

THE UNIVERSITY OF MANITOBA

A FINANCIAL HISTORY OF MANITOBA FROM 1950 TO 1965

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A Thesis

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in Partial Fulfilment

of the Requirements for the Degree

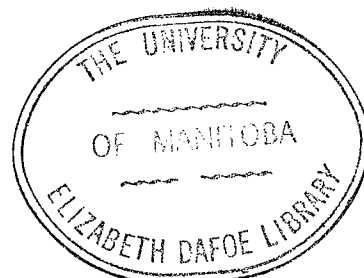
Master of Arts

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by

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## ABSTRACT

The financial history of Manitoba from 1950 to 1965 is a study of two almost diametrically opposed approaches to the role and responsibility of government in society, and to the procedures and policies in government finance which each approach implies and necessitates. The historical background to this study traces the terms and conditions of the British North America Act under which the fledgling province of Manitoba entered Confederation in 1870. In following the financial history of the province to 1950, emphasis is placed on the fiscal arrangements between the federal government and the province, and the changing pattern of governmental responsibilities which emerged during these years of economic growth. In particular, the significance of the great depression of the 1930's, and its impact on the economy of Manitoba, is stressed, for it is this single historical event perhaps more than anything else that shaped the course of public finance in Manitoba after 1950. No attempt is made in this study to assess the pros and cons of the federal system per se in Canada. This is accepted as a political and economic reality in the Canadian scene.

This dissertation is divided into two major chronological periods, with the break coming with the provincial elections in 1958. At this time, the Liberal administration under the leadership of the Honourable Douglas Campbell was replaced by

a Conservative government under the leadership of the Honourable Duff Roblin. In some respects, this is an arbitrary date inasmuch as the available data would indicate that a changing pattern in the approach to governmental expenditures had begun to emerge somewhat prior to this date. However, in that no concrete statements of basic changes in financial policy were made by the first administration, the division seemed a reasonably satisfactory one for comparative purposes. It will be noted that each political party in Manitoba represents, to a significant degree, a different sector of the economy, with the Liberals gaining their main political support from the farm and rural vote, the Conservatives from the more industrialized urban vote. However, because of the particular distribution of electoral divisions in Manitoba, the Conservative Party is constrained to some extent by the rural vote, since it must gain sufficient political support from these voters in order to obtain a majority of seats in the Provincial Legislature.

The government budget at the beginning of each period is examined in detail in order to give some comparative indication of the actual size of the government operation, and to point out the sources of provincial revenues and the major areas of governmental expenditures. The declining relative importance of the federal government as a source of provincial revenues is noted, as well as the changing incidence

of government spending among its various functions. Particular attention is directed towards the different attitude toward debt creation which prevailed throughout the two periods, with regard to both the size of the public debt, and to the uses for which it was believed that the public borrowing which created debt should be directed. In comparing the tax policy of the two administrations, although the level of taxation will be seen to undergo a considerable change, the continuity of a tax policy based on an 'ability to pay' principle will be seen to be common to both periods of public finance in the province.

The first period in this financial history of Manitoba extends from 1950 until 1958, and may loosely be categorized as a 'pay-as-you-go' period of government finance. The reasons behind the dominance of this 'laissez-faire' approach to public finance are outlined, and an attempt is made to trace the effects of this policy on the economy of Manitoba. It points up the depth of government involvement in policies promoting both a low tax structure and a strong credit position in the Province of Manitoba. In tracing the source of government revenues and the direction of government expenditures, including expenditures for 'dead-weight' debt reduction, the results of 'pay-as-you-go' financing will be seen in the type of public goods supplied by the government, and in the limits to the total amount supplied. Government

spending which was financed by borrowing was directed primarily towards self-sustaining utilities, while government services which were considered to be 'dead-weight' were paid for, as far as possible, from current revenues.

The second period in this financial history of Manitoba extends from 1958 until 1965. It is referred to as a 'pay-as-you-use' period in provincial government finance, and goes hand in hand with a theory of social and economic development, and a more positive approach by government towards its responsibilities to society. The results of this approach to public finance in Manitoba are related to the increase in the size and scope of the provincial financial operation since 1958 in comparison with that of the previous period. The growth of provincial revenues will be shown to relate increasingly to an upward movement in the provincial tax structure, with reference to both tax rates and new taxes, as well as to new federal-provincial fiscal arrangements. Provincial taxes continued to be imposed on an 'ability-to-pay' basis so as to place the smallest burden on those who could least afford to pay. As a result, provincial revenue from taxation was limited, and new taxes which did not fit the interpretation given to this concept by the administration were not introduced. The growth of provincial expenditures will be shown to result in an increase in the supply of public goods, and to a different emphasis being placed on particular categories of

government spending. The results will be evident in the growth of expenditures for education, health, and welfare in order to develop the human resources of the province - a development which is now given equal priority with the development of material and natural resources. The increase in the public debt will be traced in relation both to the size of the public debt and to the change in the direction of spending through borrowing. It will be seen that the approach to debt policy under the Conservative administration has resulted not only in a large increase in direct provincial debt, but also in a large increase in debt guaranteed by the province. Again, the underlying change in social attitudes towards the responsibility of government in society is emphasized, and a flexible debt policy will be discussed - barring a change in tax policy from the 'ability-to-pay' principle to which both political parties subscribed - as providing the only alternative for meeting the greater financial burden which increased government expenditures involved.

The final chapter sets forth a comparative summary of the two periods of financial administration in Manitoba, in which both the contrasts and similarities are suggested. The importance of the political element in shaping the course of public finance in Manitoba is noted, especially the way in which each political party has tended to relate almost exclusively to a particular ideology or philosophy. The

Liberal Party, which represented the rural population in Manitoba, also represented their attitudes and opinions, and their low tax policy, their debt policy, and the limited approach which they took to the role that government should play in providing public goods, all reflect this political base. The Conservative Party, which drew a large part of its political support from the urban areas of Manitoba, and especially from the greater Winnipeg area, will be seen to reflect not only their different demand for public goods and services, but also a more positive approach to provincial development as a whole. The continuity of tax policy based on the 'ability to pay' principle throughout both periods of financial administration will be seen to illustrate the continuing importance of the farm vote. Despite increases in the rate and incidence of taxation, adherence to this principle, and the persistent refusal to bring in a sales tax to finance government expenditures, will be seen to so limit provincial tax revenue under the Conservative administration, that a different debt policy became a financial necessity. Finally, the financial history of the fifteen year period assessed in terms of its contribution to optimum economic growth and development within the province, and the shortcomings of such wide policy shifts as actually occurred in public finance policy in Manitoba are indicated. The fact that these policy shifts were

related largely to political and ideological factors rather than to economic or financial facts suggests the need for some common meeting ground between the rural and urban points of view so that political parties in Manitoba, while maintaining their different identities, would represent some consensus suitable to the economic and social aims and objectives of the whole province.



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## CHAPTER I

### THE HISTORICAL BACKGROUND TO PUBLIC FINANCE PRIOR TO 1950 IN THE PROVINCE OF MANITOBA

#### THE DIVISION OF POWERS AND RESPONSIBILITIES BETWEEN THE FEDERAL AND PROVINCIAL GOVERNMENTS

Any study of public finance in Manitoba must, of necessity, make reference to the constitutional responsibilities, powers and limitations to the exercise of that authority as outlined in the British North America Act of 1867. Good marriages may be made in heaven, but federations have a much more finite origin with less likelihood of divine guidance. Confederation in Canada in 1867 was of this ilk - a joining together in order to achieve some form of national unity of groups of people of diverse ethnic and cultural backgrounds who were, in many cases, geographically isolated even though their respective territories were contiguous. The respective merits or demerits of a federal form of government are beyond the scope of this study. Suffice it to say that a federal system of government as opposed to a unitary system was - and probably still is - a practical necessity for a country such as Canada. It offers the best conceivable umbrella which will offer acceptable coverage to the participating groups. Beneath it they can obtain shelter from common problems and cohesion to pursue common objectives, yet still maintain that individuality and separateness which is a hard and fast fact of political and

social life in Canada. Like all federations, the Canadian federation was a compromise between the forces making for unification and the forces inhibiting such a movement.

It is easy to assume, of course, that the federal nature of our constitution has been responsible for many of our woes. This is too pat an answer. Actually, it was these same woes that made this form of government necessary.<sup>1</sup>

The duties and powers of the respective governments - federal and provincial - are outlined, in general, in sections 91 and 92 of the British North America Act. Whatever may be the shortcomings to-day, and however much subsequent judicial interpretation may appear to have misconstrued the original intent of the Fathers of Confederation, it seems reasonable to presume that the arrangements set forth in sections 91 and 92 represented a fairly even balance between revenue needs and expenditure responsibilities at the time the constitution was committed to written form. In brief, section 91 provides the Parliament of Canada with the authority to make laws for the 'peace, order and good government' of Canada in relation to all matters not coming within the classes of subjects assigned exclusively to the Legislatures of the provinces. In other words, the Parliament of Canada was designated as the holder of all residual power not specifically given to the provinces, and an enumeration of 29 classes

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<sup>1</sup>R.M. Burns, "Co-operation in Government", Canadian Tax Journal, Vol. VII, #1, pp.5-15.

of subjects over which the Federal government had exclusive jurisdiction was declared to be illustrative of, but not restrictive of, the scope of the general words 'peace, order and good government'. If we look to section 92 of the B.N.A. Act, the duties and powers of the provincial legislatures are outlined in an exhaustive list of 16 classes of subjects, which include such areas of responsibility as education, hospitals, asylums, administration of justice, control over public lands, and - the spectre which has returned over and over again to haunt our federal system - 'property and civil rights in the province'.

The powers with which to meet these respective responsibilities - the relation of finance to function which has been referred to as the foremost problem of all federations - were also delineated. Prior to Confederation, the chief source of revenue to the then existing provinces was customs and excise taxes. Under the terms of the British North America Act, the provincial governments gave up these indirect taxes as a source of revenue lest they lead to inter-trade barriers between provinces, and defeat the prospect of national unity. In exchange, the federal government agreed to assume the provincial debts, to provide definite cash subsidies or payments to the provinces on a per capita basis, to provide interest payments on debt allowances, to make payments for the administrative costs of provincial governments, and to pay special grants. The original system of grants was

arrived at by means of bargaining between the participating members to Confederation rather than on the basis of any set policy or rule. The result has been called "...a tangle of opportunism and necessity".<sup>2</sup> The provinces were specifically granted the power of direct taxation and of levying license fees, but there is little doubt from the discussions of the Confederation period that it was not expected that the provinces would resort to direct taxation. Revenues from the public domain plus federal cash subsidies were expected to be more than adequate to meet the more modest provincial responsibilities envisaged, although it was recognized that these responsibilities varied inversely with the degree of municipal development and property-tax revenue. The federal government, as well as having exclusive use of customs and excise revenues, was also authorized to raise money by any mode or system of taxation. Again, it should be emphasized that under the then existing level of economic and political development in Canada, it was not foreseen that the federal government would ever have occasion to enter the field of direct taxation, or that the social philosophy regarding the role of government would undergo any significant change.

This background to Confederation is well stated in the Rowell-Sirois Report:

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<sup>2</sup>A.E. Buck, Financing Canadian Government. p.12.

Since 1867, there have been sweeping economic and social changes and no less important changes in opinion as to the appropriate functions of government, none of which could have been anticipated at the time. It is necessary to recall the social conditions of the day and the limited scope of government activities in order to appreciate the financial arrangements with which the federation was equipped and to realize that the division of responsibilities and revenue sources which was made at Confederation contemplated a much smaller sphere of government activities than exists to-day....It will suffice to recall here the scattered rural character of the population, the decentralization of industry in small towns and villages, the self-sufficiency of families and communities, the impressive solidarity of the family, and the open frontier of the continent which afforded individuals a variety of means of adjustment to economic crises. While economic conditions did not offer great material prosperity to the many, they provided a modest security for the frugal and industrious and an almost frictionless adjustment to business fluctuations without intervention by governments.

The role which governments were called upon to play was one peculiar to the conditions of the time. An individualistic outlook, which relies on the family as a unit of mutual welfare, is nourished in a pioneer society and people readily agree that governmental action should be confined to the narrowest possible limits. Accordingly, the principal functions of the State followed the prescriptions of Adam Smith.<sup>3</sup>

#### MANITOBA: 1870-1900

On July 15, 1870, Manitoba entered Confederation under the same financial terms as the original signatory provinces to the British North America Act. A per capita payment of 80¢ was paid on an estimated population of 17,000, which was considered to be a generous estimate. Since there was no provincial debt, interest on an assumed debt of \$27.77 per

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<sup>3</sup>Report of the Royal Commission on Dominion-Provincial Relations, The Rowell-Sirois Report, Book 1, p.36.



capita on an assumed population of 17,000 was to be paid yearly to the province. The grant in support of government was set at \$30,000 per year, giving the newly created province an annual subsidy from the federal government of \$67,200. All public lands within the province were retained by the federal parliament, and this was to be a continuing source of friction until a settlement was reached in 1931. By and large, "...the conferring of provincial status on Manitoba in 1870 was unwise and premature".<sup>4</sup> The province was something less than an emerging nation, with none of the attributes of social cohesiveness, political maturity or economic development which one might normally associate with an independent and self-governing area. Her people, many of whom were Metis of no fixed abode, had little, if any, experience in government of any kind. Her size - until the 1912 boundary settlement - was too small, and settlement soon spread beyond her borders and out of her jurisdiction. Her debt may have been nil, but this was offset by her negligible assets. Her independent sources of revenue were practically non-existent. In fact, the Province of Manitoba had no real financial autonomy and was a ward of the Government of Canada for about the first fifteen years of her existence, obtaining as much as 88% of current account revenues from federal subsidies in the year 1875. The federal government,

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<sup>4</sup>M.S. Donnelly. The Government of Manitoba, p.13.

intent on maintaining the fiction that no province was receiving special treatment, resorted to various subterfuges to rescue the young province from financial collapse. In 1879, the per capita subsidy was increased by assuming that the population was 70,000 when it was only, in actual fact slightly more than 39,000. In 1881, the population was assumed to be 150,000, which was slightly more than double the actual number. In addition, in 1881, Manitoba was given a subsidy in lieu of public lands to compensate the province for federal retention of public lands. In the same year, capital was advanced to build an adequate legislative building. This capital was charged to the debt allowance of the province until 1898 when the federal administration assumed the cost of the buildings. In 1907, the federal subsidy in support of government was increased almost fourfold.

Absence of any significant debt charge, great dependence on the Dominion subsidy for revenues, inability to keep expenditures in line with revenues, and a great preponderance of costs of government and of public works in the distribution of total expenditures, all these indicate the youthful stage.<sup>5</sup>

As settlement in Manitoba increased, and as the fertility of the soil found reflection in increased wheat production, the need for Manitoba as a province to find effective means for marketing the wheat crop provided the first real impetus to responsible government in Manitoba. In 1883 the C.P.R. line reached Winnipeg, and the frustrations associated with dealing

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<sup>5</sup>Stewart Bates. Financial History of Canadian Governments, p.208.

with this railway monopoly resulted, in 1885, in the creation of the first public debt in Manitoba. In that year, Manitoba's first bond issue was made for the purpose of granting aid in the construction of the Manitoba and North Western Railway. Other railway bond issues followed for the construction of feeder branch lines, and the adoption of a provincial policy towards railways is the first indicator of the gradual weaning away of Manitoba from financial dependence on Ottawa. Current account expenditures, with increasing amounts being spent on education, expanding services (public utilities), and welfare, also reflect the more mature outlook of an expanding and developing provincial economy.

On the revenue side, corporation taxes and, later, succession duties and railway taxes were imposed, the revenue from fees was increased, and so also were the returns received from interest.\* By 1900, just less than 50% of the revenue came from the Dominion subsidy, and the remainder was secured by the province's own revenue efforts.<sup>6</sup>

#### MANITOBA: 1900-1930

The years from 1900 until the depression in the 1930's were years of growth and development in Manitoba. The first groping towards true provincial status, begun in 1885 with the first issue of Manitoba railway debentures, was expanded to meet the needs of a growing population and a generally

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\*from telephones, School lands fund, other interest.  
McN.Pearson. Provincial Finance in Manitoba. p.23.

<sup>6</sup>Ibid., p.210.

prosperous economy. In 1907, the next major step was taken towards a provincial policy towards public utilities when the province bought out the Bell Telephone system. Public works loomed large in this period with the extension of education and hospital facilities and, in 1915, the building of the present Legislative Buildings. Hydro-electric power was also developed by the Province, and a 'good roads' program was initiated. In 1917, the Farm Loans Association was formed to provide credit for farmers. The association obtained capital by issuing bonds guaranteed by the Provincial government and secured by farm mortgages. Up until 1921, the interest rate to the borrower was 6% combined with a subscription to the capital stock of the association equal to 5% of the amount of the loan. After 1921, this latter requirement was withdrawn and the interest rate raised to 7%. In 1925, the Association began financing directly through the Provincial Treasury and the interest rate was reduced to 6½%. By 1921, advances for farm loans totalled \$5.6 millions. The loans were repayable in equal instalments over a 30 month period which tended to increase the risk involved as the repayment periods was longer than the crop year of the product offered as security. In addition, the Province of Manitoba had, by 1921, advanced \$3.4 million under its housing scheme, \$2.6 million for rural credit societies and \$1.3 million in soldiers tax relief. Relief payments were an item, particularly in the depression in the early 1920's,

and interest on public debt became an increasing figure in the provincial budget.

Taking the period as a whole, current expenditures were met from current revenues. However, credit was 'easy' during the latter 1920's, and Manitoba also borrowed extensively to finance the capital expenditures necessitated by expanding government activities. The fact that much of this borrowing was done in the U.S., and that most of these loans were payable in the currency of either country, was a factor which was going to loom large in the 1930's when Canada finally left the gold standard. Federal subsidy payments represented a lessening proportion of provincial revenues during these years. The first tentative steps towards utilizing direct taxation had been made by 1900 with corporation and inheritance taxes, and the importance of direct taxes as a source of provincial revenue continued to grow. In 1923, a provincial income tax <sup>was</sup> initiated. Receipts from direct taxes on gasoline also began to appear as a major item of provincial revenue. In 1912, the first 'conditional' grant from the Federal government for agricultural education marked the beginning of a grant-in-aid policy between the federal and provincial governments. Despite periods of retrenchment necessitated by the First World War and by the sharp depression in the early 1920's, the whole period was characterized by the general buoyancy of the economy, prosperity, and an absence of inter-governmental financial friction with regard to fiscal authority.

RELATIVE PERCENTAGES OF CURRENT ACCOUNT EXPENDITURES

	1901	1911	1921	1931
Public Debt Charges	24.81	18.66	30.11	33.32
General Expenses of Govt.	21.72	20.68	14.55	10.16
Education	17.12	21.41	23.60	16.62
Public Welfare	7.81	13.00	14.15	20.19
Public Works (incl. main- tenance)	13.08	21.04	13.95	14.62
Public Domain	15.46	5.21	3.64	5.09
	100.	100.	100.	100.

Source: R. McN. Pearson. Provincial Finance in Manitoba. published by Economic Survey Board, Province of Manitoba, May, 1938.

PER CAPITA COST OF CURRENT ACCOUNT EXPENDITURES

	1901	1911	1921	1931
Population of Manitoba	255,511	461,394	610,118	700,139
<u>Per Capita Cost:</u>				
Public Debt Charges.	\$ .96	1.22	5.13	7.00
General Expenses of Govt.	.84	1.34	2.48	2.13
Education	.67	1.39	4.03	3.50
Public Welfare	.30	.85	2.41	4.24
Public Works	.50	1.37	2.38	3.07
Public Domain	.60	.34	.62	1.06
Total	\$3.87	\$6.51	\$17.05	\$21.00

continued

RELATIVE PERCENTAGES OF CURRENT ACCOUNT REVENUES  
BY MAJOR SOURCE

	1901	1911	1921	1931
Dominion of Canada subsidy	47.95	24.27	15.01	10.61
Direct taxation duties	11.01	12.10	43.98	40.62
Non-taxation revenues	41.04	63.63	41.01	48.77
Total	100.	100.	100.	100.

Source: R. McN. Pearson, Op.Cit.

The gradual consolidation of provincial authority over direct taxes was to have an important bearing for the future. Equally important were judicial decisions interpreting the 'property and civil rights' clause in section 92 of the British North America Act. Gradually, the responsibility delegated to the provinces under section 92 gained priority over the responsibility given to the federal parliament under the 'peace, order and good government' clause. The prevailing attitude was rather bluntly stated in the White Commission of 1934:

When any province is in....a necessitous condition, with its credit exhausted, it is, of course, proper for the Dominion Government, if it deems the maintenance of Provincial credit to be of national importance, to come to the aid of that Province by way of a guarantee of its borrowings or of a direct loan to be repaid with interest as soon as...its credit has been restored and it is thus enabled to extricate itself from its financial difficulties. But this is quite different from saying that, in such a case, the Dominion should assist by voting a special subsidy in aid, because such a subsidy is a gift and not a loan and would be provided at the expense of all the people in Canada and not solely by the people of the Province in question.<sup>7</sup>

<sup>7</sup> Quoted from J. Stefan Dupre, Report of 1963 Conference, Canadian Tax Foundation, pp.249-60.

This attitude that the allocation of responsibilities and powers as accorded under the British North America Act was inviolate, and that the financial arrangements - which took the form of federal subsidies granted to the provinces when they entered Confederation - were the final solution, was upheld in many ways. As noted, Manitoba was not considered to have been given any 'special' treatment during its financial difficulties in the 1870's. It was explained by the artifice of pretending that the population was larger than it actually was, and of justifying this pretense by saying that population was increasing at an unprecedented rate. Increasing federal subsidies on a per capita basis were within the framework of the written constitution. Again, the treatment of the public lands question in Manitoba provides another good example. Beginning in 1881, Manitoba had been given a special grant of revenue in lieu of property, the actual amount based on a fictitious estimate of the revenue Manitoba would allegedly have received if she had owned this land from 1870. In the final settlement in 1929, when the lands were handed back to Manitoba, a lump payment of \$4.6 millions was given to Manitoba to compensate for the alienation of these lands since 1870 by the federal government. However, the reasons advanced for the cash settlement were not related to any question of fiscal need on the part of Manitoba. It was not seriously suggested that the land should be under provincial jurisdiction because, without it, provincial sources of revenue were



inadequate to meet the judicial interpretation of provincial responsibilities under the property and civil rights clause. Instead, the payment was related to a wrong allegedly done to Manitoba at the time the province entered Confederation.

It is unfair to look back in anger - although one might allow a considerable measure of frustration - at the interpretation given to the British North America Act prior to 1930. One may bemoan the fact that 'necessity and opportunism' rather than national principle seemed to guide the pens that wrote the constitution, but one does well to remember that necessity is also the mother of invention. If any sort of union was to be achieved, it had to be reached on terms which were acceptable to the then participating provinces. One may belabour the point that subsequent interpretation of the British North America Act seemed to continually divorce federal-provincial financial relations from any concept of economic principles on a national level. However, it may be argued with equal force that the economic reality of 1867 was such that any idea of a national economy as we tend to understand it today was completely alien to Canadian thinking in 1867 and was so, in fact, until well into the mid-nineteen thirties. Canada in 1867 was a pioneer society. The sphere of government action was considered in terms of the prevailing laissez-faire philosophy of that day. The greatest responsibility in the new country of Canada was transportation - the connecting link between separated geographic areas - and this major responsibility was given to the federal

authority together with the major source of revenue with which to meet this cost, namely, customs and excise duties. Provincial institutions were given responsibility for education and welfare, and, since it was believed that Providence helps those who help themselves and that the individual was responsible for his own well-being, the prevailing political philosophy dictated that these services would be kept to a minimum. In fact, it was believed that the burden of these services to the Province would actually decline with the development of municipalities and municipal property taxes. The federal subsidies were expected to cover the bulk of provincial expenditures, but direct taxation was also delegated to the provinces as a source of any extra revenue which might be required and, more particularly, so that the province would have the authority to confer upon the municipalities it created the right to collect property taxes. Nothing in this homely philosophy could have anticipated the change in social attitudes toward governmental responsibilities which has taken place particularly since the 1930's, and no one could have foretold the effects of the prolonged world-wide economic crises which the nineteen thirties ushered in. The federal structure had weathered depressions in the late 1890's and the early 1920's, and had come through a major world war relatively unscathed. But the 1930 depression broke open the very foundations of the federal structure of 1867, and revealed the cracks in the whole area of Dominion-Provincial financial

relations which had been so artfully concealed until this time.

#### THE IMPACT ON MANITOBA OF THE DEPRESSION IN THE 1930'S

The impact of the depression was catastrophic. With the rest of Canada, Manitoba shared in the general downswing. Between 1928-29 and 1933, per capita income dropped 49% - a lesser decrease than in Saskatchewan and Alberta but the highest decline of any of the other provinces. In certain aspects, many of Manitoba's problems were peculiar to this one province. Manitoba was less dependent on the growth of wheat per se, and hence less affected by the severe drought and decline in wheat output. But she was heavily dependent on wheat to the extent that the prosperity of Manitoba was directly related to east-west commerce. When the volume of that trade was drastically curtailed as a result of rapidly falling wheat prices, reduced grain output due to drought, and a federal tariff policy designed to protect the more industrialized east against competitive foreign imports and to maintain domestic prices for Canadian manufactured goods, Manitoba was caught in a vice and "the economic support of nearly 40% of Manitoba's population virtually collapsed".<sup>8</sup> At the same time that revenue was being curtailed, provincial expenditures were increasing, despite an almost too-heroic effort to slash current spending. Manitoba - and more especially Winnipeg - as the

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<sup>8</sup>Rowell-Sirois Report. Book 1, p.168.

largest urban centre and the hub of east-west trade was traditionally the holding depot for a large percentage of the seasonal workers for the wheat areas of Saskatchewan and Alberta. With the collapse of the wheat growing country, these workers became a charge on the relief rolls of the city of Winnipeg. Thus relief expenditures\* for unfortunate workers, for whose condition Manitoba was in no way responsible began to climb. At the same time, the tax sources of both municipalities and the province were being constantly eroded by declining incomes. Brave efforts were made by the province to meet its financial obligations. Old taxes were increased, and new taxes imposed, including a most unpopular wages tax. However, revenue from the increased taxation could barely keep pace with the declining sources of revenue, let alone cope with the tremendous increase in relief expenditures. To compound the problem, debt charges payable in optional currencies became an oppressive burden, and no savings could be effected by refunding the debt as provincial credit was exhausted by 1932. The Dominion government was forced to step in with money to meet provincial deficits and obligations, and, in turn, the provinces

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\*Stewart Bates, p.230. Financial History of Canadian Governments. "Between 1930 and 1936 inclusive, the Province had expended \$15.5 million on direct relief. By 1936 the balance sheet showed \$3.1 millions as a provincial contribution to the relief works of municipalities, relief advances of \$3.9 million to the City of Winnipeg, \$3.0 million for relief work on provincial highways, buildings, etc. and \$1.2 million advanced to other relief accounts: in all approximately \$27 million have been spent for relief purposes by the provincial government. This represents only part of the depression expenditures:(cont'd)

provided money to the municipalities. Between 1930 and 1937, the Dominion government assumed \$23 millions of the total relief payments in Manitoba, slightly more than the one-third of the total relief costs of \$64 millions expended by the provincial and municipal agencies during the same period. At the same time, some \$22 millions was borrowed from the Dominion government so that, in fact, the federal government financed just slightly less than 70% of the total relief expenditures in the province. Between 1930 and 1937, the public debt in Manitoba increased from about \$90 million to over \$128 million. Manitoba, by 1937, had once again become a financial ward of the federal government. In trying to steer a course between maintaining the constitutional responsibility of the provinces for 'property and civil rights' - which was interpreted to include relief payments - and preventing outright starvation of the people and financial collapse of the provinces, the Dominion government was forced to part with large sums of money over which it had no control. The provinces, in turn, had to shore up the crumbling financial position of the municipalities. This lack of co-ordination and central control

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the expenditures on the Farm Loans Association, the Co-operative Wheat Producers Ltd., and the exchange losses also represent depression costs. The extent of the deficit financing is indicated in the growth of the province's liabilities to the Dominion, the treasury bills held by the Dominion having increased by over \$20 million since 1930. The treasury bills held by banks also increased, but of the \$12.8 million outstanding in 1936, an amount of \$7.1 million was held by the Bank of Commerce following its assumption of the liabilities of the Savings Office in 1932, and this was guaranteed by the Dominion government".

inevitably resulted in inefficiency and waste so that the maximum mileage was not obtained for the amount of money expended. Expenditures on essential services were often out below the level required to maintain desirable standards, the effect of which was to place an added burden on these provinces in an attempt to catch up when recovery got under way. In Manitoba, for example, per capita expenditures on education fell from \$4.03 in 1921 to \$3.50 in 1931 to \$2.43 by 1937.

#### THE ROWELL-SIROIS REPORT

The Rowell-Sirois Commission, appointed in 1937, was charged with the whole task of looking into Dominion-Provincial financial relations and expressing

...what in their opinion, subject to the retention of the distribution of legislative powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national unity, will best effect a balanced relationship between the financial powers and the obligations and functions of each governing body, and conduce to more efficient, independent and economic discharge of governmental responsibilities in Canada.<sup>9</sup>

The Commission recognized for the first time a set of national objectives that were not envisaged at the time of Confederation: (1) the necessity of meeting cyclical swings in economic activity and employment on a national and co-ordinated basis so that maximum mileage could be obtained from money spent and policies adopted; and, (2) the necessity of re-examining

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<sup>9</sup>Rowell-Sirois Report, Vol.1, p.10.

the responsibilities of the federal and provincial governments in the light of their constitutional ability to discharge these responsibilities, and to eliminate or compensate for inter-regional discrepancies on the basis of true fiscal need rather than some imagined wrong done to them at the time of Confederation. The results of the Commission were presented to Parliament in May, 1940. The major recommendations were that the federal government should assume responsibility for unemployment relief (as opposed to support for unemployables which remained a provincial-municipal responsibility), that the federal government assume outstanding provincial debt so that a fresh start could be made, and, that the provinces withdraw completely from the personal and corporation income tax and succession duty field. To discharge its responsibilities, the provinces were to be given national adjustment grants - unconditional equalization payments to the poorer provinces based on a level of social services equal to the Canadian average. The federal government was to have no authority over the disposition of these funds - its responsibility was considered to have been discharged when it gave the provinces the ability to finance essential services at average levels. The whole concept of grants-in-aid or conditional grants begun in 1912 was rejected.

To Manitoba, the proposals of the Rowell-Sirois Commission were more than acceptable. They represented a promise that the 1930 debacle could not be repeated and a hope for finan-

cial independence. For, by 1937, Manitoba's credit standing was non-existent, her capacity to raise additional revenues virtually exhausted, her expenditures on essential services at an unacceptably low level, the burden of her dead-weight debt singularly high and oppressive, and her dependence on the federal government top-heavy and at odds with the element of provincial autonomy inherent in the Canadian federal structure. "In short, the farmers of western Canada found themselves the victims of geographical location, terrifying natural phenomena, and economic laws seemingly designed to benefit someone else".<sup>10</sup> Manitoba shared the plight of the farmer.

THE DOMINION-PROVINCIAL TAX AGREEMENTS OF  
1941 AND 1947

In January, 1941, a meeting of the provincial governments was convened by Prime Minister King in Ottawa "in order to secure, if possible, the adoption of the Commission's recommendations". The conference broke down after just two days, in large part because the Commission's recommendations were unacceptable to Ontario, Quebec and British Columbia, who would not, under the terms of the proposals, qualify for national adjustment grants. It was also felt that the war-time atmosphere was not conducive to considered discussion of such a far-reaching and important subject. However, the exigency of gearing the Canadian economy to an all-out war

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<sup>10</sup>Donnelly, Op.Cit., p.56.



effort had the full support of all the provinces, and, in 1941, as a 'temporary wartime expedient', all provinces agreed to facilitate the war effort by voluntarily withdrawing from the field of personal and corporation income taxation. In return, they would receive annual payments of an amount equal either, (1) to the interest payments on the provincial debt (less contributions to sinking funds) in the fiscal year ended nearest December 31, 1940 but less the succession duties collected in the same year; or, (2) to the revenues actually obtained from the personal income and corporation taxes during the fiscal year 1940 by the province and its municipalities, plus a guarantee that the revenues from provincial liquor and gasoline taxes would be maintained at their 1940 level. Manitoba chose the second formula which was more favourable as it ensured a payment of \$5 millions as opposed to \$3.2 millions under the first option. Special grants to the provinces such as had been given to Manitoba during the depression were to have been eliminated, but this stipulation was later relaxed, and Manitoba continued to receive 'fiscal need' subsidies to the extent of \$600,000 per year.<sup>11</sup>

The agreement stated that, within one year after the end of hostilities, the federal government would reduce its rate of taxation on personal and corporate incomes by such an amount as would enable the provinces to re-enter this field of taxation.

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<sup>11</sup> A. Milton Moore and J. Harvey Perry, "The Financing of Canadian Federation-The First Hundred Years", Canadian Tax Foundation, April, 1966, #43.

return for unconditional per capita subsidies with a guaranteed minimum based on the 1941 population, and with provision for adjustment upwards in proportion to increases in Canada's per capita gross national product. The federal government would assume responsibility for almost all unemployment relief,<sup>15</sup> and initiate a universal old-age pension scheme. Various other conditional or matching grants were proposed, particularly in the area of public health and hospital construction. The proposals were at variance with the Rowell-Sirois recommendation in that provincial subsidies would continue to be based on population rather than fiscal need, and in that the system of federal grants-in-aid would be continued. However, they did represent an ambitious attempt by the federal government both to continue the centralization of tax structure which had proved so successful during the war, and to initiate a vast new program on a national scale for the social security and economic welfare of all Canadians. In addition, they represented an invasion into what had previously been interpreted as purely provincial responsibilities and powers. The Green Book proposals were either rejected outright by the provinces, met by counter-proposals, or accepted with some reservations and doubts. No general agreement was arrived at, and in the budget speech of June, 1946, the Federal government proposed to negotiate tax agreements with any provinces

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<sup>15</sup>The federal government would extend assistance benefits, as a standby measure, equal to 85% of the insurance benefits to unemployed employables not yet, or no longer, eligible for insurance benefits. Ibid. p.23.

who so desired. In 1947, for a period of five years, 7 of the 9 provinces (Ontario and Quebec abstained), including Manitoba, entered into a tax-rental agreement with the federal government. In return for withdrawing from the triple-tax field of incomes and inheritance, the provinces received a guaranteed minimum payment (roughly 150% of the 1941 agreements), which would increase in proportion to increases in provincial population and in the Canadian gross national product. Manitoba, which subscribed to the per-capita plus 50% of tax revenue option plus statutory subsidies payable in 1947, received \$13.5 millions in 1947.

#### SUMMARY 1870 - 1950

It should be possible now to review and reassess the state of public finance in Manitoba up to 1950. Constitutionally, as a province of the Dominion, Manitoba is fiscally independent - free to spend what it likes on whatever it chooses, free to borrow where and as much as it can, free to levy whatever direct taxes it needs or desires. However, there are certain political limitations which have been self-imposed by tax agreements with the federal government, and certain economic limitations which came into sharp focus during the depression years. Having blundered through the first ten years after 1870 as a financial ward of the federal government, Manitoba gradually became more financially independent and autonomous. The rapid settlement of the West, the railway

boom, the prosperity and seemingly unlimited potential prosperity of the wheat economy, the development of provincial policies of economic development - all these factors contributed to an optimistic attitude. Public debt was increasing, but not disproportionately to the services provided or to the growth of the province, and there was conceivably no real concern that revenue sources would not expand sufficiently to meet new needs. The field of direct taxation as a source of revenue had gradually been tilled. In 1893, succession duties were levied; in 1900, corporation taxes; in 1923, personal income and gasoline taxes; in 1931, corporation income taxes. But the depression of the 1930's delineated clearly the slow leaks which federal subsidies had patched since 1870, and which frontier settlement and a relatively consistent prosperity had obscured from view. Manitoba, as well as the other provinces, but more so than some, did not have the financial resources to meet the responsibilities of a prolonged economic crisis. Her capacity to raise revenue was limited by a somewhat inadequate share of the country's natural resources. More important, her economic disabilities - the relatively small size of her population, her dependence on east-west trade which in turn hinged on good wheat crops and a firm external market for wheat, the distance from sources of raw materials and from markets for buying and selling manufactured products - made it impossible for a province so situated to raise enough revenue to meet a major and prolonged economic catastrophe without resort to prohibi-

tive taxes which would not only erode the existing tax base but impede further provincial development and growth. Manitoba's interest in the Rowell-Sirois Report and her bitter disappointment over the failure to implement its recommendations are understandable. Experience is a harsh teacher, and the hardships and misery of the 1930's made Manitoba anxious for any tangible security against economic instability and the devastating hardships of cyclical fluctuations. Hence also her favourable attitude to tax agreements with the federal government and to federal policies for marketing wheat. Above all else, Manitoba feared another depression.

The depression psychosis was carried over into the post-war period, and probably reinforced by the all-out war effort to restrict unnecessary or postponable expenditures. The post-war mood was to "...go slow, to husband reserves, and put stability of income before the quick and swollen profits of a boom".<sup>16</sup> There was little question of promoting provincial growth and development. Instead, the emphasis was on preserving the stability that had been rescued or resurrected from the misery of the 1930's. Thus, though post-war interest rates were low, there was little thought given to borrowing for expansion, as the credit experience of the 1930's was still too vivid in the minds of the public. The government of Manitoba reflected this attitude.

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<sup>16</sup>W.L. Morton, Manitoba - A History, p.451.

The long ordeal of the twenties and thirties had imposed a saving prudence on both the provincial administration and the provincial electorate...nothing revealed this attitude more clearly than the adoption of a plan of retirement of deadweight debt at a rate and on such a scale which severely reduced the funds available for public services.<sup>17</sup>

The provincial economy was changing with post-war prosperity. Better methods of transportation and communication saw the beginning of the end of rural isolation, and gradual diversification and industrialization widened and deepened Manitoba's economic base. But it was perhaps too soon to expect policy to reflect the changes which were taking place. Under a democratic system, a government may be 'unwise but it cannot be wrong' and there is little to suggest that, until well into the 1950's, the public administration in Manitoba was anything less than a mirror reflection of the cautious mood of her people.

To what extent this cautious attitude may be attributed to the particular form of provincial government in Manitoba is an interesting speculation. Since the Bracken administration of the 1930's, party politics had been virtually absent from the Manitoba political scene, and it was not until 1948 that some real expression of provincial party politics began to emerge from the coalitions and semi-coalitions which had grappled with the problems of the depression and the war. Whatever the merits gained in administrative acumen and bureaucratic competence, the net effect of coalition was an attitude of stewardship towards the role to be played by

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<sup>17</sup>W.L. Morton, Manitoba - A History, p.462.

the Manitoba provincial government. The a-political atmosphere over such an extended period could hardly fail not to be stultifying and to reduce government to a purely administrative concept. Under these conditions, it was probably doubly difficult for Manitoba to regain her self-confidence. The 1950 budget must be considered against this background.

## CHAPTER II

### THE 1950 BUDGET

#### THE YEAR 1950 AS A SUITABLE STARTING POINT

The choice of the year 1950 as a starting point for a more intensive study of the financial history of Manitoba is a somewhat arbitrary one. At that time, the government of Manitoba was in the hands of the Liberal party under the leadership of the Honourable Douglas L. Campbell. Party politics and the concept of a government opposition with an alternative policy was really just beginning to re-emerge in Manitoba. The first break to the previous coalitions had come two years earlier, in 1948. In examining the 1950 budget in some detail a specific point of reference may be established for subsequent comparisons with both the Liberal years until 1958 and the Conservative years following 1958.

Chronologically, of course, the mid-century mark is a suitable one. During the first fifty years of the twentieth century, the population of Manitoba had increased more than fourfold - from about 193,500 to 795,000. In the same period, the dollar-value of agricultural production grew from approximately \$17 millions to \$314.6 millions, and the dollar-value of manufacturing production increased from under \$13 millions to nearly \$500 millions. By way of comparison, the dollar amounts involved in Manitoba in 1950 were very comparable to those for the whole Dominion in 1900 although the population



of Manitoba in 1950 was less than one-seventh the population of all of Canada in 1900.\* The problems and policies of a 'pioneer' provincial economy in 1900 were very different from those faced by a more mature provincial economy in 1950, and this is reflected in the growth and change of provincial revenues and expenditures. Net current revenues had grown from about \$1 million in 1900 to over \$40 millions in 1950, and the source of provincial revenues had changed significantly. Whereas in 1900, 48% of provincial revenues originated with direct federal subsidies, 12% in provincial direct taxation, and the remaining 40% with non-tax revenues such as licenses, fees, interest, etc., by 1950 only 4% of provincial revenues came from federal subsidies, about 36% from direct provincial taxation - which was collected by the Federal Government and repaid to the province under the terms of the Tax-Rental Agreement of 1947, - and the remainder from provincial non-tax revenues (licenses, fees, etc.) and from provincial direct taxation, particularly on gasoline and amusements. Net current expenditures had also increased from under \$1 million in 1900 to over \$35 millions in 1950. In 1900, about 25% of all expenditures were channelled to public debt charges, 22% to general expenses of government, 17% to education, under 8% to public welfare, 13% to public works, and 15% to the public domain. By 1950,

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\*Dominion of Canada, 1900 - Population: 5,371,315. Dollar-value of agricultural production: \$365 millions. Dollar-value of manufactures: \$481.5 millions. Source: Canada Year Book, 1904.

an almost entirely new category of expenditure - transportation and communication - accounted for 16% of Manitoba's expenditures, health and welfare for 24%, education for 17% and another 17% went towards servicing the public debt. Less than 4% of total expenditures were chargeable to the general expenses of government and another 5% went towards protection of persons and property. Over 8% of provincial expenditures were for natural resources and primary industries, which included a gradually increasing amount directed towards trade and industrial development.

There are additional reasons why the choice of the year 1950 as a starting point for this study is a particularly suitable one. First, as already suggested, the political party system was gaining momentum after the coalition hiatus during the 1930's and 1940's. This meant that government policies were challenged increasingly in the Legislature, so that continued justification for their applicability was necessary not in the light solely of past trials and tribulations but also in terms of present needs and wants and future aspirations. The real presence of an alternative government which was provided by the party opposition in the Legislature forced the Liberal administration to define clearly and defend its financial policies and economic and social goals for the Province of Manitoba. Secondly, it is long enough after the cessation of hostilities in 1945 that it may safely be implied that provincial economic and financial

policy is no longer simply the product of duress and the exceptional circumstances and conditions involved in gearing an economy to all-out war effort, nor yet the by-product of the adjustment back to 'peace-time' production. What's past is always prologue, and at some point it may not be presumptuous to assume that the problems of the province and the policies advanced to solve them are only post-war in point of time. This line of reasoning does not obviate the fact that at least some of the problems to be resolved by the province were, in fact, a by-product of the past, or that the prevailing attitudes of those in whose hands the reins of government were entrusted were molded to some degree by past experience. It does suggest, however, that by 1950 the economic and social conditions of the province had changed sufficiently that a cliché or habit of speaking in certain terms should not be misconstrued as an attempt to return to any prior 'normalcy' (however loosely that may be interpreted), but as an indicator of what was assumed should be the norm for this particular time. After five years, the policy assumptions of the government must in gross measure reflect less of a delayed reaction to war and depression and more of a firm belief in a certain course of action which was designed to enhance future prospects. Moreover, there is no reason to presume - short of maligning the voting public of Manitoba - that government policy at this time did not reflect, by and large, the outlook and attitudes, the hopes and aspirations,

of the majority of the people of the province.

#### THE BUDGET PHILOSOPHY

By way of illustration with respect to general economic policy, the Hon. Stuart S. Garson, K.C. in his budget address of March 16, 1945, stated that the policy of Manitoba during the war period had been twofold:

- (1) To use our wartime revenue windfalls to improve the financial and credit position of the province; and,
- (2) at the same time to improve and increase as much as we prudently can our services to the people of Manitoba.<sup>1</sup>

There is nothing out of the ordinary in this statement. The government, mindful of past economic ills, was trying to strengthen the financial position of the province by paying off debt at a time when it had been asked by the federal government to follow just such a policy of saving and not spending. But, three years later, in the budget address of April 9, 1948, Mr. Garson again emphasized the need for "... the strictest administrative economy if we are to continue to have balanced budgets which will meet the needs of our people without heavy increases in taxes".<sup>2</sup> He went on to point out that Manitoba has increased her expenditure on services from \$17.49 per capita in 1923 to \$46.15 per capita, in 1947.

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<sup>1</sup>Budget Speech of Hon. Stuart S. Garson, K.C. Provincial Treasurer of Manitoba, Friday, March 16, 1945, p.21.

<sup>2</sup>Budget Speech of Hon. Stuart S. Garson, K.C. Provincial Treasurer of Manitoba, April 9, 1948, p.2.

Expenditures on education during this period had increased 150%, health and welfare expenditures were up 400%, expenditures on public works had increased 600%. Thus, he stated:

...These comparisons prove that this government, instead of being miserly as charged, has spent to the limits of prudence on increased services to the people, public moneys which for the most part can come only out of the pockets of the Manitoba taxpayers; but while we have spent to the limits of prudence, we have tried not to spend beyond those limits.

This is the policy which we intend to continue to follow. This is a policy under which we shall bring to the public administration of the Province's affairs the same degree of careful, economical and diligent day-to-day management which the individual citizen must exercise in his own business if he is to make ends meet; for we do not ask the citizens of Manitoba to save money to pay taxes to us in order that we may waste what they have saved. On the contrary, we plan to keep taxes as low as possible consistent with the progress of the Manitoba community and adequate care for its unfortunates ...Ours is a policy designed to encourage these free men to transform our great resources into a maximum of enlightened development and progress, in a free society under a genuinely democratic government.<sup>3</sup>

In delivering the budget speech on April 4, 1950, Premier Campbell again emphasized that "...the basic principle underlying the budget philosophy continues to be one of providing for first things first".<sup>4</sup> At greater length he stated that:

...Before your Provincial administration enlarges its field of operation by new programmes, or undertakes to provide larger grants calling for the collecting and spending of more of the money the people earn, a careful appraisal must first be made of the benefits individuals will receive, and care must be taken to see that, in

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<sup>3</sup>Ibid., p.25.

<sup>4</sup>Budget Speech of Hon. D.L. Campbell, Provincial Treasurer of Manitoba, Tuesday, April 4, 1950, p.26.

the collection and redistribution of tax moneys, the administration does not produce inequities offsetting the sought-for advantages. There is widespread concern felt over the extent to which control of the individual's earnings has passed, through taxation, into the hands of public administrators. Budgets have been increased all along the line, and, while revenues and tax-paying capacity, dollar-wise, continue to mount, the increased cost of services can be carried readily enough, and all commitments honored, but we should not lose sight of the fact that these exceptionally prosperous conditions and continuously rising revenues may not last indefinitely. The question that may well be asked is - will the momentum of public expenditures carry forward on an ascending scale even into a time when revenues have lost their accelerated rate of increase; into a time when income may well fail to produce balanced budgets, causing financial difficulties? Can public budgets be so managed that the revenue momentum they now show may be stored up, to serve as a counterbalance to the falling buoyancy in receipts? --.. (Governments) should not have commitments to meet that are beyond their capacity to pay.<sup>5</sup>

Emerging from all this is a very clear and precise picture of the economic, political, and social philosophy of the day. In essence, it is very akin to 19th century liberalism and pre-Keynesian orthodox economics. The role of government is seen as a limited one vis a vis the individual. It is a social philosophy which recognizes the responsibility of government to care for those who are unable - or even unwilling - to do so for themselves, but which sees its primary responsibility as one of guaranteeing an environment within which the enterprising individual may progress and prosper by his own initiative. Certain services, it is recognized, can or should be provided by government since it can

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<sup>5</sup>Ibid., p.7.

do so most efficiently and economically and, in some instances, fulfil a need which would not otherwise be met. But, care must be taken that the rights of the individual are not jeopardized by the shifting of responsibility to the government. Nothing in this philosophy justifies a wholesale robbing of selective Peter to pay for collective Paul. The emphasis is also consistently on the necessity of balancing budgets without increasing the tax burden on the individual, since taxes had the double disadvantage of shifting responsibility away from the individual and of limiting individual capacity and incentive to further progress. In order to start with a clean slate, the sins of omission and commission of the past must be atoned for by paying off the existing debt. The attitude towards debt is most interesting and reflects, perhaps more than any other single feature of the budget, the influence of rural mores on the financial thinking of the day - the unsophisticated joy at the burning of the mortgage, and the self-satisfaction and pleasure of the well-stocked larder against the inevitable rainy day. Provincial finance is constantly likened to the affairs of a private individual whereby expenditures are most soundly financed from past savings.

Looking more closely at statements concerning the revenues of the province, the opinion was expressed over and over again that the financial powers of a province are limited both by the terms of the British North America Act which

delineated their taxing authority, and by its own resources both human and natural - by the "...ability and willingness of the people of Manitoba to pay taxes".<sup>6</sup> Unlike the federal government, no province was 'sovereign' in the fiscal field. Instead,

...provincial governments and individual people are alike in that new, costly annual programmes permanently undertaken cannot long be paid for out of any reserve or savings deposit, but must be met from increased sources of annual revenue which, for governments, implies an increase in taxation.<sup>7</sup>

The 'windfall' revenues of the war and immediate post-war years could not be expected to continue indefinitely, and it was noted that the "...high revenues we are now receiving are in the nature of extraordinary income".<sup>8</sup> There was, in addition, a limit to the tax-paying capacity of Manitoba's citizens consistent with the basic philosophy of free individual enterprise and limited interference by government in the economic and social life of its individual citizens. Even more important, it is noted that the provincial government had no real control over provincial revenues which "...largely rise or fall according to the inclination of the motorist, or the amusement seeker, or the purchaser of liquor".<sup>9</sup> The tax-rental agreements with the Federal government in 1947

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<sup>6</sup>Ibid., p.26.

<sup>7</sup>Budget Speech of Hon. Ronald D. Turner, Provincial Treasurer of Manitoba, Monday, March 24, 1952, p.13.

<sup>8</sup>Budget Speech, 1950, p.26.

<sup>9</sup>Budget Speech of Hon. D.L. Campbell, Provincial Treasurer of Manitoba, Wednesday, March 21, 1951, p.14.



provided, in fact, the only real stability to Manitoba's revenue, and with 40% of its revenue thus secure from fluctuation, the government was in a position to increase its expenditures 'prudently'. But current surpluses should primarily be earmarked for paying off past obligations so that Manitoba's credit position would be secure, and so that the cost of financing provincial debt would be decreased. The saving to the provincial treasury would be used either to permit lower taxes and/or to increase services, and/or to create sinking funds so that Manitoba would be able to take care of the obligations it would have to meet in the future. In addition, it was pointed out that the revenues of the province of Manitoba were particularly vulnerable to uncertain world markets and volatile world conditions. Mr. Campbell noted:

...Our own Provincial conditions are not the only vital factors to be considered in appraising Manitoba's financial position and prospects; national and international forces and influences are of equal, if not of even greater, concern to us...It cannot be too strongly emphasized that world peace, the state of world trade and the attainment of workable international monetary agreements, which bring with them healthy markets for our surplus production, are issues of fundamental importance to the Province of Manitoba.<sup>10</sup>

The buoyancy of world trade created by export credits had, it was felt, partially obscured the real facts of the post-war world. Inconvertible currencies and the demise of the pre-war triangular trade between Canada, the United States and Great

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<sup>10</sup> Budget. 1950. p.1.

Britain were factors which could affect Manitoba more severely than some of the other provinces if post-war monetary and trading agreements floundered. For the very reason that Manitoba was an 'exporting' area, provincial taxes should be kept as low as possible since there was no way for the producer to pass taxes along to a foreign consumer if world competition was keen. For all these reasons - the instability of 60% of provincial revenues, the particular problems posed to a trading province which had to sell abroad in unprotected markets, the natural and constitutional limits to provincial revenue sources, and the prevailing philosophy of liberalism and orthodox economics - the good years must provide for the eventuality of the lean years. The solution was not to be found in raising more money through higher taxation on existing provincial resources but in providing the right economic climate for growth and, at the same time, holding the line on expenditures.

#### THE ATTITUDE TOWARDS PUBLIC DEBT

The whole period is thus approached from the point of view of "resisting temptation to spend to the limits of Government resources".<sup>11</sup> It was believed that "desirable projects that can be undertaken and become self-sustaining thereafter are best adapted to our present financial circumstances", and, therefore,

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<sup>11</sup>Budget Speech, 1951. p.13.

We have avoided, for the best of reasons, making long-term commitments to provide additional support to existing or new services which, while they could be financed to-day if less money and credit were used for non-recurring projects, would build up the budget permanently to a level where new taxes would have to be collected.<sup>12</sup>

Other than the normal expenses of government, which were increasing in proportion to the growth of population and to the economic development of the province, expenditures were to be directed towards paying off the old dead-weight debt of the province and towards capital projects which would be self-sustaining and would not add to the dead-weight debt. The government had decided on a policy of giving priority to utilities which were revenue bearing partly from debt considerations, partly for the convenience provided to the people of Manitoba by these additional services, and partly

... to bring low cost power, speedier communication and improved road systems, knowing that, in doing so, we are providing means by which production costs can be lowered and Manitoba's economic strength be increased thereby.<sup>13</sup>

Governments should not have commitments to meet that are beyond their capacity to pay, and the policy of holding down expenditures which would contribute to dead-weight debt reflects less a lack of faith in the future economic growth of Manitoba (although a case might be made for some

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<sup>12</sup>Budget Speech, 1950, p.26.

<sup>13</sup>Ibid., p.15.

lack of imagination), or a lack of concern for the needs and demands of the people of the province, and more a well-reasoned priority system of how provincial moneys should be spent, a cautious estimate of the certainty and continuity of provincial revenues, and a certain belief in what the level of government participation should be in a free society. The 'prudent' limits to provincial spending were prescribed by the uncertainty of provincial revenues, the necessity for financial stability, and the belief that no government should be hasty in interfering more than is necessary or desired in spending what can only be, in the final analysis, the hard-earned savings of the individual taxpayer. Except for the stability afforded by federal payments under the tax rental agreements, it was only on the expenditure side of the ledger that the government could exercise any real control over provincial finance. This policy was carried even further in subsequent years. By 1952, the government was borrowing exclusively for self-sustaining enterprises, which

...reflects a desire to achieve a pay-as-you-go plan within reasonable limits for all types of direct general governmental expenditures apart from the utility type of expansion...The ultimate goal in pay-as-you-go financing is to pay all general expenditures both current and capital out of current revenues .<sup>14</sup>

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<sup>14</sup>Budget Speech, Turner, Mar.24, 1952, p.11.

The policy of debt reduction in the early 1950's was a practical expression of the Debt Reduction Act of 1947. It will be noted that this piece of legislation proposed a general reserve fund to retire all dead-weight public debt outstanding as of March 31, 1947 within a period of twenty-four years, and the creation of sinking funds sufficient to provide against any new debt. Such a policy would further the prime objective of provincial financial activity, namely the improvement of Manitoba's credit position and the reduction of provincial debt charges which would allow for either a tax reduction or, from the revenue formerly spent on debt charges, an increase in provincial services provided to the people of Manitoba without a concomitant increase in provincial taxes. If increased services were demanded by the public which would result in the formation of non-revenue bearing debt, such services should be financed as far as possible from current surpluses, and, it was felt in 1950, current surpluses were not high enough to accomplish both these objectives to the fullest. The 1947 Act required that repayment of debt was a first charge on the provincial treasury, and the people of Manitoba must realize that heavily increased expenditures could only be met through increased taxation. In the Budget address in 1950, Mr. Campbell noted that

...the character of Manitoba's debt is such that the revenues from self-sustaining utilities will account for a large part of the charges that

have to be met for interest and debt-servicing... It has been our policy to provide money for the non-revenue bearing programmes on a serial type borrowing. In this way repayment of the debt at the rate of 10% a year starts the first year after the money is borrowed. Through this policy it is possible to avoid the embarrassment of having large amounts maturing at some future date when it is quite conceivable that conditions would not be as favourable as they are at present...It may not always be possible to continue to provide for a 10% repayment of all new dead-weight debt out of the current revenues of each year, but so long as we can continue to arrange to repay such borrowings on this basis it will ease the problem of debt management and help to keep interest costs down.<sup>15</sup>

This, then, is the background of the 1950 budget: a conviction that the currently high level of provincial revenues would not necessarily continue, and the knowledge that only 40% of provincial revenues - that portion which came from the Federal government - was secure against fluctuation downward; a conviction that debt charges on dead-weight debt were a drain on revenue from which there was no tangible monetary return to the provincial coffers, hence a desire to pay off the debt so that the money saved could be used either to reduce the tax-load on the citizens or to provide them with increased provincial services; a conviction that the dead-weight debt should be paid off in years of high revenue in order to cut financing costs and to improve Manitoba's credit position so that, in any future emergency, she would have none of the difficulty in

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<sup>15</sup>Budget Speech, Campbell, 1950. p.21.

remaining solvent that was experienced in the 1930's; a conviction that debt repayment was a first charge on the treasury, and that any surplus which was left over could be used 'prudently' to extend services to the people which resulted in the creation of non-revenue bearing debt; a conviction that any new debt created should be thoroughly secured either by the revenue-bearing nature of the expenditure or by sinking funds or by both; a conviction that the government should not interfere unnecessarily in the economic and social life of its people, its duty having been discharged if, in the parable of provincial talents, the government created an atmosphere most conducive to individual promotion of the growth of these talents, while the original talent was in no way impaired and, in fact, would be passed on to future generations in a purer and more elemental form. Implicit in all this thinking is a policy objective of balanced budgets. The analogy is drawn between revenue to the province and income to the individual, and each must provide in the years of plenty against the possible years of famine. Therefore, the province should not have future obligations to meet which were predicated on a level of revenue return which it cannot guarantee will continue. Capital expenditures must be budgeted so that the time-

payments will not be beyond the capacity of the province to bear under any circumstances.

#### THE PROVINCIAL ECONOMY IN 1950

The policies having been stated, we can now turn to the 1950 budget address to see how these objectives were to be achieved.\* The 1950 budget speech begins with a synopsis of the current financial position of the province as "a measure of the strength of our economic position". Agriculture and dairy production, it is noted, is down slightly from the year before, but the gross dollar value of production is still in excess of \$300 millions for the fiscal year 1949. The gross value of manufacturing production is a record high of \$483 millions, of which total one industry - slaughtering and meat packing - accounts for 20%, and four others - railway rolling stock, butter and cheese, the needle trade, and flour and feed mills - for almost 25%. During 1949, forty -seven new industries were begun in Manitoba, and it was noted with pleasure that these new enterprises were decentralized throughout the province rather than concentrated in Winnipeg. The tourist trade was assuming increasing importance with a gross value of \$20 millions. Natural resources accounted

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\*Refer to 1950 Budget of Estimates of Revenues and Expenditures in the statistical appendix.



for \$60 millions of the gross provincial product, with all resources excepting mineral production showing an increase from the previous year. The amicableness of provincial-municipal relations was noted, and the sound basis of municipal government commended. In 1949, 103 out of the 177 municipalities in Manitoba were operating on a strictly cash basis, as compared with only 71 in 1948. Rising cost of materials, services, and salaries had resulted in higher municipal taxes but the tax-paying capacity of the people had kept pace with the increase. Farm mortgage debt had been reduced by 1949 to \$5,168,000, a drop in five years of more than 70%.

#### DOMINION-PROVINCIAL RELATIONS

Special note was made of federal-provincial relations since the treasury tax-agreements of 1947 were due to expire in 1952 and, at the negotiation meetings to be held in Ottawa that fall, Manitoba intended to present a strong case for their continuance. In 1949, Manitoba had received some \$16.5 millions from the federal government under the agreements. Under the provisions of the escalator clause, this amount would increase to about \$18 millions in 1950 - about 40% of Manitoba's total revenues. In reply to suggestions that more income could have been obtained for the province by even partial occupancy of the dual income and succession duty tax fields, Mr. Campbell reiterated that the first three years of the tax agreements had been years of exceptionally high income which could not have

been predicted, nor was there any guarantee that the level of revenues would continue as high in the future. The Ottawa agreements had, he said, given a measure of stability to provincial revenues which they had not had before and, in any event, "...this much is clear - double taxation has been avoided and the practical advantages of a rational taxing plan demonstrated".<sup>16</sup> Manitoba expressed disappointment over the fact that the welfare and public investment aspects of the original proposals had not been adopted. During 1949, Manitoba had received some outright grants from the federal government in the health and social service field, and had availed herself of the matching grants made available in the particular fields of cancer control and hospital construction. However, the Government of Manitoba held the view that "...the needs of all the people of Canada cannot adequately be met over the long term by a system based on making expenditures at intermittent intervals for individual projects".<sup>17</sup> Such a policy, it was felt, was unfair to those provinces which, before the introduction of the plan and at some considerable sacrifice to themselves, had already provided such additions and improvements in these selected fields that use of further funds from the

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<sup>16</sup>1950 Budget Speech of Hon. D.L. Campbell, Tuesday, April 4, 1950, p.10.

<sup>17</sup>Ibid., p.10.

federal government could not prudently be made. In the interests of a policy which will "...operate equitable over long periods of time in all parts of Canada...we believe that new discussions should be initiated and continued with the objective of reaching agreements".<sup>18</sup> In the field of public investment, the Government of Manitoba favoured an integrated national policy so that the possible conflict of provincial plans and federal fiscal objectives might be avoided. By encouraging trade, a strong national economic structure benefits all the provinces, and, in most instances, the federal government was believed to be in the best position to promote and provide for the economic growth and strength of the whole nation. Mr. Campbell summarized Manitoba's attitude to federal-provincial relations when he said:

Manitoba's approach to the solving of Federal-Provincial jurisdictional problems has never at any time been one of seeking to obtain for this Province an escape from the responsibilities that properly rest on us as a province of Canada. The strengthening of the national economy by joining in policies where co-ordinated actions are so obviously advantageous does not conflict with the principles of autonomy at home.<sup>19</sup>

#### REVENUES AND EXPENDITURES

For the fiscal year 1949, provincial net general

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<sup>18</sup>Ibid., p.11.

<sup>19</sup>Ibid., p.11.

revenues were almost \$39.4 millions, an increase over the original estimate of \$37.5 millions of about \$2 million, due in large part to the exceptional buoyancy of the Canadian economy and to increased payments under the escalator clause of the tax-rental agreements. Net general expenditures were estimated at nearly \$36.6 million, a decrease of about \$1.6 million in relation to the expenditures authorized by the Main Supply Act, Special Warrants, and the supplementary Supply Act. These net figures, while they show the net cost of revenue to the province, fail to emphasize either the administrative burden of providing services (since revenues which can be specifically assigned or related to the services concerned are deducted), or the revenues obtained from institutions, interest, premiums, discount and exchange, and grants-in-aid, shared-cost contributions, and reimbursements received from other governments. To this extent they tend to understate the provincial financial operation. In gross terms, revenue for 1949 was \$48.9 million, and expenditures totalled \$43.3 million. With either approach the surplus position is the same, and for the fiscal year 1949, the revised estimate of the surplus given in the budget report was \$2,899,000. For the fiscal year 1950, net revenues were estimated in the budget speech at \$39.4 million (the actual realized in 1949), and expenditures at slightly under \$39.2

million, not including any special warrants or supplementary supply bills. Other than increases in the normal costs of conducting provincial government affairs, the largest single increase in expenditures was due to an increase of over \$1.4 million in debt-servicing charges (interest and debt redemption) to a total expenditure of over \$10 million. In 1950, maturities totalling almost \$6.9 million would fall due for redemption, the major part of which was a 4% sterling issue. However, increases in expenditures on debt would be largely offset by corresponding increases in revenues from utilities - from \$59 million in 1949 to \$65.2 million in 1950. The anticipated surplus was \$286.703.

#### PROVINCIAL DEBT

During the previous year, it was noted that gross funded debt had increased from \$100.8 million to \$116.2 million, but, "...when care is taken to analyse the nature of our obligations, and the security supporting it, the financial soundness of our debt position can be seen".<sup>20</sup> During the fiscal year 1949, two bond issues totalling \$22 million and averaging 3.1% interest cost were sold by public tender. "Close bidding featured both sales indicating that Manitoba's securities continue to attract the favourable regard of the investing public".<sup>21</sup> All but \$4.8 million of this amount,

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<sup>20</sup>Ibid., p.25.

<sup>21</sup>Ibid., p.15.

which went towards highways and provincial buildings, was spent on self-sustaining projects - The Manitoba Power Commission, the Manitoba Telephone System, and the Pine Falls Power Development. However, the net increase to the public debt was considerably less than \$22 million - less, in fact, by almost \$6.8 million because of debt retirement. In addition, the sinking funds against redemption of outstanding liabilities has increased by \$2.9 million to \$24.1 million as of March 31, 1949, and the Reserve for War and Post-War Emergencies, begun in 1942, totalled \$2.2 million at the same date and was estimated at over \$3.2 million for March 31, 1950. The per capita dead-weight debt had also been reduced even though the total gross debt had increased. At March 31, 1948, when the total debt of Manitoba was at a low of \$92.4 million, per capita dead-weight debt was \$65.11. At March 31, 1950, the provincial debt stood at \$116 million, but the per capita dead-weight debt was \$63.26, and an estimated \$54 million - or almost 50% - of the total debt was self-sustaining. During 1950, capital expenditures for the province were estimated at \$29.5 million, which "...represents a high point in capital expenditures for the Province in any one year".<sup>22</sup> Of this total, \$24 million would be spent

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<sup>22</sup>Ibid., p.24.

for the Manitoba Power Commission, Manitoba Telephones, and the Pine Falls Power Development, and would therefore be self-sustaining. The remaining \$5.5 million, of which \$3.5 million would be spent on highways, roads and bridges, and the remainder for public works, crown lands, public buildings at mental hospitals, universities, etc., would comprise the only addition to dead-weight debt.

The budget reflects the government's policy to provide for first things first according to its stated priority system - namely, to use the revenues of these good years to strengthen the financial position of the Province by paying off the debt, by building up sinking funds to take care of future obligations, and by concentrating on self-sustaining capital expenditures rather than on those which would add to the dead-weight debt of the province. By channelling capital expenditures to utilities, it was believed that the government would provide means to lower production costs and thereby increase the economic strength of the province. For the third consecutive year, no increase in provincial taxation was anticipated or planned.

#### THE RED RIVER VALLEY FLOOD OF 1950

Even as the budget address was being delivered on April 4th, natural forces were amassing which would deal a

frightening and severe blow to the province of Manitoba. As the water level rose on the Red and Assiniboine Rivers, it became obvious that the areas adjacent to the two rivers would be inundated by flood waters despite predictions to the contrary, and the government moved to protect the people, the livestock, and the personal property of the inhabitants of Manitoba. Time was of the essence, and no other thought was paramount except that of weathering the disaster without loss of life and with the minimum damage possible. In his report to the Legislature the following November, Mr. Campbell stated that:

Normally, before committing the Province to major expenditures, projects are given the most careful scrutiny, over a period of weeks and sometimes months, before the Government proposes to the Legislature that new financial burdens of any magnitude should be placed upon the citizens of the Province. In an emergency period such as that experienced in early May, no such careful deliberations were possible.<sup>23</sup>

When the flood waters finally receded, first estimates of the direct cost to the province of the Red River flood were \$23 million, a figure which was subsequently revised downward to \$19.75 million, and which included payment of 87½% of all municipal costs attributable to the flood.

"It is doubtful", said Mr. Campbell, "if any other modern government in Canadian history had faced an

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<sup>23</sup>Statement and Budget Speech of Hon.D.L. Campbell concerning the Red River Valley Flood of 1950. Nov. 7, 1950, p.10.



unheralded disaster budget calling for an additional 50% increase in its planned expenditures over any twelve month period".<sup>24</sup> However, the problem of how to pay for this disaster was one that did not enter the picture at all in meeting the emergency and ensuring the safety of the people of Manitoba. The federal government gave an immediate pledge of financial aid, and subsequently contributed \$12.5 million during the fiscal year 1950. Without federal assistance, the financial objectives of provincial finance would have been seriously jeopardized. With the federal contribution, however, Mr. Campbell was able to state:

We plan to draw as required on the Consolidated Fund of the Province to pay our proportion of the total costs, treating such payments as current expenditures. Largely as a result of the sound financial policies of this and preceding governments, we are in the fortunate position that we have sufficient resources in terms of current income and other reserves to meet our share of flood costs without special borrowings and without levying new and heavy taxation.<sup>25</sup>

Probably no single event substantiated the government's belief in the correctness of their financial policy of 'not spending to the limit of our resources' than the Red River flood, for, faced with an unprecedented disaster

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<sup>24</sup>1951 Budget Speech of Hon. D.L. Campbell., March 21, 1951, p.17.

<sup>25</sup>Budget Speech of D.L. Campbell, Special Session, 1950, p.20.

of such magnitude, the province came through with hardly a ripple on the financial waters. During 1950, the Province spent \$2,730,000 directly on flood expenditures, all of which money came from current revenue which had been revised upward to \$41.8 million from the original estimate of \$39.4 million due to the "...continued and unparalleled increase in the economic activity of the province and the nation".<sup>26</sup> And, despite this, there was still an estimated surplus of \$272,940.

#### SUMMARY

The 1950 Manitoba Budget gives a fairly comprehensive outline of the financial policies by the government of the day, and of the rationale on which their programs and policies were based. The emphasis placed on debt retirement, the concern expressed for the credit standing of the province, the low tax policy, and the tentative beginning to pay-as-you-go financing for capital expenditures which were of the non-revenue-bearing type, are all outlined or suggested in this Budget. The practical implementation of these financial policies and their effect on the economy of Manitoba can be traced during the following years of Liberal administration in Manitoba until 1958.

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<sup>26</sup>1951 Budget Speech of D.L. Campbell, Mar.21, 1951,p.12.

## CHAPTER III

### THE LIBERAL ADMINISTRATION IN MANITOBA 1950-1958

#### A RESTATEMENT OF THE PHILOSOPHY OF THE GOVERNMENT

The period of Liberal administration in Manitoba continued until 1958, and witnessed many restatements of their policy targets. It was, as well, a period of unprecedented and continuous growth within the province, due partly to the natural spill-over from the continuing economic growth and development of Canada as a whole, and, in part, reflecting positive action on the part of the Manitoba government to either initiate change and development or to provide the economic conditions felt to be most conducive to spontaneous growth within the province. However, from the financial standpoint, it was by and large a decade of consolidation of the 'pay-as-you-go' philosophy of government, which reflects a deeper interpretation of what was considered to be the role of government in society - a role which might be summed up as one of 'stewardship'. This implied that the government should be a follower rather than a leader of changing public attitudes and opinion, an interpreter rather than an innovator. The interference of government in the private economic and social life of the individual was one which should proceed with caution and an attitude of prudence. If the economic climate was such that individual initiative and enterprise was

offered the most favourable and unfettered possibility for advancement and fulfillment, then, ipso facto, the sum of individual activity must result in the greatest social good within the terms of reference of what was believed to constitute the role of government in society.

It would be misleading, however, to consider this period of administration in Manitoba, in contrast to the years following 1958, in terms of political party philosophy as we understand it in Canada to-day at the national level. Manitoba's political party system reflects a western, frontier outlook, faced with all the problems associated with an under-developed region as well as the special problems of an area highly dependent on primary products, particularly agricultural products, whose production is subject to the uncontrollable vagaries of an unpredictable natural environment, and whose sale is subject to the uncertainties of a highly competitive world market. Liberalism in Manitoba until the late 1950's was perhaps as pure an expression of the small 'l' liberalism of the 19th century as was to be found in any area of the world. It was honestly believed - with perhaps no little justification - that liberalism epitomized those principles and guidelines to action best suited to the particular problems of economic development in Manitoba. Moreover, nothing in the liberal philosophy conflicted either with

traditional thinking of a west-European background, with the purposes of other ethnic groups who had left - voluntarily, or otherwise - their native lands to build a new life in a new land, or with the lingering frontier outlook of the west. The frontier is probably the last outpost for that individual whose self-reliance and enterprise and sense of personal responsibility ask little more than to be left alone to progress to the self-imposed limits of individual initiative and ability. Self-help is the motivating force to action, and the underlying attitude is one that believes that, since the opportunity is there for the asking or taking, individual progress and success is a matter of individual effort. The role of any supra-individual authority such as government was to help individuals help themselves, and Adam Smith's interpretation of the responsibilities of a government was deemed adequate to this task. First, the government should maintain the law and order necessary for the individual to chart his course without fear that his efforts would be frustrated by any untoward outside interference, and with the knowledge that he would not be deprived of the natural right to enjoy the fruits of his own labour. Secondly, the government should initiate such public works deemed necessary to the larger social interest as would not be undertaken at an individual or private level because the economic return would not justify the investment unless

the selling price of the service was so high as to be prohibitive to the majority. Government participation in providing public works of this nature was justifiable in that, in providing a service to all which would not otherwise have been available, and thereby increasing the sum total of social happiness, it also made it possible for individual effort to be more productive - either directly, by increasing his potential and incentive to produce, or indirectly, by contributing to his health and well-being.

The policies of the Manitoba government until 1958 reflect a firm belief in this type of liberalism. The chief economic agent of the province's prosperity at the end of World War II was still the rural farmer who required little more than the right to be left alone to make his own living. The farm vote was a major political force to be reckoned with. The Liberal Party in Manitoba had a strong rural base, and government policies of the day tended to reflect this bias. The primary producer required low taxes since his products had to be sold in world markets at competitive prices. Since, under these conditions, the farmer could not always count on passing along any or all of his tax burden in the sale price of his produce, taxes should be as low as possible - "...as low as may be consistent with the maintenance of the standard of services desired by the people of Manitoba as a whole".<sup>1</sup> The

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<sup>1</sup>Budget Speech of Hon. R.D. Turner, Wednesday, March 23, 1955, p.18.

standard of services desired by the rural as opposed to the urban citizen did not always coincide in degree although it undoubtedly did so to a greater extent in direction. They both feared unemployment after the miserable experience of the 1930's and wanted some guarantees against those forces beyond their personal control which might impair their ability to earn an honest and modest living. They both wanted a decent standard of living, although their definition of this standard was not necessarily the same. The 'needs' of the city dweller might represent the 'wants' - the hopes and aspirations - of the rural dweller, but to the farmer their fulfillment or achievement would depend on his own effort, and he would have them when he could afford to pay for them in hard currency of the realm. The morality of the rural dweller is less sophisticated than that of the urban dweller, in part because of the greater self-sufficiency of the rural as opposed to the urban unit for the most basic needs of life - food and shelter - and, in part, because of the sometimes limited and oftentimes fluctuating cash income of the farmer which colours his attitude towards any personal action to 'buy now-pay later'. Since the farmer could never be sure of his ability to 'pay later', it was only natural that he should transfer this personal limitation to his concept of government. The basic mores of the farm unit for self-

industry, self-reliance, and personal responsibility were reflected further in the attitude towards personal debt. Debt meant one of two things: either a possible loss of all one's belongings and personal property and means of livelihood if debt payments could not be met, or, an impairment or loss of credit standing so that, if one needed money urgently, it could not be obtained. To be mortgaged was an unenviable position, but to be in debt beyond one's known and certain ability to repay meant that one was living beyond one's means. Sometimes, as in the terrible thirties, no amount of self-sufficiency or individual initiative would suffice. But, if the government could guarantee some minimum level of security, or guarantee conditions whereby the individual could, by his continuing effort, hang on to his means of livelihood, this was all that was required of it. In effect, the government should provide a floor in time of need. Finally, the economic atmosphere necessary to promote and continue the liberal philosophy could be enhanced by direct government action and positive intervention in the life of the individual since it alone had enough resources to initiate projects which were beyond the economic feasibility of any single individual - projects and public works which would help the individual to help himself. Electricity would enable the farmer to mechanize and to produce more efficiently,



inexpensively and easily by increasing the ratio of output to man hours expended - barring unforeseeable natural phenomena. Better transportation would enable the farmer to market his produce more easily, more quickly, and at less expense. Better communications would bridge the void of silence which had existed between the rural farm unit and the world about him in which he must sell his products.

To all these ends, the administration in Manitoba directed itself almost exclusively during the 1950's. Taxes were kept at as low a level as possible, and predicated on the principle of 'ability to pay'. Public debt of the dead-weight type was repaid at what some writers have described as an 'alarming' rate of speed. Government spending of other than a current nature was directed almost entirely towards self-sustaining power projects, so that the expenditure of borrowed money created the means for its own debt retirement. Government policy in its negotiations with Ottawa reflected a tremendous bias in favor of 'stability' of provincial revenue income, and of federal responsibility for unemployment and the costs of unemployment. It was not a case of that government governs best which governs least, but that that government governs best which interferes least in the economic and social life of the individual citizen. There was no shirking of govern-

mental responsibility to provide for the needy, the sick and the infirm, but body and soul could be kept together in a prudent manner and without extravagant frills promoted by government spending.

When the Liberal government was turned out of office in 1958, the rejection was largely a rejection of the nineteenth century liberal interpretation of the role of government in society. To a significant degree, the very policies designed to promote liberalism created the conditions which led to its demise. The power policy which had been pursued so diligently brought electrification to "...all cities, towns, villages and hamlets as well as over 93% of the occupied farms in the Province".<sup>2</sup> By 1958, there were 234,947 telephones in Manitoba for a population of approximately 850,000. The increasing amounts being spent yearly on new highway construction opened up new areas and made most settled parts of the province easily accessible by roads. All these factors contributed to the breakdown of rural isolationism and to conditions favourable to new and intensified opportunities in manufacturing and industrial fields of endeavour. As the city became accessible to the country, standards which had been accepted almost without question in rural areas

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<sup>2</sup>Budget Speech. Hon. Charles E. Greenlay, Provincial Treasurer of Manitoba, Wednesday, March 26th, 1958, p.30.

were gradually modified and eroded. The influence of modern city living on the country was much greater than the other way around, and there was a gradual breaking down of rural mores as they melted into more urban patterns. More and more people migrated from the farm to the city, but those who remained on the farm lived in a different and changing world. Mechanization of farming and larger-scale farming tended to decrease the personal element inherent in an agricultural society. Moreover, the farm was no longer isolated but exposed by modern methods of transportation and communication to the changing opinions and standards of the world at large. And change they had! With the misery of the depression of the 1930's largely eroded from the minds of city dwellers - forgotten by some and a mere historical event to others who were too young to remember it, - with the war in Europe over, and post-war adjustment proceeding with far fewer pitfalls in its path than had been expected, with the predicted post-war depression failing to materialize, with continuing prosperity and a continually rising Canadian national gross national product, with a high level of employment and government guarantees of full employment bulwarked by new approaches to economic problems which justified fiscal measures which would have seemed heretical to Adam Smith - and many Manitobans! - the mood was one of

continuing optimism. The world could not go sour again since someone, somewhere was taking care of such eventualities. With the heavy load of fear of depression off their backs, the province could stand upright and be creative in its thinking about what standard of service was desired by the people of Manitoba as a whole. New social ideas were bearing fruit. It was not enough that everyone should be guaranteed the bare minimum unless that minimum was given a much broader interpretation than had been done in the past. The gap between what had been considered a 'frill' and what was considered a 'fair share' narrowed. Subsistence thinking was definitely 'out', and the order reversed from Liberte, Egalite, to Egalite, Liberte. Indeed, the previous balance between rights and responsibilities was subject to change, and the definitions of freedom and equality couched in terms of receiving and not just doing. As people thought more in these terms, governments moved, without fear of serious contradiction at the electoral polls, into wider and wider spheres of influence in the everyday life of the individual. The vine of 19th century liberalism was not dead, but surrounded by a rich mulch of new principles and objectives.

#### THE ECONOMY OF MANITOBA 1950-1958.

During this period, the pattern of economic life in

Manitoba was changing. Agricultural production in Manitoba was still a vital factor in Manitoba's economic growth, but its relative importance to gross production values in the province was declining. Whereas, until 1952, the gross value of agricultural production had contributed almost one-third of the total gross value of production in Manitoba, in the late 1950's this percentage had dropped to below 25%, and as low as 18% in 1957. This was due in part to greater concentration of productive activity in other areas, in part to poor crop yields and an epidemic of rust, and in part to the cost-price squeeze to which primary producers - and especially those engaged in the production of cereal grains - were increasingly subjected. Mechanization could increase yield and efficiency of production but it also increased the fixed cash costs to the farmer, especially the cost-output ratio of the farmer with a small acreage or relatively poor soil. During the 1950's, world markets for agricultural products were neither too stable or too predictable, and American dumping policies in world wheat markets were a cause for continuing concern. The farmer was caught between an uncertain market for his products and rising operating costs of production as the domestic price level for things he bought continued to increase. In addition, the cost of living for the farmer, as reflected in the prices he had to pay for domestic finished and semi-manufactured goods, continued to rise under the pressure of

high consumer demand and protective Canadian tariffs. However, this dilemma was not without its bright side. Despite the almost impossible obstacles which prevented the farmer from accumulating large amounts of capital through his own resources, and despite the limited access which the farmer has to institutional sources of capital, there was an increasing movement to replace smaller and less efficient farm units with larger units which could spread the higher costs over a larger volume of production, and effect some economies of large-scale production. There was, as well, a gradual shift towards greater diversification and specialization, towards the production of special crops such as sugar beets, sunflowers, soy beans, field peas, rape seed, etc., which, unlike the cereal grains, had a strong domestic demand and were less dependent on export sales. For those still in the production of cereal grains, especially wheat, new rust-resistant strains were developed, and every effort promoted to increase farm deliveries to elevators, to increase cash payments for grain stored on the farms, and to move Canadian grain into world markets.

Natural resource production in Manitoba was on the upswing, with the gross value of production increasing from \$76 million in 1950 to a peak of \$123 million in 1956. Since 1940, the increase in gross value of production from

natural resources had increased more than 300%. The greatest gains were in mineral production, particularly nickel, and in 1957 a record number of mining claims - in excess of 21,000 - were staked in Manitoba. The discovery of oil in south-western Manitoba in the early 1950's had led to the establishment of a thriving industry which, by 1957, accounted for almost 13% of the gross value of production from natural resources. Manitoba was fortunate in that the geographic location of the oil fields made it possible for the industry to market its yield with relative ease. Forest product industries were also setting new production records during the 1950's. The only primary industries to show any absolute decline during the period were fish and fur production, in part because people were drawn away from fishing and trapping occupations by the opportunity for more gainful and steady employment in other fields.

However, the strongest gains in economic activity within the province were made in the field of industry. The gross value of manufacturing production rose steadily year after year, and totalled \$705 million in 1957 - double the 1946 value, and a 45% increase over 1950. Every year new firms were establishing in Manitoba. During 1957, a total of 50 new manufacturing industries entered the province, bringing the total for the previous decade to 385.

The decentralization of new industry out of Winnipeg was a continuing and favourable trend. Expansion of existing plants, new industries, diversification of industry and decentralization of establishment was typical of the period, and contributed substantially to the upward economic expansion within the province. Population increased - and with it the Prairie market; employment was at a high level; cash income was high; demand for industrial and consumer goods was heavy and continually increasing. This industrial expansion contributed to the stability of primary industries producing raw materials to be transformed into finished products in the industrial process and ensured the further future development of secondary and tertiary industries. Record levels of cash income in manufacturing offset, in the total provincial picture, any deflating effects of reduced farm cash income. The construction industry was perhaps the strongest contributor to the industrial life of the province and a mainstay of economic buoyancy. Demand was high in all fields of capital investment - industry, government utilities and public works, housing, etc. The gross production value of the construction industry in Manitoba in 1957 was almost \$360 million - over 30% of the total gross value of production in the province, - as compared with \$154 million - or about 14% - in 1950. However, despite the increasing level of economic activity within the province, economic growth in Manitoba from 1950 to 1958 was below the Canadian average, and gross provincial income during this period increased only 63 per cent as compared with an increase of almost 79 per cent in the Gross National Product of Canada.



PROVINCIAL REVENUES

In line with this upward trend of economic activity and economic growth and development, provincial revenues moved steadily upward. Between 1950 and 1958, the net general revenue of the province doubled, increasing from \$38 million in 1949 to almost \$77 million in 1958. Almost the entire portion of this increase was attributable to higher yields from existing tax revenues rather than from higher tax rates or new tax imposts. Percentage-wise, the relative yield from the various tax sources remained fairly constant over this period. Total provincial direct taxes decreased from about 25% of total revenues to a low of 16% in the fiscal year 1952, but most of this decrease is attributable to the new Federal-Provincial Tax-Rental Agreement. Under the terms of the 1947 tax rental agreement, the Provinces had been required to levy a 5% provincial corporation tax which was collected for the provinces by the federal government. The decrease in revenue from direct provincial taxes when this proviso was dropped is reflected in increased payments by the federal government to the province under the terms of the new agreement which began in 1952. As a result, payments to Manitoba under federal-provincial tax rental or sharing agreements increased from about 33% of total provincial revenue in

1950 to almost 47% in the fiscal year 1952. A part of this increase reflects, as well, increased payments under the terms of the new offer. By 1958, revenue from direct provincial taxes had increased to over 21% of total provincial revenues, and the share from federal payments decreased to about 44% of the total. During the same period, the other major sources of provincial revenue remained fairly constant. Revenues from privileges, licenses and permits accounted for about 20% of total provincial revenues, federal subsidies payable under the terms of Confederation decreased from about 4% to slightly under 3%, liquor profits declined gradually from about 15% of total revenues to around 11%, and all other incidental revenue on ordinary and capital account from about 6% to 3%.

During the whole period, the actual cash amounts of provincial revenue collected from all sources moved steadily upward so that percentage returns were related to increasingly larger amounts. For the fiscal year 1950, net general revenue in the Province of Manitoba was \$41.6 million. In 1958, the comparable figure was \$76.6 million - an increase in per capita terms from approximately \$25 to \$88. In the provincial tax field, the net returns to the province increased from \$9.4 million - of which \$2.4 million represented collections by the federal government of the 5%

provincial corporation income tax - to \$16.2 million in 1958. Almost all of this increase in provincial tax revenues is directly related to returns from taxes on the sale of motor fuel and fuel oil. In 1950, these totalled \$6 million, in 1958, \$14.3 million. This increase is attributable to the increase in the number of automobiles as well as to the increased use of automobiles on an all-year-round basis. In addition, revenues from this source increased by over \$1 million when the sales tax on gasoline was increased by 2¢ to 11¢ per gallon in the 1956 Budget. The only other change of significance was the gradual decrease of revenue from amusement and admissions taxes as the government, under the impact of television on the entertainment industries, effected a gradual removal of these taxes.

Payments to the province under the federal-provincial tax agreements also increased - from under \$14 million in 1950 to \$33.6 million in 1958. Of this latter amount, \$20.7 million represented payment for the rental of the triple tax field of personal and corporation income and succession duties, and \$12.9 million represented tax equalization payments. With the signing of the new agreement with Ottawa in 1953,<sup>3</sup> the guaranteed minimum rates of payment to the provinces were revised upwards from the 1947 agreement in ratio to increases in the Canadian gross national

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<sup>3</sup>Statutes of Canada, 1952. Chapter 29. The Tax Rental Agreement Act, 1952.

product and to changes in provincial population between 1942 and 1948 - with 1948 becoming the new base year. Manitoba selected the one-year option relating to the basing of annual payments as against the alternate choice of basing annual payments on the average of the adjustment factors - population and G.N.P. - over the preceding two year period. (Under the terms of the 1947 tax-rental agreement, annual payments were based on a three year average). The choice involved foregoing the insurance against sharply reduced payments in the event of a depression or a sharp fluctuation downward in business activity which was offered by the two-year option, in favour of gambling on a continuing upward trend in economic activity. Manitoba's decision to 'gamble' on continuing prosperity paid off in terms of higher federal payments than would otherwise have been the case since the Canadian Gross National Product moved steadily upward, and despite the fact that some downward adjustment had to be made in the 1957 payment because the Dominion Bureau of Statistics had over-estimated the rate of population growth in Manitoba in the intercensal years. Under the terms of the 1957 agreement<sup>4</sup> whereby Manitoba again rented its triple tax field to the federal government, the rental payment was, as before, related to the real value of the rented tax fields - a payment equivalent to the total yields of what have been termed the standard

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<sup>4</sup> Statutes of Canada, 1956. Chapter 29. Federal-Provincial Tax Sharing Arrangements Act.

taxes\* with provision for adjustment of the standard rates to offset any changes in federal tax rates. In addition, equalization payments equal to the difference between the per capita yield of the standard taxes in the province and the average (weighted as to population) yield of these taxes in the two provinces having the highest per capita yield would be paid on a unilateral basis and independent of any tax rental agreement between the province and the federal government. The guaranteed minimum payment to provinces signing a tax rental agreement had a moveable floor which guaranteed the greatest degree of stability possible to provincial revenues. It would relate to whichever was greater of either the last tax rental payment in 1956-1957 (adjusted upwards according to population growth), or to the tax rental payment which would have been payable to the province under the 1952 agreement, or to 95% of the average of the payments received by the province in the preceding two years. For Manitoba, the new Ottawa agreements brought an increase in provincial revenue during the first year of the agreement of \$5.5 million - from \$27.9 million in 1956 to \$32.4 million in 1957.

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\*Standard taxes = the percentage payment paid back to the province of the actual income, corporation and succession duty taxes collected by the federal government. The original formula was 10% of income taxes, 9% of corporation taxes, and 50% of succession duties.

All other revenue sources registered dollar gains even though their percentage weight to total revenue decreased in relation to the increases from provincial direct taxes and federal payments under the tax sharing agreements. For example, liquor profits increased from just over \$6 million in 1950 to \$8.8 million in 1958. But net revenues tend to cover up the administrative costs to the province and to understate the whole government operation. It is arrived at by deducting from gross general revenues; (a) all revenue of provincial institutions; (b) revenue in the form of interest, premium, discount and exchange; (c) grants-in-aid and shared-cost contributions; and, (d) all capital revenue. Between 1950 and 1958, gross general revenue for the province of Manitoba increased from \$65.8 millions to \$102.5 million, or an increase from approximately \$84 per capita to \$118 per capita. Interest earnings (excluding sinking fund earnings) made up a part of this difference and increased from under \$3 million in 1950 to almost \$10 million in 1958. However, the largest single difference between gross and net revenues is found in shared-cost contributions from the federal government. In 1950, these totalled over \$20 million (which included the federal payment of \$12.5 million towards aid for the Red River Flood). In other years, the amounts received for shared-cost contributions varied between \$5 - 9 millions, and gradually inched towards the higher figure.

It was spent on highways, health and welfare, education, development of natural resources, etc. In 1958, with the introduction of the hospital insurance plan into Manitoba, shared-cost contributions from the federal government jumped from a high of \$9.3 million in 1957 to \$14.8 million in 1958, with \$5 million of the increase directly related to the new hospital insurance plan.

#### TAXATION

The attitude of the provincial administration to tax rates and to federal-provincial tax sharing agreements - and to federal-provincial-municipal relations in general - is intertwined with the over-all liberal philosophy deemed by them to be essential for the growth and expansion of a predominately agricultural area dependent on unprotected and competitive markets outside the national boundaries, and subject to fluctuations in income unrelated to personal effort and difficult to stabilize by measures within the scope of provincial financial authority. While provincial revenues were rising steadily, while increasing industrialization and concentration of industry within the province was providing a counter-balance against possible - and actual - fluctuations in cash income to primary producers (particularly agriculture), while the Canadian economy continued to be buoyant upwards, while unsettled world conditions caused less disruption to the economy than might have

been anticipated from pre-war experience, the government of Manitoba stressed 'caution and prudence' throughout the 1950's. It was "...unrealistic to assume that our revenues will always continue to mount as they have done in recent years",<sup>5</sup> without an increase in the level of taxation. In times of buoyant revenues, it was all too easy for governments to lower their resistance to the perpetual pressure for increased services and expenditures of infinite variety. "No matter how legitimate may be the merits of these demands, they are limits to the weight of the tax burden which may be borne without a regressive effect upon the province and the national economy".<sup>6</sup> The narrowing spread between farm costs and farm prices during the 1950's was noted with alarm, and it was imperative that Manitoba keep close watch on certain indicators, especially the level of Manitoba's export trade and the ability and willingness of others to buy our products at reasonable prices. Not only high taxes but the type of taxes imposed had to be considered. To maintain the economic prosperity of that segment of the provincial population which had to sell its products in competitive foreign markets, those taxes were best which came nearest to the 'ability to pay' principle. Almost automatically, this ruled out any serious

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<sup>5</sup>Budget Speech of Hon. D.L. Campbell, Provincial Treasurer of Manitoba, Wednesday, March 21, 1951, p.20.

<sup>6</sup>Budget Speech of Hon. Ronald D. Turner, Provincial Treasurer of Manitoba, Wednesday, April 8, 1953, p.30.



consideration being given to a general retail sales tax, which was considered regressive in that it would bear most heavily on low cash income groups who could least afford to pay such a tax, and, in the case of the exporter of primary products, on the person who had no assured opportunity to pass along all or any part of this tax in the sale price of his product. The same reasoning applied towards municipal property taxes which had a regressive tendency to the extent that the incidence of these taxes penalized the man with a large family and a relatively low income from finding or maintaining adequate accommodation at a price he could afford to pay. In addition, the population in Manitoba was increasing at less than the national rate as estimated by the Dominion Bureau of Statistics, and it was important to keep the tax level of the province low relative to other areas in an effort to attract industry and labour into the province which might otherwise settle elsewhere on the basis of climatic and geographic factors. For these reasons, the government's policy was to keep the tax burden as low as possible so as not to inhibit economic growth, and to keep the incidence of taxation related, to the greatest possible degree, to the principle of ability to pay.

To this end, there was no major increase in provincial taxation between 1950 and 1956. In fact, there was no increase for the eight successive years from 1947 to 1956.

In 1954-1955, Manitoba's per capita provincial tax burden was only 34% of the average of the per capita taxes levied by all the provinces of Canada, and was the lowest per capita rate in the nation. There was no general retail or sales tax - which in some other provinces ranged from 2-5%; the gasoline tax of 9¢ per gallon was the lowest rate in Canada; there was no per capita tax of any kind; telephone and power rates to consumers were as low as anywhere in Canada on any reasonable basis of comparison related to comparable service provided; the average motor vehicle licence fee in Manitoba of \$18.72 was only 58¢ higher than in the province with the lowest rate, and compared most favourably with the average of all provinces of \$29.13 which was more than 50% higher; the combined licence fee and gasoline tax for motor vehicles was 39% less in Manitoba than in any other province.

We are proud - and justifiably so, I believe - that for some years the citizens of Manitoba have enjoyed the distinction of paying lower per capita provincial taxes than those levied in any other province...I firmly believe that our low taxation policies have on the one hand directly benefited every citizen in Manitoba by requiring of him a smaller contribution to the provincial treasury, while on the other hand these tax policies have indirectly benefited him by providing a stimulus to economic development and expansion in the Province. At the same time, it should be pointed out that we do not believe that low taxation should be considered an end in itself or that taxes should be held down to the point of imperilling the standard of government services. To do so would be false economy. The taxation policies proposed to this House in the past have been predicated on the belief that taxes should be as low as may be consistent with the maintenance of services desired by the people of Manitoba as a whole.<sup>7</sup>

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<sup>7</sup>Budget Speech of Hon. Ronald D. Turner, Provincial Treasurer of Manitoba, Wednesday, March 23, 1955, p.17.

In 1954, a small tax was levied on oil wells in production in Manitoba as a partial offset to the fact that most of the oil wells had been discovered in southwestern Manitoba, a large part of which area had been sold outright by the Crown and settled early in Manitoba's history without retention by the Crown of any mineral rights. Any returns to the treasury from actual sale of leases of mineral rights were treated as 'windfall returns', and credited for capital expenditure programs since these bonuses were felt to be equivalent to selling the capital assets of the Crown. Reductions were also made in the exemption allowances from the gasoline and motive fuel tax to commercial fishermen, and, beginning in 1953, the amusement tax was gradually reduced. The only significant increase in taxation came in 1956 when the gasoline tax was raised from 9¢ to 11¢ per gallon to help finance out of current revenues a part of the cost of the proposed highway expenditures. In 1957, the province regained from the federal government the use of the tax on insurance corporations on the basis of the premium income earned from their Manitoba business, but this was in part a cross entry on the revenue sheet. The rate was retained at 2% as it was under the federal government but federal payments to the province under the tax agreements were accordingly decreased. In 1957 - 1958, the revenue yield to the province from this tax was estimated at \$1.2 million.

### ATTITUDE TO MUNICIPALITIES

The financial policy adopted by the provincial government towards its municipalities reflects the government's concern with

...any possible impairment of the present high credit rating of the Province...to ensure that such provincial assistance as may become necessary in the future would be focused on the point or points of greatest need. At no time should a policy be adopted involving such wholesale application as might impair the financial position of the Province as a whole. It would appear to be advisable in these comparatively good times to conserve the financial strength of the Provincial Treasury so that the resources of the Province would be available in times of diminishing economic activity to extend such assistance when and where the need is greatest.<sup>8</sup>

For this reason it was deemed inadvisable for the provincial government to guarantee local government bonds as to either principal or interest in order to make them saleable at lower interest rates. It was recognized that this imposed some hardship on local governmental bodies with relatively low credit ratings which had to borrow for essential capital purposes. However, it was felt that this disadvantage was of lesser importance than the possibility that, in the event of any downswing in economic activity, the confidence of the investing public in the soundness of Manitoba's bonds might deteriorate. Whether justified or not, such deterioration would be rapidly reflected in

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<sup>8</sup>Budget Speech of Hon. Ronald D. Turner, Provincial Treasurer of Manitoba, Wednesday, March 24, 1952, p.4.

higher interest costs to the Provincial Treasury on borrowing for purely Provincial purposes. However, the imperative need for new school room facilities, coupled with the general tightening of credit and rising interest rates after the Bank of Canada withdrew its support from the Dominion of Canada bond market after September, 1950, had placed the school districts in a critical credit position. At times, there was literally no market for their school debentures. To alleviate this situation, the provincial government, after 1952, agreed to guarantee the interest payments on certain school district debentures and, if at maturity the school district was unable to repay the principal or to meet interest payments, the provincial government would continue to meet the interest payments until such time as the principal could be repaid. As security against these interest payments, the province would pledge an equal amount of the annual interest earnings of the School Lands Fund, which amounted to some \$200,000 per year, and would support an interest guarantee of some \$4-5 million in school district debentures, depending, of course, on the rate of interest involved. Under this system, the capital value of the School Lands Fund would remain intact, and the Province of Manitoba would not risk any impairment of its credit position as could be the case under a system of widespread guarantee of both interest and principal.

Direct financial assistance to municipalities was continually increasing during the 1950's in recognition of the higher costs which municipalities had to pay in order to discharge their responsibilities, in recognition of the increasing sphere of municipal responsibility in response to public demand and increasing population, and in the expectation that, with municipal revenues increasing in proportion to population increase and continued prosperity, greater financial aid from the province would reduce some of the tax burden on the real property holder. In 1950, the per capita payment in Manitoba of municipal and provincial taxes was \$65.14, of which \$22.62 was paid to the province and \$42.52 to the municipalities. To meet increasing municipal burdens, direct financial assistance to municipalities had been increased subsequent to the signing of the 1947 Tax Rental Agreement with Ottawa from the previous level of \$2.5 million. The amount of the increase represented one-half of the difference between the annual payments guaranteed to the province by the Agreement (or \$13.5 million) and the largest total revenue (equal to \$8 million) that the province had previously derived in any one year from its subsidies and from the tax fields it was now renting to the federal government. This increase of \$2.75 million was in addition to previous benefits given by the province to the municipalities. With the signing of the 1952 Tax Agreement with Ottawa, the

guaranteed minimum payable annually to the Province was increased to \$18.6 million, and the increase guaranteed to the municipalities set at \$3.75 million. This \$3.75 million, together with the \$2.75 million increase in 1947, plus sundry increases between 1948-1952 of \$2.7 million totalled \$9.2 million, or over 50% of the provincial receipts from the federal government from tax rental and statutory subsidies. This was \$3.9 million more than the municipalities would have received from an extension of the 1947 plan which was felt at that time to be a reasonably generous basis of settlement. The suggestion that the municipalities should receive a percentage share of provincial net revenues from tax fields rented to the federal government was rejected on the grounds that it would defeat the basic tenet of provincial-municipal financial relations, namely, to ensure to the municipalities a stable and reasonable minimum revenue with which to provide municipal services. To link municipal revenues to a rigid percentage of certain provincial revenues which might fluctuate violently on short notice was to burden municipalities with unnecessary financial hazards. Also, to suggest that a larger share of provincial revenues should be given to the municipalities in addition to the present level of assistance was merely

...to beg the question of the source of this additional money. To divert it from present provincial purposes to municipal purposes is to merely

raise the question of what new source must be tapped to pay for those provincial purposes. To the extent that large added grants to municipalities might result in a provincial sales tax, I would ask my listeners to reflect upon whether a tax on retail sales or on real property is the nearest to an 'ability to pay' tax.<sup>9</sup>

In addition to these annual and recurring financial payments, the Province had assisted the municipalities by assuming some share of municipal responsibilities in the fields of education, welfare, and highway construction, and had made substantial contributions to the municipalities of a non-recurring nature but of importance in the over-all picture. It had pro-rated among the municipalities one-half of the reduction in relief debt the Province had received in 1947 from the federal government; it had guaranteed and paid 87½% of cost to the municipalities of the Red River Flood; and it had, in 1947, withdrawn its Railway Taxation legislation so that municipalities could secure considerable new revenue from municipal taxes on railway property. It was hoped that a substantial proportion of the increased revenues made available to municipalities would be reflected in decreased municipal taxation since "...it should be the aim of both Provincial and municipal governments to endeavour to hold down the total tax load on the people of Manitoba"<sup>10</sup> and not build a fixed-cost

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<sup>9</sup>Budget Speech. Hon. Ronald D. Turner, Provincial Treasurer of Manitoba, Wednesday, April 8, 1953. Appendix II, "Provincial Assistance to Municipalities", p.26.

<sup>10</sup>Ibid., p.30.



burden into their financial affairs which would prove onerous if the high level of provincial and municipal tax revenues declined from their present peak. Thus, assistance to municipalities increased substantially during the 1950's both directly and indirectly. Unconditional grants were increased, aid to municipalities to offset their costs for education and highways and roads was expanded, the province took over an increasing share of the health and welfare responsibilities of municipalities, and, in 1957, a debenture assistance policy similar to the school district debenture assistance program was initiated to help municipalities finance self-sustaining and utility projects. Despite criticism that the municipalities did not have an adequate tax base with which to finance projects and fulfil responsibilities which were traditionally in their sphere of responsibility, and despite suggestions that provincial assistance to local governments should be increased, it was pointed out that the government had gone well beyond its original undertaking to share with the municipalities one-half the increase in guaranteed revenues received under the terms of the tax agreements with Ottawa. In fact, in 1958-1959, total provincial aid to municipalities totalled \$42.3 million - more than 100% of the total revenue of \$35.6 million received by the province under the tax-sharing arrangements. To increase provincial aid to municipalities

on a wholesale basis would, it was maintained, display a lack of caution and prudence in managing the province's affairs, since it might impair the credit standing of the provincial government. Moreover, since municipal and provincial taxes were paid by the same taxpayers, it might put the province in a position where, in order to finance its own necessary expenditures, it would have to levy either higher taxes or new taxes which would be further removed from the ability to pay principle. In any event, buoyant revenues could not be expected to continue indefinitely, and to build into municipal finances a fixed-cost factor based on abnormally high provincial revenues and for which it did not have adequate tax sources to make payment on its own, was to unnecessarily subject municipal governments to cyclical fluctuations beyond their power to control. The aim of provincial government policy was to provide municipalities with a firm floor of provincial aid, one which they could count on to be annual and recurring, and from which they could plan for municipal growth and development with the reasonable assurance that their plans would be carried through to fruition. In return, the provincial authorities hoped and expected that the municipalities would proceed with prudence so that the total tax load on the citizens of Manitoba could be kept to a minimum, and would conform, as closely as possible, to the principle of ability to pay.

DOMINION-PROVINCIAL RELATIONS

The same concern for stability of income from current revenues, and with the uncertainty - or lack of confidence or assurance - that a general economic downswing could be avoided or that provincial revenues would remain at their peak levels, is reflected in the relations between the government of Manitoba and Ottawa. As far as Manitoba was concerned, the tax rental and tax sharing agreements with Ottawa had been a port in the storm and, while the storm had never materialized, it was always assumed to be just over the horizon. In foregoing direct provincial taxation of personal and corporation income and succession duty taxes, it was admitted that, in these 'exceptional times' of continuous 'economic buoyancy' and 'peak revenues', the province might have obtained greater revenues if it had retained these tax fields for its own use, but this was contingent on Manitoba levying rates of taxation higher than the standard rates. However, provincial financial policy was against high taxation, and certainly against a level of taxation which might be higher than that of any of the other provinces of Canada and which could act either as a deterrent to the growth and development of the province or as a penalty against the large and important agricultural sector of the provincial economy. In all probability, if the expenditure requirements of the province had not been growing so rapidly, those in charge of

the financial affairs of Manitoba might even have favoured a lower than standard rate of taxation. As it was, the tax rental agreements had provided Manitoba with the maximum revenue possible without imposing rates higher than the standard rates of taxation and

...had provided stability to Manitoba's economy and benefits from simplicity and efficiency of the single tax system in the rented fields...Our experience with the tax rental system shows that its advantage for Manitoba completely outweigh whatever disadvantages may lie in this particular restriction (i.e. not being able to levy tax rates higher than standard rates).<sup>11</sup>

The only other alternative other than higher than standard rates collected by the province was higher than standard rates levied by the province but using Ottawa as the collection agency. This had the advantages attributed to a single tax system, the disadvantages already noted to Manitoba of levying higher than standard rates, and the uncertainty as to whether the collection fee required by the federal government would offset much of increase in provincial revenues which might accrue from higher rates.

Provincial submissions to the Federal-Provincial conferences during the 1950's continually stressed the fact of rising costs and growth of expenditures on responsibilities which traditionally and constitutionally belonged to provincial and municipal levels of government relative to the growth of expenditures which were a considered federal res-

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<sup>11</sup>Budget Speech of Hon. Ronald D. Turner, Provincial Treasurer of Manitoba, Wednesday, March 28, 1956, p.14.

possibility, and the necessity for this increasing disparity to be recognized in the size of federal payments from the rented tax sources. Between 1945-1955, provincial expenditures had increased 292%, municipal expenditures by 276%, and federal expenditures by 5%. In Manitoba, the increase in expenditures had been somewhat less than the Canadian average - 234% for provincial expenditures and 168% for municipal expenditures. Combined provincial and municipal revenues - including tax rental agreement payments - had increased during the same period by 145%. To help finance the rapidly growing expenditures, it was important that tax agreements with Ottawa took cognizance not only of the need for stability of revenue income but also of the fiscal need of provinces with a relatively low tax potential. If the provinces - and through them the municipalities - were to discharge their constitutional responsibilities, and to provide services equal to a Canadian average standard without levying taxes at higher than the Canadian average rate, the federal government must see that the provinces had adequate financial resources and/or tax potential available to them. This could be accomplished by increased federal payments based on a guaranteed minimum (with an escalator clause regarding population increases), plus equalization payments vis a vis the richer provinces based on actual tax yield and fiscal need. In addition, the provinces should have a 'special' market for

raising funds for capital expenditures so that some part of the credit field would be more favourably available to the provinces and their municipalities. Manitoba suggested that this could be realized if the Canadian federal government copied the American example of making provincial and municipal bonds exempt from federal taxation. This would cut the interest costs of provincial and municipal borrowing and enable them to carry a larger debt load. It was also suggested that the Municipal Improvements Assistance Act be reactivated by the federal government so that municipalities which, because of their small size and because they were not known by those in control of investment funds, were unable to obtain capital funds, would have a credit source available to them at reasonably low rates of interest. The federal government had a clear cut responsibility to municipalities in this respect because of the "... inconsistency in the fact that while Canada encourages the rapid growth of communities through the National Housing Act, the major load of financing the services required by the homes built under the auspices of the Act devolves upon the Municipalities".<sup>12</sup> The alternative was a punitive, unreasonable and unrealistic rate of taxation on real property. Moreover, the federal government could promote

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<sup>12</sup>Opening statement by Hon. Douglas Campbell - Federal Provincial Conference - October 3, 1955 reported in the 1956 Budget Speech, p.59.

fiscal arrangements which would stabilize and equalize provincial and municipal revenue among all the provinces in Canada in several ways: by more generous grants in lieu of taxation; by assuming more financial responsibility for maintaining at a level comparable with that of other groups the cash income of the agricultural sector of the economy which was lost as a result of conditions beyond the farmer's control; by assuming more financial responsibility for natural resource development so that the development of Canadian resources would proceed on the most efficient and economical basis; by assuming more financial responsibility for highways and roads which, while a constitutional responsibility of the provinces, had a federal overtone to the extent to which they contributed to the national requirements or commitments for defence, commerce, and the development of natural resources; by larger unconditional federal grants in the general field of education so the "...equal educational opportunities are available to all Canadian children regardless of the economic circumstances of the individual provinces"<sup>13</sup> and, by assuming responsibility for 100% of the provincial and municipal costs of unemployment relief without reference to any specific percentage unemployment for Canada as a whole. In the more general field of health

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<sup>13</sup>Ibid., p.62.

\*The existing system of federal grants to universities was felt to work to the disadvantage of provinces with a small population but a high university enrollment.

and welfare, the Manitoba government pressed for grants to be made on a more permanent basis than the present annual commitment by Ottawa, since the uncertainty as to whether such grants would be renewed made it difficult for the province to plan and budget ahead.

In the spirit of the Rowell Sirois Commission, the Manitoba government aligned itself against shared-cost programs in general and conditional grants of other than the most general nature relating to a broad sphere of activity. If the provinces were to receive a sufficient share of the triple tax fields so that provincial revenues would be adequate to meet their growing expenditures, the clutter and uncertainty and inevitable interference of the federal government in provincial responsibilities would be removed. The Manitoba government was not unappreciative of the aid it had received under such schemes from the federal government but it was by no means an ideal arrangement. Conditional grants for specific purposes rather than for a general area of provincial responsibility could work to the disadvantage of provinces with specific and different needs and place them at a financial disadvantage with other provinces who could justifiably use the offered assistance. Alternatively, such grants encouraged the provinces to spend the taxpayer's money in an imprudent fashion. They made annual budgeting difficult since grants were not necessarily recurring, and made long range planning unpredictable. But more than this, they represented a degree of federal infringement on provincial responsibilities



which was constitutionally unacceptable and capable of political manipulation. Shared-cost programs came in for the same reservations and criticism, and it was pointed out that in 1955 the provincial share of such programs accounted for 15% of total provincial expenditures in Manitoba. While it was recognized that the federal government must retain over-all responsibility for all-Canadian growth and development, and have at its disposal sufficient fiscal resources to maintain price stability and full employment, there should be no infringement on provincial rights. Too often, shared-cost programs were initiated at a federal level without adequate prior consultation with provincial authorities, and the provinces were placed in a difficult and embarrassing position vis a vis their citizens which made it difficult for them to refuse to participate even though such participation might cause a heavy drain on their financial resources, and despite the fact that such plans were theoretically 'optional'. Since the cost of these services was fixed, there was a rigidity built into the provincial budget which restricted the control of the province over its budgetary expenditures. If the terms of the shared-cost programs were altered, or if they were discontinued by the federal government, the province was left in "...the unhappy and difficult position of having to choose between carrying the program concerned entirely out of their own

resources, or alternatively, cutting off services to which their people have become accustomed".<sup>14</sup> In summary, while the government of Manitoba welcomed the Ottawa tax agreements in terms of their efficiency and the stability they provided for high provincial revenue income at average Canadian tax rates, they also pressed for a fuller implementation of the Rowell Sirois Report recommendations which favoured outright and unconditional equalization grants to provinces with a low tax capacity and tax yield. Only in this way could the federal system function effectively without an increasing trend towards centralization. Only in this way could all the provinces be in a position to meet their constitutional obligations and provide essential provincial and municipal services equal to a standard considered adequate throughout the country without resort to a higher than average rate of taxation.

#### PROVINCIAL EXPENDITURES

As provincial revenues continued to climb, so did provincial expenditures. Net general expenditure in the province of Manitoba, including debt retirement, increased from under \$41 million in the fiscal year 1950 to \$102.7 million in 1958 - an increase in per capita terms from under \$53 to \$112. During the same period, gross provincial expenditures, including debt retirement, grew from

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<sup>14</sup>Ibid., p.61

\$65 million to \$128.6 million. A more realistic comparison is obtained by using a figure of \$50 million for 1950, since the \$65 million includes some \$15.5 million spent in the Red River Flood Emergency. The administrative burden of government (less any revenues specifically assigned or related to the services provided) had increased in about the same proportion as the size of the provincial operation. A part of the increase in provincial expenditures is attributable to the generally rising dollar costs throughout the nineteen-fifties, but most reflects an increase and extension of government services, the high rate of repayment of dead-weight debt out of current revenues, and the policy of financing capital expenditures of a non self-sustaining type out of current revenues rather than by borrowing. These features are evident from the percentage breakdown of the distribution by function of net general expenditures during the period. Expenditures on transportation and communication increased from a low of 22.4% of net general expenditure in 1950 to a peak of 35.2% in 1956, with a subsequent decline to 32.3% in 1958. For the four years 1953-1956 inclusive, all capital expenditures on highways, totalling \$24.1 million out of a total expenditure on highways of \$56 million, were paid for out of current revenues, with no borrowing for this purpose and no increase to the dead-weight debt of the province. Revenues collected from gasoline taxes and motor vehicle license fees offset about 80-85% of these total expenditures. It was not

until the 1956 budget speech that the financing of the heaviest road building program to date in Manitoba's history forced the government to reluctantly include \$5 million in its capital supply bill for highway construction. However, this decision was qualified by the proviso that any surplus revenue on current account in excess of the amount budgeted for in the estimates would be used to offset some of the capital expenditures on roads for the same year. The proposed increase in the gasoline tax of 2¢ a gallon was introduced at the same time to raise highway revenues to pay for part of this capital expenditure, a higher rate of increase being deemed so 'unreasonably high' as to thwart the purpose of the increased levy. In actual fact, revenues during 1956 were sufficiently buoyant to enable \$1 million of highway costs to be charged against the current year's operations, and with revenues from the increased gasoline tax exceeding the estimated \$2 million by nearly  $\frac{1}{2}$  a million, only \$3.5 million of increased dead-weight debt was charged against highways.

#### 'PAY-AS-YOU-GO' POLICY

The highways policy of the Manitoba administration provides perhaps the classic example of 'pay-as-you-go' financing - and came in for a major share of the criticism directed against this approach to public finances. The ultimate objective of pay-as-you-go financing may be simply stated: namely, to pay 'within reasonable limits' for all

types of direct general governmental expenditures both capital and current out of current revenues. The only exception was the utility type of expansion, and borrowing for utilities whose debt burden would be borne by revenues other than those provided by general taxation within the province was good, sound finance, and contributed to the general economic growth and development of the province. However, borrowing which added to the dead-weight debt of the province, and which created a debt for which the annual interest and redemption charges were a direct burden on the general revenues of the province was uneconomical, and,

...since the annual surpluses of the past years are not large enough in themselves to permit heavily increased expenditures...new, costly annual programmes permanently undertaken cannot long be paid for out of any reserve of savings deposit, but most be met from increased sources of annual revenue which, for governments, implies an increase in taxation.<sup>15</sup>

When this objective is tied in with a low taxation policy and related to a firm belief that the expectation of continuing high and continually increasing provincial revenues without resort to new tax sources was unrealistic and 'bullishly optimistic', the level of capital expenditure is limited by the amount of the anticipated annual surpluses on current account.

The aim of paying for capital expenditures of the non-revenue bearing type out of current revenues was subject

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<sup>15</sup>Budget Speech of Hon.R.D. Turner, Provincial Treasurer of Manitoba, Monday, March 24, 1952, p.13.

to the proviso that the policy operate "...within reasonable limits". In other words, borrowing for capital purposes which created dead-weight debt would be undertaken whenever necessary in order to maintain and/or augment the standard of services demanded by the people of Manitoba as a whole. Thus, in 1956, although the estimated current surplus was not sufficient to pay for the expenditure on highways deemed essential, the province was prepared to finance this service by borrowing.

The main opposition criticism to the government's 'pay-as-you-go' policy was that present taxpayers were footing the entire bill for works and projects which would be of equal benefit to future generations of taxpayers. "If posterity is to benefit, then posterity should share the cost",<sup>16</sup> ran the argument. The administration defended its policy on several grounds. First, the problem was one of interpretation. If, as the government maintained, highway maintenance and construction was a perennial budgetary requirement and a recurring annual item of expense, if new roads and highways had to be provided each year as the province grew and expanded, and if existing roads had to be maintained, then capital expenditures for each year should be treated on an annual basis and paid for out of annual current revenues. The only justification for borrowing on a regular basis to pay for the cost of new

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<sup>16</sup>Budget Speech of Hon. R.D. Turner, Provincial Treasurer, of Manitoba, Wednesday, March 23, 1955, p.14.

highways, and for spreading the cost over a number of years, would be to demonstrate that new highway construction was of the 'once-in-a-lifetime' variety. Also, the argument for borrowing lost much of its potency when it was considered that, if money were borrowed over, for example, a twenty year period, 74% of the people paying taxes would still be paying taxes twenty years from now. Secondly, pay-as-you-go financing was more economical, particularly when viewed through the eyes of the above mentioned 74% of the population. It gave full value for money expended. If, for example, the province spent \$10 million annually on highways under pay-as-you-go financing, at the end of twenty years the taxpayers would have paid \$200 million to the provincial Treasury and received in return \$200 million worth of roads and highways. If, on the other hand, the government borrowed \$10 million annually to spend on roads and highways at 4%, the annual interest charges on each \$10 million would be \$400,000. In addition, the annual sinking fund payments required to accumulate \$10 million in twenty years would be approximately \$350,000. At the end of twenty years, the taxpayers of Manitoba would have \$200 million worth of roads and highways for which they would have paid out \$84 million in interest and \$70.5 million in sinking fund payments - offset by a sinking fund balance of about \$84 million. They would, however, still owe \$200 million, repayable

at the rate of \$10 million annually. After twenty years, if the same borrowing plan were to continue to be followed, the annual cost to the taxpayers would be \$15 million for each \$10 million worth of highways built. Thus, asked the Provincial Treasurer,

...which system of financing is the more economical? - which gives us more roads for our money? How would it benefit the Province to saddle our taxpayers twenty years hence with a gross debt burden of \$200 million for roads alone and annual debt service charges of \$15 million?<sup>17</sup>

Thirdly, while it was recognized that borrowing as in the above illustration freed money for a period of years - albeit on a diminishing scale - and provided seemingly 'extra' funds with which to launch new programs or expand existing ones in other spheres of provincial responsibility, how would the province continue to finance these fixed expenditures once these savings effected initially by borrowing were dissipated? The only solution would be to increase taxes - which the government opposed - unless revenues from present tax sources continued to increase - which possibility the government could not reasonably expect. Finally, as to tying expenditures on highway facilities to government revenue collections from the gasoline taxes and motor vehicle licence fees, it was pointed out that at existing rates of taxation this would have resulted in a lesser amount being spent on roads and highways than had actually been the case

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<sup>17</sup>Ibid., p.15.



since 1950. With the exception of the year 1950, Provincial Treasury expenditure on highways had exceeded highway revenue. From 1950-1958, the province had spent \$135.5 million on roads and highways, while highway revenue totalled only \$111 million. An additional \$14.7 million of federal assistance money had also been spent on highways during this period. For 1958-59, the estimated expenditure of \$36.3 million on highways was greater than total ordinary departmental expenditures according to the public accounts of Manitoba in 1950 of \$35.9 million, which included \$3.9 million for debt retirement.

In essence, pay-as-you-go applied to recurrent budgetary items means operating on a cash basis. For as long as current revenues are high enough to finance an adequate building program, this is clearly the most economical method of operation. Should revenues decline beyond this point, then this policy should and will be modified so that the progressive development of our highway system will not be sacrificed.<sup>18</sup>

Social welfare expenditures as a percentage of total provincial expenditures decreased from a high of 12% in 1950 to well under 7% by 1958, although the actual net dollar amount spent by the province increased from \$4.2 million to \$6.7 million. The smaller rate of increase reflects the high level of employment during the period, plus more generous payments from Ottawa under the new relief cost-sharing program. At a conference called in Ottawa in April, 1955, the federal government recognized the heavy burden that

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<sup>18</sup>Ibid., p.16.

relief costs were placing on provincial and municipal treasuries, and indicated that it was prepared to accept "...some share of this cost and to have this share increase as a proportion of the total as the severity of the problem increases".<sup>19</sup> The extent of this aid was limited to a payment of 50% of relief costs for the number of people in need in the province in excess of .45% of the population (which was considered to be the number of unemployed unemployables who were a provincial responsibility). This aid would be subject to review if the level of national unemployment reached 2%. Manitoba objected to the formula as being unnecessarily complicated and expensive to administer, and unfair in that it could work to the disadvantage of any province whose unemployment level might exceed 2% even though the average level for all Canada was below this. In addition, Manitoba had, prior to 1950, instituted a purely provincial scheme of Mothers Allowance payments to families of disabled men. Because these people were receiving payment from the province, they were not a charge on municipal relief rolls as was the case in other provinces without similar provincial legislation, and the province was therefore not eligible for federal assistance for their support. In effect, it was maintained, the scheme discriminated against provinces who had tried to provide for their own citizens in need at the expense of some other provincial expenditure. Manitoba pressed strongly - and unsuccessfully - for the implementa-

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<sup>19</sup>Statement respecting Federal-Provincial Relations by Hon. Douglas Campbell to the Manitoba Legislative Assembly, Feb. 22, 1956. Reprinted in the 1956 Budget Speech, p. 78.

tion of the Rowell-Sirois Report recommendation that unemployment relief should be a 100% federal responsibility. However, they were successful in getting federal assistance for relief cases resident in non-hospital type institutions, and, despite their reservations to the entire program, Manitoba expected to receive something better than \$400,000 annually under the new federal proposals. Federal contributions in the entire field of social welfare had increased over the decade, but much of this extra aid was contingent on the province finding enough additional funds to pay part of the costs. Thus the province was responsible for paying some share - usually  $\frac{1}{4}$  to  $\frac{1}{2}$  - of the increase announced by Ottawa before these funds were available for citizens in Manitoba. The increases to the Old Age Assistance, Blind Person's Allowance, and Disabled Person's Allowances in 1957 were costing the Province an additional \$600,000 annually. Provincially-sponsored and administered pension allowance and welfare programs had increased and expanded over the decade and new programs introduced. In addition, the province had substantially increased its aid to municipalities to offset the burden of their welfare costs, and in 1958 the Provincial Treasury paid \$1.6 million to municipalities for this purpose, in addition to the \$1.3 million paid out directly to individuals under provincial charge.

In the field of health, the percentage change of amount spent relative to the total annual budget remained

fairly constant at about 14% until 1958, when the introduction of the hospital insurance plan boosted provincial expenditures on health by about \$5 million to 17% of total expenditures. Shared-cost programs in both the health and social welfare fields had figured prominently in Manitoba's expenditures in these areas. In 1958, out of a total gross expenditure of \$35.8 million on health and welfare, \$11.6 million represented federal contributions. In 1950, the comparable figures were \$16.5 million and \$7.2 million (of which \$6 million represented payments for old age pensions), in 1955, \$17 million and \$3.8 million. While some of these grants were outright - especially those related to health improvement projects, - most involved a provincial contribution equal to all or some part of the federal contribution, and added an element of rigidity to provincial budgeting. Net general expenditures by the province in the health and welfare field had more than doubled between 1950 and 1958, increasing from \$9.2 million to \$23.2 million. A large part of this increase represented increased payments under existing schemes, wider coverage as income ceilings were raised for people eligible for assistance, and expansion of existing programs. There were many new programs launched - for example, the province-wide vaccine program to combat poliomyelitis - and between 1950-1958, the province spent over \$7 million on new hospital construction, of which \$3.7 million was provided from the Provincial Treasury.

Gross provincial expenditure on education increased from \$7 million in 1950 to \$23 million in 1958. The comparable net amounts were \$6.5 million and \$22.8 million. Percentagewise, the share of total provincial net general expenditures designated for education increased from 18.6% to 23.1%, although it must be borne in mind that percentage figures for 1950 and 1951 are distorted somewhat because of the large amounts paid out of ordinary account to meet the costs incurred by the Red River Valley Flood. School grants to local authorities increased over 300% during the period, and totalled \$15.6 million in 1958. Grants to universities and colleges also increased from \$1.6 million in 1950 to \$5.4 million in 1958. In line with government policy, education was considered a recurrent and annual budgetary item, and both current and capital expenditures for education were charged to current annual revenues. Shared-cost programs did not figure largely in expenditures on education, and federal assistance to education in Manitoba totalled only \$358,000 in 1958 as against \$281,000 in 1950. Assistance to municipalities for expansion and improvement of facilities had also been provided under the guaranteed school district debenture scheme.

Gross expenditures on natural resources and primary industries more than doubled during the period under review, increasing from \$3.1 million in 1950 to almost \$7 million in 1958. As a percentage of net general expenditures, pro-

vincial spending on natural resources and primary industries decreased from about 11% to 6.5% in 1958. Again, shared-cost programs were of little significance, and most of the percentage decline reflects higher expenditures in other areas, as well as increased oil revenues.

### PROVINCIAL DEBT

One of the most significant changes in the period under examination of provincial expenditure relates to debt charges, exclusive of debt retirement.

Fiscal Year Ending March 31	Gross Debt Charges (exclusive of debt retirement)	Net Debt Charges	Debt Retirement
(thousands of dollars)			
1951	\$3,989	\$1,118	\$5,525
1952	4,738	1,073	5,992
1953	4,782	122	11,781
1954	6,625	-283*	6,790
1955	6,913	-733*	5,109
1956	6,840	-459*	6,529
1957	7,397	-325*	5,538
1958	7,739	-833*	4,639
1959	8,718	-1,150*	4,868
			\$56,771

\* Negative amounts indicate an excess of revenue over expenditure.

Source: D.B.S.#68-207-Financial Statistics of Provincial Governments - Revenue and Expenditure 1950-1958.

The excess of revenue over expenditure relative to debt charges from 1953 to 1958 was a direct result of the imple-

mentation of the 1947 Debt Retirement Plan<sup>20</sup> whereby Manitoba undertook to pay off all of the dead-weight debt outstanding as of March 31, 1947 within a period of twenty-four years. Dead-weight debt was interpreted as 'debt for which the annual interest and redemption charges are a direct burden on the general revenues of the province'. Beginning in 1952 the government also undertook to carry on its operation on a cash basis so that, whenever possible but within 'reasonable limits', all capital expenditures of the non-revenue bearing type would be financed out of current revenues. There would, therefore, be no addition to the dead-weight debt of the province. Utilities were excepted from the self-imposed restriction against public borrowing since they required such huge amounts of money over relatively long periods of time, and since they contributed directly to the future potential development of the province. Moreover, the interest costs of money borrowed against utilities were paid for out of the public sale of utility services and placed no additional direct interest burden on the Provincial Treasury. However, utilities were required, after 1947, to contribute to sinking funds for the redemption of the principal amount, the usual rate of contribution being 2% per annum. The purpose of the Debt Retirement Act may be restated briefly: (a) to cut down on fixed interest and carrying charges and free this

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<sup>20</sup> Statutes of Manitoba, 1947, Chapter 45. An Act to provide for the orderly repayment of the debt of the province by the operation of a reserve for debt retirement and otherwise. The Reserve for Debt Retirement Act.

amount of the taxpayer's money for other purposes; and,  
(b) to improve the credit position of the province so that it would never be in a position of financial embarrassment and near bankruptcy such as was suffered during the 1930's. Both these objectives were reached.

Despite rising governmental costs and the continuous expansion of government services during the 1950's, the program of debt retirement proceeded steadily. By March 31, 1958, the dead-weight debt of the province (including sinking funds) had been decreased from \$64.3 million at March 31, 1951 to \$50.2 million. Excluding sinking funds, the dead-weight debt for the same period had been reduced to \$29.6 million from \$49.4 million. During the same period, direct and indirect public debt outstanding in Manitoba had increased from \$136 million to \$218 million but the dead weight portion of the debt (including sinking funds) had declined from 47% to 23%. Had the policy continued without interruption and with no new additions to dead-weight provincial debt, all of the dead-weight debt of the province would have been paid off by 1966, with the exception of \$11 million owing on Treasury Bills relating to unemployment relief assistance. After 1963, an annual payment of just over \$850,000 would have retired the interest and principal on this debt by 1977. Actual amounts spent by the Treasury of Manitoba on capital expenditures are only approximations since, with increasing provincial revenues and especially



with pay-as-you-go financing, both capital and current expenditures were financed out of provincial ordinary accounts. Between 1950 and 1958, provincial borrowing for capital expenditures of the dead-weight type totalled \$21.3 million. Between 1950 and 1957 - the last year for which the Dominion Bureau of Statistics made any breakdown in provincial statistics between capital and ordinary expenditures, Manitoba had increased the capital assets of the province by nearly \$66 million. In other words, two-thirds of all capital expenditures between 1950-1957 which would have added to the dead-weight debt of the province were paid for out of current revenues - and this estimate probably errs on the low side. In the fiscal years 1953, 1954, 1955 and 1956, no capital expenditures of a non-revenue bearing type were financed by borrowing. Sinking funds against dead-weight debt were also rising, and the reserve for debt retirement totalled \$20.2 million at March 31, 1958. The investment by the province in public utilities either directly or, after 1952, indirectly through provincial guarantees of bonds issued by the utilities, totalled \$211.2 million between 1950 and 1958. After 1951, the Treasury of the Power Board and of the Provincial government were kept entirely separate so that there would be nothing accruing to the general revenue of the province from the operation of these utilities. The Power Board was required to set its rates to cover all operating

costs and to provide funds for future expansion. Thus, the costs incurred in the development of power would be borne by the power consumers and not by the general taxpayer. On the other hand, in adopting a policy of 'power-at-cost' and no diversion of funds between the two treasuries, the power consumer was not asked in the rates charged to make any special contribution to provincial services generally.

#### MAKE-UP OF GROSS PUBLIC DEBT

(millions of dollars)

As at March 31	Manitoba Telephones System	Manitoba Power Commission	Manitoba Hydro Electric Board	All Other	Total
1949	\$14.2	\$11.7	\$ nil	\$75.0	\$100.8
1951	23.8	27.3	13.3	71.6	136.0
1953	40.7	42.9	31.2	67.2	181.9
1955	51.6	56.5	24.3	59.2	191.6
1957	62.5	65.6	30.6	51.8	210.5
1958	71.5	70.5	25.8	50.2	218.0

Source: Treasury Department, Province of Manitoba.

#### DEBT RETIREMENT FUNDS

(millions of dollars)

As at March 31	Sinking Funds Re Utilities	All other	Total
1949	\$ 3.8	\$21.8	\$25.6
1951	2.0	22.2	24.2
1953	6.3	27.1	33.4
1955	14.5	28.3	42.8
1957	21.0	25.5	46.5
1958	26.4	20.6	47.0

Source: Treasury Department, Province of Manitoba.

There seems to be little doubt that the credit position of the Province of Manitoba was very sound during the 1950's. It had no difficulty in raising money for capital expenditures and the interest rate was at least as favourable, if not more so, than the rates obtained in some of the other provinces which traditionally had been able to borrow at cheaper rates than Manitoba. With the Korean War crisis in 1951 when the Bank of Canada, the chartered banks and the insurance companies entered into an agreement whereby the banks would curtail their loans and the insurance companies agreed not to sell their holdings of Canada bonds in order to provide funds for the purchase of new debenture holdings, Manitoba turned to the American money market. It was able to borrow \$20 million over 20 years at 3.39% as against 4.17% for Canadian money. The money was repayable in American funds, but

...experience has taught us to be cautious lest we find ourselves once more in a position of embarrassment with respect to meeting U.S. maturities such as we faced in the 1930's...This danger can be minimized greatly by making provision for an early recall and redemption feature so that at any time when the Canadian market again appears to offer sufficient money at reasonable rates of interest, a loan payable in U.S. funds can be refunded in Canada, and the American holder can be paid off in full, long before the final maturity date for his bond if the U.S. dollar exchange goes far against us.<sup>21</sup>

This particular issue was repayable after five years. By preference, Manitoba preferred to avoid a sale of United

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<sup>21</sup>Budget Speech, Campbell, March 21, 1951, p.9.

States pay bonds because of the hazards of the exchange rate on the American dollar, and in January, 1956, delayed placing a direct provincial issue of \$12 million dollars for three months, at which time it could obtain as favourable terms in the Canadian as in the American market. In March, 1954, \$12 million of Manitoba Hydro Electric bonds were sold at an interest rate of 3.53%, slightly below a C.N.R. issue at 3.54% of the same date.

For the first utility bond issue guaranteed by the Province of Manitoba to be sold to the investor at a lesser rate than could be obtained from Government of Canada guaranteed C.N.R. securities is a most remarkable situation.<sup>22</sup>

and attested to the high credit rating which Manitoba enjoyed with the investing public. In 1956, Canadian interest rates rose sharply as bond prices fell, so that an issue early in the year of 3½% and costing the province 3.63% was followed by an issue in December at 5.12% and costing the province 5.25%. No issues falling due during the period were refunded.

AVERAGE COUPON RATE OF BONDED DEBT OF MANITOBA  
CURRENT YEAR

1950	3.52%
1951	3.54
1952	3.53
1953	3.77
1954	3.71
1955	3.66
1956	3.71
1957	3.67
1958	3.37

Source: D.B.S. Financial Statistics of Provincial Governments-Direct and Indirect Debt-Annual #68-209.

<sup>22</sup>Budget Speech, R.D. Turner, Wed. March 17, 1954, p.9.

Speaking in the Legislature in 1950, Mr. Campbell said, in part:

The Government and the Treasury Department have no magic by which the confidence of investors can be secured. People who have small amounts of money to invest, or large financial organizations with large revenues to invest, want to be certain that the money they loan is going into works and services that will be self-supporting and that the people of the Province are prepared to repay the money because it has been spent for permanent improvements which will raise standards of living. In actual fact, the people of Manitoba are able to attract capital money for Power Commission and Telephone System needs because these expenditures are looked upon as sound investments. While our financial affairs are being managed well, money needed for the extension and expansion of the Province's utility services can, in normal times, be borrowed in reasonable amounts on satisfactory terms. It is necessary to demonstrate that the programmes are carefully planned to ensure the economic soundness of the capital investment being made and that no more than a completely manageable debt structure on the utility is being built up.<sup>23</sup>

Until 1956, the Liberal administration did not attempt to borrow money for purposes other than self-sustaining utility projects. However, the low level of interest rates prevailing throughout most of this period suggest that investment funds would have been available if they had been solicited. The history of the borrowing which was done between 1950 and 1958 seems to indicate that Manitoba was considered to be a very good credit risk. Some part of this good credit rating was probably due to the low level of per capita debt in Manitoba, which compared most favourably with

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<sup>23</sup>1950 Budget, p.15.

that of other provinces. It would appear that the low level of government borrowing which characterized the Campbell years in Manitoba had no real financial base. The impediment to borrowing seems to have been largely psychological. The Campbell government, which drew its political support largely from the farm areas of Manitoba, reflected in its borrowing policies the rural aversion to being in debt and under a financial obligation to someone else.

During this period, the average term in years of the gross bonded debt of Manitoba decreased from 19.63 years to 14.28 years. The amount of bonded debt payable outside Canada decreased as a percentage of total bonded debt from over 30% <sup>to</sup> slightly over 12%. The composition of the public debt in Manitoba also underwent changes. At March 31, 1951 the direct debt of Manitoba consisted of 64% bonded debt, 32% long term Treasury Bills and 4% other types of debt. Indirect debt consisted of 57% guaranteed bonds and debentures, 35% guaranteed bank loans, and 8% Municipal Improvements Assistance Act loans. At March 31, 1958 bonded debt accounted for 68% of the total direct debt of the province, long term Treasury Bills for 7%, short term Treasury Bills for 14%, and other types of debt for 11% of the total. Indirect debt consisted of 67% guaranteed bonds and debentures and 33% other provincial guarantees.

SUMMARY

The whole period from 1950 to 1958 was one of general economic progress and gradual economic diversification in Manitoba despite the relatively low level of the government operation. During these years, there were virtually no overtures made by the government to participate directly in the economic life of the province, with the single exception of its large commitments for utility-type projects, particularly hydroelectric power. Industry and manufacturing in Manitoba had, during the first few years after the war, enjoyed a measure of protection from competition from Eastern Canada and abroad due to the huge backlog of consumer demand which was not too price-conscious. However, even after this 'protection' tended to disappear, the economic life of the province continued to accelerate at close to the national average rate of growth, and new industries continued to be attracted to Manitoba. In reviewing the Manitoba economy in the Budget address in 1958, the Provincial Treasurer noted the overall buoyancy, and stated that:

....Declining prices and markets for some of our major primary resource goods coupled with rising production costs did result in weaknesses in the agricultural and certain natural resource sectors, but these were offset to a considerable degree by soundly-based growth and expansion in other areas, and the provincial economy on the whole showed substantial gains over the previous years.

This continued progress attests the success of

the efforts made in our Province in recent years towards further diversifying and thus strengthening our economic base. Manitoba, once almost entirely dependent on the production of its agricultural resources, can today point with pride to the tremendous expansion evident in its industrial and manufacturing activity, and the steadily increasing growth in the development of its natural resource potential.<sup>24</sup>

However, the provincial financial operation throughout these eight years also attest to the continuing importance of the primary producers - and particularly agricultural producers - in the economic life of the province and to the importance of the rural vote in the political affairs of the province. The Campbell government obtained its major political support in the non-urban areas of the province, and its financial policies reflect this political fact. The low level of government expenditures, the low level of taxation, the limited amount of taxation, and the minimal amount of government borrowing to finance government services which were not self-sustaining and which might impair the government policies relating to debt reduction and low taxation, all reflect rural as opposed to urban ways of thinking. The Liberal government was, in many ways, a generalization from the individual farm unit to the field of provincial finance. The size and scope of the government operation from 1950 until 1958 were in keeping with rural thinking and standards.

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<sup>24</sup>Budget Speech, Hon. Charles E. Greenlay, Provincial Treasurer of Manitoba, Wednesday, March 26, 1958, p.25.



However, even before the Liberal Government was turned out of office in 1958, the effects of the changing base to the economic life of the province were becoming apparent. In fostering a power policy, the Liberal administration provided for rural electrification and mechanization of farming, which had the effect of decreasing the manpower requirements of the farm unit, and facilitating - or even encouraging - an exodus of population from rural areas. To a considerable extent, the reality of rural isolationism was dissipated. But even more important was the fact that the power policy of the government provided the framework for further industrialization of the provincial economy. In fact, excess power capacity required increasing industrialization if the expenditures were to be justified financially. As new industries were attracted to Manitoba, the strength of the non-agricultural sector of the economy began to make itself felt, not only in an economic sense, but especially in the political and social life of the province. Industry tended to be more urban than rural both in geographic location and outlook, and the level of government services which was required to meet its needs was necessarily greater. Much of the impact was felt first at the municipal level in the demand for new streets, sewers, water works, and so on, to service the growing municipalities. However, the province was inevitably involved as the municipalities lacked the necessary tax

authority to finance these new services alone. The political importance of the growing urban population was also apparent, and it was becoming obvious that no political party was going to be able to remain in office which did not meet their needs. In addition, any government was going to be forced to meet or come to terms with urban as well as rural needs and requirements if it was still considered desirable to attract more industry to the province and to retain existing industry within the province. By 1956, the Liberal government had begun to make limited overtures towards providing new services and benefits to the non-agricultural sectors of Manitoba, but, by and large, it continued to be farm-orientated. However, it should be noted that the continuing prosperity of the agricultural sector of the economy throughout this period probably made the rural elements more amenable - or less antagonistic - towards an increase in the size and scope of the government operation. It was the new Conservative administration which had the task of adjusting its financial policies to this economic and political framework, and effecting some compromise between rural and urban needs.

## CHAPTER IV

### THE 1959 BUDGET

#### THE CHANGEOVER IN ADMINISTRATION

The results of the elections held in June 1958, showed the changes that had been taking place in public thinking over the post-war years. To some degree the results may merely show a western democratic penchant for 'change for the sake of change' - the new broom sweeps clean concept of government. But behind the political slogans and party innuendos, the attitudes of the people of Manitoba ran deeper. The Conservative Party claimed that the Liberal administration was "...stale, old-fashioned, unprogressive and out of touch with the mood of the province and the nation".<sup>1</sup> The Liberals claimed that

...while guaranteeing our people a standard of public services in keeping with their needs and the times in which we live, we are anxious to avoid frills or extravagances which would add a tax burden out of proportion to their benefits.<sup>2</sup>

Both statements are as true as they are false - a problem in semantics. The Liberal government had kept the tax burden low, but their definition of 'benefits' was a much narrower one than that envisaged by the challenger in the political arena. Since 1955-56, the Liberal administration had been extending the role of government perceptably, but

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<sup>1</sup>Winnipeg Free Press, clipping on file on the Manitoba elections of 1958.

<sup>2</sup>Ibid.

they were criticized - and with no little justification - for doing so only under the pressure of constant and continuous prodding. The Government rarely seized the initiative, but tended to accept it almost as a last resort. They had done their work and done it well - perhaps too well. By concentrating so exclusively on debt reduction, and by continually focussing attention on the credit position of the province in relation to the 1930's, they had placed a burden on the citizens, not directly by loading them with heavy taxes, but indirectly by denying them the fruits of a more affluent orchard that might have been plucked and enjoyed. They justified their policies by constantly holding over the heads of their citizens the threat of another depression. The Conservatives accused the Government of talking always about 'yesteryear' instead of to-morrow. They promised both more now and more later. They argued that the government should not only husband the provincial talents, but by initiative and partnership with private enterprise help them to multiply and increase. When the votes were tallied, the citizens of Manitoba had voted for 'more' and Mr. Duff Roblin and the Conservative Party took over the administration of the affairs of the Province of Manitoba.

#### BUDGET POLICY: 1959

The policy and position of the new government was

clearly stated in the first Budget address delivered by Mr. Roblin on July 28, 1959. In it he states:

The fundamental theme of this Budget is development - balanced and integrated development of every facet of Manitoba's economic and social potential. This theme of progress has been incorporated throughout the various undertakings set before you. It is also the basis of our proposals to meet the financial requirements of our legislative program. We propose to pay for progress through the increased productivity that our investment in Manitoba will make possible. Our investment in a growing community will engender yet greater expansion for industry, for agriculture, for mining, and for all other sectors of trade and commerce which comprise our economy. Our programs are designed to stimulate reciprocal initiative throughout the Province...The expenditures that this House has been asked to approve will be the means by which this Government will provide the economic foundation upon which the collective and individual efforts of our people may be developed. We do not propose to do for the people of Manitoba those things regarding which they have amply demonstrated the capacity to do for themselves. Rather, we intend to encourage such initiative by expanding the capacity of our economy through wise investment and development. We will give to our citizens better tools to do the work of building a better and more prosperous Province. Every dollar expended will be an investment made in the fullest confidence that Manitobans mean to make the most of their potential.<sup>3</sup>

And, in the Budget speech of 1960: "...We will be satisfied with nothing less than the maximum development of all the potential strength which this Province has in such abundance".<sup>4</sup>

The budget was predicated on two principles - first,

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<sup>3</sup>Manitoba Budget Statement and Economic Review of the Hon. Duff Roblin, Premier and Provincial Treasurer, July 29, 1959, p.29.

<sup>4</sup>Manitoba Budget Statement and Economic Review of the Hon. Duff Roblin, Premier and Provincial Treasurer, March 17, 1960, p.38.

optimism about the economic future of Canada and confidence in the position Manitoba could attain as a participating province in the larger unit; and, second, a belief in the ability of the government, through its own expenditures, to increase the productive capacity of the private citizens. By a purposeful and practical policy of spending, the government would not only increase the general well-being of its citizens, but, in so doing, would generate the individual and collective capacity to sustain the larger government expenditures which were necessarily involved. The past was indeed past, and the prophets of gloom and impending disaster were replaced by the harbingers of a more prosperous future. The performance of the Canadian economy since 1945 justified this optimism, especially when it was fortified by accepted guiding principles of government responsibility for the maintenance of economic stability, full employment, and economic growth. To share fully in the larger Canadian experience, the province of Manitoba had to create the necessary conditions and climate for economic growth.

We have entered the 1959-60 fiscal year with our current accounts in balance and with a substantial surplus again in sight for next March 31st. At the same time, we have greatly increased our aid and development programs to speed the day when the economy of this Province will have been advanced to its rightful place in the Canadian nation. We look to a time when the investment of to-day, both in the welfare of the people and in the development of resources, will return to us all those dividends that will make this a still more affluent society. We live in a Province

of which we are all proud. We are building a still greater one.<sup>5</sup>

#### PRACTICAL PLANS FOR PROVINCIAL DEVELOPMENT

As a partner in the economic development of the Province - and as an active promoter of future economic growth in the Province, the government saw its role as one of an investor in two major areas - in the material and economic resources of the province, and in the human resources of the province. Its spending program would be directed towards developing the full potential of both facets of the economy, and would be designed to stress integration and balance between the two. The program presented in the 1959 Budget was a comprehensive one. Recognizing the continuing importance of agriculture as a vital part of Manitoba's economic life and prosperity, and reiterating the persistence of the 'cost-price' squeeze as the major problem confronting present-day farming, "...this Government believes it to be essential to continue the formation of progressive agricultural policies".<sup>6</sup> It recognized that there was a limit to the effectiveness of internal efficiency and of expanding mechanization of farm operations as a factor in reducing farm production costs, and was prepared to help the farmers improve their lot under the terms of the

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<sup>5</sup>1959 Budget, p.29.

<sup>6</sup>Ibid., p.13.

newly enacted Manitoba Agricultural Credit Act.<sup>7</sup> This legislation gave the government authority to provide credit for enlargement of farming operations and for consolidation and amortization of existing farm debt, as well as making special provision for providing capital to young farmers at lower rates of interest. In addition, in order to improve the agricultural sector of the provincial economy, vigorous program of agricultural services would be provided and promoted by the government in such areas as crop insurance, water conservation, water resource development, and agricultural research. These services would be brought directly to the people with the establishment of district offices throughout the province. Finally, the government embarked on an enlarged and expanded program of agricultural education in both scientific and business management training. The development of the economic potential of northern Manitoba - its water resources, its minerals and its forests - was also underway, "...but no one should minimize the problems and costs of discovery, transportation, and development of power supplies".<sup>8</sup> To protect the public interest and to mobilize private capital and techniques for the development of untapped natural resources in Manitoba, the Economic Development Authority was created, and it was "confidently

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<sup>7</sup>Statutes of Manitoba, 1958. Chapter 1. The Agricultural Credit Act.

<sup>8</sup>Budget Speech, 1959, p.15.



expected" that the return to the citizens of Manitoba by the investment of public money in the resource development of Manitoba would be "...many times over the public investment that is being made".<sup>9</sup>

Concurrent with the program to develop and strengthen the primary industries was a program to increase the industrial prosperity of the Province. The Manitoba Development Fund<sup>10</sup> was created to "...encourage diversification and decentralization of industry and to foster local commercial development".<sup>11</sup> Again, the services of the government would be brought directly to the people of Manitoba with the establishment of Regional Development branches of the Department of Industry and Commerce. To this end, expenditures on roads and highways would take an increasingly large share of the financial resources of the Province in order to

...facilitate the flow of raw materials to our industrial plants and the distribution of finished goods to the consumer. The investment in roads is vital, and one that will bring increasing returns over the years to the people of Manitoba...We are providing major additions to our growing network of highways to carry the commerce we confidently expect to develop, especially in northern areas.<sup>12</sup>

Investment in the public utility sector of the economy - in

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<sup>9</sup>Ibid., p.15.

<sup>10</sup>Statutes of Manitoba. 1958. Chapter 3. The Business Development Fund Act.

<sup>11</sup>Budget Speech, 1959, p.15.

<sup>12</sup>Ibid., p.15.

telephones, television, and hydro-electric power - would also be expanded, and be planned to anticipate future needs.

At the same time, it was emphasized that

...a necessary and integral part of this Government's concept of provincial growth comprises investment in human resources. We have proposed broad new investment in the fields of education, social and health services, to promote the development of a balanced and prosperous Provincial community.<sup>13</sup>

Existing services in the fields of health and social welfare were to be expanded, new services introduced, and new facilities provided since "...no society can afford to do less - within its capacity - than is needed in the way of social security measures".<sup>14</sup> The reorganization of secondary school education into larger units, which was done on the recommendation of the report of the Royal Commission on Education, was expected to provide better and more equal school opportunities for all of Manitoba, and, consequently, to increase the flow of applicants for Manitoba's University and colleges. In anticipation of this, the financial assistance to the higher institutes of learning was to be increased. In the years ahead, it was expected that investment in education would require substantial portions of the provincial revenues.

#### DOLLAR VALUE OF INVESTMENT PLANS

In dollar terms, the investment program of the

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<sup>13</sup>Ibid., p.19.

<sup>14</sup>Ibid., p.20.

government was considerably higher than in previous years.<sup>15</sup> Investment in economic resource development for 1959-60 would total \$74.7 million, which included \$31.2 million for highways and roads, and \$22.5 million for the self-sustaining public utilities. Investment in human resources would total \$54.8 million. Taken together with the \$14 million required for general administrative services not directly connected with development in either the natural resource or social service areas, total government spending for 1959-60 would reach \$143.5 million. Excluding investment in the self-sustaining utilities, current account spending together with capital supply for 1959-60 totalled \$121 million, almost a 20% increase over the \$105 million for 1958-59. The fiscal year 1958, it should be noted, marked the first real break with the 1952 pay-as-you-go policy for financing provincial capital expenditures of a non-self-liquidating type. During 1958, the Campbell administration borrowed \$24 million to finance highway construction (about \$20 million) and public works. In relation to current provincial revenues of \$85.4 million in 1958, expenditures exceeded revenues by about 24%. In relation to current provincial revenues of \$89.9 million in 1959, expenditures exceeded revenues by over 34%. However, whereas in 1958 the greatly increased expenditures which were

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<sup>15</sup>Refer to Statistical Appendix, 1959 Budget Estimates of revenues and expenditures.

met by borrowing implied no change in the stated policy ideal that provincial governments should, whenever possible and to the greatest extent possible, pay for capital expenditures out of current revenues, in 1959 the expenditures were predicated on an entirely different financial policy and attitude towards borrowing for - or investing in - capital expenditures. The policy was stated as one of "pay-as-you-use".

#### PAY-AS-YOU-USE POLICY

In essence, the difference between a policy of pay-as-you-go and pay-as-you-use might be summed up by stating that, while the former would allow for an increase in the dead-weight debt of the province only reluctantly and after all other means of providing the service without so doing had been exhausted, the latter would allow for an increase in the dead-weight debt of the province quite deliberately. It was premised on the belief that by borrowing now and paying for the investment over the years during which the services provided by the capital outlays were used, the people of the province could enjoy "...an immediate and important net gain which will result from the investment, and which will accrue to all".<sup>16</sup> While the government was the servant of the people, the best interests of the province and of all its citizens would be served not by

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<sup>16</sup>Ibid., p.27. 1959 Budget.

standing and waiting, not by a policy of doing nothing - or relatively nothing - without the cash in hand and without constant prodding from the people, but by taking the initiative, by spending and investing wisely in both the welfare of the people and the development of resources so that the present would be more pleasant, and so that the future dividends to all would be greater in the more affluent society thus created. Economic growth in the province would create its own potential for further growth. Investment in the present which stimulated and hurried that development would provide greater prosperity in the future and in the long run, then, these expenditures could be looked upon as self-sustaining.

In the above context, self-sustaining has taken on a new shade of meaning. It is no longer the crass, commercial concept of the market-place but has much wider social implications. Its balance sheet can no longer be quoted exclusively in dollar terms (though this possibility is not entirely excluded) but in terms of human betterment. In stating the government's policy, Mr. Roblin said

This government is of the opinion that investment is worthwhile where the cost of carrying the investment is less than the return that one makes upon it. Sometimes the investment return is not direct to the Government itself, but rather the benefits are spread widely over the entire community.<sup>17</sup>

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<sup>17</sup>Ibid., p.26.

For this reason, capital expenditures would no longer be directed only to those areas where the debt created would be self-sustaining, nor would it be limited to a significant degree, as it had in the past, by the size of the current surplus. Capital expenditures were looked on as an investment in the progress and in the economic and social well-being of the people of Manitoba. Not to spend could be more costly than spending if the failure to spend limited or thwarted either the economic or human development of the province. By spending 'wisely' now, the government could create a climate conducive to the growth of both the economic and human resources of the province so that present investment would be paid for from the increased productivity made possible by such spending. The alternatives were to forego the immediate use of the facilities which capital expenditures would provide until such time as the people of Manitoba could afford to pay for them in cash, or to provide these facilities whose benefits would be spread over a relatively lengthy future period and pay for them immediately by means of an oppressively heavy tax burden.

#### POLICY TOWARD DEBT CREATION

From the government's point of view, the approach to the creation of public debt - of investing through borrowing - hinged on the definition of self-supporting and productive. Speaking in the 1960 Budget address, Mr. Roblin clearly

outlined the new position:

Must we assume that investment for growth can only be justified when it can be supported by a statement of profit and loss? Is it not true that the cost of not doing may well, in the long run, be heavier than the cost of doing? There is a true benefit to the economy, even if not measurable in dollar terms, in capital being put to work in the development of essential services necessary to growth such as roads, schools, universities, hospitals, power, water systems, and the like.

The question there is much more difficult to resolve. Who can say what the monetary cost is of not building a road, a school, or a hospital? Nevertheless, this factor is as real as any reflected in a profit and loss statement...All factors must be weighed and the direct and indirect benefits offset against the costs. We have taken these into full consideration and have approved only those projects where the balance is clearly in the best interests of the Province.<sup>18</sup>

In essence, government spending related to a purely cash return - a dollar balance sheet - belied the role that governments should play in providing the economic and social climate for a better way of life for its citizens. A policy that related costs to dollar returns to the government instead of relating costs to social benefits for its people could only result in economic stagnation, in that its people would not have adequate economic and physical and mental tools with which to proceed to a higher - ipso facto, better - way of life.

The criteria by which a spending program involving creation of debt must be judged were three: 1) Is the proposed

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<sup>18</sup>1960 Budget, p.31.

expenditure good in itself? 2) Can the Province afford it? 3) Will the return on the investment compensate for the costs involved? In formulating its capital programme, "...the cost-benefit relationship has been a foremost consideration in all our judgement".<sup>19</sup> The practical implementation of a pay-as-you-use policy can best be illustrated in relation to the building of highways and roads. In the years 1950-1958, and particularly after 1952, the administration stated its policy that highways were to be considered an "annual and recurring" budgetary item and, as such, should be an item of current rather than capital expenditure. When this was impossible, and where the actual need was judged to outrun the ability of current revenues to meet the necessary expenditures, borrowing would be resorted to to finance the expenditures - but always with the proviso that any current account surplus would be applied to offset such capital expenditures, and so reduce the increase to the dead-weight debt of the province. Thus, in 1958, the Liberal administration budgeted to borrow over \$20 million for highway spending. With the changeover in administration, expenditures on highways were no longer considered solely in the light of an annual and recurring budgetary item. Whenever possible, capital expenditures would continue to be financed from current revenues. But current revenues

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<sup>19</sup>Ibid., p.30.



imposed no real upper limit on the amount that would be spent by government. Expenditures on highways were considered as an investment in the progress of the province, and the province gained in three ways. First, the government benefited directly from new and improved roads and highways to the extent that annual maintenance costs would be lower, and to the extent that new and better roads attracted greater use and increased annual revenues from gasoline and other motor vehicle taxation. Secondly, the citizens now benefited directly from

...more efficient and speedier transport - shorter time spent in travel, less wear and tear on vehicles. These dollar savings accrue to the people themselves rather than to the government directly, and therefore make our citizens more able to carry whatever taxation is necessary and, at the same time, to enjoy a net economic gain in their everyday living.<sup>20</sup>

Thirdly, the province as a whole would benefit in the future since better roads and highways would speed economic development, open new areas to commerce and industry, and speed the day when the cash return to the revenues of the province from increased economic activity would more than compensate for the cost involved. All this could be done without placing an onerous burden of taxation on the citizens by a policy of borrowing now in anticipation of a more prosperous future. The same principles applied to other areas of government activity, and borrowing for investment was justified whenever

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<sup>20</sup>1959 Budget, p.27.

the return-direct and indirect - exceeded the cost. Money spent on education - on new facilities and on expanding the educational base so that everyone in Manitoba had an equal opportunity for the best education available - might be returned to the government in future years in the form of higher revenues from the higher taxes that a better educated and better trained population would pay. But, this consideration aside, the non-monetary advantages to society of a better educated people should be sufficient to justify expenditures on education, since no government and no society should do less than it is capable of doing in the way of promoting human betterment.

The whole policy of the Roblin administration with regard to debt was to be one of flexibility so that the government could provide money for important and useful public causes. As in the past, the policy of setting aside sufficient sinking fund moneys to retire each new debt created within a period of not less than twenty-three years would be continued. However, the government reserves would no longer be used, as in the previous years, solely to provide loans to self-sustaining government enterprises or to meet unexpected expenditures for the year then current. Instead, the reserves would be used "...as far as possible as revolving funds for investment purposes".<sup>21</sup> The reserves would be used to provide capital for the Agricultural Development Fund and

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<sup>21</sup>Ibid., p.28.

the Manitoba Development Fund, and no further legislative authority was required for the disposition of reserve funds in this way beyond the passing of the original legislation creating these authorities. The use of reserve funds in this way was not considered a dissipation of these reserves but rather as a sound investment in the development of the province. In addition, government guarantees of debt would no longer be restricted to loans to self-sustaining utilities, but would be extended to certain approved institutions, such as hospitals, universities and school units, and to municipalities.

Our policy is flexible. We have sought authority either to make direct loans and advances or to guarantee the securities of such approved institutions, or in some cases to make outright grants. With a flexible authority we will be able to take whatever course is best at the time the money is required. We will also have authority to charge these and other capital items to our surplus current account funds during the coming year<sup>22</sup>...To the extent that these guarantees are necessary to provide reasonable marketability for subsidiary securities, the Government welcomes the opportunity to be of assistance.<sup>23</sup>

#### POLICY WITH REGARD TO CURRENT SURPLUSES

A new policy was also introduced with regard to current account surpluses in any one year. Whereas such surpluses had, under the previous administration, been used to reduce the dead-weight debt of the province or to finance new capital

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<sup>22</sup>Ibid., p.27.

<sup>23</sup>1960 Budget, p.32.

expenditures which would increase the dead-weight debt or to augment the cash reserves against unexpected expenditures or unpredictable declines in current revenues, under the new administration such surpluses would be carried forward into current account revenue for the following year.

In explaining this new policy, Mr. Roblin stated that:

In order that the people of Manitoba may benefit fully from this money collected during the fiscal year 1958-59 and in order that the Government may proceed to provide the maximum in efficient service for the present fiscal year within the bounds of sound economy, we propose to bring this current account surplus from the past fiscal year - 1958-59 - clearly identified as such, into revenue account in 1959-60. We feel that, as a matter of common sense, surplus moneys collected from current taxation in any given year should be available for current account as well as capital expenditures.<sup>24</sup>

The amount of this surplus in 1958-59 was \$3.7 million.

#### TAXATION POLICY

Finally, the entire program of 'investment in progress' anticipated no new taxes and no increases in taxes, since it was expected that the areas in which the government money was spent would so increase the level of economic and human resources in the province that the investment would create its own new or augmented tax revenue sources through the increased productivity that it generated. The tax potential of the healthy, educated citizen living in a progressive

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<sup>24</sup>1959 Budget, p.22.

and developing economic environment was much greater than the tax potential of his opposite. Investment in education, health and welfare would develop the educated healthy citizen; investment in economic progress and natural resources would increase the probability that he would find suitable opportunity for employment and for his initiative, and so remain in the province as a tax-paying citizen. The only changes proposed in the 1959 Budget was an adjustment upward of the fee schedule for utility services to bring the fees more into line with rising costs.

#### SUMMARY

The 1959 Budget outlines in some detail the new approach of the Conservative government to the role which it would play in the economic and social life of the province. In most respects, the policies and programs of the new administration are in sharp contrast to those of the previous Liberal administration. They are larger in scope and wider in intent. They place the provincial government in a position of partnership with private enterprise in promoting economic growth and building a better society in Manitoba, and stress the importance of growth as a major and legitimate objective of government policy. Moreover, the development of the human resources of the province are assumed to be equally as important as the development of material resources, and an equivalent responsibility of government. To carry out

its plans without placing an onerous tax burden on the people of Manitoba, public borrowing would no longer be the exception to the rule of provincial public finance as had been the case under the Liberal government. In some respects, however, continuity with previous financial policies is maintained. There is still concern with maintaining a low tax policy, and no new taxes were proposed in the 1959 Budget. The fee changes which were introduced at this time for utility services provided by the government were not hidden taxes to bolster the general revenues of the government, but were designed to bring payments for the service provided more in line with the rising costs of providing that service. In other words, it was the policy of the new government that a service capable of 'paying its way' should do so. More significantly, there is no break with the accepted principle of taxation in Manitoba that, as far as possible, taxes should be related to 'ability to pay', and be structured so as to place the least burden on those citizens least able to pay. There is almost a conflict of interest between the spending program proposed by the Roblin government and its tax policy. On the one hand, the economy of the province was becoming increasingly diversified, and, by 1958, the newer economic interests of the non-agricultural sector of the economy were demanding certain government services, and, in fact, required a certain pattern of government expenditure if they were to prosper and remain in the province. These

economic interests tended to concentrate in the urban areas of Manitoba, particularly in and around Winnipeg. On the other hand, the rural and agricultural interests of the province most often felt themselves to be best served by a government which might provide less, but which would also tax less. In striking a balance in order to obtain enough political support from both groups in order to stay in office, the Conservative government had to please both groups. It partly resolved the practical difficulty of providing a high level of services at a low level of taxation by borrowing. In the years following 1958, the implementation of the Conservative government's policies for the province will be traced with reference to current revenues, current and capital expenditures, tax changes, and changes in the size and composition of the public debt.

## CHAPTER V

### THE CONSERVATIVE YEARS - 1958:1965

#### ECONOMIC DEVELOPMENT OF MANITOBA -1958:1965

Between 1958-1965 the economic development of Manitoba proceeded at a steady pace, showing consistent progress on an upward trend. The record of advance is shown in the following table.

The only sectors of the economy which failed to keep pace with the growth trend of the province were some segments of the natural resource industries, notably the fur and fisheries industries, and, to a lesser degree, the forest products industries. In 1964, the estimated gross value of production in Manitoba was over \$3 billion, as compared with \$2.2 billion in 1958, and \$1.6 billion in 1950. However, gross value of production in Manitoba as a percentage of Canadian gross national product had shown a slight decrease over the years, from over 8% in 1950 to 7% in 1958 to 6.5% in 1964. The relative position of Manitoba vis-a-vis the Canadian economy was a cause for continuing concern, as stated by Mr. Roblin in the 1966 Budget address:

Although economic progress in the Province has shown consistent improvement in recent years over past records, Manitoba must do even better in the future in view of the fact that it is one of the less-favoured provinces in terms of natural resources wealth. This will demand not only continued provincial effort but a national recognition of the importance of balanced regional growth throughout the land.<sup>1</sup>

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<sup>1</sup>1965 Manitoba Budget Statement and Economic Review by Hon. Duff Roblin, Premier and Provincial Treasurer, March 4, 1965, p.8.



MANITOBA GROWTH INDICATORS - 1958 and 1965

Year	Population	Agricultural Production	Mineral Production	Manufacturing Shipments	Retail Trade	Tourism
	(000)		Millions of dollars			
1958	875	341	57	674	754	33
1965	962	467	182	1,002	1,007	50
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Percentage Increase from 1958 to 1965	10%	37%	219.3%	48.7%	33.6%	51.5%

Source: Manitoba Budget Address, March 24, 1966, p.29.

Repeated suggestions and demands for national policies to help eliminate regional disparities in Canada were urged on the federal government by Manitoba, particularly with regard to federal concessions or financial contributions to projects and policies which would facilitate more rapid development of the natural resources of the province. The provincial government recognized its own responsibility to stimulate the economic growth of the province, and new policies and a continually higher dollar outlay in public investment were being applied yearly to help Manitoba make the most of her somewhat limited opportunities. At the same time, it was noted that

...every sector of the economy must be ready and willing, not only to acknowledge the necessity for change, but also to speed up our accommodation to these progressive times. All must improve their arrangements for progress.<sup>2</sup>

The province could not be successful in its endeavours to "...command a better future for generations yet to come"<sup>3</sup> without the unique contribution of enterprise and initiative which would be provided by the private commercial and industrial sector, including agriculture.

#### PROVINCIAL REVENUES

As might be expected with a growing population and an increasing level of economic activity within Manitoba,

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<sup>2</sup>1966, Manitoba Budget Address by Duff Roblin, Premier and Provincial Treasurer, March 24, 1966, p.33.

<sup>3</sup>Ibid., p.33.

provincial revenues continued to climb. For the fiscal year ended March 31, 1959, gross general revenue for Manitoba was over \$102.5 million or \$118 per capita. Net general revenue was \$76.6 million, or \$88 per capita. For the fiscal year ended March 31, 1966, preliminary estimates are for a net general revenue of \$188.8 million, or just under \$200 per capita. Part of this increase in revenue is the natural increase expected as a growing population and an expanding provincial economy resulted in new sources of tax revenue and increased yield in revenue from existing sources. Part, as well, is the direct result of higher taxes imposed since 1958.

Percentage-wise, the change in net revenue by source is largely a reflection of the terms of the new Federal-Provincial tax agreements of 1962.<sup>4</sup> In 1958, just over 20% of the revenue of Manitoba came from direct provincial taxes, while almost 44% came directly from the federal government in the form of tax rebates at standard rates, and as equalization payments. For the fiscal year ended March 31, 1960, these proportions had changed to over 30% from provincial taxes and 39.5% from federal-provincial tax agreements. This change reflects the agreement signed with Ottawa effective July 1, 1958 providing for the introduction of a provincially-operated hospital insurance plan.

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<sup>4</sup>Statutes of Canada 1960-1961, Chapter 58, Federal-Provincial Fiscal Arrangements Act.

In Manitoba, the provincial cost of this program which was shared on a 50-50 basis with the federal government, was financed in part by charging a hospital insurance premium - a provincial direct tax - which in the first full year of its operation - 1959 - accounted for 12.9% of total provincial revenue from provincial direct taxes. On April 1, 1962, a new federal-provincial tax-sharing agreement came into effect which was actually a tax-collecting agreement. Under the new financial arrangements, the federal government made a partial withdrawal from the field of direct taxation in favour of the provinces. In 1962, the federal personal income tax was reduced 16%, and was to be reduced at the rate of 1% per year until 1966, making a total reduction of 20% from the federal rates in effect in 1961. At the same time, the federal government would withdraw from the income tax field on corporate profits to the extent of a 9% reduction from its 1961 rates. An abatement of 50% of federal succession duties to taxpayers situated in provinces levying their own succession duties was also provided; or, alternatively, the federal government would share on a 50-50 basis the yield from federal estate taxes, collected in those provinces who chose not to levy a succession duty. Manitoba continues to use this second alternative with regard to estate taxes. Unlike the conditions of the 1957 tax agreement which prevented the provinces from levying higher than standard personal and corporation income taxes if Ottawa was to be used as the collection agency, the 1962 financial arrangements contained

no such restriction. The provinces could continue to have Ottawa collect these taxes even if provincial rates were higher than the revenue from direct taxation relinquished by the federal government. Manitoba took advantage of its constitutional authority to levy direct taxes by increasing the rate of taxation on personal incomes to 6% higher than the federal abatement (tax receipts to equal approximately 1% of total taxable personal income), and by increasing by 1% above the federal abatement the tax rate on corporation incomes. As a result of the 1962 financial arrangements with Ottawa, payments to Manitoba which come directly from the federal government out of the federal treasury dropped to 14% of total provincial revenue in 1962, and to under 12% in 1963. At the same time, the percentage of total provincial revenue arising from provincial direct taxes rose to over 59%. In 1965, federal direct payments to Manitoba, which included equalization and stabilization payments plus Manitoba's 50% share of the federal estate tax collected in Manitoba, came to \$27.5 million (estimate) or 14% of the estimated net general revenues of the Province. In addition, statutory subsidies have averaged between \$2-3 million yearly but have dropped as a percentage of net provincial revenue as revenues from other sources have increased.

The effect of the provincial tax increase on personal and corporation incomes is seen in the change in absolute dollar amounts collected from these sources. In 1960 Manitoba

levied no income taxes of her own, and payments from Ottawa under the terms of the 1958 tax-sharing agreements amounted to almost \$26 million, not including equalization payments. When the new Fiscal Arrangements Act come into operation, the net return to Manitoba from income taxes came to \$38 million, (which included payment of \$1.1 million from the previous 1958 agreement). The upward trend of provincial returns from income taxes shows the effect of both the provincial surcharge and continued federal withdrawal from this direct tax field:

PROVINCIAL NET REVENUES FROM INCOME TAXES

Fiscal Year	Corporation Taxes	Personal Taxes	Total
	(millions of dollars)		
1962	16.8	21.4 (plus \$1.1 from 1958 agreement)	38.3
1963	15.0	21.4	36.4
1964 (est.)	15.0	24.6	39.6
1965 (est.)	20.0	30.7	50.7
1966 (est.)	23.7	40.7	64.4

Source: D.B.S. 68-207 and D.B.S. 68-205.

In 1965, the Federal Government turned over another 2%, and in 1966 another 4% of personal income tax collections to the provinces.

At the same time, tax equalization and stabilization

payments have continued to increase dollar-wise as a source of provincial revenue.

PROVINCIAL NET REVENUES FROM TAX EQUALIZATION  
AND STABILIZATION

(millions of dollars)

<u>Fiscal Year</u>	<u>Amount</u>
1958	12.9
1959	13.0
1960	14.1
1961	11.9
1962	15.2
1963	13.7
1964 (est.)	18.5
1965 (est.)	23.3
1966 (est.)	29.0

Source: D.B.S. #68-207 and #68-205.

The basis for equalization payments has continually shifted over the years, and been subjected to continual pressure from the provinces and continuous adjustment by the federal government. For the year 1963, lower payments reflected the fact that these payments were related to the national average yield from standard tax rates. The following year, the base was restored to the average from the two provinces having the highest tax yield. In 1964, the natural resource revenue adjustment which had been urged on the federal government in 1961 by Manitoba was withdrawn so that the excess revenue from natural resources was deducted from the equalization payments rather than shared with the less endowed provinces. Manitoba objected strongly on the grounds that this was in

effect an equalization downward -

We do not believe that any part of the nation should have a penalty so applied as a result of history or geography - whether it be a penalty of insufficient resources or a penalty exacted because of a fortunate endowment in natural resources or other revenue potential.<sup>5</sup>

In January, 1965, the 6% provincial surcharge on personal income taxes was reduced to 5%. Three reasons were advanced for the reduction in the tax rate. First, the federal income tax was highly progressive, and with expanding personal incomes over the past years, the returns from this tax tended to increase very rapidly, especially when compared with the returns from corporation income taxes. Second, the provincial share of the personal income tax had been increasingly steadily since 1962 as a result of federal withdrawal from this tax field, and it had thus become less essential to use the surcharge to collect the province's proper share of these taxes. Third, the increasingly competitive nature of the Canadian economy did not allow any one province to get too far out of line with other provinces in imposing taxes.

Increased rates in direct provincial taxes in other areas as well as that of personal and corporation income also served to swell the coffers of the provincial Treasury. As noted, when the hospitalization plan was introduced in 1958, a premium of \$4.10 per month for married people and \$2.05 per month for single people was levied to help defray costs to the province of the hospital insurance and diagnostic

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<sup>5</sup>1964 Manitoba Budget Statement and Economic Review by Hon. Duff Roblin, Premier and Provincial Treasurer, Feb. 6, 1964, p.30.



services plan. In 1959, revenue from these premiums totalled \$13.9 million. The rates were raised to \$6.00 and \$3.00 respectively in 1961, then lowered to \$4.00 and \$2.00 when the surtax on personal and corporation income tax was imposed in 1962 in order to relate the costs more pointedly to the ability-to-pay principle. However, the increase in taxation, while it was introduced as relating to the desirability of making a more equitable distribution of the costs of hospital services among the people of Manitoba, did not specifically earmark the anticipated increase in revenues for the Hospital Services Plan. It was in essence a general tax, the revenue from which would accrue to the general revenue fund of the province. In 1965, premiums were still paid by the citizens at the 1962 rates, and revenues from this source were estimated to be about \$13.9 million - the same as in 1959. There is, however, an element of change to the extent that the government, since 1962, has been providing hospital services at a lower direct cost to those persons least able to pay for the service.

Despite optimistic predictions to the contrary, the necessity for raising more funds immediately for the planned spending program, as opposed to waiting for the increased productivity of the province to increase provincial revenues, resulted in a variety of tax increases. In the Budget address of 1961, the Legislature was asked to authorize an increase in the tax on gasoline by 3¢ a gallon - from 11¢ to 14¢ -

and on diesel fuel by 6¢ a gallon - from 11¢ to 17¢. This increase was justified as an attempt to make the chief beneficiaries of the expenditures on roads and highways meet a larger and more proportionate share of the cost burden. On the basis of a survey on roads and highways in Manitoba submitted by the Provincial Department of Public Works, substantial investment "...for a good many years at a level beyond anything previously contemplated on a continuing basis" was essential

...if we are to keep up with modern transportation needs...If we had been able to revert to more modest capital expenditures, we could have continued without additional levies on those who are the chief beneficiaries of these expenditures. But it is now quite clear that, on the level of road investment for the years ahead now called for by the report, the present charges for road-use are quite inadequate and do not place the burden where it properly belongs.<sup>6</sup>

The addition to total revenue with the increased taxes was estimated at \$5 million per year. In actual fact, revenue returns exceeded estimates. In 1960, the last year before the tax, revenues collected from motor fuel and fuel oil taxes totalled \$16.6 million; in 1962, the first full year after the tax, they reached \$23.6 million.

In the 1963 budget, a provincial tax was placed on tobacco products. It was expected to yield from \$2.25 million to \$3.5 million annually. In 1964, the first full year of the tax, returns to the provincial treasury totalled

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<sup>6</sup>1961 Manitoba Budget Statement and Economic Review by Hon. Duff Roblin, Premier and Provincial Treasurer, April 7, 1961, p.38.

\$3.7 million. In introducing the first provincial tax on tobacco, it was stated that:

The essential needs of a growing economy do demand more revenues to pay for the new and expended programmes. In the search for such revenue, I have tried to find it where it would have the least burden on our development...Smoking is a matter of personal choice and decision and as such is suitable for luxury taxation.<sup>7</sup>

Speaking generally on the subject of taxation - and more specifically in reply to queries about the possible imposition of a provincial sales tax - Mr. Roblin stated at the same time that he foresaw no immediate or substantial change in the present tax structure of Manitoba.

Less than eighteen months later, at a special session beginning August 17, 1964, the Legislature met to discuss new proposals, based on the Michener Report,<sup>8</sup> concerning local government and education, and the increasingly heavy share of the tax load which these two authorities placed on the property owner. The province sought to relieve the local taxpayer of part of his burden by transferring some of the financial responsibility for their operations to the provincial government. The intent was not to increase the capacity of the local government to spend, but to assure that, as provincial taxes went up to meet the extra responsibilities it took over from the municipalities and school boards, local taxation would go down. In other words, property taxes, which were not related to the

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<sup>7</sup>1963 Manitoba Budget Statement and Economic Review by Duff Roblin, April 26, 1963, p.32.

<sup>8</sup>Report of the Manitoba Royal Commission on Local Government Organization and Finance, April, 1964, Winnipeg, Manitoba.

'ability to pay', principle of taxation, would be expected to decline. The school tax rebate undertaken by the Manitoba government was a new departure in tax relief. In effect, the local taxpayer received a rebate of a portion of his school tax payment directly from the Provincial Treasury - a 50% rebate of school taxes up to a maximum \$50 payment on each tax bill in any year. The estimated cost to the province would be about \$10 million. In addition to the school tax rebate, a wide range of what were previously municipal responsibilities and function relating to roads, bridges and drains, was to be taken over by the province, in some instances in their entirety, in others, on a percentage basis. The total bill to the province to finance all the proposed transfers of municipal responsibilities and costs was expected to be between \$18 - 19.5 million in a full year, and, "...in order to give effect to these changes at the earliest possible date, new provincial revenue sources must be developed now so that the funds may accrue to meet the additional obligations".<sup>9</sup> Despite the recommendations of the Michener Report that the necessary revenue be raised by the imposition of a general retail sales tax, and despite an acknowledgement by the government of the many obvious advantages of this type of tax, it was not imposed. The reason given by the government was that the timing was not

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<sup>9</sup>Debates and Proceedings, Legislative Assembly of Manitoba, 3rd Session, 27th Legislature, 1964, p.14.

auspicious\*, partly because of the impending report of the Carter Commission on federal taxation, and partly because of a federal-provincial tax structure conference to be held the following month at which time Manitoba hoped to establish a system of joint federal-provincial priorities in expenditures. If this succeeded, new tax sources might possibly be available to the province in the near future for the support of education and other primary provincial needs. Also, it was pointed out that no final decision had yet been reached as to how much of the national tax base was to be devoted to pensions and health care. For these reasons, the funds required would be raised from other sources, as follows:

1. The cost of driver's licenses was increased from \$4 to \$5 for a two year period. Most license fees and other charges were also increased 25%. Expected yield: \$1.9 million.
2. Gasoline tax up 3¢ to 17¢. Diesel fuel tax up 3¢ to 21¢. No tax on purple gas. This tax was justified "...in view of the fact that a very substantial part of our costs arise from road responsibilities in municipalities and Metro".<sup>10</sup> Expected yield: \$7.5 million.
3. Liquor prices increased by 25¢ per bottle on low priced brands and 30¢ per bottle on high priced brands, with corresponding increases in the tax on beer and wine. Expected yield: \$2.7 million.
4. An increase of 5¢ per pack of 25 cigarettes, with corresponding increases on all other forms of tobacco products. Expected yield: \$3.2 million.

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\* A Provincial general election was held in 1966, so there are many possible political overtones to the decision not to impose a general sales tax at this time.

<sup>10</sup> Ibid., p.15.

5. The mining royalty tax was increased for larger operations and lowered for smaller operations. Expected yield: \$400,000.
6. Since it was too lengthy a procedure to adjust utility rates, a 5% surtax would be imposed on all purchases of electricity and telephone services, and on purchases of natural gas, coal and fuel oil used for heating. Expected yield: \$3 million (appr.).
7. A land transfer tax equal to 1% of the actual value of the transaction. Expected yield: \$2.2 million.

The total amount which it was estimated that the new taxes would bring in to the Provincial Treasury was \$20.75 million. This was 5% more than required for the new expenditures, which was considered to be a "...reasonable margin to assure our financial position". The government restated its policy of relating taxes to the ability-to-pay principle at this time. Speaking to the Legislature, Mr. Roblin stated that

...it is the firm belief of the Government that the proposals made to-day with respect to taxation changes are the most equitable under present circumstances for all concerned. None of the new proposals bears heavily on those who cannot afford them. Collectively they will have the greatest impact on those who can afford to pay. Indeed in several cases the payment is at the taxpayers own discretion.<sup>11</sup>

Excluding corporation and personal income taxes, and the tax on premium income of insurance companies, returns from provincial direct taxes rose from \$45.6 million (est.) in 1964 to \$61.7 million (est.) in 1965, an increase of \$16.2 million. Liquor profits increased about \$2.5 million, and revenue from privileges, licenses, and permits by about

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<sup>11</sup>Ibid., p.16.

\$6.9 million. Unfortunately, the tax rebate and aid to municipalities was not very successful in its objective to lower municipal taxes. Between 1958 and 1965, municipal tax levies have increased by 73%.<sup>12</sup>

Speaking to the Legislature in March, 1965, Mr. Roblin restated the government's position as follows:

We believed then, and we continue to hold the view now, that the impact of the changes made at the Special Session on the people and the economy of this province is much to be preferred to that of a retail sales tax of general application affecting nearly the whole gamut of our consumption.

The primary aim of this operation was not to raise revenues for provincial expenditures as such but to enable the massive transfer and shift of the tax burden from the local taxpayer to the broader provincial tax base....The year 1965 will see the working out of more changes which we believe will provide a more equitable distribution of tax responsibility and reduce the tax pressure on local government tax payers.<sup>13</sup>

During the years 1959-1965, while the dollar returns from all sources contributing to provincial revenues continued to increase, the relative position of each source vis a vis the total revenue picture of the province shifted. In 1965, provincial direct taxes accounted for 60% of total provincial revenues as compared with 30.3% for the fiscal year ended March 31, 1960. During the same period, net revenues from privileges, licenses and permits declined from 15.6% to about 13.5% as a percentage of total provincial

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<sup>12</sup>1966 Budget, p.21.

<sup>13</sup>1965 Budget, p.13.

revenues even though dollar returns from this source had increased from \$15.5 million in 1959 to \$26.2 million (est.) in 1965. Similarly, revenue from liquor profits grew from just over \$10 million in 1959 to \$15.9 million (est.) in 1965, but declined from 10.1% to 8% in relation to total provincial revenues.

While Manitoba in 1965 ranked, fifth among Canadian provinces in per capita municipal and provincial tax burden, and had, it was maintained, a "tax system which is among the most modest in Canada in terms of its impact upon the taxpayer",<sup>14</sup> compared with 1958 the tax changes have been significant. As yet, the economic growth of the province has not been sufficient to sustain such a high level of public investment as is encompassed in government policy since 1958 without resort to tax increases. In fact, at March 31, 1965, Manitoba had a comparatively high tax schedule in comparison with other provinces in Canada, with the large single exception that Manitoba did not have a general retail sales tax. The Manitoba rate of tax on personal income was matched only by Saskatchewan; its rate of tax on corporation income was exceeded only by Ontario and Quebec; its tax on gasoline was higher than in all other provinces except the Atlantic provinces; its tax on tobacco products was the highest in Canada; it was the only province

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<sup>14</sup>1965 Budget Speech, p.26.



in Canada; to levy a tax on the consumer price of utility services; and as in Ontario and Saskatchewan a hospital premium was levied directly on its citizens.

In reply to charges that the tax burden should be lower, Mr. Roblin said, in the Budget address in 1965, that these charges were made

...apparently without regard to the proper functions and responsibilities of government in our modern society. This negative attitude was a main factor in retarding Manitoba's growth in the past and our people have learned to reject it. Our philosophy of government is that it has large and continuing responsibilities for human betterment and for provincial economic investment and development. Applied with due care to priorities, balance and pace, our progress reflects this policy and remains within the reasonable tax capacity of our economy. Despite the view still held by a few, I am satisfied that the majority of our people approve of the concept of government as a partnership, working with people in initiative and enterprise in building our future. This is directly opposed to the concept of government as a caretaker.<sup>15</sup>

#### PROVINCIAL EXPENDITURES

The level of provincial expenditures, current and capital, moved sharply upward between 1958 and 1965. In gross terms, the size of the provincial expenditure operation, inclusive of debt retirement, increased from \$124 million in the fiscal year 1958 to over \$219 million in the year ending March 31, 1964 - the last year for which comparable D.B.S. figures are available. In per capita

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<sup>15</sup>Budget Speech, 1965, p.27.

terms, gross provincial expenditures increased during this period from \$142 to \$231. In net terms - after deducting revenue which can be specifically assigned or related to the various provincial services provided - expenditures of the government of Manitoba increased from \$97.8 million in 1958 to \$162.2 million in 1963 to \$206.8 million (est.) in 1965. In per capita terms, net provincial expenditures rose from \$112 in 1958 to \$171 in 1963 to \$213 in 1965 (estimate based on an estimated population of 970,000).

The percentage distribution of net expenditures by the province with respect to the three major functions of transportation and communication, health and welfare, and education showed remarkable continuity after 1958, compared with the years prior to 1958. In 1950, provincial expenditures on these three major categories accounts for over 74% of total provincial expenditures, in 1958 for over 79% of total provincial expenditures, and in 1965 for nearly 73% (estimate) of total provincial expenditures. This continuity points up the constitutional restraints on provincial operations. Provinces are, under the terms of Section 92 of the British North America Act, responsible for performing only certain functions and providing only certain services. However, there were some significant changes in the relative weighting of expenditures made. In 1958, transportation and communications utilized 32.3% of the resources available to the provincial government; in 1965, this percentage had dropped

to about 18%. Expenditures on health and welfare increased from just over 23% of total provincial expenditures in 1958 to 27% in 1965. In the field of education, total provincial expenditures increased from just over 23% of total expenditures in 1958 to over 27.5% in 1965. Expenditures on natural resources and primary industries showed the largest single increase, from 6.5% of total expenditures in 1958 to 11.9% in 1965. Debt charges, exclusive of debt retirement, also climbed steadily during the years and required an increasing percentage of the financial resources of the province. In 1958, debt charges as a percentage of total provincial expenditures represented a credit, an excess of revenues over expenditures, equal to 1.2% of total provincial expenditures. By 1965, debt charges required 3.2% of the total resources of the provincial government, the same percentage as in 1950 which was the highest level reached during the 1950-1958 period. The percentage of provincial funds spent for general government - for the actual cost of administering the provincial government - declined slightly over the 1958-65 period relative to other expenditures.

However, these percentage figures are misleading for, while they may show a shift in emphasis and, with reference to the increasing importance of debt charges, a change in the method of financing provincial operations, they do not show the change in the size of the whole provincial

operation. In actual dollar amounts, the net general expenditures of the province have almost tripled since 1958.

As will be noted, the provincial operation in the Campbell years was of modest proportions, expenditures increasing for the most part in relation to increasing revenue returns rather than in anticipation of increasing revenues, and never in excess of them until the fiscal year ending March 31, 1957. With pay-as-you-go financing, taxation rather than borrowing was the accepted method of provincial public finance. As far as possible, capital expenditures of a dead-weight type - i.e. where the interest charges of financing the debt fall directly on the Provincial Treasury - are met out of current revenues from taxation. In the Roblin era, with pay-as-you-use financing, with investment for anticipated increases in future productivity the key to present operations, current revenues from taxation are unlikely to be sufficient in any one year to finance both current and capital expenditures - nor are they expected to do so. Borrowing as well as taxation is the modus operandi for financing the operations of government. There is also a change in the interpretation of 'dead-weight' debt, in that debt created which raises the potential for increased productivity and benefits in the future of either or both the economic and human resources of the province is only dead-

THE PROVINCE OF MANITOBA

CURRENT AND CAPITAL

(millions of dollars)

Fiscal Year Ending March 31st	Transportation and Communication	Health	Welfare	Education	Natural Resources	Debt Charges	Contributions to Municipalities	Other	Total Net General Expenditures	Net General Revenue
1951	7.8	5.0	4.2	6.5	3.1	1.3	..	7.5	35.4	41.6
1956	15.3	7.7	4.8	12.0	4.8	- .5*	.1	5.7	51.9	59.3
1958	25.9	10.4	4.8	17.0	5.8	- .9*	2.1	10.5	75.6	73.6
1959	31.6	16.5	6.7	22.6	6.4	-1.2*	2.7	12.5	97.8	76.6
1960	38.6	25.1	7.1	30.3	8.4	- .4*	2.7	15.9	127.7	99.8
1961	36.7	27.8	9.6	30.9	11.4	1.2	2.7	16.8	137.1	104.1
1962	26.5	30.7	11.9	35.0	13.6	3.1	2.8	13.6	137.2	118.0
1963	28.6	33.1	13.3	38.5	11.8	3.5	3.6	14.1	146.5	130.6
1964	30.6	38.5	11.2	38.9	19.5	4.6	3.0	16.0	162.3	136.2
1965	27.0	36.3	18.5	44.1	23.5	5.2	3.0	20.4	177.9	146.8
1966	37.6	37.0	18.1	56.8	24.6	6.6	4.3	21.9	206.8	188.8

\* Negative amount indicates excess of revenue over expenditure.

Source: D.B.S. #68-207, and D.B.S. #68-205 - estimates for 1965 and 1966.  
Financial Statistics of Provincial Governments, Revenue and Expenses.

weight in the strictly financial sense that it does not show a dollar return for a dollar spent. It is not considered to be dead-weight in the broader economic sense if it contributes, however indirectly, to economic growth and human welfare. The thinking is that if the dollars are spent purposefully and practically, the final balance sheet may show a profit even though the dollar return may not be capable of being related specifically to the area in which it was spent. A dollar spent on education may increase the earning potential of the citizen, thus making him better able - or able for the first time - to pay taxes and to carry his share of the costs of government. A dollar spent on better health facilities may, by increasing physical fitness and general well-being, increase the earning potential of the citizen, and hence enable him to bear a proportionate share of the tax burden. In the long-run, these 'dead-weight' dollar expenditures may prove more productive than dollar expenditures on self-sustaining government projects. In the last analysis, a government should not do less for the needs of its citizens than it is within its capacity to do, regardless of any dollar return. The increasing size of the provincial operation is explainable within this context, as well as the increasing disparity between net provincial revenues and net provincial expenditures. As Mr. Roblin said in 1961:

We have consistently maintained that inadequate capital investment in recent years has handicapped the growth of the Province. Not only

is the government now faced with the present day needs for capital improvements, it is also faced with a formidable accumulation of unfilled capital needs, inherited from a period of governmental inactivity and stringency. With statesmanlike foresight these capital charges could have been met at very much lower costs. Parsimony is rarely true economy. When such parsimony operates to inhibit normal growth, it can become the very opposite of true economy...Debt, however, cannot be assessed merely in dollar terms. It must be weighed in relation to the ability of the economy to support it through the benefits flowing from its creation.<sup>16</sup>

Parsimony was not the by-word after 1958. Rather, expenditures were viewed in the light of what the province could afford to do in the broad economic context, rather than what the province could afford to do within the limited yearly dollar-balance context. Dollar expenditures on transportation and communication were maintained almost consistently at the highest level of expenditures reached during the Campbell years - an expenditure which totalled \$31.6 million in 1958 and which marked, as will be recalled, the first time since 1952 that the Campbell government had broken with its self-imposed pay-as-you-go policy by proposing to borrow about \$20 million to finance a highway program over the following five years. Since 1958, net provincial investment in the construction and maintenance of roads and highways has exceeded \$200 million. The major overhaul of the Province's highway system, initiated by the Campbell government in early 1958, was expanded and intensified after the Roblin

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<sup>16</sup>1961 Budget, Hon. Duff Roblin, April 7, 1961, p.28.

Government took over later that same year. In October, 1958, Mr. Roblin presented an additional baby budget of \$47 million, most of which was directed towards the highway program. While higher construction standards which were introduced increased the immediate cost, it was anticipated that the long term cost to the taxpayer would be considerably lower relative to service life and in respect of maintenance requirements. The integration of many municipal roads into the Provincial trunk highway system, and the upgrading of existing roads, has been an important part of the total investment picture. This was a good example of the type of long-range planning in expenditures envisaged by the government. As Mr. Roblin said in 1962,

...the over-all impact of this highway construction programme will, of course, not be felt fully for many years. It is an aspect of our investment in progress similar to that reflected in our power policy. We have planned to meet need when it occurs by prior programming. We must and will anticipate growth. At the same time, the new and improved roads will stimulate the very growth we confidently expect.<sup>17</sup>

Dollar expenditures on primary industries and the natural resource industries, which had doubled between 1950 and 1958, increased almost 400% between 1958-65, from \$6.4 million to \$24.6 million. A large part of this money represented advances through the newly created Crown Corporations which loaned investment funds. This expenditure was considered by the government to be both self-

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<sup>17</sup>1962 Manitoba Budget Statement and Economic Review by Hon. Duff Roblin, Premier and Provincial Treasurer, April 26, 1962, p.73.



sustaining and revenue generating. In addition, large amounts were spent directly on research facilities, and on expanding and developing tourist and recreation areas. Direct grants to local and municipal governments increased from \$2.7 million in 1958 to \$4.3 million in 1965. However, the total of direct and indirect provincial aid to municipalities shows the extent to which the provincial government had assumed financial support for municipal responsibilities in an attempt to shift the tax burden for such services away from the local taxpayer to the Provincial Treasury and the provincial taxpayer. Local aid (direct and indirect) as a percentage of total provincial expenditures rose from 56% to an estimated 60% between 1958 and 1965. In dollar amounts, provincial assistance to municipalities rose from \$60.8 million in 1958 to \$111 million in 1965.<sup>18</sup> On a per capita basis, provincial aid to municipalities increased from over \$48 in 1958-1959 to over \$115 in 1965-1966. Both direct and indirect aid to municipalities was primarily in the broad fields of education, health and welfare, and transportation.

Provincial net expenditures in the field of education increased from \$22.6 million in 1958 to \$56.8 million in 1965. The net dollar expenditure in 1965 on education alone was almost 60% more than the total net provincial expenditure in 1950, and almost 60% of the total provincial

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<sup>18</sup>1966 Budget, March 24, p.20.

expenditure of 1958. This bears out the statement that;

Education is the investment given first priority by the Government...Technical skills, research knowledge, enlightened utilization are all increasingly urgent requirement of our modern society. Education is the first prerequisite in the provision of these capabilities.<sup>19</sup>

In the health and welfare fields, there was also a significant increase in both the size and the scope of government programs. Welfare payments, which had less than doubled between 1950-1958, increasing from \$4.2 million to \$6.7 million, almost tripled during the following seven years, increasing from \$6.7 million in 1958 to \$18.1 million in 1965. To some extent this increase reflects higher payments for existing services, especially payments under the Social Allowances Act, and to some extent it reflects increased services, for example in the field of housing and Medicare for elderly people. Provincial expenditures in the field of health increased from \$16.5 million in 1958 to \$37.0 million in 1965. Much of the increased expenditure in the health field is directly related to the Manitoba Hospital Services Plan which was introduced in 1958. The direct premium charge to the citizens, which was lowered in 1962, has resulted in much higher payments from the Provincial Consolidated Fund to support the program. In addition, new hospital construction has required a considerable investment, (\$61.5 million since 1958) as well as

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<sup>19</sup>1965 Budget, March 4, 1965, p.9.

expenditures relating to the extension and improvement of services and facilities existing in 1958.

#### SHARED-COST PROGRAMS

The role of shared costs programs with the federal government has become increasingly important since 1958, partly because more offers of financial aid have been forthcoming from the federal government, and, partly because the provincial government, while realising the rigidities which such programs introduced into provincial budgeting and the consequent difficulties which would face the province if federal aid to these projects was withdrawn, has also recognized the "...general improvement in benefits to Manitoba"<sup>20</sup> provided as a result of these programs.

While D.B.S. figures are not available past 1963, the budgetary estimate for 1965 was for Manitoba to receive \$66.7 million from the federal government in shared cost programs. The amounts received in shared costs and grants-in-aid are not included in figures of net provincial expenditures, but appear in the figures for gross provincial expenditures.

The final or total impact of shared cost programs and grants-in-aid is not too easy to assess. Federal funds may act as either a stimulus to provincial expenditures or as a substitute for provincial expenditures. To the extent

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<sup>20</sup>1962 Budget, April 26, p.26.

PROVINCIAL RECEIPTS FROM SHARED COST PROGRAMS AND GRANTS-IN-AID

FROM THE FEDERAL GOVERNMENT

(millions of dollars)

Fiscal Year	Transportation and Communication	Health and Social Welfare		Education	Natural Resources	Miscella- neous	Total
		Total	Hospital Services Plan				
1958	2.2	11.6	5.0	.4	.5	.06	14.8
1959	2.9	18.7	11.2	.4	.9	.5*	23.5
1960	2.4	21.9	13.2	.6	.7	.4	26.2
1961	2.5	24.3	14.7	.7	.9	.9	29.3
1962	1.2	26.2	17.1	2.9	2.9	.9	34.2
1963	1.2	30.3	20.0	2.8	7.0	1.2	42.5

\* Includes Winter Works Programs from 1959 on.

Note: Amount received for education does not include grants paid directly by the Federal government to the Provincial University.

Source: D.B.S. #68-207. Financial Statistics of Provincial Government, Revenue and Expenditure.

that the Province reduces its expenditures by less than the amount of federal aid received, such aid is a stimulus to expenditures by the provincial government. In other words, if, as a result of federal aid, the province increases its expenditures out of its own resources on the function receiving such aid, provincial expenditures are stimulated. This would appear to be the case in Manitoba. Federal aid also acts as an incentive to provincial spending in areas not receiving aid to the extent to which it releases provincial revenue for expenditure in these fields. The incidence of federal aid is not, therefore, necessarily restricted or limited to the function directly aided. In addition, once the minimum or national average social rate of return on public investment is reached it may become increasingly difficult to assess the rate of return on further public investment in areas receiving federal aid.

#### CHANGES IN PUBLIC DEBT

The gap between net provincial revenues and net provincial expenditures - which tended to approximate each other during the Campbell years - has been met by borrowing - by a net increase in the public debt of the province. As Mr. Roblin stated in 1965:

I cannot emphasize too often that while we must always endeavour to exercise prudence and restraint in the accumulation of debt, we regard this, properly applied, not as a liability but as an investment. Our progress demands many things that can only be

obtained in this way. It is only thus we can fulfill our role as partner in Manitoba's economy.<sup>21</sup>

While tax increases and/or increased yields from constant tax rates in a developing economy increased the total amount of provincial revenues, more money was needed to finance the capital investment in progress. The current account budget showed a surplus in every year between 1958 and 1965. It is in the growth and change of composition of the provincial debt that the impact of the investment program is shown most dramatically. Provincial direct debt usually contains a large amount of self-sustaining debt, related as a rule to expenditures by provincial government enterprises. In this case, the enterprise borrows the money required for expansion or renovation directly from the provincial government, the provincial government issues its own bonds to cover the amount required by the enterprise, and then charges the enterprise the same rate of interest on its loan as the province has to pay on the relevant bonds. When an enterprise issues its own bonds, the province often guarantees them as to principal and interest so that the enterprise may obtain a more favourable interest rate than might otherwise be secured. While this creates only an indirect debt to the province as opposed to a direct debt, it is still a direct charge on the assets of the province.

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<sup>21</sup>1965 Budget, p.23.

MANITOBA

Year Ending March 31	Total Debt (millions)	Net Direct Debt		Net Indirect Debt*	
		Total (millions)	Per Capita	Total (millions)	Per Capita
1952	140.6	140.2	\$176.00	.4	\$ .55
1959	312.2	240.8	272.00	71.4	81.00
1960	400.9	308.2	343.00	92.7	103.00
1961	488.1	339.0	368.00	149.1	162.00
1962	547.3	352.8	377.00	194.5	208.00
1963	606.1	343.0	367.00	257.2	271.00
1964	662.4	339.4	354.00	322.9	337.00

\* Excludes provincial guarantees of interest only to school districts, on sewage disposal and water supply systems debentures.

Source: D.B.S. #68-209 Provincial Government Finance - Debt.

Figures drawn from the Treasury Department of Manitoba, while not strictly comparable with the D.B.S. series, give a clear picture of both the increase in direct provincial public debt since 1958 and of the allocation of the increase between so-called self-sustaining debt and so-called dead-weight debt.

As will be noted, the direct debt of the Province related to self-sustaining utilities has continued to decrease after reaching a high of \$217.5 in the fiscal year 1960. This is partly explained by the trend to shift utility financing into its own name but underwritten by a provincial guarantee. In actual fact, the concept of self-sustaining has been broadened to include other areas of provincial lending besides utility projects. Thus, the self sustaining investments which made up the direct debt of \$164 million at March 31, 1966 consisted of \$138.1 million in loans to public utilities, and \$25.9 million in loans to such other self-sustaining provincial areas as: The Agricultural Credit Corporation, the Manitoba Development Fund, the Liquor Control Commission, and for Municipal Works assistance. Since its inception in 1958, \$34 million of long term credit has been advanced by the Agricultural Credit Corporation, of which \$19.8 million was outstanding at March 31, 1966. "...The excellent repayment record reflects credit on the soundness of the programme and on the borrowers who have used its facilities".<sup>22</sup> Since

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<sup>22</sup>1965 Budget, p.13.



PUBLIC DEBT OF MANITOBA

(millions of dollars)

	Gross Self- sustaining Debt	Changes During Year	Reserve Funds For Debt	Gross Dead Weight Debt	Change During Year	Reserve Funds For Debt	Gross Direct Debt Excluding Reserve or Sinking Funds
As at March 31, 1958	167.8	+ 9.2	26.4	50.2	- 1.6	20.5	218.0
Mar. 31, 1958-Mar. 31, 1959	196.5	+28.7	30.5	60.5	+10.3	12.3	257.0
Mar. 31, 1959-Mar. 31, 1960	216.1	+19.6		102.5	+42.0	10.5	318.6
Mar. 31, 1960-Mar. 31, 1961	217.5	+ 1.4		135.6	+33.1	11.8	353.0
Mar. 31, 1961-Mar. 31, 1962	203.3	-14.2		168.8	+33.2	12.7	372.1
Mar. 31, 1962-Mar. 31, 1963	182.7	-20.6		185.0	+16.2	17.1	367.7
Mar. 31, 1963-Mar. 31, 1964	173.8	- 8.9	36.6	189.7	+ 4.7	24.7	363.4
Mar. 31, 1964-Mar. 31, 1965	169.2	- 4.6		211.3	+21.6	24.0	380.4
Mar. 31, 1965-Mar. 31, 1966	164.0	- 5.2		214.8	+ 3.5	28.6	378.8

Source: Treasury Dept. in budget speeches.

its inception in 1958 until March 31, 1965, the Manitoba Development Fund has made 186 loans totalling \$16.5 million. These loans represent over one-half of the total capital investment of about \$27.2 million for the 186 projects. The average loan has been for \$89,000, the average term for 9.2 years, and the average interest rate 7.09%. According to its annual report, repayment of loans has been 'exemplary', and the Corporation's borrowers have been responsible for the creation or maintenance of over 24,000 jobs in Manitoba. In the 1966 Budget speech, Mr. Roblin proposed to enlarge the scope of operations and the financial resources of the Fund, noting that "...there will be increased risk-taking, but I am confident that there will be equal and new effectiveness in its operations".<sup>23</sup> The dead-weight debt of the province - the cost of which is a direct charge on the assets of the province - has risen from just over \$50 million at March 31, 1958 to almost \$215 million at March 31, 1966 - an increase of over 300% in seven years. If sinking funds are deducted, the increase is even more striking - from under \$30 million in 1958 to over \$126 million in 1966, an increase of more than 500%. Almost all of the increase has been associated with government spending on roads and bridges, on buildings and public works.

The change both in the size and direction of government

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<sup>23</sup>1966 Budget, p.32.

guaranteed or indirect debt is also significant. In line with their stated policy to maintain a flexible attitude towards the creation of debt and to welcome the opportunity to be of assistance to authorized institutions to enable them to accomplish their vital public purposes, the amount of debt guaranteed by the province has increased and the coverage of the provincial guarantee been extended. Speaking about provincial guarantees in 1961, Mr. Roblin had pointed out that

...where there is a clearly recognizable distinction in the function of a government agency from that of a regular government department and where circumstances warrant, a guarantee is an entirely acceptable method of financing. However, we should be under no illusion that such borrowing does not constitute a charge on the assets of the Province whether it be as a Provincial debt or only as a contingent liability.<sup>24</sup>

Unlike the previous Campbell administration which had been reluctant to extend provincial guarantees to other than self-supporting government enterprises lest such action impair the credit standing of the province, the Roblin government increased these guarantees from \$60.3 million at March 31, 1958 to \$426.2 million at March 31, 1966. The growth of debt guaranteed by the provinces indicates a real shift in the assumptions of the provincial government with regard to its responsibilities for what were, in the final analysis, provincial obligations. Since the municipalities received their authority from the provincial government, their func-

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<sup>24</sup>1961 Budget, Hon. Duff Roblin, April 7, 1961, p.35.

tions and the tax power with which to finance these duties were delegated from the province. Municipalities did not have any constitutional authority to exist independently of the province. Whereas the Campbell administration had tended to treat municipal activities almost in terms of conflicting with the provincial operation, the Roblin government emphasized that municipalities were a vital factor in the development of the province and that, "...while restraints in capital demands must be exercised there are distinct limits beyond which demands for schools, hospitals, roads, sewers, water systems, and the like cannot be postponed".<sup>25</sup> Whenever the situation justified such action, and despite the limited resources of the province to meet such needs, the provincial guarantee would be extended. The following table indicates the growth and direction of government guaranteed debt.

SUMMARY OF GUARANTEES OUTSTANDING BY TYPE OF BORROWER  
(Millions of Dollars)

Guaranteed as to Both Principal and Interest.	Mar.31 1958	Mar.31 1961	Mar.31 1964	Mar.31 1965	Mar.31 1966
Man. Hydro Electric Board	59.7	140.1	285.2	301.2	318.7
Man. Telephones	-	-	59.5	59.5	74.0
Municipalities, Hospitals, Elderly Housing, Etc.	<u>.5</u>	<u>12.0</u>	<u>25.2*</u>	<u>28.3*</u>	<u>33.5*</u>
Total	60.3	152.1	369.9	392.9	426.2

continued

<sup>25</sup>Budget Speech, 1960, p.60.

Guaranteed as to Interest Only	Mar.31 1958	Mar.31 1961	Mar.31 1964	Mar.31 1965	Mar.31 1966
School Districts	3.0	6.0	4.4	4.4	4.1
Municipalities	1.6	3.3	2.6	2.7	2.5
Total	4.6	9.3	7.1	7.1	6.6
Grand total	64.9	161.4	377.0	400.0	432.7

\* Mar.31,1964,\$16.9 for Univ., 8.4 - other;  
 Mar.31,1965,19.2 for Univ., 9.1 for other;  
 Mar.31,1966 , 22.1 for Univ., 11.4 for other.

Source: Treasury Department, Budget Speeches.

New methods of financing government expenditures and of raising money for capital investment have been explored in Manitoba since 1958. In March, 1961, the first issue of Manitoba Savings bonds was offered to the public to attract the personal savings of the people of Manitoba into the economic development of the province. Over \$40 million was subscribed to this issue. Four issues of Manitoba Savings bonds have been issued altogether since 1961, and total sales came to \$102 million. However, at March 31, 1964, a total of only \$58.6 million of all four issues was held by the public, which suggests both a considerable amount of conversion to the higher interest issues of 1963 and 1964 ( $5\frac{1}{2}\%$  as compared with  $4\frac{3}{4}\%$  and  $5\%$ ) and little net new investment from this new source. The necessity for provincial savings bond issues to have to compete with Canada Savings bonds and private enterprise on equal terms has made it difficult for the province to tap this source of private funds. Repeated

requests to Ottawa for some preferred position for provincial bonds in the form of tax concessions on interest have proven unsuccessful.

In February, 1962, the Province also ventured into the short-term Treasury Bill market for the first time. Through two investment dealers, \$1 million of 91 day Treasury bills were issued weekly for 13 weeks, thus providing a floating fund of \$13 million at relatively low rates of interest - a saving of at least 1% over the long-term credit market. "...This venture has been a satisfactory one and an effective secondary market in these bills is gradually being established".<sup>26</sup>

The credit standing of the province has not been impaired by the extensive borrowing and the province has had no difficulty in placing its issues. However, interest rates have been increasing, and the average interest rate on the bonded debt of Manitoba at March 31, 1965 was 4.43%. Whenever possible, capital borrowing in the United States has been avoided because of the obvious risks of exchange fluctuations. However, in some instances the lower interest rates available in the United States have attracted the Manitoba Government. Thus, in November 1959, \$20 million of debentures payable in twenty-five years in U.S. funds and callable after fifteen years, was placed privately in

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<sup>26</sup>1962 Budget, p.30.

New York. This marked the first time since 1951 that the Manitoba Government had had occasion to raise funds in the United States, but alternative Canadian sources for this volume of money were not available except at extremely high rates of interest. Mr. Roblin noted that the shortage of Canadian investment funds was "...not a condition peculiar to Manitoba but was a general one prevailing over the whole range of comparable securities".<sup>27</sup> The principle guiding the Provincial Treasurer with regard to borrowing in the United States was unchanged from the period of Liberal administration, namely, whether the compensating advantages of lower interest rates and the savings thereby made for the tax payers of Manitoba made up for the risks involved. Early in 1963 \$25 million was raised in New York by the Manitoba Hydro, and again in 1964, the Manitoba Hydro borrowed \$28 million in New York. As a general practice, the risk has been minimized by investing the annual sinking fund payments for such loans in Canadian securities payable in U.S. funds. The province has continually pressed the federal government to provide some help to the province, and through it to the municipalities, so that they can raise money for local capital purposes. The difficulties encountered by the municipalities having to compete for investment funds on equal terms with the federal government and with private enterprise were con-

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<sup>27</sup>1960 Budget, p.35.

tinually brought to the attention of the federal government. While the province had tried to ease the situation by provincial guarantees of principal and interest, the resources of the province, it was pointed out, were not unlimited, and,

...for this reason we have continued our efforts to have the Dominion Government take some actual remedial action either through the creation of some preferred tax position for such securities or through the reactivation of the Municipal Improvements Assistance Act, or through some other method.<sup>28</sup>

In order to obtain the broadest market coverage for Manitoba securities, they were, after 1960, no longer sold by public tender but through a fiscal agency - in this case, a Management Committee of a group of dealers.

The duty of this committee is to advise the Province on market conditions and to make proposals for the timing of issues and their size. It will make recommendations as to terms and rate of interest and all other pertinent conditions and will undertake the marketing. The final decision, of course, always remains with the Province.<sup>29</sup>

The Canada Pension Plan fund is expected to provide a new source of funds for meeting provincial needs. The Manitoba School Capital Financing Authority has been established which will have first priority on funds available from the Pension fund. It will provide a provincial guarantee for new school buildings by accepting local school debentures and issuing an equivalent amount of its own securities. In

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<sup>28</sup>Ibid., p.32.

<sup>29</sup>Ibid., p.35.



1966, \$14 million for local educational authorities was financed in this way.

Throughout the period of the Roblin administration in Manitoba the composition of the public debt of Manitoba has also changed somewhat. Direct debt was made up of 65% bonded debt (as compared with 57% at March 31, 1958), 6.1% long term Treasury Bills (as compared with 6% in 1958), 17.7% short term Treasury Bills (as compared with 14% in 1958), and 10.6% other debt (as compared with 13% in 1958). Included in the net bonded indebtedness of the Province at March 31, 1965 was \$67,688,000 in Provincial Savings Bonds which are redeemable on demand by the Provincial Treasury. Province of Manitoba Savings Bonds now represent about one quarter of the net bonded debt of the Province. All of the indirect debt of the Province is represented by guaranteed bonds or debentures. During the same period, the average interest rate on bonded debt has risen from 3.37% to 4.43%, the average term in years has increased from 14.28 to 16.20 and the percentage of bonded debt payable outside of Canada has increased from 12.26 to 13.56.

#### SUMMARY

From 1958 until 1965, the size and scope of the provincial operation in Manitoba has moved sharply upward. Revenues, expenditures and public debt have all increased as

the administration has moved forward with its policy of investment in both the 'human and economic' resources of the province. The level of provincial expenditures in dollar terms has increased over the period almost three-fold, so that more money has been allocated to every area of governmental responsibility. The expenditure pattern over the years indicates, however, the increasing importance placed by the administration on the development of the 'human' resources of the province. In this connection, the provision of government services and benefits in the large areas of health and welfare and education is particularly striking. In 1965, these two government functions accounted for about 59% of total provincial expenditures, an increase of 15% over 1958.

Despite first predictions that the larger involvement of the government in the social and economic life of the province could be accomplished without the imposition of higher taxes, rates of taxes in effect in 1958 have been increased, and new taxes have been levied. It is interesting to note, however, that taxes have continued to be related to the 'ability to pay' principle of taxation. Even when a Royal Commission appointed by the Conservative government recommended in 1963 that a provincial sales tax be imposed as the most fair and efficient method of raising the revenues required if the province was to assume more of the financial responsibilities of the municipalities and school districts,

the government backed off. The property tax, by means of which the local authorities financed their operations, was recognized as a tax which does not adhere to the accepted standards of an 'ability to pay' tax, and the provincial government was anxious to reduce this tax burden on the property owner. However, it would not be replaced by a similar kind of tax. While noting that there was a good case to be made in favour of a selective retail sales tax which would not necessarily be regressive in its impact, the government proceeded to levy a long list of new taxes which it considered to be more directly related to 'ability to pay'. In part, their attitude is explained by their anticipation of improved fiscal arrangements with the federal government. In part, the answer must also lie in the continued importance of the rural element in Manitoba - a province with only one really significant urban centre of population. Politically, the farm vote in Manitoba has always been a major force, and the rural voter has consistently opposed high taxes, and particularly any direct tax on consumer goods. The farmer has almost always aligned himself in the category of those 'least able to pay', since he has no way of passing on his tax burden to the extent that his products are sold outside the country. A sales tax has had, therefore, a political stigma in Manitoba which bears little relationship to any other economic or social assessment of its probable impact.

The importance of this same rural element may also account, in part, for the borrowing policy of the Roblin government. Faced with a politically strong rural element, which may refuse to accept higher tax rates, and which may express this disapproval at the electoral polls, borrowing money for provincial development provided the only alternative to taxation if funds were to be raised to finance the development which was considered of utmost importance to the future growth of the province. The farm element in Manitoba may also suggest one of the reasons why so much emphasis has been placed on education by the Roblin government since, by changing the attitudes and skills of the farm population, the economic development of the province can still be furthered, even though in a more general way. Unfortunately, this borrowing policy was initiated at a time when interest rates were higher than in the past, and the costs of servicing the public debt incurred have reflected this condition of the money and capital market. Since many of the policies and programs of the Roblin administration probably require a period of time longer than that under consideration in this study to show concrete financial results in terms of economic growth and provincial prosperity, it is too soon to make any generalizations as to whether the province is 'living beyond its means'. If the results are as anticipated by the present administration, the burden of debt in the future should not be too great to bear.

In the meantime, the people of Manitoba have been served by the better facilities and by the increase in public services and benefits which the higher level of spending has provided.

## CHAPTER VI

### SUMMARY AND CONCLUSIONS

This study has been concerned with the particular financial experience of the province of Manitoba from 1950 to 1965. Since any government budget is, by definition, a plan for financial action on the part of the political party in authority, the budgets of the Liberal and Conservative administrations during the period under consideration have been traced in some detail. Government budgets may, in certain respects, be likened to a market place. They encompass the demand for and supply of those goods and services which are provided, in whole or in part, by government spending, and, in distributing the cost among the citizens of those goods and services provided by government, they literally set the price to be paid by the citizens. However, despite this rather gross analogy of a government budget to a market place, budgetary decisions differ greatly in complexity from individual decisions in a market place. A government budget must be a plan that is not only economically and financially feasible, but one that is also politically acceptable to the majority of the electorate. It must, of course, satisfy the demand for public goods and services as indicated by the political action of its citizens. It must, in addition, provide what it considers to be the optimum or necessary amount of public goods and services in the best possible combination of alternative choices, and relate this supply to

the supply of public money available for government spending. Since the supply of public money is never unlimited, the budget must also outline a plan to pay for the goods and services it purports to provide. Where a fee for service can be easily assessed, this may be a relatively simple decision. However, in most instances, a decision must be reached either to tax or to borrow in order to raise the money necessary to finance government spending. Such decisions of budgetary financial policy fall squarely in the field of political economy.

The budgets of the province of Manitoba between 1950 and 1965 - the instruments which relate the demand for public goods to the supply of public goods, and which distribute the cost among the citizens - provide an almost classic example of the social, economic and political realities which a budget must reflect. Manitoba had undergone many changes during these fifteen years. Whereas, in 1950, it was firstly an agricultural province and, despite yearly fluctuations, almost 50% of the gross dollar value of production came from agricultural and natural resource industries, by 1958 this sector of the provincial economy accounted for less than 30% of the gross value of output. The increasing importance of manufacturing and secondary and service industries to the economic life of the province is significant, for the needs and wants of industry do not necessarily coincide with needs and wants of primary producers. The manufacturing and secondary industries may be much more dependent on

economic growth and development and continued economic expansion in order to increase the size and effectiveness of the local market for their products, and in order to develop relatively inexpensive sources locally for the factors required in their production so that they can compete successfully in export markets in other parts of Canada and abroad. Primary producers who sell their products exclusively in a foreign market may have, in effect, only a theoretical interest in domestic economic progress, since the cash benefits they may derive from such activity may be virtually non-existent. However, to the extent that primary products may be the basis for local secondary industries - particularly the food-processing industries, - to the extent that a larger local market may lead to an increasing emphasis on the production of specialized products which are sold locally and domestically, and to the extent that a growing and more diversified provincial economy provides alternative choices of occupation for workers who choose or are forced to leave the farm, the needs and wants of the rural citizen tend to become more closely identified with those of the urban citizen.

These economic changes had their counterpart in changes in social attitudes. Industry and commerce tend to concentrate in urban areas, and Winnipeg is the only urban area of any size in Manitoba. This peculiarity of only one significant urban area cannot be over-emphasized, for it has resulted



in a polarization of thinking into two distinct geographic areas - Winnipeg, and the rest of Manitoba. Had the urban population been dispersed throughout the province into more cities of a lesser size than Winnipeg, there might have been more diffusion, more blending, and even more understanding between the rural and urban points of view. Urban populations have few of the attributes of self-sufficiency which are associated with the rural farm unit. They live in communities which must be supplied with a certain level of government services, and they demand - partly through necessity - a certain quantity of government services and a certain standard for these benefits. They have, therefore, a much less limited concept of the role of government in society than the rural dweller. Whereas the farmer tends to see himself as an individual beholden to no one but himself and largely responsible for his own welfare, the urban dweller sees himself more as part of a society, and government can play an important part in building that society into a better place in which to live and work. However, it is probably fair to say that in the first years following the Second World War, the social thinking in all of Manitoba was strongly conditioned by the depression experience of Manitoba during the 'terrible thirties'. Almost all of the province had been affected. Agriculture had been hit very hard during the 1930's by declining world prices, ineffective world demand, and drought. But, the city of Winnipeg had also

suffered both indirectly from the decline in east-west trade and commerce, and directly from the unnaturally high level of unemployment. As noted earlier, the city of Winnipeg had historically been the holding depot for seasonal agricultural workers. When the agricultural sector of the economy was unable to provide any employment for these workers, they became a charge on the relief rolls of the city. The financial burden of supporting these unemployed at even a subsistence standard, as well as the actual physical presence of so many destitute workers, could not fail to leave its imprint on the thinking and attitudes of urban dwellers. However, as the 1950's progressed without any serious post-war depression and without any significant contraction to the general upward buoyancy of the economic activity of the country, attitudes began to change, particularly in the urban areas which shared most directly in the benefits of the new prosperity. Fear of the past became less dominant as a guide to government action than belief in the present and hope for the future. In the urban areas, particularly, there was a wider appreciation of the fact that the federal government had assumed certain responsibilities for employment and economic stability, and could intervene effectively to prevent any recurrence of the events of the 1930's. What had been wants were now regarded as needs, and what had been needs became rights. What had been looked upon as frills and extravagences in the early years of the 1950's began to be considered as nothing more than the rightful due of citizens of a prosperous and expanding economy. Moreover, the government could

play a greater role than it had in the past in facilitating the attainment of a more affluent society.

The changing economic structure of the provinces, the increasing concentration of population in urban centres - and especially about Winnipeg, - and the changing social attitudes concerning the function of government, were all expressed in the political life of the province. Prior to 1950, and in the early years of that decade, the farm vote was of critical importance. Without its support, no party could hope to gain political office and form a government. Throughout this period, the rural element expressed itself through the Liberal Party, and it is natural to expect that their policies and programs would cater to whatever the farmer expected of government. But, by the mid-1950's, continuing prosperity was beginning to undermine the strength of nineteenth century liberal ideology among many rural citizens. At the same time, the importance of the non-rural political vote was increasing in size and intensity, and it was becoming more difficult to ignore their demands and needs. With a declining farm population, and with increasing industrialization and urbanization, representation by population was bound to change the political complexion of the province, and intensify the political importance of the urban vote. The Liberal Party which had traditionally been associated with the farm vote in Manitoba, began to lose its political lead. While it began, by the mid-1950's,

to associate to some degree with the new political forces in the province, it did not do so with sufficient initiative or statement of policy to dispel the image that it was a farmer's government. The Conservative Party, which had traditionally gained its support from the urban population, gained in political strength in the rural areas as well, and it is no surprise that the Liberal Party was defeated in the elections in Manitoba in 1958.

When we turn to the supply of public goods provided by government, and the distribution of the costs of government operations, the inter-relationship of public finance with the political background peculiar to Manitoba is very striking. It may not be an exaggeration to say that public finance in Manitoba has not only been conditioned by the political set-up, but has actually been created by it. The influence of sharp political divisions on public policy pervades the financial history of the province throughout this whole period.

From 1950-1958, the Liberal government, which gained its political support from the rural element in Manitoba, carried out its responsibilities and, indeed, interpreted these responsibilities, within the framework of rural

thinking. The farmers required little in the way of government services, therefore the government provided a relatively low level of such services. The farmers also demanded less in the way of government services because they were conditioned by their way of life to look after themselves. As there were few frills or extravagances adhering to rural life, so the government should not involve itself in providing extras. Under these conditions, the duty of the government was to provide only those goods and services which were considered basic essentials or necessities, and which would assist the individual to look after himself. The supply of public goods was thus ideally limited to the least possible amount, and the result was a low level of government services. The particular mix of public goods supplied by the provincial government also points to the rural influence on political action, and to the practical interpretation of public demand by the Campbell government. The first priority of government, as with a private household, was to get its financial affairs in such order that it could weather any possible economic storm. It follows, therefore, that under the Liberal administration a large amount of the resources available to the

government for expenditures was directed towards paying off its past debt. The second priority was to provide those public goods which would best help people to help themselves, but which require so much original capital investment that only a government was likely to be able to finance them on the scale required. During the Campbell years, this was interpreted to mean public utility goods, especially hydro-electric power, which on a fee for service basis of distribution, were self-sustaining, involving no net increase to dead-weight public debt and no net cost to the provincial taxpayer. There is no suggestion intended that the Liberal administration did not provide other goods and services as well during these years from 1950-1958. Roads were built, hospitals were constructed, welfare payments were increased and expanded, more schools were provided. What this period of Liberal administration does suggest is that the actual amount of these services which were provided was a residual amount after the first priorities of government expenditure had been met, and that these priorities reflected rural needs and attitudes as understood and interpreted by the administration holding political office. Had the Liberal party in Manitoba been a party which drew political strength more evenly from all sectors of the provincial economy, an entirely different

pattern of expenditure priorities would probably have emerged. In fact, the Liberal party was top heavy with farm votes, and it was to this group that it catered, not, it should be added, for purely political reasons, but because the Liberal representatives in the Legislature were rural people who sincerely believed the cause which they advanced.

During the years of the Roblin administration under consideration, the supply of public goods has increased significantly. While the amounts are difficult to quantify, the much larger sums of money\* expended in all areas of government responsibility give some indication of the government commitment. Between 1958 and 1965, the government's investment in health has increased 128%, in welfare by 174%, in education by 201%, and in economic resources by 47%. Within these large categories, particular services have been emphasized. Thus, for example, government spending on agriculture and conservation in 1965 shows an increase of over 900% since 1958, spending on industry and commerce has increased by 306%, hospital services by 257%, social allowances by 313%, housing for the elderly and infirm by 477%, university and affiliated colleges by 265%, and technical and vocational education by 236%. New services and benefits have been provided in almost all areas - schools, technical institutions,

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\*Figures drawn from the 1965 Budget Address, Roblin, March 4, 1965.

bridges, highways, public buildings, medicare, housing, to mention but a few. Quality as well as quantity has also been stressed. For example, better construction standards for highways have accounted for a considerable amount of the increased expenditures in this area of government responsibility. The percentage of teachers in one room rural schools has declined from about 20% in 1958 to about 10% in 1964. By and large, the greater variety and depth of government services provided points to the political support which the Conservative Party draws from urban voters, and the administration's interpretation of their demands. The particular mix of public goods provided by the Conservative government also points to a more urban demand. The first priority of the administration was development of both the material and human resources of the province. The role the government should play in promoting development went much beyond the interpretation that had been given to that role by the Liberal administration, and, in fact, the percentage of new capital investment in Manitoba which came from the institutional and government sector increased from 16% in 1950 to 25% in 1963.<sup>1</sup> Indirect as well as direct benefits were now given equal consideration in assessing whether public expenditures should be undertaken. This justified philosophically the large amounts of public funds which were to be directed, in

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<sup>1</sup>Second Annual Report of the Manitoba Economic Consultative Board, p.9.



the years following 1958, towards education and health and welfare services. The emphasis placed upon education may well have been, in addition, an indirect method of generalizing economic growth and involving the rural population in the policy objectives of the Roblin government. By better and more education, rural patterns of thought and social attitudes might be brought into greater conformity with urban demands. Once again, the fact that the Conservative party had to count on considerable political support from rural areas in order to remain as a majority government, was a constricting element.

The interpretation given to the available supply of public moneys affords another illustration of both the differences and the similarities between the two administrations, and points again to the political base to which they deferred. Even the limiting approach of the Liberal administration towards the responsibilities of government could have provided for a less restricted supply of public goods had the supply of public moneys not been limited by the tax policy and the debt policy of the government. Again, the rural influence on the course of public finance in Manitoba is evident. Without tedious repetition, suffice it to say that farmers are traditionally opposed to high taxes since they often have no way of passing them along in the sales price of their products. Therefore, the Liberal government, which was

the spokesman of the farm population, favoured a low tax policy. Taxes bore heavily on farmers, therefore taxes should be low. The limit to the weight of the tax burden which could be borne by the province was the limit of the tax burden which the farmer would carry and still give his political support to the party which had imposed the taxes. Almost incidentally, low taxes were justified as an incentive to industrial development in Manitoba, and as an important carrot to attract new population into the province. The dilemma of retaining the political support of the farm population and at the same time of encouraging that economic development and diversification which would widen the economic base of the province, and make it less susceptible to factors beyond its control, was met under the Liberal administration by a low tax policy, and by concentrating government expenditures towards providing the backlog of hydro-electric power necessary before industry could progress in the province. Direct benefits to the farmer were hopefully matched by the indirect benefits accruing to every citizen from a low tax structure. In 1954-55, Manitoba's per capita provincial tax burden was estimated to be only 34% of the average of the per capita taxes levied by all provinces in Canada.<sup>2</sup>

In addition to a low tax level, the incidence of the

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<sup>2</sup>1955 Budget, R.D. Turner, Wednesday, March 23, 1955, p.17.

tax policy was always related to <sup>supposed</sup> ability to pay. Once again, this points to the rural influence in public finance. Primary producers - particularly agricultural producers - not only have a relatively low cash income, but that income is often a fluctuating and unpredictable one due to the vagaries of nature and the uncertainties of world markets. With a buoyant and inflating domestic economy, the farmer was caught between rising prices for the products he must buy, and uncertain prices for the products he must sell. Therefore, taxes which were related to increasing cash income automatically made the burden less onerous to the rural population. In the period between 1950 and 1958, all taxes were related to 'the ability to pay' principle. The government attitude towards the amusement tax offers an illustrative case in point. The theatre owners in Manitoba had made constant petitions to the government for a reduction in admission taxes in the face of falling theatre attendance due to the impact of competition from television. The Liberal government gave sympathetic attention to their requests, but as late as 1955, the request was denied them since

...the net result of reducing these taxes would be to leave more of the potential admission revenue in the hands of the industry affected rather than to reduce the cost to purchasers of the tickets.<sup>3</sup>

However, in the following two years, when theatre returns

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<sup>3</sup> Ibid., p.17.

fell so low that no new construction was being undertaken and there was a real danger that the industry would close down, the tax was recognized as regressive, to the point of putting the industry out of business, and was gradually decreased. Needless to say, any suggestion of a retail sales tax was categorically dismissed on the grounds that it was regressive.

To this tax policy the Campbell government added a debt policy which further limited the supply of public funds available for government spending. Basic to the debt policy was, of course, the priority given to repayment of past public debt. But in addition, it was first implied and, in 1952, directly stated, that the government policy precluded the creation of most new dead-weight debt unless absolutely necessary. In effect, this meant that the only money available for government expenditures, particularly capital expenditures of a non-self-sustaining nature, was the amount that remained out of current revenues at low tax rates after the current expenses of government, including debt retiral, had been met. It was a policy based on 'pay-as-you-go' financing.

When the Conservative government took office in 1958, tax policy remained relatively unchanged. It was still related to the 'ability-to-pay' principle, and almost all of the tax increases between 1958 and 1965 can be related to this concept. Hence, there are higher taxes on luxury items - tobacco, liquor, etc. - on gasoline, on real estate

transactions proportional to the dollar value of the sale. All the increases were introduced with the admonition that the municipalities should take steps to reduce the regressive real property tax. The 5% tax on domestic heat and lighting was almost the only new tax which was not related to ability to pay, and it was removed as soon as the provincial revenue picture justified such action. As with the Campbell administration, every attempt was made to steer clear of a retail sales tax. However, the big difference in comparison with the years before 1958, is that, under the Roblin administration, the level of taxation has been raised significantly. From the lightest provincial tax load in 1950, Manitoba in 1965 ranked fifth highest in per capita provincial tax burden.

The Roblin policy towards public debt illustrates the political and social conflict of opinion within the province between the rural and the urban population. The new administration after 1958 had to meet the demands of the growing urban population from whom it drew much of its political support, but it could not afford politically to alienate the rural population, for without some measure of support from these areas, it could not retain a majority in the Legislature. The increased supply and quality of public goods to meet the demands of one group were coupled with a tax policy designed to placate the other group. Although taxes were higher and more plentiful than under the Campbell administration, they

were consistently related to ability to pay, and, without prohibitive rates, this limited the amount of current revenues available from direct taxation. In effect, the higher tax load weighed more heavily on the groups with high and increasing cash incomes, namely, the urban worker. Having been forced by the political situation into a tax policy which was inconsistent with its expenditure program, the Roblin government was then forced to adopt a different debt policy in order to raise the necessary money. Under the Campbell administration, a low tax policy was in juxtaposition with a policy of debt reduction and consistent with a low level of government activity. If the Roblin government wished to increase the level of government by an amount greater than the excess of current revenues over current expenditures, and still keep taxes low enough to please the farm element, it had to resort to borrowing, and a flexible debt policy. The pay-as-you-use criteria of public finance was more acceptable to urban as opposed to rural thinking, and was, in effect, forced on the administration. While the policy was justified in more general terms related to spreading the tax burden over the period of time during which the benefits from such spending would accrue, and to pointing out how the creation of these public goods would create the means for their own repayment by increasing the productivity of the provincial economy, the hard political fact was that it was probably politically impossible to finance these expenditures in any other way and still remain in office. The growth in the public debt

of Manitoba since 1958 is the direct result of this policy, while the growth of indirect debt indicates a much wider interpretation on the part of the province for its responsibilities for its municipalities.

The whole period from 1950 to 1965 is one of contrast with respect to the way in which each government interprets its responsibility to manage the financial affairs of the province. From 1950 until 1958, the dominant political power of the rural population and their particular demand for public goods resulted in limited supply of public goods with regard to both quantity and mix. The rural philosophy was reflected in both the tax policy and the debt policy of the Campbell administration. From 1958 until 1965, the increasing political strength of the urban elements in Manitoba, and the different demand they have for government services, gave rise to a different supply of public goods - a larger quantity and a wider scope. However, the importance of the rural vote is still reflected in the tax policy of the administration which continued to relate taxes to <sup>alleged</sup> ability to pay. Urban demands are met through a flexible debt policy - by borrowing. Under the Campbell administration, the cost to the citizens of Manitoba was in the sacrifice of public goods and services foregone, while the benefit was in the very low level of taxation. Under the Roblin administration, the cost to the public has been a much higher level of taxation,

and will be the rigidities imposed on future provincial budgeting because of the costs of servicing and amortizing the increased public debt. The benefit to the public has been a much wider and larger supply of public services and benefits now, and the promise of accelerated economic growth in the future. It is useless to argue which was right and which was wrong because it is doubtful if any alternative policy was available to either administration because of the political realities of the province. The economic criteria with regard to when to tax and when to borrow are not hard and fast. While the decision involves an assessment of the expected productivity of the expenditure and the time pattern of the expected yield, in actual fact the decision may have to be made on purely political terms. There is nothing to indicate that the extremely low level of the Campbell financial operation was justifiable in economic terms, but a different expenditure pattern and a different approach to distributing the cost of government spending was philosophically and psychologically at odds with the dominant political party of the day. Similarly, there is no real economic or financial justification for the refusal of the Roblin government to impose a sales tax to raise some part of the money needed for its greatly increased government operation, but in the last analysis, public finance must deal with practical alternatives not ideals.



The whole study of public finance over this fifteen year period points to some areas of perhaps a more general nature which would bear further investigation with particular reference to the Manitoba financial experience. The role of federal subsidies, shared-cost programs and grants-in-aid, and their impact on the provincial operation is a foremost consideration. To what extent do they substitute for provincial expenditures and to what degree do they stimulate provincial spending, and is national policy intent matched by provincial action? To the extent that such federal contributions tend to release funds which are spent by the province in other areas, they may be over-stimulating, and raise the provincial operation to a level beyond its financial capacity to support. The basic premises of the British North America Act which assume that the fiscal power for raising money to pay for the services provided by each level of government should reside with that level of government, may be unrealistic in economic terms in the light of national objectives. It may well be that the political independence of the separate units in a federal system may not be incompatible with a tax structure which is more centrally-orientated. In the opposite direction, the financing of traditionally municipal or local responsibilities from a property tax base, may be equally unrealistic, and municipal administrative responsibility may not need to be contingent on fiscal responsibility. In addition, should a provincial tax policy

necessarily be predicated on the ability to pay principle, and has this really been the case in Manitoba or has lip service to a principle actually resulted in some economic groups in Manitoba being taxed proportionately more than others with the same ability to pay? An analysis of the tax structure in relation to gross income as well as cash income might give a more realistic indication of the actual tax burden on different economic groups. Many other questions could be raised in the field of provincial public finance. How closely have cost and benefit been related in the eyes of the Manitoba taxpayers in the past, and how closely should they be related? How should annual current account surpluses which arise from an unexpected increase in revenues rather than a cutback in expenditures be allocated? What are the practical implications of earmarking certain provincial tax revenues for specific purposes?

The wide swing in provincial policy in the field of public finance during the period from 1950 to 1965 was probably not conducive to nor consistent with the healthiest or the strongest development of the economy of Manitoba. In fact, it has resulted in an excessively ambivalent basis for economic development. Because provincial financial policy has been so heavily conditioned by political expediency, and so constantly pulled by conflicting ideologies and philosophies, it has been difficult for any government to get on with the job of running the financial affairs of

the province in the most economically sound manner. Far too often, accepted principles of sound public finance have had to be sidetracked because of political or ideological considerations. The result of a rather extended period of relative inactivity by government, followed by strenuous efforts on the part of the following government not only to 'catch up', but to provide a lead for private and individual action, has been to produce conditions in which the provincial economy has been either too limited or too strained. A strong case could be made for a more middle course in the financial policy of the provincial government, and one which is more consistent with long-range social aims and economic objectives. This, of course, implies some degree of unanimity as to what these social and economic objectives are, and this may be contingent on a <sup>further</sup> political de-polarization between town and country. Even when understood and appreciated in their historical context, wide swings in public finance policy appear to be an expensive luxury which a province such as Manitoba may be economically incapable of repeating.

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**APPENDIX**

## STATISTICAL APPENDIX

The 1950 Budget.

Summary of Estimated  
Expenditure, Main Supply - for year ending  
and Capital Supply. March 31, 1951. Estimated Revenue

	Dominion of Canada Tax Rental Agreement.	\$17,978,532.31
\$ 304,055.00	Legislation	19,200.00
76,295.00	Executive Council	
561,310.00	Treasury	9,930,467.40
79,702.80	Provincial Secretary	72,000.00
6,029,077.00	Education	225,000.00
928,955.00	Agriculture and Immigration	60,100.00
1,425,623.36	Attorney General	7,337,300.00
8,828,303.50	Health and Public Welfare	618,400.00
2,539,066.05	Mines and Natural Resources	1,509,600.00
132,655.00	Public Utilities	442,500.00
7,738,520.00	Public Works	133,500.00
223,664.00	Municipal Commissioner	120,050.00
200,960.00	Labor	46,000.00
-	Salary Increases	
	Manitoba Telephone System	948,000.00
10,093,831.58	Public Debt.	
<u>\$39,162,018.29</u>		<u>\$39,440,649.71</u>
	Less Total Main Supply Estimates	<u>39,162,018.29</u>
	Estimated Surplus on Current Account	<u>\$278,631.42</u>

Source: Estimates - Detailed Estimates of Expenditure and Revenue of the Province of Manitoba for the fiscal year ending March 31st, 1951.

## STATISTICAL APPENDIX

## The 1959 Budget - Summary of Estimated Expenditures.

## Main Supply and Capital Supply, for year ending March 31, 1960.

		<u>Estimated Revenue</u>
\$811,145.00	Legislation	\$51,000.00
696,735.00	Executive Council	nil
2,989,873.00	Treasury	60,961,300.00
1,027,385.00	Provincial Secretary	217,000.00
30,646,330.00	Education	988,600.00
6,743,775.00	Agriculture and Conservation	658,400.00
3,931,040.00	Attorney General	13,656,000.00
24,136,647.00	Health and Public Welfare	3,052,100.00
4,172,119.00	Mines and Natural Resources	2,820,390.00
1,589,677.00	Public Utilities	7,377,100.00
38,614,370.00	Public Works	44,500.00
229,732.00	Municipal Affairs	nil
712,150.00	Labour	120,000.00
1,124,079.00	Industry and Commerce	2,800.00
965,000.00	Civil Service Salary Increase	
<u>2,664,945.00</u>	Public Debt.	
		<u>89,949,190.00</u>
<u>121,055,002.00</u>		
Total Main Supply	Less Total Main Supply	
Estimates \$84,601,442.00	Estimates	<u>84,601,442.00</u>
	Estimated Surplus on	
	Current Account	<u>\$5,347,748.00</u>

Source: Estimates of Current Expenditure and Revenue of the Province of Manitoba for the fiscal year ending March 31, 1960.

## GENERAL REVENUE FOR FISCAL YEAR ENDING MARCH 31ST

(thousands of dollars)

Year	Total gross Ordinary Revenue	Total Gross Capital Revenue	Total Gross General Revenue	Total Net General Revenue	Provincial Ordinary Revenue Per Public Accounts
1950	48,663	286	48,949	38,042	40,092
1951	65,327	451	65,778	41,643	55,482
1952	57,067	921	57,988	46,073	48,536
1953	63,924	1,243	65,167	55,456*	53,383
1954	67,166	1,741	68,907	55,822	56,728
1955	69,111	2,217	71,328	56,706	58,825
1956	72,015	1,470	73,485	59,349	61,122
1957	79,457	3,342	82,799	66,120	67,475
1958			92,834	73,594	80,124
1959			102,521	76,573	85,357
1960			136,402	99,814	93,898
1961			145,428	104,145	103,039
1962			162,242	118,020	112,584
1963			180,500	130,615	130,076
1964			193,374	136,233	141,769
1965 (est.)			not avail.	146,840	151,761
1966 (est.)			not avail.	188,760	185,477

\* Some provinces did not bring all of the Tax Rental Agreement payments during 1952-53 into ordinary revenue but deferred a portion until a later fiscal period. In D.B.S. net figures, these deferred amounts have been added to revenue for the fiscal year ended March 31, 1953.

Note: After 1957, the breakdown between ordinary and capital is not continued in the D.B.S. series because of the lack of a standard method applied by all provinces in distinguishing between revenues of a capital nature and those of an ordinary or current nature. The breakdown was no longer considered valid.

Source: Dominion Bureau of Statistics, Catalogue No. 68-207 - Financial Statistics of Provincial Governments: Revenue and Expenditure - Actual (after 1961, this publication is called Provincial Government Finance).

D.B.S. #68-205-Provincial Finance, Revenue and Expenditure (Estimate)

continued

## RECONCILIATION OF D.B.S. FIGURES WITH MANITOBA PUBLIC ACCOUNTS

To Provincial Ordinary Revenue as per Public Accounts.

ADD such items as - revenue from special funds, capital account revenue, revenue deducted from expenditure in ordinary accounts, expenditure deducted from revenue in ordinary accounts, etc.

DEDUCT such items as refunds of current years expenditure included in revenue in public accounts, non-revenue items included in capital account, previous years surplus included in revenue, provincial ordinary expenditure included in special fund revenue, etc.

This gives the GROSS GENERAL REVENUE - from which DEDUCT interest, discount premium and exchange; grants-in-aid and shared-cost contributions; institutional revenue; and capital revenue to arrive at NET GENERAL REVENUE.

PERCENTAGE DISTRIBUTION OF NET GENERAL REVENUE FOR FISCAL YEAR ENDED MARCH 31ST

Source	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 (est)	1966 (est.)
Total Taxes	27.3*	22.5*	24.8*	16.0	17.3	17.9	17.9	19.9	20.2	21.1	30.3	30.6	36.8	58.7#	59.1#	58.9#	60.3#
Federal-Provincial Tax Sharing Arrangements	28.3	33.6	31.7	46.9	44.9	46.2	43.2	42.2	43.9	43.8	39.5	38.5	34.2	14.3	11.7	15.2	14.5
Privileges, Licenses and Permits	18.8	19.2	20.2	17.0	19.4	19.3	21.9	20.8	19.6	17.9	15.6	15.2	14.8	13.7	15.4	13.1	13.9
Govt. of Canada Subsidies	4.6	4.2	3.8	3.2	3.1	3.3	3.1	3.1	2.8	2.7	2.1	2.0	1.8	1.6	1.6	1.5	1.1
Liquor Profits	15.3	14.8	13.4	11.6	11.6	10.8	11.1	11.3	11.0	11.5	10.1	11.2	10.2	9.5	9.7	9.1	8.3
All Other	5.7	5.7	6.1	5.3	3.7	2.5	2.8	2.7	2.5	3.0	2.4	2.5	2.2	2.2	2.5	2.2	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: D.B.S. #68-207 - #68-205

\* Includes 5% tax on corporation income collected by the Federal government under the terms of the 1947 Dominion-Provincial Tax Agreement.

# Includes Manitoba Provincial Income and Corporation tax plus federal abatement in income tax fees.

## PER CAPITA REVENUE FOR FISCAL YEAR ENDING MARCH 31ST

Year	Population	Gross Revenue Per Capita	Net Revenue Per Capita
1950	757,000	\$ 64.66	\$ 50.25
1951	768,000	69.37*	54.22
1952	776,000	74.73	59.37
1953	798,000	81.66	69.49
1954	809,000	85.18	69.00
1955	828,000	86.14	68.49
1956	839,000	87.59	70.74
1957	850,000	97.41	77.79
1958	860,000	107.95	85.57
1959	870,000	118.00	88.00
1960	885,000	154.00	113.00
1961	906,000	161.00	115.00
1962	922,000	176.00	128.00
1963	935,000	193.00	140.00
1964	950,000	204.00	143.00
1965	960,000 (est.)	not available	152.96
1966	962,000 (est.)	not available	196.00

Source: D.B.S. #68-207 and #68-205.

\* Excluding contributions by Federal Government in aid for the Red River Flood which totalled \$12.5 million in 1950 (Calendar year).



GRANTS IN AID AND SHARED-COST CONTRIBUTIONS TO THE  
PROVINCE OF MANITOBA FROM FEDERAL GOVERNMENT

(thousands of dollars)

Fiscal Year Ending March 31	Total	Hospital * Insurance
1951	\$ 7,886 (excluding 12.5 for flood relief)	
1952	7,071	
1953	3,994 (big drop related to old age assistance)	
1954	5,074	
1955	5,706	
1956	5,515	
1957	7,704	
1958	9,309	
1959	14,767	\$5,037
1960	23,519	11,241
1961	26,239	13,204
1962	29,305	14,659
1963	34,243	17,075
1964	42,531	19,976
1965 (budget estimate)	66,700	

Source: D.B.S. #68-207.

\* Hospital Insurance which is included in total.

GENERAL EXPENDITURE FOR FISCAL YEAR ENDING MARCH 31ST  
(thousands of dollars)

Year	Total Gross Ordinary Expenditure	Total Gross Capital Expenditure	Total Gross General Expenditure (including debt retirement)	Total Gross General Expenditure (excluding debt retirement)	Total Net General Expenditure (excluding debt retirement)	Total Net General Expenditure (including debt retirement)	Provincial Ordinary Expenditure Per Public Accounts (including debt retirement)
1950	43,340	6,398	49,738	45,846	34,939	38,831	35,889
1951	61,706	3,341	65,047	59,522	35,387	40,912	53,722
1952	53,628	7,004	60,632	54,640	42,725	48,717	46,337
1953	56,698	6,817	63,515	51,734	42,023	53,804	52,821
1954	59,464	7,113	66,577	59,787	46,702	53,492	56,510
1955	57,328	10,955	68,283	63,174	48,552	53,661	58,319
1956	61,497	11,108	72,605	66,076	51,940	58,469	60,641
1957	65,801	19,283	85,084	79,546	62,867	68,405	66,803
1958			99,494	94,855	75,615	80,254	80,119
1959			128,637	123,769	97,821	102,689	81,615
1960			166,796	164,283	127,695	130,208	85,881
1961			181,491	178,338	137,055	140,208	93,650
1962			185,525	181,459	137,237	141,303	104,180
1963			201,183	196,364	146,479	151,298	119,993
1964			224,738	219,379	162,238	167,617	130,542
1965			not avail.	not avail.	177,920	183,799	151,602
1966			not avail.	not avail.	206,820	212,961	185,238

Note: After 1958, the breakdown between expenditures of a capital nature and those of an ordinary or current nature is no longer made. With current provincial revenues rising steadily, larger and larger amounts are expended from provincial current accounts on expenditures of a capital nature. The total amount of expenditures financed through provincial 'capital' accounts is available but not the total amount of capital expenditures financed through provincial 'ordinary accounts'. The summation of ordinary and capital figures is used to arrive at gross general expenditures.

Source: D.B.S. #68-207, #68-205

continued

RECONCILLIATION OF GENERAL EXPENDITURE WITH PROVINCIAL PUBLIC ACCOUNTS.

TO PROVINCIAL ORDINARY EXPENDITURE AS PER PUBLIC ACCOUNTS

ADD such items as expenditure of administrative or special funds; capital account expenditure; revenue deducted from expenditure in public accounts; expenditure deducted from revenue in public accounts; liquor board expenditure other than liquor selling costs, etc.,

DEDUCT such items as debt retirement included in ordinary expenditure; provincial ordinary expenditure included in special fund revenue and in capital revenue, etc.

This gives you GROSS GENERAL EXPENDITURE EXCLUSIVE OF DEBT RETIREMENT.

From this deduct interest, discount, premium and exchange; grants-in-aid and shared-cost contributions; and institutional revenue. This gives you NET GENERAL EXPENDITURE EXCLUSIVE OF DEBT RETIREMENT.

PERCENTAGE DISTRIBUTION OF NET GENERAL EXPENDITURE FOR FISCAL YEAR ENDED MARCH 31ST  
(CURRENT AND CAPITAL)

Function	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965 (est.)	1966 (est.)
General Government	4.6	4.5	5.1	5.0	5.2	4.9	4.4	4.0	4.1	4.8	5.6	5.1	3.6	3.0	3.4		
Protection of Persons and Property	5.5	6.0	6.1	6.5	6.4	6.4	6.4	5.9	6.2	5.0	4.4	4.3	4.4	4.4	4.4		
Transportation and Communication	29.4	22.4	26.5	30.2	29.1	29.6	29.5	35.2	34.2	32.3	30.2	26.8	19.3	19.5	18.8	15.2	18.2
Health	14.0	14.4	12.0	14.1	14.3	15.2	14.8	14.2	13.8	16.9	19.7	20.2	22.4	22.6	23.7	20.4	17.9
Social Welfare	10.9	12.0	9.3	8.4	8.9	9.1	9.2	8.6	6.4	6.8	5.6	7.0	8.6	9.1	6.9	10.4	8.8
Education	19.9	18.6	17.5	21.3	23.8	24.3	23.1	21.0	22.4	23.1	23.7	22.5	25.5	26.3	24.0	24.8	27.5
Natural Resources and Primary Industries.	11.0	8.9	8.0	10.4	9.3	8.8	9.3	8.2	7.7	6.5	6.6	8.3	9.9	8.1	12.0	13.2	11.9
Debt Charges (Excl. of Debt Retirement)	3.2	3.2	2.5	.3	-.6	-1.5	-.9	-.5	-1.1	-1.2	-.3	.9	2.3	2.4	2.9	2.9	3.2
Contributions to Other Governments	-	-	-	-	.2	.2	.3	.2	2.8	2.8	2.1	2.0	2.1	2.5	1.8	1.7	2.1
All Other	1.5	10.0*	13.0*	3.8	3.4	3.0	3.9	3.2	3.5	3.0	2.4	2.9	1.9	2.1	2.1	11.4#	10.4#
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: D.B.S. #68-207 - #68-205.

Note: Negative amount indicates excess of revenue over expenditure.

\* Includes flood expenditures paid out of ordinary account.

# Includes general government and protection of persons and property as well as "all other" expenditures.

## PER CAPITA EXPENDITURE FOR FISCAL YEAR ENDING MARCH 31ST

(exclusive of debt retirement)

Year	Population	Gross Expenditure Per Capita	Net Expenditure Per Capita
1950	757,000	60.56	46.15
1951	768,000	57.37*	46.07
1952	776,000	65.78*	55.06
1953	798,000	64.83	52.66
1954	809,000	73.90	57.73
1955	828,000	76.30	58.64
1956	839,000	78.76	61.91
1957	850,000	93.58	73.96
1958	860,000	110.30	87.92
1959	870,000	142.00	112.00
1960	885,000	186.00	144.00
1961	906,000	197.00	151.00
1962	922,000	197.00	149.00
1963	935,000	210.00	157.00
1964	950,000	231.00	171.00
1965	960,000 (est.)	not available	185.33
1966	962,000 (est.)	not available	215.00

Source: D.B.S. #68.207  
#68.205

\* Excluding flood expenditures of \$15,464,000 in 1950 and \$3,594,000 in 1951. Including flood expenditures, gross expenditure per capita was \$77.50 in 1950 and \$70.41 in 1951.

PROVINCIAL EXPENDITURE AS A PERCENTAGE OF GROSS PROVINCIAL INCOME

Calendar Year	'A' Gross Provincial Income	'B' Main Supply Estimates <sup>1</sup>	'C' Net General Expenditure <sup>2</sup>	'B' As a % of 'A'	'C' As a % of 'A'
	\$000,000	\$000,000	\$000,000		
1950	1,016	38.8	40.9	3.8	4.0
1951	1,164	46.3	48.7	4.0	4.4
1952	1,259	52.8	53.8	4.1	4.2
1953	1,255	56.5	53.5	4.5	4.3
1954	1,252	58.3	53.7	4.7	4.3
1955	1,384	60.6	58.5	4.4	4.2
1956	1,560	66.8	68.4	4.3	4.4
1957	1,564	80.1	80.3	5.8	5.8
1958	1,678	81.6	102.7	4.9	6.9
1959	1,781	85.9	130.2	4.9	7.4
1960	1,851	93.7	140.2	5.1	7.6
1961	1,832	104.2	141.3	5.7	7.7
1962	2,057	120.0	151.3	5.8	7.4
1963	2,064	130.5	167.6	6.3	8.1
1964*	2,250	151.6	183.8	6.7	8.1
1965*	2,500	185.2	213.0	7.4	8.5

\* estimated.

1. Source: Public Accounts of Manitoba, 1950-1965.

2. Source: D.B.S. 68-207. Financial Statistics of Provincial Governments- Revenue and Expenditure.

## SPECIFIED AMOUNTS PAID TO LOCAL GOVERNMENTS

## BY PROVINCE OF MANITOBA

Fiscal Year Ending March 31	Amount for Education Inc- luded in Total	
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(thousands of dollars)

1951	6,345	4,299
1952	6,670	4,834
1953	8,200	6,243
1954	10,515	8,336
1955	11,564	8,884
1956	11,199	8,861
1957	13,728	9,580
1958	20,157	11,959
1959	25,743	15,102
1960	34,611	23,744
1961	33,753	24,049
1962	35,379	26,274
1963	38,676	28,107
1964	39,887	29,359
1965	39,860	29,940
1966	53,210	33,300

% increase 1950 - 1958 - over 200%

% increase 1958 - 1966 - over 160%

Source: D.B.S. #68-207  
#68-205

GROSS PUBLIC DEBT IN MANITOBA OUTSTANDING AS  
OF MARCH 31ST.

Year	Including sinking funds
1950	\$117,584,911.90
1951	135,978,452.32
1952	158,389,962.07
1953	181,894,221.12
1954	185,643,421.51
1955	191,591,382.02
1956	196,829,189.33
1957	210,493,261.30
1958	217,997,342.38
1959	257,026,819.78
1960	318,632,502.40
1961	353,003,543.14
1962	372,133,472.50
1963	367,721,438.90
1964	363,447,605.38
1965	380,443,004.71
1966	382,280,891.60

Source: Public Accounts of the Province of  
Manitoba. 1949-1966.



## SELF-SUSTAINING AND DEAD-WEIGHT DEBT

PROVINCE OF MANITOBA - AS AT MARCH 31

(Including Sinking Funds)

Year	Debt considered to be recoverable from utilities, commissions, municipalities, etc.	'A' as a % of total debt	Debt considered to be repayable by the Province
1950	\$ 55,565,923.44	47	\$ 62,018,988.46
1951	71,670,930.32	53	64,307,522.00
1952	94,067,573.87	60	64,322,388.20
1953	118,205,295.54	65	63,688,925.58
1954	121,729,250.15	65	63,914,171.36
1955	132,421,199.44	69	59,170,182.58
1956	141,750,823.88	72	55,078,365.45
1957	158,654,504.28	75	51,838,757.02
1958	167,785,269.60	77	50,212,072.78
1959	196,505,238.26	76	60,521,581.52
1960	215,979,946.51	68	102,652,555.89
1961	216,073,318.25	61	136,930,224.89
1962	197,215,913.48	53	174,917,559.02
1963	173,429,228.70	47	194,292,210.20
1964	161,416,687.04	44	202,030,918.34
1965	151,124,090.48	40	229,318,914.23
1966	138,237,090.48	36	244,043,801.12

Source: Public Accounts of Manitoba 1949-1966.

NET INCREASE OR DECREASE TO PUBLIC DEBT FOR YEAR ENDING MARCH 31ST

Year	Net Increase or Decrease (A - B)	Gross	Approximate	Debt Retirement
		increase	part of increase which was for utilities	(including contri- bution to sinking funds)
		A	(millions of dollars)	B
1950	\$+16,754,467.63	\$24.0	\$19.0	\$ 7.2
1951	+18,393,540.42	28.0	24.0	9.6
1952	+22,411,509.75	31.0	25.2	8.6
1953	+23,504,259.05	26.0	26.0	2.5
1954	+ 3,749,200.39	15.1	15.1	11.4
1955	+ 5,947,960.51	27.4	27.4	21.4
1956	+ 5,237,807.31	16.6	16.6	11.4
1957	+13,664,071.97	23.7	19.2	10.0
1958	+ 7,504,081.08	22.7	16.7	15.2
1959	+39,029,477.40	70.2	41.0	31.2
1960	+61,605,682.62	87.4	38.5	25.8
1961	+34,371,040.74	87.7	50.0	53.3
1962	+19,129,929.36	78.6	34.0	59.5
1963	- 4,412,033.60	66.5	43.3	71.0
1964	- 4,273,833.52	60.9	48.3	65.2
1965	+16,995,399.33	80.2	44.8	63.2
1966	+ 1,837,886.89	44.2	13.2	42.3

Source: Public Accounts of Manitoba, 1949-1966.

Note: The large amounts involved since 1959 reflect the repayment of capital advances from the Utility Boards of Manitoba. For the year ending March 31, 1961 \$49.6 million out of the \$53.3 million shown in the column for debt retirement came from the Manitoba Hydro. For the following years, repayment of capital advances from the Utility Boards accounted for \$52.1 million in 1962, \$65.8 million in 1963, \$58.9 million in 1964 and \$54.6 million in 1965.

## PER CAPITA DEBT - PROVINCE OF MANITOBA

As at March 31	Direct Debt Per Capita (less sinking funds)	Indirect Debt Per Capita	Total Per Capita
1951	150 .	1.42	151.42
1952	176 .	0.55	176.55
1953	191 .	0.49	191.49
1954	187 .	0.43	187.43
1955	186 .	32 .	218
1956	187 .	38 .	225
1957	206 .	43 .	249
1958	219 .	69 .	288
1959	272 .	81 .	353
1960	343 .	103 .	446
1961	368 .	162 .	530
1962	377 .	208 .	585
1963	361 .	271 .	632
1964	354 .	337 .	691
1965	372 .	394 .	776

Source: D.B.S. #68-209, Provincial Government Finance Debt - formerly  
Financial Statistics of Provincial Governments, Direct and  
Indirect Debt.

DIRECT AND INDIRECT DEBT OF THE PROVINCE OF MANITOBA LESS SINKING FUNDS  
AS AT MARCH 31  
(thousands of dollars)

Year	Direct	Indirect (excludes guarantees as to interest only)	Total	Sinking Funds held against Direct Debt	Sinking Funds held against Indirect Debt
1945	89,345	2,313	91,658	23,672	-
1951	116,649	1,103	117,752	23,808	-
1952	140,165	440	140,605	23,090	-
1953	154,862	393	155,255	32,894	-
1954	154,672	355	155,027	37,549	-
1955	158,183	27,327	185,510	40,173	-
1956	158,966	32,558	191,524	45,003	-
1957	177,088	36,826	213,914	46,179	13
1958	190,228	60,221	250,449	46,951	50
1959	240,775	71,415	312,190	38,801	1,687
1960	308,240	92,734	400,974	39,431	2,221
1961	339,022	149,096	488,118	43,973	3,015
1962	352,794	194,503	547,297	45,772	4,244
1963	343,041	257,148	600,189	52,495	6,244
1964	339,414	322,958	662,372	58,429	9,461
1965	357,518	378,723	736,241	60,335	13,482

Source: D.B.S. #68-209.

Provincial Government Finance Debt formerly Financial Statistics of Provincial Governments,  
Direct and Indirect Debt (actual).

PUBLIC DEBT CHARGES  
(for fiscal years ending March 31st)  
(thousands of dollars)

Year Ending March 31	Total debt charges exclusive of debt retirement		Debt retirement included <u>in ordinary expenditures</u> (includes contributions to sinking funds)
	Gross	Net	
1950	\$ 3,900	+\$1,146	\$3,892
1951	3,989	+1,118	5,525
1952	4,738	+1,073	5,992
1953	4,782	+ 122	11,781
1954	6,625	- 283*	6,790
1955	6,913	- 733*	5,109
1956	6,840	- 459*	6,529
1957	7,397	- 325*	5,538
1958	7,739	- 833*	4,639
1959	8,718	-1,150*	4,868
1960	11,180	- 444*	2,513
1961	14,655	+1,220	3,153
1962	16,677	3,106	4,066
1963	17,742	3,530	4,819
1964	17,726	4,626	5,359
1965	Not available	5,240	5,879
1966	Not available	6,550	6,141

Source: D.B.S. #68-207 Financial Statistics of Provincial Governments-  
revenue and Expenditure - Actual

#68-205 Provincial Government Finance - Revenue and  
Expenditure (Estimates)

\* Negative amounts indicate excess of revenue over expenditure.

NOTE: The 1954 Budget speech gave a projection of the dead-weight interest costs, exclusive of bank and other charges, based on continuation of pay-as-you-go dead weight expenditure policy, as follows:

1940-41	\$4,400,000
1954-55	2,100,000
1961-62	662,814
1969-70	139,998

INTEREST CHARGES, SINKING FUND PAYMENTS AND DEBT RETIRAL FOR  
 PROVINCE OF MANITOBA  
 (millions of dollars)

Year Ending March 31st	Gross Interest Charges	Less Amount of Interest Received From Telephone Hydro, Other Loans & Investments	Net Interest Charges	Total Sinking Funds Payments	Less Sinking Fund Payments by Telephone and Hydro.	Net Sinking Fund Payments	Debt Redempt- ion
1950	3.7		3.7	2.2		2.2	1.5
1951	4.1		4.1	2.8		2.8	2.2
1952	4.7		4.7	3.6		3.6	2.5
1953	5.2		5.2	4.7		4.7	2.3
1954	6.9	4.7	2.2	2.4		2.4	2.3
1955	6.9	4.7	2.2	2.6		2.6	2.4
1956	6.9	4.9	2.0	2.8		2.8	2.4
1957	6.9	5.1	1.8	2.8		2.8	2.4
1958	7.4	5.7	1.7	2.8		2.8	2.3
1959	8.0	6.2	1.8	2.9	2.1	.8	1.8
1960	9.7	9.67	.007	3.1	2.3	.8	
1961	12.0	10.9	1.1	4.5	2.4	2.0	1.3
1962	16.9	14.3	2.6	5.8	2.6	3.2	1.0
1963	18.2	14.6	3.7	6.3	2.6	3.7	1.1
1964	17.9	12.8	5.1	6.8	2.6	4.2	1.1
1965	19.1	14.4	4.7	7.1	2.4	4.7	1.2
1966	18.2	12.3	5.9	7.3	2.4	4.9	1.2

Source: Estimates of Current Expenditure and Revenue of the Province of Manitoba - Treasury Dept., 1950-1966.

Note: Net Interest charges + Net Skining Fund Payments + Debt Redemption + Amortization of debt discount =  
 net total cost of public debt to Province of Manitoba.

## TOTAL SINKING FUNDS COMPRISING RESERVE FOR DEBT

RETIREMENT AS OF MARCH 31

(millions of dollars)

Year	Total	Government Share (remainder earmarked for utilities)
1950	\$18.5	\$15.7
1951	19.0	18.9
1952	18.0	18.0
1953	27.0	26.9
1954	32.3	32.2
1955	34.0	34.0
1956	37.5	37.4
1957	37.7	37.7
1958	36.6	36.6
1959	31.0	28.9
1960	32.5	28.0
1961	36.9	29.7
1962	39.1	30.1
1963	46.5	35.4
1964	53.2	40.0
1965	56.3	40.2
1966	63.6	45.1

Source: Public Accounts of Manitoba, 1949-1966

PROVINCE OF MANITOBA RESERVES FOR DEBT RETIREMENT  
AND EMERGENCIES  
SELECTED YEARS

Year ended March 31, 1950.

		Govt. Portion	Telephone
Reserve for debt retirement	\$18,500,719.85	= 15.7	2.8
Other sinking funds	<u>5,607,332.03</u>		
(Man. Power Commission )	\$24,108,051.88		
(Municipal Commission. S.F. )			
(Land Drainage Sinking Fund)			

Reserve for War and Post War Emergencies;  
and for Future Uncontrollable Expenditures;  
and for Insurance Against Future Loss of  
Revenue (from inception). \$3,236,097.52

Year ended March 31, 1958

		Govt. Portion	
Reserve for debt retirement.	\$36,559,521.59	= 36.5	
Others	<u>10,391,301.46</u>		
Telephone	2,352,552.23		
Power Comm.	3,443,814.62		
Hydro Elec. Board	4,190,934.61		
Land Drainage	<u>404,000.00</u>		
	10,391,301.46		

Reserve for War and Post War. \$9,509,816.24

Year ended March 31, 1965

		Govt. share	Utilities
Reserve for debt retirement.	\$56,293,436.43	39.7	16.0
Others	<u>4,041,417.90</u>	+ cash	.6
Hydro Elec.	2,950,836.16		
Telephone	1,045,630.72		
Water Supply Bd.	<u>44,949.02</u>		
	\$4,041,417.90		

Reserve for War and Post War. \$2,557,088.62

Source: Public Accounts.



PURPOSES OF PUBLIC DEBT - PROVINCE OF MANITOBA

SELECTED YEARS

(millions of dollars)

April 1, 1949 - March 31, 1950.

Gross increase in debt. = \$24.0 m.

Funds raised for:

Highways and roads	\$4.1 m
Man. Power	8.9
Pine Falls Hydro.	5.3
Telephone	5.0
University	.4
Hospitals.	.2
Others	.1
	<u>24.0</u>

Decreases were made from:

Reserve for Debt.Retirement	4.0 m
Sundry-Farms.	
Loans Assoc.Housing	
Scheme,Telephone	
Surplus earnings.	
Land Drainage Fund	
Appropriation etc.	<u>3.2</u>
	7.2

Net Increase : \$16,754,467.63

Source: Public Accounts of Manitoba.

April 1, 1957 - March 31, 1958

Gross increase in debt.= 22.7 m.

Funds were raised for:

Telephone	\$9.0 m
Power Comm.	5.0
Hydro Elec.	2.7
Hways.	6.0
	<u>22.7</u>

Decreases were made from:

Reserve for Debt Retire.	\$5.5 m
Repayment of Capital	
from Hydro	7.5
Other	<u>2.2</u>
	\$15.2

Net Increase \$7,504,081.08

April 1, 1964 - March 31, 1965

Gross increase in debt = \$80.2 m.

Funds were raised for:

Telephone	\$4.0 m
Hydro	39.9
Agric.Credit	
Corp.	3.9
Man.Develop.	
Fund.	1.4
Man.Centen-	
nial Corp.	.9
HWys.etc.	23.6
Prov.Bldgs.	3.5
Acq.of Land,	
Nat.Res. &	
Recrea.Proj.	.5
Agr.Research	.4
Urban Renew.	.4
Univ.and Affl.	
Colleges.	.2
Others	<u>1.2</u>
	80.2 m.

Decreases were made from:

Reserve for Debt.	
Retirement.	\$7.1 m
repayment of Capi-	
tal advances by	
Telephone	8.0 m
by Hydro	46.6 m
Other	<u>1.5</u>
	63.2

Net Increase \$16,995,399.93