

PROVINCE OF BRITISH COLUMBIA



BUDGET SPEECH

DELIVERED BY

HONOURABLE JOHN HART

Minister of Finance

IN THE

LEGISLATIVE ASSEMBLY

MONDAY, MARCH 12th, 1934



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BUDGET SPEECH

In making the annual financial statement to the Legislative Assembly of British Columbia on March 12th, 1934, Hon. John Hart, Minister of Finance, spoke as follows:—

MR. SPEAKER:

I wish to take this occasion, Sir, to tender you my congratulations upon the very high honour conferred upon you by this House in its selection of yourself to preside over its deliberations. It was my privilege and pleasure to have been associated with you in this House for a number of years, during which I learned to appreciate your ability and knowledge of parliamentary procedure as well as your impartiality in debate. These qualifications particularly fit you to preside over a legislative body such as this, and we look forward with confidence to sound and impartial decisions from the Chair.

This opportunity cannot pass without my expressing pleasure at again seeing so many of the old friends who, ten years ago, were associated with me in this House. I may say, also, that I am happy to see a great many of my friends among the new members.

I must not omit reference to the special pleasure it affords me to be again associated with the Prime Minister, with whom I served in the Brewster and Oliver Administrations for a period of practically eight years. During that time I learned to value his judgment and ability, as well as his capacity for hard work. His knowledge of economics and politics, coupled with his extensive experience in public life, pre-eminently fit him to guide British Columbia through the financial and economic difficulties which confront it.

I desire to express my regret at the loss which this Province suffered through the death of the late Mr. Bowser. For many years I sat with him in this Legislature and, although we differed fundamentally on many public issues, I could not but admire his great abilities and untiring efforts in public life.

This is also an opportune time for expressing my appreciation to the citizens of Victoria for the twofold honour they have done me: First, in electing me for the fourth time to this Legislature; and, secondly, in endorsing my appointment by the Premier to the portfolio of Finance, which I had previously held, thereby placing the seal of approval on his action as well as upon my record in public life.

FORMER TERM OF OFFICE.

Mr. Speaker, this is the eighth occasion on which I have had the privilege of presenting the Budget. Well do I remember my feeling when, after having been asked by the late Premier Brewster to accept the office of Minister of Finance, a survey of the financial situation of the Province revealed a depleted Treasury, the Province's credit shattered, and large deficits and liabilities accrued and accruing. My endeavour to rehabilitate the credit of the Province by a complete overhaul of the financial structure and by the introduction of business methods was successful, and I had the satisfaction, before resigning office in 1924, of seeing British Columbia's credit reach a point where it was second to that of no other Province in the Dominion.

As a matter of fact, on the occasion of the last sale of securities, before my leaving office, twenty-nine financial houses were represented in the bidding for three million dollars' worth of bonds, which was, on the part of the financial markets, an unerring indication of confidence in the administration of the Province. During my term of office all our Provincial securities were sold by public tender to the highest bidder; no private sales of our securities were made, nor were commissions of any kind paid to any one.

During the last couple of years it has been clearly apparent that the financial situation of this Province has become very serious. References had been made to this during the election campaign, but very few people, if any, were aware of the true condition of affairs.

On retiring from office on the 15th of November last the late Minister of Finance gave an interview to the press, and the *Victoria Daily Colonist* on the following day quoted him in these words: "During my term of office I have endeavoured to place fairly and squarely before the people the actual position of British Columbia's finances." He was, furthermore, quoted as stating that the gross debt of the Province as at November 1st, 1933, was \$159,501,467.

WHAT INVESTIGATION DISCLOSED.

Inasmuch as, during my campaign, I had stated that the debt of the Province, including the Pacific Great Eastern Railway guarantee, was at least \$165,000,000 I immediately proceeded to investigate the records of the public debt and the condition of the Treasury. I found that the funded debt was \$129,163,236; that Treasury bills due to the Dominion amounted

to \$5,362,234.73 and Treasury bills due to bank to \$4,697,171.48; that the mortgage on British Columbia House, London, was \$118,825; and that the Pacific Great Eastern Railway guarantee of stock was \$20,160,000; and that in addition to these there were deficits not funded amounting to \$7,497,128.33.

The total of the figures I have just given shows the gross debt of the Province to be \$166,998,595.54, or \$7,497,128.33 greater than was stated by the late Minister.

The deficits amounting to the figure last mentioned should have been provided for by the sale of bonds, but, instead of doing this, they were carried by using funds belonging to special accounts, as follows:—

Capital borrowings utilized to finance deficit—	
Miscellaneous	\$16,043.37
P.G.E. Construction	20,000.00
Highways and Bridges	442,493.37
Buildings	241,835.68
Court-house, Victoria	20,631.12
Unemployment Relief	\$1,484,911.98
Unemployment Relief (municipalities)	38,275.20
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	1,523,187.18
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	\$2,264,191.22

Money deposits and special funds—	
Superannuation Fund	\$731,418.24
Teachers' Pensions Fund	185,557.40
Intestate Estates deposits	627,456.30
Suitors' Funds deposits	116,436.36
Surplus money from Tax Sale deposits	3,945.02
Official Guardian deposits	46,963.63
Rural Districts School Tax deposits	4,452.74
Contractors' deposits	4,710.21
Fire Marshal Act Fund	7,285.20
Forest Reserve Account	53,355.34
Bequests and other funds	35,525.35
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	1,817,105.79
Accounts payable and accrued liabilities	3,415,831.32
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Total unfinanced deficit as at November 15th, 1933.... \$7,497,128.33

SPECIAL ACCOUNTS DEPLETED.

We were, therefore, on November 15th owing over \$7,000,000 to the special accounts I have enumerated, and it will be necessary at some time to borrow that amount of money in order to restore the respective sums thus used to finance deficits. As a consequence, immediately that is done the funded debt will show an increase to that extent.

The position then is this: In order to pay off the Treasury bills due to the bank and to the Dominion of Canada, to make

good the unfunded deficits on November 15th as already given, and to make good the deficit for the current fiscal year, it will be necessary to sell bonds to the amount of approximately \$18,557,000. Such sale will only liquidate the liabilities at that date, and, apart from placing the Treasury on an even keel, it will leave no funds for future expenditure.

The investigation into the condition of the Treasury showed that cheques had been issued in excess of funds in the bank to the amount of \$1,009,509, the immediate presentation of which would have created a serious situation, as the bank had refused to give the Province further credit. I also discovered that there were cheques to the extent of \$314,952.89 which had been written but could not be sent out owing to the lack of funds at the bank, and that the greater part of these was for unemployment relief in Vancouver and Victoria; and that it would also be necessary to provide a sum of \$857,000 to meet additional current accounts.

We were faced not only with an accumulation of deficits over the last three years amounting to \$14,707,199.39, but also with a reduced revenue, the shortage of which amounted to \$792,150.90 for the seven months ended October 31st, as compared with the same period in the previous year.

All of these facts I brought to the attention of the Prime Minister with a recommendation that the public be advised of this very grave state of affairs. When the statement was made by me in accordance with this suggestion it was alleged in some quarters that it would have a serious effect upon the credit of the Province. However, I am glad to be able to announce that the very opposite has been the result, as we can show. For instance, British Columbia 5-per-cent. bonds due 1954 were quoted then at 90.60, whereas now they are selling at 94.50, or 3.90 points higher, which proves that the financial policy of the present Government has the confidence of the investor.

BALANCE-SHEET: ASSETS.

We now come to the consideration of the Balance-sheet of the Province as at March 31st, 1933. Honourable members will notice that under the heading of "Assets" the first item is one dealing with the investment on account of sinking funds for the redemption at maturity of our stock and debentures, which item amounts to \$26,581,240.90.

Further asset items immediately following are: Buildings and furnishings, \$17,418,938.26; highways, \$67,833,076.23; bridges, \$8,100,631.67; wharves, \$153,131; ferries and ferry-

landings, \$343,539.30; making the total of the assets under these headings \$93,849,316.46; which sum, when added to that of the sinking fund investments, gives us a total of assets comprising these respective headings of \$120,430,557.36.

The value of sinking funds is represented by the actual cost of investments, plus cash in banks, the asset for highways is computed on the basis of replacement values, whilst the amounts given for all other items in the aforesaid group show their respective cash cost less depreciation.

Apart from cash and accounts receivable, we have additional assets listed amounting to \$65,967,086.05, the value of some of which is very doubtful, whilst cash, accounts receivable, and sundries amount to \$8,869,713.93.

The grand total of assets, therefore, shown in the Balance-sheet is \$195,267,357.34.

BALANCE-SHEET: LIABILITIES.

Under the heading of "Liabilities," first to be found are the funded debt, temporary loans, and the mortgage on British Columbia House, London, amounting in all to \$137,156,785.19. The other detailed liabilities in the Balance-sheet aggregate \$31,858,738.10 and bring the total of all liabilities to \$169,015,523.29, leaving a surplus of assets over liabilities of \$26,251,834.05. The previous fiscal year showed a surplus of \$33,337,364.14; during the year now under review, therefore, there occurred a reduction of \$7,085,530.09 in the surplus of assets, which is chiefly due to discounts in connection with the sale of securities, the partial cancellation of irrigation loans made by the Province, and the outlay on unemployment relief.

Contingent liabilities amounting in all to \$68,137,857.23 are largely on account of guarantees given to railways. Of the total sum \$40,157,523.90 is the guarantee on account of the Canadian Northern Pacific Railway Co., but as this corporation has been taken over by the Dominion Government it is understood that the Province will not be called upon to meet either the principal or interest in this connection. The guarantee of \$20,160,000 of Pacific Great Eastern Railway stock and bonds is now recognized as a direct liability of the Province. Other items under this head are a guarantee of \$6,733,333.33 given on account of the Vancouver and Districts Joint Sewerage and Drainage Board; \$1,000,000 on account of the Agricultural Credit Commission; and \$87,000 for the West Nicomen Dyking District.

REVENUE AND EXPENDITURE, 1932-33.

I will refer briefly to the revenue and expenditure statements for the fiscal year ended March 31st, 1933. Compared with the estimated revenue of \$24,843,766.46, actual collections amounted to \$20,389,951.85, which shows a difference of \$4,453,814.61.

The principal falling-off in actual revenue from what was anticipated comes under the following heads: Liquor profits, \$1,428,286; Land Registry fees, \$118,380; motor-vehicle licences and fees, \$336,552; amusements tax, \$204,861; fuel-oil tax (due to the decision that the Act was *ultra vires*), \$358,797; gasoline tax, \$358,270; land taxes, \$432,087; timber licences, \$452,395; timber royalties, \$229,165; and timber sales, \$228,227.

The main estimates contained provision for the expenditure of \$24,693,671.60, but the actual outlays amounted to \$23,226,329.65, leaving unexpended a sum of \$1,467,341.95. The chief unexpended appropriations were: Department of the Attorney-General, \$235,970; Department of Education, \$205,013; Department of Public Works, \$399,032; and, under capital expenditures out of income, sinking fund instalments to the extent of \$1,208,652. On the other hand, under the caption of public debt, there was spent \$562,326 in excess of the estimated sum, this being due to premiums paid in the purchase of United States funds and the insufficiency of the allowance for interest.

The actual expenditure for the year amounting to \$23,226,329.65 and the actual revenue to but \$20,389,951.85, the result was a deficit of \$2,836,377.80, in addition to which sinking fund instalments amounting to \$1,440,652 were not provided.

PROVINCIAL GROSS DEBT.

The gross debt of the Province, as at November 1st, 1933, is composed of:—

Inscribed stock and debentures	\$129,163,236.00
Treasury bills	10,059,406.21
Mortgage on B.C. House, London	118,825.00
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Add to this sum the balance of the deficits	\$139,341,467.21
incurred up to March 31st, 1933, still	
requiring to be funded, amounting to....	\$7,497,128.33
and the P.G.E. Ry. guarantee, which is	
now treated as a direct obligation	20,160,000.00
	<hr/>
	27,657,128.33
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Aggregate gross debt at date mentioned	\$166,998,595.54
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It will be of interest to consider for a moment the purposes for which the gross debt has been incurred. We find that there has been borrowed on account of the Consolidated Revenue Fund, that is, mainly for deficits, \$41,202,217.33; for capital expenditures on highways, roads, bridges, buildings, etc., \$54,711,029.77; for projects of a revenue-producing nature, \$17,556,164.57; forest-protection, \$303,982.17; for unemployment relief, \$9,925,696.12; for the purpose of loans to municipalities in connection with unemployment relief, \$224,941.14; direct Provincial borrowings on behalf of the Pacific Great Eastern Railway, \$15,417,436.11; whilst the guarantee of this railway's stock amounts to \$20,160,000; finally, that the outstanding balance of unfinanced deficits incurred up to March 31st, 1933, is \$7,497,128.33. The aggregate of the foregoing makes up the total gross debt which I have already given.

To establish the amount of the net debt there must be deducted from the gross the sinking funds, amounting in all to \$30,180,149.20, so leaving the net debt on November 1st, 1933, at \$136,818,446.34. Under ordinary circumstances the revenue-producing debt, amounting to \$17,556,164.57, would also be deducted from the gross debt, but inasmuch as the recovery value of some of the loans included therein is doubtful—such as land settlement, industrial or irrigation loans—this deduction is not now made, as a considerable sum will have to be written off as a loss.

It is pointed out for the information of the House that, as far as irrigation loans are concerned, those who benefited therefrom have, at the expense of the general tax-paying community, been relieved from repayment of principal and interest to the extent of no less a sum than \$2,395,107.21 by the late Administration; of this amount, \$926,002.44 was written off in 1930 and \$1,469,104.77 in June, 1933. Attention is also drawn to the fact that \$1,153,363.98 of the total written off under this heading refers to loans made to irrigation districts in South Okanagan.

INCREASE IN GROSS DEBT.

The gross debt of the Province as at August 20th, 1928, was reported to amount to \$104,341,130; the increase in the intervening period is, therefore, \$62,657,465.54 or 60 per cent. During the tenure of office of our predecessors they increased the debt at the rate of \$1,000,000 every month.

The annual requirements in connection with the payment of interest due on the gross Provincial debt are \$7,904,384.81, or an average interest rate of 4.733 per cent.; the annual

debt-redemption provisions for the extinction of this debt at maturity are \$3,758,701.73. The aggregate of these annual requirements, necessary under the heading of debt charges, is \$11,663,086.54.

I may point out that there was paid for interest alone during the fiscal year 1928-29 the sum of \$4,775,519.22. This amount, compared with the \$7,904,384.81 required for interest on the present gross debt, shows an increase of no less a sum than \$3,128,865.59 in six years.

SINKING FUNDS.

On November 1st, 1933, sinking fund appropriations were short to the extent of \$3,121,879.75 and no provision is being made this year for that account.

The value of sinking fund investments on November 1st, 1933, was computed at \$30,180,149.20, which amount represents the market value of all investments, excepting British Columbia direct and guaranteed securities, which have been taken at par, also cash in the banks and accrued interest.

Sinking fund investments are mainly represented by Dominion guaranteed securities and Provincial direct and guaranteed obligations, the exceptions being: \$77,760 of Grand Trunk Pacific not guaranteed 4% bonds due on April 1st, 1955; \$72,900 of Canada Atlantic Railway not guaranteed 4% bonds due January 1st, 1955; \$111,933.33 of Canadian Northern Ontario Railway not guaranteed 4% perpetual debenture stock; \$4,136 Municipality of South Vancouver stock; and \$50,000 District of Burnaby 4½% bonds due June 30th, 1938.

PACIFIC GREAT EASTERN RAILWAY.

As there appears to be a misunderstanding regarding the total obligations of the Pacific Great Eastern Railway to the Government, I think it incumbent upon me to give the House a few explanatory figures in this connection.

The Balance-sheet of the Province shows under "Projects, Loans and Advances" a total of \$47,457,465.62. I might explain that this amount comprises those sums which were loaned to the company as a result of borrowings, \$16,509,521.04; that in addition there was advanced from the Consolidated Revenue Fund on account of maintenance and operation \$2,598,958.09, and for interest on guaranteed stock and bonds \$13,796,494.47. Also included is the amount of \$568,610.67, which the company owes the Government for discounts incurred on the sale of its debentures, and \$13,983,881.35, the interest due on the loans and advances just mentioned.

To the aforesaid liability of \$47,457,465.62 on the part of the company to the Government must be added, of course, the guarantee on the company's stock and bonds to the amount of \$20,160,000. It will be seen, therefore, that the total liability of the Pacific Great Eastern Railway to the Government of British Columbia, as set out in the Provincial records, is \$67,617,465.62.

SALE OF SECURITIES.

During May, 1932, an issue of £1,500,000 5% inscribed stock was sold in London at a price of 99 per 100 par value, involving commissions paid in Canada and London amounting to 3.041%, which, at the rate of exchange then prevailing, cost the Province \$190,670, and miscellaneous expenses of \$77,655.87. After deducting the discounts and other charges the net proceeds of that loan, taking into account the loss incurred in the conversion of sterling into dollars, amounted to \$5,999,751.23, or a net \$82.47 for every \$100 that has to be repaid.

The loss to the Treasury as represented by the difference between the net amount received and par was \$1,275,248.77, and if it were figured on the present rate of sterling exchange the loss on the transaction would amount to nearly \$1,650,000.

Inasmuch as this stock was issued for a period of thirty-five years, the deal is considered to be a very expensive one for the people of British Columbia, especially in view of the fact that under the "Colonial Inscribed Stock Act" it cannot be refunded at a lower rate of interest.

LOSSES IN FINANCING.

I wish to draw the attention of the House to the heavy losses suffered during the last few years in connection with the sale of Treasury bills.

As examples may be cited a Treasury-bill issue of \$3,000,000 sold on November 25th, 1929, on a two-year 5½% basis, the principal and interest whereof were made payable in United States as well as Canadian funds. When these bills fell due it became necessary, in addition to the interest, to pay a currency premium of \$371,664, which sum had to be borrowed from the Dominion Government. There was another sale of Treasury bills on August 20th, 1930, the issue being for \$2,500,000, repayable in one year with interest at 3½%. Here also the principal and interest were made payable in United States as well as Canadian funds, with the ultimate result that at maturity there had to be paid, in addition to interest, \$186,304 as premium on United States currency. The premium

alone by these two transactions increased the gross debt by \$557,968.

A survey of the short-term issues sold between November 25th, 1929, and December 15th, 1930, shows that a total par value of \$17,500,000 was sold which, due to the incidental discount and currency premiums involved in various conversions and refundings, is now represented in the debt by a par value of \$19,938,028, or an amount \$2,438,028 greater than the original issues. Furthermore, it appears that the original sales could have been made on a long-term plan at an average cost basis to the Province of 4.67 per cent., requiring \$817,000 for annual interest, whereas now the Province has to pay \$978,562, or \$161,562 more each year.

A STRIKING COMPARISON.

While dealing with the question of the sale of securities I may be pardoned for referring to a transaction which took place in 1920. When the Government took over the Pacific Great Eastern Railway, the bank held a note from that company for \$4,800,000, and as collateral therefor approximately \$6,000,000 of the P.G.E. 4½% Government-guaranteed stock due in 1942. The bank eventually called in the loan and pressed for the sale of the collateral stock, the price of which, at that time, was ranging between \$67 and \$70 for each \$100 share.

My recommendation to the Government was that, instead of selling the stock, it be taken into the Treasury as collateral for the issue of five-year Government bonds, the proceeds of which would repay the note. My recommendation received the Government's approval and was carried into effect.

Had the stock been sold in 1920, as was suggested, the proceeds from its sale would have been some \$740,000 short of the amount required to pay the note, and the Province would have found it necessary to make up that sum; whereas, five years later, at the maturity of the Government bonds sold to repay the company's note, the quotations on the collateral stock had risen to 92.50, at which price it was sold, the proceeds being then sufficient not only to redeem the bonds, but also leave a handsome surplus of \$652,805.38. Thus, instead of suffering a loss of approximately \$740,000, the surplus I have just named resulted and thereby a total saving was effected to the Province of \$1,392,420.83.

No transaction of the Department of Finance was as severely criticized as this by the then leader of the Opposition, the late

Mr. Bowser, as well as other speakers during the 1920 election campaign. As I had resigned my portfolio and left legislative life before this particular loan fell due, I think I am entitled to take this opportunity, the first since then, to make reference to it as showing the outcome of our short-term financing.

UNEMPLOYMENT RELIEF.

As honourable members will desire some information in respect to unemployment relief, I wish to report that, excepting the relief cost of single homeless fit men provided for directly by the Dominion, the total expenditure within the Province up to December 31st, 1933, for this purpose was \$23,397,435.58. Of this amount the Province contributed as its own share \$9,979,826.13, besides which it loaned to municipalities \$948,694.21 and advanced in connection with land settlement relief \$18,337.65, making the total outlay by the Province on account of unemployment relief \$10,946,858.19. The Dominion's share was \$9,222,300.50 and the amount spent by municipalities \$3,228,276.89.

COMPTROLLER-GENERAL'S REPORT.

I have next for comment the Comptroller-General's report for the nine months ended December 31st, 1933. It will be noted from this that the total estimated revenue for the whole of the current fiscal year is \$20,497,591.46 and that actual revenue collections for the nine months reported on is \$14,281,121.01. When compared with the same period for the previous year there will be found a decrease in revenue collections of \$748,402.57. The total estimated expenditure for the whole of 1933-34 is \$22,729,593.77; actual expenditure, according to the Comptroller-General's accounts for the said nine months, is \$13,657,914.67.

Whilst the volume of revenue receipts for the period under review, as set out in the report, is a fair indication of what the income will ultimately be for the full fiscal year, the volume of expenditure reported is not as reliable an index, as large amounts have been incurred which are as yet unposted or unpaid and consequently not shown in this statement.

ESTIMATES, 1934-35.

I have now to deal with the estimates for the fiscal year ending March 31st, 1935.

The anticipated revenue for that period is \$19,492,791.46, against an estimate of \$20,497,591.46 for the year just closing, showing a reduction of \$1,004,800. The revenue sources show-

ing the chief reductions, and their amounts, are as follows: Liquor profits, \$300,000; motor-vehicle licences, \$310,000; income tax, \$350,000; land taxes, \$140,000; school taxes, \$60,000; capital refunds, \$100,000. As an offset to these reductions will be found \$250,000 of fuel-oil tax collections, as the Provincial legislation imposing this tax has been declared valid by the Privy Council.

The expenditure for the coming fiscal year is estimated at \$21,609,637.40, as against the estimate of \$22,729,593.77 for the current fiscal year, a decrease of \$1,119,956.37. A reduction of \$2,421,621 is shown under the heading of capital expenditure out of income, due to the fact that no provision is being made in the estimates for sinking fund instalments. Against that decrease the following items of expenditure show increases to the extent stated: Public debt, \$196,159; teachers' salaries, \$209,000; University of B.C., \$50,000; old-age pensions, \$50,000; forest-protection, \$300,000; forest-protection reserve account, \$43,500; mental hospitals, \$80,000; hospital grants, \$225,000; maintenance of roads and bridges, \$150,000.

As I have just stated, the revenue for 1934-35 is estimated at \$19,492,791.46 and the expenditures at \$21,609,637.40, so that the anticipated deficit in current account is \$2,116,845.94.

TAXATION.

It is the intention of the Government to exempt lower incomes and wages from what is generally known as the 1-per-cent. tax, originally imposed under the "Special Revenue Act" of 1931 and subsequently incorporated into the "Income Tax Act" of 1932. The tax was considered unfair and was very costly to administer. Because of the unfairness of its incidence upon the small salary- or wage-earner it is proposed to exempt from taxation the income of single persons to the extent of \$600 and that of married persons to the extent of \$1,000. Additional exemptions, allowed to both single or married persons, will be made for each of the taxpayer's dependents, \$200; for life insurance premiums the sum paid, up to \$300; an employee's contribution to superannuation funds; and any amount not exceeding 5 per cent. of the taxable income given for charitable purposes.

The tax on small incomes was very costly to administer. Each year there were made over 55,000 refunds, and when it is considered that every statement had to be audited and cheques made out and forwarded it is easily seen how costly this process has been.

Another result of the proposed changes will be that, although this tax will continue to be collected at its source, as in the past, employers will not deduct it from any employee whose wages or salary does not exceed \$50 per month. There will be no deduction made in the case of casual employment.

As already announced, the Government intends to introduce legislation to repeal the "Hospitals Aid Act," commonly known as the meal tax. This tax has proved to be most unpopular.

SUCCESSION AND PROBATE DUTIES.

Owing to a decision of the Judicial Committee of the Privy Council, the "Succession Duty Act," in its present form, has been declared *ultra vires* of the Province, and as a result the "Probate Duty Act" is similarly affected. This judgment does not in any manner impair the right of the Province to assess and collect succession or probate duties. All that their Lordships decided was that on account of the phraseology of the Act the tax had to be interpreted as an indirect one. Legislation will, therefore, be introduced to make both Acts *intra vires* of the Province, and to confirm the assessments on estates already made. It is not the intention of the Government, at this time, to increase the succession duty rates.

MUNICIPALITIES.

During the past few years certain grants formerly made to municipalities have either been reduced or withdrawn, while, on the other hand, a portion of the cost of certain social services has been imposed upon them. Both actions have had a serious effect upon municipal financing, especially in view of the heavy additional demands being made upon local government for unemployment relief and the material falling-off in the volume of revenue.

The Government was pleased to meet the members of the Union of British Columbia Municipalities at their recent conference in Victoria and to receive their representations. Whilst the Government realizes the seriousness of the financial situation of the municipalities, it does not find itself in a position to restore the grants.

A Department of Municipal Affairs, which will be created by legislation during the present session, will devote itself to the review and study of the Municipal Taxation Commission's report, with the expectation of being in a position to make definite recommendations at the next session.

In the meantime the Government is making arrangements to loan to the municipalities their share of unemployment relief costs during the present year.

REFUNDING SCHEME.

As already pointed out, the estimated revenue for the coming fiscal year is \$19,492,791.46. The amount required for debt charges, interest, and sinking funds would amount to \$11,663,086.54, leaving only \$7,829,704.92 for necessary services which the Government has to provide. For education we have to find \$3,347,940.21; for hospitals, health services, and charities, \$2,342,600.72; for old-age pensions, \$491,292.43; for mothers' pensions, \$375,000; for the municipalities' share of motor-vehicle fees, \$550,000; or a total of \$7,106,833.36, which leaves the insignificant sum of \$722,871.56 for all other requirements.

In order to lighten the burden of the debt charges on our Treasury, representations were made to the Dominion Government that they assist the Province in a refunding scheme by the guarantee of a new issue of Provincial securities at a lower rate of interest to replace our present outstanding bond issues. The Federal authorities refused our request for a guarantee. It is understood that they will shortly undertake the refunding of some six hundred million dollars' worth of their own securities.

Our Government will use every endeavour to prevent default in the payment of interest, and for that reason recommend that further efforts be made to effect a conversion loan at lower interest rates, as has been done in other countries. All indications point to much lower rates of interest for Government bonds, and the Government is confident that it will be able to refund at least part of the Provincial debt with considerable saving to the Treasury.

It is not proposed to interfere with the inscribed stock issued in London, the sinking funds on which have been fully kept up. The suggestion is that arrangements be made to refund \$124,426,024.61 of the debt whenever suitable prices can be obtained; the proposal being that the new securities should be issued for a term of thirty years at a rate of interest not to exceed 3 or 3½ per cent., sufficient sinking funds to be set up on them after a period of five years to liquidate the debt at maturity.

The following statements illustrate the savings which would be effected:—

PROVINCIAL GROSS DEBT.

Where Principal and Interest Payable.	Amount of Principal.	Average Rate of Interest.	Amount of Interest.
In sterling only.....	\$24,590,761.00	4.07026%	\$1,000,908.08
In U.S. and Canadian funds.....	78,455,800.00	4.7012%	3,688,405.00
In U.S., sterling, and Canadian funds	4,000,000.00	4.5%	180,000.00
In sterling and Canadian funds.....	20,160,000.00	4.5%	907,200.00
In Canadian funds only—			
Debentures	\$22,235,500.00	5.599%	\$1,245,045.00
Treasury bills	10,059,406.21	5.048%	507,970.31
Deficits	7,497,128.33	5%	374,856.42
	39,792,034.54	5.3475%	2,127,871.73
	\$166,998,595.54	4.7332%	\$7,904,384.81

AMOUNT OF DEBT SUBJECT TO REFUNDING SCHEME.

Total gross debt	\$166,998,595.54
Deduct—	
Inscribed stock and B.C. House, London	\$24,590,761.00
Portion of sinking funds to be used in the part repayment of debt other than inscribed stock	17,981,809.93
	<u>42,572,570.93</u>
Balance of debt to be refunded	<u>\$124,426,024.61</u>

TOTAL DEBT CHARGES REQUIRED ON GROSS DEBT.

Interest	\$7,904,384.81
Sinking funds	3,758,701.73
	<u>\$11,663,086.54</u>

THREE PER CENT. REFUNDING BASIS.

First five years—	Requirements.	Annual Saving.
Interest	\$4,733,348.83	\$3,171,035.98
Sinking fund	233,752.00	3,524,949.73
	<u>\$4,967,100.83</u>	<u>\$6,695,985.71</u>
Remaining 25 years—		
Interest	\$4,733,348.83	\$3,171,035.98
Sinking fund	3,646,564.00	112,137.73
	<u>\$8,379,912.83</u>	<u>\$3,283,173.71</u>

THREE AND ONE-HALF PER CENT. REFUNDING BASIS.

First five years—	Requirements.	Annual Saving.
Interest	\$5,362,433.95	\$2,541,950.86
Sinking fund	243,260.00	3,515,441.73
	<u>\$5,605,693.95</u>	<u>\$6,057,392.59</u>
Remaining 25 years—		
Interest	\$5,362,433.95	\$2,541,950.86
Sinking fund	3,431,201.00	327,500.73
	<u>\$8,793,634.95</u>	<u>\$2,869,451.59</u>

SAVING EFFECTED.

These show that a refunding scheme for the amount mentioned at the rate of 3 per cent. would show a saving annually in interest of \$3,171,035.98, and inasmuch as no sinking funds would be set up for five years there would be a further annual

saving to the Treasury for that period of \$3,524,949.73, so that the total annual saving for the initial five years would be \$6,695,986.71. For the balance of the life of the bonds, 25 years, the saving in interest and sinking funds would be \$3,283,973.71 annually.

On the 3½-per-cent. plan the annual saving in interest by a refunding scheme would be \$2,541,950.86. Add to this \$3,515,441.75 of sinking funds which would not be set up for the first five years and the total annual saving to the Treasury will be \$6,057,392.59, while for the balance of the term the annual saving in interest and sinking funds amounts to \$2,869,451.59.

It may be seen by these statements that the burden of the debt charges would be greatly reduced for the first five years, after which time it is to be hoped that conditions would have improved to such an extent that the obligations could be met without difficulty.

It is the Government's desire that a new issue of securities be sold for cash in order that the present obligations could be called in and redeemed at par.

It is impossible at this time to lay down a definite line of action for dealing with the situation, but legislation will be laid before you which will empower the Government to deal with the refunding scheme in the most satisfactory manner that the conditions of the moment will permit.

The success of the refunding scheme would not only lighten the burden upon our Treasury, but would maintain unimpaired the value of our securities now in the hands of investors by preventing any possibility of interest payments having to be deferred.

SOURCES OF REVENUE.

In view of the serious financial situation of the Treasury, the Government has been giving consideration to new sources of revenue and the possibility of increased returns from present sources. Especial attention is being given to income, succession duty, fuel-oil, and amusements taxes.

Last year there was imposed a surtax on incomes on a sliding scale which makes a large demand upon the higher brackets, the total tax on income in excess of \$50,000 being 28 per cent. It must be borne in mind that the Dominion Government also levies income taxes at rates which, combined with the Provincial levy, makes the burden a heavy one on the larger incomes. Last year also there was imposed a surtax of 25 per cent. on succession duties.

In view of the great burden of unemployment relief and the demand of the municipalities for assistance, the whole matter of taxation will be studied by us during the recess. In the few months the Government has been in office it has been unable to complete this task.

From the facts which I have laid before the House I think it has been made quite clear that the Government is not in a position to balance the Budget at this time, but it hopes, by the assistance of a refunding scheme, economy in public service, increased revenue, co-operation with industry, and a works programme, that it will be able to present to the House at the next session a greatly improved financial statement.

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