

DALHOUSIE UNIVERSITY BULLETINS
ON PUBLIC AFFAIRS

X

PROVINCIAL FINANCE
IN
NOVA SCOTIA
AN INTRODUCTION

By
W. F. LOUGHEED
and
W. C. MACKENZIE



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PREFACE

The object of this bulletin is to bring to public attention a brief survey of the financial practices of the provincial government. At present the taxpayer is unable to obtain information concerning provincial finances without close study of detailed documents and reports. The financial reports prepared by provincial departments and Royal Commissions often are illuminating but seldom are they presented in a form easily understood by those unfamiliar with the technique of public administration. In this publication an effort has been made to present significant facts in a readily understandable manner.

No attempt has been made to appraise the policies of various administrations. No position has been taken on questions that are the concern of "party politics". Nor have theoretical issues been raised that are subject to academic controversy. In so far as facts have been available they have been presented objectively. As the title implies, this bulletin is no more than an introduction to provincial finance. It is intended as the forerunner of a more comprehensive and detailed survey of governmental finance in the province of Nova Scotia.

The outbreak of war occurred at the time the bulletin was ready for print. Some additions and changes were made in order to illustrate the problems most likely to be faced in the formulation of provincial financial policy. It was impossible, of course, to discuss fully the effects of Canada's war effort upon the provincial economy. At some later date a comparative survey of provincial finance during both peace and war time may prove illuminating.

In the preparation of this bulletin two publications: *The A.B.C. of Illinois Finance*, published by the Illinois State Department of Finance, and *State Finance* by Mr. R. S. Mitchell, provided guidance in the presentation of both textual and graphic material. The writers wish to acknowledge their debt to various provincial officers, particularly Mr. L. E. Peverill, Chief Auditor of the Department of the Provincial Treasurer, Mr. G. V. Haythorne, Secretary of the Nova Scotia Economic Council, Mr. C. Lamb, of the Department of the Provincial Secretary, and Mr. C. D. Dennis, Deputy Provincial Treasurer. To both Dominion and Provincial authorities appreciation is extended for the use of

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statistics, files and other hitherto unpublished material. The writers also are indebted to Professor S. Bates, Professor W. R. Maxwell and Professor L. Richter for their criticisms of the manuscript, to Professor H. E. Theakston for suggestions concerning the presentation of charts and graphs and to Miss Constance Grant, Miss E. Archibald and Mr. W. R. Stubbs for the verification of details, editorial work and proof reading.

Though the authors' indebtedness is great they of course assume all responsibility for errors of omission, of interpretation and of fact.

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November, 1939.

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The Course of Provincial Business

Graphic illustrations of governmental financial activities such as annual spending, revenue collections, borrowing and other economic trends provide a starting point from which a discussion of the financial activities of a governmental unit may begin. The following charts may help the reader to appreciate the tendencies that have been operative in the public business of Nova Scotia during the past decade.

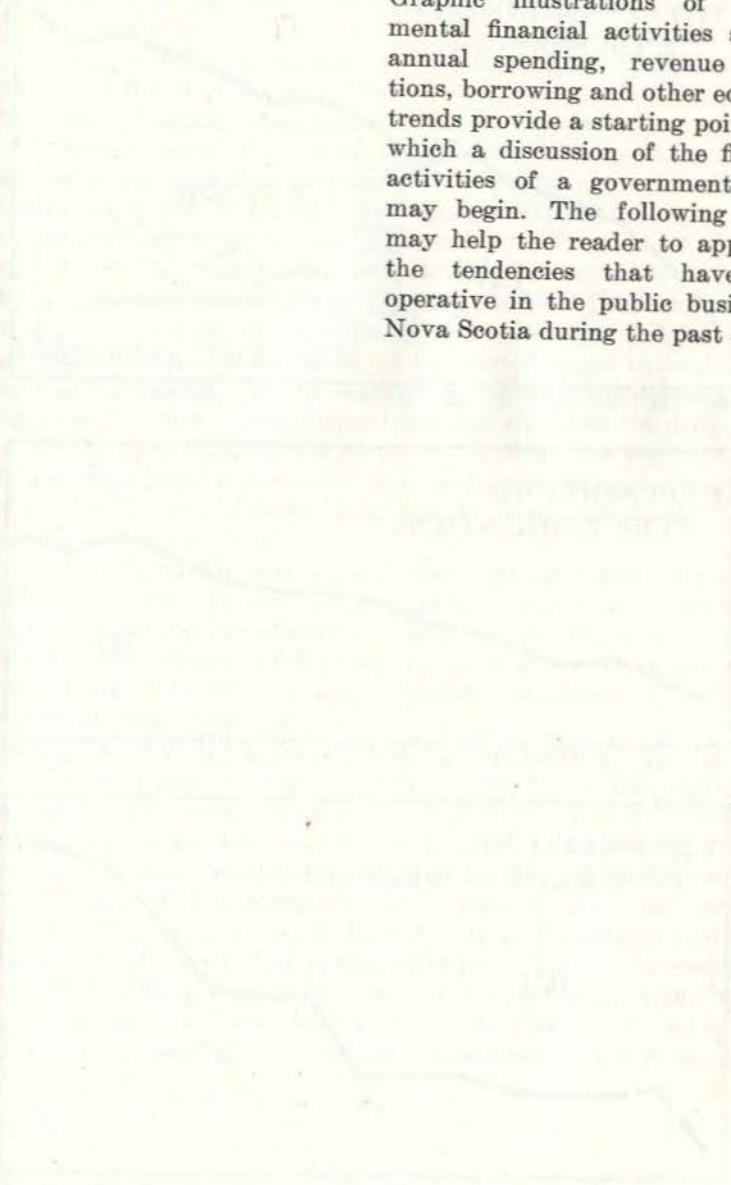
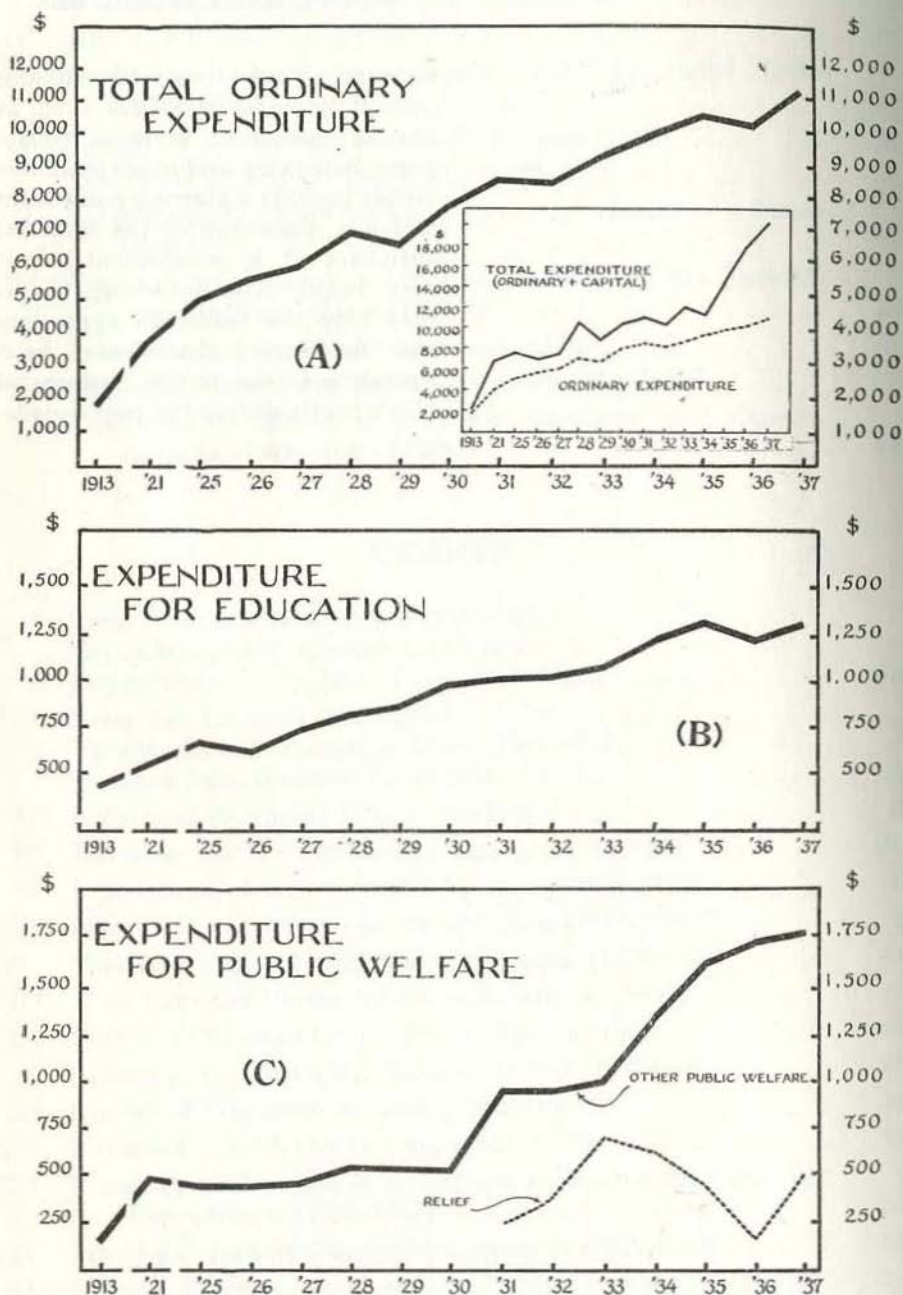


Chart I
COURSE OF ANNUAL CURRENT EXPENDITURES
Fiscal Years 1913-1937
 (000's omitted)



Data adjusted—14 month fiscal year 1935.

Course of Annual Current Expenditures

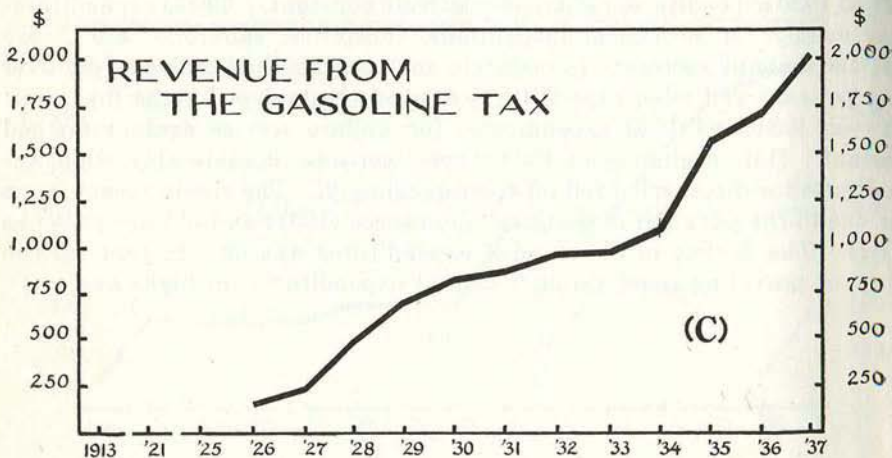
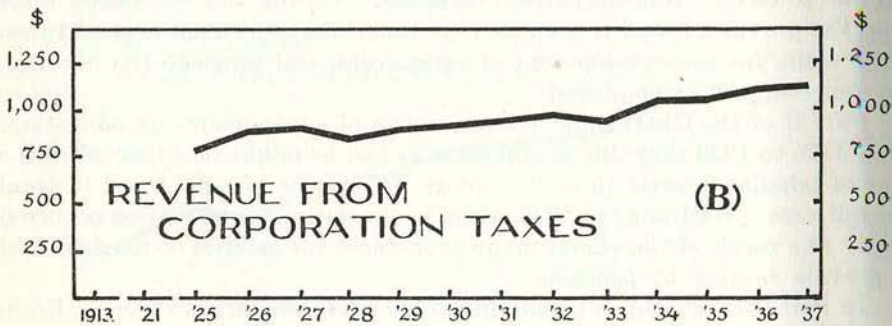
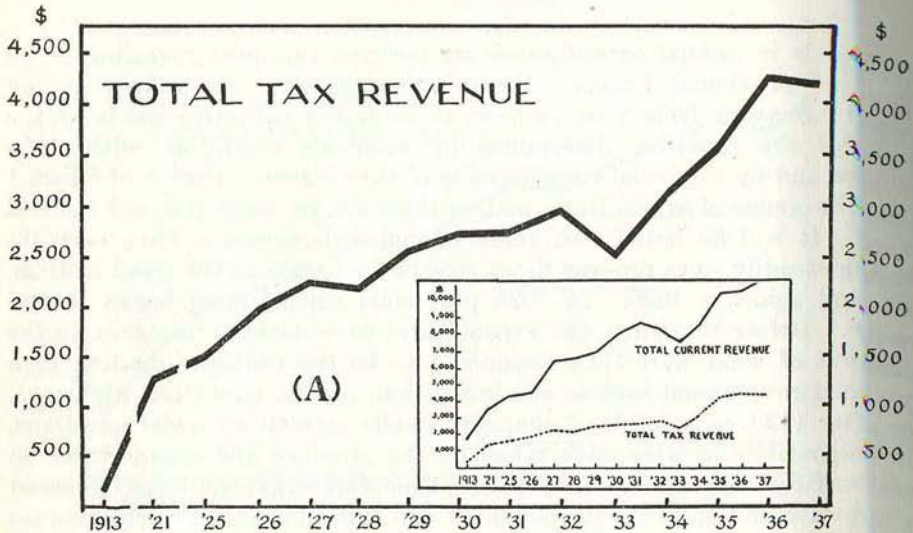
Trends in annual expenditures are perhaps the most revealing of all phases of provincial finance. Expenditures indicate the money outlay deemed necessary from year to year to meet the collective needs of the people of the province, determined by economic conditions within the province and by the social consciousness of the citizens. Part A of Chart 1 shows the course of expenditures met, in the main, by taxes, fees and Federal grants. It will be noted that these annual disbursements have been increasing steadily since pre-war times, except for breaks in the trend in 1928, 1931 and again in 1935. In 1926 provincial expenditures began to rise rapidly. Before that time, the expenditures were devoted primarily to the fulfilment of what were then considered to be the routine functions of a provincial government such as administration, justice, education, highways. But after 1926, as a result of changing public opinion on social questions, new responsibilities were undertaken by the province and expenditures on social services were begun. At the same time, capital expenditures increased on highways and on power development and this added to the debt charges that had to be met from the current revenues. During the depression after 1929, the province found it necessary to undertake additional expenditures, in the main, for the development of agriculture, assistance to the fisheries, and relief of the unemployed.

Part B of the Chart indicates the course of expenditures on education. From 1925 to 1933 they did not increase as fast as might be expected in the light of popular interest in education as well as the general trend in total expenditures. Beginning in 1933, a rise in the outlay for education occurred largely as a result of the efforts made to increase the salaries of teachers and to provide retirement pensions.

In Part C the course of expenditures for public welfare is shown. From 1921 to 1930 expenditures remained relatively constant. These expenditures were mainly for provincial institutions, (hospitals, sanatoria, etc.). By 1931 the amount necessary to maintain such services had increased by over sixty per cent and relief expenditures entered the budget for the first time. Between 1931 and 1933 expenditures for welfare service again remained constant. But, beginning in 1934, these increased considerably while expenditures for direct relief fell off correspondingly. The rise in recent years was due to the payment of mothers' allowances (1931) and old age pensions (1934). The decline in direct relief expenditures was due, in part, to the policy of providing relief through capital expenditures on highways.

Chart II

COURSE OF ANNUAL CURRENT REVENUES
Fiscal Years 1913-1937
 (000's omitted)



Data adjusted—14 month fiscal year 1935.

Course of Annual Current Revenues

In Chart One it was shown that expenditures have been increasing in the last two decades. It is natural, therefore, that revenues to meet the expenditures should show a corresponding increase. Since a major part of total current revenue is obtained through the use of the taxing power, it follows that tax rates have had to be raised or new taxes levied or a combination of both methods used.

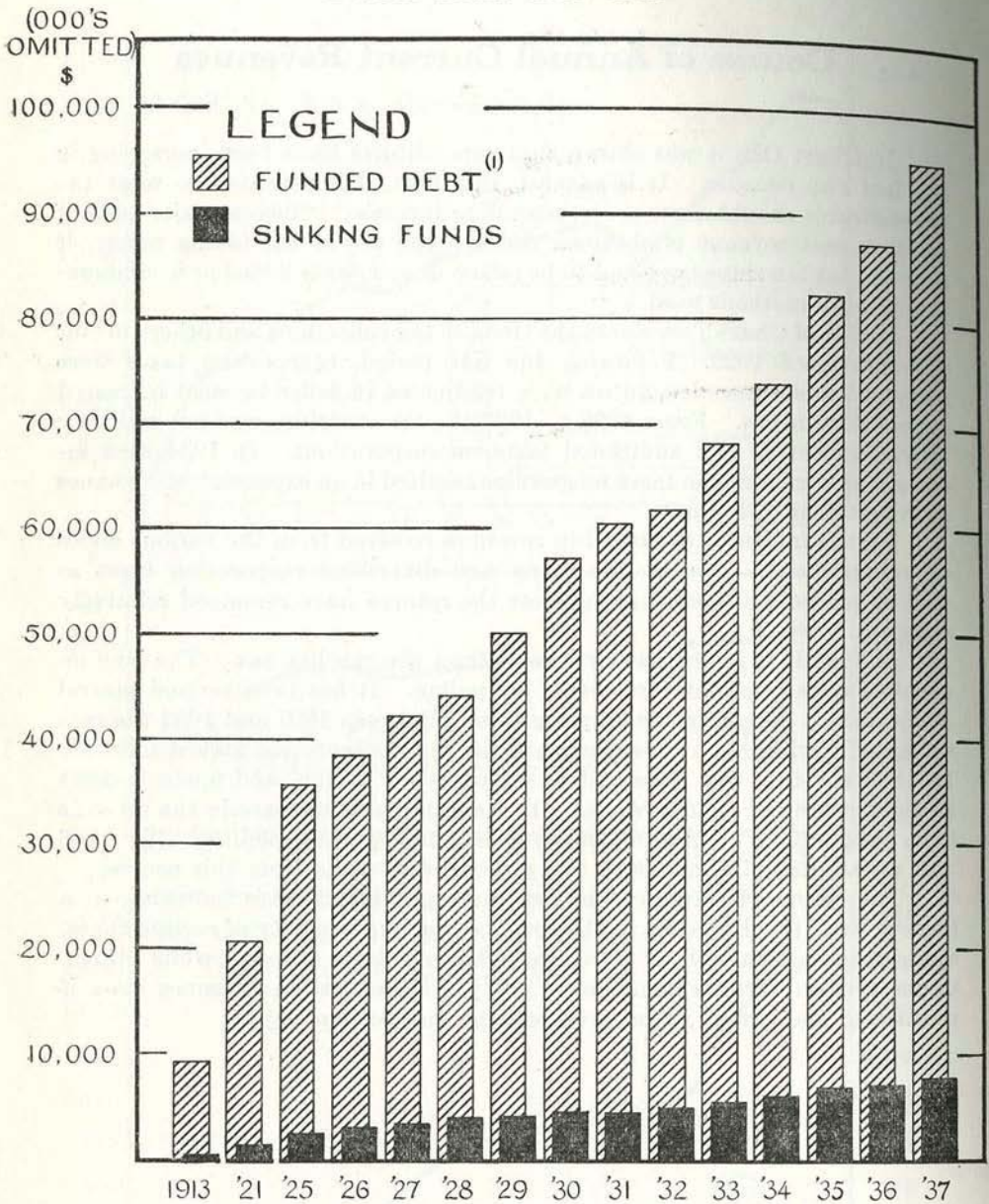
Part A of Chart Two shows the trend in tax collections and other current revenues since 1925. Following the war period, corporation taxes were increased and succession duties were readjusted in order to meet increased expenditure needs. From 1926 to 1932 the tax structure was not seriously altered except to add additional taxes on corporations. In 1934 such increases as were made in taxes on gasoline resulted in an expansion of revenues as reflected in the graph.

Part B indicates the trend in revenues received from the various levies on corporations. Despite the many and diversified corporation taxes as well as periodic adjustments in rates the returns have remained relatively constant.

In Part C is indicated the returns from the gasoline tax. The levy on gasoline sales began at three cents per gallon. It has been revised several times until it is now ten cents per gallon. Between 1927 and 1932 the rate remained unchanged at five cents, yet the returns increased almost fourfold. In 1932 the rate was increased to six cents per gallon, and again in 1934 to eight cents per gallon, resulting in a considerable increase in the revenue from gasoline. The gradual improvement in highway facilities after 1936 was an additional stimulus to the growth of revenue from this source.

The course of returns from two main provincial taxes indicates, in a general way, the difference in the revenue-yielding capacity of certain taxes. Some taxes are capable of providing relatively large returns, while others, under present arrangements, may not yield the desired revenues even if pushed to the extent of inconveniencing the taxable object.

Chart III
COURSE OF PROVINCIAL DEBT
 Fiscal Years 1913-1937



Data unadjusted—14 month period, 1935.

1 These figures represent accumulated bonded debt.

Course of Provincial Debt

The course of governmental borrowing may indicate (a) that the expenditure needs of the people are greater than the existing revenue system can supply, or (b) that the administration deemed it more desirable (politically or economically) to borrow than to raise revenues by other means, or (c) the expectation that the expenditure of borrowed funds in time will be sufficiently productive to absolve the citizen from the burden of repayment through taxation.

Chart III presents the trend in the debt of the province since 1913. The graph indicates the accumulated debt each year—for example, the province in 1925 owed its creditors about thirty-seven millions while in 1937 it owed its creditors over ninety millions.

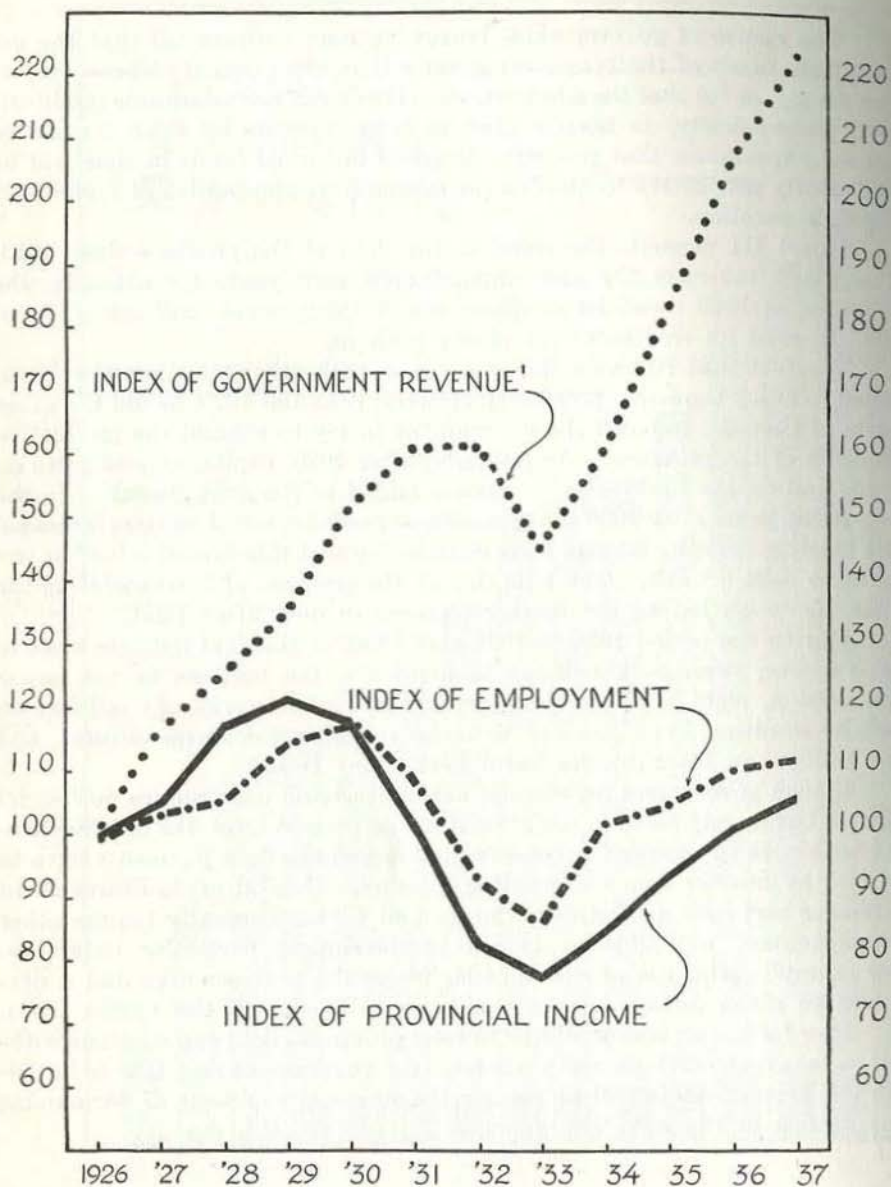
The fact that Nova Scotia, in common with other maritime provinces, failed to enjoy economic prosperity between 1925 and 1929, as did the other parts of Canada, induced the government to try to expand the productive facilities of the province. Accordingly, after 1926, capital expenditures on roads and on the hydro-electric system added to the debt growth. In the depression years after 1930 the expenditure needs for social services increased but existing revenue sources were contracting and this caused a further impetus to debt growth. The adoption of the program of hard-surfacing the main highways led to the further increase in debt after 1933.

During the period 1926 to 1936 about half of the debt increase went to fixed assets; twenty-six millions to highways, ten millions to the power commission, eight millions to unemployment relief works, six millions to deficits resulting from inability to make revenues meet expenditures, and one million on loans to the Land Settlement Board.

If such government investment expenditures do not produce new social income but merely serve to maintain it at the present level, the debt associated with such investment is non-productive and the debt payments have to be met by heavier levies on existing incomes. Capital expenditures of an extensive sort such as highways, power and ports, frequently require other supplementary expenditures to aid in developing particular industries. For example, after the provision of highways the province may find it necessary to make certain new expenditures to encourage the tourist trade.

How far the process of adding to total provincial debt can continue without serious repercussions, and what steps the government may take to liquidate the present debts will be among the financial problems of paramount importance in the next few years.

Chart IV
 REVENUES AND THE PROVINCIAL ECONOMY
 Fiscal Years 1926-1937



Does not include money obtained by borrowing.

Revenues and the Provincial Economy

The economic status of a community determines, to a large extent, the ability of the people to pay taxes. When "business is good" people are less apt to feel the burden of some taxes than at times of economic stress and relative hardship. Accurate measures of business activity and income (indicators of taxable ability), however, often are difficult to obtain since certain factors are expressed in other than monetary terms. To illustrate graphically one phase of the economic life of the province two factors "provincial income" and employment are utilized as indicative of ability to contribute to governmental revenue needs.

The term "provincial income", as used here, means the total annual money payments received by all individuals and firms within the province. The index of provincial income presented in Chart IV includes the money paid to wage earners—farmers, fishermen, business and professional men, business firms and investors. The index of employment represents the extent to which the population is engaged in normal productive activity.

Chart IV presents an index of revenues obtained by the government from taxation, liquor sales, license fees and other sources. The index of income shows that while the gross income accruing to the people of the province has been increasing, by 1937 it had not reached the level of 1930. Similarly the increase in unemployment was checked by 1933 and the percentage of employment was greater in 1937 than its peak in 1929. This is an extremely interesting fact since it indicates a period of relative depression even in a time usually associated with business prosperity elsewhere. The decline in income and employment beginning in 1929 may to some extent provide reasonable ground for governmental action toward the stimulation of industry through such services as improved transportational facilities. The borrowing policy of the province also may be rationalized on such grounds. However, indicators such as these provide no positive guide to the causes or effects of provincial policy.

INTRODUCTION

TO-DAY, as never before, the governments—particularly the Dominion and provincial—are playing a part in economic activity to a degree hitherto considered outside the purview of governmental intervention. Whether or not this is a desirable development is at the moment a subject of heated debate. As one result of this increased government activity many people are rediscovering the significance of the statement that taxes are bridles which may be used by the state to guide, directly and indirectly, the activities of the citizens along certain channels. Governments to-day are spending money in amounts far beyond the wildest dreams of "forward thinkers" of the past century. The services provided by the governments are significant manifestations of governmental policy. But of paramount importance is the necessary corollary to this expenditure: the sources of revenue. Since there is a functional relationship between economic conditions and the yields from various revenue sources, and further since it is evident that once governmental services become established, they are rarely curtailed or eliminated, it follows that existing governmental financial arrangements are of vital importance to citizens in the light of changing economic conditions.

The methods by which a government raises revenues, as well as the purposes for which such revenues are spent, have important effects on the economic welfare of the citizens. Direct effects are felt through the utilization by the government of its taxing powers as well as in the various social benefits accruing from governmental expenditures. Other, less direct, effects result from the interrelation of governmental action and industrial activity. It is desirable, therefore, that financial practices of a government be determined with regard to their possible effects on the different economic groups within its jurisdiction.

If the annual revenues of the government and general economic conditions remained unchanged, the main financial task of the governmental authorities would be the equitable distribution of public funds. The fulfilment of the task would

require a knowledge of the needs or demands of the population and a rational technique of allocating the monies available to meet these needs. If, however, revenues fluctuated while demands on the government remained fixed, the government—assuming it knew the relative intensity of various public needs—then would have to determine periodically an equitable method or methods of raising the necessary revenues. When, as happens in fact, the government is faced with both fluctuating revenues and fluctuating demands, it has to determine not only an equitable method of securing revenues but also to determine the urgency of the various public requirements. This task becomes increasingly complex and its solution increasingly difficult as government functions expand. Obviously there can be no simple “formula” for the solution of the problem—hence the apparently inexhaustible supply of panaceas designed to direct the thinking of governmental authorities.

Various governments have taken somewhat different positions concerning the manner in which revenue should be raised and the services upon which such revenue should be spent. On the pretext of “balancing the budget” (making expenditures equal revenues or *vice versa*) various political leaders have been placed in power. On the other hand, wild spending programs, mainly from the proceeds of borrowing, occasionally have received popular approval and support. The techniques adopted by a government for the raising and spending of money form what is generally called that government’s *fiscal policy*.

In order to understand the problems of governmental finance and fiscal policy it is desirable to bear in mind the distinction between public and private business organizations. A private concern, whether large or small, is created to provide, at a price, goods or services for the convenience of the consumer and for the benefit of the owner. A governmental organization, on the other hand, provides services for the general public, often regardless of the price. It is true that in both public and private organizations money is received and disbursed, but as between the two the manner of revenue collection and the purposes of expenditure are quite different. Hence the divergence in administrative technique. Governmental business activities, in the main, supplement private business, except in cases where it has been found desirable, in the interests of public welfare, to control or assume certain economic activities.

Governmental agencies, particularly provincial and Federal, by their taxation and expenditure policies, cause certain rearrangements in the economic position of individuals within their jurisdiction. In the field of taxation this is especially true, since taxation often results in changes in the distribution of private income. The levy and collection of a tax which curtails the expenditure of the person taxed but which provides the means of improving the health of some of those unable to buy medical care is an example of this rearrangement. Expenditures, on such items as welfare services and debt services have a tendency to reallocate the incomes of individuals within the governmental jurisdiction.

At the beginning of the modern period of democratic government it was considered the purpose of the state (in the general sense of government) merely to protect the people from outside invasion and to protect them from one another. Thus, armies and navies, law courts, jails and police officers were maintained by a levy on the people in varying amounts, depending upon their economic position. During the past half-century, under the impact of socialist thought and the necessities of modern industrial society, ideas concerning the powers and duties of government have undergone many changes. Now the state provides many services which private enterprise cannot or will not provide. Taxation and other sources of revenue necessarily have been utilized to a greater degree than previously in order to maintain and expand these functions of government. But it has been at the instigation of the people themselves that the present extent of governmental activity has evolved.

Taxpayers universally are quick to comment upon the burden of taxation, and sometimes slow to admit the benefits received from governmental expenditures. The measurement of benefit received from public expenditures is to some extent arbitrary, while actual dollars paid in to the Treasury are more easily counted. But, when highways are constructed and maintained, children are educated, diseases and epidemics controlled, hospitals maintained for public use (and benefit), contributions for the support of governmental activities cannot be considered as lost to the taxpayers. It is the right of the taxpayers, however, to demand in these services the standard commensurate with *their* contributions.

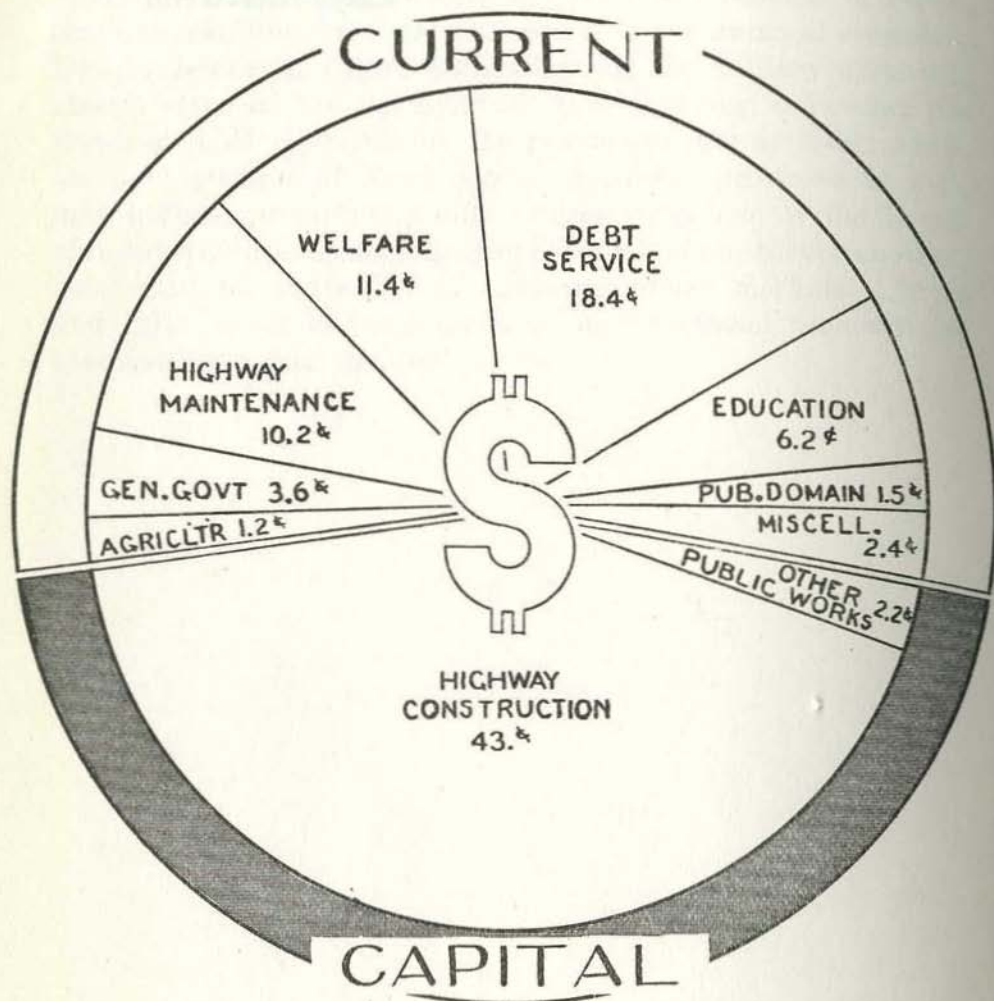
In times of war certain problems become intensified while others become less significant. In normal times, problems emerge either as a result of legislative enactments (both provincial and Dominion) or as a result of administrative policy. When a state of war or national crisis exists, however, many difficulties in administration arise not because of policy but because of repercussions resulting from the dislocation of the national economy. Due to defence measures within Canada the military units will absorb some of the unemployed, thus relieving somewhat the strain of relief payments by the provinces. On the other hand, the debt position of Nova Scotia, and other provinces as well, may become precarious should interest rates rise or the Dominion government, through artificial controls of one sort or another, gain complete control of the existing money markets. These and other issues of importance to the provincial economy are discussed in a final chapter.

CHAPTER I

Provincial
Expenditures

Chart V

THE DISTRIBUTION OF THE PROVINCIAL
REVENUE DOLLAR
Fiscal Year 1937



Each dollar spent by the province in 1937 was distributed among the various governmental services in the manner illustrated above. The chart is arranged to show the percentage distribution of provincial revenues—for example 43 cents out of every dollar spent is allocated to highway construction, 18 cents for debt service, approximately 6 cents for education, and so on. Why the administration should allocate each dollar in such a manner is a major problem in the examination of governmental fiscal policy.

CHAPTER I

PROVINCIAL EXPENDITURES

A HOUSEHOLD usually bases its expenditure on the size of its income. A government appears to proceed differently—to decide first upon the size of its expenditure, and then to search for sources of revenue adequate to cover the determined expenditure. This difference, however, is more apparent than real, especially in the case of many of the provincial governments. The revenue possibilities of such governmental units are limited. At any given time, a government, like a householder, must adjust its expenditure to available revenues or else go into debt. Nevertheless, as expenditure needs increase, with the passing of time, the government must try to tap new revenue sources. For this purpose the taxpayer may be allowed time to adapt *his* schedule of expenditure to higher or new government levies. Hence, increasing expenditure needs often must be met, in the first instance at least, by the creation of new debt.

Unlike private corporations, governments, generally, do not make it their aim to provide goods and services at a "profit". In other words, the expectation of direct monetary return is not the motivating force behind all governmental expenditure. It falls to governmental organizations to provide those services in which private enterprise is not interested, as well as those in which control or regulation is necessary for the public good. However, scope and detail of public business are by no means constant—public demands and social consciousness change. So long as the people of the province demand public services, expenditures must continue. But there is no simple formula for allocating expenditures as between the various services. Whether, for example, the government should spend more on public health and less on highways, cannot be determined by the application of accounting techniques. The usual direction afforded the government is the popular will expressed by ballot.

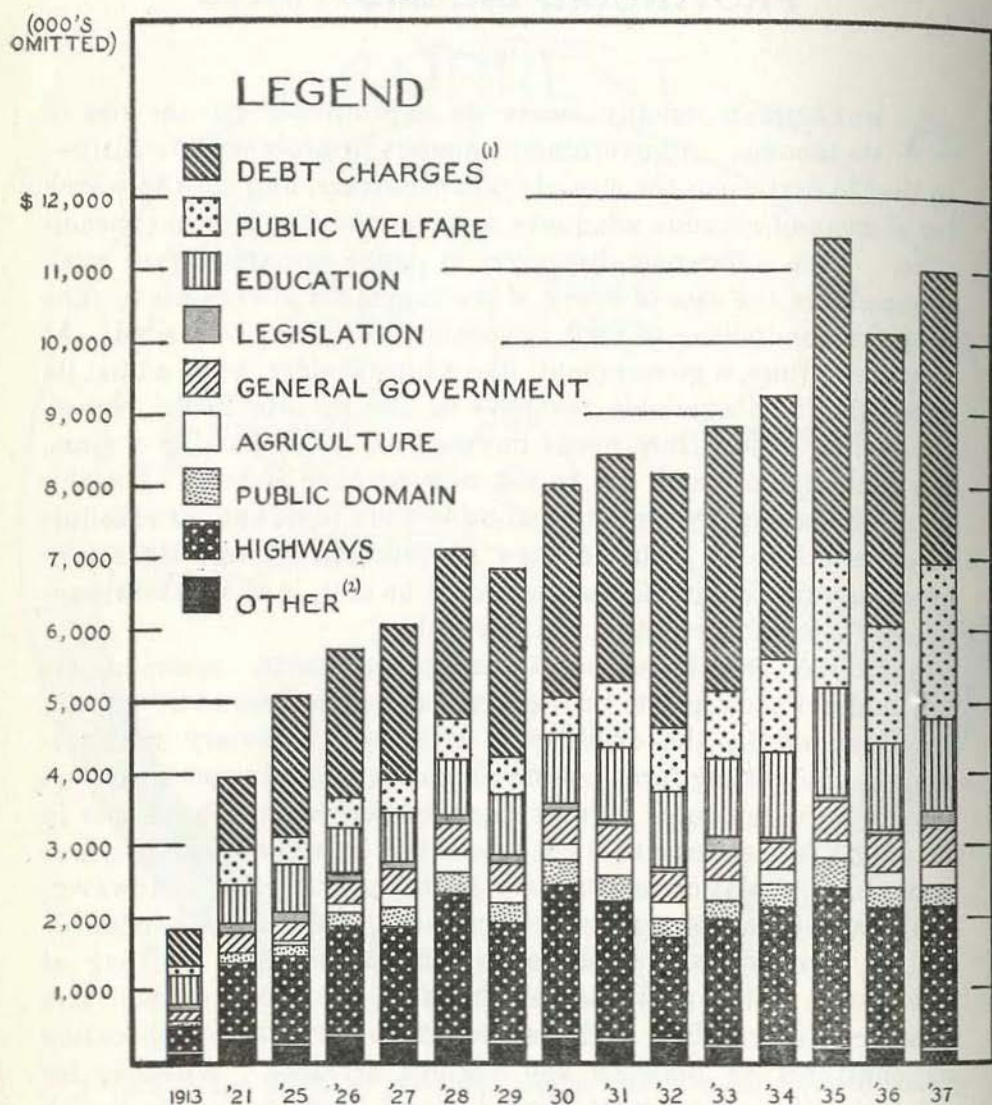
At the time of Confederation what were then the main governmental functions were entrusted to the Dominion govern-

Chart VI

DISTRIBUTION OF PROVINCIAL EXPENDITURES

Fiscal Years 1925-1937

(charged to current account)



Data unadjusted—14 month period, 1935.

1 Does not include payments into the various sinking funds. Includes payment of interest on obligations of the Power Commission. See footnote, page 11.

2 Includes expenditures for administration of justice, grants and other miscellaneous expenditures.

ment, while to this and other provinces were delegated the administration of justice, welfare and certain public works and other services of a provincial nature. As public opinion on social issues changed, there emerged a wider interpretation of provincial obligations, and consequently a rise in total expenditures, as indicated in Chart I.

To provide and administer modern public services in Nova Scotia some degree of organization is necessary. Departments, commissions and boards have been created to administer the many services now provided. The departments of the public service are those of the Provincial Secretary, the Provincial Treasurer, Attorney General, Municipal Affairs, Lands and Forests, Public Works and Mines, Labour, Education, Public Health and Highways. The nature of the services provided by these departments may to some extent be inferred from their titles, but some services cut across these departmental divisions. For example, in addition to the services administered by the Departments of Public Health and Labour, certain other welfare services are provided by the Attorney General's Department and by the Department of Public Works and Mines. Special services have been delegated to permanent boards and commissions, notably the Power Commission, the Liquor Commission, the Workmen's Compensation Board and the Board of Public Utilities.

In any discussion of governmental expenditures one has to consider not only how much the province spends through its various departments and commissions, but also on what or for what purpose the expenditures are made. It is necessary to examine carefully the relative amount of expenditure on the various services in order to understand their importance in the fiscal policy of the Government. Chart VI indicates the distribution of expenditures over the period 1925 to 1937.

Table I, (p. 10) presents in summary form the purposes for which expenditures were made and the amounts of money disbursed during the fiscal year 1937. It will be noted that expenditures are divided into what are called *current* and *capital*: *current* being those *ordinary recurring* expenditures which are financed by Federal subsidies, taxation, licensing, etc., and are anticipated each year in the regular discharge of business: *capital* those which, by the fact that they are in the main met by borrowing, are distinguished from *current* expenditures. This distinction was

made in the accounting technique of the province in the latter part of the nineteenth century so that expenditures could be made under the heading of *capital* without causing an apparent deficit in the current budget. In practice this classification has continued. The significance of the capital account is discussed in Chapter VII. In the present chapter discussion centres on expenditures charged to ordinary revenue.

Table I
ANALYSIS BY SERVICES OF PROVINCIAL
EXPENDITURES
Fiscal Year 1937

CURRENT EXPENDITURE	
Service	Amount
Debt Administration:	
(a) General Debt.....	\$ 3,130,000
(b) N. S. Power Commission.....	676,000 ¹
Public Welfare:	
(a) Relief	453,000
(b) Other	1,704,000,
Education	1,276,000
Administration of Justice	35,000
Legislation	206,000
General Government	553,000
Agriculture	255,000
Public Domain	298,000
Highways, Bridges and Ferries (Maintenance).....	1,982,000
Other	452,000 ²
Total Current Expenditure	\$11,020,000
CAPITAL EXPENDITURE	
Public Works:	
(a) Public Buildings.....	147,000
(b) Highways, Bridges and Ferries (Construction)	8,925,000
(c) Other	206,000
Other	67,000
Total Capital Expenditure	9,345,000
Total Expenditure.....	20,365,000

¹ Financed at present by Nova Scotia Power Commission.

² Including payments to sinking fund and for debt retirement (\$285,000).

It will be noted from Table I that *debt service* was the largest single item of expenditure in 1937. The approximate figure

\$3,700,000 indicates the cost to the people of the province in the year 1937 for the use of goods and services to the accumulated amount of about \$90,000,000. This expenditure is classified into two divisions: general debt charges and Nova Scotia Power Commission debt charges.

The annual outlay for the servicing of general debt increases with the growth of new debts, but not quite so rapidly in recent years because interest charges on borrowed funds have been falling. In 1937, general debt charges amounted to \$3,130,000 or approximately twenty-eight per cent of total current expenditures. The debts for the most part were created for the construction of highways, public buildings and refunding of past debts.

Interest payable for debts contracted by the provincial government¹ for electric power development in the province amounted to \$676,000 in 1937. This, however, is not a direct charge on the taxpayer since the government is reimbursed each year by the Commission for the amount of interest. In 1919 the Power Commission was created to develop electric power resources throughout the province. The work of the Commission has been mainly the construction and operation of power stations, particularly on hitherto undeveloped waterways. It also engages in retail distribution of power to rural areas. But the latter function, in the main, is incidental to its power development program.

Expenditures for *public welfare* took second place during the fiscal year 1937. Approximately \$2,210,000 or twenty per cent of total current expenditures represents disbursements made through provincial channels. The Federal Government has co-operated with the province in providing certain relief and welfare services. If Federal grants and municipal contributions were included in the net expenditures on relief and welfare the total would amount to about \$6,000,000².

Unemployment and relief measures served to increase expenditure in the depression years. The position of Nova Scotia in the matter of relief is discussed in the following chapter.

¹ The Power Commission (for the first time) floated its most recent loan on its own initiative. However without provincial support (expressed or implied) it is improbable that it can conduct its finances as an independent organization.

² Dominion contributions for welfare during 1937 were as follows:

Old age pensions	\$1,817,000
Direct relief grant	399,000
Fishermen's loans	163,000
Relief projects	120,000
Highway relief	1,137,000 (+accruals)

Expenditures for the maintenance and upkeep of *highways* amounted to approximately \$1,982,000 in 1937. This represents about eighteen per cent of total current expenditures but it will be seen from the figures in Table II and Charts VII and

Table II
ANALYSIS OF HIGHWAY DEPARTMENT
EXPENDITURES

Fiscal Year 1937

(Figures to nearest thousand)

Purpose	Amount
CURRENT EXPENDITURES	
<i>Maintenance:</i>	
Main highways.....	\$ 475,000
Secondary highways and district roads.....	1,104,000
Bridges.....	241,000
Administration, etc.....	162,000
Total Current Expenditures.....	\$ 1,982,000
CAPITAL EXPENDITURES	
<i>Construction, Replacement, Etc.</i>	
Main or trunk highways:	
(a) ordinary construction.....	11,000
(b) hard surfacing:	
(1) preparatory work.....	3,534,000
(2) surfacing.....	2,324,000
Secondary roads:	
(a) ordinary construction.....	725,000
(b) hard surfacing:	
(1) preparatory work.....	130,000
(2) surfacing.....	76,000
Culverts.....	29,000
Bridges.....	731,000
Aid to incorporated towns (For road building).....	191,000
Unemployment Relief Projects.....	1,173,000
(Joint expenditure Trans Canada Highway ¹)	
Total.....	\$ 8,925,000
<i>Miscellaneous:</i>	
Capital ²	153,000
Other ³	190,000
Total Expenditure.....	\$11,250,000

1 See Chapter II, p. 24.

2 Machinery purchases, real estate, storm damage, office equipment.

3 Office and General Account, general inspection, surveys and drafting.

XV that when capital expenditures are added the total outlays for these purposes amounted to over \$11,000,000. The revenue to meet the additional outlay was raised by borrowing. Thus in reality the gross expenditures for all highway purposes as seen in Table II are far greater than those for other purposes.

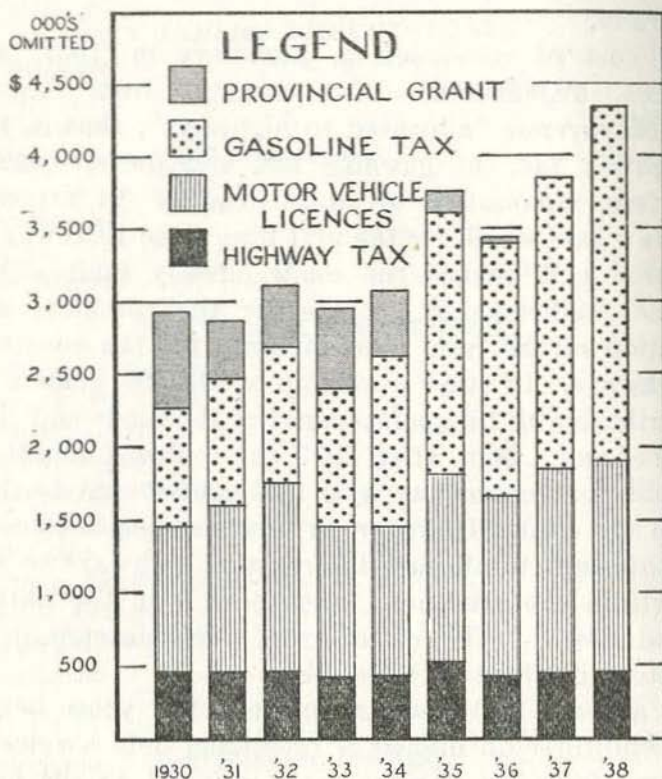
Two factors, in the main, account for the outlay for the building of hard-surfaced highways: firstly, the desire for improved communication in order to encourage inter-town commerce and the extension of the market for the natural products of the province; and secondly, the attempt to encourage the tourist trade.

The cost of constructing, highways in 1937, amounted to almost \$9,000,000. The earnings from the various sources of revenue "allocated to highways", that is, the municipal highway tax, the gasoline tax, and motor vehicle registration fees, amounted to approximately \$4,800,000. This represents a sum which for the first time since 1930 was sufficient to maintain and finance the roads already built although, of course, not sufficient to provide for the complete and early amortization of the total debt incurred for the construction of these highways. In other words, up to 1937 the general taxpayer was contributing to the maintenance of the roads and the annual interest charges. But after 1937 the motorist maintained the roads while the general taxpayer still contributed to the amortization of the debt. However, in this instance, it appears ridiculous to attempt to allocate the costs of highways to particular groups within the province. Such cost is in the nature of an "overhead cost". The distribution of maintenance revenues is indicated in Chart VII (p. 14.)

The average difference in the past few years between the total expenditures on highways (including debt service charges) and returns from the various taxes imposed on the motorist is somewhere near six million dollars. It is doubtful whether the increase in tourist traffic or industrial traffic will prove adequate to make up this deficiency which hitherto has been an increasing one and which may have to be met by the taxpayer. If the tourist trade should enrich the province to the extent of making possible the liquidation of the deficit, the burden on the taxpayer would be eliminated and the road program would have justified itself. If this should fail to materialize, highway finance would become a burden on the provincial economy. It appears that,

although the building of roads to encourage the tourist trade is both offered and received in some quarters as a rational reason for these large expenditures, the transportation needs within the province, irrespective of "windfalls" resulting from tourist traffic, have provided the main justification.

Chart VII
TRENDS IN HIGHWAY MAINTENANCE FINANCE
Fiscal Years 1930-1938



Within the past few years the distribution of relief through public works has encouraged the general policy of highway construction. In this particular instance it provided a relatively expedient method of dispensing relief to unemployed persons throughout the province—a method preferable to the dispensing of direct relief.

The paving of trunk highways is to be completed by 1940 if the government's plan is successfully concluded. The follow-

ing figures presented in Table III illustrate the progress in the past five years.

Table III
HIGHWAY PAVING 1934-1938

Year	Miles prepared for paving	Miles paved
1934.....	173	18
1935.....	272	146
1936.....	243	184
1937.....	139	300
1938.....	119	120

The next item of ordinary expenditure in order of size is *public education*. It has been increasing in recent years. In 1937 the province spent \$1,283,000 or almost twelve per cent of ordinary expenditure for the purposes outlined in Chart VIII.

Public education is organized on a regional basis, with the greater part of the burden of finance falling on the school sections and the municipalities.³ Provincial expenditure for public education includes annuities to retired teachers, grants to teachers, assistance to needy school sections (at present about twenty-five per cent of all rural school sections), the provision of free text books in the common school grades, and the payment of salaries and expenses of school inspectors.⁴ The expenditure in 1937 for these services amounted to \$994,000 or about twenty-three per cent of total expenditure on education within the province.⁵ In addition to the above expenditures the Department of Education is responsible for the administration and maintenance of the Provincial Normal College, the technical schools and the Technical College.⁶ Other services such as circulating libraries and rural education also are provided by the Department. These bring the provincial government's share in the total expenditure for education to approximately twenty-nine per cent. Compared to 1925, this is an increase of twelve per cent in the province's share, due mainly to higher teachers' annuities, larger grants to schools and the provision of free text books.

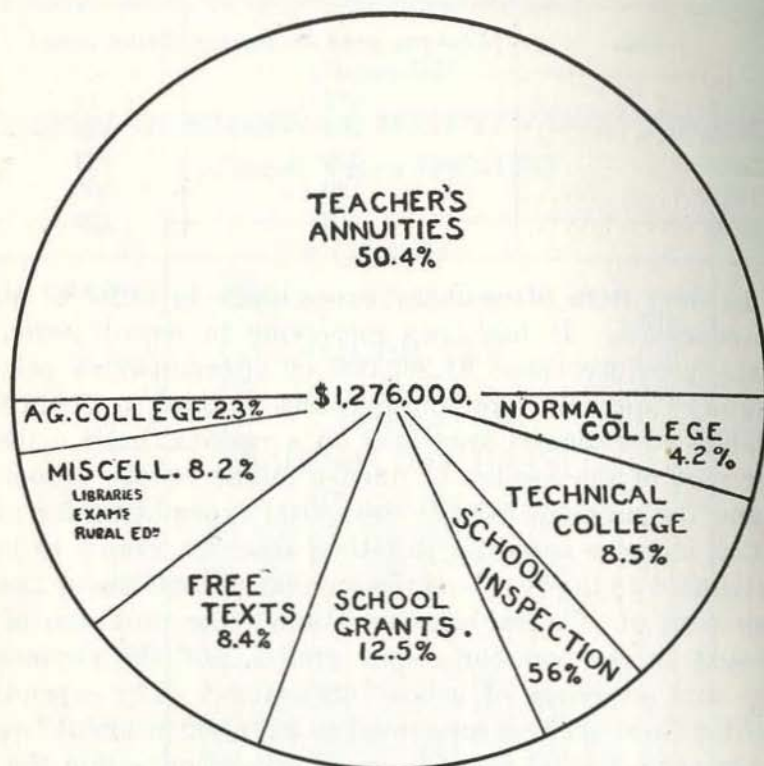
³ There are 1758 school sections at present in the province. Of this number 1,480 are rural sections, 233 village and 49 urban, i.e. cities and incorporated towns.

⁴ There is an inspector in each of the fourteen inspectorial districts into which the province is divided.

⁵ Approximately \$4,315,000 was spent on education by all educational authorities.

⁶ For technical education the province each year receives a Dominion grant amounting, in 1937, to about forty per cent of the total outlay for the province. The College of Agriculture is administered by the Department of Agriculture.

Chart VIII
 DISTRIBUTION OF PROVINCIAL AID TO
 EDUCATION
 Fiscal Year 1937



The weakness of the financial organization of public education in Nova Scotia, as well as its administrative defects, is widely recognized as the chief obstacle to the development of a broad program of popular education. In view of this fact, reform probably is inevitable in the near future. In any financial reorganization that may be proposed, it is highly probable that the province will be called upon to assume larger financial and administrative responsibilities.⁷ Inequalities in financial resources as between section and section, county and county, and rural and urban areas, point to the necessity of centralizing education finance. Equalization of assessment and rating to provide school revenues require the establishment of a central authority.

It may be argued that the Federal Government should assume a portion of the expense of certain educational services on

⁷ See Fletcher, B.A., *The Next Step in Canadian Education*, (Toronto, Macmillan Co., 1939), for an elaboration of this view.

the ground that their scope and quality are unequal as between the various provinces, because of variations in taxable capacity. But such Federal aid obviously would be contingent upon an economic reallocation of responsibility between the Dominion, provinces and municipalities.

It has been pointed out that one of the problems of policy is the relative distribution of expenditures among the various services. The government now spends over eleven per cent of current revenue on education. It is difficult to see how this could be increased under existing financial arrangements. It may be assumed, however, that the rationalization and centralization of the public school system would result in considerable economies. Furthermore, an educational program directed to the needs of the community would yield indirect returns through the increased productivity of the people and of the provincial economy as a whole.⁸

In 1937, expenses for *general administration* amounted to approximately \$550,000 or about five per cent of total ordinary expenditures. These expenditures were distributed as follows:

Ministers' salaries.....	\$ 35,000
Salaries of departmental staffs.....	112,000
Departmental expenses.....	110,000
Maintenance of departmental offices.....	94,000
Motor Vehicle Division.....	80,000
Bureau of Information.....	110,000

According to the provisions of the *British North America Act*, the provincial government maintains *courts* throughout the province for the trial of criminal and civil cases. The cost to the people of the province of administering justice amounted to \$35,000 in 1937. This sum was made up mainly of salaries of court officials (\$8,000) and costs of prosecution (\$20,000), the salaries of judges being paid by the Federal Government.

The *Legislative Assembly* costs on an average \$49,000 per year. There are thirty members each receiving a remuneration of \$1,000 per year as well as necessary travelling and other ex-

⁸ Fletcher, *op. cit.* p. 55. "If a country thinks it is too poor to afford good schools, it will remain too poor, until it has the courage to invest in good schools. There is an economic foundation that justifies the setting apart of 25 per cent of the population as students and at least 2 per cent as teachers, yet it is difficult to find the money to do so. Fifty years ago the growth of machinery and productive capacity was not enough to justify the kind of extended modern educational program everywhere envisaged by educational planners. To-day there is no question that this productive capacity exists and indeed can through education be increased."

penses. In a year in which an election occurs, larger sums are necessary. The expense of the general election in 1937 amounted to \$137,000, as compared with the expenditures of \$123,000 in 1933 and \$42,000 in 1925. Greater care is now being taken in the compilation of voters' lists and the supervision of polling accounting, in the main, for this increase.

The development of *agriculture* has long been one of the primary interests of the provincial government. At present the Department of Agriculture is active in bringing to the attention of the farmers new developments in the practice of scientific agriculture. This is done, in the main, through the Extension Division of the Department of Agriculture. Slightly less than \$250,000 is spent annually in the interests of the farming communities.

During the last two decades the provincial government has been spending the major portion of available revenues for developmental purposes. The inadequacy of existing methods of production (particularly in the primary industries), the incidence of national policies, and the emigration of enterprise and capital have resulted in the dislocation and retardation of the development of the provincial economy. In order to offset these tendencies the governmental expenditures have been directed towards the provision of productive facilities such as cheap and abundant electric power and improved transportation systems. (It may become necessary to supplement these expenditures by subsidizing certain industries in order to obtain the optimum utilization of the equipment and resources already provided.) Along with this trend in expenditures, welfare services have been expanded in order to ameliorate the effects of a relatively stationary period in the development of the provincial economy.

CHAPTER II

Expenditures on
Relief and
Public Welfare

CHAPTER II

EXPENDITURES ON RELIEF AND PUBLIC WELFARE

AN examination of Nova Scotia's position with regard to the financing of unemployment relief and other public welfare services is necessary in order to complete the picture of provincial expenditure. A detailed discussion of the many inter-related aspects of administering social services is beyond the scope of this bulletin. The brief outline presented in this chapter is designed to place the problem of relief in its setting in the whole field of provincial finance.

Until 1926 the standard of public welfare services in Nova Scotia was considerably lower than that of most other Canadian provinces. In that year expenditure on such services were restricted to provisions under the poor law and included public health, hospitals, and the care of indigents. These expenditures amounted to \$416,000 or fourteen per cent of the total ordinary expenditure. In 1936 the *proportion* had increased to twenty-one per cent, (or approximately \$2,157,000), the highest of all provinces except Manitoba. The increase was due mainly to the introduction of Mothers' Allowances in 1931 and of Old Age Pensions in 1934, although all the social and welfare services were extended in this period.

Since 1931 expenditure for unemployment relief has been a major item in the budget for public welfare. The unemployment problem created by the economic depression after 1929 has proved highly intractable, despite a measure of recovery in some industries. Although the structure of the provincial economy is relatively diversified as compared, for example, with that of the Prairie Provinces, certain sections are very vulnerable. The fishing, lumber, and coal and steel industries are especially sensitive to fluctuations in outside markets. Nova Scotia, therefore, in common with other provinces, is subject to the cyclical variations in the economic system and the concomitant periods of industrial unemployment. The severity of former periods of unemployment was mitigated, however, by the proximity of

the province to the expanding economy of central and western Canada and the United States.

Until the present period, therefore, the province has never found it necessary to be greatly concerned with measures for the relief of unemployment. Public Welfare services, which, under the *British North America Act* are mainly a provincial responsibility, had been left largely to the local units (cities, towns and municipalities). Until 1930 relief to indigents was provided only under the Poor Law or by local voluntary effort. Under this system, institutional care on a county basis, is given in a poor-house, and "outdoor relief" is provided occasionally at the discretion of the Overseers of Poor in each Poor District. The residents of the county and district are rated to provide these services.

This system proved totally inadequate to cope with the unemployment and destitution of the present period. While the responsibility of administering unemployment relief, and the costs of such administration, still rest with the local units, the province has assumed an increasing share of the cost of this service and of public welfare generally.⁹ From 1930 to 1936, approximately \$12,000,000 was spent for relief purposes, including direct aid, public works and highway relief, and land settlement. About a third of this sum was contributed by the Federal Government, at first on a tri-partite plan and later by agreement with the province on the basis of need.

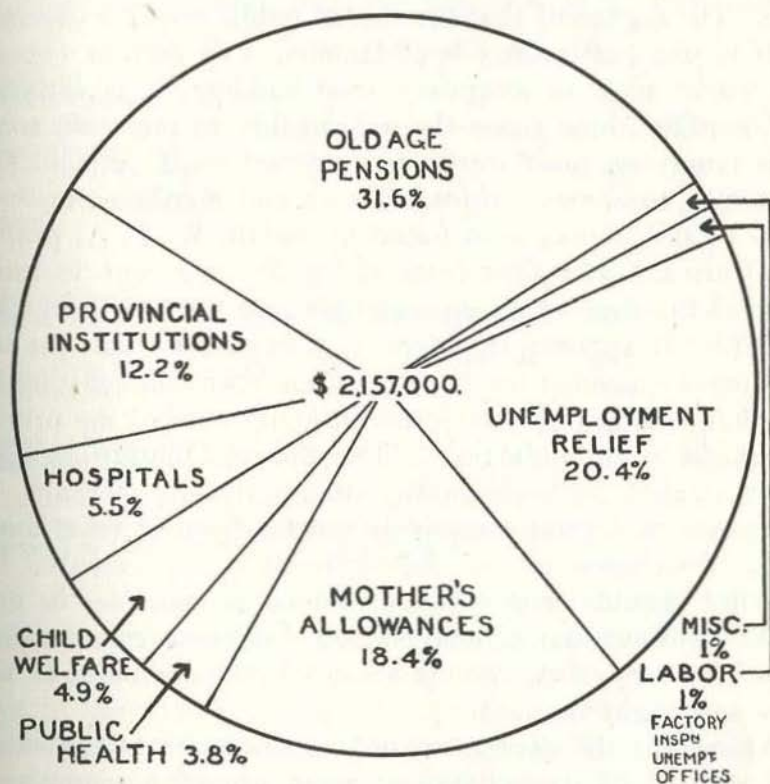
The causes of unemployment in Nova Scotia are various. Much unemployment is seasonal—in lumbering, fishing, etc. Unemployment of a temporary nature also occurs, due to disturbances in outside markets. Some unemployment appears to be relatively permanent—in regions where resources have been worked out or where industries have closed down. The volume of unemployment is greatest from January to April, and least from August to October. Construction projects are halted by the winter season, and production in the coal and steel industries falls abruptly with the closing of the St. Lawrence ports. The increased activity in lumbering and at the port of Halifax is not enough to offset the prevailing trend and usually there are from eighty to ninety per cent more unemployed in February than in August. "The halting of emigration to the United States and the reduced opportunities in central and western Canada

⁹ *Acts of Nova Scotia, 1932, 1934 and 1935.*

have caused a growth in the population beyond the normal absorptive capacity of the provincial economy".¹⁰ Thus, while the volume of employment in 1937 surpassed the peak of 1929, and while it has been possible to curtail relief services until at the beginning of 1938 relief was administered in only five municipalities (as compared with thirty-one in 1933), the problem of unemployment remains.

Chart IX

DISTRIBUTION OF PROVINCIAL EXPENDITURES ON
PUBLIC WELFARE
Fiscal Year 1937



The present cost of welfare services is indicated in Chart IX above. It will be noted that in 1937 the province from current revenues supported seven main services. These expenditures do not include public works and highway construction designed

¹⁰ Studies of the Institute of Public Affairs, Dalhousie University, *Canada's Unemployment Problem*, edited by L. Richter, (Macmillan Co., Toronto), p. 18, hereinafter cited Richter, *Canada's Unemployment Problem*.

also to reduce unemployment. The major expenditures in 1937 were for old age pensions, unemployment relief and mothers' allowances. Should the Dominion Government assume complete responsibility for Old Age Pensions and Mothers' Allowances, as is urged in some quarters, a considerably larger sum than is at present available could be allocated by the province to other welfare services.

The question of work relief versus direct relief may be discussed at this point. It is probably impossible, without the socialization of the national economy, to take care of all the unemployed through a program of public works. On the other hand, the policy of direct relief alone has proved very costly in terms of morale. The argument that the cost of public works is excessively high is not particularly well founded. In certain types of public works such as secondary road-building, it is estimated that it requires three times the expenditure to maintain a man and his family on relief works as on direct relief—due to costs of materials, equipment, transportation and management.¹¹ On the other hand, it has been found in certain W. P. A. projects in the United States that from eighty-five per cent to ninety per cent of the sums spent on materials goes ultimately to wages to labour.¹² It appears, therefore, (*ceteris paribus*) that the bulk of all monies expended for work relief are spent on consumption goods, thus stimulating production in many lines of the primary and manufacturing industries. The financial outlay required, however, makes it economically impracticable, perhaps, for governments to depend exclusively on this form of relief during a period of economic crisis. Admitting this, it is essential that work relief should be undertaken whenever possible, in order to prevent workers, during long periods of idleness from becoming unfit for reemployment. For this purpose, some system of work relief relays might be used.

Throughout the depression period Nova Scotia has carried out as part of its unemployment relief program a number of public works projects, undertaken in cooperation with the Federal and municipal authorities. In addition to various municipal works, the provincial government contributed to the cost of constructing 135 miles of the trans-Canada highway, and in 1934 embarked upon a program of hard-surfacing of trunk high-

¹¹ Richter, *op. cit.*, p. 317.

¹² *Ibid.*, p. 318.

ways and other roads. Other provincial works included the preparation of roads for surfacing, the construction of bridges and the elimination of grade crossings.

Table IV

SOME DIRECT AND INDIRECT EXPENDITURES FOR RELIEF AND RELIEF WORKS

Fiscal years 1931-1938

(In thousands of dollars)

Objects of Expenditure	1931	1932	1933	1934	1935	1936	1937	1938	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Charged to									
<i>Current Account:</i>									
Direct Relief.....	...	...	...	...	...	...	298	151	449
Contributions to Mun. Pub. Works.	...	...	...	...	...	...	108	90	198
Assistance to Fishermen.....	...	...	...	...	...	...	93	147	240
Charged to									
<i>Capital Account:</i>									
Direct Relief.....	112	216	678	559	404	95	....	...	2,060
Contributions to Mun. Pub. Works.	144	172	7	75	34	80	....	...	512
Highway relief work.....	928	1,376	791	276	796	1,057	1,173	464	6,861
Loans to Fishermen	...	...	...	...	...	37	59	21	117
Land Settlement ¹..	...	113	510	264	58	31	24	20	1,020

¹ Disbursements for Land Settlement are made through the Land Settlement Board created in 1932 (*Acts of N. S.*, 1932, chap. 8.)

Table IV above summarizes the expenditures for various relief and unemployment assistance projects from 1931 to 1938. It must be noted that the Federal and municipal governments contributed to the finance of relief as pointed out above (p. 11). Expenditures for highway relief including the Trans-Canada highway accounted for the major percentage of the total outlay.

It is vitally important to the economic welfare of the province that social services should be maintained and, if possible, expanded. Because of the predominantly rural nature of the provincial economy it would appear that some encouragement should be given to the primary producers. A step in this direction has been made by the provincial government under the Nova Scotia Land Settlement Act. In addition, loan funds have

been created for the rehabilitation of fishermen who have suffered through loss of equipment.¹³

One solution to the problem of maintaining welfare services has been suggested, namely, a national system of social insurance.¹⁴ Under such a plan the province would be relieved of the costs of old age and widows' pensions and of short-term unemployment. It has been recommended also by the National Employment Commission that the Federal government should assume responsibility for unemployment aid for the employable.¹⁵ Because of the relative flexibility of its revenue system the Federal authority is in a better position to meet the widely fluctuating requirements of this service. This would leave only the cost of the care of unemployables to the province and municipalities, which service could be organized along with the present hospital and other institutional services, according to the type of need to be met. However, the problems of revenue raising as well as the tasks of *uniform* administration and expenditure are not likely to be shouldered by the Dominion government without considerable opposition.

¹³ *Acts of Nova Scotia*, 1931.

¹⁴ Richter, *op. cit.*, see particularly p. 390 *et seq.*

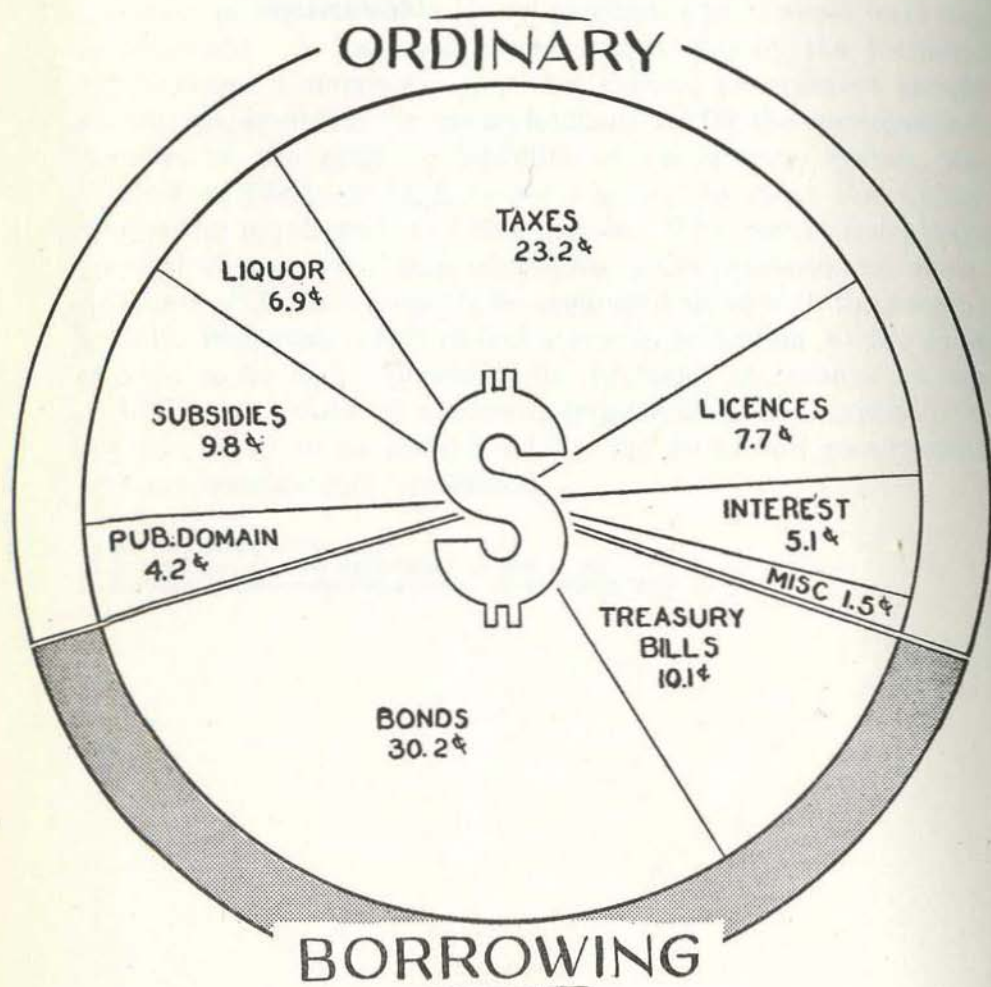
¹⁵ National Employment Commission, *Final Report*, 1938. p. 30.

CHAPTER III

Provincial Revenues



Chart X
 THE SOURCES OF THE PROVINCIAL
 REVENUE DOLLAR
 Fiscal Year 1937



The various sums that make up the provincial revenue each year were derived, in the main, from the sources illustrated above. Nearly 7 cents from the sale of liquor, approximately 10 cents from the Dominion Government, 23 cents from various taxes, 30 cents from long term borrowing, and so on, make up each revenue dollar in 1937. Whether or not the present arrangement of revenue sources is satisfactory is among the more important questions of financial management.

CHAPTER III

PROVINCIAL REVENUES

THE activities of the provincial government involve not only the spending of money but also, as a consequence, the raising of revenues to meet the expenditures. Each year the citizens are informed, through the press or elsewhere, that a stated amount of money will be necessary for the continued performance of the public services throughout the province. Contributions to the "public purse" are not merely an occasional, unpleasant duty. Indeed the many and varied ways of raising revenues have made the citizen extremely tax-conscious. In return for his contributions the taxpayer obtains a diversification of services. A major task of the government is to determine (and justify as far as possible) the schedules of taxes, rates and charges to be borne by the various economic groups within the province.

The revenues which flow into the provincial treasury may be classified as follows: (a) that from the direct sale by the province of commodities and services; (b) that derived from a part of the income of the citizen and paid by him to the Treasury in satisfaction of some particular revenue law; (c) those revenues available to the province due to its position in the hierarchy of governmental organizations, i.e. federal grants and subsidies; (d) those revenues obtained by the province through the use of its credit, i.e. through the creation of debt.¹⁶ A brief discussion of each kind of revenue is presented in the following paragraphs.

Included in the first classification of revenues—namely the sale by the province of goods and services—are items like the revenues derived from the sale of liquor, the leasing of mineral rights, the granting of timber licenses or sale of timber from Crown Lands, the charges for supplying electricity, water, ferries, hospitalization, etc. In all these instances, the government sells goods or services to citizens at a price. If the price charged is more than sufficient to cover the cost of the goods or services

¹⁶ A discussion of borrowing is presented in Chapter VII.

provided, then the government secures a revenue because the price includes something in the nature of a hidden tax. On the other hand, if the government sells goods or services at a price below the cost of production, then it is subsidizing the consumers of that particular good or service. When it sells above cost it is presumably trying to add to its revenues but if it makes the price so high that consumers cannot afford to purchase as much as they would otherwise, then it is likely that fewer units are sold and revenues fall. Thus, in the case of the sale of liquor, if the government desires to get the maximum revenue from liquor in general, it would vary the relative prices of the different kinds until it found out by trial and error just what prices maximized revenues. Of course, if the government desired to reduce the consumption of liquor then it would simply raise prices high enough to reduce demand—and, incidentally, revenue.

It is not necessary, at this point, to discuss the extent to which governmental agencies should own or control forms of activity which may be undertaken by private business organizations. Such services as electricity, water supply and transportation are sometimes provided by governmental agencies and sometimes by private concerns, the latter often being subjected to government control over their prices or profits. Whether certain industries should be under governmental or private ownership depends upon the comparative efficiency of both forms of organization and the degree to which, as a factor of public policy, it appears desirable for the government to control monopoly practices.

When the government sells goods at a price below cost, then it is presumably trying to extend the sale to consumers who could not otherwise purchase. Thus in the case of hospital services, if a government wishes to extend this service so that it may be available to persons of small means, then it may sell its hospital services for fees that do not cover the total cost, the general taxpayer being called on to make up the difference. It is not so long ago that education was sold at a price (fees). Now, on the ground that education should be available to all, it is provided freely, in its elementary forms at least. It may be asked whether health services are not as necessary as education in the maintenance of human resources and why they should continue to be sold at a price while education is free. The solution of the cost-price problem to a large extent is de-

pendent upon the availability of resources and the demands of the people for services.

Somewhat similar considerations apply in the case of licenses, fees and fines charged by the province. In the case of motor licenses the price should have some relation to the costs of the services given (i.e. highways), to the other charges laid on the motorist (i.e. gasoline tax), and to the general policy of the government (i.e. whether or not it wishes to subsidize road transport at some expense to the general taxpayer). The other licenses, permits and fines charged by the province cover many services, usually representing payments for some privilege given by the government, or representing a method by which the government controls particular privilege. Apart from motor licenses, the revenue coming from the many other licenses and permits is comparatively small.

Public Domain, at one time, was an important source of public revenue. The term includes the natural resources within the jurisdiction of the government. Thus an area that possesses large timber and mineral resources may utilize these for revenue purposes through the sale or lease of rights to exploit these resources. Various techniques may be employed such as a specific levy per unit of timber cut or minerals mined as the case may be. The policy of the government with respect to this source of revenue will, to a large extent, determine its continued productivity.

The second kind of revenue available is that derived from taxation. A tax, for present discussion, may be considered as a compulsory contribution to the state for public purposes.¹⁷ Taxation may take a variety of forms, but in the case of the provincial governments in Canada they are limited by the *British North America Act* to the use of certain types. Some of these taxes lie on certain expenditures made by citizens and firms, as for example, the amusement tax, the gasoline tax and, in certain central and western provinces, the retail sales tax. Other taxes lie on the property of citizens like the tax on real property

¹⁷ To find the "best" definition of a tax is an interminable inquiry. For a collection of definitions see, R. Jones, *The Nature and First Principle of Taxation*, (London, P. S. King & Son). A discussion of principles of taxation is not within the scope of this bulletin. Such principles as "taxation according to benefit" or "taxation according to ability-to-pay" have served so many masters in such devious ways that a complete historical survey would be necessary in order to present the objectives and the administrative difficulties. One cannot avoid the reference to some politicians who advocate taxation either according to the principle of "least outcry" or "according to inability to resist". It is a sad commentary on democratic institutions, particularly on this continent, that in the application of what are accepted as political principles, organized selfishness appears to play a predominant part in the formulation of tax policy.

under the Public Highways Act, the taxes on the capital stock of certain companies and the succession duties on the transfer of property at death. Still other provincial taxes lie on income: in this province a tax is levied on the revenues of certain corporations, but some other provinces in Canada apply income taxes to both corporations and persons.

In any examination of the various provincial taxes, questions concerning the nature of the present tax structure are likely to arise. It may be asked whether the tax system of Nova Scotia is calculated to place the burden of public expenditure on those most able to bear it, whether all available sources outside of obvious ones have been tapped, and whether the diversity of the present tax system leads to administrative difficulties and leaves obscure the final incidence of the burden. In these circumstances, it is natural to expect that some people should advocate a "simple system", in the light of confusion and incompetent administration resulting from the present heterogeneous taxes. But no single tax, yet devised, can express the obligation of every citizen to the government. Wealth is held in many forms, people benefit in many ways, and money (or income) is derived from many activities. Furthermore, (within rational limits) no *one* tax could yield the necessary revenues. While the present diversity of taxes seems to be a cumbersome method of raising revenue, it is probable that the inequality of one tax in the system is offset by that of another so that in all the system may avoid great inequalities in relative burdens.

But as provincial taxes rise, it becomes necessary to devise a tax system which has some administrative simplicity and yet is fairly certain to be on the shoulders most able to bear it. The most reasonable method of achieving these purposes has been found to be in the greater use of income taxes on both persons and corporations, and taxes rising progressively with incomes.

The third source of provincial revenue is subsidies from the Dominion government—these having been established at Confederation, when the province transferred to the Dominion the right to levy customs and excise duties. The actual subsidies paid by the Dominion have been adjusted from time to time, particularly since the war of 1914. In addition, the Dominion makes grants-in-aid to the provinces for specific purposes in the

performance of which the Dominion is interested, such as old age pensions, employment agencies and technical education.

The emergence in recent times of acute social problems has compelled the provinces to increase their expenditures, sometimes for services that are really national in scope (like old age pensions), but their revenue raising powers are limited as compared to those of the Dominion. Hence, grants-in-aid from the Dominion to the provinces have provided a method for allowing the provincial services to be extended. They are still somewhat limited in scope, however.

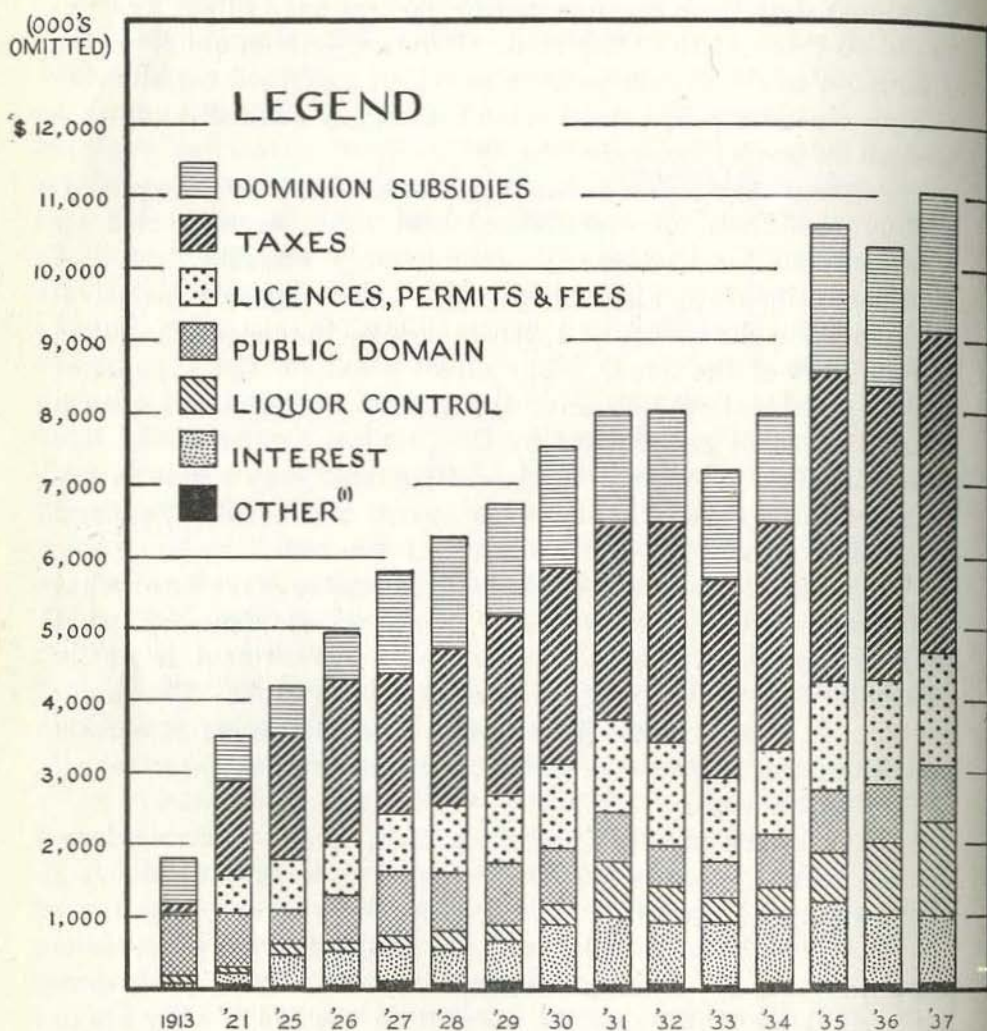
A grant may be made in many ways. Between grants completely free from any restrictions and those accompanied by various conditions there are innumerable classifications. A significant illustration is the distinction between grants exclusively financial in character and those implying administrative control on the part of the donor. The direct grant for the support of technical education falls into the former category, whereas a grant that must be matched by the provincial government, like that for the employment service of Canada, may result in administration by the Dominion to ensure the equalization and gradual improvement of governmental services.

The use of the above methods of raising revenue form what is known as the "revenue system" of the government. Thus it may be seen that the fiscal policy of a government is partly determined by the availability of sources of revenue. The major problem is to determine the effects and effectiveness of certain policies in the light of the needs of the government as revealed by its expenditures.

The various methods by which the province has raised revenues in the last two decades are presented in the following chart, Chart XI, (p. 34).

It will be seen that in 1913 the major sources of revenue were the Public Domain (mainly royalties from coal mining) and Dominion subsidies. Taxation yielded a very small revenue. It was, in the main, a tax on real property. Examination of the chart shows that total revenue in 1921 was almost double that of 1913. A notable increase in tax receipts and the use of licensing charges provided the additional income. Since then total revenues have increased year by year (in keeping with expenditures as indicated in Chapter I) with the exception of the years 1932-1934 inclusive, in which years a slight decline

Chart XI
SOURCES OF PROVINCIAL REVENUES
 Fiscal Years 1926-1937



* Data unadjusted—14 month period, 1935.

¹ Includes revenues from fines, penalties, the sale of certain commodities and services and other casual receipts.

occurred. The federal policy regarding subsidies has been revised from time to time notably in 1927 and again in 1935.¹⁸ Two other features of the chart merit specific notice. In the first place the sale of liquor by the government has not played such a predominant part in the raising of revenues as often reported, although the returns from the sale of liquor have been increasing in the past two years. In the second place the revenue from taxation shows a steadily upward trend. This is due largely to the taxation of gasoline sales and to a lesser extent to taxes on corporations, and to succession duties.

Table V

ANALYSIS OF PROVINCIAL REVENUE BY SOURCE Fiscal Year 1937

<i>Current Revenue:</i>	
Dominion of Canada ¹ (subsidies).....	\$ 1,953,000
Taxes.....	4,413,000
Licenses, Permits and Fees.....	1,581,000
Public Domain.....	850,000
Liquor Control.....	1,315,000
Fines and Penalties.....	23,000
Sale of Commodities and Services.....	12,000
Interest Premium and Discount.....	1,190,000
Miscellaneous.....	4,000
	\$11,341,000
<i>Borrowing:</i>	
Bonds, Debentures, etc.....	\$ 5,809,000
Treasury Bills.....	2,250,000
Temporary Loans.....	150,000
Accounts payable.....	1,000,000
	\$ 9,209,000
Total Revenue.....	\$20,550,000

¹ Dominion subventions and grants amounted to approximately \$1,820,000 in 1937. This figure is not included in Provincial Revenues in this table since such money depends upon the ability of the province each year to match the Dominion grants.

The main items of *provincial taxation* are gasoline taxes, corporation taxes, and succession duties. The revenues from these sources depend, in the main, on the rate applied and on the economic condition of the province. For example, given

¹⁸ The increase in 1927 was a result of the Duncan Report and the increase in 1935 was an outcome of the White Report.

the gasoline tax rate, the yield depends upon the volume of motor traffic which in turn reflects the general prosperity of the province; given the tax rate on corporations the yield depends largely upon the size of the firms and the profitability of industry. In general, the rates of the existing taxes are perhaps reaching the limits to which they can be pushed expediently under the present system of manifold taxes and conflicting taxing authorities. The summary in Table VI below indicates the extent to which the various taxes have been used during the period under discussion.

Table VI
ANALYSIS OF PROVINCIAL TAX YIELDS
Fiscal Years 1925-1937

(000's omitted)

Fiscal Year	Prop-erty Taxes	Cor-poration Taxes	Suc-cession Duties	Gaso-line Taxes	Amuse-ment Taxes	Total Tax Yield	Total Current Revenue	Percentage of Tax Yield to Total Current Revenue
	Yield \$	Yield \$	Yield \$	Yield \$	Yield \$			
1925	576	769	296	....	112	1,753	4,214	41.60
1926	602	848	537	158	115	2,260	4,957	45.59
1927	566	845	188	243	111	1,953	5,789	33.73
1928	555	807	222	476	122	2,182	6,254	34.89
1929	551	860	290	680	134	2,515	6,707	37.50
1930	556	885	312	811	163	2,727	7,524	36.24
1931	556	896	256	870	158	2,736	7,997	34.21
1932	555	940	515	926	134	3,070	7,999	38.37
1933	514	903	263	948	112	2,740	7,196	38.07
1934	525	1,061	298	1,161	129	3,174	7,968	39.83
1935	620	1,232	463	1,794	180	4,289	10,589	40.50
1936	527	1,099	567	1,736	147	4,076	10,279	39.65
1937	526	1,127	606	2,006	148	4,413	11,082	39.82

The most productive of the taxes employed by the government is that on gasoline sales. In 1937 the *gasoline tax* yielded a revenue of over \$2,000,000. The rate has been adjusted continuously and recently it was increased from eight to ten cents per gallon. Originally a gasoline tax was regarded as a benefit charge, designed to distribute highway costs somewhat in pro-

portion to the usage of the roads.¹⁹ But to-day it is something less than an accurate instrument for compensating for the usage of roads by automobiles and trucks. The extent to which a vehicle uses the roads depends not only on the mileage it covers but also on its weight, size and speed. While the gasoline tax may be a fair means of measuring a vehicle's use of roads, according to mileage travelled, it cannot exact proper charges from the owner for any road destruction that may occur by reason of the weight, size and speed of his vehicle.

The gasoline tax is supplemented by a substantial annual motor vehicle registration tax, or license fee. The extent to which the present fee provides the necessary supplementary revenue and adequately distributes burdens is difficult to determine. Highway engineers claim that, assuming the present tax rate on gasoline, much heavier license fees (particularly for some classes of vehicles) are necessary if the highways, as they are now constructed, are to be maintained by revenues from the gasoline tax and license fees.

The increasing use by motor transports and passenger busses of public highways has forced administrations everywhere on this continent to consider the allocation of taxes and other charges for highways as among the various classes of users. A recent investigation in Nova Scotia yielded interesting recommendations and findings.²⁰ Consider the following:

"(2) That commercial vehicles shall not be bonused at the expense of the general public by paying less than their fair share on basis of use for the highways provided.

(3) That all capital for the improvement of highways invested since 1918 be chargeable to motor vehicle operation.

(4) That the annual interest and sinking fund necessary to carry such capital, plus the annual maintenance costs of the highways less highway tax be the amount which must be paid by motorized transport."²¹

Based on the above assumptions the commission set out to compile a schedule of rates and taxes that should be levied on

¹⁹ *Acts of Nova Scotia, 1926*. "The Gasoline Act", Chap. 2, s. 7, provides that the revenue raised through this tax shall be paid into the Provincial Highway Fund'

²⁰ Province of Nova Scotia, *Report of Royal Commission on Transport, 1936*, (Halifax, King's Printer).

²¹ *Ibid.*, pp. 16, 17. Compare discussion on p. 13. For a complete analysis of the transportation problem see the forthcoming study by Gilbert Walker.

all classes of motor vehicles in order to meet the total cost of highways. In 1934 the situation may be summed up thus:²²

Revenue from motor vehicles	\$2,317,121.86
(Licenses and gas tax)	
Expenditures on highways	3,107,509.87
(Less highway tax)	
Including interest and sinking fund payments.	

The following table based on statistical data for the year 1934 illustrates the proposal of the commission. It must be kept in mind that with every increase in capital outlays a revision of the license rates would be necessary.

Table VII
EXISTING AND PROPOSED LEVIES ON MOTOR
VEHICLES IN NOVA SCOTIA 1934

Type of Vehicle	No. of Vehicles	Present License Fee	Proposed License Fee
Pleasure Vehicles	34,443	\$ 18.63	\$ 17.28
Motor Cycles	329	6.00	2.66
Auto Busses:			
up to 5,000 lb.	6	50.00	674.00
over 5,000 lb.	37	55.27	780.45
Trucks:			
up to 3,000 lb. wt. Farm	838	24.00	36.79
" " " " " General	2,259	24.00	122.66
3,000 lb. to 4,000 lb. Farm	658	31.50	61.03
" " " " " General	1,759	31.50	200.55
4,000 " " 5,000 " Farm	242	45.00	106.13
" " " " " General	693	45.00	286.58
5,000 " " 6,000 " "	263	66.00	324.16
6,000 " " 7,000 " "	111	96.00	331.00
7,000 " wt. and over	104	132.00	517.11

In 1937 *Corporation Taxes* yielded approximately \$1,127,000. In 1925 these taxes formed about eighteen per cent of the total current revenue and in 1937 about ten per cent, although the number of taxes and the rates have been increased and the latter are now relatively high. This, to some extent, reflects the retarded condition of the provincial economy and the consequent limitation, under ordinary conditions, of taxable objects within this group.

²² Province of Nova Scotia, *Report of Royal Commission on Transport, 1936*, (Halifax, King's Printer), p. 10.

Corporation taxes are levied on business and industrial organizations of all kinds, both individual and corporate, doing business within the province. These taxes are of several kinds—taxes on real property, capital stock taxes, and corporate income taxes—depending upon the type of corporation. Under a properly integrated system of income taxation, present taxes on business might be relegated to a minor role. Under present conditions numerous firms do business in the province, and in some of these the head offices, managers, stockholders, etc., reside largely outside the province. Since these firms receive benefits from operation in the province, the government uses corporation taxes to tap the incomes of such outside companies as well as those located mainly in Nova Scotia. But these corporation taxes are extremely diversified in nature and in the amount of levies. Certain kinds of corporations are singled out for special taxes; for example, banks, power companies, insurance and railway companies, etc. In some cases the tax is laid on the capital stock of the corporation, sometimes on the volume of business or place of business. In each kind of corporation tax, moreover, different rates of levy are applied. In consequence, it is not easy to see whether or not the corporation taxes as levied at present have any close relation to the income of firms, or whether they are equitable as between firms in different industries. It is not even certain that each tax is, in itself, expedient. Some simplification of the structure of corporation taxes seems to be called for in the interests of both government revenue and more equitable taxation as between different kinds of corporations.

The revenue yield of provincial *inheritance taxes* or *succession duties* as they are called naturally is subject to considerable fluctuations from year to year. In 1937 it amounted to \$606,000, the highest of any year since these taxes have been imposed. The rate scale is based on some measure of ability to pay, being graduated progressively according to the size of the estate. Rates also vary with the degree of relationship between the beneficiary and the decedent and there are several exemptions.

The tax is levied on all estates valued at over \$5,000, if not passing in direct line, and all estates valued at over \$25,000 if passing to an immediate relative. Suppose Mr. A dies leaving an estate valued at \$50,000, half of which is left to his wife and

the other half to his brother. The property bequeathed to the wife is exempt from taxation, while \$20,000 of the \$25,000 left to the brother is subject to taxes according to the schedules provided by the Succession Duties Act and amendments thereto.

Two sets of *real property taxes* are employed by the province. General land taxes²³ are levied on the assessed value of forest land holdings plus a flat rate on the acreage of forest and other uncultivated lands. The first of these is designed to reimburse the government for the alienation of these lands for private exploitation. The second is intended to bear the cost of fire protection services in the forest areas of the province. Both together yielded a revenue in 1937 of approximately \$80,000.

In addition to the above, a tax is collected from the cities, towns and municipalities within the province based on the net value of property and personal income, assessed by the local units. The proceeds, (which in 1937 amounted to \$444,000) are to be used for the maintenance of highways in the communities where collected. Thus this tax is in the nature of a benefit charge.

Provincial real property taxes yielded a total revenue in 1937 of \$526,000. They are, in the first place, of no great importance in the tax structure and secondly, are subject to inadequate and inequitable administration.

The only other tax imposed by the province is the *Amusement Tax*, levied on admission fees to theatres and other places of entertainment. This is a species of commodity tax collected by the theatre proprietor who acts as agent for the government. It is borne by the theatre-going public. The yield in 1937 was \$148,000.

Subsidies, Grants-in-Aid and Subventions are the second most important source of provincial revenue. In recent years Dominion grants have provided the treasury with about one-sixth to one-fifth of total current revenue.

Prior to the passage of the *British North America Act* the provinces raised the major portion of their revenue by means of customs and excise duties. The Dominion in taking over these revenue-raising devices undertook to make payments to the provinces to aid in the financing of governmental activities. The amount of the grant and subsidies were to be based mainly

²³ *Revised Statutes of Nova Scotia*, hereinafter cited R.S.N.S., 1923, *Land Tax Act*, chap. 17; *Acts of Nova Scotia*, 1927, chap. 16; *Acts of Nova Scotia*, 1934, chap. 17. *Acts of Nova Scotia*, 1935, chap. 4, part 2.

on population figures, size of the debt at time of the passage of the Act, and needs of the government.

In 1937 the province received approximately \$653,000 from this source, \$410,000 on the basis of population, \$53,000 for debt service and \$190,000 for governmental services. A special grant of \$1,300,000 was also received as a result of the submission of the White Commission. Thus in that year the total grants amounted to nearly \$2,000,000 or over seventeen per cent of current revenue.

The province also receives conditional grants from the Dominion from time to time. These grants are conditioned on the ability of the province to raise some specific amount to match the offer of the Dominion. The province has received (and contributed to) funds for the construction of the Trans-Canada Highway project, old age pensions, technical education, employment exchanges and venereal disease control.

The use of *Licensing powers* as granted by section 92, of the *British North America Act* has provided the Treasury with a fairly productive source of revenue. In 1937, licenses, permits and fees yielded a total of \$1,581,000. Motor vehicle licenses yielded \$1,391,000—of which \$776,000 was provided by the levy on passenger cars, and \$425,000 by that on commercial cars and trucks.

All other licenses and permits, such as company and agents' licenses, provided a revenue of \$128,000 in 1937, vital statistics and other fees a further \$34,000. Revenue from the sale of liquor permits is included in the total liquor control revenue, that from "censorship" fees in the "Amusement" tax revenue, and that from court and legal fees in the revenue from fines and penalties.

The *control of liquor* through supervised sale provided approximately \$1,441,000 in 1937, or over twelve per cent of current revenues. The entrance of the province into this field is in keeping with the general trend in other provinces and in many of the American states. Operation by the province of this industry results in a measure of supervision of the trade through price fixing, as well as the obtaining of an additional source of revenue that otherwise would be unavailable, through the tax system. In view of the present trend in expenditures, it may be pertinent to inquire where alternative revenues would be available to finance existing services and *at the same time* yield suf-

ficient additional revenue to suppress *effectively* the use of liquor, in the light of past (and present) smuggling activities along the coast line of the province.

Interest on investments, generally referred to under the heading Interest, Premium and Discount, have provided the Treasury with a fairly constant source of revenue. In 1937 this source provided over \$1,100,000 or about ten per cent of total current revenues. The ability of the province to collect such sums is due largely to the loans made to the Power Commission and to the municipalities for unemployment projects. The returns (determined by the scope of the lending policy) form a fairly stable return and will continue to do so as long as credit conditions are not impaired. This source, however, is not one that should be considered seriously in view of expanding revenue needs.

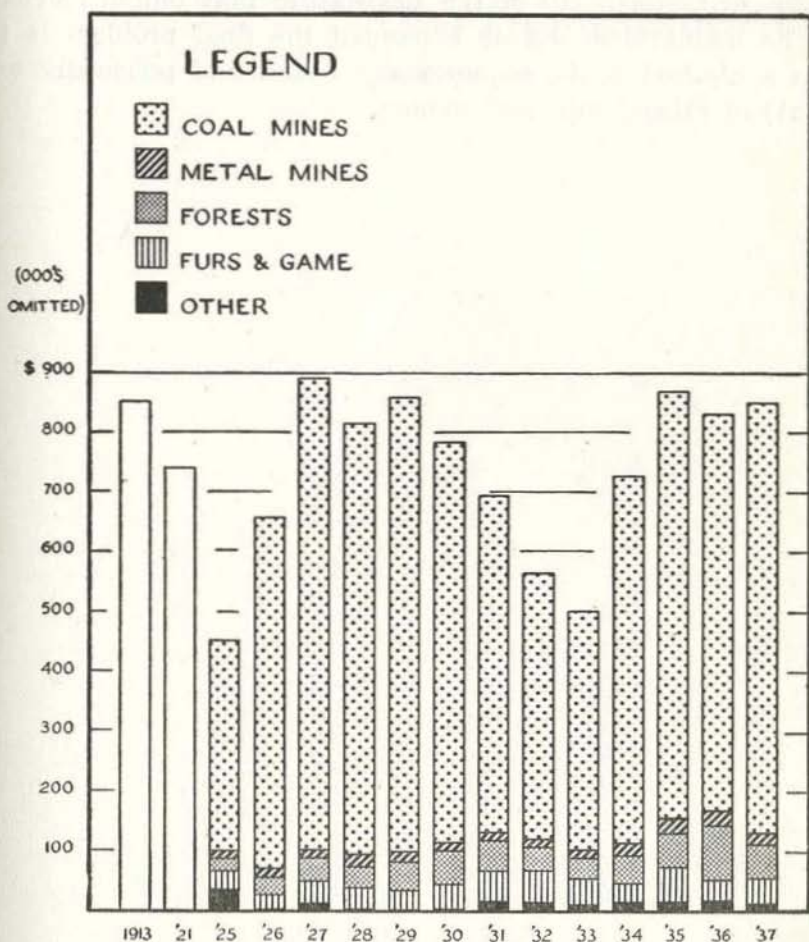
The *Public Domain*, once an important source of revenue, includes the sale and lease of provincial property, royalties from coal and other minerals, and fees for the privilege of cutting timber. As demands for revenue increased, the sale and lease of provincial property became less important. In 1937 this source yielded about \$832,000 or approximately seven and one-half per cent of current revenues. The following chart, Chart XII, indicates that royalties from coal mining have doubled and all other sources have remained relatively constant.

Fines and Penalties collected from law-breakers (under duress) of one sort and another, together with the profit from transportation services amounted to \$35,000, or about three-tenths of one per cent of total current revenue in 1937.

As pointed out previously, a distinction has been made for purposes of discussion between current revenue and the total annual income of the provincial government. It has been found necessary from year to year to supplement ordinary revenue by borrowing both by short term loans from banks and by the sale of provincial bonds. It follows therefore that the total funds available to the province each year are larger than those from ordinary revenue sources as indicated in Chart VI on page 8.

There is an evident relationship between current *expenditures* and *revenues*—often the current revenues are sufficient to meet what are called ordinary or current expenditures. But, the necessity of borrowing to supplement the ordinary sources of revenue may not be so evident, from an economic point of view,

Chart XII
 REVENUES FROM THE PUBLIC DOMAIN
 Fiscal Years 1925-1937



* Data unadjusted—14 month period, 1935. No breakdown for 1913 and 1921 was obtainable.

in the light of the increasing use of the provincial taxing powers and the possibilities of broadening the tax base. This issue is involved in the determination of the fiscal policy of the government. Each fiscal year, when the various departments and agencies present their annual demands upon the taxpayers, the budget committee and subsequently the legislature are faced with the problem of co-ordinating money income and outgo.

Shall services be continued and expanded or shall a policy of rigid economy be adopted? Is the budget to be balanced? Shall the province continue to borrow in order to provide additional revenues? What forms of tax levies should be utilized? Upon the apparent unanimity of the Legislature that public services must be maintained and/or expanded the final problem is to devise a method (both economically sound *and* politically expedient) of raising sufficient money.

CHAPTER IV

The Disbursement of The Provincial Income

CHAPTER IV

THE DISBURSEMENT OF THE PROVINCIAL INCOME

ATTENTION has been drawn to the annual expenditures for governmental services. The manner in which the Government obtains money to meet the necessary expenditures also has been discussed. It is equally important to understand the actual techniques of distributing public money. This chapter, therefore, will deal with the following questions: Who authorizes the actual disbursements of public monies? Who is responsible for the payment of those individuals or firms who provide the goods and services purchased by the Government? Who is responsible for the custody of public monies? What safeguards are provided to ensure an accurate distribution of funds in accordance with public demand as expressed in the annual appropriations?

Authority to distribute public money is neither divided nor apportioned by statute among the various governmental officials. Rather, it may be said that this responsibility falls upon the Legislature, the Provincial Treasurer, the Auditing Division of the Treasurer's Department, and the departmental heads. In outline, the Legislature approves of the expenditures and sanctions the methods of meeting them; the Treasurer's Department receives all revenues (except in certain cases—p. 49) and also distributes the money according to the requirements of the departments, boards and commissions, subject to specific rules and regulations.

In theory, at least, authority to raise and spend money lies in the hands of the people. This authority is exercised by elected representatives in the Legislative Assembly.²⁴ This body sanctions (within legal limits) the raising and spending of public funds. The most important duty at each annual session of the

²⁴ In Chapter V, on the meaning and significance of budgeting, the function of the Legislature in relation to finances is discussed. In the present chapter attention is drawn merely to the control over public expenditures exercised by the legislative body.

Legislature is the passage of measures authorizing expenditures for various public purposes, such as health services, education and public works. These authorizations are known as *appropriations*, and it must be remembered that appropriations indicate limits to expenditure rather than fixed amounts.

The active supervision of provincial finance is carried out by the Department of the Provincial Treasurer. This department is responsible for the receipt and disbursement of all public monies (with the exception of those revenues specifically assigned to other departments).²⁵ As pointed out elsewhere the Department also is charged with the keeping of financial records and accounts, the control of the Consolidated Fund and the preparation of the Budget.

All revenues from taxes, fees, licenses and other sources are deposited by officials responsible for their collection to the credit of the Provincial Treasurer.²⁶ The banks wherein collections may be deposited, are designated by the Governor-in-Council and generally are located in the districts where the monies are received. Statements of such deposits are transmitted regularly to the department both by the depositors and the respective banks. In this way the revenues available for distribution are checked continuously.

The Internal Audit Division (created in 1933), is a subdivision of the Treasury, and is under the direction of a Chief Auditor, whose duties are not only to make a detailed audit of inter-departmental accounts, but to cover the offices of certain sheriffs, police magistrates and other public officials who are responsible for the handling of provincial funds. Members of the staff are allocated to make a pre-audit of all vouchers payable and to approve the classifications of expense, as set up by the Chief Clerk of the Treasury Department.

The distribution of Public Funds is under the direct supervision of the Deputy Provincial Treasurer. Government books are in balance at the close of each month, and in the course of ten days full reports are made from all departments, so that by the fifteenth of each month a statement of all charges entered against the several appropriations and funds allocated to that department are shown. By this method departments are informed when appropriation of funds are near exhaustion. A

²⁵ R.S.N.S., chap. 9, s. 20. See Chapter VI for a discussion of this point.

²⁶ R.S.N.S., 1923, chap. 9, s. 23.

member of the audit staff is custodian of the cheque book record, with each bank upon which cheques are drawn.

Whenever it is necessary for a department or board to spend money, the head of the department or other authorized official must prepare and present a voucher signed by him which is presented to the Provincial Treasurer.²⁷ Every payment of public money is made by a cheque upon a bank signed by the Provincial Treasurer.²⁸ Cheques are prepared in the Department of the Treasurer, signed by him or an official of his department and countersigned by the chief clerk. No countersignature is made until it is determined that the cheque has been authorized.

The auditor and his staff make a special audit of the accounts of each department several times each year. The departmental records of bills, receipts and expenditures are checked with the ledgers. An account of all monies received and paid by the Provincial Treasurer's Department is presented to the General Assembly every year for examination and audit by a joint committee appointed by the Legislature.²⁹ In addition to the checks provided by the internal audit, the Governor-in-Council requires that the accounts of the province be audited annually by an outside firm of chartered accountants. The firm so appointed is required to report to the Provincial Treasurer respecting such examination.

For many years the purchasing of many departmental supplies was left in the hands of the respective departments. Considerable criticism of this policy resulted, due mainly to the fact that such purchases, at times, could not be made in quantities sufficiently large to take advantage of the economies of large scale buying. As a result of this criticism the Government Purchases Act³⁰ was amended and a purchasing department was created in 1926 to handle the purchasing for all departments, boards and commissions.

Government purchasing is carried out by a Purchasing Bureau presided over by the Minister of Public Works and Mines.³¹ Under the direction of the Minister, a purchasing committee of three departmental officials (deputy heads of departments) supervises and controls all purchases made by or on be-

²⁷ R.S.N.S., 1923, chap. 9, s. 24.

²⁸ Acts of Nova Scotia, 1926, chap. 12, s. 24a. "Such other persons as may be appointed by order-in-council may sign cheques."

²⁹ Acts of Nova Scotia, 1924, chap. 15, s. 2.

³⁰ R.S.N.S., 1923, chap. 11.

³¹ Acts of Nova Scotia, 1926, chap. 15; Acts of Nova Scotia, 1936, chap. 10.

half of the government. It is the duty of the committee to arrange for the purchase of all commodities required for the use of the various departments, boards and commissions. Purchases must be made in an economic manner and competitive offers must be obtained by public tender whenever possible. In every case the lowest bidder, (corporation, firm or individual) quality and terms being satisfactory, receives the order, unless the committee have reason to believe that it would not be in the "public interest" that the lowest quotation should be considered. A call for public tenders is made in such manner and for such time as the committee determines. Tenders are tabulated and submitted for approval to the Minister of the Department affected. On his approval, the committee has formal contracts drawn up for the signature of the parties concerned. These contracts are presented to the Minister of Public Works and Mines for execution.

Whenever the committee finds it advisable to purchase goods in bulk it may do so with the approval of the Governor-in-Council. The total cost of such purchases is defrayed out of an appropriation provided for this purpose by the Department of the Provincial Treasurer. The department is reimbursed from time to time as the commodities purchased are distributed to the various departments of the public service.

The present techniques of disbursing public money appear to fulfil the conditions necessary to its careful and accurate distribution. These conditions include ease and speed in the handling of authorized payments, and sufficient devices for the complete accurate and continuous recording and checking of financial transactions. From the foregoing discussion it will be seen that the key-point in the existing mechanical procedures is the Department of the Provincial Treasurer. Refinements of present procedures therefore are, in the main, subject to the approval of, or evolve from the Treasurer's Department. In conclusion one question is raised. Why is the auditing function merely a division of the Treasurer's Department instead of a separate and distinct function, with the chief auditor being responsible only to the Legislature?

CHAPTER V

The Annual Budget

ORDERS-IN-COUNCIL*
Classified by Departments
(Fiscal Years 1927-1937)

	Attorney General \$	Education \$	Agri- culture \$	Public Health \$	Prov. Secretary \$	Prov. Treasurer \$	Highways \$	Mines \$	Labour \$	Public Service \$	Total \$
1927	8,750(3)	33,500(1)	9,900(8)	62,500(3)	250(1)	1,000(1)	8,000(1)	.....	.....	250(1)	116,150(18)
1928	29,800(3)	10,000(1)	53,400(9)	45,500(2)	175(1)	130,802(3)	.....	800(2)	.....	51,200(2)	321,677(23)
1929	40,000(2)	15,000(2)	11,300(3)	20,000(1)	200(1)	3,150(2)	8,375(1)	150(1)	.....	.....	98,075(13)
1930	72,500(5)	.....	8,400(4)	25,000(2)	1,350(2)	60,000(1)	7,000(1)	13,000(1)	.....	1,400(2)	188,700(18)
1931	57,800(6)	35,000(1)	38,300(4)	10,000(2)	2,000(3)	50,750(2)	.....	1,000(1)	.....	300(1)	195,150(20)
1932	23,700(5)	.....	.....	.....	1,150(2)	107,500(2)	.....	3,000(1)	.....	.....	135,350(10)
1933	26,800(2)	15,000(2)	52,000(1)	.....	200(1)	63,000(4)	353,000(2)	10,000(2)	.....	50,800(2)	570,800(16)
1934	61,500(2)	.....	.....	29,000(4)	1,200(1)	35,000(3)	2,000(1)	19,000(4)	.....	2,600(3)	150,300(18)
1935	700(1)	100,000(1)	56,000(4)	.....	44,800(2)	4,500(2)	9,500(1)	162,000(5)	.....	4,100(2)	341,600(18)
1936	.....	9,000(1)	.....	22,500(3)	9,500(1)	64,700(2)	5,350(2)	18,000(2)	1,000(2)	2,150(3)	132,200(16)
1937	.....	15,000(1)	.....	23,500(3)	100(1)	19,600(2)	42,100(2)	24,000(1)	8,500(2)	138,000(2)	270,800(14)

Note: () Figures in parentheses indicate the number of orders-in-council each year. Amounts are in nearest thousands of dollars.

* See footnote 35, p. 59.

CHAPTER V

THE ANNUAL BUDGET

IN order to achieve a balance between revenues and expenditures over a given future period, (from December first to November thirtieth in the case of this province) a financial plan or budget is prepared by the executive branch of the government. In its final form the complete budget document includes both an estimate of future financial needs and a plan for meeting these needs. The satisfactory application to public finance of a budgetary system requires, (a) a carefully prepared plan, (b) its general acceptance and (c) its execution.

Budgetary procedures substitute, in a large measure, carefully prepared plans and forecasts for haphazard decisions. It is through the examination of a budgetary program that the legislative body is made aware of financial requirements necessitated by the general policy of the executive. The existence of such a plan provides the legislature with a picture of the financial requirements of the various governmental departments as an integrated whole. Without a budget the legislative body has no real basis for intelligent discussion of the financial policy of the government.

In order to understand the scope and limitations of budgetary techniques it must be kept in mind that even the most carefully prepared financial plan is based merely upon plausible expectations concerning the trend of revenues and expenditures in the particular budgetary year. Due to any number of causes, as, for example, trade conditions, the actual revenues or expenditures in the given year may not coincide with the estimates. In this way the pre-arranged financial program may be upset before the end of the budgetary year.

It is possible to continue expenditures from year to year without carefully planning them in co-ordination with the revenue system. Moreover, the existence of a budget in itself will not insure the character or quality of public services. Nevertheless when those officials, who direct the expenditures for public services, co-operate in the preparation of the budget—and comply with it—then its prime purpose, that of achieving some degree of financial stability, will be accomplished.

The Legislature has, in cases relating to provincial financial matters, the final word concerning the raising and spending of public monies. Only the members of the House have authority to determine broad questions of financial policy, as, for example, how much the province shall spend on roads, institutions and relief, in each fiscal year. The Executive consolidates the various departmental estimates for the approval of the Legislature. This body (in the main, composed of departmental ministers) is in the most advantageous position to examine the activities of the government and to present *in detail* the manner in which public funds can best be applied.

The annual budget begins to take form when the heads of all departments and sub-departments of the government estimate in detail both revenues (insofar as they are a revenue raising department) and expenditures for the current year. The tentative estimates are prepared on forms provided by the Treasurer's Department for this purpose. On these forms increases or decreases in departmental expenditures are indicated. Should a department wish to increase the expenditures for some particular item or items, this must be pointed out and reasons for the increase may be demanded by the Legislature.

The tentative or preliminary estimates of each department and sub-department are drawn up at the end of the fiscal year, November thirtieth, and presented to the Provincial Treasurer's Department. The various estimates of revenue and expenditure are consolidated in this department and discussed in a session of the Executive Council. The estimates as prepared by each department usually remain intact unless special circumstances arise. The budget in its final form is prepared about six weeks prior to the annual session of the Legislature which begins early in March.

The next step in the provincial budgetary system is the presentation of the complete budget to the Legislature. It is introduced by the Provincial Treasurer in his annual budget speech. Mimeographed copies of the document are placed in the hands of the members of the House. In this way the members are able to examine and discuss the proposed program of expenditures and the methods of meeting it.³²

³² Possibly because of a predominantly two party Legislature rather than in the interests of sound financial practice, it is often the case that criticism of the estimates is made only by the "Opposition". Otherwise it might be construed that general criticism indicated a lack of confidence in the prevailing government.

Here we may pause to answer a question which perhaps has occurred to the reader—how does the government operate from November until March without any authority to spend money? According to a statutory amendment in 1924 provision is made in the following way:

“After the close of a fiscal year, and pending the granting of appropriations for the new year by the Legislature, the Provincial Treasurer may (subject to any restrictions that are at any time imposed by the Governor-in-Council), authorize the payment of all proper claims for the ordinary and usual services of the several departments of the Government. The sum so paid in any fiscal year in respect to any service shall not exceed one-half of the sum appropriated for such service in the preceding fiscal year.”³³

The annual appropriation or Supply Bill passed some time in March by the Legislature not only approves future spending by the various departments as set forth in the estimates, but also ratifies the expenditures made prior to March of the fiscal year under discussion.

For the consideration of the complete estimates, the House resolves itself into Committee of the Whole. In committee the estimates are studied one by one. The responsible ministers reply to criticisms, explain departmental policies, and move the votes of the estimated monies for their particular departments. *Votes*, or *resolutions*, which at present vary from four to twelve for each department, depending on the breakdown of the estimates, must be passed individually. Statutory (or mandatory) expenditures—members and ministers' indemnities and certain grants—are authorized once for all and the Assembly merely takes note of them. In the final analysis, all appropriations are recommended by the government. The Assembly may reduce or strike out clauses of the budget but in practice the estimates are passed as prepared by the Executive Council. Should additional expenditures be deemed necessary, supplementary estimates may be brought down—including those to finance new legislative measures. On the basis of the decisions arrived at in committee the annual *Supply* or *Appropriation* Bill is drawn up. It is brought before the House and passed like an ordinary bill.

Few statutory controls are provided to ensure the taxpayers that the disbursement of funds is in accordance with the financial

³³ Acts of Nova Scotia, 1924, chap. 15.

Table VIII
COMPARISON OF ESTIMATED AND ACTUAL PROVINCIAL REVENUES
AND EXPENDITURES
Fiscal Years 1925-1937

Fiscal Year	REVENUES		Difference M between col- umns (1) & (2) (3)	%	EXPENDITURES		Difference M between col- umns (5) & (6) (7)	%
	Estimated (1)	Actual (2)			(2) ÷ (1) (4)	Estimated (5)			Actual (6)	(6) ÷ (5) (8)
1925	\$ 5,524,550	\$ 4,467,484	\$1,057,066	80.87	\$ 5,594,544	\$ 5,969,544	\$374,658	106.70
1926	5,277,782	5,369,515	91,733	101.74	6,694,324	6,598,213	96,111	98.56
1927	5,851,027	6,388,852	537,825	109.2	7,133,306	6,937,225	196,081	97.3
1928	7,044,304	7,375,924	331,620	104.7	7,476,025	7,621,425	145,400	101.9
1929	7,275,809	7,619,160	343,351	108.2	7,770,904	7,596,384	174,520	97.75
1930	8,263,064	8,494,992	231,928	102.81	8,664,768	8,729,458	64,690	100.75
1931	9,350,489	7,990,948	1,359,541	84.46	9,703,883	9,417,037	286,846	97.04
1932	9,667,152	9,083,649	583,503	93.97	9,692,901	9,246,753	446,148	95.40
1933	8,771,820	8,128,989	642,831	92.67	9,296,199	9,747,873	451,674	104.86
1934	8,226,320	8,185,078	41,242	99.5	9,524,460	9,477,410	47,050	99.51
1935	10,406,138	10,821,949	415,811	103.99	11,449,765	11,707,549	267,784	102.34
1936	9,988,883	10,289,369	300,486	103.00	9,983,696	9,759,479	224,217	97.75
1937	10,610,063	11,096,227	486,164	104.58	10,220,606	10,748,666	528,060	105.17

plan approved of by the Legislative Assembly. A system of recording, accounting and auditing was partially installed in 1925 and revised on the suggestion of the Treasury Department in 1933.³⁴ This resulted in a somewhat closer check being made on actual expenditures. This system presumably was based on the only reasonable assumption, namely, that an accounting system is *a means to an end*. In other words, such a system should reveal the financial position of the government at any given time; it should readily provide the Treasurer and Executive with any desired information; and finally, it should be the basis of checking the operation of the budget.

In order to determine the effectiveness of the financial plans and their execution over a twelve year period certain items in the annual statement of accounts may be examined. For example, a comparison of actual and estimated revenues and expenditures provides some indication of the accuracy of methods employed in estimating departmental needs. The amount of short term borrowing necessary to "carry the government" until the following fiscal year also reveals the difficulty of making accurate forecasts.

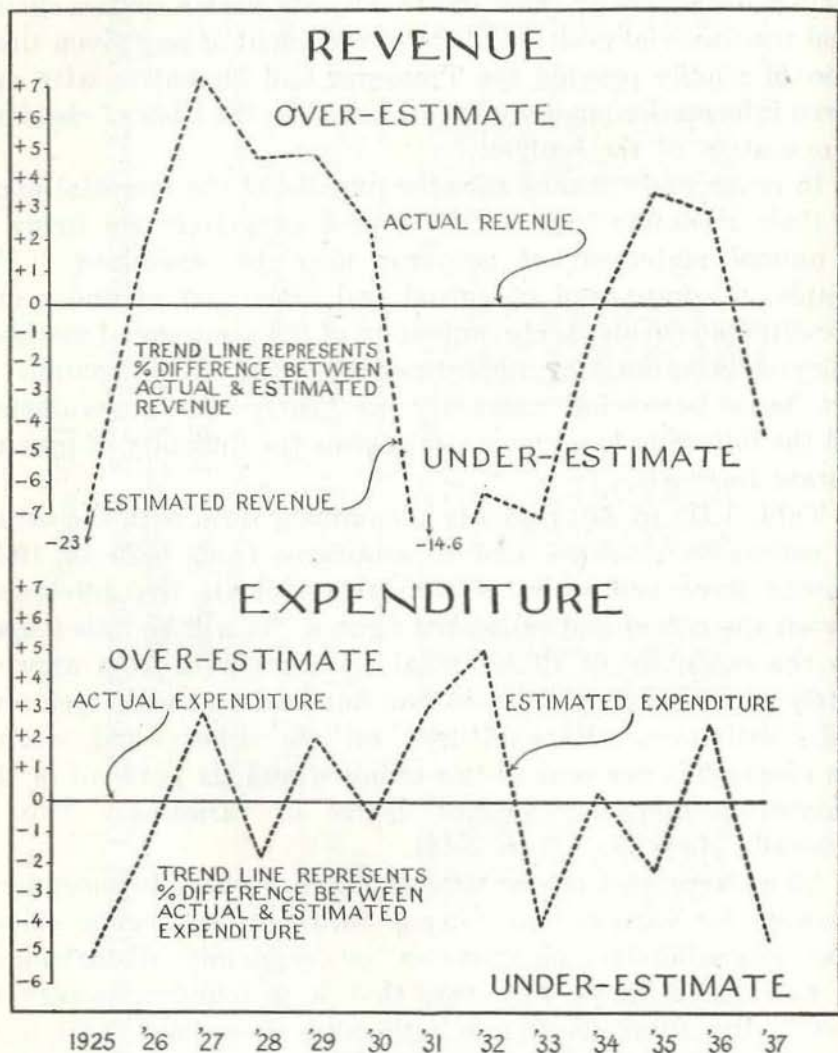
Table VIII (p. 56) presents in summary form both the actual and estimated revenues and expenditures from 1925 to 1937. Columns three and seven of the table indicate the differences between the actual and estimated figures. It will be noted that, with the exception of 1925, actual revenues were from approximately ninety-two per cent to one hundred and eight per cent of the estimates. Expenditures, on the other hand, varied from ninety-five per cent to one hundred and six per cent of the estimates—a relatively smaller degree of variation. This is graphically shown in Chart XIII.

All governments at one time or another resort to short term borrowing for various reasons, e.g. tardiness in revenue collections, unpredictable emergencies or economic disturbances. The number of times, however, that it is found necessary to resort to the above devices to rationalize or explain short term borrowing reflect the degree to which present methods of forecast fall short of their purpose. Difficulties involved in estimat-

³⁴ P. S. Ross, *Report on Financial Position of Nova Scotia, 30th September 1933 and Other Matters Relating Thereto*, (Province of Nova Scotia, 1934), p. 5. Although in 1925 P. S. Ross & Sons were employed to install a change in the system of accounting records of the province, it was not until 1933 that the suggestions of the newly appointed Deputy Treasurer were implemented and installed, as per the Ross Report of that year.

Chart XIII

PERCENTAGE DIFFERENCES IN ACTUAL AND ESTIMATED REVENUES AND EXPENDITURES
—1925-1937



ing the needs of the several provincial departments are to some extent indicated by the number of orders-in-council³⁵ and the amounts of money authorized in each case. *On an average* over a twelve year period from 1926-1937, there have been orders-in-council amounting to approximately \$200,000 each year. There is little doubt that short-term borrowing has played a predominant part in the fiscal practices of the various governments since 1926.

Should an interested taxpayer wish to see the manner in which revenues are to be disbursed, the annual *Estimates*, published by authority of the Legislature, will provide this information. For instance, an examination of the *Estimates of 1938* indicate that the provincial departments estimate that the ordinary revenue from various sources for the fiscal year ending November thirtieth 1938, will be \$11,653,961.60 (page 4). Current expenditures for the several services provided by the departments are estimated at \$11,284,440 (page 9). From pages 11 to 56 a detailed analysis of the expenditures required for each department and sub-department is presented. The latter section of the publication indicates in tabular form the extent to which the province plans to borrow. From a survey of pages 57 to 59 it will be seen that the province intends to borrow \$6,625,427, of which approximately ninety-six per cent is to be allocated to the Highways Department for the construction and maintenance of highways and for unemployment aid. The remaining four per cent is to be allocated to the various other departments for the acquisition and replacement of equipment.

In fairness to the governmental officials, it should be taken into consideration that outside factors beyond forecast and control disrupt even the best calculations. Moreover, although appropriation acts are passed allowing expenditures for purposes considered necessary for the public well being, there is no mandatory requirement that the entire sums so appropriated be spent. The appropriation acts serve merely to set outside limits and to guide the departments and sub-departments in the expenditure of public income.

³⁵ Authorizations for short-term borrowing are made through orders-in-council, R.S.N.S. chap. 19, s. 5. A more complete discussion of this technique of borrowing is included in Chapter VII. In summary form the number and amounts of orders-in-council for each department from 1927 to 1937 are presented on p. 52.

CHAPTER VI

Provincial Funds
and Accounts

CHAPTER VI

THE PROVINCIAL FUNDS AND ACCOUNTS

THIS chapter deals briefly with the mechanics of provincial financial management. The simplicity or complexity of accounts often is an important factor in the complete understanding of financial transactions. The discussion has now covered the planning, collecting and disbursing of public monies. The technique of "ear-marking" and recording the various financial transactions requires some explanation.

It is necessary at the outset to distinguish between the terms *fund* and *account*. Funds are used, in the main, for the purpose of allocating revenues for certain specific purposes. Technically a fund is a distinct financial entity.³⁶ In many governmental financial arrangements one finds such funds as *Special Revenue*, *Bond*, *Sinking*, *Utility*, *Trust* and other funds, where specific activities require special attention.

Connected with each fund there may be a series of accounts to record the various transactions. As in every form of record-keeping there will be controlling and special accounts set up to facilitate the accurate recording of the revenues, expenditures, assets, liabilities, reserves and surplus. In this way an accurate picture of the government's business can be obtained readily.

The main funds that have been created by the provincial Legislature are the Consolidated fund, the Highway fund, the Fire Prevention fund and the Sinking funds.

In the administration of provincial revenues the most important fund is the *Consolidated fund*. The law specifically states that all revenue, from whatever source derived, over which the Legislature has the power of appropriation—except in cases in which monies have been by act of Legislature set apart as special funds, or to be devoted to special purposes—shall form one consolidated revenue fund to be used for the public service of the province.³⁷

³⁶ National Committee on Municipal Accounting, *Municipal Accounting Terminology*, p. 10.
³⁷ R.S.N.S., chap. 15, s. 1.

The consolidated fund has two main accounts, namely, *current* and *capital* accounts. The current account is made up of several controlling accounts, one or more for each of the departments, boards and commissions. Several of the departments are revenue collecting agencies but all collections are turned over to the consolidated fund, the administration of which is conducted through the Treasurer's Department.³⁸ Records of these transactions are kept both by the Treasurer's office and by the department concerned.

Proceeds from the sale of bonds and debentures generally are allocated to the Capital Account. At the time when borrowing is authorized, the purposes and objects for which the funds are to be expended are outlined. In other words, the money is "ear-marked" before it is raised.

Although the *Highway fund* has become closely connected with the Consolidated fund, due partly to the fact that highway construction has provided a medium through which relief is distributed, technically a Highway fund is provided for by the statutes of the province.³⁹ Revenues to meet the expenditures for highway purposes, for the most part, come from the gasoline tax, motor vehicle licenses, the highways tax, grants from the Federal Government for the improvement of highways and such additional sums as may be provided, from time to time, by the Governor-in-Council. All these revenues are collected by the Highways department. They are deposited with the Treasurer's Department and the technique of expenditure discussed in Chapter IV is followed by the Department of Highways.⁴⁰

All money received and paid out for the maintenance of the office of Fire Marshal is included in a special fund known as the *Fire Prevention fund*. Revenues for this purpose are raised specifically through the levy each year on all companies transacting fire insurance in the province of an amount up to three-quarters of one per cent on the net adjusted amounts of premiums, receipts and assessments. Financial transactions are made through the Treasurer's Department but the expenditure of money for various purposes is directed by the Fire Marshal. The Marshal is required to keep an itemized statement of all money received and expended and it is his duty to approve all vouchers before payment is made by the Treasurer.

³⁸ cf. p. 48, *supra*.

³⁹ *R.S.N.S.*, chap. 75, s. 10.

⁴⁰ In the administration of the Highway revenues there is a separate cheque issuing unit within the Treasurer's Department.

Upon the authorization of Nova Scotia bond issues the Governor-in-Council may provide for special *sinking funds* with respect to such issues. The Council may also provide for a general sinking fund for which certain sums are allocated each year for the redemption of the various issues. Both methods have been followed. In addition to the general sinking fund there are twenty-three sinking funds pertaining to various provincial bond issues. However, a number of issues have no sinking funds and no payments at present are made into the general sinking fund. Monies for the sinking funds are included in the Current Estimates and appropriated out of current revenues. As of November 1938 the general sinking fund amounted to \$163,596.19 and the amounts in special sinking funds are summarized in the following table, Table IX.

Table IX
PROVINCIAL SINKING FUND INVESTMENTS
November 30, 1938.

Debenture Issue	Year of Issue	Date of Maturity	Amounts accumulated in funds
£ 164,000 ¹	• 1899	1949	\$ 624,612
£ 650,000 ¹	1904	1954	2,075,706
\$ 2,000,000	1935	1945	776,919
2,103,000	1936	1956	12,915
12,370,000	1927	1952	874,187
500,000	1928	1953	31,153
2,000,000	1928	1948	177,982
500,000	1928	1953	30,893
3,000,000	1928	1948	183,751
500,000	1928	1958	28,476
2,560,000	1929	1959	141,530
2,028,000	1929	1959	112,432
1,500,000	1929	1959	82,721
5,054,000	1930	1960	243,885
4,043,000	1930	1960	194,375
4,404,000	1930	1960	205,463
2,115,000	1931	1961	86,075
2,800,000	1933	1943	76,962
2,000,000	1933	1945	53,986
5,111,000	1937	1952	103,749
1,796,500	1935	1950	697,736
1,528,000	1937	1941	15,419
2,549,000	1937	1946	25,747
Total			\$6,856,674
General Sinking Fund			163,596
			\$7,020,270

¹ Nova Scotia Redeemable Stock held in London.

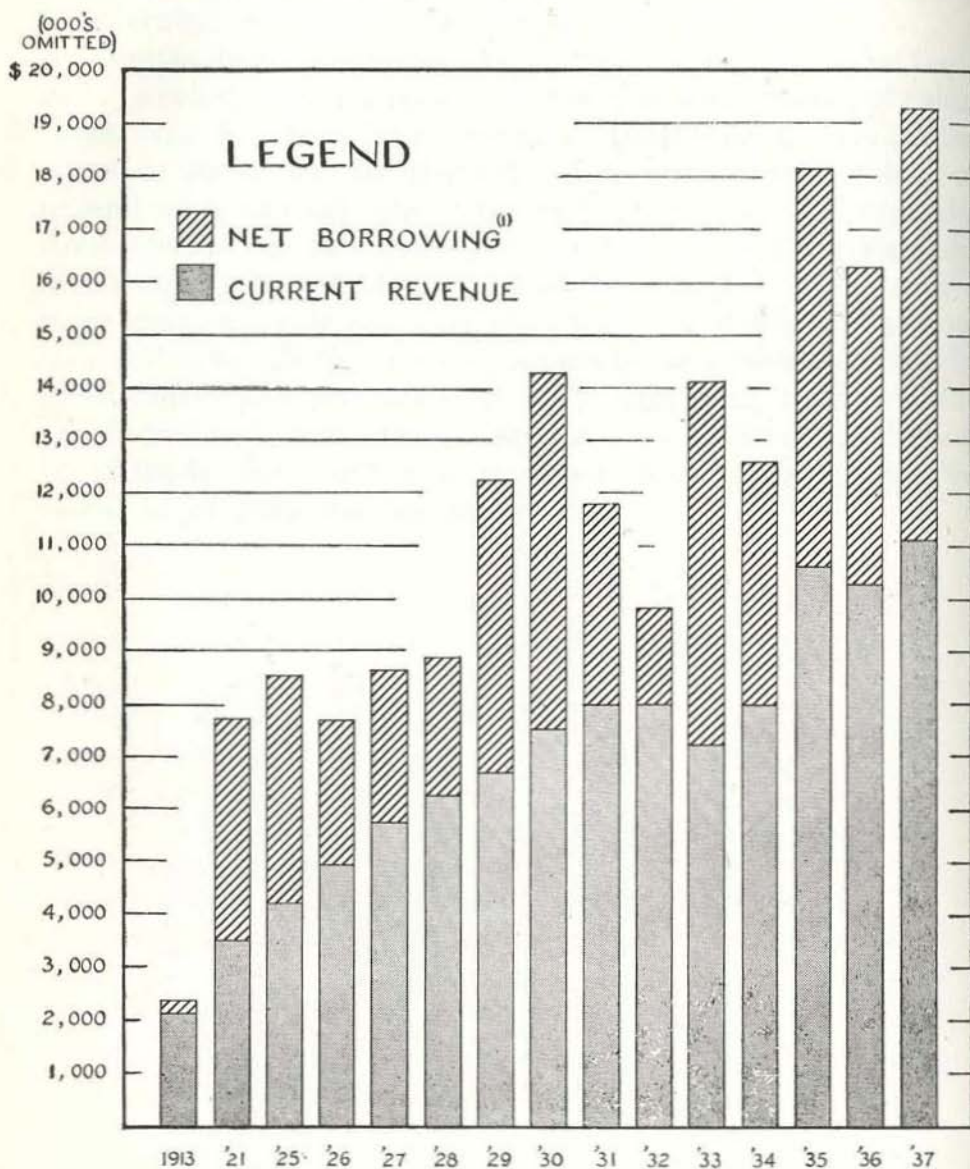
It will be noted that the amounts in each fund vary and that the variations are considerable relative to the similarity of bond issues represented. One reason for the variations is that at the time bond issues are authorized, the Legislature provides that some annual sum (not exceeding one per cent of the total issue) be allocated each year to a sinking fund.

Funds, in the main, have been superceded by a general budgetary system. The purpose, particularly in many States, of using funds was to assure that revenues designated for particular purposes would not be diverted. Also some direct control of expenditures was anticipated through this device since expenditures for various functions were limited to the revenues paid into funds. On the other hand, some activities often require more revenue than is available, while the funds of others may show large balances. Such results occasionally have been particularly inconvenient and embarrassing. One large fund together with an efficient budgetary system eliminates the need for a multiplicity of funds since control is provided through the Legislative sanctions of proposed expenditures.

CHAPTER VII

Public Debts

Chart XIV
PROVINCIAL INCOME
 Fiscal Years 1913-1937



* Data unadjusted—14 month period, 1935.

1 "Net borrowing" includes direct and indirect borrowing—does not include accounts payable, and minor revenues resulting from adjustments.

CHAPTER VII

PUBLIC DEBTS*

AT various times in the financial history of the province, and particularly during periods of economic disturbance, it has been deemed expedient by the Executive to spend more money than is available from ordinary revenue collections. The policy of the provincial government in this respect is graphically depicted in Chart XIV.

In order to acquire the supplementary revenues the province, like the private individual or business organization, applies to the banks and investment houses for loans. However, unlike the private concerns which usually borrow in the anticipation of monetary gain, the government borrows in order to maintain or expand public services. When the province contracts debts, they are said to have been incurred for public purposes.

It is not always realized that the Federal and provincial governments have been assuming a social responsibility far exceeding the notions of governmental functions held even a generation ago. Under the Canadian Constitution it happens that the functions which are expanding, namely education, public health and other social services, lie within the jurisdiction of the provincial and the municipal authorities. The scope of "social" and "public" services has so broadened that, as a result, the municipalities, generally, both from a financial and an administrative point of view are in no position to provide them.

It has now become a provincial responsibility to provide the major proportion of welfare services. Aid to those who have suffered as a result of unpredictable changes in the economy is an important factor in provincial expenditure. In order effectively to protect the community from disease, it has fallen to the government to assume certain public health and sanitation services. The province now maintains some charitable as well as corrective institutions. To protect the citizens from exploitation it is considered a social necessity to regulate the rates charged for such

* This chapter in condensed form appeared in the June, 1939 issue of *Public Affairs*, a publication of the Institute of Public Affairs, under the title "Provincial Borrowing in Nova Scotia".

things as light and water. In addition, the province has assumed complete responsibility for constructing and maintaining highways, and extensive responsibility for providing educational facilities. As a result of the increasing demands on the province it has been necessary to engage in ever widening expenditure programs.

Governmental expenditures as pointed out in Chapter I are classified as *ordinary recurring* and *capital—ordinary recurring* being those which are expected each year in the normal discharge of business; *capital* those which may be considered in addition to and apart from the regular expenditures. Based on this classification, it is considered a sound business principle to finance *ordinary recurring* expenditures from current revenues (e.g. taxes, subsidies, fees, and licenses) while on the other hand, *capital* or *periodic* expenditures may be financed by borrowing. Furthermore, these non-recurring expenditures often require the utilization of equipment and resources beyond the immediate command of the government. The scope as well as the urgency of such a program, therefore, necessitates the spending of larger sums than currently are available, and hence a policy of borrowing may be justified.

Emergency financing also falls within the category of capital expenditures. In order to alleviate the distress resulting from such emergencies as severe temporary unemployment, storms and fires, funds may be raised by borrowing, either through short or long term loans whichever may be deemed fiscally expedient.

This classification of expenditures is relatively arbitrary. If such classifications are not utilized with great care in the formulation of fiscal policy, it may result in expenditures falling first into one class and then into another without any change in the technique of financing them. Should a government find, for example, that a *capital* expenditure, has, in reality, become an *annual recurring* expenditure, then prudence suggests that the tax structure be revised to finance this expenditure out of current revenues.

The life expectancy of a municipality or province is considered to be greater than that of private individuals and even corporations. Also, large governmental units have, in the main, the power to draw upon wider resources than are available to most firms. Thus, the possibility on the part of a prudent governmental administration of maintaining a good credit standing is

good. At the same time, it is of vital importance to the citizens that a good credit standing should be preserved since the ability of a government to borrow is often the determining factor in the maintenance of social security. Finally, good credit relations enable the government to raise funds at relatively low interest rates thereby saving the taxpayers additional costs.

A number of examples of the credit standing of the province may be cited. Consider, for instance, the \$4,500,000 bond issue of 1936. The province was required to pay three and one-quarter per cent (nominal) annual interest for the use of the money for a twenty year period. The interest on this debt amounts to approximately \$138,000 each year.⁴¹ Had the province a less favourable credit standing and, as a result, been forced to pay four per cent as in Alberta, then the taxpayers would have been forced to pay approximately \$185,000 rather than \$138,000. The rates of interest at which the province has been able to borrow are seen in summary form in Table X, page 75.

By virtue of section 92, subsection 3, of the *British North America Act*, the provincial government may (among other things) "borrow money on the sole credit of the province". The utilization of this borrowing power is, in the final analysis, subject to control by the Legislature.⁴² Briefly, there are two ways in which the province is granted the privilege of borrowing.⁴³ The first and most important is the sanction of the Legislature provided—(a) in an annual act "To provide for Defraying Certain Charges and Expenses of the Public Service of the Province", and (b) by special acts passed to authorize the raising of a loan for a specific purpose⁴⁴ In the former case certain items regularly are chargeable to *capital account*, and funds to meet these charges are raised by borrowing. Authority is given by the Legislature as follows:

"The Governor-in-Council is authorized to raise by way of loan on the credit of the Province—the several sums of money for the Public Service that are chargeable to capital and granted by this Act."

The second method of granting the province the right to borrow is through Orders-in-Council. Due to miscalculations

41 This figure is calculated on the basis of the effective rates of interest. See page 76 for further elaboration on this point.

42 R.S.N.S., 1923, chap. 15, s. 3.

43 No mention is made here of the loan funds made available to this province by the Dominion Government. This policy on the part of the Dominion Government raises issues the solution of which is not yet satisfactorily determined and therefore cannot be discussed in the brief compass of this chapter.

44 See, for example, *Acts of Nova Scotia*, 1938, chap. 12.

in estimated revenues, emergencies, or unanticipated demands, it may be determined that funds are necessary in order to discharge certain obligations. In such cases the minister of the department or departments involved makes a recommendation to the Executive Council. If, after careful examination, the recommendations are approved, the Provincial Treasurer is authorized to provide the funds deemed necessary.⁴⁵

When private individuals borrow money from banks or investment houses usually some security is pledged, collateral deposited, or other similar procedures are followed. In the case of the province, however, public property is not pledged as security for the repayment of the loan. Instead, the province pledges its ability to collect revenues by virtue of its taxing powers. Although the possibilities of governmental borrowing may seem limitless, the economic resources of the province, in the final analysis, govern the scope and extent of provincial indebtedness.

When authority is given by the Legislature to borrow money, it is usually obtained by the issue and sale of Nova Scotia debentures or Nova Scotia stock.⁴⁶ The amount deemed necessary having been decided upon, the first act of the Treasurer's

45 *R.S.N.S.*, chap. 19, s. 5., cf. chap. V, p. 45, *supra*. Although emphasis here is placed on long term borrowing, the province also engages in short term borrowing. Changes in the laws relating to short term borrowing have been made from time to time. Chapter 20 of *Acts of Nova Scotia*, 1933, provides that:

"The Governor-in-Council may authorize the Provincial Treasurer: to borrow from any bank . . . by overdraft or by the issue, sale or pledge of Nova Scotia Treasury Bills or any other form of security or otherwise, or from any person, company or corporation in such amounts as are from time to time required, such monies as are necessary for the use of the province when the funds in the Provincial Treasury are insufficient for that purpose. The monies so borrowed, the amount of the Treasury Bills so issued or the overdraft so made, shall in no case exceed the amount of the deficiencies in the funds in the Provincial Treasury to meet the charges thereon when due or payable and shall be applied to no other purpose whatsoever."

**Bank Overdrafts or Temporary Loans for Current Financing,
Fiscal Year, 1926-1937**

Date	Accounts			Accounts	
	Current	Highways		Current	Old Age Pensions
1926	118,071	.....	1932	1,326,420	.....
1927	309,324	26,302	1933	2,151,087	.....
1928	895,133	31,371	1934	685,237	672,096
1929	129,599	.....	1935	190,042	280,159
1930	450,802	.....	1936	1,565,167	298,033
1931	921,064	.....	1937	1,684,756	328,356

* Figures to the nearest dollar.

46 The terms "stock" and "debentures" to all intents and purposes may be considered synonymous.

Department is to call for tenders or bids from the various investment groups or syndicates (e.g. such groups as those headed by the Royal Securities, the Bank of Nova Scotia or the Bank of Montreal). These groups offer certain amounts; either par value, less than par or more than par, depending upon market conditions. The bid considered most satisfactory to the province is accepted. Bonds are printed and signed by the Deputy Treasurer and delivered to a designated bank for further distribution. The investment house deposits in an accredited banking institution the sum agreed upon to the credit of the province.

Sometimes, due to the condition of the money market long term loans are not considered expedient. In order to meet the immediate financial requirements and at the same time remain in a position to take advantage of favourable interest rates, Treasury bills are issued or loans are obtained from banks. These bills are short term borrowings usually of six to eight months and are bought by banks and other institutions looking for relatively safe short investments. In recent years rates of interest charged for short term borrowing have been relatively low and this has encouraged governments to depend more on this type of borrowing.

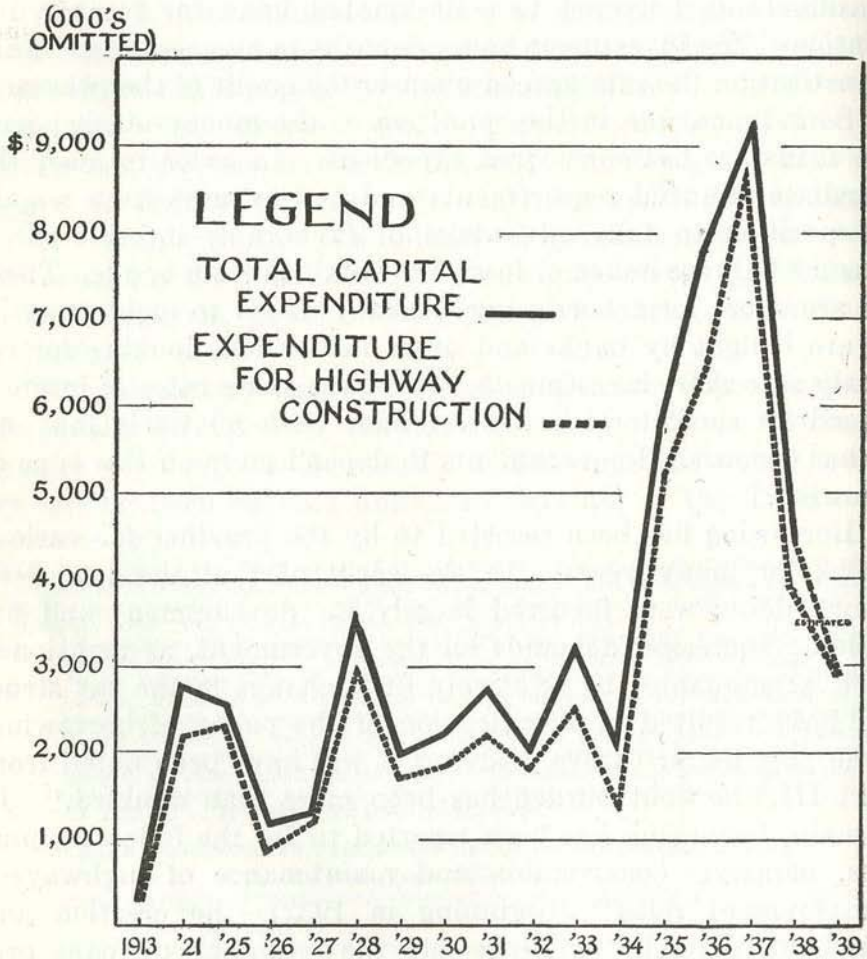
Borrowing has been resorted to by the province for various reasons for many years. In the early part of the twentieth century debts were incurred largely for development and expansion. Increased demands on the government, as mentioned above, accompanied by relatively little change in the tax structure, have resulted in an extension of the policy of borrowing. In the past ten or twelve years, as it will have been noted from Chart III, the debt burden has been more than doubled.⁴⁷ In the main, borrowing has been resorted to for the following purposes, namely: construction and maintenance of highways—unemployment relief⁴⁸ (beginning in 1932)—the erection and equipment of public buildings and the refunding of loans previously contracted for these purposes.

In Chapter VI the significance of the *Capital Account* was discussed. Chart XV below presents in graphic form the various expenditures that have been charged to capital.

⁴⁷ See Chart III, p. XII, *supra*.

⁴⁸ Under the "Nova Scotia Unemployment Act, 1931", *Acts of Nova Scotia, 1932*, chap. 7, the provincial government was authorized to purchase debentures of cities, towns and municipalities issued to finance unemployment relief in the local units. This virtually amounts to provincial borrowing to aid "the local units".

Chart XV
TREND IN EXPENDITURES CHARGED TO CAPITAL ACCOUNT
Fiscal Years 1913-1937



Data adjusted—14 month fiscal year 1935.

At the end of November, 1937, the total of approximately \$95,219,246 remained pledged against the credit (i.e. the economic future of Nova Scotia)⁴⁹ In its entire history the province has never repudiated an issue. The debt is now over eight times the revenues annually collected.

Although the credit rating of Nova Scotia is higher than that of some Canadian provinces, an examination of the cost to the

Table X
SOME SIGNIFICANT FINANCIAL COSTS OF
PROVINCIAL BORROWING*
Fiscal Years 1924-1937

Date Issued	Term of Issue	Amount Borrowed \$	Discount \$	Amount Received \$	Rate of Interest %	Amount of Annual Interest \$
1924	20	2,530,000	29,854	2,500,146	5	126,500
1927	25	12,370,000	319,418	12,050,582	4½	556,650
1928	25	500,000	32,400	467,600	4½	22,500
1928	20	2,000,000	96,592	1,903,408	4½	90,000
1928	25	500,000	24,906	475,094	4½	22,500
1928	20	3,000,000	144,888	2,855,112	4½	135,000
1928	30	500,000	26,750	473,250	4½	22,500
1929	30	2,560,000	35,200	2,524,800	5	128,000
1929	30	2,028,000	27,885	2,000,115	5	101,400
1929	30	1,500,000	15,000	1,485,000	5	75,000
1930	30	5,054,000	54,280	4,999,720	5	252,700
1930	30	4,043,000	43,422	3,999,578	5	202,150
1930	30	4,404,000	104,331	4,299,669	4½	198,180
1931	30	2,115,000	15,291	2,099,709	4½	95,175
1933	10	2,800,000	114,800	2,685,200	4½	126,000
1933	12	2,000,000	62,400	1,937,600	4½	90,000
1934	5	5,050,000	49,995	5,000,005	3½	176,750
1934	5	3,534,000	24,031	3,509,969	3	106,020
1935	10	2,000,000	41,964	1,958,036	3	60,000
1935	15	1,796,500	55,659	1,740,841	3	53,895
1935	5	3,012,000	11,747	3,000,253	2½	75,300
1935	12	4,140,000	140,346	3,999,654	3	124,200
1936	20	4,579,000	78,896	4,500,104	3½	160,265
1936	20	2,103,000	103,320	1,999,680	3	63,090
1937	15	5,111,000	110,909	5,000,091	3	153,330
1937	4	1,528,000	27,351	1,500,649	2½	38,200
1937	9	2,549,000	48,176	2,500,824	3½	89,215
Totals.	..	83,306,500	1,839,811	81,466,689	..	3,344,520

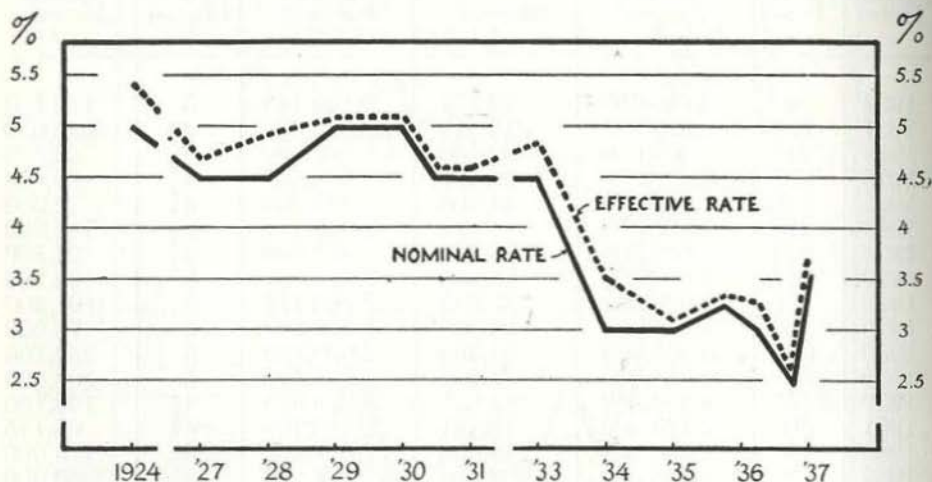
* Sterling issues are not included in this table (see footnote below). The amount of sterling issues outstanding at present is \$6,572,746 (4.86 2-3) or about seven per cent of total debt. Nova Scotia stock outstanding amounts to \$75,000.

⁴⁹ Province of Nova Scotia, *Public Accounts*, 1937, P. XXXIV. This figure does not include sterling issues outstanding and payable in England. The provincial government has not gone to the London market for loans since 1913.

taxpayer of maintaining this record should be made. Table X indicates in summary form some of the costs of borrowing since 1924. It will be noted that, on an average, for every hundred dollars borrowed, one hundred and two dollars must be paid back to the creditors. Each and every year interest to the amount of nearly three dollars and seventy-five cents is paid for every hundred dollars borrowed by the province. For the use of a dollar for a twenty-year period the taxpayers are paying approximately seventy-five cents in addition to the return of the bor-

Chart XVI

TRENDS IN INTEREST RATES ON PROVINCIAL LOANS 1925-1937



rowed dollar. Also, and of more direct significance, the annual cost to the taxpayer of maintaining this debt burden is approximately three and one-quarter million dollars.

In order to give a further indication of the cost of borrowing to the people of the province, a comparison of the "effective" and nominal rates of interest is of some significance. Chart XVI above graphically presents the trend in interest rates on provincial loans over a twelve year period. It will be seen that rates have been dropping slowly in recent years. Of more significance is the fact that a discount always has been paid on provincial bond issues. This is indicated in the trend in effective interest rates.

As a result of the outbreak of war the cost of borrowing is likely to increase because of readjustments in the money market.⁵⁰ In the last six years interest rates have been falling and consequently the province has been able to borrow without debt service charges becoming too burdensome. Despite this fact debt charges now absorb approximately thirty per cent of current revenues. If the *average* rate of interest on provincial debt were to rise by one per cent an additional million dollars of current revenue may be required and the debt charges would then absorb about forty per cent of present revenues.

It has been argued that in this province many "capital" expenditures have become *annual* or *recurring* expenditures. According to this view the effects of borrowing to finance such expenditures should be distinguished from the effects of borrowing to finance periodic *capital* expenditures. If loans are floated year after year to finance continuing expenditures, (even of a capital nature) the indebtedness mounts rapidly. Such a policy if persisted in gradually results in a growth of annual debt and service charges which in time may come to dominate the whole budget. Insofar as this is a fact it should be clearly recognized and a quota of the annually *recurring capital* expenditures should be financed by taxation. Of course, for those capital projects that recur only periodically, a complete "pay as you go" program is not economically feasible. But, with long range planning of capital improvements, financed by a combined policy of taxation and borrowing—taxes should, so far as economically possible, be levied to finance *annual recurring capital* expenditures, with resort to borrowing to cover only *periodic capital* expenditures. Increases in tax levies, of course, often give rise to undesirable political repercussions from which proposed bond issues are relatively free. Yet, a policy of cash financing properly presented to the voters should be met with some support.

On the other hand, many experts regard the above proposals as practically impossible. Since a budget is merely an estimate of expenditures and anticipated revenues, there can be little possibility of achieving a balance under present conditions. Furthermore, it is pointed out that expenditure needs do not coincide with revenues and more often are in inverse proportion. Moreover, in contracting a debt for *annual* or *periodic capital*

⁵⁰ See chap. IX, p. 87.

expenditures, resources are utilized that otherwise might remain idle. This school of thought does not regard debt as an evil in itself; it argues that the evil lies in the improper management of debt. According to this view it is considered wise policy to borrow during depressions and to pay off the debts during prosperous periods by expanding the tax rates or adding new levies. Any fiscal policy that increases economic productivity and welfare to a greater degree than if expenditures, either public or private, were not made, presents a major justification for increasing the debt, according to this view.

CHAPTER VIII

Sources of Financial Information

CHAPTER VIII

SOURCES OF FINANCIAL INFORMATION

THE periodic publication of reports of governmental activities and particularly those on the raising and spending of money, is a necessary function of any governmental organization. Adequate and well written reports, regularly presented, serve, first, to encourage efficient administration on the part of the public servants and, secondly, provide the interested taxpayer with an intimate and understandable survey of a business in which he is, in reality, a "stock-holder". Unfortunately, however, there is neither general agreement concerning the type of report nor the medium by which the taxpayer should be made acquainted with the activities of public officials. Pages of statistical material serve only to confuse and bore the reader while condensed reports do not provide any measure of information for the enquiring individual. Whenever a citizen finds time to examine a public report he is discouraged by the maze of figures and tables therein presented. Usually, after one or two ineffectual attempts to understand "his business", in all likelihood he assumes that the government is quite satisfactory or quite crooked, depending upon his political complexion, and turns to other diversions. Yet, periodic reports of governmental activities are necessary to assist in the guidance of public opinion.

Each of the provincial departments, boards and commissions, annually prepares a report outlining the activities of the past fiscal year. As these reports are not prepared under the direction of one individual, the form in which they are presented naturally varies considerably. Yet the information that is available should reward the patient reader. The King's Printer is authorized to provide these reports to any individual without charge.

The main financial report of the provincial government (summarizing, in part, the financial activities of the various agencies) is the *Public Accounts*. This annual publication which also may be secured from the King's Printer, gives, in detail, a survey of the business of the province over the fiscal year. The

Public Accounts for the year 1938 will serve as a basis for the following discussion of financial reports.

Pages I to LXIV of the *Public Accounts* present the key statements, i.e. a summary of revenues and expenditures, balance sheets and bond issues. Pages 1 to 104 present department expenditures in detail with the exception of those of the Department of Highways⁵¹ and pages 105 to 115 summarize the capital expenditures.

Pages VII and XX illustrate the previous discussion in Chapter V concerning supplementary appropriations. It will be seen that the majority of the requests from the various departments have been towards the latter part of the fiscal year. These requests indicate, in the main, that the estimates were too low or that unforeseen circumstances had arisen beyond forecast. Supplementary appropriations totalling \$197,700.01 were made which will be chargeable to the respective departments in 1939.

Page XXII presents in summary form the results of the transactions of the government, exclusive of the operations of the Power Commission, Liquor Control Commission, and the Land Settlement Board. This Balance Sheet shows the position of the province as of November 30, 1938. On the right hand side of the sheet the bright side of the picture is presented, while on the left side the outstanding obligations of the province are tabulated. The various items comprising the balance sheet are shown in detail under appropriate headings in the preceding and subsequent pages.

The statement Table X (page XXIV of *Public Accounts*) shows in summary form the actual revenues collected by the various departments and their expenditures for the fiscal year. These items represent the normal discharge of business financed by charges levied by the government on the public. Notice, for example, the items both of Revenue and Expenditures under the heading *Attorney General*. The amount \$930,865.62 on the revenue side is broken down into its various sources on page XLIII. On the expenditure side of the statement the item *Attorney General* is shown to be \$160,496.57. On pages 1 to 11 the items of expenditure are shown in greater detail, for example, court reporting, criminal prosecutions, etc. Page 2 of Part II of the report shows a breakdown of the item *Court Reporting*,

⁵¹ A detailed analysis of highway expenditures is presented in the annual report of the Department of Highways.

Table XI

CONDENSED STATEMENT OF PROVINCIAL REVENUE AND EXPENDITURE

Fiscal Year 1938

REVENUE	
Department of—	
Attorney General.....	\$ 930,865.62
Education.....	63,200.84
Highways.....	4,302,092.92
Agriculture.....	2,810.82
Public Health.....	624,967.31
Provincial Secretary.....	1,348,406.78
Provincial Treasurer—	
General.....	\$2,399,085.74
Nova Scotia Liquor Commission.....	1,338,904.12
	\$3,737,989.86
Public Service.....	51,557.05
Public Works and Mines.....	737,639.83
Labour.....	4,852.37
	\$11,804,383.40
EXPENDITURE	
Department of—	
Attorney General.....	160,496.57
Education.....	1,340,244.87
Highways—	
General.....	\$2,367,524.25
Interest on Funded Debt.....	1,725,694.70
	\$4,093,218.95
Agriculture.....	297,353.78
Public Health.....	2,350,391.72
Provincial Secretary.....	78,910.00
Provincial Treasurer—	
Interest on Funded Debt.....	\$2,179,955.72
Less: Received from Nova Scotia Power Commis- sion.....	676,347.09
	1,503,608.63
General.....	415,465.64
Public Service.....	1,919,074.27
Public Works and Mines.....	198,074.41
Labour.....	344,775.11
	514,123.96
	\$11,296,664.34
Revenue Surplus for the fiscal year ended 30th November, 1938, before charging Sinking Fund Instalments.....	507,719.06
Sinking Fund Instalments and Serial Retirements, includ- ing Highways Funds, paid during the year ended 30th November, 1938.....	361,581.66
Net Revenue Surplus for the Year.....	\$ 146,137.40

Table reproduced from Province of Nova Scotia, *Public Accounts*, 1938, p. xxiv.

Note: Capital Expenditures are not included in this table.

giving an itemization of each expenditure. This arrangement is followed for all other departments.

A consolidated balance sheet showing the results of all provincial business is presented on page LXIV. This is, in part, the balance sheet on page XXII combined with the statements of the Power Commission, the Liquor Commission and the Land Settlement Board. It epitomizes the provincial business for 1938. The interesting statement on page LV reveals the complete cash transactions of the Provincial Treasurer's Department and supplements the previous statements of revenue and expenditure. The annual business of the government is completely summarized in this statement.

It may occur to the reader, at this point, that the manner in which the province presents financial statistics and the manner in which statistics have been presented in this bulletin differ considerably. Again it may be emphasized that the present purpose is to illustrate the cost of achieving certain objectives. One serious criticism of governmental accounting is thus raised. The Provincial Secretary's department, for example, is given the task of administering and collecting certain taxes while the demands on the Provincial Secretary's department (necessitating expenditure) are relatively insignificant. From an examination of the above statement, Table X, it would appear to the novice that the Department was running quite effectively: revenues \$1,348,406 and expenditures \$78,900. The Department of Public Health, on the other hand, according to the same reasoning is not operating on a sound basis. This technique of presentation when used alone (1) fails to illustrate the cost to the taxpayers of various services and (2) encourages misconceptions concerning the significance and objectives of various departments.

The value of complete, well written and well presented reports cannot be over-emphasized. Every government likes to feel that it has the full confidence of the citizens for whom it is running the province's business. To allow rumours, newspaper comment and incomplete data to be publicized is only to invite criticism. There is no necessity for secrecy in the operation of the finances of any government. In the first place the money belongs to the people. In the second place the money is used for the people. By the simple expedient of preparing financial reports citizens who desire to know what is being done can satisfy themselves that the government officials who have been placed in authority are discharging effectively their obligations.

CHAPTER IX

Problems and Policies

CHAPTER IX

PROBLEMS AND POLICIES

THE survey of the recent financial history of the province indicates that the government has been confronted with many new problems. The economic conditions that followed the Great War of 1914-1918 and the further disturbance of the depression after 1929, forced governments everywhere to readjust their financial policies. Expenditure needs increased for welfare purposes, and capital expenditures for public works and highways seemed necessary in order to compensate for the disturbing conditions in private industry. But, while expenditure needs increased, the revenues of the province were less easy to expand, because the province is constitutionally limited in its taxing powers and because economic dislocations arising from additional taxation might offset such advantages as resulted to the provincial economy from governmental expenditures. In consequence, the recent financial history reveals rapidly expanding expenditure requirements, met largely by a growth in public debt which has been most exceptional for peace-time.

The province of Nova Scotia meets the conditions imposed by the war under unfavourable financial circumstances. Prior to the outbreak of the war the government had been attempting to expand certain services such as welfare and education with a relatively inflexible revenue system. Fixed charges for debt service and the maintenance of capital equipment absorb nearly fifty per cent of current revenues. Problems of debt management, the encouragement of industry and relief of unemployment were of considerable importance. The outbreak of war raises an additional set of financial problems for the provincial government. New financial policies may be necessary to cope with them. Despite the fact that the provinces and the Dominion have equal status in the federal organization, the Dominion government is responsible for the conduct of the war and therefore will require additional revenues and new borrowing, all of which will tend to affect (and possibly to limit) revenues and borrowing available to the province.

The budget brought down by the Provincial Treasurer in March of 1939 provided for certain measures which may be rendered unnecessary by new circumstances. In the light of changing economic conditions, as well as changes in Dominion policy, the recent trend toward expansion in certain governmental services may be checked. Possible inflationary tendencies in the money market, plus the addition of many Dominion taxes, may curtail a number of provincial revenues. Due to war conditions, the problem of relief may be alleviated but it is highly unlikely that welfare and social services in general can be curtailed since they are not yet on a satisfactory level. In addition, the province is dependent to a great extent on Dominion subsidies and grants which, under war conditions, may become fixed.

As indicated previously, the great bulk of capital expenditures have been made for the construction of roads. In view of the tremendous outlay that the province has made, it is necessary to keep the roads in an adequate state of repair in order to maintain and preserve the capital investment. Prior to the outbreak of the war, the revenues from the gasoline tax and the registration of motor vehicles and other such license fees have been sufficient to support service charges for the maintenance and upkeep of the roads (but not for the complete amortization of existing debt). Should the tourist trade decline as a result of the war, it is possible that a heavier burden may fall on the general current budget.

In Chapter VII it was pointed out that the province in 1937 had a debt of over ninety million dollars. By 1939 this had increased to one hundred and ten million dollars. Annual interest payments have been in the neighbourhood of three and a half million dollars. In Table IX, p. 65, the maturity dates are shown. Within the next two years approximately nine million dollars must be repaid or refinanced. Very small sinking funds are available to amortize this debt. The present provincial practice of refinancing debt obligations under declining interest rates is likely to be no longer available. Should the Dominion government demand war loans and should private investors attempt to liquidate bonds in order to invest in stocks, it is probable that interest rates will tend to rise despite artificial controls. The conduct of the Exchange Control Board may eliminate provincial borrowing from the United States and British markets in which event the province would have to compete with the

Dominion and other provincial governments in the Canadian market. If the activities of the Central Bank in rendering financial assistance have inflationary tendencies the bond market may be adversely affected. In other words, as a result of the war, the province is likely to have to offer more money than hitherto anticipated in order to refinance maturing debts. Should the province allow its total debt to increase further (assuming no Dominion control of provincial borrowing) the problem of the debt burden would become one of the first magnitude.

Should the province, as a result of dislocations in the economic system as well as repercussions due to Dominion policy, be faced in the near future with increasing burdens, the alternatives available to the administration are basically either the reduction of total expenditures or the increase of revenues. The possibility of either of these alternatives being employed is extremely significant to the taxpayer. Shall the province seek to maintain the existing load of provincial taxes while the taxpayer assumes an additional burden of Dominion taxation, or shall the province attempt to alleviate the provincial burden in order to assist the taxpayer in meeting the new Dominion burden?

In any attempt to reduce expenditures it is necessary to examine the various services now provided by the provincial government. It has been pointed out elsewhere that welfare services, while not up to standards in other parts of the Dominion, are necessary to the people of the province. It is unlikely therefore that these services can be curtailed. Although there is some indication that the Dominion government *eventually* may undertake the complete responsibility for old age pensions, mothers' allowances and the relief of unemployment, expenditures for these services will be for some time matters of provincial concern. Thus, any economy in this direction is attendant upon Dominion action.

In the past few years efforts have been made to improve the standard as well as the extent of educational facilities throughout the province. This development calls for *increasing* expenditures on the part of the government. Such obligations as are, at present, included in the educational policy cannot be avoided without seriously affecting the whole structure of education throughout the province.

A considerable sum of money has been invested in highway development. In order that the investment may be preserved,

it is necessary to make relatively heavy maintenance expenditures each year. In view of the need for highway facilities any economies in this direction will be negligible. Furthermore, it may be necessary for the government to subsidize certain industries in order to achieve an economic utilization of existing capital equipment.

The many additional services provided by the government have shown a tendency to increase. Since the administration has been attempting to bring the function of government to a new level of efficiency, efforts to curtail its activities will be met with opposition. Moreover, the expenditure for minor services if compared to those in other provinces substantiates the comment that government in Nova Scotia is frugal by contrast with other governmental organizations.

So far as economies are possible (and expedient) no doubt they will be made. The alleviation of the unemployment problem, if only temporary, offers a possible economy of expenditure. But any savings in that direction may be more than counterbalanced by increased charges for refinancing the maturing debt obligations. Furthermore, the question of municipal solvency has not been considered. Should the province be forced to assist municipalities in order to preserve provincial credit, the expenditure needs may increase sharply.

The most feasible alternative courses at present facing the province are either the maintenance of revenues at the existing level or, should debt charges increase, as well as other costs, the necessity of increasing revenues. Under the first alternative the taxpayers will be forced to assume the additional burden of Dominion taxation while maintaining the same level of payments to the province. Should the latter alternative be forced on the province then search for additional revenues as well as reorganization of the existing revenue system is of paramount importance.

Certain possibilities may be considered as a partial solution of the problem. They include rearrangement of the present structure of the tax system and the inclusion of additional taxes or the substitution of certain taxes for those now relatively unproductive.

The present arrangement of corporation taxes does not appear to be economically sound. While no substantial increases in tax rates, at the moment, appear necessary, it might be worth

while to consider the levying of the tax on a uniform base. Banks, insurance companies, building and loan associations, fiduciary institutions and other financial organizations may have to be distinguished from mercantile and manufacturing corporations and the taxable status and ability of each classification should be considered. Levies proportioned to net income should be applicable to the end that any business when profitable shall bear its share of business and privilege taxes.

It has long been argued by competent economists that an income tax is the most equitable method of apportioning burdens for general governmental services. Consideration of political expediency often resulting in borrowing must, under existing circumstances, be superseded by considerations of equity. It seems, therefore, that a provincial income tax collected by the Dominion government and transferred to the province—thus avoiding administration expense—might provide the additional revenue.

Motor vehicle license fees, based on considerations outlined in Chapter I may be examined as a possible source of additional revenue. Since the highways provide the means of transportation necessary to the conduct of industry within the province, and since the gasoline tax cannot be pushed much higher without becoming punitive, a revision in the scale of license fees might be considered. Since the aim of special levies is to provide for the financing of special services, an increase in license fees might be justified.

In view of the relatively precarious financial position of the province, the sale and distribution of liquor within the province might well be geared up to the most productive position possible. As a result of the Dominion levy on liquor—*not to suppress it but for revenue purposes*—it may be necessary for the Liquor Commission to adjust continually the price scale for the various brands of liquor in order to maximize the revenue from each brand and therefore to maximize total profits. If this is not done, the revenues may shrink due to the effects of Dominion taxation.

Search for additional revenue always raises the issues of collection costs, administration costs, and swiftness and certainty of collection. The revenue yield is also an important consideration. Thus, selective sales taxes or (to keep within the doubtful bounds of constitutionality) retailers' occupational sales taxes

may be considered in some circles. Such a tax of so much per dollar of business done may be collected from the retailers for the privilege of doing business. The retailer would be considered as agent for the government as in the case of gasoline taxes. Admissions, cosmetics, cigarettes and even food can be included in this tax. This form of regressive tax should *not* be contemplated before a tax on personal incomes is imposed.

In the determination of administrative policy two factors are of extreme importance, namely, the ends in view and a knowledge of alternative methods of achieving them. Ends and means often are confused, with the result that certain objectives are overlooked. The program as outlined in the annual budget is often considered the ultimate end of government business, whereas such planning is in reality only part of a long run policy. Since governmental activities are subject to fluctuations in the economic system (or *vice versa*), policies of revenue collection and public spending must be considered with reference to the structure of the economy as a whole.

Federal policy may seriously affect provincial finance without any apparent intention and few compensatory actions are available to the provincial government. Furthermore, the province may be called upon to assist some of the municipalities which are in a doubtful financial position. The government is going to be faced with the refinancing of provincial obligations, and it is likely to be faced with periodical adjustments of industry within provincial jurisdiction. The relative inelasticity of the legal framework of rules whereby the administration is guided, as well as the inability of legislators to foresee future events, makes it difficult to formulate administrative policy to cope with the problems. It seems necessary, therefore, that the whole financial structure of the province and the municipalities be continuously under examination in order that the taxpayers will not be overburdened with inequitable and non-productive taxes and in order that the province may preserve its existing level of financial independence and integrity.

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