CHAPTER II

CLAIM OF BRITISH COLUMBIA FOR REVISION OF SUBSIDIES

For many years British Columbia has sought to have a Royal Commission appointed to consider its claim for additional subsidies to place it on equality with other provinces of Canada. After many requests, culminating in a brief filed in 1934,1 a special interim payment of $750,000 was granted by the Dominion in December, 1934, for the fiscal year ending March 31, 1935,2 and payments of the same amount have been provided by the Dominion each year thereafter in the annual estimates. The Government of the Province, however, continued to press for the appointment of a Royal Commission to investigate its claim so that such amounts as it might be found entitled to would be placed on a permanent rather than on a temporary basis. When the present Commission was appointed the Government of the Province “was assured that any statement of the Province’s case for special consideration would be heard by this Royal Commission.”3 Instructions to hear such special claim were given to this Commission by the Dominion Government previous to the hearings in British Columbia and were confirmed by letter at a later date.4 The Province accordingly presented its claim to this Commission.

The Province contended that “when it is suggested that modifications be made in the Dominion-provincial financial relations, a preliminary special readjustment would have to be made in the case of British Columbia in order to bring it into line with the other Provinces of Canada before a general readjustment, which would be fair and equitable to the Province of British Columbia, could be made.”5 It was also contended that the special subsidy of $750,000 was merely “an interim increase until such a time as the whole position of the Province in the Confederation could be examined and equitable financial arrangements determined.”6 In hearing this special claim the first Chairman of the Commission invited a full discussion, stating: “we must have all the facts before us to enable us to say whether, in our opinion, you are entitled to $750,000, or more, or less.”7

HISTORY OF SUBSIDY RELATIONS WITH BRITISH COLUMBIA

The history of subsidies granted by the Dominion to British Columbia is set forth in detail in the Province’s brief8 and in the special study on subsidies prepared for the Commission.9 It is, therefore, unnecessary for present purposes to do more than outline the situation.

British Columbia entered Confederation in 1871 under an Imperial Order in Council dated 16th May, 1871, passed pursuant to addresses from the Senate and House of Commons and from the Legislative Council of British Columbia setting forth the terms of union. In 1870 a delegation from British Columbia had gone to Ottawa to negotiate terms of union with instructions to ask an annual subsidy of $213,000, made up of a grant for government of $35,000, a subsidy of 80 cents per capita on an assumed population of 120,000, and a debt allowance based on the same assumed population at a rate of $22 per capita.10 The actual population at the time was under 35,000, of whom about 25,000 were Indians, but it was contended that an assumed population of 120,000 was proper if consideration were given to the high per capita contributions by the people of British Columbia to the Dominion

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1 Ex. 179, British Columbia’s Claim for Readjustment of Terms of Union, 1934.
2 Ex. 175, Letter, 19th Dec., 1934, Rt. Hon. R. B. Bennett, Prime Minister of Canada to Hon. T. B. Patillo, Premier of B.C.
3 Ex. 172, Brief of B.C., p. 22.
4 “Extract from letter, 22nd Nov., 1938, from Deputy Minister of Finance to Secretary of Commission: ‘I have your letter of November 16th referring to representations already made by the Province of British Columbia in respect of their special claim for subsidy, and indicating that Senator Ferris, on behalf of the Province, may possibly be making further representations to the Commission on this matter during the present week.”
5 “I am instructed by Mr. Dunnig to advise you that the Dominion expects the Commission to deal with the special subsidy claim of British Columbia and to make a special recommendation in regard thereto.” See also statement by Chairman, Ev. p. 4980.
treasury in the form of customs duties. This argument was not pressed to its logical conclusion. There was no suggestion that, when the actual population had reached 120,000, a new fictitious population should be used as a basis in order to take account of the large per capita contributions to the federal treasury. The Dominion Government of the time was unwilling to accept an assumed population of 120,000 as a basis for subsidies, but agreed to a population basis of 60,000 for the calculation of the per capita subsidy of 80 cents and a debt allowance of $27.77 per capita. In addition an annual grant of $100,000 was made which was declared to be in consideration of the conveyance by the Province of a strip of land along the proposed railway throughout its entire length in British Columbia, not to exceed twenty miles on each side of the said line. Subsequently, three and a half million acres of land in the Peace River District were transferred to the Dominion by the Province to make up for deficiencies in the original Railway Belt. The land in both areas was to be used to aid in the construction of the railway. In view of the lengthy argument addressed to the Commission as to the true nature of this $100,000 grant, it will be necessary at a later stage to consider it in detail.

The terms of union providing, inter alia, for the subsidy as so amended were accepted by the delegation from British Columbia and were ratified by the Legislative Council of British Columbia, which presented an address to the Crown asking for the admission of British Columbia into the Union. The financial terms thus agreed upon provided an annual population subsidy of $48,000, a grant for government of $35,000, and a debt allowance of $1,666,200, which produced, after deduction of the amount of debt assumed by the Dominion, an annual interest payment of $31,000. These sums, together with the $100,000 railway land payment, produced an annual sum of $214,000 instead of the annual sum of $213,000 sought by the British Columbia delegation in 1870. The Province shared in the rearrangements of 1873 and 1884 arising from the absorption by the Dominion of the excess debt of Ontario and Quebec, and in the general readjustment of subsidies in 1907, when a special additional subsidy of $100,000 per year for ten years was also granted to British Columbia for special reasons discussed later.

No special readjustments of the subsidy to British Columbia, other than those noted, have been made, but, under the statutory provisions for subsidies, increases in population have resulted in larger subsidies from time to time. For the fiscal year 1936-37 subsidies totalling $874,561.46 were paid. This total is made up as follows:

- Interest on debt allowance: $29,151.06
- Grant in support of government: 190,000.00
- Per capita subsidy: 555,410.40
- Railway land grant: 100,000.00

Total: $874,561.46

In addition, the special interim payment of $750,000 was begun in 1934, making a total subsidy payment of $1,624,561.46.

SUMMARY OF THE CASE FOR REVISION OF SUBSIDIES

As counsel for the Province stated, "for the last forty years there has been a continuous, consistent pressure from this Province that British Columbia was entitled to further consideration." In certain claims for readjustment of subsidies made by other provinces, in particular by the Maritime Provinces before the Duncan and White Commissions, the provincial submissions went beyond a claim as of right, and asked for an increased payment from the Dominion by reason of the difficult economic conditions of the people and of the acute fiscal need of the provincial governments. In the presentation of British Columbia's argument the plea of fiscal need was expressly and unequivocally rejected in the following terms:

"The position of this Province is not based on any plea of poverty. She does not plead lack of resources, the unkindness of nature or lack of income in her citizens."

Consideration of the claim for readjustment of British Columbia's subsidy does not, therefore, involve an estimate of the fiscal need of the Province. We have merely to consider whether or not British Columbia has received equality of treatment in subsidies in comparison with the other provinces of Canada and, if not, whether British Columbia is entitled to complete equality of treatment. In such comparisons it is necessary to leave out of the account special payments by the Dominion to certain of the other provinces by reason of fiscal need of those provinces as, for example, the

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11 See Sec. 11 of terms of union, British North America Act and Amendments, 1867-1927, p. 81. See also Eggleston and Kraft, op. cit. Pt. II, Ch. IX.

12 Ex. 72, Brief of B.C., pp. 12-21; also Wilfrid Eggleston and C. T. Kraft, Dominion-Provincial Subsidies and Grants (Mimeographed). Elaborate briefs were presented to the Dominion in 1934 and 1935, see copies filed as Exs. 170 and 173.

13 Ex. 186, Brief of Argument, p. 5.
special payments in recent years to Manitoba and Saskatchewan on the recommendations of the Bank of Canada.

The claims of the Province may be grouped under three heads: (1) the alleged high cost of government in British Columbia; (2) the high per capita contributions to the federal revenue; (3) inequality in the matter of per capita subsidies and debt allowances. In view of the importance given by the Province's argument to the nature of the transaction between the Dominion and the Province over the lands in the Railway Belt and Peace River Block it will be necessary to examine this question in connection with the last head of claim.

Claim Based on High Cost of Government

One head of claim for increased subsidies to British Columbia is the contention that the cost of provincial government is higher in comparison with that in other provinces by reason of the physical characteristics of the Province. It was said that, because of the mountainous terrain, the widely scattered population and the difficulties of communication, increased provincial expenditures were required, particularly in relation to highways and other public works, education, policing, and health services. This claim must be distinguished from a somewhat similar claim that was also presented to the Commission that because of the enormous increase in the cost of provincial government the subsidy has become a very much smaller part of provincial revenue than it was at the time of Confederation and is today inadequate. This latter argument applies, though in varying degrees, to all the provinces and concerns the relations between the Dominion and the provinces generally. In dealing with British Columbia's claim we have carefully avoided discussing questions raised in the British Columbia brief which related to Dominion-provincial financial relations in general. British Columbia's special claim, which we are now considering, depends upon conditions of geography and topography peculiar to that province. It is thus based on the very "unkindness of nature" which counsel for British Columbia stated that the Province did not wish to advance as a ground for assistance. But we are unwilling to dismiss thus summarily a claim which has been advanced by the Province in various representations over the past forty years. In the hearings at Victoria no attempt was made to compare statistically the costs of government in British Columbia with those in other provinces, but the Province was invited by the Chairman to do so. At the supplementary hearings of the Commission in Ottawa it was stated that, owing to the lack of comparative statistics, it had not been found practical to reduce the claim to definite figures. It was pointed out that the construction of roads was difficult and costly, and that the location of natural resources had the effect of scattering the population thereby increasing the cost of government services. In the absence of exact figures counsel for British Columbia suggested that this claim should be met by adding 5 cents per capita to the present population subsidy of 80 cents per capita.

This is a very old claim of the Province which was recognized by the Dominion-Provincial Conference of 1907. This Conference recommended unanimously (British Columbia having withdrawn) a special subsidy of $100,000 per year for ten years to cover the claim. Although the Province did not accept this as a final settlement of outstanding claims, it did receive the amount approved by the Conference. We think that the considered judgment of all other provincial governments and the Dominion Government on the matter should not be lightly cast aside. The award of this special subsidy admits by inference that at the time the Province should have special assistance by reason of the high costs of government due to the unfavourable topographical nature of the Province and its then low population, and it assessed a sum which the Conference (except British Columbia) considered a fair amount. The Province now asks for a larger amount for past difficulties to be computed by altering the terms of union as from 1871 by assuming a population of 120,000 as from that date, and for increased allowances for the future. We shall discuss later the proposal to alter now the basis of union, but we think that in any case the special subsidy decided on by the Conference of 1907 should be considered a fair settlement of this claim at that date. The sole question remaining,
therefore, is whether British Columbia should receive now special consideration for the period since this grant lapsed and/or for the future.

The special subsidy of 1907 cannot be regarded as a conclusive precedent for a special subsidy today. Economic conditions in the Province have changed radically since 1907. The Province, although requested, submitted no sound proof of the claim that its present costs of government are unusually high as compared with those of other provinces. We sympathize with its inability to submit convincing evidence on the comparative costs of provincial government since the task of compiling such statistics is admittedly difficult. Our own researches do indicate that costs of government in British Columbia are high, but mere totals signify nothing. High costs may arise from one or more of several factors: inefficient administration; inherently high costs of certain services because of peculiar natural conditions; more or better governmental services than other provinces; a different distribution of functions as between the province and its municipalities than that of other provinces.

With regard to comparative efficiency of provincial administration, we have no reason to suspect inefficiency.

Certain services such as highways might reasonably be expected to be more costly than similar services in certain other provinces. Under this item the Province alleges that the distribution of its natural resources has meant abnormal mileage and abnormally high construction costs of highways. But we do not think that such costs can be charged against the Dominion as a whole. Such costs are properly chargeable against the cost of exploiting natural resources, and should be met by the Province out of the increased taxable capacity which the exploitation of these resources has beyond question created. It should be borne in mind that, at least since 1925, the public domain revenues of the Province have exceeded the public domain revenues of all the Prairie Provinces and the Maritime Provinces combined, while its returns from the corporation income tax (most of which are traceable to the exploitation of natural resources) during the same period have exceeded those of any other province. Moreover, even if certain of British Columbia's services are inherently more costly, certain other services may be inherently more costly for other provinces. We do not think that British Columbia is entitled to special assistance from the Dominion because of excessive costs of certain services when other provinces are not accorded the same privilege for their costly services. Under the present subsidy system we can find no principle which would entitle any province to such a privilege in the absence of real fiscal need. No such fiscal need has been shown or claimed by British Columbia.

It is apparent from our researches that the Province in such matters as highway construction, assistance for education and public health, bears a larger share of the cost in relation to its municipalities than do most other provinces.21 This, however, is largely a matter of provincial policy and would appear to constitute no sound reason for special assistance to the Province. Further, it appears that, on the whole, the Province has been more generous in its public welfare and educational policies than most other provinces.22 In this respect the Province is to be commended rather than criticized. Progressive policies of this sort, however, undoubtedly raise governmental costs. But, as we understand the claim of the Province, it did not ask, and we do not think it fairly could ask, for special assistance because it chooses to be more generous than certain other provinces.

In conclusion of this matter, it may be noted that despite generally high costs of government in the Province its people, at least during the past fifteen years, appear to have enjoyed a higher per capita income than the people of any other province except possibly Ontario.23 We do not think, therefore, that any just claim can lie against the rest of the people of Canada for special assistance because of natural conditions, which, if they have made certain governmental costs higher, have also made possible higher rewards for human labour, over and above governmental costs, than obtain on the average in the rest of Canada.

Claim Based on Contributions to Federal Revenues

The claim for special treatment, on the basis that the Province has made a contribution greater than the average to Dominion revenues is one which we feel should not be recognized. This claim has been advanced in a number of the representations presented by British Columbia from time to time, but for reasons that are obvious no estimate of the amount of such claim and no

21 H. Carl Goldenberg, Municipal Finance in Canada. (Mimeographed.) Part IV.
22 See generally Appendix 6—A. E. Grauer, Public Assistance and Social Insurance.
23 See Appendix 4—National Income; or summary in Appendix 3—W. A. Mackintosh, The Economic Background of Dominion- Provincial Relations.
conclusive proof of its validity has been made. The calculation of comparative contributions of the people of different provinces to Dominion revenues presents almost insuperable obstacles. Even were an estimate possible, we do not feel that it would provide a basis for a claim for subsidy readjustment. In a federation such as Canada the federating units merge themselves for certain purposes in the entity which they create. The citizens of the colony of British Columbia became, after Confederation, citizens of Canada. The right to impose customs duties was exclusively enjoyed thereafter by the Dominion Parliament, and when an individual resident of Vancouver pays customs duties he does so as a citizen of Canada. Payment of these or other Dominion taxes is in no sense a payment by the province, and the provincial government is not entitled to any readjustment of its financial relations with the Dominion on the basis of any such payment. We are fortified in this view by the admission of counsel for British Columbia that it is impracticable to attempt to set off Dominion expenditures in a province against Dominion collections from that province.

**Claims Based on Inequalities of Subsidies and Debt Allowance**

(a) **Nature of the Grant for Railway Lands**

In the hearings at Victoria the nature of the special grant of $100,000 for lands in the so-called Railway Belt was discussed at length. It will be recalled that the delegation from British Columbia that came to Ottawa in 1870 to discuss terms of union was instructed to ask for a subsidy which was in part to be based on an assumed population of 120,000. The Dominion Government was unwilling to allow an assumed population of more than 60,000 but offered an additional annual payment of $100,000 in consideration of the transfer by the Province to the Dominion of a belt of land not to exceed twenty miles on each side of the proposed railway. This proposal was accepted and became part of the terms of union. In the result British Columbia entered Confederation with an annual subsidy of $214,000. Counsel for the Province admitted before this Commission that “British Columbia got in 1870 what it expected to get” although “it did not get it on the contention upon which it asked for it.” Shortly after 1871 the Dominion claimed that much of the land in the Railway Belt was unfit for agricultural purposes, and ultimately in 1884, after considerable controversy, the Province transferred a block of 3,500,000 acres in the Peace River District which was accepted by the Dominion “in satisfaction of all claims for additional lands under the terms of Union.” The Dominion retained the Railway Belt and the Peace River Block until 1930, when, following the report of the Martin Commission, it reconveyed all lands remaining in its possession to the Province, amounting to 9,602,400 acres in the Railway Belt and 3,230,000 acres in the Peace River District. Notwithstanding the reconveyance of all remaining lands to the Province, the Dominion continued to pay annually the grant of $100,000 pursuant to an agreement between the Dominion and the Province.

In the brief of British Columbia the land clause in the terms of union is referred to as “merely a device to give an excuse for the grant.” In the opening hearings at Victoria counsel for the Province supported this view which was in line with the position of the Province before the Martin Commission when it argued that “as to the payment of $100,000 annually by the Government of Canada in consideration of lands conveyed, such payment was not in reality a return for lands conveyed, but was for the purpose of enabling the Government of the province to function properly and that the said payment should be so regarded.” On a later day in the hearings at Victoria, the stand of the Province on this point was completely reversed. The contention that the grant of $100,000 for the railway lands was a device was repudiated both by counsel and by the Premier of the Province. It was then contended that the payment was in fact what it purported to be, a payment for the lands; all statements to the contrary in the brief or in argument were withdrawn as having been made in error. It was suggested that while the Dominion might not have been willing to buy these lands as an independent transaction, and while it was undoubtedly anxious to satisfy the financial claims of British Columbia, these facts were quite consistent with a bona fide purchase of these lands as part of a larger agreement.

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27 See discussion in evidence, pp. 5875-83.
26 Statutes of Canada (1884), 47 Vict. c. 6.
25 Statutes of Canada (1890), 20-21 Geo. V. c. 37.
24 Brief, pp. 4, 21.
23 Ev. p. 4902. See also Ev. p. 5108.
20 Ev. pp. 5876, 5891.
Where one of the parties to the terms of union, through its responsible representatives, asks that the agreement be given a strict and literal meaning, we feel it would be impossible for us to do other than apply the rules of construction which would be applicable to a contract. We find, therefore, that the argument finally made on this point on behalf of British Columbia is valid, and that the payment of $100,000 annually was a payment for the railway lands as it purported to be.

From this conclusion as to the true nature of the $100,000 grant for railway lands certain results follow. The payment in purchase of these lands is being continued after most of the lands have been reconveyed to the Province pursuant to the recommendation of the Martin Commission. If the grant of $100,000 annually was payment for over fourteen million acres of land in the Railway Belt and the Peace River Block, one would expect that a proportionate reduction should be made after reconveyance to the Province of nine-tenths of the total area. Counsel for the Province recognized this difficulty and pointed out that there had never been any inquiry for British Columbia, as there had been for the Prairie Provinces, to ascertain the value of the lands alienated or the compensation to be paid for the use of the lands by the Dominion. Counsel also pointed out that in the 1935 submission by the Province claims had been advanced both that the original subsidy should have been calculated on an assumed population of 120,000 (on the theory that the land grant was a payment for the land) and that the Dominion should account for the use of the land and for the value of lands alienated. In counsel's opinion the Province was "not entitled to have it both ways", and he explained that in preparing his brief he had deliberately left out a claim for the use and alienation of lands by the Dominion. Having agreed that the $100,000 grant should be treated as payment for the railway lands, we agree also that the continuation of this grant after more than 90 per cent of the lands had been reconveyed to the Province must be regarded as adequate compensation to the Province for the use and alienation of lands by the Dominion during its tenure. In so finding we rely not only on the specific waiver of such a claim by counsel, in the presence of the Premier and other members of the Government of the Province, but we rely also on the discussion of Mr. Justice Martin at pages 26 and 27 of his Report concerning the value of these lands and the expenditures by the Dominion on them, from which we conclude that a payment of $100,000 annually in perpetuity would provide adequate and generous compensation for the use of these lands by the Dominion and the alienation of part of them.

No claim has been advanced by the Province, under this heading, but we considered it wise to discuss the subject in this way, so that, in making our recommendations as to British Columbia's special claims, it should be clear both that no claim has been passed over without consideration and that no claim has been left outstanding.

(b) The Assumed Population of 1871

On the assumption that the annual grant of $100,000 was in payment for the Railway Belt, British Columbia argued that the assumed population of the Province, on entering Confederation, should have been 120,000 as requested by the Province instead of 60,000 as eventually agreed by the representatives of both the Province and the Dominion. It was claimed that British Columbia is entitled now, to be placed in the position that she would have occupied had the original proposal for an assumed population of 120,000 been accepted by the Dominion. We think that the validity of this claim does not follow from the acceptance of the argument that the land purchase was a bona fide transaction. It was suggested to us that while the Dominion might not have been willing to purchase the Railway Belt as an independent transaction, it was willing to do so as part of a much larger transaction. We think it is equally plausible to argue that while British Columbia might not have been willing to enter Confederation with an assumed population of 60,000, yet, as part of a larger transaction, in which provision was made for union and for the construction of a railway, it was willing to accept a figure of 60,000 for its assumed population, provided it found a purchaser for the Railway Belt at a price of $100,000 annually. At all events the British Columbia delegates accepted the assumed population of 60,000, the Legislative Council adopted the terms of union and a petition was addressed to the Imperial Government seeking union with Canada. We think it quite impossible to say that in all these agreements and actions the representatives of the Province were mistaken and unwise, or to find that the Province is now entitled to be paid the difference between the subsidies actually received and the subsidies that would have been received on an assumed population of 120,000

84 Ev. p. 5111.
86 Ev. p. 6879.
between 1871 and 1896 (when the actual population reached 120,000). It is noteworthy that, in the general settlement between the Province and the Dominion in 1884, when an agreement was reached “for the purpose of settling all existing disputes and difficulties between the two governments,” it does not appear that any claim was put forward by British Columbia on the ground that its population had been assumed to be 60,000 instead of 120,000 as originally asked.

In view of the argument addressed in Victoria to the Commission on the subject of the finality of subsidy settlement, especially with respect to the assumed population of 1871, it may be well for the Commission to state its views on this point. We think that the proper attitude toward these settlements was accurately defined in discussion at Victoria between the Chairman (Chief Justice Rowell) and counsel for British Columbia when it was stated that all relevant facts should be considered, including any statements by the Province that it viewed certain settlements as final. But such statements were valuable only as evidence that a settlement had been considered to be satisfactory by provincial representatives at the time, and acceptance by the elected representatives of the Province was strong evidence that the settlement was in fact fair and equitable at the time it was made.

If we were convinced that a serious mistake in calculation had been made or that the representatives of the Province in 1870 had been deceived, or if important new facts had become known which were unknown at the time, we would not hesitate to recommend that the Dominion should make such adjustments as fairness and justice might have required. But it is one thing for a province to accept a sum in final settlement of its subsidy claims, and later to contend that because of intervening changes in its responsibilities the sum which was accepted is no longer adequate for its needs. It is quite a different thing for a province to accept a certain basis of calculation for its subsidy, and many years later, to argue that the agreed basis of calculation should, as of right, be replaced by a more generous basis which had been proposed by the province and rejected by the Dominion. The Province’s claim must, therefore, rest on inequality of treatment since Confederation, and not on any right to readjustment of the original terms of union seventy years later.

(c) Revision of Per Capita Subsidies and Debt Allowances

Two items of the claim still remain to be examined; that for a two-and-a-half year revision of per capita subsidies, and that for a revision of debt allowances. Both claims are based on the assumption that British Columbia was in an analogous position within federation to the Prairie Provinces, and, therefore, should have been accorded the same financial terms on these matters.

The original provision of the British North America Act for revision of per capita subsidies following each decennial census applies to all provinces except the three Prairie Provinces. In 1885 it was provided that after Manitoba’s population surpassed the assumed number of 150,000 its per capita subsidy should be revised after a quinquennial census together with a revision halfway between each census based on the estimated population of the Province. This change began to take effect after the census of 1891. The reason for the change was undoubtedly to make more quickly available to the Province any benefits in the way of subsidies arising from its rapid expansion of population. It should not be overlooked that Manitoba was at the time in a difficult financial position, and that, as a rapidly expanding province, its financial needs were also likely to expand rapidly. Similar provisions were made in the Saskatchewan and Alberta Acts of 1905. These changes were confirmed by the general subsidy revision of 1907. The amendment of the British North America Act of 1907 also provided for lump sum subsidies for each province “for the support of its Government and Legislature” in accordance with its population within fixed totals. The Prairie Provinces thus stood to gain more quickly than other provinces from an expansion of population in two ways: first by a two-and-a-half year revision of per capita subsidies; and second, by increased lump sum subsidies, if during the period between the decennial census they moved to a higher population group for purposes of a lump sum subsidy. British Columbia now claims that it should have enjoyed preferential treatment in the matter of revision of per capita subsidies like Manitoba since 1891, and that it should have enjoyed the advantages of revision of lump sum subsidies since

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88 See Statutes of Canada (1884), 47 Vict. c. 6.
89 Ev. p. 4981. See also Ev. p. 4904.
40 For calculations of the claim under various heads based on an initial assumed population of 120,000 instead of 60,000, see Exs. 413, 418, 417 and 420.
41 See history of subsidies and debt allowances see W. Eggleston and C. T. Kraft, Dominion-Provincial Subsidies and Grants, (mimeographed); J. A. Maxwell, Federal Subsidies to the Provincial Governments in Canada; and Federal Subsidies and Grants to the Provinces of Canada, Dept. of Finance, Ottawa, 1937.
the Prairie Provinces. Under the former head it claims back payments for $1,905,306.60 and under the latter, $225,000.42

The claim for revision of debt allowances has a somewhat similar background. The Province entered federation in 1871 with an assumed population of 60,000 and a per capita debt allowance of $27.77 the same as that of Nova Scotia. The request of the Province for revision now of the assumed figure of population to 120,000 instead of 60,000 has already been dealt with in discussing per capita subsidies, and the reasons for refusing this request apply here also. The Province shared in the general revision of debt allowances of 1873 and 1884. On the original population base of 60,000 the total debt allowance then was $2,029,391, from which a considerable amount has been withdrawn by the Province with the result that annual interest payments on debt allowances from the Dominion now stand at $29,151. No general revision of debt allowances has been made since 1884, but a special revision was made for Manitoba in 1885. In 1905 the two new provinces, Alberta and Saskatchewan, were each given an assumed population of 250,000 (which, however, approximated to their actual populations) and a per capita allowance of $32.43, making a total allowance of $8,107,500. In 1912 Manitoba's debt allowance was revised to the same figure, and payments antedated to 1908 to bring it into line with the other Prairie Provinces.43 British Columbia now claims that it should have been given similar treatment, and requests that its debt allowance be made equal to that of one of the Prairie Provinces (an assumed population of 250,000 and a total allowance of $8,107,500) as from 1912. Back payments, according to the Province's estimate, would amount to $8,326,413 on which it claims compound interest at 5 per cent. It requests that the whole be considered a capital sum and interest thereon at 5 per cent be paid for the future.44

Undoubtedly there were certain economic similarities between British Columbia and the Prairie Provinces. Like the Prairie Provinces, British Columbia until recently was a "pioneer" province undergoing rapid settlement and expansion. But constitutionally the position of British Columbia was very different. The Province entered federalization of its own free will, and made its own bargain as to the terms of union, as did the older provinces.

The Prairie Provinces, on the other hand, were created by the Dominion out of Dominion territory, and it was entirely within the Dominion's power to lay down such financial terms for these new provinces as it wished. We know of no constitutional requirement that the financial relations with these new provinces had to be identical with those of the older provinces. It may, of course, have been expedient to arrange financial relations which were not utterly dissimilar from those with the older provinces, but expediency is quite a different matter from constitutional obligation.

Moreover, we think that the financial terms on which these new provinces were constituted should be considered as a whole, and that it is quite unsound to single out the items of frequent revision of per capita subsidies and debt allowances and to found a claim thereon. It must be noted that in one respect the Prairie Provinces were seriously restricted both from a financial and a constitutional point of view: their natural resources were reserved for the purposes of the Dominion until 1930.

This constitutional difference had practical consequences. Without control of their natural resources, the Prairie Provinces were compelled to shape their policies respecting highways, schools, and other public services to meet the needs which arose out of the Dominion Government's policy of free homesteads and rapid settlement.45 The words of Sir Robert Borden when introducing legislation in 1912 to place Manitoba on a position of equality with the other Prairie Provinces are evidence that the three Prairie Provinces were then regarded as having a special status both financially and constitutionally:

"Because, I repeat once more, these three provinces (Alberta, Saskatchewan and Manitoba) stand in a different category from the other six provinces of the Dominion. The other six provinces have their natural resources, their public domain, mines, minerals and other assets of that kind; these three provinces have not those assets. Having in regard these considerations our policy and our proposal is, in the first place, to put Manitoba upon the same just and fair basis as that which has already been granted to Alberta and Saskatchewan, and then to take up, at the earliest opportunity, the question of the terms upon which the natural resources of all three prairie provinces shall be handed over to the administration of these provinces."46

It is true that the Prairie Provinces were granted subsidies in lieu of lands, and that recent Royal Commissions have recommended compensation for

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42 Ex. 417. See also Ev. pp. 501ff.
43 Federal Subsidies and Grants to Provinces of Canada, Dept. of Finance, Ottawa, 1937.
44 For estimates of Province see Ex. 417.
45 For discussion of this point see Ex. 236, Brief of Edmonton Chamber of Commerce. Also Ev. pp. 900ff.
46 Debates, House of Commons, 1912, p. 4295.
revenues which they might have enjoyed had they had control of their natural resources. While compensation for lost revenues may be possible, it can scarcely be said that they have been compensated, or could be properly compensated, for such an intangible but none the less real factor as inferiority of status to which they were subjected prior to 1930. British Columbia was never subjected to this inferiority of status. It entered federation as a completely autonomous province, and had full use both before and after federation of its public domain for its own purposes (with the exception of the Railway Belt for which it received and is still receiving compensation from the Dominion). The analogy between British Columbia and the Prairie Provinces prior to 1930 from a constitutional point of view is, therefore, quite unsound. If constitutionally British Columbia's position within federation was different from that of the Prairie Provinces, there is no valid reason for assuming that its financial relations with the Dominion should have been identical with those granted the Prairie Provinces.

But the situation after 1930 was obviously different from that before. In 1930 the Prairie Provinces acquired full constitutional equality with other provinces. We think that as from that date the claim of British Columbia for similar terms in the matter of debt allowances and revision of per capita subsidies is entirely reasonable. There was, of course, no legal obligation on the part of the Dominion so to revise the financial terms, but the long history of settlements for "better terms" between the Dominion and the provinces indicates that the Dominion has long recognized a moral obligation to effect approximate equality in financial terms as between provinces within the same general region of the Dominion. Thus Ontario and Quebec have always been treated on virtually identical terms, and more recently the Maritime Provinces have been recognized as having peculiar difficulties which entitled them to special treatment as compared with other provinces.

We think, therefore, that on this basis British Columbia was entitled to equal treatment with the Prairie Provinces after 1930. Presumably the special interim subsidy of 1934 took account of this, subject to an accounting later.

With respect to the period prior to 1930, to recommend the amounts claimed by the Province would clearly place it in a privileged position as compared with the other Western Provinces, since it would then be given complete equality of financial terms while it had in fact enjoyed a superior constitutional position. On the other hand, we do not feel that it would be quite fair to British Columbia to recommend that it receive no compensation for the period prior to 1930. It was undergoing an experience of settlement and expansion more analogous to that of the Prairie Provinces than to that of the provinces of Central and Eastern Canada, and would have benefited by more frequent revision of per capita subsidies. With regard to debt allowances, it is obvious that they served a different purpose in the case of the four Western Provinces than in the case of the Central and Eastern Provinces. The latter entered union with capital equipment in the way of public buildings, roads, etc., and the debt allowances included expenditures for this equipment. Moreover, they turned over to the Dominion considerable assets as part of the settlement. On the other hand, debt allowances were a means of assisting the Western Provinces to acquire necessary capital equipment. British Columbia was in a slightly different position from the other Western Provinces in that it was in existence as a colony before union and had some capital equipment, but its position with respect to capital equipment was more analogous to that of the Western than to that of the Eastern Provinces. While this may not have been recognized when debt allowances were fixed in 1871, there is some ground for the claim that some revision should have been made later.

We think, therefore, that the Province, because of economic conditions similar to those of the Prairie Provinces, is entitled to some adjustment for the period prior to 1930 both in the matter of revision of its debt allowance and in the matter of revision of per capita subsidies on a two-and-a-half year basis. But in view of the different constitutional status of British Columbia from that of the Prairie Provinces prior to 1930 it is not entitled to the full amount of its claims under these heads.

We have now considered in detail all the specific heads of claim advanced by British Columbia in support of the request for "better terms." At the hearings in Victoria the Province also presented...
argument concerning the relationship existing between the Dominion and the provinces generally, and it was, perhaps, inevitable that such argument should become confused at times with the argument concerning the special claims of British Columbia. We mention the matter merely to make clear that we do not consider the argument on such subjects as the effect of Dominion income taxes, the effect of Dominion tariff policy, or the taxation of revenues derived from the depletion of provincial natural resources, as being relevant to the special claim for equality of treatment in the matter of subsidies, nor do we think such argument was so directed by the Province.

**Summary and Recommendations**

We may summarize briefly our findings and recommendations.

We do not think that the Province is entitled to any special assistance on account of its topography, because it has not been shown that any general condition of fiscal need arises therefrom.

We do not think that the Province is entitled to have its financial relations with the Dominion altered by assuming now that its population in 1871 was 120,000 instead of 60,000 as then assumed.

We think that as from 1930 the Province was in fairness entitled to the same treatment in the matter of revision of per capita subsidies and debt allowances as the Prairie Provinces.

We think that, in fairness to the Province it should receive some adjustment for the period prior to 1930 because there had been no revision of per capita subsidies and debt allowances similar to the arrangements made with the Prairie Provinces, but we think that it is not entitled to the full amount claimed in view of the fact that during the entire period it controlled the disposal of its natural resources whereas the Prairie Provinces did not.

After careful consideration of the whole matter we think that the special interim subsidy begun in 1934 was adequate to take account of all items on which the claims of the Province can reasonably be allowed. If the debt allowance be deemed to have been increased as from 1934 to that of the Prairie Provinces the interest on the increase would amount to slightly more than $300,000 annually ($8,107,500 less $2,029,391 = $6,078,109 at 5 per cent = $303,905.45). The balance of approximately $450,000 annually is, we think, an adequate allowance for the two other items which we have allowed in part—a two-and-a-half year revision of per capita subsidies prior to 1930, and increased debt allowance prior to 1930—as well as any increases in interest on debt allowance, and per capita subsidies, to which the Province was entitled between 1930 and 1934. We think, therefore, that the special interim subsidy of 1934 was a fair and generous settlement and no better estimate can be made by us.

In order to remove any doubts as to the future position of British Columbia vis-à-vis the Prairie Provinces, we recommend that British Columbia be accorded the same treatment as the Prairie Provinces in the matter of revision of per capita subsidies. At present, as pointed out above, revision of their subsidies depends upon a quinquennial census. We have had occasion to recommend elsewhere that the quinquennial census be dropped unless the whole country is treated equally in this respect.* But if this recommendation is not carried out, British Columbia should be placed on equality with the Prairie Provinces in the matter of census revision of per capita subsidies. Further, in order to remove any doubt about debt allowances, we recommend that henceforth British Columbia be accorded a debt allowance of $8,107,500, the same as that of the Prairie Provinces, and that the difference between the interest on the increased debt allowance and the interim subsidy of $750,000 be paid to the Province as a special annual subsidy, in full settlement of all claims for the period prior to 1934.

We recommend further that the special interim subsidy be replaced by statutory provisions for revision of debt allowance for the future.

The above recommendations for the revision of per capita subsidies and the debt allowance for the future will be applicable only if our general financial proposals (Plan I) are not implemented, since, if they are, the present system of subsidies and debt allowances will no longer operate.

In conclusion, we wish to emphasize that our recommendations are based on our opinion of what is fair and reasonable both to the Province and to the Dominion, taking all relevant factors into account. We have found no principle, or set of principles, and no system of accounting that fits the case. We do not pretend to have reached scientific conclusions, or to have based our findings entirely on principle. The fact is that provincial subsidies in general no longer rest on consistent principles. It is our hope that, if our general financial plan for a complete revision of the system of financial relations between the provinces and the Dominion is accepted, claims such as we have dealt with in this chapter will not in the future disturb relations between any province and the Dominion.

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* See p. 171.