



# REPORT

## ROYAL COMMISSION ON NEWFOUNDLAND FINANCES

*Under the Terms of  
Union of Newfoundland  
with Canada*

MAY 31, 1958

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.  
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY  
OTTAWA, 1958

## Order in Council

P.C. 1957-257

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 21st February, 1957.

The Committee of the Privy Council have had before them a report from the Prime Minister recalling that Section 29 of The Terms of Union of Newfoundland with Canada provides that:

"In view of the difficulty of predicting with sufficient accuracy the financial consequences to Newfoundland of becoming a province of Canada, the Government of Canada will appoint a Royal Commission within eight years from the date of Union to review the financial position of the Province of Newfoundland and to recommend the form and scale of additional financial assistance, if any, that may be required by the Government of the Province of Newfoundland to enable it to continue public services at the levels and standards reached subsequent to the date of Union, without resorting to taxation more burdensome, having regard to capacity to pay, than that obtaining generally in the region comprising the Maritime Provinces of Nova Scotia, New Brunswick and Prince Edward Island."

The Committee, therefore, on the recommendation of the Prime Minister, advise that

The Honourable John Babbitt McNair,  
The Chief Justice of New Brunswick,  
Fredericton, N.B.,

The Honourable Sir Albert Joseph Walsh,  
Chief Justice of the Supreme Court of Newfoundland,  
St. John's, Newfoundland, and

Mr. John James Deutsch,  
Vancouver, B.C.

be appointed Commissioners under Part I of the Inquiries Act (Chapter 154 of The Revised Statutes of Canada) to review the financial position of the Province of Newfoundland and to recommend the form and scale of additional financial assistance, if any, that may be required by the Government of the Province of Newfoundland to enable it to continue public services at the levels and standards reached subsequent to the date of Union, without resorting to taxation more burdensome, having regard to capacity to pay, than that obtaining generally in the region comprising the Maritime Provinces of Nova Scotia, New Brunswick and Prince Edward Island.

**The Committee further advise that:**

(1) the Commissioners be authorized to exercise all the powers set out in Section 11 of the Inquiries Act,

(2) the Commissioners adopt such procedure and methods as they may from time to time deem expedient for the proper conduct of the Inquiry, and sit at such times and at such places in Canada as they may decide;

(3) the Commissioners be empowered to engage such counsel, staff and expert assistance as may be required, notwithstanding the provisions of the Government Contracts Regulations, for the proper conduct of their Inquiry, to determine the rates of expenses to be paid to persons so engaged and to make regulations governing conditions of employment which will be applied to their staff;

(4) the Commissioners be granted travelling expenses and living allowances in such amounts as may be approved by the Treasury Board while absent from their places of residence and engaged in the conduct of the Inquiry;

(5) all government departments be directed to afford to the Commissioners such assistance and co-operation as may be required in the Inquiry;

(6) the Commissioners submit their report to the Governor in Council; and

(7) the Honourable John Babbitt McNair be Chairman of the Commission, and Mr. A. S. Abell of Ottawa, be Secretary.

**R. B. BRYCE,**  
Clerk of the Privy Council.

## **Commission of Appointment**

**GREAT SEAL  
OF  
CANADA**

**(Sgd.) "Vincent Massey"  
CANADA**

**(Sgd.) "F. P. Varcoe"  
DEPUTY ATTORNEY GENERAL  
CANADA**

**ELIZABETH THE SECOND, by the Grace of  
God of the United Kingdom, Canada and Her other  
Realms and Territories QUEEN, Head of the  
Commonwealth, Defender of the Faith.**

**TO ALL TO WHOM these Presents shall come or whom the same may  
in anywise concern,**

### **GREETING:**

**WHEREAS, pursuant to the provisions of Part I of the Inquiries Act,  
Chapter 154 of the Revised Statutes of Canada, 1952, His Excellency the  
Governor General in Council, by Order P.C. 1957-257, of the Twenty-first  
day of February, in the year of Our Lord one thousand nine hundred and  
fifty-seven, a copy of which is hereto annexed, has authorized the appoint-  
ment of Our Commissioners therein and hereinafter named to review the  
financial position of the Province of Newfoundland and to recommend the  
form and scale of additional financial assistance, if any, that may be  
required by the Government of the Province of Newfoundland to enable  
it to continue public services at the levels and standards reached subsequent  
to the date of Union, without resorting to taxation more burdensome,  
having regard to capacity to pay, than that obtaining generally in the region  
comprising the Maritime Provinces of Nova Scotia, New Brunswick and  
Prince Edward Island.**

**NOW KNOW YE that by and with the advice of Our Privy Council  
for Canada, We do by these Presents nominate, constitute and appoint the  
Honourable John Babbitt McNair, Chief Justice of New Brunswick, the  
Honourable Sir Albert Joseph Walsh, Chief Justice of the Supreme Court  
of Newfoundland, and John James Deutsch, Esquire, of the City of  
Vancouver, in the Province of British Columbia, to be Our Commissioners  
to conduct such inquiry.**

TO HAVE, hold, exercise and enjoy the said office, place and trust unto the said John Babbitt McNair, Albert Joseph Walsh and John James Deutsch, together with the rights, powers, privileges and emoluments unto the said office, place and trust of right and by law appertaining, during Our pleasure.

AND WE DO hereby authorize Our said Commissioners to have, exercise and enjoy all the powers conferred upon them by the Inquiries Act, and the powers and authorities mentioned and described in the eleventh section of the said Act.

AND WE DO hereby authorize Our said Commissioners to adopt such procedure and methods as they may from time to time deem expedient for the proper conduct of the inquiry and to sit at such times and at such places in Canada as they may decide from time to time.

AND WE DO hereby require all Departments of the Government of Canada to furnish such assistance and co-operation as may be required by the Commission.

AND WE DO hereby require and direct Our said Commissioners to report their findings to Our Governor in Council.

AND WE FURTHER appoint the said John Babbitt McNair to be Chairman of Our said Commissioners.

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

WITNESS:

Our Right Trusty and Well-beloved Counsellor, Vincent Massey, Member of Our Order of the Companions of Honour, Governor General and Commander-in-Chief of Canada.

AT OUR GOVERNMENT HOUSE, in Our City of Ottawa, this Twenty-first day of February in the year of Our Lord One thousand nine hundred and fifty-seven and in the Sixth year of Our Reign.

BY COMMAND,

(Sgd.) "C. Stein"  
UNDER SECRETARY OF STATE

# CONTENTS

	PAGE
ORDER IN COUNCIL.....	iv
COMMISSION OF APPOINTMENT.....	vi
LETTER OF TRANSMITTAL.....	xi
INTRODUCTION.....	1
CHAPTER I—The Economic Background.....	3
CHAPTER II—Review of the Financial Position of the Province.....	10
CHAPTER III—The Levels and Standards of Public Services in Newfoundland.....	19
CHAPTER IV—The Burden of Taxation.....	28
CHAPTER V—Findings and Recommendations.....	38
APPENDIX I—Provincial and Municipal Expenditure and the Levels and Standards of Public Service in Newfoundland	
Basic Data and Methods of Calculation.....	45
Table 1—Newfoundland Provincial Net Ordinary Expenditure.....	49
Table 2—Newfoundland Municipal Net Ordinary Expenditure.....	50
Table 3—Newfoundland Combined Provincial and Municipal Net Ordinary Expenditure.....	51
Table 4—Newfoundland—The Levels and Standards of Public Services, as indicated by Provincial Ordinary Expenditure in constant (1956) Dollars.....	52
Table 5—Newfoundland—The Levels and Standards of Public Services, as indicated by Municipal Ordinary Expenditure in constant (1953) Dollars.....	53
Table 6—Newfoundland—Provincial Capital Expenditure, in current and constant (1956) Dollars.....	54
Table 7—Newfoundland—The Levels and Standards of Public Services, as indicated by the Flow of Service from Provincial Capital in constant (1956) Dollars.....	55
Table 8—Newfoundland—Municipal Capital Expenditure, in current and constant (1956) Dollars.....	56
Table 9—Newfoundland—The Levels and Standards of Public Services, as indicated by the Flow of Service from Municipal Capital in constant (1956) Dollars.....	57
Table 10—Newfoundland—The Levels and Standards of Public Services, Province and Municipalities Combined.....	58
APPENDIX II—Provincial and Municipal Revenue in Newfoundland, New Brunswick, Nova Scotia and Prince Edward Island	
Table 11—Newfoundland Provincial Net Revenue.....	63
Table 12—Newfoundland Municipal Net Revenue.....	64
Table 13—Newfoundland Combined Provincial and Municipal Net Revenue.....	65
Table 14—New Brunswick Provincial Net Revenue.....	66
Table 15—New Brunswick Municipal Net Revenue.....	67
Table 16—New Brunswick Combined Provincial and Municipal Net Revenue.....	68

	Page
Table 17—Nova Scotia Provincial Net Revenue.....	69
Table 18—Nova Scotia Municipal Net Revenue.....	70
Table 19—Nova Scotia Combined Provincial and Municipal Net Revenue.....	71
Table 20—Prince Edward Island Provincial Net Revenue.....	72
Table 21—Prince Edward Island Municipal Net Revenue.....	73
Table 22—Prince Edward Island Combined Provincial and Municipal Net Revenue.....	74
Table 23—Newfoundland and the Maritime Provinces of Prince Edward Island, Nova Scotia and New Brunswick Combined Provincial and Municipal Net Revenue Per Capita.....	75
Table 24—Newfoundland and the Maritime Provinces of Prince Edward Island, Nova Scotia and New Brunswick Combined Provincial and Municipal Net Revenue per thousand dollars of personal income.....	78
APPENDIX III—Estimated Yield of Newfoundland Taxes at Maritime Rates, 1956...	82
APPENDIX IV—Miscellaneous Statistical Information	
Table 25—Population and Personal Income, Canada, Newfoundland and the Maritime Provinces.....	90
Table 26—Population by Age Groups, Newfoundland and the Maritime Provinces.....	90
Table 27—Price Indices and Capital Assets.....	91
Table 28—Newfoundland Income Distribution.....	91
APPENDIX V—Newfoundland Financial Statements prepared by Mr. James C. Thompson	
Statement 1—Financial Surplus Account.....	95
Statement 2—Net Funded, Unfunded and Guaranteed Debt.....	96
Statement 3—Analysis of Increase or Decrease (—) in Guarantees.....	97
Statement 4—Summary of Overall Financial Requirements.....	101
Statement 5—Net Revenue by Sources.....	102
Statement 6—Net Expenditure by Services.....	104
Statement 7—Capital Expenditure.....	108
Statement 8—Capital Expenditure Reclassified as Current.....	110
Statement 9—Loans and Advances.....	111
Statement 10—Loans and Advances—pre-Union.....	114
Statement 11—Sinking Funds.....	115
Statement 12—Pro Forma Balance Sheet.....	116
APPENDIX VI—List of Public Hearings, Briefs and Exhibits.....	118

**TO HIS EXCELLENCY  
THE GOVERNOR GENERAL IN COUNCIL**

May it please Your Excellency,

The Letters Patent bearing date the 21st day of February 1957, issued under the Great Seal of Canada, appointed us Commissioners "to review the financial position of the Province of Newfoundland and to recommend the form and scale of additional financial assistance, if any, that may be required by the Government of the Province of Newfoundland to enable it to continue public services at the levels and standards reached subsequent to the date of Union without resorting to taxation more burdensome, having regard to capacity to pay, than that obtaining generally in the region comprising the Maritime Provinces of Nova Scotia, New Brunswick and Prince Edward Island."

We now beg leave to submit to Your Excellency the following Report.



## Introduction

The inquiry authorized by Order in Council P.C. 1957-257 of February 21st, 1957, and which we the Commissioners were directed to conduct, resulted from certain provisions of the Agreement of December 11th, 1948 known as "The Terms of Union of Newfoundland with Canada" which, on receiving statutory confirmation by the Imperial Parliament validating the constitutional changes involved, resulted on April 1st, 1949 in the incorporation of Newfoundland, as a tenth province, into the federal union known as Canada.

The provisions of the Agreement of primary concern to us, and which have determined the scope of our reference, are contained in Term 29 which is part of the financial arrangements under which Newfoundland became a province of Canada. Among other things, it provided for the appointment by the Government of Canada, within eight years after the date of Union, of a Royal Commission to review the financial position of the Province and to recommend the form and scale of any additional financial assistance the Government of the Province might require to enable it to continue public services at the levels and standards reached subsequent to the date of Union without resorting to taxation more burdensome, having regard to the capacity to pay, than that obtaining generally in the Provinces of Nova Scotia, New Brunswick and Prince Edward Island.

We met, in private session, in the City of Ottawa on April 23rd and 24th, 1957 to consider the scope of the reference and the methods and procedures that might advantageously be followed in the prosecution of our studies. As the questions submitted for determination involved the Governments of Canada and Newfoundland, it was decided they should be invited to make formal submissions, to which proposal they readily agreed. It was known that, in anticipation of this inquiry, the Government of Newfoundland had, some time previously, appointed a Royal Commission to prepare a case for the Province to be submitted to us and that the report of the Newfoundland Commission would shortly be completed. Recognizing that such report would be the result of extensive expert studies and would doubtless contain much basic factual information which might prove acceptable to all concerned, we further decided that the inquiry might be facilitated by having the Government of Newfoundland first make its submission, a course to which both Governments readily acceded.

After some delays consequent upon the intervention of a federal general election the Commission on July 22nd opened public hearings at the City of St. John's at which the submissions of the Province were received. On August 2nd the hearings were adjourned to the City of Ottawa where on October 7th and 8th the Government of Canada was heard and the public

## *Royal Commission on Newfoundland Finances*

hearings concluded. Subsequently, in continuance of our studies, we met in private session at Ottawa in the months of January, March and May, 1958.

It is with a sense of deep appreciation that we acknowledge the cooperation received from the Governments of Canada and Newfoundland and the assistance given throughout by them and their representatives. The many acts of courtesy on the part of counsel, advisers and all others engaged in the inquiry have made our work both pleasant and memorable.

We are grateful to the officials of the federal departments of government, the Dominion Bureau of Statistics and the Queen's Printer, all of whom were painstaking in their efforts to be of assistance; to the various departments of the Provincial Government and their officials who spared no efforts to make available any information required by the Commission; and to members of the Newfoundland Royal Commission who joined in the presentation made on behalf of the Province; and to the Newfoundland Board of Trade which made a separate submission to us. We are particularly indebted to Mr. James C. Thompson, financial adviser to the Government of Newfoundland, for his full and painstaking analysis of the finances of the Province which we found of inestimable value in our studies.

We would also express to the Premiers and other members of the Governments of Nova Scotia, New Brunswick and Prince Edward Island appreciation for the many courtesies extended and assistance rendered by them and the officials of their various departments whereby much valuable information essential to the comparative studies our work entailed was made available.

We wish to acknowledge the efficiency of the work of the reporting staff and to commend our secretariat, all members of which were diligent and painstaking in the performance of the tasks assigned to them. Special mention is due Mr. Abell, the Commission Secretary, who in addition to his other administrative responsibilities, played in our investigations a major role in research, statistical studies and the marshalling and analysis of data. He carried out his important duties with marked zeal and ability and assisted the Commission greatly in its task.

## CHAPTER I

### The Economic Background

The new provincial government of Newfoundland which was established on April 1, 1949, was confronted from the outset by formidable and long-standing economic problems. Union with Canada had taken place against a background of rapid and far-reaching changes in the economic circumstances of the people of Newfoundland. The impact of the Great Depression of the nineteen-thirties had been particularly severe. It had struck a crippling blow to the public finances of the old self-governing Dominion. The developments of World War II brought economic recovery and rising prosperity which carried on into the immediate post-war years. The public finances were restored sufficiently to make possible a continued effort to improve public services and to build up as well a substantial budgetary surplus. However, by 1949 the war-engendered prosperity had begun to wane. Fundamental economic weaknesses and uncertainties were becoming apparent once more.

The transition to a Canadian province was accompanied by rising unemployment and falling incomes. The forces of history and the circumstances of the time had culminated in a union which embraced the most striking disparities in the story of Canadian nationhood. In 1949 the average personal income of the people of Newfoundland was less than one-half that of Canada and was one-third smaller than that of the Maritime Provinces. On the basis of real incomes these differences were even greater. The economy of Newfoundland was more highly dependent upon external markets than any Canadian region. It was one of the most economically exposed and least self-sufficient areas in the world. The economy was based almost wholly on three primary industries: fishing, forestry and mining whose entire commercial output had to be sold abroad. Less than one-third of one percent of the area of the Island was occupied by farms and only about one-tenth of the requirements of agricultural produce was locally produced. Secondary manufacturing industries provided jobs for no more than three or four percent of the gainfully employed.

The principal economic and social features of the Island had been determined very largely by the historical circumstances which had affected the development of a single industry—the fisheries. This industry which for hundreds of years had been almost the sole basis of economic activity had brought into the twentieth century a singular heritage of problems and difficulties. The majority of the population was scattered among small isolated settlements along 6,000 miles of coastline. Only rarely did the industry afford an ample means of livelihood. The main product,

## *Royal Commission on Newfoundland Finances*

salt cod, had to be exported to low-income markets. The main group of fishermen were engaged in a type of fishery for which the season was always short and not infrequently uncertain. Consequently the history of the industry had been, with few exceptions, a long history of low productivity, under-employment and poverty. At the date of Union the salt cod fishery had been in decline for more than a quarter of a century. The industry had not been able to keep abreast of modern technology and had fallen behind its chief foreign competitors. These disabilities were greatly aggravated by post-war exchange problems which were particularly severe in the Southern European area, where Newfoundland had long found its principal outlet. However, by 1949 the fishery, where one out of every four of the working force sought to obtain a livelihood, remained the largest single industry from the standpoint of gainful employment.

For some decades the chief preoccupation of government policy in Newfoundland had been to develop alternatives to the inadequate and declining opportunities in the fishery. To this end governments had committed their credit and much of their revenues. Considerable progress was achieved in the exploitation of forest and mineral resources during the nineteen-twenties and forties, but these developments had never been sufficient to relieve entirely the chronic under-employment and low productivity of the Island's principal industry. The need to find a solution to this basic problem remained the foremost and most urgent task of government when Newfoundland became a province of Canada.

The financial terms of Union had provided considerable scope for a new start. The new provincial government came into existence virtually free of debt and with \$40 million in its treasury. These substantial resources were available for the improvement of public services and the promotion of economic development. However, these tasks had to be assumed under a number of serious handicaps. Unlike the rest of Canada, Newfoundland had not received the benefits of over eighty years of aggressive federal policies designed to assist economic development and to foster economic expansion. Newfoundland had been outside the great national structure of transportation facilities, highly-developed government services, and extensive regional and industrial supports. Newfoundland was without a modern system of transportation. In the greater part of the populated area there were no roads whatever and in the remainder only a few miles were up to modern standards. The natural resources were largely unsurveyed and unexplored. Very few intensive investigations had been carried out. Little or no research had been applied to problems of utilization and marketing, even in the fisheries.

## *Economic Background*

"Newfoundland has had a long history of poverty; and this poverty meant the neglect of the public services."\* The deficiency in the public services was strongly evident in the lack of social capital and in the limited development of the social services. Aside from St. John's and a few other centres the Province was without municipal organizations or municipal facilities. In this respect Newfoundland was at about the same stage as the Maritime Provinces were in 1867. The proportion of homes equipped with water and sewer services was only about one-third of the Canadian ratio. The death and disease rates were considerably higher than those in any other Canadian province, which indicated, among other things, a serious deficiency in health services. The physical facilities for education were generally inadequate.

In these circumstances the task of promoting economic development was costly, difficult and slow. The modernization of the fisheries required the concentration of many of the scattered settlements into larger and fewer centres. The implementation of such a programme depended upon a) the provision of transportation facilities, b) the availability of capital for the improvement of fishing methods, for processing plants, for housing, and for community facilities, and c) the availability of entrepreneurial and administrative skills. These prerequisites were inadequate or entirely lacking. The diversification of economic activity and the expansion of private enterprise in the development of natural resources were hampered by a paucity of information and by the high overhead costs which had to be assumed because of the absence of basic facilities and government services.

The need to improve social services and health and educational facilities laid a heavy claim upon the provincial revenues. This claim was always in conflict with the need to achieve economic betterment. Under these conditions the Provincial Government sought out and resorted to short cuts. A considerable attempt was made to achieve a quick increase in employment opportunities through the establishment of secondary manufacturing industries with the aid of provincial loans and credits. Financial assistance was also given for the construction of a number of plants to process local natural resources. Substantial credits were made available to achieve a rapid increase in fish-processing facilities. To a considerable extent these direct financial commitments were undertaken at the expense of greater progress in the provision of basic facilities and services. Apparently, in the face of immediate employment problems, it was thought that there was no time to wait for longer-run but more lasting results. In the event, these measures have met with a mixed and sometimes transitory success.

---

\* Submission of the Government of the Province of Newfoundland to the Royal Commission on Canada's Economic Prospects, 1955, p.110.

## *Royal Commission on Newfoundland Finances*

In the field of natural resource development an attempt was made to find a method which would be effective quickly in overcoming the handicaps on private initiative resulting from high overheads and lack of information. This attempt, which had many precedents in the past, took the form of special large-scale concessionary arrangements with private groups. These arrangements were undertaken in the hope that they would yield new and important employment opportunities and obviate the immediate necessity for heavy government expenditures. Here the search for early results entailed on the one hand undertakings for the speedy exploration and investigation of natural resources and on the other concessions which discounted the future possibilities of provincial revenue. Exploratory activity was stimulated and some preliminary work done, but substantial achievements are still awaited.

The problems inherited from the past and the practical limitations on provincial government policy placed many serious obstacles in the way of a rapid rate of economic progress. Nevertheless, during the period 1949-56 the economy of Newfoundland accomplished some significant adjustments and provided a rising standard of life. In particular, the initial adjustments which were necessary to fit the island economy into the continental framework of the Canadian Confederation were made more easily than might have been expected. Over the seven years the rate of increase in the population was one of the largest in Newfoundland's history. It was on a par with the rapid rate of increase for Canada as a whole and was twice as great as that of the Maritime Provinces. For the first time in many decades Newfoundland was able to retain the full equivalent of the natural increase in its population, while the Maritimes continued to lose a considerable portion of theirs. The rise in the Newfoundland population was accompanied by rising production and an increase in average per capita income which kept pace with the high rate of growth in the Canadian average.

During the 1949-56 period in the neighbourhood of 10,000 persons left the fishery to find more productive employment elsewhere. With federal and provincial government encouragement some noticeable improvements were made in fishing equipment and techniques. Substantial progress was achieved in the development of a higher-value fishery product for higher-income markets. The output of frozen groundfish was more than doubled and at the end of the period Newfoundland supplied about one-half of all the United States imports of this commodity. The dependence of the industry upon salt cod and its uncertain markets was materially reduced.

The forest and mineral industries made significant advances and provided a rising level of earnings for a larger number of workers. The value of forest output rose by more than one-half. A considerable amount of capital was invested in the existing mines to improve efficiency and output. Large iron deposits in the Labrador were brought into production and development work was carried forward on several deposits of other minerals.

## *Economic Background*

The introduction of the federal social services following Union did much to remove the edge of poverty and to supplement and stabilize incomes in the lower-income groups. The provincially financed health and other social services were extended and made more widely available to the scattered population. Health and nutritional standards were considerably improved. In 1956 the so-called "transfer" payments to individuals from the federal and provincial governments constituted 16 per cent of total personal disposable incomes in Newfoundland compared with 9 per cent for Canada as a whole.

The improvement and support of the lower incomes together with the general rise in earnings had a stimulating effect upon the merchandising and service trades. The index of employment in trade rose by 14 per cent between 1951 and 1956.

Among these developments there were some significant and permanent advances in the basic structure of the Newfoundland economy. However, it is necessary to direct attention to the important role of special and transitory factors. By far the most dynamic influence on the economy came from the rapid rise in construction activity. The index of employment in construction rose from 100 in 1949 to 802 in 1953 and 534 in 1956. These striking increases resulted mainly from the opportunities afforded by the development of large military bases, aviation facilities, and to a lesser extent mineral and forest resources. The construction industry provided the principal outlet for the rapidly growing working force and for the many thousands who left the fishery.

The military bases made a vital contribution to the security of North America and the free world, but by their very nature, they have contributed relatively little to the productivity of the economy. The local employment and expenditures resulting from the operation and maintenance of the military installations have been considerable and important, but these have been subject to the inevitable uncertainties of changing military necessities and plans.

The heavy dependence in recent years upon the construction industry has introduced a further source of instability. In the best of times, it is a highly seasonal industry. Consequently seasonal unemployment and under-employment have continued to be major problems and important factors in the low level of annual incomes. Furthermore the rate of construction activity is subject to wide fluctuations in accordance with business conditions and market developments as they affect an export economy. Throughout the period 1949-56 the magnitudes of the construction programmes in Newfoundland, whether for military purposes or resource development, have from year to year dominated the economic scene to a greater extent than in other regions of Canada.

## *Royal Commission on Newfoundland Finances*

The construction programmes have included significant outlays by the Provincial Government on industrial projects for economic development, on roads, on municipal works, and on education and health facilities. However, the expenditures on these items of social capital have served largely to keep up with the pace of a rapidly growing population. There have been few really major improvements in the levels and standards of services. The deficiencies of the past have not been substantially overcome. The facilities required for most services remain below the standards in any other province. The per capita outlay in Newfoundland on education in 1955 was about 20 per cent below that of Nova Scotia. The road system continues to be woefully inadequate and is almost completely out of phase with modern developments and possibilities in motor transport. Newfoundland with its more scattered and much smaller density of population has, compared with the Maritime Provinces, only about one-half the mileage of motorable roads per capita. The quality of the roads is also much inferior. The Newfoundland portion of the Trans-Canada Highway is not more than a quarter completed in terms of total estimated cost. There is no trans-provincial road whatever. The majority of the numerous small settlements in the Province are still without any road connections.

The lack of an adequate road system is, in the present day, one of the outstanding handicaps to economic development and social improvement. From the economic standpoint this basic deficiency is a serious obstacle to a better concentration of population; it hinders the development of natural resources, raises the costs of distribution, restricts the diversification of industry and limits the growth of local enterprise. From the social standpoint the lack of roads adds substantially to the cost and difficulty of providing a necessary and desirable standard of public services. In short, Newfoundland is confronted with the urgent tasks of modernization, but is without the modern means of mobility and communication.

The notable increases in Newfoundland production and incomes in recent years have not measurably reduced the disparities with the rest of the country which had previously existed. In the generally prosperous year of 1956 the average per capita personal income after adjustment for differences in the cost of living was still somewhat less than half the Canadian average and about one-third less than that of the Maritime Provinces. This comparison of averages, however, obscures a number of significant variations within Newfoundland itself. While the rate of earnings in the Newfoundland forest and mineral industries are comparable to those in similar industries in other parts of Canada, the net income of most fishermen has remained at no more than a few hundred dollars per year. The average per capita incomes in Newfoundland are further affected by the more limited opportunities for female workers and by the fact that the proportion of the population of working age is significantly smaller



## *Economic Background*

than elsewhere in Canada. In 1956, 41 per cent of the population of Newfoundland was under 15 years of age as compared with 32 per cent for Canada as a whole. The average number of persons per family in Newfoundland in 1956 was 4.6 compared with 3.9 in Nova Scotia and 3.8 for Canada. The larger proportion of children in Newfoundland has a pronounced effect on the relative per capita incomes, on the costs of education and social services, and on the taxable capacity of the population.

The provinces and regions which comprise the Canadian federation exhibit a wide range in their economic development, and in their levels of wealth and income. By virtually every criterion Newfoundland remains well down at the bottom of this range. This position, however, does not measure the contribution of the people of Newfoundland and its resources to the Canadian entity. The national significance of the extension of the geographical boundaries to the ultimate limits on the eastern ocean and the importance of this historical development for Canadian defence and aviation do not require elaboration. Union in 1949 brought another important exporting region inside the Canadian economic structure. The products of Newfoundland were and continue to be exported abroad to a greater extent than in any other province. Under the influence of the Canadian commercial, transportation, and fiscal policies this export income has flowed, along with that from other export areas, into the great stream of purchasing power which has been the basis of much of the growth and prosperity of the industrial and commercial centres of the nation. This new source of opportunities has helped to strengthen the central core of the national economy. The addition of Labrador to Canadian territory has added also another frontier rich in minerals and water power. Labrador is already making its contribution to the vital role which undeveloped frontiers have played in the history of national economic expansion.

Newfoundland with its heavy dependence on specialized export industries and its large areas of undeveloped frontier is strongly affected by outside influences over which it has little or no control. The Newfoundland economy was, and continues to be, highly vulnerable. In the past this circumstance has often brought privation to many and sometimes financial ruin. Since 1949 the social and economic dangers inherent in this vulnerability have been notably lessened by federal social services and other federal programmes. Indeed, this has been the outstanding and most far-reaching result of Union. However, the capacity of the Provincial Government to cope with the effects of adversity and to deal with the more basic and longer-run problems of economic development is seriously handicapped by the pronounced lack of social capital, by the high costs associated with a scattered population, and by the deficiencies and difficulties inherited from the past. The undoubted resources in people and natural wealth stand in contrast with the local means available to promote a desirable rate of economic and social betterment.

## CHAPTER II

### Review of the Financial Position of the Province

The financial arrangements under which the Province of Newfoundland came into being on April 1, 1949, are set forth in the financial provisions of the Terms of Union. These provisions are as follows:

#### Financial Terms

##### *Debt*

23. Canada will assume and provide for the servicing and retirement of the stock issued or to be issued on the security of Newfoundland pursuant to the Loan Act, 1933, of Newfoundland and will take over the Sinking Fund established under that Act.

##### *Financial Surplus*

24. (1) In this Term the expression "financial surplus" means the balances standing to the credit of the Newfoundland Exchequer at the date of Union (less such sums as may be required to discharge accounts payable at the date of Union in respect of appropriations for the public services) and any public moneys or public revenue (including loans and advances referred to in Term twenty-five) in respect of any matter, thing, or period prior to the date of Union recovered by the Government of the Province of Newfoundland subsequent to the date of Union.

(2) Newfoundland will retain its financial surplus subject to the following conditions:

- (a) one-third of the surplus shall be set aside during the first eight years from the date of Union, on deposit with the Government of Canada, to be withdrawn by the Government of the Province of Newfoundland only for expenditures on current account to facilitate the maintenance and improvement of Newfoundland public services, and any portion of this one-third of the surplus remaining unspent at the end of the eight-year period shall become available to the Province of Newfoundland without the foregoing restriction;
  - (b) the remaining two-thirds of the surplus shall be available to the Government of the Province of Newfoundland for the development of resources and for the establishment or extension of public services within the Province of Newfoundland; and
  - (c) no part of the surplus shall be used to subsidize the production or sale of products of the Province of Newfoundland in unfair competition with similar products of other provinces of Canada, but nothing in this paragraph shall preclude the Province of Newfoundland from assisting industry by developmental loans on reasonable conditions or by ordinary provincial administrative services.
- (3) the Government of the Province of Newfoundland will have the right within one year from the date of Union to deposit with the Government of Canada all or any part of its financial surplus held in dollars and on the thirty-first day of March and the thirtieth day of September in each year to receive with respect thereto interest at the rate of two and five-eighths per centum per annum during a maximum period of ten years from the date of Union on the minimum balance outstanding at any time during the six-month period preceding payment of interest.

## *Financial Review*

### *Loans*

25. (1) The Province of Newfoundland will retain its interest in, and any securities arising from or attaching to, any loans or advances of public funds made by the Government of Newfoundland prior to the date of Union.

(2) Unless otherwise agreed by the Government of Canada, paragraph one of this Term shall not apply to any loans or advances relating to any works, property, or services taken over by Canada pursuant to Term thirty-one or Term thirty-three.

### *Subsidies*

26. Canada will pay to the Province of Newfoundland the following subsidies:

(a) an annual subsidy of \$180,000 and an annual subsidy equal to 80 cents per head of the population of the Province of Newfoundland (being taken at 325,000, until the first decennial census after the date of Union), subject to be increased to conform to the scale of grants authorized by the British North America Act, 1907, for the local purposes of the Province and the support of its Government and Legislature, but in no year shall sums payable under this paragraph be less than those payable in the first year after the date of Union; and

(b) an additional annual subsidy of \$1,100,000 payable for the like purposes as the various fixed annual allowances and subsidies provided by statutes of the Parliament of Canada from time to time for the Provinces of Nova Scotia, New Brunswick, and Prince Edward Island or any of them and in recognition of the special problems of the Province of Newfoundland by reason of geography and its sparse and scattered population.

### *Tax Agreement*

27. (1) The Government of Canada will forthwith after the date of Union make an offer to the Government of the Province of Newfoundland to enter into a tax agreement for the rental to the Government of Canada of the income, corporation income, and corporation tax fields, and the succession duties tax field.

(2) The offer to be made under this Term will be similar to the offers to enter into tax agreements made to other provinces, necessary changes being made to adapt the offer to circumstances arising out of the Union, except that the offer will provide that the agreement may be entered into either for a number of fiscal years expiring at the end of the fiscal year in 1952, as in the case of other provinces, or for a number of fiscal years expiring at the end of the fiscal year in 1957, at the option of the Government of the Province of Newfoundland, but if the Government of the Province of Newfoundland accepts the latter option the agreement will provide that the subsequent entry into a tax agreement by the Government of Canada with any other province will not entitle the Government of the Province of Newfoundland to any alteration in the terms of its agreement.

(3) The offer of the Government of Canada to be made under this Term may be accepted by the Government of the Province of Newfoundland within nine months after the date of the offer but if it is not so accepted will thereupon expire.

(4) The Government of the Province of Newfoundland shall not by any agreement entered into pursuant to this Term be required to impose on any person or corporation taxation repugnant to the provisions of any contract entered into with such person or corporation before the date of the agreement and subsisting at the date of the agreement.

(5) If the Province of Newfoundland enters into a tax agreement pursuant to this Term the subsidies payable under Term twenty-six will, as in the case of similar subsidies to other provinces, be included in the computation of tax agreement payments.

# Royal Commission on Newfoundland Finances

## Transitional Grants

28. (1) In order to facilitate the adjustment of Newfoundland to the status of a Province of Canada and the development by the Province of Newfoundland of revenue-producing services, Canada will pay to the Province of Newfoundland each year during the first twelve years after the date of Union a transitional grant as follows, payment in each year to be made in equal quarterly instalments commencing on the first day of April, namely,

First year .....	\$6,500,000
Second year .....	6,500,000
Third year .....	6,500,000
Fourth year .....	5,350,000
Fifth year .....	4,800,000
Sixth year .....	3,950,000
Seventh year .....	3,100,000
Eighth year .....	2,250,000
Ninth year .....	1,400,000
Tenth year .....	1,050,000
Eleventh year .....	700,000
Twelfth year .....	350,000

(2) The Government of the Province of Newfoundland will have the right to leave on deposit with the Government of Canada any portion of the transitional grant for the first eight years with the right to withdraw all or any portion thereof in any subsequent year and on the thirty-first day of March and the thirtieth day of September in each year to receive in respect of any amounts so left on deposit interest at the rate of two and five-eighths per centum per annum up to a maximum period of ten years from the date of Union on the minimum balance outstanding at any time during the six-month period preceding payment of interest.

## Review of Financial Position

29. In view of the difficulty of predicting with sufficient accuracy the financial consequences to Newfoundland of becoming a province of Canada, the Government of Canada will appoint a Royal Commission within eight years from the date of Union to review the financial position of the Province of Newfoundland and to recommend the form and scale of additional financial assistance, if any, that may be required by the Government of the Province of Newfoundland to enable it to continue public services at the levels and standards reached subsequent to the date of Union, without resorting to taxation more burdensome, having regard to capacity to pay, than that obtaining generally in the region comprising the Maritime Provinces of Nova Scotia, New Brunswick, and Prince Edward Island.

The Government of the Province of Newfoundland had available at the outset of its operations a cash surplus of \$40.3 million which could be used for the establishment, extension or maintenance of public services and for the development of resources in accordance with conditions set out in Term 24 of the Terms of Union. In addition, the Province retained its interest in pre-Union loans and other financial assets having a book value of \$11.0 million on March 31, 1949, on which \$4.5 million was subsequently realized. The net amount of Newfoundland debt assumed by Canada under Term 23 was \$47.6 million. The remainder of the net direct and indirect debt outstanding on March 31, 1949, amounting to \$10.3 million was carried forward as an obligation of the Provincial Government. This amount included \$4.2 million of net direct funded debt and \$6.1 million of

## Financial Review

indirect debt arising out of a guarantee of securities of Bowaters (Newfoundland) Pulp and Paper Mills Limited, all of the latter debt being since redeemed by the Company as it matured.

Prior to Union the Government of Newfoundland derived almost 60 per cent of its revenues from customs duties and excises. Upon the establishment of the Province these revenue sources passed to the Federal Government and the Province began with an undeveloped and very limited revenue system. The gap was filled mainly by federal payments under the tax rental agreement, the statutory subsidies, and the special transitional grant in accordance with the Financial Terms of Union. However, a substantial deficit was encountered in the first year which was covered from the accumulated surplus. During the first fiscal year of operations total federal payments constituted more than 75 per cent of total provincial revenue. This contrasted with a percentage of federal payments of slightly less than 40 per cent in the case of the Maritime Provinces.

Furthermore, because of the very limited development of municipal institutions, the provincial revenues in Newfoundland were required to cover the cost of services which in other provinces are generally paid for out of municipal taxes. During the first fiscal year following Union the combined provincial-municipal net revenue from provincial sources in Newfoundland amounted to \$15 per capita compared with \$57 per capita in the Maritime Provinces. If federal payments are included the total revenues which were available in Newfoundland for provincial and municipal purposes were \$54 per capita, compared with \$79 per capita in the Maritime Provinces.

The preceding paragraphs describe the highlights of the financial position of the Provincial Government of Newfoundland at the outset of Union. The subsequent developments during the period 1949-57 are set out in detail in Appendices I, II, and V. The main trends in the provincial-municipal revenues and expenditures are indicated in the table below:

**Provincial and Municipal Net Revenues and Expenditures for fiscal years ended nearest Dec. 31st.**

	Net Ordinary						Capital Expenditure	
	Provincial		Municipal		Prov.-Mun. combined		Prov. <sup>2</sup>	Mun.
	Rev.	Exp. <sup>1</sup>	Rev.	Exp. <sup>1</sup>	Rev.	Exp. <sup>1</sup>		
	(millions of dollars)				(dollars per capita)			
1949	17.4	21.0	1.1	1.0	54	63	4.9	1.3
1950	21.0	20.7	1.3	1.3	63	62	6.7	.6
1951	25.2	23.9	1.9	1.2	74	69	5.9	.8
1952	31.7	24.7	2.2	1.5	90	70	4.1	1.3
1953	31.6	27.2	2.5	1.8	88	75	4.7	1.2
1954	32.9	31.0	2.8	1.9	90	83	8.5	1.9
1955	33.5	33.4	3.0	2.1	89	87	9.0	1.8
1956	36.8	35.5	3.7	2.7	97	91	8.8	3.3

<sup>1</sup> Excludes debt retirement and capital grants for schools and hospitals.

<sup>2</sup> Includes capital grants for schools and hospitals.

## *Royal Commission on Newfoundland Finances*

A noteworthy feature of the public finances of Newfoundland during 1949-56 is the relatively small share of municipal expenditure throughout the period. Almost the whole of the rise in outlays was borne directly by the Provincial Government. Total ordinary provincial expenditures increased by nearly 70 per cent between 1949 and 1956, and by about 40 per cent on a per capita basis. There were considerable differences in the rates of increase of ordinary expenditures on the various provincial services; the increase per capita on health services was about one-half, on education, transportation, and natural resources about three-quarters, on general administration slightly more than one-third. The provincial per capita cost of welfare services declined. However, if account is taken of the rise in costs during this period due to raises in wages, salaries and prices, the increases in per capita real outlays on provincial services were much smaller. Indeed, after making due allowance for rising costs the total provincial per capita outlay on ordinary account showed no significant increase between 1949-1956.

**Per Capita Provincial Net Ordinary Expenditures on Certain Services<sup>1</sup> in  
Constant (1956) Dollars**

	1949	1950	1951	1952	1953	1954	1955	1956
Health and hospital care ...	17.20	16.54	19.03	18.64	18.73	18.04	18.79	18.77
Education .....	18.60	18.12	18.23	18.62	18.69	19.90	20.24	19.69
Transportation and com- munications .....	8.17	7.85	8.08	8.00	8.58	9.38	9.86	10.67
Other expenditure (exclud- ing welfare payments to individuals and debt charges) .....	20.36	20.16	19.88	19.69	21.04	19.75	21.24	22.16

<sup>1</sup> Excluding federal grants-in-aid. For total outlays on these services see Table 10, Appendix I

The provincial government expenditures and grants for capital facilities such as roads, hospitals, schools, public buildings, etc., during the 1949-56 period, ranged between \$4 million and \$9 million per year, and amounted to an average of \$6.6 million annually. After taking care of the expanded facilities required for a population which increased by nearly one-fourth during this period, not a great deal was available out of amounts of this limited size to overcome past deficiencies and to improve standards. Except for one year, ordinary revenues were insufficient to cover the expenditures and grants for capital facilities.

The most significant development in the provincial revenues over the 1949-56 period was the increase in the proportion obtained from provincial sources from slightly less than one-fourth to somewhat more than one-half of the total ordinary revenues available to the province.

## Financial Review

### Net Ordinary Revenue For Fiscal Years Ended Nearest December 31

	1949	1950	1951	1952	1953	1954	1955	1956
(millions of dollars)								
General sales tax.....	—	.7	3.2	4.5	5.7	6.3	6.7	7.8
Motor fuel taxes and motor vehicle licences.....	1.4	1.8	2.1	2.6	3.1	3.7	4.6	5.4
Liquor control.....	1.8	2.2	2.5	2.8	3.1	3.1	3.2	3.8
Natural resources.....	.6	.4	.7	.8	.5	.3	.4	.8
Other provincial sources.....	.3	.6	.8	.9	.8	1.2	1.2	1.2
Total provincial sources.....	4.1	5.7	9.3	11.6	13.2	14.6	16.1	19.0
Payments from Federal Govern- ment.....	13.3	15.3	15.9	20.1	18.4	18.3	17.4	17.8
Total net ordinary provincial rev- enue.....	17.4	21.0	25.2	31.7	31.6	32.9	33.5	36.8
Municipal net revenue.....	1.1	1.2	1.6	2.0	2.3	2.5	2.8	3.3
Provincial-municipal combined.....	18.5	22.2	26.8	33.7	33.9	35.4	36.3	40.1

The expansion of the provincial revenues was accomplished very largely by the adoption, early in the period, of a general retail sales tax and by higher rates of taxation on motor vehicles. Aside from these and the steadily rising yield from liquor control, no other source brought in any substantial returns. An outstanding feature of the provincial revenue system is the narrow scope of the revenue sources. Corporation taxes, personal income taxes and succession duties were rented to the federal government under Tax Rental Agreements. Revenue from natural resources was severely limited because of the tax concessions given in agreements which were entered into with companies to encourage development. The lack of roads restricted the possibilities of revenue from motor vehicles. Under these circumstances the 3 per cent general retail sales tax became the predominant source of expanding income for the Provincial Government. The heavy dependence upon this levy caused the tax to be imposed upon a wide range of transactions including virtually all purchases of the necessities of life.

Furthermore, throughout the period, the provincial revenue had to cover the cost of both the provincial services and all but a small part of the cost of local services. During the fiscal year ended March 31, 1957, total municipal collections constituted only 8 per cent of the combined provincial-municipal revenues. During the same year municipal collections contributed 30 per cent to the combined provincial-municipal revenues in the Maritimes.

The payments from the Federal Government under the Tax Rental Agreements, the statutory subsidies and the transitional grant arrangement continued to provide a large though declining share of total provincial revenues. The payments under the Tax Rental Agreements rose from \$7.2 million in the fiscal year ending March 31, 1951 (the first fiscal year

## *Royal Commission on Newfoundland Finances*

in which the full annual payment was received) to \$14.0 million in the fiscal year ending March 31, 1957, but over the same interval the transitional grant paid in accordance with the Financial Terms of Union fell from \$6.5 million to \$2.25 million. The total of the federal payments comprised 73 per cent of total provincial net revenue in the fiscal year ending March 31, 1951 and 48 per cent in the fiscal year ending March 31, 1957. In the same years, the federal payments to the Government of Newfoundland calculated on a per capita basis amounted to \$44 and \$43 respectively, compared with \$21 and \$35 respectively in the case of the Maritime Provinces.

Over the whole period beginning April 1, 1949, and ending March 31, 1957, total revenues on ordinary account fell short of the total requirements for ordinary expenditures (including sinking fund instalments) by \$1.1 million. Surpluses on ordinary account were realized in each of the four fiscal years ending in 1952, 1953, 1954 and 1955. Deficits on ordinary account occurred in the fiscal years ending in 1950, 1951, 1956 and 1957. In each of the last three fiscal years including the estimated out-turn for the fiscal year ending March 31, 1958, deficits on ordinary account were encountered on a rising scale, amounting to \$2.0 million, \$2.4 million and an estimated \$4.5 million respectively. In other words, during the past three years the revenues of the Province on ordinary account have fallen more and more short of the requirements for ordinary expenditures.

The total financial requirements of the Province, over and above the amount obtained from ordinary revenues, are shown in the table on opposite page for each of the years in the period beginning April 1, 1949, and ending March 31, 1958. These requirements for the whole of the nine-year period amounted to \$101 million of which \$6 million was for ordinary account deficits, \$50 million for capital expenditures, and \$45 million for loans and advances. The total of \$101 million was financed to the extent of \$45 million from the pre-Union surplus and the realization of pre-Union assets, and to the extent of \$56 million from borrowings.

During the first three years of the period the financial requirements were met entirely from the two-thirds portion of the pre-Union surplus, after which this portion was virtually used up. In the remaining six years of the period the requirements were met out of borrowings and from the remaining one-third portion of the pre-Union surplus which, according to the Financial Terms of Union, became available April 1, 1957. In the most recent fiscal year ending March 31, 1958, the estimated financial requirement was nearly \$16 million, all of which would have had to be borrowed.

The details concerning the sum expended on loans and advances amounting to \$45 million over the nine-year period are shown in Appendix V,



## Financial Review

### Financial Requirements, Sources of Funds and Increases in Debt For Fiscal Years Ended Nearest December 31

	1949	1950	1951	1952	1953	1954	1955	Subject to Audit 1956	Esti- mated 1957
	(millions of dollars)								
<i>Requirements—</i>									
Deficit or surplus (—) on ordinary account.....	5.0	.4	— .5	— 6.0	— 1.7	— .5	2.0	2.4	4.5
Capital expenditure.....	4.1	6.2	5.2	3.2	3.7	6.3	7.9	7.1	5.1
Sub-total.....	9.1	6.6	4.7	— 2.8	2.0	6.9	9.9	9.5	9.6
Loans and advances.....	.3	2.6	9.6	7.6	4.4	7.3	3.5	3.5	6.3
Total requirements.....	9.4	9.2	14.3	4.8	6.4	14.2	13.4	13.0	15.9
<i>Sources of Funds—</i>									
From financial surplus.....	9.4	9.2	14.3	.1	.1	.2	.1	11.1	—
From borrowing.....	—	—	—	4.7	6.3	14.0	13.3	1.9	15.9
Total.....	9.4	9.2	14.3	4.8	6.4	14.2	13.4	13.0	15.9
<i>Increase in Debt—</i>									
Borrowing.....	—	—	—	4.7	6.3	14.0	13.3	1.9	15.9
Less sinking fund instalments and earnings.....	.1	.1	.2	.2	.4	.5	.9	1.4	1.4
Net borrowing.....	— .1	— .1	— .2	4.5	5.9	13.5	12.4	.5	14.5
Increase or decrease (—) in guar- antees.....	— 1.1	.8	.1	1.5	2.4	3.8	— .1	4.1	— 1.6
Increase or decrease (—) in net direct and indirect debt.....	— 1.2	.7	— .1	6.0	8.3	17.3	12.3	4.6	12.9

Statement 9. Of this total, the net amount lent or advanced for fish plants and fishery development was \$11 million, for industrial plants and industrial development \$30 million, for land settlement and agriculture \$½ million, for social welfare, education and municipal purposes, \$1½ million, and for housing developments nearly \$2 million.

In addition to loans and advances the Provincial Government pledged its credit in guarantees amounting to \$16 million outstanding on March 31, 1958. The net increase during the nine-year period was \$10 million because \$6 million was outstanding at the date of Union. The details of these guarantees are shown in Appendix V, Statement 3. Out of the total net increase of \$10 million in guarantees, the amount guaranteed for fish plants and fishery development was nearly \$3 million, for education, municipal and housing purposes \$11 million, for industrial plants and industrial development \$2 million, but \$6 million outstanding at the date of Union was retired, leaving a net decrease in this category of about \$4 million.

To sum up, during the nine-year period ending March 31, 1958, the Provincial Government utilized financial resources, from the pre-Union surplus and the use of its credit through direct borrowings and guarantees, amounting altogether to \$111 million. Roughly one-half of this amount was used for capital expenditures on public works and for deficits on

## *Royal Commission on Newfoundland Finances*

ordinary account, and the remainder was devoted to industrial development, fishery development and to guarantees for municipal and other local purposes.

The effect of these operations on the debt of the Provincial Government is shown in the table below.

**Net Funded, Unfunded and Guaranteed Debt<sup>1</sup> as at March 31**

	1949	1950	1951	1952	1953	1954	1955	1956	Subject to Audit 1957	Esti- mated 1958
(millions of dollars)										
Funded debt.....	5.0	5.0	5.0	5.0	15.0	15.0	27.0	43.0	43.0	54.5
Less sinking fund.....	.8	.9	1.1	1.2	1.4	1.8	2.3	3.2	4.6	5.4
Net funded debt.....	4.2	4.1	3.9	3.8	13.6	13.2	24.7	39.8	38.4	49.1
Unfunded debt or unspent bor- rowings (-).....	—	—	—	—	-5.4	1.0	3.0	.2	2.1	6.0
Total net direct debt.....	4.2	4.1	3.9	3.8	8.2	14.2	27.7	40.0	40.5	55.1
Guarantees.....	6.1	5.0	5.9	5.9	7.5	9.8	13.6	13.6	17.6	15.0
Total net direct and indirect debt.....	10.3	9.1	9.8	9.7	15.7	24.0	41.3	53.6	58.1	71.0

<sup>1</sup> Appendix V, Statement 2.

In the early years the debt position of the Provincial Government was very favourable. At the outset the Provincial Government had in hand a substantial net cash surplus and was virtually free of any net debt charges. Since 1952 the provincial debt has increased steadily. In the fiscal year ending March 31, 1958, estimated net debt charges including the requirements for interest and debt retirement had risen to \$3.4 million. However, this cost constituted no more than 9 per cent of the total ordinary revenues, compared with about 20 per cent for the similar ratio in the Maritime Provinces combined. The total estimated net direct and indirect debt of the Government of Newfoundland outstanding on March 31, 1958, was \$71.0 million. This total amounted to \$163 per capita compared with about twice this amount per capita for the governments of the Maritime Provinces combined. These comparisons would appear to indicate that the debt position of the Government of Newfoundland continues to be favourable in relation to the Maritime Provinces. However, in considering the significance of this relative position regard must be had to the fact that the Government of Newfoundland has been encountering rising deficits on ordinary account over the last several years. Also, consideration must be given to the vulnerability and uncertainties of the Newfoundland economy and the significantly lower per capita personal income. In these circumstances special problems and limitations arise regarding the support of heavy fixed charges.

### CHAPTER III

#### **The Levels and Standards of Public Services in Newfoundland**

One of our first tasks, and a most important one, was to determine the levels and standards of public service reached in Newfoundland subsequent to the date of Union. This task is explicit in the Terms of Reference which state in part "and to recommend the form and scale of additional financial assistance, if any, that may be required by the Government of the Province of Newfoundland to enable it to continue public services at the levels and standards reached subsequent to the date of Union, without resorting to taxation more burdensome, having regard to capacity to pay, than that obtaining generally in the region comprising the Maritime Provinces of Nova Scotia, New Brunswick and Prince Edward Island". Before it is possible to judge what will be required to continue public services at the levels and standards reached subsequent to the date of Union it is necessary to know what those levels and standards were. Further, before the levels and standards of public services can be measured, certain problems of concept and definition must be settled.

It must be assumed that the phrase "the levels and standards reached subsequent to the date of Union" means the highest levels and standards reached. Otherwise Term 29 has little meaning. It would appear that the purpose of this clause in the Terms of Union was to ensure that levels and standards of public service reached in Newfoundland during the period under review would continue to be feasible for the Province if its taxation were no less burdensome than that obtaining in the Maritime Provinces generally.

The Brief presented on behalf of the Government of the Province of Newfoundland in support of additional financial assistance assumes that the highest levels and standards of public service reached subsequent to the date of Union were reached in the fiscal year 1956-57. We felt that this assumption should be closely examined since much might turn on it. It seemed clear that, if higher levels and standards had been reached prior to 1956-57, these earlier levels and standards should form the basis of our calculation of the additional financial assistance required.

The second matter of definition for settlement is the meaning of the expression "public services". Public services can be defined as those services which are provided by governments, either free or for a nominal charge and paid for through general taxation as distinct from services available at market prices from the private sector of the community, or, in certain instances, from government agencies operating on a commercial basis. On the face of it this definition seems reasonable and fairly clear-cut.

## *Royal Commission on Newfoundland Finances*

Upon examination, however, it will be seen that certain of the public services are hardly distinguishable from certain services provided to the community by associations of individuals acting on a voluntary basis. This is true in all provinces of Canada in the field of social welfare. In Newfoundland however it is also true for education, because the educational system is to a very large extent operated by the churches and a substantial part of the cost of building, maintaining and operating schools is borne by the citizens through their religious organizations.

Because of the difference in the operation of schools in Newfoundland, the contribution made locally to education outside the tax system is relatively larger than in the Maritime Provinces. In place of a system of local taxation to support schools as in the Maritime Provinces, there is in Newfoundland a system of voluntary contributions by the public and financing by religious denominations. In both areas, there is direct assistance from provincial governments towards carrying on the educational services. Without these contributions and church assistance, local taxation or higher provincial government expenditure would be necessary in Newfoundland. It was decided, therefore, that the definition of public services should include education paid for through church organizations as well as that which was financed from the public treasury. In other words, it was decided to start from the basic figures of provincial and municipal finance and to add to them the estimated private contribution for education.

The third matter for settlement is the meaning of "levels and standards", particularly as it affects the unit of measurement to be adopted. The Shorter Oxford English Dictionary defines level as "position, plane, standard in social, moral or intellectual matters" and standard as "a definite level of excellence, attainment, wealth or the like, or a definite degree of any quality viewed as a prescribed object of endeavour or as the measure of what is adequate for some purpose". To some extent, therefore, the words "level" and "standard" are synonymous, each reinforcing the meaning of the other. It seems clear that the expression "levels and standards" has quantitative and qualitative meaning. We are concerned with the problem of measurement and, therefore, for our purposes quality is viewed as an aspect of quantity. A higher quality service is taken simply to mean more service, which, in practice, is achieved by larger expenditure on men and materials.

Since our comparisons of levels and standards must reflect quantitative change, they must run in real terms—in terms of the real level of service rather than in terms of the current dollar cost of that service. Hence, in a period of rising prices the financial data of government expenditure and cost of services will only be relevant to our discussion of changes in the levels and standards of these services if these financial data have first been

## *Levels and Standards of Public Services*

adjusted to a constant dollar basis or corrected for price changes. Furthermore, since the standard of service may also be affected by the number to be served, it may be necessary to adjust the constant dollar financial data to per capita terms or to other terms deemed suitable for the purpose.

It should be made clear, at this point, that we have decided to proceed upon the assumption that the levels and standards of public service are indicated by their cost. For example, if \$100,000 is spent on the salaries of doctors and nurses to provide a health service, we assume for the purpose of our study that \$100,000 is the measure of the flow of service which results from that expenditure. We know of no other practical method of measurement.

Having defined levels and standards of public service and decided that changes in them are indicated by the changes in the expenditures upon them, adjusted for price variations, we proceed to deal with the techniques of measurement. Here we are confronted with an important matter of concept involving the relationship between current and capital expenditure. We know that the flow of public services is partly the result of current expenditure and partly the result of previous expenditure for the construction and acquisition of physical assets. This is the same as for the individual who, in addition to his current income, may enjoy a flow of income or service from previously acquired assets such as his house and furnishings. The problem is to measure and relate these two flows so that they may be added together.

We have already noted that as far as ordinary expenditure is concerned the cost of service will be taken as indicating the level of service subject only to the fact that if we are comparing two or more years, an adjustment will have to be made for price changes. In calculating the flow of service from capital assets, however, and thus assessing their contribution to the levels and standards of public services, we must make a somewhat different type of calculation. Unlike ordinary expenditure, the services of capital expenditure are not delivered in one year but are spread over the life of the asset. Hence, in seeking to measure the levels and standards of public service attributable to capital assets we look not to capital expenditure itself but to the annual costs which it involves. As with ordinary expenditure, we make the assumption that the value of the services rendered by physical assets is measured by the cost of providing those assets.

In any one year the real costs of providing capital assets are the interest costs necessary to obtain the assets, the depreciation allowance which must be made to assure their replacement, and the annual maintenance charges. To measure the flow of service from a capital asset, therefore, we must first know the interest cost involved, imputing a rate of interest if no debt is outstanding. In the second place, we must make some judgment as to the probable life of the asset or in other words fix a

## *Royal Commission on Newfoundland Finances*

rate of depreciation. In the third place, the flow of services from an asset must be great enough to cover maintenance costs. This amounts to saying that if a rational decision has been made regarding the construction or acquisition of a capital asset, the asset will yield a flow of service at least equal to the sum of the interest, depreciation and maintenance charges.

The decision to spend money for public purposes is, of course, a political as well as an economic one and in that sense it may be inaccurate to attach a rate of interest to all capital assets as measuring the flow of services from them. However, we have no other adequate method of measuring the flow of services. Hence, we assume that if money is borrowed to build hospitals or roads, these hospitals or roads will provide an annual flow of services sufficient to cover the interest charges, the appropriate annual depreciation charges and the annual costs of maintenance.

In measuring the levels and standards of public service we can start, therefore, with expenditures on ordinary account and add to them the flow of service from capital assets. This latter flow of service will be calculated as being equal to interest on capital plus depreciation but will not make any allowance for maintenance which in practice is charged to ordinary expenditure. We could not make an allowance for maintenance in computing the flow of service from capital assets without giving rise to double counting.

The above does not, of course, solve the problem of how to determine the amount of capital existing at a particular time or of how to determine the correct rate of interest and the correct rate of depreciation. It does, however, give us a conceptual framework for measuring the level of services.

We have now arrived at a method of combining the flow of service from ordinary and capital expenditure and have concluded that, because of the very considerable price rise in the period under consideration, it will be necessary to deflate the purely financial data or, in other words, to express them in constant dollars. We have also noted that it is necessary in relating year-to-year changes in the levels and standards of public services to take account of the changing population.

The foregoing disposes of the general problem of calculating the levels and standards of public services in Newfoundland. The details of this calculation and the detailed results are shown in Appendix I. In brief, the method used consists of combining ordinary expenditure with the flow of service from existing capital as measured by the application to existing capital of an interest rate and a depreciation charge. These amounts are expressed in constant dollars per capita.

Although the calculation of the flow of services is discussed at greater length in the Appendix, some general comments should be made here

## *Levels and Standards of Public Services*

about how the methods used and the nature of the data limit the conclusions which can be drawn. As we have seen above, it is necessary to place the expenditures of all years on a constant dollar basis. The practice adopted was to use 1956 as the base period with 1956 prices equal to 100. It should be borne in mind that the price indices used for this purpose are not perfect and do not give precise results. Not only is there the difficulty of the changing composition of public expenditures, but in fact there are no actual price indices based on the goods and services bought by all governments in Canada or by the Government of Newfoundland. All that the price indices can do in these circumstances is to provide a means for determining, rather broadly, an allowance for changes in the value of the dollar. Certainly, they bring the financial data into much better relationship for our purposes; but the trends and the absolute amounts which our calculations yield will not be accurate enough to make precise comparisons.

In particular, the price index used for government salaries and wages was simply a calculation, based on payroll information, of the change in the average salary and wage. This amounts to measuring the change in the levels and standards of service by the change in the number of civil servants with no allowance for improvement or deterioration in the average quality of public servants or for any change in hours worked. In short, it is assumed that a cross-section of the civil service at two points of time would include the same proportions of the different types of skill. We know that this is not quite accurate for the educational service in Newfoundland, where there has been some improvement in the qualifications of teachers. From evidence presented to the Commission, we have also gained the impression that it may not be true of health and hospital services, where the proportion of nurses and doctors to the total numbers employed may have risen in the later years. However, there is no satisfactory way of allowing for the effect of the changing composition of the civil service. Moreover, since the practice here adopted probably produces a bias which underestimates improvement in the levels and standards of public services in Newfoundland, its use in our calculations could not be prejudicial to the interests of the Province.

Some qualification should also be made with respect to the use of per capita expenditure and the per capita flow of services. The per capita presentation is not a perfect measure of the change in the levels and standards of service but it gives a useful preliminary indication. Its limitations are obvious when we come to measure the change in the levels and standards of highway service. A road built from one point to another will normally be capable of carrying much more traffic than exists at that

## *Royal Commission on Newfoundland Finances*

time. Hence, a rise in population and a consequent reduction in the per capita flow of service from highways need not mean a reduction in the level of highway service. Conversely, with a decline in population an unchanged per capita flow of service from highways would mean a lower aggregate flow of service and could actually mean a decline in the levels and standards of highway service to the reduced population. Similar objections to using per capita figures as indicative of the change in the level of public services will arise wherever the public service flows from a capital asset or a unit of organization which is not being used to capacity.

There are other objections to defining the levels and standards of particular public services in per capita terms. When we use the per capita presentation we assume that a constant fraction of the population uses the service. This is clearly not correct in every circumstance as the proportion of the population using a particular service may vary over a period of years. Thus, the proportion of the population which is of school age may rise or decline. A fall in the per capita level of education service could, therefore, occur while per pupil expenditure on education was rising rapidly. Similarly, the health service of tuberculosis prevention will decline in per capita terms as the service becomes more successful and smaller numbers require it. In certain of the welfare payments, particularly the variable ones such as relief, it might be more useful to define the levels and standards of public service in terms of the entitlement of individuals qualifying for assistance, rather than in per capita terms. Despite the above limitations, it is reasonable to use the trend in per capita expenditure in constant dollars, including the flow of service from capital assets, as a general over-all indication of changes in the levels and standards of public service. As we shall see, it is possible to check the per capita results by observation of conditions and to supplement them by the opinion of those with first-hand knowledge of changes in the services and facilities.

Before discussing the actual results a further point needs clarification and emphasis. The level of public services provided by the Province to its citizens depends not only upon the money spent by the Province from its own resources, but upon the extent of federal grants-in-aid for provincial services. Federal grants-in-aid for provincial services have, therefore, been included in the calculation of the levels and standards of public services in Newfoundland. This procedure is necessary to avoid understating the level of provincial and municipal services and to ensure the validity of year-to-year comparisons regardless of changes in the division of responsibility between the Province and the Federal Government. Services provided directly by the Federal Government or payments made directly by it to individuals are not of course included.



## *Levels and Standards of Public Services*

The results of the calculation of the levels and standards of public service in Newfoundland are summarized in the table below. Greater detail is shown in Appendix I.

### NEWFOUNDLAND

#### Per Capita Levels of Provincial and Municipal Services

Including Federal Grants-in-Aid  
In Constant (1956) Dollars

	1949	1950	1951	1952	1953	1954	1955	1956
<b>Health</b>								
Provincial and Municipal .....	20.80	20.61	23.30	22.60	22.67	21.76	22.55	22.71
Federal <sup>1</sup> .....	.55	2.06	1.88	2.07	2.07	2.44	2.61	2.53
Total .....	21.35	22.67	25.18	24.67	24.74	24.20	25.16	25.24
<b>Transportation</b>								
Provincial and Municipal .....	23.66	24.38	25.02	23.92	24.75	25.80	26.95	28.89
Federal <sup>1</sup> .....	—	.24	.52	.66	.85	1.23	1.67	1.90
Total .....	23.66	24.62	25.54	24.58	25.60	27.03	28.62	30.79
<b>Education</b>								
Provincial and Municipal .....	23.86	23.50	23.64	24.19	24.44	26.17	26.74	26.57
Federal <sup>1</sup> .....	—	.16	.18	.24	.22	.36	.41	.39
Total .....	23.86	23.66	23.82	24.43	24.66	26.53	27.15	26.96
<b>Welfare payments</b>								
Provincial .....	12.95	14.89	13.07	11.58	11.79	13.17	11.44	10.53
Federal <sup>1</sup> .....	.06	.39	.36	2.58	2.72	2.62	4.81	6.93
Total .....	13.01	15.28	13.43	14.16	14.51	15.79	16.25	17.46
<b>Other services</b>								
Provincial and Municipal .....	22.46	22.71	22.38	22.62	23.97	22.70	24.75	26.13
Federal <sup>1</sup> .....	—	—	—	—	.02	.16	.20	.31
Total .....	22.46	22.71	22.38	22.62	23.99	22.86	25.04	26.44
<b>All services</b>								
Provincial and Municipal .....	103.73	106.09	107.41	104.91	107.62	109.60	112.43	114.83
Federal <sup>1</sup> .....	.61	2.85	2.94	5.55	5.88	6.81	9.70	12.06
Total .....	104.34	108.94	110.35	110.46	113.50	116.41	122.22	126.89

<sup>1</sup> Grants-in-aid for provincial services only.

The calculations show that there has been a fairly steady improvement in the per capita levels and standards of public service over the period 1949 to 1956 although half of that improvement was due to increased federal grants-in-aid. The level of service in 1956 was about 22 percent higher than in 1949. Although a 5 percent rate of interest was used in measuring the flow of service from capital assets, the absolute results would not be significantly different if a 4 percent or 6 percent rate had been used instead, and the trends would have remained unchanged.

## *Royal Commission on Newfoundland Finances*

The greatest increase in the per capita flow of services was in transportation, communications and public works where the increase was from \$24 per capita in 1949 to \$31 per capita in 1956, an increase of about 30 percent. The calculation of the levels and standards of service in health and hospitals shows little change after 1952.

The per capita levels and standards of the education service appear to have changed relatively little from 1949 to 1952, but there was a somewhat greater improvement between 1952 and 1954. As noted above, however, the index of average salaries paid to teachers takes no account of the improvement in the qualifications of teachers. Since the salaries of teachers are the larger part of education expenditure, this may mean that the standard of service for education has improved significantly although in a way which would not be reflected in these figures. On the other hand, it should be noted that school enrolment has risen at a slightly faster rate than population so that if education service were expressed in terms of the flow of service per pupil instead of in per capita terms, the series would show a slight decline for the period.

As noted earlier, we are particularly concerned with determining the highest levels and standards of public service reached subsequent to the date of Union, since these are the levels and standards which must be assured for the future. On balance, it appears reasonable to conclude that the highest levels and standards were those reached in the year 1956-57. This view is supported by our calculations of the levels and standards of public services as outlined above. It is supported as well by expert testimony given before this Commission by senior civil servants of the Province and by the observations of members of the Commission.

The conclusion that 1956-57 marks the highest levels and standards of public service subsequent to the date of Union carries certain implications. The estimate of depreciation of capital assets, used in determining the highest levels and standards reached, becomes a prime factor in determining what will be required to continue those levels and standards. As noted above, there are two factors which must be considered when calculating the cost of maintaining a given level and standard of public service, the flow of service from ordinary or current expenditure and the flow of service from capital assets. This is true of any given level of public service although it will be noted that any particular level of service might be achieved by varying the proportions of ordinary and capital expenditure. Whatever the level of service that obtains, its continuance will require not only ordinary expenditure but the maintenance of the stock of capital as well. The amount of ordinary expenditure in 1956-57 is known. The amount of expenditure necessary to maintain the stock of capital is not known and is not capable of such exact determination. However, an estimate of depreciation is necessarily a by-product of the calculations used above to trace the changes in the levels and standards of public

## *Levels and Standards of Public Services*

service over the period 1949 to 1956. These calculations indicate that the annual depreciation necessary to maintain the stock of provincial and municipal capital at the 1956 level was of the order of \$5.6 million, of which \$4.8 million was provincial. This includes the depreciation on schools, hospitals, roads and other public facilities. The calculation was based upon a number of assumptions and cannot, of course, be defended as being completely accurate. Nevertheless, it indicates the probable and reasonable cost of maintaining public assets in the Province as nearly as we can ascertain it. It is interesting to note that in the Brief presented to this Commission on behalf of the Government of the Province of Newfoundland depreciation and obsolescence is estimated at \$5.0 million for the fiscal year 1956-57.

By adding to the ordinary expenditure of 1956-57 the estimated depreciation allowance of that year, we obtain an estimate of the total cost of the levels and standards of public service reached in 1956-57. This total cost consists of a number of elements and can be set out as follows:

	\$000
Provincial net ordinary expenditure excluding debt retirement, subsidies to municipalities and capital grants for schools and hospitals, Appendix I, Table 1 .....	35,099
Estimated depreciation on the stock of provincial capital, Appendix I, Table 7 .....	4,838
Municipal net ordinary expenditure, Appendix I, Table 2 ....	2,678
Estimated depreciation on the stock of municipal capital, Appendix I, Table 9 .....	395
Estimated voluntary contribution to maintenance and operation of schools, Appendix I, Table 5 .....	1,000
Estimated depreciation on that part of the stock of schools built by voluntary contributions, Appendix I, Table 9 ..	360
Total requirements in 1956-57 .....	44,370

Having established the total annual expenditure necessary, on the basis of 1956-57 figures, to continue the levels and standards of public services reached subsequent to Union, we turn next to the problem of whether revenue sufficient for these needs will be available to the Province of Newfoundland without resorting to taxation more burdensome than that obtaining in the Maritime Provinces generally.

## CHAPTER IV

### The Burden of Taxation

In the last chapter we calculated, on the basis of 1956-57 expenditures, how much would be required to continue public services at the levels and standards reached subsequent to the date of Union. In this chapter our task will be to determine how much Newfoundland could raise from its own revenue sources "without resorting to taxation more burdensome, having regard to capacity to pay, than that obtaining generally in the region comprising the Maritime Provinces of Nova Scotia, New Brunswick and Prince Edward Island".

The concept of burdensomeness in relation to capacity to pay is not easy to come to grips with in this instance. The real difficulty is that a large part of provincial and municipal taxation is, in fact, payment for service and that we cannot speak of burden without relating it to what it buys. Where a large element of redistribution is involved in a tax system or where the benefits received by the taxpayer are either remote or small in relation to the tax paid, the concept of burdensomeness has greater applicability. However, over a wide range of provincial and municipal finance, this is not the case.

If, for example, a tax of twenty cents a gallon on gasoline takes 10 per cent of all income but buys a network of super highways in one province, who is to say that this tax is more burdensome than a five cent a gallon tax on gasoline which takes 5 per cent of all income in a province of poor roads?

In so far as provincial and municipal taxes are really payments for services, we must be careful, therefore, lest we fall into the error of applying the word "burden" to the price which a free people impose upon themselves for the collective provision of goods and services, while making no such judgment about the prices paid for goods and services in the free market. For example, people with lower incomes pay the same price for a loaf of bread as those with higher incomes. Again, is it more burdensome for a man to pay a tax of fifteen cents a gallon on gasoline so that he may have a road to travel on than it is for him to pay fifteen cents for any good or service purchased from the business community?

We have seen that it is hardly accurate to apply the word "burdensome" to the part of provincial and municipal levies which is really a payment for services. Apart from this there is the further problem of deciding at what point taxes represent equal burden on incomes of different size. There is no agreement among authorities on this. It will also be necessary to know how far we wish to recognize the basic requirements of

## *The Burden of Taxation*

subsistence in a calculation of tax burden. We can examine these questions from the standpoint of theory and we can see how they have been met in our own tax system.

If we seek the answer to these problems in the actual working of the Canadian tax system, federal, provincial and municipal, it is very difficult to reach a conclusion. The progressive income tax is combined with other types of taxation, some of which are regressive in relation to income and some of which are proportional. There is evidence that the Canadian tax system as a whole, federal, provincial and municipal, is progressive at higher levels of income because of the importance at these levels of the progressive income tax. However, the range of income at which progressive taxation is known to apply in this country would take in a relatively small part of the income distribution of Newfoundland. Moreover, the progressive features of the Canadian tax system are confined very largely to the federal field, and balance to some extent the effect of provincial and municipal levies. In general, it may be said that the very poor are not exempt from taxation in the Canadian tax system but that the taxes they pay are small in relation to the transfer payments they receive. At slightly higher levels of income, however, but before the progressive income tax takes effect, there is probably a significant net tax payment.

Our problem is also complicated by the fact that we are not to relate the burden and tax-paying capacity of individuals as such but of the entire group of individuals in Newfoundland with the entire group of individuals in the Maritime Provinces. As mentioned above, this is hardly possible because the services of the two areas are different, unless we assume that payment for services is a negligible part of provincial and municipal levies. We will not concern ourselves with how the load of taxation is distributed within each of the regions—although this affects burden—but only with the relationship of taxation to aggregate regional income.

Despite these difficulties, we are faced with the problem of relating the tax burdens of the two regions to their capacity to pay. In a simple and reasonable view, capacity to pay varies chiefly with income. Whether we are assessing the tax-paying capacity of an individual or a region, we shall have to start with income. The more income an individual receives, the more he can pay in taxes. The important question is, how much more can an individual pay as his income rises without affecting his tax burden? This question is obviously related to our view about the requirements for subsistence. Most of the discussion about the correct basis on which to measure burden will, therefore, centre about two matters: the question of allowing a minimum of income below which no taxation should apply, and the question of whether taxation beyond the exempted minimum should be at proportional or progressive rates. We decided to treat the

## *Royal Commission on Newfoundland Finances*

problem in a partly theoretical, partly practical manner and worked out the relationship between burden and tax-paying capacity on several different bases.

Before making the actual comparisons of burden in relation to capacity to pay, certain elements of provincial and municipal revenues were excluded. It has been argued that the alienation of Newfoundland's resources in earlier times very considerably restricted the future revenue possibilities and that the Province cannot, therefore, expect the same amount of revenue from natural resources as is obtainable from comparable resources in the Maritime Provinces. More important, it seemed to us, was the consideration that revenue from the bounty of nature should not be confused with tax burden. Accordingly, in calculating the tax burden, the revenues from natural resources were removed from the combined provincial and municipal revenues. At the same time, amounts received from the Government of Canada were excluded since these are not part of the burden imposed by provincial taxing authorities. One further adjustment was made to provincial and municipal revenues. As mentioned in the previous chapter, it was decided that the level of public services in Newfoundland should include that part of educational expenditure financed by voluntary contributions. In calculating the total amount of taxation below we have, therefore, included estimates of the voluntary contribution to the operation and maintenance of established schools as well as the capital contribution to the building and equipping of new schools. These estimates were made on the basis of evidence presented to the Commission on behalf of the Government of Newfoundland.

It is reasonable at the outset to look for some simple and uncomplicated general measure of capacity to pay. Perhaps the simplest of all such measures is aggregate personal income. The use of this measure of capacity to pay as a basis for determining burden can be defended if the average income and the income distribution of the two regions are not greatly different. It may be defended also on the general grounds that, as mentioned above, a great part of provincial and municipal taxation is not really taxation at all but payment for goods and services. The method has, of course, certain limitations which we will deal with later.

The following table indicates the comparable burdens of taxation, using the simple aggregate personal income method as the measure of capacity to pay. It can be seen from this table that the Maritime Provinces, taken as a group, collected 9.4 per cent of their aggregate personal income in the form of provincial and municipal taxes in the year 1956, while Newfoundland collected 7.4 per cent of aggregate personal income. If Newfoundland had collected the same percentage of total personal income as the Maritime Provinces, namely 9.4 per cent, Newfoundland's tax collections would have been \$5,954,000 greater.

## *The Burden of Taxation*

### Calculation of Capacity to Pay and Tax Burden on Basis of Aggregate Personal Income, 1956

	P.E.I.	N.S.	N.B.	Maritimes	Nfld.
Total personal income, 1956 (\$ million)	76	694	509	1,279	305
Population (000).....	99	6	555	1,349	415
Per capita personal income (\$)	768	999	917	948	735
Total provincial and municipal revenue, 1956 (\$000).....	9,684	85,753	79,904	175,341	40,070
Deduct revenue from:					
natural resources.....	17	1,641	4,289	5,947	830
Government of Canada.....	3,816	25,557	20,241	49,614	17,884
	5,851	58,555	55,374	119,780	21,356
Add: estimated voluntary contributions to building, operation and maintenance of schools.....					1,360
Total revenue from provincial sources (excluding natural resources) (\$000)	5,851	58,555	55,374	119,780	22,716
Per capita revenue from provincial sources (excluding natural resources) (\$)	59.10	84.25	99.77	88.79	54.74
Percentage of per capita revenue from provincial sources (excluding natural resources) to per capita personal income.....	7.7	8.4	10.9	9.4	7.4
Yield from Newfoundland tax sources (excluding natural resources) at Maritime rate of 9.4% of personal income (\$000).....					28,670
Actual Newfoundland collections in 1956 (\$000).....					22,716
Increased yield at Maritime rates.....					5,954

The use of aggregate personal income as a basis for comparing burdens of taxation has, in this instance, marked limitations. The proportion of persons in the low-income group is considerably higher in Newfoundland than in the Maritime Provinces and the average per capita income in Newfoundland is substantially lower. This means that the average Newfoundlander, after meeting the needs of subsistence, has less income left with which to pay taxes than the average Maritimer.

Because of the limitations of the aggregate personal income method we decided to construct a second method of comparison, applying a basic exemption to the income distributions of Newfoundland and the Maritime Provinces. As mentioned above, the needs of subsistence must be recognized as having a bearing upon tax-paying capacity. But how much the exemption ought to be to give proper weight to the needs of subsistence is a matter of judgment. The particular level of subsistence, to be allowed before taxation, will change over the years just as other social concepts change. The exemption chosen is usually a compromise between the practical needs of raising revenue for public purposes and the desire to ease the burden on the lower-income groups. Having in mind prevailing Canadian practice as well as what would seem to serve the ends of social justice, the Commission felt that an exemption of \$500 per capita for

## *Royal Commission on Newfoundland Finances*

persons seventeen years of age and over and an exemption of \$150 per capita for children sixteen years of age and under would be reasonable exemptions to use in comparing, for provincial and municipal purposes, the tax-paying capacity of Newfoundland with that of the Maritime Provinces. We believe that the exemption should be lower for children because certain family costs do not rise in direct proportion to the numbers in the family. We have chosen seventeen years of age as the age at which to apply the adult exemption because a good proportion of the youth will be working at this age. The family allowance payments stop at age sixteen. Such exemptions mean that an average family in Newfoundland would have an exemption of \$1,588, being made up of \$1,000 for man and wife, \$260 on account of children seventeen years of age and over, and \$328 for children sixteen years of age and under. The comparable Maritime exemption would be \$1,471, being made up of \$1,000 for man and wife, \$210 for children seventeen years and over, and \$261 for children sixteen years and under.

These exemptions do not represent a high standard of living. But we consider that, having regard to the general level of incomes in the area and the necessity of carrying on certain public services by co-operative endeavour through provincial and municipal governments, it is impracticable to use higher exemptions for this purpose.

There has been a good deal of discussion about the effect on tax-paying capacity of the higher cost of living in Newfoundland. We have accepted the view that living costs are higher in Newfoundland by about 10 per cent and have accordingly raised the Newfoundland exemptions by that amount in the example below. This means that the Newfoundland exemptions of \$1,588 are raised by 10 per cent to \$1,747 for the average family of two adults, 2.19 children sixteen years and under, and .52 children seventeen years and over. This allowance for the higher cost of living in Newfoundland is designed to allow the Newfoundlander the same level of subsistence as the Maritimer before attempting a measurement of taxable capacity.

In order to apply a basic exemption to the incomes of Newfoundland and the Maritime Provinces with complete accuracy, we would need more reliable information on the income distribution of the two regions than at present available. The statistical information on the income distribution of Newfoundland and the Maritime Provinces is sketchy, being based on a sample survey of rather small size. The actual income distribution indicated by this sample survey does not conform to what might be regarded as the normal or expected shape of such distributions and can only be used, therefore, with caution and for limited purposes. However, it does give a general indication of the income distribution, and we have taken it as the best available indication of the approximate proportion of the population below the exemption level which we have chosen.



## *The Burden of Taxation*

The Dominion Bureau of Statistics sample survey of 1954 showed that 36.1 per cent of the unattached individuals in Newfoundland had an income of less than \$500 per annum and 33.9 per cent of families had an income of less than \$1,500 per annum. These two groups together comprise about 34 per cent of the population and earn about 10 per cent of the income. For the three Maritime Provinces, 31.9 per cent of the unattached individuals had incomes of less than \$500 while 25.7 per cent of families had incomes of less than \$1,500, and together these two groups made up about 26 per cent of the population and earned 8 per cent of total income.

Since we decided on exemptions of \$500 for each person seventeen years and over and \$150 for each person sixteen years and under, the effect, as we have seen, is to exempt all income of single persons who make less than \$500 per annum and all family income of less than \$1,747 in Newfoundland and \$1,471 in the Maritime Provinces. For practical purposes, therefore, we exempt all income of less than \$500 per annum for unattached individuals and all income of less than \$1,500 for families because the amount of this income and the number of people involved can be derived from the D.B.S. sample survey. For those whose incomes are above these amounts the total exemption is simply calculated on the basis of \$500 per person seventeen years of age and over and \$150 per person sixteen years and under. In the case of Newfoundland these exemptions were increased by 10 per cent to allow for the higher cost of living.

The general conclusion indicated by the D.B.S. sample survey of 1954, that there is a somewhat greater proportion of Newfoundland's population in the income brackets under \$1,500 per annum, is supported by the results of a sickness survey conducted by the Health and Welfare Division of the Dominion Bureau of Statistics in 1950-51 and quoted at page 115 of the Newfoundland Brief. The results of that survey show that in 1951, 47 per cent of the families of the three Maritime Provinces had incomes of less than \$1,500 per annum while 57 per cent of Newfoundland families had incomes of less than \$1,500. These percentages are much higher than the results indicated by the 1954 D.B.S. sample survey. However, between 1950 and 1954 personal income per capita in Newfoundland rose by more than 30 per cent so that the two sets of data are not inconsistent. Although it is almost certain that the income advance since 1954 will have again reduced the proportion of families with less than \$1,500 income per annum, we have decided to use the 1954 percentages for want of more up-to-date data.

The exemptions were applied in the following manner. For Newfoundland 10 per cent of aggregate personal income was deducted and for the Maritimes 8 per cent was deducted. For those with incomes above \$500 per individual and \$1,500 per family the calculation was on a per capita basis with an allowance of 10 per cent for the higher cost of living in the

## *Royal Commission on Newfoundland Finances*

case of Newfoundland. If we accept the fact that there are 34 per cent of the people in Newfoundland below the exemption limits, then 66 per cent are above the exemption limits and these are divided into 121,544 persons sixteen years and under and 152,405 persons seventeen years and over. Similarly, the 74 per cent of the population above the exemption limits in the Maritimes is comprised of 386,827 persons sixteen years and under and 611,150 persons seventeen years and over. The exemptions for these persons are calculated as shown in the table below.

### Calculation of Capacity to Pay and Tax Burdens on Basis of Aggregate Personal Income, 1956, after exemptions

	Maritimes	Newfoundland
Population, 1956 (000).....	1,349	415
Personal income, 1956, (\$ million).....	1,279	305
Deduct:		
all income of unattached individuals earning under \$500 and families earning under \$1,500.....	102	30
exemptions—adults at \$500.....	306	76
—children at \$150.....	58	18
adjustment for cost of living at 10%.....		10
Taxable personal income, 1956 (\$ million).....	813	171
Per capita taxable personal income (\$ ).....	603	412
Per capita revenue from provincial sources (excluding natural resources) (\$ ).....	88.79	54.74
Per capita revenue from provincial sources (excluding natural resources) as a percentage of per capita taxable income.....	14.7	13.3
Yield from Newfoundland tax sources (excluding natural resources) at Maritime rate of 14.7% of taxable personal income (\$000).....		25,137
Actual Newfoundland collections, 1956 (\$000).....		22,716
Increased yield at Maritime rates (\$000).....		2,421

It will be seen that the per capita taxable income as calculated above is \$603 for the Maritimes compared with \$412 for Newfoundland. Newfoundland's per capita revenue from provincial sources amounts to 13.3 per cent of taxable personal income, while Maritime tax collections amount to 14.7 per cent of taxable personal income as calculated above. This means that if Newfoundland had collected the same percentage of personal taxable income in 1956 as was collected in the Maritime Provinces, a further \$2,421,000 would have been raised. Because of the limitations of the data this cannot be regarded as indicating a significant difference between the tax burdens of the two regions.

The above method for calculating relative tax burdens is based upon the use of proportional rather than progressive rates above the exemption limit. It may be contended by some that the income remaining after exemption should be subject to progressive rates, i.e. the percentage taken should rise as income rises. In our view the progressive feature is not applicable in comparing the provincial revenue systems under review.

## *The Burden of Taxation*

Under the existing federal-provincial tax arrangements the provinces have rented their progressive tax fields to the Federal Government and consequently do not have these sources available for their own purposes.

The above methods of relating tax burdens to capacity to pay are both general comparisons based upon some measurement of income. There is another method for testing the severity of taxation and that is to compare the actual taxes and rates in existence in the Maritime Provinces with those used in Newfoundland. There are many limitations to this method. The major fault is that unless the two economies are identical in structure, the same rates of tax will not produce the same results. For example, a tax on gasoline may yield very well in one province where the highway system is highly developed whereas the same rate of tax would yield very little in a province where roads are virtually non-existent. To some extent, this difficulty is encountered in comparing the Newfoundland gasoline tax with the gasoline tax in the Maritime Provinces. The fact that the two rates are almost the same does not in this instance mean equal burden since the application of the rate is quite different. Because of such variations, each jurisdiction tends to develop the taxes which meet its needs and which are most productive in the circumstances in which it must operate. A reflection of this can be seen in the fact that Newfoundland has a 3 per cent sales tax which applies over a very wide range of retail transactions. This sales tax compensates to a very great extent for the fact that real property taxation in Newfoundland is a relatively minor source of revenue, a fact which can be traced to the lack of municipal organization. In the Maritimes, by contrast, substantial revenues are collected from real property taxation and a general sales tax is used only in New Brunswick.

Despite the admitted limitations of this method, it was thought desirable to try to apply the Maritime rates of taxation to the Newfoundland tax base to see how the results would compare with what Newfoundland collects under its own tax system. The results of this comparison are given below. A description of the methods used is given in Appendix III.

The results of this comparison indicate that the application of Maritime rates to the Newfoundland tax base could be expected to produce revenue of \$2,141,000 less than Newfoundland's own revenue structure produced in 1956-57. This is after making allowance for an estimated voluntary contribution to education of \$1,360,000. The chief reason for this result is that there is no ready method of making up the revenue loss which results from reducing the Newfoundland sales tax to the Maritime rates. Because of the lack of municipal organization in Newfoundland, we have no adequate idea of the tax base for real property and this revenue was quite conservatively estimated. Apart from the

## *Royal Commission on Newfoundland Finances*

### **Estimated Newfoundland Tax Yields at Maritime Rates Compared with Actual Collections in 1956-57.**

	Newfoundland 1956-57 Collections	Yield at Maritime Rates	Increase (+) or Decrease (-) at Maritime Rates
	(\$000)	(\$000)	(\$000)
Sales taxes.....	8,343	2,440	-5,903
Motor fuel taxes.....	3,959	3,717	-242
Motor vehicle licences.....	1,418	1,518	+100
Liquor control.....	3,828	5,506	+1,678
Property taxes.....	2,268	5,306	+3,038
Poll taxes.....	110	658	+548
Other taxes, licences and fees.....	1,430	1,430	--
Sub-total taxes and licences (excluding natural resources).....	21,356	20,575	-781
Estimated local voluntary contributions to building, operation and maintenance of schools.....	1,360	nil	-1,360
Total revenue from Newfoundland sources (excluding natural resources).....	22,716	20,575	-2,141

possibility of increased revenue from real property taxation and a considerable increase in revenue from liquor control if profit margins were raised to the Maritime levels, other rates seem comparable. But, as we have suggested, the fact that the taxes are at the same specific amount or percentage rates does not necessarily mean that they produce the same burden since differences between the two regions may render their applicability and effects quite different.

Conversely we can test the severity of the Newfoundland rates by attempting to apply them to the Maritime tax base. The same limitations naturally apply here as applied to the application of Maritime rates to the Newfoundland tax base. The method of calculating the possible yield of the sales tax is a good example of the limitations. Since the actual value of sales on which retail sales tax would apply is not known, the yield of the sales tax was related to personal income. This assumes a constant relationship between taxable sales and personal income. The assumption is quite critical because of the difference in sales tax rates in the two areas. A similar problem arises in real property taxation which is at considerably higher rates in the Maritimes than in Newfoundland. Despite these many obvious limitations, the results are shown below for comparative purposes.

As we have seen, comparisons of the burden of taxation, having regard to capacity to pay, may be attempted in any one of several ways. The comparison made above on the basis of personal income without exemption would indicate that Newfoundland is at present less heavily taxed than the Maritime Provinces but as we have pointed out that method is subject to marked limitations. On the other hand, the comparison made

## *The Burden of Taxation*

### Calculation of Maritime Provinces' Tax Yields at Newfoundland Rates Compared with Actual Collections in 1956-57

	Maritime Provinces 1956-57 Collections	Yield at Nfld. Rates	Increase (+) or Decrease (-) at Nfld. Rates
	(\$000)	(\$000)	(\$000)
Sales taxes.....	10,274	35,045	+24,771
Motor fuel taxes.....	25,469	27,129	+ 1,660
Motor vehicle licences.....	9,400	8,780	-620
Liquor control.....	19,514	14,872	-4,642
Property taxes.....	45,244	24,362	-20,882
Poll taxes.....	2,584	431	-2,153
Other taxes, licences and permits.....	7,295	7,295	—
Total revenue from provincial sources (excluding natural resources).....	119,780	117,914	-1,866
Voluntary contributions to education esti- mated at \$3.28 per capita as in New- foundland.....	nil	4,425	+4,425
Total revenue from provincial sources (excluding natural resources).....	119,780	122,339	+2,559

on the basis of personal income after the deduction of a basic exemption and an allowance for differences in the cost of living indicates no significant difference in tax burdens. This latter comparison is based on fairer and more reasonable assumptions than the first and its results appear to be borne out by the calculation of what existing Maritime rates would yield if applied to the Newfoundland tax base as well as by what existing Newfoundland rates would yield if applied to the Maritime tax base. None of these methods of comparison should be pushed to extreme lengths. The results all follow directly from our assumptions as to what is a fair method of comparison, and the choice of the method of comparison must remain a matter of judgment.

With the above considerations in mind, we have come to the conclusion that the burdens imposed by the present tax systems of Newfoundland and the Maritime Provinces are of the same order and that, for the purposes of our Inquiry, we should regard the burdens as approximately equal. We have based our decision on the two comparisons which we believe to be most reasonable for relating provincial and municipal tax burdens and capacity, namely, the comparison based on personal income with a modest exemption and the comparison based either on the application of existing Maritime tax rates to the Newfoundland economy or of existing Newfoundland tax rates to the Maritime economy.

Although we judge these burdens approximately equal in a mathematical sense, there is in our view an element of burden not measurable in this way and for which some allowance should be made. This element involves special factors, which will be dealt with later.

## CHAPTER V

### Findings and Recommendations

We shall now proceed to examine whether the present tax system in Newfoundland will at existing rates produce revenue sufficient to continue public services at the levels and standards reached in 1956-57. The table below sets out the total provincial and municipal requirements for the year 1956-57 as well as the provincial and municipal revenues of that year.

	\$000
Newfoundland Expenditure Requirements, 1956-57	
Provincial net ordinary expenditure excluding debt retirement, subsidies to municipalities and capital grants for schools and hospitals, Appendix I, Table 1 .....	35,099
Estimated depreciation on the stock of provincial capital, Appendix I, Table 7 .....	4,838
Municipal net ordinary expenditure, including the estimated voluntary contribution to maintenance and operation of schools, Appendix I, Tables 2 and 5 .....	3,678
Estimated depreciation on the stock of municipal capital, including that part of the stock of schools built by voluntary contributions, Appendix I, Table 9 .....	755
Total provincial and municipal requirements 1956-57 .....	44,370
Newfoundland Revenue, 1956-57	
Provincial net ordinary revenue, Appendix II, Table 11 .....	36,794
Deduct: transitional grant .....	2,250
Municipal net ordinary revenue excluding general subsidies from the Province, Appendix II, Table 12 .....	3,276
Estimated voluntary contribution to building, maintenance and operation of schools .....	1,360
Total provincial and municipal revenue, 1956-57, excluding the transitional grant of 2,250 .....	39,180
Revenue deficiency, including the transitional grant of 2,250	5,190

It will be seen from the above table that the total requirements for 1956-57 exceeded the total revenue, exclusive of the transitional grant, by \$5,190,000. In other words, on the basis of 1956-57, the Province would require additional revenue of \$5,190,000 less the transitional grant of \$2,250,000, or \$2,940,000, to continue public services at the levels and standards reached. The transitional grant has been separated because its amount will be reduced from year to year and revenue from this source will disappear entirely in the fiscal year 1961-62.

## *Findings and Recommendations*

The Terms of Reference require the determination of the additional financial assistance necessary to continue public services at the levels and standards reached subsequent to Union. In our view the words "to continue" involve consideration of the future at least as far as to make some assessment of the probable course of revenues and expenditures. While it is impossible to project the expenditure requirements and revenues of the Province into the future, we feel that we should give consideration to the financial position of the Provincial Government as indicated by the estimates for the year 1957-58 furnished to us by the Financial Adviser to the Province. These estimates are set forth in Appendix V and are used in making the calculations shown in the following table.

	\$000
Newfoundland Expenditure Requirements, 1957-58	
Estimated provincial net ordinary expenditure excluding debt retirement, subsidies to municipalities, and capital grants for schools and hospitals, Appendix V, Statements 6 and 8 .....	41,284
Estimated depreciation on the stock of provincial capital .....	4,958
Estimated municipal net ordinary expenditure including the estimated voluntary contribution to maintenance and operation of schools	3,935
Estimated depreciation on the stock of municipal capital, including that part of the stock of schools built by voluntary contributions	800
Estimated provincial and municipal requirements in 1957-58 ....	50,977
Newfoundland Revenue, 1957-58	
Estimated provincial net ordinary revenue, Appendix V, Statement 5	39,307
Deduct: transitional grant .....	1,400
Estimated municipal revenue .....	3,538
Estimated voluntary contribution to building, maintenance and operation of schools .....	1,430
Estimated provincial and municipal revenue in 1957-58, excluding the transitional grant of 1,400 .....	42,875
Estimated revenue deficiency, including the transitional grant of 1,400 .....	8,102

The revenue deficiency indicated by the above table amounts to an estimated \$8,102,000 inclusive of the transitional grant of \$1,400,000 or \$6,702,000 excluding the transitional grant.

It must be borne in mind that the above calculations are based, in so far as they relate to provincial revenues and expenditures, on estimates made early in the last quarter of the fiscal year 1957-58. These are the latest figures available to us. The actual out-turns may be somewhat different. The estimates indicate an increase in revenue over that of the preceding fiscal year but that increase was smaller than that which would have occurred had more normal conditions prevailed. The current recession

## *Royal Commission on Newfoundland Finances*

began to be felt in Newfoundland early in the fiscal year and we do not know how long it will continue. However, we must assume that the recession is no more than a temporary condition. Whether or not, under normal conditions in the future, the revenues will rise sufficiently to meet the expenditures necessary to continue public services at the levels and standards reached is a question which cannot be answered with any degree of certainty on the basis of information now available.

In addition to this uncertainty there are other imponderables which cannot be measured but which affect the burden of taxation and the adequacy of revenue in the future. The economy of Newfoundland is highly vulnerable and is somewhat more dependent upon export industries than is the economy of the Maritime Provinces. For this reason the provincial and municipal revenues in Newfoundland may be subject to greater variation. The amount of accumulated capital and wealth is noticeably smaller in Newfoundland than in the Maritime Provinces. Average per capita money incomes, after the exemptions we have allowed in our calculations, are lower. This difference in incomes is greater in real terms because of the higher cost of living in Newfoundland. The special factors concerning accumulated capital and real incomes affect tax-paying capacity and tax burden, but these effects cannot be measured statistically.

After giving consideration to the deficiency in revenue indicated by our calculations for the fiscal years 1956-57 and 1957-58 and after attempting to make a fair and equitable assessment in respect of the uncertainties and special factors mentioned above, we find that the Government of the Province of Newfoundland requires, as from April 1957, additional financial assistance of \$8,000,000 per annum, less the transitional grant while it applies, "to enable it to continue public services at the levels and standards reached subsequent to the date of Union, without resorting to taxation more burdensome, having regard to capacity to pay, than that obtaining generally in the region comprising the Maritime Provinces of Nova Scotia, New Brunswick and Prince Edward Island". Accordingly we recommend additional financial assistance as follows:

- |  |             |
|--|-------------|
| (a) for the fiscal year beginning April 1, 1957, \$8,000,000 less the transitional grant of \$1,400,000 or ..... | \$6,600,000 |
| (b) for the fiscal year beginning April 1, 1958, \$8,000,000 less the transitional grant of \$1,050,000 or ..... | \$6,950,000 |
| (c) for the fiscal year beginning April 1, 1959, \$8,000,000 less the transitional grant of \$700,000 or .....   | \$7,300,000 |
| (d) for the fiscal year beginning April 1, 1960, \$8,000,000 less the transitional grant of \$350,000 or .....   | \$7,650,000 |
| (e) thereafter \$8,000,000 per annum.  |             |



ALL OF WHICH WE RESPECTFULLY SUBMIT  
FOR YOUR EXCELLENCY'S CONSIDERATION.

*John B. McQuinn*

*Chairman*

*Albert J. Walsh*

*John J. Deutsch*

*G. Sinclair Abell*

*Secretary*

MAY 31, 1958.