

PROVINCIAL DEBT IN MANITOBA.

-BY-

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PREFACE.

Someone has said that people would much rather explore distant places than know their own parish well. There is something fascinating about remote things which is not found in those close at hand, and as a result those things which are of vital importance in the everyday life of the citizen are often neglected for other matters of broader application. In a thesis of this kind, it is more practicable to deal with the finances of our own Province, than with something which does not so much concern every resident in Manitoba. Another inducement to discuss this theme is that it has been very much neglected in the past, and for that very reason, if for no other, is extremely interesting.

Public finance is a broad subject, including as it does, taxation, expenditure, public debt and fiscal administration. It would be impossible to consider all these in a single thesis, therefore, I have chosen the one which I think is the most important, because, if the problem of repayment of our public debt is solved, many other financial problems will thereby be solved also.

The problem is a difficult one, and the information is hard to obtain. Some of it is embedded in the dust, not of centuries, but of years; some is surrounded by diffuse political discussion; and still some by the misrepresentation of political expediency. When the husk is removed it is sometimes hard to recognise the kernel, and an impartial estimate is correspondingly difficult.

Mymotive in choosing this topic is not political, and I have always estimated evidence as impartially as possible. How well I have succeeded in this must be left to the judgment of the reader.

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PROVINCIAL DEBT IN MANITOBA.

CHAPTER I.

INTRODUCTORY.

"Mr. Micawber conjured me to observe that if a man had twenty pounds a year for his income and spent nineteen pounds nineteen shillings and sixpence he would be happy, but that if he spent twenty pounds one, he would be miserable. After which he borrowed a shilling of me for porter and cheered up." Mr. Micawber's philosophy illustrates remarkably well the theory of National finance as it ought to be, and his practice illustrates equally well State finance as it usually is. In fact, one would almost think that to emulate Mr. Micawber's proficiency in the gentle art of "finance" was the "summum bonum" in the existence of every State. Whether in national or provincial finance, it is the common practice to spend more than is received. The resultant pressure of immediate liabilities forces the government to resort to further borrowing, and it cheerfully borrows the shilling to pay for the porter, unmindful of the retribution which must follow. Public borrowing is not necessarily an unsound financial arrangement; but it is to be remembered that even when that is the case the future and not the present must make the sacrifice.

Public debt is a mortgage on future revenue. It must always, in the long run, be repaid from the proceeds of taxation. Regardless of this fact it has grown rapidly during the past century. It is thought by some to be inevitable - after all else is gone our public debt will remain. This opinion is supported by the history of public indebtedness in all countries. "Universality is one of the features of the modern debt system" which "is remarkable, not merely for its universal employment but also for its great and growing amount." (1.) Public loans were unknown in ancient Greece and Rome. A more drastic measure was employed when the coffers of the State became empty. Instead of borrowing from the citizen, the State levied a special tax on him - an operation which was less fruitful but much more convenient under the circumstances. The first use of public credit is found in the Middle Ages. "In 1345, the Bardi at Florence, the greatest company in Italy, became bankrupt, Edward III., owing them in principal and interest, 900,000 gold florins. Another - the Peruzzi - failed at the same time, being creditors to Edward for 600,000 florins. The King of Sicily owed 100,000 florins to each of these bankers." (2.)

- (1.) Bastable, "Public Finance", p.626.
- (2.) Bastable, p.620; quoted from Hallam, "Middle Ages", III., 340.

The Bank of St. George was established in Venice for the purpose of lending money to that City and was the first banking institution of importance. With the decay of the Italian towns commercial supremacy was transferred to the Netherlands and the system of State-borrowing was fostered by the Dutch. "Imitation of Dutch methods of commerce and finance - so powerful an influence on the English policy of the seventeenth and eighteenth centuries - was a principal cause of the creation and advance of the English funded debt, which has in its turn been an example to other States." (1.)

Medieval finance contained the germ from which our modern public credit system has been developed. Instead of actual money being advanced to the Government a credit is now established with a banking house. Government Stock and Government Bonds and Debentures are bought and sold in the money market today as freely as are those of railways or other corporations. The organization of the money market, together with the inconvenience of meeting increased expenditure by increased taxation has caused public indebtedness to mount to appalling sums. "The total public debts of the world in 1783 have been estimated at £506,000,000; by 1820 they had increased to £1,530,000,000; their amount in 1848 was about £1,730,000,000. According to a careful estimate, the national debts of European States in 1870 were, in round figures, £5,000,000,000; in 1885 they had risen to £4,600,000,000, or an increase of £1,600,000,000 in fifteen years At the close of the nineteenth century the national debts of the world can hardly have been less than £7,000,000,000" (2).

A preliminary survey of the growth of indebtedness in a few different countries will establish that public debt is one of the most acute problems that the modern financier has to face. "The present English debt shows an unbroken record of more than 200 years". (3.) In 1689, as a result of the Puritan Revolution, it stood at £1,054,925. From that time on the burden of public debt increased steadily. Sometimes short periods intervened during which small amounts were repaid but the subsequent increases were always greater than those repayments. By 1783 it had reached £238,000,000 and by the end of the Napoleonic War the capital charge was £876,000,000, with an annual charge of some £26,000,000. "Looking back on the course of the English debt, it is very plain that its growth has been altogether due to war expenditure, while its continued existence must be largely attributed to financial weakness Over £600,000,000 was added in the great war (1793 - 1815); hardly £75,000,000 was paid off in the forty years' peace. The Crimean War added £34,000,000; it took twelve years of peace to pay off this sum. The South African War has increased the capital of the debt by £160,000,000.

- (1.) Bastable, p. 621.
- (2.) Bastable, p. 626; quoted from Heymarok.
- (3.) Bastable, p. 629.

It is safe to say that twenty years of unbroken peace will hardly suffice to remove this extra burden." (1). The best index of the burden of a national debt in any country is the percentage of annual revenue that is required to meet the yearly interest charge on that debt. At the beginning of the twentieth century 14½% of the annual revenue of Great Britain was spent for this purpose; the highest percentage, 48%, was reached in 1917, and in 1924 (2.) out of every pound collected in taxes 7s. 4d. was required to pay for money previously borrowed.

Professor Bastable has said that the history of the various loans in France, previous to the nineteenth century, has been concisely described as 'a history of bankruptcies'. In 1870 her public debt stood at £480,000,000; in 1914 (3.) it was 34,188,000,000 francs, and by 1922 (3.) the enormous liability of 336,604,000,000 francs (\$67,320,800,000) had been accumulated representing an annual interest charge of 12,187,000,000 francs, or 54% of the revenue received in that year. According to statements recently issued by the French treasury, if the entire debt had been paid off on December 31st, 1924, France would have had to find 385,000,000,000 francs, plus 25,000,000,000 francs interest.

Statistics could similarly be quoted from other sources showing that public indebtedness has steadily increased in all countries, until now the problem of its retirement is very grave indeed. In 1924 (4.) the United States paid approximately 30% of its income for that year as interest on its national debt; Canada paid in 1923 (5.) over 34%.

While this investigation is to deal with a particular provincial debt the foregoing facts are not irrelevant. Public credit was not always employed as a financial expedient and it is well to see how and when it started, and its general far-reaching effects on our National Financial Systems. The Province of Manitoba is not unique in its possession of a large bonded indebtedness and there is much that its administrators both present and future, might learn from the experiences of older countries.

There are two kinds of outlay - normal and abnormal. With normal outlay, i.e., the ordinary expenditure incidental to carrying on the work of the government from year to year, we are not here concerned. But it is necessary to determine the causes which give rise to abnormal expenditure. The governments of all modern nations find that they must perform services, the expenditure for which cannot be entirely met from

- (1.) Bastable, "Public Finance", P. 642.
- (2.) Whitacker's Almanack 1925.
- (3.) League of Nations, "Memorandum on Public Finance 1922" P.44.
- (4.) League of Nations, "Memorandum, 1922".
- (5.) Canada Year Book, 1922-1923.

the ordinary income of any one year but must be stretched over a period of years varying with the costliness of the service. It is then necessary, by the employment of the nation's credit, to raise money to cover this extraordinary expense and allow the income of the next succeeding years to provide for the capital and interest charges. Thus in a short time huge debts may be piled up against the credit of a country, the repayment of which is passed on to future generations. That Nations, States, or Provinces are able, and find it necessary, to borrow extensively is due to five main causes. In the first place there are large sums of floating capital which can readily be placed at the disposal of the Government. It would be of no avail to announce an issue of government stock or government bonds if all money were tied up in other investments. That money is available for this purpose is distinctly a characteristic of the modern nation. Secondly, the increasing cost of State administration makes increased expenditure necessary. Public buildings must be erected; public utilities must be established and maintained as a charge on the public funds. As the benefit from these accrues, not to one generation, but to many, it is only just that the payment for them should be extended over a period of years. The third cause of the great increase in borrowing is due to weakness in financial administration. It is a great temptation to tide over temporary difficulties by passing them on to future administrations. Yearly deficits which should have been removed by rigorous economy have in all countries been temporarily paid by borrowing. Fourthly, expenditure for war, while a minor consideration in so far as Manitoba is concerned, is the greatest cause of the large burden of indebtedness of all nations. "By far the greater proportion of the debt of Europe has been contracted for munitions of war. In the year 1908 of the Christian era, when British politicians were wrangling about a proposal to set apart £6,000,000 to provide pensions for the aged poor, the net expenditure for the army and navy was just under the enormous sum of £60,000,000!" (1.) It is vital to a state to be able to secure assistance through credit at times of pressure. Lastly, until in very recent years there has been a distinct aversion, on the part of administrators, to the levying of direct taxes. Direct taxation was regarded as oppressive and was strenuously resisted. Hence expenditures which should either not have been attempted at all or should have been defrayed from taxation have been financed by borrowing.

"All other particulars of good government profit a State little unless its system of public finance is well designed, well understood, and well protected and maintained." (2.) Its system of finance is the power which carries the State along; and this power can only be fully developed when it is clearly understood by the public at large as well as by those trusted with its control. Even though it is well designed it will not be protected and maintained unless it is well understood. That is

(1.) W. Jethro Brown, "The Underlying Principles of Modern Legislation," p. 15.

(2.) E. Hilton Young, "The System of National Finance," p. 3.

That is the function of intelligent criticism obtained through a thorough study of financial matters.

The processes of public finance are not greatly different from those of private finance. An individual's financial duties consist of getting, keeping, and spending money, and those of the State are very similar. It must carry on, and for that purpose it must get money somewhere. It must have facilities for keeping the money when obtained, and it must spend it in return for goods and services. The greatest difference between the financial business of the individual and that of the State is that the aim of the one is to get all the money he can, knowing that he can find use for it, and the aim of the other ought to be to get only as much as it needs for certain specific purposes.

The State gets its money in three ways, (1) as taxes which it levies, (2) as fees for services which it performs, and (3) as prices for goods which it sells. In all modern countries taxes are the greatest source of revenue. Almost every form of wealth and means of producing wealth is taxed in some country. Income taxes, inheritance taxes, corporation taxes, railway taxes, business taxes, taxes on real and personal property, and excise and customs duties all go to cover the expenditure of either central or local authorities. Fees are also charged usually for some service rendered by the State. The State performs services in the law courts and charges are made to partially or fully cover the cost of those services. Prices for goods sold by the State are usually derived from sales of public lands, as of school and railway lands in Manitoba. In the case of prices and fees it is only net income that is usually considered as revenue because gross returns are offset against the expenditures on the respective services or commodities.

As for keeping the money, the analogy between the individual or the corporation and the State is very close. The individual puts what he receives into the bank keeping out only a small amount for immediate needs. The State does the same and draws from its balance at the bank just as any private person or corporation would do.

The State spends its money on wages for its servants, whether civil or military, on the upkeep of buildings, on goods which it buys, on services which are performed for it, and on interest on its public debt. These are often called "effective" expenditures. The opposite, or "non-effective" expenditures, are such as pensions to those who have earned them through service in some form or other. Mothers' Allowances, poor relief, and workmen's compensation would also be classed under the latter heading.

"That revenue and expenditure should balance year by year is the golden rule of economy. It is even an absolute essential

of solvency".(1.) A State becomes insolvent when it can no longer borrow money on its own credit. It is only courting disaster when it allows its debts to accumulate. That fact is often obscured by borrowing and re-borrowing, but that only postpones the final result. Debts can be paid only by resorting to a system of rigid economy and the levy of taxes sufficient to meet the charges.

The term "Provincial Debt" as used in this thesis is not to be taken to include any form of indebtedness other than that which is the direct result of borrowing by the Provincial Government. Municipal indebtedness in Manitoba has no place in our consideration. Debentures issued by municipalities, drainage districts, railroads, or other corporations, and guaranteed by the Province, are not considered. It is true that they are an indirect liability but they are not a part of the bonded indebtedness of the Province. Nor are we to take account of such capital liabilities as Provincial Savings Office deposits, sinking funds and replacement funds; or such current liabilities as bank overdrafts and accounts payable. There are also deferred and trust liabilities which have no place in this discussion. The bonded indebtedness of the Province of Manitoba is made up of Manitoba Government Stock, Government Bonds and Debentures, Exchequer Bonds, and Treasury Bills, amounting in all, on August 31st, 1924, to over \$73,000,000.

The problem to be solved, then, is: that given an indebtedness of over \$73,000,000, bearing an annual interest charge of over \$3,760,000, how to adjust expenditure to revenue to obtain an annual amount sufficient to meet these obligations as they become due and in doing so to not unduly increase taxation.

In considering this problem the second chapter will contain in outline the history of public debt in Manitoba during the fifty-four years from 1870 to 1924. This will include an account of the actual growth of the debt together with some account of the services for which it was incurred and the provisions made for repayment. The third chapter will be devoted to a description of fiscal administration. While fiscal administration may not be considered a definite part of Public Finance it is certainly impossible to understand financial problems without first understanding the mechanism which controls financial policy and practice. The fourth chapter will include a description of the forms of debt in Manitoba and the general theory of credit as applied to this Province; and the final chapter will contain the description and theory of the various provisions for repayment which are or could be applied.

Manitoba has come to the point where an energetic financial policy is absolutely necessary. She is burdened with a debt of

(1.) Young, "The System of National Finance", p.6.

over seventy-three million dollars, with an annual interest charge of over three and one-half millions out of a revenue of some ten millions. Approximately one-third of her yearly income is expended and nothing is received in return. Her public debt has not been decreasing but rather increasing by leaps and bounds. Old debts have been paid on maturity by floating new loans - a process called refunding. Often the new loans have been for a larger capital value than the debt which they replaced. Its progress has been like a spiral, each complete revolution carrying it higher than the one before.

Whether or not we agree with Bastable, "that any State that pretends to be civilized regards the creation of a debt as one of the essential marks of its having reached that position" we must certainly admit that "both on account of its universal employment and its rapid growth, it is one of the most influential factors in modern finance, and one whose tendencies and actual effects are deserving of close attention."

CHAPTER 11.HISTORY OF THE PROVINCIAL DEBT.1. PRELIMINARY, 1870-1884.

The statutory basis of the financial status of the Province of Manitoba in 1870 is found in the British North America Act, 1867 and the Manitoba Act. The first is an imperial statute creating the Dominion of Canada. On July 1st, 1867 the Dominion of Canada came into being, consisting of four provinces, Ontario, Quebec, Nova Scotia and New Brunswick; and provision was made in the Act of Confederation for the admission of Newfoundland, Prince Edward Island, British Columbia, Rupert's Land, and the North-Western Territory into the Federation. The financial relations between the Government of Canada and the respective provinces of Ontario, Quebec, Nova Scotia and New Brunswick were settled by the British North America Act, 1867, and the financial relations between the Government of Canada and the Province of Manitoba were arranged by the Manitoba Act in so far as the original Act of Confederation was not applicable.

In order to get a proper back-ground for our investigation it will be necessary first to consider the debt adjustments provided for in the first four provinces of the Dominion. Section 111 of the British North America Act, 1867 states that, "Canada shall be liable for the debts and liabilities of each Province existing at the Union". If this section were taken alone it might be thought that the Government of Canada was to be made responsible for the total debt of each Province, but certain modifications of this provision are made by sections 112, 114 and 115. According to the first of these "Ontario and Quebec conjointly shall be liable to Canada for the amount (if any) by which the debt of the Province of Canada exceeds at the Union \$62,500,000." Likewise "Nova Scotia shall be liable to Canada for the amount (if any) by which the public debt exceeds at the Union \$8,000,000." and "New Brunswick shall be liable to Canada for the amount (if any) by which its debt exceeds at the Union \$7,000,000." and each Province was required to pay 5% interest on the excess. But it is evident that the public debts of Nova Scotia and New Brunswick did not amount to eight and seven million dollars respectively because section 116 of the British North America Act, 1867 states that in case the public debts of these Provinces "do not at the Union amount to \$8,000,000, and \$7,000,000 respectively, they shall respectively receive by half-yearly payments in advance from the Government of Canada interest at 5% per annum on the difference between the actual amounts of their respective debts and such stipulated amounts." Finally it was stipulated in section 104 that "the annual interest of the public

debts of the several Provinces of Canada, Nova Scotia, and New Brunswick at the Union shall form the second charge on the Consolidated Revenue Fund of Canada." Thus by the British North America Act, 1867 the Dominion of Canada assumed responsibility to the creditors for the total debt of the various provinces and also for the annual interest charge on those debts. But this responsibility was qualified by the provision that the Provinces should be responsible to the Government of Canada for both capital and interest charges above the specified amounts referred to above.

Manitoba became a Province of the Dominion of Canada on July 15th, 1870. The Manitoba Act provided for the government of "the first 'New Province' of the Dominion." As there was no debt adjustment in the British North America Act, 1867 which could apply to Manitoba the Act creating that Province made special arrangements. Section 24 is as follows: "In as much as that the Province is not in debt, the said Province shall be entitled to be paid, and to receive from the Government of Canada by half-yearly payments in advance, interest at the rate of five per centum per annum, on the sum of four hundred and seventy-two thousand and ninety dollars." (\$472,090.) This amount was arrived at by allowing a capital sum in lieu of debt of \$27.77 per head of population and the population of the Province in 1870 was assumed to be 17,000 persons. The Provinces of Ontario and Quebec incurred indebtedness for wharves, customs houses, etc., which were taken over by the Dominion Government at the time of Confederation in 1867. The value of these assets, per capita of population, was \$27.77. In order to be compensated on the same basis as the eastern provinces it was agreed that Manitoba should be assumed to have an indebtedness of \$472,090. and should be paid an annual amount of interest at the rate of 5% on that amount.

When the Province of Manitoba entered Confederation it was free from debt. This was because it had the status of a territory before entering the Dominion and was not responsible for its financial burdens. But financial difficulties soon arose and the Province was faced with the alternative of borrowing money or levying direct taxation unless she could get more assistance from the Dominion.

Before continuing the history of the growth of debt in Manitoba we must look into the general financial position of the Province.

Up to the time of the transfer of Rupert's Land and the North-Western Territory to the Dominion of Canada that part of the Continent held by the Hudson's Bay Company had been governed by a Council appointed by the Company, "whose functions were discharged all but gratuitously". The people "had never heard of such a thing as a tax. A few hundred pounds covered the whole expense of Civil Government and the Administration of Justice in the Colony." (1.)

(1.) Manitoba Journals, 1874; Appendix C.

Then suddenly came the insurrection and Manitoba was "called upon to form part of the magnificent system of the Canadian Confederation, and to enter into the full enjoyment of representative institutions." A Province with an area of 13,500 square miles and a population of 11,963 souls came into existence almost overnight. But it was compelled to rely almost exclusively on the Dominion Government for financial support. There was "no public chest; no parliamentary or other public buildings; no public library; no court-house, and only one judge and one prison" for a rapidly increasing population. "The people contributed hardly anything except in the shape of a nominal duty on a few articles of import." (1.)

The sources of revenue upon which the Province of Manitoba could depend in 1870 were very meagre. The source of greatest income was the Dominion Subsidy which was made up as follows: 5% on a capital debt allowance of \$472,090, amounting to \$23,604.50; an allowance in aid of government of \$30,000; and a payment of .80¢ per head on an assumed population of 17,000, amounting to \$13,600. Hence there was a total subsidy payable by the Government of Canada to the Province of Manitoba of \$67,204.50. Besides this, there were small amounts received by way of licenses. From July 15th, 1870 to December 31st, 1872, a period of two and one-half years, liquor licenses produced \$12,087.74, and other licenses the small sum of \$784.64. (2.) Revenue such as this did not warrant extensive expenditure. To make matters worse prices rose to an excessive height so that expenditure was increased automatically while revenue remained unchanged. The necessary expenditures of Government were greater than the Province could bear so appeals were soon made to the Dominion Government for an increase in the Subsidy. The Provincial Government, both for political and economic reasons, was loth to levy direct taxation. It found some relief in passing all possible functions of government on to the Municipal Authorities. That policy has caused many services to be supported from Municipal revenue, which because they are of a general or provincial nature, should never have been delegated to the local governments.

The financial difficulties continually increased until by December 31st, 1872 the Province was faced with a deficit of \$15,892.28 made up as follows: due to the Hudson's Bay Company \$11,238.79; to the Dominion Government \$921.30; to the Manitoba Board of Education \$3,482.19; and to the Selkirk Agricultural Society \$250. (3.) Things went from bad to worse until in 1874 an appeal was made to the Dominion Government for an increase in the Subsidy. In this appeal the delegates said: "Compelled to meet an ever-increasing expenditure, with a fixed and insufficient revenue, the Government of Manitoba has exercised a most severe and vigilant control over the outlay of the public

- (1.) Manitoba Journals, 1874; Appendix C.
- (2.) Manitoba Journals, 1875.
- (3.) Manitoba Journals, 1875.

monies; but in spite of every precaution and a degree of parsimony really unworthy of a Government, the public chest is exhausted. The expenses attending the outfitting and locating the various services, which expenses recur every year, absorb a considerable portion of the public monies, and the Government see with dread the approach of a day, when they must either borrow or have recourse to direct taxation in order to administer the law." (1.) The Dominion Government refused to increase the subsidy and advised that "the propriety of remedying so abnormal a condition of affairs must be obvious, and a solution of the growing embarrassments can only be arrived at by the people of Manitoba reducing the expenses of government to a sum proportionate to the circumstances and income of that Province." (2.) However, the Government of Canada placed the sum of \$25,000 to the credit of the Province to meet its immediate needs. This only temporarily relieved the situation.

Near the end of 1874 the Girard Administration was replaced by that of the Hon. R. A. Davis. The Province now entered into a period of economy almost parsimonious. There was as a legacy from the Clarke Administration (which preceded that of Mr. Girard) a floating debt of some \$20,000. In 1875 this floating debt was met by a loan from the Dominion Government together with a further loan of \$20,000 to build court-houses and gaols. Both these amounts were charged against the debt allowance of the Province; and reduced, by 5% per annum on the sum of these amounts, the annual interest payment on the Provincial Debt assumed by the Dominion. (3.)

By 1876 repeated pleas to the Dominion Government had succeeded in increasing the Subsidy to \$90,000, at which point it remained during the remainder of the Davis regime. The Conservatives were returned at the elections in 1878 and on October 16th John Norquay became Premier. The question of "better terms" for Manitoba was taken up again and in the spring of 1879 John Norquay and Joseph Royal were sent to Ottawa to "urge upon the Government of the Dominion a consideration of certain matters affecting the progress and welfare of the Province." They also asked that "advances be made from the capital account of the Province for drainage purposes." This request was refused them but they did succeed in having the total subsidy increased from \$90,000 to \$105,653.04 at which it was to remain until 1881. (4.)

In 1881 Delegates were again sent from Manitoba to Ottawa and a temporary adjustment was arranged until the Government of Canada was prepared "to meet the immediate necessities of the Province, . . . to advance to Manitoba, to be charged against the unused right to incur debt, the sum of fifty thousand dollars, at 5% interest, upon being furnished with official request therefor on the part of the Government of Manitoba." (5.)

We have now arrived at the period of the beginning of the bonded debt of the Province. The periods are divided into those

- (1.) Manitoba Journals, 1874, Appendix C.
- (2.) Manitoba Journals, 1874; Appendix, P. XXIV.
- (3.) Manitoba Journals, 1875; Appendix B.
- (4.) Manitoba Journals, 1879.
- (5.) Report of the Delegates to Ottawa, 1881; Manitoba Journals, 1881.

corresponding to the various administrations because they are the most convenient and not for any political reasons. At the end of the Norquay regime, 1887 the debt stood at \$2,000,000; when the Greenway Government was defeated in 1899 it stood at \$4,500,000; the Roblin Administration raised it to \$26,500,000 in fifteen years; the Liberals under Mr. Morris were again in power from 1915 to 1922 and during this time the debt increased to \$62,000,000; and on August 31st, 1924 it had reached the sum of over \$73,000,000. It will be our duty to investigate the cause of these immense increases but we shall not attempt, in every case, to determine whether or not the borrowings were justified.

11. The Beginning of the Bonded Debt.

The British North America Act, 1867 states that the Province "may exclusively make laws in relation to . . . the borrowing of money on the sole credit of the Province." In pursuance with this provision the Legislature of the Province of Manitoba included a clause in their Treasury Act, 1874 which gave the Lieutenant-Governor-in-Council the privilege of directing the Treasurer to effect any "needed temporary loans . . . in case of exigency arising out of failure of the revenue." These loans were to be for the amounts, and bearing a rate of interest not exceeding 6%, to be determined by the Lieutenant-Governor-in-Council. It is important to note that the proviso was inserted that "such loans shall not exceed the amount of the deficiencies in the . . . Consolidated Revenue Fund" and these sums so borrowed were not to be applied to any other purpose. (1.) After comparing this section of this Act with the continued attempts of the Provincial Government to get "better terms from the Dominion it is quite evident that the fear of not being able to meet the expenditures was always present. They did not yet contemplate borrowing money for the purpose of erecting public buildings or founding public utilities but merely to cover deficits which arose out of insufficient funds in the Consolidated Revenue Account. Thus the facilities were provided for the most uneconomical and most unsound purpose of borrowing which could very well be devised.

The Railway Aid Act, 1885 is the basis of the first bonded indebtedness of the Province of Manitoba. There was by this time an area of 73,956 square miles and a population of almost 100,000 persons. The settled portions of the Province were extending rapidly and there came to be a great need for better railway facilities. The Canadian Pacific Railway Company supplied a trunk line through the Province but branch lines were needed to connect all the outlying settlements with the main artery of transportation. Hence the Provincial Government "established a scheme for aiding the construction of Railways."

Railways in Manitoba have been aided in three ways: (1) by subsidies, i.e., by the payment of certain sums of money per mile of line constructed, (2) by the guarantee of the Province attached to bonds issued by the railway companies, and (3) by the issue of Provincial Debentures and the lending of this money to the railway companies. It is the latter of these plans which it is our purpose to consider.

(1.) 1874, 37, Vic. Cap. 11 (Man.) Sec. XII; S.S. 2.

The year 1855 marks the beginning of the bonded indebtedness of the Province. In that year large sums of money were granted to two Railway Companies - the Manitoba and Northwestern Railway Company, and the Manitoba Southwestern Colonization Railway Company. According to the Railway Aid Act, 1855 the Provincial Government could give financial aid to any railway being constructed within the Province, of not more than "one dollar per acre on any lands granted in aid" by the Dominion to the railway in question. It was clearly the intention of the Provincial authorities that one acre of land should be given as security for every dollar lent by them to the railway companies. The method employed in giving this aid was very simple. Provincial Debentures were handed to the Railway Companies at the rate of \$7,500 per mile of line constructed. Before the aid could be granted the companies had to transfer to the Provincial Treasurer land or warrants for land at the rate of one acre for every dollar granted in aid. The land was to be held in trust for the Province by the Provincial Treasurer and could be disposed of on such terms as the Government might see fit. The proceeds from the disposal of the lands were to be held by the Provincial Treasurer to be "applied by him for the purpose of paying the interest . . . and redeeming the debentures." So long as the aid or any interest charge was outstanding against the railway companies they had to pay 3% of their gross earnings "over that portion of the road so aided by the Province," in lieu of all taxes either Provincial or Municipal.(1.)

That part of the Canadian Pacific Railway west of Minnedosa was, in 1855, being built by the Manitoba and Northwestern Railway Company. Aid was granted to this line in three instalments for which Provincial Debentures were issued to the amount of \$787,426.67. The first grant was made on the fifty miles of line immediately west of Minnedosa, the second on the next ten miles and the third on thirty miles of the line west of Birtle. The bonds were sold and the proceeds, after deducting all expenses, were deposited in the Merchants Bank of Canada to the credit of the Provincial Treasurer and on the completion of each ten miles of railway the Provincial Treasurer paid over to the Company the proceeds of the sale of \$75,000 worth of debentures. In the same year the Manitoba Southwestern Colonization Railway Company were building what is now the Canadian Pacific line from Winnipeg to Souris. Aid was granted to this Company on condition that they would complete one hundred miles of line in the season of 1855. Provincial Debentures to the amount of \$399,846.66 were issued to cover the grant. Both issues of debentures were for a period of twenty-five years from July 2nd, 1855, and the interest charge was at the rate of 5%. Hence on December 31st, 1855 the bonded debt of the Province of Manitoba was \$1,687,273.33 with an annual interest charge of \$84,365.67.(2.)

But these were not the only Railway Companies to which the Provincial Government advanced money. On November 1st, 1856 Provincial Debentures to the value of \$255,986.66 were issued to raise money to aid the Hudson's Bay Railway and Steamship Company.

- (1.) 1855, 45 Vic. Cap. 49 (Man.)
- (2.) 1856; 49 Vic. cap. 49. (Man.)

About forty miles of this railway had been constructed by the spring of 1888 but was not completed to the satisfaction of the Dominion Government. As a result the Dominion refused to transfer to the Company the land grant for this forty miles of railway. The Company was in financial difficulties and under the Railway Aid Act of 1885 could get no more aid from the Provincial Government until it could transfer some of its land to the Province as security. In May, 1888 an Act was passed allowing money to be granted to the Railway Company without land being given as security. This Act confirmed the issue of debentures in 1886 so that by the end of that year the Provincial Debt had risen to \$1,943,259.99.

III. The Greenway Administration 1888 - 1899.

We have come to a turning point in the policy of borrowing. Until 1887 the Province only borrowed money to give aid to the railways. It almost seems as if the Provincial authorities had not grasped the significance of their privilege of borrowing to cover current deficits. But in 1887 they experimented very cautiously, floating a short term loan for \$162,450 payable in one year, and bearing interest at the rate of 6%. (1.) One is rather inclined to suspect that it was a matter of policy on the part of the Horquay Administration not to borrow. The Public Accounts show a surplus on only two occasions during the ten years that the Conservatives were in power. The deficits were met by invading the trust funds or were not paid at all.

In January, 1888 the Greenway Government took office. During the twelve years that they were in office they more than doubled the debt of the Province and it is significant that in every instance the money was borrowed for "Public Expenditure" - a term which is very vague and was used to cover expenditure on everything from public utilities to current deficits. Immediately on taking office a loan of \$1,500,000 was negotiated, supposedly to clear off the legacy of bad financing inherited by the Liberal Administration. The statutory basis of this loan is 1888, 51 Vic. cap. 4 wherein it is recited that the money is to be used to complete the public works under course of erection in the Province and to pay liabilities outstanding and maturing prior to June 30th, 1888. The Hon. Lyman Jones, the first Provincial Treasurer in the Greenway Administration, in his first Budget Speech, gave in detail the purposes for which the money was to be used. He indicated that there had been a large deficit inherited from the Horquay Administration and that it was the purpose of the Government to pay that and complete the railway lines and various public works commenced. The loan was issued for £508,000 sterling. The face value in Canadian currency was \$1,498,958.33; the bonds were sold at 103. (2.) In his Budget Speech in 1893 the Hon. D. H. McMillan indicated the sums that had been applied to different purposes from this loan. Trust funds which were alleged to have been pillaged by the Horquay Government were replaced, interest on railway aid debentures was paid and bonuses were paid to some of the railway branch lines.

(1.) Manitoba Free Press, Feb. 26, 1889.

(2.) Manitoba Free Press, Feb. 26, 1889.

Mr. McMillan in his Budget Speech of 1890 made a remarkable statement when comparing his own position during his first term of office with that of his predecessor, Mr. Lyman Jones. It had been Mr. Jones' first duty to borrow money to pay the deficits incurred during the Conservative regime. But when Mr. McMillan took office he "had found the Treasury well filled, with a large amount to the credit of the Province in the bank. Instead of having to borrow money as his first duty, he had to find a suitable investment for a large sum for which the Government had no immediate use." (1.) There are only two possible conclusions from this statement. Either the deficits were not so large as represented or they were not paid. In either case the amount borrowed was larger than the circumstances warranted.

The second loan issued by the Greenway Government was authorized by 1895, 56 Vic. Cap. 19 and was for the amount of \$1,000,000 for the construction of public works and for the payment of interest on railway aid debentures and bonuses to railway branch lines. The bonds were sold in Edinburgh for 97½ to mature in thirty-five years and bear interest at the rate of 4½ per annum. (2.) In his Budget Speech of 1898 Mr. McMillan summed up the ways in which the proceeds of both these loans had been expended: in railways and railway aid \$839,147.87; in buildings \$447,662.92; advances made on railway bonds, including interest, \$732,669.32; shortage of the Norquay Government \$315,000; cash on hand over trust funds \$141,815.31; expenditure on current account \$20,304.58, making a total of \$2,516,600.

In 1899 an arrangement was made with the Manitoba and North-western Railway Company and the Winnipeg and Hudson's Bay Railway Company whereby in return for specified areas of land the Province relieved these railways of all liabilities in regard to principal and interest on the financial aid which they had received from the Province. As the Manitoba and South-western Colonization Railway had met all its obligations up to date the Province did not find it necessary to relieve it of the remainder of its obligations.

IV. The Roblin Administration. 1900-1915.

The Conservatives took office on January 8th, 1900 under the leadership of Sir Hugh John Macdonald. His term only lasted until October 29th, of the same year, when he was called East to carry a Dominion election and Rodmond P. Roblin took his place. During the first session of the Legislative Assembly an Act was passed authorizing the issue of a loan of \$500,000 "to recoup the revenues of the Crown for expenditures made relating to bank overdrafts and liabilities of the Province outstanding on the 31st day of December, 1899. These bonds were sold for 104½ bearing interest at 4½ and maturing in thirty years. They were dated back to November 1st, 1899. Three hundred thousand dollars worth of bonds were sold to R. Wilson-Smith; and the remainder, two hundred thousand dollars worth, were sold to the First National Bank, Chicago. In the following session aid of \$349,000 was

- (1.) Manitoba Free Press; Feb. 20, 1890.
- (2.) Manitoba Free Press; Feb. 12, 1894.

was authorized to be granted to the Minnesota branch of the Canadian Northern Railway. This loan was dated October 1st, 1900 and was payable in thirty years and bore an interest charge of 4%.

The period of greatest borrowing began when the Government embarked on a plan for the construction of public works and public improvements: The Manitoba Telephone System, the Manitoba Grain Elevators and the Good Roads Act are responsible for a great part of the increase in the Provincial Debt during this period. In 1906 an Act was passed allowing the Provincial Government to construct and operate telephone and telegraph systems and it also gave it the power to expropriate any existing telephone or telegraph systems except those belonging to the railway companies. This Act also provided that the Government could issue Provincial Debentures for the purchase or erection of these systems. (1.) At this time the Bell Telephone Company and several municipalities owned all the telephone systems in Manitoba. An agreement was reached with the Bell Telephone Company that the Government should pay \$3,300,000 for the system and should pay \$100,000 more for equipment and supplies. Debentures were issued for the sum of \$3,400,000 dated July 1st, 1907 and payable in forty years, bearing interest at 4%. They represented a face value of \$3,399,853.33. In the same year, in addition to this sum, \$1,000,000 was borrowed from the R. Wilson-Smith Syndicate for telephone construction and again in 1909 Provincial Debentures to the sum of \$499,806.67 were issued for the same purpose. From 1910 to 1912 inclusive Manitoba Government Stock to the amount of \$5,975,666.66 was issued for telephone construction. Whenever the Government expropriated a Municipal Telephone System they assumed responsibility for the debentures which were still outstanding against the Municipality, which added a liability of \$177,000 up to November 30th, 1915: Thus the Roblin Government incurred an indebtedness of \$11,052,326.66 for the Government Telephone System alone.

One of the greatest causes of increased debt was in borrowing to aid judicial and drainage districts. The Province is divided into six judicial districts, all of which require court-houses and gaols. Most of these have been built with funds supplied by the Provincial Government and borrowed by it on the issue of Provincial Securities. Certain parts of Manitoba divided into drainage districts for the purpose of draining the land and making it suitable for agriculture. The expense of erecting drainage facilities has been met from money supplied by the Provincial Government and borrowed by it in the same manner as for judicial districts. During the Roblin Administration almost \$4,000,000 was borrowed for these purposes. These borrowings were secured by the issue of Manitoba Government Stock and Provincial Debentures. While this money has been borrowed on the sole credit of the Province it never has been, and probably never will be, incumbent on the Province to pay either principal or interest because a levy sufficient to provide for interest and a sinking fund is required from all the municipalities in a judicial or drainage district, which has been aided by the

(1.) 1906; 5-6 Edward VII, Cap. 89

Province, and is paid to the Municipal Commissioner, who pays the interest when due and places the money raised for a sinking fund into a trust fund so that when the principal comes due the money will be available to retire the debt. In addition to this, the drainage districts have issued their own debentures which, however, do not form a part of the Provincial Debt.

The remainder of the increase in the debt during this period consists of \$3,000,000 for the New Parliament Buildings, \$1,000,000 for Good Roads, \$1,000,000 for an old telephone liability, \$500,000 for current account deficits and \$1,000,000 for a Government System of Grain Elevators which was started at this time.

It will be remembered that there were three loans issued from 1885 to 1886 to mature on July 1st, 1910, amounting in all to \$1,943,259.99. These were paid at that time by issuing short term securities until, in 1913, the sum was refunded by issuing Manitoba Government Stock to the amount of \$1,946,666.67.

V. The Horrie Administration. 1915-1922.

On May 12th, 1915 Mr. Horrie became Premier of Manitoba as leader of the Liberal Party. The gross Provincial Debt had by this time reached \$26,000,000 and when the Liberal Administration came to an end in the fall of 1922 it had reached about \$62,000,000. The Hon. Edward Brown in his Budget Speech in 1922 said that "in considering the Gross Debt of the Province, it should be remembered that we own a Province-wide Telephone System; that we have Public Buildings which outclass anything on the North American Continent; and that we have during the past five years greatly extended our Good Roads System.

"These three items together represent \$47,000,000. of the total Gross Debt of \$62,000,000, or 75% of the whole.

"Further, we recall the fact that Manitoba is engaging in many other undertakings that other provinces have not resorted to by way of aids to Agriculture and the Working Class; that is to say, a Grand Total of \$10,000,000 of the Debt is represented by loans to the Farm Loans Association and by loans to Municipalities for Housing. Further, another \$2,000,000. has been expended in the distribution of Hydro-Electric Current throughout the Province.

"The remaining portion of the Debt represents the money loaned for Drainage purposes, Provincial Elevators, Soldiers' Taxation Relief, Settlers' Animal Purchase Act, and a variety of other undertakings."

Mr. Brown then goes on to distinguish between Net Debt and Revenue-Bearing Debt, claiming that it is the Net Debt that is of particular interest because it is a direct charge on the Consoli-

dated Revenue, while the Revenue Bearing Debt is self-supporting. His distinction is a nominal rather than a real one because under Net Debt he includes only money borrowed to erect Public Buildings of the Province, and to build the Good Roads System, amounting in all to \$25,000,000. The remainder, some \$37,000,000, is the Revenue Bearing Debt, made up of money borrowed for the following purposes: Manitoba Farm Loans Association, Judicial Districts, Drainage Districts, Grain Elevators, Telephone Construction, Manitoba Hydro-Electric System, Rural Credit Societies, Soldiers' Taxation Relief and Live Stock Purchases. Of all these the loans to the Judicial Districts and to the Drainage Districts are the only ones which are completely self-supporting. By self-supporting I mean paying both principal and interest in full as they come due. The Municipalities in these districts are levied on for sums sufficient to meet their liabilities. The Manitoba Farm Loans Association was started in 1917 to provide long term loans to farmers for Agricultural purposes and the Rural Credit Societies were started in the same year to provide short term loans for very similar purposes. Up to date the Rural Credit Societies have failed to make any repayments and the Farm Loans Association is not so successful as was anticipated. Grain Elevators never have been even nominally self-supporting and the Government Telephone System pays interest on the money borrowed for its construction but does not even attempt to pay the principal.

The Morris Government borrowed the following sums of money during their term of office for various purposes: Manitoba Farm Loans Association \$4,250,000; Rural Credit Societies \$1,025,000; Telephone Construction \$8,916,000; New Parliament Buildings \$9,321,000; Good Roads \$4,499,000 and Grain Elevators \$315,000, as well as smaller sums for numerous other things. The greatest mistake that this administration made is that they borrowed too much money. In one and three-quarter years, between January 1st, 1920 and October 1st, 1921, the Province issued, for new purposes, Debentures of a total par value of \$22,929,000. During the same time Debentures to the value of \$7,998,000 were issued to refund old issues.

VI. The Debt at August 31st, 1924.

A short summary of the Debt as it stood at the end of the last fiscal year will suffice to close this part of our discussion. When the Bracken Government assumed office the Debt was approximately \$62,000,000 and on the above date it was \$73,260,502.56, or an increase of about \$11,000,000 in two years. This increase was for a continuation of the purposes for which the Morris Government had borrowed a great deal, and is to be condemned on the same grounds. Two loans were refunded in 1923. One was the \$1,500,000 borrowed by the Greenway Government in 1888; and the other was \$1,000,000 issued for purposes of the Farm Loans Association.

The full significance of this tremendous burden cannot be attained from the capital charge alone. The total revenue earned during the fiscal year ending August 31st, 1924 was \$10,603,580.71; the total expenditure incurred was \$10,470,155.65, of which \$3,760,151.89 was interest on the Public Debt. These figures prove beyond a doubt that expenditures must be decreased sufficiently to allow some of the bonded debt of the Province to be repaid instead of refunded.

CHAPTER 111.

FISCAL ADMINISTRATION.

"The most important part of the financial system to those engaged in its working is the machinery by which the various state requirements are duly met, while to the contributor, the authority that taxes him, the way in which it uses its powers, and the checks on its action are the really vital matters". (1.) To understand any system of public finance it is necessary to understand the mechanism which operates and controls that system. We must isolate the units in this great machine and determine whether the functions of each are co-ordinated so that the maximum efficiency is obtained. Sound financial principles cannot be applied where the administration is negligent or deficient, and it is imperative that the public eye be directed towards the personnel of the financial administration as well as to the actual policy pursued.

1. THE TREASURY DEPARTMENT.

The administration of the public funds of the Province is in the hands of the Treasury Department. The control of these funds, however, does not rest with the Provincial Treasurer nor with any member of his Department, and only in so far as the Executive Council is supported by a majority of the members of the Legislature will it be vested with absolute authority over the appropriation and expenditure of money. The opinion of the Provincial Treasurer may be overruled by the other members of the Executive Council, if they so wish, in regard to expenditure, and the anomaly of the situation is that the Treasurer may have to devise ways and means of raising revenue to which he is entirely unsympathetic. The practice in Great Britain is different. The Chancellor of the Exchequer may refuse to include an item of expenditure in the appropriation estimates. While the control of the public funds does not rest with the Treasury Department the management of those funds does. It is a Department of the Civil Service of Manitoba over which the Provincial Treasurer presides. This official is appointed by the Lieutenant-Governor and holds office during pleasure and is a member of the Executive Council. There is employed on the staff of the Treasury Department, under appointment by the Lieutenant-Governor-in-Council, a Deputy Provincial Treasurer, and an Assistant Deputy. These two officials are permanent Civil Servants and are not political officers as the Provincial Treasurer is. They are responsible for the detailed work of the Department while the Treasurer, together with his colleagues in the Council, is responsible to the

(1.) Bastable, "Public Finance," p. 726.

Legislature and to the electors, for the policy of his Department. In 1916 a special branch of the Treasury Department called the "Comptrolling and Audit branch" was created. This branch includes a Comptroller-General, an Auditor of Revenue, an Auditor of Disbursements, an Auditor of Purchases, and several general employees. An Auditor of Purchases was never appointed. Both the Auditor of Revenue and the Auditor of Disbursements receive their appointments from the Lieutenant-Governor-in-Council.

Of the officers of the Treasury Department, the two most important are the Provincial Treasurer and the Comptroller-General. As already stated the Treasurer has charge of the general supervision of the Department. He deals with matters of policy rather than with the details of administration. As the status of the Comptroller-General is not very well known it will be instructive to consider the duties and powers of that official. As "the practice of the Legislature of Manitoba is patterned after that of Great Britain" an outline of the status of the British Comptroller and Auditor-General will make the position of the corresponding official in Manitoba much clearer. His two functions are: (1) that of Auditor-General of the Public Accounts, and (2) that of "Comptroller-General of Receipts and Issues of His Majesty's Exchequer". His functions as Comptroller-General are the ministerial control of issues from the Exchequer as imposts to the departments, in order to secure that no issue shall be made therefrom except under the authority of Parliament. "The essence of an audit of accounts is that it is an investigation into them, made in detail by an independent person not concerned in drawing them up, to ascertain whether they tell the truth, the whole truth and nothing but the truth about the transactions which they profess to record. For this purpose the auditor must ascertain in the first place whether the accounts presented to him accurately record and summarize the transactions of the period which they cover, as entered from day to day in books of account and other documents, and in the second place whether all payments and receipts for which credit is given and taken in the accounts have actually been made and received. For the latter purpose he must examine and verify the vouchers for payments and other documentary evidence of incomings and outgoings, seeking in particular to detect cases in which there is no proof of payment of sums charged, or in which a payment has been charged out of time. Such is the character of the audit conducted by the Auditor-General on behalf of Parliament." (1.) "It is the function of the Comptroller and Auditor-General, acting as the direct representative and officer of Parliament, to see that no funds are drawn from the Exchequer except in pursuance of authority given by Parliament and that such funds as are drawn are applied only to the specific purposes and in the way ordered by that body Though the Comptroller and Auditor-General is appointed by the Crown, he holds office during good behaviour and can be removed only on an address from the two Houses of Parliament, and . . . his salary

(1.) E. Hilton Young, "The System of National Finance". P. 139

constitutes a permanent charge upon the Consolidated Fund. (1.) It is a remarkable fact that the final authority in regard to accounting procedure, and even to the organization and personnel of his own office is the Treasury. "The Treasury and not the Comptroller and Auditor-General shall be the authority to determine the manner in which all public accounts shall be kept and rendered.... The powers of the English Comptroller and Auditor-General in auditing public accounts are confined strictly to those of examination and report and he has no power finally to disallow an item of expenditure which in his opinion has been improperly made. Under the American system it is of the essence of the powers of the Auditor in settling an account to 'suspend' all items which appear to represent an improper payment or one for which a proper voucher or other authority is not produced; and if a satisfactory explanation is not then forthcoming finally to 'disallow' such items.... The vesting of this power to allow or disallow items in the Treasury is but another illustration of the fact that Parliament in providing for an audit of expenditure by its own official was yet careful to retain intact the general principle that the Treasury is the organ upon which rests the general responsibility for the manner in which the finances of the nation are administered." (2.) The status of the Comptroller and Auditor-General in Great Britain is admirably summed up by E. Hilton Young in the following words: "The functions of the Auditor-General are in no way administrative or executive even in matters of account; his business is only to watch, search, inquire, and report. It is the verification on behalf of Parliament of the appropriation accounts which he receives from the accounting officers that is his chief end as an official."

Remembering that the practice in Manitoba has been adapted from that in Great Britain and that "some of the sections of the Manitoba Treasury Act appear to have been taken without change" from the British Exchequer and Audit Departments Act of 1866 we will now investigate the existing status of the Comptroller-General in Manitoba. He is appointed by the Lieutenant-Governor-in-Council to hold office during good behaviour and is only removable "on address of the Legislative Assembly carried by a vote of two-thirds of the members voting thereon". In the Act of 1916 which created the Comptroller-General's office provision was made for the suspension of this officer at any time "for cause assigned" and another person was to be temporarily appointed. But by chapter 78 of the Statutes of Manitoba, 1921, this was changed and "the Comptroller-General cannot now be suspended for cause or removed from office except by a two-third vote of the Legislative Assembly." (3.)

Despite this provision the Select Standing Committee appointed by the Legislative Assembly in the session of 1925 to enquire into

- (1.) Willoughby, Willoughby and Lindsay, "Financial Administration of Great Britain." P.P. 216-217.
- (2.) "Financial Administration of Great Britain," P.P. 218, 222 and 223.
- (3.) Report of the Select Standing Committee appointed by the Legislative Assembly, 1925, to enquire into the status of the Comptroller-General.

the status of the Comptroller-General, submitted a Report stating that the "Committee are of opinion that the Comptroller-General has remained an officer of the Treasury Department.... Your Committee are further of opinion that the belief that the Legislature has an officer with executive powers, independent of or superior to the administration, who is empowered to report to it direct, has no basis in the existing Statutes, and that the practical effect of past amendments to the Treasury Act has been merely to place in his hands the general financial accounting of the Province, over which he has likewise been constituted auditor in addition to the duty of seeing that no vote in the Supply Act is exceeded." Let us repeat that "the general principle that the Treasury is the organ upon which rests the general responsibility for the manner in which the finances of the nation are administered" should be retained intact. Under the Statutes of Manitoba the personal independence of the Comptroller-General has been guaranteed, except in the matter of his salary which is not a statutory charge on the Consolidated Revenue Fund, but requires to be voted annually. He is given no executive authority nor should it be given him. That should clearly rest upon the administration which is capable of being held responsible for its Acts. Otherwise financial responsibility would be "weakened by distributing control between two authorities." The Legislature itself has taken complete control of appropriations and the duties of the Comptroller-General have been limited to seeing that the appropriations are not exceeded. The only method by which votes now can be exceeded is that of special warrant, to be signed by the Lieutenant-Governor for "expenditure not foreseen or provided for, or insufficiently provided for by the Legislature" and "which is urgently and immediately required for the public good".

The Treasury Board is a branch of the Treasury Department which is worthy of passing notice. It is composed of three members of the Executive Council and is "for the purpose of reference and decision in regard to the matters referred to it." Regulations governing the methods of bookkeeping and accounting in the several departments and any regulations which the Comptroller-General may make regarding the organization or methods of procedure in his own office must be approved by the Treasury Board.

In general, then, the Treasury Department attends to the details of revenue, disbursements, and auditing. All revenues, over which the Legislature has the right of appropriation, go into a Consolidated Revenue Fund which is permanently charged with all the expenses of collection and management of the revenues which constitute that Fund. It is also charged with all loans and debts contracted by means of the issue of Provincial debentures, bonds or stock, and with the interest and sinking fund which may be provided to repay the loans. At the close of each fiscal year a statement of the public accounts is prepared "in the Comptrolling and Audit branch under the direction of the Provincial Treasurer, for submission to the Legislature at its next session." This statement shows the cash receipts and disbursements, the revenue

(including earned and not collected), the expenditure (including incurred and not paid), the capital, current, trust and deferred balance sheets, the profit and loss statements of government enterprises, the government securities issued and outstanding, and other miscellaneous information. All payments of public moneys are made by cheques prepared by the Auditor of disbursements. These cheques must be signed by the Comptroller-General and by the Provincial Treasurer or other authorized persons in their stead. The Provincial Treasurer keeps a record of all cheques issued, the date of issue, the cheque number, and the amount drawn. The taxes are collected by various officials but all receipts must be accounted for to the Treasury Department. Succession duties, Insurance Act fees, the Subsidy, the receipts from the School lands fund, and interest on securities are all paid directly to the office of the Provincial Treasurer. The Municipal Commissioner's Department collects the Corporation tax, the Railway tax, the Automobile tax, the Public Amusements tax, the Income tax, the Gasolene tax, the Municipal levy, Marriage licenses, and the Unoccupied Lands tax. Fines, law fees, and the profits of the Government Liquor Control Commission are paid to the Attorney-General's Department. Fees of different kinds are collected by different departments. (1.)

11. BUDGETARY LEGISLATION.

We have seen that the administration of the public funds is entirely in the hands of the Treasury Department but that the control of these funds does not rest there. "There are few rights or political principles of greater importance to a nation than those of determining what public revenues shall be raised, and what expenditures shall be authorized." (2.) The Legislature exercises control over revenue and expenditure through the budget. The word "Budget" admits of explanation rather than definition. Stourm notes that many writers fail to define the term although all explain it. Jean-Baptiste Say defined the budget as "a balance between the needs and the resources of the State." But this can hardly be correct because we speak of 'balancing the budget' and we cannot mean balancing the 'balance'. Victor Hugo's fantastic conception of

"The budget, strange fish and monster vast
To which from all sides the hook is cast"

is only interesting as an example of misconception. The characteristics of the budget are that it contains an estimate of the revenue required for a certain period, an estimate of the expenditure for the same period, and it is a matter of statutory law. Thus Stourm's own definition is fairly comprehensive. "The budget of the State is a document containing a preliminary approved plan of public revenues and expenditures."

- (1.) Revised Statutes Man., 1913, cap. 198. Consolidated Statutes Man., 1924, Caps. 198 & 199. Estimates for year ending April 30th, 1926.
(2.) Stourm, "The Budget", p. 5.

The basis of budgetary right in the Legislature of Manitoba consists of the right to consent to the imposition of taxes, to the expenditure of public funds and to the floating of public loans. This right is one of the fundamental principles of the British Constitution. In so far as possible the British system of Government was put into practice in Canada and the British North America Act, 1867 says that all "bills for appropriating any part of the Public Revenue, or for imposing any Tax or Impost, shall originate in the House of Commons." This is one of the basic principles of budgetary legislation in British practice. It implies that in matters of finance the House of Commons is the supreme authority and that the second chamber has no power of raising or distributing the public funds. Section 54 of the British North America Act, 1867 prohibits the passing of any measure by the House of Commons appropriating funds, which has not first been recommended by a message of the Governor-General. The practice has been adopted not only in the government of Canada but also in that of each of its provinces for by section 90 of the Act of Confederation it is provided that "the following Provisions of this Act respecting the Parliament of Canada, namely, - the Provisions relating to appropriation and Tax bills, the Recommendation of money votes . . . shall extend and apply to the Legislatures of the several Provinces . . . with the substitution of the Lieutenant-Governor of the Province for the Governor-General...." The provision for a message from the Lieutenant-Governor is repeated in rule 108 of the Rules, Orders and Forms of Proceeding of the Legislative Assembly of Manitoba. "This provision of the constitution alone, at a recent session of the legislature, prevented the provincial income tax bill from being so amended as greatly to increase the rate on the higher incomes." (1.)

It is very necessary that the privilege of initiating expenditures should rest with the Crown. The Executive is responsible for carrying out the provisions of the budget and therefore should have the privilege of preparing it. The Executive also is much more conversant with the needs of government than any private member can be. In Manitoba the practice is that the different departments, under the supervision of the Minister, prepare estimates of expenditure required for the year in question. These estimates are determined by a consideration of the expenditures of the preceding year in conjunction with the policy of the government in regard to the increased or decreased requirements of the current year. When each department has completed its estimates they are all submitted to the Council and there revised. It must be emphasized that the Provincial Treasurer cannot delete an item from the estimates at his own discretion, but he is required to find the necessary revenue to meet the incurred expenditure. The detailed estimates of expenditure are set forth by departments. Those for the fiscal year ending April 30th, 1926 contain thirteen regular departments and a special one - the Public Debt. Each department is itself divided into appropriations or votes and these are in turn divided

(1.) A. B. Clark, "Our Legislative Mills", National Municipal Review, Vol. XIII, No. 4, April, 1924.

into sub-heads which indicate in detail the services for which the appropriations are made. Included in the statement of estimates for the current year are the estimates of the immediately preceding fiscal year for purposes of comparison. If the items have been increased the opposition members will in all probability require an explanation as to the cause. If they have been decreased the government will be requested to explain how they intend to implement their proposal; and if they are left unchanged they will, in certain cases, be required to explain why no change has been made.

The Provincial Treasurer compiles a statement of estimated revenue for the same period of time as that for which the expenditure has been estimated. This statement is very similar in form to that described above. There are the headings under departments and the sub-headings which indicate the exact source of revenue. Also there is a comparison made between the estimates of the last completed fiscal year and the current one. Very often the total estimated revenue is not as great as the total estimated expenditure. For the fiscal year ending April 30th, 1926 the latter exceeded the former by over \$144,000. The budget is balanced when these two totals are equal and it should be the purpose of every administration to balance its annual budget. Occasional deficits cannot be helped and can be replaced by surpluses in other years; but regularly recurring deficits will be avoided by all prudent administrations.

The period covered by a financial statement is called the fiscal year. It does not necessarily coincide with the calendar year but should be convenient for purposes of Administration. Convenience depends largely upon the time at which the annual session of the Legislature is held. Until the session of 1925 in Manitoba the fiscal year ended on August 31st, but at that session it was changed to April 30th. When the fiscal year ends on August 31st the public accounts can be presented at the next session and so can be considered very shortly after the completion of the year; but at the same session the estimates considered are for the year of which a part has already passed and expenditures have been incurred. On the other hand if the fiscal year ends on April 30th the estimates can be considered for the year just beginning but the public accounts will not be presented until almost a year after the completion of the period which they purport to cover.

We have seen what the budget is and how it is prepared. We must now consider the vote of the budget. "The cardinal principle which underlies all parliamentary rules and constitutional provisions with respect to money grants and public taxes is this - whenever burthens are imposed on the people, to give every opportunity for free and frequent discussion, so that Parliament may not, by sudden and hasty votes, incur any expenses, or be induced to approve of measures, which may entail heavy and lasting burthens upon the country. Hence it is wisely ordered that 'the Crown must first come down with a recommendation whenever the government finds it necessary to incur a public expenditure, and

that there should be full consideration of the matter in committee and in the house, so that no member may be forced to come to a hasty decision, but that every one may have abundant opportunities afforded him of stating his reasons for supporting or opposing the proposed grant. (1.) The Legislature is specially organized into Committee of Supply to consider the appropriation of the sums required for the public service, and into Committee of Ways and Means to regulate the mode in which the expenditures authorized by the Committee of Supply are to be met. Both are Committees of the Whole, i.e., the Legislature sits as a Committee, rather than as a legislative body, and is presided over by a chairman instead of by the speaker. The advantage of this system is that all items in the estimates can be thoroughly discussed and when the resolutions are under consideration it is the duty of each minister to explain every vote that appertains to his own department. The annual budget speech is delivered at the time the estimates are placed before the house. In Manitoba this speech is delivered on the motion of the Provincial Treasurer to go into Committee of Supply. Any other member may speak on this motion and it is usually an occasion for criticisms of the administration not only in relation to finance but also on other matters of policy. After all have spoken who wish to do so the motion is put to the House and if carried the Speaker leaves the chair and the Legislature becomes a Committee to discuss the appropriation and distribution of the public funds. It is interesting to note that the Dominion Budget Speech is not always delivered on a motion to go into supply, but more often on a motion to go into Committee of Ways and Means. No proposal as to sources of revenue may be considered in Committee of Supply and as the Budget Speech of the Canadian Minister of Finance usually contains proposed tariff revisions it is necessary to go into Committee of Ways and Means to consider them.

111. THE ISSUE AND ADMINISTRATION OF LOANS.

The final basis of budgetary right in Manitoba is the privilege that the Legislature possesses of authorizing the issue of loans. The Administration of the Public Debt is entrusted to the Treasury Department. According to the law in Manitoba there are five ways in which the Province can borrow money: (1) "by the issue and sale of debentures of the Province of Manitoba" bearing a rate of interest not to exceed 6% per annum, (2) "by the issue and sale of 'Manitoba Government Stock' " bearing a rate of interest not exceeding 6% per annum, (3) "by the granting of terminal annuities based on a rate of interest not exceeding 4% per annum", (4) "by the issue and sale of exchequer bills, exchequer bonds, or treasury bills, in sums of not less than \$400 each", and (5) "by temporary loans." In each case the interest and capital is made a charge on the Consolidated Revenue Fund. Temporary loans are raised when the Consolidated Revenue Fund is insufficient to meet the charges placed upon it, and they are not sanctioned by the Legislature, but are raised on the authority of the Lieutenant-Governor-in-Council. All money raised by the issue of securities is paid to the Treasurer and forms part of the Consolidated Revenue Fund.

(1.) Bourinot, "Parliamentary Procedure." P. 462

CHAPTER IV.

FORMS AND THEORY OF PUBLIC DEBT.

1. FORMS OF PUBLIC DEBT.

There are several classifications of public debt which have been used by different writers, but the only one which can be readily applied to modern finance is that of floating and funded debt. As these terms are used in practically all modern nations, with slightly varying meanings, we must outline their general meaning. Strictly speaking, floating debt is payable on demand, but there are few actual loans issued on these terms. Occasionally, Treasury Bills or Exchequer Bonds are issued on demand but even they are usually for a definite period of time. Convertible paper currency is the only common form of liability payable on demand but it is not a form of bonded debt. The other extreme is the funded, or permanent debt, which is not intended to be paid off. In Great Britain this consists of Stocks, known as Consols. "One great advantage of the perpetual debt is its close resemblance to the stocks and shares of ordinary industrial companies." (1.) The Government has the option of repaying this part of its debt at any time by buying up its stocks in the market at the market price at that time. There is a large amount of the bonded debt of any country which is neither strictly floating nor strictly funded, but is somewhere between the two. Bonds, debentures, some treasury bills, and some stocks are payable after a certain period of time and so merge from floating into funded debt, depending upon the length of time for which they are issued.

In Manitoba the classification into floating and funded debt is recognized, but is not adopted in the strictly correct sense. Floating debt includes short term issues such as treasury bills, exchequer bonds and bank overdrafts. The funded debt is made up of bonds, debentures, terminal annuities and stocks, none of which are intended to be permanent debt, but are long term issues and seem almost permanent in point of fact. Exchequer bonds are issued for not more than three months, and treasury bills for not more than five years. Bonds and debentures are issued for periods varying from twenty-five to forty years. Terminal annuities are provided for in the Treasury Act but do not appear to have been used at all. Manitoba Government Stock was created in 1909, by the Roblin Administration, for the purpose of borrowing money in the London Market. The term "stock" was more familiar in London than were the terms "bond" and "debenture" and the creation of a Government Stock in Manitoba was conceding a point to the London Stock Market to render the obtaining of money easier.

(1.) Bastable, P. 690.

"To suit loans to the taste of the Market is one of the chief duties of a borrowing government." (1.) Not only must the terms, as to interest and date of maturity, be suitable, but also the mode of offering must appeal to those in the best position to supply the capital. The practice, in this Province, has always been to ask for tenders on an issue of securities, and the highest bidder has been accepted. The securities are then shipped by registered mail to the buyers, who deposit the sum paid for them in a specified bank, which allows the Government to draw on its credit there as long as the deposit lasts.

But a group of capitalists is not always asked to supply the money. In France the bankers usually lend the money required by the Government and think it an infringement of their right if someone else is asked to do so. But there are two other methods, one of which has been used to great advantage by the Governments of Great Britain and Canada. In case of great need, as in the Great War, the best way is usually through an appeal to the public. In this event the bonds are issued for various sums, small enough to be within the reach of all, and are sold at a fixed price, this price depending upon how badly the Government needs money, and at what price it can get it elsewhere. Both Canada and Great Britain borrowed millions of dollars in this way during the Great War, and the public have found these securities to be the most profitable investment available to them. The other method is useful when a loan is not peremptory. In this case the securities may be issued gradually, at a fixed price. This will not cause fluctuations in the money market. The only other mode of offering securities which is commonly used is that of appealing to foreign investors, or borrowing directly from a foreign government. Great Britain, France, Canada and other countries borrowed heavily from the Government of the United States for war expenditure during the last war. This method should only be adopted as a last resort.

11. THEORY OF PUBLIC DEBT.

"Public credit is but one form of credit in general, and is, or ought to be, regulated by the same leading principles. Many of the most serious errors in this department of finance have been due to the belief that the State in its borrowing was emancipated from the restrictions that prudence imposed on the individual, and that it might safely indulge in experiments that would soon land the ordinary citizen in bankruptcy." (2.) The security (and this is the only security) behind a public loan is "that part of the income of individuals that the tax-collector is able to appropriate, and it is on its amount that, in the last resort, borrowing power depends." It is a mistake to think that public credit and private credit are based on entirely different financial principles. The security behind public borrowing is the income of the individual or corporation, or their capacity to

(1.) Bastable, p. 690.
 (2.) Bastable, p. 658.

earn. It is because State income is derivative that public loans are often preferred to increased taxation. Although the general principles are the same, there are certain peculiarities of public borrowing which are worthy of note. The Sovereign State is in a peculiar legal position, in that it can repudiate its debts, and the creditors have no recourse in a court of law. "A national bankruptcy is a strictly legal proceeding, e.g., an Act of Parliament repudiating the National Debt would be quite as valid as any other measure." (1.) But in practice a State will not repudiate its debts if there is any possible escape. When the creditors are foreign states a refusal to meet its obligations would involve the debtor state in international difficulties. Domestic loans are surrounded by guarantees of a political nature, the repudiating Government knowing well that such a step would sound the death knell of its political power; and above all a refusal to pay its debts would destroy a nation's credit for many years to come. "The best support to the policy of paying in full is derived from the economic advantage that a reputation for honesty secures 'in the long run', and nations, it must be remembered have a far greater interest than individuals in paying attention to what happens 'in the long run'." (2.)

It is incontrovertible that borrowing should never be resorted to for ordinary expenditure. Whether or not, extraordinary outlay should be supplied from loans depends upon several factors. "To treat all fresh claims as extraordinary, and to meet them from loans is an easy, but a dangerous course." (3.) In general, borrowing is justified when used for extraordinary expenditure, which is of a reproductive nature. State enterprises which are revenue-bearing and self-supporting may readily be erected with borrowed capital, but those which are non-productive, or non-revenue-bearing, should be paid for from annual income. Bastable says that "non-economic (non-productive) expenditure is primarily to be met out of income, and unless it can be so dealt with ought not be incurred. National culture, education, the promotion of social progress are all most desirable; but their promotion is not so urgently required as to need the use of borrowing by the public powers." These functions are clearly without the bounds of borrowing; but there are certain other non-productive expenditures which cannot well be supplied from yearly income. The usefulness of public buildings is distributed over a great number of years, and it is therefore nothing more than just that a part of the income of several years should be used to pay for them. But it would not be feasible to stretch their actual construction over any extended period of time. Therefore, the best possible solution is to borrow the money with which to erect the required buildings, and make provision for the regular annual repayment of a certain fraction of this sum, during a specified period of years. Again, expenditures for war are both extraordinary and non-productive. It is absolutely impossible to meet these charges from current revenue, so borrowing must be resorted to. Nevertheless, Bastable's maxim, that

- (1.) Bastable, P. 660.
- (2.) Bastable, P. 661.
- (3.) Bastable, P. 669.

"prudence seems to suggest that borrowing should hardly ever be adopted except for strictly economic expenditure, and then only when the extension of the state domain is clearly admissible," is a policy which it would be well for all financial administrators to keep in mind.

It is sometimes difficult to estimate the actual burden of a public debt upon a debtor State. There are several methods of measuring this burden, but some do not show the real significance of it. Possibly the most usual measurement is by taking the actual par value of the securities issued. But this takes no account of interest. The market value of the securities might be taken, but the value is continually fluctuating, and the price at any one time represents the value of only that part sold, and not of all the securities outstanding. A comparison of annual interest charges will often give a very different result to either of the methods above. A very useful method is to determine the 'per capita' burden of a debt, but this again is misleading, as population is no measure of the wealth of a country. Another method sometimes adopted is that of finding the percentage of annual expenditure required for the yearly interest charge. But the best method of determining the actual burden of the debt is to find the proportion of the annual revenue which is consumed as the charge on the debt. In estimating the weight of a public debt the assets which can be balanced against it must be considered. If these assets are revenue-producing the real burden of the debt will be so much less. On the other hand, if they are non-productive the full weight of the liability will rest on the taxpayer. "If annual pressure is to be ascertained, interest is more important than capital; if the cost of redemption is wanted, capital or market value should be the primary object of investigation."(1.)

We have discussed the general theory of public debt, and it now only remains to examine the modes of repayment. Public debt is like the toothache - it is a good thing to get along without; but if it becomes a reality, the next best thing is to get rid of it as quickly as possible.

(1.) Bastable, p. 684.

CHAPTER V.

REPAYMENT OF THE DEBT.

In general, the maintenance of a permanent debt ought to be avoided. Just as it is unwise to borrow on the least provocation so it is equally unwise not to repay when an opportunity presents itself. Administrations, which are alive to the real significance of a public debt, will do everything in their power to reduce that debt as rapidly as possible. It is a drag on the financial power of the State. Any Corporation, which has large sums of money owing to its creditors, finds it very difficult to keep in a solvent condition. The limit to which a nation may reach is greater than that of a corporation; but the final result of unlimited borrowing is just as inevitable with the one as with the other. No nation's credit can stand the strain of unlimited borrowing. The greater the debt the more difficult it is to borrow, and if it is seen that the government is making no attempt at repayment, better terms will be demanded for loans no matter how stringent are the circumstances which make the loans necessary. Nor is the repayment of borrowed capital the turning of money from productive to non-productive purposes. It is merely the restoration of wealth which has previously been contributed by the people. Other forms of investment will be readily found, and the money will not be idle on anyone's hands.

Let us repeat that all debt must be repaid from the proceeds of taxation. Hamilton has said that "the excess of revenue above expenditure is the only real sinking fund by which public debts can be discharged." Income must be made greater than outlay, and the surplus supplied to the redemption of outstanding liabilities. If deficits are more usual than surpluses either revenue should be increased, or expenditure should be decreased. There are only these two possible remedies, and the condition of taxation will largely determine which is the more feasible plan. If taxation is already too burdensome it cannot well be increased and expenditure must be decreased. This is often very difficult also, and requires a great deal of courage on the part of the Administration. No matter what the item of expenditure may be there will usually be some person or group of persons who will oppose its reduction. It is a most difficult thing for an administration to reduce an item of expenditure once it has been established, as, for example, in the case of the Mothers' Allowances in Manitoba.

The use of an adequate sinking fund is the most satisfactory way of making regular inroads upon a public debt. The sinking

fund theory is that a percentage of the capital liability, large enough to redeem it at maturity, should be set aside annually from the ordinary revenue and invested in interest bearing securities. It may be asked: "Why not use this annual sum to pay off that amount of the debt each year instead of investing it and paying interest on the debt." The answer is simply that in the cases where the public debt consists of borrowings redeemable at will the latter procedure should be adopted; but in the cases where it is only redeemable at maturity that would be impossible. Let us suppose that a nation borrows \$1,000,000 on July 1st, 1925, and promises to repay it on July 1st, 1950. Now, if no sinking fund were provided \$1,000,000 must be procured from the revenue of 1950, or else the money must be reborrowed. But suppose that a percentage of \$1,000,000, so large that by July 1st, 1950 there will be in the hands of the Government \$1,000,000, is taken from the annual revenue of the nation, it will have spread its liability over the time it was outstanding. Let us think of a debt as being incurred, not in a lump sum, but in annual instalments covering the term of its duration. Consider it as ordinary annual expenditure for which there must be an equivalent annual income. This annual income is provided by the sinking fund, and is simply repaying the debt in instalments as each come due.

There are certain disadvantages to a sinking fund. In times of exceptional difficulties it may be advisable to reduce or stop repayments. It is usually impossible in war-time to pay even current expenses and under these circumstances payments for redemption of debt must be stopped. But there are three distinct advantages of a sinking fund. (1.) The responsibility for repayment is kept more constantly before the government. The trust funds are always the first invaded if more money is required for ordinary expenditures, and of these the sinking funds are the first to suffer. Their future good is not obvious enough to save them from being pillaged unless a statutory enactment renders them inviolable. (2.) The repayment is thereby distributed over a long period of time and is not an undue burden on the revenue of any one year. It thus insures repayment rather than refunding. (3.) An annual surplus of revenue over expenditure, will cause an outcry for lower taxation, even though the surplus is used for the redemption of debt. Therefore, it is better to provide for the payment of this surplus into a sinking fund as ordinary expenditure, than to declare a surplus and turn it over to the repayment of debt afterwards. The result is the same but the method is different.

We have investigated the general theory of redemption of debt. We must now turn to the methods employed in Manitoba.

Until 1923 the policy of providing for a sinking fund to be charged against the Consolidated Revenue was not employed. With the exception of certain Railway Aid and Judicial and Drainage District loans every cent borrowed by the Province of Manitoba, and maturing between 1885 and 1924, was refunded and not repaid. Refunding is reborrowing to meet maturing liabilities, or, in other words, it is a process of passing the responsibility on to future

Administrations. There are times when it is more economical to refund than to repay a loan; but in general this is not true. Large sums may come due at a time of great stress, when all the revenue is required for current expenditure, and under these circumstances it is permissible to reborrow the money required. But when this is the "ordinary" rather than the "extraordinary" course pursued it indicates either ignorance, or a profound disregard of the elementary principles of finance.

As stated in a previous chapter provision has always been made for repayment of the money borrowed to aid Judicial and Drainage Districts by levies on the municipalities included in each. Statutory provision has been made for repayment of all other borrowings (except those for Railway Aid) from the Consolidated Revenue Fund. This does not mean that the sinking fund method was to be employed but merely that eventually redemption should come from the ordinary revenue. In 1923, when the securities of Series No. "3 M" were issued, a sinking fund of one-half of one per cent. was established which, when it matures in 1943, will have provided \$2,500,000 to entirely redeem the liability. This is a policy which should be adopted with all future issues of Provincial Securities.

It is evident that the point has been reached in this Province where it is imperative that a system of regular repayments be inaugurated. It is equally true that taxation has almost reached its upward limit for the present at least, and the present income will little more than meet the current expenditure. Therefore, to provide for annual repayments on the debt, expenditures must be reduced. Herein lies the solution of our problem. It is easy to say that expenditures must be reduced, but it is more difficult to point out the exact items for reduction. Expenditure can be classified as of two kinds: (1) uncontrollable, and (2) partly and nominally controllable. The first is made up of such items as interest on the public debt, taxes on public works, Members' indemnities, legislative printing, and a few others. None of these can be controlled by the administration, and interest can only be reduced by first reducing some of the controllable expenditure, and applying the saving to the repayment of the debt. Partly and nominally controllable expenditure consists of such items as grants to hospitals and charity, Mothers' Allowances, Unemployment Relief, Aids to Municipalities, grants to the Department of Education, law enforcement, maintenance of hospitals and other institutions, general departmental administration, the Tax Commission, the Bureau of Labour, Rural Credit Societies and numerous other items. It would be impossible to pick out any one item and say that this should be abolished, or reduced by so much. But a policy of general paring down could be adopted and an immense saving effected. Of course, reduction in any of the above cases would call forth strenuous opposition from various members of the Legislative Assembly, but the case is almost desperate and the remedy must be drastic. There are splendid opportunities for an administration, with the courage to face all opposition, to win the gratitude of the future

citizens of Manitoba.

In his Budget Speech of 1925, Premier Bracken struck a note which should bring cheer to the hearts of many citizens of this Province. What better conclusion could this discussion have than the expression of optimism that he delivered to the people of Manitoba!

"The Province of Manitoba has in the past borrowed very large sums of money. When this Province borrowed money, it was the intention of both borrower and lender that it would some time be repaid. Yet not until last year did the Province inaugurate the general policy of providing for a Sinking Fund to be charged up against its operating Revenue. This was a step in the right direction, an action that will commend the Province to every loaning agency in the world and which will make easier the problem of successful Provincial finance, so long as this example is faithfully followed.

"In future it will be necessary frequently to re-borrow in order to pay off old debts. When those times come, the important question will be, not whether or not the Province can get the money, but the rate which it will have to pay for it. Lenders will then scrutinize the record of the Province. If they find that we have from year to year been making some reduction on the earlier borrowings, either by way of a Sinking Fund or by direct repayment of debentures, the rate will be so much; if, on the other hand, they find the Province has gone on borrowing and has made no arrangement for a fund for repayment, the rate will be so much more.

"To face a considerable debt and commence to repay it is not a pleasant thing to have to do, particularly in a period of depression. It is as hard or harder for a State to do than for an individual, and while there is something to be said in favor of not making the payments on principal too heavy in such a time, there is no choice to the State which expects to honour its obligations and maintain its credit but to make some contribution in the direction of paying off its debts." If this principle is followed by the Governments of Manitoba, a burdensome public debt will become a thing of the past.

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or in the Library of the University of
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