

**THE DEVELOPMENT OF THE REVENUE SYSTEM
OF MANITOBA.**

-By-

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Early Development at Red River.

The first formal government of any description to appear in Western Canada, was the Council of Assinibolia, created in 1835. It was established under the charter rights of the Hudson's Bay Company, with its main work the establishment of law and order, rather than the financial considerations which form our chief interest at present. This council is of interest to us, however, because it is the first legislative body to possess and exercise the power of taxation in territory which forms part of our province.

One of its earliest acts was to levy a tax of 4% on all general merchandise, and of one shilling per gallon on all liquors coming into the colony.(1) There is no accessible source of information regarding the revenue produced by this measure, however, till 1860 when the Nor-Wester published a summary of the public accounts for the preceding year.(2). Revenue totalled £2,347, more than half of which came from the tax on imports. The remainder was derived from Interest, Sale of Materials, Fines, Post Office, Marriage Licenses, etc. Expenditure from 1858-9 amounted to £2996,15s,4½d and was consumed by salaries, the gaol, and public works (Labor, Timber, Roads and Bridges).

Thus the credit balance for the year actually exceeded expenditure, while in 1859-60 a balance is also shown, although it is reduced to a little over £500. The greatest troubles of the colony were not financial, but political and industrial, if such important looking adjectives may be allowed when speaking of such a modest community.

(1) Alexander Begg-History of the North-West Vol.1.

(2) Nor-Wester, March 15 - 1860.

A glance at the development of the little outpost established by Lord Selkirk in 1812 shows it was extremely slow. From the few hundreds of original settlers brought out at first, the population by 1835 had risen to slightly over 5000, and the great majority of this increase were half-breeds and Indians. By 1869 there were some 12000 souls comprising the settlement at Red River, less than 2000 of whom were British, and yet a few hundred miles to the south train after train of "prairie schooners" trekked its way slowly and laboriously westward. Many went as far as Oregon, but few ever turned to follow the winding stream which led to the little settlement around Fort Garry. And as might be expected there were reasons why they did not.

Chief of these was the Hudson Bay Company itself. Government by company monopoly was not to the liking of men of the stamp who were trying to find new homes. Further, the idea of monopoly was no more repugnant to the settlers, than the prospect of settlers was to the Company. Its prosperity depended upon the fur trade which colonization would impede and gradually destroy. Hence after the severing of the connection with the Selkirk family, the Company made no move towards settling the country. Indeed there is reason for believing that settlement was deliberately discouraged. The gloomy report of Governor Simpson respecting the prospects for settlers, which he made while in the Company's service, followed later by contradictory statements in a book he published, would point to this conclusion.(1) Hence admitting such evidence is not absolutely conclusive, it most certainly coincides with what one would naturally expect from an organization in the position occupied by the Hudson's Bay Company.

(1) Alex. Begg-History of the North-West Vol.1.

Another factor responsible for preventing development was the "Nor-Wester", the first newspaper to be published at Red River. Although its influence is not felt prior to 1859, the time of its first issue, its effect was detrimental to progress. Being violently embittered towards the Company (1) it was ever loud in declamation against that body, painting it in very dark hues. The pressure of monopoly was greatly magnified and continued tirades against it rather disgusted the saner element of the settlement. The inability of the Company to maintain order at critical times was also criticized by the "Nor-Wester", and biting charges were made concerning the impotence of the officials in administrative matters.(2)

Being the sole printed expression of opinion, the paper was a considerable influence in forming Canadian conceptions of life at Red River,

(1) "He - Mr. McTavish says the Company will continue to take two copies which are both to be sent to Fort Garry. How kind and compassionate. TWO COPIES. Thank you, Mr. McTavish for your extreme kindness -----; but the good people of Red River have come forward so handsomely to support us this year that we can dispense with your two copies, your kindness, your patronage and all". Nor-Wester - Jan. 24-1863. This is obviously not all caused by the loss of five subscriptions.

(2) "As we stated above criminal justice should be administered without FEAR, FAVOR, or AFFECTION. Leaving favor and affection ---- we shall at present dwell upon the principle of FEAR as manifested by the administrators of our laws in this colony.

That is the word gentlemen; You are too timid to back up your own Judge". Nor-Wester - Sept. 8-1863.

A summary consideration of affairs in the settlement will make the lack of progress even more easy to understand.

As the fur trade remained the chief occupation in the community, the life of the settlement was largely dependent upon the Company until 1869 and this state of affairs was not healthy, economically. The attempted enforcement of monopoly restricted trade and caused much ill feeling, while the failure of this attempt discredited the humble beginning of organized government. The Council of Assiniboia became useless and the crude machinery of law enforcement broke down completely. Disputes were settled by arbitration rather than by adherence to legal procedure. This method known as "Smoothing" kept comparative tranquillity for a time, but it could never be accepted as a permanent method of administration. Such instability, of itself, would have prevented normal development.

The very nature of the major portion of the population was another obstacle in the road of progress. History has shown that nations must advance from the care-free life of the hunter to the more settled pursuit of agriculture before they become factors to be counted upon in world affairs, but the Metis, the largest element at Red River were of a wild unsteady disposition, although possessing many likable traits. They chose rather to follow the buffalo than to farm, and consequently they lived lives composed of intermittent periods of excess and utter want. True, the stock of the original Scottish settlers which Selkirk had brought out was of the stuff of which new nations are born, but they were few in number, and naturally quiet and conservative.

A new order of things was necessary to replace a system which had long since ceased to function effectively. Local self government alone could

transform the community into a vital element in the life of the Dominion.

Three main factors were instrumental in effecting a change of government soon after Confederation.

First, it had long been apparent that the Hudson's Bay Company was not enough concerned with development to provide an efficient stable government and the necessity of recognized authority at Red River was increasingly evident.

Second, the growing activity of the Fenians across the border, who advocated annexation to the United States made a change essential. The settlement had much closer connections with the Americans to the south than it had with Canada, and hence the activity of the annexationists could not be ignored.

The third factor was the vision of the sponsors of Confederation of a great Dominion stretching from ocean to ocean. The agricultural prospects of the west were gradually being realized, and it was now regarded less as a barren waste, and more promising as a field of development.

Thus in 1870, after the failure of the territorial government of 1869, the province of Manitoba was created by the Manitoba Act, which placed government in the hands of a lieutenant-governor, an assembly, and a legislative council. After some delay the inaugural meeting of the first Manitoba Legislature was held on March 15th 1871, and a memorable occasion it must have been.

The faultless Prince Albert was in glaring contrast with the flannel shirt and deerskin moccasins. There the reflected pomp of the old World met face to face with the rough, unpretending simplicity of the New. A

few members were familiar with parliamentary procedure from service in eastern constituencies, but many were not only unversed, but unimpressed by those who were. One member on being called a fool during a stiff reprimand from the Speaker, for unseemly conduct admitted that perhaps he was, but in nowise as great a fool as those who sent him. (1).

Party consideration did not come to the front for sometime. It was the candidate with the largest family connection in his constituency and the most attractive refreshment booth at the polls, who generally sat in the Assembly. Personal bodyguards with pugilistic prowess were also a valuable asset to candidates, especially at political meetings which were often scenes of fistic as well as verbal strife.

Amid such conditions it would be folly to expect careful adherence to the maxims of Public Finance. For some time to come it is the game of "politics" rather than administrative principles which fill the minds of our legislators, but nevertheless, they have done well with the material at hand. Early "rowdyism" gradually diminished, and making up in zeal what they lacked in skill, they have left a record, in most cases, to which we may "point with pride".

(1) McBeth - "The Making of the Canadian West".

Allocation of Revenue, and other Problems
of Provincial Interest.

7.

An appeal to History will show that the allocation of powers between central and local authorities has been chiefly determined by three factors, national character, geography, and the story of the country. The influence of geography can be traced in Switzerland, where a wild mountainous region has produced an independent people, who guard local rights jealously. The work of the National character may be observed in the United States, where settlers came for the sake of principles dearer than native ties, that they might win an existence from the new land, where hardships were many and luxuries unknown. Here again, an independent character has been developed, which will not submit to outside interference.

The story of the French nation offers a complete contrast. National events have grouped themselves around one great centre and Paris has become the hub of the French wheel. Provincial business, fashions and tastes are fixed by the capital, and political and intellectual life centre there.

In England the work of all three factors can be observed. Geographical isolation has made it possible for the country to progress unhindered by the inroads of foreign invaders and the result is without parallel. In a word, a native love of individual freedom has been curbed by the growth of political institutions until Parliament has become the centre of government, by an organic process not interfered with by outside forces.

The case of the Dominion of Canada however, is entirely different from any of those mentioned. Here Central and local powers have been divided by statute. This system of settlement, built as it is upon British institutional experience,

has saved much time and a great deal of trouble which would otherwise have had to be faced. It has developed its own problems, nevertheless, many of which have yet to be solved.

To illustrate, let us return to our own province.

Manitoba's status has been determined by the British North America Act 1867, and the Manitoba Act 1870. The terms of the first named act are so couched as to impress the lay mind with the fact that it was the avowed intention of its originators that the rights of the province were to be most carefully guarded. Sections 92, 93 and 95 clearly set forth with a precision and directness rarely found in legal documents, the prerogatives of provincial governments. Likewise, Dominion fields of jurisdiction are just as carefully delimited, and there would appear to be little room for any dispute between central and local authorities. But despite the cleverest attempts to prevent them, unfortunately, potential disputes will creep into any Act.

Taxation, the topic of our main interest, is a most likely field of trouble. Section 91, headed "Powers of Parliament" sub-section 3, reads "The raising of money by any mode or system of Taxation". A corresponding clause in Section 92, "Exclusive powers of Provincial Legislatures", sub-section 2, reads "Direct Taxation within the Province in order to the raising of a Revenue for Provincial purposes". Thus the Dominion is privileged to invade the field of provincial or direct taxation, while it alone can collect customs and excise duties. There has been little friction between the two governments relative to methods of raising revenue until recently when the field of direct taxation was invaded by the central government. The tremendous cost of the Great War made new sources of revenue essential, and the Dominion Income and Sales Taxes marked the beginning of new taxation to meet this situation.

In Manitoba, the Dominion was first to levy the Income Tax. This tended to place the provincial tax on incomes under a double disadvantage. First, it has to cover a territory already taxed, and secondly, it has not the same large area of assessment as its more extensive counterpart.

Increased Dominion taxation has been closely followed by increased provincial taxation, but the provinces have had to be very careful. The fate of the Manitoba Grain Futures Tax of 1922 and of similar measures elsewhere has made this apparent. This act was declared "ultra vires" by the Privy Council which held that although the tax could not be shifted forward on account of the European price being fixed by world-wide competition, yet it could be shifted back to the farmer in lower prices paid for his grain. Hence it was considered an indirect tax which no province could legally collect. The Sales Tax competes with the municipal Business Tax rather than with any provincial levy, but these two forerunners are of ominous significance to provincial legislators.

This handicap of limited revenue sources confronts all provinces alike, but those of Eastern Canada can better cope with it than Manitoba. They possess and administer their own Crown Lands, while by the Manitoba Act 1870, "All ungranted or waste lands in the Province shall be --- vested in the Crown and administered by the Government of Canada for the purposes of the Dominion". Of recent years Crown Lands have been yielding in the neighborhood of \$4,000,000.00 annually to both Ontario and Quebec, while Manitoba is forced to be content with an annual grant "in lieu of lands" of about \$400,000.00. True enough, Manitoba's lands are not as valuable as those of Ontario and Quebec, but \$400,000.00 does not form a large fraction of the annual revenue produced by them.

The Dominion justifies its control of these lands on the ground that it bought and paid for them when the Hudson's Bay Company ceded the Canadian West for £300,000 along with a large land grant. The returns from the Crown Lands in our province have repaid this amount many times over, but the Dominion still retains this holding. It is true that the administration of provincial swamp lands was given to the Manitoba Government in 1884, but it was taken back again by the Manitoba Boundaries Act 1912.

Not only the perplexities arising from the British North America and Manitoba Acts have given trouble. An equally productive source has been the inexperience of our early provincial legislators combined with the dominating spirit of the Macdonald Government. This has made the early stages of Manitoba's story, a stormy series of disputes, many of which have yet to be terminated. And each one has left its mark upon the province in one way or another. The disallowance question for many years was a "bone of contention", although it has ceased to be a controversial question. The monopoly clause of the Canadian Pacific Railway agreement, which guaranteed an uncontested field to the Railway for twenty years, nearly resulted in bloodshed in Manitoba, so strong was the opposition to it during the Liberal Regime from 1869 to 1899. The provincial boundary line dispute between Ontario and Manitoba, which was a bitter question for many years gives a slightly different aspect to Dominion policy. Federal authorities naturally favored Manitoba in this dispute, since the more land it obtained, the greater would be Dominion revenue from Crown Lands. But which side the central government favored, matters little.

The point is, the question was one which called for authoritative action and not favor to either party. The dispute was allowed to drag on, however, until the Federal Government was forced to intervene in the interest of law and order.

Mention of these points may seem to be apart from the subject of our discussion, but their connection to it is remarkably close. As previously intimated, they are included to give some idea of the obstacles in the path which Manitoba has had to follow since its formation. Had our legislators been unembarrassed by the necessity of struggling for privileges, which it was undoubtedly intended they should possess, and had the time spent in such controversy been directed towards the judicious management of internal affairs, it is more than probable that the present Legislature would not be confronted with the present provincial debt of over \$75,000,000.

Manitoba's Revenue System
1870 - 1927

Revenue in Manitoba is obtained from three sources (a) the Dominion Subsidy (b) Direct Taxation and (c) Fees, Licenses and Fines. A full consideration of these items would be a long long story, and hence what follows is little more than a summary of what might well be written concerning them.

A separate section will be devoted to the Dominion Subsidy, while Taxation, Fees, Licenses and Fines will be approached from a historical viewpoint, beginning at 1870 and proceeding up to the present time (1927). The work of the different political administrations will be followed, not to bring politics to the fore, but merely to provide convenient units of time.

Government enterprise in Manitoba has been productive of revenue in very few cases and does not call for a separate consideration in this thesis. It does affect revenue, however, as does all expenditure - whether it produces returns or not - in so far as revenue must be sufficient to balance all expenditure, if the state is to remain in a solvent position. Thus brief outlines of government enterprise will be made from time to time, wherever it may bear upon our theme.

A - The Dominion Subsidy.

(1) Interest on Manitoba's Capital Account.

At Confederation the Dominion Government assumed control of certain assets in the form of quays and buildings, which the eastern provinces of Upper and Lower Canada had built as part of their customs system under the Union Act. Since indirect taxation was no longer an available means of raising provincial revenue this step saved the Dominion the trouble and extra expense of new buildings and quays, while the provinces were relieved of property which was now of little use to them. As compensation for the expropriated property, the Federal Government agreed to assume the indebtedness attached to its acquisition. This meant that the two provinces concerned were relieved of a per capita debt of \$27.77.

Manitoba, the first child of Confederation, had no debt at the time of its organization, and to place it on an equal footing with Ontario and Quebec, the Dominion granted it a capital account based on the per capita debt removed from the other provinces. Reckoning the population of Manitoba to be 17,000, this amounted to slightly more than \$470,000, on which interest at 5% was to be allowed. This meant that the Province was to receive nearly \$25,000 a year from the Dominion by virtue of a fictitious debt. To question Manitoba's right to such an integral part of our revenue system as the Capital Account has become, may seem odd, but let us turn to a parallel case.

Suppose A and B are international merchants each possessing a branch office in different parts of Russia. The Government decides that all merchandise from now on is to be controlled by its own officers. A and B find themselves with offices and supplies upon their hands, which they expected to

pay for out of business profits. The Government on the other hand is faced with the task of procuring facilities to do the work done by A and B. To erect buildings and furnish them will require time, and ready money which it is not easy to find. The necessity of quick action produces an idea, and the Government decides to buy out A and B. But no, it can do better than that. To buy them out might result in a small profit in favor of the merchants - no, there is a better way. It will merely bargain to assume the responsibility of paying for the offices and their contents. A and B faced with a considerable loss are rather pleased. They could perhaps have rented their stores for some other purpose, but only at a rate disadvantageous to themselves.

Now C a third merchant in the same business as A and B comes upon the scene. He had intended to open another branch office in Russia until the new law made it impossible, and now he wants to be compensated for the office he would have built for his business. C's claim does not rest upon a very firm basis, and yet it seems to be as good as that of Manitoba to its Capital Account.

It is true that Ontario and Quebec were relieved of a heavy burden, but so also is a man who sells a house which he no longer needs. The man who bought the house is not worthy to be called benevolent, for he did it because it suited him to buy it, rather than to build one just like it on a neighboring vacant lot. And likewise the Dominion assumed the control and indebtedness of certain wharves and Customs Houses rather than duplicate the originals, which could well serve their purpose.

There is no apparent reason why such a settlement should not be considered an ordinary business transaction. If Manitoba needed more money than it could procure by direct taxation, compensation as such, for the removal of indirect taxation from provincial jurisdiction should have been made by the Dominion. A spade is still a spade whatever it may be called, and the plainer the name given it, the less confusion and misunderstanding caused to all concerned.

In 1874, there was added to the Capital Account of Manitoba over \$100,000. which raised the total Account to approximately \$530,000. This increase was made as the result of the Dominion granting further claims of Ontario and Quebec, referring to the period of six years from 1867 to 1873. This further relief raised the per capita debt removed from the eastern provinces to \$32.438, and Manitoba's Capital Account was increased on the same basis as before (i.e.) \$32.438 per caput on a population of 17,000.

Two years later the Provincial Government withdrew nearly \$160,000. to meet pressing obligations which had arisen in connection with new buildings. In 1881 and 1882 further withdrawals of \$100,000. and \$50,000. respectively were made, which reduced the Capital Account, as it stood in 1874, by almost one half. In 1884, however, as the result of a visit to Ottawa, Premier Norquay succeeded in having \$110,000. replaced, but this increase was more than counter-acted by the sum of \$150,000. taken the next year from the Account to be used on the Selkirk Asylum.

Such a series of withdrawals finally convinced the Dominion that a definite departure from its original idea of compensation had to be made, and the principal of the Account was raised to \$3,300,000. This increase

and a change of administration in 1889 combined to preserve the principal intact, till nine years later when a further \$260,000. was added. Finally the Manitoba Boundaries Act 1912 has increased it to \$7,630,000. approximately fifteen times the amount as per the agreement of 1874.

(2) The Grant in Aid of Government.

At the time of entering Confederation, Manitoba was faced with the problem of organizing an administration befitting a province of the Dominion. This involved the erection of suitable buildings, the establishment of a Civil Service, the marking of the Province into Electoral Divisions, and other similar duties requiring a large initial outlay. Thus the Federal Government was acting very wisely when it allowed a grant of \$30,000 to be made yearly to ensure the proper functioning of governmental machinery.

But the grant in aid of government has gone the way of all other items of the Subsidy. By a Dominion enactment it was increased in 1882 to \$50,000. per annum and later, the British North America Act of 1907, stated that "The following grants shall be made yearly by Canada to every Province of the Dominion, for its local purposes and the support of its Government and Legislation". The first grant mentioned following this quotation is "in aid of government". It is based on a sliding scale dependent upon population, and now yields \$190,000. to Manitoba annually.

A wise temporary provision, this allowance now demonstrates the inadvisability of following the policy commonly known as "ear-marking". At the present time the representation of the people of Manitoba in the Provincial Legislature, is approximately as seven is to one when compared with that of the people of Great Britain at Westminster, and this over-government which

characterizes our Canadian West generally if not due to the growth of this grant, has been fostered by it. Slower steps and surer would be more appropriate in building up an administrative system such as our own.

(3). The Eighty cents per Capita Grant.

A third sum of 80¢ per head, based on the population of the Province until it reached 400,000 completed the original composition of the Manitoba Subsidy. This amount was to relieve the Dominion of all obligations to the Province which might later be discovered, but as will be observed a further grant "in lieu of lands" was soon added to the ever lengthening list.

The fact that when Manitoba's population passed the 400,000 mark the amount would cease to increase was early noted, and brought to the notice of Sir John A. MacDonald in 1884, by Premier Norquay. The matter was at the time of little importance as the population was not then anywhere near 400,000. It was remedied, however by the British North America Act of 1907 which stated that "a grant at the rate of 80¢ per head of the population of the Province up to the number of 2,500,000, and at the rate of 60¢ per head of so much of the population as exceeds that number" will be made to Manitoba.

From this source the Province now receives nearly \$500,000 per year, as compared with \$13,600 in 1871.

(4) The Grant "In lieu of Lands".

As pointed out above, the Manitoba Act 1870 deprived Manitoba of the control and revenue from our provincial Crown Lands. This produced much agitation and ill-feeling, as Manitobans held that it was unfair to ask them

to assume the same responsibilities as the other large provinces of the Dominion which possessed the advantage of owning their own public lands. The justice of this claim was partially recognized in 1882 when payment of an annual grant of \$45,000 "In lieu of lands" was begun. In 1886 this sum was increased to \$100,000 per annum and remained at that figure until the Manitoba Boundaries Act came into force in 1912. It stated that "Inasmuch as under the provisions of this Act, the Province will not have the public land as a source of revenue, there shall --- be paid by the Government to the Province an annual sum" of \$562,000 per annum until the population of Manitoba reached 800,000. After that time the amount was to be increased to \$750,000. per annum. A further increase will be made when the population reaches 1,200,000, and the grant will become \$1,125,000. a year.

The actual amount of this item has been reduced by two deductions made by the Dominion. The first is an amount equal to 5% of \$300,000. the estimated value of the 150,000 acres given to the University. The second is an interest payment of 5% upon \$2,769,000. the net return from the sale of Swamp Lands disposed of by the Province. After these two amounts were withdrawn, Manitoba received slightly more than \$400,000. a year from this source.

There seems no good reason, other than that of self interest, why the Dominion should retain control of this land. Manitoba has offered to pay back the money expended in buying the portion of the North West Territories which now forms our Province, but the Dominion refused to bargain. In the meantime, however, it recognized this special obligation by granting compensation for it. Such an attitude is hard to explain, although there seems

much to be said on both sides.

(5) Interest on the Sale of School Lands.

In the Public Accounts, this item is not included in the Subsidy proper, but for practical purposes it may be considered here, as the interest on the proceeds from the sales of school lands is paid semi-annually, in advance to the Province, just as the other money received from the Dominion.

As in the case of Crown Lands, here also there has been much controversy concerning administration. At the time the North West was purchased from the Hudson's Bay Company, two sections in each township were held in trust as School Lands until the territory became organized under a provincial government. They were then to be controlled by that body, but despite this agreement, the passing of the Manitoba Act 1870 did not result in the Dominion relinquishing its trust. Nor has it yet done so.

Manitoba has several times put forth its claim to these lands, but to no avail. The reply received by Mr. Norquay in 1884 in answer to the suggestion that Manitoba should be given its School Lands, will illustrate the general attitude of the Dominion. It came from the Hon. J. A. Chapleau as follows:- "I am -- to inform you that school lands will be offered for sale at auction annually, after consultation with the Government of Manitoba, as to the time of sale, quantity, and price".(1). Unfortunately Chapleau's successor Mr. Dewdney was not so conciliatory, and proceeded upon his own course without consultation with the Manitoba Government. This resulted in a very heated exchange between the fiery Manitoba Lands Commissioner, the Hon. Joseph Martin and the Department of the Interior at Ottawa, but little came of it.

(1). Manitoba Sessional Papers - 1884

Since then the attitude of Mr. Chapleau has again come into evidence, but the Dominion still retains its trust, and administers it. To 1923 the returns from these sales have totalled about \$5,600,000. and on this increasing amount Manitoba has received interest at 3% per annum up to 1917, when the Norris government succeeded in raising the rate to 5% per annum.

There seems less reason for continued administration of these lands by the Dominion than for Crown Lands. It has been accompanied by very lax supervision as can readily be proven by numerous instances. For example, we find one case of an auctioneer being paid \$4000. for conducting eight auction sales, all within a period of two weeks. Such remuneration was to say the least very generous.

Manitoba has long since become an organized unit of the Dominion, which was the only stipulation concerning the control of School Lands, as has been pointed out before. Thus the right of the Province to them cannot be questioned. At present they apparently form an added burden to the central administration, if it is administering this property strictly as a trust. It is hard, however, to view the Federal Government in a philanthropic light, and it is to be feared rather that it is amongst the shadows of self-interest that an explanation for this policy must be found.

Conclusion.

We have found that the idea of compensation which originally characterized the Subsidy, has been lost sight of completely. From \$67,000 in 1871 it has increased until it now stands at nearly \$1,500,000 - \$1,775,000 if interest on School Lands is concluded. There is only one conclusion to be drawn - that the principle upon which the Subsidy was originally based (i.e.) compensation

was wrong. The Dominion was not obligated to the Province in any way, and hence was not legally bound to offer compensation of any kind.

Circumstances alter cases, however, and it would be folly to deny the necessity of having aided Manitoba at the time of its organization. Furthermore while no legal obligation existed, there was a moral obligation which bounded the Dominion very closely. It had been granted after 1867 all the revenue from Customs and Excise Duties, which had previously formed the basis of local government and the removal of these made a new start necessary in Manitoba, under very unfavorable conditions. Thus aid was justifiable on both moral and common sense grounds, but a different basis of granting it should have been used.

A more reasonable method would have been to return to Manitoba a percentage of the indirect taxes collected within the Province, until the Provincial Government, was unable to re-adjust itself to the new conditions which obtained. As this re-adjustment progressed, the percentage of temporary aid should have been decreased gradually, until it was completely withdrawn. This has been the course adopted lately in Australia, and earlier in the German Confederation with satisfactory results where revenue has been properly allotted. (1).

Nor was it intended that continuous assistance should be rendered to the provinces of the Dominion, or else provision would have been made for it under the British North America Act of 1867. Subsidies are generally looked upon by all leading authorities, as temporary expedients, necessitated by radical changes in government, and consequently to be removed as soon as possible. Thus to admit their continued necessity is also to admit a faulty division of revenue between local and central powers.

(1) Seligman's "Essays on Taxation"-pages 387 and 535.

Faced with these alternatives, let us consider the progress of our own province to decide between them. Here we find that under the Subsidy System as it began, the revenue of the government was augmented for sometime to six times its normal amount by the Dominion Subsidy. For the first thirty years after the organization of the Province, the major portion of Manitoba's revenue came from this source. The effects of this money have been two-fold.

1. It has caused the different governments of Manitoba to turn constantly to the Dominion Government for aid, which has after much dickering and controversy, generally been granted. Further, the presence of a Capital Account at the service of the Province has resulted in some of the more awkward financial crises being met by withdrawals from this fund. The Province has thus been robbed of part of its most valuable if most trying experience, that of facing its own difficulties and meeting them with its own resources.

2. The Subsidy has prolonged the struggle which always has accompanied the appearance of direct taxation. That the people of Manitoba were capable of bearing such taxation at an early date is more or less proven by fact. In the ten years from 1874 to 1883, over \$5,400,000. was collected in the province from Customs and Excise Duties by the Dominion Government and yet less than \$350,000. was raised within the Province during the same period. The total Dominion Subsidies for this period amount to about \$1,090,000. and hence to say that Manitoba should have been self-supporting at that time would be unreasonable. But nevertheless it is maintained that this unnatural state of affairs has developed an unnatural product. The golden opportunity of beginning right has been lost, and now when the

growth of provincial finance makes it imperative that the burdens of Manitoba be placed more upon the people of Manitoba, the task is very distasteful because it has been avoided so long. Indeed it would seem that so many years of unearned freedom have made the burden at first unbearable. Hence we have First Ministers in our present day standing before the representatives of the people and solemnly declaring anticipated annual deficits; admitting that if all the desirable functions of our government be maintained, we cannot hope to pay for them.

If it has shown us anything then, the story of our Province makes this plain. The time must come when local authorities are to bear the biggest part of their own burdens. In fifty years our subsidy has increased over twenty-fold, and yet now it forms less than one-fifth of Manitoba's revenue, whereas it originally formed six-sevenths of it.

Thus in concluding we may sum up as follows;

1. The Subsidy was necessary, at least for the early years of Manitoba's history.

2. Past events have shown the basis of the Subsidy to be wrong.

The Subsidy should have been based upon two considerations (a) the necessity for temporary aid and (b) the fact that Manitoba by the British North America 1867, was entrusted with public services which were of a national character (e.g.) Education, Police, Roads etc.

Temporary aid was essential to the successful establishment of provincial institutions, and should have been granted after a careful estimate of the costs involved, with the understanding that such aid should be diminished year by year. The actual date of its termination should have been fixed definitely so that the province could adjust its finances accordingly.

The second basis presupposes incorrect allocation of revenue and responsibility, and it follows that either the constitution must be changed or aid given. In Manitoba's case the latter would have been more convenient, although in theory the former was the correct move.

If aid had been given, here again the reason for it should have been made clear. Only the public services which were recognized by economists as affecting the Dominion as a whole could properly have benefitted from this aid. Thus the problem of provincial revenue for purely provincial purposes would not have been affected and financial salvation of our provincial legislators would still have rested with themselves.

"Ifs" and "buts" are of little use at this time, however, and there only remains to make the best of things as they exist.

B - Direct Taxes, Fees, Licenses and Fines.**Foreword.**

The early pages of Manitoba's financial history reveal many facts both surprising and puzzling. The extreme reticence of legislators concerning the use of direct taxation, the insignificant proportion of revenue raised within the Province, the growing amounts supplied by the Dominion - these among other questions present themselves during a survey of our Provincial development.

The solution to the first of the questions mentioned is found in a deep-rooted prejudice of the time, Direct taxation was frowned upon throughout all Canada and even farther afield, at this time. The onus of customs and excise taxes was much less painful than that of the direct tax and the superior points of the latter were unknown or unappreciated by statesmen and public alike. Furthermore, the unsettled conditions prevailing in Manitoba during its first years made its legislators wary of arousing avoidable animosity. They must have felt that at a time when men were waylaid in dark streets and beaten for unpopular opinions expressed in the House the day before, it would have been unwise in more ways than one, to propose measures sure to meet with antagonism.

Premier Norquay, in an address, gave an excellent idea of the light in which this question was looked at, when he spoke as follows in 1881; "Fourteen years ago when Confederation was projected ---- it was allowed by the different provinces, that, as far as possible there should be no resort to direct taxation in political exigencies; and in order to obviate such a necessity every province was allowed full control of its public domain, out of which it was expected they would realize a revenue for the purpose of carrying on affairs of government and discharging the responsibilities

laid on them by the Federal Authorities". (1) Here we have the prevalent view of early Manitobans not only on direct taxation, but what should take its place. In accordance with this view, we find that Premier Clarke in 1871, during the first session of the Manitoba Assembly, opened the question of Crown Lands with the Dominion and presented the claims of the province. Ontario's Crown Land revenue for 1870-1 was \$546,937.56, (2) and although Manitoba could not hope for an equal amount, it was felt that its lands would yield an acceptable sum.

Having determined the answer to our first query, the approach to the second and third viz; the reasons for the small amount of local revenue and the large amount of Dominion grants is made easier.

The words of Mr. Norquay quoted above seem to go to the root of the whole matter. Crown Lands were looked upon as the rightful source of the major portion of provincial revenue. Hence, since in Manitoba's case, the Dominion was responsible for the lack of these lands, it was to the Dominion that the province turned for reparation. And the Dominion virtually admitted the justice of the Province's claims by allowing a meagre annual grant "in lieu of lands" in 1881. Thus the early conviction that the Dominion was Manitoba's debtor grew rather than diminished with the passage of time. There are no fewer than ten addresses to the Federal government between 1870 - 1884, concerning increased aid, and almost invariably small concessions were made. These served only to bring further addresses, and to turn aside all thoughts of seeking salvation from money troubles at home.

True, local revenue did increase steadily, but it was derived almost entirely from fees for services rendered, and payments for privileges

(1) Alex. Begg - History of the North West Vol. 11.

(2) Ontario Sessional Papers 1871.

granted. The idea that something tangible must be returned for money received prevented the exploiting of the most fruitful field of revenue the province possessed.

A Survey of Manitoba's Revenue System

1870 - 1884.

The first local Assembly found many more ways of spending money than of procuring it. Roads and bridges were necessary. Judicial and legislative buildings had to be built. Farmers required aid, and a police force was urgently needed. Such were a few of the pressing problems which had to be faced with an annual income of less than \$75,000.(1).

In view of the exigencies of the time, the province was allowed to keep the 4% ad valorem tax and the duty on liquors, created by the Council of Assiniboia, until 1874. But even so, a deficit of nearly \$16,000. faced the government at the end of its second year. The pinch became uncomfortably acute, and it was decided to appeal to the Dominion, whose Subsidy of \$67,000. per annum was contemptuously considered as "not enough to pay the expenses of running a respectable seaside hotel".(2).

During this period (1870-1872), the province had contributed to its own upkeep less than \$13,000. which was derived almost solely from the sale of liquor licenses. The Dominion, in 1873, added a further \$25,000. to the Subsidy, thus relieving pressure temporarily, while in some revenue records new items such as "Fines", "Fees", "Ads. in the Manitoba Gazette", etc., began appearing. These were not remunerative, however and the sale of liquor

(1) July 15-1870 to Dec.31-1872, Total Revenue - \$180,883.63 - Manitoba Public Accounts 1873.

(2) Begg- History of the North West - Vol.11.

licenses continued for some years to be the chief source of local revenue.

The Wild Lands Tax 1873 which produced revenue for the first time in 1875-6 is the only real tax assessed in Manitoba for many years. It evidently escaped censure because it was aimed at real estate speculators, who were required to pay five cents per acre on all unoccupied or unimproved lands. (1). This tax proved very productive until the advent of the boom of 1880-81, when it was removed evidently to induce investment.

In the meantime, the list of receipts in the Public Accounts was growing. Mr. Davis became premier in 1874 and by conducting "an honest economical government" (2) preserved the province from bankruptcy, although he added only two sources of revenue of any importance viz, ferry licenses and law stamps which were necessary to all legal documents. The latter proved very fruitful, yielding over \$2000. in 1877 the year of initial imposition and increasing their yield steadily afterwards.

PREMIER NORQUAY.

In 1878 Mr. Norquay became premier, just at the eve of Manitoba's first "boom", and as would be expected, revenue increased rapidly for a time. From less than \$100,000. in 1878, it rose to over \$500,000. in 1884, but the Dominion still furnished the lion's share. (3). Mr. Norquay was unceasing in his efforts to get for Manitoba her full rights, and although the "rights" continued to remain with the Dominion, the Subsidy was more than tripled in the first six years of his term of office.(4).

Locally raised revenue was affected but little by the new premier's

- (1) Man. Statutes 1873.
- (2) Berg-History of the North West. Vol.11.
- (3) 1884-Total Revenue \$500,287.38, Dominion Subsidy \$579,923.67, Man. Public Accounts 1885.
- (4) 1879 Subsidy-\$97,824.52, 1884 Subsidy -\$579.923.67 - Public Accounts 1880 and 1885.

advent. Liquor licenses, law fees, and stamps continued to be the only considerable source of home revenue, although there is no reason to believe any money was neglected. Such items as "Money found on dead body \$8.95", "Sale of horse - \$90.00", "Sale of Lumber- \$8.25", in the Public Accounts, indicate that the provincial exchequer was overlooking nothing.

The only new item drawing attention, listed under receipts during this period is "Sale of Reclaimed Marsh Lands". This came as a result of the Dominion's decision in 1881 to allow Manitoba to control its swamp lands. As could be expected, the revenue derived from such sales was not large, but it was thought by many to be a preliminary step towards the relinquishing of the Federal hold upon provincial Crown Lands.

Even with substantial Subsidy increases, however, revenue could not keep pace with the large expenditure necessary for government, judicial administration, and public works. Deficits occurred with alarming regularity and the Assembly leaders became rather despondent. The Provincial Treasurer's Report made in March 1883 gave the Government's attitude at this time. It pointed out that the Dominion had admitted Manitoba's revenue was insufficient "to meet the requirements of government" because it had made "intermittant increases to her subsidy" and also "by the withdrawal from capital to meet the exigencies arising from the settlement which in other provinces are attended by corresponding sources of Revenue". The Report went on to say that municipalities have been burdened with "a large portion of the cost of public institutions" and that as conditions existed "a large addition to the population of the Province would be nothing short of an evil in disguise". In a word, Manitoba's outlook was "anything but cheering".

This state of affairs resulted in a "Bill of Rights" concerning Public and School Lands Adjustment of the Capital Account, Right to provincial railways, the per Capita Account, Tariff Regulations, etc., which was presented early in 1884. The terms granted as usual provided only a measure of financial relief, and were not to become effective unless the Province accepted them as final. The Manitoba Government was bound to refuse such a compromise, and Premier Norquay's action following the refusal is very noteworthy.

On the last day of the session which had been sitting during the time of the presentation of the "Bill", the Premier introduced a measure which, if passed, would mean direct taxation. It received its first and second readings, but the prerogation of the House prevented it from being read the third time.

There was no thought of actually passing the bill that session. It was put forward merely to cause talk throughout the Province, and to indicate what might be expected if further aid was not forthcoming from the Dominion. Thus we reach the point where Manitoba was first compelled to seriously consider the possible necessity of direct taxation.

1884 - 1900

The dark prospect presented by the reply to the "Bill of Rights" was dispelled later in the same year as a result of the mammoth celebration given to commemorate the 40th anniversary of Sir John A. McDonald's entry into public life. Evidently party bonds were strengthened at this meeting and Premier Norquay returned home with a greatly augmented Subsidy. His opponents made capital of the fact that the questions of Provincial Railways,

Disallowance, Crown Lands, etc., were still "hanging fire", and the leader of the Opposition charged the Premier with sacrificing Provincial interests to those of his party. It was pointed out that even in the matter of the Subsidy he had been guilty of leniency. This last charge was directed at the "In lieu of Lands" Account which had been placed at \$100,000. per annum. British Columbia, it was observed, received an equal amount for a strip of land forty miles wide along the Canadian Pacific Railway Main line, and had control of her Crown Lands in addition.

The Settlement was welcomed, nevertheless, as a further relief from direct taxation and Premier Norquay endeavored to regain favor by prosecuting a vigorous railway policy. Manitoba's first bond issue was floated in 1886, upon the London market to provide for the promised aid to all projected lines.(1). The result was highly gratifying, the bonds selling at from \$108 to \$110.

The Dominion disallowed the provincial acts authorizing new branch lines, and Premier Norquay defended the Dominion's action. An election at this time returned the Government, with a substantial majority, despite the Premier's unpopular attitude taken regarding the disallowance. But breakers were not far ahead. Further borrowing caused Provincial credit to decline rapidly, and the Premier was denounced by one of his own party, for overstepping authority vested in him by the House - a most unfitting end. Mr. Norquay resigned his office and the leader of the Opposition was called upon to form a government.

Revenue receipts for the last few years of the Norquay administration, saw no new item save that of "Land Titles General Fees". The Land Titles

(1). Railway Act 1885- promised up to \$7,500. of Debentures per mile, to all provincial lines.

Office was established in 1885, and collected fees for its services, but these were not calculated to produce any save a small surplus, over current expenses. This surplus, which was known as the "Land Titles Assurance Fund" after 1900, grew to be nearly \$1,000,000. and quite lately all except a small portion of it was placed in the Consolidated Revenue Account.

The Treasury benefitted very little from it, however, and seems to have been very negligent at this time. Some idea of conditions in that department of the Government may be gained from the fact that there is not a single entry made in the Cash Book from Oct. 1st 1885 to Jan. 1st 1887.

A Report of the Budget Speech 1888 (1) gives a striking account of conditions which the new Government found upon entering office. A portion of the Report reads as follows:- "He (Hon. Mr. Jones, Prov. Treasurer) found that the cheques and vouchers of the Treasurer's department had been handed back to the auditors department where vouchers for about a quarter of a million dollars were lying on the floor, desks and benches where they had been for weeks ---- With reference to the bank account, when he asked to see the bank book he could not have it handed to him to turn up and see what the balance was ----. When they (the previous Government) desired to know what their balance was they telephoned down to the bank; and if the message came that there was \$10,000. or \$20,000. or \$30,000. to their credit, cheques were issued. When the bank said funds were exhausted they had to make a deposit, or some other arrangement by which the bank would be able to telephone up that there was a balance available".

The above naturally gives a dark picture as there was little love lost between parties, but at the same time, it commands attention. The violent

(1). Man. Free Press April 19-1888.

character of the newspapers at this time is also interesting (1).

Despite such conditions, the name of John Norquay still commanded respect and honor. "Honest John", although least to blame, was the only member of his Cabinet to stay to "face the music" when the new Government made its sweeping charges of fraud and maladministration. And despite his fatal lack of business acumen, his character still appeals to us for more than that of many of our wiser and more skilful public leaders.

The Greenway Administration.

Premier Greenway, on entering office, immediately took up the Disallowance Question with Ottawa, and was able to obtain a settlement favorable to Manitoba. A loan of \$1,500,000. was then floated to pay debts left by the former administration, and to carry on the railway projects begun by it. Evidently the loan was larger than was necessary at the time for Mr. McMillan, the Provincial Treasurer, announced in the Budget Speech 1890, that on assuming office he had found large sums of money lying idle in the bank. It had been his task to invest these -- a rather unusual duty for any Manitoba Treasurer. The investment of this money in Seed Grain Loans, School Debentures, etc, produced a considerable increase in interest receipts, but it is very doubtful if they even served to balance the interest the Government paid on the part of the loan invested by the Treasurer.

- (1) "FRAUD" - Treasurer Jones Exposes Dishonesty of his Predecessors".
 "Civil Servants Plunder the Province with Impunity" - "A \$26,000 Steal in the Public Works Department" - "Books and Documents in the Departments Disappear" - Free Press May 11-1888.

The first item of taxation following the change of government appeared in the Receipts of 1889. As mentioned before, Manitoba had placed its credit in the form of debentures, at the disposal of all sanctioned railway enterprise, to the extent of \$7,500 per mile. These debentures were to be sold and retired by the Railway Companies, but the Province was responsible in case of any default. Thus to prevent tardiness concerning the retirement of the debentures, a tax of 3% of Gross Earnings was placed upon all lines which had debentures outstanding. The payment of this sum relieved the railways from all other taxation, provincial or municipal, and it was to cease with the complete retirement of the debentures. Income from this source seldom reached \$5000. per annum and hence was not a very valuable addition to Revenue. It lapsed completely in 1905.

Nothing further is worthy of note until 1893, save the Dominion Lunatic Grant. This money served to pay for the keep of the insane, who came to the Manitoba Asylum from the North West Territories. The grant was large enough to maintain these patients and to keep up the interest on the asylum buildings (1) and hence it was welcomed by the Provincial Government. As intimated, 1893 was eventful, in as much as it saw the establishment of two of our present revenue sources viz (1) Succession Duties and (2) Insurance Fees.

1. The Succession Duties were based on a sliding scale beginning with \$1.00 on every \$100. up to \$25,000. and gradually increasing until \$10.00 was deducted from every \$100. over \$1,000,000. Estates of \$25,000. or less passing to near relatives were exempt, as also were all estates of \$4000. or less. The amount of these duties has increased with the growth of the Province from \$1,110.64 in 1894 to a high peak of \$455,808.10 in 1924. Since then certain exemptions

(1). Hon D. McMillan-Budget Speech 1894-Feb.2nd.

on bequests to charitable institutions have slightly reduced the returns from Succession Duties.

There has been no less than twelve amendments to the original act of 1893 to make the duties more equitable and easier to collect. The scale of rates has also been increased.

2. Under the "Foreign Corporation Act" 1893, provision was made for the licensing of Insurance Companies operating in Manitoba. Local Companies were assessed \$100. per annum while Dominion and foreign Companies paid \$200. per annum. These fees have increased from less than \$6000. in 1894 to nearly \$70,000. in 1926, and in addition to them, Insurance Companies have had to pay a direct tax since 1900. This will be considered later.

The remaining years of the Greenway administration added but little to the development of our theme. Expenditure frequently exceeded Revenue, and as before, it was towards the Dominion that the Province looked for aid. That Revenue failed to meet expectations was blamed largely upon the Dominion administration of School Lands (1) and it was planned that deficits should be met by deductions of capital from the School Lands Account. This was happily prevented by the settlement of the Provincial claims upon the Federal Government for the cost of building and furnishing the Parliament Buildings in Winnipeg. \$267,026.43 was added to the Capital Account and Manitoba received \$231,306.94 as the accumulated cash interest from the time of the beginning of the dispute in 1886.

Apart from the increases noted, Receipts remained almost stationary until 1900, while uncontrollable expenditure steadily increased owing to the

(1) McMillan-Budget Speech 1892.

continuous influx of settlers. Mr. McMillan in 1892 estimated the increase in population at 148% since 1882, while Revenue had increased only 8% during the same period. And yet the policy of the Government continued steadfast against direct taxation, as is illustrated by the Treasurer's statement in 1897 - "The government does not raise one dollar by direct taxation from the people and it purposes to continue in this line". This expression of sentiment met with audible approval all over the House, in face of the fact that annual deficits of increasing amounts were becoming ever more frequent.

It is notable that Provincial credit was uninjured during this period. A loan in 1893 of \$1,000,000. found a ready market, and Manitoba's securities continued to sell at more than par. This is evidently the result of the consistent development policy of the government - its progressive railway program, advertising such as was given at the Chicago Exhibition 1890, and the large cash grants made for Education, Agriculture, etc. (1).

The Greenway Government retired from office in 1899. True to traditions of the Liberal party, its energy had been devoted to the progressive interests of the country. It materially reduced the costs of civil administration and increased the proportion of revenue spent upon Provincial enterprise. A Royal Commission appointed in 1900 to investigate its finances could find no irregularities worthy of mention. It left the Province prosperous, and with sound credit. And yet it is not free from just censure.

In prosperous times, state Expenditure governs Revenue, but in the long run Expenditure must be controlled by Revenue. This maxim the Greenway

(1). Grants for Public Works, Education, etc. totalled \$2,389,979.34 between 1888-98, when Revenue receipts averaged less than \$700,000. per annum Mr. McMillan's Budget Speech 1898.

Government failed to recognize. It made a virtue of giving large grants for public services without asking for anything in return. This fostered the conception of the Government as a large self-stocking pocket book - to be grumbled at when not full, and taken for granted when it was.

Successful administration of public affairs necessitates interest and sacrifice from governed and governing alike, and should it be lacking in either group, the state will suffer.

1900 - 1927.

The year 1900 is taken as the beginning of what we may call the "Modern Revenue" period in Manitoba, for in that year direct taxation, as such, was first employed. The "Corporations Taxation Act" and the "Railway Taxation Act" were the first experiments in a new direction. They did not cause any burden to fall directly upon the individual, and consequently the public mind did not take offence at them. In the House, they passed without any stir, and the Press offered very little comment of any kind.

During the first year these taxes were levied they produced slightly over 3% of the annual revenue. In 1925-6, direct taxation was responsible for over 30% of current receipts and gives promise of yielding a much larger percentage at no late date.

This increase in direct taxation has been paralleled in almost every branch of Provincial Finance. From \$908,000. in 1900, total annual revenue has risen to \$10,580,000. in 1925-6, while the Provincial Debt has increased in almost the same ratio - from about \$6,000,000. to over \$75,000,000. The old Legislative Buildings valued at less than \$270,000. have given place to an edifice valued at \$8,000,000. Governments have assumed the role of the enterprising capitalist and have invested over \$40,000,000. in projects supposed to be revenue bearing -- And all this in the Province which not so long ago did not possess an income large enough "to pay the expenses of running a respectable seaside hotel".

Let us now turn back and inquire into the details of this advance.

As has been stated before, the Corporation and Railway Taxes began operating in 1900. The latter was based on Gross Earnings which were assessed 2% per annum until 1903. After that, all companies were to be assessed not more than 3% of all their earnings within the Province. In 1906 the rate for the C. N. R. was reduced to not more than 2% of Gross Earnings, and in 1924 this amendment became general. But despite reduced rates, collections have increased from \$16,000 in 1900 to over \$660,000 in 1926.

The Corporations Tax was much more involved, setting out different bases of assessment for each type of corporation taxed. Concerns coming under the Act were exempt from all municipal taxation, and were assessed as follows:-

- (1) Banks - \$800. for each head office
 \$200. for each branch office.
- (2) Insurance Companies - 1% of gross premiums collected in the Province.
- (3) Loan and Trust Companies - \$100. for the first \$100,000. Paid up Capital.
 \$75. for each additional \$100,000. up to
 \$1,500,000. Lower rates were granted for
 "terminating" and "withdrawable" capital.
- (4) Street Railway Companies - \$200. for the first three years,
 \$500. for each additional year,
 \$10. per mile on all track over twenty miles.
- (5) Telegraph Companies - \$1.00 per mile for all lines in the Province.
 Railway Companies paid \$1000. per year.

- (6) Telephone Companies - 50¢ on each revenue producing circuit in cities over 10,000.

25¢ on each revenue producing circuit in cities of less than 10,000 and in towns and villages.

- (7) Electric Light Companies - \$500. per annum in cities of 10,000 and over.

\$100.00 per annum in cities of less than 10,000.

\$25. per annum in towns and villages.

- (8) Express Companies - \$350. per annum for companies with 50 or more branch offices

\$250. per annum for companies with less than 50 branch offices.

- (9) Gas Companies - \$500. per annum.

All the above rates have been altered since 1900, and it would be very tiresome and of little actual benefit to trace the changes made. Anyone wishing to do so, may find all the information necessary in the Manitoba Tax Commission Report 1925. In many cases the rates were re-graded so as to be more equitable, and in nearly every instance they have been increased. Thus from a start of \$14,700. in 1900, Corporation Tax receipts have risen to \$453,000. during the past year (1926).

In addition to the new taxes mentioned an act was passed in 1900 to make the municipalities pay for their share of Justice Administration costs. under the act, the Municipal Commissioner was to "annually -- apportion the estimated amount required -- amongst the respective Municipalities of the Province, upon the basis of equalized assessment, in the case of rural

municipalities, and upon assessed values in the case of incorporated cities, towns and villages". (1) In 1901 this tax yielded \$43,900. but then disappeared from Revenue Accounts until 1918, when the present Municipal Levy began.

Roblin Administration.

Despite this new taxation, deficits ranging from \$250,000. to \$800,000. appeared in the Public Accounts each year from 1900 to 1909. The Roblin Government which assumed office in 1900, blamed this upon the extravagant policy commenced by the late Greenway Government. It is noteworthy, however, that the cost of Legislation was soon doubled by the new administration, and later events proved that it was in the habit of "saying more than its prayers".

During the deficit period (1901-09), increased revenue came almost entirely from old sources. The Subsidy was almost doubled (2) and a more vigorous administration of the School Lands Trust by the Dominion increased the interest from \$19,161.85 in 1900 to \$166,050.52 in 1909. In addition to these increases, liquor licenses were more than trebled at this time, passing the \$100,000. mark in 1909. Other existing revenue grew slowly as a result of the general progress of the Province.

The first new item of the period was the Fire Prevention Tax of 1906, which brought in an initial revenue of \$6,599. in that year. It was a levy on Insurance Companies in the Province of one-third of 1% on the gross

(1). C.56 - V 83-4.

(2). \$475,425.21 in 1900 - \$838,247.06 in 1909 - Manitoba Public Accounts.

premiums collected in Manitoba, and was intended to take care of the administration of the Fire Prevention Act 1906, rather than to be source of income.

Two years later, a system of fees for Normal and Agricultural College students came into effect, and netted \$30,000 the first year. The fees have been augmented, and now yield almost \$100,000. per annum, but do not yet nearly counterbalance the large educational grants.

A completely new function of government was assumed in 1908, when Manitoba bought the Bell Telephone System within its boundaries. Government Enterprise does not properly enter into our theme, for so far, it has produced no revenue, and has not even been self supporting. Receipts from the Telephone System appear in the Revenue Accounts, however, and hence command our attention.

This new acquisition cost the Government \$3,400,000. in forty year bonds at 4%, for which a considerable amount of supplies was also included. A large development plan was immediately commenced, with the result that by 1912, the Provincial Debt had been increased by over \$11,000,000. A further \$8,000,000. has since been added, bringing the total to over \$19,000,000, and in addition, deficits have been almost an annual occurrence up to 1922. Since then the total surplus has not been sufficient to wipe out the single deficit of 1921.(1) Thus it can readily be seen that it will be many years before any real revenue comes to the Province from this source.

A second Government Enterprise begun in 1910 viz; the Manitoba Government Grain Elevator System, has even a sadder history. Upon the urging of the United Grain Growers, the Government issued debentures to the value of \$1,000,000.

(1) Mr. Bracken's Budget Speech-1927.

for the purpose of establishing a system of government elevators. Unfortunately the act under which the system was to be administered, left room for political interference, and further aroused criticism because it declared the Government's intention of acquiring elevators under the Provincial Expropriation Act, should it be deemed necessary.

The project never recovered from its inauspicious start and to-day only nineteen of the original 172 elevators are operated by the Government. The majority have been sold at a loss and it is safe to say the remainder will be disposed of as soon as possible.

From 1909 to 1915, the Government regularly returned back surpluses of from \$250,000. to \$2,700,000, and yet during that period only one new Provincial revenue bearing source was added to the existing list, i.e. auto licences, from which revenue increased from \$3,000. in 1909 to \$90,000. in 1915. A surplus of \$2,700,000. in a single year arouses suspicions, especially when it coincides with a period of heavy borrowing.

Of course, the Subsidy readjustment effected by the Manitoba Boundaries Act 1912, added \$400,000. to the Dominion grant immediately, and this increased year by year. But this was almost counterbalanced by the decrease in revenue from Provincial Lands, following the removal of all Swamp Lands from Manitoba's control. These had yielded an average of \$500,000. per annum for the five year period preceding 1912, while for the five years following, the average yield was less than \$205,000. Thus the Province did not benefit as greatly from the re-adjustment as it would seem.

The Telephone receipts and expenditure figures are also very misleading,

as in the Public Revenue and Expenditure Sheets, only current expenses are shown, while the item of Plant Expenditure is omitted. This, if shown, would change book surpluses in most years to deficits. To illustrate - The Accounts of 1911 show Receipts of \$1,259,194.12 and Expenditure of \$1,000,000. a suspiciously even amount. During this year, however, Plant Expenditure amounted to \$1,728,863.66 (1) but this amount does not show in Current Expenditure. If it had, there is little difficulty in seeing what would have happened to the \$450,000. surplus which was declared for 1911. Outlay was very heavy that year, but otherwise the instance quoted, was not unusual.

The Roblin administration came to an ignominious end in 1915, largely because of the Parliament Buildings scandal. The Royal Commission of 1916 appointed to investigate the affair, charged the Premier with being directly implicated in a scheme to raise election campaign money, which involved almost \$1,000,000. of misappropriated funds. Furthermore, the policy of the Government with regard to Telephones, Good Roads, Grain Elevators, etc had increased the Provincial Debt to \$27,000,000. (i.e.) it had been more than quadrupled in fifteen years.

The previous Liberal administration (1888-1900) has been critized in these pages for its failure to recognize that Revenue must finally govern Expenditure - but it was modest, retiring and parsimonious when compared with that which followed it.

(1) Telephone Commission Report - Manitoba Sessional Papers 1912.

The Norris Administration.

Mr. Norris was called upon to form a government shortly after the War began, and continued in office for four years after the signing of peace. War conditions generally necessitate financial retrenchment, but such was not the case in Manitoba. For in 1917 a program of Capital Expenditure was begun larger than the Province had ever witnessed before, and indicative of peace and plenty rather than of the depressing aftermath which follows in the wake of a great struggle.

The Provincial Debt rose from \$27,000,000. in 1915 to \$62,000,000. in 1922 - an alarming total. Of that amount, however, \$47,000,000. i.e., 75% of the total had been spent upon Public Buildings, Telephones, and Good Roads - projects the majority of which the Roblin Government was responsible for e.g., Telephones, Government Buildings, Grain Elevators, etc. And \$10,000,000. of the remainder had been contracted to give direct aid to the people of Manitoba in the form of Farm Loans and the Housing Scheme.

This last named expenditure has received much adverse criticism, but the thoughtful mind will not condemn it off-hand. A number of facts must be remembered before giving a decided opinion on the question. The War had drained the country of men and money. Banks had become very conservative concerning loans and charged almost prohibitive interest rates. General credit was at a low ebb, and depression deepening.

It was in the face of these conditions that the Manitoba Farm Loans Association and the Rural Credits Societies began operation in 1917.

Their aim was not to produce revenue but to aid struggling farmers. Loans could not be got upon the collateral securities offered under the Rural Credits Act, but not to be balked, the Government established a Provincial Savings Office to finance the Societies, and they proceeded with their work.

Apparently the Province has lost a considerable amount of money from the aid granted to farmers. Accounts show large losses, but they do not show how many farmers have been saved from bankruptcy and ruin. Mr. Bracken correctly stated of the Rural Credit Societies that they "commenced functioning at the worst possible time in the economic history of the Province". (1). But was not that the very reason why they came into being Mr. Bracken? Had the Province been in a flourishing conditions, there would have been no call for agricultural aid.

From the economic viewpoint, it is the "long run" which must be considered, and condemnation of such expenditure would be unfair at this time. Much larger amounts than \$10,000,000. have been spent upon more questionable ventures before now.

But unfortunately, all of the administration's Capital Expenditure cannot be defended upon the grounds stated above. Much of the Debt incurred for Public Buildings and Good Roads is open to severe criticism. It is one thing to spend money to prevent poverty and desolation due to unnatural conditions, but quite another to spend it lavishly upon buildings which benefit but few and on roads, in most cases at least passable, which were causing no vital hindrance to development.

(1). Budget Speech Febr. 2nd 1925

Mr. Brown, Provincial Treasurer in 1922 maintained that the Net Debt established by the Norris Government was only \$21,000,000. instead of \$35,000,000. because at that time the Treasury held \$14,000,000. in bonds and cash which had been placed there since 1915. But even so he was forced to admit responsibility for an average annual increase of \$3,000,000. for the seven years the Norris Government was in power.(1)

Such heavy borrowing has led to a tremendous increase in interest charges which have to be met out of Consolidated Revenue. Gross Interest charges amounted in 1922, to the appalling sum of \$5,864,000. or more than 60% of the amount spent by the different departments of government for that year.(2). Thus it is evident that if the parasite - Capital Expenditure - had not been checked, it would soon have annihilated Current Revenue.

With Expenditure increasing literally "by leaps and bounds", it is small wonder that the Government put forth every effort to increase Revenue. Its success may be determined by the following figures. From \$5,472,955.34 in 1915, Current Revenue rose to \$9,358,955.92 in 1921, an increase of better than 70% within seven years which were marked by great economic stress. Of course this was a period when money value was at a low ebb, but nevertheless, the achievement was a notable one.

For the sake of clearness, new revenue for this administration will be separated into two divisions, the first division including all very remunerative sources, the second to sources yielding but little.

The first division includes

1. The Public Amusements Tax

(1) Budget Speech Feb. 10-1922

(2) Total Current Revenue for 1921 - \$9,358,955.92, Man. Public Accounts 1922.

2. The Unoccupied Lands Tax
3. The Municipal Levy.
4. Interest Receipts.

The last two mentioned are not strictly new revenue, but it was during this time that the Municipal Levy was used for more than paying for the costs of the Administration of Justice, while Interest Receipts increased over 1000 % from 1915 to 1921. Hence it seems proper that these two items should be considered here.

1. The present Amusements Tax began in 1916 as the Theatre and Automatic Vending Machine Tax of 20¢ and 10¢ per seat respectively in city and country theatres. In addition, theatres, dance halls, and slot machines had to be licensed. The main features of this tax remained in force until 1918 when the Amusements Tax was substituted. It placed a graduated tax on amusement admissions varying from 1¢ on 10¢ to 50¢ on all over \$2.00, while exempting patriotic, religious, educational and other such entertainments. Amendments followed affecting sports, Pool and Billiard Rooms, etc., which reduced receipts from the Tax considerably. These reductions were largely counterbalanced after 1923, however, by a 3% tax on Pari-Mutuel Machines at Provincial Horse Racing Meets. The present Amusement Tax has not undergone any changes of note since then, barring the recent exemption of admissions up to and including twenty-five cents.

The experiment of 1916 was a failure, netting less than \$50,000. during the two years it was used. The later Tax of 1918, however, was both more equitable and more productive. Receipts from it rose from \$134,120.62 in 1918 to \$339,926.61 in 1921, the last year of the Norris Administration.

2. The old Wild Lands Tax of 1873 was revived in 1918 as the "Unoccupied

Lands Tax". Manitoba has been behind most of her western neighbors in making this levy. British Columbia has used a straight Wild Lands Tax since 1903, while Alberta followed suit in 1914. Saskatchewan joined with Manitoba, in assessing it in 1918.(1)

The Western Provinces have gone further than Manitoba's tax of one half of 1% on assessed value. In Saskatchewan and Alberta, it was for 1% and in British Columbia, 5% of assessed value.

The long title of the Manitoba measure is "An Act to encourage Production by providing for a Tax on Unoccupied Land"(2). It exempted all cities, villages, church lands, Indian Reserves, etc., while no assessment was to amount to more than 20¢ per acre, no matter what the estimated value.

Returns from the Tax would indicate it has fulfilled its purpose, for proceeds from it have dwindled steadily from \$132,007.74 in 1919 to \$45,126.23 in 1926. Alberta and Saskatchewan, on the other hand, have continued to receive large amounts from this source,(3) because of their size and higher rates of assessment.

3. The Municipal Levy dates back to the creation of the Manitoba Judicial Districts in 1883-4, but it does not come within the scope of our discussion until 1918, when the "Supplementary Revenue Act" was passed. It stated that the "Municipal Commissioner shall annually -- levy upon all the municipalities within the several Judicial Districts of the Province, and upon all the assessable property in the several school districts situate in unorganized territory in the

(1) Prof. A. B. Clark M.A.F.S.S - An Outline of Provincial and Municipal Taxation.

(2) Chap.192 - Consolidated Amendments 1924.

(3) Alberta Sessional Papers Wild Lands Tax Receipts - 1918 - \$350,000.
1920 - \$626,000.
1924 - \$470,000.

Saskatchewan Sessional Papers Wild Lands Tax Receipts - 1921-2 - \$680,000.
1924-5 - \$707,000.

Province, a tax of two mills on the dollar on the total equalized assessments of properties of said Judicial Districts and on the total assessments of properties in said school districts. "Along with the balance of the Municipal Levy this amount was to be given to the Provincial Treasurer by the Municipal Commissioner" for the purpose of supplementing the revenue of the Province.(1).

In 1919 the Supplementary Levy netted \$728,720.34, but this has been increased to \$1,440,045.22 in 1925-6. This represents roughly 75% of the total sum received from the municipalities and may be used by the government as it sees fit. The balance of the Municipal Levy is administered largely by the Department of Public Welfare and is spent upon Soldiers Taxation Relief, Child Welfare, etc.

4. As intimated before, the item of Interest Receipts grew very fast during the Norris Administration. From \$96,859.59 in 1914, the last year of the Roblin Government, it rose to \$1,142,580.04 in 1921. This is accounted for largely by the \$15,000,000. in securities and cash amassed by the Government, of which previous mention has been made.

In addition to the interest on the above amount, considerably more came from Judicial and Drainage District, Debentures and the Capital Investment Account.

These large sums of interest must be distinguished from ordinary revenue, because the Government was paying interest to its creditors on the same money it lent for the purposes mentioned above. Thus the rates of interest paid and received on such money tended to balance one another. Since interest paid out is an item of Current Expenditure, however, interest received may be properly termed Current Revenue.

(1) Cap.65 - 3 Geo.V.

Unimportant sources of revenue for this period are more numerous, but require little explanation. They are as follows:-

1. Fees collected by the Bureau of Labor
2. Fees from well boring.
3. Vital Statistics Fees.
4. Hotel Licenses.
5. Fur Royalties.
6. Vocational Education Grants.

1. The Labor Bureau collects certain fees for inspections authorized by the "Steam Boiler Inspection Act" 1916. Boiler inspectors were authorized to charge fees which were fixed by the Lieutenant-Governor - in - Council from time to time. In 1916, \$5,837.40 was collected by the Bureau of Labor, and this amount has increased by degrees to \$27,275.12 for the year just past. These fees are simply one of the many moves made to reduce the Costs of Civil Service Administration.

2. In 1916 the Government bought a number of well boring machines, for which there was a strong demand at the time.(1) They were scattered about the Province where needed most, and fees charged for work done just as if the machines belonged to private individuals. The demand for well boring continued for some five or six years, but since then receipts from this source have been small. The Department of Public Works received over \$10,000. from its machines the first year and this amount increased to over \$23,000. in 1921, but has since fallen to less than \$2,000.00 per annum.

3. An office of Vital Statistics was organized in 1916 by Provincial Statute. Since then the office has charged fees for certificates of birth, etc., to help

(1) Report of the Dept. of Public Works 1917.

to offset costs of maintenance. Annual fees collected from this source have not yet passed the \$10,000. mark.

4. The Hotel Act of 1917 applied to all the Province except Winnipeg.

Hotels were required to pay annual license fees as follows;-- In cities \$25.00, in towns and villages \$10.00, and in rural municipalities \$5.00.

The Hotel Act is administered by the Manitoba Tax Commission, which reported as follows upon it in 1926, "The 'Hotel Act' has not been placed on the Statutes for the purpose of Revenue, but was enacted to secure the opening up of as many closed Hotels as possible" and in view of the present sufficiency of accommodation in the Province, the Commission recommended that the Act be amended to permit of its administration by the Municipalities. Such a change would mean a loss of less than \$2,000. a year to Current Revenue.

5. By the "Game Protection Act" 1920, all Provincial fur dealers were required to take out licenses, paying fees varying with the amount of business they transacted. Royalties were also to be paid on all pelts other than those of ranch animals, which were taken and sold within the Province. The tariff of royalties was left in the hands of the Lieutenant-Governor - in - Council, with the understanding it was to approximate to 5% of the market value.

Royalty receipts have risen from \$40,000. in 1921 to over \$70,000. in 1926-7.

6. In 1919, the Dominion Government passed a Vocational Training Act to aid this branch of education in the various provinces. Such aid was to continue for ten years, after which time it might either be stopped or changes made in the Act. The amount granted to Manitoba began at less than \$10,000. in 1919 and has been increased by several thousands of dollars each year since then.

Thus we conclude our consideration of the Norris Administration. As

stated before, during the seven years in question, annual revenue increased over 70%, while figures from 1921 receipts showed that almost the whole increase came from new sources. Old sources in this year indicated an annual addition of less than \$500,000. to such revenue obtained in 1915. This means that an annual increase of \$3,500,000. was developed by the Government in seven years. Such a feat has not been paralleled in the annals of our Provincial history and merits recognition, especially in consideration of the fact that the Dominion Subsidy increased only \$300,000. during this time. (1).

The Morris Government must also be credited with establishing a Provincial Tax Commission in 1920. It was realized that the question of taxation was becoming of such magnitude as to require the attention of a group of skilled men, unbiased by political partizanship. The small outlay involved in this direction has proved a valuable investment and the Commission has justified its continued existence many times over.

The Bracken Administration.

Following the general industrial tendency towards organization for class interest, the agriculturists of the Province organized soon after the War, as the United Farmers of Manitoba. This association directed much of its energy to politics, in the hope of thereby being able to effect some desired changes in the status of the Farmer. Its efforts reached their culmination in 1922, when the official party of the U. F. M. ousted

(1) These calculations have been based upon the Public Accounts receipts of 1915 and 1921, and are confined strictly to "Cash Collected on Revenue Account". The year 1922 has not been used for purposes of comparison because both Revenue and Expenditure were affected by the fact that an election was a certainty.

the Liberal Government from office. Subsequent events have shown that its supporters expected the new Government to be a "cure-all" for every evil which beset them. This did not prove to be the case, but fortunately for the Province, there were several men in its ranks, who were keenly awake to the problems confronting them. They lacked much in experience, but possessed a sound knowledge of business principles. These men have guided the Province through a very trying period of its history. No panacea has been obtained to correct the evils which the agricultural interests hoped to see disappear, but Manitoba's financial status at least, has been much improved.

A general survey of this period, 1922-27, will now be attempted, prior to a more detailed effort being made.

Two big problems faced the Bracken Government at the outset - first, to stop the upward climb of Capital Expenditure and second, to bring Current Expenditure within the limits of Current Revenue.

It would have been folly to waste the money spent by the previous Administration, by not completing the work it had begun e.g. Drainage, Good Roads, etc., and consequently \$10,000,000. was borrowed for this purpose. Thus the Gross Debt of Manitoba was brought up to its present figure, \$73,000,000. Maturing old loans made further borrowing necessary, but, granting equal rates of interest on old and new loans, this did not add to the figure just mentioned. The Government early realized, however, that this method of financing loans could not continue indefinitely, and in 1923 created a Sinking Fund from Consolidated Revenue for the purpose of retiring Manitoba's Debt.

The Sinking Fund has long since been established in State Finance, as the only sound method of caring for public debt, and should have been utilized prior to 1923. It would have served to emphasize the seriousness of the obligations incurred, and thereby placed an effective check-rein upon excessive borrowing. "A Sinking Fund is not an expense, but a natural obligation arising out of the terms of a contract, compliance with which will ultimately react to the benefit of the Province".(1).

The problem of balancing Current Accounts, the Government attacked in two ways. It created new sources of revenue, which will be considered later, and at the same time cut down administrative expenses. As a result of this policy, the first surplus in a decade was declared in 1924 - a meagre credit balance of a little over \$150,000. This amount was increased during the two years just past, the result being that the excess of revenue has been utilized to reduce some of the more burdensome forms of taxation i.e. the Income Tax and the Municipal Levy.

Viewed apart from political considerations, any reduction in taxation at this time, could not be defended. With a large debt making its presence felt continually, because of enormous interest charges connected with it, all surplus revenue can have only one legitimate destination - the Sinking Fund. There is no possible excuse in theory, for using such money to reduce taxation, under prevailing conditions.

The instinct of self-preservation is just as strong in political parties, however, as in human beings, and the Government's attitude is easy to understand. It no doubt feels - and rightly so - that it has placed the Finances of

(1) Mr. Black- Budget Speech - Feb. 8-1924.

the Province upon a stable footing, a position they have seldom occupied. Therefore having rescued its charge from immediate danger, the Government has turned to consider its own position.

During the course of its run, the Government knows very well it has resorted to several onerous measures to increase revenue e.g. the Income Tax. These have met with loud protests, and hence any modification in them should meet with public approval. And incidentally strengthen party popularity.

The Government can point out, further, that in spite of reductions made in taxation, it has reason to believe Revenue will increase.(1). This is a phenomenon, common enough to business, and lately observable to Dominion Finance. It rests upon the hypothesis of Elasticity of Demand i.e., that people will buy more of a commodity, *ceteris paribus*, when the price is reduced. Thus a reduction in taxation may stimulate industry to such an extent that no decrease in Revenue results, and often an increase may be gained.

Many people seem to imagine that because the Government receives more Revenue, following a reduction in taxation, that the burden upon the people is thereby increased. This is not the truth, however, for enquiry will show that resulting increases in Revenue arise out of greater industrial activity, and that they do not add to the burden already borne by the public.

Let us now turn to follow more closely the happenings which have given rise to the present situation.

The session of 1922 limited its activities almost entirely to the voting of Supplies. This had happened as the result of the passing of a vote of

(1) 1926- Estimates - \$10,433,904.00
 Revenue - \$10,532,536.53
 1927- Estimates - \$10,874,425.69, Budget Speech Feby-1927.

censure upon the Government soon after the House convened. And consequently no attempt was made to pass any legislation likely to cause trouble. Prior to the vote of censure, however, it had been intended to establish both an Income Tax and a Gasoline Tax.(1). In fact the Income Tax Bill had received its second reading before the censure occurred and had caused much violent criticism from the City of Winnipeg. A similar tax of 2% on net profits in 1921 had been repealed after a decided reverse, and the good citizens evidently hoped to cause the second attempt to tax any form of income to suffer the same fate as had its predecessor.

The Bracken Government, however, took up the matter of increased taxation almost immediately. It enjoyed a sounder position than had the late Liberal Administration and attacked its problems with vigour and confidence born of recent victory at the polls.

Mr. Black in his first Budget Speech(2) forecast a deficit of over \$1,000,000 for 1923, but stated optimistically that new taxes which would yield \$2,000,000. by 1924, were to be put into operation almost immediately. The proposed taxes were to be placed upon Gasoline, Grain Futures, Aerated Waters, and Income, although the last mentioned would not go into force until 1924. In addition increases from the Amusements Tax, Motor Licenses, etc, were contemplated.

The plan outlined by the Provincial Treasurer, was carried out, although it fell short of his predictions in several respects. Four new revenue channels were opened in 1923 by (1) The Gasoline Tax Act, (2) The Grain Futures Tax Act, (3) The Income Tax Act and (4) the Manitoba Liquor Commission. And to these

(1) Mr. Brown's Budget Speech - Feb.10-1922

(2) Manitoba Free Press - Feb.20-1923.

we will now devote our attention;-

(1) The Gasoline Tax required all purchasers to contribute one cent per gallon of all gasoline bought, to the coffers of the Province. This money was collected by the gasoline dealers who received not more than 5% of all collections for their services. Instead of producing the \$125,000. predicted for 1924, however, the 1923 Tax returned only \$39,156.00. Consequently, it was raised to three cents a gallon in 1925, with a two cent rebate on all gasoline used for agricultural and industrial purposes, where it was not consumed by motor vehicles. This new arrangement proved much more satisfactory - \$432,391.36 being collected in 1926, when only \$370,000.00 was anticipated.

The Gasoline Tax has been criticized upon several grounds, the most reasonable being that it imposes an unfair burden upon industrial concerns using a large number of trucks. Special license rates have been granted to such vehicles, but as yet their gasoline costs the same as that of the pleasure auto.

It is also held that the auto owner is already subject to too many impositions. On a \$1500.00 car made in the United States, the Canadian purchaser must pay in addition to the factory cost of his car, a United States War Tax, a Canadian Customs Duty of 27½%, a 5% Sales Tax, and an Excise Tax of 10%. This raises the final cost of the car to \$2223.30 (1).

Even granting the Tax to be a fair one, many motorists object to it, because it is not returned to the highways in the form of improvements. This criticism is contrary to recognized principles of Public Finance, however, which agree that "ear-marking" is generally accompanied by pernicious results.

(1) Report of the Manitoba Economic Conference-1926- by A. C. Emmett.

The Gasoline Tax is in general use throughout the Continent, and seems likely to remain many years despite all opposition. It is easy of collection, equitable in so far as large expensive cars contribute more to it than smaller ones do and - most important perhaps - it is becoming ever more remunerative.

(2) The Grain Futures Tax, 1923, was calculated to rest upon brokers, agents, etc., and was not intended to affect "the grower of the grain", or the owner of the land upon which the grain had been grown. It was really a Sales Tax on Futures, assessed as follows;- 12¢ per thousand bushel of flax, 6¢ per thousand bushels of wheat, and 3¢ per thousand bushels of oats, rye and barley.

The validity of the Act was early challenged by the Saskatchewan Government, and the matter was taken to Court, although the Tax continued to be collected while the legal contest was being waged. In 1925 the Privy Council decided that the tax was indirect. For although it could not be shifted forward, on account of the magnitude of the European market, it was held that it could be shifted back upon the farmer in the form of reduced prices for his grain. Hence the tax was termed indirect and the Manitoba Act was declared "ultra vires" under the British North America Act 1867.

Following the decision, the Province had to return \$68,662.48 which was collected before the announcement of the verdict. The amount it will be noticed was not a large one, because many payments were withheld until the Court decision was given.

(3) The history of the Income Tax in Manitoba has been a stormy one, centring mostly around the Norris Administration. At first it was proposed to turn it over to the municipalities to be levied as a municipal tax. This proved impracticable, however, as the rural municipalities found an income tax of no use, unless the exemption limit was very low, while this would have caused much distress in city areas. Thus the idea of a Municipal Income Tax was gradually dropped and lost sight of.

Later, when a Provincial Income Tax was put forward, it was met by stubborn opposition, and the Norris Government was too weak at the time to be able to safeguard its measure. City interests, aided by the future Provincial Treasurer who was first to administer the tax he now opposed, combined with opposition groups in the House to render the proposed Act useless and injurious to progress. This was done by making numerous exemptions, and imposing an extremely high progressive scale of assessment. Fortunately, however, the mangled remains of the proposed tax were consigned to oblivion, following the censure of the Norris Government.

The Income Tax Act of 1923 was drawn up in the light of past experience, and therefore all credit for it, does not rest with its sponsors. The task of the present Government, in introducing the Tax to the public has not been easy, nevertheless, and it has been one of the first levies to be reduced following the return of stability to Provincial Finance.

This Act did not affect Corporations, but applied strictly to individuals, whom it classified as married and single. Single persons were allowed an ordinary exemption of \$1,000.00, while married persons enjoyed exemption of \$2,000.00 on annual income, with an additional \$300.00 allowed for each child.

This amount has been raised to \$500.00. Past the exemption limit a progressive tax had to be paid, beginning for married persons, at 1% of the first \$1000.00 of taxable net income. The rate increased one half of 1% on each additional \$1000.00 until the thirteenth thousand was reached, after which it remained stationary at 7%. In the case of single tax payers, the rate was to be 1% higher in all cases.

The yield of the Income Tax has been repeatedly overestimated, notably so in 1925, when \$335,000.00 was anticipated from this source, and only \$113,023.29 actually collected. This is largely accounted for by connivance to avoid payment on income by taxpayers, as many of our best citizens still act upon the old Spartan maxim that a misstatement of truth undiscovered, in no wise constitutes crime. Despite this fact, the returns for 1926 credit the Income Tax with \$497,206.85, although that amount will likely be reduced by something like \$100,000.00 in 1927 because of the rate reduction made during the last session. Mention has been made of this before, and there is no need to bring the question up again.

(4) "The Manitoba Liquor Control Act" was added to the Statutes following a referendum in 1923, at which the public voted in favor of government control of the sale of all liquors within the Province. The "Prescription System" requiring a doctor's prescription before liquor could be obtained, was badly abused, causing public opinion to undergo a decided change regarding the Temperance Question. And consequently the Bracken Government deemed it best to let the people decide upon any radical change of policy.

Under the new system, an independent Commission of three prominent citizens administer all affairs pertaining to the sale of liquors within the Province. One half of the net proceeds of all sales is given to the municipalities, thus reducing Provincial profits by one half. Nevertheless the Government received \$593,044.64 for its share of the Commission profits for 1923-4, and in addition \$36,126.68 from the Liquor Vendor under the Manitoba Temperance Act - \$679,171.30 in all. This amount increased to \$698,128.53 for 1925-6, showing the capacity of Manitobans to be fairly constant.

It must be noted, however, that this is not all new revenue. Under the Temperance Act, the Government, regularly received an average in late years of \$200,000.00 per annum from liquor sales.(1) Thus new revenue is confined to the increase over that amount - a much smaller figure than at first determined by a casual estimate.

In addition to those considered above, two "incidental" sources of revenue were created in 1923.

The first came as the result of an amendment to the Town Planning Act of 1916 which provided that "The minister (the Municipal Commissioner) may from time to time fix a tariff of fees to be charged for services -- rendered under this Act" (2) Such fees have never totalled more than a few hundred dollars a year, and serve us only as a reminder that the Provincial Government is making an effort to see that the towns of Manitoba are beautifully and well built.

(1) Mr. Black's Budget Speech Feby. 8-1924.

(2) An Act to Amend The Town Planning Act 1916- Manitoba Statutes 1923.

The second "incidental" source was added by the 1923 amendment to the Sale of Shares Act. Section 4 of the amendment states that "It shall hereafter be unlawful -- to sell -- in the Province of Manitoba, any shares, stocks or bonds -- without first obtaining from the Public Utility Commissioner -- a certificate -- and a license to such agent, in the manner hereinafter provided for". All sales of government stock, national or foreign, did not necessitate registration or a license, so it is evident that such fees were imposed as simply another check upon "wild cat" stock salesmen, who had caused considerable trouble in several districts of the Province prior to 1923.

The registration and license fees mentioned above were two dollars and no credentials were issued until the stock to be sold had been thoroughly investigated. The sum thus collected has never yet reached \$500.00 a year, clearly indicating that the license is considered only as a safeguard to the general public.

Besides endeavoring to locate new revenue the Bracken Government gave considerable attention to making old sources more productive. As indicated previously, it was planned in 1923, to increase the Amusements Tax and several license fees. Efforts in this direction did not meet with any marked success. Amusement Tax receipts have just recently passed the high mark reached in 1921,(1) and the same holds true for Auto License fees.(2) A net increase of \$50,000. a year has been received from other fees which were expected to yield much larger amounts e.g. Marriage Licenses, Fur Royalties etc. Thus no

(1) \$339,926.61 in 1921 - \$356,919.77 in 1926 - Man. Public Accounts 1921 and 1926

(2) \$524,233.50 in 1921 - \$682,035.24 in 1926 - Man. Public Accounts 1921 and 1926.

phenomenal gains in revenue are to be found in the ranks of "old sources".

This brings us to the conclusion of our consideration of Manitoba's Revenue System. Nor could a more fitting point be chosen for the closing remarks upon our subject. At no time in the history of the Province has Current Finance been in such a satisfactory condition as it is now. Never have Revenue and Expenditure been so closely balanced as during the past few years of the Bracken Administration. And never before have the people of Manitoba been faced with a brighter financial prospect than at the present. Of course the tremendous burden of the Provincial Debt cannot be ignored, but with some of the fortitude of Abraham Lincoln we prophesy that - "This too will pass".

CONCLUSION.

We have asserted that the condition of financial affairs in Manitoba is the best it has been for many years. Manitoba alone of all Canadian provinces has been able to reduce Current Expenditure during the five trying years just past.⁽¹⁾ And few other provinces can point to as great a relative increase in business during recent times as can Manitoba. The future is bright and there is cause to be not ill satisfied with the past and confident for the future. And yet should not such feelings be mingled with some rather sober reflections? There is still much truth in the old proverb that prosperity is a more severe test of greatness, than is poverty. And it behoves us at this time to prepare for the future - to anticipate its problems if we can.

Undoubtedly, there will be need of greater revenue as the Province continues to develop and it is not too soon to inquire where such revenue may be obtained.

The present field of taxation, hedged about as it is by the British North America Act 1867, offers few undiscovered possibilities to future legislators. Land values have early been very heavily burdened as is commonly the case in new territories. Fees and licenses have apparently neared the limit of their productivity. Government Enterprise has proved anything but successful.

Only in the instance of direct taxation does there seem to be any prospect of a large increase of revenue. The elasticity of such taxes as those on Corporations and Income especially fits them to meet the increasing needs of a growing province. Growth multiplies the respon-

(1) Mr. Bracken's Budget Speech Feb. 15-1927

sibilities placed upon Government, but it also brings with it industrial expansion, which in turn increases the tax bearing capacity of a state or province.

There is always the possibility, of course that Manitoba may, at some future date gain control of her Crown Lands. These will assuredly be valuable when sufficient capital can be obtained to develop mineral and timber resources on a large scale. Manitoba has long been aware of these potential riches and has sought their control ever since they were promised by Joseph Howe in 1869. Countless reminders have been made to the Dominion of its intended "gift", but all to no avail.

A partial insight into the changed attitude of the Dominion regarding this question is given by Sir Robert Borden in the following extract from a speech made in the House at Ottawa; "This question of extending the boundaries of Manitoba has been before Parliament for a very long time, and therefore it seemed to the Government, whether rightly or wrongly, that the best course now was to put the Province of Manitoba as nearly as might be, in the position of the provinces of Alberta and Saskatchewan, and then take up after due consideration and upon proper enquiry the question of restoring to all three provinces their natural resources upon terms which would be just and reasonable". But he adds "when this question comes to be considered, some regard will have to be given to the claims of the other provinces of Canada, and especially the three Maritime Provinces whose boundaries have not been increased, whose boundaries cannot be increased on account of their natural position". (1) Thus the question of the restoration of our

(1) Hansard 1911-12 Vol.11 - Feb.27-1912 - quoted in the Duncan Report.

natural resources with the Dominion seems to be a matter of less vital importance than the consequences which might follow such action. It was evidently feared that the claims of the Maritime Provinces could scarcely be denied after allowing those of the Prairie Provinces. The favorable reception of the Duncanson Commission Report, by the present Federal Government however, would indicate that the Maritime claims were soon to be settled, and consequently that Manitoba's prospect of controlling her natural resources is somewhat brighter. Yet expediency has so long guided the policy of Dominion relations with the provinces, that too much must not be expected.

Far be it from the writer to make this remark in any spirit of malice. It has generally been recognized as the truth for some time, and even admitted at Ottawa. Sir Wilfrid Laurier in the course of a speech to the House, made the same statement in the following words; "The experience of forty years has brought this fact again and again to the attention of Parliament and the people of Canada -- not once, not twice, nor thrice, but periodically and systematically Parliament has been asked -- to vote in favor of now one province and now another province, appropriations far in excess of anything stipulated by the British North America Act ---. All these have been made without any guiding principle, but simply as the expediency of the moment suggested, or rather as the financial difficulties of one province or the other were more or less urgent". (1)

It was Mr. Laurier's intention and aim to make the Subsidy settlement of 1907 a lasting one, which would establish a definite principle to be

(1) Hansard Vol. 111. 1906-7 - Col. 5297.

followed henceforth, but that was not accomplished. Several major changes, notably in 1912 and 1917 have been made in the Dominion grant since then.

It is almost time that the Federal government realized that there can be no finality of settlement without the recognition of economic evolution. Mr. Laurier added in a later portion of the address quoted above;+ "There is no other finality in these matters but the will of the people, the will of Parliament", and thus showed plainly that he failed to realize this fact. Economic conditions are not to be governed by the human will, although it may direct them to a great extent by a definite pursuit of policy. Thus ultimately a satisfactory financial system will not depend on natural resources, or any other single factor, but on the recognition of economic change, and the gradual recasting of our constitution in accordance therewith.

This conclusion opens up a complete new field of investigation i.e. What constitutes an ideal revenue system for Canada and its provinces? -- which cannot be explored in these pages. Sufficient here to note a few of the major points which might well be taken into account in planning for the future.

First, the taxation of real property has generally proved to be the mainstay of local or municipal revenue, because of its permanent qualities.

Second, fees, licenses and Crown Lands have served best when controlled by provincial authorities.

Third, all customs and excise duties are properly the care of central authority.

Fourth, the taxation of Income, Inheritances, Corporations etc., can be most effectively carried out by central government. This is a change

brought about by the recent development in transportation and communication facilities which has given industry a much greater range of activity, and consequently made a wider basis of assessment more effective.

The first three facts have been in a large measure recognized in our present system of taxation and give rise to little comment, but the fourth has not yet been generally accepted, or at least little practical use has been made of it. If this idea were carried out in Canada, it would necessitate each of the several provinces receiving a portion of all such revenue collected by the Dominion, since the three sources mentioned above are not sufficiently productive to finance a provincial government. This method of collection would obviate the possibility of much double taxation, and effect a great reduction in the costs of collection. The pros and cons of such a departure form too formidable an array to be reviewed here, but we may note that a similar system has been used temporarily with considerable success in Australia during the early years of the Commonwealth. And there would appear to be no really weighty objection to such a course being followed in Canada, especially with regard to the Income Tax.

The above chapter may be considered as an attempt to cross bridges before they have been reached. But let us rather consider it as laying the plans for bridges which difficult crossings will make necessary. There has been too much of the spirit of "~~Eat-drink-and-be-merry-for-to-morrow-we-die~~" in our Public Finance for general good. "The opportunity is ours to lay the foundations for better things" said Mr. Bracken in 1925, and may this thought ever pervade the minds of our legislators of the future.

1870

1875

1880

1885

1890

1895

1900

1905

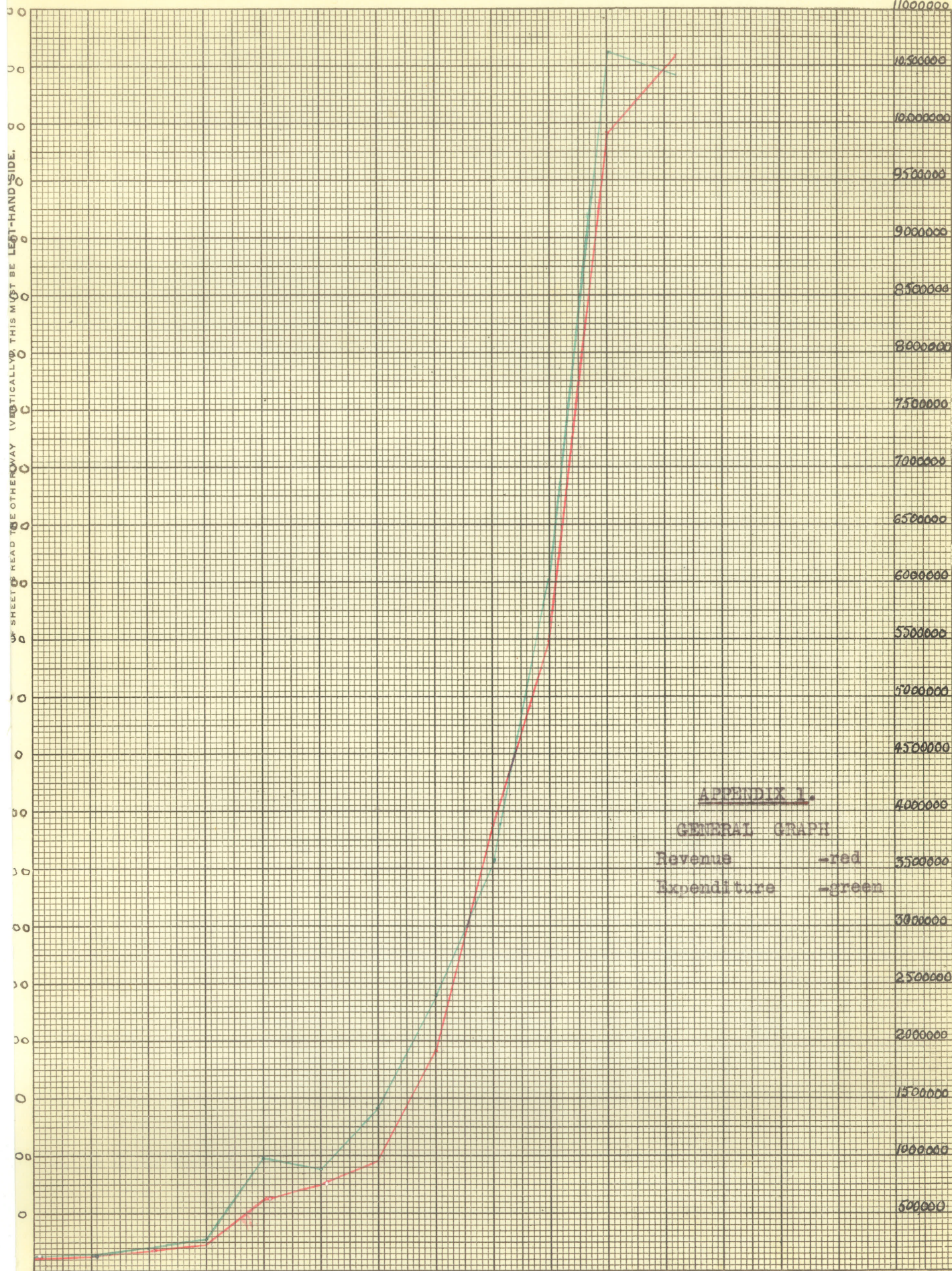
1910

1915

1920

1926

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1915 1916 1917 1918 1919 1920 1921 1922 1923 1924 1925 1926

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IF SHEET READ THE OTHER WAY (VERTICALLY) THIS MUST BE LEFT-HAND SIDE.

10,750,000

10,500,000

10,250,000

10,000,000

9,750,000

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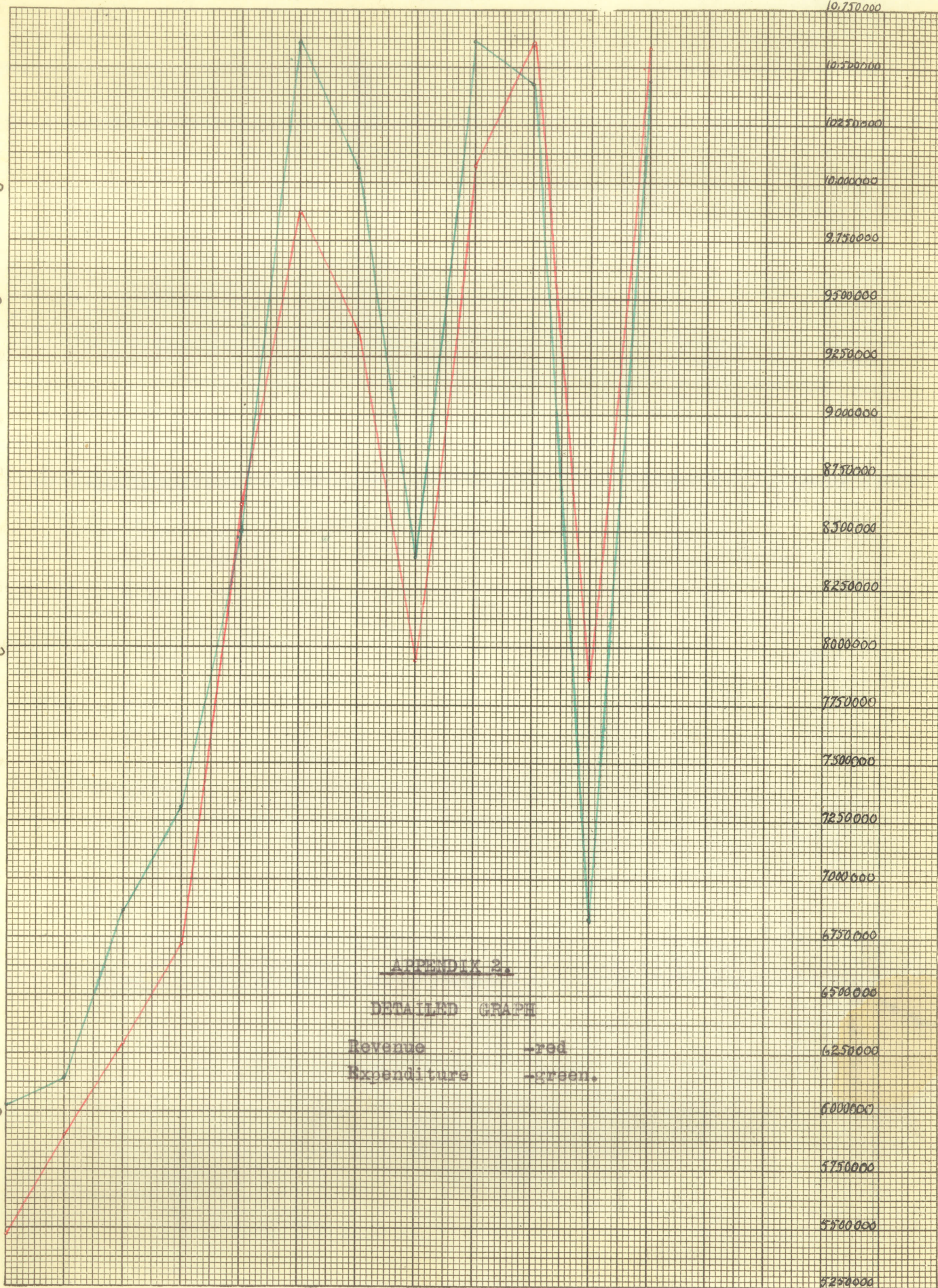
5,500,000

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APPENDIX 2.

DETAILED GRAPH

Revenue - red
Expenditure - green.



1870

1875

1880

1885

1890

1895

1900

1905

1910

1915

1920

1926

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\$

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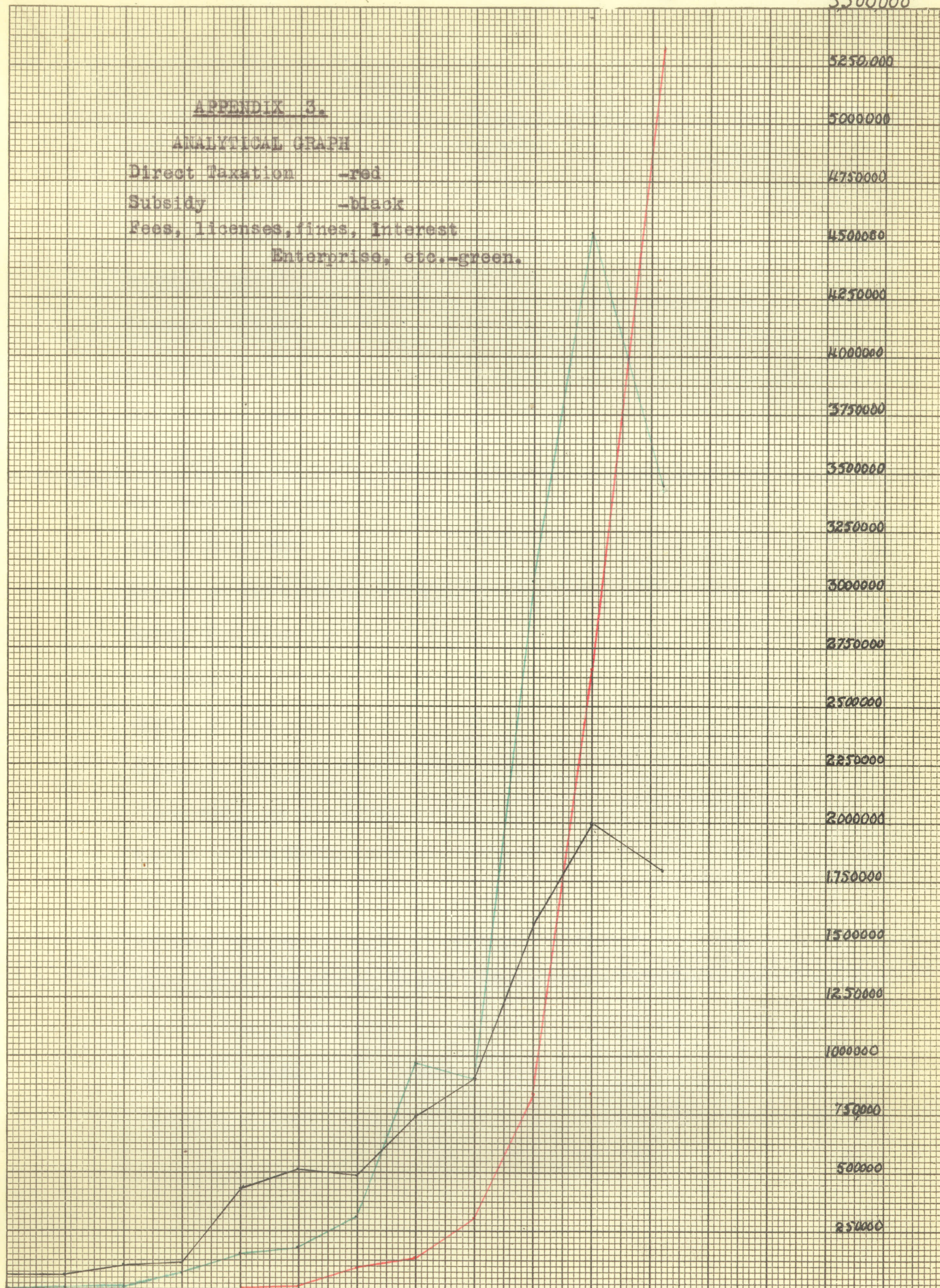
500,000

250,000

APPENDIX 3.

ANALYTICAL GRAPH

Direct Taxation -red
Subsidy -black
Fees, licenses, fines, interest
Enterprise, etc.-green.



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