Section 3.—Provincial Public Finance*

Subsection 1.—Provincial Revenues and Expenditures

On the whole the war period has been one of unprecedented prosperity for the provinces. In the five years 1940-44† provincial net ordinary and capital revenues increased by almost $114,000,000 to a record high of $375,137,000. During both 1942 and 1943 the net 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. Again in 1944, net revenues exceeded total expenditures by over $25,000,000 although over-all surpluses were not shown in three of the provinces. These large over-all surpluses are only partly the result of greatly increased revenues. While capital expenditures had been substantially reduced by 1943, they increased in 1944 over the preceding year by about $10,000,000. The high employment of the war period has brought about a decline of more than $30,000,000 in the cost of direct relief. The improvement of provincial finances is reflected in the fact that gross direct liabilities declined by $84,960,000 (4 p.c.) between 1940 and 1944.

Approximately 71 p.c. of the revenue increase since 1939 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 28.

There was no major change in the provincial revenue structure during the provincial fiscal years ended nearest to Dec. 31, 1944. The revenue from liquor control, which is second in importance to the tax agreement subsidies, increased by 8·4 p.c. to a new high of $70,426,000, over double the 1939 yield: increases were recorded in every province. Saskatchewan's education tax produced increased

* Revised under the direction of J. H. Lowther, Chief of the Public Finance Statistics Branch, Dominion Bureau of Statistics. Further statistical details are given in the report "Financial Statistics of Provincial Governments in Canada", Dominion Bureau of Statistics.

† References are to provincial fiscal years ended nearest Dec. 31 of year stated.

‡ 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.