

1942 and 1943 the revenue of every province exceeded the total of its ordinary and capital expenditure and provincial over-all surpluses for these two years aggregated more than \$100,000,000. These large over-all surpluses are only partly the result of greatly increased revenues. Capital expenditures have been substantially reduced and the high employment of the war period has brought about a decline of more than \$30,000,000 in the cost of direct relief. This latter saving was slightly more than enough to offset substantial increases in expenditures on welfare, education and agriculture. The improvement of provincial finances is reflected in the fact that gross direct liabilities declined by \$104,723,000 (5 p.c.) between 1940 and 1943 while cash and investments increased by \$70,308,000.

Approximately 78 p.c. of the revenue increase between 1939 and 1943 occurred in the first two years of the war period—1940 and 1941. Initially, the quickened tempo of economic activity, coupled with the imposition of a few new or more severe taxes,\* expanded provincial revenues. Following this, the Dominion-Provincial Taxation Agreement Act, 1942 and more recently the Dominion guarantee of provincial profits from the sale of alcoholic beverages,† stabilized a large part of provincial revenues at these higher levels. Under the provisions of the Dominion-Provincial Taxation Agreement Act each province agreed to discontinue the use of income and corporation taxes for the duration of the War and for a certain readjustment period thereafter, in return for a Dominion subsidy based on either (a) the cash collected on account of these levies in the fiscal year ended nearest Dec. 31, 1940, or (b) the cost of the province's net debt service, less succession duties collected, for the same period. As a result of these Agreements, and the guarantee of provincial revenue from gasoline taxation by a further provision of the same Act, the Dominion has become the major source of provincial revenue—a fact well illustrated by the shift in provincial revenue sources shown in Table 29.

There was no major change in the provincial revenue structure during the provincial fiscal years ended nearest to Dec. 31, 1943. Further declines in gasoline tax revenue and in amounts collected on arrears of provincial income and corporation taxes were offset by increases in the amounts received from the Dominion Government under the terms of the Dominion-Provincial Taxation Agreement Act. The revenue from liquor control, which is second in importance only to the tax agreement subsidies, increased by 8.2 p.c. to a new high of \$64,986,000, almost double the 1939 yield: increases were recorded in every province except British Columbia where there was a marked decline of 14.7 p.c. Quebec's retail sales tax and Saskatchewan's education tax both produced increased revenue in 1943. Revenue from the Saskatchewan education tax, which is ear-marked for educational purposes, exceeded the total expenditures for education of that Province.

The decline of \$2,122,000 (3.3 p.c.) in net debt charges during 1943, from the 1942 high of \$64,140,000, reflected an improvement in provincial finances. This reversal of a consistently rising long-term trend was due, for the most part, to debt retirement and a reduction in the average rate of interest paid. In Saskatchewan, however, gross debt charges were slightly higher but net debt charges declined by \$616,000 as a result of an increase of \$736,000 in interest received from the Farm Loan Board. Increased expenditures for education and public welfare were quite general and accounted for almost all the rise in provincial expenditure in 1943. Educational expenditure declined only in Manitoba and welfare expenditure,

\* The most productive of these were the Quebec retail sales tax imposed in 1940 and the additional 2 p.c. levy on corporation profits imposed by Ontario following the 1939 Budget Speech.

† Budget Speech of Mar. 2, 1943.