry. The Commission hereby records its appreciation of the excellent work done by its research staff, many of whom served at personal inconvenience and sacrifice. To its official reporters, Messrs. Oliver and Hubbard, the Commission's thanks are due both for the consistently high quality of their work and for their co-operation in making possible the very economical reporting. To the clerical staff, who were prepared to work at all hours and often under material conditions far from ideal, the Commission is deeply grateful. In this connection it wishes to mention the work of Mr. W. J. McHugh who was in charge of the enormous task of mimeographing the evidence and the studies; and Miss Mary White and Miss Rachel Fortin who acted as personal secretaries to the Commissioners.

Finally, we thank the press of Canada for their full and careful reporting of our proceedings; and for the informed, constructive comment and criticisms which they offered as the work of the Commission proceeded.

Chapter I

CONFEDERATION

1. The Forces Leading to Confederation

Canadian Confederation was a great political achievement. It was made possible by a remarkable conjuncture of events which brought each of the separate colonies to a crisis in its affairs at the same time and pointed to political union as a common solution of their difficulties. Great Britain, for the time being disillusioned with empire, had reversed the military and commercial policies which had sheltered and nourished the colonies in the past. The loss of the imperial preferences had compelled all the colonies to face drastic readjustments. In the Province of Canada, this disaster coincided with the final failure of the costly St. Lawrence transportation system designed to tap the trade of the Middle West. The public finances of the Province were seriously involved in the failure of this ambitious venture at the very moment when the strife between Upper and Lower Canada had led to a political impasse. In the Maritimes, the nicely balanced economy based on the sea was threatened by the new agents of steel and steam; an onerous public debt had been incurred for railways and the loss of the imperial preferences was a heavy blow. These circumstances provided tribulations enough for colonial statesmen; in addition there was the hostile attitude and aggressive expansion of the United States.

The territorial aggrandizement of the United States impelled a defensive political union of the British colonies in North America. The loss of imperial preferences and probable withdrawal of trading privileges by the United States gave point to arguments for economic union. The railways, lately come to North America, provided for the first time a means of uniting vast continental areas under a single government. In a larger union, there might be not only an escape from present and impending misfortunes but also a brighter future. Out of the failures of the past, the perils of the present and the hopes for the future, there emerged a new purpose and design for British North America. It not only required that there should be union but also decided largely the form it should take. The purpose, the original structure and much of the subsequent history of the Canadian federation find their explanation in the very factors which brought union about.

The American Revolution left half the continent with two tiny pockets of settlement under the British flag. These two pockets had developed into four self-governing colonies, and struggling settlements had gained footholds in the western wilderness and on the Pacific Coast. The older colonies had matured greatly, both politically and economically, but, being essentially dependent on water transportation, they had remained isolated from one another. As British dependencies, their economic development had been shaped by the imperial commercial system. They thought in terms of external rather than British North American trade.

The Maritimes looked to the sea. They concentrated on their timber and fish, their shipbuilding and their carrying trade. Their own hinterland and the vast continent behind them were little in their thoughts. The Canadas had developed a thriving export trade in timber and wheat. The most active spirits, however, took these outlets for granted and faced inward on the continent. For them, the St. Lawrence water system was not so much a political boundary as a great highway leading into the heart of the continent. From the beginning, the Canadians had dreamed of a future when a trade of continental proportions would pour along their highway. The other British colonies had little place in their plans for the St. Lawrence as one of the great trade routes of the world. And the concerns of the Red River and Pacific Coast settlements were entirely foreign to those of Canada and the Maritimes. The separate pre-occupations of the colonies had led them in opposite directions emphasizing, in social terms, their physical isolation from one another.

Thus, in spite of their growth, the British colonies in North America had remained small and isolated pockets of settlement. They had grown up in reliance upon the mercantile privileges supplied by the British navigation laws and trade preferences. This was their world and they would be compelled to find an entirely new scheme of existence if it disappeared. And disappear it did in the two decades before Confederation. By adopting free trade at home, Great Britain swept away the privileges on which the provinces had relied. With the grant of responsible government, imperial control over colonial fiscal policy was relinquished. The imperial authorities insisted that responsible government carried with it the responsibility for defence and the colonies were notified that the garrisons would be withdrawn. The threatened recall of the legions marked the end of the sheltered world the colonies had known.

Accustomed to shelter, the first reaction of the Province of Canada was to seek a new privileged relationship with the United States. This movement which resulted in the Elgin-Marcy Reciprocity Treaty of 1854 met with some short-lived success but the permanence of any such solution soon became open to the greatest doubt. Unfortunately for the peace of mind of the colonies, the change in British imperial policy coincided with the rise of continental imperialism in the United States.[1] During the fifties and sixties, the far west was rapidly organized into territories under the aegis of the United States. The projection of transcontinental railroads by American promoters aroused deep alarm in the minds of British North American statesmen.[2] Aided by new methods of settlement[3] and transport, settlers were swarming westward and eddying northward towards the domain of the Hudson's Bay Company.[4] This quick advance across the continent was accompanied by hymns to "manifest destiny" and by repeated, though largely irresponsible demands for the annexation of the British colonies to the north. Even if Canada and the Maritimes were not seriously threatened, it became increasingly doubtful whether the United States could be prevented from swallowing the rest of the continent, including the territories of the Hudson's Bay Company and the feeble British settlements on the Pacific Coast.

The American Civil War with its border incidents and its Anglo-American disputes intensified the alarm, and anger at Great Britain ensured that the United States would abrogate the Reciprocity Treaty at the earliest opportunity. The "Alabama claims" were translated into a demand for territorial compensation. Various threatening gestures were made by the American Union which emerged from civil war as one of the great military powers in the world. In the early sixties, the era of peaceful political relations and advantageous commercial arrangements with the United States appeared to be definitely over. The political independence of the colonies was insecure and their material prospects were discouraging in the extreme. They had lost their most valuable commercial privileges in the retreat of one empire and they had no hope of countervailing advantages from the threatening advance of another.

The abrupt reversal of British policy and the rapid expansion of the United States were events of world-wide significance. Either of them taken singly would have been a heavy blow to the provinces. Their coincidence intensified this pressure and gave it an urgency it might otherwise have lacked. Had Britain retained the old commercial system, the provinces might have remained uneasily passive in the face of American expansion. If their southern neighbour had shown herself pacific and eager to trade on advantageous terms, they might have permitted themselves to be drawn quietly and separately into her orbit. As it was, these events were loosed upon them in the same period, forcing them to contemplate radical measures. They began to see solid advantages in a political union which had never hitherto been seriously entertained. Through a united front, they might hope to resist the northward expansion of the United States. By organizing trade among themselves, they might compensate for the loss of their valuable commercial privileges.

There were a number of factors in their domestic situations which urged drastic action and also pointed to the same solution. The long efforts to draw the trade of the mid-continent down the St. Lawrence had met with final failure. The public debts incurred for railways and other improvements of the St. Lawrence transportation system had almost destroyed the credit of the Province of Canada in the London money markets. The possibilities of further expansion within the Province were severely limited and vigorous commercial groups in Montreal and Toronto, disappointed over the failure to tap the Middle West, were looking for new fields for enterprise. In these circumstances, attention turned increasingly to the possibilities of the North-West. The imperial authorities were willing for Canada to take over Rupert's Land. As long as everything depended on water transportation, it had not been commercially accessible. But the coming of the railways seemed, for the first time, to open the way for its development. South of the boundary, the United States was showing how railways could be used to organize a continental domain. With the aid of this new technique, Canada might duplicate the impressive

[1] Texas was annexed in 1845, Oregon in 1846, and Alaska purchased in 1867.

[2] The Union Pacific was chartered in 1862 and the Northern Pacific in 1864, the latter being frankly planned as an international transcontinental road.

[3] In 1862, the Free Homestead Act opened the American West on most advantageous terms to incoming settlers.

[4] Minnesota, which lay just south of the tiny Red River settlement, was admitted to the Union in 1858.

expansion of the United States. As an escape from the disappointments of the past and the hampering limitations of the present, the attractions of a national transcontinental system became ever more compelling.

The pressure for expansion to the West came mainly from Upper Canada, seething with the typical urges of frontier America. This fact had a disturbing influence on the unstable political union of Upper and Lower Canada. In spite of the unitary form of the constitution established in 1841, the Province of Canada had taken on the main features of a federal system. The Act of Union had awarded each section an equal number of representatives in the provincial assembly, and the practice of dividing ministerial posts and votes of public money fairly equally between them maintained an uneasy political balance between French-speaking and English-speaking Canadians. The instability of this equilibrium became more marked as the population of Upper Canada outgrew that of Lower Canada and the former demanded increased representation which would reflect its decisive superiority in numbers. The union thus endangered the cultural heritage of Lower Canada. Annexation of the Northwest, leading to further British settlement, would involve a westward transference of the provincial centre of gravity. Lower Canada would be doomed to political subordination, and the threats to its cultural values were intensified.

French Canada would not acquiesce in the swamping of its own way of life and the collapse of the Taché-Macdonald Government in June, 1864, after only three months of office, clearly revealed the impasse to which Canadian politics had been brought. The coalition which succeeded it was frankly formed to explore the possibilities of federal union, either of the Canadas alone or of British North America as a whole. In the Province of Canada, internal political deadlock and financial stringency intensified the pressure for a sweeping adjustment.

At the same time, the vision of transcontinental expansion had begun to have some attraction for the Maritimes. They were suffering from the loss of their protected markets and the new techniques of the industrial revolution were disturbing their habitual pursuits. Steam-driven vessels were overhauling the famous clipper ships and cutting into the carrying trade of the Maritimes. These circumstances led them to consider seriously the possibility of closer relations with Canada. Here again it was the railway which brought this possibility within the realm of the practical. New Brunswick and Nova Scotia had strained their public finances to build railways which were as yet incomplete. But the completion of the Intercolonial would, it was thought by many, bring the commerce of Canada into the ice-free ports of Halifax and Saint John. With a little optimism they could see the trade of a transcontinental British North America canalized in the same way. And for the Maritimes too, the growing belligerence of the United States darkened the horizon, and intensified the Maritimes' recognition of their own inability to protect the fisheries.

Thus the pressure for union grew out of the circumstances of the colonies. The nature of these circumstances, both economic and political, determined the character of the union. The political conditions are familiar and need no further discussion. The economic conditions influenced greatly much of the framework and detail of the federal scheme. To grasp the design of the architects of Confederation it is therefore important to look more closely at the economic and social conditions of the time.

2. The Economy at Confederation

About three and a half million people lived in the British North American colonies at the time of Confederation, three-quarters of them in the Province of Canada. Four-fifths of the total population was rural. Montreal, much the largest city, had about 100,000 population.[5] Most people were engaged either in cultivating the soil or extracting raw products from the forest and the sea. These principal occupations supported a small group of manufacturing, handicraft and service industries, widely scattered through the settled areas. These industries were sheltered from foreign competition, partly by natural advantages such as local abundance of cheap raw materials and the lack of transportation facilities and partly by the incidental protection of a revenue tariff. The percentage distribution among the various occupations is shown in Table 1 on the following page.

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[5] Quebec with 60,000 and Toronto with 50,000 were the only other towns boasting more than 30,000 population. Barely 12 per cent of the total population lived in towns exceeding 5,000.

TABLE 1.—OCCUPATIONS OF THE PEOPLE, PERCENTAGE DISTRIBUTION, 1871[6]

—	Ontario	Quebec	New Brunswick	Nova Scotia	Total
	%	%	%	%	%
Farmers, lumbermen and fishermen	51	52	51	52	51
Manufacturing and handicrafts	14	11	12	10	13
Construction and unskilled labourers	18	17	18	15	18
Miners	......	......	......	2	......
Sub-total	83	80	81	79	82
Services*	17	20	19	21	18
Total	100	100	100	100	100

* Includes wholesale and retail trade, transportation and communication, government and education, finance, the professions and personal services.

The self-sufficiency of separate families and of small isolated communities—in short, the rural and frontier nature of the economies as a whole—is illustrated by the relative unimportance of the service occupations. A complex, highly specialized, metropolitan society requires a highly developed system of services.[7] In the Canada of today, about forty per cent of the gainfully occupied are engaged in supplying services rather than in producing goods, compared with eighteen per cent at the time of Confederation. The extraction and crude processing of natural products then absorbed the energies of most of the population.

The Maritimes—dependence on wood, wind and water techniques

The economy of the Maritimes was based on the forest and the sea. Fishing, lumbering, shipbuilding and the carrying trade were the principal occupations. Table I indicates that farming, lumbering and fishing accounted for over half of those gainfully employed in New Brunswick and Nova Scotia. As the numbers who made farming a full-time occupation were not large, the overwhelming importance of the forest and the sea is clear. The Maritimes had grown up as a part of the old British commercial system which sought to make the Empire a closed trading unit, and they had responded to the demands of that policy. Fish had long been one of the great staples which the colonies were encouraged in various ways to produce. Indeed, the rise of Nova Scotia was, in a measure, due to the protected markets for cod in the West Indies which were partly lost by the New England fishermen after the Revolution. Accustomed to the sea, the Maritime fishermen naturally undertook to carry their fish to their markets and thus "Bluenose" ships first ventured into deep-sea carrying. The markets of the West Indies were many, small and scattered which prompted the Maritime captains to diversify their cargoes to facilitate ready disposal of them. Thus the production of lumber, potatoes and miscellaneous small manufactures was stimulated at home and these articles were added to the cargoes which cleared for the West Indies.

In the same way, the large-scale exploitation of the forest got its first stimulus from the establishment of colonial timber preferences during the wars with Napoleon. A large trade with Great Britain in square timber grew up and reached its peak about 1850. As the stand of large trees suitable for this trade approached exhaustion, a demand arose for lumber, particularly in the United States. Saw-mills sprang up at the mouths of the rivers in the Maritimes and exports of sawn lumber and deals began to replace square timber. In the sixties, the Bay of Fundy lumber trade was one of the chief world staple trades in terms of volume. The carrying of these bulky timber products always made large demands on shipping and the Maritimes were early drawn into building their own wooden ships for the purpose. Most of the rough ships used in this trade were sold in the same market as the timber and lumber which they carried.

The shipbuilding and carrying trades sprang from the basic Maritime occupations but soon grew beyond them. At the middle of the last century, the Maritimes were one of the world's great commercial maritime powers, holding fourth place in registered tonnage of shipping. They had begun by building ships to carry their own produce and this still provided the backbone of the business. In addition, however, the vessels of Nova Scotia and New Brunswick were engaged in the trade from Europe to the United States, to South America, the East Indies and Australia. They carried coal from England to the East, guano from the Chincha Islands to England and France, petroleum from the Gulf ports to Europe and South America and wool from Australia to Europe. The "Bluenose" vessels were to be seen in every great port in the world.

The principal industries of the Maritime colonies were thus closely allied and in large measure

[6] These percentages are derived from the census of 1871 and may be taken as approximately correct for 1867.
[7] That is, occupations which are not concerned with the direct production of goods, such as wholesale and retail trade, transportation, banking, the professions, etc.

complementary. It was impossible to think of the lumber or fishing industries apart from the shipbuilding and carrying trades and, on the other hand, anything which threatened the carrying trade would compel fundamental and sweeping readjustments in the other occupations. It was a highly unified and integrated economy. In a personal and more intimate sense, several of these occupations were often unified in a single enterprise carried on by one individual or trading group.[8]

Thus the Maritimes had mastered the techniques of the wood-wind-water era. On the basis of forest products and fish, they had made a place for themselves in world industry and trade. All their minor and subsidiary occupations were nicely geared to support and develop these leading industries. This balance in their economy and the perfection of their skills signified a confident maturity which enabled them to compete on even terms in the deep-sea carrying trade.

Nova Scotia was the most diversified of the Maritime Provinces. Its exports were of a greater variety and spread over a wider range of markets. Nevertheless, in 1866, fish accounted for over 40 per cent of the value of total exports.[9] The trade in fish was almost entirely with the West Indies and the United States, the former outlet in 1866 being only slightly more important than the latter. The Reciprocity Treaty, which gave free entrance to the American market, and the Civil War had greatly stimulated the fishing industry in Nova Scotia. Between 1860 and 1866, the value of Nova Scotia fish exports rose by almost one-half and about three-quarters of this increase was absorbed by the expanding market in the United States.

It is difficult to state precisely the relative importance of the principal occupations since so many worked in several industries at the same time. The schooners employed in fishing in the spring participated in the West Indies trade during the fall and winter. Most of the fishermen combined farming and lumbering with their fishing. A highly individualistic and resourceful people used their farming operations to establish a marked degree of self-sufficiency while they secured supplementary cash income from fishing and lumbering. A great many of them were, at one time or another, engaged in the carrying trade. In addition to those who made it a part-time employment, the carrying trade provided full-time occupation for about 13 per cent of the gainfully employed in Nova Scotia in 1866.

Nova Scotia built her ships for her own purposes rather than for export. In the period between 1863 and 1866, the annual value of ships built was as much as one-third of the total value of all exports. The vessels owned by Nova Scotians in 1865 represented an investment of about $9 million compared with a total capital investment in manufacturing of $6 million. The available statistics do not suffice to give a distinct and complete picture but they do indicate that the life of Nova Scotia was dominated by the sea.

The economy of New Brunswick had a much simpler pattern than that of Nova Scotia. It was virtually a vast lumber camp. In 1866, forest products (excluding ships) made up nearly 70 per cent of the total exports of New Brunswick. Apart from subsistence fishing and farming, lumbering with its allied shipbuilding and carrying trade made up practically the entire economy. Great saw-mills were located chiefly at the mouths of the St. John and the Miramichi Rivers giving employment to three or four thousand men while half as many again were occupied in the logging activities which fed the mills. Thousands of farmers derived a substantial part of their income from logging and from growing hay, oats and potatoes for the lumber camps.

The ships built to carry the lumber to foreign markets were the most specialized product of the New Brunswick economy. Between 1862 and 1865 the value of ships built in New Brunswick varied from three-quarters to one-half of the value of all other exports.[10] Shipbuilding thus had a major place in the economy. It was the one manufacturing activity (aside from the simple processing of the saw-mill) in which the Province had a differential advantage, providing an alternative to mere extraction and export of raw materials. Most of the towns were greatly dependent on the employment it offered. It brought in a relatively large amount of income from abroad as about half the output of ships was exported. The carrying trade was not nearly as important as it was in Nova

[8] The following account brings this out clearly. "The lumber for these assorted cargoes came from small local mills. Many of these mills would be owned and managed by men who had farms in the neighbourhood and whose interests also extended to the sea and ships. The Bluenose farmer, proclaimed the handiest man in the world, was commonly credited with raising the potatoes for his cargo, felling and sawing the lumber for it, building his own schooner in his spare moments and finally sailing her down to the Islands where he turned merchant and disposed of his wares." A. R. M. Lower, *The North American Assault on the Canadian Forest*, p. 70.

[9] Minerals made up 16 per cent of all exports, forest products 11 per cent, agricultural products about 20 per cent, and a miscellaneous group of products, including all manufactures, accounted for only about 12 per cent.

[10] They easily exceeded by one-third the value of ships built in Nova Scotia during the same period.

Scotia,[11] yet about seven per cent of the gainfully occupied inhabitants of the Province obtained full-time employment in it. The lumbering, shipbuilding and shipping industries of both provinces, but particularly of New Brunswick, prospered on the demands of the American Civil War. With the coming of peace, the American markets declined sharply.

Prince Edward Island was neatly integrated in this Maritime economy. Its people had retired largely from the sea and taken up farming.[12] It had already become a highly developed and specialized agricultural community. In 1867, it had approximately the same population, number of farms, occupied acreage and grain production as at present.[13] Its considerable agricultural surpluses went mainly to supply the exporting industries of the neighbouring colonies. These, however, were not adequate to the needs of Nova Scotia and New Brunswick which imported large quantities of foodstuffs annually from the United States.[14]

The Last Phase of the "Golden Age" of the Maritimes—the coming of the steamship and the railway

The very substantial prosperity of the three Maritime Provinces in the pre-Confederation years rested upon their fish and lumber exports, wooden shipbuilding and their carrying trade. The maintenance of this "Golden Age", as it has since come to be known, depended on the continued stability and prosperity of each one of this set of closely allied and related industries. By the middle sixties, there were plenty of indications that it rested on a precarious base. The best as well as the most accessible of the timber resources had been cut off. The commercial privileges contained in the colonial preferences and the navigation laws were gone. The provinces had to face the competition of New England in the fish markets of the West Indies, and with the abrogation of the Reciprocity Treaty in 1866, they were compelled to forgo (temporarily, as it turned out) their free market for fish in the United States. The Civil War had stimulated exports and provided new opportunities for the carrying trade. It brought a lush, though temporary prosperity and masked, for the time being, the long-term factors which were operating against the Maritimes. Once the War was over, the full weight of these factors began to be felt and the "Golden Age" soon became a memory.

It was the coming of the steamship which most surely foreshadowed the decline of this balanced economy of the Maritimes. By 1860, the holds of steamers already supplied about ten per cent of the ocean tonnage of the world and sailing vessels were being forced into longer and less profitable hauls. Steamships were regularly making better Atlantic passages than the fastest sailing ships. The age of steel and steam was ousting the wooden sailing ships and undermining the foundations of the economy of the Maritime Provinces.

The implications of steel and steam were as yet only vaguely realized. Scaremongers might forecast their significance but, as in most human affairs, only a demonstration would carry conviction. The opportunities arising out of the Civil War had carried Maritime prosperity to its highest peak and it was not realized that the assurances given by this bustling activity were superficial, or even false. The Maritime people believed in the sea. They were confident of their power to make any necessary adjustments and maintain their enviable position in the commerce of the world.

If they were not alert to the threat of the steamship, they were becoming very much alive to the promise of the railways. It was seen that railways would improve their communications and open up their own hinterland for development. Many were confident that railways would open markets for coal, fish, and manufactures in the Canadas and draw the expanding commerce of the interior to their seaports. The coal interests of Cape Breton, for example, were strong supporters of the Confederation scheme. For almost the first time, the Maritimes began to feel the pull of the continent behind them.

For upwards of twenty years before Confederation, they had tried to secure the building of a railway to connect Canada with the Maritime winter ports. But projects for the Intercolonial had always collapsed. It was not attractive to private capital. The governments in the colonies were never able to agree on the terms on which it should be built as a joint project. The British Government, whose guidance and assistance alone could have surmounted these obstacles, wanted a military and strategic road, hugging the east shore of New Brunswick, while New Brunswick, in particular, disdained a railway which failed to

[11] In the sixties, New Brunswick had only about half the registered tonnage of Nova Scotia.

[12] There was some fishing and at times an important shipbuilding industry, but farming was by that time by far the most important occupation.

[13] In the present century there has been a considerable shift toward the production of agricultural specialties such as dairy products, potatoes, cattle and foxes.

[14] A large proportion of these imports from the United States consisted of wheat and flour, trans-shipped from Upper Canada, via Portland.

connect Saint John and Fredericton with the Canadas.

An equally ambitious scheme which failed of fruition was the "European & North American Railway", designed to connect Halifax and Saint John with Portland, Boston and New York and to deliver trans-Atlantic passengers, mail and express freight in record time. The hopes of an imperial guarantee were disappointed and New Brunswick and Nova Scotia could not finance either line themselves. They did, however, build pieces of railways, designed to fit into the larger schemes but insufficient to give them the external connections they desired. Thus by the time of Confederation, the two Provinces had built 379 miles of railway which improved their internal communications but harmed their own coasting trade. The most impressive result obtained was the addition of some $10½ million to their public debt.

On the eve of Confederation, then, the Maritimes had a mature and prosperous economy, dependent on a wood-wind-water technique fast becoming obsolete. They were beginning to feel the pressures of the revolution in transportation. Their tentative efforts to apply the new technique of steel and steam and to integrate their economies with those of the United States and the St. Lawrence Valley had been unsuccessful, and they were debating the question whether the promise of an intercolonial railway was worth the obligations and the risks of political union with Canada.

The Canadas—their concern with transportation —common and conflicting interests

Upper and Lower Canada, although divided by cultural and sectional cleavages, had never been intended by nature to form separate economic systems. The St. Lawrence, with its access to the sea and its ingress to the continent, was bound to unify its drainage basin economically. There are, therefore, better reasons than the political union of 1841 for discussing the pre-Confederation Canada as an economic entity.

The St. Lawrence basin contained a considerable area of fertile land lying south of the Laurentian plateau. This available land had been largely filled with settlers in the years before Confederation. Along with this rapid agricultural development had come a flourishing pioneer industry, laying the foundations for a diversified economy of modest yet substantial proportions. Under the conditions of the time, it was naturally becoming a community of settlements, devoted to internal trade and commercial intercourse with the United States.

At the same time, there was an aggressive and ambitious commercial group in Montreal, supported in the later part of the period by the growing commercial interest in Upper Canada, which thought of the St. Lawrence as primarily a trade route and which had vigorously endeavoured to have the whole political and economic structure accommodated to that conception. From the days of the fur trade, the commercial group in Canada had seen the St. Lawrence as an integral part of the old British commercial system and had striven to make the trade of a continent flow through their hands instead of through New York. Successive colonial governments had been inspired by this dream with the result that government policy and public finance had been harnessed to the grandiose conception of the St. Lawrence as a trade route. In ambitious but always futile efforts to realize this great plan, the Province had accumulated a set of public works and a crushing public debt, both too massive for an economy limited by its own boundaries.

New York had challenged the St. Lawrence trade route, first by the Erie Canal and then by the railways. Canada had countered, first, by the canal system of the St. Lawrence, built as a government project, and second, by the Grand Trunk Railway, undertaken by private capital but relying heavily on government loans. Both Canadian ventures failed to attract the trade of the American Middle West. In 1862, soon after the completion of the road, the Grand Trunk Railway Company was in serious financial difficulty.

The Government of Canada had gambled heavily in railway development through the fifties and early sixties. By 1866, it had loaned $33 million to railway companies while municipalities had contributed $7 million. Virtually the whole of the $40 million, which made up forty per cent of the total provincial and municipal debt, was uncollectible. If canals are included, the government investments in transportation amounted to almost sixty per cent of the provincial and municipal debt. Altogether, about one-third of the current expenditures of the Province and the municipalities were incurred on transportation. The attempt at commercial integration with the interior of the continent had irretrievably failed and left behind it a burden of debt which weighed oppressively on the economy.

The railway development of the preceding decade had opened up the country for settlement and for exploitation of its great timber resources remote from the river valleys. The flow of immigrants had filled up the most promising parts of the Province and almost all the good agricultural land had been occupied. By 1866, forty-one out of the fifty-one million acres surveyed had been disposed of. The pioneer type of community must expand outwards and the substantial limits of that type of expansion in the Province had been reached.

Despite the concentration of public expenditures on the development of the trade route, agriculture had become the most important source of livelihood in Ontario and Quebec and it had displaced the forest as the chief source of exports. The latter, however, retained much of its old importance. Lumber had succeeded fur as the great staple emerging from the St. Lawrence. The industry prospered, first, on the British colonial preference and then on the expanding markets of the United States. Farming communities grew up around and depended on it. The coming of the railways increased the available supplies and general expansion and the American Civil War stimulated demand. The building of wooden ships flourished at and near Quebec and the lumber trade made this city one of the great shipping centres of the world at the time.[15]

Over half of those gainfully occupied in the Province of Canada were employed in farming and lumbering. In the period, 1860-65, agricultural and forest products provided over four-fifths of the exports. The combined stimulus of the Reciprocity Treaty and the Civil War had greatly increased the exports of both groups of commodities to the United States.[16] The abrogation of the Treaty threatened very serious consequences, particularly for agriculture the exports of which were almost double those of the forest industry during the period 1860-65.

The Rise of Manufacturing in the Canadas

The manufacturing industry had grown rapidly and was becoming diversified after 1850. The new industrial methods spreading out from England were attracted by local supplies of raw materials and the natural shelter arising from lack of transportation facilities. The revenue tariff afforded some incidental protection. Under such circumstances, local production of some articles was more economical. Accordingly, most of the manufacturing industry was scattered in small units through the towns and villages of the agricultural settlements. Generally, it was of a kind which required little capital and little highly specialized skill. As the railways spread, there was a tendency toward increase in size of unit and concentration in strategic centres. There had long been a large flour-milling industry in Montreal, catering to the export trade, and industries began to concentrate in Hamilton and Toronto. In general, however, manufacturing enterprise remained small, simple and decentralized. Almost every town produced agricultural implements and the other tools used by a pioneer community. Machinery and tools requiring a high degree of skill for their production were almost entirely imported. Woollen mills, boot and shoe factories, furniture factories, breweries and distilleries thrived on local raw materials and the incidental protection of a revenue tariff. But in such commodities as cotton and linen textiles, dependent on foreign raw materials, no progress was made toward local production.

In spite of the rapid development, the total industrial factory production was small. This was by no means entirely due to the economic advantage of buying cheap foreign manufactures with exports of raw materials. To a degree which we now find hard to realize, individual households were self-sufficient. There was also a large group of craftsmen who lived largely by barter. The blacksmith, carpenter, shoemaker, tailor and dressmaker produced a variety of the basic necessaries, often in return for produce or a share of the raw materials used. In the census of 1871, this group of craftsmen reported an output equal to one-fifth of the total of all manufacturing establishments, excluding saw mills and flour mills.

Cheap and improved transportation had already begun to draw industry from the farm and the village to the city. But the huge concentration of industry into large units in the relatively few great industrial centres of today had to await further developments in transportation, the improvement of old and the invention of new techniques, the extension of markets and the perfection of the joint stock company as an instrument for collecting large pools of capital. At the time of Confederation, small enterprise still ruled the field. In 1870, the average capital invested per establishment was $1,900 compared with $217,000 for 1930. In 1870, the three leading urban centres contributed about

[15] Almost half the population of the City of Quebec was directly supported by the shipbuilding industry alone.

[16] Total exports to the United States, which had averaged scarcely $9 million for the period 1852-54, had grown to an average of about $19 million for the period 1860-65.

one-quarter of the total net value of manufactures while today they contribute nearly one-half. In 1867, there were not more than 50,000 labourers employed in all the cities of the four provinces.

Self-Sufficiency—the importance of the family as an economic and social unit

Seventy or eighty years ago, material income was, for most, limited to the basic requirements of food, clothing and shelter. These were chiefly the product of local industries, geared to local consumption, and in which individual enterprise was predominant. To a great extent, they were secured without passing through the money exchange system at all. Thus the sharp and frequent trade fluctuations of the period did not cause profound dislocations. The simplicity and decentralization of factory industry and the ease with which the worker could retreat to the self-sufficient farm gave to the economy a capacity for adjustment which it has largely lost in later years with the shift to large-scale organization and urban concentration.

In Lower Canada, agriculture was on a more nearly self-sufficient basis than in any of the other provinces. Very little was produced for sale and the farmer was absorbed in the manifold activities necessary to make the family a self-sufficient economic unit. In Upper Canada, on the other hand, newer soil and larger holdings yielded considerable surpluses for sale. The surpluses in the early days were mainly wheat; and relentless cropping provided large exports in the days of the colonial wheat preference, and later during the Crimean War. In the sixties, decline in fertility of the soil, the Reciprocity Treaty and the American Civil War resulted in a greater diversity of products. By 1866, exports such as barley, rye and cattle had become important. Exports of cheese were still small and the sale abroad of commodities such as tobacco, fruits and vegetables had to await improvements in transportation and the development of a more intensive and specialized agriculture. Although agricultural exports increased greatly in the decade before Confederation, the return from this market provided a relatively small part of total farm income, the average income per farm from this source being from sixty to seventy-five dollars per year.

The increase in cash income and the high prices for many products during the American Civil War were coaxing many farmers away from self-sufficiency and into specialization. This movement, however, was just beginning and the farm household in Upper Canada was still a basically self-sufficient unit. Food was grown and processed at home. The raw products of the farm were turned into articles of wear with the assistance of the local shoemaker and tailor who would take produce in return for their services. Such necessaries as tea, sugar, hardware and certain articles of clothing which could not be produced at home were generally obtained by barter from the local general store. Tallow was turned into candles, fatty refuse into soap, and the tools which were beyond the ingenuity of the farm workshop could generally be contrived by the local blacksmith.

What was true of the Upper Canada farm was even more true of the agricultural communities in Lower Canada and the Maritimes[17] where such things as furniture, carts, and carriages were frequently made on the farm. The farm of the period was a miniature factory or combination of factories. Much of the work of the large industrial army of today, concentrated in highly specialized factories in the cities and towns was, in that early period, performed in a multitude of rural households.

However prices might fall and cash income from other sources might melt away, the farm household always produced enough to prevent abject poverty. This fact had its importance for other industries as well. The farm was often a base of operations, on which individuals could fall back when other projects and occupations ended in disaster. In the Maritimes, agriculture, fishing and lumbering were closely allied. Everywhere the family and its relatives were a close economic unit; the various members helped one another when new enterprises were started or old ones failed. The material basis for this mutual welfare association was the family farm.

The Economic Outlook of the British North American Colonies—the coincidence of unfavourable developments

The closely inter-related activities of the Maritimes dependent upon the wood-wind-water techniques, and the agricultural, forestry and commercial economy of the Canadas had achieved a considerable prosperity in the decade before Confederation.

[17] In 1870, seven and a half million yards of woollen cloth were produced on farms in Canada. This was nearly equal to the total value of the output of the numerous woollen mills and the imports of woollen cloth combined. In a speech at Halifax in 1865, A. G. Archibald referred with pride to the Maritime agriculturalists, "the great body of settlers in the country whose backs are covered with woollens of their own production, whose feet are shod with the hides of their own cattle, who sleep between blankets of their own wool and their own weaving—on feathers from their own farmyards." *Evening Express*, January 4, 1865.

However, in each of the British North American colonies the basis of that prosperity threatened to disappear as the 1860's drew to a close. The Province of Canada had a transportation system which had been conceived for a continental commerce rather than for its own needs as an economic unit. The commercial dream had evaporated and left a paralyzing burden of public debt. Further industrial expansion depended on expanding markets. Unfortunately, the limits of great agricultural expansion had been reached. The best land was occupied and profitable exploitation of the poorer land depended upon buoyant foreign markets for agricultural exports. The outlook for such export demand was gloomy. Hopes for renewal of the British preferences had been extinguished. Most threatening of all was the loss of American markets for agricultural products, foreshadowed by abrogation of the Reciprocity Treaty and the agricultural expansion of the Middle Western States. For five months of the year, Canada had no outlet to the sea and there was constant fear that the United States would make good its threat to withdraw the bonding privileges for Canadian trade. The factors which had made for expansion in the past had practically played themselves out.

The full significance of this is clearly revealed by the movements of population. From 1851-61, the British North American colonies are estimated to have held the equivalent of their own natural increase and a net balance of 175,000 immigrants over emigrants. From 1861 to 1871, there was a net emigration of over a quarter of a million, involving the loss of about one-third of the estimated natural increase for the period.[18] Canada was failing to attract immigrants and losing her native sons. The prospects indicated decline rather than expansion. And on a declining rather than an expanding prosperity the burden of the large public debt would become intolerable.

The economic outlook compelled the Province of Canada to search for a means of escape from hampering burdens and limitations. Judging from the spectacular progress of the United States, the coming of railways had made practicable the hitherto vague project of acquiring Rupert's Land and of linking up with the colony on the Pacific. They would also furnish winter access to the sea through the Maritimes. By bringing this area, stretching from sea to sea, under a single government, vast new possibilities for expansion would be opened. The trade of the Orient would be tapped and a great internal market, integrating the occupations and resources of all the colonies, would be established. With some reorganization, the transportation system of the Province of Canada could be transformed into an important link of a national transcontinental system. It would cease to be a burden and become a valuable asset which Canada could contribute to the joint capital needed for the new venture. It is significant that the Grand Trunk Railway Company, whose fortunes were as much at stake as those of the people of Canada, reached the same conclusion. The president of the company, Edward Watkin, came to Canada in 1862 to investigate its difficulties. He decided that the only hope of salvage was the launching of a larger venture and thenceforth he was a powerful and effective advocate of union of the British North American colonies.

The opening up of the Northwest had had a romantic appeal in the eastern colonies for two decades. Its possibilities were imagined to be great, but there was little on which to base an estimate of its solid possibilities. The Red River Settlement contained scarcely ten thousand people. Most of these were half-breeds. The manner of their livelihood had been fixed by the activities of the Hudson's Bay Company and they were indifferent to any intensive cultivation of the soil. However, the isolation of the Settlement was over. Hundreds of carts were employed in overland transport between Fort Garry and St. Paul. There were steamboats on the Red River and American settlers and railways were pushing toward the ill-defined lands of the Company. The new methods of transportation were threatening the Hudson Bay route and disposing the governors of the Company to consider the future closely. Inside the settlement, the settlers were dissatisfied with the Company Council's rule.

Beyond the mountain barrier, on the Pacific Coast, the two colonies of Vancouver Island and British Columbia were united in 1866. Union had been brought about largely by the staggering public debt and repeated budget deficits. These colonies had just experienced a mushroom growth, due almost entirely to the gold rush which began in 1855 and which collapsed suddenly about ten years later. In the first year of the gold boom, it is estimated that some 25,000 people entered the two colonies. The feverish search for gold produced a rapid but precarious expansion. Trade and con-

[18] These figures are for all the provinces. But the Province of Canada had three-quarters of the total population and there was little movement of population in the Maritimes, particularly in the latter decade. The figures, therefore, give a substantially correct picture for the Province of Canada.

struction flourished and the subsidiary industries of lumbering and agriculture sprang up. The Government piled up large debts in promoting developments such as the Cariboo road. Then suddenly the rich gold diggings petered out and population fell sharply. In 1866, the total immigrant population of the new Province of British Columbia was little more than ten thousand. The credit system built up to serve the new mining enterprises crashed and buoyant optimism was replaced by gloom and depression. The public debt mounted to more than one hundred dollars per white inhabitant and the budget could not be balanced. British Columbia, depressed and discontented, was concerned to extricate itself from isolation and the burden of the public debt.

Union—a common means of escape and renewed expansion

Thus, for diverse reasons, the economic outlook of all the British North American colonies on the eve of Confederation had many alarming and depressing features. It was a significant coincidence that all the colonies, travelling their separate and well-nigh independent paths, reached an economic cross-roads at the same time. The Canadas, burdened with the failure of their two great bids for western expansion, and dispirited by the closing of their own frontier, were in need of a new outlet and stimulus. The Maritimes, tied to a dying industry, were in even greater, if less conscious, need. The tiny Red River Settlement was beginning to find its feet, but was toddling into the arms of the United States in the process. The Pacific Coast gold rush had fostered some basically sound development, but its recessions had left a small population stranded with a large debt.

Isolated as were the colonies from one another, the Maritime colonies and the colony of Canada were brought together by certain common characteristics in their external relations and the effects of technological changes on their economies. All had been deeply affected by the radical change in imperial commercial policy; all had turned hopefully to the United States and had established profitable but precarious relations; all were deeply alarmed at the prospect that these might be rudely terminated. The impact of the steamship, the railway and the industrial revolution had affected them all profoundly, if variously. The new means of transportation made possible a union of continental proportions in which all hoped to find escape from existing difficulties and stimulus for renewed expansion and prosperity.

3. The Nature of Confederation

Principal Objectives

Confederation was conceived as the solution for a number of political and economic difficulties and, therefore, had both political and economic aims. Politically, it was designed to establish a new nation to meet the changed conditions of British policy and to brace the scattered provinces against possible American aggression. Economically, it was intended to foster a national economy which would relieve dependence upon a few industries and lessen exposure to the effects of the economic policies pursued by the United States and Great Britain.

Political union was expected to promote strength as against the external world. The triumphant Northern States appeared a threat to territorial integrity. Other interests needed protection too. Nova Scotia felt her deep-sea fishery interests threatened, and the special institutions and culture of Lower Canada would not long have survived absorption of the colonies by the United States. Political union was designed to defend navigation rights on the St. Lawrence and its canals, and fishing rights at sea. A single united authority could use both these and access to its extended internal market as bargaining counters for advantages in international trade. A stable political authority would restore the public credit, so badly damaged by the accumulation of debt and political dissension. In the money markets of the world, the credit of the whole would be greater than that of the parts and would provide a broader base for the government expenditures necessary to attain new and difficult economic objectives.

Federal union was a plan whereby, through mutual concession, cultural and local loyalties could be preserved and reconciled with the political strength and solidarity of the whole. These separate loyalties were strong and their existence was keenly realized. They existed not only in Canada but also in the Maritimes where they had helped to frustrate projects for Maritime legislative union. Mutual concession required the English-speaking elements of Lower Canada to relinquish their integral union with the English-speaking people of Upper Canada while the French-speaking Canadians abandoned their objections to a superior political authority in whose councils they would be in a minority. In compensation, the broad questions of trade and commerce which so intimately concerned the English-speaking people of Lower Canada were to be given to the federal authority, thus securing the benefits of single control in these matters of general interest while French-speaking Canada was to be secured in sole control of the cherished values it so tenaciously held. Equally, this solution offered security for the historic traditions firmly rooted in the Maritimes.

Economically, the first objectives of Confederation were to establish a free-trade area comprising the five old provinces and to develop interprovincial transportation facilities. The resources and industries of the several provinces, it was thought, would prove complementary to each other, and would increase prosperity and self-sufficiency. To make this a reality, the Intercolonial Railway was to link the Maritime Provinces with the St. Lawrence Valley and to give Canada winter access to the sea.

Another great economic objective of Confederation, to be realized as soon as circumstances permitted, was the opening up of the Northwest and the inclusion of the Pacific province. For the Province of Canada, in particular, this westward expansion was to provide an escape from a *cul-de-sac* and the threatened economic stagnation. New frontiers and new resources would provide opportunities for settlement and development. It was recognized as an immense undertaking for which no specific detailed plan could be made under the urgencies and limitations of the moment.

This project had to await the acquisition of the lands of the Hudson's Bay Company. It required the building of a transcontinental railway. This, in turn, depended upon attracting new capital and capital, at that time, had become shy of Canadian ventures. Collective effort and resources on a scale which only government could secure were necessary and, at the same time, conditional on the restoration of the public credit.

Although these plans were necessarily vague in 1867, they were nevertheless resolutely held. The new political framework was designed to give the Federal Government ample powers for the prodigious task of opening up the West. The Federal Government was intended to give a vigorous lead in the development of the new national transcontinental economy and in matters relating to that development there was to be no doubt, such as had recently arisen in the United States, about its authority.

There were some among the Fathers of Confederation who favoured a unitary state as an instrument for realizing these plans. As is well known, John A. Macdonald had a strong preference for a unitary state and Galt accepted the federal scheme with reluctance and hoped it might later coalesce into a legislative union.[19] But legislative union was not acceptable to the French-speaking Canadians or to the Maritime Provinces. Furthermore, municipal institutions had not yet been established in the Maritimes, and they were still in the early stages of development in Lower Canada. The centralization of all governmental powers under one government was, therefore, impracticable from an administrative point of view. The distractions of local administration might well have diverted some of the energies of the central government from its larger creative tasks. Thus, for various reasons, the builders of the new nation planned a federation comprised of a central government with authority over matters of general and common interest and provincial governments with authority over matters of local concern.

The Division of Legislative Powers

The British North America Act was the final embodiment of their scheme. The acknowledged necessity of a federal type of union was recognized by the preamble to the Act which recited the desire of the Provinces of Canada, Nova Scotia and New Brunswick "to be federally united into One Dominion". The vital core of a federal constitution is the division of legislative powers between the central authority and the component states or provinces. This division represents the compromise between the forces which make union possible and those which inhibit the formation of a closer union. It marks the limits of what can be done by common agreement and the extent to which the separate states must be permitted to differ and work out their own destinies. In sections 91 to 95 of the British North America Act, the main lines of this division were set forth.

In section 92, certain classes of subjects were enumerated and the provinces were given exclusive power to make laws in relation to matters coming within these classes of subjects. These classes included such things as the administration of justice, municipal institutions, the establishment and maintenance of prisons, hospitals, asylums and charitable institutions and control over the public lands of the province. The provinces were also given control over local works and undertakings. But an exception reserved international and interprovincial lines of transport and communication to the Dominion and authorized the Dominion to take legislative power over any local work at any time

[19] *Speech on the Proposed Union of the British North American Provinces,* delivered at Sherbrooke on Nov. 23, 1864, p. 22.

by declaring it to be for the general advantage of Canada or for the advantage of two or more provinces. A power of direct taxation to raise revenue for provincial purposes was given, although it was thought that expanding revenues from the public lands would make it generally unnecessary for the provinces to exercise this power.[20]

The classes of subjects in section 92 included two of vague and general reference, viz., "Property and Civil Rights in the Province" and "Generally all Matters of a merely local or private Nature in the Province". Section 93 gave the provinces control over education, subject to certain clauses designed to protect the rights of Roman Catholic and Protestant religious minorities. By section 95, the Dominion and the provinces were given concurrent powers over agriculture and immigration, federal legislation to prevail in case of conflict.

The opening paragraph of section 91 gave the Dominion power "to make Laws for the Peace, Order and good Government of Canada, in relation to all Matters not coming within the Classes of Subjects by this Act assigned exclusively to the Legislatures of the Provinces". That is to say, the residue of powers not expressly given to the provinces was reserved to the Dominion. The section then proceeded with a specific enumeration of twenty-nine classes of subjects, illustrating but not restricting the scope of the general words used earlier in the section.

This enumeration included such classes of subjects as defence, criminal law, naturalization and aliens, and the postal system. It also included regulation of trade and commerce, fisheries, banking, currency and coinage, commercial paper, weights and measures, bankruptcy and insolvency and certain other topics of primarily economic reference. It also gave the Dominion unlimited powers of taxation. The concluding paragraph of section 91 provided against these enumerated topics being "deemed to come within the Class of Matters of a local or private Nature comprised in the Enumeration of the Classes of Subjects" assigned to the provinces by section 92. An exception to section 92 gave the Dominion control over all interprovincial and international transportation and communications.

The Problem of Interpreting the Division of Legislative Powers

No amount of care in phrasing the division of powers in a federal scheme will prevent difficulty when the division comes to be applied to the variety and complexity of social relationships. The different aspects of life in a society are not insulated from one another in such a way as to make possible a mechanical application of the division of powers. There is nothing in human affairs which corresponds to the neat logical divisions found in the constitution. Therefore, attempts to exercise the powers allotted by the constitution frequently raise questions as to its meaning in relation to particular circumstances.

The British North America Act has not escaped this difficulty. Manifestly, it would be difficult for the Dominion to make any law for the "Peace, Order and good Government of Canada" without affecting, in some way, one or other of the specific subjects in relation to which the provinces were given exclusive powers. On the other hand, laws made by the provinces under the heads of jurisdiction given by section 92 would frequently have direct implications for the "Peace, Order and good Government of Canada" or would bear in some unexpected way upon the enumerated classes of subjects in section 91 over which the Dominion was given exclusive power. The implications and sometimes the express provisions of legislation would seem to cross the line which, in theory, divided the spheres of legislation assigned to the provinces and the Dominion. In a variety of circumstances, the problem of what amounted to an invasion of the field of one by the other would raise difficult questions of interpretation.

The task of interpretation was complicated by the existence, in sections 91 and 92, of several general descriptions of the ambit of legislative power given to the Dominion and the provinces which lacked a clear, legal meaning. "Peace, Order and good Government", "Regulation of Trade and Commerce", "Property and Civil Rights in the Province" do not convey precise signification. Since 1867, the Privy Council has had the last word on the meaning of the British North America Act and has laid down rules of construction for determining when section 91 was to have primacy over section 92. By a process of textual criticism, it has given some concreteness to the general phrases just mentioned. In this way, it has elucidated the legal meaning of the constitution and imparted greater certainty to the division of powers than could have existed when the Act first came into operation. This legal meaning is binding on all other courts and on the Dominion and provincial legislatures.

The British North America Act was a statute of the British Parliament and the Privy Council

[20] Speech by Galt, *Confederation Debates*, p. 68.

brought to its task of elucidation an elaborate set of rules binding on the courts in their interpretation of all statutes. These rules required the Privy Council to consider the literal meaning of the words used without any conjectures as to the intentions of those who framed the Quebec and London Resolutions. The Privy Council as a court was not free to consider historical evidence about intentions but was bound to restrict itself to a consideration of what may be called, by contrast, legal evidence—the intention actually expressed by the words used in the Act.[21] Much controversy, past and present, has centred on the question whether the intention which the Privy Council has found to be expressed in the Act accords with the actual intention of the Fathers; in short, whether we now have the constitution which they intended to give us.

Some are satisfied that the Privy Council has merely made explicit what the Fathers intended. Others dismiss the controversy on the ground that we cannot now know what they intended. Others, again, hold that the constitution today is vastly different from what its framers meant it to be and seek to support their contentions from certain historical evidence. The interpretation given by the Privy Council will be considered in later chapters. In an account of the forces behind Confederation and of the nature of the constitution established in 1867, it is important to note the historical arguments which form the basis of many current criticisms of the Privy Council.[22] For purposes of record, we summarize these arguments here but, as we shall indicate later, we do not accept them as conclusive upon certain points, some of them of considerable importance. The critics of the Privy Council do not appear to have fully substantiated their case but, at the same time, they do marshall an impressive mass of historical evidence in support of their general conclusions and their arguments cannot be dismissed as mere hypotheses. Confederation being relatively close to us in time, and the records of its achievement being relatively ample, it is argued we have no reason to assume that it is inherently impossible to determine now the intentions of the Fathers, although it may well be admitted that it is difficult to establish with conclusive finality the meaning of some of the phrases which they employed. The historical case presented by the critics of the Privy Council has not been accepted by all authorities but it merits the attention and consideration of serious students of the problem.

Historical Interpretation of the Intentions of the Fathers—arguments supporting a broad view of Dominion powers

Some historians urge that the Fathers intended to give wide, sweeping powers to the Dominion and to restrict the provinces to a narrow range of functions, in the exercise of which they were to be subject to the control and supervision of the Dominion.[24] They claim that the general phrases in section 91, "Peace, Order and good Government" and "Regulation of Trade and Commerce", to which the Privy Council has given a restricted meaning were intended to have a broad interpretation and that the general phrase, "Property and Civil Rights in the Province", in section 92, to which the Privy Council has given an extended meaning, was intended by the framers to have a much more limited interpretation.

Some of the leading figures among the framers of the federal scheme evidently intended the general government, as it was called, to have broad and far-reaching powers. John A. Macdonald explained that "all the great questions which affect the general interests of the Confederacy as a whole, are confided to the Federal Parliament".[25] Galt declared that among the subjects given to the general government would be found "all that could in any way be considered of a public and general character".[26] Lord Carnarvon, the Colonial Secretary, introducing the scheme to the House of Lords said it proposed to give to the central authority "those high functions and almost sovereign powers by which general principles and uniformity of legislation may be secured in those questions that are of common import to all the provinces".[27]

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[21] In interpreting the British North America Act, "the question is not what may be supposed to have been intended but what has been said." Lord Sankey in ***Edwards* v. *Attorney General of Canada***, [1930] A.C. 124 at p. 137.

[22] *E.g.*, C. H. Cahan, ***The British North America Act***, 1867, an address delivered before the Canadian Club of Toronto, September 15, 1937; *cf.* ***Report pursuant to Resolution of the Senate to the Honourable the Speaker, by the Parliamentary Counsel relating to the Enactment of the British North America Act***, Ottawa, 1939.

[24] For historical interpretations in general supporting this view, see Appendix 2—D. G. Creighton, ***British North America at Confederation;*** R. G. Trotter, ***Canadian Federation*** (Toronto, 1934); "The Coming of Confederation," ***Cambridge History of the British Empire***, Vol. VI, pp. 438-62; Chester Martin, "British Policy in Canadian Federation," ***Canadian Historical Review***, Vol. XIII, pp. 3-19; W. M. Whitelaw, ***The Maritimes and Canada before Confederation***, (Toronto, 1934); W. P. M. Kennedy, ***Essays in Constitutional Law***, p. 85*ff;* V. C. MacDonald, "Judicial Interpretation of the Canadian Constitution", ***University of Toronto Law Journal***, Vol. I, No. 2, p. 260*ff*. For careful description of the Quebec Conference see W. M. Whitelaw, "Reconstructing the Quebec Conference", ***Canadian Historical Review***, Vol. XIX, pp. 123-37.

[25] ***Confederation Debates***, p. 40. See also pp. 30, 33, 41.

[26] ***Speech on the Proposed Union***, p. 10.

[27] Quoted by V. C. MacDonald, "Judicial Interpretations of the Canadian Constitution" (1936), ***University of Toronto Law Journal***, p. 263.

Some of the opponents of the scheme criticized it on much the same grounds. A. A. Dorion claimed that it "gives all the powers to the Central Government, and reserves for the local governments the smallest possible amount of freedom of action,"[28] and J. B. E. Dorion opposed the scheme "because we are offered local parliaments which will be simply nonentities, with a mere semblance of power on questions of minor importance".[29]

Supporters of this historical interpretation urge that this view of the relative importance of the Dominion and provincial governments in the new scheme is borne out by various sections of the constitution. They point to the power of the Dominion to appoint the Lieutenant-Governors of the provinces and emphasize the fact that while the provinces were given power to amend the provincial constitutions, they were forbidden to alter in any way the office of Lieutenant-Governor. They contend that the intention to give the Dominion a dominating position is confirmed by the power to reserve and disallow provincial legislation which was given to the Dominion.

In support of this general position, they place great importance on the opening paragraph of section 91 which gave the Dominion power to make laws for the "Peace, Order and good Government of Canada" in relation to all matters not exclusively assigned to the provincial legislatures. This phrase had acquired a wide, though not very precise, significance in the legislative history of the British Empire before 1867.[30] "Peace, order and good government", and the variation, "peace, welfare and good government" were the phrases habitually used by the British colonial authorities in vesting colonial legislatures with the full range of their legislative powers.

In conferring these powers on colonial legislatures, it was not customary to enumerate specific powers; it was customary merely to grant, in one or other of these well-worn phrases, the entire measure of jurisdiction deemed compatible with imperial control. As imperial control in the internal affairs of the colonies was mainly exercised through the power of disallowance, these phrases carried complete internal legislative competence. In fact, they are the title-deeds of the legislatures of the self-governing Dominions, not again added to by imperial legislation until the Statute of Westminster. The exponents of this historical interpretation, emphasizing the breadth of Dominion powers, infer from the insertion of this phrase in section 91, that the framers must have intended its full historic meaning to prevail, saving only the powers expressly given to the provinces in section 92.*

It is similarly urged that the Fathers meant an extended signification to be given to the phrase "Regulation of Trade and Commerce", in section 91. At the time of Confederation, Canada was just beginning to emerge from the commercial into the industrial age. The distinguishing feature of the commercial age was its pre-occupation with exchange, the trading of raw or crudely processed products on a world-wide scale. This required an extended organization, interprovincial and international in its scope. It was a delicate system, for its life-lines were everywhere exposed. Prosperity depended on its maintenance and its maintenance and development, in turn, depended on the sympathetic consideration, if not the positive assistance, of governments. Nothing showed this more clearly than the British imperial trading organization of the 18th and early 19th centuries. British North American statesmen had lived with this system and had seen what control over extended trading relationships by a single government could achieve. Trade and commerce, because of their nature and scope, were inevitably public matters of great import and it is argued that the phrase "the regulation of trade and commerce" had a very wide significance both historically and in the current usage of the Confederation period.*

In addition, it is contended, they must have been acutely aware of the confusion which arises when control over such matters is parcelled out among several governments. During the fifty years in which the Provinces of Upper and Lower Canada maintained their separate existence, the control of the St. Lawrence and its commerce had been divided between two distinct and independent governments. This division led to conflicts between Upper and Lower Canada and to bitter struggles between the commercial and agrarian parties in each.[31] Upper Canada had disagreed with Lower Canada and the commercial interests in Montreal had quarrelled with the leaders of the Patriot party over many economic matters of common concern to the whole St. Lawrence Valley.

The impossibility of arriving quickly at a vigorous common policy in these matters had hampered Canada in its bid for the trade of the mid-continent.

[28] *Confederation Debates*, p. 250.
[29] *Ibid.*, p. 859.
[30] C. H. Cahan, *op. cit.*

* Appendix 2—D. G. Creighton, *British North America at Confederation*, pp. 53-4.
[31] These conflicts are examined in detail in D. G. Creighton, *The Commercial Empire of the St. Lawrence. 1760-1850.*

The frustrations engendered by divided authority formed part of the living memory of public men at the time of Confederation and this appeal to history for a broad interpretation of Dominion powers argues that the Fathers, who wanted to create a robust national economy, must have intended the control of such matters to be placed in the hands of a single government.

In support of this thesis, they draw attention to the reluctance among the commercial element in Montreal to give up the Union of 1841 which had established a common government to deal with these economic matters. The confederation plan asked them to abandon this union and one of the tasks of the advocates of a wider union was to convince them that the establishment again of two provinces in the St. Lawrence Valley would not mean a return to the old confusions. John Rose assured them that they had nothing to fear because the general legislature would have control over the post office, trade, commerce, navigation:—"all the great and important interests . . . that affect the minority in Lower Canada . . .".[32] Galt reiterated that "the interests of trade and commerce . . . would be taken out of the category of local questions . . .".[33] Cartièr, stating that he could understand the concern of the commercial minority of Lower Canada lest there should be a return of the old difficulties, said these fears were groundless because "it would be for the General Government to deal with our commercial matters".[34] On the basis of these statements, supporters of this historical interpretation argue that the words "Regulation of Trade and Commerce", were intended to transfer a wide range of economic matters to the control of the central authority.[35]

A historical interpretation which would magnify the scope of Dominion powers by attaching a limited special meaning to the phrase, "Property and Civil Rights in the Province" has also been urged. This phrase has had a long history in British North America, rising out of the relationships of French and English in the valley of the St. Lawrence. British statesmanship sought a solution of this racial problem which would preserve to French Canada the institutions which were vital to its way of life. The Quebec Act of 1774 secured "His Majesty's Canadian subjects within the Province of Quebec" in the enjoyment of their property and civil rights and provided that "in all matters of controversy relative to property and civil rights, resort shall be had to the laws of Canada as the rule for the decision of the same".

In the constitutional and legislative enactments of both Upper and Lower Canada, there were a number of references to the law "relating to property and civil rights". In these references, the phrase was used to signify either the common law of England or the French customary law. That is to say, it denoted the set of laws and customs which were at once the expression and support of the distinctive ways of life of the French-speaking and English-speaking Canadians. The phrase found its way into sections 92 and 94 of the British North America Act.

Supporters of a broad view of federal power argue that the sole purpose of introducing the phrase "Property and Civil Rights in the Province" into section 92 was to protect the unique institutions and ways of life of the Province of Quebec. They lay strong emphasis on section 94 which contemplates certain conditions under which the federal authority may secure unrestricted power to make uniform laws "relative to Property and Civil Rights in Ontario, Nova Scotia and New Brunswick". To them, this section suggests that the phrase had reference only to matters on which these three provinces were in fundamental agreement and that regional differences of interest were not involved. Ontario, Nova Scotia and New Brunswick, with their acceptance of the English common law, were in agreement on precisely those matters in which each differed so completely from Quebec. Thus it is argued that the inclusion of this phrase in section 92 was not designed to express genuinely local as against national interests nor to fix the spheres of the different levels of government but rather to protect regional interests only in so far as they were specifically cultural in character.

This historical interpretation, therefore, maintains that the phrase, "Property and Civil Rights in the Province", as used in section 92, was intended to cover only what was necessary for this limited but important purpose of safeguarding the cultural autonomy of Quebec. It appeals to statements of British officials prior to the passing of the Quebec Act of 1774 and to the instructions of the British Government to the Governors of Quebec after 1774 as showing what were long understood to be the essential laws for safeguarding the fundamental institutions and ways of life of Quebec. These instructions to the Governors repeatedly

[32] *Confederation Debates*, p. 409.
[33] *Speech on the Proposed Union*, p. 20.
[34] *Confederation Debates*, p. 61.
[35] See Appendix 2—D. G. Creighton, ***British North America at Confederation***, pp. 50-52.

commanded that the Canadians were to enjoy the "benefit and use of their own Laws, Usages and Customs in all Controversies respecting Titles of Land, and the Tenure, Descent . . . of Real Estates, and the distribution of the personal property of Persons dying intestate . . .".[36] Accordingly, the phrase in question would include matters of civil law concerning the relations of citizen and citizen, such as ownership, transfer and various dealings in property, inheritance and succession by will, rights arising from personal status, such as minority and capacity to make contracts, and from the intimate domestic relations of the family. It would include a variety of other matters of private law but it would not include a number of matters inextricably bound up with the public law such as nation-wide regulation of industry and trade. Still less could it include social insurance which had formed no part of either French or English law and the idea of which was unknown to those who framed the British North America Act. In this way, it is sought to infer from historical evidence an intention to give the phrase "Property and Civil Rights in the Province" a much more restricted meaning than that given to it by the Privy Council.

Historical Interpretation of the Intentions of the Fathers—arguments supporting a broad view of provincial powers

These historical arguments as to the intentions of the Fathers of Confederation and the meaning assigned by them to general phrases such as "Peace, Order and good Government", "Regulation of Trade and Commerce" and "Property and Civil Rights in the Province" have not gone without challenge on historical grounds.[37] For example, it is urged that the expression "property and civil rights" has always had a very wide meaning in our constitutional history.

By Royal Edict in 1663, Louis XIV of France created a Sovereign Council at Quebec giving it the power "de connaître de toutes causes civiles et criminelles, pour juger souverainement et en dernier ressort selon les lois et ordonnances de notre royaume",[38] thus, it is claimed, establishing in Quebec the entire French law which ruled New France at the time of the conquest.

[36] W. P. M. Kennedy, *Statutes, Treaties and Documents*, p. 156.

[37] P. B. Mignault (formerly Mr. Justice Mignault of the Supreme Court of Canada), "Nos Problèmes Constitutionnels" (1928), 16 *Revue du Droit*, p. 577; V. Evan Gray, "The O'Connor Report on the British North America Act" (1939), 17 *Canadian Bar Review*, 309.

[38] "to deal with all civil and criminal cases, to judge finally and in the last resort according to the laws and ordinances of our kingdom".

The Royal Proclamation of George III of England in October, 1763, which proposed to introduce the English common law into the conquered territory in North America was naturally resented as a grave injustice by the people of Quebec. The Quebec Act of 1774 which was passed to meet this grievance, repealed the proclamation of October, 1763. Section 8 of the Act declared that "His Majesty's Canadian Subjects, within the province of Quebec . . . may also hold and enjoy their Property and Possessions, together with all Customs and Usages relative thereto, and all other their Civil Rights, in as large, ample, and beneficial Manner, as if the said Proclamation . . . had not been made" and then continued to provide, as quoted above, that the laws of Canada should provide the rule of decision in controversies "relative to Property and Civil Rights". This section of the Quebec Act has never been repealed.

The French law in its entirety was in force in New France at the time of the conquest and the people of Quebec desired to retain it. This was the ground of their objection to the Proclamation of 1763 and the Quebec Act was passed to meet this grievance. On the basis of these facts, it is argued that the Quebec Act was intended to meet the grievance fully and that the expression, "Property and Civil Rights", as used in the Act, was intended to comprise the entire French civil law and not merely certain selected portions of it. The only thing which is important for understanding the scope of the Act is the purpose for which it was passed. The statements of British officials and the instructions of the British Government to colonial governors merely reveal their opinions. They do not give clues to the meaning of phrases used in the Quebec Act.

This argument attributes a very wide meaning to the expression "Property and Civil Rights" as used in the Quebec Act, and holds that when used in later statutes, the expression bears the same extended meaning unless an express limitation is introduced. No express limitation on the meaning of the phrase occurs in the British North America Act and therefore it is concluded that the broad meaning given to it by the Privy Council is in accordance with its original historical meaning.[41]

[41] For this argument, see P. B. Mignault, *op. cit.*

The Limitations of the Historical Arguments

All the historical interpretations go far afield for their arguments. There is no final certainty as to what the framers meant by the use of these phrases. The records of the time have not preserved all their opinions on all points. Clear statements of the views of some on particular points have come down to us; of the views of others, nothing is known.[42]

All that is certainly known is that the framers had large plans for the new Dominion and they proposed a strong central government with ample financial powers to carry the program through. The financial settlement which gave the Dominion the unrestricted taxing power, and the exclusive use of the most important revenue sources of the time (nearly four-fifths of the former provincial revenues were given to the new Dominion Government) is the most significant evidence of the leading role cast for the new Federal Government and of the responsibilities which it was expected to assume. In the provisions for reservation and disallowance of provincial legislation, the Fathers gave the Dominion legal power to supervise and control the legislatures of the provinces. At the same time, it was agreed that the state should be federal with exclusive spheres of power reserved to both the provinces and the Dominion. But the exact meanings intended to be given to the general words used in outlining these exclusive spheres of legislative power remain a matter for speculation.

There is no doubt that some of the framers had wanted a legislative union. Those who expected to be members of the new Federal Government naturally wanted a large stage on which to exhibit their capacity as statesmen.[43] But whatever their intentions, they could not overcome the limitations imposed by physical conditions. They could not ignore the social forces rooted in the history of the colonies any more than they could presume to bind the future indefinitely to the past.

There is a further limitation inherent in all historical interpretation of political constitutions which are to govern the distant future. The framers of the constitution could not foresee the revolutionary economic and social changes that have since taken place and therefore could have no intention at all concerning them. Whatever powers Confederation was intended to confer on the Dominion, these intentions cannot provide answers for many of the questions which agitate us now for the simple reason that the conditions out of which present difficulties arise were not even remotely considered as possibilities. The intentions of the founders cannot, except by chance, provide solutions for problems of which they never dreamed.

4. Public Finance at Confederation

The Sphere of Government in 1867

The character of a public finance system depends on what governments are expected to do. What governments are expected to do depends on the prevalent political opinion and stage of development of the economy of the time. The statesmen of Confederation did not anticipate any radical change in the functions of government, but the adoption of a federal union required an allocation of responsibilities and sources of revenue between the Dominion and the provinces. In making a financial settlement and in fixing the future financial relationships of the provinces with the new Federal Government, they assumed that the sphere of governmental action would remain essentially what it had been in the past. Therefore, they were primarily concerned to transfer to the Federal Government the responsibilities and the financial resources which would enable it to carry out the political and economic objectives of the union.

Since 1867, there have been sweeping economic and social changes and no less important changes in opinion as to the appropriate functions of government, none of which could have been anticipated at the time. It is necessary to recall the social conditions of the day and the limited scope of government activities in order to appreciate the financial arrangements with which the federation was equipped and to realize that the division of responsibilities and revenue sources which was made at Confederation contemplated a much smaller sphere of government activities than exists today. The manner of life in British North America has already been briefly outlined. It will suffice to recall here the scattered rural character of the population, the decentralization of industry in small towns and villages, the self-sufficiency of families and communities, the impressive solidarity of the family, and the open frontier

[42] The agreement reached by delegates to the Quebec Conference is acknowledged to have been a compromise and it is unlikely that the delegates, in the subsequent discussions, always distinguished clearly between the compromise and their own conception of what Confederation should have been. For a clear statement of the difficulties attending historical interpretation, see V. Evan Gray, "The O'Connor Report on the British North America Act", (1939), 17 *Canadian Bar Review*, 309 at pp. 315-8.

[43] John A. Macdonald probably had the possibility of a great future in mind when he said, "We are all mere petty provincial politicians at present; perhaps by and by some of us will rise to the level of national statesmen." Quoted by A. R. M. Lower in "Sir John A. Macdonald", (1939), 19 *Dalhousie Review*, p. 86.

of the continent which afforded individuals a variety of means of adjustment to economic crises. While economic conditions did not offer great material prosperity to the many, they provided a modest security for the frugal and industrious and an almost frictionless adjustment to business fluctuations without any intervention by governments.

The role which governments were called upon to play was one peculiar to the conditions of the time. An individualistic outlook, which relies on the family as the unit of mutual welfare, is nourished in a pioneer society and people readily agree that governmental action should be confined to the narrowest possible limits.[45] Accordingly, the principal functions of the state followed the prescription of Adam Smith. Government was thought to have met its purpose when it provided for adequate defence, the enforcement of the general law through the equal administration of justice and the maintenance of a few essential public works. Within this framework of order provided by public authority, individuals were expected to work out their own destiny unrestrained and unassisted by governments. There was a general conviction, widely confirmed by contemporary example, that Providence helps those who help themselves.

British North American governments did not concern themselves with regulation of the daily pursuits of the people. Nor did they assume any significant responsibility for social welfare. They took seriously their responsibilities for maintaining defence and internal order but they carried them out with frugal care. Thus far their interpretation of the doctrine of laissez faire was in harmony with current British precept and example.

But the application of the doctrine was modified by certain conditions peculiar to the colonies. The United States and all European countries at the time had incurred huge burdens for defence. European governments were spending as much as half of their current revenues on military purposes, and the United States had just emerged from a costly civil war. The colonies, relying on Great Britain, escaped most of the costs of military and naval defence. Had they been able to stop at this point, their burden of public expenditures would have been extremely low. However, release from expenditures on defence gave them resources for other tasks and all the colonies took on heavy commitments in aiding economic development.

Pioneer communities in North America were always hampered in realizing their dreams of progress by the tremendous difficulties of transport and communications. The scarcity of capital and the scattered nature of settlement added to the difficulties. As a result, the task of securing the provision of community equipment such as canals, harbours, roads, bridges and railways was saddled on government. Of all the agencies of the community, it had the broadest command of means. Until this equipment was provided, development was slow and individuals could not reap the rich promise of a new country. The colonial interpretation of laissez faire did not forbid strenuous government activity for developmental purposes.[46] The state was required, by general consensus, to help people to help themselves.

The Burden of Debts incurred for Development—the necessity for centralization of finance

The urgent demand for transportation facilities had played havoc with the otherwise careful public finances of the colonies. In particular, the Province of Canada had gambled heavily in developing the St. Lawrence route as a means of tapping the trade of the Middle West. The coming of the railways, with their fabulous promise, intensified this concentration of public finance on development. Canada put in another expensive bid for commercial greatness by extensive railway loans. The Maritimes were stirred to link themselves to the continent behind them and the governments undertook ambitious railway programs as public works. By the eve of Confederation, transportation had overshadowed everything else in the budgets of the colonies and had seriously strained the public finance systems of Canada, New Brunswick and Nova Scotia.

[45] In the sixties of the last century, the philosophy of laissez faire was at the height of its influence upon public policy throughout the world.

[46] Appendix 2—D. G. Creighton, *British North America at Confederation*, pp. 67-70.

TABLE 2.—DEBTS OF THE B.N.A. PROVINCES ON THE EVE OF CONFEDERATION[a]

(Millions of Dollars)

—	Canada June 30, 1867	New Brunswick June 30, 1867	Nova Scotia June 30, 1867.	Prince Edward Island June 30, 1873	British Columbia Dec. 31, 1869	Total
Gross Debt	79·8	7·9	9·3	4·1	1·5	102·6
Less Cash, Marketable Investments, Sinking Funds, etc.	5·4	0·1	0·3	0·2	0·4	6·4
Net Debt	74·4	7·8	9·0	3·9	1·1[c]	96·2
Net Debt accounted for as follows:						
Railways—Direct Investments and Loans	33·3[d]	4·5	6·3	1·2	—	45·3
Commitments *re* construction of Railways	—	1·9	1·0	2·0	—	4·9
Canals	18·7	—	—	—	—	18·7
Sub-total	52·0	6·4	7·3	3·2	—	68·9
Loans and Investments on which partial or no Interest was paid	14·7	0·2	—	—	—	14·9
Other Public Works	9·8	[b]	[b]	[b]	—	9·8
Other Commitments	13·0	—	—	—	—	13·0
Deficit or Surplus (+)	15·1+	1·2	1·7	0·7	—	11·5+
Sub-total	22·4	1·4	1·7	0·7	1·1[c]	27·3
Total Net Debt	74·4	7·8	9·0	3·9	1·1[c]	96·2

[a] Compiled from the Public Accounts of the B.N.A. Provinces.
[b] In the Maritime Provinces, roads, bridges, lighthouses, harbour improvements and other public works were charged to current account.
[c] Approximate.
[d] Including unpaid interest of $13·1 million.

Fully three-fourths of the total debt of the British North American Provinces had been incurred for transportation.[47] Most of it had been piled up rapidly after 1850 and while it was represented by much new and valuable community equipment, it was not directly productive from the point of view of public finance. The Canadian canals had failed dismally as an attempt to tap the Middle West and most of the Canadian railways were in financial trouble soon after they were completed. The Government of Canada had assisted them with large loans which quickly fell into default.[48] In the Maritimes, practically the entire provincial debts had been incurred on publicly-owned railways, the interest charges on which had to be met by the governments out of general taxation. In 1866, the service of the provincial debt absorbed 21 per cent of the current revenues of Nova Scotia, 28 per cent of those of New Brunswick and 30 per cent of those of Canada.

These dead-weight debts, which had accumulated so rapidly, seriously endangered the credit of the provinces in the London money market. They resulted in repeated budget deficits and it became increasingly difficult to secure loans at rates the provinces could hope to bear. Deficits had driven home the necessity for the union of Vancouver Island with the mainland and the infant Province of British Columbia was struggling with a public debt which amounted to over $100 per white inhabitant.[49] The situation was only less severe in the other provinces. They were being obliged to fall back on temporary loans from local banks and from English banking houses.[50] All the

[47] Of the Province of Canada's net debt of $74 million, over $18 million had gone into the canal system and $33 million into loans to railways. In addition, the Province had shouldered municipal obligations (which, with arrears of interest, amounted to $14 million) arising mainly out of rash municipal support of railway development. The Maritime Provinces had a direct investment in publicly owned railways of $11 million. With the exception of a small amount in Nova Scotia, the capital commitments of the Maritime Governments consisted exclusively of obligations contracted for roads and railways.

[48] $13 million out of the total loans to railways of $33 million consisted of unpaid interest.

[49] Howay, *British Columbia, The Making of a Province*, p. 163.

[50] In 1866, Canada was paying 8 per cent interest on one of these temporary advances.

provincial governments had overplayed their roles of promoting development.[51] They were seriously embarrassed in carrying their existing obligations and their separate public finance systems could not hope to undertake new burdens. Yet there was a powerful demand for new and greater developmental projects. These could not be achieved without the centralization of finance.

Public Expenditures before Confederation—the importance of development

The restricted role of governments and the nature of public functions in the society of British North America are most clearly demonstrated by the magnitude and distribution of the government expenditures. The figures are relatively insignificant when compared with those of today. In 1866 less than one-twentieth of the income of the population flowed through government channels and the total public expenditures amounted to less than $6 per capita.[52] The major factor in this striking contrast with the present time was the relative unimportance of the cost of education and public welfare; less than 14 per cent of the total expenditures were devoted to these services in 1866. The elemental responsibilities of government (i.e., the administration of justice, legislation and general administration), were conducted with frugality. The cost of defence which had been assumed by the Imperial authorities left no heavy burden on the colonies. All the traditional functions of government absorbed less than 40 per cent of the total outlay. The remainder of the expenditures (including debt charges), which comprised nearly one-half of the total were devoted to development. This purpose dominated the public finance of the provinces.

TABLE 3.—EXPENDITURES ON CURRENT ACCOUNT—FISCAL YEARS ENDED 1866[a]

(Thousands of Dollars)

—	Province of Canada		Nova Scotia		New Brunswick		Total
	Provincial	Municipal [b]	Provincial	Municipal [c]	Provincial	Municipal [c]	
Development:							
Net Debt Charges [d]	3,214	1,400	306	40	349	50	5,359
Transportation, including roads and bridges	952	950[e]	490	20[e]	213	25[e]	2,650
Public Domain and Agriculture	256	—	85	—	16	—	357
Sub-total	4,422	2,350	881	60	578	75	8,366
Traditional Functions:							
Justice, legislation and general government	3,235	1,850	351	65	217	60	5,778
National Defence	1,641	—	145	—	151	—	1,937
Sub-total	4,876	1,850	496	65	368	60	7,715
Welfare and Education:							
Public Welfare	340	300	101	10	44	10	805
Education	583	900	156	35	116	30	1,820
Sub-total	923	1,200	257	45	160	40	2,625
Miscellaneous	350	—	36	—	58	—	444
Total	10,571	5,400	1,670	170	1,164	175	19,150

[a] Compiled from the Public Accounts of the B.N.A. Provinces.
[b] Estimates based on Municipal Returns for Upper and Lower Canada, *Sessional Papers* (1867-8) No. 7.
[c] Estimated.
[d] Gross interest charges less interest received.
[e] Excluding value of statute labour.

[51] This was not true of Prince Edward Island in 1866, but by 1873, that Province had also incurred paralyzing debts in aid of railway construction.

[52] In 1937, total government expenditures in Canada amounted to $90 per capita and were equal to one-fourth of the national income.

There were no marked differences in the total government expenditures of the three provinces. The current expenditures of the provincial governments in the Maritime Provinces on roads, education and public welfare were significantly higher than those of Canada. This was mainly due to the fact, that in the Maritimes, municipal institutions did not exist outside the principal cities and public expenditures on roads and bridges, education and public welfare became items in the current expenditures of the provincial governments. On the other hand, the existence of more fully developed municipal institutions in Canada, particularly in Upper Canada, upon which a great part of the burden of maintaining roads and supporting education and public welfare had been placed, resulted in a corresponding reduction of provincial expenditures on these items.

The Maritime Provinces relied almost entirely on a simple customs tariff of a revenue nature and made practically no attempt to levy excise at all.[53] As Table 4 indicates, each of them derived 80 per cent or more of its revenues from this source in 1866. The taxation system in Canada was somewhat more advanced. In 1866, customs duties provided 66 per cent of the provincial revenue while 17 per cent was derived from excise. With a more diversified economy, Canada did not import so wide a range of articles of general consumption. Local production had developed in many lines and there were considerable elements of protection in a tariff which ranged around 20 per cent on articles of general consumption.

In both Canada and the Maritimes, the customs rates were considerably higher on luxury items.

TABLE 4.—REVENUE—CURRENT ACCOUNT—FISCAL YEARS ENDED 1866[a]

(Thousands of Dollars)

—	Province of Canada		Nova Scotia		New Brunswick		Total
	Provincial	Municipal [b]	Provincial	Municipal [c]	Provincial	Municipal [c]	
Taxes:							
Customs	7,328	—	1,226	—	1,037	—	9,591
Excise	1,889	—	6	—	—	—	1,895
Realty	—	3,800	—	120	—	125	4,045
Other	107	700	—	10	—	10	827
Sub-total	9,324	4,500	1,232	130	1,037	135	16,358
Licences, Permits, Fees, etc.	281	500	7	30	9	30	857
Public Domain	903	—	129	—	108	—	1,140
Sales of Commodities and Services	509	—	84	—	93	—	686
All Other	35	400	18	10	7	10	480
Total	11,052	5,400	1,470	170	1,254	175	19,521

[a] Compiled from the Public Accounts of the B.N.A. Provinces.
[b] Estimates based on Municipal Returns for Upper and Lower Canada, *Sessional Papers* (1867-8) No. 7.
[c] Estimated.

The Principal Sources of Public Revenue—the dependence upon customs duties

The revenue systems of the three provinces were markedly similar and chiefly notable for their simplicity. The provinces relied almost entirely on indirect taxation with scarcely any effort to impose direct taxation. They did not have any elaborate tax machinery for the nature of the economy and its modes of distributing income made it useless to attempt a more complex system of taxation. Hence their principal revenues were derived from customs duties and excise which lent themselves easily to assessment, collection and enforcement.

However, the simple, frugal society of the time did not consume any great quantity of the heavily taxed luxuries and the gradations of the tariff rates did not provide any significant measure of progressive taxation. The duties on articles of general consumption produced the great bulk of the revenues of the provincial governments. Table 5 shows the per capita burden of the principal taxes in the three provinces and reveals the complete dependence on these indirect taxes.

[53] The import duties on commodities of general consumption ranged around 10 per cent in Nova Scotia and 15 per cent in New Brunswick.

TABLE 5.—PER CAPITA CURRENT REVENUES, FISCAL YEARS ENDED 1866

(Dollars)

—	Province of Canada		Nova Scotia		New Brunswick	
	Provincial	Municipal	Provincial	Municipal	Provincial	Municipal
Customs	2·77	—	3·37	—	3·83	—
Excise	0·71	—	0·02	—	—	—
Realty	—	1·44	—	0·33	—	0·46
Licences, Permits, Fees, etc.	0·11	0·19	0·02	0·08	0·03	0·11
Public Domain	0·34	—	0·35	—	0·40	—
All Other	0·25	0·41	0·28	0·06	0·37	0·07
Total	4·17	2·04	4·04	0·47	4·63	0·64
Combined Provinces and Municipalities	6·21		4·51		5·27	

Except for two or three leading cities, municipal organization was virtually non-existent in the Maritimes. Thus the income from import duties carried the burden of practically all local expenditures as well. In Canada East, municipal development was well under way but it was still considerably behind that of Canada West. In the Province of Canada the revenues of the fully organized municipal system were nearly equal to half the total revenues of the provincial government. Municipal institutions had enabled the provincial government to transfer very substantial responsibilities from its own shoulders without materially cutting down its own sources of revenue. Thus Canada could face the difficult and rather unpredictable adjustments of a major change with more equanimity than could the Maritimes.

This was the public finance structure which the architects of Confederation had to remodel to suit their new purposes. It included large debts incurred almost entirely for public works such as canals, harbours and railways as well as heavy current expenditures for developmental purposes. The traditional functions of government absorbed a substantial part of the revenues but only very modest sums were allotted to education and public welfare. Apart from the direct taxes levied by the municipalities of Canada, these various burdens were almost entirely supported by indirect taxation consisting of customs duties and excise. These debts and functions of government and these sources of revenue were now to be allotted between the provinces and the new Dominion.

The Division of Responsibilities and Revenues under the British North America Act

The new financial settlement was in part determined by the legacy of debts and the character of the economy. It was guided by the prevailing philosophy of the functions of government and the fiscal experience of the past. But within these conditions, the actual shape of the revised system of public finance was dictated by the purposes which the new political structure was designed to serve. In the future, the Federal Government was to provide for defence and have jurisdiction over interprovincial communications. It was required to build the Intercolonial railway; expected to deepen and improve the canal system of the St. Lawrence; pledged to open up communication with the West; in short, it was to take the major responsibility for national security and national development. The transfer of these costly functions would greatly reduce the burdens on the provincial governments.

Because the Dominion was to assume the responsibility for development, the massive community equipment and assets of the provinces, which could be adapted to its purpose, were to come under Dominion control and it was to assume the debts which the provinces had incurred in acquiring them. Harbours, lighthouses, steamboats, canals and railways were to be brought within its jurisdiction and where owned by the provinces, to become the common property of the Dominion. With minor exceptions, the public debts of the provinces were completely assumed by the Dominion. This is indicated in detail in Table 5A on the following page.

TABLE 5A.—PROVINCIAL ASSETS AND LIABILITIES ASSUMED BY DOMINION AT CONFEDERATION

(Thousands of Dollars)

—	Province of Canada	New Brunswick	Nova Scotia	Total Assets and Liabilities assumed by Dominion July 1, 1867	British Columbia July 20, 1871	Prince Edward Island July 1, 1873	Total Assets and Liabilities assumed by Dominion
Debt assumed by Dominion:							
Direct Debt	59,621	5,146	6,062	70,829	1,168	1,688	73,685
Guaranteed Debt	150	—	—	150	—	—	150
Savings Bank Deposits	—	777	645	1,422	—	250	1,672
Treasury Notes in Circulation	3,114	—	606	3,720	—	(e)	3,720
Temporary Loans	3,097	108	342	3,547	310	—	3,857
Capital Liabilities	8,212	1,869(b)	975(d)	11,056	—	2,021(f)	13,077
Current Liabilities	21	—	404	425	10	140	575
Trust Funds	1,945	—	—	1,945	—	—	1,945
Gross Debt assumed by Dominion	76,160	7,900	9,034	93,094	1,488	4,099	98,681
Assets taken by Dominion as Offsets to Debt:							
Cash	1,461	20	303	1,784	42	—	1,826
Sinking Funds	1,889	—	—	1,889	442	—	2,331
Assets *re* Guaranteed Debt	37	—	—	37	—	—	37
Investments	390	87	—	477	—	—	477
Current Assets	321	—	—	321	4	—	325
Total Assets taken by Dominion as Offsets to Debt	4,098	107	303	4,508	488	—	4,996
Net Debt Assumed by the Dominion	72,062(a)	7,793	8,731	88,586	1,000	4,099	93,685
Debt Allowance as per B.N.A. Act	62,500	7,000	8,000	77,500	1,666	4,701	83,867
Assets transferred to Dominion:							
Investments	607	—	—	607	—	—	607
Loans, Advances, etc., excluding railways, on which partial or no interest was paid	1,150	240	—	1,390	—	—	1,390
Public Works and Loans to Railways:							
Railways—Direct Investments and Loans	33,256(g)	4,514	6,123	43,893	—	1,213	45,106
Canals and Harbour Improvements	21,296	(c)	(c)	21,296	(c)	(c)	21,296
Roads and Bridges	1,703	(c)	(c)	1,703	(c)	(c)	1,703
Public Buildings and Miscellaneous Works	4,607	(c)	(c)	4,607	(c)	(c)	4,607
Total Public Works and Loans to Railways	60,862	4,514	6,123	71,499	—	1,213	72,712
Current Assets	144	—	—	144	—	—	144
Total Assets transferred to Dominion	62,763	4,754	6,123	73,640	—	1,213	74,853

(a) Subsequent adjustments, due largely to capitalization of annuities, increased the net debt of the Province of Canada to $73,006,088.84 at June 30, 1872.

(b) Commitments for subsidies to railways in the course of construction. At June 30, 1868, $465,764.57 had been paid on this account.

(c) Light Houses, Harbour Improvements, Roads and Bridges and other public works were transferred to the Dominion but as they were charged originally to current revenue, they do not appear in the statement of assets.

(d) Except for $21,437.47 for provincial pensions capitalized, this comprises commitments for subsidies to the Windsor and Annapolis Railway.

(e) Treasury Notes in circulation on June 30, 1873, amounting to $37,311.10, were called for cancellation by the Province.

(f) Balance due on commitments for construction of the Prince Edward Island Railway.

(g) Loans and unpaid interest, Grand Trunk Railway, Great Western Railway and the Northern Railway. Unpaid interest amounted to $13,060,000.

Debt allowances, in round sums but calculated roughly on an equal per capita basis, were allotted to all provinces; it was provided that provinces whose actual debt fell below the allowance should receive interest at 5 per cent per annum from the Dominion on the difference, and the provinces whose debts exceeded the debt allowance should pay interest on the excess at the same rate.

The magnitude of the burdens, actual and prospective, which were being transferred to the Dominion, called for commensurate fiscal resources and powers. Therefore, it is not surprising that many of the Fathers spoke as if all the significant powers of taxation were to be given to the Dominion. At Sherbrooke, Galt declared, as if speaking of an undivided power, that "the power of taxation had been confided to the General Legislature".[55] Both the Quebec and London Resolutions stated that subsidies were to be paid to the provincial governments "in consideration of the transfer to the General Parliament of the powers of taxation".[56] Although it was expected at the

[55] *Speech on the Proposed Union,* p. 11.

[56] Quebec Resolutions No. 64; London Resolutions No. 62.

time that the Federal Government would rely upon the accepted and well-tried devices of indirect taxation, such as customs and excise, for raising the necessary revenues, the possibility that unforeseen circumstances might compel it to extend its levies to direct taxation as well persuaded the framers to give the Dominion unlimited powers of taxation.

National security, national development and the fostering of trade and commerce by appropriate regulation were regarded by the Fathers as the great functions of government. They were also the functions which they thought likely to expand in the future. When these had been transferred to the Federal Government, the provinces were left with functions, the burden of which was not expected to grow. They would be required to support a civil government establishment; to maintain a number of local public works and to undertake the administration of justice. But the heaviest duties of civil government and the onerous burden of the great public works would be lifted from their shoulders. The support of education was to come within their sphere and their control over "Generally all Matters of merely local or private Nature in the Province" and over "the Establishment, Maintenance and Management of Hospitals, Asylums, Charities and Eleemosynary Institutions in and for the Province" implied responsibility for social welfare problems which got beyond the resources of charitable and municipal organization.

Of the functions remaining to the provinces, the support of education bulked the largest financially. It took the form of financial assistance and did not require extensive administrative machinery. Moreover, the assistance was of a modest character. The nature of the economy explains the small per capita expenditure on education. In the self-sufficient rural or village society of the time, education in a broad sense was obtained without much benefit of formal schooling. There was a farm and fishing apprenticeship in fact as well as a craft apprenticeship, none of which involved the expenditure of public funds. Schooling was not compulsory. The professions afforded few openings and parents wishing to prepare their children for such opportunities were expected to pay for their education at private schools.[57] The technical complexity of our society in more recent times, which has revolutionized educational methods and costs lay far ahead and unforeseen.

[57] Some grants were made to colleges but they were insignificant in amount.

Provincial payments for public welfare were even smaller than those for education ranging in 1866 from 6 per cent of total current expenditures in Nova Scotia to 3 per cent in Canada, the latter percentage indicating that a considerable share of this burden had been unloaded on the municipalities. In fact, most of the provincial expenditures on public welfare took the form of assistance to municipal institutions and private charities.

New Brunswick alone of the provinces had established a permanent board of public health in 1866. When the cholera epidemic startled Canada into establishing a temporary central board of health in 1849, there was considerable objection to assisting private misfortune out of the general public funds.[58] This spirit was still dominant in matters relating to public welfare. All provinces were contributing to the care of the insane but the amounts were small. The poor and the disabled, the aged and the orphans, were left to the care of municipal and private organizations, assisted, if at all, by small government grants.

The self-sufficiency and solidarity of the family carried a great deal of this burden of providing social security for the unfortunate. Periodic unemployment generally meant no more than a temporary retreat to the family homestead. There was nothing in the experience of the Fathers to suggest serious defects in this pattern of social security. Indeed, there was a disposition to speak hopefully of a time when private charity would relieve the governments of their existing commitments for public welfare.[59] Personal responsibility was the ideal of the time and many looked forward to a society where it would be perfectly realized.

The functions which were left to the provinces were important but their cost was not large. The minor financial role which was conceived for the provinces in the federation is emphasized by the frequent equation of them to great municipalities. Galt, in his speech at Sherbrooke declared that the local legislatures would be "municipalities of a larger growth"[60] and members of the Canadian legislature from Upper Canada frequently spoke of them in the Confederation debates as "local municipal parliaments" and as "large municipal deliberative bodies".[61] Tupper, at the Quebec Conference, said it was proposed "to preserve the Local Governments in the Lower Provinces because

[58] *Canadian Public Health Journal*, 1929, p. 140.

[59] *Speech on the Proposed Union*, p. 15.

[60] *Ibid.*, p. 15.

[61] Appendix 2—D. G. Creighton, *British North America at Confederation*, p. 83. See also p. 79.

we have not municipal institutions".[62] In the Prince Edward Island Assembly, George Coles complained that "in this House, scarcely anything should be left for us to do, but to legislate dog taxes, and the running at large of swine".[63] There was repeated reference to "how insignificant are the matters, agreed . . . to be left to the Local Governments".[64]

The calculations of the amounts required for the operation of the provincial governments after Confederation on which the financial settlement was based show the extent to which functions were to be transferred. Tupper estimated that Nova Scotia, which had had an outlay in 1863 of over a million dollars, would be able to meet her responsibilities after Confederation with $370,000. Similarly, the New Brunswick delegates to the Quebec Conference undertook to perform the local services for $353,000 after Confederation, in comparison with an expenditure of $885,000 in 1863. Canada had spent almost $11 million in 1863 and the new Provinces of Ontario and Quebec were expected to reduce their annual expenditures to a combined total of something over $2 million.[65]

The Federal Government was to assume virtually all the provincial debts and the large expanding functions of government. With greatly reduced responsibilities, the provinces could have no need for access to the great sources of revenue of the day. Accordingly, section 92 limited the provinces to direct taxation within the province. The provinces were given the public domain with its incidental revenues and a power to impose a variety of licences and fees. These were the sources from which the provinces were expected to finance their activities. The customs duties and excise taxes which provided the great bulk of the revenues were reserved exclusively to the Federal Government.

[62] Pope, *Confederation Documents*, p. 85.

[63] P.E.I. *Assembly Debates*, 1865, pp. 65-7.

[64] George Brown, at the Quebec Conference. See Pope, *Confederation Documents*, p. 77.

[65] The figures for the three provinces are those given by Galt in his Sherbrooke address.

TABLE 6.—PERCENTAGE DISTRIBUTION OF COMBINED PROVINCIAL AND MUNICIPAL REVENUES—FISCAL YEARS ENDED 1866

—	Province of Canada	Nova Scotia	New Brunswick	Total
Taxes:				
Customs	45	75	72	49
Excise	11	—	—	10
Realty	23	7	9	21
Other	5	1	1	4
Sub-total	84	83	82	84
Licences, Permits, Fees, etc.	5	2	3	4
Public Domain	5	8	7	6
All Other [(a)]	6	7	8	6
Total	100	100	100	100

[(a)] Revenue from post office and from sales of other commodities and services are excluded. These are offset by corresponding expenditures.

Revenues Left to Provinces Fall Short of Requirements—gulf bridged by federal subsidies

The transfer of customs and excise to the Dominion left the provincial governments with less than one-fifth of their former revenues. Modest as were the responsibilities they retained, these revenues fell considerably short of meeting them. They were given the power to levy direct taxes but the discussions of the Confederation period indicate that the provincial governments were not expected to use it.[66] Direct taxes were extremely unpopular; they had never been levied by the provinces, and, as already pointed out, the nature of the economy made the administration of direct taxation except by municipalities very difficult.

In these circumstances, the Fathers felt obliged to seek other means of meeting the prospective deficits of the provinces. The task was complicated by the fact that the deficiencies were much more serious in some provinces than in others. The relatively mature municipal system in the Province of Canada carried a large share of what would otherwise have been provincial responsibilities. Practically all the municipal revenues were raised by a direct property tax. In 1866, the municipalities of Canada collected nearly a third of the total provincial and municipal revenues. The surrender of customs and excise to the Dominion and the provincial power of direct taxation left this municipal revenue system intact. In the

[66] "It was expected and intended, and for a full generation it was a fact, that the federal subsidies and revenues of the public domain would provide a sufficient revenue for the provinces." Ex. 297, Brief of Ont., p. 15.

Maritimes, on the other hand, municipal development had scarcely begun and public expenditures in the localities were being financed largely out of general taxation—from customs revenues which yielded considerably more per capita than in the Province of Canada and which would be handed over to the Dominion at Confederation.[68] Thus prospective deficiency of provincial revenues under the settlement varied inversely with the degree of municipal development. While Ontario and Quebec were to retain, between them, almost half of the total provincial-municipal revenues collected in the old Province of Canada,[69] Nova Scotia and New Brunswick were to retain only about one-fourth.

TABLE 7.—DEFICIENCY OF PROVINCIAL REVENUES AFTER CONFEDERATION AS ESTIMATED BY GALT

—	Local Revenues	Local Outlay	Deficit
Canada	$1,297,000	$2,260,000	$963,000 or 38 cents per capita
Nova Scotia	107,000	667,000	$560,000 or $1.70 per capita
New Brunswick	89,000	424,000	$335,000 or $1.33 per capita

In his speech at Sherbrooke, Galt presented estimates of what the expenditures of the provincial governments on their reduced responsibilities would be and of the income to be anticipated from the revenue sources left in their hands. These estimates were based on the financial position of the provinces in 1864 and as they provided the basis of discussion for the subsidy calculations, they are set out in Table 7. They show prospective deficits ranging from $1.70 per capita in the case of Nova Scotia down to 38 cents per capita for the new Provinces of Ontario and Quebec. The Table shows the extent of the gap which somehow had to be bridged if the main lines of the proposed financial settlement were to be retained intact.

[68] Thus New Brunswick and Nova Scotia would lose 72 per cent and 75 per cent respectively of their combined provincial-municipal revenues while Canada would lose only 56 per cent. The realty and other miscellaneous taxes collected almost entirely by the municipalities in Canada amounted to nearly a third of the total public revenues (municipal and provincial) in 1866. In the Maritimes, these direct taxes yielded less than 10 per cent of the total revenues. See Table 6. Developed municipal institutions accompanied greater urbanization which was presumably an indication of higher taxable capacity.

[69] The position of Ontario was considerably better than that of Quebec where municipal development was still in its early stages. It is impossible to disentangle the municipal revenues attributable to the two separate areas of Canada before Confederation and no accurate statement of the relative position of the two new provinces can be made.

There was a strong desire to avoid the device of annual subsidies from the Dominion to the provinces. However, the framers of the settlement refused to give the provinces a concurrent power of indirect taxation lest it be used to establish interprovincial trade barriers and they did not believe it was politically possible to impose direct taxation.[70] Thus there was no real alternative and subsidies were introduced to bring provincial revenues to a level with minimum estimates of future expenditures.

The Quebec Conference found considerable difficulty in reaching a subsidy formula which would satisfy the demands of equity, and meet the wide variation in the anticipated deficits of the different provinces. The prevailing individualism which enforced representation by population in the political sphere assumed without question that the first principle of equity in the financial settlement was per capita equality. However, a per capita annual payment which would bridge the gap for Nova Scotia or New Brunswick would give Ontario far more additional revenue than appeared necessary. Moreover, it would require total annual subsidies in excess of $5 million a year. This was too large a deduction from the prospective annual revenues of $12 million to be collected by the Dominion which was undertaking such great responsibilities. Accordingly there was pressure to reduce the estimates of provincial needs. Nova Scotia, where the greatest deficit was expected, revised its estimate of expenditures to a figure which would require an 80 cents per capita subsidy to bridge the gap. This standard, which brought the total annual subsidies below $3 million, was adopted as the basis of settlement.

This arrangement was still open to the objection that it gave Ontario more than was necessary while it was a very tight fit for Nova Scotia. New Brunswick, pleading special need, was granted an extra $63,000 for a period of ten years. The 80 cents per capita subsidy was modestly supplemented in the final settlement by lump sum grants for the support of general government, and the provinces were launched with these subsidies as the solvent for their financial weakness.

Although the financial settlement quickly proved to be intolerable for Nova Scotia—a revision being necessary in 1869—its principal features stood for many years and, with minor modifications, it was applied to new provinces as they joined the Dominion. Its terms were written into the British

[70] Appendix 2—D. G. Creighton, *British North America at Confederation*, p. 85.

North America Act and the subsidies agreed upon were declared to be "in full Settlement of all future Demands on Canada". If the provinces chose to increase their expenditures materially, it was intended that they should obtain their additional revenues entirely from the revenue sources allotted to them.

Summary—the great responsibilities and the dominant financial position of the Federal Government

The financial settlement underlines the various statements of the Fathers as to the great functions of the new Dominion and relatively minor financial role to be played by the provinces. The important responsibility for national defence was transferred to the Dominion and the provincial treasuries were relieved of the incalculable burdens which it might entail. The largest single item of public expenditure in the colonies had been the promotion of economic development. One of the major purposes of Confederation was to apply still greater energies to this task and to provide still larger financial resources for the purpose. In effect, the Dominion was a great holding company designed to unify the efforts of the colonies in realizing the opportunities of a transcontinental domain. All the provincial assets which could be adapted to that purpose were transferred to the Dominion as were the debts which the provinces had incurred in acquiring them. The burden of the functions left with the provinces was expected, in per capita terms, to grow lighter rather than heavier. In the economic and social conditions of the time, the cost of education and public welfare was not expected to increase disproportionately to the growth of population. It was anticipated that rapid extension of municipal institutions would carry any additional burdens which these services might involve in the future and would reduce the outlay of provincial governments upon them.

The transfer of the dynamic, expanding functions of government to the Dominion while the provinces retained those which were thought to be static or likely to decline explains the lopsided division of the revenue sources of the time. The Dominion was given an unlimited power of taxation to enable it to meet the growing as well as the unpredictable responsibilities of the State. The provinces were left with but fractions of their former revenues. The power of direct taxation had to be given to the provinces in order that they might confer that power on the municipalities which they were expected to create. But all the circumstances of the day seemed to indicate that direct taxation could not be fruitfully employed by other than municipal governments. It was expected that any additional revenues which a province might need would be found in the growing receipts from the public domain rather than in direct taxation. Subsidies were introduced to make it barely possible for the provinces to balance their budgets. These subsidies were conceived to be final and, subject to a minor exception,[71] were not intended to grow with the growth of population.

[71] The per capita subsidy was based on the census of 1861. As agreed at Quebec, this basis was not subject to change with rising population. However, at London, a concession was made to Nova Scotia and New Brunswick, allowing a decennial revision in their cases until a population of 400,000 was reached.

Chapter II

THE FIRST THIRTY YEARS

1. The Economic and Constitutional Background

The enactment of the British North America Act did not of itself assure that balance between national loyalties and interests and provincial loyalties and interests which an effective federal system requires. The Act merely provided a framework within which such a balance might be established. During the first thirty years, Canada had to search for an equilibrium between these two sets of forces. In the early part of the period, the internal and external influences which brought about Confederation continued to operate and their momentum carried the nation-builders through to the main objectives of the union. The Dominion Government vigorously attempted to bring into being the centralized federalism which it recognized as the intention of the Fathers of Confederation. In the later part of the period, provincial loyalties arose in the new provinces and reasserted themselves in the old. Provincial governments contested the dominance of the Dominion and won a signal victory for "provincial rights". The optimism and buoyancy of the first years fixed men's eyes on the broader horizons. In the continued depression of the later years, the visions faded and Canadians were compelled, in the urgent need for adjustment, to turn to the older and more obvious realities of provincial and local community life. In the tug of these forces, the relative strength of national and provincial sentiment gradually became clear and the working principles of Confederation began to emerge.

Rounding Out the Union—Dominion's aggressive program to build a transcontinental economy; all-Canadian transportation and western settlement

The Fathers of Confederation were the agents of the unifying forces. It was they who had the visions of expansion and they who took the helm of government in 1867. As federal cabinet ministers and lieutenant-governors of provinces, they pressed on without serious challenge to round out the union. The attitude of the United States was still aggressive and no settlement of its serious differences with Great Britain had been reached. In the face of these alarming circumstances, the Dominion Government was forced prematurely into the race for the West. In 1870, the lands of the Hudson's Bay Company were acquired and the new Province of Manitoba was created. The burden of debt in British Columbia was, by this time, more oppressive than ever and the final collapse of the gold boom made it difficult to hope for or to justify the continued separate existence of the colony. Thus the promise of a railway easily brought British Columbia into Confederation and the Dominion from sea to sea became a reality in 1871.

In the meantime, Prince Edward Island had succumbed to the lure of railway building. In 1863, the public debt of the Province had been little over $250,000. Ten years later, the total provincial liabilities including the commitments for the construction of the Prince Edward Island Railway were more than $4 million. This was a paralyzing load and the island province which had resisted persuasion in 1866 now accepted the promise of salvation through the remission of debts and entered the Dominion in 1873.

Economic conditions were favourable to the completion of these political objectives. The new Dominion was launched on a rising tide of world prosperity and the assumption of the debts of the new provinces was no excessive burden to the federal treasury. In Great Britain, economic activity was stimulated by easy money and a booming foreign trade; in the United States, by tremendous railway expansion and post-war reconstruction. Between 1868 and 1874 Canadian exports to Great Britain were doubled and, with growing demand and higher prices, a 30 per cent increase in exports flowed into the United States over the trade barriers which had replaced the Reciprocity Treaty. Larger markets for lumber benefited New Brunswick and the Ottawa Valley. Nova Scotia greatly increased its exports of fish and recovered its markets for coal in the United States. Shipbuilding in the Maritimes approached, in 1874, the high peak attained during the Civil War. Agriculture, the most important industry in Ontario and Quebec, nearly doubled its exports in this period.

In this atmosphere of general expansion and prosperity, the Federal Government undertook without hesitation the territorial rounding out of the Dominion, and the transportation developments which were to promote trade between the separate regions. The Intercolonial was built and the canal system of the St. Lawrence was deepened. Expenditures on public buildings, harbours and wharves were greatly increased. With the entrance of British Columbia into the Union in 1871, the building of the Pacific railway became a definite commitment and by 1873 the Dominion had pledged generous assistance to Sir Hugh Allan and his associates in building the railway over an all-Canadian route.

The decision to build the railway entirely through Canadian territory was of fundamental significance. Before Confederation, the colonies had been faced with two broad alternatives. One was to be drawn into the economic orbit, and probably also into the political system, of the United States. This would have led to integration, in each area according to its particular characteristics, with the common neighbour. The economic development of each region would have been determined by the relationships it managed to establish with the country to the south. On the eve of Confederation, it seemed that the price of such relationships would not be less than political assimilation. This consideration turned the colonies to the other alternative which was to ensure political independence through a union of their own and to seek strength and prosperity by a national economic integration based on an expanding inter-regional trade. The pull to the south was strong. The establishment of an east-west integration would require bold and far-sighted policies of national development.

The first of these policies was to provide east-west channels of trade independent of the United States by building a transcontinental railway wholly over Canadian territory. Such a railway would open the undeveloped lands of the West for settlement and fix the political and economic destiny of the area. But the construction of such a line over empty distances and forbidding mountains could not be undertaken without extensive public assistance. This fact pointed to the second policy which was indeed an essential complement of the first. The public lands of the Northwest were to be used by the Dominion to promote railway expansion and rapid settlement. Land grants would provide the greater part of the public assistance required by the railways. The railways, in turn, would make the lands valuable and a free homestead system would attract a rush of settlers. The decisions to build an all-Canadian railway and to establish a vigorous Dominion land policy were basic national decisions which, together with the adoption of the protective tariff which was soon to follow, fixed the pattern of subsequent economic development in the Dominion.

The technique of combining railway construction and settlement had already been devised and demonstrated in the United States where Canadians had observed the results with envy. Its main features were railway land grants and the free homestead system. The Dominion assured the application of these to the Canadian frontier by the Manitoba Act of 1870. This statute withheld the public lands from the control of the Province and provided that all "ungranted or waste lands" in the entire Northwest should be "administered by the Government of Canada for the purposes of the Dominion". These purposes were made manifest by the free homestead provisions of the Dominion Lands Act of 1872 and the grant of 50 million acres of western lands to the Pacific railway syndicate in 1873.

By 1873, in the short space of six years, the framework of the new transcontinental economic and political system had been erected. The continued rapid expansion of the United States had given the enterprise an urgency it might otherwise have lacked. The "race to the Pacific" had been won and the vital railway and settlement policies had been launched. These were ambitious policies for a small and scattered people but the nation-builders were undeterred by such reflections. "We must not be dribblers in this matter", said the Minister of Finance in 1869. "The opening up of that territory [the Northwest] must be accomplished in a large and comprehensive way."[1] The charge of dribbling could scarcely be laid against them. In six years the Federal Government had committed itself to capital expenditures of almost \$100 million,[2] as compared with the total debt of \$93 million accumulated by all the colonies in their century of existence before Confederation. But the Government was confident of the ability of the country to carry this burden with ease once the magic of its policies began to work.[3] In the meantime, the rising prosperity of the country made the initiation of these policies immediately

[1] Budget Speech, May 7, 1869, p. 34.

[2] \$30 million for the Canadian Pacific Railway, \$14½ million more for the Intercolonial and Maritime railways, almost \$44 million for canals and \$8 million for miscellaneous works.

[3] Budget Speech, April 1, 1873.

possible. Between 1868 and 1874, Dominion revenues nearly doubled, most of the increase coming from customs duties. This buoyant financial condition enabled the new Federal Government to consolidate the union and assume the dominant and aggressive role which the Fathers of Confederation had assigned to it. The greatness of its enterprises caught the imagination and evoked the beginning of a national consciousness.

The Dominion's Paternalism toward the Provinces —its claim to dominance

The Dominion Government not only asserted its leadership in economic development; in its attitude toward the provinces, there was much of the old paternalism which had marked the actions of the Imperial Government in colonial days. It maintained that the Lieutenant-Governor was a Dominion officer whose duty it was to reserve bills according to instructions from the Governor General in Council.[4] In 1868 Sir John A. Macdonald, as Minister of Justice, declared that the Federal Government would be called upon to consider the propriety of allowance or disallowance of provincial enactments much more frequently than the Imperial Government had done in the recent past.[5]

In accordance with this policy, 51 bills were reserved[6] and 65 acts disallowed[7] in the first thirty years and, of these, 39 were reserved and 29 disallowed in the first ten years of assertive Dominion leadership. The federal authority proposed to refuse assent on reserved bills and to disallow legislation on several grounds. Thus, it claimed the substantially judicial function of deciding whether provincial legislation was *ultra vires.* It stood ready to invalidate provincial enactments which it thought unjust or contrary to sound principles of legislation. It was prepared to veto legislation which, according to its view, conflicted with imperial treaties or policies, or with Dominion interests and policy.

It was quite in harmony with this theory of its superior position that the Dominion maintained its sole right to supplement the original financial arrangements of 1867 or to fix the terms of admission of new provinces. In 1869, the Dominion Parliament itself increased the subsidies to Nova Scotia. A protest by the Ontario Legislature to the Imperial Government against this unilateral action of the Dominion was of no avail, drawing from the Colonial Secretary a reply that the Dominion Parliament had power to make such adjustments. In 1870 and 1871, Parliament, of its own motion, gave Manitoba and British Columbia a larger representation in its councils than the principle of population would have warranted. Arguments that these modifications were contrary to the constitution and required the consent of the provinces were brushed aside and the request for imperial legislation to validate the large scheme of the Manitoba Act of 1870 was made, in accordance with the proposal of the Opposition, by joint address of both Houses of Parliament without consulting the provinces.

However, the forces which made this Dominion leadership and predominance possible waned rapidly after 1870. In that year, the Red River Rebellion ended and the last Fenian Raid failed. In 1871, with the entrance of British Columbia, the Dominion tightened its hold on the West. The outstanding disputes between the United States and Great Britain were settled by the Washington Treaty in the same year and the Republic accepted, by implication, the accomplished fact of a transcontinental Dominion. It is significant that the departure of the last imperial troops[8] from Quebec in 1871 did not bring any sudden and vigorous measures for Canadian defence by the Dominion Government. The Dominion was not compelled, after all, to battle for its existence. The political and military purposes which had helped to justify its creation slipped from the minds of a pacific and unapprehensive people.

The Great Depression—check to the Dominion's aggressive program of development and the adoption of the National Policy of protective tariffs.

At the end of 1873, the boom broke and was followed by world-wide depression. In the United States, it involved a sharp contraction in railway and building construction; in Great Britain, a severe contraction of credit and a steep decline in foreign trade. The fall in prices and international lending brought an abrupt check to economic expansion in new countries. In Canada, the first effect of this general depression was a decline in the demand for lumber. Between 1873 and 1879,

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[4] See *Dominion-Provincial Legislation, 1867-95,* pp. 104-5 per Sir John A. Macdonald in 1873 and pp. 77-8, Report of the Committee of the Privy Council in 1882.

[5] *Ibid.,* pp. 61-62.

[6] *Memorandum on the Office of Lieutenant-Governor of a Province,* Department of Justice, Ottawa, 1937, pp. 51-60.

[7] See *Memorandum on Dominion Power of Disallowance of Provincial Legislation,* Department of Justice, Ottawa, 1937, pp. 62-69.

[8] Britain continued to man military stations at Halifax and Esquimalt and the last garrison did not leave Halifax until the beginning of the twentieth century.

exports of forest products fell by one-half. The prices of manufactured goods fell more rapidly than those of agricultural products but by 1876 the country was generally enveloped in depression which grew slowly worse until 1879. In the latter year, both the price level and the physical volume of exports had fallen by 20 per cent from the peak of 1873.

The depression was rapidly translated into falling public revenues while the public debt continued to mount. The Federal Government was driven to serious reconsideration of the extensive projects which had been launched in the preceding prosperous period. Boundless optimism was succeeded by unrelieved gloom. The Government had reaped but little reward for its huge expenditures and it could see no hope of generous returns for years to come. Alarmed at the mounting burden of debt, the Federal Government retreated from its aggressive program of development. The Intercolonial, the Prince Edward Island railway and the canal improvements were carried to completion. But no new projects were undertaken and, following the Pacific scandals, the agreement for the construction of the Pacific railway was dropped. The new government of Alexander Mackenzie announced a policy of building the railway as a public work but only as the resources of the country would permit.

The Great Depression, which continued almost unrelieved for over twenty years, had serious consequences for the entire country. As time went on, the national policies of the Dominion,[9] which were to have brought abounding prosperity through western expansion and settlement, were discredited by failure. The men, money and markets, necessary for the successful operation of the expensive national machinery, failed to materialize. The great community equipment lay almost unused, an oppressive burden on the country.

As the depression continued, the old agitation for a policy of protection to domestic industries gathered increasing force and acquired a wider appeal. The tariff policy during the first twelve years was primarily designed for revenue purposes. There was much resentment and dissatisfaction over Confederation in the Maritimes. Among other things, the Maritimes feared an upward revision of tariffs and the Federal Government was anxious to conciliate them by removing any ground for such fears. Furthermore, the Dominion was anxious not to provoke tariff retaliation by the United States with which Canada enjoyed a growing trade in this period.[10]

Thus the early Canadian tariff structure retained the main features, though not the exact rates, of the pre-Confederation tariffs in the provinces. Luxuries paid high rates, the great bulk of finished manufactures paid 15 per cent, raw materials and most semi-finished goods entered free. The only general change in the tariff before 1879 occurred in 1874 when the 15 per cent schedule was raised to $17\frac{1}{2}$ per cent in an effort to maintain revenues in the face of falling imports.

The main object of policy through the period was to get a renewal of the Reciprocity Treaty with the United States. However, the persistent advances to Washington were of no avail. The Washington Treaty of 1871 did not include a renewal of reciprocal trade relationships and the treaty which George Brown negotiated in 1874 was not ratified by the United States Senate. The Washington Treaty gave the Americans free access to Canadian Atlantic fisheries, free navigation of the St. Lawrence and the use of the canals on equal terms. Canada had hoped to bargain for reciprocity with these privileges but the British Government used them to advance the general interests of the Empire. All efforts to secure closer trade relations with the United States failed and the rebuffs aroused in Canada a desire for retaliation.

"Reciprocity of trade or reciprocity of tariffs" became the slogan. There was still no doubt, however, that the former alternative was preferable. American industry had not yet grown up to the protective tariff. It had not yet achieved the special advantage of mass production, and it was handicapped by the high cost of iron and steel and by the inflated wage levels inherited from the Civil War. Canadian manufacturers were agreed that they could compete successfully with the United States producers on the basis of a North American market.[11] If, however, they were to be denied this wider market, they insisted that they could not share the limited market at home. If Canadian industry could not develop in relation to an industrial integration of North America, then conditions must be created to enable it to develop in relation to the opportunities of an economic integration of Canada.

[9] The expression "national policies" as used throughout this Report refers to federal economic policies such as western settlement, all-Canadian transportation and protective tariffs. In the capitalized singular form, the "National Policy" refers solely to the policy of protection adopted in 1879.

[10] This policy was announced in 1868 by the Minister of Finance in his speech on the Budget.

[11] See *Canada, Journals House of Commons,* (1876), Appendix (3).

The price decline which began in 1873 was much more pronounced in manufactured goods than in raw materials. Between 1873 and 1879 the price level of Canadian imports (mostly manufactures) dropped 26 per cent while the price level of exports fell by 8 per cent. This, together with the loss of natural shelter resulting from the decrease in transportation costs, bore heavily upon domestic industry and commerce. Declining inventory values inflicted heavy losses upon the distributive trades. The pressure of falling prices and increasing competition led to a general outcry against what was called the "slaughtering of goods" by the United States and Great Britain. Higher tariffs were urged to maintain the balance between imports and the local manufactures. And, of course, there was a more general demand for a protective policy as the panacea for depression.

The high hopes for rapid development of the country and for the commercial and industrial benefits expected to flow from such development were frustrated. While the previous Federal Government had been aggressive in the work of development, the new Ministry was now timid and out of sympathy with the program. In the face of this apparent failure and hesitation, the policy of industrialization by means of the protective tariff was offered as the way out of stagnation, and as a new basis for economic expansion. Under existing conditions, this proposal had a wide popular appeal.

After Confederation, attempts were made to foster a Canadian national spirit, and industrialization by high tariffs was vigorously advocated as an important step in this direction. This particular aspect of the policy was expressed by the Minister of Finance when he submitted the new tariffs to Parliament in 1879. He insisted that "the time has arrived when we are to decide whether we will simply be hewers of wood and drawers of water; . . . The time has certainly arrived when we must consider whether we will allow matters to remain as they are, with the result of being an unimportant and uninteresting portion of Her Majesty's Dominions, or will rise to the position, which I believe Providence has destined us to occupy . . ."[12] The policy which was to transform the economy and make a great nation was impressively labelled "The National Policy".

These various factors combined to bring about a vigorous policy of tariff protection in 1879. The upward revisions of the tariff were comprehensive and were designed particularly to promote domestic production where imports were large. "We have endeavoured to meet every possible interest . . ." said the Finance Minister. In general, if luxuries be excluded, the highest duties were imposed on finished consumers' goods of widespread consumption, the rates being in the neighbourhood of 30 per cent. The typical rate on fully manufactured industrial equipment and machinery was 25 per cent. Semi-finished goods and industrial materials paid from 10 to 20 per cent. The fact that many of the duties, particularly the most protective, were specific rather than *ad valorem* reflected the recent experience with falling prices.

Textiles, which made up nearly 30 per cent of total imports and in which domestic manufacturing, with the exception of coarse woollens, had made virtually no progress, were specially singled out for a substantial measure of protection.[13] The added protection given to iron and steel and their products, the domestic production of which was appreciable only in the case of farm implements and the sheltered items (foundry products, certain rolled products and heavy machinery) was confined chiefly to the finished and highly fabricated articles.[14] In the case of primary iron and steel, where imports were heavy, the duties imposed were small.[15] Important items such as furniture, manufactures of glass, chinaware and boots and shoes were given considerable increases in duties.[16] While the bulk of miscellaneous manufactures paid 20 per cent there were many cases of rates equivalent to 30 per cent or over.

The increases in tariffs were also extended to agricultural products but in this case were largely ineffective, because, in most items, the country was on an export basis. A duty of 50 cents per ton was placed on coal and coke to enable Nova Scotia coal to reach the markets of Central Canada which were then being supplied entirely from the United States.

It is clear from this brief analysis that the National Policy tariff of 1879 would be a powerful

[12] Budget Speech, March 14, 1879, pp. 22-3.

[13] Cotton was given protection at all stages of manufacture with duties ranging from 20 per cent on yarns to 34 per cent on piece goods. The tariff on woollens ranged from 29 per cent on yarns to 34 per cent ready-made clothing. Silk piece goods and clothing paid 30 per cent.

[14] Carriages, wagons and railway cars, as well as miscellaneous hardware and tools paid 30 per cent. A rate of 25 per cent was imposed on machinery, farm implements, boilers, tanks and engines, locomotive engines, bridge and structural steel, stoves and castings of all kinds. The duties on equipment and semi-finished articles such as chains, wire, galvanized sheet iron, tin plate and tubing ran from 10 per cent to 20 per cent.

[15] Pig iron paid 12·5 per cent, the principal rolled items (except steel rails) 17·5 per cent, but steel ingots, rails, bars and fish plates remained free.

[16] Furniture and clocks paid 35 per cent, refined petroleum 38 per cent, manufactures of glass 30 per cent, chinaware 25 per cent, woodenware 25 per cent, boots and shoes 25 per cent.

instrument for promoting domestic production in a wide range of articles and for diverting trade from international into interprovincial channels. With the extension of the protective principle to primary iron and steel by the introduction of bounties in 1883 and higher duties in 1887, the application of the policy was complete. The protective system thus established during 1879-87, although modified and refined, and from time to time changed in its emphasis, has never since been basically altered. It was a drastic change in the conditions under which the economies of the British North American colonies had grown up, and subsequently was a major factor affecting the development and structure of the transcontinental economy which Confederation had created. It became, in truth, a national policy.

Stagnation—unfavourable external influences and the disappointing results of the national economic policies

During the years 1867-79, the three basic national economic policies were adopted. By settlement of the Northwest, transcontinental transportation through all-Canadian territory and industrialization by protective tariffs, the Federal Government planned to bring about economic expansion and complete the unification of the country. Because of the dependence upon exports, foreign capital and immigration, they could become effective only if stimuli came from abroad. For over two decades, however, the external factors were unfavourable. The collapse of the boom in 1873 brought on the Great Depression which continued for twenty-three years. A persistent decline in prices, a sharp shrinkage in international lending and a low level of investment caused general economic stagnation. The Canadian economy, strongly affected by these influences, virtually stood still, although there were many internal shifts and changes.

TABLE 8.—CANADIAN PRICE INDICES, 1871-96

—	Wholesale Prices of 70 Commodities (a)	Export (b)	Import (b)	Grains and Flour (a)	Animals and Meats (a)	Iron (a)
1871-73..........	100	100	100(c)	100	100	100
1885.............	79	91	73	93	90	61
1891-93..........	78	97	69	83	94	53
1896.............	65	86	60	62	68	48

(a) Taylor and Michell, *Statistical Contributions to Canadian Economic History* (Toronto, 1931), p. 56.
(b) *Ibid*, p. 6.
(c) 1873-75 = 100.

The price level, which fell about 35 per cent between 1871-73 and 1896, was a continuous damper upon enterprise. The relatively greater drop in the prices of manufactured goods than in those of raw materials such as lumber and agricultural products was a striking feature of the decline. Thus import prices fell more rapidly than export prices and the terms of trade became increasingly favourable. However, the stimulating effects of this factor upon the exporting groups was largely nullified by the tariff increases of 1879-87.

Domestic production in many lines could not take advantage of the new tariff overnight and thus the most immediate effect of the tariff increases was a substantial rise in Dominion customs revenue. The improvement in Dominion finances coincided with a short period of general economic revival throughout the world from 1879 to 1883. Encouraged by these favourable signs, Sir John A. Macdonald, on his return to power in 1879, took up again the project of a transcontinental railway. The half-hearted policy of building it piecemeal as a public work was discarded and in 1880 a group of capitalists agreed to undertake an all-Canadian railway to the Pacific as a private enterprise.

The Canadian Pacific Railway Company was promised substantial cash subsidies and grants of western lands. A monopoly clause in the agreement practically freed the Company from competition in the area between its line and the American border across Manitoba and the Northwest Territories. Surmounting stupendous difficulties, the railway to the Pacific was completed in 1885. During and after its construction, the Dominion tried to encourage the building of local lines in British Columbia and the Eastern Provinces by means of land grants and cash subsidies. The provinces and the municipalities also gave considerable assistance to railways in the same period. By 1896 this combined public assistance had secured the construction of some 3,300 miles of branch lines and about 1,700 miles of colonization railways.

Under these stimuli, the railway mileage of the country mounted rapidly, despite unfavourable economic conditions. By 1896, there were 16,270 miles of line (one mile per 312 persons, a proportion not much different from that of the present day). In the Maritimes, all the principal lines had been built and a fairly dense network of railways had been laid over the settled portions of Ontario and Quebec.

TABLE 9.—GOVERNMENT AID TO RAILWAYS TO JUNE 30, 1896[17]

(Millions of Dollars)

Dominion	165.0*
Provinces	33.0
Municipalities	16.9
Total	214.9
Total Paid up Capital of Railway Companies, Shares and Bonds	697.2

* In addition the Dominion gave net land grants totalling 31·8 million acres.

An extensive system of branches had been built in southern Manitoba. Slow progress in the Northwest Territories had placed lines between Regina and Prince Albert, Calgary and Edmonton and links with the American border ran from Moose Jaw and Medicine Hat. The important role played by governments in the provision of these facilities is indicated in Table 9.

Two generations of North Americans had believed that railways were the unfailing cause of general prosperity. But railway expansion did not bring prosperity to Canada in the period under review. The brief trade revival of 1879-83 faded away and the general world improvement of 1888-90 was offset in Canada by poor crops and bank failures. The Great Depression did not lift until 1896 and it was not until 1897 that the per capita volume of exports reached the level attained in 1873.[18]

The changes in the composition of exports reveal some of the internal shifts in occupations that took place under the downward pressure. Lumber declined in relative importance while agriculture continued to expand. But here there was a shift from grains, which met the rising American tariffs and stiffer competition from the American West, to live stock and dairy products which, with cheaper transportation, found larger markets in Great Britain. Increasing exports of fish reflected the development of the salmon fishery in British Columbia and the lobster fishery in the Maritimes. Particularly after 1886, they also reflected the pressure of people crowding into the industry as a means of livelihood owing to the virtual disappearance of shipbuilding and shipping.

TABLE 9A.—EXPORTS OF CANADIAN PRODUCE, 1868-1896

(Millions of Dollars)

Years ending June 30	Total	Agricultural Products			Products of the Forest	Fish	Minerals	Manufactures and Miscellaneous
		Animals and Their Produce	Grains, Vegetables, Fruits etc.	Total				
1868	48·5	6·9	12·9	19·8	18·7	3·4	1·3	5·3
1874	76·7	14·7	19·6	34·3	27·2	5·3	3·8	6·1
1879	62·4	14·1	19·6	33·7	13·3	7·1	3·2	5·1
1882	94·1	20·5	31·0	51·5	24·0	7·7	3·1	7·8
1886	77·8	22·1	17·7	39·8	21·0	6·9	4·1	6·0
1891	88·7	26·0	13·7	39·7	24·3	9·9	6·0	8·8
1896	109·7	36·5	14·1	50·6	27·2	11·2	8·4	12·3

The effect on Canada of the adverse economic conditions between 1874 and 1896 is most clearly revealed by the population figures. The principal policies and expenditures of the Federal Government were designed to fill the empty spaces with people. Yet for thirty years Canada was a land of emigration helping to people the frontier and cities of the United States.

TABLE 10.—CANADIAN POPULATION MOVEMENTS, 1871-1901

(Thousands)

—	Population at beginning of Decade	Actual Increase	Natural Increase (Est.)	Immigration	Emigration (Est.)
1871-81	3,689	636	799	342	505
1881-91	4,325	508	686	886	1,064
1891-1901	4,833	538	612	321	395

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Dominion			
Construction—			
Intercolonial and P.E.I. Railways	59.0		
Canadian Pacific Railway	37.7		
Other railways	.5		
		97.2	
Subsidies—			
C.P.R. main line and main line extensions	28.0		
Allowance for C.P.R. lands	10.2		
Other railways	13.6		
		51.8	
Loans		16.0	
Total Dominion Aid			165.0
Provinces			
Subsidies and Construction		27.1	
Loans		5.6	
Subscription to shares and bonds		.3	
Total Provincial Aid			33.0
Municipalities			
Subsidies and Construction		11.7	
Loans		3.0	
Subscription to shares and bonds		2.2	
Total Municipal Aid			16.9
Total Government Aid			214.9

18 During 1888-90, the volume of exports per capita was 20 per cent below the level of 1871-73.

In each of the three decades, 1871 to 1901, as indicated by Table 10 the increase in Canadian population was less than the estimated natural increase. While slightly more than one-and-a-half million immigrants intending to settle entered Canada, almost two million people left the country. Between 1881 and 1901 over 600,000 native Canadians moved across the border and in 1891 about one-fifth of all the Canadian-born lived in the United States. So heavy was the emigration in the early nineties that the population was virtually stationary.

The disappointingly slow growth of population between 1871 and 1901 was accompanied by significant changes in its distribution. Owing to improvements in transportation and growing industrial development, Canada was losing its predominantly rural character. The urban population rose from 20 per cent of the total to 38 per cent. The towns and cities absorbed 77 per cent of the total increase in population. At the beginning of this period, Montreal and Toronto, serving the hinterland of the St. Lawrence Valley, had 5 per cent of the total population. In 1901, with a greatly extended hinterland, the proportion had risen to 10 per cent.

Regional and Provincial Discontent—the challenge to the dominance of the Dominion

A bald statement of the length of the depression gives little hint of its effect upon the lives of the people. Federal policies had burdened them with debt and failed to bring prosperity. The only large-scale remedy which the Dominion had been able to offer was the National Policy of 1879. In these circumstances, communities had to do what they could to help themselves, looking to the provinces for the help which the Dominion failed to give. The provincial governments attempted to promote expansion on their own frontiers by railway building and immigration policies. But most of them quickly discovered the strait jacket in which the financial settlement of Confederation had placed them. The agitation for better terms gathered strength and led to differences with the Dominion. The failure of the Dominion's economic policies, which formed such important elements in the new national interest, discouraged the growth of a strong, national sentiment; and local loyalties and interests began to reassert themselves.

Indeed, there had never been any large transfer of loyalty from the older communities to the new Dominion created for urgent common purposes. The achievement of Confederation and the spectacular activity of the Federal Government in the early years had merely overshadowed or, at most, temporarily subordinated the separate interests of the distinct regions and communities. From the very date of the union, there had been a widespread and burning conviction in Nova Scotia that it had been manoeuvred into a bargain prejudicial to its vital interests. In the provincial election held late in 1867 thirty-six out of thirty-eight members elected to the legislature were anti-Confederates. The new Government tried desperately to extricate the Province from the bonds of the union. Although these efforts were unavailing, the sentiment against Confederation remained strong in Nova Scotia and was significant in New Brunswick.

Confederation had not succeeded in eliminating the clash of racial and religious differences which had agitated the Province of Canada in the past. It had been hoped that the creation of two provinces, allowing free play to these cultural differences in separate spheres, would remove these antagonisms from deliberations on matters of common interest in the federal councils. When the western insurrections of 1870 and 1885 raised a racial and religious conflict in the valleys of the Red River and the Saskatchewan which disturbed the peace in the new federal territories, the opinions of the dominant groups in Ontario and Quebec clashed over the action taken by the Federal Government. Quebec's deepest feelings were outraged by the execution of Louis Riel and a wave of resentment against the Federal Government swept the Province. It became clear at once that there were federal issues in which conflicts of opinion might follow in the main provincial lines. In such circumstances, any solution was bound to create Dominion-provincial friction.

Such Dominion-provincial friction was not limited to cases of the resurgence of loyalties antedating Confederation. The problems of the Pacific railway embittered the relations of British Columbia and the Federal Government during the seventies; and in the eighties the requirements of federal railway policy brought Manitoba and the Dominion into sharp conflict. The appropriation of western lands "for the purposes of the Dominion" deprived Manitoba of its natural resources and the monopoly clause in the charter of the Canadian Pacific Railway Company prevented the Province from promoting a competitive transport system. Repeatedly the Provincial Legislature chartered railway companies to build lines to the international boundary and repeatedly the Dominion Government disallowed them on the ground that the projected lines would divert traffic to the United States and thus conflict with the settled transport policy of the Dominion. Dominion policy was hard to reconcile with the interests of the settlers in Manitoba and the Provincial Government became the spearhead of local demands.

British Columbia was irritated by federal tariff policy and its long controversy with the Dominion over Oriental immigration began in this period. Large sections of opinion in the Maritimes were antagonized by the introduction of the National Policy in 1879. In 1886, a series of resolutions was introduced in the Legislature of Nova Scotia advocating secession on the ground that the commercial and financial interests of the Province had been vitally injured by Dominion policies. By 1887, agricultural and lumbering interests in Ontario were straining against federal tariff policy and urging commercial union with the United States. Ontario clashed with the Dominion over the location of the Ontario-Manitoba boundary and the ownership of its northern natural resources. Mowat, as Premier of Ontario, fortified the principle of "provincial rights" when he claimed and won the right of the provinces to regulate the sale of liquor within their boundaries and for years he conducted an unwearying attack on the federal power of disallowance.

These various grievances culminated in the provincial conference held at Quebec in 1887. The five provincial premiers who attended included all the leaders of provincial protest. The procedure of the provincial premiers seems to indicate that they claimed the right to examine and correct the operation of the federal system. Although their interests differed widely, they were able to agree that a considerable curtailment of federal power would be desirable. They proposed to increase the subsidies to the provinces, to abolish the federal power of disallowance, and to make the right of the Dominion to declare public works to be for the general advantage of Canada conditional on the approval of the province concerned. Lieutenant-Governors were to be acknowledged to be representatives of the Sovereign rather than of the Dominion, and each province was to nominate half of the Senators from the province in the Senate.

The conference challenged the view that Confederation was designed to set up a highly centralized and pervasively dominating government at Ottawa. In its swing to the other extreme, emphasizing the primacy of the provinces, it was no doubt employing a theory of federalism similar to the doctrine of "states' rights" in the United States. But the strength and diversity of provincial interests shown by the conference indicated that, under the conditions of the late nineteenth century, the working constitution of the Dominion must provide for a large sphere of provincial freedom.

The policies of the Federal Government were in discredit and the Government itself was embarrassed by its difficulties in the late eighties. Except for a short interval between 1874-78, the Federal Government throughout this period had been identified with Sir John A. Macdonald and his associates. Sir John's views of the nature of Confederation, so clearly stated both before and after the union, are well known. It is not known how many of the other framers of the British North America Act shared his views. But it is important that, for nearly thirty years, Macdonald and those who thought like him were the Federal Government of the new Dominion. The views which they took of the functions of the Lieutenant-Governor and the use to be made of the powers of reservation and disallowance have already been discussed. Their practice in revising the financial arrangements with the provinces and securing constitutional amendments has been noted. Their actions reveal clearly their conception of the primacy of the Dominion and the subordinate position of the provinces.

It is highly significant that the realities of the later years of the period forced a modification of this conception on the very men who held it most strongly. Their interpretation of the general interest failed to command widespread assent in the different provinces. The ineradicable, particularist interests, always associated with different regions and ways of life, demanded free expression. In face of the formidable provincial protest, the Government was forced to retreat. In 1884, the Ontario Rivers and Streams Act, already thrice disallowed by the Dominion, was re-enacted by the Provincial Legislature and the Dominion acquiesced. Later, the Dominion abandoned its policy of protecting the Canadian Pacific Railway Company from competition through the power of disallowance and finally repealed the monopoly clause itself. During the early nineties, it began the downward revision of the tariff.

Provincial Rights and the Constitution—the interpretations of the Privy Council widen the powers of the provinces.

It is a matter for speculation what would have been the ultimate issue between the Dominion and the provinces if the conditions of the eighties had continued. The equilibrium was becoming very unstable. On the one hand, there was the conception of federal dominance which the Dominion Government tried to enforce and which was strongly supported by powers of reservation and disallowance. There were the sweeping words of the opening paragraph of section 91 which, it might be argued, gave to the Dominion those "high functions and almost sovereign powers" which at least some of the framers intended it to have. The power to tap all the really productive sources of revenue was in the hands of the Federal Government.

On the other hand, there was the patent failure of the great general projects of the Dominion to meet what the provinces deemed to be their particular interests. There was the provincial revolt, focused by the provincial conference of 1887, which significantly demanded a drastic reduction of federal powers. There were straitened provincial governments representing large bodies of opinion and demanding greater revenues.

The preamble of the British North America Act announced the formation of a federal union, but it was not clear how far this was consistent with the wide general powers conferred on the Dominion by the opening words of section 91. Dominion-provincial friction was not lessened by these seeming obscurities in the constitution. It was becoming vital to know what the constitution meant and whether it could be harmonized with the realities which had appeared. In this crucial decade, the Privy Council began to give its first important decisions on the British North America Act. By the end of the period under review, the main lines of the working constitution had emerged through these decisions. It is therefore necessary to turn to them to see how the constitution was moulded by their influence.

It would be difficult to say how far these decisions influenced the concessions made by the Federal Government. At any rate, some of the earliest of these cases bore on the nature of the provincial governments and their relation to the Dominion and to the Crown. In particular, decisions in 1883 and 1892 denied some of the main tenets of the Macdonald school. In *Hodge* v. *The Queen*, in 1883, their Lordships, by implication, denied that the provincial legislatures were inferior bodies. They held that, within the limits of subjects and areas as prescribed by section 92, "the local legislature is supreme and has the same authority as the Imperial Parliament or the Parliament of the Dominion, would have had under like circumstances"[20] to confide powers to bodies of its own creation.

In *Liquidators of the Maritime Bank* v. *Receiver-General of New Brunswick* in 1892, it was necessary to decide how far the provincial Executive was entitled to exercise the ancient prerogatives of the Crown. In answer to the argument that the British North America Act had severed all connection between the Crown and the provinces and reduced the latter to the rank of Liverpool or Manchester, the Privy Council replied that the provinces were not subordinated to the Federal Government or depreciated to the level of municipal institutions. The supremacy of the province in its field of jurisdiction was reiterated. Their Lordships were pressed to say that, as the Lieutenant-Governor was appointed by the Dominion, he was purely a creature of the Dominion. Lord Watson denied this conclusion saying that the Governor General, in appointing, was acting for the Queen and that a "Lieutenant-Governor, when appointed, is as much the representative of Her Majesty for all purposes of provincial government as the Governor-General himself is for all purposes of Dominion government".[22]

These decisions magnified the provinces and struck at the theory that they were merely a superior kind of municipal institution. They also raised acutely the question of how far the enactments of a legislature endowed with the same kind of supremacy as the Imperial Parliament should be subject to an unrestricted power of disallowance. These decisions, at least, made it harder for the Federal Government to maintain its positions and foreshadowed the steep decline in the use of the powers of reservation and disallowance which came in succeeding years.

A detailed review of the Privy Council decisions of this period would be out of place here. But there were several cases of historic importance in determining the lines of constitutional development which must be considered. In 1882, the Privy Council had to decide whether the Canada Temperance Act was within the powers of the Dominion. This Act forbade the sale of intoxicating liquor under penalty of fine and imprisonment in those municipalities which exercised the "local option" of applying its provisions.

Naturally, it was argued that this prohibition would interfere with property and civil rights in

[20] (1883) 9 A.C. 117, at p. 132.
[22] [1892] A.C. 437, at p. 443.

the local areas where it was adopted. However, the Act recited the desirability of uniform legislation promoting temperance throughout the Dominion and the Privy Council concluded that the traffic in liquor was being dealt with as a matter of public order and safety and not in relation to the aspects of property and civil rights which were admittedly involved. They decided that general liquor legislation so conceived was exclusively within the general power of the Federal Parliament "to make laws for the peace, order and good government of Canada". General legislation, genuinely "deemed to be necessary or expedient for national safety or for political reasons" or "designed for the promotion of public order, safety or morals", was held to fall within the general power of section 91. Of course, in almost every case, such legislation would "in some incidental way, affect property and civil rights". Thus, "the true nature and character of the legislation in the particular instance under discussion must always be determined in order to ascertain the class of subjects to which it really belongs".[24]

This decision asserted the clear primacy of the "peace, order and good government" clause over section 92 and argued the validity of all federal laws dealing with general and national aspects of any subject matter even though that subject matter, in its local aspects, might be within the enumerations of section 92.[29] However, it left the criterion of what might be "necessary or expedient for national safety or for political reasons" and of what might be "designed for the promotion of public order, safety and morals", vague and unsettled. Such questions as these could only be determined by reference to the political, economic and social conditions of the time and to certain broad considerations bearing on the problem as to what it is proper for governments to try to do.

The decision did not explain how "the true nature and character of the legislation in the particular instance" was to be determined. There were only two alternatives. Either the existence of that urgent general or national aspect which was to justify untrammelled federal legislation under the "peace, order and good government" clause should be decided by the court before which the validity of the legislation was raised, or it would have to depend on the simple assertion of national urgency by the Federal Parliament.

[24] *Russell* v. *The Queen* (1882) 7 A.C. 829, at pp. 838-40.

[29] Although *Russell* v. *The Queen* is frequently cited in the courts, the general principle which it lays down has not been followed and it must be regarded as virtually over-ruled by later decisions.

In the first event, the court would be required to say whether the federal legislation in question had such a general or national aspect—in short, whether, in view of all the circumstances, the legislation might conceivably be desirable in the national interest. But this is a question which the courts always dislike to answer on the sound ground that it is not a question of law at all. The answer, if given, would inevitably depend upon the temperament of the judge and his personal views on public policy. Judges, like other people, differ profoundly in their views on public policy and their decisions would become essentially unpredictable. The hope of drawing a clear line between the legislative sphere of the Dominion on the one hand, and that of the provinces, on the other, would disappear. Moreover, because the principal test of the validity of provincial and Dominion legislation would be the judgment of the court on large issues of expediency and public policy, the final court of appeal would become the arbiter of public policy rather than the guardian of the constitution and, therefore, the storm-centre of Dominion-provincial disputes.

The court might escape from this invidious task by limiting itself to the question of whether the Federal Parliament had decided, in good faith, that general and national aspects were involved. Careful reading of *Russell* v. *The Queen* gives some reason for thinking that the personnel of the Privy Council in that case conceived its duty to be discharged by this limited scrutiny. In the nature of things, it would be a rare case where bad faith on the part of the Federal Parliament could be established and therefore the first alternative might, in practice, come to little more than the second, which is now to be considered.

The second alternative would be that the bare assertion by the Federal Parliament of a general or national aspect in the subject matter of the legislation would, of itself, justify the legislation under the "peace, order and good government" clause. That clause would then confer tremendous power on the Federal Parliament, giving it, as Macdonald had proposed, "the general mass of sovereign legislation".[31] The exclusive sphere ensured to the provinces by section 92 might, if the Dominion so desired, become very small indeed. The power of the Dominion Parliament under the "peace, order and good government" clause would become so overwhelming that the federal character of the constitution would be open to grave doubt. Indeed, under these conditions, the constitution in its working, would approach the legislative union which

[31] *Confederation Debates*, p. 41.

some of the Fathers desired but which, as they recognized, they could not secure by agreement.

These implications of *Russell* v. *The Queen* must be kept in mind and related to the growing revolt of the provinces against the paternalism of the Dominion when considering the case now to be discussed. "The Local Prohibition Case",[32] as it has come to be called, which was decided in 1896, is the most important case in the period, and one of the most significant of all interpretations of the British North America Act by the Privy Council. In it, the Privy Council upheld the validity of the Ontario Temperance Act which provided for Ontario a structure of regulation of the liquor traffic similar to that which the Canada Temperance Act provided for the Dominion as a whole.

The technique of interpretation used to reach this result need not be discussed here. It is sufficient to say that while Lord Watson held that the Dominion, relying on the enumerated heads of section 91, could validly enact legislation which affected subjects enumerated in section 92, he also declared that the Dominion, when legislating under the general "peace, order and good government" clause, "has no authority to encroach upon any class of subjects which is exclusively assigned to the provincial legislatures by s. 92". He stated that the exercise of legislative power under the general clause of section 91 must be "strictly confined to such matters as are of unquestionably Canadian interest and importance", admitting that "some matters, in their origin local and provincial, might attain such dimensions as to affect the body politic of the Dominion and to justify the Canadian Parliament in passing laws for their regulation or abolition in the interest of the Dominion".[34] Under the authority of this decision, the general clause of section 91 has come to be regarded as justifying little more than emergency legislation in the stress of great national crises.

While not challenging the correctness of *Russell* v. *The Queen*, this decision struck directly at the reasoning on which it was based. It denied the primacy of the "peace, order and good government" clause of section 91 over the enumerations of section 92 and as a result Dominion jurisdiction became, for most purposes, restricted to the specific heads enumerated in section 91. In the main, interpretation of the legislative powers of the Dominion and the provinces settled down to a competition between the specific enumerated heads of sections 91 and 92. In this competition, the provinces enjoyed an advantage because section 92 contained two heads capable of a general and inclusive signification, *viz.*, "Property and Civil Rights in the Province" and "generally all Matters of a merely local or private Nature in the Province" while section 91 contained only one such head, "the Regulation of Trade and Commerce" and, as will be pointed out below, it received a restricted interpretation. Thus the stage was set for the subsequent course of interpretation which has provoked the comment, in recent times, that the residuary powers under the constitution are now to be found in section 92.

There are some who believe that the Local Prohibition Case involved a textual violation of section 91 of the British North America Act.[35] Logical exposition, limited to sections 91 and 92, might lead to that conclusion. But it must be remembered that, according to the preamble of that Act, what was desired by the provinces was a federal union. It has been pointed out that the decision in *Russell* v. *The Queen*, which, in practical effect, was over-ruled by the Local Prohibition Case, would have imperilled the federal character of the union if it had become the ruling decision. There seems to be no doubt that this consideration weighed heavily with Lord Watson. In an earlier case, he had pointed out that "the object of the Act was neither to weld the provinces into one, nor to subordinate provincial governments to a central authority, but to create a federal government . . . each province retaining its independence and autonomy".[36] In justifying his construction of sections 91 and 92 in the Local Prohibition Case, he made the following significant statement:—

> "To attach any other construction to the general power which, in supplement of its enumerated powers, is conferred upon the Parliament of Canada by s. 91, would, in their Lordships' opinion, not only be contrary to the intendment of the Act, but would practically destroy the autonomy of the provinces. If it were once conceded that the Parliament of Canada has authority to make laws applicable to the whole Dominion, in relation to matters which in each province are substantially of local or private interest, upon the assumption that these matters also concern the peace, order, and good government of

[32] *Attorney-General of Ontario* v. *Attorney-General of the Dominion*, [1896] A.C. 348.

[34] *Ibid.*, pp. 360-61.

[35] The most cogent and complete statement of this view is to be found in the *Report pursuant to Resolution of the Senate to the Honourable the Speaker, by the Parliamentary Counsel relating to the Enactment of the British North America Act*, Ottawa, 1939. For criticism see V. Evan Gray, *Canadian Bar Review*, 17, p. 309.

[36] *Liquidators of the Maritime Bank* v. *Receiver-General of New Brunswick*, [1892], A.C. 437 at pp. 441-2.

the Dominion, there is hardly a subject enumerated in s. 92 upon which it might not legislate, to the exclusion of the provincial legislatures."[37]

It may be that the insight which guided his decision was solely derived from a theoretical analysis of the requisites of a federal state. It may be that he was also aware of the growing provincialism, then assailing the pretensions of the Federal Government. At any rate, he perceived and stated the lines of what he regarded as a tolerable compromise between Dominion power and provincial claims in the Canada of his day. And compromise is always the essence of the federal state.

It is necessary to notice briefly a foreshadowing in this period of the limited interpretation later given to the Dominion power under head 2 of section 91, "the Regulation of Trade and Commerce". In a case before the Privy Council in 1881, the question of the meaning to be attached to this phrase was considered. Their Lordships pointed out that the words "regulation of trade and commerce", in their unlimited sense are sufficiently wide, if uncontrolled by the context and other parts of the Act, to include every regulation of trade . . . down to minute rules for regulating particular trades".[38] By a process of textual criticism for which the enumerated heads of section 91, taken as a whole, give some warrant, they reached the conclusion that the words were not used in their unlimited sense,[39] and suggested limitations which were later adopted and pushed still further by the courts. The case also made a significant contribution to the interpretation of head 13 of section 92, holding that, in the phrase "Property and Civil Rights in the Province", the expression "civil rights" includes rights arising from contract as well as rights directly maintained by the law itself such as the status of persons.

[37] *Attorney-General of Ontario* v. *Attorney-General of the Dominion*, [1896], A.C. 348 at p. 361.

Lord Watson assumes, it is to be noted, that, if *Russell* v. *The Queen* remained the ruling decision, the Privy Council would shrink from deciding whether particular Dominion legislation might be "necessary or expedient for the national safety or for political reasons" and would in practice, leave that question to the discretion of the Dominion Parliament—in other words, the second alternative discussed above would rule. In these circumstances, it is not surprising that the Privy Council exerted itself to make the specific and more concrete enumerated heads of section 91 the main test of the validity of Dominion legislation.

[38] *Citizens' Insurance Co.* v. *Parsons* (1881), 7 A.C. 96, at pp. 112-13.

[39] Their reasons for thinking so are given in *Bank of Toronto* v. *Lambe*, (1887) 12 A.C. 575 at p. 586, where it is said that in Parsons Case, "it was found absolutely necessary that the literal meaning of the words ["regulation of trade and commerce"] should be restricted in order to afford scope for powers which are given exclusively to the provincial legislatures."

One other case, relating to the taxing power of the provinces, requires to be considered. Section 92 gave the provinces a power of "Direct Taxation within the Province in order to the raising of a Revenue for Provincial Purposes". In 1882, the Quebec Legislature passed a statute imposing on certain commercial corporations, a tax the amount of which varied with the paid-up capital and the number of places of business. A number of corporations resisted collection of the tax and an appeal was finally taken to the Privy Council.[40] Their Lordships were obliged to decide whether or not it was a direct tax.

"Direct taxation" is a phrase which lacks precise signification. From an economic point of view, it is impossible to say that any particular tax is direct in its final incidence because of the opportunities which may exist for shifting its burden. Economists would agree that a corporation tax generally is an indirect tax because of the ease of shifting it. However, the Privy Council felt bound to find a criterion for the validity of provincial taxation which would not involve the impossible task of trying to find out, in each case, whether the burden had, in fact, been shifted.

Adopting from John Stuart Mill a statement that "a direct tax is one which is demanded from the very persons who it is intended or desired should pay it", they inferred from the legislation itself that the legislature must have intended it to be finally borne by the very corporations from whom it was demanded and held it to be "direct taxation" within the meaning of section 92. The decision was one of great significance. From the point of view of the provincial governments it made available an important and increasing source of revenue since corporate enterprise was expanding rapidly. From the point of view of the economy as a whole it was the legal basis of the growth of much of the duplication, confusion and uneconomic types of taxation which today weigh oppressively on the national income.

2. Public Finance, 1867-96

The Financial Settlement on Trial—an extremely tight fit for the Maritimes and revisions of the formula

Confederation began auspiciously for the public finance operations of the Dominion. World prosperity spurred on a large program of development. Imports rose rapidly and the taxation system, geared so sensitively to import trade,

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

responded in an impressive manner. Customs receipts rose from \$9 million to \$14 million, and excise revenues, from luxury consumption, from \$3 million to \$5½ million between 1867 and 1874. This increase of more than 60 per cent in taxation revenues in a short period of seven years made possible the "rounding-out" of the Confederation scheme already discussed. The Dominion Government was proving to be a magnificent financial instrument for creating the new British North America of which the Fathers had dreamed.

On the other hand, there was a wide variation in the financial condition of the provincial governments in the early years after Confederation. At first, Quebec was in a relatively easy, and Ontario in an even more comfortable position, while New Brunswick, and particularly Nova Scotia, were, from the beginning, in very straitened circumstances. The allocation of functions and revenues discussed at Quebec in 1864 meant roughly that the provinces would be left with \$1½ million of local revenues to meet an estimated \$4 million of local outlay while the Dominion was to be given \$12 million in revenue to meet less than \$9 million in outlay. It was proposed to balance the provincial budgets by transferring \$2½ million to the provinces in the form of federal subsidies. The total amount of the agreed subsidies was sufficient to bridge the estimated gaps but the current conception of equity which required calculation of subsidies on a per capita basis glossed over real differences in need arising from disparate circumstances, unconnected with differences in population. The result of the settlement was that Ontario and Quebec got subsidies greater than their needs at the time. For several years, Ontario had considerable surpluses while the position of Nova Scotia became intolerable as early as 1868.

As already mentioned, Tupper had promised at Quebec that Nova Scotia would make ends meet somehow on a subsidy of 80 cents per capita, yielding \$264,000. Even when supplemented by the grant of \$60,000, in support of legislature and government, agreed on at London, Nova Scotia was still unable to honour Tupper's promise. The "better terms" agreement of 1869 gave the Province an additional \$140,000 of which \$83,000 was for a ten year period only.

In 1873, the Dominion assumed the "excess debt" of Ontario and Quebec. The consequent proportionate increase in the debt allowances of the other provinces afforded some further relief to Nova Scotia. However, with the expiry of the temporary grant in 1877 and the withdrawal by the Province of capital sums on debt allowance account, Nova Scotia's subsidy, in spite of other minor additions, had fallen to \$433,000 by 1884, at which figure it remained until 1906. The revenues from public domain did not expand as expected, municipal organization lagged and political considerations discouraged the introduction of direct taxation. Appeals to Ottawa for further subsidy increases were fruitless and throughout the period under review, Nova Scotia was seriously cramped by its inelastic revenue system.

New Brunswick had made a rather better bargain at Confederation and also improved its position slightly when it commuted its export duty on lumber for a subsidy of \$150,000 a year. But apart from these minor reliefs and particularly after its special temporary grant expired in 1877, its position was on all fours with that of Nova Scotia. Indeed, it was more heavily dependent on the Dominion subsidy for its revenues than was Nova Scotia.

The impossibility of dealing fairly with dissimilar areas and conditions by use of a common formula was revealed again in the financial settlements with the new provinces which entered the union early in this period. The Red River Settlement which had chafed under the rule of the Hudson's Bay Company but lacked experience in managing its own affairs suddenly blossomed into the Province of Manitoba in 1870. In substance, it was a creature of the Dominion Government without a will of its own and consequently the formula used in calculating the amount of subsidies for the four original provinces was strictly applied to it. As a result of the arrangement with Nova Scotia in 1869, the debt allowance had been raised from \$25 to \$27.77 per capita. Manitoba's population of 12,000, of whom less than 2,000 were whites, was generously assumed to be 17,000. Thus the Province was given the subsidy of \$67,000 to which it was entitled according to the formula.

Other provinces were expected to supplement their revenues from the public domain but Manitoba's lands were reserved by the Dominion to aid the federal policy of development. Yet the Province was not compensated for their retention. Lacking taxable capacity and having virtually no other revenue, the province was unable to support its governmental structure and it is not surprising that the annual subsidy was increased on four separate occasions during the next fifteen years.

Actual need and political expediency brought a considerable modification in the application of the formula to British Columbia and Prince Edward

Island. Strict application of the formula to British Columbia in 1871 would have given a subsidy wholly inadequate either to replace the customs revenue which was being surrendered to the Dominion or to meet the financial needs of the Province. British Columbia contended that its customs collections were equal to the amount of customs revenue derived from 120,000 people in the Eastern Provinces and suggested that the 9,000 whites and the 25,000 Indians and Chinese in the Province be regarded, for the purpose of subsidy, as a population of 120,000 and that the subsidy be calculated accordingly. This was not acceptable to the Dominion but another device was invented which served much the same purpose and British Columbia was brought into the union with a subsidy of $216,000 a year instead of the $75,000 which a rigid application of the formula to the actual population would have given.[41]

In 1873, Prince Edward Island secured a settlement involving a more radical revision of the formula. The public debt of the Province had rushed upward between 1867 and 1873. In order to lift the burden of debt charges from the Province, it was necessary to calculate the debt allowance at $50 per capita. In addition, the fact that the Province had no public lands induced the Dominion to give a further subsidy in lieu of lands. The original formula would have yielded a subsidy of only $45,000 but with these modifications, the Province secured an annual grant of four times as much.

Within a short period of time, these settlements in turn proved inadequate. In the eighties, Quebec also got into financial difficulties and, by 1887, all the provinces except Ontario were clamouring for an increase in subsidies. No further alterations were made during this period. The reasons why these adjustments and concessions, which had seemed adequate at the time, failed to meet the fiscal needs of the provinces will be considered later when the provincial revenues and expenditures are reviewed.

The Finances of the Dominion—concentration on economic development

The Federal Government had taken over the pre-Confederation debts of the provinces and was expected to finance the new program of development, to provide for defence and to assume the major burden of general government and legislation. The budgets of this period show that these expectations were being substantially realized. Virtually all the Dominion debt accumulated between 1867 and 1896 was incurred for development. By paring expenditures on general government and taking advantage of its freedom from large expenditures for defence which weighed so heavily on European governments, the Dominion was able to concentrate its efforts on this single activity. In 1874, at the end of the first spurt of development, debt charges and current outlay on transportation, agriculture and public domain accounted for half the current expenditures. The building of the Canadian Pacific in the early eighties added considerably to the total liabilities. In the general depression which descended again after completion of the road, the Dominion found its debt charges embarrassing and did not undertake any further large developmental program in this period. Nevertheless, in 1896, these same items still absorbed almost half the current outlay, while defence and general government accounted for only 6 and 28 per cent respectively. The traditional role of government in British North America as an agency for creating conditions in which private enterprise might thrive had been assumed by the Dominion. In this respect at least, the Dominion was living up to the original conception of its purpose.

But the ability of the Dominion to carry through the developmental program fluctuated greatly because of its heavy dependence on customs revenue. Until the Great War (1914-18), the financial fortunes of the Federal Government were directly and completely linked to the ups and downs of international trade and investment. As revenues rose with rising imports, the Dominion embarked on large developmental expenditures. This involved the investment of foreign capital, which entered the country in the form of goods. The increase in imports at once swelled the customs revenue. Meanwhile, investment stimulated internal activity, increasing employment, raising wages and consequently improving domestic trade. This increase in domestic trade boosted excise revenues.

Therefore, one of the first effects of a program of development was to fill the Dominion treasury and the government tended to forget that it increased the debt as well. In an optimistic mood, it raised its commitments for development still further. As long as investment funds were forthcoming, this procedure could continue almost indefinitely. However, because the flow of investment was certain to be checked at some time, a thoroughly false position was being built up.

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[41] For extended discussion of subsidy arrangements with British Columbia see Book II, Section F, Ch. II.

The moment the inflow of capital ceased, imports fell sharply, customs revenue slumped, employment declined, the consumption of liquor, tobacco and other luxuries fell away, excise revenues collapsed and the Dominion suddenly found itself with a heavy deficit. Meanwhile, the outlays on development had substantially increased debt charges, thus adding to the rigid and uncontrollable expenditures. In the sequel, it became more difficult to balance the budget by the familiar methods of retrenchment and higher taxation.

The embarrassing stages of the first of these cycles coincided roughly with Alexander Mackenzie's tenure of office. The Ministry of Sir John A. Macdonald experienced a similar cycle in the eighties, which was initiated by the expansion attending the construction of the Canadian Pacific railway. In the years 1881, 1882 and 1883, the Dominion enjoyed remarkable surpluses on ordinary account.[43] Relying on these temporary surpluses, the Government devoted a larger sum than ever before to public works (including buildings and harbours) in 1883-84 and embarked on a scheme of cash subsidies for railway construction. Then the flow of investment slackened, the peak surplus of over $8 million reported in 1884 was wiped out by rising expenditure a year later and by 1886 was converted into a substantial deficit.

The public finance system was still sufficiently flexible to enable Ministers of Finance, by increased taxation and economy, to balance their budgets in a short period. Deficits reappeared in the early nineties which were more difficult to wipe out. The persistent fall in prices due to economic stagnation affected seriously the yield of *ad valorem* customs duties. In 1895, customs receipts were $5½ million below what they had been in 1883, while debt charges and other government expenditures were slowly but stubbornly rising. Under such circumstances the enthusiasm for an aggressive program of development disappeared. The results of past efforts were disappointing in the extreme and now the Dominion could do little more than carry the commitments it had already undertaken.

The Straitened Circumstances of the Provinces—the growth of expenditures and the slowness of municipal development

The financial settlement at Confederation had left the provincial governments almost entirely dependent upon federal subsidies and the revenues from licences, fees and the public domain. It was expected that the receipts from the public domain would expand sufficiently to enable the provinces to extend their existing services to a growing population. Direct taxation was held to be impracticable and thus the expansion of activities would be restricted. Municipal organizations, it was expected, would assume an increasing share of the governmental burdens.

Municipal development lagged, however, except in Ontario. The Maritimes were slow to introduce a system to which they were not accustomed. Some progress was made in Quebec and Manitoba but very little in British Columbia. Failure to make rapid progress in this direction increased the financial difficulties of these provinces. In Central Canada, where urbanization was rapid, where the number of cities of over 10,000 in population doubled and the population of Montreal and Toronto doubled and trebled respectively in this period, municipal activities and expenditures expanded greatly. The provincial government of Ontario, and to a certain extent that of Quebec, derived considerable financial relief from the growth of local governments which provided a large share of the necessary services out of levies on real estate.

Although in most provinces municipal development was slow, provincial governments confined by their narrow revenue systems did not increase their expenditures greatly. Between 1874 and 1896, the total per capita outlay of all the provinces rose only from $1.69 to $2.20. This restraint on provincial outlay during a long period of depression was made tolerable by the nature of the economy of the time. The relative self-sufficiency of the family and local communities enabled individuals to weather the depression somehow without reliance on governments. Those who were unable to make adjustments in this way were forced into the stream of migration to the south where they were absorbed by the rapid industrial development and the expanding frontier of the United States. In the 1930's, when self-sufficiency had sharply declined and emigration was stopped, it proved to be no longer possible to hold down governmental expenditures in face of a prolonged major depression.

[43] An increase in customs receipts of $520,000 on a single group of commodities was largely attributed by the Minister of Finance to imports of locomotives, railway carriages and coal for the Canadian Pacific Railway.

TABLE 11.—GOVERNMENT EXPENDITURES ON CURRENT ACCOUNT[a], 1874 AND 1896

(Thousands of Dollars)

—	Provinces		Dominion		Total Provinces and Dominion	
	1874	1896	1874	1896	1874	1896
Net Debt Charges	—	1,526	5,373	9,483	5,373	11,009
Justice, Legislation and General Government	2,564	4,274	4,651	8,024	7,215	12,298
Defence	—	—	1,331	1,627	1,331	1,627
Public Welfare	657	1,472	213	946	870	2,418
Education	1,421	2,003	—	—	1,421	2,003
Agriculture and Public Domain	726	951	930	990	1,656	1,941
Transportation	1,222	924	3,390	1,927	4,612	2,851
Subsidies to Provinces	—	—	3,753	4,238	—	—
Other	1,369[b]	2	529[c]	1,141[c]	1,898	1,143
Total	7,959	11,152	20,170	28,376	24,376	35,290
Total Per Capita (Dollars)	1·69[d]	2·20	5·18	5·59	5·91[d]	6·96

[a] Compiled from the Public Accounts of the Dominion and the Provinces.
[b] Includes a distribution of surplus to the municipalities in the Province of Ontario of $1,361,000.
[c] The post office revenues were netted against the post office expenditures and only the net operating deficit is included.
[d] Excludes Ontario surplus distribution to municipalities.

While the provinces were not greatly burdened during this period by their responsibilities for public welfare, there were other significant developments which began to place a strain on their revenue structures. The most important of these was the growth of debt charges. When the debts of the provinces were taken over by the Dominion in 1867, it had been thought that the provinces would not again incur any considerable public debt. But all the provincial governments except that of Ontario had got into debt before 1896 mainly as a result of developmental expenditures of their own. The topography of Nova Scotia, New Brunswick and British Columbia led to capital expenditures on railways, roads and bridges which could not be met out of restricted current revenues, and the slow development of municipal institutions in these provinces prevented any large shifting of burdens to municipalities. The Dominion curtailed its developmental program after the building of the Canadian Pacific railway but the depression did not prevent Quebec and Manitoba from assisting railway construction. Quebec, in particular, attempted a vigorous railway and colonization policy. By 1896, its debt charges amounted to two-thirds of the debt charges of all the provinces at that date. As the weight of debt charges increased, it pressed against the confines of the revenue system.

On the other hand, Ontario took advantage of its freedom from debt charges to expand other services. With an adequate network of railways and a mature municipal system which carried much of the cost of local roads and public works, the provincial government was able to increase considerably its assistance to education and public welfare. In the early nineties when the increased outlay on these services threatened to raise total expenditures above the yield of the existing revenue sources, the Province moved into the field of direct taxation.[45] However, for all the provinces taken together the amounts spent on education and public welfare during this period did little more than keep pace with the rise in population.

Total current expenditures of the provincial governments on transportation fell slightly between 1874 and 1896 and the only marked increase, aside from debt charges, was in the cost of the administration of justice and general government. This was due, in part, to the extension of government services to a wider area as well as to an increased population. The general government overhead varied widely as between provinces. It rose more steeply in Quebec than in Ontario and expenditures of Manitoba and British Columbia on this item more than trebled in this period. British Columbia with one-fifteenth of the population of Ontario was spending two-thirds as much as Ontario on general government and administration of justice. To a considerable extent, this disparity was due to the obstacles of topography and the lack of a developed municipal system in British Columbia.

[45] The preamble of the statute which first imposed succession duties in Ontario recited the heavy burden of expenditures for public welfare as the reason for the levy. See *Statutes of Ontario*, 1892, c. 6.

The Provinces embark on Direct Taxation—corporation taxes and succession duties

In each of the seven provinces, despite the smallness of the increases in expenditure, the total requirements exceeded the yield of the revenue sources on which they had relied at the time of entering the union. Total provincial revenues from public domain doubled and those from licences and fees almost trebled between 1874 and 1896 but, in absolute terms, these additions were small. Even when supplemented by the modest increases in subsidies to some provinces, they did not suffice to meet the demands for expenditure. Before the end of the period all of the provinces had resorted to direct taxation of some kind. In 1896, corporation taxes, succession duties, property and income taxes were already providing about 10 per cent of total provincial revenues. Beginning in 1873, British Columbia pioneered the field of direct taxation, trying real and personal property taxes, poll tax and income tax as well as succession duties before the end of the period.[46] Quebec, in 1882, was the first province to attempt to levy a corporation tax, and New Brunswick followed shortly afterwards. All seven provinces were levying succession duties in 1896. British Columbia and Prince Edward Island attempted to supplement their revenues by an income tax and, lacking a developed municipal system, both imposed provincial taxes on real property. Most of these ventures into new fields of taxation date from the early nineties, after unsuccessful demands for subsidy revision.

Behind the search for revenues lay the fact that the provincial governments had turned out to be more important agencies for collective action than the framers of the financial settlement had anticipated. Their per capita expenditures increased and their revenues from public domain did not expand sufficiently to bridge the gap. In efforts to combat the depression, they tried to push development on their own frontiers, thus incurring debts and debt charges. Failure to secure a generous revision of subsidies led to a general introduction of direct taxation. This was the most significant development in public finance in this period. The movement of the provinces into the fields of corporation taxes and succession duties was later to have far-reaching and unfortunate effects upon the whole structure of Canadian public finance.

TABLE 12.—GOVERNMENT REVENUES ON CURRENT ACCOUNT[a], 1874 AND 1896

(Thousands of Dollars)

—	Provinces		Dominion		Total Provinces and Dominion	
	1874	1896	1874	1896	1874	1896
Federal Subsidies	3,842	4,301	—	—	—	—
Taxes:						
Customs	1	—	14,443	19,479	14,444	19,479
Excise	—	—	5,617	9,170	5,617	9,170
Corporation Taxes	—	156	—	—	—	156
Succession Duties	—	428	—	—	—	428
Income Taxes on Persons	—	13	—	—	—	13
Taxes on Real Property	42	180	—	—	42	180
Taxes on Personal Property	—	108	—	—	—	108
Poll Taxes	—	65	—	—	—	65
Other Taxes	—	4	213	—	213	4
Sub-total	43	954	20,273	28,649	20,316	29,603
Licences, Permits, Fees, Fines and Penalties [b]	651	1,756	14	266	665	2,022
Public Domain	1,413	2,801	351	299	1,764	3,100
Sales of Commodities and Services	97	63	738	543	835	606
Other	619	97	225	201	844	298
Total	6,665	9,972	21,601	29,958	24,424	35,629

[a] Compiled from the Public Accounts of the Dominion and the Provinces.
[b] Including Liquor Licences.

[46] Ex. 172, Brief of B.C., Pt. V, Table 124.

Summary, 1867-96

In the first thirty years of Confederation, the physical framework of the Dominion had been completed and the basic national economic policies for the future had been adopted. Despite these achievements, the period was one of trial, discouragement and even failure. The national economic expansion failed to materialize. The long depression naturally weakened the newer and more tenuous loyalties and the Federal Government which, at first, undertook its appointed task of national leadership with vigour and assurance floundered and seemed to have lost its way. Its hesitations helped to undermine its claim to dominate the provinces. Provincial loyalties, on the other hand, showed an unsuspected strength and Privy Council decisions confirmed the provinces in possession of a large sphere of action beyond the reach of the Dominion. But the provinces were caught in a financial strait jacket from which they laboured, as yet unsuccessfully, to free themselves. The provincial governments lacked financial resources, while the Dominion failed to evoke a spirit of national loyalty. In these circumstances, it was by no means clear, at the end of the period, that the equilibrium necessary to a working federalism could be reached. It was not clear whether room could be found for the free play of provincial aspirations without denying to the Dominion the confidence and loyalty it needed for the advancement of common national purposes.

CHAPTER III

THE WHEAT BOOM, 1896-1913

1. NATIONAL ECONOMIC EXPANSION AND INTEGRATION

For twenty-five years the new nation had languished and even the most sanguine were troubled by forebodings about the success of Confederation. Then a fortuitous conjuncture of world circumstances brought with a rush the fulfilment of hopes long deferred. Life began to stir in the frame erected years earlier for a transcontinental economy. Directed by the national policies of all-Canadian railways, western settlement and protective tariffs, it grew with a rapidity surpassing all expectations. A vast and sudden transformation was wrought by the magic of wheat. The wheat boom brought a flood of settlers into the West and created two new and flourishing provinces. It precipitated a new era of railway development and spurred on the industrialization of Central Canada. Immense capital expenditures were necessary to equip the West and the growing urban and metropolitan areas of the East. Wheat worked a new integration of economic life and linked together the fortunes of the different regions.

In the optimism and prosperity of the day, the Federal Government recovered the initiative it had lost in the stagnation of preceding years and plunged again into the work of national development which the Fathers had assigned to it. The boldness and success of its new enterprises stimulated national pride. The development of the West was a national achievement and the participation of all areas in a common effort fostered a new sense of nationhood. Sons and daughters of the Maritimes and Central Canada migrated to the plains and built up the West, thus forging innumerable links between the older Canada and the new. Expansion on the distant frontier either solved or postponed the problems of provincial adjustments and regional interests. The Federal Government did not resume the attempt to dominate the provinces which had marked its earlier period of leadership and Dominion-provincial friction died almost completely away. Local and cultural diversities were partly reconciled and partly overshadowed in the dazzling success of the western development.

Success at Last—the turn in world circumstances brings a settlement boom on the Prairies

The Great Depression and the long period of economic stagnation in Canada came to an end in 1896. Prices, which had fallen 40 per cent (Statist Index) since 1870-75 began to rise. This reversal of trend was primarily due to economic factors operating throughout the entire world. The early nineties marked the beginning of a remarkable increase in the world's output of gold. During 1896-1914, as a result of the discovery of the deposits of the Transvaal and improved mining processes, world production was over three times as great as that of the eighteen preceding years and the world's stock of gold rose by 50 per cent. The absorption of this large increase in supplies by monetary systems in the days of the freely operating gold standard, and the rapid expansion of banking institutions, were important factors in the persistent and world-wide rise in prices.

The prices of raw materials, including foodstuffs, rose more rapidly than those of manufactures, especially iron and steel. This fact had immense significance for Canada. After 1896, the industrialization of Western Europe and the United States proceeded at a pace which amounted almost to a second industrial revolution. In the United Kingdom, France, Germany and the United States, the output of pig-iron and coal doubled between 1895-99 and 1910-14. The rapid growth of population, combined with the crowding of people into large industrial cities, created a rising demand for foodstuffs, particularly cereals. The full impact of this demand was felt in Canada. Hitherto the American West had been the granary for the expanding industrial population of Europe. But most of the good American lands had been taken up and it was natural that further demands for grain would push the frontier into the open plains of the Canadian Northwest.

The economic circumstances were unusually favourable. Selling prices were rising and costs were either falling or rising more slowly. Between 1896 and 1909-13, as is shown in Table 13, the average of the prices of all Canadian exports increased 32 per cent, that of grains and flour

TABLE 13.—CHANGES IN PRICE AND COST TRENDS, 1870-1913

—	Percentage Decrease	Percentage Increase
	1870-75 Average to 1896	1896 to 1909-13 Average
General Level of Canadian Wholesale Prices [a]	− 35	+ 48
Canadian Selling Prices—		
Exports [b]	− 4	+ 32
Grains and Flour [a]	− 40	+ 62
Wheat-Liverpool	− 46	+ 33
Canadian Costs—		
Imports [b]	− 35	+ 24
Imports of Iron and Steel Products [b]	− 34	+ 6
Prices of Manufacturers [c]		+ 20
Ocean Freights [d]	− 47	+ 7
Interest Rates [e]	− 23	+ 28

[a] Michell, H., "Statistics of Prices," *Statistical Contributions to Canadian Economic History* (Toronto, 1931).
[b] Taylor, K. W., "Statistics of Foreign Trade," *Ibid.*
[c] Dominion Bureau of Statistics.
[d] Isserlis, L., "Tramp Shipping, Cargoes and Freights," *Journal of the Royal Statistical Society*, Part I, 1938, p. 122.
[e] Yield on U. K. Consols.

increased 62 per cent and the price of wheat at Liverpool increased 33 per cent. On the other hand, the average of the prices of Canadian imports rose only 24 per cent and that of manufactured goods 20 per cent in the same period. A development of probably more far-reaching significance was the phenomenal decline in ocean freight rates. In 1896 ocean rates were only about half of what they had been during 1870-75 and they continued to fall until 1908, while wholesale prices were rising.

The great decline in transportation costs, the increase in the prices of cereals and the relative cheapening of the factors which entered the costs of production, i.e., manufactured goods and imports in general, suddenly brought the virgin resources of the Prairies within the scope of the international market and within the range of profitable exploitation. Capital and capital goods, the essential means for making this exploitation possible, were cheaper than ever before. The prices of iron and steel, which largely determined the cost of railways and of the implements of production, were falling steadily in relation to the values of the products of the farm. Interest rates were the lowest in recorded history and the British investor was willing to lend overseas in unprecedented volume. "At last Canada's hour had struck."

The favourable conjuncture of events after 1896 suddenly made the vast Canadian Prairie attractive to settlement. Another set of circumstances made it available almost as soon as its attraction was felt. The comparative uniformity of conditions, the concentration on a single crop and the ease with which transportation facilities could be provided and cultivation begun in a grassland terrain, meant that practically the whole region became at once profitable and open for development. Homes did not have to be hewn out of the forest nor clearings widened by slow and tedious stages. The ready assistance of governments and the painfully acquired experience of the early settlers had by 1900 largely solved the problems of production. The spring wheat culture, fall ploughing, and summer fallowing, were the major adaptations of farming methods to the semi-arid conditions and the short growing season of the Prairies. Henceforth, the speed of development depended upon the availability of men and capital. The Federal Government threw its energies and resources into the provision of both.

All the unoccupied lands in the Northwest were under the control of the Dominion. Hence the occupation of them was directed by the national purpose of rapid and unhampered settlement. With the termination of the railway land grant system in 1896, the free homestead became the mainstay of Dominion land policy. Out of a total of about 140,000,000 acres available for settlement, nearly 60,000,000 were set aside for free homesteads. In a period of rising prices, rising land values and cheap credit, the lure of these free lands in the "last, best west" was irresistible. The vigorous immigration policy of the Dominion, the efforts of the railways and "enterprising" land companies accelerated the rush from Europe and the United States to seize the new opportunities of the Canadian Prairies. The inflow of settlers began in earnest soon after the opening of the century and during the subsequent years of the period, the land was taken up with amazing rapidity. "An area larger than Vermont was 'entered' in free homesteads in 1909; twice the area of Connecticut in 1910; more than Delaware and New Hampshire in 1911; nearly the area of Maryland in 1912; and more than Massachusetts in 1913. . . ."[1] By the end of 1913, the rapid phase of western settlement was over. In so short a time, the frontier was pushed to its limits in almost all directions.

The occupation of the Prairie lands proceeded with little discrimination. There were no classifications of resources, no soil surveys, no climatic

[1] Chester Martin, *"Dominion Lands" Policy*, p. 519. (Canadian Frontiers of Settlement Series, Vol. II.)

records to guide either the government or the unwary settler. The policies and methods of the Dominion were mainly designed to serve the national purpose of filling the Northwest at once with as many people as possible. The selection of land was left largely to chance and to the devices which colonization agents, railways and land companies employed in their own immediate interests. The sectional survey, the railway land grant scheme, and pre-emptions illustrate a system designed for indiscriminate mass colonization[2] and it worked with almost mechanical perfection. Adjustment to the vagaries and failings of nature was left to time and bitter experience.

Prior to 1908, all the odd-numbered sections over the entire Prairie region were reserved for railway land grants. The railways were allowed to select their lands in areas "fairly fit for settlement". Under this clause nearly all the grants were taken up in the brown soil zone and in the wooded country of the Park Belt.

In 1908 when the location of the grants was completed, the whole area comprising the "dry belt" (southwestern Saskatchewan and eastern Alberta) which the "land-grant railways" had avoided was thrown open for free homesteads and pre-emptions. Up to that time settlement was largely confined to the park country and the tall grass plains. After 1908, the settlers induced by the pre-emption and deceived by a period of super-normal rainfall, swarmed into the dry area.

The ranching leases in the territory long thought to be fit only for grazing were terminated and the lands put under cultivation. "Instead of warning off the homesteader from areas of submarginal agriculture, it was thought necessary to warn off the rancher from encroaching upon the range of the free homestead, and to give the homesteader right of way in case of conflict between the two."[3] The flatness of the country, and the absence of forests and other obstructions facilitated extremely rapid settlement. Between 1910 and 1915, some 860 miles of railway were built south of the South Saskatchewan River. In the short space of about seven years, virtually the whole of the Dry Belt was occupied.

Whatever mistakes may have been made and resources wasted, the settlement of the Northwest was largely accomplished by 1913, and for the time being, at least, both the dry and the more humid areas had been brought into profitable production. Between 1896 and 1913, one million people moved into the three Prairie Provinces and the population increased from 7 to 20 per cent of the total population of the Dominion. The area of occupied land increased from about 10 million acres to 70 million acres and the production of wheat from approximately 20 million bushels to 209 million bushels. At the end of the period, the value of agricultural production reached a total of $300 to $400 million annually.

Settlement Boom makes National Economic Policies Effective—general expansion and national economic integration

The development of the Northwest within so short a time brought prosperity and rapid economic expansion to the rest of Canada. The settlement of the Prairies took place within the framework of the national policies of all-Canadian transportation and protective tariffs. The resolute application of these policies directed the growing demands for capital equipment, for manufactured goods, for distributive and commercial services into Canadian channels, thus bringing expansion in other parts of the Dominion.

The construction of the railways, the deepening of the canals and the improvement of the harbours necessary to transport the increasing volume of Western grain over Canadian routes, stimulated economic activity in the East and gave it a large share in the moving of western products to the markets of the world. The building of towns and cities on the Prairies, the equipment of the farms and the consumption demands of the population required a large quantity of manufactured goods. The protective tariff enabled Canadian manufacturers to capture the greater share of this new market, thus giving a tremendous impetus to industrialization in Ontario and Quebec, to the coal and steel industries of Nova Scotia and to the lumber industry of British Columbia.

The two national policies of all-Canadian transportation and protective tariffs, were closely related. The former made direct economic intercourse between the separate regions possible; the latter promoted East-West traffic; and, under the stimulus of Western expansion, the two together produced a remarkable degree of interdependence among the widely scattered and diverse communities of which Canada is made up. An economically loose transcontinental area was transformed into a highly integrated national economy.

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[2] For a discussion of this indiscriminate settlement and some of its results, see Ex. 236, Brief of the Edmonton Chamber of Commerce, pp. 19-22.

[3] Chester Martin, *op. cit.*, p. 526.

All-Canadian Transportation—the great policy of national development and the foremost object of federal finance; unbounded optimism and the birth of the railway problem

The Dominion's railway policy played a significant part, both in promoting the settlement of the Northwest and in making that settlement the basis of expansion in other regions of Canada. "Railways and continually improving transportation were as essential as rain and sun to progressive settlement on the Canadian prairie."[4] Prior to 1896, railway transportation in Western Canada was virtually controlled by the Canadian Pacific Railway. After the abandonment of the monopoly clause in the Canadian Pacific Railway charter in 1888, other lines were built and projected in southern Manitoba, principally those of the Northern Pacific; but there was little competition. In 1896, Mackenzie and Mann obtained their first railway charter and established the nucleus of that phenomenal enterprise, later to become known as the Canadian Northern. With the liberal guarantees offered by the Province of Manitoba which was ever anxious to encourage the construction of independent lines, the Canadian Northern rapidly acquired a network of railways on the Prairies. In 1902, it had 1,200 miles of line including a connection with Port Arthur.

While the relation between settlement and railway construction in Western Canada was immediate and direct, the influence of western settlement upon the transportation system in other parts of Canada was indirect but of far-reaching importance. The mounting volume of grain moving outward to the markets of the world and the increasing quantities of manufactured goods and equipment moving into the Prairies taxed the capacity of the existing facilities connecting the East with the West. This aroused the concern of the Dominion Government and inspired the imagination of railway promoters.

In the East, this growing traffic brought to the Grand Trunk its first period of real prosperity. In the West, the well-placed and economically-built lines of the Canadian Northern yielded increasing profits. Both systems were anxious to improve upon their good fortunes; the former by securing a direct connection with the western source of its expanding traffic; the latter by building a line to the East. The Dominion Government, alert to turn the commercial benefits of Prairie settlement to national advantage, was anxious to retain the flow of Western traffic within Canadian channels. Neither company could realize its ambition without the assistance of the Dominion. The nature and extent of the assistance given ensured that the extension of railway facilities would be in accordance with the aims of national policy and not necessarily in accordance with the conditions of economical and efficient transportation. As events later proved, the optimism of the period, the political exigencies and rival ambitions of the time made these two aims incompatible.

The increasingly rapid rate of settlement after 1902 spurred both the Dominion Government and the two railway companies into action. During the railway debates of 1903, Sir Wilfrid Laurier stated the Government's policy and the necessity of carrying it out immediately:—

> ". . . we cannot wait, because at this moment there is a transformation going on in the conditions of our national life which it would be folly to ignore and a crime to overlook; we cannot wait, because the prairies of the North-west . . . are now invaded from all sides by the white race. They came last year 100,000 and still they come in still greater numbers. Already they are at work opening the long dormant soil; already they are at work sowing, harvesting and reaping . . . We consider that it is the duty of all those who sit within these walls by the will of the people, to provide immediate means whereby the products of those new settlers may find an exit to the ocean at the least possible cost, and whereby, likewise, a market may be found in this new region for those who toil in the forests, in the fields, in the mines, in the shops of the older provinces. Such is our duty; it is immediate and imperative. . . . Heaven grant that it be not already too late; heaven grant that whilst we tarry and dispute, the trade of Canada is not deviated to other channels, and that an ever vigilant competitor does not take to himself the trade that properly belongs to those who acknowledge Canada as their native or their adopted land."[5]

In 1902, both the Canadian Northern and the Grand Trunk asked the Dominion for authority to carry out their plans to build a transcontinental railway. Attempts were made by the two companies and the Government to reach an agreement which would avoid the duplication involved in the construction of two additional lines across the continent, but they were without success. Under the prevailing optimism and political pressure, the Government did not insist and in the end gave generous assistance to both.

The original proposal of the Grand Trunk was to construct a line from Winnipeg to the Pacific Coast and then to link Eastern Canada with Winnipeg through the United States, via Chicago. When a charter for this route was refused by the Dominion, the Company proposed to build from North Bay and asked for assistance amounting

[4] W. A. Mackintosh, *Prairie Settlement: The Geographical Setting* (Toronto, 1934), p. 46.

[5] *Debates, House of Commons*, 1903, pp. 7659-60.

roughly to half the land and three-fifths of the cash subsidy paid to the Canadian Pacific Railway. The Government, however, feared this scheme would result in the diversion of the western traffic over the Company's lines to Portland rather than to Canadian ports. The expressed willingness of the Grand Trunk to connect with the Intercolonial was not taken seriously and the Government finally took the initiative to protect its own policy of all-Canadian transportation. The Dominion Government proposed to build a line (the National Transcontinental) from Moncton to Winnipeg and to lease it to the subsidiary of the Grand Trunk (The Grand Trunk Pacific) which was to construct a railway from Winnipeg to the Pacific Coast.

The National Transcontinental was to be located and built in accordance with the two-fold object of providing an all-rail outlet for western grain to Canadian ports and of opening ". . . to colonization the rich hinterland of Ontario, Quebec and New Brunswick". The agreement with the Grand Trunk Pacific in 1903 declared the purposes of the Government:—

> "It is hereby declared and agreed between the parties to this agreement that the aid herein provided for is granted by the Government of Canada for the express purpose of encouraging the development of Canadian trade and the transportation of goods through Canadian channels. The Company accepts the aid on these conditions and agrees that all freight originating on the line of the railway, or its branches, not specifically routed otherwise by the shipper, shall, when destined for points in Canada, be carried entirely on Canadian territory, or between Canadian inland ports, and that the through rate on export traffic from the point of origin to the point of destination shall at no time be greater via Canadian ports than via United States ports, and that all such traffic, not specifically routed otherwise by the shipper, shall be carried to Canadian ocean ports."[6]

Private capital would not undertake the venture under the conditions imposed by the Government. In order to secure its objects of all-Canadian transportation and development, the Dominion had to provide virtually all the capital required for the entire transcontinental project. The line from Moncton to Winnipeg was to be built wholly out of government funds. From Winnipeg to the Pacific Coast three-quarters of the cost (not exceeding $13,000 per mile in the Prairie section) was to be met by Dominion guaranteed bonds.

During 1902, the Canadian Northern obtained authority to build a railway from Port Arthur to Montreal. In 1911, when the Company was ready to go ahead with this plan, the Dominion Government was prepared to furnish the necessary assistance. Bonds to the extent of $35·5 million were guaranteed for a line from Port Arthur to Ottawa. The preamble to the Act providing for aid to the Company set out the aims of the Government and indicated the optimism with which still another transcontinental project was undertaken:—

> "Whereas, having regard to the growth of population and the rapid development of the production and trade of that portion of Canada lying west of the Great Lakes, and to the rapidly expanding trade and commerce of Canada generally, it is in the interests of Canada as a whole that another line of railway designed to assist in the direct and economic interchange of traffic between the eastern and western portions of Canada, to open up and develop portions as yet without railroad facilities, to promote the internal and foreign trade of Canada, to develop commerce through Canadian ports, and to afford the Government system of railways in Quebec, New Brunswick, Nova Scotia and Prince Edward Island an interchange of through traffic, should be constructed from the Pacific Ocean to the city of Montreal."[7]

While the Federal Government was assuming these extensive commitments to link together the separate regions, promote national development and keep Canadian traffic flowing over Canadian routes, the provinces, particularly those in the West, were energetically securing the construction of local lines both by guarantee and direct investment. Total railway mileage increased from 18,140 in 1901 to 30,795 in 1914. During the same interval, the railway mileage in the Prairie Provinces rose from 4,141 to 11,709. In 1914 there were more miles of railway in Canada per 1,000 inhabitants than in any other country in the world. Three railway systems (at 1914, two were not quite completed) spanned the continent. There were three lines through the wilderness of Northern Ontario, three lines, two of them running side by side, through the Rocky Mountains and three connections between Central Canada and the Maritimes, two of them through Canadian territory.

The extent of these costly duplications over long stretches of unproductive country shows the optimism of Dominion railway policy and the grandiose schemes of the railway promoters which this policy supported. Whether or not this optimism was pardonable in the spacious days of 1900-13, the burdens which it ultimately imposed on the Federal Government must be regarded as the cost of promoting the national purposes of development, national economic integration and political unity. It is true that many regional, provincial and local interests were served, but only incidentally to the

[6] *Statutes of Canada* (1903), 3 Edward VII, c. 71, sec. 42 of the agreement.

[7] *Statutes of Canada* (1911-12), 1-2 George V, c. 6.

prosecution of larger purposes. The cost was heavy. The aid given and commitments undertaken by the Dominion Government for railways up to 1914, are set out in Table 14.

TABLE 14.—DOMINION GOVERNMENT ASSISTANCE TO RAILWAYS
(*Millions of Dollars*)

	To March 31, 1914	
Cash Subsides—		
Canadian Pacific Railway System..	48.5	
Canadian Government Railways..	3.2	
Other..	48.5	
		100.2
Direct Investments on Construction and Advances—		
Canadian Pacific Railway System....	39.7	
Intercolonial and Prince Edward Island Railways..	115.1	
National Transcontinental and Quebec Bridge..	155.0	
Hudson Bay Railway..	6.1	
Other Canadian Government Railways.. ..	13.7	
Grand Trunk System..	72.5	
Canadian Northern System..	.8	
Other..	.4	
		403.3
Bonds Guaranteed—		
Grand Trunk System..	35.0	
Canadian Northern System..	59.7	
		94.7
*Total..		598.2

* In addition the Dominion gave net land grants amounting to 31·8 million acres.

During the rising prosperity of 1900-13, these onerous burdens were not galling and, in any case, it was thought that the rapid growth of the country would quickly justify the gigantic undertakings. As long as these were still in the construction stage and the interest on the mounting railway debt was capitalized and as long as the increasing capital imports due to the building of the railways swelled the Dominion revenues, there was no strain on the public finances. Almost all of the heavy capital expenditures of the Dominion Government during 1900-14 were met from current surpluses and the net debt rose by less than $70 million. In 1911, the Minister of Finance stated that: "Twenty years ago it would have taken six years' revenue to pay the net debt; ten years ago it would have taken five years' revenue to pay the net debt; today less than three years' revenue would pay the whole net debt of Canada".[8] The lavish railway guarantees had not yet come home to roost, and of course it was thought they never would. It was during this period of buoyant revenues and high confidence that the Canadian railway problem was born.

[8] Budget Speech, April 4, 1911, p. 8.

The provision of national transportation facilities was but one aspect of Dominion railway policy. To attain the objectives of that costly policy it was necessary to secure a level of rates which would counteract the North-South pull of geography and of possible alternative routes and draw traffic over the East-West lines instead. Hence the Dominion played an important part in shaping the railway rate structure (by legislation and by rulings of the Railway Committee of Privy Council and later of the Board of Railway Commissioners). The nature and extent of its intervention were fixed by its determination to encourage inter-regional traffic and all-Canadian transportation.

The objectives of the Dominion appear clearly in the Crow's Nest Pass Agreement of 1897. Under this agreement, the Canadian Pacific Railway, in return for a subsidy for the construction of the Crowsnest Pass line, undertook to reduce rates on grain and flour moving from the Prairies to the Head of the Lakes by 3 cents per 100 pounds and to reduce the rates on a considerable list of settlers' household and building supplies moving westward from Fort William and points east by 10 per cent. In the Manitoba-Canadian Northern Agreement of 1901, the Railway Company, in consideration of a provincial guarantee of its bonds and the lease of the Northern Pacific lines in Manitoba, agreed to reduce its tolls on grain from points in Manitoba to Fort William and Port Arthur by 4 cents per 100 pounds or to reduce all other rates to and from the Head of the Lakes by about 15 per cent.[9]

Following this agreement, a reduction of 2 cents per 100 pounds on grain and 7½ per cent on other freight was granted to points in Saskatchewan and Alberta. The decision of the Board of Railway Commissioners in the Western Rates Case (1914) lowered the Saskatchewan and Alberta rate scales approximately to the level of those of Manitoba. The agreement with the Grand Trunk Pacific in 1903 stipulated "that the through rate on export traffic from the point of origin to the point of destination shall at no time be greater via Canadian ports than via United States ports." The net effect of these reductions was to make Canadian grain rates the lowest in the world. While these reductions were being made in Western rates the Eastern Export Rates Case in 1905 and the International

[9] A reduction of 2 cents per 100 pounds on grain was put into effect on February 1, 1902 and a further reduction of 2 cents on October 7, 1903. In addition, the reduction of about 15 per cent on all other freight was put into effect on June 1, 1902. This agreement was not the result of Dominion policy but the condition established by the agreement resulted in reductions elsewhere later ordered by the Board of Railway Commissioners.

Rates Case in 1907 resulted in a decrease of about 10 per cent in export rates from Ontario and in the merchandise class rates in Eastern Canada. The rates between the Maritimes and Central Canada were directly under the control of the Dominion through its operation of the Intercolonial. Because of the location of the line and the desire to promote traffic, the tolls were kept far below the level of profitable operation.[10]

It is impossible to relate here all the detailed effects of Dominion policy on the Canadian freight rate structure, but sufficient of the important cases have been cited to indicate their influence in the considerable lowering of rates that took place during this period. The broad decline in the level of rates was accompanied by a narrowing of regional differentials. This, together with the special concessions to certain commodities encouraged inter-regional trade and promoted the development of new areas, particularly Western Canada where the farmer was greatly benefited by the low rates on grain. The Dominion was bending the railways to its dominant purposes.

A Booming Market for Manufactures—protective tariffs direct demands of railway expansion and western settlement into Canadian channels

The third national policy which was a factor in directing the course of development during 1896-1913 was the tariff policy. Although it was inspired by other motives and originally adopted to deal with different problems, it was nevertheless closely related to the Dominion's transportation policy. The two together released a set of complementary influences which buttressed the transcontinental political union with an integrated transcontinental economy. Under the dynamic and expansive force of western settlement, these influences were effective. During the stagnation of the Great Depression, the "National Policy" tariff of 1879-87 had not produced any notable results. The disappointment gave increasing force to the complaints of the Maritimes and of the exporting industries of Central Canada. These complaints were strong enough to bring about some tariff reductions in the early nineties. However, the effect of the reductions was limited because the price decline made many specific duties increasingly protective. On the other hand, the burden of the tariff tended to decline due to the relative fall in the prices of manufactured goods, and the great decreases in the costs of transportation.

The period of expansion which began in 1896 brought an entirely different set of conditions. The development of the West created a new and powerful interest in low tariffs while the growing demands of the settlers made the protective principle all the more desirable to the industrial East. Furthermore, a new competitive situation emerged with the rise of the United States as a great manufacturing nation. The Canadian tariff policy during 1896-1913 was a compromise between these opposing interests and also an attempt to make western development the basis of a general expansion.

The agitation for lower duties brought a significant innovation in the tariff of 1897. Instead of the almost traditional offer of a reciprocity treaty with the United States, a reciprocal clause offered a reduction in duties of one-eighth, and after July 1, 1898, one-quarter, to all countries adjudged on the whole to have given equally favourable treatment to Canada. Great Britain was immediately granted this reciprocal tariff. In 1898, the general offer of reciprocity was replaced by a British Preferential Tariff of one-fourth lower than the ordinary duties. During 1900 the differential was increased to one-third.

In 1904, an anti-dumping clause was inserted in the tariff giving added protection against extremely low-priced imports, particularly iron and steel, without a general increase in duties.

A complete revision of the Customs Tariff Act was made in 1907, introducing an Intermediate Tariff in addition to the British Preferential and General Tariffs. Apart from the establishment of these three schedules, the changes in duties were few. The uniform one-third differential in the British preference was removed and a separate preference was given for each item. The Intermediate Tariff which was approximately 10 per cent below the General was to become effective only as commercial treaties were negotiated. These general changes were the main adaptations of the Canadian tariff to the changing circumstances of the 1896-1913 period.

None of them resulted in any important alteration in the level of protection to Canadian industry. There were numerous reductions in individual items but they were made mainly at the expense of the treasury, without much modifying the degree of effective protection. In a few cases, however, considerable decreases were granted, particularly on articles entering into the cost of production of western agriculture, such as farm implements and

[10] Prior to 1913 the Maritime freight rates were about 20 per cent below those of Central Canada. The first of the increases which by the end of the War (1914-18) brought the Maritime rates up to the level in Ontario and Quebec was put into effect in 1913.

tools, binder twine and barbed wire. The duties on primary iron and steel were reduced but the loss in protection was offset by increase in and extension of the bounties.

The changes in the structure of the Canadian tariff after 1896 were, in the main, attempts to placate the low tariff interest of the growing exporting industry of the West while at the same time maintaining protection against the rising competition from the United States. The strategy of national policy was to bring about an East-West economic integration, an East-West inter-dependence and an East-West flow of traffic over the costly transcontinental transportation system; the tariff policy was part of this strategy. In addition to other considerations, the British Preferential and the Intermediate Tariffs were devices to cheapen imports from Britain and Europe which would move over the East-West route without lowering the barriers which restricted the South-North flow from the United States. The commercial and industrial opportunities of the western development were not permitted to be seized by the "ever vigilant competitor" to the South but were reserved to "those who toil in the forests, in the fields, in the mines, in the shops of the older provinces".[11]

Under the circumstances, the moderate degree of tariff protection was a practical compromise between the various interests concerned. The settlement of the Northwest took place with the tariff as one of the given conditions. With rising prices and rising land values, it did not impose any immediate burdens. The rapidly increasing demands for manufactured goods brought great industrial expansion in the East without the shelter of a higher level of protection. The Government pursued its announced policy of "moderation and stability", and countered the insistent demands from certain quarters for increased duties with the reply that: "The best way you can help the manufacturers of Canada is to fill up the prairie regions of Manitoba and the Northwest with a prosperous and contented people, who will be consumers of the manufactured goods of the east".[12] In the political arena, the tariff was a 'sleeping dog' that was allowed to lie. Laurier wrote to Tarte: "The question of the tariff is in good shape if no one seeks to force the issue".*

The industrial expansion of Canada after 1896 was remarkable. Between 1890 and 1910, the net value of manufacturing production increased by nearly three times. In spite of an increase of nearly 200,000 farms in the Prairie Provinces during the period, the proportion of the total gainfully occupied engaged in manufacturing remained about the same. Although a vast agricultural region was added to the economy, the ratio of urban to total population increased from 32 to 45 per cent. While the value of agricultural production rose by leaps and bounds—the value of the exports of wheat and flour alone in 1913 was greater than the value of all exports in 1896—the value of the manufactured goods produced for the home market increased at an even faster rate.

TABLE 15.—THE NET VALUE OF PRODUCTION OF MANUFACTURES—CANADA[a]

(Millions of Dollars)

—	Totals for Establishments with Five Hands and Over	
	1900	1910
Textiles	32·9	67·3
Clothing	20·0	43·7
Wool Textiles	4·0	4·4
Cotton Textiles	6·5	13·0
Iron and Steel and their Products	35·0	106·3
Agricultural Implements	5·5	10·7
Railway Rolling Stock	5·2	25·2
Boilers, Tanks and Engines	2·8	7·6
Bridge and Structural Steel Work	0·7	2·8
Wire and Wire Goods	0·8	2·2
Primary Iron and Steel	3·1[b]	14·9[b]
Rubber Products	0·6	3·4
Tobacco	8·1	13·2
Boots and Shoes	7·6	16·0
Furniture	4·3	8·0
Liquor	5·3	18·7
Flour and Grist Mill Products	5·5	25·3
Glass Products	1·0	3·1
Chemicals	3·9	12·2
Electric Light and Power	2·0	12·9
Total of above Manufactures	106·2	286·4
All other Manufactures	108·3	278·1
Grand Total	214·5	564·5

(a) The Census of Canada, 1901, 1911.
(b) Excludes iron smelting.

Manufacturing expanded in most of the important categories: the provision of capital equipment, consumers' goods of general consumption and the processing of natural products for export. The program of railway construction, the growth of cities and towns, the equipping of western farms and the extension of community facilities in both East and West gave a great

[11] See p. 69.
[12] Budget Speech, April 16, 1903.
* January 27, 1903, O. D. Skelton, *Life and Letters of Sir Wilfrid Laurier*, Vol. II, p. 183.

impetus to the production of capital goods. The iron and steel industry particularly made rapid progress. Although imports were large, the tariff and the bounties diverted a substantial portion of the growing demand to the Canadian producer. Between 1896 and 1913, the Dominion paid nearly $17 million in bounties. Although, during the same interval, Canadian consumption of pig iron increased tenfold, Canadian manufacturers managed to increase their share of the domestic market from 67 to 80 per cent.

The duty on steel rails ($7 per ton), which reserved the market mainly to the domestic producer, was the principal basis of two large steel enterprises, one in Nova Scotia and the other at Sault Ste. Marie. Under the tariff of 30 per cent on cars and 35 per cent on locomotives, the production of railway rolling stock became a major secondary industry. The new demand for the equipment of western farms brought a 250 per cent increase in the output of agricultural implements. The boom in construction generated a great expansion in the production of machinery, structural steel, wire and nails.

The rapid increase in the population and the addition of a large specialized agricultural group in Western Canada greatly broadened the market for consumers' goods. The rise in the demand for such items as boots and shoes, clothing, cotton textiles, rubber goods, furniture and tobacco, was, by means of the tariff, directed very largely to Canadian sources. Between 1900 and 1910, the net value of the output of this group of products more than doubled. However, little progress was made in the production of luxury goods and articles of finer quality and imports were large. In the case of woollen textiles, linens and silks, upon which the duties were relatively low, the domestic industries lagged.

The improvements in transportation, new discoveries, increased foreign demand, and technological developments opened new opportunities for the exploitation of Canada's natural resources and in turn encouraged the growth of processing industries. Important beginnings were made in non-ferrous metal smelting and the manufacture of pulp and paper while the older saw-milling, flour-milling, meat and fish packing industries expanded considerably. Between 1896 and 1913, the exports of flour rose from $700,000 to $20 million, planks and boards from $8·5 million to $20 million, wood-pulp from $700,000 to $6 million and the exports of printing paper reached over $11 million in the year ending March 31, 1914. The settlement of the Prairies dominated the Canadian economic scene, but there were significant stirrings in the forests and mines of Northern Ontario and Quebec and British Columbia.

The most striking feature of the industrial expansion was its concentration in Ontario and Quebec. Seventy-eight per cent of the increase in the total net value of manufacturing between 1890 and 1910 occurred in these two provinces. If the production for export (lumber, wood-pulp and preserved fish), iron and steel and local industries such as baking, printing, buttermaking, are excluded, the Maritimes made very little progress. In these three Provinces, the numbers employed in manufacturing increased but there was a decline in the proportion of these to the total of gainfully occupied persons. With the cheapening of transportation and the growing advantages of large-scale production, industry was drawn nearer to the rapidly increasing populations of Western Canada and the Central Provinces; and nearer to the centre of United States' industry which financed and controlled so many of the Canadian manufacturing enterprises. The tendency toward concentration in the St. Lawrence Valley was particularly strong in the case of consumers' goods. Table 16 shows that the concentration was not only great but that in many important manufactures it was increasing during this period.

TABLE 16.—THE NET VALUE OF MANUFACTURING PRODUCTION—PERCENTAGE OF TOTAL FOR CANADA IN ONTARIO AND QUEBEC[a]

—	1890	1910
	%	%
Textiles and Textile Products	84	90
Clothing	86	95
Cotton Textiles	77	80
Boots and Shoes	88	94
Furniture	81	97
Tobacco	92	95
Rubber Products	98	91
Liquors	88	83
Glass Products	90	73
Chemicals and Chemical Products	88	75
Iron and its Products	85	81
Agricultural Implements	99	98
Hardware and Tools	93	92
Railway Rolling Stock	97	67
Wire and Wire Goods	91	92
Total of Industries listed	85	85
Grand Total Manufactures	81	80

[a] Compiled from the Census of Canada, 1891 and 1911.

The manufacturing industries of the Maritimes not only failed (with the exception of iron and steel) to derive any substantial benefits from the western development but they also lost ground in their own markets. The small industries and the handicrafts which filled many of the needs of the local communities declined under the competition of the mass-produced articles of Central Canada. The processing of many household requirements moved from the self-sufficient family and the village artisan to the factories of Ontario and Quebec.

On the other hand, the iron and steel industry in Nova Scotia was directly dependent upon western settlement and the railway building and construction boom associated with it. The iron and steel tariffs and bounties enabled the Nova Scotia industry to participate extensively in the expansion. Rails and railway rolling stock were among the items of principal importance. The output of pig iron rose from 32,000 tons in 1896 to 425,000 tons in 1912, the latter constituting about one-third of the Canadian consumption. However, the rapid growth of the iron and steel industry did little more than make up for the decline in manufacturing that was experienced in certain fields.

The national transportation and tariff policies which did not produce any significant results during the Great Depression were manifestly successful under the impetus of western settlement. The wheat from the Prairies moved over Canadian railways, along Canadian waterways and partly at least through Canadian ports to foreign markets. The income from exports was spent largely on manufactured goods and equipment supplied by the Canadian producer. The steel mills and coal mines of Nova Scotia, the manufactures of Ontario and Quebec, the lumber mills and fruit farms of British Columbia were no longer restricted to the limited local demand or to the small and uncertain foreign market, but became increasingly dependent, either directly or indirectly, upon the expanding and protected market on the Prairies. The hitherto isolated and almost self-contained regions were united with an increasing volume of inter-regional trade. In the growing inter-relationships and inter-dependence, there was a common basis for prosperity and expansion.

The Inrush of Foreign Capital—its great importance in the rapid provision of capital facilities; the rising but vulnerable prosperity

The pace of economic development during 1896-1913 was made possible by a huge investment of capital. The expansion took place in the centre of a country of vast distances. It was based on the exploitation of the natural resources of an immense area. These facts, combined with the bulky character of the products and the scarcity of labour, made necessary a large physical equipment. The required capital could have been obtained at home only very slowly. One of the important factors in this rapid growth was the ease with which money could be borrowed abroad. Soon after the turn of the century, Great Britain began to lend overseas in greater volume than ever before and Canada became a favourite field for investment. In 1897, interest rates had fallen to the lowest levels in modern history and during that year the Dominion Government floated a long-term loan in London at an effective rate of 2·88 per cent compared with 4·5 per cent in 1879 and 3·25 per cent in 1888. In 1900, the securities of the Dominion Government were placed on the Trustee List in England. Throughout the period, British money was available for public and private borrowing in Canada at low cost.

The boom in investment, although comprising a wide range of industries and activities, was most marked in the field of transportation. Between 1900 and 1913, nearly $1,400 million were invested in railways, canals and harbours. These were the main instruments of development and the necessary means for the promotion of internal trade. The policy of all-Canadian transportation greatly added to the demand for equipment. If the connections between the different regions, and from each to the seaboard had been made via the more economical routes through the United States, or via the existing railways, waterways and ports of that country, the transportation overhead on the Canadian economy would have been very much less. However, in view of the evident progress of the country and the great optimism about its future, the costs of achieving the national objectives were readily assumed. Where private credit was not sufficient, the pledging of the public credit easily brought forth the quantities of capital required.

TABLE 17.—TOTAL CAPITAL INVESTMENT IN SELECTED INDUSTRIES
(Millions of Dollars)

—	By 1900	By 1910	By 1913
Farm Buildings and Farm Working Capital	780	1,705	—
Capital Employed in Manufacturing	447	1,248	—
Mining, value of Buildings and Plant	43	109	—
Capital Employed in the Fisheries	11	17	24
Sub-total	1,281	3,079	—
Capital Invested in Railways	950	1,700	2,200
Dominion Investment in Canals	79	97	107
Capital Invested in Electric Railways	39	102	141
Sub-total	1,068	1,899	2,448
Total	2,349	4,978	—

The equipping of western agriculture in so short a time also involved a heavy investment of capital. During this period nearly 200,000 farms were established on the Prairies. All the buildings, machinery, live stock, etc., had to be newly created or brought in, and between 1901 and 1911, the value of such property increased by nearly $500 million. While a large proportion represented the capital of immigrants and the savings of the settlers, a substantial part was borrowed from mortgage and implement companies, banks and merchants.

Although the growth of western agriculture overshadowed progress elsewhere, there were important developments in other primary industries. The spectacular but, in many cases, short-lived activities in the gold fields of the Yukon, the silver mines of Ontario and the lead-zinc-copper ventures of British Columbia, and the less dramatic but more continuous progress of coal mining in Nova Scotia and Alberta attracted considerable amounts of capital. The rising Prairie demand for lumber stimulated the saw-mill and logging enterprises of the Pacific Coast. The pre-War years also saw in Ontario and Quebec the beginnings of the hydro-electric and pulp and paper industries which require heavy investments of fixed capital.

The expansion in the production of natural products for export, the increase in population and the directing influence of the national policies promoted a rapid growth in manufacturing. Small factories supplying a limited local demand grew into mass-production establishments producing for the national market. As the demand for all kinds of manufacturing expanded, many new industries were launched. The transformation and extension of manufacturing facilities required a large investment and between 1900 and 1910 capital employed in manufacturing increased by about $800 million.

The growth of the industrial equipment of the country was accompanied by an equally remarkable addition to what may be called community equipment. The population was not only growing rapidly but was becoming more and more concentrated in urban centres. In the Prairie Provinces, the urban population rose from 103,000 to 469,000 in ten years; in Central Canada, the population of the leading cities doubled; and Montreal and Toronto became metropolitan centres. This growth involved large expenditures not only on buildings but also on the many facilities (roads, streets, waterworks, sewerage and electric light systems, street railways, etc.) which are necessary in urban communities. Between 1900 and 1913, municipal debts which were mainly incurred for these purposes rose from about $100 million to nearly $540 million.

During the fourteen years prior to the War between $4,500 and $5,000 million was invested in capital goods. The expenditure of this vast sum was the chief basis of the rising prosperity of the time. In striking contrast to the stagnation of the eighties and early nineties this prosperity brought economic fulfilment of the high hopes of the Confederation scheme, so sorely disappointed in the earlier period. The expanding frontier in the West and the development of internal trade under the influence of the national policies was accompanied by a great investment boom. The many political, social and economic problems engendered by the long depression found at least a temporary solution. The high rate of construction activity financed from foreign borrowings created a large demand for domestic commodities and labour. Industries formerly dependent on the export outlet found profitable markets at home. Workers in depressed areas and occupations readily obtained employment elsewhere. The surplus population of the Maritimes and of the rural counties of Ontario along with a great tide of immigrants found new homes on the Prairies and in the cities of the St. Lawrence Valley. Between 1900 and 1913, well over a million immigrants came and remained in the country; these, together with the large inflow of capital, built a greater, more prosperous, and more economically interdependent Canada. In the success of these common efforts, the foundations for a stronger political unity were laid.

By 1913, the country was equipped with magnificent capital facilities. About half of what had been added since 1900 was obtained by borrowing abroad. These foreign obligations placed a heavy fixed charge upon the economy, the price of the rapid development that the borrowings made possible. The export capacity of the economy, which had to provide the interest due the foreign lenders, was greatly increased. Exports rose from $156 million in 1900 to $443 million in 1913 but in the latter year about one-third was absorbed in the payment of interest and dividends abroad. While the justification for these large commitments lay in the rapid rise in exports, the character of the latter was such that they were subject to wide fluctuations. During this period, the productive capacity of the country was tremendously enhanced but it also became more vulnerable to external influences. The economy which was so highly geared to large foreign borrowings and rising prices would encounter a severe dislocation when faced with a cessation of capital imports and falling export values.

Effect of Wheat Boom on the Regional Economies —Prairies the main exporting region; Ontario and Quebec the industrial and financial centre; slow progress in the Maritimes

In a few years between 1896 and 1913, the structure of the Canadian economy was basically changed. The settlement of the Prairies, the great importation of capital and the direction given by the national transportation and tariff policies transformed the isolated and depressed regions into an integrated and prosperous transcontinental economy. The most important factor in the development of the new situation was the rise of the Prairies as the important export region. This area, which in 1913 had one-fifth of Canada's population, was almost exclusively concerned with the production of wheat and its sale on the international market. Nearly 60 per cent of the gainfully occupied were directly engaged in agriculture which was dominated by this one crop. The remainder were chiefly employed in the commercial and distributive trades serving the farming community. Only about one-third of the population lived in urban centres. The large volume of wholesale and retail trade, and the financial, transportation and other services required by a highly specialized agriculture, were virtually the only support of the few cities that had rapidly grown up. Winnipeg became the Chicago of the Canadian West.

The economy rested almost completely on wheat. This one crop appeared to justify the large amount of capital borrowed abroad and invested in Western Canada, and it was the chief justification for most of the heavy investments of foreign money in the other sections of the Dominion. The Prairie region provided the principal economic contact of the country with the external world; one-third of Canada's exports out of which the external debts would have to be serviced consisted of wheat and flour. The rise to predominance of this commodity took place during the rapid development of international trade and investment which characterized the pre-War period. The exchange of European manufactures for foodstuffs grown overseas raised standards of living and greatly extended the productive area of the world. Hoping to become the granary of Europe, Canada became deeply committed to the continuance and further development of this international economic specialization and took the heavy risks involved in so great a dependence upon a single industry.

Along with the dramatic expansion of the Prairies which focused attention during this period, new export areas began to develop in British Columbia and Northern Ontario and Quebec. The extension of the railways and technological progress made possible a significant beginning in the exploitation of the resources of the Pre-Cambrian Shield. Between 1896 and 1913, the exports of nickel and silver rose from $2 million to $26 million and those of pulp and paper increased from less than $1 million to $18 million.

In British Columbia, the production of non-ferrous metals reached $17·1 million and exports of canned salmon $6·6 million in 1913. However, the chief factor in the economic progress of the Pacific Coast Province was the rise of the lumber industry. The Dominion's transportation policy linked British Columbia to the Prairie market which took about 70 per cent of its lumber. While exports were important, the expansion which brought a trebling of population was heavily dependent upon the wheat boom.

On the other side of the continent, the Maritimes, although profoundly affected by what was going on elsewhere in Canada, did not share equally in the buoyant prosperity of the period. Their golden age had reached its peak with the Reciprocity Treaty and the American Civil War and its decline coincided with the achievement of Confederation. Shipbuilding, the carrying trade, the self-sufficient agriculture, the small local manufactures and the flourishing fisheries, which were the cornerstones of the economy, declined with technological changes and unfavourable circumstances in foreign markets.

During the eighties and nineties, the iron steamship all but ousted the sailing vessel from the world carrying trade. Many thought that the coming of the railway would bring new opportunities compensating for this blow to their commerce by linking a large hinterland to their ports. The Federal Government had earlier built the Intercolonial and its transportation policy later resulted in the extension of the Canadian Pacific (the "Short Line") to Saint John, and the National Transcontinental to Moncton.* However, with the higher cost of railway over ocean transport and the larger capacity of steamships, traffic was irresistibly drawn to the inland St. Lawrence ports and the great American ports to the south. Nearness to Europe which was an advantage in the days of the sailing ship was no longer so. Nevertheless, there was some progress in the development of the Maritimes, as outlets for inland commerce, and in this, federal assistance and policy played a large part. However, between 1891 and 1911 the combined population of Saint John and Halifax rose but slightly (78,000 to 89,000) and part of this growth was at the expense of the smaller outports which declined.

With the rise of grain production in the American and Canadian West and the fall in the costs of transportation, Maritime agriculture was forced to undergo a substantial readjustment. The relatively poor soil, the small fields and scattered farms could not compete with the cheap imports of grain and live stock. It became necessary to specialize in the production of crops where there was the least disadvantage, namely roots and fruits for export, and fodder for the lumber camps and the sheltered dairy industry. This specialization, however, did not permit expansion and the gainfully occupied in agriculture decreased from 134,000 in 1891 to 114,000 in 1911.

The difficulties of manufacturing in the Maritime Provinces during the period have already been described.[13]

The fisheries, Nova Scotia's most important export industry, likewise encountered unfavourable circumstances. With the development of meat packing, canning and refrigeration, the fish markets were more and more limited to the sugar islands of the Caribbean where economic conditions were depressed. The encouragement of beet sugar production by European countries greatly curbed the markets for cane sugar and thus severely restricted the purchasing power of the West Indies. Although there was a rise of nearly 50 per cent in the general price level, the value of Nova Scotia's production of fish increased only 22 per cent between 1896 and 1913. The quantity of dried cod exported fell, and the number of men engaged in the fishing industry declined.

Throughout this period, the Maritimes were forced to undergo difficult readjustments. These readjustments had to take place within the framework of the national policies which, in some respects, hampered them and, in others, provided alternative occupations. The tariff policy imposed a drastic change in the conditions under which the Maritimes had developed. It curtailed the growth of new exporting industries and hastened the decline of the old. On the other hand, the tariff and the federal transportation policy linked these provinces with the expanding regions to the west and enabled them to share in some of the demands created by the wheat boom. The rise of the Nova Scotia steel and coal industries was directly dependent on the protective duties, steel subsidies and the great program of railway construction. On the whole, however, the forces which tied the Maritimes to the continental interior failed to induce an expansion sufficient to offset the changes which had destroyed their dependence upon the sea and weakened their relations with foreign markets. The Provinces languished and their men and capital sought opportunities elsewhere. However, by migrating to the scenes of greater opportunity many shared in the benefits of the expansion. During 1896-1913, the population of the three Provinces increased a mere 9 per cent compared with an increase of nearly 60 per cent in the rest of Canada.

At the beginning of this period, Ontario and Quebec, although sheltered by a protective tariff and connected with the Northwest by a transcontinental railway and with the Maritimes by the Intercolonial, had few relations with the rest of the country. They had their own contacts with foreign markets. The scope of their commercial and industrial activities was confined mainly to their own areas. In the early nineties, Canada's leading exports were lumber, cheese, fish, cattle and barley, and of these all but fish came chiefly from the two Central Provinces. Forest and agricultural products were the principal staples and the fluctuations in their sales in foreign markets determined the ebb and flow of prosperity. At the end of the period in 1913, this condition had entirely changed. Exports had become a relatively minor

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* For fuller discussion of transportation policies in relation to the Maritimes see Book II, Section F, Ch. V.

[13] See pp. 74-5.

factor in their economy. The Canadian, and more particularly the Prairie market for manufactured goods, transportation, commercial and financial services had become the main support of the economic life of the St. Lawrence Valley.

The western settlement and the national policies induced a rapid expansion, a great investment of capital and a measure of prosperity not experienced in the Central Provinces since the 1850's. With the highly specialized export production in Western Canada and the decline in the competitive position of the small Maritime manufacturers, Ontario and Quebec became the manufacturing centre of the country. The growing volume of traffic from the Prairie region moved over the railways, the waterways and out through the ports of the Central Provinces. The banks, insurance companies, mortgage companies and other financial institutions of these older communities quickly extended their activities to the expanding West where they came to occupy virtually the whole field. This commercial and industrial concentration was accompanied by a rapid urbanization and the growth of metropolitan centres in Central Canada. It was accompanied also by the rise of great national business organizations having their headquarters in Montreal and Toronto. Manufacturing, finance and transportation came to be dominated by a few large corporations whose operations extended across the entire continent. This period saw the development of a remarkable centralization in a country of such widely separated and varied regions.

The wheat boom had finally brought the realization of the economic objectives of the Confederation scheme. The Northwest was settled and the Federal Government was able, through its policies and projects, to ensure expansion in the older communities of Canada on the basis of that settlement. These communities, restricted by the exhaustion of their own frontiers and confined to a precarious dependence on their own foreign outlets, received a new stimulus from the highly specialized exporting industry on the Prairies which had become the country's principal economic contact with the external world. Wheat transformed the static and isolated regions into an integrated and expanding national economy. The rising prosperity which accompanied this growth in interdependence fortified the political structure of Confederation with a common material interest and a national spirit such as had never existed before.

Growth of National Unity and Rise of Canadian Nationalism—success of Dominion policy and common basis of prosperity alleviate regional and provincial discontent

In this atmosphere of large plans and their successful execution, Canadians began to believe themselves to be a great people. Their work in creating the West gave them that sense of common achievement which marks a nation. They were proud of what they had done and this gave them confidence in the future. Sir Wilfrid Laurier merely echoed a widespread conviction when he proclaimed that the twentieth century belonged to Canada.

This pride and optimism was manifested in several ways during the period. The Alaska Boundary Award was greeted in 1903 by an outburst of indignation throughout Canada. It was felt that the diplomatic bargaining of Great Britain and the United States had ignored the rights of a nation. This humiliation was a sharp reminder of Canada's dependent colonial position and it reinforced the movement for autonomy.

The autonomy movement itself was the product of a national consciousness. The desire for a privileged and sheltered position inside the Empire which had moved the colonies before Confederation was largely spent. A spirit of national exclusiveness struggled with older loyalties and with undoubted pride in the Imperial connection. The period was marked by the see-saw of these forces. Under the Laurier Government, the various proposals for closer relationships within the Empire were coolly received. Autonomy was more to be desired than Empire federation. Canada elected to establish its own navy rather than to contribute directly to a system of centralized imperial defence, and was not disposed to participate in the framing of British foreign policy. The Borden Government, after 1911, set out to modify this policy. But its naval bill was rejected by the Senate and overtures for some share in the framing of British foreign policy were coolly received by a British Government conscious of the difficulties of divided responsibility.

The growing national consciousness and confidence also contributed to the defeat of Reciprocity in 1911. For years after Confederation, both parties had attempted to secure a renewal of reciprocal trade relations with the United States. It was in despair of such a desirable arrangement that the National Policy had been adopted in 1879.

After many doubts and disappointments, the widespread prosperity of the first decade of this century appeared to vindicate the policy of industrialization by protective tariffs. The conviction that the nation could work out its own destiny, imperialist sentiment, resentment at the United States and the pressure of special interests combined to turn down Reciprocity when it was at last offered.

Nationalism had a potent influence on external relations. Internally, it worked hand in hand with other favourable circumstances to promote political harmony. Western expansion brought prosperity to the older provinces and eased regional difficulties which might otherwise have sought political expression. The bold leadership of the Federal Government seemed everywhere to be creating opportunities rather than imposing restrictions. The impressive results secured won a new respect and loyalty for federal policies.

There was no revival of the centralizing tendencies which had marked the leadership of the Federal Government in earlier days. The decisions of the Privy Council had undermined the theory of federal dominance. The Liberal Party, which was in power during 1896-1911, had recruited much of its strength from the elements which combatted the Macdonald conception of Confederation and struggled for provincial rights. Its policy was greatly influenced by the personality of Sir Wilfrid Laurier who consistently tried to promote a closer harmony between the French and English through mutual tolerance and understanding. The prevailing philosophy of Canadian federalism in this period, therefore, aimed at national unity through voluntary co-operation of an acknowledged diversity of elements. The Dominion was alert to avoid policies which would cut athwart provincial interests.

Dominion powers of reservation and disallowance were much more sparingly exercised. The power of reservation was exercised in the sole instance of a British Columbia bill relating to Oriental immigration.[14] While there were 29 disallowances of provincial acts in the period, 19 of these were accounted for by the repeated enactment in British Columbia of discriminatory and restrictive measures against Orientals. The Dominion considered these to be either beyond the legislative power of the Provinces or contrary to Dominion or Imperial policies and interests. On these grounds, it was prepared to act firmly but it abandoned the earlier practice of disallowing provincial statutes on the ground that they were inequitable, confiscatory or contrary to sound principles of legislation.[15] The competence of the provincial legislatures to decide such issues was acknowledged.

The Dominion also began to consult the provinces on matters of common concern. Dominion-provincial conferences were encouraged as instruments of co-operation and through them the Dominion tried to secure a satisfactory final revision of subsidies. In face of this conciliatory attitude of the Dominion, the provinces were less inclined to be aggressive. They pressed strongly for a revision of subsidies but in the conferences of 1902, 1906 and 1913, they did not seriously criticize federal policies or demand radical constitutional changes. They were mainly concerned with their fiscal difficulties and not with fundamental adjustments in Dominion-provincial relations. The general prosperity was a powerful solvent of political as well as economic difficulties.

2. Public Finance, 1896-1913

Rapid Rise in Government Expenditures—extensive assistance to development, the occupation of the frontier and urbanization

Between 1896 and 1913 there was an immense growth in public expenditures. Total Dominion, provincial and municipal current outlay was multiplied four times, rising from $63 million to $253 million. The growth in population naturally involved additional outlay by governments but the per capita expenditures almost trebled. The forces which brought about this extraordinary jump in the costs of government were all-pervasive, exerting roughly equal pressure on all three levels, Dominion, provincial and municipal.[1]

The principal causes of this multiplication of expenditures was the enormous expansion of the economy and the important role which governments played in that expansion. The rapidity of economic development in the early years of the century was only made possible by the wholehearted efforts and lavish assistance of governments. The bringing of the western wheatlands within reach of the international market in less than a decade involved large additions to transportation facilities which private enterprise could

[14] *Memorandum on the Office of Lieutenant-Governor of a Province*, Department of Justice, Ottawa, 1937, pp. 60-61.

[15] *Memorandum on Dominion Power of Disallowance of Provincial Legislation*, Department of Justice, Ottawa, 1937, pp. 70-73.

[1] The Dominion raised its percentage share of the total outlay from 38 per cent in 1896 to 42 per cent in 1913, the provinces increased their share from 17 per cent to 19 per cent while the municipal share declined from 45 to 39 per cent.

not have supplied so quickly, and indeed would not have dared to embark on, without public assistance.

Moreover, the general expansion generated by the wheat boom led to new developmental expenditures everywhere. The new mining areas in British Columbia and Ontario were opened up. Provincial governments began to make grants for highway development. The Federal Government gave bounties on iron, steel, lead, petroleum and imports of manila fibre in order to encourage domestic production.[2] Various industries were assisted by provincial subsidies and both Dominion and provincial governments allotted increasing sums to encourage and improve agricultural production.

During the boom, two new Provinces were created and two others grew to maturity in the West. In Saskatchewan and Alberta, the entire community equipment and all the physical apparatus by which governments perform their social role had to be provided almost overnight. Transportation and communication facilities, public buildings and equipment of every kind were required. The foundations and superstructure of an educational system had to be built. Towns and villages sprang up everywhere, needing a wide variety of municipal services. People in haste to realize a goodly heritage found private enterprise too slow in providing some of the services commonly left to its care in older communities and they easily agreed in asking governments to furnish them. What was true of these two Provinces was only slightly less true of the rapidly growing Provinces of Manitoba and British Columbia.

The largest increases in government activity in Eastern Canada were due to the rapid urban development of the period. The wheat boom brought great industrial expansion, particularly in Central Canada. Towns grew into industrial cities and cities into metropolitan areas. As people were drawn from the farms and villages to the cities and towns, the problems of urban crowding required a large extension of public services. Streets and street railways, gas and electric systems, sewage systems, water supplies, schools, hospitals, libraries, etc. were required. The greater the concentration of population, the greater is the number of services which can be supplied most economically in a collective manner. Also, in the case of some services, concentration brings a rapid rise in per capita costs. This tendency toward a geometric rather than a simple arithmetic progression of government expenditures in growing urban and metropolitan areas was an important factor in the increase in municipal expenditures in the period under review.

Finances of the Dominion—booming customs revenues spur on aggressive program of development; the lavish assumption of railway commitments

In the Confederation scheme, one of the principal functions of the Federal Government was to be the promotion of economic development, and for two brief periods (1867-1874 and 1879-84) it confidently undertook this task. Then the Great Depression dried up its revenues and sapped its initiative. When prosperity reappeared at the end of the century, the Dominion became once more the chief instrument of new and larger programs of development. With expanding revenues, its operations gained a new magnitude and sweep surpassing all its previous efforts. Doubts as to its capacity to play the role intended for it suddenly vanished.

The development of the West was under way by the beginning of the century and Canada was attracting large quantities of foreign capital. As this capital poured into the country in the form of goods, the familiar public revenue cycle of the Dominion was repeated but on a scale hitherto unknown.[3] Customs, and later excise, receipts from which it drew over 90 per cent of its revenue shot upward, and as early as 1900 produced a surplus of $8 million on ordinary account. With two or three exceptions, the Dominion piled up surpluses of increasing size each year throughout the remainder of the period. In 1912-13, despite considerable capital expenditures charged to current account, the surplus was nearly double the total gross revenues of the Dominion in 1896.

At the same time, the rapid increase of population and low interest rates were reducing the per capita burden of debt charges. In 1914, the per capita interest charges were slightly less than they had been in 1875, despite the addition of $393 million to the direct public debt of the Dominion. Such facts make it easier to understand the boundless optimism of the time and the assurance with which the Federal Government increased its expenditures and piled up contingent liabilities. As long as the expansion continued, past commitments appeared trivial in the face of mounting

[2] For figures showing amounts expended on bounties in this period, see Canada Year Book, 1915, pp. 459-61.

[3] In the first decade of the century the value of imports rose from $190 million to $420 million.

revenues and surpluses. As the conditions which would bring expansion to a halt were nowhere apparent, the dire predictions of the cautious and the timid seemed ludicrous and the unfolding of events throughout the period reinforced this superficial judgment.

Between 1896 and 1913 the current expenditures of the Dominion were multiplied four times. Expenditures on developmental projects accounted for over half the total increase. The promotion of western settlement and general expansion by lavish outlays on transportation and public domain were the principal concern of Dominion finance. It is not necessary to recount the well-known history of the liabilities incurred for the National Transcontinental, the Grand Trunk Pacific and the Canadian Northern. In 1913, virtually the whole of the direct and indirect debt of the Dominion, amounting to $521 million, had been incurred for railways, canals, harbours and river improvements.

Aside from development, the only significant increase in expenditure was for defence, the cost of which, due to uneasiness in Europe, rose from $2 million to almost $14 million. The creation of two new Provinces in 1905 and the general revision of subsidies in 1907 added some $7 million to the federal subsidies. The outlay on general government and administration rose by over three times due mainly to the increase in population; the rapid extension of the occupied area and the rise in salaries and wages. The Dominion undertook no new services of importance. It assumed no responsibilities and gave no assistance to the provinces for public welfare and indeed no need for this appeared. Development, particularly the railway program, overshadowed all the other functions of the Dominion.

The enormous additional burdens which the Federal Government assumed in connection with development were not onerous in the days of rapidly expanding revenues. The full weight of them was not felt until the contingent liabilities arising out of the railway guarantees became hard realities and the operating deficits of the insolvent railways were saddled on the Dominion at a time when revenues were falling. In this period, the seeds of a perennial public finance problem were sown.

TABLE 18.—GOVERNMENT EXPENDITURES ON CURRENT ACCOUNT,[a] 1896 AND 1913

(Thousands of Dollars)

—	Provinces		Dominion		Total Provinces[b] and Dominion	
	1896	1913	1896	1913	1896	1913
Net Debt Charges	1,526	2,304	9,483	12,213	11,009	15,081
Defence	—	—	1,627	13,781	1,627	13,781
Public Welfare	1,472	4,343	946	2,617	2,418	6,960
Education	2,003	9,600	—	215	2,003	9,815
Agriculture and Public Domain	951	7,434	990	10,985	1,941	18,403
Transportation	924	8,631	1,927	35,467	2,851	41,964
Subsidies to Provinces	—	—	4,238	11,280	—	—
General Expenditures—Justice, Legislation, General Government and Miscellaneous	4,276	15,069	9,165	31,736	13,441	46,805
TOTAL	11,152	47,381	28,376	118,294	35,290	152,809
Total per Capita (Dollars)	2·27	6·22	5·59	15·50	6·96	20·02

[a] Source: The Public Accounts of the Provinces and the Dominion and the Public Accounts Inquiry of the Royal Commission on Dominion-Provincial Relations.
[b] Inter-governmental transactions eliminated.

Finances of the Provinces—pre-occupation with development; the rapid increase in debts and expenditures of the Western Provinces

Between 1896 and 1913, the per capita current expenditures of the provinces increased nearly three times, their per capita debts nearly four times. At Confederation the provinces were vested with important functions but their financial responsibilities were not great. Their revenues were narrowly restricted and it was not thought they would again incur any substantial debts. However under the circumstances of the wheat boom they rapidly enhanced their role as agencies for collective expenditures. By 1913, the total debts of the provinces were more than half, and their current expenditures nearly half those of the Dominion. The provinces had evolved from a relatively minor to an important position in Canadian public finance.

As in the case of the Dominion, the dominant factor in the rise of debts and expenditures was the pre-occupation with economic development. While the Dominion was spending lavishly to promote expansion on a national scale, the provinces were encouraging the construction of railways and facilitating settlement on their own frontiers. In 1913, 80 per cent of the total provincial debts and 40 per cent of the current expenditures were incurred for development.

The largest outlays for development were naturally made on the frontiers of the expansion, namely the four Western Provinces. In 1913 the average per capita debt of these Provinces was nearly six times as great as that of the rest of the country. In the same year, Alberta, British Columbia and Manitoba each had larger total liabilities than the Province of Ontario. Three-fifths of the western provincial debt had arisen out of expenditures on railways or consisted of guarantees of railway obligations. The latter included some $85 million of bond guarantees granted to hasten the construction of branch lines by the Grand Trunk Pacific and of the mainline and branches of the Canadian Northern. The Prairie Provinces had also incurred considerable debts for the provision of general community facilities. In many instances it was thought that private enterprise was too slow, and that the rich natural heritage might well be mortgaged to encourage rapid settlement and to lighten the rigours of the pioneer life with a few common amenities. All of the three Provinces established provincial telephone systems. Manitoba and Saskatchewan made investments in grain elevators. Public buildings, court-houses, normal schools, universities, hospitals, roads, etc., had to be supplied almost overnight. These would fill not only the needs of the present but also those of a much greater future. Hence it was felt that they should not wait until they could be paid for out of current revenues. At 1913, the per capita debt incurred for public buildings, institutions and roads by the Western Provinces was four and a half times as large as that in Eastern Canada.

In addition to the provision of capital facilities the Western Provinces were spending appreciable amounts on development out of current revenues. Debt charges however were still small since the railway guarantees did not as yet have to be implemented. Later, most of these were assumed by the Dominion. British Columbia, heavily dependent upon lumbering and mining, was making large outlays on public domain. Manitoba, Saskatchewan and British Columbia were already spending considerable amounts on highways. The last Province, with its difficult topography and its policy of meeting capital costs out of current revenue, was spending nearly twice as much on roads and bridges as all the other Canadian provinces combined.

The developmental programs of the Eastern Provinces were relatively on a much smaller scale than those in the West; nevertheless they were important and almost wholly accounted for the two-fold increase in their per capita debts between 1896 and 1913. New Brunswick and Quebec expended considerable amounts in extending railways to their undeveloped frontiers. Ontario built the Temiskaming and Northern Ontario Railway, guaranteed $7·9 million of Canadian Northern Ontario railway bonds and launched the Hydro-Electric Power scheme. The Maritime Provinces concentrated mainly on the construction of roads and bridges which was responsible for the major portion of the increase in their debts. Net debt charges however did not rise substantially. Quebec which had fallen into serious difficulties in the eighties was wary of again assuming such burdensome liabilities and its per capita debt, thanks to current surpluses, actually declined during this period. The debt of Ontario was still completely self-supporting. The current expenditures on public domain and agriculture however bulked relatively large in Ontario and Quebec where the northern resources were beginning to become valuable. Nearly one-fourth of the current outlay of the Maritimes was expended on roads and bridges.

Aside from the concentration of public resources on development, there were no important changes in provincial expenditures during this period. In 1913, legislation, justice and general administration constituted 32 per cent of the total current outlay, education 20 per cent, and public welfare but 9 per cent. The average per capita cost of general government for all provinces was slightly more than doubled. Salaries and wages had risen, the society had become more complicated and the regulatory and administrative functions had increased. The greatest rise had taken place in the Prairie Provinces and British Columbia where the per capita expenditures on general government overhead were respectively three and six times those of the Eastern Provinces. The lag in municipal development, the thin scattering of population and the rapidity with which government services had to be provided added greatly to costs. Education also called for larger outlays. The economy was becoming more specialized and the provinces responded to meet the more exacting requirements by fostering more complete and better standards of instruction. However, during the great expansion and prosperity of the time, most of the problems of social welfare, which have since become crushing responsibilities of the provincial governments, found their solution inside the private economy. The growth of specialization and urban concentration were rapidly breaking down the former self-sufficiency of households and local communities but the social implications of this change were almost unnoticed in this period of spacious opportunity for all. Added costs of public welfare were mainly due to improved care for limited classes of unfortunates.

The Rise of Municipal Expenditures—rapid urbanization in the East, and the establishment of new cities and towns in the West

Total municipal expenditures during this period rose in three dimensions. First, there was the growth in population and the establishment of many new cities and towns, particularly in the West; second, the growing concentration of the population in large urban centres with their heavier per capita costs of providing the same services; third, the extension in the variety of collective services which accompanies the increasing size of urban centres.

One of the striking social changes of this period was the crowding of people into towns and cities. By 1911, over 45 per cent of the population was classed as urban. One-third of the population lived in cities and towns of over 5,000 and almost one-fifth in cities of over 50,000. The general decline in self-sufficiency and the industrial expansion stimulated by the wheat boom and the national policies brought a sharp increase in urbanization.

The self-sufficiency of the farm household and the village community, which had marked Canadian life throughout the nineteenth century, largely disappeared with the rapid development of a specialized exchange economy in this period. Higher prices for agricultural produce led the farmer to specialize and concentrate his efforts on a few products. Improvements in transportation wiped out the "natural shelter" under which the village craftsman had flourished. These factors, combined with improvements in manufacturing technique, enabled the farmer to exchange more of his specialized products advantageously for his various requirements which were processed or manufactured in urban centres. The assembling of farm and other natural products for distant markets and the distribution of manufactured goods for farm and village consumption required an intricate financial and commercial mechanism which concentrated in a few great cities. The rapid centralization of control in industry, commerce and finance in the period speeded up this development.

Urban concentration involves large additions to municipal services and, with a rising standard of living, it leads to collective provision of many comforts and conveniences. The cost of fire and police protection, health services and education, streets and sewers increases in a much higher ratio than the numbers of the population. Urban municipalities undertake water, light, power and transportation services. The skills required in a complex specialized society can only be secured through a more expensive educational system. The amenities of parks, libraries, recreation centres, free bathing facilities, among other things, are demanded. In the result, a greater proportion of the urban income is spent on collective services which add to municipal costs but, on balance, need not decrease and may even increase the real income of the community.

Municipal expenditures and debts, as in the case of the provincial governments, rose most steeply in the Western Provinces and for much the same reasons. Between 1901 and 1911 the urban population of the West grew from 193,000 to 673,000, a rate of increase six times as great as that in Eastern Canada. The speed with which services and facilities had to be provided added substantially to the costs. In addition many western municipalities undertook ambitious schemes which far exceeded existing requirements and were based on the most optimistic estimates of the growth in population. Per capita municipal expenditures in the Prairie Provinces and British Columbia were approximately double those of Central Canada.[5] The Maritimes were the least urbanized region in the Dominion and the provincial governments bore a relatively higher share of the total costs of education and roads, particularly in the rural areas where municipal organization had made little headway. These factors, together with the slow increase in population, held down the total per capita outlay of local governments to about half that in Ontario and Quebec.

The rapidly rising municipal expenditures in Central and Western Canada were financed without difficulty in this period. Almost all municipal revenues were derived from a direct tax on real property. The pre-War boom was marked by a steep and sustained increase in land values which easily carried the mounting burden of taxation.

Expansion of Provincial Revenues—inelastic federal subsidies intensify development of provincial revenue sources; the growing importance of taxation

The provincial governments could not have added to their expenditures as they did between 1896 and 1913 without access to more fruitful revenue sources. The fact that they were exploring the possibilities of the unpopular direct taxes in the early nineties testified to the tightness of their fiscal positions at the opening of this period. They continued to be more or less cramped for nearly a decade after 1896. Dominion revenues improved at once with rising customs receipts. It was almost ten years before the expansion and rising capital importations permeated the economy sufficiently to affect substantially the provincial sources of revenue. During the first few years of the century, therefore, the provinces pressed for a substantial revision of subsidies.

The Provinces of Alberta and Saskatchewan which came into existence in 1905 were given the advantage of previous revisions and liberal interpretations of the subsidy formula and the sums they received showed a considerable change in the conception of provincial responsibilities. Each was given a subsidy in excess of $1 million of which $375,000 was in lieu of the public lands retained by the Dominion. The 80 cent per capita subsidy was to be calculated on the actual population increase until a population of 800,000 was reached in each case.

Meanwhile, the older provinces continued their agitation and the Provincial Conference of 1906 was called to effect a final revision of subsidies. The settlement, which was accepted by all governments except British Columbia, added about $2·3 million (an increase of about one-third) immediately to the total annual subsidies paid to the nine provinces and provided for automatic increases with the rise in population.

About the time that the subsidy revision was under discussion, however, the boom began to have a marked effect on the sources of revenue on which the provinces had relied in the past with such disappointing results. Accelerating business activity boosted the income from licences and fees. Expansion of lumbering and mining brought a sharp increase in the revenues from public domain. As rising prosperity quickened the accumulation of wealth, succession duties began to bring in considerable sums. As corporate organization spread rapidly, the corporation tax became fruitful. This buoyancy temporarily relieved the financial strains of the provinces but when the boom broke they were once more in difficulties. Manitoba and Prince Edward Island got a further increase in federal grants in 1912 and at the Inter-Provincial Conference in 1913 the provinces again urged a general revision of subsidies.

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TABLE 18A.—PER CAPITA MUNICIPAL GOVERNMENT EXPENDITURES, CURRENT ACCOUNT[(a)], 1913

—	Total Canada	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
	$	$	$	$	$	$	$	$	$	$
Net Debt Charges	2.59	0.27	0.98	0.69	2.15	2.28	3.67	2.73	5.12	6.67
Public Welfare	1.07	0.05	0.87	0.59	0.92	0.81	2.38	0.89	1.16	2.89
Education	3.64	0.69	2.14	1.69	2.43	4.26	4.68	4.66	7.38	3.44
Transportation	1.93	0.26	0.61	0.79	1.59	1.97	1.76	2.79	2.80	4.47
General Expenditures—Justice, Legislation, General Government and Miscellaneous	3.95	0.31	1.22	1.14	2.83	3.72	7.52	6.57	4.63	9.03
TOTAL	13.18	1.58	5.82	4.90	9.92	13.04	20.01	17.64	21.09	26.50

(a) Source: Public Accounts Inquiry of the Royal Commission on Dominion-Provincial Relations.

By the end of this period, federal subsidies had become a relatively minor part of total provincial revenues, namely 28 per cent, compared with 43 per cent in 1896 and 58 per cent in 1874. At the same time, the proportion of federal revenues thus transferred to the provinces had dropped by one-half.[6] On a number of occasions the provinces had suggested a formula which they hoped would keep the subsidies more in line with their growing expenditures and enable them to reap some of the benefits of the expanding revenues of the Dominion.

The proposal that a part or all of the subsidies should consist of a constant ratio of the Dominion's receipts from customs and excise, which was advocated in Parliament in 1884 and at the Inter-Provincial Conference in 1902, came up again at the Conference in 1913. This time a formal resolution was passed asking the Dominion to give the provinces an extra grant "equal to 10 per cent of the Customs and Excise Duties collected . . . from year to year". Whatever likelihood existed that this resolution would be acted upon, disappeared when less than nine months later Canada was plunged into the Great War.

Federal subsidies provided less than one-fourth of the increase in provincial revenues ($35 million) during this period. The sources from which the provinces were originally expected to meet expanding requirements, namely, licences, fees, etc., and public domain, took care of only about one-half of the increase in their needs; the remainder, $8·4 million, was obtained from direct taxation.

TABLE 19.—GOVERNMENT REVENUES ON CURRENT ACCOUNT,[(a)] 1896 AND 1913

(Thousands of Dollars)

——	Provinces		Dominion		Total Provinces [(b)] and Dominion	
	1896	1913	1896	1913	1896	1913
Federal Subsidies	4,301	12,851	—	—	—	—
Taxes—						
Customs Import Duties	—	—	19,479	104,691	19,479	104,691
Excise Duties	—	—	9,170	21,452	9,170	21,452
Corporation Taxes	156	3,490	—	—	156	3,490
Succession Duties	428	3,611	—	—	428	3,611
Income Taxes on Persons	13	119	—	—	13	119
Real Property Taxes	180	1,753	—	—	180	1,753
Other Taxes	177	347	—	1,335	177	1,682
Sub-Total—Taxes	954	9,320	28,649	127,478	29,603	136,798
Motor vehicles, automobile licences, etc.	—	470	—	—	—	470
All other Licences, Permits and Fees, Fines and Penalties	1,756	6,678	266	1,516	2,022	8,194
Public Domain	2,801	11,046	299	3,420	3,100	14,466
Liquor Control	—	2,248	—	—	—	2,248
Sale of Commodities and Services	63	815	543	1,513	606	2,328
Other	97	1,507	201	1,276	298	2,392
TOTAL	9,972	44,935	29,958	135,203	35,629	166,896

(a) Source: The Public Accounts of the Provinces and the Dominion and the Public Accounts Inquiry of the Royal Commission on Dominion-Provincial Relations.

(b) Inter-governmental transactions eliminated.

As the expenditures rose, the disparities in the ability or ease with which the various provinces and regions could meet them became more conspicuous. Also, in the provinces where the expansion was most rapid, the population was more willing and more able to bear heavier taxes for the purpose of encouraging further development and of providing collective services which private enterprise was slow to undertake.

Next to federal subsidies, public domain was the largest single source of total provincial revenues and here the disparities between provinces were

[6] Between 1874 and 1913, the percentage of provincial subsidies to the Dominion's revenues fell from 18 to 9 per cent.

particularly great. The Prairie Provinces did not have control over their natural resources but received a small annual subsidy from the Dominion in lieu of them. In British Columbia, where lumbering and mining were the principal activities and where the expenditures on public domain were large, the revenues therefrom were ten times as great per capita as in the Eastern Provinces. The other traditional method of raising provincial revenue, i.e., the imposition of licences, fees, etc., was used most intensively in the Prairie Provinces where, after federal subsidies, it constituted the main source of income. In the Maritimes the receipts from this item were almost negligible.

The largest reserves of provincial revenue lay in the power of direct taxation. The growing demands upon expenditures and the inelasticity of federal subsidies forced the provinces to make more and more use of such taxes despite their unpopularity. The extent to which they were levied in each of the provinces depended upon the nature of the economy and the magnitude of the total outlay. In British Columbia where the level of expenditures on a per capita basis was many times as high as in the other provinces, the per capita receipts from taxation were nearly six times those in the rest of the country. While British Columbia had a highly developed system of taxation, including taxes on personal incomes, real and personal property, the levies in the other provinces were confined almost exclusively to corporation taxes and succession duties.[7] The two latter imposts were most productive in Ontario and Quebec. The industrial and commercial expansion stimulated by the wheat boom and the national economic policies was accompanied by a rapid concentration of corporate activity and of large private fortunes in Central Canada. The receipts from corporation taxes and succession duties, therefore, rose steeply and by 1913 yielded 26 per cent of the total provincial revenues compared with but 9 per cent in the Prairie Provinces and 8 per cent in the Maritimes. The per capita revenue from succession duties in Ontario and Quebec was twice as high as the average of the other provinces.

A number of significant changes in the financial position of the provinces from that intended at Confederation, had already begun to emerge at the opening of this period. The demands and opportunities of the wheat boom, and the growing specialization and interdependence of society greatly accelerated this development. Despite the cramping financial settlement of 1867, the provinces became in fact much more than large municipalities. When other revenues became insufficient, they entered the field of direct taxation which in 1913 was already producing over one-fifth of the total revenues. However, the implications of large uncontrollable expenditures and heavy debts, of the great inequalities in taxable capacity, and of the attempt to use what are in reality national taxes for provincial purposes, were not yet evident.

Summary—1896-1913

The common efforts of all regions in building up the country between 1896 and 1913 cemented the political union of 1867 and Canadians became conscious of themselves as a nation. The growing sense of community was accompanied by increasing economic interdependence. The national policies of all-Canadian transportation and protective tariffs were effective in making the wheat boom the basis of a general economic expansion in which the manufacturing industry of Eastern Canada became heavily dependent on the agricultural export region of the Prairies. With the exception of the Maritimes, which were affected by but did not share generally in the expansion, the wheat boom brought prosperity to the whole country but it was prosperity which remained conditional on the profitable production of wheat. A high degree of economic integration had been achieved but it required a sustained world demand for wheat to make it a lasting success.

As Canadians on the prairies specialized in growing wheat for the international market and Canadians in the older parts of Canada specialized in providing a wide variety of goods and services for the national market, the old self-sufficiency of pioneer days passed from the scene. By 1913, the open frontier had almost disappeared. With the coming of a highly specialized interdependence, the capacity of individuals to overcome economic reverses and mischances by their own efforts was greatly impaired and the material conditions which force governments into costly expenditures for social security were begun. With intensive industrial development came the shift from the country to the cities, bringing in its train a greater demand and a greater need for collective provision of various services.

The general expansion was accompanied by the multiplication of the expenditures at all levels of government. In part, this was due to the growth of population and the extension of the area

[7] At 1913, British Columbia and Prince Edward Island were the only provinces levying personal income taxes. However, in the latter Province the tax was more in the nature of a tax on real and personal property than a true income tax.

requiring governmental services. In part, it was due to the undertaking of many collective services by urban municipalities. Despite these factors, the traditional preoccupation of British North American governments with economic development continued to dominate public finance and reached its greatest intensity during this period. Federal and provincial governments spent lavishly to open the doors of opportunity for private enterprise. In so doing, they encouraged the growth of a new economy, more productive and diversified but also more vulnerable in times of adversity. Its tribulations at a later date were to alter the character as well as the emphasis of Canadian public finance.

CHAPTER IV

THE WAR PERIOD 1914-21

Introduction—the general economic, political and social effects of the War

One of the immediate effects of the War upon Canada was to provide relief from accumulating economic difficulties. By 1914 the investment boom based on foreign borrowing had come to an end. It then became imperative to turn from the construction of capital works to greater production of exportable products in order to pay the interest on the large investments of the preceding decade. This major shift and readjustment threatened to be painful and prolonged, but under the stimulus of war demands the Canadian economy turned the corner with ease and expanded its production immensely in a very short period of time. By force of circumstances, Canada's foreign borrowings dwindled until they disappeared in 1917. In the later years of the War, the great expansion in production combined with the policies of the Federal Government enabled Canada to become an important lender, financing British purchases of Canadian goods.

In addition to stimulating expansion, the War gave the Federal Government a decisive role in directing the employment of the country's resources. Canada's war effort involved a massive concentration—in many respects, a consecration—of man-power and resources for a single over-riding purpose. The Dominion Government interpreted this purpose and co-ordinated the efforts of the country. It was the appropriate agency for driving towards this single objective, but in so doing it exhibited elements of a totalitarian technique inseparable from modern war. General enthusiasm for the Allied cause produced a remarkable unanimity among Canadians of all regions and classes in the early days of the conflict. Supported by this unique expression of national unity the Government threw all its power and authority into the prosecution of the War, and as the struggle deepened it redoubled its efforts and commitments. Its vigorous policies hastened and intensified the expansion of production which was made profitable by altered world conditions. The development of the economy as well as the occupations and interests of the people were directed, and considerably distorted, by the demands imposed upon the country by the War.

The first flush of enthusiasm waned as the War dragged on and became a trial of collective endurance and capacity for sacrifice. Lacking the tremendous unifying influence of a direct and immediate threat of foreign invasion, Canadians began to differ radically on the means best calculated to reach the results desired by all. This difference about means threatened the effective pursuit of ends and broke the party truce which marked the early years of the War. During the later years, the effects of the economic and financial policies, which the Federal Government had adopted to facilitate the maximum war effort, permeated the social structure with unexpected and unfortunate results. The economic cost of prosecuting the War pressed more and more unevenly on particular groups. The contrast presented by the beneficiaries of inflation and war prosperity caused hot resentment. The inevitable and appalling inequality of burdens and sacrifices involved in modern war became manifest.

The War provided at least a partial solution of the economic problems which faced Canada in 1914 but replaced them with political and social problems of a very disturbing kind. Prolonged concentration on the single purpose of winning the War put severe strains on political unity. The "conscription issue" and its aftermath ruptured both federal political parties. The War was a great strain on Dominion statesmen and it burdened the Dominion treasury with an enormous debt. Old sectional cleavages were revived and deepened and immediately after the conflict Canada was disrupted for the first time by class conflict. In the minds of many, the conduct of the War had denied and disproved the basic community of interest upon which federal initiative and leadership must always rest. The war effort of the Dominion was magnificent but it was at the price of temporary exhaustion and serious internal antagonisms.

In Canada, as in other countries, the War had revolutionary effects. Economically, there was a vast increase in productive capacity and a rapid development toward economic maturity. But the most profound changes were broadly social in character. A society which prided itself on equality of opportunity found itself being divided into classes. The inequality of burdens and benefits arising out of the War promoted stratification. On the one hand, large government borrowings from the proceeds of war prosperity created a rentier class while, on the other hand, class consciousness appeared in the growing industrial population harassed by the steep rise in the cost of living. Their distress led to demands for government intervention. The success with which the Dominion Government had organized a peaceful society for combat showed how governments could alter the conditions of economic and social life. If governments could organize so effectively for destruction, they should be able to organize the conditions of the good life for their citizens. Under the pressure of social inequalities which became more and more evident, this changing philosophy of the appropriate sphere of state activity led straight to extensive government intervention in economic life and to the provision and further extension of a variety of social services. As will appear later, post-War intervention came mainly from the provinces.

From Wheat Boom to War Boom—major depression averted; Canada pays for War by swift rise in export production

The extravagant boom which attended the opening of the western wheatlands broke in 1913. It had been based on the inflow of foreign capital which financed a huge program of construction. This foreign capital was attracted by the confidence that wheat could be profitably grown for export on the Canadian prairies. In 1912, interest rates rose sharply in the London money market and, in 1913, the general price level, including the prices of Canadian exports, began to fall. The stream of capital imports which fed the growing prosperity of the country was checked. The prospects for profitable production of wheat became less rosy. The boom, which had been prolific of frantic real estate speculations, optimistic corporate mergers, and many rash enterprises of a public and private nature, suddenly collapsed.

The Canadian economy was at once faced with severe difficulties. It had been geared to a high rate of investment and construction. Between 1913 and 1914, the value of construction contracts awarded fell 37 per cent. Much of the labour and resources employed in the building of railways, harbours and canals, factories and rapidly growing towns, became idle. The slackening of construction brought a sharp curtailment in the Nova Scotia iron and steel industry, unemployment in the industrial cities of Central Canada and a steep decline in the production of lumber in British Columbia. The fall in export prices was aggravated by drought on the Prairies which cut short the crop of 1914. Caught between decreasing capital imports and falling export values, the economy which the wheat boom had brought into existence revealed its alarming vulnerability to external influences.

Adjustment to this situation required the diversion of idle labour and resources into the exporting industries to obtain employment and also to enable the country to meet the interest charges on its large external debt. Under normal conditions, this process would have been slow and painful involving a deflation of costs and prices and at least a temporary decline in industrial activity—the principal elements of a major depression. The first effects of the War were to intensify the adverse external influences and to deepen the depression which was settling down upon the country. The dislocation of normal international intercourse cut Canadian exports still further. The inflow of foreign capital came almost to a standstill because borrowings in London were being permitted only for war purposes. Unemployment was widespread in the winter of 1914-15.

After the middle of 1915, however, the dislocation of international economic intercourse became a great advantage to Canada. Britain and her Allies required vast quantities of supplies. The high cost of shipping and the readiness of the United States and Canada to supply credits directed a large part of the demand to North America. The principal requirements were foodstuffs and munitions. The former was Canada's main export and the production of the latter was quickly undertaken by the depressed manufacturing industry. From 1915 to 1918, the intensity of the demand grew ever greater and Canadian production reached new heights. The capital equipment built up during the wheat boom displayed a remarkable productive capacity and the labour force which built it was absorbed, either in the overseas forces or in the production of goods and services.

The insistent demand for foodstuffs brought a swift rise in the price level of Canadian exports. The prices of agricultural exports, in particular, rose much more rapidly than those of imports and of manufactured goods. As in the pre-War period, this gave an immediate and powerful incentive to the expansion of agricultural production. In the period between 1913 and 1919, the absolute increase in the area devoted to field crops was equivalent to the total increase which took place in the twenty years prior to 1913. In the

Prairie Provinces the acreage under wheat in 1919 was almost 80 per cent greater than it had been in 1913. In this short period, the number of cattle on Canadian farms increased by one-third. A wide variety of farm products received a less vigorous but nevertheless pronounced stimulus from the demands created by the War.

This expansion in the productive capacity of agriculture provided very substantial increases in the surplus available for export. The bumper wheat crop of 1915 with its record yields per acre and its large export surplus was the principal factor in attaining a favourable balance of merchandise trade and did much to extricate the economy from the doldrums of the two preceding years. Although the wheat yields during the remainder of the war period were disappointing and in 1918 and 1919 extremely poor, the average value of exports of wheat and flour during the 1917-19 period was more than double that of 1913.

While wheat was by far the most important export, the exports of other agricultural commodities showed even greater proportionate increases. Between 1913 and 1918, the exports of meat rose in value from $6 million to almost $85 million, live stock from $10 million to $35 million, and cheese from $19 million to $35 million. The exports of hay, oats, butter and eggs expanded greatly. Except where afflicted by drought, agriculture prospered. The increase in the value of its exports during 1914-19 over the immediate pre-war level was equivalent to fully four-fifths of the total Canadian money cost of the War.

Among other raw materials affected, non-ferrous metals enjoyed a sharp increase in demand. Despite progress in the development of mining, the problems of treating low-grade and complex ore-bodies had not been satisfactorily solved prior to the War. The high prices due to the War encouraged ingenuity in the search for methods of extracting the metals from these ores. Several important refining processes were discovered. High prices made the working of low-grade deposits profitable. Between 1913 and 1918, the quantity of copper produced rose 54 per cent, lead 36 per cent, nickel 86 per cent and zinc from a negligible quantity to 35 million pounds in 1918. The value of the output of these four metals rose from $29 million in 1913 to $74 million in 1918. This stimulus advanced the Canadian mining industry. The high prices disappeared after the War but the growth of interest in mining, the improved techniques, and the greater resources accumulated by mining companies out of profits were permanent gains to the industry.

On the other hand, the lumber industry made little headway. The decline in construction and the high cost of ocean shipping bore unfavourably upon it, and production fell off. It was not until a demand arose for wooden ships and for sitka spruce in the airplane industry toward the end of the War that the industry in the Maritimes and British Columbia received any special stimulus. Circumstances only indirectly connected with the War did, however, give a great impetus to the pulp and paper branch of the forest industry. The United States tariff had been removed before 1914 and the relative exhaustion of the forest resources of the United States, the exclusion of Scandinavian supplies due to the circumstances of the War, and the war-time growth in the circulation and size of newspapers gave the Canadian newsprint industry its opportunity. The exports of pulp and paper rose from $19 million in 1913 to $105 million in 1919.

There was an even greater rise in the output of manufactures. The favourable influences, derived from the national economic policies, which had brought about a rapid growth of the manufacturing industry during the wheat boom, were continued by the war-time expansion of western agriculture and the increases in the tariff in 1915 (7½ per cent in the General and Intermediate schedules and 5 per cent in the British Preferential). The disruption of imports from Central Europe, the decline in British exports, and the high cost of ocean shipping enabled domestic industry to secure a larger share of the home market. The increase in production of commodities of general consumption between 1915 and 1918 is indicated by the 10 per cent increase in employment in the textile, boot and shoe, tobacco, and furniture industries.

While the growing share of the domestic producer in the home market was a feature of the period, the greatest stimulus to manufactures came from British orders for munitions and war equipment. The decline in construction and the depression prevailing in 1914 had severely affected the manufacturing industry, particularly iron and steel. Immediately after the War opened, Canadian industrialists, whose plants were idle or operating below capacity, began to press for British munitions orders. From late 1914 to 1917, these orders were given in increasing volume until exports of shells and explosives rose to almost $390 million in 1917. In the years 1916, 1917 and 1918, munitions made up about one-quarter of total exports and, for a considerable time, Canadian manufacturers were producing between one-quarter and one-third of the artillery ammunition being currently used by the British armies. Approximately a billion dollars worth of shells and explosives were shipped overseas and Canada supplied the Allies with ships and airplanes valued at more than $100 million. At the peak, about one-third of the Canadian manufacturing capacity was employed on war orders from other countries. Between 1915 and 1918, the total employment in manufacturing rose by 32 per cent. The iron and steel industry which had been hit very severely by the depression in 1914, reached a new record in volume of output.

Thus, during 1914-18, there was a remarkable expansion in the total production of goods and services. It was this increase in production which paid for the cost of the War. It also met the interest charges on the external debt which could no longer be financed by further foreign borrowings, and made possible (in contrast to European countries) the maintenance of a relatively high standard of living. Under the circumstances, this was the only way the War could be financed. A society which cannot borrow abroad and employ foreign industry to produce the material sinews of war is obliged to pay for its war expenditures out of the current production of its own economy. During 1914-18 Canada was unable to borrow abroad in any significant volume[1] and the country, taken as a whole, was compelled to pay for the War as it went along.[2] Table 20 shows the nature and extent of the extraordinary rise in exports.

TABLE 20.—MERCHANDISE EXPORTS

Millions of Dollars

Fiscal Years	Products of the Mine	Fish	Products of the Forest	Products of Agriculture	Manufactures		Misc.	Total
					Munitions	Other		
1913	57.4	16.3	43.3	194.9	—	43.7	0.2	355.
1914	59.0	20.6	42.8	251.5	0.2	57.2	0.3	431.6
1915	51.7	19.7	42.7	209.1	0.5	85.0	0.7	409.4
1916	66.6	22.4	51.3	352.6	81.0	161.0	6.7	741.6
1917	85.6	24.9	55.9	501.2	281.2	196.2	6.4	1,151.4
1918	73.8	32.6	51.9	740.4	386.3	250.5	4.5	1,540.0
1919	77.5	37.1	70.5	469.7	250.9	304.5	6.2	1,216.4
1920	62.3	42.3	105.3	624.4	12.1	391.0	2.1	1,239.5

[1] For total Federal Government borrowings abroad during the War period, see p. 103.

[2] For further discussion of the means which made this possible, see pp. 99, 100.

In a very short period of time, the Canadian economy was delivered from a heavy dependence upon capital imports and showed its capacity to produce a large surplus of goods to be shipped abroad for war purposes and to provide, in this way, during the last two years of the War, sizeable capital exports. This quick transformation was not wrought by magic. Goods and services had to be diverted from the usual channels of investment and consumption to meet the requirements of the War. This large diversion was mainly accomplished by the financial and economic policies which the Federal Government was able to carry through. The character and effect of these policies determined the nature and extent of Canada's participation in the War and also, in a great measure, the impact which the War was to make on the political, social and economic structure of the country. To understand these policies and account for the vigour with which they were applied, it is first necessary to recall the political atmosphere created in Canada by the War in Europe.

1. The War and National Unity

A United Nation Enters the Conflict—War efforts evoke a strong spirit of unity and nationalism

There is no need to emphasize the unanimity of conviction with which Canada threw itself into the struggle. It is true that, from the very beginning, there was a latent difference of opinion as to whether Canada was involved as a principal and committed to the totality of its powers. But as no one had at that time any conception of the colossal scale of the struggle and the sacrifices it would entail, this difference was passed over and did not emerge for discussion until the later years when it was driven into the open by the logic of events. Citizens of all occupations, political persuasions and religious beliefs pronounced the cause to be just and Canada's participation unquestionably necessary. Even one as openly critical of British imperial policy as Henri Bourassa declared that it was "Canada's national duty to contribute, within the bounds of her strength and by the means which are proper to herself, to the triumph, and especially to the endurance, of the combined efforts of France and England."[3]

Canada had never before seen such a demonstration of national unity. For some time, the solidarity of national sentiment was the dominant feature of Canadian life. Personal interests were

[3] *Le Devoir*, Sept. 8, 1914; quoted by Elizabeth Armstrong in *The Crisis of Quebec, 1914-18*, p. 78.

subordinated to the demands of a united effort and, for the great majority of people, the winning of the War became the prime objective of national existence. The evidence of a single national purpose was unmistakable and sufficed to give to the Federal Government immense moral authority in keeping with its sweeping legal powers.

The crisis brought a truce in party strife which was maintained, in essentials, for over two years and which enabled the Parliament elected in 1911 to prolong its life (with the approval of the Imperial Parliament) until the fall of 1917. In the Special Session of Parliament in August, 1914, the War Measures Bill which gave sweeping emergency powers to the Government was quickly and unanimously enacted. The Opposition did not entirely give up the right to criticize the Government, as its strictures upon war contracts, fiscal policy and the conduct of the Department of Militia and Defence showed, but frankly partisan obstruction disappeared.

Although the party truce broke down in later years, the spirit which enforced it in the early years was strong enough to bring about the formation of the Union Government in 1917.

The crisis also imposed a truce on Dominion-provincial contention. In 1912 and 1913 the provinces had again begun to demand further increases in subsidies. With the coming of the War and its great financial responsibilities for the Dominion, this claim went into abeyance. So also did the federal power of disallowance which was used on only one occasion during this period. Provincial political leaders did not challenge the drastic policies pursued or the far-reaching powers exercised by the Dominion during the War. On the contrary, they played a large part in the formation of the Union Government. Family bickering was stilled in the presence of larger issues. Provincial politics and provincial interests were overshadowed by the magnitude of the common national purpose. The efforts of the Dominion absorbed the attention of the people and commanded for the time, at least, the overwhelming support of public sentiment. Despite the range of the activities of the Federal Government and the degree to which its actions affected the lives of the people in every part of the Dominion, there was no organized or systematic protest by the provinces. When protest came, it came in the sphere of federal politics, out of the discontent of cultural, class and sectional interests and not through provincial governments. For a time, Canada exhibited the essential features of a unitary state.

The conscious nationalism which accounted for the temporary eclipse of provincialism made itself felt in external relations. It disposed the Dominion Government to regard Canada's participation in the War as that of a principal combatant and not merely as that of a satellite of Great Britain. The Canadian Army Corps was maintained as a separate unit in the field and was ultimately commanded by a Canadian. In 1916, the establishment of a Ministry of Overseas Military Forces in London brought the Canadian troops directly under the control of the Dominion Government. Where independence of action was not possible, the Dominion bid for a share of control in centralized effort. The Imperial War Cabinet provided, in an indirect but substantial way, for participation of the Dominions in the direction of the War and the Imperial War Conference of 1917 recognized "the right of the Dominions and India to an adequate voice in foreign policy", to be made effective through machinery for consultation and concerted action. After the Armistice, when the urgency for unified effort declined, the stress shifted to autonomy. While the all-absorbing sense of national unity did not survive the War, some elements of the conscious nationalism evoked by it retained their strength. With Canada leading in the demand, the Dominions got separate representation at the Peace Conference and in the League of Nations. And however much the Dominion Government may have receded from leadership in internal affairs in the post-War period, it found sufficient support for vigorous pursuit of Dominion status.

The Conscription Issue—the disruption of national unity, the political isolation of Quebec, the unfortunate effects on Canadian federalism

It was generally agreed at the outset that it would be a short war and that there was no doubt about its conclusion. The first plans for military participation involved only the sending of a single contingent of 25,000 men. It gradually dawned upon people that there was no assurance of an early decision and the military contribution was repeatedly increased until, at the beginning of 1916, the Government announced the desirability of raising the overseas forces to half a million men. The struggle became one of the endurance of peoples, as well as of armies, with all their material and spiritual resources engaged in it. Food supplies, munitions and every kind of materials became as vital to the success of the conflict as soldiers. The Government directed the production and arranged the financing of supplies for the Allies on a great scale. By 1917, it was reluctantly seen that even the issue was in doubt and that an Allied victory could only be ensured by a supreme effort. It also became clear that the Federal Government saw Canada's most vital interests at stake in the struggle and that there were no reservations or limitations on its willingness to pledge Canada for the sake of victory.

As the Federal Government called for greater effort and sacrifice in pursuit of this supreme objective, the vague differences of opinion about Canada's relation to the struggle became practical questions. Was it engaged as one of the principal combatants or merely as a voluntary helper of Great Britain? If engaged as a principal to the full extent of its powers, in what way could the country make the most effective contribution to the common cause of the Allies? Differences of opinion always exist as to the means of reaching an agreed objective. Because there was no overpowering sense of immediate peril such as is raised by foreign invasion or the direct threat of it, many people were not readily convinced of the urgency to subordinate differences to the prime necessity of united action. As the commitments became deeper month by month, public discussion of and dissent from the policies of the Federal Government became inevitable. The practical issue upon which these differences of opinion began to widen into cleavages over policy was the question of the extent of the military contribution which Canada ought to make.

Discussion of conscription and other issues which were so disturbing to national unity over twenty years ago is a delicate matter even at this late date. But the political issues of the war period left so enduring a mark upon the Canadian federal system that they cannot be ignored. At the risk of being misunderstood we have, therefore, felt it imperative that these issues should be recalled and set out as objectively and fairly as possible.

Before conscription became a burning political question, there had been marked differences in the ratio of enlistments among the different elements of the population. Naturally enough, the response of the British-born had far exceeded that of the native-born. In the early stages, recruiting had been particularly brisk in the towns, although it fell off when the great increase in industrial activity created conditions of full employment. It was never so marked in the countryside which lacked contact with military traditions and never felt the organized social pressure for enlistment which operated in the towns. These factors which affected the rate of recruiting in all areas of Canada might be expected to manifest themselves in a more pronounced way in the Province of Quebec.

There was a difference between English-speaking Canada as a whole and French-speaking Canada in the response to voluntary recruiting. There has been much controversy as to whether any significant difference existed after the adjustments necessary to provide fairly comparable conditions are made. In answer to reproaches made against Quebec, it has been maintained that if allowance is made for the much higher proportion of British-born in the English-speaking parts of Canada and for the predominance of rural conditions in Quebec—conditions which materially affected the rate of recruiting in English-speaking areas—the response of native-born Canadians did not differ significantly in Quebec from the rest of Canada. On the other hand, the validity of this explanation has been denied. Data to test these contentions are not available and probably can never be secured.

Even if there were marked differences, not to be explained by making these adjustments, it need not cause surprise. There were several immediate and some underlying factors making for difference. Among the official spokesmen of the Dominion Government in Quebec were men who had fought with Bourassa against Laurier and the Naval Bill and they could scarcely be expected to rouse enthusiasm for a vigorous war policy. There were serious and exasperating mistakes in the management of recruiting in the Province, mainly through lack of sympathetic appreciation of how a sensitive people cherished their distinctiveness.

There were basic factors which lay much deeper. The French-speaking Canadians had been established in Canada for centuries. They were the oldest Canadians of European stock and they were much more firmly rooted in North America than their English-speaking fellow-citizens. Their political connection with France had been severed 150 years before and they had never formed a close sentimental attachment for republican France with its anti-clerical associations. Their undoubted loyalty to Great Britain was a reasoned rather than an instinctive loyalty. It lacked the emotional pull which was essential to command deep sacrifices in a remote European war. While the rest of Canada was deeply affected by living or remembered links with the British Isles and by United Empire Loyalist and Imperial tradition, their experience and memories were essentially North American. It was not unlikely, therefore, that the attitude of the French-speaking Canadians toward a prolonged war in Europe would differ from that which prevailed in the rest of Canada.

Before the War, Ontario had limited the use of French, both as a language of instruction and a subject of study, in the schools of the Province. French-speaking people of Ontario had vigorously resisted the enforcement of this regulation. They contested its constitutionality and the case dragged through the courts until its validity was finally upheld in 1916. In that year, Ontario enacted further legislation in support of its separate school policy and the Federal Government declined to disallow it. The dispute over the bilingual school question, as it was called, went on with increasing bitterness, revealing the gaps which divided French-speaking citizens, in feelings and interests, from English-speaking Canada and emphasizing again the difficulty of tolerable accommodation between the two races. On the instance of Sir Wilfrid Laurier, a resolution was introduced in Parliament deploring the action of the Ontario Legislature.[4] The Conservatives of Quebec with Nationalist tendencies joined the Liberals from that Province in voting for the resolution; the Western Liberals voted against it and it required the full exercise of Sir Wilfrid's prestige and authority to hold the Ontario Liberals in line. The disruptive potentialities of the old racial issue even in face of the national emergency were clearly shown. The split over the bilingual question foreshadowed the much more serious division on the issue of conscription. The principle of the political co-operation of the two races in the two federal parties had already begun to break down in 1916, because one of the races was being rapidly consolidated behind one of the political parties.

The dispute over the separate school policy of Ontario embittered the debate on conscription. The French-speaking Canadians of Quebec were deeply roused by the action of Ontario. Their language was one of their most vital interests. The majority of the political leaders in Quebec strove to prevent the bilingual issue from diminishing Quebec's support of Canada's war effort. But the issue led many into bitter opposition of Canada's participation in the War. They insisted that the English-speaking leaders of the Dominion were sacrificing the real interests of Canada to British Imperialism. They maintained that no further sacrifices for the preservation of British civilization in Europe should be made at a time when a British attack was being made on the culture of French Canada at home.

[4] The resolution was actually introduced by Mr. Lapointe and is commonly known as the "Lapointe resolution".

The Nationalist agitation in Quebec aroused both extremist and moderate groups in other parts of Canada. It was assumed that the Nationalists spoke for Quebec as a whole and Nationalist propaganda was cited as the reason for the lower ratio of enlistments in Quebec. These charges of disloyalty, which multiplied rapidly, caused resentment among the French-speaking Canadians who had supported participation in the War and provoked recriminations which, in turn, drew further retort from English-speaking Canadians. It was a vicious circle in which mutual misunderstanding and mutual reproach seemed to be endless. When this stage was reached, it inevitably diminished the support which Quebec gave to the supreme objective of the Federal Government. The bilingual issue loosed a chain of consequences which helped to prepare Quebec for united resistance to conscription.

Quebec was not alone in its opposition to conscription. Organized labour and agriculture, by this time alarmed and burdened by rising prices and roused by the glaring inequality in the distribution of war profits, raised their voices against it. Late in 1916, the Government established a National Service Board to take an inventory of man-power. Despite disclaimers by the Government, this scheme was widely regarded as a precursor of conscription. The Trades and Labor Congress recorded its disapproval of both national service registration and conscription. Some spokesmen for agriculture lashed out at profiteers and demanded that any census or conscription of men should be accompanied by similar treatment of wealth. This demand was reiterated in the public debate on the conscription issue itself.

At the time the policy of conscription was announced, the Government was urging the maximum effort at food production. As the reserves of agricultural labour were depleted, the Government made repeated promises of liberal exemptions from military service to farmers' sons. These promises did something to calm the agitation in rural Ontario against the introduction of conscription. But cancellation of these exemptions in the spring of 1918, owing to the unexpected and desperate situation on the Western Front, brought an immediate and determined protest. A huge deputation of Ontario and Quebec farmers made a profitless visit to the Government at Ottawa and returned home angry and resentful at what it regarded as a breach of faith by the Government.

When the Government announced that conscription would be imposed, trades and labour councils across the country voted resolutions condemning the conscription of men and demanding the conscription of wealth. Although the annual convention of the Trades and Labor Congress in 1917 gave qualified approval to the conscription policy of the Government, it significantly gave its blessing to a resolution approving the formation of a labour party for political purposes. In its view, the interests of labour were failing to find expression in the Federal Government's interpretation of the supreme national purpose.

In Quebec, the proposal of conscription met with general opposition. Popular agitation against it throughout the Province deepened into mass demonstrations in Montreal in the closing days of August, 1917. Within Parliament itself, the issue revealed to the full its disruptive force. It completed the disintegration of the federal political parties. Among Liberals from the English-speaking provinces, devotion to their old party leader was overborne by what was conceived to be the inexorable demands of the War, and close friends and personal lieutenants of Sir Wilfrid spoke and voted for the military service bill. On the other hand, the erstwhile Quebec Nationalist supporters of the Government voted against the measure. Within the walls of Parliament, the Liberal Party was becoming identified with the Province of Quebec and Parliament itself was dividing on racial lines.

Despite passionate opposition the policy of conscription commanded the support of a majority of the people of Canada. They accepted it as vital to the supreme national objective of winning the War. The most critical phase of the struggle which was reached in 1917, combined with the serious threat of internal dissension, led to a closing of the ranks. Although the idea of a coalition for the purposes of the War was not new, the conscription issue brought the agitation for a union government to a head. The existing Government had no mandate to introduce it and a drastic measure certain to arouse resistance could not very well be enforced except by a national non-partisan government.

With several leading Liberals sharing in the initiative, the Union Government was formed and the ensuing election was fought on its interpretation of the means necessary to make the greatest possible contribution to the Allied cause. During the election campaign, racial passion reached a climax of bitterness. In the result, the Union Government swept English-speaking Canada while Quebec gave solid support to Sir Wilfrid Laurier's opposition to conscription. Out of the 143 candidates elected who were endorsed by Union Government, all but three were returned in English-speaking Canada; 60 out of the total of 77 elected candidates endorsed by Sir Wilfrid Laurier were elected in Quebec. However, the popular vote was not so one-sided. The Liberal Opposition (excluding all the minor parties and independents) received about 42 per cent of the total civil vote. Outside of Quebec the Government elected 82 per cent of the members with 62 per cent of the total civil and military vote; the balance was split between the Liberal Opposition and a scattered number of independents, many of whom supported the Government on the conscription issue.

TABLE 21.—VOTES CAST IN THE 1917 FEDERAL GENERAL ELECTION[(a)]

(Thousands)

—	For Candidates Officially Endorsed by Union Government	For Candidates Officially Endorsed by Sir Wilfrid Laurier	All Other
Civil Vote—			
Quebec—Urban [(b)]	38	106	7
—Rural [(b)]	24	232	19
Other Canada—			
—Urban [(b)]	351	156	62
—Rural [(b)]	496	306	110
Total Civil Vote	909	800	198
Military Vote	215	14	5
TOTAL	1,124	814	203

(a) The potential vote in constituencies where acclamations occurred was estimated on the basis of results in other provincial constituencies.
(b) Urban-rural division only approximate.

The long standing quarrel between the Nationalists and the Liberals in Quebec was healed at last. The old Liberal Party was shattered in Parliament[5] and in Quebec it became temporarily identified with the racial interests of the majority in that Province.

In the breakdown of old party lines, new political movements began to appear. Labour hastily constructed a political organization and ran a number of candidates, many of whom were opposed to conscription. The various farmers' movements took no separate part in the campaign. However,

[5] It was the organization and leadership of the Liberal Party that suffered most. As later events showed, there was no permanent disaffection of its rank and file supporters.

resentment at the manner in which the Military Service Act was applied in the following year gave an impetus to political action by farmers' organizations and immediately after the close of the War they took advantage of the confusion and weakness in the Liberal Party to enter the political field.

Canadians are reluctant to recall the events which reopened old antagonisms and renewed distrust and bitterness between the two races. It is imperative that the distrust and the bitterness should be forgotten but it has been necessary to recall the events which provoked them because they have had a deep influence on the subsequent history of Canadian federalism and because they point to certain general lessons about the operation of the federal system in Canada.

The united effort required of a nation by modern war places a great strain on the political unity of any people. But the events of the Great War provide the most striking illustration of the peculiar character and the limitations of the Canadian political system. The War gave predominance to the Federal Government and set a single objective for all Canadians. In a sense, the War was a great national enterprise, a corporate endeavour by the whole country. The instinctive diversity of Canadian life did not long remain constant to a single conception of ends and means. Compromise and co-operation broke down into dissension, and coercion was resorted to as the only means of driving on to the chosen objective.

It must be emphasized again that collective action through the agency of democratic government implies a common purpose and an agreed method of achieving it. If the common endeavour is one with respect to which deep impulses in the community arouse differing conceptions, it is likely to break down and the consequent disharmony will embarrass all the common enterprises which have been entrusted to the government. A population of common origin and traditions, deeply habituated to think alike on fundamental issues, may be readily able to maintain the agreement necessary for collective action affecting the whole range of community life. Canada lacks that homogeneity and this, in turn, limits the extent of collective endeavour which can be effectively organized under Dominion control.

This is why Canada is a federal state and must remain so. Deep underlying differences cannot be permanently overcome by coercion. There are, of course, many matters in which there is sufficient community of interest and purpose for them to be entrusted to the Federal Government and they are increasing. Modern transportation and communication and the integration of the economy lift many matters to the level of general interests which might, if agreed upon, be cared for by the Federal Government.

The illumination thrown upon the federal system by the events of the War period strengthened tendencies and opinions already evident in Quebec. To those who believed in the largest possible powers for the provinces, it seemed to confirm the policy which had commended itself to them in the past. Here was a demonstration that where the interests and ideals of French-speaking and English-speaking Canadians did not run side by side the federal powers were at the disposal of the majority. The importance to them of section 92 as a protection to their institutions and cherished values was thereby increased. Because government action is always laden with unforeseen and unexpected result, Quebec became still further disposed to question any increase in federal power.

Although this view was not universally accepted in Quebec, its influence reinforced earlier tendencies and gave Quebec a deeper distrust of federal power. Quebec became, more than before, a watchful guardian of provincial rights. In this way, the political experience of the War has had a pervasive influence on the subsequent history of Dominion-provincial relations. In other ways too, it has had far-reaching results. In its calamitous effect upon the federal political parties, it seriously damaged federal initiative in internal affairs in the post-War period and thus added to the political strength of the provinces without increasing their financial resources.

2. The War and the Canadian Economy

War Finance—war costs met by internal borrowing; loan funds made available by inflationary credit policy

It has already been remarked that the political unanimity with which Canada greeted the War enabled and even compelled the Dominion Government to embark on a vigorous use of the constitutional powers of the Dominion in directing the war effort.[6] The pledge of Canadian lives was backed by the pledge of Canadian

[6] *The War Measures Act* of 1914 authorized it to employ a wide range of powers, many of which were beyond its peace-time constitutional capacity.

economic resources. To ensure the most effective use of these resources, the Dominion Government employed the powers at its command throughout the war period. Through the use of them, it launched and enforced a number of economic and financial policies which governed the public finance operations of the Dominion during this period and enabled the country to become a great source of essential supplies for the Allies. These policies also had a profound permanent effect upon the economic and social structure. Therefore, they must be considered in some detail.

The outbreak of the War found Canada in a deepening depression. The financial upheaval and uncertainty further aggravated the situation. The large current surpluses of the previous years had disappeared. The Government was faced with the necessity of obtaining large loans to complete its capital program and to meet the huge war expenditures which loomed ahead. Abroad the money markets were virtually closed; a run on the banks threatened at home.

The exigencies of the War at once forced the Federal Government into an aggressive role. Early in August, 1914, the redemption of Dominion notes in gold was suspended, bank notes were made legal tender, the banks were permitted to use the excess circulation privilege[7] the year round and finally the Government was empowered to make advances of Dominion notes to the banks upon the pledge of approved securities. While these measures averted the immediate danger to the banks, they also provided the mechanism for inflation. The restrictions thus abolished and the devices set up provided the machinery for an expansive credit system and placed it at the disposal of the Federal Government.

The financial requirements of the Dominion for the fiscal year 1914-15 were met in various ways. The customs duties on coffee, liquors, sugar and tobacco were raised and special excise taxes were imposed on liquors and tobacco. These increases in taxation, however, were expected to yield only $15 million. Approximately $156 million ($61 million for War, $93 million for capital and $2 million current deficit) were required in addition to the total current revenues for the year. It was not thought advisable or possible to pay for the whole cost of the War out of taxation or borrowings at home. Arrangements were made with the Imperial Government to finance the Canadian cost of the War and in the fiscal year 1914-15 almost the entire borrowings needed for the purpose were obtained from that source. The capital expenditures were met by $40 million of loans in London, a $39 million fiduciary issue of Dominion notes[8] and a short term loan from the Bank of Montreal. The early period of the War thus occasioned no immediate strain on the economy. Aside from the issues of Dominion notes and a small amount of temporary loans, the whole of the war cost and the capital disbursements were borrowed abroad.

Early in 1915, the first special war taxes were imposed. Taxes were placed on bank note circulation, on the gross income of loan and trust companies, on the premium income of life insurance companies, on telegraph and cable messages, on railway and steamship tickets and on sleeping and parlour car accommodation. Postage rates were increased and stamp taxes placed on cheques, bills of exchange, etc. Imposts were made on patent medicines, perfumery and non-sparkling wines. An additional 7½ per cent was levied on imports under the General and Intermediate tariff schedules and 5 per cent on items under the British Preference. These taxation increases which were expected to yield about $25 million went, however, only a small way toward meeting the Government's financial needs of $166 million during the fiscal year 1915-16.

The arrangement with the Imperial Government to finance the Canadian costs of the War broke down in the summer of 1915 when sterling exchange went to a large discount. Henceforth Great Britain could do no more than finance the Canadian war expenditures made overseas. The Federal Government was faced with the necessity of itself raising the money for its war costs incurred at home and for making advances to Great Britain to meet an increasing share of the British war purchases in Canada, if these purchases were not to be sharply curtailed. With the London money market closed, New York was the only other possible source of foreign funds. A loan of $45 million was obtained there in July, 1915. For the remainder of its requirements, the Government was obliged to turn to the Canadian investor.

Before the War, the Federal Government had never raised as much as $5 million in Canada by way of a long term loan. In 1914, less than $700,000 of the entire federal debt was payable in

[7] Hitherto the banks had been permitted to issue their notes in excess of their combined paid-up capital and rest or reserve funds up to 15 per cent during the crop moving season from September to February inclusive.

[8] The amount of Dominion notes that could be issued against a 25 per cent reserve of gold was increased from $30 million to $50 million, $16 million of Dominion notes were issued against guaranteed railway securities and $10 million were issued for general government purposes.

Canada. However, the remarkably large crop and the war orders of Britain and her Allies had brought a return of prosperity by the autumn of 1915. With the low level of private investment and the expanding profits induced by the rising price level, there was a considerable accumulation of funds. The domestic loan offered in November, 1915, produced $100 million subscribed almost wholly by financial institutions and other business organizations.

During 1915-18, Canada's war effort was rapidly increased. The growing burden had more and more to be supported by Canada's own resources. The Imperial Government provided the funds for the war expenditures overseas. The Canadian Government paid the costs incurred at home and made advances to Great Britain for a considerable part of her purchases in the Dominion. During the last two years of the War, the Canadian advances to Great Britain (including those made by Canadian banks) far exceeded those of Great Britain to Canada. Canada was, in effect, buying a large part of her own exports and shipping them abroad where they paid for the cost of the War. The extent of Canada's contribution to the conflict, therefore, depended upon the ability of the Federal Government to obtain money to finance the exports. The more money it could raise at home, the more exports and production could increase and the more extensively the country could engage in the struggle. Three methods were available to the Government for the acquisition of funds: taxation, borrowing, and the issue of Dominion notes. Although special war taxes were imposed they produced but a relatively small part of the amount required. The issue of Dominion notes could be used only to a limited extent. The bulk of the funds had to come from borrowings.

The amount of money which was obtainable by means of domestic loans depended upon the savings of the community and the extent to which private investment was reduced. As ordinary savings became insufficient, the Government adopted the only policies then open to it, which had the effect, of both increasing and of redistributing the national money income in a manner which gave a larger portion to business organizations and wealthy individuals whose profits or surpluses could be borrowed in large amounts by the Government. This expansion and redistribution of money income was brought about by the expansion of bank credit, i.e., inflation. Prices and the cost of living (selling prices) rose more rapidly than average wage rates and interest on old debts (costs).[9] The profits of industry and property incomes, therefore, increased while the real income of wage earners and individuals receiving interest payments at fixed rates, declined or rose less rapidly. It was this relative, and in some cases absolute, reduction in the real income of one section of the community, and the creation of large surpluses in the hands of another (which would lend these surpluses to the Government) combined with the great increase in gross production that made the surprisingly large war loans possible.

During the fiscal year 1916-17, the Canadian war expenditures rose to $307 million. Ordinary capital expenditures absorbed another $82 million. In that year the Federal Government required nearly $400 million in funds. To increase the revenue from taxation and to reduce the net profits derived from war activity, a business profits tax, retroactive to the beginning of the War, was imposed early in 1916. One-fourth of all net profits (except in life insurance and agriculture) in excess of 7 per cent on the paid-up capital of incorporated enterprises and in excess of 10 per cent on the paid-up capital of unincorporated enterprises was taken in taxes by the Government. Businesses with a paid-up capital of less than $50,000 were exempt, excepting those engaged in the production of war supplies and munitions. The return of prosperity and the special war taxes produced a current surplus of $84 million for the year ending March 31, 1917, which slightly more than covered the ordinary capital requirements. The war expenditures had to be met by borrowing. Fifty million dollars were obtained in New York. The remainder was raised in Canada.

During late 1916 and early 1917, the expansion of bank credit got under way in earnest. The banks advanced $100 million to the Imperial Munitions Board for expenditures in Canada and established a revolving credit of $20 million for the Imperial Government for the purchase of wheat. They supplied the Canadian Government with $100 million by the purchase of its treasury bills. Current bank loans to business rose by $73 million between March, 1916 and March, 1917. These increases in purchasing power were an important factor in bringing about a swift rise in

[9] Wages in certain war industries and of certain unskilled groups rose more rapidly than the cost of living, but the wage rates received by a large section of labour, particularly the skilled trades and the white-collar class, fell behind the rise in the cost of living. The Dominion Department of Labour index of the general movement of wage rates (excluding professional workers and the white-collar class) rose 25 per cent between 1913 and 1917, while the Dominion Bureau of Statistics index of the cost of living rose 31 per cent.

prices and a rapid expansion of production, money incomes and profits. In September, 1916, and March, 1917, the Federal Government floated with ease domestic war loans totalling $250 million.

In 1917 and 1918, Canada's participation in the struggle became more and more extensive and the costs of financing it increasingly burdensome. In each of these years the Federal Government required between $500 and $600 million. The credits granted to Great Britain for her purchases in Canada reached large proportions.

During 1917, the banks made further advances to the Imperial Government amounting to $150 million for the purchases of munitions and wheat. They continued to finance the Dominion for short periods by taking large amounts of its treasury bills in anticipation of the war loans. Current loans to business rose $38 million in 1917 and $217 million in 1918. In these two years the quantity of money (paper notes in the hands of the public and bank deposits) available in the country rose by nearly 40 per cent. This expansion of credit was made possible by the increase in the cash reserves of the banks brought about by the action and policies of the Federal Government. In 1917 there was another fiduciary issue of Dominion notes of $50 million bringing the total to $90 million since the beginning of the War. In addition, large amounts of Dominion notes were issued to the banks by rediscounting their securities under the Finance Act. Imperial Government treasury bills held by the banks were rediscounted at 3½ per cent, a rate considerably below the market rates of interest. With the machinery provided by the Finance Act, the banks could increase their cash reserves to any extent that their lending opportunities made profitable. At the end of 1918, bank cash was more than double, and deposits nearly double of what they had been at the end of 1913.

The rapid expansion of credit both in Canada and abroad produced a swift rise in prices. Between 1916 and 1918, the Canadian wholesale price level and the cost of living rose 51 per cent and 34 per cent respectively. The rate of earnings of a considerable section of the community, however, rose more slowly. Real wage rates of large groups of labour (principally the skilled trades and the white-collar class) were appreciably below 1913. The decline in the real income of many wage-earners and of investors in pre-War bonds and mortgages resulted in a rapid increase in business profits, which, together with the rise in the national money income, the war-time increase in thrift and the reduction in private investment made available large funds for the Federal Government. During the fiscal years ending March 31, 1918 and 1919, the Dominion obtained (net) by means of domestic loans $516 million and $589 million respectively. The relative, and in some cases absolute, decline in the standard of living suffered by certain groups, the increase in savings, and the postponement of needed capital facilities helped to make these war loans possible and represented the sacrifices necessary for the conduct of the War.[10] The effects of the inflation spread these sacrifices unequally.

During the War, the taxation imposed by the Dominion was rapidly extended in scope but the increased returns did little more than meet the ordinary current and capital requirements and the interest on the sharply mounting debt. In 1917 the business profits tax was raised and a Dominion income tax was levied for the first time. In 1918 the exemptions for the business profits tax were lowered and the income tax increased. Excise taxes were imposed on a number of luxuries, including motor cars. During the fiscal year ending March 31, 1919, the special war taxes yielded $56 million or 18 per cent of the total current revenues.

Although the War ended in November, 1918, the heavy cost of demobilization and soldiers' civil re-establishment kept Dominion expenditure at war-time levels for another year and a half. The expansion of bank credit and the precipitous rise in prices continued into the first half of 1920. In the autumn of 1919, the final domestic war loan, which produced about $600 million, was floated.

The transition from war to peace was accomplished with remarkable ease. Half a million soldiers were re-absorbed into civil pursuits without much unemployment or industrial disturbance. The large gap left by the abrupt stoppage of munitions orders was quickly filled by new demands. Exports to war-torn Europe continued at a high level on the basis of large American loans. The Dominion advanced $46 million to foreign countries which was used to buy goods in Canada. There was a strong demand not only for foodstuffs but also for manufactures. The exports of the latter rose to $391 million in the year ending March 31, 1920. Much of the slack due to the cessation of war orders, particularly as it affected the steel industry, was taken up by the shipbuilding

[10] The huge amount of material goods and services required for the prosecution of the War was largely provided by the increase in production. The problem, however, was to divert this production from private consumption and investment into the hands of the Government. The policies followed to bring about this diversion caused some groups to give up relatively more than others.

program for the Dominion and foreign governments.

The stimulus from abroad was reinforced by internal developments. The cessation of the War was followed both by an upsurge of consumer-buying and a sharp increase in construction activity. The provincial and municipal governments quickly began to provide the community facilities and the developmental projects which the War had postponed. The Dominion increased its outlay on public works, made large expenditures in consolidating and equipping its railway system and granted loans to provinces for the construction of houses. Private industry expanded its equipment and built up inventories. There was an inrush of American branch plants. These activities, capped by the Dominion's heavy outlay on demobilization and the civil re-establishment of soldiers, maintained the post-War boom until the summer of 1920, when the world-wide deflation forced its collapse.

War-time Regulations of Business and Industry—its effects on social philosophy and the post-War expansion of government responsibilities

The beginning of the post-War depression marks the end of an important phase of Canadian development. The War had wrought many profound changes in public finance, in the economic structure of the country, in social conditions, and in the public conception of the role which governments ought to play in society. Before summarizing the transformation made by the War in the financial position of the Dominion, it is important to note the extent of government intervention in economic life which the War-effort involved because it was a significant factor in changing the popular view of the appropriate sphere of governments.

The first objective of the Federal Government was to win the War and it tried to order all effort to that end. Where it seemed imperative for its purposes the Government undertook to direct the employment of the economic resources of the country. It encouraged in every possible way the production of munitions, and exhorted Canadian farmers to increase their production of food as greatly as possible. But many of its efforts went beyond encouragement to active intervention and control. The scarcity of certain vital supplies led it to undertake the rationing of them in a way calculated to assist its efforts. When the inflation connected with the financing of the War drove the cost of living steeply upward, the Government sought to limit its unequal effects by imposing further economic controls on business. By the conclusion of the conflict, the Federal Government was in possession of far-reaching powers over economic life. The fact of an unprecedented emergency ensured the constitutional validity of the measures of economic regulation which were adopted.[11]

From the very early days of the War, the Government exercised a number of unusual powers such as the censorship of the press and cable despatches. However, it was not until the later days, when the inflation had manifested itself in the cost of living, and serious shortages of essential materials began to be felt, that extensive economic regulation was undertaken. In November, 1916, an Order in Council forbade hoarding and accumulation of the necessaries of life. Persons with excessive stocks of these articles were required to sell them at reasonable and just prices and the Government was given wide power to investigate and punish violations. In 1918 housing rentals became subject to the same regulations as other necessaries and municipal councils were authorized to establish Fair Price Committees to investigate the prices of necessaries and publish their determinations of a fair price.

In 1917 the Government assumed control of the marketing of Canada's principal product. The Allied Governments had become virtually the sole foreign buyers of Canadian wheat and they needed it at any price. Thus with the prospect of a short crop in 1917, it became probable that the normal market mechanism would result in famine prices. The Canadian Government intervened on behalf of the Allies by establishing a Board of Grain Supervisors with power to investigate all sources of supply and to ration the available grain between domestic millers and the Wheat Export Company, which was the North American purchasing agency for the Allies. This Board fixed export and domestic prices and controlled the marketing of the 1917 and 1918 crops. It was succeeded in 1919 by the Canadian Wheat Board which acted as an exclusive marketing agency for the crop of that year, superseding the normal marketing facilities of the Canadian grain trade.

As the prices of the necessaries of life, particularly food, continued to rush upward, the Food Control Office was established in 1917 with powers to inquire into available supplies and the reasons for high prices, to determine Canada's food requirements, and to facilitate the export of surpluses. It

[11] *Cf. Fort Frances Pulp & Paper Co.* v. *Manitoba Free Press.* [1923] A.C. 696, with *In re Board of Commerce Act,* [1922] 1 A.C. 191 and see pp. 97-8, *infra.*

was also given power to fix prices and to regulate consumption. In 1918 its powers were transferred to the Canada Food Board which was authorized to direct the production, conservation and distribution of foodstuffs.

The Board licensed, and imposed a variety of restrictions on, processors and dealers in foodstuffs. Although, with a few exceptions, it did not attempt to ration consumption, it did ration the bulk distribution of various commodities among processors and dealers. Importers and exporters were licensed and the use of grain in distilling liquor was prohibited. Public eating houses were subjected to close supervision.

Although the Food Board did not attempt to fix retail prices, it established, in co-operation with the Board of Grain Supervisors, a fixed spread between the price of wheat and the price of flour. It also fixed the price to be paid to the British Columbia fishermen for salmon. Separate Orders in Council fixed the price of newsprint for Canadian consumers and limited the profits of the packing industry by providing that profits in excess of a fixed rate should become the property of the Government.

The coming of the Armistice did not reverse the upward trend in the cost of living. In the face of public clamour over high prices, many of the powers which the Government had exercised under the authority given by the War Measures Act were conferred by Parliament on the newly created Board of Commerce. The Combines and Fair Prices Act of 1919 continued the former prohibitions against hoarding and undue enhancement of the price of necessaries. It gave the Board of Commerce power to make exhaustive investigations and to determine a fair profit and a fair price. For a period in 1919-20 the Board exercised its powers vigorously, fixing prices of a wide variety of commodities. But this intense activity was short-lived and price-fixing came to an end before the legislation under which it was exercised was held to be unconstitutional by the Privy Council in 1922.[12]

This review of the economic regulation undertaken by the Federal Government is not exhaustive. It is designed rather to illustrate the extent to which the Government took power to direct the economy during the War. The dislocation of normal activity and the concentration of economic resources for War purposes drove it from one intervention to another. For example, the entry of the United States into the War in 1917 threatened an acute shortage in Canadian coal supplies. Accordingly, a Fuel Controller was appointed and comprehensive regulation of the coal trade was set up. The Fuel Controller allotted available supplies among the separate provinces. Provincial coal administrators distributed it among communities while local coal committees tried to allot it equitably within each community. Attempts were made to control prices by fixing margins of profit.

The failure of wages in many occupations to keep pace with rising prices was reflected in a great increase in industrial strikes in 1917 and 1918. These seriously hampered production at a time when every effort was being strained to increase production. Consequently strikes and lockouts were forbidden in 1918. Finally, the establishment of the War Trade Board in February, 1918, revealed the full logic of the War economy. The Board's sweeping powers authorized it to carry out "such supervision as may be necessary of all industrial and commercial enterprises. . ."[13] It was given power to direct the use of the economic resources of the country and to discriminate between "essential" and "less essential" industries by establishing priorities in the right of access to scarce materials among the different industries. Although many of the powers with which the Government armed itself were exercised sparingly and some were not used at all, nevertheless, as the War went on, the economy was steadily being geared to a single purpose.

This dominating purpose disappeared at the close of the War, and with a few temporary exceptions, the unusual economic controls went with it. During the post-War reconstruction period, however, the Federal Government was obliged to undertake new responsibilities. After the long concentration on the War, the return to normal economic activity was in itself a dislocation and it was complicated by the necessity of re-absorbing the citizen army into civilian life. The Government organized a system of pensions for the disabled and for the dependents of those who lost their lives in the struggle. It provided a variety of services to assist in the re-establishment of soldiers in civil life. Through the Soldier Settlement Board it sought to encourage, on a large scale, the settling of returned soldiers on the land. It organized a Dominion Employment Service to co-ordinate the efforts of the provincial employment exchanges. The purpose and the technique of the modern social services became familiar.

As in other countries, the great range of government action during the War had important

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

[13] P.C. 337, February 9, 1918.

social effects. People saw how governments could mould their lives and civil servants learned how to do it. Statistical and other information necessary for effective intervention in economic affairs was accumulated. The belief grew that governments could and should use their powers to improve social conditions. The War-time experience with the regulation and direction of enterprise was an important factor in bringing on the wide extension of government control which economic and social chaos seemed to make desirable.

War-time Increase in Federal Debt—war and railway nationalization add $3 billion to liabilities; revenue system greatly expanded to support burden

With the coming of peace, the War-time economic controls were liquidated. For a considerable period, the Dominion refrained from extensive government action for peace-time purposes. It was inhibited by the burden of debt imposed upon it by the War, demobilization and the railway débâcle. The War and demobilization had cost $1,680 million. In addition, between March 31, 1914, and March 31, 1922, the Federal Government had spent on capital account, excluding the assumption of the guaranteed railway liabilities, about $1,100 million.[14] During this period the Dominion was required to raise, over and above its ordinary current expenditures, between $2,700 million and $2,800 million. Taxation (i.e., the total of surpluses on current account) provided only $440 million of this amount.

Canada, like the other belligerent countries, met the major portion of its War costs out of borrowings and credit expansion. The imposition of a weight of taxation sufficient to pay for the whole cost of the War was too revolutionary a step to take. The Federal Government had hitherto relied almost exclusively on customs revenues and a few excise taxes. It had no system of general taxation; no machinery for directly taxing the net incomes, profits and wealth of individuals. The sudden introduction of such taxing measures on the scale required was too drastic to be either politically or economically practical. Since Canada was unable to borrow abroad to any great extent, the country as a whole paid for the War while it was being fought. The food, equipment and munitions used by the armies had to be obtained, either directly or indirectly, from current production in Canada and the producers had to be paid. There was no way of obtaining these materials from posterity. It was, therefore, imperative to increase production and it is doubtful whether that increase would have taken place under the load of taxation necessary to yield the sums required. Individuals and industry are more ready to raise output and produce a surplus (i.e., amounts in excess of current consumption) to be lent to governments at favourable and tax-free rates, than to produce surpluses which governments simply take away by taxation.

Aside from $135 million (the amount of new issues, less redemptions, floated abroad between the outbreak of War and March 31, 1922) the whole of the loan requirements, amounting to over $2,100 million, were raised in Canada. The extent to which this money came out of business profits and the incomes of the well-to-do (the increases in which arose, in considerable part, out of the effects of the inflation) is indicated by the fact that from 80 per cent to 85 per cent of the War-loan bonds were purchased by business organizations, financial institutions, and individuals with substantial incomes.

The War costs and other capitalized expenditures resulted in an increase of $2,300 million in the debt of the Dominion. The assumption of the guaranteed and other liabilities of two transcontinental railways added a further $700 million. At the outbreak of hostilities, the Canadian Northern and the Grand Trunk systems had not been completed. It had, however, become increasingly clear that these gigantic projects which the Federal and Provincial Governments had assisted liberally with subsidies and guarantees were doomed to failure. The duplication of expensive lines through unproductive territory could only be justified on the basis of a continuation of the 1900-13 boom far into the future. The 1913-14 depression was a significant warning that this would not happen. The War, which almost completely shut off immigration and capital imports, brought an end to rapid frontier expansion. The situation was further aggravated by the rise in prices and the inability to borrow in the London money market. The increased cost of construction added still more to the heavy fixed charges and the rapid rise in operating expenses enhanced the distressing deficits. Unable to borrow abroad, even on their government guaranteed securities, the companies were entirely dependent upon temporary loans and advances from the Dominion.

By 1916 the situation had become critical. The Dominion was faced with three alternatives. The first was to allow the companies to go into bank-

[14] $640 million were spent on railways and canals, $116 million on public works, $80 million on soldiers' settlement, $155 million net on advances to the United Kingdom and foreign governments, and about $110 million on miscellaneous works and advances.

ruptcy and thus, after a long legal battle and a possible deterioration of service and equipment, secure a reduction in their fixed charges. The second was to continue making advances to keep them going, and the third, to take over the roads and assume their liabilities. The Railway Inquiry Commission of 1916 recommended the last course. The bankruptcy of the companies and default on their securities, it was feared, would be ruinous to the credit of the country. Furthermore, there was danger that the freezing of the temporary loans made by financial institutions to the Canadian Northern would cause a financial panic in Canada. Thus, between 1917 and 1922, the Canadian Northern and the Grand Trunk Pacific were taken over together with the Grand Trunk and consolidated with the Canadian Government railways into one system, the Canadian National. All the debenture liabilities of the companies, including as well those on which there had been no guarantee and those guaranteed by the provinces, as well as those which the Dominion had guaranteed, were assumed by the Dominion.[15] Practically the whole of the capital expenditures on the newer roads had been financed by the sale of these fixed-interest securities. There was virtually no equity investment. The entire cost of these misguided private ventures was, therefore, loaded on the shoulders of the taxpayer with very little loss to the private investor. Thus a heavy overhead on the economy undertaken at private risk was converted into fixed charges of government.

The total direct and indirect debt of the Federal Government (accounted for almost entirely by the War and the railways) rose from half a billion in 1913 to three-and-a-half billion in 1921. During the same period expenditures on current account rose from $118 million to $354 million. Of this increase, 56 per cent was due to debt charges, 22 per cent to War pensions, and the remainder largely to the higher price and wage levels at which the ordinary services of government had to be provided. Prior to 1914 the entire current expenditures of the Dominion were devoted to supplying services to the community. About 50 per cent (including all the debt charges) were for developmental purposes, about 40 per cent for general government and defence and 10 per cent for subsidies to provinces. In 1921 almost half of the total outlay consisted of transfer expenditures which yielded no immediate services. Nearly $100 million of interest payments was on debts for which there were no productive assets, and $54 million was expended on soldiers' pensions and aftercare. These two items constituted a mere transfer of income from the taxpayers to the holders of bonds (largely tax-free War loan bonds) and to pensioners. They neither added to, nor took away anything from, the sum total of goods and services enjoyed by the country as a whole.

The new transfer expenditure was the principal factor which forced the War-time and immediate post-War widening of the Dominion's revenue base. In 1913, 78 per cent of the total receipts came from customs duties, and the remainder largely from the excise on liquors and tobacco. In 1921 the proportion from customs had fallen to less than a third; a sales tax, income taxes on corporations and persons, a business profits tax, and a miscellaneous series of taxes on financial institutions, transportation tickets, cheques, etc., had been added to the revenue system. Virtually the whole of the two-and-a-half fold increase in revenue since 1913 was obtained from the new taxes.

The $150 million of transfer expenditures were very largely a legacy of the War costs to which wage-earners and others with low incomes had been called upon to contribute more than their share. The Dominion tax system now forced wage-earners and other low income groups to carry the major part of the post-War burden. The progressive taxes (taxes on the incomes of persons and on business profits) yielded but $63 million. The remainder of the new revenue was mainly derived from sales taxes and a proportionate tax on the net incomes of corporations. The imposts on consumption not only fell heavily on the poor but were a deterrent to industry. The taxation measures adopted by the Dominion to meet the obligations inherited from the War were a revolutionary change from the simple system of pre-War days. They were, however, far from being the most equitable and efficient that could be devised.

Provincial-Municipal Finance—the War-time restraint on expenditures; sharp increases in debt and expenditures on public welfare during 1918-21

The steep increase in provincial and municipal debts and expenditures, which had been characteristic of the 1896-1913 period, had already been checked by the depression which set in shortly before the outbreak of hostilities. During the War the difficulty of borrowing abroad, the diversion of

[15] The securities guaranteed by the provinces and those on which there was no guarantee were not technically or legally assumed by the Dominion, but were assumed in fact since the Dominion paid the interest and met the maturities as they became due.

domestic investment funds into Federal channels and the search of the Dominion for additional revenues, effectively restrained the expansion of provincial and municipal activities. For several years after 1913, the latter governments marked time or fell back. As soon as hostilities ceased, however, they rapidly embarked upon new expenditures, and by 1921 the upsurge which marked the early years of the century had been resumed.

TABLE 22.—GOVERNMENT DEBTS, DIRECT AND INDIRECT —1913 AND 1921

—	1913		1921	
	Total	Per Capita	Total	Per Capita
	$mm	$	$mm	$
Dominion of Canada and Canadian National Railways	520.8	68	3,520.0	400
Provinces	285·0	37	633.3	72
Municipalities	504·6	66	803·7	91
Sub-Total	1,310.4		4,957.0	
Less Inter-governmental Debts— Dominion-Provincial	11.5		49.7	
Provincial-Municipal	0.9		24.5	
Total	1,298.0	170	4,882.8	556

The most striking feature of the public finance of the provinces and municipalities during this period was the rapid increase in debts immediately after the close of the War.[16] This rush of capital expenditures was in response to far-reaching technical, economic and social changes. Already in 1914 the effects on provincial-municipal finances of the motor car, the development of electricity and the long distance transmission of electric power were beginning to be felt. The heavy capital outlays demanded by these changes had been postponed by the War, but were undertaken with great vigour once hostilities ended. The increasing use of the automobile necessitated an almost complete reconstruction of urban streets and traffic facilities. The provinces began to build trunk highways and to assist in the improvement of roads generally to motor car standards. More than one-fourth of the $650 million increase in provincial-municipal debt during 1913-21 was incurred for capital expenditures on highways, streets and bridges.

Public utilities (excluding railways) accounted for some 40 per cent of the rise in total provincial-municipal liabilities. Ontario spent more than $100 million on Hydro. Provincial power commissions were established in Manitoba, New Brunswick and Nova Scotia. The three Prairie Provinces doubled their investments in telephones. Many municipalities expanded and improved their water systems. The cities of Saskatchewan, Manitoba and Ontario expended considerable sums on electric power facilities and in some cases on street railways. While the extension of public utilities added substantially to gross debts, these did not increase the burdens on the taxpayer since they were virtually all self-supporting.

The greatest increase in deadweight debt arose out of the large outlays on public buildings and miscellaneous works. The industrial expansion and urbanization stimulated by the War, together with the new responsibilities for social welfare, added considerably to the size and variety of buildings and institutions required for public purposes. These demands fell most directly on the municipalities. In the rapid extension of such facilities, together with the large expenditures on streets, sewers and waterworks, many urban centres practically rebuilt their entire capital equipment during the few years after the War. The expenditures were largely financed by 12 to 15-year debentures, a period much shorter than the life of the assets if they were fully maintained. Thus, while debts rose rapidly during 1918-21, they were scheduled to decline rapidly during the thirties when the bonds would mature.

The provinces, in addition to the demands for highways, buildings and public utilities, had to cope with the problems of the post-War depression and drought. British Columbia, Manitoba and all of the Eastern Provinces undertook housing programs financed by loans from the Dominion. Prairie agriculture, hampered by short yields, high interest rates and sharp price declines (after 1920) called for special assistance. The provincial governments attempted to relieve the situation by the provision of agricultural credit, seed grain loans, loans to farmers' co-operatives and by advances to an irrigation project in Alberta. Thirty-four million dollars were advanced for these purposes, and most of this sum soon proved to be uncollectable.

The rapid increase in the new commitments by the Western Provinces was greatly facilitated by the Dominion's assumption of $85 million of their railway guarantees. The relief from this threatening load gave scope to the provinces for response to many demands which, however, quickly substituted other heavy deadweight burdens.

[16] Between 1913 and 1921, the total per capita provincial and municipal debts rose by over 60 per cent; practically all of the increase was incurred during the three years following 1918.

TABLE 23.—GOVERNMENT EXPENDITURES, CURRENT ACCOUNT, 1913 AND 1921

(Thousands of Dollars)

—	Municipal		Provincial		Dominion		Total(a)	
	1913	1921	1913	1921	1913	1921	1913	1921
Net Debt Charges	19,713	36,944	2,304	14,384	12,213	152,488	34,794	202,475
Defence	—	—	—	—	13,781	17,249	13,781	17,249
Pensions and Aftercare	—	—	—	—	94	53,688	94	53,688
Public Welfare	8,161	18,786	4,343	12,437	2,617	4,911	15,121	36,134
Education	27,700	66,280	9,600	20,850	215	924	37,515	88,057
Agriculture and Public Domain	—	—	7,434	9,174	10,985	17,596	18,403	26,722
Transportation	14,699	30,962	8,631	8,119	35,467	41,666	56,663	80,747
Subsidies to Provinces	—	—	—	—	11,280	12,212	—	—
General Expenditures—Justice, Legislation, General Government and Miscellaneous	30,125	51,911	15,069	25,689	31,642	(b)53,733	76,836	(b)131,333
TOTAL	100,398	204,883	47,381	90,653	118,294	354,467	253,207	636,405

(a) Inter-governmental payments eliminated.
(b) Includes Post Office deficit of 4,045.

Between 1913 and 1921 the current expenditures of the provinces and municipalities were each approximately doubled. In the interval, however, the price level had risen by about 70 per cent and the population by about 15 per cent. Making allowances for these factors, there were no significant changes in the total real per capita outlays. The War, which had added about 70 per cent to the real per capita expenditures of the Dominion, curbed the activities of the other levels of government. In the last three years of the period, the provincial and municipal response to the demands which had accumulated during the conflict took the form of large expenditures on capital, rather than on current account. Although net debt charges had more than doubled, the full burden of the new liabilities was not felt until later when many of the provincial advances and investments failed to be self-supporting.

While the total per capita real outlay of the provinces and municipalities on ordinary account did not increase, significant shifts occurred in its distribution among the various services. Public welfare expenditures were nearly trebled, reflecting a new attitude concerning the appropriate functions of government resulting from the impact of the War and the changing economy on social conditions. There were new services such as mothers' allowances and child welfare; there were enhanced expenditures on mental hospitals, a joint Dominion-provincial compaign against venereal disease, and, by 1921, a new and ominous item arising out of the brief but severe post-War depression, direct relief for the unemployed. Current expenditure on education was also higher. Here, as in public health, the Dominion Government had stepped in to inspire and direct new provincial schemes by the use of conditional grants. By 1921 these extended to employment service, the control of venereal disease, technical and agricultural education, and highways. Contributory payments were also being made by the Dominion to meet unemployment relief.

The expansion in these branches made relative, and in some cases absolute, reductions necessary elsewhere. The outlays on general government, justice and legislation declined in the eight years when allowance is made for the rise in wages, prices and population. Public domain, agriculture and transportation had to wait their turn until revenues again became more buoyant, as they did in most provinces early in the twenties.

TABLE 24.—GOVERNMENT REVENUES, CURRENT ACCOUNT, 1913 AND 1921

(Thousands of Dollars)

—	Municipal		Provincial		Dominion		Total[a]	
	1913	1921	1913	1921	1913	1921	1913	1921
Federal Subsidies	—	—	12,851	11,865	—	—	—	—
Taxes—								
Customs Import Duties	—	—	—	—	104,691	105,687	104,691	105,687
Excise Duties	—	—	—	—	21,452	36,755	21,452	36,755
Manufacturers' Taxes	—	—	—	—	—	6,639	—	6,639
Sales Taxes	—	—	—	—	—	61,273	—	61,273
Corporation Taxes	—	—	3,490	11,162	—	64,008	3,490	75,170
Succession Duties	—	—	3,611	9,724	—	—	3,611	9,724
Income Taxes on Persons	38	73	119	485	—	39,821	157	40,379
Real Property Taxes	90,314	189,656	1,753	9,720	—	—	92,067	199,376
Amusement Taxes	—	—	—	3,032	—	—	—	3,032
Other Taxes	6,517	17,956	347	1,199	1,335	6,140	8,199	25,295
Sub-Total—Taxes	96,869	207,685	9,320	35,322	127,478	320,323	233,667	563,330
Motor Vehicles, Automobile licences, etc.	—	—	470	8,381	—	—	470	8,381
All Other Licences, Permits and Fees, Fines and Penalties	5,004	8,010	6,678	8,360	1,516	2,860	13,198	19,230
Public Domain	—	—	11,046	14,786	3,420	3,542	14,466	18,328
Liquor Control	—	—	2,248	7,856	—	—	2,248	7,856
Sale of Commodities and Services	305	1,155	815	747	1,513	2,358	2,633	4,260
Other	7,697	13,537	1,507	3,083	1,276	3,425	10,089	18,679
TOTAL	109,875	230,387	44,935	90,400	135,203	332,508	276,771	640,064

[a] Inter-governmental receipts eliminated.

The growth in population and the rising prices and wages which added substantially to the total money cost of government did not, however, produce an equivalent increase in the receipts from the existing revenue sources and tax rates. But new and additional revenues were readily found. Owing largely to the rise in land values in the medium-sized industrial cities of Eastern Canada, the municipalities were able to double their aggregate income from real property taxes with relative ease. In the case of the provinces, a number of the factors which were adding to their burdens also extended their sources of revenue. The growing concentration of control in industry and finance and the large profits made by individuals and corporations out of the War-time prosperity, enlarged the pools of wealth which could be tapped by corporation taxes and eventually by succession duties. Total receipts of provincial governments from these taxes rose from $7 million to $21 million during the period. As before, however, some provinces had a much greater access to these sources than others; Quebec, Ontario and British Columbia received more than three-quarters of the total. The growing motor traffic which was forcing the provinces into large expenditures on highways also opened up new sources of revenue. Motor licences, which provided a paltry sum in 1913, were yielding more than $8 million by 1921. In the Prairie Provinces, where high prices for wheat and other agricultural products inflated land values, the provincial governments levied taxes on real property which in 1921 brought in over $7 million. Quebec and British Columbia, which by the end of this period had abandoned the War-time experiment of prohibition and made the sale of liquor a government monopoly, were already collecting substantial amounts from liquor control.

The federal subsidies, which remained unchanged throughout this period, had by 1921 fallen in relative importance to only 13 per cent of total provincial revenues. New and increased government responsibilities, and technical and social changes had, by the end of the War, advanced the public finances of the provinces a long distance from the simple dependence upon licences and fees, public domain and federal subsidies.

Basic Effects of the War on the Canadian Economy—large increase in export production, and development toward financial and industrial maturity

Canada's part in the War had cost her great sacrifices in men and money. However, the very necessities and demands of the conflict had revealed, and speedily developed, a wealth of resources and capacities which, notwithstanding the enormous waste of the struggle, brought very substantial and permanent gains to the economy.[17] In 1914 the country was confronted with a painful adjustment from a prosperity dependent upon capital imports and a construction boom to a large expansion in export production. The requirements and circumstances of the War made the transition easy and rapid. The resources and men threatened with prolonged unemployment were quickly drawn into industry. The productive capacity of the country was greatly increased.

The expansion in its main features took place within the pattern laid down by the national economic policies during 1896-1913. The development of an integrated transcontinental economy was continued on the basis of a predominantly exporting region in the West and an industrialized East dependent upon the home market. In the Prairie Provinces the acreage in field crops increased 84 per cent between 1914 and 1920. During these years the population of this area rose 19 per cent compared with 9 per cent for the country as a whole. Canada's main economic contact with the outside world, its principal stimulus to expansion, grew greatly in importance. This progress of Western agriculture, however, was not achieved without the creation of problems. In the later years of the period crop yields were poor and as prices were relatively high the incentives to expand were great. Much of the increase required in equipment, land and buildings was obtained at high prices by means of borrowed money. Considerable land which was later to prove submarginal was brought under the plough. The debts were to become difficult to carry and the submarginal farms unprofitable when prices fell.

While the Prairie Provinces retained their position as the dominant exporting region, there were important developments in other areas based upon foreign markets. The War gave a considerable impetus to the production of non-ferrous metals. Improved processes were developed for the treatment of ores and their conversion into refined products. The production of pulp and paper became a major industry. (The output of pulpwood nearly doubled and the value of the exports of pulp and paper increased five-fold.) Hydro-electric power played a significant role in these developments. Capital invested in central electric stations rose 80 per cent. The natural resources of northern Ontario and Quebec and British Columbia gave rise to important new export areas which found their outlets chiefly in the United States. The simple East-West structure of the Canadian economy was becoming complicated by new economic frontiers and new external relations.

The influences of the War enhanced the position of Central Canada as the source of manufactured goods, and commercial and financial services for the exporting regions in the other parts of the country. The decline in exports from Europe and the high cost of shipping enabled Canadian manufacturers to obtain a larger share of the home market. Although the munitions orders came from overseas and were but a temporary factor, they had important long-run effects. The demands imposed and the facilities required to meet them resulted in a considerable increase in technical and mechanical efficiency. The demand for munitions produced also a much needed diversification, particularly in the iron and steel industry which had been highly specialized to supply the demands of railway building and heavy construction. This progress in efficiency and diversification was greatly facilitated (as was the case in the production of munitions) by the availability of skilled labour, tools, machinery and supplies from the United States. The Canadian manufacturing industry emerged from the War with a more dominant place in the domestic market, with an enlarged productive capacity, and with much improved and diversified facilities.

The financing of the War promoted a rapid development of financial institutions. The sale of over $2,000 million of War loan bonds stimulated the growth of security underwriting and distributing organizations. Experience was gained in the technique of mobilizing the savings of the country and Canadians generally became more familiar with the investment market and accustomed to the purchase of securities. By the end of the War the Canadian economy had acquired an extensive and quite a mature financial equipment.

The growth of manufacturing and finance accentuated the concentration of national secondary and service industries in Central Canada. Between 1911 and 1921, the urban population of Ontario and Quebec rose from 50 per cent to 57 per cent of the

[17] It is not suggested that a greater gain might not have been made had Canada not been engaged in the War.

total population of these provinces. During the same period, the population of the metropolitan areas of Montreal and Toronto grew by 38 per cent compared with 22 per cent for the country as a whole. The integration between the various parts of the transcontinental economy was increased and the dependence of the St. Lawrence-Great Lakes area upon the other regions of the country became more complete.

The War brought significant changes in Canada's external economic relations. Prior to 1914 the relations were mainly with Great Britain, which took slightly more than half the exports and was the principal source of the capital imports. In the post-War period the relative position of Great Britain, as a market for our products and as the source of both capital and merchandise imports, had declined. This change was chiefly due to the growing importance of the United States, whose share in the Canadian import and export trade rose from about 50 per cent to 60 per cent of the total. When the War made it impossible to borrow in London, Canadian industry, provinces and municipalities turned to New York. Between 1913 and 1921 the total United States investment in Canada rose from $780 million to $2,300 million while the total British investment fell slightly. Both with respect to Canadian banking and investment connections, New York surpassed London in importance.

The development of Canada's natural resources during the War had greatly increased her capacity for export production. On the other hand, the higher price level made it easier to carry the external debts contracted at pre-War prices and interest rates. While the country's economic position with respect to the outside world was improved, the economy remained highly sensitive to external fluctuations. The ebb and flow of prosperity was more than ever dependent upon the factors which affected foreign trade and capital movement.

3. The War, Political and Social Changes

Weakening of Old Political Parties—political revolt of farm and labour groups; reaction against inequalities in War sacrifices and profiteering

The War had a profoundly unsettling effect upon the whole western world which was only less marked in North America than in Europe. The War upset the habitual routine of people, replaced their normal pre-occupations with exciting distractions and altered the customary relationships between different groups within the community. Canada participated vigorously in the struggle and was exposed to most of its disturbing influences. The opposition of farmer and labour elements to conscription was symptomatic of deeper discontent. This discontent spread through the farmer and labour groups during the later days of the War and, on the cessation of hostilities in Europe, it broke into open political revolt in Ontario and the Prairie Provinces, resulting in the temporary disintegration of the federal political parties in these provinces.

The federal political parties had been based upon the common acceptance, with varying interpretations and emphasis, of certain general policies. The alliance of powerful groups of agriculture and labour in the progressive movement was based on the view that the old line parties had become organizations to further class interests prejudicial to the general public interest. It involved reliance upon class political organizations as a means of redressing the balance in their favour. The denial that the national policies of the two old parties furthered common national interests was a new political doctrine. The two federal parties had tried to unite elements from both races and all classes around particular interpretations of the national interest. The new movement assumed the contradictory and opposed character of group interests and saw federal politics as an arena where these antagonistic forces struggled for mastery.

There were a number of reasons why this explanation of the nature of the political process made such a wide appeal at the close of the War. In part, it followed from the diversification of the economy which had made such rapid progress since the beginning of the century. This development had increased the number of economic interests and had sharpened contrasts in the relative position of different groups. Differences in relative position were extended, and contrasts were emphasized, by the War. Canada's participation in it brought rewards as well as sacrifices, and both were unequally distributed among the population. Inflation held down the real income of large sections of the labouring and white-collar groups. Although agriculture had prospered where crops were good, there were large areas in the West where crops were poor, or had failed, in the later years of the War period.

There was no general or steep reduction in the standard of living during the War and the position of some labour and agricultural groups improved. However, prosperity and good fortune are always, to a great extent, relative. Psychological factors played a large part in the revolt. There was general alarm and resentment, as well as actual suffering, over the steep and continuous rise in prices. There was widespread evidence of large profits having been reaped from War prosperity. Popular belief magnified both the size of these profits and the number of people who had shared in them. The profiteer was seized upon as the cause rather than the effect of rising prices, and fierce indignation was levelled at those who conspired to profit from human suffering and misery. The inequality of rewards and sacrifices was real and striking. Popular indignation at these inequities and misunderstanding of the causes behind them made the inequalities seem ever greater and more sinister than they really were.

The Growth of Organized Labour

Labour organization made great strides during the War. Trade union membership increased from 166,000 in 1914 to 374,000 in 1919. Labour was the most directly affected by the rise in the cost of living. The Trades and Labour Congress, after protesting against conscription, finally acquiesced in its imposition. But during 1918 the impatience of the Western wing of the labour movement with the conciliatory tactics of the Eastern section of the movement became very marked. The Western labour leaders, in particular, were indignant over the banning of radical literature by the Dominion Government, and there was considerable resentment over Canada's participation in the "capitalist intervention" in Russia. Having failed to win the Trades and Labour Congress from craft organization to industrial unions at the convention of 1918, the more radical of the Western leaders launched the One Big Union early in 1919 as an industrial union for direct action in the industrial field.

Although the One Big Union had contemplated a general strike, to begin June 1st, it was not officially connected as an organization with the sympathetic general strike which broke out in Winnipeg in May. This struggle raised passions everywhere and stirred the sympathies of labour organizations in other parts of the country. It was followed by a number of strikes elsewhere and seemed to threaten a general crisis in Canadian industry. Then the Federal Government intervened, arresting a number of the leaders. It sought to crush this kind of protest through amendments to the Immigration Act and the Criminal Code. Its action enabled the strike leaders to say that they had been defeated by the Government, and lent impressive weight to the argument that independent political action was necessary to protect the interests of labour. The incident gave impetus to the farmer-labour movement.

The Rise in the Political Power of Organized Agriculture—the election of farmers' governments in Ontario and Alberta and the rise of the Progressive Party.

Farmers' organizations also grew rapidly during the War. The United Farmers of Ontario, first organized in 1914, had secured a membership of 48,000 by 1919. Farmers' organizations on the Prairies had enrolled 75,000 members by that year. Their co-operative commercial enterprises had met with success, and the Canadian Council of Agriculture opened permanent offices in Winnipeg in 1916 from which it began to press vigorously the point of view of the farmers in national affairs. It constructed the so-called "Farmers' Platform" in 1916 and, in November, 1918, an amended form of it was published under the significant title of "The New National Policy". The political revolt was a direct challenge to the older national policies.

The manner in which the Federal Government dealt with the deputation of farmers who protested against the cancellation of exemptions from military service helped to precipitate the United Farmers of Ontario into politics. In June, 1918, a convention was held in Toronto for the purpose of ventilating grievances. Speakers demanded independent political action, and a proposal for an official journal for the movement later resulted in the purchase of the *Weekly Sun*. In October, 1918, a farmers' candidate won a provincial by-election in Manitoulin Island. A spontaneous movement for political action began among the local farmers' clubs. The leaders of the United Farmers of Ontario gave the movement direction and in the autumn of 1919, a farmers' government gained power in Ontario.

Farmers' candidates began to score successes in federal by-elections and, in January, 1920, the National Progressive Party was formed for concerted action in the federal field. Fourteen farmer candidates were elected in the Manitoba elections of that year. In 1921, the United Farmers of Alberta won an overwhelming victory in the provicial elections. In December of that year, the Union Government was defeated disastrously and sixty-five Progressives were returned to the House of Commons.

The Progressive movement, led by the farmers' organizations and strengthened by support from labour, was in the scale it assumed an entirely new phenomenon in Canadian politics although in pre-War years there had been periodic manifestations of desire for independent action. It was remarkably successful in the three years immediately following the War. Previously, movements of protest from agricultural groups had generally tried to secure expression by supporting and exerting influence upon the Liberal Party. At this time, however, the Liberal Party was completely disorganized in the Federal field and considerably weakened in several provinces by the support given by some provincial leaders to the Union Government. But in a great measure, the prevailing discontent could not have found expression through the Liberal Party because it was directed against the political system of which the Liberal Party was an intimate part. It was a direct reflection of the corrosive social effects of the War.

Summary, 1914-21

The permanent effects of the War upon Canada have not yet been fully realized but some of them, at any rate, have become obvious. It stimulated the economy in various ways. Economic and financial inter-relationships with the United States were multiplied. The necessity of financing the War effort at home brought a quick development of financial machinery, giving the system a maturity it had hitherto lacked. The insatiable demand for supplies advanced the economy rapidly along the main lines projected by the wheat boom. With the rise of new exporting regions and industries and the expansion of wheat growing on the Prairies, the dependence on export markets was greatly deepened. Domestic industry committed itself still further to supplying the needs of the exporting groups. At the same time, the long-range effect of the War was to hamper international trade and to make the grip on foreign markets more precarious. The Canadian economy became still more vulnerable to external influences.

While the struggle lasted, the Federal Government monopolized public attention. The national effort led to a concentration on national issues and finally to bitter division on the national interest. The cleavages on this question followed cultural, class and occupational lines rather than the familiar party division or the alignment of some provinces against the Dominion. The immense authority, born of a common aim, which the Dominion Government exercised during the struggle disintegrated with the return of peace. It became very difficult to combine the group interests, which more and more found expression in Federal politics, for the support of a vigorous policy by the Dominion. Thus, in the event, the partial eclipse of the provinces was short-lived. In the twenties, the provinces were to take a more important place than ever before while the Dominion followed a mainly negative policy.

At the beginning of the period, most of the varied and exciting opportunities which came with western expansion suddenly vanished with the collapse of the boom. Economic diversification continued and people were obliged to apply themselves to highly specialized occupations. As they became less adaptable and less able to make sudden shifts in occupation, the economy lost much of the flexibility and capacity for automatic adjustment to changed conditions which had marked it in the days of the open frontier. Many of the material conditions which had already led the advanced industrial countries of Europe to make public provision for social security were emerging in Canada. The War accelerated this significant change in the economy and contributed to the decline of laissez-faire as a social philosophy. It exacted innumerable individual sacrifices for the community and thus suggested reciprocal obligations of the community toward individuals. The common folk who bore the brunt of the struggle were encouraged to expect that victory would usher in a new era. The new era did not come, but instead the inequality of individual rewards and sacrifices which marked the prosecution of the War sharpened social distinctions. This combination of circumstances stimulated a growing concern for the social welfare of those who must fight the country's battles. Recalling the War-time activity of governments, many were led to hope that governments could organize for social welfare as they had organized for War. The War hastened considerably the acceptance of the philosophy of the social service state in Canada.

The whole burden of the War expenditures fell on the Dominion at a time when it also had to pay the full consequences of the rash railway policies launched during the wheat boom. In seven years, the public debt of the Dominion increased sevenfold. The Dominion was reluctant to undertake new responsibilities, and this paralyzing debt became the financial counterpart of the political weakness which fell upon the Dominion. On the other hand, the War had been a damper on expenditures by provincial governments. After its conclusion, the provinces began without hesitation to make large expenditures to meet accumulated demands. They at once increased their expenditures on social welfare and, although they secured some federal financial assistance through conditional grants, the events of the first two or three years after the War indicated that it would be the provinces, and not the Dominion, which would meet the growing demand for social services.

Chapter V

THE POST WAR PROSPERITY 1921-30

Impact of Economic and Social Changes on Federal Relations—decline in unifying influences of national policies and growing diversity of regional interests

In the twenties, the world made a substantial, though temporary and superficial, recovery from the disruption caused by the War. In Canada, the era of reconstruction led to new and impressive expansion. The economic integration based on wheat reached a new peak of productivity which tended to obscure, for the time being, the more significant features of the expansion. The age of steel and steam within which Canadian economic development had hitherto taken place had to make way for the age of alloys, hydro-electric power and the internal combustion engine. The new techniques, the development of which had been forced by the War, opened up vast new Canadian resources for development and heavy investments were made for their effective exploitation. The impact of these developments brought rapid changes in the pattern of the Canadian economy. The national integration (achieved through wheat), which tied the country together by East-West bonds of trade and opportunity was weakened as Central Canada and British Columbia felt the direct and competing tug of export demand on their regional resources. New economic frontiers, the exploitation of which was of primary interest to Ontario and Quebec, developed on the Pre-Cambrian Shield,—where water power, base metals and pulp and paper came into their own,—and began to usurp the place of the old national frontier in the West. In the successful development of these new frontiers, the importance of a national economic integration for some regions declined and the material basis which had bolstered political unity in the past was measurably weakened.

In the past, the Dominion had been able to prosecute with vigour certain national policies which promoted national integration because of the common interest of all regions in the result. As these national policies lost some of their unifying power, the common agreement necessary for resolute political action by the Dominion became more difficult to secure. Still more important, with the opening of the West finally and fully accomplished, it seemed that many of the national economic policies had been carried to completion. No obvious and pressing challenge to action presented itself in the federal sphere in this period. To many it seemed that the time had come when the Federal Government might rest from its arduous labours and muse over how it had justified the faith of the Fathers. For other reasons, the Dominion was much disposed to rest. The War had strained the federal political system and set various groups at odds over the national policies. The national debt had been increased several-fold. In seeking to reduce its old obligations and to avoid new ones, the Dominion yielded the initiative to the provinces.

By contrast, the provinces, which had suffered enforced restrictions on their activities during the War, were not unwilling to undertake leadership on their own account. The natural resources which the new techniques opened up for exploitation were under their control and this gave the provincial governments an enhanced importance in the eyes of private enterprise.

Several factors combined to give a new political importance to the provinces. Highway construction and developmental projects on the provincial frontiers began to take the place which railway construction and national projects of development had occupied in the past. In the jobs and contracts which were thus at the disposal of the provincial governments, there were substantial increments of political power. Moreover, in the twenties, the social and political implications of the change from a simple rural and village economy to a highly specialized, predominantly industrial economy could no longer be ignored. The mischances which befall individuals in such a society could no longer be cushioned by the family and voluntary charity. The constitution threw the responsibility for public welfare on the provinces (and municipalities) and within the limits of their resources they tried to meet it. These activities brought the provincial governments into a closer relationship with the people. In their intimate contact with the movements and tendencies of the time, the provincial governments added greatly to their economic and social importance and thus to their political power and prestige. Those which could carry their obligations manifested a new independence of the Federal Government and those which could not became more importunate as they focused on the Federal Government regional protest against the operation of the national policies. In the endeavour to meet their growing obligations or to take full advantage of rising economic opportunities, provincial demands of various kinds were made on the Dominion, and the Federal Government, unable to deflect these demands by a vigorous policy of its own, made important concessions to the provinces. The rise of regionalism gave an altered direction to Dominion-provincial relations.

Regionalism reflected differences in interests and opportunities which had become quite pronounced in different parts of Canada. The various regions had always differed in resources and geographical advantages. These promoted economic specialization and made for disparities in the fortunes of separate areas. The national policies, which had both hastened and deepened specialization, played continuously on the regional disparities, sometimes counteracting, but often exaggerating, them. With so large a dependence on exports, fluctuations and shifts in international trade capriciously moulded regional fortunes. A long lag in recovery from the post-War slump revealed serious weakness in the Maritimes which was met, in some measure, by an increase in federal subsidies. The decline in export values in the early twenties, and again at the end of the period, made clear the overwhelming dependence of the whole structure of Prairie government finance on wheat. On the other hand, Central Canada forged ahead rapidly without interruption throughout the period. At the same time, the increasing need and demand for certain minimum public services bore little relation to the capacity of the governments in a region to supply them. The great disparities in the strength of the regional economies were temporarily obscured by the surge of prosperity which carried provincial and municipal expenditures and obligations to new heights in the later twenties. At the same time, the very factors which brought prosperity made the economy more vulnerable than ever before to economic fluctuations. With the coming of depression at the end of the period, these new conditions were fully exposed to view and some of their implications became inescapable. Federal action became necessary to maintain a tolerable equilibrium between the regions in the federation.

1. Prosperity and the Changing Structure of the Economy

World Influences—short post-War depression; reconstruction and revival of international trade and investment bring renewed expansion to Canada.

At the end of the Great War Canada found herself in an economic world which was utterly disrupted. International trade was hampered by a maze of national restrictions and controls. The international exchanges were in a state of desperate confusion and instability. Important industries, particularly shipping, coal mining, iron and steel, and heavy engineering had expanded beyond peacetime requirements. Large masses of Europe's population suffered from grave shortages of foodstuffs and raw materials. The staggering load of internal and external debts, and the heavy expenditures on social services and rehabilitation, forced a continuance of unbalanced budgets which, in many cases, resulted in uncontrolled inflation. The intricate mechanism of money and exchange which was the basis of the world's economic life seemed broken almost beyond repair. The passions of the conflict, deep underlying grievances, and revolutionary tendencies enhanced the difficulties of reconstruction.

In 1920 these far-reaching dislocations brought about a collapse of the short post-War boom. The liquidation of the world-wide inflation of credit had an immediate effect upon Canada through the steep decline in export prices and demand.

Table 25.—Indices of Prices and Exports[a]

—	All Wholesale Prices	Export Prices	Farm Products	Wheat Prices	Manufactured Goods Prices	Cost of Living	Value of Exports	Volume of Exports
1920	100	100	100	100	100	100	100	100
1921	71	74	64	66	74	88	64	87
1922	62	60	55	49	64	81	71	118
1923	63	59	51	43	66	81	80	136

[a] Dominion Bureau of Statistics price indices.

The movement of prices had drastic effects upon the Canadian economy, not so much because of the extent of the fall (although it was one of the most severe ever experienced following an almost equally abrupt rise) but because of the great disparities which developed. Selling prices (wholesale prices) fell more rapidly than costs (cost of living, wages, freight rates, interest rates, etc.). Agricultural prices, particularly that of wheat, fell far out of line with the prices of manufactured goods and the cost of living. During the rapid expansion of the War years, Prairie farmers had incurred heavy debts, purchased much machinery, equipment and land at the high War prices.[1] When the value of wheat fell by more than 50 per cent, it became virtually impossible to carry these overhead costs and commitments. The situation was further aggravated by the United States tariff increases of 1921 and 1922 which sharply restricted the substantial exports of livestock and livestock products to the United States.

The decline in the purchasing power of Western agriculture, combined with rigid costs, brought a sharp curtailment of demand for manufactures from Central Canada. Considerable unemployment emerged in industrial centres. In Nova Scotia, where the high level of activity was heavily dependent upon War requirements, the contraction was particularly severe. At the bottom of the slump the national real income had fallen 14 per cent. During 1921-23 the far-reaching effects of unfavourable foreign influences on the Canadian economy were fully revealed.[2]

The post-War depression, however, was short-lived. By 1923, notwithstanding the many serious dislocations inherited from the War which had not been overcome, world economic activity had resumed its upward course. Between 1920 and 1926 there was a general and concerted effort to restore the conditions of international exchange as they had existed prior to 1914. Currencies were stabilized on gold, many of the more onerous restrictions on international trade were removed, and international lending was resumed. The reconstruction of devastated areas was quickly accomplished and financially weak countries were bolstered up with international loans. These efforts achieved only a superficial restoration of pre-War trade conditions without bringing a solution to fundamental problems, but they permitted the forces of economic expansion to become effective. The requirements of war had greatly increased productive capacities, particularly in new countries, and stimulated the development of industrial techniques. With the re-establishment of orderly international relations, the new facilities brought an increase in material welfare. By 1925, world production of primary commodities had risen 17 per cent over the 1913 level and the volume of world trade had risen 5 per cent. Canada was quickly affected by the rising tempo of world economic activity.

TABLE 26.—PRICE CHANGES

1913 = 100

—	1922	1926	Per cent Change 1926 from 1922	1929	Per cent Change 1929 from 1926
Canadian Selling Prices—			%		%
All Export Prices	152	156	+ 3	149	− 4
Wheat	140	170	+ 21	152	− 10
Newsprint	190	176	− 8	149	− 15
Lumber and Timber	160	148	− 7	154	+ 4
Non-ferrous metals	99	102	+ 3	101	− 1
Canadian Costs—					
All Import Prices	138	137	—	129	− 6
Manufactured Goods Prices	155	154	—	144	− 7
Iron and Steel Products	152	145	− 4	136	− 6
Railway Freight Rates	152	148	− 3	146	− 1
Tramp Shipping Freights [(a)]	130	117	− 10	97	− 18
Interest Rates [(b)]	125	111	− 11	113	+ 2

(a) Economist Index.

(b) Yield of Province of Ontario Bonds.

After 1923 the prices of the leading Canadian exports became increasingly favourable in relation to costs.[3] These circumstances, together with improved wheat yields, brought a rise of 43 per cent in the value of Canadian exports between 1922 and 1926.

The rising export values which provided the basis for the growing prosperity in Canada in the twenties were due to a number of far-reaching changes which were affecting the Canadian economy during this period. The shortage of foodstuffs in Europe, the application of new techniques to virgin resources for whose products there was a rising world demand, the low cost of ocean transportation resulting from the excess capacity in shipping, and the opening of the Panama Canal, launched a new era of expansion in Canada.

[1] For example, the settlement of returned soldiers on the land was undertaken at a time of peak prices.

[2] The extent of the depression in Canada is indicated by the 14 per cent drop (1920 to 1921) in the national real income, the 11 per cent drop in the physical volume of business, the 13 per cent drop in the volume of exports, the 30 per cent drop in the gross value of agricultural production and the increase from 4·9 per cent to 12·7 per cent in the percentage of trade union unemployment. The foreign exchange value of the Canadian dollar during 1921-24 when it moved at an appreciable discount below United States funds and at a premium over sterling—added to the burden of debt charges paid in the United States and put increased pressure on exporters to the United Kingdom, although giving some advantage to domestic producers, and exporters competing with United States interests.

[3] By 1926 the average of the prices of all exports of wheat, newsprint, and lumber were 56, 70, 76 and 48 per cent respectively, above those of 1913, compared with increases of 37, 54, 45 and 48 per cent respectively, in the prices of all imports, manufactures, iron and steel and railway freight rates.

Continued Rise in Wheat Exports—increasing dependence of Prairie agriculture on temporary markets

Canadian wheat production had expanded rapidly in response to the new European demands created by the War. These demands were not immediately abated with the renewal of peace. The devastation and dislocations caused by the struggle, agrarian reforms and the Russian revolution prevented the immediate attainment of the pre-War levels of production. The overseas exporting countries, particularly Canada, were called upon to supply the deficiency.

TABLE 27.—WORLD (EXCLUDING CHINA) WHEAT PRODUCTION
(*Millions of Bushels*)

Annual Averages	25 European Countries	Russia	Canada	United States	Argentina and Australia	All Other	Total
1909–13...	1,355	757	112	682	238	665	3,809
1922–25...	1,197	521	383	779	335	614	3,829
1926–29...	1,340	797	440	861	397	649	4,484

For a few years after the War, European tariff restrictions against the imports of wheat were considerably lower than they were prior to 1914. This liberal policy arising out of the condition of scarcity, and the foreign exchange made available by United States lending, created an expanding market for wheat, of which Canada obtained a growing share, at profitable prices. During 1922-26 Canada supplied 38 per cent of the world's wheat exports, compared with 12 per cent during 1909-14.

TABLE 28.—NET EXPORTS AND IMPORTS OF WHEAT AND FLOUR
(*Millions of Bushels*)

Averages Crop Years	Net Exports				Net Imports	
	World Total	Six European Exporters	Russia	Canada	France, Italy and Germany	Other European Importers
1909-10 to 1913-14...........	686	114	164	86	164	381
1922-23 to 1925-26...........	759	34	9	286	186	394
1926-27 to 1929-30..........	810	44	14	304	203	441

After 1925 however, the favourable circumstances in the export wheat market began to disappear; 1925 was the first year in which European production exceeded the pre-War levels. It was the year in which Germany regained her freedom to impose customs duties and thereupon re-enacted high tariffs on foodstuffs. In 1925 Italy began the "battle of the grain" and Austria and Czechoslovakia imposed sliding scale duties on imported wheat. Between 1925 and 1929 the increasing European protection against foodstuffs arising out of the desire for self-sufficiency and the growing industrialism of new countries, together with the continued expansion of European production which was, at least in part, a "spontaneous recovery" from the effects of the War, greatly weakened the international wheat situation. For some time, however, the effects of these basic changes were obscured. The failure of Russia to re-enter the export market on any substantial scale, large United States loans to Europe, speculative holding of surplus stocks, and the high rate of business activity enabled overseas exporters to ship an increasing volume of wheat until the end of the boom in 1929. Wheat prices remained at profitable levels although they had been sagging since 1925. With the satisfactory prices and high yields of 1926-28 Prairie agriculture was prosperous and resumed a rapid rate of expansion. Thus there were serious underlying weaknesses at a time when Canada became even more deeply committed to the profitable sale of wheat which continued to make up nearly a third of her total exports.

The Investment Boom—large investment in transportation facilities and development of northern resources; effects of hydro-electric power, improved mining techniques and the gasoline engine

While the expanding market for wheat was a major factor in the economic growth of Canada during the twenties, other forces were perhaps more important. Prior to 1914 the basic elements of industrialism were steam power, coal and iron. The War and post-War development of hydro-electric power, the gasoline engine, and the use of new industrial metals shifted the balance of industrial advantage. These technological changes were of immense significance to Canada, first, because they brought into economical exploitation large virgin resources, and second, because they decreased the handicaps suffered under the old techniques. The resources of British Columbia and of the northern areas of Ontario and Quebec became the basis of large staple industries. In addition to the agricultural frontier on the prairies, Canada acquired new frontiers on the Pre-Cambrian Shield.[4] The exports of pulp and paper and non-ferrous metals rose to 30 per cent of total exports in 1929 compared with 19 per cent in 1920.

The expansionary effect of these rapidly growing industries, however, was due not so much to the new export incomes which they created, as to the heavy capital expenditures which accompanied their development.

TABLE 29.—CAPITAL INVESTMENT

(Millions of Dollars)

—	Total to 1920	Total to 1930	Net New Investment during 1929-30
Primary Industry—			
Agriculture—buildings, implements and livestock	2,884[b]	2,817	− 67
Mining [a]	560[b]	887	+ 327
Pulp and Paper	348	704	+ 356
Sawmills	200	181	− 19
Fishing [c]	50	64	+ 14
Sub-Total	4,042	4,653	+ 611
Manufacturing	2,188	2,868	+ 680
Central Electric Stations	448	1,138	+ 690
Transportation and Communication—			
Steam Railways [d]	2,650[e]	3,330	+ 680
Canals and River Improvements [f]	168[b]	280	+ 112
Harbours, Harbour Improvements, Docks and Terminals—Dominion Expenditure and Guarantees [f]	107	231	+ 124
Electric Railways	170	224	+ 54
Telephones	145	319	+ 174
Highways—Provinces [f]	118[b]	387	+ 269
Highways and Streets—Municipalities [f]	240[b]	350	+ 110
Sub-Total	3,598	5,121	+1,523
Public Buildings and Municipal Works [f]	522[b]	801	+ 279
GRAND TOTAL	10,798	14,581	+3,783
Residential Building [g]	—	—	+1,062

[a] Excludes ore reserves or other unmined material. Includes non-ferrous metal smelting and refining.
[b] 1921.
[c] Includes fish canning and curing establishments.
[d] Capital invested in Road and Equipment.
[e] Estimated.
[f] Public Accounts Inquiry, Royal Commission on Dominion-Provincial Relations.
[g] Construction Contracts awarded, MacLean Building Reports, Ltd.

In Canada, as elsewhere, the rising economic activity of the twenties was dependent upon a high rate of investment. The expansion of Western agriculture and the growth of the new staple industries on the new northern frontiers required a heavy expenditure on fixed equipment. The northward extension of wheat growing on the prairies required a substantial increase in costly transportation facilities. New branch lines were built, main lines improved and canals and harbours enlarged in accordance with the national policy of all-Canadian transportation. In response to the new demands, the requirements of national policies and the optimistic outlook on the future, the railways engaged in unwise competition and invested during 1920-29 nearly $700 million in road and equipment and a further $150 million in hotels, telegraphs, and steamships. During the same period the Dominion spent $236 million on waterways and harbours.

The improved technical facilities and new demands, which opened up the natural wealth of the Pre-Cambrian Shield, involved a particularly heavy investment of capital. The large fixed equipment represented by central electric stations, pulp and paper factories, smelters and metal refineries was the major factor in the exploitation of these resources. The expenditure of nearly $1,400 million on the construction of such equipment during the decade of the twenties contributed greatly to the prosperity of the period.

Another technical innovation which called forth large capital outlays in the post-War years was the automobile. It gave rise to new automobile factories, petroleum refineries, service stations, repair shops and, what was most important, a greatly extended and improved system of highways and streets. The last two items alone involved an investment of some $380 million during this period.

The heavy capital expenditures involved in the development of the primary industries and transportation stimulated investment in manufacturing, in distribution facilities, in community equipment and housing. During 1920-30 the amount invested in all forms of capital goods reached a total of at least $6 billion. Near the end of the period, the amount of construction far exceeded the levels attained at the height of the pre-War boom. The amount of foreign capital which came in during the twenties was, however, much smaller than that which was associated with the expansion prior to 1914. Between 1920 and 1924 capital imports were substantial but in 1925, 1927, and 1928 there were net capital exports. During the decade net long-term capital imports were between $800 million and $900 million, of which about two-thirds came from the United States. The investment boom of the twenties was very largely financed out of Canadian savings.

[4] Between 1920 and 1929, the developed water power in Canada rose from 2.5 million horse power to 5.7 million horse power, the gross value of production of pulp and paper (which was closely dependent upon electric power) rose from $151 million (1921) to $244 million and the value of production of non-ferrous metals rose from $76 million to $154 million.

The increase in export incomes resulting from the expansion of Western agriculture and the exploitation of hitherto unused resources by the application of improved techniques, together with the heavy capital expenditures which arose out of these developments, brought rising prosperity and a very substantial improvement in material welfare. The average per capita real income rose by fully one-third during the decade.

TABLE 30.—INDICES OF CANADIAN ECONOMIC PROGRESS, 1920-29

1920 = 100

—	Population (a)	Real National Income (b)	Physical Volume of Business (c)	Volume of Exports (d)	Efficiency of Production in Manufacturing (e)	Index of Real Wages (f)
1920.....	100	100	100	100	100	100
1922.....	104	100	106	118	130	115
1926.....	110	125	133	161	142	114
1928-29 average	116	148	162	172	146	120

(a) Estimates of the population by the Dominion Bureau of Statistics.
(b) Computed from estimates of the national income by the Dominion Bureau of Statistics for 1920-26 and from the Bank of Nova Scotia estimates for 1926-29. The index of the real national income was computed by dividing the indices of the national money income by the Dominion Bureau of Statistics index of the cost of living.
(c) Dominion Bureau of Statistics Index.
(d) Index of the value of exports divided by the Dominion Bureau of Statistics index of export prices.
(e) Volume of manufacturing production per employee, *Canada Year Book*, 1934-35, p. 490.
(f) Dominion Department of Labour index of wages divided by the Dominion Bureau of Statistics index of cost of living.

Maritime Provinces—foreign markets and technological changes unfavourable; prolonged post-War depression and federal assistance.

The external forces and the technological changes of the 1920's, while favourable to Canada as a whole, were adverse to the Maritime Provinces. During the thirty years prior to the War, the decline of the old techniques destroyed the prosperity based upon the sailing ship and the sea, while the rise of coal, iron and the railway brought a growing dependence upon the continental interior. The development of the coal and steel industries which resulted from the "wheat boom" and the national policies provided alternatives to the declining occupations. In this manner, parts of the Maritimes had participated in the great expansion of 1896-1913. The post-War expansion, however, which was not so much associated with railway building as with the rise of new sources of power (electricity and oil) and the newer industrial metals, passed them by. As in the former period, the long-term trend in their foreign markets was downward. Under such circumstances, the depression which set in during 1921 continued in these provinces long after it had been overcome and expansion renewed elsewhere. In this decade they made virtually no progress.

TABLE 31.—THE ECONOMIC PROGRESS OF THE MARITIMES, 1920-29

Indices 1920=100

—	Population		Capital Invested(a)		Net Value of Production(b)		Average per Capita Income(c)	
	Maritimes	Canada	Maritimes	Canada	Maritimes	Canada	Maritimes	Canada
							$	$
1920...	100	100	100	100	100	100	—	—
1926...	101	110	96	116	74	99	269	432
1929...	102	117	109	138	74	107	313	470

(a) Total capital invested in the primary industries (agriculture, mining, fishing and forestry), manufacturing, central electric stations, and provincial and municipal public works.
(b) Net value of "goods" production.
(c) Calculated from the estimates of national income prepared by the Research Staff of the Commission.

Between 1920 and 1929 the populations of Nova Scotia and Prince Edward Island remained practically stationary while that of New Brunswick rose but slightly, compared with an increase of 18 per cent in the two Central Provinces. During the decade, there was a considerable emigration to the United States. In none of the years of the period 1921-29 did the net value of (goods) production in the Maritimes approach the high figure of 1920, whereas, in each of the other provinces of the Dominion, it had been surpassed by 1928.

The War had been a powerful stimulus to the Maritime economy. The cessation of the exports of dried fish from Europe, the heavy demand for West Indian sugar, and the growth of the fresh fish trade to Central Canada greatly extended the markets of the fishing industry. The demand of the munitions industries for iron and steel, the shipbuilding orders of the Canadian and Allied Governments, the high prices for lumber and the decline of the competition of other regions with local agriculture, brought prosperity to the other principal industries. The Halifax disaster brought about a temporary building boom. At the beginning of the post-War depression, all these favourable influences disappeared suddenly and simultaneously.

During the War Brazil, Porto Rico, Cuba, and the British West Indies drew virtually the whole of their supplies of dried fish from Nova Scotia and Newfoundland. The high meat prices and the

Government transportation subventions brought a large increase in the sales of fresh fish to Quebec and Ontario. The removal (as a War measure, in 1918) of the shipping restrictions which had partially nullified, for the Maritimes, the Underwood Tariff of 1913 permitting free entry of fresh and frozen fish into the United States, gave the fishing industry profitable access to the markets of that country. These advantageous circumstances, however, quickly disappeared. After 1920 production of dried cod from competing sources increased rapidly. European importing countries became self-sufficient behind tariff walls. Government subsidies and technological improvements enabled Norway and Iceland to increase production greatly and to capture important markets. The steep decline in sugar prices sharply curtailed the purchasing power of the principal consumers in the West Indies. Finally, dried cod was being gradually replaced as an article of diet by other foodstuffs. The fresh fish trade grew but slowly. In 1919 the subventions for the transportation of fresh fish to Central Canada were stopped. In 1921 the United States Government withdrew the War-time privileges accorded to Canadian fishing vessels and reimposed tariffs (which were increased in 1922) on fresh and frozen fish. Confronted with such an array of obstacles, Nova Scotia's highly important fishing industry declined.

TABLE 32.—INDICES OF PRICES AND THE VALUE OF FISH PRODUCTION IN THE MARITIMES

—	Prices of Dry Shore Codfish at Halifax	All Wholesale Prices	Cost of Living	Total Value of Fish Production Maritime Provinces
1913	100	100	100	100
1918-20 average	192	217	168	152
1921-25 "	118	159	155	112
1926-29 "	109	152	152	130

The resources hitherto employed in the fisheries sought opportunities elsewhere. Some owners of fishing vessels turned to rum-running for a new source of income. Despite the fact that alternative employments were few and the problems of readjustment difficult, the number of persons employed in the fishing industry in Nova Scotia declined from 26,000 in 1919 to 20,000 in 1929.

Lumbering, the principal industry in New Brunswick and an important one in Nova Scotia, faced growing difficulties during the twenties. The depression in British building restricted the sales in the English market while the opening of the Panama Canal and low ocean freight rates intensified competition in the Eastern United States and Canada. During 1921-29 the production of lumber in New Brunswick never recovered the pre-War peak of 1911 and remained far below the levels of the War years. The average annual output in Nova Scotia in this decade was less than half of what it had been during 1908-14. The depressed conditions in lumbering encouraged the utilization of forest resources for the manufacture of pulp and paper. Between 1920 and 1929 the production of pulpwood in the two Provinces was doubled. The manufacture of paper, however, was slow in getting under way. It began in 1923 in New Brunswick but not until 1930 in Nova Scotia. Despite this development the total net value of forestry production in the Maritimes for 1929 was less than for 1922.

The rise of the Nova Scotia iron and steel industry was directly linked with the railway expansion of the "wheat boom." In the post-War period the demand shifted from steel rails and other heavy forms to lighter materials and structural steels such as are used in motor-car manufacturing and building construction. The Nova Scotia industry was at a disadvantage compared with that in Central Canada which was closer to the market, had access to larger supplies of scrap metal, and whose competitive position was improved by the disproportionate War-time increases in freight rates from the Maritimes. In Ontario the production of pig-iron in 1928 and 1929 far exceeded the levels reached during 1916-20, but in Nova Scotia output remained considerably below both the immediate pre-War and War-time peaks. In 1913 Nova Scotia produced 43 per cent of Canada's pig-iron; in 1929 this ratio had fallen to 29 per cent.

Coal mining suffered at once as a result of the difficulties of the iron and steel industry.[5] Furthermore, the market in Central Canada, which took one-third of the output in 1913, was lost during the War. The recovery of this market was assisted by the 20 per cent reduction in Maritime freight rates in 1927 and the federal subventions for the transportation of coal to Ontario and Quebec which were established in 1928. With these rail freight reductions and the low water rates which prevailed during this period, the Central Canadian market was more than recovered by 1929. A further attempt was made to help the industry by the

[5] The consumption of coal in Nova Scotia (used very largely by the iron and steel industry) was 2.9 million tons in 1913 and 1920 but less than 2.2 million tons in 1929.

offer of federal bonuses (started in 1927) to gas and coking plants using Canadian coal. These various methods of assistance were in part responsible for a considerable revival of production but in 1929 the total was still 12 per cent below the output of 1913.

The relative, and in some cases absolute, decline in Maritime manufacturing which began at the end of the last century continued during the twenties. The disadvantages of these Provinces arising out of their isolation from the large markets of Central Canada and the West, their distance from the industrial centre of gravity of the continent situated in the Mid-Western United States, the unfavourable circumstances affecting the local exporting industries, and the adverse railway freight rate situation (as compared with pre-War levels) prevented them from sharing in the expansion of manufacturing which took place in Ontario and Quebec. They were unable to benefit from the new developments which stimulated the remarkable growth in the lighter industries, in the production of packaged consumers' goods, new textiles and durable consumers' goods such as motor cars, radios, electrical appliances and other household furnishings. However, some progress was made in the processing of local natural products and also of certain imported raw materials such as sugar and oil. A number of specialty manufacturers held their position, the most important being specialty textiles, shoes and candies. Nevertheless, manufacturing in the Maritimes declined during this period. In 1929 employment in manufacturing was greater than in 1920 in every province except Nova Scotia and New Brunswick. For Canada as a whole, manufacturing employment during the decade rose 14 per cent but fell 6 per cent in the Maritime Provinces.

With the disappearance of War-time demands and prices, the competition of other regions with Maritime agriculture was intensified. Consequently, the acreage devoted to field crops decreased steadily (there was a small rise in Prince Edward Island) during the twenties. However, there was some progress in the production of dairy products for the sheltered local market and of agricultural export specialties,[6] although circumstances were not favourable. The Nova Scotia apple industry encountered increasing difficulties with diseases and pests and was confronted in the depressed English market with stiffer competition from British Columbia and a better graded product from the United States. During the War and the immediate post-War years, valuable markets for potatoes were built up in the United States and Cuba. The Underwood Tariff of 1913 had admitted potatoes free subject to a small countervailing duty. In 1921 the United States potato tariffs were reimposed and, in 1922, raised to 30 cents per bushel. The Cuban market became less attractive as the sugar prosperity disappeared, and in 1927 tariffs were sharply raised. However, the great progress in the development of seed potatoes in Prince Edward Island and New Brunswick kept them in the market despite tariffs and depressed conditions. In the face of the many unfavourable factors, Maritime agriculture failed to prosper. The number of gainfully occupied engaged in the industry fell slightly during the decade.

The difficulties of the widespread economic readjustment which the Maritime region had to undergo during the twenties were enhanced, particularly during the first half of the period, by the effects of the national policies. The isolation of these Provinces from the markets of the rest of Canada was intensified by the War and immediate post-War rise in freight rates. In the Maritimes these rates had risen approximately 20 per cent more than in Ontario and Quebec. The policy of protective tariffs, although it was not altered in any important respect, bore with increasing weight upon the depressed and marginal exporting industries. However, during the latter part of the decade, the national policies were somewhat modified so as to apply more favourably to this region. In 1927, following upon the recommendation of the Duncan Commission, the railway rates within the territory east of Levis and Diamond Junction, and on traffic moving westward out of this territory were reduced 20 per cent. Thus the pre-War relationship between Central Canadian and Maritime rates was restored.

The changes in the tariff and trade regulations did not significantly alter the general level of protection, but a number of new provisions were adopted which were calculated to increase traffic through Maritime ports. In 1923 a reduction of 10 per cent on preferential rates in excess of 15 per cent was granted where imports were shipped direct to Canadian ports. In 1926 the application of all preferential rates was made dependent upon direct shipment to Canadian ports. A new Canada-West Indies Trade Agreement providing for reciprocal preferences became effective in 1927. Although the effects of this Agreement upon exports were disappointing to the Maritimes, the establishment of a

[6] These were silver foxes in Prince Edward Island, potatoes in Prince Edward Island and New Brunswick, and apples in Nova Scotia.

regular and adequate steamship service to the West Indies subsidized by the Dominion yielded distinct benefits. These modifications in the national transportation and tariff policies, the Dominion subventions to coal, large Dominion expenditures (by direct outlays and guarantees) for the improvement of the harbours of Halifax and Saint John, together with the sharp rise in economic activity in Canada and elsewhere, brought a substantial recovery to this region during the latter part of the decade. Between 1926 and 1929 the total income of these Provinces rose slightly more rapidly than that of the rest of the country. By 1929 some of the unfavourable circumstances had disappeared and the major readjustments required by the remainder had been accomplished. At the end of the period, the Maritimes had less of the feverish activity of a boom than other parts of Canada but they were better prepared to withstand the shock of the depression.

Prairie Provinces—renewed expansion following recovery of wheat prices; diversification in Manitoba and increasing dependence upon wheat in Saskatchewan and Alberta.

The collapse of wheat prices after 1920 coupled with rigid costs placed a severe strain on Western agriculture.

TABLE 33.—THE PRICE OF WHEAT AS PERCENTAGES OF CERTAIN FARM COSTS, 1913-25

—	Manufactured Goods	Farm Cost of Living	Wages of Farm Help
1913	100	100	100
1920	118	135	104
1921	104	111	86
1922	90	93	76
1923	77	81	69
1924	92	97	80
1925	116	126	103

The decline in agricultural income was intensified by poor yields, and by the fall in cattle prices to which the United States' tariffs of 1921 and 1922 contributed. The difficulties of the Western farmer found expression in the agitation for the re-establishment of the Wheat Board, in the growth of farmers' organizations, and finally in the establishment of the voluntary wheat pools during 1923 and 1924. The Provincial Governments of Manitoba and Saskatchewan endeavoured to relieve the situation by making available agricultural credit at lower than open market rates, and Alberta by heavy expenditures for irrigation and advances for seed grain, purchase of live stock, etc.

During the depressed farm conditions of 1921-24 economic expansion in the Prairie Provinces virtually ceased. In this period, however, certain important readjustments were made. A reduction of 7·5 cents per bushel in the freight rates on wheat (Regina to Fort William) was effected in 1922 by the re-establishment of the Crow's Nest Pass Agreement rates on grain and flour moving eastward from the Prairies. A large area of the wheat-growing region was enabled to benefit from the opening of the Panama Canal by the decreases of 20 per cent in 1922 and a further 10 per cent in 1923 on grain rates from Prairie points to the Pacific coast. Between 1920 and 1924 the total cost of shipping wheat from Regina to Liverpool fell from 67 cents per bushel to 33 cents per bushel. In this period also, the national policy of protective tariffs was somewhat modified in the direction of reducing the costs of the primary producer. The War-time increases in the tariff (7½ per cent on the general and intermediate rates and 5 per cent on the preferential rates) were abolished in 1919 and 1920. In 1919, 1920 and 1924 substantial reductions were made in the duties on farm machinery. In 1924 the general and intermediate rates on tillage implements stood at 7½ per cent compared with 17½ per cent and 20 per cent under the 1907 tariff. The reduction of costs and the sharp recovery of wheat and livestock prices in 1924 and 1925 opened a period of renewed expansion on the Prairies.

TABLE 34.—THE PRICE OF WHEAT AS PERCENTAGES OF CERTAIN FARM COSTS, 1913-29

—	Manufactured Goods	Farm Cost of Living	Wages of Farm Help
	1913 = 100	1913 = 100	1913 = 100
1924	92	97	80
1925	116	126	103
1926	110	117	92
1927	113	116	89
1928	104	107	81
1929	106	109	81

The relation of wheat prices to costs was favourable and yields were abnormally high. The Prairies once more became a magnet for immigrants. In the occupied areas, the improved acreage was rapidly increased and another wave of frontier settlement spread out over northern Alberta and Saskatchewan. The northward thrust of settlement was encouraged by the development of new early maturing wheats and the extensive provision of railway facilities. Between 1926 and 1931 the occupied acreage rose 24 per cent and the improved acreage 21 per cent. Agricultural prosperity and frontier expansion in Western Canada operating within the framework of the national policies once more set in motion the stimuli to the national economy made familiar by the "wheat boom". The construction of railroads, the building of towns and villages, the growth of cities and the provision of community facilities brought a high rate of economic activity to the region and gave a strong impetus to production in Eastern Canada and British Columbia. Between 1920 and 1930 railway mileage in the three Provinces increased by nearly 2,900 miles,[7] compared with virtually no increase in the remainder of Canada. By the end of 1930 practically every part of the area of the Prairies on which agriculture is feasible had been brought within 10 miles of the railway. Also, in response to regional pressure, a new transportation outlet (the Hudson Bay Railway) for grain was constructed at a cost to the Dominion of $50 million.

At the close of this decade the settlement of the Western plains was virtually completed, and the area was provided with the capital equipment and the community facilities adequate for a high standard of living. The great national purposes, which led to the acquisition of the Northwest and to the attempt to build a transcontinental economy on the basis of the settlement and the economic growth of this empire, were now fulfilled.

While the same broad forces played upon each of the provinces during the twenties, there were significant differences in the nature of their development.

TABLE 35.—AGRICULTURAL EXPANSION IN EACH OF THE PRAIRIE PROVINCES, 1920-30

Indices 1920 = 100

—	Manitoba		Saskatchewan		Alberta	
	1920	1930	1920	1930	1920	1930
Population	100	116	100	124	100	125
Area of Occupied land	100	104	100	126	100	133
Area of Improved land	100	106	100	134	100	151
Percentage of Area of Field Crops in Wheat	45	36	58	63	49	57
Percentage of Urban to Total Population	43	45	29	32	38	38
Percentage of Number Engaged in Agriculture to Total Gainfully Occupied	40	35	65	60	53	51

[7] Of this mileage, 1,600 miles were added in Saskatchewan, 1,200 in Alberta and 100 in Manitoba.

In Alberta and Saskatchewan, where land for frontier settlement was still available, expansion was much more rapid than in Manitoba. The economic growth in the latter Province was largely confined to the westward extension of the hydro-electric, pulp and paper and mining development of Ontario and Quebec. The application of new and improved techniques to the resources of the Pre-Cambrian Shield which crosses northern Manitoba was a replica, on a much smaller scale, of what was taking place in Central Canada. Between 1920 and 1930 the developed water power in Manitoba increased from 85,000 horse power to 312,000 horse power. The manufacture of paper began in 1927. Gold output became significant in 1928. The production of zinc-copper-silver in the Flin Flon area did not get under way until 1930, but the capital expenditures in connection therewith were made during the latter part of the twenties.

These and other developments introduced an important element of diversity into Manitoba's economy. The net value of production of mining, forestry and electric power rose from 5 per cent of the total in 1920 to 12 per cent in 1930. Considerable progress was also made in manufacturing and the contribution of this industry to the total net value of (goods) production increased substantially. The dependence upon agriculture declined and agriculture itself became less dependent upon wheat. The percentage of the area of field crops in wheat was 45 per cent in 1920 but only 36 per cent in 1930. The farm income from feed grains, live stock and dairy products now surpassed that obtained from wheat. Manitoba had attained an important degree of maturity and had come a long way from the pioneer stage with its overwhelming reliance upon a single staple. However, the metropolitan area of Winnipeg continued to be heavily dependent upon the wheat economy of Saskatchewan and Alberta.

The economic growth of Saskatchewan and Alberta during this decade was due almost entirely to the expansion in the production of wheat. There was some development of oil in Alberta but the coal mining industry lagged. The importance of this one grain was partly the result of the relatively greater rise in the price of wheat than in the prices of live stock and dairy products, and partly, the result of the rapid mechanization of farms which displaced a large acreage of feed grains.[8]

[8] The increase from 38,000 to 82,000 in the number of tractors, from 73,000 to 155,000 in the number of motor cars and trucks and from practically nil to 9,000 in the number of combines on farms in the Prairie Provinces between 1921 and 1931 shows how the horse was being displaced by mechanical power.

During 1926-28, 81 and 70 per cent respectively of the total cash receipts from the sale of farm products in Saskatchewan and Alberta came from wheat, compared with but 43 per cent in Manitoba. In the same period, the two former Provinces derived 62 and 50 per cent of their total incomes *directly* from agriculture while in Manitoba this percentage was only 25 per cent. The prosperity of Saskatchewan and Alberta was almost completely dependent upon the production of a single commodity of which the volume of production was determined by the extreme variations of a hazardous climate and which was sold on a precarious foreign market.

British Columbia—rapid economic expansion; the stimulus from the opening of the Panama Canal, low ocean freight rates and rising demand for non-ferrous metals

The rate of economic growth of British Columbia during this decade exceeded that of any other Canadian region or province.

TABLE 36.—THE ECONOMIC PROGRESS OF BRITISH COLUMBIA, 1920-29

INDICES 1920=100

—	Population		Capital Invested[a]		Net Value of Production[b]		Per Capita Income[c]	
	British Columbia	Canada	British Columbia	Canada	British Columbia	Canada	British Columbia	Canada
							$	$
1920...	100	100	100	100	100	100	—	—
1926...	120	110	133	116	126	99	554	432
1929...	130	117	165	138	145	107	600	470

(a) Total capital invested in the primary industries (agriculture, mining, fishing and forestry), manufacturing, central electric stations, and provincial and municipal public works.
(b) Net value of "goods" production.
(c) Calculated from the estimates of national income prepared by the Research Staff of the Commission.

The development of the new sources of power (electricity and oil), the rise of the new industrial metals, and the growing demand for wood-pulp and paper suddenly brought a large heritage of natural resources within the range of economic exploitation. The opening of the Panama Canal and the abnormally low ocean freight rates immensely improved British Columbia's general competitive position, and in particular opened large international markets to her bulky exports. The improved techniques and greatly cheapened transportation produced a rate of economic expansion in British Columbia during the twenties equalled by few other areas in the world.

The problems of treating the complex non-ferrous metal ores of the Kootenay district were largely solved during the War, but production in any great volume was not attained until the post-War period. Between 1920 and 1929 the output of copper more than doubled, of silver increased by three times, of zinc by over four times, and of lead by nearly ten times. In 1930 British Columbia produced nearly one-tenth of the total world production of lead and zinc. The production of pulp and paper which had begun before the War expanded considerably during the twenties in response to demand from the United States Pacific Coast and the Orient. Both mining and pulp and paper were closely related to the availability of hydro-electric power. In 1929 the developed water power per capita in British Columbia was higher than that in any other province.

The opening of the Panama Canal was an event of first importance to the leading industry on the Pacific coast, lumbering. Prior to the War, the high cost of transportation practically excluded British Columbia lumber from foreign markets and less than one-fifth of the output was exported. The industry was almost entirely dependent upon sales in the Prairie Provinces. In 1920 (when the Panama Canal was not yet in full operation) the cost of shipment of Pacific coast lumber to New York was $27.30 per thousand feet. In 1929 this cost had fallen to $10.11.[9] During this period, the output of British Columbia lumber was almost doubled. About one-half of this increased production was exported, over 60 per cent of the exports going to the United States where lumber had had free entry since 1913. The significance of the Panama Canal to British Columbia and also to the lumber industry in Eastern Canada is further illustrated by the fact that nearly one-fourth of all the sales of lumber in 1929 from the former Province consisted of water-borne shipments to the Atlantic Coast of North America.

One of the most important results of the favourable circumstances which promoted a rapid expansion of the primary industries was the capital expenditures to which they gave rise. Much of the exceptional prosperity during this period had its basis in the large investment of capital. During the twenties the volume of new construction in British Columbia was nearly equal to that in the three Prairie Provinces combined.

Prior to the War British Columbia was closely dependent upon the transcontinental Canadian economy and the national transportation and

[9] The great importance of this decrease in transportation charges and its revolutionary effects upon the industry are indicated by the comparison of this decline with the total mill cost of British Columbia lumber of $22.50 per thousand feet in 1929.

developmental policies.[10] During the post-War period this dependence upon Canadian markets and policies declined. In the twenties the primary industries expanded almost entirely in relation to foreign demands. About half the lumber, virtually the whole of the mineral production, nearly all of the fish, and a large part of the apples were sold in external markets. British Columbia continued to be deeply affected by the national policies but she derived her income mainly from sales abroad.

The modifications in the national transportation policy during the twenties, however, enabled her to benefit extensively from her improved position. The Panama Canal greatly extended the potential hinterland of the port of Vancouver. The freight rate reductions on grain in 1922, 1923, 1925 and 1927 increased the area in Alberta and Saskatchewan from which wheat could be profitably shipped via the Pacific coast. The large program of railway branch lines speeded up the development of areas tributary to Vancouver.[11] Of considerable importance, also, was the regional equalization of railway freight rates that took place during the post-War decade.[12] These rate reductions, together with the opening of the Panama Canal and the rapid growth of the local exporting industries, were particularly helpful to Vancouver which grew to become the third largest metropolitan centre in Canada. During 1921-31 its population rose by over 50 per cent. The capital expenditures involved in this expansion contributed greatly to prosperity of the Pacific coast region.

Central Provinces—technological changes and favourable foreign markets induce rapid development of forest and mineral resources; increasing industrial and financial concentration in this region.

The economic developments of this decade were highly favourable to Ontario and Quebec. Agricultural expansion in the Prairie Provinces and the rapid growth of the exporting industries in British Columbia within the framework of the national policies widened the opportunities of the commercial and industrial enterprises concentrated in the central region. The progress of this area along the old lines was greatly supplemented by the rise of their own new frontiers and by new direct external contacts which resulted from the application of improved techniques to the resources of the Pre-Cambrian Shield. Ontario and Quebec recovered quickly from the 1921 depression and thereafter enjoyed increasing prosperity until 1930.

TABLE 37.—THE ECONOMIC PROGRESS OF ONTARIO AND QUEBEC, 1920-29

Indices 1920=100

—	Population		Capital Invested[a]		Net Value of Production[b]		Per Capita Income[c]	
	Ontario and Quebec	Canada	Ontario and Quebec	Canada	Ontario and Quebec	Canada	Ontario and Quebec	Canada
							$	$
1920...	100	100	100	100	100	100	—	—
1926...	112	110	118	116	95	99	430	432
1929...	118	117	142	138	115	107	485	470

(a) Total capital invested in the primary industries (agriculture, mining, fishing and forestry), manufacturing, central electric stations, and provincial and municipal public works.
(b) Net value of "goods" production.
(c) Calculated from the estimates of national income prepared by the Research Staff of the Commission.

Prior to the War the economic growth of the Central Provinces was closely dependent upon their ability to sell manufactured goods and services to the exporting industries in the other regions of Canada, principally the Prairie West. The foreign outlets for their products had become of minor importance. It is true that the attack on the Pre-Cambrian Shield began before 1914, but large-scale developments had to await the new conditions of the War and post-War periods. The lack of coal and iron ore was a serious obstacle in the age of steam and steel. The development of electricity, the gasoline engine and the rising demand for the newer industrial metals now greatly shifted the position of comparative advantage. These changes, together with the improvements in metallurgical processes and the increasing consumption of pulp and paper brought the resources of northern Ontario and Quebec into their own.

Aside from the existence of mineral deposits and unexploited timber resources, the central factor in the new developments was the availability of hydro-electric power.[13] Because of the interior location of Canada's mineral resources and the low grade

[10] Seventy per cent of her total production of lumber was sold in the booming markets of the Prairie Provinces.

[11] Between 1921-22 and 1928-29 the shipments of wheat to Europe through this port rose from 4.5 million bushels to 61.1 million bushels.

[12] This may be illustrated by a comparison of Fifth Class Maximum Standard Mileage Rates for a distance of 400 miles. (This class and distance is selected merely to show the direction of the changes.) In 1914, Pacific rates were 77 per cent; Saskatchewan-Alberta rates 49 per cent; and Manitoba rates 37 per cent above those of Ontario and Quebec (Central rates). In 1923, Pacific rates were only 32 per cent and Prairie rates 14 per cent above the Central rates. In 1922, the Pacific Standard rates were lowered from a level 1½ times the Prairie rates to a level 1¼ times the Prairie rates.

[13] Its great importance is indicated by the fact that approximately 100 horse power of energy are required per ton of daily output of newsprint.

character of many of the ores, economic exploitation would not be practical were it not for the availability of cheap electric power with which to mine and to treat the ores on the spot. Between 1920 and 1930 the developed water power in Ontario and Quebec rose from 2·0 million horse power to 4·8 million horse power. In the latter year, nearly 30 per cent of this power was utilized by the pulp and paper industry and 12 to 15 per cent by the mining and metallurgical industries. The production of hydro-electric energy in the two Central Provinces during 1930 was equivalent to approximately 13 million tons of coal, or about twice the total annual average output of coal in Nova Scotia.

The abundance of cheap hydro-electric power and the favourable markets for wood-pulp, paper and non-ferrous metals were the bases of the rapid expansion in the exploitation of the resources of the northern areas. During this decade, the production of non-ferrous metals in the Central Provinces was almost doubled and the output of paper increased by nearly three times.[14] The manufacturing of pulp and paper became Canada's leading manufacturing industry and newsprint paper the second largest Canadian export. In 1930 the net value of production in mining, forestry and electric power made up one-fifth of the total net value of (goods) production in the two Provinces. The population of the northern districts, which was almost entirely dependent upon these activities, became about equal to the population of the whole of Alberta.

The development of large exporting industries and the growth of the new communities dependent upon them constituted a significant change in economic structure of the Central Provinces. It lessened relatively the importance of the other regions as markets for the manufactures and services of Ontario and Quebec. Secondly, it was the basis of heavy capital expenditures which added greatly to the prosperity of these Provinces during this period. The rapidly expanding industries which obtained their income from abroad and spent it mainly in the protected domestic market more than took up the slack which resulted from the declining rate of growth (as compared with the pre-War period) of Prairie agriculture. The investment of over one billion dollars in central electric stations, pulp and paper factories and mines during this decade provided ample outlets for activities formerly dependent upon the railway and building boom of Western Canada.

[14] Gold output rose from $12 million to $39 million and other non-ferrous metals from $43 million to $59 million.

Another technical innovation, which during the twenties brought a large increase in the income of the central region from external sources, was the automobile. This new means of transportation, besides giving rise to important new manufacturing and service industries and to heavy capital expenditures on roads and streets, was the principal factor in the rapidly growing tourist trade from the United States. In 1929, the expenditures of foreign tourists in Canada reached an estimated total of $300 million, a figure greater than the value of any Canadian commodity export. At least 80 per cent of this amount was spent in Ontario and Quebec.

While the basis of the economy of Central Canada was substantially broadened by the new developments, manufacturing continued to be the predominant activity. This industry received a considerable stimulus from the new export incomes of both this region and Western Canada which the national policy of protective tariffs effectively directed to the domestic producer. Furthermore, Ontario and Quebec were able to benefit most from the technological changes of this decade. The production of automobiles, electrical apparatus and supplies, the new textiles, radios, etc., was confined almost entirely to these Provinces. The concentration of manufacturing in Central Canada became even more complete.

TABLE 38.—PERCENTAGES OF THE NET VALUE OF MANUFACTURES IN ONTARIO AND QUEBEC TO THE CANADIAN TOTALS, 1910-29

—	Ontario and Quebec		Ontario	Quebec
	1910	1929	1929	1929
Total Textiles	90	91	47	44
Cotton Textiles	80	94	21	73
Wool Textiles	90	94	80	14
Total Iron and Steel Products	81	86	66	20
Primary Iron and Steel	—	75	56	19
Agricultural Implements	98	98	95	3
Railway Rolling Stock	67	76	23	53
Automobiles	100	96	96	—
Electrical Apparatus and Supplies	99	99	77	22
Chemicals and Chemical Products	75	90	59	31
Rubber Products	91	99	74	25
Boots and Shoes	94	97	36	61
Furniture	97	95	76	18
Glass Products	73	92	53	39
Tobacco	95	100	11	89
Pulp and Paper	93	86	32	54
Flour Mills	82	58	45	13
Saw-Mills	61	38	22	16
Non-ferrous Metal Smelting and Refining	—	78	54	23
Fruit and Vegetable Canning	98	75	65	10
Meat Products	68	66	51	15
Liquors	83	81	40	41
Petroleum Refining	83	54	41	14
Central Electric Stations	63	75	42	33
Total of Listed Manufactures	80	84	51	33
All Manufactures	80	82	51	31

In Quebec, although considerable progress was made in the processing of natural products with the use of hydro-electric power, manufacturing continued to be mainly dependent upon consumers' goods (clothing, cotton textiles, boots and shoes, tobacco) requiring a large supply of labour. Ontario, on the other hand, specialized in the rapidly growing, mechanized industries producing durable consumers' goods and machinery. For a number of these (automobiles, farm implements and rubber products) important export markets were built up on the basis of Empire preferences, and carefully contrived loopholes in the tariff which gave access to United States techniques, tools and parts.

The concentration of manufacturing in Central Canada was accompanied by an increasing concentration of the financial, commercial and distributive services in this region. The fact that Canada was able to finance a very large part of the post-War capital investment out of its own savings opened large opportunities to Canadian financial institutions. The increasing amount of capital required was gathered together from all over Canada and allocated to investment purposes throughout the entire country by the financial houses and promoters of Montreal and Toronto. Furthermore, the business boom of 1926-29 brought another wave of corporate mergers and consolidations which centralized industrial control and the location of head offices even more completely in the metropolitan centres of Ontario and Quebec. This industrial and financial centralization had the effect of canalizing a very large part of the profits, net incomes, and wealth which arise from activity over the whole country, into the central region. In 1930, 80 per cent of the total net corporate incomes subject to the Dominion corporation income tax and 77 per cent of all individual incomes over $10,000 subject to Dominion income tax appeared in the two Central Provinces. In the same year, four-fifths of all the dividends from stocks and interest from bonds paid to Canadian individuals were received by residents of Ontario and Quebec.

The growing concentration of manufacturing, commerce, and finance was reflected in the increasing urbanization and the rapid expansion of the metropolitan centres of the two Provinces. Between 1921 and 1931 the urban population rose from 58 per cent to 61 per cent of the total in Ontario, and from 56 per cent to 63 per cent in Quebec. In Ontario agriculture declined relatively, and in Quebec, absolutely. In the latter Province, where the migration from the country to the city was greatest, the number of farms and the area of improved land actually decreased, despite the encouragement to colonization given by the Provincial Government and the Church. Quebec became the most highly urbanized Province in Canada. The principal urban areas, Montreal and Toronto, which became the metropolitan centres for the entire Canadian economy, increased their populations during this decade by 39 per cent and 33 per cent respectively, compared with an increase of 18 per cent in the population of the country as a whole. Montreal continued to be heavily dependent upon the transcontinental economy established by the "wheat boom" and the national policies, while Toronto became more closely associated with the rapidly expanding industries on the Pre-Cambrian Shield.

Significant Changes in the Canadian Economy—rise of new export areas and decline in unifying influence of wheat; growing vulnerability to external fluctuations, increasing rigidities and specialization

The impact of technological changes and favourable foreign markets upon Canada's undeveloped resources brought, during the twenties, another period of expansion and prosperity. However, the uneven distribution of the resources which were now drawn into exploitation meant that the various Canadian regions were affected very differently. The old economy of the Maritimes languished; good prices (during the latter half of this period) and agricultural settlement of the remaining fringes, produced a considerable, though not a spectacular, expansion in the Prairies; Central Canada and British Columbia surged ahead on the basis of new and rapidly growing export industries. The nature of the development during this decade modified the simple unity of the Canadian economy which rested on the rising production and exportation of wheat. Prior to the War, there was one predominant export area, the Prairie West, whose growth under the influences of the national policies built an integrated transcontinental economy. During the twenties new important export staples emerged in two other regions. Formerly the economy had but a single important external contact; now there were several. One promoted East-West cohesion; the others emphasized North-South relationships and regional economic independence.

The national economic policies were continued without any significant changes. The specific applications of these policies during the twenties were largely attempts to round out the great national purposes for which they had been adopted. The settlement of the Northwest was virtually completed. The national transportation system was consolidated and improved, and branch lines were added to encourage the development of the few remaining areas of unsettled agricultural land. No new and sweeping projects were launched and the Dominion rested on its past accomplishments. However, with the unequal levels of prosperity, the restrictive effects of the national policies upon certain regions became more burdensome and much dissatisfaction arose. No new policies were initiated but a number of modifications were made in the old for purposes of regional appeasement. The alterations in the tariff consisted mainly of a much greater use of certain devices (drawbacks, special exemptions, etc.) which tended to reduce the costs of the primary producer without changing the general level of protection. The influences of the Dominion on the freight rate structure, as exercised by statute, orders in council and the decisions of the Board of Railway Commissioners, tended to decrease regional differentials. The rising incomes of the twenties made it relatively easy to get acceptance of the adjustments necessary to maintain a national economic integration.

While the circumstances of this decade were favourable to Canadian expansion they also increased the vulnerability of the economy. The new export staples were the result of highly specialized activities. Large areas of the country, where it was either wheat or nothing, pulp and paper or nothing, lumber or nothing, non-ferrous metals or nothing, became dependent upon the exportation of a single or a very few commodities. If the foreign prices of these fell to unprofitable levels there would be no alternative occupations. On the Pre-Cambrian Shield and over a large part of the Prairies self-sufficiency even for a bare subsistence would be impossible. The principal products consisted of raw materials, and hence the probability of extreme fluctuations was great. In a number of cases Canada supplied a large portion of the total world requirements;[15] therefore, she would feel the full impact of any external disturbances. The weak condition of the international market for the two most important commodities, wheat and newsprint, rendered the situation all the more precarious.

The growth of the specialized exporting industries was associated with very heavy expenditures on fixed equipment. The economy became geared to a high rate of capital investment; if anything curtailed this investment, a serious problem of unemployment would arise. Furthermore, these investments in capital facilities were financed in a way which greatly increased the overheads and rigidities. The large fixed interest costs of private industry and governments would make adjustments to falling export incomes extremely difficult. Added to these rigidities were those which arise out of increasing urbanization, industrial concentration and centralized financial control.

The rapidly increasing per capita real income during the twenties both in Canada and in other countries was another source of instability. The more income rises above the requirements of bare subsistence, the more unstable the economic system tends to become. The expenditures on personal services, comforts and luxuries may be sharply reduced or postponed when confidence is shaken by economic disturbances. The higher the proportion of income devoted to non-essentials and the more specialized the productive resources, the more severe and far-reaching is the contraction which results from the curtailment of such expenditures. In 1929 the average per capita real income in Canada was one-third higher than in 1920. In the latter year large sums were spent on automobiles, radios, household appliances, new houses, and on other semi-luxuries or postponable items. A sharp reduction in these outlays would create difficult problems of unemployment and readjustment.

At the end of this decade Canada had attained a high level of prosperity, but the increased specialization, the great dependence upon raw material exports, large overheads, stubborn rigidities, and a relatively high per capita income greatly enhanced her vulnerability to economic fluctuations. These fluctuations might arise from external developments, or from geographical and climatic factors in Canada, or as a result of errors of policy in the past and the limitations inherent in the Canadian economic and political structure, but all had the common characteristic of being, at the time, uncontrollable by any means then at the command of Canadian governments.

2. Public Finance

The circumstances of the twenties included no spectacular changes such as those which brought the steep increases in government liabilities and expenditures associated with the wheat boom, the War and the immediate post-War conditions. Between 1920 and 1930 the total per capita debts and expenditures of all governments rose but 13 per

[15] In 1930 Canada supplied 32 per cent of the world's exports of wheat, 63 per cent of the world's exports of newsprint, 14 per cent of the world's exports of copper, 12 per cent of the world's exports of lead and zinc, and 31 per cent of the world's exports of aluminium.

cent and 9 per cent respectively. During this period, however, there were significant changes in government responsibilities and in the problems of Canadian public finance. Public welfare and highways occasioned the most rapidly increasing costs of government and these fell almost entirely on the provinces and the municipalities. Thus, while the total per capita debts and expenditures of the Dominion declined, those of the municipalities rose by over 20 per cent and those of the provinces by over 70 per cent. The provinces, which were required to finance and administer the major portion of the expanding public functions, acquired a greatly enhanced importance in the governmental structure of the country.

Cautious Policy of the Dominion—consolidation of past developmental projects and avoidance of responsibility for expanding services

Throughout the period, the Dominion resisted the temptation to embark on new services and until the later years of the decade it enforced a rigid economy on all controllable expenditures. By 1926 a substantial reduction in current outlay had been effected. However, in the boom prevailing after 1926, expenditures rose slowly through diffused expansion of existing services. The only significant new obligation assumed was the assistance to provincial old age pension schemes. The cost of general government rose substantially and there were moderate additions to the expenditures on agriculture and national defence. Offsetting these, the position in 1930 showed a substantial decline in current payments on transportation, due mainly to the reduced deficits of the national railways. Although the outstanding debt of the Dominion rose by $250 million, owing to the expenditures necessary to round out the national railway properties and for the extension of branches in the Prairie Provinces, the total interest charges decreased, partly because of refunding at lower rates of interest and partly because of the improved earning position of the Canadian National Railways.

In its endeavour to ease the burden of taxation, the Dominion at least managed to simplify the tax structure by reduction and elimination of special War taxes. Rising imports and rising prosperity boosted customs and excise receipts thus making it possible to cut the special levies. The business profits tax and some minor taxes were entirely abandoned. By successive cuts the sales tax was whittled down from 6 to 1 per cent. The corporation income tax was lowered. The income tax on persons was cut and the exemptions repeatedly raised. In this way the indirect taxes of customs and excise resumed some of their former importance in the federal revenue system. In 1913 virtually all Dominion revenues came from these two sources. In 1921, with the yield of special taxes at its peak, customs and excise produced little more than one-third of total revenues. In 1930 they produced a sum approaching two-thirds of total revenues. In its whole fiscal policy the Dominion was labouring for a return to pre-War "normalcy"—although it was no longer dealing with the pre-War economy.

TABLE 39.—GOVERNMENT EXPENDITURES, CURRENT ACCOUNT, 1921 AND 1930

(Thousands of Dollars)

—	Municipal		Provincial		Dominion		Total[a]	
	1921	1930	1921	1930	1921	1930	1921	1930
Net Debt Charges	36,944	55,740	14,384	29,476	152,488	149,098	202,475	232,522
Defence	—	—	—	—	17,249	23,256	17,249	23,256
Pensions and Aftercare	—	—	—	—	53,688	55,341	53,688	55,341
Public Welfare	18,786	31,510	12,437	34,678	4,911	17,698	36,134	83,882
Education	66,280	84,705	20,850	33,775	924	702	88,057	119,191
Agriculture and Public Domain	—	—	9,174	21,241	17,596	23,298	26,722	44,484
Transportation	30,962	42,159	8,119	28,328	41,666	29,083	80,747	99,570
Subsidies to Provinces	—	—	—	—	12,212	19,036	—	—
General Expenditures—Justice, Legislation, General Government and Miscellaneous	51,911	71,614	25,689	35,902	[b]53,733	[c]70,332	[b]131,333	[c]177,849
TOTAL	204,883	285,728	90,653	183,400	354,467	387,844	636,405	836,095

[a] Inter-governmental payments eliminated.
[b] Includes Post Office deficit of 4,045.
[c] Includes Post Office deficit of 6,081.

Rapid Expansion of Provincial-Municipal Expenditures—provinces assume major share of cost of expanding services; public welfare and highways

Of the $200 million increase in current expenditures at all levels of government between 1921 and 1930, the Dominion accounted for only $33 million. Of the $1¼ billion increase in total outstanding debt of all governments in this period, only one-quarter billion dollars was incurred by the Dominion (including the Canadian National Railways). The reluctance of the Dominion to embark on new services or to give assistance in financing them meant that the weight of the new demands fell on the provinces and municipalities. Moreover, the demands which loomed up in the twenties were for services falling primarily, if not solely, within the constitutional powers of the latter governments. Thus there was a marked rise in both provincial and municipal debt and current expenditures. The $1 billion addition to the debt of the provinces and municipalities was largely incurred for public utilities, highways and various projects of development. The greater part of the $173 million increase in the current expenditures of provincial and municipal governments in this period was due to increased debt charges arising out of these capital investments and to increased current expenditures on public welfare and highways. The provincial and local governments had either special interests or special responsibilities in these fields.

With the virtual disappearance of the agricultural frontier, the increasing specialization of occupations, and the continued drift from the country to the city which accompanied greater industrialization, the self-sufficiency of individuals, families and communities continued to decline. The risk of individual misfortune which had formerly been carried by the individual himself, the family, or by informal community assistance and charity, was throughout this period assumed to an increasing extent by governments. At the beginning and again at the end of this decade the provinces and the Dominion, as well as the municipalities, made payments for the relief of unemployment. Through the initiative of the Dominion a provincially-administered old age pensions scheme was launched during the twenties, which involved the provinces entering the scheme in the responsibility of providing half the rapidly mounting cost. The provision of mothers' allowances was extended. A growing realization of the vital public interest in public health led to the extension of free curative and preventive services and to enlarged support of hospitals and similar institutions.

Despite the economic and social changes which manifested themselves in a pronounced manner in the twenties, Canadians adhered to the belief (quite appropriate in a simpler society) that the municipalities were the proper agencies to bear any necessary public responsibility for social welfare. Provincial governments through their assistance to welfare activities made many amendments to this doctrine. But the Dominion was barred from accepting any responsibility except, as it proved, when a public welfare problem overwhelmed both the municipalities and the province. Thus the greater part of the growing burden of these services fell upon the latter governments.

Between 1921 and 1930 current public welfare expenditures of all governments rose 130 per cent. The Dominion share of this increase was confined almost entirely to the financial support given to provincial old age pensions schemes and relief grants which reappeared again in 1930. Three-fourths of the added outlays were borne by the provinces and municipalities. However, at the end of this period public welfare still absorbed less than one-fifth of the provincial-municipal revenues. Buoyant economic conditions throughout the greater part of the twenties kept public welfare needs at a minimum and masked the fundamental social and economic changes which had taken place. There was no obvious indication of the potential magnitude of the financial responsibilities which the provinces and municipalities had assumed.

Traditionally, roads and highways were a provincial and local responsibility in Canada. In a smaller, more compact and more evenly settled country, the coming of the motor vehicle would have precipitated a national highway program. Because great distances and natural obstacles divided the areas of settlement in Canada, the motor vehicle was at first used only for inter-urban and short-haul purposes. The demand for national highways was long in emerging and the Dominion, struggling with its railway problem, limited its contribution to highway development in this period to temporary grants-in-aid to the provinces between 1919 and 1928. The reconstruction of local roads into a network of highways capable of carrying the ever-growing motor traffic fell to the lot of the provinces and the municipalities. The automobile promoted the growth of suburban areas around the larger cities, thus extending the areas which required new community equipment and various municipal services. The rapid increase in the use of the automobile throughout the twenties made suburban development, as well as highway construction and maintenance, an ever heavier burden.

Current outlay on highways by all Canadian provinces and municipalities was nearly doubled between 1921 and 1930. Capital investments in streets, highways, bridges, and ferries rose from $364 million to $743 million. Owing to the enforced restrictions on capital expenditures during the War, relatively little progress was made with highway construction until the twenties. In most provinces ambitious programs were launched early in the period. But the increasing speed, weight and number of vehicles rapidly pushed even new roads into obsolescence. Main highways were soon costing as much as railway lines of high standard. The demand throughout the period was much higher than the capacity of most provinces and municipalities to provide them.

The British North America Act secured the provinces in control of education. During this period a number of factors contrived to increase the cost of this function. An equalitarian philosophy demanded the widest possible extension and constant improvement of educational opportunities. The growing complexity of the economy required an increasing variety of skills which could only be supplied by a more specialized and more expensive educational system. Moreover, the predominance of younger people among the immigrants who flowed into the country after 1900 altered the normal age distribution of the population and brought a sharply increasing number of children to the schools in the twenties. The possibility of relieving the consequent growing burden on the provinces and municipalities through substantial federal aid to education was limited if not entirely excluded by latent racial and religious issues. The Dominion made special temporary grants-in-aid for agricultural instruction and technical education which were of some assistance in this period, but these were not renewed when they expired. In the result virtually the entire burden of mounting educational costs remained with the provinces and the municipalities.

During this period the provinces were more than ever concerned with promoting the development of their natural resources. Added attention was given to the protection of valuable forest reserves against fire and insects. Conservation of fish and game was linked with active promotion of the tourist trade. Roads were built and geological surveys undertaken to encourage mining development. Various expenditures were made to encourage immigration and settlement in new areas. Consequently, between 1921 and 1930, the current outlay on public domain and agriculture rose from $9 million to $21 million.

The public utility projects pushed forward by the provinces during this period were closely allied to their interests in public domain and development. Ontario invested heavily in hydro and Saskatchewan, Manitoba, New Brunswick, and Nova Scotia made capital outlays on provincial electric-power systems. The Prairie Provinces extended and improved their telephone facilities. The total provincial capital investment in public utilities (excluding railways) rose from $172 million in 1921 to $330 million in 1930. These investments, however, were almost entirely self-supporting and while they added substantially to total governmental debts, they did not add (with the exception of telephones in Alberta) materially to the burden of debt charges.

The Doubling of Provincial Revenues—appearance of new sources; liquor control, gasoline taxes and motor vehicle licences.

While the Dominion pursued a negative policy, avoiding new obligations and striving to cut down existing ones, the provinces and municipalities, taken as a whole, extended some of their old activities in a marked fashion and assumed new responsibilities of an undefined scope. Greatly increased revenues were necessary to meet some $173 million increase in annual expenditures of 1930 over 1921. Municipalities provided for their added costs by increased returns from existing sources of revenue, while the provinces relied partly on the increased yield of old sources and partly on new sources which they discovered.

The tax on real property remained the mainstay of municipal revenue. In 1930, as in 1921, it provided over 80 per cent of the municipal receipts. The post-War slump which drove down property values caused many municipalities acute embarrassment in the early years of the decade. Moreover, the increased use of the automobile had a serious and adverse effect upon the tax base in many of the larger urban centres. At the very time when it was compelling large expenditures on the improvement of streets, it promoted the rapid growth of new residential districts outside the boundaries of the city. This flight to suburban areas had a depressing effect upon property values within the central municipality. However, the economic expansion of the twenties, combined with

TABLE 40.—GOVERNMENT REVENUES, CURRENT ACCOUNT, 1921 AND 1930

(Thousands of Dollars)

—	Municipal		Provincial		Dominion		Total[a]	
	1921	1930	1921	1930	1921	1930	1921	1930
Federal Subsidies	—	—	11,865	14,276	—	—	—	—
Taxes—								
Customs Import Duties	—	—	—	—	105,687	131,209	105,687	131,209
Excise Duties	—	—	—	—	36,755	57,747	36,755	57,747
Manufacturers' Taxes	—	—	—	—	6,639	10,474	6,639	10,474
Sales Taxes	—	—	—	—	61,273	20,147	61,273	20,147
Corporation Taxes	—	—	11,162	18,520	64,008	45,961	75,170	64,481
Succession Duties	—	—	9,724	20,780	—	—	9,724	20,780
Income Taxes on Persons	73	3,896	485	2,122	39,821	26,624	40,379	32,642
Gasoline Taxes	—	—	—	23,487	—	—	—	23,487
Real Property Taxes	189,656	257,118	9,720	6,708	—	—	199,376	263,826
Amusement Taxes	—	—	3,032	4,525	—	—	3,032	4,525
Other Taxes	17,956	21,760	1,199	1,534	6,140	4,531	25,295	27,825
Sub-Total—Taxes	207,685	282,774	35,322	77,676	320,323	296,693	563,330	657,143
Motor Vehicles, Automobile Licences, etc.	—	(b)	8,381	19,907	—	—	8,381	19,907
All Other Licences, Permits and Fees, Fines and Penalties	8,010	11,294	8,360	10,024	2,860	3,703	19,230	25,021
Public Domain	—	—	14,786	17,037	3,542	2,297	18,328	19,334
Liquor Control	—	—	7,856	30,985	—	—	7,856	30,985
Sale of Commodities and Services	1,155	3,171	747	1,159	2,358	2,745	4,260	7,075
Other	13,537	19,916	3,083	2,759	3,425	8,605	18,679	29,457
TOTAL	230,387	317,155	90,400	173,823	332,508	314,043	640,064	788,922

(a) Inter-governmental receipts eliminated.
(b) Particulars not available; included with All Other Licences, Permits and Fees.

rapid urban growth, came as an important counteracting influence, supporting property values and strengthening the tax base for the time being. While all other sources of municipal revenue yielded $20 million more in 1930 than in 1921, the tax on real property yielded an additional $67 million. Anything which had an adverse effect on real estate values would undermine Canadian municipal finance.

The capacity of the provinces to discharge the responsibilities they had assumed in the fields of public welfare, education, highways and public domain rested very largely on the remarkable increase in revenues derived from liquor control, motor vehicle licences and gasoline taxes. Total provincial revenues in 1930 were nearly double those of 1921; more than two-thirds of this increase was derived from the additional yield of these three items. Provincial revenues from motor vehicle licences and liquor control rose by $11 million and $23 million respectively during the period. Most important, the provincial gasoline taxes, which had not yet been imposed in 1921, were yielding more than $23 million in 1930. Total provincial revenues from corporation taxes, and succession duties doubled during the period but the total increase derived from these sources was considerably less than the increase provided by the profits of liquor control alone. The provinces, which had once been expected to rely almost entirely on revenues from public domain and the unconditional federal subsidies, drew only 10 and 8 per cent respectively of their revenues from these sources in 1930.

The Vulnerability of the Provincial Fiscal Systems—the reluctance of the Dominion to relieve or assist the provinces and to compensate for the great regional disparities

During the twenties the provinces, relying on new-found sources of revenue, increased their expenditures very considerably. Much of their current outlay was on fixed charges and, therefore, uncontrollable. The responsibility for public welfare was laden with contingent commitments, and their weight would vary inversely with the ability to carry them. During a depression their total expenditures were certain to rise. Their revenues were, to a considerable extent, drawn from semi-luxury "consumption taxes" which were equally certain to give a decreased yield when there was a contraction in incomes. The economy would reveal, under the stress of economic reverses, great disparities in the width and adequacy of the different revenue bases and in the vulnerability of fiscal systems. The combination of falling revenues and rising costs would affect the different regions very unequally. The inherent weaknesses in the position of the Maritimes were clearly exposed early in the decade. The whole structure of provincial and municipal government on the Prairies was highly vulnerable, and almost entirely dependent on the maintenance of the favourable export position of a single commodity: wheat. British Columbia too was heavily dependent upon favourable prices for its exports. Relatively speaking, the Central Provinces, with a more diversified economy and with their access to the national pools of wealth, had much the most secure and advantageous position.[16] In times of prosperity these disparities, even though disturbing, were still tolerable. In any period of sharp distress some kind of equalizing action by the Federal Government would be inevitable.

During the twenties the Dominion Government took the lead in launching a system of old age pensions and agreed to match provincial appropriations for that purpose under certain specified conditions. At the beginning and again at the end of the period the Dominion made emergency grants to the provinces to assist in the relief of unemployment. When the serious plight of the Maritimes became an unmistakable fact, the Dominion took steps to assist them and increased subsidies, in accordance with the findings of the Duncan Commission, sufficiently to cover the current deficits. This was an admission that when a province had demonstrated in a painful way that it was unable to fulfil its responsibilities, the Dominion was prepared to extricate it from its immediate difficulties. Only in extreme cases was the Federal Government willing to undertake equalizing action. In all other circumstances the Dominion shied away from new financial burdens and studiously resisted suggestions that it should aid the provinces to carry their mounting obligations.

There were a number of reasons for this attitude on the part of the Federal Government. Its own burden of debt and the costs of reorganizing the government railways were acutely inhibiting influences. Intent upon retrenchment and reduction of debt charges, it insisted that the British North America Act laid the responsibility for meeting the new demands at the doorsteps of the provinces and the municipalities. For the same reason it was little disposed to assist the provinces by making conditional grants-in-aid for specific provincial services. Moreover, the conditional grant was far from being generally approved as an appropriate device in the hands of the Federal Government.

Conditional grants were first used in 1913 when federal assistance to the provinces for agricultural instruction was granted for a ten-year period. As part of the reconstruction program at the close of the War, similar grants were provided for assistance to highways, technical education, control of venereal disease, and maintenance of employment offices. These grants were either experimental or were given under extraordinary circumstances. Most of them were given for but a limited period of time. However, there was a body of opinion which favoured vigorous federal initiative and leadership for national purposes, even in fields where the primary responsibility rested with the provinces. It supported the further extension of the technique of the conditional grant as an instrument of national policy. The opponents to the use of such grants objected on the ground of the well-known argument that a government which spends public funds should bear the full responsibility of levying the taxes necessary to provide the money. They also emphasized that a harmonious federalism depended on the Dominion respecting the untrammelled independence of the provinces in their own sphere. They argued that attempts to ensure careful spending of federal funds would involve the Dominion in a dangerous interference with the autonomy of the provinces. This latter view was dominant in federal politics throughout the greater part of the twenties. Thus theory supported practical considerations of economy in rejecting conditional grants. The system of conditional grants was not extended and the subventions for agricultural instruction, highways, and technical education were allowed to lapse. Apart from exceptions already noted, the Dominion was bent on avoiding new obligations in the post-War period. The general prosperity of the later years of the twenties made this possible without any

[16] Ontario and Quebec in 1930, with 60 per cent of the total population of the Dominion, were collecting 87 per cent of the total succession duties. These Provinces had large reserves of revenue in their ability to make levies on national business organizations whose principal offices and property were located within their borders.

immediate repercussions in the provinces, but it did not prevent the provinces getting into seriously exposed positions.

Signs of approaching difficulties were not wanting. The distress of the Maritimes was met temporarily by the award of the Duncan Commission which nearly doubled their subsidies. At the Dominion-Provincial Conference of 1927, when the award was approved by the other provinces, all the provinces except Ontario and Quebec gave notice of further claims. They complained that their fiscal resources were not adequate to their obligations, and proposals ranged from the assumption of new services by the Dominion to the withdrawal of the Dominion from certain fields of taxation. The reply made by the Dominion Minister of Finance to these various claims and suggestions mirrors faithfully the attitude of the Dominion throughout the twenties. If the obligations of the provinces were heavy, so were those of the Dominion. The Dominion was anxiously concerned over its heavy debt and the importance of maintaining Canada's credit so as to encourage the flow of investment into the country. The Dominion could neither undertake large new responsibilities nor relinquish fields of taxation. The suppliant provincial premiers had to derive what solace they could from the reminder that Dominion policy in lowering taxation helped to clear the field for heavier provincial taxation.

Despite the anxiety of the Dominion to reduce its obligations the total annual sum transferred by way of subsidies and conditional grants to the provinces was higher in 1930 than in 1921. The award of the Duncan Commission, along with the payments on account of old age pensions, more than cancelled the savings secured through the lapse of several conditional grants. In 1930 a federal grant of $3 million for relief made its appearance. Dominion payments to the provinces which had stood at $18 million in 1921, amounted to almost $24 million in 1930. However, their relative importance declined. Dominion subsidies and grants which had covered 20 per cent of the expenditures of provincial governments at the opening of the period covered only 13 per cent of those expenditures at its close. In their assumption of new responsibilities, the provinces had to rely almost entirely on their own resources. Depression was soon to show the common vulnerability of their fiscal systems and the great disparities in the abilities of the different provincial governments to carry their increased burdens.

3. Dominion-Provincial Relations

Eclipse of Federal leadership—completion of developmental program, reluctance to assume new financial burdens, and lack of new national objectives

The post-War period marked the end of an era in Canadian federalism. Up until the War, Dominion Governments had pursued, subject to minor hesitations and variations, a number of national policies which brought about an economic integration of the country and helped to make political unity a fact instead of merely an aspiration. The War and the problems of demobilization served to continue into the twenties the federal leadership to which the country had become accustomed. But after the liquidation of the War policies a new situation presented itself. The policies of all-Canadian transportation and western settlement had been brought to fruition. The tariff, though revised downwards to some extent, was a bone of regional contention rather than a unifying influence. During the period the consummation of Dominion status and the securing of a measure of international recognition brought the principal external policies of the country to a successful conclusion. The Dominion had completed the concrete, positive tasks which the Fathers had set it to do and no broad new national objectives emerged to unite people behind federal leadership. Indeed, the discussions over national policies were much more concerned with assessing their past effects than with charting a national course in the post-War world.

The social and political chaos loosed in the world by the War was manifested in Canada by the disorganization of the federal political system. During the first half century of Confederation, Canadian politics had been distinguished by the solidity of party loyalities and by the duration and stability of party administrations. But the Liberal Party was disorganized by the conscription issue and the Union Government disintegrated rapidly after the conclusion of the War. Federal politics in the first five years of the period showed the stultifying effect of this change. In the election of 1921 the Liberals got a nominal majority of only a few votes over all parties. The 65 Progressives, representing a revolt against the old national policies, held the balance of power in the House of Commons. From 1921 to 1926 the composition of the House of Commons in which there were three parliamentary groups, none of them constituting a definite and stable majority of the House, discouraged the forming and carrying through of consistent and vigorous government policies.

There were other reasons why the Dominion did not embark on vigorous action. The public demand for increased government services in the twenties mainly concerned things which were, in the first instance, at least, the constitutional responsibilities of the provinces. A compulsory national wheat board was beyond the peace-time powers of the Dominion. While the Government seemed generally sympathetic to a national scheme of unemployment insurance, it was unable to embark on it without the co-operation of the provinces.* Moreover, the heavy debt charges of the Dominion which, by 1921, were one-and-a-half times the total Dominion current expenditures of 1913, were a matter of anxious concern to the Government and tempered any regret it may have felt that the initiative in most current problems rested with the provinces.

The only important thing the Dominion did in this decade to overcome the constitutional obstacles to federal action was to encourage the establishment of provincially-administered old age pensions schemes with offers of financial assistance. This assistance recognized a social problem which was reaching serious proportions. The wave of immigrants which reached the country in the early years of the century was bound to produce at a later date a wave of persons reaching the end of their active working lives. Those of mature age who had come to Canada in the early days of the wheat boom were ending the working period of their lives in increasing numbers in the late twenties. A greater proportion of these than of the younger immigrants or of the native born were unable to lay by a provision for their old age. They swelled seriously the ranks of the aged poor at a time when changes in the economic and social structure were intensifying generally the problem of old-age dependence. The heavy war casualties also contributed to the sudden emergence of the problem since many aging parents had lost the source to which they would normally have looked for support. The burden of the care of the aged poor over-taxed the resources which had supported them in the past and, with other problems of public welfare making increasing demands, the provinces were reluctant to assume such a heavy charge alone. The Federal Government modified its principles and came to their assistance.

With this important exception, the Federal Government did not wrestle with the social problems of the new age. Indeed, during the rising prosperity of the twenties few were aware of their existence. "Normalcy", pursuit of wealth, confidence in high wages as the road to social security, definite expectation that "normalcy" meant a very rapid advance in material prosperity and that the full utilization of new techniques would not be retarded by economic conditions such as mass unemployment, represented in Canada, as in many other countries, the prevailing temper of the time. Given these beliefs there seemed less need for federal controls. There was no broad public support for a vigorous policy of the Dominion in the field of social welfare. In domestic affairs it contented itself with detailed modifications and amplifications of old-established national policies.

Ascendancy of Provincial Governments—development of provincial resources, aggressive highway programs and extension of welfare services greatly enhance their importance and strengthen their political support

The provinces were not affected by war weariness and there were many things to be done in the provincial sphere which solid majorities would support. The War had put a damper on provincial expenditures and many needs had accumulated. Each province proceeded to meet them in so far as its resources permitted. The national developmental policies, expressed in railways and canals, were at a standstill, while new provincial programs of development, expressed in highways and waterpower, were in the ascendant.

An immediate result of this extended range of activity was to add to the prestige and power of the provincial governments. The provinces owned the natural resources which had become immensely valuable through the development of new techniques. A tribute to their new importance was the determination which the Prairie Provinces displayed in this period to get control of their natural resources. Labour and capital began to depend on provincial highway and other developmental programs for jobs, contracts, and various industrial opportunities as they had formerly been dependent on railway construction and the schemes of development initiated by the Federal Government. The "new men" of the period, the adventurous figures who discovered and developed the wealth of the Pre-Cambrian Shield, exhibiting all the vigour and self-confidence of a rising class,

* *Debates House of Commons*, 1922, Vol. II, pp. 1073-4.

associated themselves, as a rule not with federal politics but with those of the provinces where the key to their interests and aspirations lay.

Moreover, provincial governments assumed a larger importance in the daily lives of the people. At the Dominion-Provincial Conference of 1927 Premier Taschereau pointed out that "the provinces were more in contact with the people, educating them, building their roads, and looking after their health." From the point of view of the recipients, they became also the donors of old age pensions; they provided mothers' allowances and minimum wage legislation. The popular basis of provincial political power was being solidly laid at a time when the Dominion was losing its intimate touch with the people, and when its developmental projects no longer gripped the imagination and no longer gave increasing employment to labour and capital. Instead the Dominion was intensively engaged in making vexatious levies for the payment of old debts.

The combined effect of these factors was to elevate the provinces to a new position in Dominion-provincial relations. The control over the public domain, the jurisdiction over public welfare, and over those economic matters in which the courts had sustained them, took on new content and significance. The provinces, which had once been compelled to struggle to escape complete domination by the Dominion, had come into a goodly heritage of their own.

Federal Concessions to Provincial Claims—Maritime claims, natural resources question, water-power, Dominion-Provincial Conference, 1927

The common interest in western development had, for twenty-five years, continuously strengthened East-West bonds of unity. In the twenties a variety of regional interests began to compete seriously with this common interest. British Columbia and the Central Provinces acquired important direct contacts with external markets which lessened their dependence on internal markets. The political revolt in the immediate post-War years of western agriculture against the old line political parties has already been noted. The continuance of the post-War depression in the Maritimes up until 1925-26 seemed to argue that the national economic integration was of little advantage to the Maritimes and they attacked rather than supported the operation of the national policies on which it was based.

The severe economic difficulties under which the Maritimes laboured in the early twenties aroused profound dissatisfaction, particularly after the contrast of marked recovery in the rest of Canada became apparent. By 1924 these adverse conditions produced a formidable movement for the vindication of "Maritime Rights", led and directed by the business interests of the region. Economic conferences called at Moncton and Charlottetown in 1925 studied a wide range of economic problems and gave extended publicity to their final resolutions. While the formulated demands called for a solution through federal action, there were some who advocated secession from the Dominion as the only escape from an intolerable situation.

The economic and financial distress of the region, combined with the vigour of the agitation, led in 1926 to the appointment of the Duncan Commission to investigate Maritime claims. The Province of Nova Scotia filed a comprehensive brief, dealing in detail with the whole range and history of Dominion-provincial relations as they affected the Maritimes. New Brunswick and Prince Edward Island accepted it as the basis of their case. All this material was marshalled together in a single volume for the purpose of proving that the Maritimes had never obtained the substance of the benefits promised them at the time of Confederation and that consequently they had never enjoyed a welfare and prosperity comparable to those of other parts of Canada. The brief maintained that the Maritimes had never received their promised share of the internal commerce which the union was designed to promote and that this failure flowed from the fact that the national transportation and tariff policies of the Dominion had been framed and enforced in callous disregard of the rights of the Maritimes.

It is not the present purpose to consider the justice of these claims nor to discuss the measures of amelioration which the Commission proposed. It is rather to draw attention to the political significance of the agitation. An entire region of the Dominion, moved apparently by a common sense of injustice, protested against the inequitable operation of the national policies. Whatever rights may have been involved, the plight of the Maritimes was serious. A region, suffering from these difficulties and animated by a sense of injustice, found that its most immediate interest in national affairs was to secure some recognition of its regional troubles.

By the time the Commission on Maritime claims had reported the long-continued agitation of the Prairie Provinces for control of their natural resources had become very insistent. It is significant that at the Dominion-Provincial Conference of 1927 where both questions were considered, the Maritime Provinces and the Western Provinces supported each other's claims. The older provinces had retained the ownership of the natural resources within their boundaries but the Dominion, under the Manitoba Act, had reserved the western lands "for the purposes of the Dominion". Dominion control of these lands had been the foundation of the national policy of western settlement and as well of the policy of a transcontinental railway. As settlement was now well advanced, it was plausible to argue that the purpose of the Dominion had been achieved, and that the lands might now be transferred to the provinces. However, the Prairie Provinces were not content merely to secure control of the public lands. In this period of regional demands on the Federal Government, they insisted that the retention of the western natural resources had always been a violation of certain inherent "provincial rights" which antedated and were in no way abrogated by Confederation. Accordingly, they claimed that the provinces were entitled to ask the Dominion to account for all the material advantage it had derived from the lands after 1870. They, therefore, sought an accounting from the Dominion on this basis.

The Dominion Government conceded the substance of these claims in 1928, when after a conference with representatives of the Government of Manitoba it agreed that Manitoba should be "placed in a position of equality with the other provinces of Confederation with respect to the administration and control of its natural resources, as from its entrance into Confederation in 1870". The Turgeon Commission was appointed to "inquire and report as to what financial readjustments should be made to this end". The Commission interpreted this as an instruction to estimate whether "Manitoba is in as good a financial position as she would probably have been in had her right to the administration and control of her natural resources been conceded from the beginning". The inquiry was directed toward reaching some kind of an estimate as to whether the alienation of Manitoba lands "for the purposes of the Dominion" as set out in the Manitoba Act had caused loss to the Province. Alienation of lands for public purposes within the Province was regarded by the Commission as affording but a slight basis for claims for compensation. "We are placing", said the Commission in its report, "a light appraisal on the loss to the Provincial Government in respect to homestead land." There was, it was held, no basis for a claim of compensation for land given to aid the construction of branch lines within the Province. For lands allotted to the Canadian Pacific Railway for the construction of its main line outside the Province, compensation was held to be due. The Commission, by an intricate and ingenious calculation, estimated the cost of these alienations to the Province and made an award. A similar procedure was followed with respect to the claims of Saskatchewan and Alberta;[17] and Commissions, headed by Mr. Justice A. K. Dysart, made awards to these Provinces upon the precedent set by the Turgeon Commission in the case of Manitoba. The transfer of the natural resources to the Prairie Provinces had important symbolic significance. It marked the completion of the great effort of the Dominion to achieve nation-wide expansion through national direction of western settlement. The success of the Western Provinces in getting the Dominion to account for its stewardship as well as the recognition of the claims of the Maritimes announced a new era in Dominion-provincial relations, an era in which regional disparities, regional difficulties, and regional ambitions became a principal concern of federal politics.

Another Dominion-provincial issue of importance in the latter years of the decade was that of the development of the St. Lawrence Seaway Canal. Proposals for development for navigation and power purposes were under consideration as early as 1920. Quebec, however, opposed the development of navigation lest it prejudice the port of Montreal, while both Ontario and Quebec opposed development of power by the Dominion, claiming that water power within the province, even in navigable waters, was a matter of provincial ownership and jurisdiction. Requests were made at the Dominion-Provincial Conference of 1927 for reference of the question of jurisdiction to the Supreme Court of Canada, and the following year the Dominion referred ten stated questions to the Court, but owing to the generality of the

[17] The Dominion Government's proposal was that there should be, with respect to Saskatchewan and Alberta, an inquiry "in order that the provinces might be placed in a position of equality with the other provinces as from September 1, 1905", the day upon which the provinces came into being. The Saskatchewan government contended that the adjustment should go back to 1870, the date of the transfer of Rupert's Land to Canada. A stated case was submitted to the Courts and in 1931 the Supreme Court held that the province had no claim to the natural resources of the area prior to September 1st, 1905. In the following year this judgment was upheld by the Judicial Committee of the Privy Council.

questions the answers were far from conclusive. In the meantime the Quebec Legislature had granted a private corporation a charter for a power canal on the Soulanges section of the proposed seaway development. Although the company subsequently had to apply to the Dominion for permission to divert water from Lake St. Francis, the undertaking was begun and, after the opinion of the Court was delivered, permission for the diversion was given by the Dominion. The discussion in Parliament on the permit indicated that, despite the inconclusiveness of the opinion of the Supreme Court on the matter of jurisdiction, the Dominion had substantially conceded the provincial claims to ownership and control of water power in navigable waters.

During the twenties the method of amending the Constitution for the first time became an issue between the Dominion and the provinces. The method of amending a federal constitution is always difficult to work out, but the problem had been finessed in 1867 by omitting from the British North America Act all reference to amendment and thus leaving amendment to the enacting authority —the Imperial Parliament. The change of status of the Dominion during and after the Great War gave rise to a widespread demand in the twenties for the transfer of the power of amendment to Canada. This inevitably raised the question of method and at the very time that the prestige of the provinces was in the ascendancy. The British North America Act had been amended six times, but on one occasion only—that of 1907 which concerned provincial subsidies—had the provinces been consulted. At the Dominion-Provincial Conference of 1927 the Dominion Government raised the question and recommended that Canada should have power to amend her own constitution, that the provinces should in all cases be consulted, and that for the amendment of a number of specified matters deemed fundamental the consent of all provinces should be required, but that in other matters the consent of the majority would be sufficient. Despite the consideration given to provincial sentiment, the proposal failed to carry, because of disagreement as to method and because certain provinces were opposed to any change in procedure.

A significant contribution was later made to the literature of constitutional theory (and hence to the controversy over methods of amendment) by the Government of Ontario when the Statute of Westminster, which was to formalize certain of the findings of the Imperial Conferences of 1926 and 1929, was under discussion. Ontario opposed adoption of the Statute by the Dominion without consultation with and approval by the provinces on the ground that the Statute was in effect an amendment of the British North America Act, and that this Act was a compact between the provinces and as such could not be amended without their consent. Following the election of 1930 the new Government called a conference of the provinces and secured their approval of the Statute, thereby seeming to admit the validity of Ontario's argument.

No less significant than the apparent retreat of the Dominion on various constitutional matters were the growing demands for the expansion of provincial revenues at the expense of the Dominion. The Duncan Commission, as already noted, found that the Maritime Provinces were in a serious condition of fiscal need and recommended on one ground or another substantial increases in subsidies to these Provinces. The demands of the Prairie Provinces for the return of their natural resources were obviously aimed not only at establishing the constitutional equality of these provinces but at increasing their revenues as well. The Dominion-Provincial Conference of 1927 was the occasion for warnings from British Columbia of its difficult financial position, as well as for general demands, from virtually all provinces, for increased subsidies and for grants for such matters as highways and technical and agricultural education. The Conference also heard demands for enlarging the provincial tax base, British Columbia urging that the Dominion should withdraw from the income tax field, Manitoba that the provinces should be granted a fixed percentage of customs and excise taxes. All these incidents and demands were symptomatic of the narrow margin of safety in which the provinces were finding themselves, and indicated that any serious renewal of economic difficulties would increase their demands upon the Dominion.

Conclusions

Throughout this period the provinces were politically aggressive in undertaking new activities, in advancing their own affairs, and in securing concessions from the Dominion. In their difficulties, in their ambitions and opportunities, as well as in the disparities between them, several sets of common interests of a regional character emerged. These regional forces served to weaken the common interest in a national integration based on wheat. In the general prosperity of the twenties, which provided an expanding national income, the regional interests were harmonized amicably without serious friction or serious sacrifice and the provinces were able, with more or less difficulty, to carry the new responsibilities they had assumed.

But the great depression which began at the end of the period, and which will be described in the next chapter, was to widen greatly the disparities, and to reveal both the insecurity of the foundation on which prosperity had been based, and differences of interest which were extremely difficult to reconcile under conditions of sharply falling revenues. These differences of interest were to assume a new significance in an era of depression, when weaker provinces, overwhelmed in the struggle to carry new and old responsibilities, were to become financial wards of the Dominion, and the strongest provinces stood to gain by enlargement of provincial autonomy.