

THE
CANADIAN BUDGETS
1867-1896

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THE CANADIAN BUDGETS, 1867 - 1896

by

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INTRODUCTION

In the fourth decade of the last century the British Provinces in North America were granted responsible government. With the passing of the control of the public purse to the elected Assemblies, there was adopted a budgetary system analagous to that of Great Britain. The system was continued after Confederation both by the new Dominion Government and by the provinces. The Minister of Finance presents an annual Budget to the House of Commons, and, in the course of his statement, reviews the financial results of the past fiscal year, presents estimates for the remainder of the current year and for the year just commencing, and announces his proposals for an increase or decrease in taxation, or for other changes in financial administration, which Parliament is to consider. The annual Financial Statement creates, as a rule, a lengthy debate, in the course of which the policies of the government in matters of fiscal and financial concern are in turn condemned and defended.

It is the aim of this thesis to survey the fiscal and financial history of Canada, in the first three decades after Confederation, by means of a study of the annual Budget speeches. In accordance with the plan adopted, there is presented a sketch of the financial history of the Provinces before Confederation, and of the organization of the Dominion finances in 1867. There follows a summary of each Budget statement, and of the criticism offered by the principal

speaker of the Opposition. On matters of importance the arguments of other speakers are also considered. In view of their obvious effects on financial policy, economic conditions and changes in the country are outlined, as are also changes of policy in the United States which affected Canada. At the conclusion of each chapter the course of revenue, expenditure, and debt, in the period dealt with, is briefly reviewed. The final chapter presents a survey of Dominion finance from 1867 to 1896.

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"Now, Sir, I think it is a matter of which every honourable member is sensible, that the inauguration of the Union has not been unaccompanied with very considerable financial difficulties."

- Hon. John Rose (1868)

THE FRENCH REGIME

Canada was a province of France until 1760, when, in the course of the Seven Years' War, the English took possession of it. Although the French occupation had continued for two and a half centuries, the colony had made little progress, politically or economically. In the field of public finance there was no system of popular taxation. The King was supreme, and the power of taxation was regarded as a sovereign right which was not delegated. This applied even to temporary and local assessments levied for special purposes. The revenue during this régime was derived almost entirely from the customs, and from the royalties connected with the fur-trade.

Following the English Conquest, there was little change until 1791. As under the French régime, the territorial and casual revenues, consisting of certain

seigniorial dues, and the proceeds of the sale of government timber and land, were reserved to the Crown.(1) The British Parliament reserved for itself the right of levying taxes and of regulating the trade and commerce of the colony. (2) In 1778, however, it passed the Declaratory Act,(3) renouncing forever "the right of taxing the colonies to provide Imperial revenue, but maintained its claim to impose duties considered necessary for the regulation of trade, the proceeds to go towards defraying the expenditures of the colonial administration." (4)

STRUGGLE FOR CONTROL OF THE PUBLIC PURSE, 1791 - 1846

In 1791 the Constitutional Act divided the colony into the Provinces of Upper and Lower Canada, and created a representative assembly in each. Under this Act the British Parliament continued to reserve to itself the right to regulate trade and commerce; the local legislature could not repeal certain duties imposed by the Quebec Act of 1774; the income from this source, as also the territorial revenues, remained under the exclusive control of the executive branch of the government. The Houses of Assembly had control only over the proceeds of taxes collected under the authority of their own laws. The executive was thus rendered almost

(1) The Quebec Revenue Act, 1774, 14 Geo. III, cap.88

(2) The Quebec Act, 1774, 14 Geo. III, cap 83.

(3) The Colonial Tax Repeal Act, 1778, 18 Geo. III, cap.12.

(4) Canada Year Book, 1927-28, pp. 805 - 806.

entirely independent of the legislature because of the fixed and permanent sources of revenue at its command. If the royal revenues proved inadequate to defray the expenses of the government, the deficits were covered by imperial funds from the English military exchequer.

This state of affairs was resented by the elected Assemblies, and there ensued the long conflict between the executive and the legislature over the control of taxation and appropriations. Circumstances favoured the popular parties, but unrest and a rebellion were necessary before the control of the purse passed into the hands of the Assemblies. In 1831 the British Parliament passed the Canadian Revenue Control Act, which placed the customs duties at the disposal of the legislatures. Only the relatively insignificant territorial or casual revenues now remained subject to the Crown. Lord Durham's report of 1839 changed the administration of the finances of the colonies. By the Act of Union of 1840, the proceeds of the casual and territorial revenues were henceforth to be paid into the treasury of the newly-created Province of Canada, to be disposed of at the will of the legislature. The British Parliament, however, still reserved to itself the right to levy duties, and to regulate the trade and commerce of the Province. The last tariff it imposed on Canada was that of 1842. The struggle for responsible government terminated, as far as taxation was concerned, in 1846, when,

by an Act (1) of the British Parliament, the Assembly obtained complete control of all revenues and expenditures of the government. The principle that all taxes should be imposed and all supplies voted by the elected House finally came into effect.

The finances of Canada, in the first half of the nineteenth century, thus provided a political and constitutional struggle. The discontent was not over taxation or tariff policy, but over the control of the public purse-strings of the colony. Financial policy was a secondary consideration while the constitutional battle was waged.

EARLY TAXATION IN THE PROVINCES

The three sources of revenue of both Upper and Lower Canada were the Imperial duties, the Provincial duties, and certain casual and territorial revenues. The customs duties were collected in the lower province, and Upper Canada experienced difficulty in obtaining a just division of them. It received only one-eighth of the duties collected before 1824, when the proportion was increased to one-fifth. With a growing population and with large deficits, it was compelled to establish a system of local assessments, and largely to leave to the localities their own works. Upper Canada passed its first assessment act in 1793, in the form of a personal property tax. Provincial direct taxation was avoided by the Act of Union of 1840, which instituted a

(1) 9 and 10 Victoria, cap. 94.

system of municipal government, and by the Baldwin Act of 1849, the first general municipal act in the province, which made possible the extension of the personal property tax.

In Upper Canada the institution of a system of local assessment was not difficult because the United Empire Loyalists, who had settled there, were familiar with the local self-government of the American Colonies before the Revolution. The French-Canadian majority of Lower Canada, however, was always opposed to direct taxation. The opposition was so successful that "we find the crude system of the Old Régime still holding sway" (1) until just previous to the Union of 1841. The fact that the province retained the lion's share of the customs duties for itself enabled the legislature to undertake local works which later would be left to the municipalities. Lord Durham condemned this absence of direct taxation for general or local purposes, because of the consequent insufficiency of the necessary public services and works. This state of affairs was remedied after the passing of the first effective municipal act (1845), when the localities were restricted to a tax on real property, later supplemented by business taxes. Lower Canada was the only province which had no recourse to a tax on personal property. Its system was more in conformity

(1) Solomon Vineberg: Provincial and Local Taxation in Canada, (New York, 1912) p.34.

with the principles of public finance, and the other provinces abandoned the personal property tax on realizing that it was an inequitable basis of taxation.

In the Maritime Provinces, also, the settlement of the United Empire Loyalists facilitated the introduction of local assessments. In 1763 provision for a real and personal property tax was made in Nova Scotia, and a similar tax was introduced in New Brunswick in 1850 (1) The late institution of municipal government in these provinces necessitated the provision of funds for local purposes by the general legislature as late as the 'seventies. This was an important consideration in the financial arrangement of 1867.

TARIFFS AND PROTECTION; DIRECT AND INDIRECT TAXATION

The late development of municipal institutions in the British North American Provinces necessitated a greater provincial revenue because the legislature was often called upon to provide aid for purely local works. The funds of the provinces were derived from the proceeds of sales of public lands, and from customs and excise duties. The customs duties had been from the beginning the mainstay of Canadian finance. "Previous to the formation of the Dominion, both the United Canadas and the so-called Maritime Provinces - namely, Nova Scotia, New Brunswick, and Prince Edward Island - had derived the major part of their provincial

(1) Ibid, p. 37

revenues from customs duties. Indeed, fully four-fifths of the receipts of the Province of Canada between 1841-1867 were obtained from this source." (1)

Under the French Régime there had been restriction and monopoly but no protective or revenue tariff in the modern sense of the word. After the British conquest there began to be applied to Canada "the same Navigation Laws and regulations which were beginning to prove so irritating to their fellow subjects, and recent enemies, on the Atlantic sea-board." (2) But the customs duties of the earlier part of the nineteenth century were small and of little account. By 1846, however, the tariff system had rendered Canada and the other provinces almost absolutely dependent upon the tariffs and preferences of Great Britain.

Then the Corn Laws were abolished. Of the consequences, Alexander Tilloch Galt wrote:

"The protective colonial system of Great Britain having been previously the settled policy of the Empire, the province (of Canada) had itself incurred very heavy liabilities upon public works, dependent for success upon its continuance, and many other commercial interests had also grown up under it. The sudden and

(1) W.G.Villard and W.W.Willoughby: The Canadian Budgetary System. (New York, 1918) pp.36-37.

(2) J.C.Hopkins: The Fiscal History of Canada - in "Canada: An Encyclopaedia of the Country," Vol.1, p. 286. (1918)

unexpected change produced very serious disasters; and in 1849, Canada found herself with an exhausted exchequer, a crippled commerce, and depreciated credit." (1)

After 1846 all the colonies exercised their own control over the regulation, collection, and distribution of revenues. Taxation and tariffs were changed. Customs duties were imposed on imports from Great Britain and the other British provinces. Closer trade relations with the United States culminated in the Elgin-Marcy Reciprocity Treaty of 1854, which provided for free trade in the products of the farm, the sea, the forest, and the mine. The Treaty was abrogated by the United States in 1866.

In the meanwhile a protective spirit was developing in Canada. The increases in the tariff to 1857 had been gradual and fairly regular; they were imposed because of the need for greater revenue. But in 1858-1859 there was passed the Galt-Cayley Tariff, which was the first attempt to establish incidental protection in Canada. The changes marked a distinct departure from the old policy. "They were made not only because of the increasing need of the province for revenue, but because of a strong popular demand for protection. For the first time in Canada organized pressure was brought to bear upon the government to influence its

(1) Hon. A.T.Galt: Canada, 1849 to 1859, p. 7.

fiscal policy.

"Protectionist sentiment had been growing steadily in Canada But it was not until the crisis of 1857 brought hard times, unemployment, emigration to the United States, falling off in home demand, and cessation of the stream of British capital, that the seed thus planted fell into fertile ground. Hard times gave rise to the first protectionist movement in Canada, just as twenty years later they prepared the way for the second and more enduring campaign, the campaign which established 'the National Policy'." (1)

Galt, as Minister of Finance of the Province of Canada, admitted that in his fiscal legislation of 1858 he was "governed to a very great extent by the policy of the United States with regard to their tariff.... We have consequently," he added, "never been able to impose duties on many of those articles which in other countries are regarded as the most fit subjects for revenue." (2) He adopted the principle of admitting raw materials free, of imposing a low duty on quasi raw materials, and a higher duty on manufactured goods. The average duty was 17 per cent.(3) This policy of incidental protection aroused resentment in England, but Galt successfully asserted Canada's right to make her own tariffs without dictation from the merchants of Manchester and Sheffield.

(1) O.D.Skelton: The Life and Times of Sir Alexander Tilloch Galt, (Toronto, 1920) pp. 268-269.

(2) Hon. A.T.Galt, Budget of 1862, p.21.

(3) Galt: Canada, 1849 to 1859, p. 39.

In 1862 Galt proposed tariff reductions, and illustrated the prevailing view in this statement on the changes of 1858 - 1859: "We are now permitted by circumstances to reconsider this legislation, and to place it on a footing which will be more consistent with sound political economy, and consequently more conducive to the prosperity of the people." (1) In the alterations which he proposed, he aimed at this one object, "to get the utmost amount we can, coupled with unrestrained and unembarrassed trade." (2) But the defeat of the Macdonald-Cartier Administration prevented the proposed changes from going into effect.

There ensued the deadlock in government which was a leading contributory cause to the confederation of the provinces. In the debates at the Quebec Conference and in the provincial legislatures, the tariff was a very contentious problem. Thus, Christopher Dunkin, in his speech on Confederation, said: "We cannot shut our eyes to the fact that the customs tariff must come down. There are no two ways about that. Our tariff is much higher than those of the Lower Provinces; and the advocates of Confederation there have to assure people that their tariffs will not be materially raised, in order to get any sort of hearing for the scheme. To tell them that the tariff of Canada is to be that of Confederation, would be to ruin the chances of getting a favourable reception for it. We are marching fast and

(1) Galt, Budget of 1862, p.32.

(2) Ibid, p.31.

steadily towards free trade. We must meet the views of the people of the Lower Provinces, who are hostile to high tariffs Well, if the customs tariff is to come down largely, we must look for a decrease of revenue When the object of reducing the tariff is to meet other exigencies than those of revenue, one can hardly hope to get such a tariff as shall give us the largest revenue attainable." (1)

Circumstances, however, favoured the success of Confederation. The prosperity of the provinces, resulting largely from the increased demand for their products by the United States, at the close of the Civil War, made possible the reduction of the general tariff in 1866, to 15 per cent. This was the tariff adopted by the Confederation. The Act of 1867, also, inaugurated free trade between the provinces.

Customs duties had been the main source of provincial revenue, and continued to be the principal item in the Dominion receipts. Much criticism, especially by England, was levelled at what was regarded as this undue reliance on indirect taxation. Leading statesmen of the period agreed that direct taxation was preferable. In his address on the Quebec Resolutions, Galt said that direct imposts afforded "the surest guarantee that the people will take a healthy interest in their own affairs and see that no extravagance is committed by those placed in power over them.. Indeed, I do not hesitate to say, that if the public men

(1) Parliamentary Debates on the Confederation of the British North American Provinces, 1865, p. 254.

of these provinces were sufficiently educated to understand their own interests in the light of the principles of political economy, it would be found better now to substitute direct taxation for some of the indirect methods by which taxation has been imposed upon the industry of the people." (1) Nevertheless, he agreed that the people would not lend their support to any government imposing direct taxes, unless some overwhelming necessity forced it upon them - "the necessity of providing, by extraordinary means, against dangers by which the peace, happiness, and prosperity of the country may be threatened, in fact, by some of those great disturbing causes which are frequently the beginning of the most important financial changes." (2) Galt's prediction was fulfilled when, under the stress of World War conditions, Canada imposed a federal Income Tax in 1917.

In the 'sixties direct taxation was impossible in Canada. Although in England there were taxes upon property and income, and in the States of the Union large sums were being raised by a direct property tax, it was the opposition to a minor direct tax levied in connection with the Militia Bill that caused the defeat of the government in 1862. Hector Langevin, Solicitor-General of Canada East, assured the people that Confederation would not necessitate direct taxes, and asserted that talk of direct taxes was merely an

(1) Confederation Debates, op. cit., pp. 68-69.

(2) Ibid, p.69.

attempt to frighten the country. (1)

Apart from popular opposition, direct taxation would have created difficulties in the Canada of the second half of the eighteenth century. An income tax yielding any substantial amount would scarcely have been possible in view of the small incomes of the people. Further, the people were not sufficiently educated to be fit for direct taxation. And, as the revenue derived from the public lands was wholly devoted to the settlement of those lands, and the revenue from public works was not up to expectations, indirect sources of revenue had to be resorted to. (2)

Opposition to direct taxation was by no means confined to Canada. As Galt justly said: "It certainly appears singular that Canada should be reproached with a departure from sound principles of finance, when, in order to pay her just debts, she imposes higher duties on the articles she herself consumes, when in England itself the same means are resorted to, and no less than £28,000,000 sterling obtained from Customs duties and £17,000,000 from Excise. If in Great Britain, where such an enormous amount of realized wealth exists, it has only as yet been found possible to raise one-sixth of the revenue by direct taxation, it need require no excuse if Canada has to raise her revenue almost wholly by indirect means." (3) As late as 1853 there was no permanent basis for taxation in Great Britain. The income

(1) Ibid, p. 377-378.

(2) Hon. A.T.Galt: Speech at the Manchester Chamber of Commerce, Sept. 1862, p.3.

(3) Galt: Canada, 1849 to 1859, p. 38.

tax was regarded as a temporary expedient, and not as an integral part of the revenue. (1) In the general election of 1874, Gladstone advocated and promised the abolition of the income tax.

In 1861 England derived only 24 per cent of her total revenue from direct taxation; and in 1871 this was reduced to 20 per cent. (2) In the United States, in 1860, about 95 per cent of the total federal revenue was derived from indirect taxation. While the Civil War Income Tax reduced this proportion, even in 1866 direct taxation provided less than 30 per cent of the revenue. (3)

The principle adopted by Canada in its fiscal policy, as has been shown, was that of a tariff for revenue which afforded incidental protection. The average rate of duty in 1866 was 15 per cent. At this period, in England, the free trade work of Peel and Gladstone was practically completed. In the United States the Civil War made necessary an average rate of customs duty of almost 50 per cent. Thus, when the Dominion of Canada was born, its taxation policy did not differ very greatly from those of the more important nations of the world. Its fiscal policy was protective, when compared with that of England. In comparison with that of the United States it was a very moderate form of protection.

(1) J.F.Rees: A Short Fiscal and Financial History of England, 1815-1918, p. 112.

(2) Sir Robert Giffen: Economic Inquiries and Studies, (London, 1904) Vol 2, p. 335.

(3) D.R.Dewey: Financial History of the United States, (New York, 1909) pp. 267; 395.

PROVINCIAL EXPENDITURE AND DEBTS.

The revenue for which the taxation and fiscal policies of the provinces were devised was largely necessitated by their public debts. In the year ending June 30, 1867, out of a total government expenditure of \$14,727,282, in the Province of Canada, no less than \$5,444,905. was applied to interest on and redemption of the public debt.(1) At Confederation the debt of this Province, as subsequently allowed, was over \$73,000,000. By far the largest part was contracted between the years 1841 and 1867. In 1841 the debt of the United Provinces was £1,670,142, nearly all of which was brought into the Union by Upper Canada, the debt of Lower Canada being only £133,000. Rapid increase resulted in an allowed debt of \$73,006,088 in 1867. (2) Relative to the population and the resources of the country this was a heavy liability, but, as Galt said; "We have the satisfaction of knowing that that debt has been created for objects of great utility, and that while the liabilities of most great nations have been produced by causes disastrous to commerce and industry, ours have been incurred in the opening up of the great channels of communication through the country, for the improvement and development of commerce, for the sustenance of education, and for providing the means

(1) Public Accounts, Province of Canada, 1866-67, pp. VI - IX

(2) J.Roy Perry: Public Debts in Canada, pp.35-36 - in
University of Toronto Studies, in History and Economics,
(1897) Vol. 1.

(3) Galt: Budget of 1862, p.5.

of dispensing justice throughout the land." (1)

Of the debt of \$73,000,000 over \$50,300,000 had been spent on public works since 1841. Over \$20,200,000 had been spent on railways, \$17,000,000 on works connected with navigation, \$7,000,000 on public buildings, and \$3,800,000 on roads. The debt, therefore, was incurred for works that were necessary for the welfare and prosperity of the Province.(2)

FINANCIAL PROBLEMS OF CONFEDERATION AND THEIR SOLUTION.

The debts of the provinces, their systems of taxation, and their general financial policies, created serious problems for the statesmen who met at Quebec, in 1864, to determine a basis for the Confederation of the British North American Colonies. Hitherto each province had been supreme within its borders. "Under provincial administration revenues had been collected without raising any question of direct or indirect taxation - both methods being open to the Legislatures - and without any reference to source other than relative availability from either a productive or political point of view. In like manner expenditures had been made with no distinctions as to objects other than those demanded by the necessities of the case, and which the available revenues permitted. Debts had been contracted and obligations

(1) Galt: Budget of 1862, p. 5.

(2) Perry: op. cit., p. 36.

incurred which had to be met by each Province. When, therefore, the idea was broached of having a Union of the Provinces," and of creating a new and superior governmental authority, "the difficult and intensely important question had to be decided as to the division of powers - the modes of taxation and scope of expenditure, the assumption of public properties and of Provincial debts." (1)

In the financial arrangements finally made by the Fathers of Confederation, there was to be a definite division of powers between the provincial governments, and the newly-created central government. Exclusive jurisdiction over certain subjects was assigned to the Dominion and to the provincial administrations, respectively. The financial powers of each followed this division of subjects. To the Parliament of the Dominion of Canada was assigned the power of raising money by "any mode or system of taxation," of regulating trade and commerce; of borrowing money on the public credit. It was to have full authority over the public debt; currency and coinage; and banking. (2) To the legislatures of the provinces was given the right of imposing "direct taxation within the Province in order to the Raising of a Revenue for Provincial Purposes"; of borrowing money "on the credit of the Province"; of regulating municipal institutions

(1) Hon. George E. Foster: Sketch of Canadian Financial History, in "Canada: An Encyclopædia of the Country," Vol.5,p.301

(2) British North America Act, 1867, § 91.

in the Province; and of issuing "Shop, Saloon, Tavern, Auctioneer, and other licenses in order to the raising of a Revenue for Provincial, Local, or Municipal Purposes." (1) As a consequence, the revenue basis of the provinces was henceforth limited, while the field of financial operations allowed the Dominion, although specific, was very wide.

By the British North America Act of 1867, also, certain property and public works belonging to the various provinces were to be transferred to the new Dominion Government, which was to maintain them. (2) This included titles to canals, railways, lighthouses, customs houses, post offices, armories, and other public buildings. In acquiring the property, and in completing the public works thus transferred, the provinces had incurred heavy debts. It was, therefore, agreed that the Dominion Government should assume the debts of the provinces. On January 1, 1864, that of the Province of Canada was \$67,263,995; of Nova Scotia, \$4,858,547; and of New Brunswick, \$5,702,991. (3) The latter two had incurred additional engagements, and considering both those of the present and of the future, they amounted to about twenty-five dollars per head of the population. As the per capita engagements of Quebec were higher, and as equal treatment to all provinces was necessary, it was decided that each province

(1) Ibid, § 92.

(2) Ibid, § 108.

(3) Confederation Debates, op. cit., pp. 65-66.

charge its debt to the Dominion according to a fixed rate per head of the population. The per capita basis for debt allowances was fixed at twenty-five dollars. This entitled the Province of Canada to charge to the Dominion a debt of \$62,500,000; Nova Scotia, \$8,000,000; and New Brunswick, \$7,000,000. (1)

At the time of the Quebec Conference the actual debt of the Province of Canada was over \$68,000,000. A large part of this had been the result of expenditures for local purposes, and it was by making the province assume its local liabilities and assets that it was possible to place its debt at the same per capita rate as those of Nova Scotia and New Brunswick. While the actual debts of the new provinces of Quebec and Ontario exceeded the amount allowed, those of Nova Scotia and New Brunswick were smaller. It was therefore provided that when the actual debt assumed exceeded the allowed debt, the province was to pay interest at 5 per cent on the excess. But, when the actual debt was less than that assumed, the Dominion was to pay the interest at 5 per cent on the difference between the actual and the allowed debts.(2)

In the financial arrangements of 1867, it was also provided that the new provinces, Ontario, Quebec, Nova Scotia, and New Brunswick, be allowed to retain "all Lands, Mines, Minerals, and Royalties" within their jurisdiction. (3)

(1) B.N.A. Act, 1867, §§112, 114, 115.

(2) Ibid. §116.

(3) Ibid. §109.

This provision was to be important in its relation to the financial independence of the provinces. The natural resources were always a valuable source of revenue, and, to the present day furnish a large part of provincial income.

The British North America Act transferred to the Federal Government the two great sources of revenue - the customs and the excise. The provincial governments were limited to licenses, the revenue from which was comparatively small, and to direct taxation, which was wholly in the hands of the municipalities. As indirect taxation had been the chief source of revenue of the provinces up to 1867, the framers of the Confederation pact realized that unless provision was made to fill the gap caused by the prospective loss of the revenues, their project for a union of the provinces would fail. As provincial direct taxation was out of the question, it was decided "that some portions of the resources thus placed at the disposal of the General Government must in some form or other be available to supply the hiatus that would otherwise take place between the sources of local revenue and the demands of local expenditure."⁽¹⁾ Before surrendering to the proposed Federal Government the exclusive right to indirect taxation, the provinces imposed the condition that from the revenue so collected there be

(1) Confederation Debates, op. cit., p.70

returned to them an amount sufficiently large for carrying on their affairs without the necessity of direct taxation. Finally, the principle of an equal subsidy per head of the population of each province was adopted.

The new Dominion, therefore, not only relieved the provinces of their debts, but bound itself to make "an annual Grant in aid of each Province. (1) This grant or subsidy consisted of two parts - first, a fixed grant for each province for the support of its legislature, and secondly, a per capita grant. For the support of their governments and legislatures, there was to be paid \$80,000 to Ontario, \$70,000 to Quebec, \$60,000 to Nova Scotia, and \$50,000 to New Brunswick. (2) The per capita grant was made equal to 80 cents per head of the population, according to the census of 1861. In the case of Nova Scotia and New Brunswick the subsidy was to be adjusted according to each subsequent decennial census until the population of each was 400,000, at which rate the grant was to remain. Because of the insufficiency of the revenues of New Brunswick, it was to receive an additional grant of \$63,000 per annum for ten years. (3) This action was taken in preference to an increase in the subsidies to all the provinces. However, in deviating from the principle of a proportionately equal grant to each province, a precedent was set whereby the provinces in later years could demand extra grants from the

(1) B.N.A. Act, § 118.

(2) Ibid, § 119.

(3) Ibid, § 119.

Dominion Treasury owing to alleged exceptional conditions.

The granting of the subsidies evoked much discussion and opposition. In the formation of new states it had been the practice to require the local governments to contribute to the support of the central authority, in the event of financial difficulties. Canada was flying in the face of all precedent in adopting the reverse policy. (1) But, while the statesmen of the period realized that the subsidy deviated from the principle of public finance which holds that the revenue should be collected by the same governmental authority that expends it, they also realized that without these grants Confederation would have been impossible.

It does not appear that the Fathers of Confederation fully appreciated the possible consequences of the subsidy system which they set up. They believed, as George Brown said, "that the \$2,630,000 to be distributed to the local governments from the federal chest is to be in full and final extinguishment of all claims hereafter for local purposes; and that if this from any cause does not suffice, the local governments must supply all deficiencies from direct tax on their own localities." (2) In the years that followed this anticipation was not fulfilled. The criticism levelled at the subsidy principle by its opponents was to prove more valid. Christopher Dunkin was not far wrong when he predicted that

(1) Villard and Willoughby, op.cit., p. 279.

(2) Confederation Debates, op. cit., pp. 92-94.

the provincial governments would constantly demand increased subsidies rather than impose more provincial taxes, that "the provincial constituencies, legislatures and executives will all show a most calf-like appetite for the milking of this one most magnificent government cow." (1)

In opposition to the subsidies, it was asserted that extravagance would follow a system which did not require political units to furnish the revenue for a large part of their outlays; that the subsidies would delay the introduction of direct taxation; and, that an assured annual revenue, not provided by the legislature, would weaken the principle of government by the people. For over thirty years after Confederation the subsidy question was a bone of contention between the federal and provincial governments. As late as 1897 a former Minister of Finance wrote that "the instability of financial conditions as between the Federal and Provincial Governments is still fraught with great possible danger to the success of Confederation." (2)

Nevertheless, in 1867 the political considerations of the moment were paramount, and the provinces entered into the Confederation with an assured annual revenue. For many years the subsidies were their main source of income. They were also a leading part of the outlays provided for in the budgets of the new Dominion of Canada.

(1) Confederation Debates, op. cit., p. 519.

(2) Foster: Canadian Financial History, p. 310.

CHAPTER II

THE ORGANIZATION OF THE DOMINION FINANCES.

Revenue and the Customs Tariff. - Expenditure: Capital and Ordinary Accounts. - The National Debt.

"There is no doubt, that customs duties must form the principal source of our revenue, and if we should be obliged to levy two or three millions a year more than we are now doing, it will be in that direction that the Minister of Finance will look in all probability for his revenue."

- Sir Alexander T. Galt (1870)

The British North America Act came into effect on July 1, 1867. The first Parliament of the new Dominion of Canada assembled at Ottawa on November 7. The duties devolving upon it were necessarily extensive. It had to reduce to practice the new form of government which had been called into existence. It had to assimilate the laws of the several provinces, and, in the realm of finance, particularly, the laws relating to currency, customs, excise, and revenue generally. Furthermore, it had to consider the subject of western territorial expansion, and to make arrangements for the immediate construction of the Intercolonial Railway.

The task of organizing the new Dominion's finances was entrusted to Alexander Tilloch Galt, the first Minister of Finance of Canada. "For the most part, the administrative machinery of the old province of Canada was preserved, but the work of adjusting the relations of the Dominion to the old provinces and of the new provinces of Ontario and Quebec to each other, in the matter of debts, property and accounts,

was one which called for all his industry and **his** diplomacy."(1)

REVENUE AND THE CUSTOMS TARIFF

The customs tariff was one of the early problems which faced Parliament, since it was inevitably destined to be the most important source of revenue. Even in England, in 1871, Robert Lowe, the Chancellor of the Exchequer, said that "it would be far better for the interest of the working classes themselves that they should continue to pay a moderate rate of duty on the quasi-necessaries of life, "than that direct taxation, beyond certain limits, be permitted to drive capital out of the country. (2)

In assimilating the customs duties of the different provinces, Parliament was not only called upon to discuss the respective merits of direct and indirect taxation, but also to reconcile their differences of opinion with respect to protection and free trade. Finally, the slightly modified tariff of the old Province of Canada was accepted, largely as introduced by Galt on the eve of Confederation. In its main features, it endured until 1879. "The rate of duties on the great bulk of manufactured articles was reduced from twenty and twenty-five to fifteen per cent. The duty on tea and the customs and excise duties on spirits were increased. Manufactures were encouraged by reductions in duty on semi-manufactured iron, and by the addition of certain manufacturers'

(1) Skelton: Life and Times of Galt, p. 418.

(2) Stephen Dowell: A History of Taxation and Taxes in England. (London, 1888) Vol. 2, pp.396-397.

materials to the already long free list On the whole, in spite of the freer trade tendencies of the revision, the tariff remained distinctly protectionist in effect, though, as compared with later developments, the range of articles covered was limited, the schedules simple, and the rates low."(1)

The controversy over free Trade and protection in Canada had its counterpart in the United States. The western states protested against the high tariff imposed during the Civil War for purposes of revenue. A commission recommended the retention of taxes on realized wealth, and dwelt upon the advantage of freedom in trade. However, as "many protectionists easily arrived at the conviction that war rates on imports made a good permanent peace policy," the United States began its post-Civil War history with a high protective tariff.(2) But the principle of protection as a definite public policy was not officially accepted until the McKinley Tariff of 1891. As in Canada, before the National Policy, protection was accepted only as a policy of expediency.

In the first session of Parliament there was also passed a Stamp Tax which imposed a tax on promissory notes, drafts, and bills of exchange, at the rate of one cent for twenty-five dollars, two cents for fifty, and three cents for every hundred dollars. The Inland Revenue or Excise Bill, adopted in this session, did not differ materially from that

(1) G.D.Skelton: General Economic History of the Dominion, (1867-1912), pp. 134-135.

(2) Dewey, op. cit., p.393.

of the old Province of Canada.

In addition to authorizing loans for general purposes and for the Intercolonial Railway, Parliament authorized two other methods of raising money. The first was through the establishment of post office savings banks. In taking over the government savings banks of Nova Scotia and New Brunswick, the Dominion government continued this system and established a general Post Office Savings Bank throughout Canada. By this means funds could be obtained which constituted a loan from the public at a moderate rate of interest. In addition, insurance companies were required to make deposits in cash or in prescribed securities, for the safety of the public. This furnished a large and more or less permanent market for Canadian Government securities.(1)

The first Parliament of Canada thus provided that the bulk of the revenue of the Dominion was to be raised chiefly from two kinds of indirect taxation; the Customs tariff, aiming to produce the revenue required, and to afford a certain protection to Canadian industries; and the Excise on tobacco and liquors, "imposed with a view to ensure the largest possible revenue - the maximum rate levied being regulated by the consideration of possible danger in passing the productive limit." (2)

Another, and less important, source of revenue was

(1) J.M.Courtenay and Adam Shortt: Dominion Finance, 1867-1912 in "Canada and its Provinces," Vol. 7, pp. 482 -84.

(2) Foster: Canadian Financial History, p. 305.

to be that from Earnings, illustrated by the revenue from the Post Office. Other revenue-earners were railways, canals public works, Dominion lands, and interest-bearing investments. The expense of operating these, however, exceeded the revenue obtained.

EXPENDITURE: CAPITAL AND REVENUE ACCOUNTS.

Following the practice of Great Britain, Canada established a Consolidated Revenue Fund constituted of "all public moneys and revenue over which the Parliament of Canada has the power of appropriation." (1) Departing from the practice of Great Britain, expenditure was grouped under two heads - Consolidated Fund Account and Capital Account. This attempted distinction between capital and ordinary expenditures became, and has remained, one of the outstanding peculiarities of the Canadian budgetary system.

"In Britain, after the delivery of the annual budget speech, the question whether the national treasury is in the enjoyment of a surplus or is weighted with a deficit, is never a subject of debate. There the national book-keeping is conducted on such plain and sound principles that everyone knows at once whether the revenue for the year has balanced the expenditures and whether in consequence certain taxes may be lessened or remitted, or whether it is necessary to levy additional taxes, or float a loan, to meet the financial needs

(1) Villard and Willoughby, op. cit., p. 49.

of the year. In Canada, however, it is commonly the curious privilege of the Minister of Finance to congratulate the country on having a surplus of revenue over expenditure, and his disagreeable duty to ask parliament to authorize the government to place a new loan on the British market in order to provide for the exceptional expenditures which the enterprise, progress and prosperity of the country demand. If the ordinary revenue and expenditure of the Dominion were fairly uniform in amount and similar in character, and if the purposes for which loans are effected were of an exceptional character and rarely occurring, the system might commend itself to the intelligence of the ordinary citizen. But, since the expenditure on what is called capital account is as customary and continuous as many other forms of national expenditure, and since there is endless dispute as to what is and what is not properly to be considered capital expenditure, the time-honoured system of presenting to the people of Canada their annual financial statement and public accounts is scarcely conducive to a clear understanding of the matters in question. It is obviously discouraging to any well-meant effort on the part of the people to understand the national finances to find that after the annual financial statement is made, it is almost invariably attacked on the ground that it is quite erroneous and misleading. Quite irrespective of the party in power, members of the opposition proceed to demonstrate with statistical evidence, apparently as convincing

as that of the government, that the country is burdened with a deficit instead of enjoying a surplus, and that the outlook for the future is altogether of a different complexion from that presented by the government. These and other strange phenomena in connection with Canadian finances... were introduced at Confederation, and can only be understood through the aid of a clear appreciation of the system of finances established for the Dominion at that time." (1)

William Stevens Fielding, for many years Minister of Finance of Canada, justified the distinction drawn between capital and ordinary expenditures in the financial system. "The man who rents a house," he said, "**pays** his rental from year to year. He knows that he must provide for it in that way. But, if he buys the house he does not have to provide in the same way; it is a special disbursement; and he opens a capital account. That homely illustration of what a man will do in his private affairs explains exactly what the nation has to do in its greater affairs." It will justly charge to capital account all great public works of a special and permanent character. (2) But, Fielding omitted to mention that while an attempt was made to distinguish between ordinary or Consolidated Fund expenditures and Capital expenditures, no consistent or logical line was drawn between these two

(1) Courtenay and Shortt, op. cit., pp. 471-472. (Note that the system here described merely continued the financial system of the old Province of Canada.

(2) House of Commons Debates, Canada, 1905, Vol. 5, p.8891

accounts. The opportunity of juggling with the public accounts and thereby concealing the actual state of the national finances was thus afforded.

By statute, there was to be charged against the Consolidated Fund, the ordinary yearly services of the country. These may be divided into two classes: first, subsidies and allowances to the provinces which these may dispose of without Federal interference, and, secondly, expenditures entirely administered by the Dominion Government. The latter include the charges on the public debt and the sinking fund; collection of revenue, which includes the cost of administering the various revenue-collecting departments, such as the customs, excise, post office, railways and canals, public works, and Dominion lands; and, miscellaneous expenditure, including the administration of justice, agriculture, immigration, civil government, legislation, and other services. (1) If the Consolidated Revenue Fund is more than sufficient to meet the cost of these services, there is a surplus which goes to Capital Account, and which either supplements the capital expenditures or reduces the public debt. If the surplus is more than absorbed by these capital expenditures and the debt increases, then it is a fictitious surplus, when all the finances of the year are considered. It results in no reduction of taxation, but helps reduce the deficit on capital expenditure by paying for a portion of the cost of certain public works. That portion, however, which

(1) Foster: Canadian Financial History, pp. 305-306.

is not paid for out of this surplus revenue, is added to the national debt. Hence a surplus on Consolidated Fund Account, in not taking into consideration the capital expenditures of the year, has often disguised an actual deficit. But a deficit on Consolidated Fund, as it must be met by Capital loans, still further increases the debt.

To Capital Account are debited, by special enactments, or in the supply bill, extraordinary services too expensive to be met out of the ordinary revenue, and for which the money must be borrowed. The difficulty has been that the original distinction between ordinary and extraordinary receipts and expenditures has not always been maintained. Permanent and exceptional structures have been charged to current revenue, and ordinary expenses, such as salaries, have been charged to capital. Ministers of Finance would differ in their views, "It is even found that the same Minister of Finance, when his annual revenue was low, charged certain items to capital account; whereas, when the revenue was flourishing the same or similar items were charged to annual revenue." (1)

Sir George Eulas Foster, a former Minister of Finance, has thus summarized the effects of the Canadian financial policy: "The terms, surplus and deficit, are therefore technical terms and do not as to the first show that

(1) Courtenay and Shortt, op. cit., p.499.

in the year's total transactions there has been anything to the credit of the country, nor as to the second that the sum indicated as deficit is the total amount to go to the debit of the country for the year's transactions. To know the exact outcome for the year one must have regard to all the expenditures as compared to the total revenue - the gain or loss the credit or debit, will then show the result of the year's operations. Judged by that standard Canada has had but two surpluses since Confederation (1) - in the years 1871 and 1882, in which the debt was diminished by \$503,224 and \$ 1,734,129, respectively." (2)

THE NATIONAL DEBT

The foundations of the national debt of Canada were laid in 1867, when, with Confederation, the Dominion commenced, and the provinces recommenced their financial history. The Dominion debt began with the assumption of the provincial debts, except some \$10,500,000 of the indebtedness of the Province of Canada. (3) As a result of the arrangements of 1867, the debt of Canada, for purposes of comparison, must be divided between that contracted by the provinces up to Confederation, and that added since 1867 for works and expenditures undertaken and completed by the Federal government. (4)

(1) Foster wrote in 1897.

(2) Foster: Canadian Financial History, p. 306.

(3) See p. 18 supra.

(4) Foster: Canadian Financial History, p. 302.

In the Public Accounts there is a division of the public debt into Gross and Net Debt. The former includes the loans contracted in Canada and elsewhere; the deposits in the Government Savings Banks, the Dominion Note circulation, and the sale or issue of Canadian stock, which are really loans from the Canadian people; the trust funds; balances due to the provinces; and miscellaneous and banking accounts. The Net Debt deducts the value of the country's assets or investments from the Gross Debt. These assets include loans to public works, cash and bank accounts, and interest-bearing investments. All public works built wholly or in part with government funds are excluded.

On July 1, 1867, the gross debt of Canada was \$93,046,051; the net debt was \$75,728,641; and the net rate of interest on the debt was 5.41 per cent.(1) Following Confederation the indebtedness of the new Dominion rose rapidly.

(1) Public Accounts, Canada, 1894, pp. XXX-XXXI

CHAPTER III

THE INITIAL PERIOD, 1867-73

Rose's Budgets, 1868-69 - Hincks' Budgets, 1870-72 -
Tilley's Budget, 1873 - Dominion Finance, 1867-73.

"I may say, that rising from the consideration of the past five years, no matter how we view it, whether in a commercial aspect or with respect to the financial condition of the Dominion I rise from the enquiry feeling the greatest possible encouragement, not only with regard to the past, but with regard to the present and with regard to the future."
- Hon. S. Leonard Tilley (1873)

Confederation was ushered in at a period of temporary economic depression. England was still feeling the effects of the Overend-Gurney panic of 1866. In the United States the optimism and activity which followed the close of the Civil War, had temporarily ceased. In Canada the readjustment necessitated by the abrogation of the Reciprocity Treaty of 1854 had not yet been completed. The Budgets of the first two years after Confederation showed the effects of this depression.

THE BUDGET OF 1868 - JOHN ROSE

Galt had been named Minister of Finance in the first Dominion Cabinet, but it was not his lot to deliver a Budget speech. Because of criticism in connection with the failure of the Commercial Bank, and for other reasons never fully explained, he resigned his portfolio in November, 1867, and was succeeded by John Rose, a former Solicitor-General of Lower Canada.

On December 7, Rose delivered a preliminary financial statement (1) in the House of Commons, presenting estimates for the current year, 1867-68. He announced the intention to create a Dominion Stock for investment by corporations, trustees and others, which, with the sale of terminable annuities, the extension of the principle of Savings Banks, the issuance of exchequer bills, and the deposits of insurance companies, would be a source of revenue, and would make possible the liquidation of the floating debt. In the course of the debate, Alexander Morris, M.P., lauded this policy "as the initial step towards placing a larger portion of our debt in a position of being borrowed from home sources, the interest on which, instead of going to other countries, would pass into the hands of our own people." (2) It was many years, however, before the Canadian debt was to be largely in Canadian hands.

The first Budget speech (3) of the Dominion was delivered by Rose on April 28, 1868. For the first year of Confederation, 1867-68, he estimated a surplus of \$374,140, and for the following year, one of \$1,071,839, based on an estimated expenditure of \$14,042,161.

The Minister showed that the balance of floating debt had been reduced from \$3,300,000 in December, 1867, to \$1,708,776 in April, 1868, by the negotiation of Dominion

(1) "Montreal Weekly Witness", Fri. Dec. 20, 1867, pp.404-405.

(2) Ibid, p. 410.

(3) Hon. John Rose: Budget Speech of 1868.

stock in Canada, and by the sale in London of Nova Scotia securities, issued on the credit of the Dominion and, therefore, forming part of the latter's debt. With regard to this transaction, Rose declared that "the first financial operation of the Dominion in England was carried out satisfactorily for the interests of the public." (1)

In discussing a necessary capital expenditure of over \$4,000,000 on railways, canals and public works, the Minister advocated a policy of retrenchment. At the same time he stressed the fact that about 70 per cent of the entire Dominion outlay consisted of fixed charges. Certain items, such as the interest on the public debt, the subsidies to the provinces, seigniorial payments, amounts payable to the Indian Fund, the sums paid for the maintenance of public works - these, and others, were not susceptible of reduction, and they constituted about nine and one half million dollars of the total ordinary expenditure of over fourteen millions.

Rose emphasized the need of proceeding with the construction of the Intercolonial Railway, as Confederation would have been impossible without it. The erection of fortifications was also necessary, since Canada intended to share in her own defence with Great Britain. It was hoped that the increase in wealth and in population, and the extension of trade, would permit an increase in revenue sufficient to meet the new charges without imposing new tax burdens.

(1) Budget of 1868, p. 7.

The Finance Minister cited figures to illustrate the great increase in Canada's trade, and reminded the House that it was only lately that anything except agricultural and like products began to be exported. He denied that Canada was groaning under a heavy load of debt and taxation, or that she was in an unfavourable condition when compared with other countries. While the debt was \$1.12 $\frac{1}{2}$ per head, "it is to be remembered also that for the debt which we have incurred we have a great deal to show. We have perhaps the best canal system in the world. We have our railways, and important public works for every dollar of the debt which we have incurred. Some of these works may not, perhaps, yield us a direct return for the outlay, but they do indirectly, and the people receive collateral advantages in return for a very large proportion of the debt which they have incurred." (1) Rose proceeded to compare the relatively high per capita debt of the Australian Colonies with that of Canada, a favourite but unjust comparison in the early days of Confederation. The position of the Australian Colonies was abnormal. With small populations they had made very heavy investments in railways constructed with a view to the future rather than to the present. The position of Canada was not analogous.

In announcing proposed changes in taxation, Rose showed the results of the political difficulties which had preceded Confederation. He stated the policy of the Government

(1) Budget of 1868, p.28.

as follows: "I need scarcely say that it is of the last importance to the credit of the Dominion that we should not start with anything like a deficiency in the public exchequer. There must be an end to the deficiencies which existed in the Province of Canada years ago..... Another, and a powerful consideration which guides the policy of the Government is this: We feel that the duty of the present hour is to consolidate the Union, to avoid all changes which are not of pressing necessity. We feel that every new measure of taxation is liable to be misrepresented and misunderstood in Nova Scotia, and that until the Union is firmly established, until those who are not yet entirely reconciled to it have become so, our policy ought to be one of forbearance and conciliation towards them." (1)

The Government proposed to make as few changes in the tariff as was possible, and those that were made had in view the conciliation of Nova Scotia. While "the unwise and restricted legislation adopted by our neighbours on the other side of the line," (2) was having harmful effects on Canada, it was not proposed to take retaliatory measures. Canadian manufacturers were prospering "without any of the hot-bed fostering of protective tariffs, but solely by the skill and energy and industry of our population." (3) The tariff changes reduced taxation by abolishing the duties on flour, meal, grain, and breadstuffs of all kinds, to the great satisfaction of Nova Scotia. The duty on molasses was reduced, and the sugar

(1) Budget of 1868, p. 15

(2) Ibid, p. 15

(3) Ibid, p.26

duties were revised to stimulate the trade with the West Indies. Minor changes included the imposition of a five per cent duty on articles of partly manufactured iron, such as tinned and rolled plate.

THE BUDGET OF 1869 - JOHN ROSE

In his second Budget speech, (1) delivered on May 7, 1869, Rose announced that the total Consolidated Fund receipts of the first financial year of the Dominion, 1867-68, had been \$13,687,928, of which the Customs contributed \$8,578,380, and the Excise, \$3,002,588. The receipts were \$373,000 less than the estimate, owing to stagnation in trade. The ordinary expenditure was \$13,486,092, of which the main item was the interest on the public debt, amounting to \$4,501,568. (2) The surplus was \$201,835.53

During the year the capital expenditure amounted to \$548,437, including \$455,249 for the Intercolonial Railway. The net increase in the debt was \$28,493.37, (3) The surplus was, therefore, only nominal. The Minister anticipated surpluses of \$274,000 and \$246,000, for the current year, and for 1869-70, respectively.

In 1869 Rose floated an Intercolonial Railway Loan on the London market, amounting to £ 2,000,000. Of this £ 1,500,000 was guaranteed by the British Government, and the interest rate thereon was 4 per cent. On the remaining

(1) "Montreal Weekly Witness", May 14, 1869, p.153.

(2) Public Accounts, 1894, pp. LI-LVIII.

(3) Ibid, p. LXIX.

£ 500,000 it was 5 per cent. The loan had been raised entirely for the construction of the Intercolonial, but Rose was using the bulk of it to pay off floating liabilities, and to meet some current expenses. While the Minister tried to justify himself, in his Budget speech, by showing the saving he had effected in reducing the floating debt, it appeared that there was bad faith in the transaction. The disposition of the loan was not in accord with the original purpose.

Although the Budget speech of 1869 proposed no new taxes, nor any changes in the tariff, it for the first time suggested the possibility of a National Policy of protection. In addressing himself to the United States, particularly, Rose said: "We have allowed your coal to come in free, though you charge a heavy duty on ours. We allow your flour, grain, hops and salt, and other articles to be free, while you not only do not reciprocate, but you specially discriminate against our millers by charging more on flour than on grain. This state of things,' we might fairly add, 'has gone on for three or four years, but you must understand it cannot continue. The time may soon come when we may require to have a national policy of our own, no matter whether that national policy may sin against this or that theory of political economy. For we must be guided chiefly, if not solely, by considerations affecting ourselves, and we may have to consult our self-interest without consideration for others'." (1)

(1) Canada: Parliamentary Debates, 1870, p 940 - quoted by Sir Francis Hincks.

THE BUDGET OF 1870 - SIR FRANCIS HINCKS

In 1869 John Rose retired from the Cabinet to accept a post as partner in a financial house in London. He was succeeded by Sir Francis Hincks, once Prime Minister of the old Province of Canada. The latter entered upon his new task at a very fortunate period. The depression of the previous two years was at an end. It gave place to the hectic prosperity of the years 1869-73 - a period of prosperity and growth in which Canada shared modestly with Great Britain, the United States, and Germany. The recovery from the blow received by the abrogation of the Reciprocity Treaty was rapid.

In his first Budget speech, (1) April 7, 1870, Sir Francis Hincks said that the country was in a state of prosperity and was not suffering from excessive taxation. He announced that the revenue of the year 1868-69 had been \$13,934,057, and the expenditure, \$13,973,408, leaving a deficit of \$39,350. However, he added the premium on the Intercolonial Railway Loan of 1869 to the receipts, and claimed a surplus of \$341,090. The Opposition challenged this surplus on the ground that it was obtained by charging ordinary expenditures to capital account.

The capital expenditure of 1868-69 was \$440,418, divided between the Intercolonial and canals. The increase in the net debt was \$102,184. (2)

Before announcing tariff changes, Hincks compared

(1) Parliamentary Debates, pp.916-940.
(2) Public Accounts, 1894, p. LXIX.

the per capita debt and taxation of Canada, Great Britain, and the United States, to prove how lightly Canadians were taxed. But Alexander Mackenzie, the leader of the Opposition, challenged such a comparison on the ground of the difference in the wealth of the people. He contrasted the large portion of realizable wealth in England with that in Canada.

The Budget speech of 1870 proposed very important changes in the tariff. The Minister justified the changes because of the need of revenue, and added the curious statement that: "It is some consolation to find that there has been a very general expression of opinion from all parts of the country that taxation ought to be increased. I am bound to say that it is not often that a Finance Minister is placed in the position of being besieged from all parts of the country with demands to increase taxation." (1) To obtain the additional revenue, Hincks imposed a duty of fifty cents a ton on coal and coke; four cents a bushel on wheat; three cents a bushel on coarse grains; twenty-five cents a barrel on wheat and rye flour; fifteen cents a barrel on Indian meal and oatmeal; and five cents a bushel on salt. All of these articles had hitherto been admitted free of duty. In the tariff resolution on salt, a clause was added to the effect that "salt from the United Kingdom and the British possessions, shall be free." (2) This clause is noteworthy as "the first instance since Canada secured

(1) Parliamentary Debates, 1870, p. 918.

(2) Ibid, p. 931.

her fiscal independence in 1846 of a direct preference in a Canadian tariff for British imports...." (1)

Other proposed changes included the imposition of a duty of five cents a pound on hops, of ten per cent on fruits and vegetables, and an increase of five per cent on all existing duties. These increases were proposed in the same year that the United States began reductions in its tariff. The Act of Congress of July 14, 1870, reduced the duties on various articles, including tea, coffee, and pig-iron.(2) In England, also, the Chancellor of the Exchequer, in the Budget of 1870, reduced the sugar duties by one-half, and took a penny off the income tax. (3)

The tariff of 1870 was the first attempt by the Dominion Parliament to afford protection to agriculture. Hincks said that it was not protectionist because "it is perfectly clear that the tariff as a whole is strictly a revenue tariff, and as such I hope it will receive the support of the House." (4) Nevertheless, Macdonald and Tupper constantly referred to the new tariff as a National Policy, and it may be called the first National Policy after Confederation - the policy suggested by Rose in his last Budget speech.

In the course of the debate on the proposed resolutions it was brought out that they aimed to be as much retaliatory as protective. Many articles had for some years

(1) E. Porritt: Sixty years of Protection in Canada, 1846-1907,
(2) Dewey, op.cit., p. 397. p. 270.
(4) Parliamentary Debates, 1870, p.940.
(3) Rees, op. cit., p. 147.

been retained on the free list pending negotiations for a renewal of reciprocity with the United States. In view of the failure of these negotiations, it was believed by some that retaliation against the United States tariff might force a change of attitude in the latter country either in favour of reciprocity, or of the reduction of duties on coal and other Canadian products. Thus Sir John A. Macdonald thought it humiliating to wait any longer for reciprocity, after the rebuffs that had been received. He stated that "we must have a Canadian or no Canadian policy..... He believed it was of the very greatest importance that the people on the other side of the line should know that we adopt a line of our own, and that if there were tariffs on the one side of the line, we could have tariffs on the other side..... He believed we should decide upon and carry out a policy of our own, irrespective of consequences; and thought if we did not, the United States would play with us as they had played with us since 1864."⁽¹⁾ At this time, however, Macdonald's entire conception of a National Policy was embodied in the tariff of 1870.

Hincks' proposals met with vigorous opposition. Sir Alexander Galt, the former Minister of Finance, and now an independent member of Parliament, strongly objected to a policy of retaliation, although he had himself imposed protective duties on flour and wheat in the Old Province of

(1) Parliamentary Debates, 1870, pp. 1202-03.

Canada. He favoured a tariff for revenue only and stated that a policy of retaliation is "hostile to the best interests of this country, and calculated to produce results disastrous to our future prospects." (1) The great bulk of the produce of Canada must seek foreign markets, and any restraint on the export trade would embarrass the country. Also, the tariff could not achieve the two aims - the increase of inter-provincial trade and the production of revenue. If it produced the one it could not produce the other. Hence "the great interests of this country can only be promoted by the most unrestricted intercourse with foreign countries." (2)

The tariff was also attacked as a deviation from the policy of the Empire. As a result of pressure, Hincks announced in the House of Commons, at three o'clock on April 26, 1870, that he had agreed not to impose the duties.(3) To the astonishment of the House and of the country, at eight o'clock of the same day he again reversed his decision, and the duties were retained.(4) The Budget was passed as it had been introduced.

(1) Ibid, p. 560.

(2) Ibid, p. 560.

(3) Ibid, p.1192.

(4) Ibid, p.1198.

THE BUDGET OF 1871 - SIR FRANCIS HINCKS.

Sir Francis Hincks' second Budget speech, (1) March 10, 1871, reflected the prosperity which Canada was enjoying. It was a period of one of the greatest trade booms of the century. The Chancellor of the Exchequer was able to announce a surplus of £ 6,569,500 for Great Britain in 1870, (2) and in the same year the surplus in the United States Treasury stood at \$102,300,000, as compared with \$36,000,000 in 1869. (3) For Canada, Hincks announced a surplus of \$1,166,716. He had estimated the ordinary revenue at \$14,650,000: the actual revenue was \$15,512,225. The Customs and Excise each yielded almost one million dollars more than in the previous year. The expenditure on Consolidated Fund Account was \$14,345,509.

Capital expenditure in 1869-70 reached a total of \$3,515,116, of which \$1,821,887 was necessitated by the acquisition of the North-West from the Hudson's Bay Company. The remainder was spent almost entirely on the Intercolonial Railway. The net increase in the debt was \$2,350,423 - more than double the surplus. (4) The admission of Manitoba into the Union, in 1870, was expected to increase the expenditures of the current year, 1870-71.

While in Great Britain the financial surplus was used for the reduction of taxation, in Canada Hincks

(1) Ibid, 1871, pp. 374-388.

(2) The Statesman's Year Book, 1881, p.214.

(3) Dewey, op. cit., p. 401.

(4) Public Accounts, 1894, p. LXIX.

announced that no changes would be made. He maintained that the existing system was not burdensome. Furthermore, large expenditures would before long be incurred in the construction of great public works which would require the floatation of loans. It was desirable to maintain the revenue as it was, so that the credit of the country might be increased and the loans floated on favourable terms.

While continued demands were made for the repeal of the duties, imposed in 1870, on coal, wheat, and flour, Hincks refused to make any changes in the tariff, in view of the pending negotiations at the Washington Conference, where commercial relations and customs duties would be discussed. However, to aid Canadian manufactures it was proposed to ask Parliament to empower the Governor-General-in-Council to add to the free list articles used as materials in Canadian manufactures, and to admit free of duty any machinery not manufactured in Canada.

The debate on the Budget was mainly concerned with the increased expenditure since Confederation. Galt moved an amendment (1) to the effect that the rapid increase in the ordinary expenses of government was excessive, and that grave evils would result unless more strict economy were practiced. Richard Cartwright urged that prosperity was no justification for plunging into heavy liabilities which would prove burdensome in the event of a depression. He warned the Government

(1) Parliamentary Debates, 1871, p. 403.

that it "had no right to calculate on an uninterrupted succession of prosperity." (1) Hincks defended the expenditures on the ground that they were not incurred for war, but for public improvements necessary for the material prosperity of the country. In the end, Galt's amendment was defeated.

During the Budget debate the Opposition had unsuccessfully advocated the abolition of the duties of 1870. The only promise made by the Government was the statement of Leonard Tilly, Minister of Customs, that whenever the United States removed the duty on one or all of these articles, the Canadian Government would promptly respond. (2) However, their unpopularity brought about their repeal in March, 1871. During Sir John Macdonald's absence in Washington, an Opposition motion, with the aid of Government supporters, repealed the duty on coal, coke, wheat, and flour. A Government motion removed the other duties. An amendment urging their retention pending the negotiations at Washington was overwhelmingly defeated. Its opponents included Hincks, Tupper, Cartier, and Tilley. (3) Thus, less than a year after its birth, ended the first instalment of the National Policy.

(1) Ibid, p. 410.

(2) Parliamentary Debates, 1871, p.409.

(3) Skelton: General Economic History, p. 147.

THE BUDGET OF 1872 - SIR FRANCIS HINCKS

The fiscal year 1870-71 was the most successful that Canada had yet enjoyed. In his third Budget speech, (1) delivered on April 30, 1872, Sir Francis Hincks announced a surplus on Consolidated Fund of \$3,712,479. The actual revenue of \$19,335,560 was \$1,975,000 in excess of the estimate. The Customs receipts showed an increase of \$2,500,000 over 1869-70. The curious fact was noticed that more than one-half of the Customs revenue was derived from five sources, namely, spirits, tea, mollasses, sugar, cotton and woollen manufactures.

The ordinary expenditure of the past fiscal year was \$15,623,081, an increase of almost \$1,300,000 over 1869-70. The capital expenditure was \$3,670,396, over two-thirds of which went to the Intercolonial Railway; the remainder was spent on the opening up of the North-West. The net debt was reduced, for the first time since Confederation, by \$503,224.(2) The total capital expenditure was met out of income, and the surplus announced by Hincks had a real existence.

According to the estimates, the Finance Minister anticipated a further increase in revenue, and also in expenditure. He felt that the prosperous financial condition of the country justified the erection of necessary public works, and, therefore, announced a contemplated expenditure of \$40,000,000 for this purpose. He disclosed that Canada's

(1) Parliamentary Debates, 1872, pp. 223-239.

(2) Public Accounts, 1871, p. XV

demand for a monetary compensation for the Fenian raids was not accorded by the Treaty of Washington. In lieu of this, an arrangement was made with the Imperial Government to guarantee a portion of the anticipated loan for public works. This would make possible the saving of money through lower interest rates. Canada alone could not float a large loan at 5 per cent. Hincks said "that if we attempted to float a loan to that extent, we should do uncommonly well if we obtained it at 6 per cent..... Honourable gentlemen on the other side must recollect that the customers for Canadian securities were a very limited class, and a very different class from those for English securities or United States securities or the securities of the Great European States. But if we went into the market for \$40,000,000, one-half our own, and the other half guaranteed by England, and with the prestige that England sanctioned our great public improvements, the advantage would be very great, so much so that I am persuaded that under those circumstances we should get our 5 per cent bonds floated at par, and therefore we should be able to float half at 4 per cent and the other half at 5 per cent, or equal to $4\frac{1}{2}$ per cent on the whole amount. This would therefore make a difference of $1\frac{1}{2}$ per cent on the whole amount of \$40,000,000, equal to \$600,000 a year..... I maintain that even with £ 2,500,000 we have made an infinitely better arrangement than we could have done in any other way." (1)

(1) Parliamentary Debates, 1872, p. 235.

The interest charge on the new debt, together with the requirements for the proposed Pacific Railway, and for the Intercolonial, would be \$3,000,000. It was expected that with the improvement of the public works and the canals, the revenue from other sources would increase. Because of the new obligations to be assumed, Hincks announced no reductions in taxation. The United States Congress was then considering tariff changes, and until these were announced, Canada would maintain her tariff without alterations.

In the course of the Budget debate, Richard Cartwright again warned Hincks that periods of great prosperity were usually followed by depressions. Alexander Mackenzie strongly attacked the proposed Imperial guarantee for public works as a humiliation. He "hoped that no ministry would ever again go on a begging expedition to the Imperial Government We are able to pay our debts, and for whatever we require, even should the Imperial Government decline to aid us." (1) He also expressed regret that the large surplus was not used to reduce taxation, as was being done in England.

Shortly after the presentation of the Budget, it was learned that Congress had repealed the duty on tea and coffee entering the United States. In order that American importers be not given an advantage over Canadians, Hincks moved for the repeal of the similar duties in Canada. All

(1) Parliamentary Debates, 1872, pp. 239-240.

All tea and coffee imported from any country other than the United States was to be admitted free; but when imported from the United States a similar duty was to be charged as the latter imposed on tea and coffee imported from places other than the countries of production. (1)

The Opposition attacked Hincks for slavishly following American precedent in tariff legislation. Luther Holton "thought we in Canada might learn wisdom from them in some respects; but least of all in matters of political economy." (2)

THE BUDGET OF 1873 - LEONARD TILLEY

In the six years of its existence, the first Macdonald Administration had four different Ministers of Finance. (3) In 1872 Sir Francis Hincks resigned and was succeeded by Samuel Leonard Tilley, the Minister of Customs. The latter delivered his first Budget speech (4) on April 1, 1873.

Tilley reviewed the financial condition of the country since 1867, and expressed great confidence in the future. The net debt now stood at \$32,187,000, an increase of \$6,456,000 since Confederation. For this increase the Government showed half of the Intercolonial completed; \$3,000,000 had been spent on the acquisition and the opening up of the North-West; \$1,500,000 on public works; \$380,000 on surveys for the Pacific Railway; \$400,000 for taking the

(1) Ibid, p.1101.

(2) Parliamentary Debates, 1872, p.467.

(3) Galt, 1867: Rose, 1867-69; Hincks, 1869-72; Tilley, 1872-73.

(4) "Montreal Weekly Witness", April 11, 1873.

census; and about \$500,000 for repelling the Fenian raids. The surplus of revenue over ordinary expenditure, during the five years, amounted to \$9,522,022. This had been contributed towards the construction of public works. It had enabled the country to meet an expenditure of \$16,298,133 for public works and for the acquisition of two new provinces with an addition of less than \$6,500,000 to the net debt. (1)

The country had entered into new engagements involving an expenditure of \$20,000,000 on the canal system, and \$30,000,000 on the Pacific Railway, which it was necessary to construct according to the terms of the admission of British Columbia into the Union in 1872. Tilley estimated the annual charges for these works, when completed, at \$3,367,400. To meet these the Government would make use of the following guarantees by the Imperial Parliament: (2)

£ 2,500,000, in lieu of the Fenian claims;

1,500,000, for the Intercolonial Railway;

300,000, for the North- West Territories;

1,100,000, for Fortifications, but transferred

to the Pacific Railway, with the

consent of the Imperial Government.

These constituted a total guarantee of £5,400,000 or \$26,000,000, which could be obtained at 4 per cent, with an annual charge of \$1,040,000. The remaining \$34,000,000 at 5 per cent would involve an annual charge of \$1,700,000.

(1) Charles R. Tuttle: History of the Dominion of Canada, (Montreal, 1877) Vol. 2, p. 366/

(2) "Montreal Weekly Witness", April 11, 1873, p.2

Tilley believed that the future of Canada was great enough to enable it to carry the additional debt without much increase in taxation. The annual charges could be met by merely raising the percentage of the customs duties to $12\frac{3}{4}$ per cent - the average of the first five years of Confederation. The removal of the duties on tea and coffee and other additions to the free list had lowered the average rate to less than 10 per cent. (1) The Opposition, however, feared that lavish expenditures would necessitate a great increase in taxation.

For the fiscal year 1871-72, Tilley announced a surplus of \$3,125,344. The ordinary revenue was \$20,714,813, and the expenditure \$17,589,468. The capital expenditure amounting to \$7,853,049, was the largest yet incurred. It included over \$5,131,000 for the Intercolonial, and \$1,666,200 as the debt incurred on the entry of British Columbia into the Dominion. The increase in the net debt was \$4,480,554. (2)

Notwithstanding the removal of the duties on tea and coffee, the Minister estimated still further increases in revenue. While in 1873 the British Chancellor of the Exchequer employed his large surplus to reduce the sugar duties by one-half, in Canada no change in taxation was made. Tilley announced that "the Government have concluded, as they feel they will have ample means to meet all their engagements, to declare their fiscal policy to be to tamper as little as

(1) Tuttle; op. cit., Vol. 2, p.367.

(2) Public Accounts, 1894, p. LXIX.

possible with the tariff, unless some radical changes are necessary, in order that the people may understand that the tariff has a permanency." (1)

DOMINION FINANCE 1867-73

Leonard Tilley's Budget of 1873 was the last Budget of the first Dominion Government. The revelations in connection with "the Pacific Scandal" resulted in the resignation of the Macdonald Cabinet in November 1873. The Liberal Party, with Alexander Mackenzie as Prime Minister, then came into power.

The financial history of the early years of the Dominion was largely determined by the necessity of consolidating and enlarging the Union formed in 1867. It was with a view to achieving this end that a Minister of Finance often prepared his tax measures, and his estimates for expenditure. The constant fear of irritating the Maritime Provinces made any major change in taxation inadvisable; the prosperity of the years 1870-73 made it unnecessary. The experiment in tariff protection and retaliation of 1870 was short-lived. However, the obligations assumed by the Government made increased taxation inevitable within a few years.

Under the first Macdonald Government the Consolidated Fund receipts increased from \$13,687,928, in the fiscal year 1867-68, to \$20,813,469, in 1872 -73. The principal sources

(1) "Montreal Weekly Witness", April 11, 1873, p.2

of revenue, the Customs and Excise, increased as follows: (1)

	<u>1867-68</u>	<u>1872-73</u>
Customs.....	\$8,578,380	\$12,954,164
Excise	3,002,588	4,460,680

The other leading sources of revenue, although minor, when compared with the above-mentioned, were the Public Works, including Railways and Canals, Interest on Investments, and the Post Office. As in other countries, indirect taxes contributed the bulk of the revenue.

The Consolidated Fund expenditure increased from \$13,486,092, in 1867-68, to \$19,174,647 in 1872-73. The increase was largely necessitated by the extension of the territory of the Dominion, through the acquisition of the North-West, and the admission of Manitoba and British Columbia. It was essential to establish law and order, and to provide transportation facilities in the new provinces. The expenditure was divided as follows: (2)

	<u>1867-68</u>	<u>1872-73</u>
Charges on the Public Debt....	\$4,860,757	\$5,387,850
Subsidies to the Provinces....	2,753,966	2,921,399
Sinking Fund	355,266	407,826
Collection of Revenue.....	1,885,804	3,395,475
Miscellaneous	3,630,298	7,062,095

(1) Public Accounts, 1894, pp. LI - LIII

(2) Public Accounts, 1894, pp. XXXII-XXXIII

The preponderance of the fixed charges in these years was striking.

The net public debt of Canada increased from \$75,728,641, in 1867-68, to \$99,848,461 in 1872-73. The bulk of it was payable in London. (1) The outstanding feature of this first period of the history of the debt was the construction of the Intercolonial Railway, on which the capital expenditure amounted to \$15,447,851. (2) Of importance, also, was the assumption of provincial debt by the Dominion. In 1869, in spite of the protests of Edward Blake, the "better terms" granted to Nova Scotia increased its debt allowance by \$1,186,750. (3) In 1870 the Province of Manitoba was admitted with an assumed debt of \$472,090. In 1871 British Columbia was admitted with an assumed debt of \$1,666,200, and with the understanding that a Pacific Railway would be constructed within ten years. In 1873 the provincial debts were again readjusted, with a consequent increase of \$13,859,079 in the net debt of Canada. (4) The acquisition and opening up of the North-West territories also accounted for an increase of \$3,019,999.

(1) Ibid, pp. XXV-XXVI

(2) Ibid, p. LXIX.

(3) J.C.Dent: The Last Forty Years (Toronto, 1881) Vol.2, p.489.

(4) Perry, op.cit., pp.14-15

To meet the large expenditures, Rose floated a £2,000,000 loan in London, in 1869. Of this £1,500,000 was guaranteed by the British Government, and was sold at 4 per cent. The interest on the remainder was 5 per cent. In 1873 Tilley floated a guaranteed loan of £1,800,000 in London, at 4 per cent.

The increase in the national debt of Canada during the first Macdonald Administration was not very large. But, new works were undertaken which necessitated a heavy increase of debt in the following years. The greatest undertaking was the construction of the Pacific Railway. To many the future was gloomy; but not to Sir John A. Macdonald. With great confidence he stated in Parliament, in 1872: "The credit of Canada, thank God, is well established; her good faith is known wherever she has had financial dealings. Her Majesty's Government can go to the House of Commons and ask for authority to guarantee a Canadian loan with a well-grounded assurance that the people of England will never be called upon to put their hands in their pockets, or tax themselves one farthing to pay it." (1)

(1) Parliamentary Debates, 1872, p.339.

CHAPTER IV

Industrial Depression and Financial Deficits,

1874-78

Richard Cartwright's Budgets, 1874-78 -

Dominion Finance, 1874-78.

"I may invite the attention of the House to the fact that it is rarely that any Government has been called upon to deal with such a convergence of risks, occurring simultaneously, as we had..... We had to do all that, at a time when, in addition to the special depression which existed in Canada, a great and universal commercial depression had overspread almost the whole world."

Hon. Richard Cartwright (1878)

The Mackenzie Government assumed the reins of office late in 1873, at the beginning of a period of world-wide economic depression. The hectic prosperity of the previous years was at an end. The world experienced the effects of over-expansion and over-speculation. In the United States a financial panic resulted in colossal bank failures and industrial bankruptcies. In Great Britain industry was paralyzed; Germany entered upon the worst crisis in its history; a prolonged industrial depression ensued. "Canada could not escape the maelstrom The malady spread, and soon production, trade, finance, exports and imports all approached a dead level. Then began six years of stagnation and hope deferred making the heart sick..... Prices fell much more rapidly in the United States than in Great Britain, and this general fall, together with the occasional utilization of the Canadian market as a 'slaughter-market', in the phrase of the

day, to avert still further fall at home, led to large importations at prices against which Canadian manufacturers found it difficult to compete. It is significant, however, that the most serious failures among the manufacturers were in the heavily protected boot and shoe industry; domestic over-production in highly protected industries was at least as marked as over-importation in industries with lower protection." (1)

An economic depression in the old Province of Canada had resulted in the moderately protective tariff of 1858-59; the depression of the 'seventies also brought the fiscal issue to a head. A policy of protection was advocated as a mean of preventing the dumping of foreign goods on the Canadian market, and of keeping this market for Canadian manufacturers. Sentiments of patriotism and nationalism were appealed to; the example of the highly protectionist United States was referred to. The issue, however, was not settled until 1878.

THE BUDGET OF 1874 - RICHARD CARTWRIGHT

The Budget speeches of the Mackenzie Government were delivered by Richard Cartwright, once, perhaps, like Gladstone, "the rising hope of those stern, unbending Tories," but now the Dominion's first Liberal Minister of Finance.

Cartwright's first Budget speech, (2) delivered on

(1) Skelton: General Economic History, pp. 138-139.

(2) Hon. Richard Cartwright: Budget of 1874.

April 14, 1874, was pessimistic in its outlook on the future of Canada. The Minister felt that the country had been committed to a series of projects which would tax its resources to the utmost, and would result in a large increase of debt. Millions of dollars would be necessary for the completion of the Intercolonial Railway and of the canal system. The construction of a Pacific Railway had also been undertaken, but Cartwright did not believe that this project could be carried out. It would increase the debt at an enormous rate; it would require a loan of \$30,000,000 annually, in London, for the seven years during which the railway would be constructed. "There may be some honourable gentlemen in the House," said the Finance Minister, "who think we shall be able to do this, but if so, I envy them their faith in the future of the Dominion." (1)

For the fiscal year 1872-73, Cartwright announced a surplus of \$1,638,821, the ordinary receipts being \$20,813,469 and the expenditure, \$19,174,647. But, he added, "I am afraid 1872-73 will be known for some time to come as the last year of plenty - I was going to say of heedless plenty." (2)

In 1872-73 the climax was reached in the increase of the net debt since 1867. The agitation of the provinces of Ontario and Quebec against the payment of interest on the amount by which the actual debt of the old Province of Canada exceeded the allowed debt, under the British North America Act, culminated in an Act of 1873 which increased the assumed debts

(1) Budget of 1874, p. 8.

(2) Ibid, p.3.

of these two provinces from \$62,500,000 to \$73,006,888.

The allowed debts of the remaining provinces were increased in a like proportion. Under this Act \$13,859,079 of additional debt was assumed by the Dominion. This formed the major part of the total capital expenditure of \$19,859,441 during the year. Of the remainder over \$5,019,000 was spent on the Intercolonial. The total net increase in the debt was \$17,661,389. (1)

The depression in agriculture, in lumbering, and in manufacturing, prevented the current year, 1873-74, from being as prosperous as those that had preceded it. Cartwright estimated the receipts at \$21,740,000, and the expenditure at \$22,586,727, leaving a deficit of \$846,727, against a surplus of over three millions but two years ago. The Opposition asserted that the estimate was wrong, and that in his zeal to place the onus of increased taxation on his predecessors, the Finance Minister had deliberately created a deficit by charging over \$500,000 of public works to revenue instead of capital. The Minister denied this charge.

In discussing the estimated receipts, Cartwright said that a revenue of almost \$22,000,000 was very large for a population of only three and a half millions. Furthermore, he believed that "so far as regards the older Provinces of the Dominion we ought not to look for any very large increase in population The stationary position of our population

(1) Public Accounts, Canada, 1894 p. LXIX.

does undoubtedly bear very strongly upon the question whether we can expect any very large increase in the gross income of the country." (1) The receipts of the country, although large relatively to the population, were unfortunately counter-balanced by an enormous fixed expenditure. After deducting the fixed charges, including the interest and charges on the debt, the subsidies to the provinces, and the charges for collection of revenue, the net revenue remaining for conducting the ordinary services of the country was just over \$6,500,000.

In bringing down the estimates for 1874-75, Cartwright said he was "startled and horrified" when he first perceived that he would have to announce an estimated ordinary expenditure of \$24,549,000 - necessitated by extensive public works, by the requirements of the Intercolonial and other Government Railways, and by the annual deficits in the services for the outlying provinces. The estimated revenue was \$22,000,000 leaving a probable deficit of \$2,500,000. As a temporary pause in the increase in the ordinary sources of revenue was expected, and as the liabilities of the country had to be met, an additional taxation of \$3,000,000 was necessary.

Cartwright strongly opposed the United States tax system; and the changes in taxation which he proposed involved the imposition of unmistakably revenue duties. In announcing the changes he said that the heavy local direct taxation had to be borne in mind. He doubled the duty on wine and made it

(1) Budget of 1874, p. 19.

specific. The duties on other spirits were also increased. An additional ad valorem duty was imposed on articles of luxury, including silks, satins, velvets, gold, silver, plated ware, fancy goods, hats, caps, jewellery and watches. The Minister did not expect a decrease in the consumption of these articles, because, as he said, "I have faith in the patriotism of my fair countrywomen, and I do not believe that in order to defeat the revenue they will purchase less goods than before." (1)

A specific and very low duty was imposed on tea and coffee, much to the Minister's regret. Machinery for mills and factories, not manufactured in Canada, was to pay a duty of 10 per cent. Iron of certain classes and ships' materials were to pay 5 per cent. Both the excise and the customs on cigars were increased. Finally, the duty on all unenumerated articles was raised, first, from 15 to 16 $\frac{2}{3}$ per cent, and later to 17 $\frac{1}{2}$ per cent. The changes were expected to yield an increased revenue of over \$3,000,000.

Cartwright believed that the tariff would be found "to compare favourably with that of other countries in proportion to our population. It is a matter of some interest to observe that our tariff is not quite one half as much as that exacted by the Government of the United States, while nevertheless it yields as much per head as theirs does..... This is a point of great interest as bearing on the vexed question of the limit of productive taxation. As regards

(1) Budget of 1874, p. 35.

our general position, our taxation will still be largely under the amounts paid by the people of the United States and England." (1) Yet, the new taxation was heavy, and Cartwright hoped that no more rash promises involving heavy capital expenditures would be made. The Intercolonial was constantly requiring money, and it was truly prophesied that it would cost a great deal more money than the railway would earn, to keep it running after its completion.

The Finance Minister said that any greater increase in the tariff than that which he had proposed would be unwise. Beyond that it would be necessary to resort to direct taxation. "I do not think," said Cartwright, "that much more taxation could be safely resorted to; nor do I think that we ought to be called upon to consider the question of raising any great amount by direct taxation." (2)

Charles Tupper, chief financial critic of the Opposition, attacked Cartwright for the proposed increase in taxation, (3) The Maritime Provinces, having entered Confederation with a low tariff, would resent the Government's policy. Cartwright was charged with infidelity to his free trade principles. Alexander Mackenzie, the Prime Minister, defended his Administration. (4) He said that as the requirements of the country made the application of the principles of free trade impossible, the Government had done the next

(1) Budget of 1874, p. 39

(2) Ibid, p. 41.

(3) W. Buckingham and Hon. G.W. Ross: The Hon. Alexander MacKenzie, His Life and Times, (Toronto, 1892) p. 375.

(4) Ibid, pp. 375-376.

best thing in raising the tariff for revenue purposes only.

In 1874 the business reaction and panic also led to an increase of duties in the United States. In England, Sir Stafford Northcote, the Chancellor of the Exchequer, faced with a huge surplus of £5,500,000 for 1873, abolished the duty on sugar and reduced the income tax.(1) However, the severe trade depression was setting in, and doubts arose about the wisdom of the principles of free trade even in England.(2)

THE BUDGET OF 1875 - RICHARD CARTWRIGHT

Cartwright delivered his second Budget speech (3) on February 16, 1875. Although there had been a decrease in imports, he was able to announce a reasonable surplus for 1873-74, and to anticipate another for the current year. Referring to the publicly owned railways, he pointed out that the Government had carried out its announced policy, "of charging to Income Account everything that properly belongs to the maintenance of these railways." (4)

In the fiscal year 1873-74 the receipts amounted to \$24,205,092, and the ordinary expenditure to \$23,316,316, leaving a nominal surplus of \$888,775. As the receipts included two items which were casual rather than ordinary, the Minister said that the net balance was about \$650,000. In the United States there was a deficit of \$1,300,000 in 1874,(5)

(1) Rees, op. cit., p. 153

(2) Ibid, p.156.

(3) House of Commons Debates, 1875, pp. 158-168

(4) Ibid, p. 158

(5) Dewey, op. cit., p. 401.

and in Great Britain the surplus decreased to £869,147. (1)

Customs and Excise receipts increased by \$2,550,000, as compared with the previous year, and Cartwright attributed two millions of this addition to his tariff changes of 1874. The increase in expenditure was over \$4,100,000, the greater portion of which consisted of statutory charges over which Parliament had no further control. These included interest on the debt, readjusted provincial subsidies, additional charges because of the admission of Prince Edward Island to the Union, and an increased indemnity to members of Parliament.

The capital expenditure in 1873-74 amounted to \$10,177,740, of which \$4,701,050 was the debt allowed to Prince Edward Island on its entry into Confederation. Of the remainder \$3,614,000 was spent on the Intercolonial, and \$1,189,000 on canals. The net increase in the debt was \$8,476,502. (2)

Although it was hoped that the capital expenditure on the Intercolonial and Prince Edward Island Railways would cease in 1876, Cartwright said that Canada would have to make provision for some \$125,000,000 during the ensuing ten years for undertakings chargeable to capital. To meet these engagements the Government had about seventy millions, on hand, on July 1, 1874, including \$25,000,000 in cash, the British Guarantee Fund of \$20,000,000 and its sinking fund of \$5,000,000, the savings bank deposits, and the surpluses. For further expenses, and to meet maturing loans, a total of

(1) The Statesman's Year Book, 1881, p. 215.

(2) Public Accounts, 1894, p. LXIX.

\$75,000,000 would have to be borrowed in London within ten years. The Finance Minister was anxious not to make unnecessary inroads upon the Imperial Guarantee, "by which in case of need we may obtain a loan under almost any conceivable circumstances." (1)

In 1874 Cartwright had negotiated an unguaranteed loan of £4,000,000 at 4 per cent, in London. It was placed at £90, and realized about \$17,500,000. The loan was criticized because the discount and the rate of interest were fixed, which prevented the calling for tenders; because the amount was too large; and, because it was inexpedient for Canada to borrow on her own unaided credit. In his Budget speech, the Minister said that the amount of debt maturing and the increasing capital expenditure made a large loan necessary. Canada had borrowed in 1873, and to borrow in 1874 and again in 1875 would be prejudicial to her credit. It had been with difficulty that the financial agents of the Government were induced to take on one million dollars of the loan. It would have been easy to make use of the Imperial Guarantee, but Cartwright wanted to keep this in reserve. The loan of 1874 was actually obtained on better terms than any other of equal amount in twenty years. Apart from Rose's small loan of £500,000 in 1869, no bona fide Canadian loan on the country's own credit had been issued since Galt's loan of 1860. On the whole, Cartwright felt that he could reasonably say "that the

(1) House of Commons Debates, 1875, p. 166.

Dominion of Canada has no reason to be ashamed of the position in which it stands in the English market." (1)

The Budget of 1875 proposed no changes in taxation. On behalf of the Opposition, Charles Tupper protested that the surplus would have justified reductions in taxation. He also attacked Cartwright's statement on the finances of 1873-74.(2) In his attempt to defend the late Macdonald Government, Tupper treated the House to the curious and unusual spectacle of an Opposition critic trying to prove that a surplus was actually far larger than what the Minister of Finance had declared it to be. He alleged that Cartwright had charged too much railway expenditure to ordinary, instead of to capital account, and that there was an actual surplus of \$1,722,215 in 1873-74, and one of \$1,638,821 in the preceding year. The Mackenzie Government, according to Tupper, was juggling the public accounts in order to be able to charge the preceding Conservative administration with responsibility for increases in taxation.

In his reply to Tupper, Cartwright defended his policy, and attacked his predecessors for charging large sums to capital. "He did not recognize the propriety of carrying forward a surplus when they had an expenditure in capital account known largely to exceed that surplus. He might add, and he directed the attention of the House to the fact, that in the English Parliament this practice of charging one set

(1) House of Commons Debates, 1875, p. 164.

(2) Ibid, p. 168 et seq.

of expenses to capital account and another to income was very much discountenanced." (1)

Alexander Mackenzie, the Prime Minister, vigorously defended Cartwright's administration of the finances. He "considered the half million which the honourable gentleman (Tupper) insisted was chargeable to capital should not be chargeable to capital, and it should not be chargeable to capital as long as he was connected with the Administration of the affairs of this country. He considered that when a public work was once fairly stocked and fairly in operation that everything connected with it should be chargeable to revenue, because the Government might alienate sums of money from other sources to meet their engagements which a private company could not have at their disposal. The building of additional stock, the obtaining of additional locomotives, making additional sidings, renewing the road with new rails, etc., were clearly chargeable to income and not to capital..."(2)

Had this principle of finance been accepted by later public men the rate of increase of the expenditure and debt of Canada might have been less rapid.

(1) House of Commons Debates, 1875, pp.186-187.

(2) Ibid, p. 191.

THE BUDGET OF 1876 - RICHARD CARTWRIGHT

Canada was passing through an almost unparalleled commercial crisis, when Richard Cartwright presented his third Budget, on February 25, 1876 (1) The country was suffering from the effects of extravagance and inflation. In the past year there had been a decrease of \$20,000,000 in the total volume of trade. The distress was universal.

The receipts of the fiscal year 1874-75 amounted to \$24,648,715, and the ordinary expenditures to \$23,713,071, leaving a surplus of \$935,644. The controllable expenditure was reduced by over \$470,000, as compared with 1873-74. On capital there was spent \$6,922,742, one half of which was for the Intercolonial Railway, and of the remainder, \$1,714,000 was for canals, and \$1,546,000 for the Pacific Railway. The net increase in the debt was \$7,683,413, exceeding the total capital expenditure by \$760,671, because of the \$2,212,000 discount and charges on the loan of 1875.(2) As he believed that "we should be very scrupulous as to what we allowed to go to that capital account," (3) Cartwright charged to ordinary account one-third of the expenditure involved in the change of gauge on the Nova Scotia and New Brunswick railways. For the current year he expected a serious diminution in receipts owing to decreased imports and to the shrinkage in values.

In November, 1875, a 4 per cent Canadian loan of

(1) House of Commons Debates, 1876, pp. 241-262.

(2) Public Accounts, 1894, pp. LXIX-LXX.

(3) House of Commons Debates, 1876, p.243.

£ 2,500,000 was floated in London, of which £1,500,000 was secured by the Imperial Guarantee. Cartwright justified the loan because of the many obligations which had to be met. He believed that the tax increase of 1874 had prevented deficits which would have destroyed the credit of Canada, and necessitated the exhaustion of the Imperial Guarantee.

The Budget of 1876 proposed no changes in taxation. Cartwright regarded the tax burden as already heavy for a country of scarcely 4,000,000 people. A high tariff had been urged as a remedy for the depression, but he refused to introduce a policy which would raise the price of commodities and would reduce the revenue to the extent that it diminished imports. While the geographical position of the Dominion made protection inadvisable, the experience of the United States was "the best possible warning to the people of Canada not to be led into the delusion of imposing a high tariff." (1) The colossal fortunes, the monopolies, the corruption and lobbying the artificial transference of population from rural to urban districts, and the benefitting of a few at the expense of the many, were to Cartwright the results of protection in the United States. In any event, he believed that the abnormality of prevailing conditions made experiments with tariff legislation most inopportune. Time would remedy the depression. In the opinion of the Minister, the country could not help suffering "from the mad financial revel..... which prevailed in Canada from 1870 to 1873." (2)

(1) House of Commons Debates, 1876, p. 255.

(2) Ibid, p. 407.

It had been generally anticipated that Cartwright would propose an increase in the tariff in 1876. The Minister himself later confessed that he had intended to impose additional duties in order to avoid a deficit, but that the opposition of the members from the Maritime Provinces changed his intentions. (1) The tradition persists that the Conservatives were prepared to attack the Government for any increase in duties. In fact, Tupper is said to have been prepared both to attack an increase in the tariff, if Cartwright raised the duties, and, if not, to advocate an increase himself. The Government's decision, however, opened the way for the Conservative party to definitely adopt a policy of Protection, and to make this the outstanding issue in Dominion politics for many years.

In his reply to the Budget speech, (2) Charles Tupper held the Government responsible for a large share of the depression. While protection was indirectly suggested, neither Tupper nor Macdonald stated any definite policy in reference to the tariff, during the Budget debate. Many private members of Parliament advocated protection, but Premier Mackenzie said that a revenue tariff was the policy he would adhere to. At the same time he agreed that some tariffs were necessary, because, "as we have a boundary co-terminous with the United States for thousands of miles, it is utterly impossible to adopt a fiscal policy for this country without reference to what is passing in that country." (3)

- (1) Sir Richard Cartwright: Reminiscences, (Toronto, 1912) pp. 156-157
(2) House of Commons Debates, 1876, p. 262 et seq.
(3) Ibid, p. 284.

In March, 1876, Sir John Macdonald came forward as an avowed protectionist. He moved an amendment to a motion to go into Supply, advocating "a measure for the re-adjustment of the tariff, which will not only tend to alleviate the stagnation of business..... but also afford encouragement and protection to the struggling manufacturers and industries as well as the agricultural productions of the country." (1) For the first time the colours of the Conservative Party were definitely nailed to the mast of Protection. Macdonald said that if free trade is to exist it must be reciprocal. He believed that Canada was in the position in which John Stuart Mill had justified protection - a young country with little realized capital, and with infant industries which had scarcely taken root, but which was "lying alongside of a country which has had the advantage of having commenced first." (2) Protection was essential to cope with the depression.

Cartwright declared that Mill "would be tempted to rise from his grave" (3) if he were conscious of the meaning attributed to his words. Mackenzie looked upon "every restriction as regards trade and commerce between man and man as simply a relic of a barbarous age." (4) The Amendment was

(1) House of Commons Debates, 1876, pp. 488-489.

(2) Ibid, p. 491

(3) Ibid, p. 580

(4) Ibid, p.500

defeated, but the issue which for many years was to divide Liberal and Conservative in Canada had been drawn.

THE BUDGET OF 1877 - RICHARD CARTWRIGHT

The first Dominion Budget speech to announce a deficit on Consolidated Fund was that delivered by Cartwright on February 20, 1877. (1) The year 1875-76 had been exceedingly critical. The expenditure touched the highest point yet attained, amounting to \$24,488,372, while the revenue of \$22,587,587 showed a serious diminution, in comparison with the previous fiscal year. The Finance Minister regarded the deficit of \$1,900,785 as serious, "none the less because it is the first avowed deficit, though not the first that has really existed since the period of Confederation." (1) The greater part of it was due to extraordinary and abnormal expenditures, such as exceptional public works, boundary surveys, and relief to Manitoba settlers. The enormous retrogression in imports was the cause of the great decrease in revenue. Customs receipts fell from \$15,351,000 to \$12,823,000 - a reduction greater than the entire deficit. The Finance Minister was now hopeful that the turning point had come and that the worst of the depression was over.

The capital expenditures of 1875-76 amounted to \$7,154,007. The largest item was that of \$3,346,567 for the Pacific Railway, which the Government proceeded to construct as a public enterprise, and which was to be the leading cause of

(1) House of Commons Debates, 1877, Vol I, pp. 123-147.

the increase in the debt until 1886. A large expenditure was also begun on canals, and in this year \$2,388,733 was spent on their development. The Intercolonial Railway, the main cause of the debt increase since 1868, was opened on July 1, 1876, and the capital expenditure on it in the last fiscal year was \$1,108,321. The net increase in the debt was \$8,543,136. (1) Owing to the deficit, borrowing was necessary to carry on the ordinary services of the country.

In view of the deficient harvest and the unprecedented trade depression, Cartwright feared the effects of another deficit on the credit of the country. He, therefore, proposed a number of tariff changes, but only because they were demanded by the necessities of the revenue. Otherwise he believed "that at a time of depression, it is desirable not in any way to increase the already serious burdens of the people of this country." (2) The same view was also expressed by Sir Stafford Northcote, the British Chancellor of the Exchequer, who refused to increase taxation in 1877 because it could not be borne without distress in a time of depression. (3) Cartwright pointed out that in spite of a policy of high tariff protection the United States had suffered far more than Canada through an enormous decrease in both exports and imports.

The proposed tax changes abolished the excise duty on petroleum, and reduced the customs duty from 15 cents to 6 cents per gallon. The duty had been unjust and had encouraged

(1) Public Accounts, 1894, p. LXIX.

(2) House of Commons Debates, 1877, Vol.I, p. 141.

(3) Rees, op. cit., p. 156.

smuggling. To recoup the Treasury for the reduced revenue the Finance Minister imposed an additional duty of 2 cents per pound of tea imported; one cent per pound of malt; and three cents per gallon of beer not brewed from malt. Tariff readjustments included the placing of all cotton and linen thread, some of which had paid 10 per cent, in the $17\frac{1}{2}$ per cent list, and the removal of all tubing and certain parts of locomotives from the free list to the unenumerated class of $17\frac{1}{2}$ per cent. The duties on cigars, perfumes, and spirits were increased. It was estimated that the changes would result in a gain of about \$500,000 to the revenue - sufficient to meet any deficit. As the remission of the duties on petroleum involved a reduction of \$800,000 in taxation, the Minister said that the tariff changes would considerably diminish the burdens of the people.

Cartwright sated that when the Government came into office, in 1873, it was confronted with liabilities amounting to \$90,000,000, apart from the obligations for the Pacific Railway. These liabilities had now been reduced to \$24,000,000. The capital account of the Prince Edward Island Railway had been closed, and it was expected to close that of the Inter-colonial in 1878. The Government had borrowed the nominal sum of £9,000,000, which yielded about \$42,000,000. Of this amount \$20,300,000 had been spent on capital, and \$16,000,000 had been paid to, or on behalf of, the provinces. The Imperial Guarantee still remained intact to the extent of £ 2,100,000.

In 1876 a loan of £2,500,000 was issued in London at the fixed price of £91. According to Cartwright, "that loan fetched the highest price ever obtained on our own unaided credit." (1) The loan was issued at 4 instead of 5 per cent, which was an important change. It was not an easy matter to place Canadian 4 per cents on the market as a favourable security. The Finance Minister had to take precautions to guard against failure because "it was a matter of notoriety in London that a large amount of our loan of 1874 remained for a long time unabsorbed in the hands of the capitalists who had taken it." (2)

The Opposition condemned the practice of issuing a loan at a fixed price and not calling for tenders. It was pointed out that Australia had recently borrowed £500,000, called for tenders, and had realized £97½, while Canada realized only about £90. Cartwright replied that in the years from 1871 to 1875 many countries, including France, Belgium and Brazil, had issued loans at a fixed price. The position of Australia differed greatly from that of Canada. Its per capita exports were enormous; it was 6,000 miles away from any danger of war; it had many settlers in England with extensive connections; its public works paid interest on their investments; and it "had no Pacific Railway to hang as a dead-weight over them." (3) Canada, therefore, could not expect the same price for its securities as the Australian colonies obtained. It had a deficit in 1876; it had undertaken costly public works; and, as Cartwright said, it is "perfectly well

(1) House of Commons Debates, 1877, Vol. I, p. 129.

(2) Ibid, p. 130

(3) Ibid, Vol. 2, p. 1458

known that Canada is not looked upon with a friendly eye by persons having great influence with the London press." (1) The Minister considered that as the loan still left £2,100,000 of the Imperial Guarantee in reserve, and "that scarcely one penny of the Canadian four per cents was held by Canadians," he had obtained a good price, "bearing in mind that nearly \$150,000,000 of English capital invested in private enterprises in this country was making no return, and remembering what a millstone that had always been round the neck of Canadian credit." (2)

The debate on the Budget centred on the tariff. Charles Tupper, in, what Mackenzie called, his "tirade of abuse, delivered annually on similar occasions," (3) attacked the increased duties on tea and coffee, and advocated a protective tariff to aid industry. In 1871 he had voted for the repeal of the coal duties, but now he urged protection against coal imports. In the matter of reciprocity he preferred the fostering of trade with Great Britain rather than with a foreign country. He attacked the extravagance of the Government, and blamed it for the depression. (4)

Sir John Macdonald, as Leader of the Opposition, again moved an amendment to the tariff resolutions ~~regretting~~ "that the financial policy submitted by the Government increases the burthen of taxation on the people, without any compensating

(1) House of Commons Debates, 1877, Vol. 1, p. 135

(2) Ibid, Vol. 2, p. 1457.

(3) Ibid, Vol. 1, p. 170

(4) Ibid. Vol. 1, p. 147 et seq.

advantage to Canadian industries; and further, that this House is of opinion that the deficiency in the Revenue should be met by a diminution in expenditure, aided by such a re-adjustment of the Tariff as will benefit and foster the agricultural, mining and manufacturing interests of the Dominion."(1) He wanted a tariff which would not press unduly on the resources of the people. He also said that his resolution "was merely partial, and meant to provisionally meet the temporary deficit."(2)

Although defeated, the Conservative amendment aroused a long discussion. Cartwright said that the Opposition attacked the tax on tea, and yet advocated a policy which would tax "the fuel, the bread, the clothes, and the sugar of the labourer." (3) Mackenzie re-affirmed his belief in a tariff for revenue, and attacked Macdonald's sincerity in view of his free trade speeches of the past. The Prime Minister had "no objection to the principle of protection per se, that is, if you can make everybody wealthy without making any person poor," but this was impossible, and there was no policy "more consistent with what we call the Dark Ages of the world than that of protection as a principle."(4)

THE BUDGET OF 1878 - RICHARD CARTWRIGHT

The economic depression had not yet subsided when Richard Cartwright delivered his fifth and last Budget speech on February 22, 1878. (5) There had been a reduction of nearly

(1) House of Commons Debates, 1877, Vol.1, p.405.

(2) Ibid, p. 517.

(3) Ibid, Vol. 2 p. 1178.

(4) Ibid, Vol. 1, p. 405.

(5) Ibid, 1878, Vol. 1, pp. 427-444

\$50,000,000 in the total volume of trade, and, therefore, a large reduction in the revenue. The Finance Minister truly said that rarely had any government "been called upon to deal with such a convergence of risks, occurring simultaneously, as we had," (1) However, he added that conditions were improving. He urged prudence and economy, and hoped that the country would profit from its experience.

The receipts of the fiscal year 1876-77 amounted to \$22,059,274, a decrease of over \$500,000 as compared with the previous year. The ordinary expenditure of \$23,519,301 showed a decrease of almost \$1,000,000. The Finance Minister said that he had succeeded in reducing the controllable expenditure from \$8,569,774, in 1875-76, to \$6,835,078. The deficit of the year was \$1,460,027.

The capital expenditure in 1876-77 totalled \$7,599,709, of which over four millions was for canals; the remainder was chiefly divided between the Pacific Railway and the Intercolonial Railway. The increase in the net debt was \$8,683,794. (2)

In discussing the finances of the country, Cartwright pointed out the very serious disproportion between the fixed charges on the revenue and the controllable expenditure. Of the total expenditure of \$23,000,000 the charges on the public debt constituted a first mortgage of \$11,500,000. The charges on collection of revenue, amounting to about \$5,500,000, were also practically fixed. Hence only about \$7,000,000 remained under the control of the government, leaving but a very narrow margin within which to exercise economy.

(1) House of Commons Debates, 1878, Vol. 1, p. 442.

(2) Public Accounts, 1894 p.LXIX.

The Finance Minister showed that the two successive deficits, which he had announced, were composed in large part of sums annually devoted to the sinking fund, and amounting to \$1,650,000. The net increase of debt, as a consequence of the deficits, was therefore \$1,700,000 instead of \$3,361,000. Had Canada possessed an income tax, which, as in Great Britain, could be raised or lowered without disturbance to the commercial interests of the country, Cartwright would not have hesitated to employ it to prevent further deficits. But, under the existing system, he refused to increase taxation. It was both inadvisable and unnecessary because signs of improvement were already visible; because the receipts of 1876-77 were below the average, owing to exceptional circumstances; because the deficits, being largely composed of sinking fund, were not as serious as was generally thought; because the liabilities of the country had been heavily reduced; and, because much of the expenditure, although charged to Consolidated Fund, was nearer capital than ordinary expenditure. Cartwright added that in view of the new issue between protection and a revenue tariff, he wanted the people to express their views at the polls. He re-iterated his belief in a tariff for revenue, and saw no reason for imitating the United States. The Government believed "that all taxation, however disguised, is a loss per se, that it is the duty, and the sacred duty of the Government to take only from the people what is necessary to the proper discharge of the public service; and that taxation in any other mode is simply, in one shape or other, legalized robbery." (1)

(1) House of Commons Debates, 1878, Vol. 1, p.440

As the Budget speech of 1878 was the last before the general election, Cartwright compared the financial position of Canada in 1878 with that in 1873, when he assumed the portfolio of Finance. He concluded that notwithstanding the tariff increases, the reductions in the duties on tea and coal oil had been so great that the burden of taxation was almost the same in both periods. Taxation in Canada was light, as compared with that of other countries in similar circumstances. The burden was about one-half as great as that of Great Britain; and taxation for all purposes in Canada was barely one-third of the amount paid by the people of the United States under their tariff and municipal taxes.

The year 1877 completed the first decade of Confederation. The era had shown that the originally confederated provinces possessed ample resources to carry out all undertakings. However, the Finance Minister considered that the country had undertaken too much, and that its existence had been seriously imperilled. Hence the startling increase in expenditure, from \$13,500,000 in 1867 to \$23,500,000 in 1877, with no reasonable prospect of reductions. The main items of the increase were the interest on capital for construction of the Intercolonial, the interest on the sum expended on the Pacific Railway, the interest on other public works, the expenditure on the North-West and on British Columbia, and that occasioned by the assumption of provincial debts and the admission of Prince Edward Island. Cartwright believed that

with the growth of population and prosperity the per capita expenditure need not increase further to any marked extent.

The debate on the Budget was again concerned mainly with the tariff. Tupper attacked Cartwright for the absence of any proposals to avoid the impending deficit, or to help the suffering industries of the country. He urged the necessity of protecting the sugar-refining and coal-mining interests. He did not advocate an "increase of taxation, but a readjustment of taxation." (1) Tupper also expressed himself as favouring differential tariffs - a preferential tariff on goods from Great Britain and British possessions, and another tariff against the rest of the world.

On March 7, Sir John Macdonald again moved an amendment "that the welfare of Canada requires the adoption of a National Policy, which, by a judicious readjustment of the Tariff, will benefit and foster the agricultural, the mining, the manufacturing, and other interests of the Dominion; that such a policy will retain in Canada thousands of our fellow countrymen now obliged to expatriate themselves in search of the employment denied them at home, will restore prosperity to our struggling industries, now so sadly depressed, will prevent Canada from being made a sacrifice market, will encourage and develop an active inter-provincial trade, and

(1) House of Commons Debates, 1878, Vol. 1, p.462.

moving (as it ought to do) in the direction of a reciprocity of tariffs with our neighbours, so far as the varied interests of Canada may demand, will greatly tend to procure for this country, eventually, a reciprocity of trade." (1)

In his speech Macdonald stressed the importance of national considerations even more than the mere accumulation of wealth - "there is prestige, national status, national dominion - and no great nation has ever risen whose policy was Free trade." (2) England's prosperity was due to her original policy of protection. All the time, however, the Opposition Leader admitted the desirability of reciprocity with the United States, and believed that a retaliatory tariff might serve to promote it.

Following a lengthy discussion on the respective merits of free trade and protection, Macdonald's resolution was defeated.

DOMINION FINANCE, 1874-78

Cartwright's Budget of 1878 was the last one of the Mackenzie régime. In the general election of September of that year hard times and dissatisfaction resulted in the defeat of the Government. Sir John A. Macdonald was returned to power pledged to a policy of tariff protection.

The financial history of the years 1873-78 largely reflected the existing universal economic depression. It was

(1) House of Commons Debates, 1878, Vol. 1, p.584.

(2) Ibid. p. 855.

the first period in Canadian history in which a Minister of Finance announced deficits on Consolidated Fund. It was the period which gave birth to the National Policy of Protection. In Great Britain hard times merely aroused misgivings about the policy of free trade; in Canada hard times changed the course of the fiscal policy and set it on the road to Protection. But the change did not occur until the coming of the second Macdonald Administration. The Liberal Government had rigidly adhered to a tariff for revenue, and all of Cartwright's tax measures were in conformity with this policy.

In 1872-73, the last year of the first Dominion Government, the receipts on Consolidated Fund had been \$20,813,469; in 1874-75 they rose to \$24,648,715; in 1877-78, the last year of the Mackenzie Government, they were \$22,375,011. The Customs and Excise continued to be the principal source of the revenue. The Customs yielded \$12,954,164 in 1872-73; \$15,351,011 in 1874-75; and \$12,782,824, in 1877-78. (1)

The Consolidated Fund expenditure increased from \$19,174,647 in 1872-73, to \$23,503,158 in 1877-78. It was divided as follows: (2)

	<u>1872-73</u>	<u>1877-78</u>
Charges on the Public Debt.....	\$ 5,387,850	\$ 7,240,969
Subsidies to the Provinces....	2,921,399	3,472,807
Sinking Fund.....	407,826	945,746
of		
Collection/Revenue.....	3,395,475	5,301,124
Miscellaneous.....	7,062,095	6,542,510

(1) Public Accounts, 1894, pp. LI - LVIII

(2) Ibid, pp. XXXII - XXXIII

The fixed charges remained a very large proportion of the total expenditure. Cartwright's policy of economy was shown in the reduction of the controllable expenditure.

In 1873 the net debt of Canada was \$99,848,461; in 1878 it had increased to \$140,362,069. The principal causes of the increase were the expenditure of \$13,267,868 on canals; \$9,876,488 on the Intercolonial and connected Railways; \$9,122,556 on the Pacific Railway; \$ 4,927,060 as debt allowance on the admission of Prince Edward Island into Confederation; and, \$4,488,959 as deficits on Consolidated Fund. (1)

The funded debt payable in London increased from \$76,137,715, in 1873, to \$121,244,415 in 1878. (2) Cartwright floated three loans in London - an unguaranteed loan of £4,000,000 in 1874; one of £2,500,000, of which £1,500,000 was guaranteed by the Imperial Government, in 1875; and an unguaranteed loan of £2,500,000 in 1876. The latter brought the highest price yet obtained on Canada's own unaided credit. It was also the first Canadian loan floated at 4 per cent.

While the loan of 1876 seemed to indicate the confidence of the British investor in the future of Canada, that confidence was not shared in by many Canadians themselves. The ^{of} pessimism/Richard Cartwright probably reflected the general feeling. The country was discouraged and was prepared to experiment with any remedy. When the Conservative Party offered tariff protection it was accepted.

(1) Public Accounts, 1894 pp.lxix-lxxi.

(2) Ibid, p. xxxiv.

CHAPTER V

THE NATIONAL POLICY UNDER MACDONALD,

1879-91.

Tilley's Budgets, 1879-85 - McLelan's Budget, 1886 - Tupper's Budgets, 1887-88 - Foster's Budgets, 1889-90 - Dominion Finance, 1879-91

"I may say, Mr. Speaker, that the Budget speeches which have been delivered in this Chamber since 1879 bear a certain family likeness to one another; they all are made up in very much the same way."

- Hon. David Mills (1894)

"The seven lean years of depression" (1) were drawing to a close when Sir John A. Macdonald resumed the reins of power late in 1878. There was a world-wide improvement in demand, and the markets for Canadian products were re-opened. Circumstances favoured the new Administration.

The elections had been fought on the issue of Protection, advocated by the Conservative Party. Dalton McCarthy, once a prominent Conservative member of Parliament, confessed that it was "by going in for the National Policy and taking the wind out of Mr. Mackenzie's sails we got into power. We became identified with the protective policy, and if Mr. Mackenzie had adopted a protective policy we would have been free traders. I am willing to make this confession, that if Mr. Mackenzie had been a protectionist, there would have been nothing left for us but to be free traders. But Mr. Mackenzie was either too honest or too earnest in his opinions to bend to the wave of public opinion, and the result was he was swept out of power and had only a corporal's guard (1) Skelton: General Economic History, p. 148.

to support him when the House met." (1) The Conservative victory was followed by an immediate redemption of the pledges made during the campaign.

In Macdonald's new Cabinet Leonard Tilley returned to the portfolio of Finance, which he had held in 1873. He introduced the first seven of the long series of seventeen Budgets, all of which, as David Mills rightly said, bore "a certain family likeness to one another." (2) That of 1879 introduced the National Policy; all subsequent Budget Speeches until 1897, contained long eulogies on the effects of that Policy. Every year the Finance Minister prepared new statements and compiled new statistics to prove its success; every year, but one, Richard Cartwright, now the chief financial critic of the Opposition, denied those statements and delivered torrents of abuse on the system of Protection. "For seventeen years," said Sir Charles Hibbert Tupper, rather cruelly, in 1896, "we have heard from the member for South Oxford (Richard Cartwright) the same style and the same tone, but for seventeen years the people of Canada have preferred to stand his abuse rather than stand him." (3)

THE BUDGET OF 1879 - LEONARD TILLEY

The first Budget of the new Government, presented by Leonard Tilley on March 14, 1879, (4) was one of the most important in the history of the national finances of Canada. It was the

(1) House of Commons Debates, 1894, Vol. 2, p.293 - quoted by Sir Richard Cartwright.

(2) Ibid, Vol 1, p.762

(3) Ibid, 1896, Vol. 1, p.1309

(4) Ibid, 1879, Vol 1, pp.409-430.

first time that a Minister of Finance definitely accepted Protection as the principle of the Canadian tariff policy, and made changes accordingly.

Tilley announced a deficit of \$1,128,146 for the fiscal year 1877-78. The receipts were \$22,375,011, against an expenditure of \$23,503,158. The capital expenditure amounted to \$6,657,200, of which \$3,843,338 was spent on canals and \$2,228,373 on the Pacific Railway. The net increase in the debt was \$7,126,760 (1) For the current year, 1878-79, the Finance Minister expected a deficit of \$2,400,000 and one of \$1,600,00 for the approaching year. Hence an increase of \$2,000,000 in the Customs revenue was necessary. An additional sum of \$504,000 would have to be provided for the interest on the public debt, owing to the loan of 1878.

The Minister explained that on coming into office he had found it necessary to float a loan of £3,000,000 in London - one half on the credit of Canada, and the other half on the Imperial Guarantee. Tenders were called for, but the loan was taken up very slowly. Cartwright criticized Tilley for floating a loan at so inopportune a time, and stated that it had cost Canada more than any of three previous loans he had contracted. He also protested against Canada's sinking fund, which he regarded as by far the largest any nation possessed. He hoped that the country would soon be released from the necessity of paying any additional sinking fund on new loans. (2)

(1) Public Accounts, 1894. p. lxix.

(2) House of Commons Debates, 1879, Vol 1, pp.438-39.

After treating of the general finances of the country Tilley proceeded to announce the tariff changes which were to institute the National Policy. The aim of the new tariff was not only the realization of \$2,000,000 more revenue but also the protection of the industries of the country. The large volume of imports into Canada and the unfavourable balance of trade were to be regretted. The prosperity of the United States was caused in great measure by the large favourable trade balance, whereas the depression in Great Britain was due to the large unfavourable balance. "Under the circumstances," said Tilley, "it appears to me we should turn our attention to the best means of reducing the volume of our imports from all parts of the world." (1) It was also necessary to take means to prevent the use of Canada as a "slaughter-market" where United States manufacturers could send their surplus products at prices below those of their Canadian competitors.

In contrasting the great decrease of revenue in Canada with the decreases in Great Britain and the United States, Tilley explained that the latter countries derived their revenue mainly from specific duties, whereas in Canada the duties were largely ad valorem. Hence a fall in the value of goods would mean a decrease in receipts, and because of the enormous fall in values during the economic depression there was a corresponding fall in the revenues of the Dominion. The new tariff would attempt to remedy this situation.

(1) House of Commons Debates, 1879, Vol. 1, p. 414.

The National Policy aimed to "touch more heavily the imports from foreign countries than from our Fatherland," (1) which admitted our natural products free of duty. Since 1865 a large portion of the products of the United States had been admitted free of duty into Canada, in the hope of a more liberal tariff policy. This had been in vain, and it was now intended to impose duties on those products. Coupled with this, however, was to be a resolution to the effect that, "as to articles named, which are the natural products of the country, including lumber, if the United States take off the duties in part or in whole, we are prepared to meet them with equal concessions. The Government believe in a reciprocity tariff, yet may discuss Free-Trade or Protection, but the question of to-day is - Shall we have a reciprocity tariff, or a one-sided tariff?"(1) Thus the National Policy included a standing offer of reciprocity to the United States.

The Government aimed to extend trade, and in order to encourage the export of Canadian manufactured products, it was proposed to give manufacturers a drawback on the duties paid upon goods used in the manufactures of the Dominion which were exported. It was also intended to impose countervailing duties on goods fed by the bounty system of foreign countries, which materially affected such industries as sugar-refining in Canada. This would bear more heavily on the products of the United States than on those of Great Britain, but, said Tilley, "if our friends across the border will not give us the Recipro-

(1) House of Commons Debates, 1879, Vol. 1, p. 415.

(2) Ibid, p. 415.

city Treaty again, they cannot find anything to object to in the imposition of these duties..." (1)

The new tariff raised the duty on unenumerated goods from $17\frac{1}{2}$ to 20 per cent. This increase, it was expected, would yield \$750,000. The textile industries were especially favoured. On cotton goods likely to be manufactured in Canada, the duties were raised from $17\frac{1}{2}$ per cent to rates, specific and ad valorem, equivalent, on the importations of 1881, to 30 per cent. (2) While unmanufactured wool was to be admitted free, the duties on other wool and woollen goods were practically doubled. A duty of 10 cents per pound plus 25 per cent ad valorem was imposed on clothing.

The rate on furniture and clocks was increased to 35 percent - an increase of $17\frac{1}{2}$ per cent. On carriages, glassware, wall-paper and silk, the duty was raised to 30 per cent, and on boots and shoes, buttons, rubber goods, woodenware, earthenware, and stoneware, to 25 per cent.

A duty of 50 cents a ton, as in 1870, was imposed on anthracite and bituminous coal, and on coke, in the hope of giving the Canadian market to the coal deposits of Nova Scotia. The United States duty was 75 cents per ton of coal. (3) The duty on agricultural implements was raised from $17\frac{1}{2}$ to 25 per cent.

(1) House of Commons Debates, 1879, Vol.1, p.416

(2) Skelton: General Economic History, p. 153.

(3) Hopkins, op. cit., p. 290.

Tilley proposed to encourage the Canadian iron industry, iron being, as he said, the cause of the prosperity of England, France, and the United States. He, therefore, imposed a duty of \$2 per ton on pig-iron, which previously had been free. This corresponded to the United States duty of \$7. per ton. The duty on iron billets, bars, and rods was increased from 5 to 10 and $17\frac{1}{2}$ per cent, while manufactured iron and steel products and machinery were given 25 to 35 per cent protection.

The National Policy aimed also to protect agriculture. It imposed a duty of 15 cents per barrel on breadstuffs and barley; 10 cents per bushel on oats; 15 cents per bushel on wheat; and 20 per cent, instead of 10 per cent, on vegetables. In the United States, there had been duties on agricultural products for some years.

There was to be a duty of 8 cents per hundred pounds of salt. However, following the policy of 1870, salt imported from the United Kingdom or other British possessions was to be admitted free. On all refined sugar there was imposed a duty of 1 cent per pound and 35 per cent ad valorem. The duty of 10 per cent on tea from the United States was reimposed.

Although jewellery was a luxury, the duty on it was only increased from $17\frac{1}{2}$ to 20 per cent, because of the great inducement to smuggling which it offers. The duties on champagne and spirits were also raised.

Raw materials, such as cotton, waste and cotton wool, and pulp, and machinery for worsted and cotton mills,

of a kind not manufactured in Canada, were placed on the free list. Another feature of the changed tariff was the substitution of specific or compound duties for the old ad valorem rates. This was to guard against decreased revenue in the event of a fall in values.

These were the main changes introduced by the new tariff. Tilley said that the Government had tried to assist all possible interests. If the proposals were not accepted "almost every manufacturing industry in the country will be closed up, and the money invested in them lost, within two years." (1) The time had come for Canada to decide "whether we will be simply hewers of wood and drawers of water, whether we will be simply agriculturists raising wheat, and lumbermen producing more lumber than we can use," (2) or whether the industries of the country are to be protected and given the home market. Canada was not erecting a Chinese wall, but was merely imposing reasonable duties on foreign products.

The estimated increase in revenue from the new tariff was \$2,200,000.

The introduction of the National Policy created a prolonged debate in the House of Commons. Richard Cartwright, as the former Minister of Finance, replied to Tilley, and delivered a powerful indictment of the protective system.(3) He reminded the House that in 1873, when the adverse balance of trade was greater than ever before Tilley had expressed no fear, but, on the contrary, had said that the profits of

(1) House of Commons Debates, 1879, Vol. 1, p. 429.

(2) Ibid, p. 429.

(3) Ibid, p. 433, et seq.

the increased imports would enable the country to meet its expenditures. By its policy of Protection the Government was arrogating to itself "the power, by artificial legislation, of relieving men from the consequence of their own blunders and their own folly." (1) It was unjust to enable certain sections of the community to tax the rest of the people for their private gain. As for the tariff on agricultural products, it afforded a mere sham protection to the farming interests.

Cartwright predicted that because of the great geographical and industrial differences in Canada, Protection would split Confederation "into a thousand pieces" (2) It would result in over-crowding the towns and cities at the expense of agriculture. It would encourage smuggling. It would create a far worse domestic competition than the foreign competition to which Canadian industries had been subjected. It would discourage initiative, self-reliance, and invention. Finally, the effect of the National Policy would be as the Bible said, "To him that hath shall be given, and to him that hath not shall be taken away, even that which he hath." (3)

The former Finance Minister believed that duties on tea and sugar should be imposed mainly for revenue, but under the new tariff money would be taken from the poor to fill the pockets of special interests. Iron, the raw material of an immense number of industries, should be free. The new

(1) House of Commons Debates, 1879, Vol. 1, p. 435.

(2) Ibid, p.441

(3) Ibid, p.443

tariff on iron was levelled against Great Britain, as the greater portion of Canada's manufactured iron was imported from that country. A tax was thus placed "on a chief product of almost the only country in the world that admits our products free." (1)

In discussing the new tax on coal, Cartwright said that "if there be a principle of political economy clearer than another, it is the principle that the worst tax which can be imposed is a tax on a necessary of life, like coal." (2) It falls upon the poorest classes in the depths of winter. The same argument applied to the duty on woollens.

The policy was bad from the financial aspect, because for every dollar put into the National Treasury four dollars would be taken from the pockets of the people. Also, capital would be artificially diverted. Parliament would be corrupted. Uncertainty in trade would be created. An unequal distribution of wealth would be encouraged. Sectional feeling would be aroused. The future of Canadian prosperity was endangered.

Cartwright, in his vehement attack, painted a picture of Europe contending with Socialism, and said: "Sir, you are here deliberately introducing a system which recognizes the leading ideas of Socialism, which, indeed, practically justifies the leading tenet of Socialism, that property

(1) House of Commons Debates, 1879, Vol, 1, p.441.

(2) Ibid.

acquired in this way, under a tariff such as this, is very little better than downright legalized robbery." (1)

Mackenzie, the former Liberal Prime Minister, wondered how the Government could adopt protection, in view of the experience of the United States. He refused to agree that an increase in taxation could make a country great. John Charlton, a prominent Liberal member, attacked the agricultural duties as a sham. (2) "There is an old adage," he said, "that the farmer is the ass that carries the most of the burthen and eats the least of the hay." (3) The duties on wheat, oats, and barley, and the others, were mockeries. It was ridiculous to believe that a duty on products of which a surplus for export is produced could raise their prices. The markets in every part of the globe were ruled by the quotations on the Liverpool Corn Exchange. The farmer was being deluded by the belief that he would benefit from Protection.

Tupper, in defending the new tariff, said that it would bring about free trade in coal with the United States. In fact, "at no distant day we shall enjoy all the advantages which we possessed under the Reciprocity Treaty." (4) But Charlton ridiculed the idea that Canada could force or dictate United States policy.

(1) House of Commons Debates, 1879, Vol. 1, p.457.

(2) Ibid, p. 527, et seq.

(3) Ibid, p. 531.

(4) Ibid, p. 464.

In renewing the discussion, Cartwright said that the tariff would impose an enormous taxation on the agricultural population without any significant return. Further, Canada's market was not large enough to encourage manufacturing at a low price. He believed in a low cost of living. The country had spent millions of dollars to facilitate trade, and now a policy was brought in to prevent it.

David Mills, a former Liberal Minister of the Interior, said that Tilley's statement had been contradictory. The Minister had stated that his policy would promote inter-provincial trade, and yet he urged reciprocity with the United States which would greatly diminish inter-provincial trade. "If Ontario ought", asked Mills, "for reasons of State, or for occult reasons of political economy, hidden from Free-traders and Englishmen, but revealed to the Premier and those who follow him, to purchase Nova Scotia coal, why seek to bring about reciprocal Free-trade in coal?" (1)

Mackenzie moved a resolution embodying the view of the Opposition, but it was defeated. Tilley said that Canada required revenue, that direct taxation was out of the question and that the fact had to be considered that Canada lay alongside a country which protected its industries and labour.

Thus was the National Policy adopted in the midst of vehement and bitter discussion. In the light of

(1) House of Commons Debates, 1879, Vol. 1. p. 885

the speeches of the day many believed it merely a temporary policy intended to force Reciprocity. As Goldwin Smith wrote to Lord Farrer, in 1885: "Retaliatory against the Americans the Canadian tariff was, and I never denied it. Protectionist, in the first instance, it was not. Both publicly and to me in private Sir John Macdonald positively repudiated that intention Afterwards the Government was tempted by the scent of party gain into hoisting Protectionist colours and declaring its intention, instead of reducing when it had a surplus, of keeping on the duties for the purpose of Protection." (1)

THE BUDGET OF 1880 - SIR LEONARD TILLEY

Sir Leonard Tilley - both Tilley and Cartwright had recently been knighted, delivered his third (2) Budget speech on March 9, 1880. (3) He stressed the need for greater revenue to meet the capital engagements of the country, and the deficits which had averaged \$1,750,000 for the past four years. To meet capital requirements and maturing liabilities, he had floated a loan of £3,000,000 in London, in 1879. It yielded \$700,000 more than what Cartwright had obtained for a similar loan in 1874, and \$600,000 more than the loan of 1876. The country's credit was rising. Whereas a year ago Canadian securities were

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- (1) Goldwin Smith's Correspondence, edited by Arnold Haultain (New York, 1913), pp. 173-174.
(2) Including that of 1873 as his first.
(3) House of Commons Debates, 1880, Vol. 1, pp. 509-524.

7 per cent lower than those of New South Wales, which stood at the head of every other British colony, the difference was now only two per cent. The Opposition agreed that the loan had been obtained on excellent terms, but pointed out that Tilley had been fortunate owing to the cheapness of money in London. The necessity of setting aside the sum of \$75,000 annually for sinking fund on the loan was regretted.

The deficit for the fiscal year 1878-79 was \$1,937,999. The revenue was \$22,517,382. Tilley attributed \$1,300,000 of this amount to Customs and Excise receipts in anticipation of the tariff changes. The estimated receipts from Customs had been \$13,750,000; the actual receipts were \$12,900,659. The ordinary expenditure was \$24,455,381, about \$800,000 in excess of the estimate. The Finance Minister said that it was only the anticipation of the new tariff that prevented a deficit of over \$3,400,000.

The capital expenditure in 1878-79 amounted to \$5,648,331, including \$3,064,098 for canals and \$2,240,285 for the Pacific Railway. The net increase in the debt was \$2,628,117. (1)

For the current year, 1879-80, Tilley estimated total receipts at \$24,450,000, including \$14,000,000 as Customs duties. He added that part of the Customs and Excise receipts of 1878-79 which he believed was due to the new tariff to the total revenue of the current year, as he said that it rightly belonged there. He expected a deficit of \$500,000, in contrast to the large one of the past year. For 1880-81 he anticipated a surplus of \$500,000.

(1) Public Accounts, 1894, p. LXIX.

After reviewing the first effects of the National Policy, Sir Leonard concluded that imports from Great Britain had diminished less than those from the United States. Relations between Canada and the Motherland had not been strained, and Canada's credit was high, as was shown by the loan of 1879. The tariff bore equally on all portions of the Dominion. It had given encouragement and hope to industry, with the result that the country was in a much better position than a year ago. Also, Tilley expected that by the close of the year, "the balance of trade which some gentlemen think is of no importance, though I think it is of vital importance to this country, will for the first time in the history of the Dominion be in our favour." (1)

The Budget speech proposed certain changes in the new tariff - as did almost every Budget Speech after 1879. The duty on bituminous coal was raised from 50 to 60 cents per ton, to make possible the use of Nova Scotia coal as far west as Hamilton. The duty on cigars and cigarets was increased from 50 to 60 cents per pound. A duty of 3 cents a pound was imposed on wool and combing wools produced in Canada. The duty on billets was reduced from $12\frac{1}{2}$ to 10 per cent. Steel and its manufactures were placed on the free list until 1882. Various raw materials were added to the free list.

The debate on the Budget centred on the tariff and all the arguments of the last session were repeated at great length. Sir Richard Cartwright delivered a characteristic speech. (2) The country was depressed; it was suffering from unemployment, bankruptcies, and emigration. Prices had risen, and the people

(1) House of Commons Debates, 1880, Vol. 1, p. 523.

(2) Ibid, p. 525 et seq.

were dissatisfied. The prosperity that did exist was due to a good harvest and to a more profitable market for Canadian lumber. Manufacturing, apart from a few cotton factories and sugar refineries, was deriving but little benefit from the new tariff. Combines to raise prices had been encouraged, and the cost of prime necessities had increased. The tariff fell heaviest on the poorer classes, who were being discriminated against because of the system of specific duties. In the last ten months 45,000 more tons of coal had been imported than in the whole of the previous year. The miner, therefore, paid more for his necessities of life and received nothing in return. The tax on sugar was particularly unjust. The people paid \$3,500,000 of which only \$2,000,000 reached the Treasury, the remainder going to the monopolists of the sugar-refining industry.

Cartwright contrasted the vast market and the enormous range of products of the United States with Canada's small market. Then, referring to the oft-quoted balance of trade theory, he said "that a nation exporting more than it imports is either getting the worst of the bargain or is indebted to other nations, which, though true, is certainly not a cause for great congratulations on our part." (1)

In the course of the debate, Tilley reviewed the position of the finances of Canada since 1867. (2) In the latter year taxation was \$3.55 per head of the population; in 1879 it had risen to \$4.55. The principal causes of the increase were

(1) House of Commons Debates, 1880, Vol. 1, p. 533.

(2) Ibid, Vol. 2, p. 1100 et seq.

the re-arrangement of provincial debts in 1873; the interest, sinking fund, and maintenance expenses of the Intercolonial Railway; the interest and sinking fund on the construction of the Pacific Railway and the canals; the expenditure consequent upon the addition of four new provinces; and the increased expenditure on the North-West, on public works and on the Post Office. The construction of the Pacific Railway would further increase the annual expenditure, both capital and ordinary.

Sir Richard Cartwright attacked the re-arrangement of provincial debts by the Act of 1873, on the ground that it had done the greatest injury to the provinces by encouraging extravagance. He said that had Tilley "had the manhood, and the honesty to tell them that they must provide, out of their own funds, for their necessities, instead of allowing them to put their hands into the Dominion Treasury, they would not now have found themselves in the difficulties into which their own folly had plunged them." (1)

The Opposition also attacked the undertaking to construct the Pacific Railway. In Committee of Supply, Edward Blake, the new leader of the Liberal Party, strongly urged that the public interest demanded the postponement of this undertaking. (2). It would necessitate more taxation which the country could not stand. The increase in expenditure had been altogether disproportionate to the increase of tax-paying power. Large borrowings had been necessary to meet deficits, but this had to

(1) House of Commons Debates, 1880, Vol. 2, p. 1312.

(2) Ibid, p. 1457 et seq.

cease. While the Canadian debt was increasing at a rapid rate, that of the United States was being enormously reduced. Rather than enter upon reckless engagements Blake urged economy and retrenchment.

The year 1880, nevertheless, saw the signing of the contract for the construction of the Canadian Pacific Railway. This was to be the principal cause of the increase in the Dominion debt for several years.

THE BUDGET OF 1881 - SIR LEONARD TILLEY

In his fourth Budget speech, February 18, 1881, (1) Sir Leonard Tilley asserted that the most sanguine expectations as to the financial results of the tariff had been realized. The estimated deficit of \$500,000 for 1879-80 had been reduced to \$243,228. The Public Accounts, however, showed a deficit of \$1,543,227. (2) Tilley's explanation of this difference was that because of the introduction of the new tariff in March 1879 there had been large increases in imports and withdrawals from bond, in the first three months of that year, in anticipation of the tariff changes. Hence \$1,300,000 had been paid in Customs and Excise duties in 1878-79 which properly belonged to 1879-80, and which the Minister included in the receipts of the latter year.

Cartwright ridiculed this explanation, saying it was a curious means for Tilley to adopt in order to escape responsibility for the deficit of 1879-80. He took as much as he needed from the receipts of one year and added them to those of the other,

(1) House of Commons Debates, 1880-81, Vol. 2, pp.1018-28.
(2) Public Accounts, 1894, p. XXXIII.

and the thing was done. Sir Richard denied that there had been any marked anticipation of the tariff of 1879, and added that the fact was "as the London Economist naively put it, when commenting on this very transaction: 'The Canadian Minister of Finance has a deficit of £400,000, but he prefers to call it £ 80,000.'" (1)

The Consolidated Fund receipts of 1879-80 were \$23,307,406, and the expenditures \$24,850,634. Customs receipts were \$1,100,000 in excess of those of the previous year, while Excise showed a decrease of a like amount. The interest on the public debt increased by \$600,000 and reached the new high level of \$7,773,868. (2) Capital expenditures amounted to \$8,241,173, of which half was for the Pacific Railway, the remainder being divided between canal construction and the Intercolonial Railway. The net increase in the debt was \$9,461,401 - the largest increase since 1873. (3)

Tilley estimated that the large increase in Customs receipts would yield a surplus of \$2,000,000 in the current year, and \$1,410,000 in 1881-82.

The Budget speech of 1881 proposed certain changes in the tariff which added a number of raw materials to the free list and raised the duties on some manufactured articles. The Finance Minister announced that there would be no general reduction in the tariff until the National Policy was fully developed. The Government, however, was still ready to renew the Reciprocity

(1) House of Commons Debates, 1880-81, Vol. 2, p. 1030.

(2) Public Accounts, 1894, pp. li-lviii

(3) Ibid, p. lxix.

Treaty with the United States. Even if the latter country would not offer a free market to the natural products of Canada, Tilley proposed to employ any substantial surplus for a reduction in taxation.

The Finance Minister stated that the tariff had justified itself as a producer of revenue, and had given a great impetus to the manufacturing interests of the country. Factories had been established; wages were higher; employment was afforded to 14,000 additional workers in eighteen months. Agriculture was also benefitting. The threat that the tariff would destroy Confederation had not materialized. Tilley pointed to the general economic improvement in Canada. Exports were increasing and the year 1879-80 saw a favourable balance of trade of \$1,451,711 for the first time since Confederation. Trade was expanding; bank deposits were increasing; railway traffic was greater. While Canadian 4 per cents were selling at 90 or 92 in 1878, they had risen 7 or 8 per cent in 1881. But, it was shown that although the price of Canadian 4 per cents was 103 to 104, that of the United States securities was 116 to 117.

Tilley attributed the larger part of the prevailing prosperity to the National Policy. He concluded by comparing the debt and taxation of Canada with those of the Australian Colonies, to the apparent disadvantage of the latter. The comparison, however, was unfair. In Australasia the railways and the public works were the property of the state. Many of these were highly productive and afforded a considerable proportion of the revenue, thus facilitating the payment of interest

on the loans floated for their construction. If all the Canadian railways were the property of the Government the national revenue and expenditure would be doubled and the proportion per head correspondingly increased. (1) For a fair comparison between Canada and Australia the entire debt incurred by all the railways of Canada should have been added to the national debt.

In his reply to the Minister of Finance, (2) Sir Richard Cartwright attacked the estimates presented on the ground of extravagance. There had been an increase of \$3,000,000 in expenditure within two years, and new undertakings would soon add \$2,000,000 more to the annual fixed charges. The latter were now entirely disproportionate to the total receipts. The temporary increase in revenue offered too great an inducement to increase the fixed charges. Cartwright also protested against the failure to close the Intercolonial Railway account because it was encouraging increased expenditure which otherwise might not be undertaken.

Sir Richard delivered a bitter attack on Protection. He ridiculed Willey's statements as to the effects of the National Policy. "When there is distress," he said, "they have various devices to get out of it. Some nations offer human sacrifices, some make long prayers, some consult oracles, and some, in order to make the people richer, impose more taxes." (3) Cartwright

(1) Canada: Statistical Record, 1886, pp. 118-119.

(2) House of Commons Debates, 1880-81, Vol. 2, p. 1030 et seq.

(3) Ibid, p. 1031.

held that it was unfair to compare, as Tilley did, a revenue tariff in a time of acute depression with a protective tariff in a time of prosperity. The economic improvement was not a consequence of the National Policy, nor was it confined to Canada. It was universal. The crisis was not connected with tariffs. The Finance Minister had said that he now expected a surplus because of increased imports; the aim of the Government's policy was to decrease imports. How then was it possible to claim that the surplus and the prosperity were the consequence of the National Policy? Canada's prosperity was the result of a plentiful harvest, a large forest production, and a greater foreign demand. In spite of protection there was a decrease of \$1,000,000 in the exports of Canadian manufactured articles. The National Policy had done nothing to increase the production of the staples which were the cause of the prosperity. The greater exports were almost entirely due to articles of the forest, animals and their products, and agricultural products.

Sir Richard stressed the value of internal free trade in the United States, and said that protection could never produce the same effects in Canada as it did in the former country. The market was too small, making it impossible to manufacture cheaply and in large quantities. Finally, referring to the minor tariff changes proposed, he said: "I think we may thank the honourable gentleman for what he has done to us in the way of additions to the free list. No doubt

that the House and the country will be glad to know that, from and after this date, manilla beans will be free, and nux vomica will be free too. Has the honourable gentleman any designs on this side of the House? Does he think that, overwhelmed at the success of the National Policy, we shall, in sheer despair, have recourse to the old Roman mode of ending our trouble, that he consents to make nux vomica free?" (1)

Edward Blake, Leader of the Opposition, moved an amendment to a motion that the House go into Committee of Supply, to the effect that the rate of taxation was excessive and should be reduced, regard being had to those taxes which pressed most severely on the masses of the people. (2) He said that the surplus which Tilley expected came from the people and should be returned to them. That increased taxation should produce increased revenue was no miracle. Blake's amendment was defeated as was also a later one by Cartwright, which regretted the increase in fixed charges. Tilley pointed out that a large part of the Dominion expenditure went to the provinces, and saved these from high local taxation. In the United States, however, state and municipal taxation were both necessarily high.

THE BUDGET OF 1882 - SIR LEONARD TILLEY

Tilley's Budget speech of February 24, 1882, (3) was evidently prepared with an eye to an approaching general election.

(1) House of Commons Debates, 1880-81, Vol. 2, p. 1041.

(2) Ibid, p. 1308.

(3) Ibid, 1882, pp. 78-96.

It contained popular measures and lavish statements. The Minister asserted that the prosperity and the credit of Canada were now in a position unequalled in the history of the country. The public debt was no cause for alarm. In 1867 it was \$25 per capita; in 1873, \$29; and in 1881, \$35. In the latter year the net debt stood at \$155,397,680; by 1890, as a consequence of the contract with the Canadian Pacific Syndicate, and of the expenditure on canals and other public works, the debt would be \$203,397,680. At the same time Tilley estimated that the surpluses on Consolidated Fund probably amounting to \$14,000,000 together with the sinking fund of \$13,500,000, would reduce the debt to \$175,000,000. Expecting an increase of 18 per cent in population, the per capita debt would be only \$34.27. Furthermore, if the Government would sell only one half of the 150,000,000 acres of arable land in the West at but one dollar per acre, the proceeds would meet the whole expenditure on the Pacific Railway and the North-West down to 1890. The debt would then be only \$100,000,000 instead of \$175,000,000 or \$20. per head. But Tilley's optimism was to prove quite unjustified.

The Finance Minister announced a surplus of \$4,132,743 for the fiscal year 1880-81, instead of an estimated surplus of \$2,000,000. Although \$8,150,000 were spent on public works and \$2,000,000 of existing liabilities were redeemed, the surplus of over \$4,000,000 together with the \$4,750,000 of deposits in the Government Savings Banks, enabled

the Government to meet payments chargeable to capital and still to decrease the interest account without borrowing one dollar. As in the United States the surplus was used to prevent a debt increase.

The total Consolidated Fund receipts in 1880-81 were \$29,635,297, exceeding the receipts of the previous year by over \$6,600,000. The Customs alone yielded \$18,406,092 as against \$14,071,343 in 1879-80. (1) The ordinary expenditure was \$25,502,554. The capital expenditure amounted to \$8,176,316, including \$4,968,503 for the Canadian Pacific Railway, \$2,077,028 for canals, \$608,732 for the Intercolonial Railway, and \$334,681 for Dominion Lands. The net increase in the debt was \$2,944,191. (2)

Tilley estimated a surplus of \$4,460,000 for the current year, and one of \$3,000,000 for 1882-83. The capital expenditure anticipated for the latter year was \$9,200,000 as subsidy to the Canadian Pacific Syndicate, \$9,000,000 for the completion of parts of the Railway now under contract, and for canals and other public works, and \$7,340,000 for the redemption of securities. Of the \$16,340,000, apart from the subsidy to the Syndicate, \$13,000,000 would be met by cash on hand, by the estimated surplus, the savings bank deposits, and the expected increase in circulation of Dominion notes. Thus only \$3,500,000 would have to be borrowed. The increase in bank deposits in Canada, in a little over three years, had been \$36,000,000 largely owing to the National Policy. As a consequence of the increased prosperity "we were able to provide

(1) Public Accounts, 1894, pp. li-lviii

(2) Ibid, p. lxix.

for \$8,150,000 last year, \$12,000,000 this year, and \$16,000,000 for next year without floating a loan outside of the Dominion of Canada, or any loan indeed, except the amount received from the earnings of the people of Canada."(1) But the savings bank deposits were actually loans from the people at a very low rate of interest.

The Budget speech also announced changes in the tariff in a downward direction. Tea and coffee were placed on the free list, as were also woods and tin in blocks, pigs, bars and sheets, to aid the canning industry. The duty on scrap iron was reduced from two to one dollar per ton, and certain of the duties on spirits were revised. These changes involved a reduction of \$1,000,000 in taxation under the head of Customs. The Stamp Tax, which had been imposed in 1867, was also abolished, involving an expected loss of \$200,000 to the revenue.

The Government proposed to give a bounty of \$150,000 to the fishermen of Canada both in lieu of the interest on the Fishery Award, and to encourage the industry.

Tilley's propositions would entail a loss of \$1,300,000 a year from Customs and Excise, and an additional expenditure of \$150,000, made possible by the prosperity of the country. A further reduction was made, after the delivery of the Budget Speech, authorizing publishers of Canadian newspapers and periodicals to mail these free of postage in Canada.(2)

(1) House of Commons Debates, 1882, p. 86.

(2) Ibid, p. 1419.

As had become customary, the Finance Minister, before concluding his speech, gave the House, what Cartwright called, "a new series of kaleidoscopic views of the beauties of the National Policy." (1) To it he mainly attributed the increased prosperity, the growing employment, the higher purchasing power, the large revenue, the new factories, the rise in wages, the wider markets, and the competition which kept prices low at home. The Minister said that the cost of manufactured articles was less than under the old tariff. The Canadian farmer was benefitting from the home market and the higher prices for his products. The railways, the labourers, the mechanics, the miners, all were prospering. The credit of Canada was now higher than that of all other colonies; Canadian securities stood next to Consols in the London market. And, it was the National Policy that "raised us to our present enviable position." (2)

Notwithstanding these extravagant statements, which sounded like an election manifesto, Tilley confessed that Canada was always ready for reciprocity in natural products with the United States. The Speech from the Throne, at the beginning of the session, had thanked Providence for the prevailing prosperity, and Edward Blake had said: "I am glad to see that the improved prosperity in its various aspects is attributed to the Giver of all good, by which, I presume, we are not to understand the Finance Minister." (3) After hearing the Budget speech, Blake must have been disillusioned.

(1) House of Commons Debates, 1882, p. 96.

(2) Ibid, p. 96.

(3) Ibid, p. 9.

Tilley's speech aroused a lengthy debate, centering on the merits and demerits of the National Policy. Sir Richard Cartwright (1) reminded the House that the balance of trade was now seriously against Canada. Although he believed the theory false, he wondered whether Tilley's view had been changed. The former Minister challenged the statement that the new tariff had decreased the prices of commodities. New taxes cannot decrease prices, and if they can, would the Minister "follow that to the logical result and put on more taxes, so that we may ultimately get these things for nothing?" (2) If Canadian manufacturers could produce as cheaply or more cheaply than others, there was no need for protection. The question was not whether goods were cheaper than they had been in 1878, but whether they were now cheaper than in other countries.

Cartwright held that the tariff had raised the cost of living, had added greatly to the burdens of the people, had encouraged smuggling, had increased emigration from Canada, and had taken money from the masses and created a very unequal distribution of wealth. Of the surplus of \$4,000,000, there was derived \$1,100,000 from the "two most odious and oppressive taxes" (3) - those on breadstuffs and on fuel.

While Sir Richard was glad to see reductions in taxation, he said that in abolishing the tea and coffee duties the Government had taken off exactly those taxes which were

(1) House of Commons Debates, 1882, p. 96 et seq.

(2) Ibid, p. 96

(3) Ibid, p. 97

most evenly distributed. The taxes on breadstuffs and coal and the specific duties on textile fabrics - the taxes which unjustly discriminated in favour of the wealthy classes as against the poorer classes - were those that should have been removed. The tariff on sugar had raised the price for the benefit of the sugar refiners. "They talk of Canada being a free country," said Cartwright, "Why, Sir, I tell them, to-day that Canada is a country in which no man is free to buy or to sell, to eat or to drink, to travel or to stand still, without paying toll to some extortioner or other." (1)

In the course of the session various amendments urging the abolition of such duties as those on coal, coke, breadstuffs, sugar, cotton and woollen goods, and pig iron, were introduced and were defeated.

One May 6, Cartwright moved an amendment to supply, (2) which was subsequently defeated, regretting the increase of over \$4,900,000 in expenditure since 1878; the charging of expenditure on rolling stock and Dominion lands to capital, whereas the Liberal Government had charged these to income; and the rapid increase of fixed charges, which, in the event of a depression, would cause embarrassment to the finances of the country.

In reply Tilley pointed out that much of the increased expenditure did not involve new taxation. The increase on railways and on the Post Office was compensated by a greater

(1) House of Commons Debates, 1882, p. 109.

(2) Ibid, p. 1334.

revenue from these services. The growing population of the North-West and of British Columbia necessitated the extension of such facilities. The enormous expenditure on railways, canals, and other public works necessarily increased the interest on the debt and the sinking fund payments, but it was justified by an accompanying increase in revenue. The large expenditure on Indians, which had risen from \$6,080 in 1869-70, to \$805,097 in 1880-81, was necessary to save them from starvation, and for the maintenance of the peace. Taxation was 3 cents less in 1879-81, than the average per head for the five years 1874-79.

After the close of the session of 1882 a general election was held, and the Macdonald Government was returned to power with a large majority. Outstanding among the Liberals who were defeated was Sir Richard Cartwright.

THE BUDGET OF 1883 - SIR LEONARD TILLEY

The Budget speech delivered by Sir Leonard Tilley on March 30, 1883 (1) reflected the economic revival of the country. The financial results of the past fiscal year, 1881-82, were favourable beyond all expectations. The total receipts were \$33,383,455, the expenditures, \$ 27,067,103, and the surplus was \$6,316,351. To this large surplus Tilley added the receipts from Dominion lands amounting to \$1,744,456, which made a total favourable balance of over \$8,000,000. The large revenue was chiefly due to the increase of \$3,000,000 in Customs receipts. (2)

(1) House of Commons Debates, 1883, Vol.1, pp. 332-345.
(2) Public Accounts, 1894, pp.1i-lviii.

The Capital expenditure in 1881-82 amounted to \$7,405,637, including \$4,589,075 for the Canadian Pacific Railway, and large sums for canals, for the Intercolonial, and for Dominion lands. Notwithstanding this large expenditure, it was more than covered by the surplus and the proceeds from the Dominion lands; and, taking into consideration the sinking fund, the net debt of the Dominion was reduced for the first time in eleven years by \$1,734,129. (1) Deposits of almost \$6,000,000 in the savings banks made possible the redemption of \$4,000,000 of maturing liabilities. No borrowing in London was necessary.

Tilley estimated a surplus of \$6,000,000 for 1882-83, and of \$3,000,000 for the subsequent year. No borrowing abroad would be necessary for the current year, although a loan of \$3,000,000 might be floated in Canada.

The year 1883 witnessed the beginning of a new expenditure which added millions to the debt. Until 1882 the Dominion Government had given aid only to those railways which connected provinces; the latter subsidized purely local railways. This system, however, could not continue without heavily adding to the indebtedness of the provinces. Hence, in 1883, Sir Charles Tupper, Minister of Railways and Canals, introduced a bill providing for ~~the~~ subsidies to eleven railways.(2) This policy was continued for some years, and railway subsidies soon formed an important item of expenditure on capital account.

(1) Public Accounts, 1894, p. lxix.

(2) House of Commons Debates, 1883, Vol. 2. p. 1252

Before announcing proposed changes in the tariff, Tilley delivered, what had now become, the annual eulogy of the National Policy. The country was prosperous, and unless over-expansion set in there was no fear of a break in prosperity for seven years. Canadian securities were now at the head of all colonial securities in the English market. If the annual surpluses and the growth in savings bank deposits continued, it would not be necessary to borrow in England, except to meet maturing obligations, until the completion of the Canadian Pacific Railway.

The Finance Minister said "that there has never been a period in the history of this country, when taxation was paid more cheerfully by the people, than at present." (1) Nevertheless, it was the aim of the Government to further reduce taxation, to leave raw materials on the free list, and to add to this list goods not manufactured in Canada.

The changes in the tariff proposed to remove the duties on diamond drills for prospecting for minerals, colours, zinc, tin, iron and steel, old and scrap. For the benefit of the Canadian Pacific Railway, steel railway bars or rails were to be free. Tariff reductions were made on certain kinds of leather, on clothing, buckram, and dried fruits. The tariff on agricultural implements and machines was raised to an equivalent of a specific and ad valorem duty of 35 per cent. The duty on cotton, printed or dyed, was raised from 20 to $27\frac{1}{2}$

(1) House of Commons Debates, 1883, Vol. 1, p. 339.

per cent. The duties on cordage, carriages, and iron bedsteads were also increased. Steel in ingots, bars, sheets, and coils, was to pay \$5 a ton. The United States Tariff Act of 1883, while making certain reductions, also raised the duties on certain classes of woollen and cotton goods, iron ore and manufactures of steel.(1)

In 1883 Sir Leonard Tilley began the thorough-going extension of protection to the iron industry, which was to be an important feature of the tariff development of the period. Iron was both a raw material and an important industry to be developed. It was, therefore, proposed to pay a bounty of \$1.50 per ton on all pig-iron produced in Canada in the next three years, and one dollar per ton in the following three years.

The Government proposed to negotiate reciprocal tariffs with France and with the West Indies. If satisfactory arrangements were not made with countries which discriminated against Canadian products, Parliament would be asked to impose an additional duty of 10 per cent on their products until an agreement was reached.

In view of the absence of Cartwright, because of his defeat at the polls in the elections of 1882, William Paterson acted as chief financial critic of the Opposition.(2) He attacked the extravagance of the Government, and comparing its expenditures with those of the Mackenzie régime, he showed

(1) Dewey, *op. cit.*, p. 421.

(2) House of Commons Debates, 1883, Vol. 1, p.345 et seq.

that the controllable expenditure had increased from \$6,900,000 to over \$10,000,000. He attacked the National Policy, and said that according to Tilley's own theory it must be wrong as the unfavourable balance of trade was annually increasing. Paterson said that the credit of Canada was high because money was plentiful. Protection was not the cause of prosperity; there was a universal improvement.

The Opposition critic reminded the Government that Tupper had attacked the surpluses of the Mackenzie Administration, and had urged that they be used to reduce taxation. Yet Tilley had accumulated a surplus of \$16,000,000 in three years and proposed a paltry relief of \$1,500,000 of duties. The surplus had shown that the Minister was unable to rightly estimate the resources of the country. More money was being taken from the people than was necessary; it should have been returned to them. A depression was approaching and the high rate of expenditure would place the Government in difficulties.

Ex-Premier Mackenzie pointed out what he regarded as the evil and cumulative effects of a tariff. A duty on one article necessitated a duty on another. The bounty on pig-iron made necessary a duty on bar iron. "This is the natural and inevitable result of a Protective policy; there must be a constant tinkering with the duties while it lasts, a constant combination of manufacturers." (1) There was also a deterioration in the quality of commodities manufactured.

(1) House of Commons Debates, 1883, Vol. 1, p. 597.

The budget propositions were passed after a typical debate on the fiscal policy of the country.

THE BUDGET OF 1884 - SIR LEONARD TILLEY

In his Budget speech of February 28, 1884, (1) Sir Leonard Tilley stated that the credit and the financial condition of Canada were better than ever before. Nevertheless, a certain depression in trade had set in. Over-importation and over-expansion again showed their evil results. The National Policy had not been the expected remedy for all ills. Foreign trade declined below the figures of 1873. But, while the depression of the 'seventies created a demand for Protection, that of the 'eighties brought on an agitation for Commercial Union or Unrestricted Reciprocity with the United States.

Tilley's seventh Budget speech announced another record surplus. The Consolidated Fund receipts for 1882-83 were \$35,794,649, over \$5,000,000 in excess of the original estimate; the ordinary expenditures were \$28,730,157, exceeding the estimate *by* \$1,500,000. Hence there was a surplus of \$7,064,492, which, together with the proceeds from the sales of North-West lands, \$1,009,000, made a total surplus of \$8,073,492. The Customs yielded the record total of \$23,009,000. (2) Of the increase of \$1,600,000 in expenditure, less than one-half involved increased taxation.

(1) House of Commons Debates, Vol. 1, pp. 569-584.

(2) Public Accounts, 1894, p. li.

The capital expenditure in 1882-83 amounted to \$14,147,359, of which the huge sum of \$10,033,800 was for the Canadian Pacific Railway, \$1,763,001 for Canals, \$1,616,632 for the Intercolonial and connected Railways, and \$556,869 for Dominion lands. The increase in the net debt was \$4,805,063.(1) The capital outlay was met out of the surplus, the proceeds from the sale of North-West lands, the deposits in the Savings Banks, and the sale of Canadian Pacific Railway Bonds. No borrowing in London was necessary. In October 1883, however, an attempt had been made to float a 4 per cent loan of \$4,000,000 in Canada, to meet maturing obligations, and to provide for public works expenditure. The attempt was a failure. While Blake mocked this, Tilley defended his action. It had been the first four per cent loan floated in Canada. The reason for its failure was the ability of investors to obtain higher rates of interest for their money from other sources. The credit of Canada was good. It had not been necessary to go into the English market since 1879. However, the undertaking with the Canadian Pacific Syndicate would make it essential to borrow in England sooner than would otherwise have been necessary. The Minister estimated that the rapid completion of the Railway would necessitate a 30 year loan of £3,000,000 and a seven year loan of a similar amount. In view of this, Cartwright said that a huge blunder had been committed, either in floating the domestic loan, or in allowing it to fail. The

(1) Public Accounts, 1894, p. lxix.

fact that Canada did not take up its own securities would tend to depreciate offers in London.

Tilley estimated that the finances of the current year, 1883-84, would yield a surplus of \$1,000,000 besides the expected proceeds of \$1,000,000 from public lands. The lower surplus was the result of the increased expenditure on public works, which the Government felt justified in undertaking because of the prosperous financial state of the country. The revenue would now decline as a result of over-importations and the tax reductions made since 1881-82.

The tariff changes of the year were in the direction of reducing the rate of duty on articles required by manufacturers from 20 per cent to 10 per cent, or of placing them on the free list. The duty on steel was changed from \$5 a ton, to \$3 per ton and ten per cent ad valorem, to equalize the duties and to afford more protection to the steel industry. The duty on sugar, owing to special circumstances which had arisen in the United States was reduced from 30 to $27\frac{1}{2}$ per cent. The duty on molasses was to be 15 per cent when coming directly from the country of production, and 5 per cent additional when coming indirectly. While Tilley claimed that these changes were relatively unimportant, Cartwright said that they would add \$300,000 annually to the burdens of the people. Steel was a raw material for manufacturing, and, therefore, if one class was helped, another was injured.

The Finance Minister then proceeded with his annual defence and praise of the National Policy. He asserted that

a large part of the tariff was paid by the manufacturer abroad and by the merchant rather than by the consumer. The prices of many articles were lower than they had been in 1878. The depression in the cotton and iron industries was merely temporary. There had been a smaller wheat crop; the price of lumber had declined; over-trading had left large stocks on hand. But the situation was not serious. Unemployment was not confined to Canada, but existed also in free trade England and in the protectionist United States. Owing to the National Policy, Canada was not over-run with foreign goods, as it had been before 1879. It had now been shown that the Policy was even more valuable in a time of depression than in a time of prosperity.

Sir Richard Cartwright, who had been returned to Parliament at a by-election, again took up the cudgels on behalf of the Opposition with a vigorous attack on the National Policy. (1) He said that Tilley had finally confessed that the Policy was not a panacea for ^{all}ills, that it had not averted over-production, loss of wages, poor harvests and over-importation. Cartwright maintained that Canada was in an unsatisfactory condition, economically, financially, and commercially, as a consequence of unjust and excessive taxation, emigration, and the unproductive locking up of capital. Protection was costing the people of Canada many millions more than actually went into the Treasury. The per capita burden had increased from \$4 in 1867, to \$9 in 1883, whereas in the United States,

(1) House of Commons Debates, 1884, Vol.1, p. 584 et seq.

in the same period, it declined from \$10 to \$7. Sir Richard blamed the exodus from Canada to the United States, in large part, on this taxation policy. With reference, to the surplus of \$7,000,000 he said that if Tilley added the proceeds from the sale of lands to the surplus, he should properly deduct the charge of \$600,000, for surveys in the North-West, from capital account and add it to the ordinary expenditure.

In the course of the Budget debate, which was lengthy, various amendments were moved protesting against the increase in expenditure and the increased burdens imposed on the people by the Customs duties. The financial positions of Canada and the United States were compared, but Tilley held this to be unfair. (1) In the United States the Federal Government contributed nothing whatever to the support of the individual States; in Canada the provinces were largely sustained out of the Federal subsidies. This made direct taxation for provincial purposes practically unnecessary, whereas in the United States State taxation was heavy. The United States debt was created by war; the Canadian debt by the construction of public works. The debt increase since 1867 was not alarming as it was largely due to the assumption of provincial debt, which merely meant taking money out of one pocket and putting it into another,

In reply, Cartwright said that while the United States paid no subsidies to the States, Canada paid no huge war pensions to many of her citizens. He denied that the

(1) House of Commons Debates, 1884, Vol. 2, p. 1326 et seq.

assumption of provincial debts did not mean that additional debt was incurred. It was a harmful action because it removed from the provinces "every kind of inducement to the exercise of a wise and healthy economy.... The whole of this system of subsidising the Provinces was known to be a weak spot, an unfortunate expedient necessary and unavoidable perhaps." (1)

Edward Blake also delivered a severe indictment of the subsidy system. He desired a plan that would finally place it on a permanent and lasting basis. It was destructive of the independence and the autonomy of the provinces, and of Confederation, that they should constantly be coming to Ottawa for favours. The provinces should be given definite sources of revenue which they could increase or lessen at their pleasure. "I have pointed out - it is human nature - lightly come is lightly spent, and the truest spur of economy is the knowledge on the part of the taxpayer that he is paying any governmental expenditure, and the knowledge on the part of the Governments and members that the taxpayer will hold them to account for that expenditure." (2)

Notwithstanding this criticism, as the provinces, and especially Quebec, which had spent much money on the building of railways, were constantly urging relief from their burden of indebtedness, the Act of 1884 again readjusting the provincial debts and subsidies was passed. By the Act of 1873 the Dominion Government had assumed the whole debt

(1) House of Commons Debates, 1884, Vol. 2, p. 1329.

(2) Ibid, p. 1528.

of the Provinces of Quebec and Ontario, as at 1867, and the other provinces were given equivalent sums in proportion to their population. The new Act proposed to antedate the operation of the law of 1873 and to give the four older Provinces the benefit of the interest on the increased debt from 1867 to 1873, and to increase the subsidies of Manitoba, British Columbia and Prince Edward Island in like proportion to their population. The change involved an additional debt allowance of \$7,172,297 and an increase of \$358,614.89 in the annual subsidies to the provinces. (1)

THE BUDGET OF 1885 - SIR LEONARD TILLEY

Sir Leonard Tilley's eighth and last Budget speech, March 3, 1885, (2) was delivered in a rather apologetic mood, in view of the prevailing depression. The Finance Minister attempted to minimize the seriousness of existing conditions in order to prove that the country was prospering under his National Policy. The depression, however, was arousing doubts as to the efficacy of that Policy as a remedy for Canada's ills. A check in prosperity always created a certain dissatisfaction with existing tariffs. Thus, in the United States, Grover Cleveland had recently been elected president on a policy of lower tariffs. On the other hand, in England, "fair trade" sentiment seemed to gain at the expense of free trade.

Tilley discussed the increase in expenditure since 1879, and attempted to show that it had not involved a rise in

(1) House of Commons Debates, 1884, Vol. 2, p. 1583 et seq.

(2) Ibid, 1885, Vol. 1, pp. 313-333.

the tax burden disproportionate to the increase in population. He quoted many figures in comparing the average expenditures on various services in the years 1874-79 with those for 1879-84, and concluded that the average deficits on railways and canals, and on the Post Office, had been greatly reduced under the Conservative Government while the facilities had been increased. The greater expenditure had created new revenue, and had therefore diminished the necessity of new taxation. The necessary taxation per capita in 1874-79 was \$4.88; in 1879-84 it was \$4.78 $\frac{1}{2}$. The net per capita interest on the debt in 1878-79 was \$1.54 $\frac{1}{2}$; in 1883-84, after an expenditure of \$65,000,000 on railways and canals, it was only \$1.46. Blake truly said of Tilley that "he is great on averages." (1)

In the fiscal year 1883-84 the ordinary receipts, amounting to \$31,861,961, showed a decrease of almost \$4,000,000 as compared with the preceding year. The yield from Customs and from Excise declined \$3,000,000 and \$800,000 respectively. The expenditure, on the other hand, showed an increase of \$2,300,000 and amounted to \$31,107,706.(2) The surplus announced was \$754,255, but Cartwright stated that it had been attained by false book-keeping. He said that items such as \$441,000 for rolling stock for the Intercolonial had been charged to capital instead of to Consolidated Fund account. The debt of Canada was being increased by many similar charges and the people were being misled. As long as the Intercolonial

(1) House of Commons Debates, 1884, Vol. 1, p.15.

(2) Public Accounts, 1894, pp. li-lviii.

Account was kept open, "every bunker, every coal shed, every piece of rolling stock that can by any possibility be charged to capital account will be carried to it, - and", asked Cartwright, "who is to correct it?" (1)

The capital expenditure, in 1883-84, totalling \$23,977,702, was the largest since Confederation. Of this amount \$11,192,722 were spent on the Canadian Pacific Railway, \$7,172,297 were due to the readjustment of provincial debts in 1884, \$2,689,689 were spent on the Intercolonial and connected railways, \$1,577,295 on canals, and \$723,658 on Dominion lands. In addition, \$208,000 were paid as railway subsidies under Tupper's new policy. The net increase in the debt was \$23,695,135. (2)

The session of 1885 witnessed another readjustment of provincial debt, notwithstanding Cartwright's protest against the encouragement given to the provinces "that when they get into difficulty they have a right to have recourse to the general exchequer." (3) The Dominion assumed an additional debt of \$3,113,334 of the Province of Manitoba, and the provincial subsidy was increased.

Tilley estimated a surplus of \$150,000 for the current year, and one of \$700,000 for 1885-86.

In 1884 Canada had floated in London a loan of £5,000,000 at $3\frac{1}{2}$ per cent for fifty years, of which £3,000,000 were required for the Canadian Pacific Railway, for railway

(1) House of Commons Debates, 1885, Vol. 1, p. 342.

(2) Public Accounts, 1894, pp. lxix-lxx

(3) House of Commons Debates, 1885, Vol. 1, p. 347.

subsidies, and for public works, and £2,000,000 were to meet maturing obligations. The sum realized was equal to 2 per cent premium on a fifty year loan at 4 per cent, which, according to Tilley, was the highest rate ever obtained for any Canadian loan on the London market. The loan was successful in spite of the violent hostility shown by the Grand Trunk and the Northern Pacific shareholders. Comparing Canada with Australia, the Finance Minister said that "while Canada has comparatively few friends in the money market of London, and many opponents when we are placing our loans on the market, whenever an Australian colony places a loan the twelve Australian banks take hold of it, and there is a different feeling manifested as compared with that displayed towards a Canadian loan and a deep interest is felt on the part of the Australian bankers for the success of an Australian loan." (1)

Tilley concluded his Budget speech with the customary praise of the National Policy. It had raised the credit of Canada, established flourishing manufacturing industries, encouraged the production of Canadian coal, and had not increased prices. Bankruptcies were fewer, savings bank deposits had increased, and Canada was subjected to a smaller taxation than almost any other country in the world. The depression which existed was universal, and was not to be attributed to the operations of the tariff.

The Budget speech provided for several changes in the tariff. Various articles necessary for manufacturing

(1) House of Commons Debates, 1885, Vol. 1, p.323.

purposes were placed on the free list. A duty of 25 per cent ad valorem was placed on cutlery, not otherwise provided for, because it was now being manufactured in Canada. For the same reason, asbestos and all manufactures thereof were to pay a duty of 25 per cent. The tariffs on cigars were raised to about 20 per cent.

Sir Richard Cartwright, in replying to Tilley, delivered a characteristic attack.⁽¹⁾ He complained that the Budget speech had been far less concerned with the actual position of the country than with comparisons with the Mackenzie Administration. He cited figures of growing expenditures, decreasing revenues, and falling trade to prove the serious condition of the country. The total volume of trade had declined from \$217,801,000 in 1873 to \$207,873,000 in 1884. In 1878 Canadian manufactured goods to the value of \$4,127,000 were exported; in 1884 these exports declined to \$3,500,000. Industries were not declaring dividends, even though protected; wages were low; and the country was in a stationary state. Tilley's prediction of seven years of prosperity was proving false. The increase in savings bank deposits was not a sign of prosperity. The fall in general interest rates had been an inducement to deposit money at 4 per cent. Cartwright protested against the maintenance of this high rate. He urged a limit on the size of deposits in order to really protect the poor. He attacked Tilley's figures on the growth

(1) House of Commons Debates, 1885, Vol. 1, p.334 et seq.

of prosperity as inaccurate, and said that Canada compared unfavourably with the United States.

In moving an amendment (1) to Supply, urging a reduction in expenditure, and in the burdens on the people, Cartwright calculated on the basis of the finances of 1884-85, that there would be a deficit of \$1,819,000 on the transactions of the current year. The second Riel rebellion would also cause a deficit in 1885-86. In the meanwhile the debt was increasing enormously. The gross debt would soon be \$292,000,000, but Sir Richard was uncertain of the net debt because he disagreed as to the valuation of the assets. The fixed charges for 1886 were about \$24,000,000 out of a total expenditure of \$33,000,000.

McLelan, the Minister of Marine and Fisheries, attacked Cartwright for belittling his own country. He said that apart from "the mummies in the catacombs of Egypt" (2) every state had increased its expenditure in the last five years.

THE BUDGET OF 1886 - A.W. McLELAN

In 1885 Sir Leonard Tilley retired from Federal politics and once again became Lieutenant-Governor of New Brunswick. The reason for his retirement was ill-health, although Cartwright rather cruelly said that times were bad and, therefore, "like other prudent commanders, when stormy

(1) House of Commons Debates, 1885, Vol. 4, p. 2877.

(2) Ibid, p. 2830.

winds do blow he has found it convenient to seek the seclusion which his cabin grants." (1)

Tilley was succeeded by Archibald Woodbury McLelan, the Minister of Marine and Fisheries, and a comparatively new figure in Federal public life. McLelan delivered his first and only Budget speech on March 30, 1886 (2). He spoke of the development of Canada since 1867, and said that with the completion of the Canadian Pacific Railway, the country had now attained its geographical independence. He maintained that the recent depression had not been as serious in Canada as in other countries, largely owing to the National Policy.

According to the Public Accounts, the ordinary receipts in 1884-85 were \$32,797,001. The Customs showed a further decrease of \$1,100,000, but the Excise increased by \$1,000,000 and the interest on Investments by a like amount. The Consolidated Fund expenditure was \$35,037,060, including \$1,697,851 on account of the North West Rebellion. Hence, there was a deficit of \$2,240,058 for the year. (3)

In his Budget statement, McLelan included the receipts from Dominion lands, amounting to \$393,618 in the ordinary revenue, and announced the total receipts as being \$33,190,618. In accounting for the falling off in Customs revenue he said that Canada was now supplying its own manufactured articles, so that imports decreased. Referring to the Dominion lands

(1) House of Commons Debates, 1886, Vol. 1, p. 415.

(2) Ibid, pp.393-412.

(3) Public Accounts, 1894, pp. li-lviii.

receipts, the Minister stated that Tilley's large surpluses had enabled him to place them to capital account. However, Canada had incurred large expenditures and debts in opening up the NorthWest, and it was only right that the receipts from the lands should be placed to revenue account to meet the interest on the indebtedness so incurred, rather than to increase taxation. Cartwright refused to accept this explanation, and said that if the \$393,000 received from the lands were included in the ordinary revenue, then in all fairness there should be charged against that revenue the \$303,000 which had been charged to capital account for expenditure on those identical lands. (1)

The gross ordinary expenditure for 1884-85, according to McLelan, was \$35,037,060. From this he deducted the extraordinary expenditure on Militia and Defense, and on the Mounted Police, which he calculated at \$1,791,831, and which left him an expenditure of \$33,245,229. There was, therefore, a deficit of \$54,634. But as the Finance Minister was determined that he would have no deficit, he deducted \$82,375 from the expenditure on Indians, attributing it to the Rebellion, and, as a result, he finally obtained a surplus of \$27,741. The Minister believed that as a portion of the Excise revenue due in 1886 was anticipated and paid in 1885, it was fair that the over-expenditure of 1884-85 be divided with 1885-86.

(1) House of Commons Debates, 1886, Vol. 1, p. 414.

Cartwright protested against McLelan's means of obtaining a surplus. He had warned the Government of the approaching deficit but no precautions had been taken. The Government could not deny a deficit of at least \$2,240,000, and as \$1,000,000 had been borrowed from 1886, it really amounted to \$3,240,000. Further, at least \$287,000 of the items charged to the capital account of the Intercolonial belonged to ordinary account. To this account belonged also the \$403,000 granted as railway subsidies. The actual deficit, therefore, was \$3,900,000. Even deducting the \$1,700,000 expended on the North-West, there still remained a deficiency of \$2,200,000. (1)

The capital expenditure in 1884-85 amounted to \$13,220,185 including \$9,900,281 for the Canadian Pacific Railway, and large sums for canals, for the Intercolonial and connected railways, and for Dominion Lands. Railway subsidies paid were \$403,245. The increase in the net debt was \$14,245,841 (2)

McLelan said that owing to several disturbing elements to trade and revenue, and owing to the North-West trouble, the balance at the end of the current year, 1885-86, would not be favourable. He estimated a deficit of \$1,450,000. Following Tilley's practice in 1881, (3) his successor said that the

(1) House of Commons Debates, 1886, Vol. 1, pp. 413-14.

(2) Public Accounts, 1894, pp. lxix-lxx.

(3) P. 106 Supra.

deficit of the current year should be divided between the years 1884-85 and 1885-86, because of anticipations of excise revenue in the former year. McLelan felt justified in charging to capital the extraordinary expenditure incurred through the rebellion, because in the past large sums had been paid from ordinary account into capital account, and also because other nations customarily charged war expenditure to capital. But Cartwright protested against this. He "had always supposed that every item in capital account was supposed to represent some actual value - that at least we had a canal, or a railway, or something of that kind to show for it. Where", asked Cartwright, "have these \$3,500,000 gone? Sir, they have all been blown into gunpowder smoke..... and it is utterly improper and absurd to put such an item, as the cost of suppressing the Rebellion, into the capital account of the Dominion of Canada." (1)

In his discussion on the National Policy the new Minister said that the average tariff in Canada in 1886 was 18.43 per cent, as against the United States tariff of 31.45 per cent, and the Canadian tariff of 16.45 per cent in 1878. That the tariff was not pressing on the poorer classes was shown by the large increase in Customs receipts from luxuries. The Minister contended that in free trade England 56 per cent of the total Customs revenue was paid by the labouring classes. Ruin and bankruptcy would have faced Canada if not for the National Policy.

(1) House of Commons Debates, 1886, Vol. 1, p. 414.

The tariff changes proposed by McLelan, involved largely the substitution of specific for ad valorem duties, wherever advisable, in order to overcome the fall in values. A specific duty of 1 cent per pound and 15 per cent ad valorem was imposed on bolts, nuts, and rivets of iron and steel and a duty of $27\frac{1}{2}$ per cent on printed and dyed cotton fabrics not elsewhere specified. Some changes were also made in the sugar duties. A specific duty of 10 cents a pound was imposed on oleomargarine.

Later in the session McLelan moved that the bounty of \$1.50 per ton of pig iron manufactured in Canada from Canadian ore be continued until 1889, and that from then to 1892 the bounty be one dollar. In addition to the bounty, there was a duty of \$2 per ton on this class of pig iron. Cartwright pointed out that to get 24,000 tons of pig iron manufactured in Canada the country paid \$48,000 in Customs duties and \$36,000 in bounties - a total of \$84,000. (1) Peter Mitchell, one of the Fathers of Confederation, and originally a supporter of protection, said that the National Policy was being "run into the ground" with respect to the duties on flour and coal, and the duty and bounty on pig iron.(2)

In his Budget speech, McLelan declared that the prosperity of the country and the surpluses had reduced the rates of interest on loans. The increase in the debt since 1867 had been \$93,048,000, and the expenditure on public works,

(1) House of Commons Debates, 1886, Vol. 2, p..1715.

(2) Ibid, p. 1718.

\$142,550,875. Therefore, \$49,501,882 had been paid out of the ordinary revenue. To meet the liability to the Canadian Pacific Railway a loan of £4,000,000 at 4 per cent was floated in 1885. The Minister hoped "that our days of borrowing are pretty well over." Canada's indebtedness was represented by public works "which will be more important factors in enabling us to redeem our indebtedness than were to the United States the honoured graves of the men who fell on their battle-fields." (1) McLelan then entered into the favourite comparison of "the debt-creating proclivities of the two parties."

The Loan of 1885 was the first Canadian loan floated without a sinking fund provision. The Liberals had urged this for some years, and in 1883 Edward Blake had suggested the establishment of permanent consols, as in England. (2)

Sir Richard Cartwright once again refuted the praises of the National Policy. (3) It had created dissatisfaction and a desire for commercial union. In his own view, "if you are going to persevere in such a policy, it is far better to have free trade with 60,000,000 of people, than to persevere in our present state of barbarous isolation." (4) The National Policy had increased the cost of living, and had encouraged corruption and extravagance. Sir Richard protested that the new changes from ad valorem to specific duties would but add to the weight of taxation which fell on the poorer classes of the community.

(1) House of Commons Debates, 1886, Vol. 1, p.399

(2) Ibid, 1883, Vol. 1, p.54

(3) Ibid, 1886, Vol. 1, p. 412 et seq.

(4) Ibid, p.417.

No article of general consumption, except tea, was now on the free list. The excessive taxation had encouraged the provinces to raid the Federal Treasury. As a result the pact of Confederation was violated because "no single partner has a right to appropriate the public funds to his own special use."⁽¹⁾ In the United States this was avoided by the absence of the subsidy system.

Cartwright contrasted the tax system of Canada with that of England. In Canada the workingman had to pay a heavy portion of the tax burden; in England taxation was all in favour of "the frugal, abstemious, temperate labourer." Excise taxation was purely voluntary both in Canada and in England. Any man choosing to deny himself the use of liquor and tobacco escaped the whole of that taxation. But, whereas in Canada the labourer had to pay at least \$4 per head in Customs taxation, in England he was only required to pay 66 cents. Of the £19,500,000 of Customs revenue in Great Britain, £14,500,000 was levied on wine, spirits, and tobacco, and barely £5,000,000 on tea and coffee, which was necessarily borne by the workingman.

From the points of view of wealth and population Canada was by no means in an enviable position, according to Sir Richard. He emphasized the emigration to the United States, the declining volume of trade, and the enormous fixed charges in relation to the total income. He again urged that the rate of interest paid on savings bank deposits, which was

(1) House of Commons Debates, 1886, Vol. 1, p. 422

33 1/3 per cent higher than the current market rate, be reduced, or that the size of deposits be limited. In reference to the national debt, he said that all that the Dominion had to show for it were the Pacific Railway Scandal, two rebellions, seven deficits, and a railway monopoly.

A typical Budget debate followed the two principal speeches. Conservatives lauded the National Policy and maintained that the country was prosperous; Liberals attacked protection, regretted the increasing expenditure and debt, and denied the existence of prosperity.

THE BUDGET OF 1887 - SIR CHARLES TUPPER

On deciding to hold a general election in February 1887, Sir John Macdonald wrote to his old colleague, Sir Charles Tupper, who had been High Commissioner in England for some years, that: "In Nova Scotia the outlook is bad, and the only hope of our holding our own there is your immediate return and vigorous action. It may be necessary that you should even return to the Cabinet. McLelan, I know, will gladly make way for you." (1) The old "War Horse of Cumberland" acceded to this request. McLelan was demoted to the office of Postmaster-General, and Tupper became Minister of Finance. In the ensuing elections the Government was victorious, although its majority was reduced.

Tupper delivered his first Budget speech on May 12, 1887, (2) and at the outset expressed pride in the position

(1) J.W.Longley: Sir Charles Tupper (in "Makers of Canada" series) p. 192.

(2) House of Commons Debates, 1887, Vol. 1, pp.384-407.

which Canada had attained. For the fiscal year 1885-86 ~~the~~ announced that the receipts were \$33,177,040, and the expenditures \$39,011,612, leaving a deficit of \$5,834,571. Even after deducting the extraordinary expenditure of \$3,177,200 on account of the North-West Rebellion, there remained a deficit on Consolidated Fund of about \$2,750,000. The Finance Minister said that the extraordinary expenditure resulting from the Rebellion would be charged to capital account. The Opposition protested against this because the previous five or six millions of war expenditure had been charged to the Consolidated Fund, and because it was believed that capital account should only be represented by actual assets.

The capital expenditure in 1885-86 amounted to \$9,589,734, including \$3,672,584 for the Canadian Pacific Railway, and \$3,113,333 as additional debt allowed to Manitoba. The remainder was spent on canals and on the Intercolonial Railway. The net increase in the debt reached the large sum of \$26,751,414. Apart from the capital expenditure this included an item of \$10,220,180 which was the estimated value of the land returned by the Canadian Pacific Railway Company in lieu of the repayment of a loan of \$10,000,000. (1) The deficit added \$5,800,000 to the debt increase, and railway subsidies added \$2,701,249. (2) The completion of the Canadian Pacific Railway in 1886 terminated the decade of rapid debt increase.

(1) see p. 164 post.

(2) Public Accounts, 1894, pp. lxi-x-lxx.

For the current year Tupper estimated an expenditure of \$35,600,000 and a deficit of \$300,000. The Opposition, however, was not as optimistic as the Minister, and pointed out that the Conservative Government had never yet estimated an expenditure which in actual fact was not exceeded.

The Finance Minister reviewed the history of the national debt since Confederation. The net debt in 1887 was \$225,105,961, an increase of \$149,377,319 over 1867. This included an increase of \$30,743,392 in the debt allowed to the provinces; an expenditure of \$71,053,951, including the debt cancelled through the return of lands on the Canadian Pacific Railway; an expenditure of \$31,226,348 on the Intercolonial Railway; and an expenditure of \$31,226,348 on canals. As the aggregate expenditure was \$183,292,584, Canada had paid \$33,915,265 for capital requirements beyond the increase in the net debt. The debt was represented by large and valuable public works, and the credit of Canada was now at its highest point.

As was the custom, Sir Charles Tupper also very exuberantly praised the National Policy. He said that great political economists now accepted tariff protection, and in his famous speech at Malvern, (1) Edward Blake, the Liberal Leader, had practically announced his conversion to protection. The Minister spoke of the great progress and prosperity of Canada, and asked, "to what do we owe that condition of progress

(1) January 22, 1887.

and prosperity, upon which we are all able to congratulate ourselves at this moment? I am quite certain that the answer will be found in the words - National Policy." (1)

Tupper announced that he had found a new, "an almost illimitable field for the extension of our National Policy"(2) - the iron industry. Protection of iron lay at the basis of all protective systems. yet Canada had neglected to do justice to this, "the greatest of its industries" - the industry which was the basis of the prosperity of the United States, of Germany, and of Belgium. The Canadian duty and bounty on pig-iron protected the inferior grades. It was now decided to apply the principle of protection in reference to the amount of labour consumed in the production of the article, as was done in the United States. Tupper predicted remarkable results if iron were protected. Canada would reap "a golden harvest." But, as Cartwright said, Tupper "has been emphatically a Minister of great expectations." (3)

In conformity with his views, Sir Charles announced the abolition of the duty on anthracite coal, which would immediately make possible the establishment of blast furnaces for the manufacture of iron. The abolition of this duty would reduce the revenue by \$497,000 but the increased iron duties would compensate for the loss. The bounty on iron was to remain at \$1.50 a ton until June 30, 1889, and then

(1) House of Commons Debates, 1887, Vol. 1, p.398

(2) Ibid, p. 398

(3) Ibid, p. 408

at one dollar until 1892. The tariff was raised from \$2. to \$4 a ton, two-thirds of the United States rate. There was no increase in the duty on the lowest kinds of iron. The duty on steel worth 4 cents a pound and under, was placed at 30 per cent, equal to that on iron. On steel of over 4 cents a pound the revenue duty of $12\frac{1}{2}$ per cent was retained because it was not expected that Canada would soon be able to manufacture the better grades.

Other tariff changes included increases to 30 per cent on hardware stores, edge tools, and cutlery; to $32\frac{1}{2}$ per cent on printed or dyed fabrics, not elsewhere specified; to 35 per cent on earthenware and stoneware; to 15 per cent on potatoes; and to 25 per cent on vegetables, not otherwise specified. The duties on cotton thread, cigars, cigarettes, and salt were also raised.

Tupper concluded his speech with many statistics designed to prove the growth of Canadian prosperity. The country had passed through a serious depression almost without realizing it, largely owing to industrial activity and to the building of the Canadian Pacific Railway. The Minister expected that a long time would elapse before the necessity of borrowing in London would again arise.

While realizing that there is "a certain amount of official optimism which it is incumbent on the Minister of Finance to observe," (1) Sir Richard Cartwright, in his reply to the Budget speech, maintained that Tupper did not appreciate

(1) House of Commons Debates, 1887, Vol. 1, p. 407 et seq.

the serious financial position in which Canada was placed. The Liberal financial critic contrasted the deficits of the Mackenzie regime with those since 1879, and showed that whereas the former were the result of his reluctance to impose additional taxation, the latter existed in spite of a great increase in the tax burden.

Cartwright repeated his attacks on the National Policy, and on the growing debt. He said that the taxation was high and in the last analysis fell on the farming class. The North-West was not repaying the fixed charges incurred in its development. The public works of the Dominion paid no interest but actually incurred annual deficits. The fixed charges of the country constituted almost 75 per cent of the total revenue. In reference to the increased iron duties, Sir Richard said that it was unstatesmanlike to raise the price of the raw material of many industries. The wealthy and powerful railways would not be affected by the change because steel rails remained on the free list. But, agriculture and the minor industries would be adversely affected.

After a lengthy debate on the individual tariff changes, the Budget propositions were passed.

THE BUDGET OF 1888 - SIR CHARLES TUPPER

Sir Charles Tupper delivered his second and last Budget speech on April 26th, 1888.(1) He announced a revenue of \$35,754,993 for 1886-87. The Customs yielded \$3,000,000 more than in the preceding year, the increase in the sugar duties alone being over \$800,000. The total expenditure was \$35,657,680, leaving a surplus of \$97,313 instead of the estimated deficit of \$300,000. Cartwright, however, denied that there was a surplus. (2) It had been agreed some years ago that the receipts from Dominion lands should go to capital account, to which was charged the expenditure for the surveys of those lands. But Tupper reversed this policy; he charged the expenditure to capital and credited the receipts to income. Furthermore, Tupper's predecessor had charged the expenditure incurred in the suppression of the rebellion to Consolidated Fund, but as this was now inconvenient a new Territorial Account was opened, and to it was charged the North-West expenditure of \$293,917. Thus, by ridding himself of \$456,000 of expenditure previously charged to revenue, Tupper, "by a species of legerdemain," as Cartwright said, created a fictitious surplus of \$97,000; but the actual deficit was \$348,996.

The capital expenditure in 1886-87 was reduced to \$4,439,938, including \$1,783,698 for canals, \$926,029 for the Intercolonial and connected railways, and \$915,057 for the

(1) House of Commons Debates, 1888, Vol. 2, pp. 1031-1048.

(2) Ibid, p. 1052.

Canadian Pacific Railway. Railway subsidies amounted to \$1,406,533. The net increase in the debt was \$4,155,668. (1)

For the current year, 1887-88, Tupper estimated an expenditure of \$37,000,000. He calculated that \$400,000 of the revenue of 1885-86 had been anticipated. Crediting this to the current year, and with economy in expenditure, it was expected that the accounts would balance.

The Minister said that there had been a financial stringency since May 1887, accompanied by a certain depression. The limit on Government Savings Banks' deposits had been placed at \$300 in any one year; and the maximum total deposit was to be \$1,000. Hence capital expenditure had to be met out of the ordinary revenue and by a temporary loan of £1,000,000 in England. The Government was determined "for the present, with unimportant exceptions, to stop any further outlay on Capital account beyond that to which the country is now committed." (2) Tupper also said that the credit of Canada was now but one per cent below that of England, which stood at the head of all the world in financial credit. This enhanced credit practically reduced the total amount of indebtedness, which, at the prevailing interest rates, would be \$155,000,000 instead of \$227,000,000.

Speaking on the tariff, Tupper said that Canadian industry was satisfied with the new iron duties. The iron industry would soon be prospering, and the production of coal

(1) Public Accounts, 1894, pp. lxi-x-lxx.

(2) House of Commons Debates, 1888, Vol. 2, p. 1034.

would increase. The United States was determined to maintain its protection, so that Canada had to promote inter-provincial trade. Exports were increasing and prosperity was growing. He announced no change in the tariff because he believed that permanence was essential to inspire confidence on the part of the business interests.

In the previous year the Minister had been able to say that in view of Blake's conversion to protection, capital need no longer fear either political party in Canada. But, with Blake's retirement from the leadership, the Liberals had adopted Unrestricted Reciprocity with the United States as their policy. Tupper said that Canada would be disappointed if the Reciprocity Treaty of 1854 were renewed, because under the National Policy conditions had changed. Then, as Cartwright said, "in thundering tones and impassioned declamations", Sir Charles proceeded to condemn Unrestricted Reciprocity. It would destroy the revenue; it would necessitate heavy direct taxation; it would crush the industries of the country; it would mean national suicide. The policy of the United States had to be kept in mind. Finally, reciprocity would be ingratitude to the Empire; it would ask Canada "to throw away our birthright for a mess of pottage, to go looking for commercial prosperity with a foreign country." (1)

Sir Richard Cartwright again strongly attacked Tupper and the National Policy, (2) The Budget speech, he said, showed "the same magnificent audacity, and the same

(1) House of Commons Debates, 1888, Vol. 2, p. 1048

(2) Ibid, p. 1049 et seq.

superb self-confidence, which has so often led the honourable gentleman to wrestle with facts, and so often resulted in facts getting the worst of it." (1) The Opposition critic urged Unrestricted Reciprocity as the remedy for Canada's industrial ills. He said that under the existing system of indirect taxation the poor man suffered most. This could only be avoided if the taxation were supplemented by heavy direct taxes. The existing tariff had also encouraged the formation of combines which injured the consumers.

Cartwright pointed out that President Cleveland, of the United States, shared his tariff views. In his famous Message to Congress, in December 1887, Cleveland stated that the "present tariff laws, the vicious, inequitable, and illogical source of unnecessary taxation, ought to be at once revised, and amended." (2) Hence, there was a general belief in Canada that her southern neighbour would soon begin a more liberal tariff policy. Cartwright subsequently moved a resolution regretting the growth of Canada's debt and expenditure, and the injustice of the tax system, and urging that "it is expedient that the said injustice should be remedied, and that the wealthy classes should be compelled to bear their fair proportionate share of the burden of taxation." (3) The resolution was defeated.

THE BUDGET OF 1889 - GEORGE E. FOSTER

Having accomplished the task for which he was summoned to Canada, Sir Charles Tupper resigned his portfolio,

(1) House of Commons Debates, 1888, Vol. 2, p. 1049 et seq.

(2) J.D. Richardson, ed. Messages and Papers of the Presidents, Vol. 8,

(3) House of Commons Debates, 1888, Vol. 2, p. 1061. p. 584.

after the close of the session of 1888, and returned to England as Canadian High Commissioner - a post which he had retained all the time without salary. His successor as Minister of Finance was George Eulas Foster, the Minister of Marine and Fisheries, who now attained the most important Cabinet post after only six years of public life. Thus the second Macdonald Administration, like the first, had four Ministers of Finance, in the course of its existence. (1)

George Foster delivered his first Budget speech on March 5, 1889. (2) He said that Canada in this, her majority year, had every reason to survey her past record with pride, and to look forward into the future with full assurance of prosperity and continued greatness.

The total ordinary receipts in 1887-88 were \$35,908,463, the Customs yielding \$22,105,926. As compared with the previous year, iron and steel and their manufactures, spirits and wines, and sugar showed large increases in the Customs returns. Coal, coke, wool and cotton and their manufactures showed decreases. The expenditure, at \$36,718,494, rose over \$1,000,000. The deficit was \$810,031. Foster reminded the House, however, that during the year there was an offset of \$1,939,077 against the debt, as sinking fund and investment for interest on sinking fund. If not for this amount the deficit would have been turned into a surplus of \$1,129,046.

(1) Tilley, 1879-85; McLelan, 1885-87; Tupper, 1887-88;
Foster, 1888-91.

(2) House of Commons Debates, 1889, Vol.1, pp.436-456.

In his subsequent rebuttal, (1) Cartwright attacked the accuracy of Foster's accounts, maintaining that there was actually a deficit of \$1,500,000. He made the serious charge that the Public Accounts for 1887 and 1888 were "cooked". Prior to 1887, by formal agreement, receipts from Dominion lands were placed against capital, as long as the expenditure for surveying those lands was charged to the same account. Tupper had reversed this practice and Foster followed in his footsteps. It was likewise with the expenses of the Riel Rebellion. Sir Richard said that this was fraudulent book-keeping. The Government was abusing the practice of keeping two accounts - capital and ordinary - to suit their exigency, to avoid four successive deficits. Confidence in the financial statement was being destroyed.

The capital expenditure in 1887-88 was \$4,437,460 including \$1,713,487 for the Intercolonial and connected Railways, \$842,058 for other Public Works, and \$1,033,118. for canals. Railway subsidies paid were \$1,027,041. The increase in the net debt was \$7,216,582. (2)

For the current year, 1888-89, the Finance Minister expected a surplus of \$1,900,000, and for 1889-90 a surplus of \$2,675,000.

Foster reviewed the history of the national debt, showing that of the total net debt of \$234,531,358, the sum of \$109,430,148 was the provincial debt assumed. Therefore the Federal net debt was \$125,101,209 in excess of that assumed.

(1) House of Commons Debates, 1889, Vol. 1, pp.436-456.

(2) Public Accounts, 1894, pp. lxix-lxx.

The capital expenditure exceeded the debt increase by \$54,608,764. The net per capita debt increased by only 14 cents from 1880 to 1888, although the Canadian Pacific was constructed in the interval, and the North-West was opened up. The Minister said that a comparison between the debts of Canada and of the United States was unfair because their constitutions were so dissimilar. The United States assumed no state debts; it paid no subsidies to the states; it paid no interest on assumed debts; the expenditure on various services and departments was on a very different basis. Had Canada set out on the same basis as her neighbour, there would be no debt but an actual surplus of \$75,329,629. If the prevailing prosperity continued, the Minister expected that the capital expenditures of the ensuing three years would be met without any addition to the net debt, and without an increase in taxation; the debt could not go on increasing forever.

In 1884 Canada had been the first colony to float a $3\frac{1}{2}$ per cent loan in London; in 1888 it was the first to float one at 3 per cent. The loan was for £4,000,000 to run for 50 years. Its reception was gratifying as it was oversubscribed three times. The large amount would obviate the necessity of further borrowing for a long time. While Cartwright admitted that the transaction was an excellent one, he accused the Government of making a reckless blunder, in the prospectus issued for the loan, which might necessitate a huge sinking fund for its re-purchase in five instead of fifty years. Foster replied that the prospectus placed him under no legal obligation, and denied Cartwright's interpretation

of its meaning.

The Minister considered the incidence of taxation in Canada, and concluded that it fell mainly on the wealthy classes with expensive tastes. Deducting the taxes on liquor and tobacco, from which Foster himself abstained, the necessary per capita burden was \$3.88. Taxation in Canada was lower than that in the United States, Great Britain, France, and Australasia, but it was necessary, since "Taxation is the only gateway to progress and development in a country." (1)

Following in the footsteps of his predecessors, Foster lauded the National Policy for protecting Canadian industries. He pointed out that if the shrinkage in values were considered Canada's trade had by no means declined below the total in 1873. He maintained that as long as the United States insisted on retaining its high tariff, Canada would have to build upon its own foundations.

In his reply to the Finance Minister, (2) Sir Richard Cartwright was suspicious of any talk of economy by the Government. He wondered "what new villainy is afloat? What dark mystery of iniquity is being hatched now? I must say," added Sir Richard, "that when I hear these gentlemen talking of economy my utmost suspicions are aroused. Can the leopard change his spots; can the Ethiopian change his skin; can we expect grapes from thorns and figs from thistles?" (3)

Cartwright also delivered his annual indictment of the National Policy. According to the Conservative Party one would say that "every single solitary result of every new

(1) House of Commons Debates, 1889, Vol. 1, p. 456, et seq.
(2) Ibid, p.465
(3) Ibid, p.464

invention that has been made for the last ten years, that every reduction in the price of raw material, that even a fall in the rate of interest all the world over is a new triumph for the National Policy." (1) Sir Richard asserted that if, as alleged, Canadian manufacturers were extending their foreign trade, if they were able to undersell their competitors in foreign markets, then they certainly required no protection. He believed that the remedy for Canada's financial ills was the extension of trade with the United States. Accordingly, he moved an amendment advocating "full and unrestricted reciprocity with the United States." (2)

The debate on the Budget was concerned largely with the Liberal proposal of unrestricted reciprocity. On behalf of the Government, Charles Hibbert Tupper, Minister of Marine and Fisheries, declared that while the Conservative Party was not ready to surrender the commercial interests of Canada to the United States, it was, nevertheless, "still ready to make a fair trade arrangement" with the latter country whenever it was "prepared to enter into such an arrangement." (3) John Charlton emphasized that the Liberal Party was not advocating commercial union but unrestricted reciprocity, "and unrestricted reciprocity would leave in our hands the entire control of our own tariff, except in so far as relating to imports and exports between Canada and the United States." (4) Louis H. Davies attacked the cry of disloyalty which was being raised against

(1) House of Commons Debates, 1889, Vol. 1, p. 464

(2) Ibid, p. 468

(3) Ibid, p. 478

(4) Ibid, p.479

the Liberals, and reminded the Government of the phrase "that they were prepared to support the National Policy, and if the National Policy in its effects would weaken the tie that bound us to the mother country, so much the worse for British connection." (1) In the end, Cartwright's resolution was defeated.

THE BUDGET OF 1890 - GEORGE E. FOSTER

In his second Budget speech, delivered on March 27, 1890, (2) Foster congratulated the country on its financial position. He announced a record revenue of \$38,782,870 for the year 1888-89. It was almost \$2,000,000 in excess of Tupper's original estimate, and \$2,874,000 in excess of the receipts of 1887-88. The Customs and the Excise yields rose \$1,620,000 and \$815,000 respectively. The ordinary expenditure was \$36,917,834, leaving a surplus of \$1,865,035. In England, also, the Chancellor of the Exchequer announced a surplus of £2,798,000 for 1888-89. (3)

The total capital expenditure amounted to \$4,420,313, over half of which was for the Intercolonial and connected railways, and the remainder for canals and other public works. The sum of \$846,721 was paid in railway subsidies. The net increase in the debt was \$2,998,683. (4) For the current year the Finance Minister expected a surplus of \$2,700,000, and for 1890-91, one of \$2,500,000. Surpluses of such magnitude

(1) House of Commons Debates, 1889, Vol. 1, p.706.

(2) Ibid, 1890, Vol. 2, pp.2530-2563.

(3) Bernard Mallet: British Budgets (London, 1913) p. 24.

(4) Public Accounts, 1894, pp. lxix-lxx.

attained without any increase in ~~the~~ taxation showed "the buoyancy of our resources."

Foster believed that the ordinary revenue of Canada was now sufficient to carry the national debt, to pay for the ordinary services of the country, and for some of the capital expenditure. He hoped that there would be no increase in liabilities for some years, and expected the beginning of a period of debt reduction in 1892. The debt incurred since 1867 had been essential for the opening up of the country and for the extension of trade and commerce. Canada was able to carry its present burdens, "but for any further increase, " said the Finance Minister, "I believe good reasons are demanded, and good reasons must be given." (1)

The Budget speech of 1890 proposed various changes in the tariff, which, however, did not disturb the policy adopted in 1879. Protection had now taken firm root in Europe; and, in the United States election of 1889, Cleveland was defeated, and the Republican Party had triumphed on a policy of higher protection. Foster justified tariff changes, because of new conditions which constantly arise, as tariffs are not "like confessions of faith, which when once settled, must endure for centuries." (2)

The tariff alterations of 1890 involved both increases and decreases. The duty on flour was raised 25 cents per barrel, to equalize it with the duty on wheat. The duties on meats were increased, and on live cattle, hogs, and sheep

(1) House of Commons Debates, 1890, Vol. 2, p. 2540/

(2) Ibid, p.2542.

they were raised from 20 to 30 per cent. The duty on woollens was increased from $7\frac{1}{2}$ cents a pound and 20 per cent ad valorem, to 10 cents per pound and 20 per cent ad valorem. Wire of copper and brass was taken from the free list and made subject to a duty of 15 per cent, while covered wire was to pay 35 instead of 25 per cent. The duty on common windowglass was reduced from 30 to 20 per cent. The duties on molasses were halved, and on corn milled for human food there was to be a rebate of 90 per cent. To develop the Canadian mining industry, mining machinery not manufactured in Canada at the time of its importation was made free for three years. Also, to encourage iron shipbuilding, all steel and iron parts used in the manufacture of iron or steel vessels, if not made in Canada, were placed on the free list. Certain seeds for the farmer were also added to this list.

Some time after the delivery of the Budget speech, Foster moved that the bounty on pig-iron be \$2 per ton from July 1, 1897 to June 30, 1897. (1) The bounty, originally introduced in 1883, was \$1.50 per ton for ~~three~~ years, and then one dollar from 1886 to 1889; in 1886 it was renewed at \$1.50 until 1889, and then one dollar until 1892. Now it was to be \$2 until 1897. As the duty on iron was \$4, the total protection was \$6 per ton. Cartwright called this the most injurious duty imposed, because iron was a very important raw

(1) House of Commons Debates, 1890, Vol. 2, p. 4321 et seq.

material. Louis Davies pointed out that iron manufacturing had not increased in ten years, and that the duty was not justified.

During the Budget debate, which was largely influenced by the proposed McKinley Tariff in the United States, Sir Richard Cartwright accused the Finance Minister of living in a fool's paradise. (1) He again denounced protection, and said that Foster, like some of his predecessors, had sunk "the high and responsible position of the Minister of Finance, the sworn guardian of all classes of the people, to the position of speaking trumpet for a number of combines." (2) The Liberal critic spoke of the desirability of free-trade with the United States. He stressed the importance of agriculture as the staple industry of Canada, adding that "circumstances do not seem to fit us to become a great manufacturing country." (3) Yet agriculture in Canada was markedly depressed and was left unaided. Sir Richard moved an amendment to the Budget, regretting the increase in taxation and in expenditure, and urging a reduction particularly on articles of prime necessity to farmers, miners, fishermen, and other producers.

Mackenzie, Bowell, Minister of Customs, justified the tariff increases because of the proposed McKinley Tariff in the United States, but David Mills attacked this policy as a servile imitation of the United States which would make

(1) House of Commons Debates, 1890, Vol. 2, p. 2566, et seq.

(2) Ibid, p. 2567.

(3) Ibid, p. 2574.

reciprocity impossible. (1) Peter Mitchell protested that he had supported the National Policy originally because he had understood it to aim simply at compelling the Americans to remove their restrictive duties. However, it had developed into a policy of taxing the needs of the people regardless of surpluses of revenue over expenditure. (2)

The constant reference to the so-called "unfavourable" balance of trade brought Nicholas Flood Davin, a prominent Conservative member, into the debate with an attempt to prove "that this thing which has been made a rhetorical bugaboo from session to session, has nothing whatever in it." (3) Davin employed facts and statistics to show that, if all factors are considered, imports and exports, visible and invisible, ultimately balance each other. But, for many years the discussion on the "favourable" or "unfavourable" balance of trade was to remain a feature of the debate on the Budget.

DOMINION FINANCE, 1879-91

The Budget of 1890 was the last presented by the second Macdonald Administration. While the Government was returned to power in the general election of 1891, Sir John Macdonald died in June of that year. With his death began a period of political uncertainty which culminated in the defeat of the Conservative Party in 1896.

(1) House of Commons Debates, 1890, Vol. 2, pp.3129-3132.

(2) Ibid, pp. 2199-2920

(3) Ibid, pp.3 071-3074

The years from 1879 to 1891 witnessed the introduction and extension of the National Policy of Protection. Every session saw amendments made, generally, in an upward direction. The payment of bounties to industries was also introduced. But the prosperous years from 1880 to 1884 were followed by a period of depression. The Minister of Finance again was faced with deficits. Dissatisfaction with the National Policy arose. Encouraged by the freer trade tendencies of the Democratic Party in the United States, an agitation for Commercial Union or Unrestricted Reciprocity began. The Liberals adopted this as the main plank in their platform. It was defeated in the elections of 1891. But, even the Conservative Party still favoured a moderate reciprocity treaty.

As the Macdonald Administration had undertaken works involving large expenditures, the revenue necessarily rose. In 1877-78, the last year of the Mackenzie Government, Consolidated Fund receipts were \$22,375,011; in 1890-91 they had increased to \$38,579,310. The receipts from taxes - Customs and Excise - rose from \$17,841,938 in 1877-78, to \$30,314,151 in 1890-91; the receipts from other sources increased from \$4,533,073 to \$8,265,159, in the same period. (1)

The ordinary expenditure increased from \$23,503,158 in 1877-78, to \$36,343,567 in 1890-91. There was an increase

(1) Public Accounts, 1894, p. xxxii

in all charges: (1)

	<u>1877-78</u>	<u>1890-91</u>
Charges on the Public Debt	\$ 7,240,969	\$ 9,846,205
Subsidies to the Provinces	3,472,807	3,903,756
Sinking Fund	945,746	1,938,078
Collection of Revenue	5,301,124	9,453,312
Miscellaneous	6,542,510	11,202,206

The increase in the net debt during the first decade of Confederation was moderate when compared with that of the second. In the latter period heavy debts were incurred in the construction of railways and canals, and in the opening up of the North-West. The net debt in 1878 was \$140,362,069; in 1891 it had risen to \$237,809,030. The leading cause of that increase was the construction of the Canadian Pacific Railway. Its completion in 1886 saw the end of the decade of rapid debt increase.

The Mackenzie Government had undertaken to construct the Pacific Railway as a public enterprise, but on the return to power of the Conservative Government, in 1878, it was finally determined that the road should be constructed by a private company supplemented by government aid. A contract was therefore signed in 1881, with the Canadian Pacific Syndicate to which the Government gave a subsidy of \$25,000,000 in money and 25,000,000 acres of land, together with about 640 miles of road completed at a cost of \$33,000,000

(1) Public Accounts, 1894, pp.xxxii - xxxiii

Then began a period of large capital expenditures which by 1885 exceeded \$54,000,000. The Dominion Loans of 1884 and 1885 were necessary to meet these liabilities.

The Railway was to have been completed by 1891. In 1884, however, the Syndicate promised to complete the road by 1886. To assure this, the Government advanced a loan of \$30,000,000, and in 1885 a further loan of \$5,000,000. In 1886 the Company repaid \$25,000,000 and the Government agreed to accept a portion of its lands for the balance of its indebtedness - \$9,880,912, with interest. The value of the land was computed at \$1.50 an acre. (1) Cartwright protested that this meant a settlement on the part of the Company of 60 cents on the dollar, and Edward Blake maintained that it involved the addition of \$10,000,000 to the net debt and \$400,000 to the annual interest charge in order to release the wealthy shareholders from the necessity of repaying the full loan. (2) Blake said that of a total expenditure of \$66,000,000 on the Railway, the Government had contributed \$57,900,000, in addition to the valuable land grants. (3) In view of this, both Blake and Cartwright stated that the road should have been owned by the Government which had practically constructed it. Nevertheless, McLelan, the Minister of Finance, announced with pride, in 1886, that the Company had repaid its indebtedness, that the accounts

(1) Perry, op. cit., pp. 21-22

(2) House of Commons Debates, 1886, Vol.2, p. 930 et seq

(3) Ibid, 1884, pp.124-128.

would be closed, and that it would henceforth continue independently of the Government. (1) This, however, did not prevent the Government, in 1888, from guaranteeing for 50 years the payment of interest at $3\frac{1}{2}$ per cent on \$15,000,000 of the Railway's Land Grant Bonds, in return for which the Company abandoned the railway monopoly which its charter had given it for twenty years. (2) Wilfrid Laurier, the Leader of the Opposition, condemned this new unlimited liability, and Cartwright said that it involved an annual charge of \$525,000 for fifty years in favour of the Railway Company.

In the period 1875-85 there was also incurred a large expenditure on canals amounting to \$24,120,000. The Welland, Lachine, Carillon, and Grenville Canals were almost wholly built in these years. (3) The other item which served to increase the debt was the readjustment of provincial debts, which meant the assumption of an additional \$10,000,000 by the Dominion.

In the fiscal year 1885-86 the Canadian net debt increased by \$26,750,000; in the same year the United States debt was reduced by \$88,901,860. (4) In 1880 the annual interest on the latter debt was \$95,757,000; in 1885 it was \$51,386,000. (5) In the twenty years ending June 30, 1886, the United States debt was reduced by the enormous sum of

(1) House of Commons Debates, 1886, Vol. 2, p. 930 et seq.

(2) Ibid, 1888, Vol. 2, p. 1061.

(3) Perry, op.cit., p. 22

(4) Canada: Statistical Record, 1886, p. 144

(5) Dewey, op. cit., p. 428.

\$998,173,160, or an average annual reduction of \$49,908,658. The rapidity of this decrease was without parallel in history. (1) It is to be noted, however, that while the Canadian debt was incurred for public works, that of the United States arose from the Civil War. Also, in 1885 the total debts of the Canadian provinces were \$21,723,727, while those of the American states amounted to \$243,708,448, or more than the entire net debt of the Dominion. (2)

After 1886 there followed a decade of slow growth in the debt, in contrast to the increase of the preceding years. The capital expenditure was kept down to an average of less than \$4,000,000 annually, and the average debt increase was \$3,000,000. The expenditure was principally on canals and on railway subsidies.

Between 1878 and 1891 four Canadian loans were issued in London, totalling £19,000,000, of which only £1,500,000 bore the Imperial Guarantee. In 1884 the first $3\frac{1}{2}$ per cent loan was floated, and in 1888 the rate was 3 percent. (3)

The period from 1879 to 1891 was one of strains and stresses. While the credit of Canada was high, the progress of the country was slow. But firm foundations were laid on which future generations were to build.

(1) Canada: Statistical Record, 1886, p. 144.

(2) Ibid, pp. 144-145.

(3) House of Commons Debates, 1897, Vol. 1, p.3120.

CHAPTER VI

Closing Years of the Conservative Government

1891-96

George Foster's Budgets, 1891-96 - Dominion Finance, 1891-96

"I am not one of those who believe that there should be a cast-iron tariff for a stated number of years; conditions change, and with them, if we are reasonable and prudent, we must change the conditions of our fiscal policy."

- Hon. George E. Foster (1891)

The Conservative Government was returned to power in the general election of 1891 at a time when the economic situation in the country was again becoming unfavourable. Low prices and a succession of bad seasons meant agricultural depression and discontent. The inflation consequent upon the opening up of the North-West was followed by a serious reaction and depression in Winnipeg and other centres. Settlement in Western Canada proceeded at a disappointing rate. Artificial encouragement to industry had resulted in over-production for the small Canadian market, and, therefore, in suffering for the workers. Sentiment appeared to turn in favour of Commercial Union with the United States, or, at least, in favour of some form of reciprocity. The period was marked by tariff reductions in Canada.

In the United States the Republican Party redeemed its campaign pledges and Congress passed the McKinley Tariff Act in 1890. For the first time it accepted Protection not "as a temporary stage in the arduous journey towards industrial freedom, but a principle which ought to be permanently adopted." (1)

(1) Dewey, op. cit., p 438.

The new tariff repealed the duties on raw sugar, and reduced the duties on steel rails, iron and steel plates, and on structural iron and steel. But duties on many manufactured products, especially textiles, and on agricultural products, were made almost prohibitive. (1)

The passing of the McKinley Act, and of the Sherman Silver Act, was followed by a decline in revenues, by commercial disturbances, by an increased exportation of gold, and by the withdrawal of British speculative investments. The United States was on the road to a financial crisis. The year 1890 also witnessed the practical bankruptcy of Portugal, the collapse of the South African mining boom, and of the boom in Argentina, which involved the failure of the famous house of Baring. The economic depression was therefore not confined to Canada.

THE BUDGET OF 1891 - GEORGE E. FOSTER

In June 1891 Sir John A. Macdonald died and Senator John J.C. Abbott became Prime Minister. George Foster retained the portfolio of Finance and delivered his third Budget speech on June 23, 1891. (2) He acknowledged that the condition of the country was not as fortunate as it had been, but asserted that the general state of trade was good. Foreign trade had shown an increase of \$14,000,000 over the previous year, and domestic trade was flourishing. While the crisis of the past year had involved bank failures in the United States and a

(1) Dewey, pp. 438-440.

(2) House of Commons Debates, 1891, Vol. 1, pp. 1200-1223

financial stringency in Great Britain, the Canadian banks had "pursued the even tenor of their way". (1) While Canadian industries had been able to withstand the strain caused by the passing of the McKinley Bill, the Government was negotiating for closer trade relations with the United States. It was willing to give to the latter country, "the greatest freedom of trade compatible with the best interests of" (2) Canada, but would not sacrifice the trade already established with other countries.

With the reduction in the interest rate, there was a decrease in the Government Savings Bank deposits. The Minister said that this was equivalent to debt redemption. To meet the withdrawals, he floated in London a temporary loan of £400,000 at 4 per cent for twelve months, and one of £600,000 at $4\frac{1}{2}$ per cent for six months. More would have to be borrowed, but the money market was unfavourable. Cartwright reminded the House that he had always urged the adoption of the English system whereby these deposits would be treated as trust funds to be invested in Government securities. However, as they were used for permanent investment, that is, to finance permanent works, it was now necessary to borrow at a high rate of interest in order to meet the deficit created by the withdrawals.

The Finance Minister stated that the financial soundness of Canada was reflected by the revenue of 1889-90, which was the largest in history. It amounted to \$39,879,925, the yield from Customs being \$23,968,953, and that from Excise,

(1) House of Commons Debates, 1891, Vol. 1, p.1202.

(2) Ibid, p.1207.

\$7,618,118. While the revenue was \$679,000 in excess of the estimates, the expenditure of \$35,994,031 was \$505,000 less than the estimate, and \$923,000 less than the expenditure of 1888-89. The Consolidated Fund surplus was \$3,885,893.

The total capital expenditure, in 1889-90, was \$6,778,663, including \$2,725,504, spent during previous years by the Montreal Harbour Commission for the improvement of the St. Lawrence, \$2,351,787 for the Intercolonial and connected Railways, \$3,124,260 for other Public Works, and \$1,026,364 for canals. Railway subsidies paid were \$1,678,195. (1) Apart from meeting the ordinary needs of the country, the Consolidated Fund was able to pay for a large part of the capital expenditure. Hence, the net increase in the debt was only \$3,170. Foster said that an equilibrium had now been practically established between income and expenditure, both capital and ordinary.

Because of the tariff revision of 1890, and because of the commercial negotiations with the United States, the Budget speech of 1891 announced only one major tariff change. At the same time, Foster said that he did not believe in "a cast-iron tariff for a stated period of years;" changes in the tariff were necessary with changing conditions. He then entered into a long discussion on the sugar duty, showing that it had originally been imposed in 1868; that it had been increased on three subsequent occasions; that it had created the prosperous sugar-refining industry of Canada; that it had

(1) Public Accounts, 1894, pp. lxix-lxx.

yielded a large revenue, which in 1888-89 amounted to \$3,675,724. The Finance Minister then announced the abolition of the sugar duties, and added "that never in the history of Canada, either before Confederation or since Confederation, has any Government come down to the House with such a large reduction of taxes as is involved in this proposition." (1) With the abolition of the duties on coffee, tea, and sugar, "the poor man's breakfast-table" was practically free. In England sugar had been made free in 1874.

To compensate, in part, for the loss of revenue from sugar, Foster raised the customs duties and the excise on malt, distilled spirits and tobacco. The duties on beer, ale, and porter were also increased. The tariff on salt was reduced by one-half, because it had resulted in the creation of a monopoly. It was henceforth to be 5 and $7\frac{1}{2}$ cents per 100 pounds. Beet-root sugar, which the Minister did not believe could be successfully produced in Canada, was to receive a bounty, for one year only, equal to the protection the farmer would have received had the tariff remained unchanged. It was emphasized that this did not commit the country to the principle of a bounty on beet-root sugar, but merely aimed to protect the farmers who had already planted beets in that season.

Sir Richard Cartwright, in his reply to the Budget speech, (2) pointed out that the duties on raw sugar only were abolished, and furthermore, that the action was merely a

(1) House of Commons Debates, 1891, Vol.1, p. 1216.

(2) Ibid, p. 1224 et seq.

consequence of the McKinley Tariff. "It is solely because the United States Government had taken similar legislation about a year ago, and our honourable friend, in humble obedience and subservience to the United States, had followed suit." (1) Foster had not been actuated solely by the public interest. Sir Richard said that refined sugar continued to be highly protected, that the refiners would, therefore, maintain a high price, and that the change was not to benefit the poor man, but only the sugar refiners.

Cartwright again stated that Canada was not in a prosperous condition. He urged free and unrestricted reciprocity with the United States, which he called Canada's natural market. The National Policy taxed imports from Great Britain and was an imitation of American policy, yet when reciprocity was advocated, Conservatives raised the loyalty cry. Sir Richard moved an amendment to the Budget demanding reductions in the duties on all articles of prime necessity, and "the most extended reciprocal freedom of trade between Canada and the United States in manufactured as well as natural products." (2) A lengthy debate on Reciprocity ensued. Wilfrid Laurier urged that allegiance should not be made the basis of trade; that trade interests alone should be that basis. However, the amendment was defeated.

(1) House of Commons Debates, 1891, Vol. 1, p. 1224.

(2) Ibid, p. 1212.

THE BUDGET OF 1892 - GEORGE E. FOSTER

George Foster delivered his fourth Budget speech on March 22, 1892. (1) For the year 1890-91 he announced an ordinary revenue of \$38,579,310, a decrease of \$1,300,000 in comparison with the receipts of 1889-90. The Consolidated Fund expenditure was \$36,343,567.96, an excess of \$340,000 over the previous year. The surplus was \$ 2,235,742.

The capital expenditure, at \$3,115,860, showed a decrease of almost \$1,350,000. The chief items were \$1,280,725 for canals and \$1,184,317 for the Intercolonial and connected Railways. Railway subsidies amounted to \$1,265,705. (2) The net increase in the debt was \$275,818. Thus, the Minister said that his prediction in his first Budget speech, that by 1892 the revenue and expenditure would be balanced without an increase in the debt had practically been fulfilled. Had not the duties on raw sugar been abolished, the revenue would have been greater by \$3000,000 and the year 1892 would have been reached with no increase in the debt. In the four years, 1887-1891, the Consolidated Fund expenditure had kept remarkably even; the revenue had been buoyant; and the net interest on the debt had decreased. The future was therefore "full of hope and promise". As long as the existing conditions of tariff and revenue remained no large surplus could be expected. The accounts for the current year and for 1892-93 would just balance.

(1) House of Commons Debates, 1891, Vol. 2, pp. 315-335.
(2) Public Accounts, 1894, p. lxix-lxx.

The decrease in the savings bank deposits, resulting from the lower interest rate and from other causes, had necessitated temporary borrowings amounting to \$9,753.333. This was largely for debt redemption. Capital expenditures would necessitate further loans, and the conditions of the money market would decide whether these were to be permanent or temporary. Canada's credit stood high in Great Britain, in spite of the pessimistic statements about debt and taxation spread by Cartwright and the Liberals. Foster asserted that the per capita debt had increased only 18 cents from 1878 to 1891.

The Finance Minister pointed out that the aggregate trade of the country was holding its own. Exports were increasing and in 1891 were \$1,668,000 in excess of those of the preceding year. The decrease in imports was caused by the larger production in Canada for the home market. Referring to reciprocity negotiations with the United States, Foster said that the latter country wanted reciprocity in manufactured as well as in natural products. This would necessitate preferential treatment for the United States in the markets of Canada. The consequences would be discrimination against Great Britain, loss of revenue to Canada, and the equalization of the Canadian tariff to that of the United States. Foster concluded that no terms could be arrived at without sacrificing Canadian interests and too much of Canadian nationality. Canada would, henceforth, have to proceed along her own lines of development. The British market would be the most desirable. The Minister foresaw the day of reciprocal or preferential tariffs, when, in view of the

tariff wars all over the world, it would become the duty of the Government of Canada "to hold out the hand of help to those that help us, to repay favour with favour and interest with interest, and to give the best treatment in our markets to those countries which afford to us the best treatment in their markets." (1)

The Budget speech of 1892 introduced no tariff changes, and was remarkable for the absence of the customary eulogy of the National Policy. Nevertheless, Sir Richard Cartwright, in replying on behalf of the Opposition, once again denounced the policy of protection. He held it to be largely responsible for the exodus from Canada. The McKinley Tariff had detrimentally affected Canadian agriculture; unrestricted reciprocity with the United States was the remedy. Sir Richard stressed the value of the latter market, and stated that Great Britain could import but a relatively small portion of Canadian products.

The former Finance Minister condemned the growing expenditure of Canada, and the construction of public works which were producing annual deficits. The policy of isolation and the policy of protection were compelling Canadians to pay three sets of taxes - taxes to the Dominion Treasury, taxes to the protected manufacturers, and taxes to the United States Treasury.

The Budget debate centred on reciprocity and reciprocal tariffs. A preference for Great Britain was proposed on the grounds that it provided a free market for

(1) House of Commons Debates, 1892, Vol. 1, p. 335

Canadian products. It was opposed because of the fear of loss of revenue, and because of England's most-favoured-nation treaties, which would necessitate the extension of preference to other countries.

After the delivery of the Budget speech certain minor changes in the tariff were made, including the imposition of a duty of 5 cents per dozen eggs imported. The Governor-in-Council was empowered to suspend the provisions of the Customs Act which provided for the remission, or otherwise, of duties on sugar, molasses, and tobacco, in the case of countries which did not accord the most-favoured-nation treatment to Canada. (1) The bounty on beet-root sugar was renewed for two years.

THE BUDGET OF 1893 - GEORGE E. FOSTER.

In November 1892, the Democratic Party was victorious in the United States, and Grover Cleveland, the advocate of tariff reform, again became President. The return to power of the low tariff party was to have its effect on Canadian budgets. Late in 1892, also, Sir John S.D. Thompson succeeded Sir John Abbott as Prime Minister of Canada. George Foster retained the portfolio of Finance and presented his fifth Budget on February 14, 1893. (2)

The total ordinary receipts in 1891-92 were \$36,921,871, a decrease, as compared with 1890-91, of \$1,657,439. Owing to the abolition of the sugar duties the decrease in Customs

(1) House of Commons Debates, 1892, Vol. 2, p. 4671.

(2) Ibid, 1893, pp. 659-693.

receipts from sugar alone amounted to \$3,064,462. The Excise yielded over \$1,000,000 more than in the previous year. The receipts from earnings, amounting to \$8,475,714, were the largest since Confederation, and showed an increase of 87 per cent over 1878.

The Finance Minister said that the reduction in the sugar duties had proved that the cheaper the article, the greater its consumption. The increased consumption of sugar in 1891-92 would have yielded \$5,400,000 in taxation. There would also have been a large yield if the taxes on tea and coffee had been retained. Hence, the Government had materially reduced the burden of taxation. Foster also gave comparative figures on the per capita consumption of Excise articles - spirits, beer, wine, and tobacco. He was delighted to note an apparent diminishing consumption in these, from the use of which he personally abstained.

The ordinary expenditure in 1891-92 was \$36,765,894, and the surplus of the year was \$155,977. The capital expenditure of \$2,164,456 showed a saving of \$950,000 over the preceding year. The chief item was \$1,463,279 for canals. Railways subsidies amounted to \$1,248,215.93. (1) Thus, since 1887-88 the course of capital expenditure had been constantly downward. But, although, in the past two years there had been only a small addition to the debt, the net increase in the debt for 1892 was \$3,322,403-the highest since 1888. The Minister explained that the reduction in taxation had reduced the surplus

(1) Public Accounts, Canada, pp. lxix-lxx.

which hitherto had been available for capital expenditure. Therefore, the larger part of such expenditure now had to be met out of borrowings.

Foster said that the \$3,322,000 debt increase was more apparent than real. It included an item of \$970,000 resulting from the cancellation of the North Shore Railway Bonds, which for some years had stood as an asset of the country, although they had produced no revenue. To meet the capital expenditure and to take up the temporary loans, there was floated in London a 3 per cent loan of £2,250,000 at the fixed price of £91. It yielded more than £92 and was subscribed three times over. The increased confidence in Canadian securities was shown by the fact that the number of individual subscribers was greater than in the case of any other loan ever floated by Canada. Because of the low interest rate the loan was sold at a discount, and as the discount on loans was always charged to capital account, the transaction of 1892 added \$1,122,541 to the apparent increase in the net debt. If not for the remission of taxation, concluded the Minister, the debt would actually have been diminished by \$2,000,000.

In reviewing the general economic conditions of the country, the Finance Minister said that the foreign trade had reached a total of over \$241,300,000 in 1892, of which \$106,254,000 was with Great Britain and \$92,125,000 with the United States. The internal trade was also improving. Bank deposits and railway mileage and traffic showed increases.

Foster discussed the prevailing agitation for tariff revision and against protection. The McKinley Tariff, the election of Cleveland, and the low prices of farm products, were the principal causes of this agitation. But the Minister believed that protection was the only policy which could assure true prosperity. Free trade was rendered impossible because of the requirements of revenue, and because of the industrial and the general development of the country. The industries of Canada could not exist unaided, and the country could not prosper on agriculture alone. As for Unrestricted Reciprocity, it was "a policy, which, involving as it does discrimination against Great Britain, revolts the loyal feeling of the people." (1) The Government stood committed to a reciprocity which did not endanger the industrial development of Canada. Preferential trade, while desirable, was not yet possible, but it might some day become a reality.

The Government did not propose to abolish the policy of "fair and reasonable protection" established in 1879. It was, however, investigating into the operations of the tariff, and any protected industry which stood no chance of ever becoming fairly rooted in the country would lose that protection. This would be extended only to industries which gave assurance of permanency and of continued prosperity. It was intended to lighten the scale of taxation as much as possible, and to extend the free list as far as was consistent with the revenue

(1) House of Commons Debates, 1893, p.686.

requirements and with effective protection. A tariff revised along these lines would be introduced in the session of 1894.

The tariff changes of 1893 included the renewal of mining machinery, not manufactured in Canada, on the free list for three years. The limitations on the transport of oil were reduced, and with them, the indirect protection of 2 cents per gallon. The abolition of the duty on binder-twine had been widely demanded for several years. Earlier in the session Cartwright had said that "in the whole list of iniquities contained in the tariff of abominations which we now live under," (1) none was so contrary to the dictates of reason and of political economy as was the duty on binder-twine. In the Budget speech the Minister announced the reduction of the duty, for the benefit of agriculture, from 25 to $12\frac{1}{2}$ per cent.

In his reply to the Finance Minister, Sir Richard Cartwright said that the remarkable absence of the customary "braggadocio with respect to the National Policy" (2) was an indication of the discontent of the country. The tariff had proved a failure. It had fostered extravagance and high and inequitable taxation. Foster's announcement of expected tariff changes in the coming session would unsettle business for a year. Reciprocity with the United States was essential. Sir Richard moved an amendment, which was defeated, urging freer trade, and the limitation of the tax burden" to the sum required to meet the necessities of the Government

(1) House of Commons Debates, 1893, p. 175

(2) Ibid, p. 695.

efficiently and economically administered." (1)

Wilfrid Laurier characterized the Budget speech as "a carefully prepared apology for the National Policy." (2) It did not treat of the financial condition of the country, and omitted the estimates for the coming fiscal year. It lacked the essentials of what was generally considered to be a Budget speech.

In March 1893, Dalton McCarthy moved a resolution (3) to the effect that sufficient time had elapsed since the introduction of the protective system for the establishment and development of such manufacturing industries as could be successfully carried on in Canada; that many manufacturers had formed combinations and were hiding behind the tariff; that the tariff was in many cases unjust to the consumers; that it ought to be amended, and substantial reductions given to the United Kingdom and to those nations with which she had treaty obligations; and that like reductions be made with other countries, and particularly with the United States, if they were willing to reciprocate. The resolution was defeated.

THE BUDGET OF 1894 - GEORGE E. FOSTER

The year 1893 had been one of world-wide financial and industrial disturbance. Gold withdrawals by Europe and the consequent credit restriction created a financial panic in the United States. Australia experienced a banking crisis

(1) House of Commons Debates, 1893, p. 720.

(2) Ibid, p. 1431.

(3) Ibid, p. 2290 et seq.

in which more than one-half of the banks failed. In Canada a panic was averted, but the depression seriously affected industry and the national finances.

(1) Foster's sixth Budget was presented on March 27, 1894. The Minister said that while the decline in trade had diminished the revenues of all countries, Canada had shown a remarkable recuperative power. The revenue of 1892-93 amounted to \$38,168,608. The increase in Customs receipts was \$452,944, in Excise \$371,526, and in Earnings \$168,608. The rate of taxation on the total volume of goods entered for consumption was 17.38 per cent, as against 21.21 per cent in 1889-90. The Consolidated Fund expenditure was \$36,814,052 leaving a surplus of \$1,354,556.

The capital expenditure totalled \$3,088,317, including \$2,068,573 for canals, \$413,836 for the Canadian Pacific Railway, and \$299,080 for the Intercolonial and connected Railways. Railway subsidies amounted to \$811,394. The net increase in the debt was \$549,605. (2) The capital expenditure was met by temporary loans of \$1,460,000 and a stock issue of \$1,186,403.

For the current year, 1893-94, Foster anticipated a revenue of only \$36,500,000. The expected tariff changes and the dying influences of the world-wide depression had caused a decline in receipts. As deficits were undesirable, the expenditure would be kept within the income. Capital

(1) House of Commons Debates, 1894, Vol. 1, pp. 182-279

(2) Public Accounts, 1894, pp. lxxix-lxxx.

expenditure had practically reached its limit.

The Finance Minister said that the trade, bank deposits, and railway traffic of the country were increasing, whereas other countries experienced a diminution in both exports and imports.

The changes in the tariff were the outstanding feature of the Budget statement of 1894. Foster reviewed the tariff history since 1879, and defended the National Policy as a moderate measure of protection which had encouraged Canadian industries, had avoided financial strains, and had increased the wealth and comfort of the people. The free list had been constantly enlarged, and now included sugar, coffee, tea, anthracite coal, and other necessities. In view of new conditions in industry, and of changed values, the tariff was now revised to suit the times, but without departing from the National Policy. The aim was to benefit agriculture, and by reducing or abolishing the duties on raw materials, to cheapen the cost of manufacturing.

In the first place, the tariff was simplified, and the 665 items of dutiable goods were very considerably condensed. Then, material reductions were made in the rates of duty. Agricultural products, such as corn, barley, buckwheat, rye, peas, vegetables, and beans, were to be free when imported directly from the country of production, if the latter country admitted such products free from Canada. This was an offer of reciprocity to any country. The duties on animals were reduced from 25 to 20 per cent. Tea and coffee were to pay a duty of 10 per cent when not imported directly from the country of production.

The duty of \$4 and the bounty of \$2 per ton on pig iron were to remain. The duty on scrap iron was increased from \$2 to \$3 per ton, and after July 1, 1895, to \$4. in order to further develop the iron industry. To reduce the cost of merchantable iron, the duty on bar iron was reduced from \$13 to \$10 per ton, and that on puddled bar from \$9 to \$5 per ton. Iron and steel were to be treated on an equality as respects these imports. To stimulate their production there was to be paid a bounty of \$2 per ton on puddled bar and on its steel equivalent, for five years. The duties on iron or steel sheets, hoops, bands, and strips were reduced from rates ranging from $12\frac{1}{2}$ to 30 per cent, to a duty of 5 per cent. Plough plates and other plates for use in agricultural implements were reduced from 12 to 5 per cent. On agricultural implements proper, mowing machines, binders, and harvesters, the rate was reduced from 35 to 20 per cent. Cream separators were made free. The Wilson Tariff Bill, before the United States Senate in 1894, made agricultural implements free, if imported from a country which in turn imposed no duty on them. Foster, however, did not see fit to extend reciprocity in agricultural implements.

To the free list were added lumber, coke, brass scrap and brass in sheets, dye-stuffs, and sugar not over number 16 Dutch standard. Thus all raw sugars were made free. Reductions were also made in the duties on furniture, farmers' wagons, brass and copper wires, steam engines, boilers, machinery, cotton manufactures and cotton clothing, oils, paints and colours, and refined sugars. The duties on woollen yarns were increased.

The diminution in revenue as a consequence of the tariff changes was estimated at \$1,500,000.

In the debate on the Budget, Sir Richard Cartwright attacked the extravagance of the Government, and declared that a deficit would be incurred within eighteen months. The new tariff changes left the National Policy almost unrecognizable, but "did not succeed in exorcising the demon of protection." (1) Cartwright declared that protection had resulted in the doubling of the debt, in the trebling of real taxation, in the depreciation in value of farm products and properties, in emigration, and in the corruption of Canadian public life. The new tariff was but "a tariff of make-shifts", (2) an imitation of the proposed Wilson Tariff in the United States. As far as it went, it merely embodied the recommendations of the Opposition. He urged reciprocity with the United States, and moved an amendment to the effect that "the tariff should be reduced to the needs of honest, economical and efficient government, should have eliminated from it the principle of protection, should be so adjusted as to make free, or bear as lightly as possible upon the necessities of life and to promote freer trade with the whole world, particularly with Great Britain and the United States." (3) The amendment was defeated.

In the course of the debate David Mills advocated the adoption of the financial policy of the United States, whereby all obligations incurred for necessary public improvements

(1) House of Commons Debates, 1894, Vol. 1, p. 291, et seq.

(2) Ibid, p. 304,

(3) Ibid, pp. 336-337.

would be met out of the ordinary revenue. Otherwise, the obligations for interest on debts would never be kept within reasonable limits. He did not think it wise or honest to incur large obligations "which are to be met by persons who will enter this world after we have left it." (1)

Wilfrid Laurier attacked the surpluses as the result of unjust taxation. In England the aim and the purpose of the Chancellor of the Exchequer are to so calculate the receipts and the expenditures as to make them balance evenly, "and the reputation of the Chancellor of the Exchequer would be lost forever if, year after year, his calculations were found to be wrong," (2) as was now annually occurring in Canada. In 1889, Sir William Harcourt delivered a similar attack on the huge surplus announced to the British House of Commons by Goschen, the Chancellor of the Exchequer. Surpluses were the result of incorrect estimates, said Harcourt. "You can manufacture a surplus to any extent by that process," he observed, "but if your estimates are reasonably correct you ought never to exceed, say half a million surplus." (3)

THE BUDGET OF 1895 - GEORGE E. FOSTER

The Democrats had been elected in 1892 on a policy of tariff reform. In 1894, the United States Congress passed the Wilson-Gorman Tariff Bill. While it made certain changes

(1) House of Commons Debates, 1894, Vol.1, p. 768 et seq.

(2) Ibid, p. 1225 et seq.

(3) Mallet, op. cit., pp. 24-25

in the McKinley Tariff, it remained strongly protectionist. It re-imposed duties on raw sugar, and placed wool on the free list. Grover Cleveland, a staunch advocate of tariff reform, refused to sign the bill, and allowed it to become law by passive neglect. (1)

Late in 1894 occurred the death of Sir John Thompson, and Senator Mackenzie Bowell became Prime Minister of Canada. George Foster remained Minister of Finance, and delivered the Budget speech of 1895, on May 3. (2)

The finances of the fiscal year 1893-94 showed the effects of the economic depression. The ordinary revenue was \$36,374,693, a decrease of over \$1,700,000 as compared with the preceding year. The decrease in imports amounted to \$8,611,047, as a result of the shrinkage in values of imported goods, and, therefore the Customs yielded \$1,755,000 less. The ordinary expenditure was \$37,585,025, an excess of \$770,972 over the past fiscal year. Hence, the Minister of Finance had to announce "that unwelcome visitor," (3) a deficit of \$1,210,332. He comforted himself by the fact that the expenditure included \$2,131,360 as sinking fund against the debt, and also that the abolition of the sugar duties alone prevented a large surplus.

The capital expenditure of 1893-94 amounted to \$3,862,969, of which \$3,027,164 was for canals. (4) Railway subsidies totalled \$1,229,885. The net increase in the debt was \$4,501,989. Foster said that in business matters not all

(1) Dewey, op. cit., pp.434-462.

(2) House of Commons Debates, 1895, Vol. 1, pp.517-551.

(3) Ibid, p.523.

(4) Public Accounts, 1894, p. lxix.

of this would be regarded as an addition to the debt, because it included a charge of \$330,000 (1) as the expense of and the discount on the loan of 1894, which really were an advance payment of interest. This applied also to the increases of other years.

For the current year, 1894-95, the Minister estimated a revenue of only \$33,800,000, an ordinary expenditure of \$38,300,000, and, therefore, a deficit of \$4,500,000. The increase in the expenditure was uncontrollable. The estimated capital expenditure was \$5,000,000, and the increase in the debt, \$7,300,000. Declining revenues were the consequence of diminished imports and of reduced taxation.

The estimates presented for 1895-96 provided for an expenditure of \$36,700,000, which was held to be the lowest figure consistent with the efficiency of the public service. The fixed charges including those for collection of revenue, amounted to \$26,510,000, leaving only about \$11,000,000 as leeway for the pruning-knife.

The Finance Minister stated that the net debt of Canada on June 30, 1894 was \$246,183,029, of which \$136,752,881 had been incurred for Dominion purposes; the remainder was debt assumed for the provinces. The total capital expenditure of \$166,369,288, since 1867, exceeded the increase in the debt by \$28,616,407. For the debt incurred there was to be shown the Intercolonial Railway, the Canadian Pacific Railway, the Prince Edward Island Railway, the canals, the North-West Territories purchased and opened up, the Dominion lands opened

(1) Public Accounts, 1894, p. lxx.

up, and various services and works. The interest on the debt in 1894 was 2.91 per cent, as compared with 4.51 per cent in 1868. The cheapening of money had lessened the burden. In future, Foster hoped to succeed in making the revenue cover the current expenses, and of restricting the capital expenditure, over and above the ordinary surplus, to the amount of the yearly sinking fund. This would permit an annual capital expenditure of \$2,500,000 without any increase in the debt.

In 1894 Canada floated a 3 per cent loan of £ 2,250,000 in London. Notwithstanding the financial and trade depression, the tenders received had a wider scope among real, bona fide investors than any previous Canadian loan. Although £ 2,250,000 were asked for, nearly £ 12,000,000 were offered. The actual interest was 3 1/6 per cent, as compared with the sale of United States bonds at 3 3/4 per cent. The loan of 1894, said Foster, was "the best loan that was ever placed on the British market by Canada." (1)

The Minister said that general economic conditions in the country were improving. Exports had increased by \$28,500,000 since 1889. The country had passed through the depression in a satisfactory manner, as compared with other nations, and had, at the same time, enjoyed reduced taxation. The rate of Customs duty was 4½ per cent less than in 1888-89. However, times had changed. The country had had two deficits

(1) House of Commons Debates, 1895, Vol.1, p.529

and a third was threatening. It was desirable to establish an equilibrium between income and expenditure for the benefit of the finances and the credit of the country. Buoyant revenues had made possible decreases in taxation. The remission of the sugar duties in 1891 had restored some \$15,000,000 to the people. Foster now proposed, following the example of the Wilson Tariff of the United States, to restore one-third of the duty placed on sugar before 1891 - $\frac{1}{2}$ cent per pound on raw sugar, and also on refined sugar. This would yield about \$1,200,000. The Excise duty on distilled spirits was increased 20 cents per gallon, and the Customs duty by $12\frac{1}{2}$ cents. The duty on paints and varnishes was raised from one dollar to \$1.12 $\frac{1}{2}$. The bounty on beet-root sugar was continued for two years. The expected increase in revenue would be sufficient to avoid a deficit. No bill for railway subsidies was to be presented this year.

In his reply to the Budget speech, Sir Richard Cartwright said he was "struck by an extraordinary and unprecedented omission in the speech" - for the first time in sixteen years "a speech has been made on the Budget, and it has contained no laudation of the National Policy whatever. The poor, old fetish has been laid on the shelf, and none so low as to pay it reverence now." (1) The Opposition critic, nevertheless, proceeded with his annual condemnation of protection, and particularly, of the new sugar duties. He attacked surpluses as the result of "outrageous taxation" imposed on the people,

(1) House of Commons Debates, 1895, Vol. 1, p.552 et seq.

and asserted that Canada's financial condition was grave. While defending the fiscal and financial policy of the Mackenzie régime, he attacked Foster for constantly referring to the past rather than to the present. Canada was borrowing too heavily, he stated. He ridiculed the free list of imports, "Should a farmer desire to adorn the walls of his mansion with pictures of the old masters, at a value of, perhaps, \$20,000 each, he can import them free; but if he wants wall paper he has to pay from 40 to 100 per cent duty," (1) said Cartwright. In England, on the other hand, there were no compulsory taxes on the people apart from the tax on tea, and some insignificant taxes on fruits. To this, John Haggart, the Minister of Railways and Canals, replied that no government would dare introduce the English tax system in Canada, because it involved heavy direct taxes.

Cartwright concluded his speech, in advocating reciprocity, and moving an amendment, regretting the increased expenditures, and urging a tariff for revenue. The latter was defeated. The same fate awaited a similar amendment, (2) by David Mills, later in the session. Mills showed that the growth in national expenditure had outstripped the growth in national wealth and in population. The principle of charging expenditures to capital had had the effect of concealing from the public the actual expenditures of the country. A careful consideration of both capital and ordinary accounts was essential for a full understanding of the finances of Canada.

(1) House of Commons Debates, 1895, Vol. 1, p.645.

(2) Ibid. Vol. 2, p.3271 et seq.

THE BUDGET OF 1896 - GEORGE E. FOSTER.

On January 31, 1896, George Foster delivered his eighth, and last, Budget speech. (1) He review^{ed}/and praised the accomplishments of the Conservative Government for seventeen years, which showed that a general election was approaching.

The ordinary revenue in 1894-95 was \$33,978,129, the smallest since 1885-86. The Customs yield of \$17,640,466 was \$1,557,000 less than in the preceding year, and was the lowest since 1879-80. Because of the decreased imports there was a decreased revenue from almost all articles. Foster, however, was proud that for the second time since Confederation the exports exceeded the imports, the balance being \$2,857,121. He also stated that the per capita rate of Customs Collections was 43 cents less than in 1874-75.

The expenditure of the past fiscal year stood at \$38,132,005, and was the largest in the history of Canada. The deficit was \$4,153,875. The capital expenditure amounted to \$3,031,322, of which almost \$2,500,000 were for canals. Railway subsidies paid were \$1,310,549. The net debt increased by \$6,891,897, almost two-thirds of which was the result of the large deficit on Consolidated Fund.

Foster believed that the period of commercial depression was over, and that trade was improving. He, therefore, expected that the revenue and expenditure would balance in 1895-96. The estimate for both was about \$37,000,000 and for capital expenditure, \$4,100,000. For 1896-97 he estimated an expenditure of

(1) House of Commons Debates, 1896, Vol. 1, pp. 961-1001

\$38,250,000, a large increase over the preceding year.

This was particularly noticeable in the items in which the estimates for 1895-96 proposed reductions - the militia and public works. No estimates of revenue were presented.

In reviewing the general economic conditions of Canada, the Finance Minister said that the country had come through the period of world-wide commercial depression with increased exports, decreased taxation, and increased industrial activity. The net deficit was only \$1,600,000. Agriculture was prosperous because of the home market which the National Policy assured it. Foster presented a long list of previous tax reductions. He estimated that \$45,000,000 was saved to the people through the abolition of the duties on tea, coffee tin, anthracite coal, bill stamps, newspapers, raw sugar, and through the reductions all along the line. He saw no reason for changing the fiscal policy of Canada; the National Policy of Protection was as essential as it had been in 1878. The world tendency was towards more and more prohibitive tariffs. Reciprocity with the United States was impossible without discrimination against Great Britain. The Minister stressed the possibilities of strengthening the Empire by promoting Imperial trade. He spoke of the possibility of "an arrangement which will make the Empire and its dependencies sufficient within themselves to feed the Empire." (1) He perhaps foresaw the campaign of Joseph Chamberlain, in which he himself was to be a prominent participant.

(1) House of Commons Debates, 1896, Vol. 1, p. 1001

The Budget Debate which ensued again centred on the tariff. It was lengthy, and was the first skirmish in the great impending election battle. Sir Richard Cartwright (1) referred to Foster's speech as an "almost pathetic appeal for another lease of place, if not of power." (2) He said that Canada's economic position was precarious, and again vigorously condemned the protective tariff. Canada was geographically unfit for it. There were certain natural industries which would thrive in the country, but not "these pampered exotics"(3) The Conservative Government had adopted "that villainous fiscal policy" (4) which the United States had been compelled to adopt under the stress of civil war. The National Policy had fulfilled none of its promises, but had wrought havoc to Canadian economic life. Sir Richard expressed little faith in the probability of preferential trade because it would involve the imposition of tariffs in Great Britain. As a consequence, in this, his last reply to the Budget speech as the official financial critic of the Opposition, he once again advocated Reciprocity with the United States.

Sir Charles Hibbert Tupper maintained that "under no other tariff than that which includes and involves protection, could there be anything like the prosperity that exists in this country to-day." (5) The Liberals, however, denied the existence of prosperity. Louis Davies pointed out that protection had raised prices and encouraged combines. (6) The result of

(1) House of Commons Debates, 1896 Vol. 1, p. 1001 et seq.

(2) Ibid. p. 1001

(3) Ibid. p. 1007

(4) Ibid. p. 1306

(5) Ibid. p. 1311

(6) Ibid. p. 2583 et seq.

the iron duties alone had been "to double the price of nearly every piece of hardware, from a tenpenny nail up," (1) without any marked increase in the manufacturing of iron in Canada. Thus, on the last Budget speech of the Conservative Régime, as on the first and on all others, Liberals and Conservatives locked horns on the tariff issue.

DOMINION FINANCE, 1891-1896

The Parliament elected in 1891 was marked by the unearthing of political scandals, by the raising of racial issues, and by the disintegration of the Conservative Party. Macdonald had held the Party together; after him came the deluge. Four Prime Ministers succeeded each other in five years. Finally, the Party was split on the Manitoba School Question. The bitter discussion on this issue extended until the dissolution of Parliament in 1896. It even prevented the voting of supplies in the latter year. General elections followed and the Tupper Administration was defeated. After eighteen years in the wilderness of Opposition, the Liberals were returned to power with Wilfrid Laurier as Prime Minister.

Apart from the political chaos, the period from 1891 to 1896 was marked by an economic depression. Sir Richard Cartwright wrote that: "Economically things were at a complete standstill. There was hardly any increase worth mentioning in our revenue or our commerce in the years from 1887 to 1891, and a positive decrease thereafter; and a feeling of apathy, almost amounting to despair, seemed to have taken possession

(1) House of Commons Debates, 1896 Vol.1, p. 2609.

of many of our people, especially in Ontario and the North-West." (1)

The Consolidated Fund receipts decreased from \$38,579,310 in 1890-91, to \$36,618,590 in 1895-96, the last fiscal year of the Conservative Government. The ordinary expenditure rose from \$36,343,567 in 1890-91, to \$38,132,005 in 1894-95. In the following year it declined to \$36,949,142, (2) but it was only at the expense of the starvation of certain services. It was a decrease made with the purpose of impressing the electorate; it could not be permanent. The trade depression and the shrinkage in values resulted in the marked reduction in the Customs returns, which was largely responsible for the financial deficits.

The net debt of the Dominion rose from \$237,809,030 in 1891, to \$258,497,432 in 1896. (3) This comparatively small increase was the result of the great decline in the annual capital expenditure. The Canadian Pacific Railway, the Prince Edward Island Railway, the North-West Territories, and public buildings in Ottawa, which hitherto had caused large additions to the debt, disappear^{ed} almost wholly from the capital account of the Dominion. The average annual debt increase from 1890 to 1895 was \$2,590,814, incurred mainly by the completion of the canal system and by railway subsidies. Two loans of £2,250,000, each at 3 per cent, were negotiated in London, in this period. The loan of 1894 was the most favourable ever issued by Canada. (4) It was also to be the last loan negotiated by a Conservative Finance Minister for almost two decades.

(1) Cartwright: Reminiscences, p. 290.

(2) Public Accounts, 1896, pp. xxxii-xxxiii

(3) Ibid. 1897, p. xxx.

(4) Perry, op. cit., pp. 29-30

CHAPTER VII

Thirty Years in Retrospect, 1867-96

"Sir, in sober seriousness, let me ask this House whether they consider a state of things that now exists creditable or honourable to Canada? Here we stand five millions strong, with half a continent at our disposal, and we have scarcely at this moment one single family to the square mile of habitable land under our control."

- Sir Richard Cartwright (1897)

The first three decades after Confederation were years of slow growth and development. The governments of the period were chiefly concerned with laying the foundations for the future. They promoted the construction of transportation facilities; they encouraged the establishment of industries; they extended the territories of the Dominion; and they opened up the North-West. Their financial policies were designed to achieve these ends. But progress was very gradual.

The tariff policy of the government was the principal feature of the Budget speeches and debates, since the Customs duties were the leading source of revenue. In Great Britain deficiencies, or expected deficiencies, in revenue were adjusted by increases in the Income Tax; in Canada, by increases in the tariff. The British tariff was for revenue only; that of Canada, after 1879, aimed definitely at protecting the industries of the country. While in Great Britain taxation changes were for purely fiscal reasons, in Canada, after 1879, the reasons were primarily industrial.

The following table shows the increase in Consolidated Fund receipts between 1867 and 1896: (1)

Year	Customs	Excise	Bill Stamps	Total Receipts from Taxes	Total Receipts from other Sources	Total Ordinary Revenue
1867-8	\$ 8,578,380	3,002,588	119,712	11,700,681	1,987,247	13,687,928
1877-8	12,782,824	4,858,671	200,442	17,841,938	4,533,073	22,375,011
1887-8	22,105,926	6,071,486	----	28,177,413	7,731,050	35,908,463
1895-6	19,833,279	7,926,005	----	27,759,285	8,859,305	36,618,590

While the receipts from taxation rose, those from other sources, chiefly, the Post Office, public works, railways and canals, and interest on investments, increased in a greater proportion. In 1868 the percentage of revenue derived from taxation was 85.5; in 1896 it was 75.8. In the same period the percentage from other sources rose from 14.5 to 24.2. (2) The United States derived about 76 and Great Britain about 83 per cent of their revenue from taxation. On the other hand, New South Wales received over 70 per cent of its revenue from other sources - largely, the state railways and public lands - and only 30 per cent from taxes. (3) This was also true of the other Australian colonies.

The Customs duties were at all times the principal source of government receipts in Canada, and constituted a larger proportion of the total revenue from taxation than did the corresponding duties in most other countries. In 1895 they formed 69 per cent of the total taxation; in the same year

(1) Public Accounts, 1896, pp. xxxii; li-liii.

(2) The Statistical Year Book of Canada, 1897, p. 403

(3) Ibid, 1895, pp. 785-786.

the United States derived 51 per cent and Great Britain only 26 per cent of their revenue from Customs duties. (1) Indirect taxation remained the chief source of revenue in almost all countries; in England it now formed only 52 per cent of the total, as a result of the growth of direct taxation. (2)

The Opposition in Parliament, particularly during the long Conservative Administration, protested at all times that the burden of taxation in Canada was unjust and unnecessarily high. Frequent comparisons with other countries were made, but were not always fair. In comparing the burdens of taxation in Canada and the United States consideration of state and municipal taxes was often omitted. Canada had undertaken works which had resulted in an increase in taxation perhaps disproportionate to the increase in population. But this was necessary in laying the foundations for the future. George Foster truly said "that taxation is the only gateway to progress and development in a country, and that if a people sit down and determine that from this day forth no taxation is to be raised, they sit down to a condition stationary and without progress and which will soon leave them very far behind, in the race of nations, with the keen competition of to-day." (3)

Apart from the discussion on the tariff, there were many protests against the rising expenditure, in the course of every Budget debate. The increase in ordinary expenditure between 1867 and 1896, was as follows: (4)

(1) The Statistical Year Book of Canada, 1897, p. 778

(2) Mallet, op. cit., p. 105.

(3) House of Commons Debates, 1889, Vol. 1, p. 443.

(4) Public Accounts, 1896, pp. xxxii- xxxiii.

Year	Charges on Debt	Subsidies to Provinces	Sinking Funds	Collection of Revenue	Other Ex- penditure	Total Ex- penditure
1867-8	\$ 4,860,757	\$ 2,753,966	\$ 355,266	\$ 1,885,804	\$ 3,630,298	\$ 13,486,092
1877-8	7,240,969	3,472,807	945,746	5,301,124	6,542,510	23,503,158
1887-8	10,166,905	4,188,513	1,939,077	8,789,764	11,634,234	36,718,499
1895-6	10,751,005	4,235,664	2,055,287	9,291,169	10,616,015	36,949,142

The increase in expenditure was the consequence of the vast extension of the territory of the Dominion, of the necessity of providing transportation and other facilities for the new provinces and territories, and of the large undertakings which required the floating of loans in the English market. While in many countries there was a large annual expenditure on armies and navies in consequence of, or in preparation for war, in Canada almost the entire expenditure was for public works or for necessary government services. Political considerations, as in other countries, also resulted in a large outlay on certain services.

While the expenditure rose by 183 per cent, between 1868 and 1895, the increase in revenue was only 148 per cent.(1) Fixed charges still constituted over one half of the expenditure.

According to the Budget speeches there were eighteen surpluses and eleven deficits on Consolidated Fund, in the first three decades of Confederation. The net excess of ordinary revenue over ordinary expenditure was \$17,323,461. (2) But,

(1) Statistical Year Book of Canada, 1895, pp. 752-753.

(2) Public Accounts, 1896, p. xxxiii.

on account of the distinction between ordinary and capital expenditure, only two of these surpluses were real. Only in the years 1871 and 1882, when the debt was diminished, did the country enjoy an actual surplus of revenue over expenditure. In the whole period from 1867-68 to 1895-96 the total disbursements, including expenditure chargeable to Consolidated Fund and to capital, exceeded the total receipts by £218,786,244. Even after deducting the sinking funds, the net difference was £182,768,791. (1)

In 1896 one-third of the revenue was consumed by the charges on the debt, which had shown the following increase since Confederation: (2)

Year	Total Debt	Total Assets	Net Debt.	Net rate of Interest	Funded debt payable in London
1868	\$96,896,666	\$21,139,531	\$75,757,134	4.08%	\$66,795,609
1878	174,957,268	34,595,199	140,362,069	3.68	121,244,415
1888	284,513,841	49,982,483	234,531,358	3.12	176,601,775
1896	325,717,536	67,220,103	258,497,432	2.80	218,225,503

The expenditure on capital account between 1868 and 1896 was as follows: (3)

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- (1) Public Accounts, 1898, pp. xva-xvb
(2) Ibid, 1896, pp. xxx-xxxi; xxxiv
(3) Ibid. pp. lxviii-lxix.

Canals	\$ 46,420,090
Canadian Pacific Railway	62,719,414
Debts allowed to Provinces	30,743,392
Dominion Lands	3,751,088
Intercolonial and connected Railways	45,554,425
Other Public Works	7,138,581
Public Buildings, Ottawa	2,163,544
Prince Edward Island Railway	635,830
North-West Territories	3,798,113
Militia	1,000,000
<hr/>	
Total.....	\$ 203,924,482
Increase of Debt	182,768,791
Expenditure in excess of Increase of Debt....	21,155,690
<hr/>	

Thus, contrary to the history of the debts of European countries, the main cause of the yearly addition to the Canadian public debt, until 1914, was, apart from the increased allowances to the provinces, the expenditure on public works for the development of the country. It has been written that "the history of the public works of Canada is the history of her public debt," (1) and that, consequently, the latter cannot be fairly compared with the debts of European states, which were contracted mainly for war purposes. Until 1897 the war expenses of Canada were practically insignificant, being confined to the costs of suppressing the two

(1) Perry, op. cit., p. 31.

North West Rebellions. Immense outlays were therefore made possible for railways, canals, bridges, and public buildings. While these capital expenditures greatly increased the debt, they were essential for the opening up of the country. The lack of capital necessitated large borrowings, and thereby, the mortgaging of the future. The bulk of the expenditure, however, was soon more than offset by works which, although not directly remunerative, were indirectly productive in that they developed and populated the country and opened up the highways to trade.

In the history of Canadian public finance "illustrations may be found of the effects in a highly democratic government of a more or less deliberate employment of the machinery of the state in promoting enterprises involving a large expenditure of capital for a remote or even problematical return." (1) The working of this policy was most strikingly shown in the methods adopted to solve the difficult problem of communications in this country of great length, relatively to its width, and of scattered settlements. The forces of the state were united with those of private corporations to complete the necessary railway facilities. (2) Two railway undertakings were chiefly responsible for the increase of debt in the two decades following Confederation. The construction of the Intercolonial Railway, stipulated in the British North America Act in order to induce the Maritime Provinces to enter the Union,

(1) Perry, (Introduction by James Mavor) p. 6.

(2) Ibid.

marked the first decade; the liability incurred in the construction of the Canadian Pacific Railway marked the second. In the third, canals and railway subsidies were mainly responsible for the debt increase; but in this decade the rate of increase was slow, in contrast to the very rapid rate of the second, and the fairly rapid rate of the first decade.(1)

While the debt of Canada increased, the federal debt of the United States, which had been incurred by the Civil War, was reduced from \$1,996,000,000 in 1879 to \$891,000,000 in 1890. The interest was correspondingly reduced from \$105,000,000 to \$36,000,000. (2) In 1897 the per capita debt of Canada was \$50.43; of the United Kingdom \$78.30; and of the United States, \$24.97. (3) But the latter did not include the large state debts. The increase in the Dominion debt, between 1867 and 1896, was more rapid than the increase in revenue, yet relatively to the latter, the per capita debt was still lower than that of many other countries.

The cheapening of money the world over made possible the carrying of a much larger debt without increasing the interest burden. The effects of cheaper money and of the rise in the credit of the Dominion, are shown by the following memorandum on Canadian loans, floated in London: (4)

(1) Perry, op. cit., pp. 31-32

(2) Dewey, op. cit., p. 431.

(3) Statistical Year Book of Canada, 1897, pp. 416-417.

(4) House of Commons Debates. 1897. Vol. 1. p. 3120.

Year	Amount of Loan	Rate of Interest	Price Realised per £100			Actual Rate of Interest Paid
			£	s	d	
1869	^x 1,500,000 500,000	4) 5)	105	12	11	4 1/8
1873	^x 1,500,000 ^x 300,000	4) 4)	104	7	8	3 9/10
1874	4,000,000	4	90	3	3	4 7/8
1875	^x 1,500,000 1,000,000	4) 4)	99	1	8	4 1/6
1876	2,500,000	4	91			4 3/4
1878	^x 1,500,000 1,500,000	4) 4)	96	11	9	4 1/3
1879	3,000,000	4	95	1	10	4 1/2
1884	5,000,000	3 1/2	91	2	2	4 1/4
1885	4,000,000	4	101	1	8	4 1/12
1885	6,443,136 (1)	4	-			4 1/10
1888	4,000,000	3	95	1	0	3 1/4
1892	2,250,000	3	92	0	10	3 2/5
1894	2,250,000	3	97	9	2	3 1/6

The credit of Canada, in 1896, stood high in the London money market. At home, however, after one unsuccessful attempt had been made, no loan was floated. The funded debt payable in Canada, in 1896, amounted to \$9,708,835. (2) It consisted largely of issues of Dominion stock.

After three decades Canada had incurred a heavy indebtedness. A halt in capital expenditure was demanded and was

(1) Canada Reduced.

(2) Public Accounts, 1896, p. xxxiv.
x. Guaranteed by Imperial Government.

generally anticipated. In 1897 Professor James Havor wrote that "the period of great railway and other enterprises is probably for the present over. The expenses which ensued upon Confederation have been largely already incurred. The transcontinental railway has been built, the Dominion and Provincial public buildings have been erected, and although the demands upon the government for expenditure do not cease, yet it is unlikely that the ensuing thirty years will witness an expenditure on capital account of sums equal to those which have been expended since 1867." (1) The course of events was destined to shatter this illusion.

(1) Perry, op. cit., (Introduction) p. 7.

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In regard to the Appendices
in Mr Goldenberg's thesis.

I have told him that where
appended material, obviously useful
in his monograph in its printed form
is merely a quotation of Government
reports easily accessible, he need only
indicate the statistics and not
transcribe them

Stephen Leacock

Ap. 15. 1929.

APPENDICES

- A. Receipts and Expenditure of Canada on Account of Consolidated Fund, 1867-96. (Public Accounts, 1896, pp. xxxii- xxxiii)
- B. Comparative Statement of Receipts from Consolidated Fund, 1867-96, (Public Accounts, 1896, pp.li-liiii)
- C. Comparative Statement of Expenditure on Account of Consolidated Fund, 1867-96. (Public Accounts, 1896, pp. liv- lviii.)
- D. Capital Expenditure, 1867-96. (Public Accounts, 1896, pp. lxviii-lxix)
- E. Debt of Canada, 1867-96. (Public Accounts, 1896, pp. xxx-xxxii)
- F. Summary of the Liabilities of the Dominion of Canada, 1867-96. (Public Accounts, 1896, pp. xxxiv - xxxv)
- G. Summary of Assets of the Dominion of Canada, 1867-96. (Public Accounts, 1896, p. xxxvi.)
- H. Statement Accounting for the Increase of Debt, 1867-96. (Public Accounts, 1896, pp. lxx - lxxi)

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