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COAL AND IRON: THE IMPACT OF RAILWAYS ON THE
FINANCIAL HISTORY OF NOVA SCOTIA, 1849-1867

by

© Rosemarie Langhout, B.A.

A thesis submitted to the Faculty of
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Abstract

With the advent of Responsible Government, control of public finance came to reside within the colony of Nova Scotia. Detailed study of the public accounts published annually in the Nova Scotia Journals and the related manuscript documents in the PAC and PANS reveal that the major preoccupation of the colonial government throughout the period of Responsible Government was the railway network which they built and operated. Arrangements made to finance railroads departed radically from traditional financial practice by Nova Scotian governments. The administration adopted a policy of economic interventionism which altered the very nature of government in the colony.

Once committed to railroads, successive Nova Scotian administrations found that financial policy could only be made within the limits set by railway debt servicing. In response to this constraint, political debate in the colony coalesced around the question of debt financing. Though the railroads had originally been designed to enhance the colony's commerce, the policy option which won out - the expansion of railroads and thus colonial debt - was linked to the prospect of an industrial future for Nova Scotia within Confederation.

To Professor J. Langhout (Ph.D.)

1 June 1983

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PREFACE

The fight for responsible government all over British North America had its origin in the development of a politically aware and active middle class. It was also closely related to the desire of these colonial people to control their own purse strings and hence their own destinies. Given the connection between financial control and the ability to shape public policy in order to achieve certain objectives, it follows that the record of how public finances were manipulated between the granting of responsible government and Confederation should both reveal the aspirations of successive political leaders of this era, and indicate the practical limitations within which they operated. This is especially true of Nova Scotia where disagreements over the control of important casual and territorial revenues delayed the grant of responsibility for some time. Nova Scotia was the first British colony to attain the status of responsible government, and was mightily proud of the achievement. It follows that the province's finances were often debated in the House of Assembly and much written about, for Nova Scotian politicians throughout this period were acutely aware of the burden of their fiscal responsibility.

Though Nova Scotia achieved responsible government in 1848, it was not until a year after the Civil List dispute was settled that financial authority was vested in the Legislative Assembly. On 1 July 1849, complete jurisdiction over customs and excise

(which routinely supplied over 50% of government revenues during the period of responsible government, and for almost half of these years accounted for more than 70% of all revenues) was given to the Nova Scotian government. Financial accountability for the province was transferred at this time from the now defunct office of the Provincial Treasurer to two newly created, responsible government offices, the Receiver General, and the Financial Secretary. Ministers heading both offices were members of the Executive Council, and though their policy making authority appears to have been limited, they performed important record keeping functions. The office of the Financial Secretary was directed toward the task of issuing and keeping track of government warrants; that of the Receiver General was charged with keeping a record of the government's financial affairs.(1) Each year, the Receiver General prepared a financial statement which was scrutinized by a committee of the Legislature and then published in the House of Assembly Journals as the "Public Accounts of Nova Scotia".

This study attempts, through a year by year analysis of the public accounts and other financial records to show how the government of Nova Scotia reacted to and reflected the thrust to modernization which characterized the middle third of the nineteenth century. Only through such a detailed look at these papers do the lines of development become clear. Indeed, the only other investigation of the colony's public accounts during this period, J. A. Maxwell's 1927 Ph.D. thesis, missed the

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continuity of events almost entirely because he chose to examine in detail only selected fiscal years. This study is organized into four parts. First, an introduction and overview establishes the context in which we are working. Second, the capital account of the colony during the period of responsible government is examined. It is here that the debts acquired to finance dreams of commercial and material growth, were registered. Third, the impact of Nova Scotia's railroad building policy on the operation of the government during these years is traced through the current accounts of the province. A forth and concluding chapter attempts to assess the historical, (and historiographical) significance of the material covered.

The author wishes to express deep felt gratitude for the time and energy which has been devoted to this project by Dr. Michael Piva, and especially by Dr. Del Muise without whose expertise, measured criticism, and understanding, this study might never have passed out of the "ugh" stage.

NOTES -- PREFACE

(1) 11 Victoria Cap 22, Statutes of Nova Scotia (1848).

CHAPTER ONE -- INTRODUCTION AND OVERVIEW

The period of responsible government in Nova Scotia was one of tremendous growth in government activity, growth which can be measured by the increase in both revenue and expenditure. The scale at which government operated in the colony multiplied about fourfold during the nineteen years between 1849 and 1867.(1). It was also a time of increased expectations fostered by responsibility and prosperity. From 1856, when fairly comprehensive budgetary forecasts were first issued, to 1866, the estimated expenditure of the Nova Scotia government rose rapidly and constantly.(2)

An almost providential belief that the colony had taken its place among trading nations of the first rank, at least on a per capita basis, engendered a buoyant enthusiasm among Nova Scotians. The period of responsible government, after all, almost exactly coincided with an economic "Golden Age", during which the colony's ship-building and shipping industries expanded rapidly. Lieutenant Governor Sir John Harvey was not alone in suggesting early in the 1850s that "Nature has designed Nova Scotia for a commercial country"(3) - it was considered a truism given the province's geographical position and natural resources.

Responsible government was seen as the first essential step towards achieving commercial greatness. It would allow for the more efficient operation of the all-important customs establishment. One of the most upsetting features of Imperial

control in the pre-responsible government period had been the development of a dual system of customs collection - one local and one British - which duplicated many services and, because of its cumbersome nature, was said to inhibit trade. Domestic control of the customs establishment would ensure not only that it was more efficiently operated, but also that it would be directed toward encouraging the colony's trade. A note that Joseph Howe, the Provincial Secretary, sent in 1849 to the prominent merchant Edward Cunard, suggests the orientation of the changes which occurred in the organization of the Customs Department with the advent of responsible government.

We cannot comprehend any difficulty in conducting commercial operations between Nova Scotia and the United States. Under the old system the Customs Department was pretty rigid and directed rather to the Security of Revenue than the accommodation of trade, and some remnant of it may still be in force.(4)

Reform-minded Nova Scotians conceded that further development was contingent upon acquiring that most modern of communications systems - railroads. While Nova Scotian Tories in the first years of responsible government balked not only at railways but at the very idea of internal colonial autonomy, it is no coincidence that Joseph Howe, the spearhead of the Reform movement in Nova Scotia and a leading proponent of responsible government, was also the chief promoter of the idea that railroads were the means by which commercial growth might be achieved. Howe, a Haligonian determined to endow his native city with the terminus of an intercolonial railroad, was

understandably enchanted with the notion that railways could stimulate metropolitan growth, and allow the metropolis to draw on a much larger hinterland area. In addition, Howe was anxious to play a role on the Imperial stage, (5) and was thus susceptible to the British enthusiasm for steel rails that would bind together the Empire. But most importantly, Howe saw railroads as a way in which Nova Scotians themselves could encourage their trade. This notion dovetailed with one he had been advocating since the early 1840s - that Nova Scotians should be able to control their own destiny under the umbrella of Empire.

Howe, in words that clearly reflect the ideological underpinnings of his proposed policy, directly linked railways, growth, and prosperity in an 1851 speech when he asserted that

...the cradles of Nova Scotia add 15,000, year by year, to our population. I never see a bride going to church with orange blossoms in her bonnet, or a young couple strolling to Kissing Bridge of a summer evening, but I involuntarily exclaim, Heaven bless them - there go the materials to make the Railroads. (Loud cheers and laughter.) So long as love is made in Nova Scotia, and love makes children, we shall have 50 or 60,000 added to our population every five or six years, who will add at least £20 or £30,000 to our annual income. (6)

While some objected to what they saw as the mortgaging of the province's future for only limited returns, Howe saw debt acquisition as a building tool of indispensable value to the colony in its attempt to develop its full potential by building railroads. Further, he believed that once railroads were initiated and nurtured by government, they would generate their own internal growth imperative. In later remarks on the Grand

Trunk Railroad, Howe noted that

The Grand Trunk must be made to pay, as all other Railroads in America are made to pay, by peopling the country through which it passes, by directing immigration into the adjoining lands - by developing latent resources, and by growth of internal commerce and manufacturing... as population increases the Colonial Revenues will increase, and as they do, all the Roads that run into or connect with the Grand Trunk will be pushed forward, giving to that line increased animation.(7)

This illustrates his feelings toward railways in general.

Howe struggled valiantly to arrange an Imperially backed Intercolonial Railway agreement which he felt would be ideally suited to benefit Nova Scotia's commerce in the face of the disintegration of the British mercantalist system in the late 1840s. The most important feature of this proposed agreement would have been an Imperial loan guarantee to reduce interest on any loan to about 3% - half the market rate. In 1850, Howe believed that he had been successful. Britain, however, qualified her position the following year, and effectively blocked the plan.(8) When Howe protested, Earl Grey added insult to injury by suggesting that Howe had not read carefully enough the despatches which had been sent from the Colonial Office.(9)

In order to maintain the momentum built up through the early negotiations, Nova Scotia's Reformers fell upon the idea of building a local system of railways. They fully expected that these would in time be connected to railways in Maine, New Brunswick, and, ultimately, Canada. When private contractors declined to undertake the work, the government embarked upon

North America's earliest exercise in state capitalism. In 1854 work commenced on

the construction and maintenance of a trunk line of railway from the Harbour of Halifax to the frontier of New Brunswick, with branch lines extending to the harbour of Pictou and to Victoria Beach [Digby County]...[designed to] greatly facilitate the internal trade of Nova Scotia, developing her resources, enlarging her revenues, and opening communications with the neighbouring states and provinces.(10)

The railroad would be owned and operated by the colonial government. This was explicitly a policy of economic interventionism on the part of the Nova Scotia government, though it occurred during a period which has traditionally been regarded as one with a *laissez faire* economic orthodoxy.

Though Reformers generally preferred a limited role for government, they acquiesced to the idea that carefully directed government intervention could speed the arrival of a new era of progress. The stress which was placed upon the fact that railroads would benefit the province's commerce tended to legitimize government's involvement in its construction and operation; and the prosperity enjoyed during the early years of responsible government muted the opposition of those Reformers who feared dislocation in their commercially oriented economic system as a result of the new technology. Howe, who was instrumental in bringing them round, affirmed his own belief in the importance of railways to the future of the province when he resigned his council position in 1854 to take up the duties of Chief Railroad Commissioner.(11)

Railways would be funded primarily with capital acquired through the sale of provincial debentures on the London financial market. This line of credit was impeded by neither Colonial Office disapproval, nor disinclination on the part of British money lenders. The British had an established interest in exporting railroad technology to the colonies; the bankers expected to profit from facilitating this export to capital-starved outposts of the British Empire. Money raised by the sale of debentures was to be devoted solely to the purpose of railway construction, as evidenced by the title of the law under which bonds were first issued - "An Act to authorize a loan for the construction of Railways within this Province". (Although this act was amended the following year, its basic tenets remained unchanged). (12)

The decision to build railways as public works had a tremendous impact upon the government's finances and as a

FIGURE 1.1

AVERAGE ANNUAL INCREASE IN INDEBTEDNESS FROM BORROWED FUNDS (13)

YEARS	£	\$
1848/49-1852/53	179	716
1853/54-1857/58	200,464	801,856
1858/59-1862/63		19,788
1863/64-1866/67		326,950

result, upon the allocation of government revenues. Nova

Scotia's debt load mushroomed during the construction of the trunk line railroad (1854-1858), and the Pictou Extension (1865-1867). (See figure 1.1) Though total indebtedness from borrowed funds decreased in three of the nineteen years of responsible government, the trend in figure 1.1 is clear. The very high rates of increase in the late 1850s and mid 1860s arise mainly from the sale of Nova Scotian bonds. They also reflect the increased issue of Treasury Notes, the enlargement of the authorized capacity of the provincial Savings Bank, and some short-term borrowing from the Bank of Nova Scotia.

As a consequence of rising indebtedness, the proportion of expenditure devoted to debt servicing and coinage rose. During the period from 1849-1853, before the province embarked on its railway project, debt servicing and coinage consumed an average of 8.54% of annual government expenditure. (It will be shown that this figure actually exaggerates the importance of debt servicing at this time.) These expenses, meanwhile, averaged 23.33% of expenditure during the final seven years of responsible government when the full impact of railway policies had become apparent. (14)

Understandably, accommodations had to be made in other areas of public policy as expenditure on railroad construction, railway damages, railway revenue expenses, and railway interest, together soared to over 36% of total government expenditure in 1861, and remained above 25% of their expenditure throughout the last eight

years of responsible government.(15) Moreover, revenue from railroads never approached total expenditure on them; railway revenue hovered between 10% and 13% of total revenues between 1860 and 1867,(16) meaning that government had to call upon new sources of revenue, a move which could be expected to have a negative impact on the colony's commercial economy. Even though railway operations ran a profit in most years, the weight of total railway costs prevented the creation of any sinking fund for the redemption of the colony's debt upon which enabling legislation had been predicated.(17)

Per capita government expenditure excluding railway charges and revenues nearly doubled during the period of responsible government (from approximately \$1.29 in 1850 to \$2.31 in 1861),(18) but this trend did not soften the impact railway policy had on public finance. Indeed, it can be argued that railways fostered greater public expectations of government, which expectations in turn encouraged greater per capita expenditure - that a decision to expand the role of government in one sphere encouraged expansion in others.

The magnitude of the railroad enterprise caused political tensions in Nova Scotia. After the first flush of enthusiasm had passed, the colony went through a period of ambivalence about the direction railway policy should take. Reformers retained control of the Legislature till 1857, but Howe had difficulty reconciling his supporters at the extremities of the province to the value of

a railroad that simply cut through the middle of peninsular Nova Scotia from Halifax to the New Brunswick border. Even Halifax, the primary beneficiary of the project, proved reluctant to contribute money pledged to the road's construction.(19) Growing opposition to the financial burden of Howe's railway program eventually led to the defection of Reform supporters in the legislature. This in turn necessitated the formation of a new ministry in 1857. The timing of this move was presumably related to the world-wide economic dislocation which followed from the British financial crisis in that year.(20) Merchant members of the legislature, feeling the pinch of the economic downturn, would no longer support ever rising railway charges, and switched their allegiance.

The change in government, however, did not lead to any radical change in railway policy.(*). The Tories had initially objected to a publicly funded program of railroad construction because they wished to avoid any unnecessary burden on the public coffers,(21) and until the early 1860s they attacked railway operations as inefficient. But too much had already been

(*) The trunk line from Halifax to Windsor was officially completed in 1858, but it had been reported in 1857 that "(t)he force employed [on railway building] has not been sufficient to give the requisite levels and stakes during the progress of the work and we consequently find at several places the grading of the line[inadequate]";(22) indeed there was some spending on railroad construction in every year between 1858 and 1864, when the next major railway building project (the Pictou Extension) was started.(23)

invested to abandon the project. In 1856 Tupper had remarked in the House of Assembly that "(t)he policy of having railroads, and railroads by government, is now settled".(24) Shortly after the 1857 change of government the new Tory Financial Secretary, J. J. Marshall, observed that "no government can now let them [the railway works] stand still".(25) Tory attitudes at this juncture were encapsulated by remarks that the new Tory Attorney General made in the legislature in April 1857. J. W. Johnston acknowledged that the railway policy was irreversible, but he felt free to attack the instigator of this policy in these sharp terms:

In referring to the state of affairs as passing from the hands of the late government, ought he [Howe] not have said something as to that heavy [railroad] liability? Is it nothing that we are obliged to raise a revenue to meet that? Is it nothing that we have to go on increasing the debt, increasing the interest which is payable? Does that throw no responsibility on the new government?...None but rash persons can speak of the affairs of Nova Scotia otherwise than with caution, and some anxiety.(26)

The ambivalent stand taken by both parties with respect to this issue reflected the standings in the House of Assembly, which between 1857 and 1863 saw no ministry with a large majority.(27)

Charles Tupper, Provincial Secretary in the new Tory cabinet of 1857, was still very much an apprentice politician when, on accepting a seat on the Nova Scotia Railway Board in May 1857, he professed an "earnest desire for the welfare of the great work and a full sense of the responsibility it imposes on me".(28) Tupper, however, became increasingly influential, and under his

leadership the Tories came eventually to support public ownership and the extension of the province's railroads. As early as 1857, a study of the railway was commissioned by the new Conservative government on the grounds that:

The interest which the public take in the road, from its being a public work, built on the revenues and on the credit of the province - the influence which it is confidently anticipated that its completion will have upon the business and prosperity, not only of the section of the country through which it immediately passes, but on the whole province, - the expectation that if it is successful and self-sustaining that the same facilities will be extended to other sections - render it desirable that the fullest information, and a fair and candid statement of the facts should be presented. (29)

J. A. Maxwell interprets the findings of the report on the provincial railroad as having been a politically motivated diatribe against the administration of Howe and the Reformers. (30) The Laurie Report (named for the railway engineer commissioned for the task), did note that there had been "great carelessness in making up the books", but the criticism was qualified by the following remark: "In this connection, however, it is but just that I should state that I discovered nothing from the books or vouchers but that the intention was to make a fair and proper distribution". (31) In light of the changing stand the Tories were taking on the railway question, this type of hedging was to be expected.

At first the Railway Commission under Tupper took much the same line as it had under Howe, though Tupper was perhaps more cautious in the way he expressed government objectives. Tupper,

together with fellow Tory ministers W. A. Henry and R. B. Dicky, formulated the following response to Britain's renewed refusal to provide financial assistance to an intercolonial railroad in 1858:

In the event, therefore, of the present effort failing to enlist the sympathy and co-operation of the Imperial Government in completing the intercolonial railroad, in which the general interests of the Empire are so largely involved, Nova Scotia must turn her resources to the construction of a line to Pictou [sic]. (32)

The letter went on to indicate that if forced to build the extension to Pictou, Nova Scotia would exhaust her reserves, and could no longer be expected to participate in any intercolonial scheme.

This expression of the government's limited intentions with respect to the construction of railroads probably reflects the insecure position of the Tories in the House of Assembly, backed as they were by Reformers who had crossed the floor over a religious issue. Tupper's stand on the question of railroads once he was out of power was much more positive. In 1860, he delivered a keynote speech in which he brought together the problem of the colony's finances and the wider implications of railway policy:

It is to be hoped that the folly of expecting any large results from local and isolated railways is already fully demonstrated in both Nova Scotia and New Brunswick, and that it has now become a first consideration with them to direct their attention to the means by which both may be relieved from the consequences of a large debt, incurred for works not only unproductive of any direct remunerative results but also unattended by any substantial advantage to our trade or commercial importance. The conviction must have forced itself on the public mind that we must

extricate ourselves from these difficulties by obtaining connection with the railways of Canada and the United States.(33)

Howe was returned to power in 1859 but, having compromised himself in the religious controversy, he no longer had the solid majority needed to carry through his railway plans.(34) Facing an election in 1863, Howe wishfully stated the position of the Reform party with respect to the Pictou Extension as follows: "We shall put down our 10 miles, for which provision has been made, under contract at once and grade it this summer. If the Intercolonial goes on there will be 10 miles less to do, if it does not then we will be nearer to Pictou and will dash out to the Gulf next year".(35) His administration, however, had embarked upon no new railway schemes. The Nova Scotia Reformers, still concerned about the possibility of wider connections which could enhance the colony's trade, were more committed to limited, efficient government - especially in light of what they viewed as the disturbing proposals for British North American federation.

The elections of 1863, in which the Conservatives gained a solid majority, brought a substantial shift in government railway policy; railroads became politicized and industrially and commercially oriented. Tupper, now the outspoken leader of the Conservative Party, suggested as early as 1860 that responsible government had not proved to be a panacea for colonial ills, and that union of the British North American colonies would remove those ills under which Nova Scotia laboured.(36) In addition, he

projected a vision of Nova Scotian growth fueled by industrial as well as ~~as~~ commercial development. The mandate he received in 1863 enabled him to take a bold policy initiative. For Tupper, this meant more railroads and the union of the colonies.

Opposition to both these schemes was widespread, but it was most particularly concentrated among the colony's traditional commercial elite, who feared that Confederation would bring with it the higher tariffs in place in Canada, and so truncate their effectiveness as traders.(37) Moreover, they feared the increased debts which would result from the construction of the Intercolonial railroad on which Confederation was predicated. Such debts would place an unconscionable burden upon the colony's citizens. While Tupper projected an industrial future for Nova Scotia, Howe articulated more traditional, commercial hopes for the colony.

[We] are not a manufacturing people...Our capital is employed in a more profitable ways, and the labour yields a better return. If we can build ships at less cost and sail them cheaper than Great Britain can, - if we export coal and catch fish, and ship away beef and butter, our shipowners and collieries, our fishermen and farmers, can pay for the wares of Birmingham and Manchester, and have more in their pockets, after they have done so, than if these goods were produced at greater cost at home. - If we deal on fair terms with the rest of the world, and sell what we can best produce at the highest price, and buy what we want at the lowest rates, the country must be the gainer.(38)

For Howe "the true policy for Nova Scotia to pursue is to keep her own people at home, by making home attractive, to accumulate wealth by domestic and foreign trade, and to pour that wealth into her own bosom, for her own cultivation and improvement".(39)

[Emphasis in text] Despite his earlier support for the Intercolonial Railway, Howe emerged as a spokesman for the anti-Confederation movement.

At the Quebec Conference Tupper had agreed upon a debt allowance of \$25.00 per capita. In Nova Scotia's case this meant that at the time of the union, the newly formed central government would take on Nova Scotian debts of up to \$8,000,000.(40) Construction of a railway line from Truro to Pictou had been authorized by his government in 1864,(41) and to take up the slack between the eight million and the \$5,290,225 which was Nova Scotia's total indebtedness in 1864, further lines from Truro to the New Brunswick border, and from Windsor to Annapolis were authorized in 1865.(42) Capitalization for the Pictou Extension was negotiated in 1865 and, undeterred by protest, the line was constructed under government supervision between 1864 and 1867.(43) The financial arrangements had the desired effect, for when the dust settled in 1867, the provincial debt had reached \$7,946,036. In addition, Canada granted Nova Scotia a subsidy of \$1,103,000 at Confederation for the construction of the as yet unstarted Windsor and Annapolis Railway.(44)

The fight for responsible government had focused attention on control of fiscal policy. But having won their autonomy the government proceeded with a caution that bordered on trepidation. Railways changed that. Railways built as public works, once

initiated, took on a momentum of their own. Railway building bogged down in the late 1850s and early 1860s, but out of this period two clearly defined positions with respect to railroads, and the debts acquired to fund them, emerged and coalesced.

On one hand, commercially oriented Nova Scotians desired a reduction of the burden of debt financing. They wanted a return to limited and economically managed government. Debt financing could only be funded, according to critics, by increases in the level of customs tariffs. Such policies would injure the colony's trade, and would not necessarily increase the amount of money at the government's disposal. The Reform Party, around which this more traditional, commercially oriented faction tended to group, was however in some disarray from the late 1850s to the mid 1860s. This weakened the voice of the commercial sector in the debate. On the other hand, Charles Tupper and his supporters were gradually caught up by a vision of the industrial potential of Nova Scotia. They favoured the encouragement of the colony's coal and manufacturing industries over its commerce. They saw colonial debts as an imperative toward Confederation because that arrangement would ease the weight of their established obligations. They also expected that the expansion of credit that would come with union would facilitate the completion of the intercolonial railroads which were such an essential part of Confederation.

As Tory administration succeeded that of the Reformers, the

n.

end result toward which railway policy was directed changed - in large part because up to the 1860s that policy had not proved very successful. Large debts had been amassed to pay for railroad construction, but no compensating commercial benefits had been acquired. The Tories, strongly supported by the northeastern coal mining region of Nova Scotia, argued in the 1863 elections that the Pictou Extension was necessary in order to make the best use of the railroad infrastructure the colony already had in place. But this was to be only part of a grander scheme of government intervention.

All this and more is reflected in the financial papers of the Nova Scotia government. Reformers entered into the financial commitments of responsible government intent on providing frugal, efficient government operation, but under Howe's tutelage they had embarked upon an ambitious program of public works. This was a prescription of government interventionism in a *laissez faire* world. Once the railroad policy had been implemented it absorbed both the attention and the resources of the government to an extent which forbade any turning back. Later, when the full implications of this policy became apparent in the 1860s, railway financing became central to the debate on the future of Nova Scotia - a debate from which the pro-Confederationists emerged victorious. So it was that though railway building was initiated in order to assist the commercial development of Nova Scotia, under Tupper's Tory government it became the keystone of a set of policies that were antithetical to that development.

NOTES - CHAPTER ONE

(1) Reports of the Public Accounts Committee in Journals and Proceedings of the House of Assembly of the Province of Nova Scotia (1850-1868). (Hereafter cited as Public Accounts in Nova Scotia Journals.)

(2) Public Accounts in Nova Scotia Journals (1857-1867).

(3) Alton A. Lomas, "The Industrial Development of Nova Scotia, 1830-1854" (Dalhousie University: M.A. Thesis, 1950), p.110.

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(5) Kenneth G. Pryke, Nova Scotia and Confederation (Toronto: University of Toronto Press, 1979), p.12. (Hereafter cited as Pryke, Nova Scotia and Confederation.)

(6) Joseph Howe, Speech of the Hon. Joseph Howe on Intercolonial Railroads and Colonization, Delivered at Halifax, Nova Scotia, May 1851. (Halifax: Richard Nugent, 1851), p.14.

(7) Public Archives of Canada, MG 24 D 21 - Baring Papers, vol 3 pp.1458-1469, Joseph Howe to Thomas Baring, 31 December 1861. (Hereafter cited as PAC, Baring Papers.)

(8) J. A. Maxwell, "A Financial History of Nova Scotia, 1848-1899" (Harvard University: Ph.D. Thesis, 1927), p.27, 134. (Hereafter cited as Maxwell, "Financial History".)

(9) Maxwell, "Financial History", p.28.

(10) 16 Victoria Cap 2, Statutes of Nova Scotia (1853).

(11) Maxwell, "Financial History", p.29.

(12) 17 Victoria Cap 2, Statutes of Nova Scotia (1854).

Also, 18 Victoria Cap 6, Statutes of Nova Scotia (1855).

(13) Calculated from Public Accounts in Nova Scotia Journals (1849-1868). In 1860, Nova Scotia changed over to a decimal system of currency.

(14) Calculated from Public Accounts in Nova Scotia Journals (1849-1868).

(15) Calculated from Public Accounts in Nova Scotia Journals (1862-1868).

(16) Calculated from PANS, Manuscript Documents, vol 259 #137, "Memo on Treasury Notes", and Public Accounts in Nova Scotia Journals (1851). Also, "Population of 1861 and 1871, compared by Electoral Districts within their present limits (1872), with notes of changes since 1861", in Canada Census of Canada, 1870-1871 (Ottawa: I. B. Taylor, 1873), vol 1 table V, and Public Accounts in Nova Scotia Journals (1862).

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(18) 16 Victoria Cap 3, Statutes of Nova Scotia (1853).

(19) PANS, Manuscript Documents, vol 471, "Observations of the Attorney General on Chap 40 of Acts 1861 'An Act for assessing the City of Halifax for Railroad Liabilities'".

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(24) Charles Tupper, Speech to the House of Assembly, 3 February 1856, quoted in E. M. Saunders (ed.), The Life and Letters of the Rt. Hon. Charles Tupper, Bart., K.C.M.G. (Toronto: Cassell and Company, 1916) Volume 1, p.50. (Hereafter cited as Saunders (ed.), Life and Letters.)

(25) Report on "Provincial Legislature", Yarmouth Herald 23 April 1857.

(26) Report on "Provincial Legislature", Yarmouth Herald 23 April 1857.

(27) Pryke, Nova Scotia and Confederation, p.8.

(28) PANS, Manuscript Documents, vol 267 #53, Charles Tupper to W. Pryor, 9 May 1857.

(29) Laurie Report, Appendix 35 in Nova Scotia Journals (1858), p.282.

(30) Maxwell, "Financial History", p.32.

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Britain, House of Commons, Papers Relating to Railways in British North America (Colonial Office: no publisher indicated, 1862), p.11.

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(34) Saunders (ed.), Life and Letters, vol 1, p.85. Also, Murray J. Beck, "The Nova Scotian "Disputed Election" of 1859 and Its Aftermath" Canadian Historical Review XXXVI(4) (December 1955), passim.

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(37) Saunders (ed.), Life and Letters, vol 1, p.106.

(38) Joseph Howe, "Botheration Scheme #6", 1 February 1865, in PAC (Library), "The "Botheration Scheme", Nova Scotia and Confederation, 1865" (newspaper clippings). (Hereafter cited as Howe, "Botheration scheme #6".)

(39) Howe, "Botheration Scheme #6".

(40) Saunders (ed.), Life and Letters, vol 1, p.109.

(41) 27 Victoria Cap 6, Statutes of Nova Scotia (1864).

(42) 28 Victoria Cap 13, Statutes of Nova Scotia (1865).

(43) Finding Aid to PANS, RG 28 - Railroads.

(44) Maxwell, "Financial History", p.44. Also, Public

Accounts in Nova Scotia Journals (1868).

CHAPTER TWO -- THE CAPITAL ACCOUNT

Within the public accounts of Nova Scotia, a section was given over each year to an exposition of indebtedness. This "capital account" was an annual statement of the long term burdens assumed by the province. Debts acquired solely for the purpose of constructing public works appeared in the current accounts of the Nova Scotia government only in the form of interest payments. In the capital account, the balance from the current account became a single entry among the various assets and liabilities of the province. The principal of the debts owed formed a charge on the capital account. A review of the capital account provides the basis for our analysis of the sources of funds tapped by the government of Nova Scotia as well as the relationship the government developed with its creditors.

* * * * *

Railroads became the central financial concern of the Nova Scotia government during the period of responsible government. In 1849, Howe proposed public construction of railways as a natural extension of the government's road building function.(1) Two years later, he made his point more clearly when he queried: "what is the government for if it is not to take the lead in noble enterprises - to stimulate industry - to elevate and guide the public mind?"(2) Railroads were never intended to be of only local concern. In default of a viable co-operative agreement on an intercolonial railroad, Nova Scotia embarked upon her own.

program of railway building and financing, but routes were designed with future connections to Portland, Me., and Quebec, clearly in mind. Discussions concerning the intercolonial railroad continued intermittently throughout the pre-Confederation period. In 1867, "An Act authorizing a Guarantee of Interest on a loan to be raised in Canada towards the construction of a Railroad connecting Halifax and Quebec" was published, in booklet form, side by side with the British North America Act.(3) Indeed, the British North America Act itself required the Canadian government to "Provide for the Commencement, within Six Months after the Union, of a Railway connecting the River St. Lawrence with the City of Halifax in Nova Scotia, and for the construction thereof without Intermission, and the Completion thereof with all practicable Speed".(4) This clearly expressed the ambitions of the men of the "railway age".

An 1854 circular advertising Nova Scotia's first debenture issue outlined the government's early railway objectives.

1. A railway connecting Halifax, the capital of the Province, with Windsor, and the basin of Mines, from whence, by Steamboat, a daily communication will be established with St. John, Portland, and the whole system of American and Canadian Railways.

2. A Railroad connecting Halifax with the Pictou Coal Mines, thereby securing the export of Coals from that port throughout the year, and drawing to it the trade of Prince Edward Island and the Gulf of St. Lawrence.

3. A Railroad to the New Brunswick frontier, which will ultimately connect with lines projected through the Province to Canada and the State of Maine.(5)

In 1855, with construction already underway, Howe was even more explicit about the government's hopes of railroads. The trunk line, Howe rather optimistically wrote to Baring Brothers and Company,

will probably be completed in the autumn of 1855. Besides giving Halifax the command of the trade of our Western Counties we shall when this road is finished connect Windsor and Portland by steamboat and thus secure daily connection with the Canadian and American Railroad system whether Maine and New Brunswick put forward their contemplated Eastern line through the territory or not...The Engineers are now engaged in locating the Eastern Line to Pictou. This will probably be placed under construction within a year. Its object assuming that no trunk [sic] line be made through New Brunswick will be to secure to Halifax the trade of Prince Edward Island, Cape Breton and the Gulf Ports generally - and to enable us to ship Coal at Halifax throughout the year. The Port of Pictou where the mines are situate[d] being closed by the ice during the winter months - the duties on Coal having been abolished in the United States this trade may be indefinitely extended.(6)

The purpose of railways was to create a communications system, centered on Halifax, which would enhance Nova Scotia's trade and commerce. The American market had just been thrown open to Nova Scotia by the Reciprocity Treaty, and many hoped the railroad would funnel the trade, not only of Nova Scotia, but of New Brunswick, Prince Edward Island, and Canada, through Halifax.

Halifax was both the colonial capital, and biggest and busiest port. It also provided a disproportionately large percentage of the customs and excise duties collected in Nova Scotia.(7) Halifax was, therefore, a critical focus of the Reform government's financial planning, and a predictable choice for the railroad terminus. The proposal to extend railroads to Pictou

had the additional, if naive, purpose of providing overland access to the area's coal fields. The General Mining Association, a British concern, still held monopoly control of Nova Scotia's coal resources and would exploit them in a fairly limited manner up to 1857 when their monopoly privileges were ~~re~~inded. Though rail transport was not a good means of moving coal because of the essentially perishable nature of the commodity, and the increased carrying cost on a cargo that was of relatively low value by volume, opening up access to coal - the "future fuel" of the 1850s - was a popular cause at the time.(8)

Not everyone was enamoured of railroads. Some feared that the colony could not afford such massive public works projects. In 1850 the Financial Secretary, Herbert Huntington, resigned over his opposition to the government's proposed railway policy. In his letter of resignation Huntington argued that the railway to New Brunswick

would be largely unremunerative, and that I was decidedly against pledging the General Revenues of the Province to so enormous an extent for a local improvement, clearly and avowedly [sic] making it necessary for that purpose greatly to increase taxation.

That in my opinion this policy if pursued will lead to inevitable public embarrassment, the risk of which is uncalled for, in order to promote the permanent interests of the Country...(9)

Although others stayed on, there were few illusions harboured about the impact railways would have on the province's finances. Merchant members of the Assembly loudly denounced this invasion of the public credit, especially if, like Huntington (from

Yarmouth), they represented remote parts of the colony unlikely to be affected by early railroad development. Nevertheless, the majority of Nova Scotians were of a different frame of mind. The 1851 general election was fought and won on the issue of railroads.(10). The public reaction was so strong Howe wondered "can any party hold power in Nova Scotia, or any other other Government be carried on without building a Railroad?" [Emphasis in text] (11)

During the election campaign, Howe claimed that two London banks, the London and Westminster, and the Commercial, had already agreed to act as Nova Scotia's financial agents to oversee the sale of provincial debentures. He also suggested that debt acquisition would raise Nova Scotia's stature in the world and create conditions prerequisite for the expansion of her commercial empire.(12) The veracity of the first claim is dubious, given that enquiries were still being addressed to these Houses in 1852 as to the terms on which an arrangement might be made;(13) but the second was warmly greeted at this time. Howe's willingness to enter into such a deal, and indeed to commend such a policy before the electorate, is also noteworthy. While he stressed the value of the agreement as a means of forcing Britain's hand with respect to loan guarantees (an alternative option, he felt, gave Nova Scotia a bargaining tool which would be useful in the ongoing negotiations), Howe also indicated that there would be great prestige attached to the province's being represented by so formidable a pair of Banking Houses.

Given Howe's beliefs about the potential value of deficit financing, it is not surprising that when private interests backed out of a contract scheme of railway construction in 1853 - citing as problems: faulty surveying, the possibility of a European war altering the British capital markets, and British procrastination over giving assent to Nova Scotia's railroad bills - (14) the colonial government stepped in to fill the void. Howe was fully confident that railroads were just the thing to bring Nova Scotia's commerce into bloom. An 1853 comment made by a correspondent begging a favour of him, reflects Howe's own thoughts on the matter: "I see that the Railway is Likely to be carried out [and] I have no doubt that it will make Nova Scotia one of the most flourishing Provinces of North America".(15)

Proponents believed that building railroads as public works involved no sacrifice of the public credit but was a reasonable and even a conservative way in which progress might be achieved more swiftly than would be possible if private capital was left to its own devices. The fact that public money had previously been utilized for the building of a provincial telegraph line was a promising, though modest precedent. As early as 1850 Sir John Harvey advised Earl Grey that "the success which has attended the appropriation of the public funds [for the provincial telegraph line] have [sic] attracted public attention to the practicability and importance of placing a Railroad beside the Telegraph".(16) An address to the Lieutenant Governor from the Executive Council, dated 14 February 1853, assumed the desirability of having

railroads, and addressed the real policy issue:

The policy of constructing Railways upon the chief throughfares of the Province as Public Works was deliberately adopted by its Legislature and people, from the general conviction, which still obtains, that these improvements cannot be secured within a reasonable period of time by private enterprise. The Legislature would charter Companies to construct these Railways, if Capitalists would build them with their own funds, as is done in England. No offer has been made, nor are any parties prepared to do this. The roads can only be constructed by a contribution of two-thirds of the actual cash from the Treasury. To give away so large an aid without retaining substantial control, would be to repeat the experiment tried with the Shubenacadie Canal. The Company formed to construct that work was incorporated in 1824. It expended of its own capital but £18,000. It drew from the Provincial Treasury £30,000, from the Imperial Treasury £25,000, and from deluded stock-holders in England £30,000. All this money was wasted because the Provincial Government was weak enough to make large grants from the public chest without retaining out of the expenditure any control. [Emphasis added] It is natural that the Legislature would shrink from repeating this experiment, and therefore while the Council are content to charter Companies who will build Railroads with their own funds, they humbly suggest that if the Province is to contribute two-thirds of the actual cost of the Roads, those who vote the money and those who are responsible to their constituents for their conduct [emphasis added], will guard the public interest quite as well as those who merely seek to profit from the expenditure.(17)

Clearly, Responsible Government in Nova Scotia was flexing its muscles. The product of five years debate, the government's policy recognized the need for state intervention to assist development. Private enterprise lacked the resources necessary to carry out so formidable an undertaking, a fact that had been underscored by the withdrawal of the most promising consortium of British railway builders. Though not stated as such, the government's argument was essentially the same "infant economy"

argument that would be used to justify Galt's raised Canadian tariffs in 1856 and, in later years, the National Policy. For a young province such as Nova Scotia to compete successfully with more firmly established commercial economies, defensive expansionism was needed, in this case taking the form of a government subvention for transportation infrastructure. Not only was public money crucial; public credit was necessary to maintain the province's reputation abroad.

After Howe's convincing electoral victory in 1851, his ministerial re-election went uncontested "(w)ith a view to the peace of the County, and in order to unite its population on the great question of the Railway".(18) A little over a year later, the Lieutenant Governor was advised to make conditional arrangements for funding railway works by enlarging the Savings Bank, issuing more Provincial paper (gold redeemable government notes), opening cash accounts with provincial or British banks, and by selling provincial bonds.(19) These avenues of funding will be examined in turn.

The Savings Bank at Halifax had been established in 1832 as a "Provident Institution for the safe custody and increase of the small Savings of the Industrious Classes of Society".(20) Legislation passed in 1846, however, had considerably altered the Bank's function. In this year, the "Act Relating to the Treasury Notes, the Funded Debt and the Halifax Savings Bank" proposed to turn over the £10,000 in loan certificates of funded debt that

the province then had outstanding at 4% interest, and to gradually liquidate the £20,000 of those certificates bearing 5% annual interest. The latter was to be achieved, if necessary, by "contract(ing) a loan with the person or persons [concerned] at as low a rate of interest as possible".(21) In essence this meant that owners of the loan certificates bearing higher interest would be offered Savings Bank deposits in lieu of loan certificates. The Savings Bank thus became a repository of government debts. By the provisions of this act, the government's managerial control of the Bank was also tightened. The Provincial Treasurer became the Cashier of the Bank, and the Cashier of the Bank his Clerk. The Receiver General took over the responsibilities of Cashier in 1849.(22) Money deposited at the Bank was automatically placed at the disposal of the provincial treasury.(23)

This legislation gave the government a free hand in dealing with the Savings Bank for it retained the power to manipulate the deposit ceiling of the Bank, that is, the maximum amount of money which could legally be accepted by the Bank from all of its depositors combined. The deposit ceiling of the Bank had remained static from 1849-1853. In response to the government's railway cash requirements, however, it rose an average of 22.9% annually during the years the trunk line was being built (1854-1858); remained stable from 1858-1862; and rose again by 5.7% annually during the time the Pictou Extension was in progress (1863-1867).(24) (See figure 2.1)

Province Notes appear to have been less directly used as an instrument of government policy than was the Savings Bank. Province Notes, or Treasury Notes as they were interchangeably called, were issued by the government to provide an alternative to specie for certain transactions. Legislation encouraged their use by permitting customs officials to accept them in payment for duties. (25) They were not, however, intended to take the place of hard currency. Indeed, the Nova Scotia government went to great pains at several times during the period of responsible government to procure large quantities of copper or bronze coin to alleviate the "great inconvenience...experienced for want of it". (26) An 1850 memo on the subject of Treasury Notes indicated that "no obstruction now exists that would prevent the passage by the Colonial Legislature of a law to authorize [their] issue...to any amount they deem safe" but suggested, by the use of a table, that a correlation existed and presumably should continue to exist) between population and the number of notes in circulation. (27) This provision relates back to the commerce of Nova Scotia, for trade was perceived to be a function of population. As Province Notes could really be expected to be used for settling only a portion of all transactions, there was a practical ceiling on the quantity of these notes which could be issued. The note issue then in circulation - £59,586 - was maintained for several years.

FIGURE 2.1 - AMOUNT OF LIQUIDITY ATTRIBUTED TO
PROVINCE NOTES AND THE SAVINGS BANK (26)

While this avenue of funding was of necessity fairly limited, it did offer the advantage of being able to provide the government with ready cash. Treasury Notes were viewed by government policy makers as money loaned, interest free, to the government, and it is quite likely that they worked on the assumption, later articulated, that about 30% of the note issue was probably lost and could not be regarded as debt.(29) As a result, in 1850 the amount of indebtedness attributable to Province Notes more than doubled, as £60,000 worth of new notes were introduced into the capital account. This rise may have been in part a response to problems the Nova Scotia government was then encountering in its efforts to procure copper coinage in Britain, but the schedule of Province Notes issued and destroyed (which were recorded in a separate section of the public accounts) indicates that the notes were actually issued in three chunks - £11,000 in 1854, £34,000 in 1855, and £15,000 in 1856(30) - and so suggests that their purpose was more to facilitate the government's developmental activities.

After 1850, the quantity of Province Notes in circulation was decreased only once - by £8,000 in 1859 - coincident with the official completion of the trunk line. Further note issues were made in the last four years of the period, during which time the Pictou Railway line was under construction: \$40,000 in 1864; \$5,000 in 1865; \$95,000 in 1866; and \$35,000 in 1867.(31)

There is only limited evidence linking the issue of Province

Notes to activities other than railroads. Minutes of the Executive Council of 14 July 1866 approved that "the issue of Province Notes be extended to a total of \$650,000 including those issued to this date in order to meet the demand for Currency and to be expended on the New Province Building and the Hospital for the Insane", (32) but given the much smaller scope of the latter two endeavours, the primacy of the railroad as a policy directive may be asserted with some confidence. By 1867, the quantity of notes in circulation was three times that recommended twenty years previously though the population had grown by only a third. (33)

Province notes and Savings Bank deposits were essentially the same type of funding alternative for the Nova Scotia government. Both were repayable but could be turned over as long as there were sufficient purchasers or depositors with faith in the government. Further, it was recognized that both were used as indicators of the state of the province's financial health, and thus that they should not be irresponsibly utilized. Figure 2.1 shows clearly that these two sources of capital were most readily tapped by the government during periods of railway construction. Only in response to this imperative was the credit of the province extended by these means.

With respect to using local banks as capital sources, the government of Nova Scotia proved much more wary - perhaps because of the negative response they had previously received from the

banking community. Both the Halifax Banking Company and the Bank of British North America had in 1848 rebuffed advances made by the government of Nova Scotia (advances which had presumably been made in anticipation of the wider responsibilities with which they would soon be faced). The Halifax Banking Company declined the government's request for a cash account on the grounds that they had never before been depositories for government funds, and they preferred to confine their activities to the "strict objectives of a Banking Company".(34) The Bank of British North America felt that the government's offer to pay 5% interest was too low for a loan with no fixed date of repayment. The Bank countered with an offer of a £1,400 demand loan at 6%.(35)

The Nova Scotia government was not, however, unaware of the value of short-term access to bank capital. Legislation was routinely passed during the period of responsible government to allow the government to borrow up to £10,000 "for the purposes of the Province", the total to be repaid within the year,(36) but this power was put to limited use. Loans were taken out (with the Bank of Nova Scotia) in only three years - 1849, 1861, and 1862(37) - and appear to have been responses to temporary cash squeezes. There was, apparently, also some use of the borrowing privilege for periods of less than a year. Scattered references in the Financial Secretary's General Statements of Public Service Expenditures - and elsewhere - report interest payments made by the Nova Scotia government to the Bank of Nova Scotia. (See

Figure 2.2.) The highest figures, in 1850 and 1862, covered twelve month loans contracted in 1849, 1861, and 1862.

FIGURE 2.2--INTEREST PAYMENTS MADE TO THE BANK OF NOVA SCOTIA (38)

YEAR	AMOUNT
1850	£582
1851	154
1852	154
1853	154
1858	188
1862	\$6,553
1865	114

Why then, was the government of Nova Scotia so reluctant to use this method of financing to cover its railway expenses? The Bank of Nova Scotia - which appears to have been the only local banking institution that was aware of the potential of government-as-client - made a concerted effort, to woo the government during the early 1850s, and once appeared close to success. In 1851 they proposed that the government allow them to substantially increase their capital and redeem circulating Province Notes in order to issue their own. In return, the Bank offered to allow the government to open a cash account for up to £100,000 to pay interest on the expected Imperial loan which was to finance the building of the railway. They pointed out that this scheme would allow the government to carry out its plans without raising taxes.(39) At the time, the government greeted this proposal coolly - seeing no merit in the Bank calling in Province Notes and feeling that the province would be flooded

with small bills to the profit of the Bank and no one else.(40) No doubt this was at least in part a reflex action for Howe, who had waged verbal warfare on monopolistic Tory Banks throughout the 1830s and 1840s.

A year later, Howe, "without abandoning the hope of an Intercolonial Railway being constructed in the North American Provinces with the aid of the Imperial Authorities", found it necessary to make enquiries as to whether the Bank of Nova Scotia was prepared to renew its offer.(41) In reply, Samuel Almon, President of the Bank, made clear the stipulation that they would have to be the government's exclusive bankers. They agreed to dispose of government bonds, but they also insisted that the issue of small notes be given to them as an exclusive privilege, and that the Bank be protected from future increases in taxation.(42) All of these provisions were calculated to enrich the Bank. Loans could be made only to the extent of a certain ratio of deposits, so holding the government account would greatly increase the total amount that the Bank could lend. If the Bank of Nova Scotia had the right to issue its own notes, loans contracted with them could be paid out in the Bank's own paper, some of which could be expected never to return for redemption.

In 1854, the government sent the following message to Almon:

With respect to the Memorandum of the 4th Inst. submitted to you by the Provincial Government stating:

"That the Bank of Nova Scotia will irrespective of any existing engagements, open a Cash Account with the

Province of Nova Scotia for fifty Thousand Pounds Halifax Currency for twelve months certain, for the repayment of which sum it is understood that the faith and credit of the Province and the ordinary revenue thereof are pledged. The Bank receiving in addition as collateral security, certain Provincial Government Debentures (as authorized to be issued under a late Act of the Legislature) to an amount equal to such sums as may from time to time be drawn by the Receiver General from the bank, such collateral to be relinquished in proportion as the Cash Account shall be diminished in amount." I am commanded by the Lieutenant Governor to signify to you the acceptance by the Provincial Government of the proposal contained in that Memorandum, in the event of there being occasion to require the sum mentioned therein or in any proportion thereof, it being understood that the rate of Interest payable by the Province will be six per cent. per annum and that for any sums to the credit of the Province on that account, interest at the rate of three per cent. per annum will be allowed by the Bank.(43)

Perhaps the Bank's terms for a larger scale loan had been too rich for a Reformist Nova Scotia government inclined to view that institution with suspicion; more likely the government doubted the Bank's capacity to provide the kind of services and access to capital available through London. An 1855 Executive Council meeting supports the latter argument by concluding that "it is obvious that this large amount cannot be borrowed within this province", and that it was therefore necessary "to apply to English Capitalists".(44) In any case, intent on making themselves known to the world, the Nova Scotia government turned to a London financial house which already held Canadian and New Brunswick debentures, and offered only the crumbs to the Bank of Nova Scotia.

Baring Brothers and Company, with its more than passing interest in British North American affairs, was the natural

choice as Banker to Nova Scotia. Given the preoccupation the Nova Scotia government evinced early on about the relative merits of Canadian and Nova Scotia bonds, it is obvious that they hoped to enter the market Barings had created for British North American bonds and become an important participant in it. Perhaps it follows that there was initially little comparative shopping done respecting the merits of the various London financial houses. Arrangements with other London banking houses, to which Howe had so proudly alluded in 1851, had never come close to fruition. Near the close of final negotiations with Barings, Howe, in fact, informed the Nova Scotia government that "I have not thought it necessary to open communications with any other Banking House, and am doubtful of the propriety of doing so, but if the Government desire that this shall be done, you will be good enough to instruct me to that effect". (45)

Howe's sensitivity arose from the fact that there were actually two sets of negotiations between the government of Nova Scotia and Baring Brothers and Company. The first was concluded in December 1852 on the assumption the Nova Scotia section of the Intercolonial Railroad would be supported by an Imperial Loan Guarantee. Although the British refused the guarantee, contacts with Barings were maintained. Barings acted, in the interim, on behalf of the Nova Scotia Railway Commission (to procure construction equipment, etc.), and they kept up a wide-ranging correspondence with its Chief Commissioner, Joseph Howe. Howe arranged cash credit for himself through them for a trip he took

to London, (46) and generally kept them up to date on financial and railway matters. Late in 1853, Howe informed Barings that

Mr. Jackson having failed to organize a Co to construct our Railways under the Act of Incorporation passed last Session, it is more than probable that the alternative Bills, which place the construction of those Railways in the hands of the Government, will come into operation...

The apprehensions of war, and the rise in the price of money at home, have not escaped my notice, and should the Government of the Province be called to construct Public Works in view of these altered circumstances, it is more probable that we shall limit our expenditure in the first instance, and until the money market becomes easier to a much smaller sum than was contemplated when my letter was addressed to you last December say from £250,000 to £500,000.

Should we require this amount, in all 1854 and 1855, you will be kind enough to inform me whether you can, either by purchase or by sale of Provincial Government Bonds, place at our disposal, and at what terms. (47)

Six months later, Howe wrote again to Barings:

I have not written to you on the subject of Nova Scotia Bonds or Debentures, because the time did not appear to be favorable, and because, as our Province is prosperous, we can probably sell as many here as will cover the operations of a year or two, at about the same premium that Canada Bonds command in London. I will trust you to keep me informed, from time to time, as to the state of your market for such securities and to favor me generally with your advice. Should you find a favorable opportunity to dispose of £50,000 or £100,000 let me know. (48)

Shortly after this communication, Howe sent Barings a prototype of a Nova Scotia debenture and requested that they suggest any alterations that might be necessary. (49)

It was not, however, until June 1855 that the attention of the Executive Council as a whole was called to "the necessity of

providing funds for the construction of the railways that are now in progress". At this time, Howe was authorized to make arrangements for the sale of 6% bonds to the amount of £600,000 or £800,000 "as may seem to him most advisable" on the best terms he could procure. The bonds, redeemable in twenty years, were not to be sold at a discount. (50)

Despite the contact that had been maintained between Howe and Baring Brothers between 1852 and 1855, Barings continued interest in the project, and the rosy picture that Howe painted of Nova Scotia's financial situation, (*) the Baring firm had some reservations about taking on Nova Scotia debentures in the mid-1850s, mostly because the money market was so tight due to the Crimean War. "I suppose the real question" Thomas Baring wrote to a colleague in the midst of the negotiations, "is whether the Nova Scotia Bonds would sell currently to cash...Not more than par could at present be thought of with so many other temptations afloat. Would it not be well when the £200/s Canadas are safely placed...to ask the principal brokers (Cafel[?] and Lawrence whether they see their way to place Nova Scotia 6pc Bonds". (51) By July, however, they were able to inform Howe of their "entire confidence" in Nova Scotia, and their belief that,

(*) A memorandum of debt which Howe sent to Barings in June 1855 claimed the provincial debt to be £112,000 of which £56,000 was due the Savings Bank, whereas according to the 1854 capital account figures, the total indebtedness of Nova Scotia was £176,811 19 2, of which £70,500 was due to the Savings Bank. (52)

with good management, Nova Scotia securities would attain "the highest degree of credit".(53) Indeed, in August J. Bates, an American agent for Baring Brothers, wrote to Thomas Baring that "(w)ith regard to the Nova Scotia loan I see no objection to it [as] the security is good".(54)

After conveying Baring Brothers' offer to the Nova Scotia government, Howe was empowered, on 17 July 1855, to accept any proposition for the purchase of Nova Scotia 6% debentures that he deemed fit.(55) The agreement was finalized on August 16. By its terms, Barings bought £150,000 bonds at par, with no deductions for commissions. They, in turn, immediately credited the account of the Nova Scotia Board of Railway Commissioners with £50,000 (plus interest from July 1); on receipt of the bonds the same account would be credited with an additional £50,000 (plus interest from July 1); and on December 1, again by £50,000 (plus interest from July 1). The Nova Scotia government undertook to consign further issues of provincial bonds for sale. Barings would charge 1-1/4% brokerage on the profits realized from bond sales, and a 2% charge on money credited to Nova Scotia in advance of bond sales.(56) At one stroke, Baring Brothers became creditors of and agents to the government of Nova Scotia.

Maxwell describes the approach of the government in the late 1840s and the early 1850s as having been fiscally very conservative,(57) and this was indeed the case, as the province's credit was jealously guarded by the Reform politicians of the

mercantile elite. The expansion of trade and resultant prosperity anticipated to be around the corner of Reciprocity mollified the province's bellicose commercial interests, however, and allowed an agreement for external funding of ongoing railway construction to be concluded.

With the first sale of bonds the structure of the province's debt was radically altered. Figure 2.3 clearly illustrates the magnitude of the policy decision made by the government with respect to the building of railroads. Debts in the form of Province Notes and funds obtained from the Savings Bank, in one year fell from 60% of total indebtedness to about 20%. In that same year, provincial bonds suddenly formed over 70% of Nova Scotia's debt. The second sale of bonds had little effect on the proportional distribution of debt. The relatively stable nature of the debt formation both before and after the 1857/58 divide is indicative of the absolute nature of the policy shift. The government of Nova Scotia exchanged a small, and almost static debt load (on which annual interest of 4% had to be paid for only that portion owed to the Savings Bank) for a debt load ultimately almost eighteenfold the amount (on which annual interest of 6% had to be paid).

From the outset, Howe had indicated that the terms under which Barings would sell Nova Scotia debentures should in no way impinge upon the Province's policy-making autonomy. Thus, a memorandum sent to Barings in November 1852 stated that "it has

FIGURE 2.3 - PROPORTIONAL DISTRIBUTION OF INDEBTEDNESS (53)

been the policy of Nova Scotia, and may be yet, to keep her financial arrangements independent of her contracts" and that "Messrs Baring and Co. will therefore be kind enough to bear in mind that any terms they may propose must leave the legislature free to make the best arrangements they can for the expenditure of the money".(59) In this, Howe was apparently successful, for in 1852 he wrote to Sir John F. Packington that he had "(m)ade arrangements with one of the first Houses in London to lend the Province a Million Sterling on her own Bonds, independent of any contractors so that she may decide on policy free from any pressure and make the best terms she can for the construction of her [rail]Roads".(60)

Compromises were made, however, to accommodate both parties to the negotiations preceding the 1855 agreement - a result, it may be presumed, of the lack this time round of Imperial participation. For example, a memorandum, discussed with Barings but withdrawn, suggested that Barings buy £100,000 worth of bonds, and leave the government free to try to sell the remaining £50,000 of the first issue within Nova Scotia. Only if Nova Scotian buyers were not forthcoming would the bonds be sold through Baring Brothers. The government stressed that it was to retain the right to direct the timing and quantity of bond sales. They also reserved the right to sell up to one quarter of the whole issue in Nova Scotia and indicated that Barings were to derive no profit from these sales in the form of brokerage and commission.(61) A discussion paper, apparently tabled

subsequently, takes a somewhat different slant. According to this document, Barings were to take the first £150,000 bonds, and had an option on £50,000 additional bonds. The government pledged to sell the remaining £600,000 through the agency of Baring Brothers thereby ensuring that company a commission on bond sales and interest payments. The Nova Scotian government, however, was not prohibited from selling bonds within the province. (62)

Compromise of another sort concluded less favourably for Nova Scotia. Howe and the Nova Scotia government generally, had had high hopes of making a good premium from the sale of bonds prior to the conclusion of their agreement with Barings. Their enthusiasm is illustrated by a communication Howe sent to Thomas Baring on 15 August. Howe wrote:

The Provincial Secretary writes me by last mail "to expect some premium at all events". From all that I can gather my impression is that our Bonds ought to bring 6 or 8 per cent. To put them down to par myself while the Canada Bond brings a premium of 12 or 15 would be an operation most distasteful to me. If the public push them there I cannot help it. My mind, therefore, inclines to an open public sale for what they will bring. The position of the [Canadian] Provincial securities is wonderfully changed since 1850, and the difference between the two Provinces ought to be only a shade. (63)

In response to this attitude, Barings made a concentrated effort to lower the expectations of the Nova Scotia government. Before the debenture arrangement was secured, members of the Baring company discussed among themselves Howe's difficulties at having to explain to his government why Nova Scotia bonds would sell so

low in comparison to Canadian 6% bonds.(64) In correspondence with the Nova Scotia government at the time the agreement was formalized, Barings offered congratulations in such a way as to reinforce the value of their relationship. They suggested, in fact, that they had saved the Nova Scotians from the chasm of the inevitable failure of an independent bond sale.

Sales of stock like those in question cannot be forced [intoned Thomas Baring], the investments in them are limited and gradual; there is no disposition to speculate in them because they cannot be converted into money according to the wants of the holders, and much more time will often elapse before a buyer or lender can be found. This is the case with all Colonial and American securities, but would be so much more on the introduction of new bonds into the market; and we believe that any attempt to sell at once, and by competition [as Howe had earlier suggested] £150,000 Nova Scotia bonds, would have failed, and damaged all future sales, for we can only look to time and good management to introduce them gradually into favorable notice. We consider that you have made an advantageous contract for Nova Scotia by obtaining the full amount of the principal without any deduction for charges and we feel the fullest confidence that nothing will occur on the part of Nova Scotia to obstruct the efforts to place her claims to general credit in the most favorable light.(65)

The idea that Barings themselves stood to profit substantially from the resale of the bonds they obtained at par was not, of course, an idea that was given much play, and some scepticism as to their motivations is warranted, given that in January 1859, the quoted price for Nova Scotia bonds was 110% to 111% of their face value.(66) The same performance was repeated at the time that capitalization of the Pictou Extension was negotiated, though at this juncture, the reasons given were "variations in popular taste and the desire of the public to obtain new loans,

shares and schemes without due respect to the security offered", as well as "various circumstances on the Continent of America during the last four years [which] could hardly fail to inspire in the public mind some anxiety as to the future position and expenditure of the British possessions in the neighbourhood of the United States, and thus throw some doubt (whether justified or not), as to the Provincial debt, as a security for investment". (67) The latter, of course, refers to the American Civil War.

Though in these cases their powers of persuasion seem to have won the day, in general, the power British Bankers exercised over the decisions of colonial governments in North America appears to have been exaggerated in the literature. (68) This may be demonstrated through the dispute over bond sales within Nova Scotia, to which previous allusion has been made. Less than three months after the agreement between Baring Brothers and the Nova Scotia government was signed, the latter indicated their intention to issue £20,000 debenture bonds within the province on the same terms as those negotiated in London. Nova Scotia's Receiver General assured Barings that he would confer with them before issuing bonds over and above the £20,000, and that the bonds would never be sold in Nova Scotia for less than the rate at which they could be bought in England, but the limit set on these bond sales was £800,000 - in other words, unlimited. (69) As bonds could only be sold in London according to the instructions of the Nova Scotia government, it is clear that access to British

capital markets had been attained while the power to secure as much as possible of its debt domestically had been retained. The government made regular reports to Barings on the state of Nova Scotia's revenue and expenditure and informed them of changes in their tariff schedules, but this did not constitute giving them access to privileged information, for all these figures were public knowledge. Howe, in fact, attempted to meddle in Barings affairs rather than vice-versa as might be expected, when in October 1855 he reported that the New Brunswick Railroad was in difficulties, and offered his services to mediate a bailout of the operation by Barings. (70)

The fundamental fact about the capital account of the government of Nova Scotia during the period of responsible government is that it grew in two tremendous leaps - in 1858 and 1865 - both in response to the sale of provincial bonds issued to finance railroad construction. (See figure 2.4)

Before the first bond sale was registered in the capital account in 1858, the indebtedness of Nova Scotia had never exceeded £125,000, about half a million dollars. In 1858, the debt rose to £1,154,424, approximately \$4,600,000, and continued rising, though less rapidly, till 1861. Only in the last of these years was the sale of bonds not the chief agent fueling the rise. In 1861, a shortfall in customs and excise revenue forced

FIGURE 2.4 - GOVERNMENT OF NOVA SCOTIA
CAPITAL ACCOUNT BALANCE (71)

the government to borrow \$125,177 from the Bank of Nova Scotia. That loan, however, was repaid the following year.(72)

From 1862 to 1864, even though the balance of the capital account decreased marginally as the credit side of the indebtedness ledger increased (from \$181,944 to \$444,179, mostly as a result of increases in the amount of money credited to the province as undrawn for roads and bridges), the amount of Nova Scotia's debts increased. Bond sales for the Pictou Extension precipitated another steep climb in the province's debt load. The debit side of the ledger increased by almost a third in only three years.

Early in 1857 there was a change of government in Nova Scotia. Howe promptly assured Barings that the colony's railway policy would be continued and the credit of the colony maintained.(73) A month later the newly reappointed Receiver General, James McNab, instructed Barings to "lose no favorable opportunity of disposing of Bonds". "As the season now admits of it [he explained], it is the desire of the Government to proceed as rapidly as possible with the public works".(74) An election returned the Reformers to power in 1859 but produced no dramatic change in the railway policy. A depressed economic climate and shifting political alliances insured that construction lagged as future railway plans hung in limbo. The strength of the Reform and Tory parties remained closely matched in the House of Assembly, and members of all parties remained uncertain about the

future direction government support for railroads should take.

The 1863 election, however, produced a more substantive Tory majority under Charles Tupper and a changed direction in policy. Given that Nova Scotians favouring Confederation cited its potential as a stimulant for the province's manufacturing sector, it follows naturally that Tupper - a man whose "ambitions exceeded provincial realities"(75) - should want to push forward rail access to the Pictou coal fields as a precursor of union and an Intercolonial. Tupper, therefore, sent Nova Scotia's Finance Minister to Barings in 1864, requesting a conference to discuss terms upon which a further loan might be made, should it be found necessary because of renewed railway construction.(76)

Barings, citing unfavourable market conditions, refused to buy more Nova Scotia bonds. They did, however, agree to hold bonds for sale, and in the interim to advance cash to the government at 1% above the Bank of England rate of about 5%.(77) Although obviously a response to an attempt by the Nova Scotia government to bargain-shop for agents for their new bond issue, for some reason there is no reference in the official correspondence concerning the capitalization of the Pictou Extension to a letter Barings sent to Tupper on 2 August 1865. Neither is there a record of the correspondence which prompted this defensive outburst from Thomas Baring.

My partners were as surprised and grieved as myself to learn that our mode of transacting the business of the Province was not satisfactory to the Government and Legislature of Nova Scotia. Our belief had been so strong that it was [not only] in accordance with their

wishes, but efficient for their credit and we certainly considered it liberal on our part. Our charges of commission are what are paid to us in similar cases, and indeed for the sale of Bonds it is much less than we usually charge for the negotiation of loans. The payment of the dividend warrants differs very much from the payment of a bill or order, requiring as it does, supervision, integrity and regularity, besides more manual labour and entries and book-keeping and registration. We are not anxious to engage so long beforehand to lend during next year £150,000. We do not regard it as a matter of profit for we believe that we can make more from our money than 5pc interest with 1pc or even 2pc commission and we certainly should not have made the proposal to Nova Scotia, or to any other borrower except from our previous connection with the Province and our desire to be of service to it. My partners and myself therefore can not have objection to your offering the adventures to others, however flattered we may feel by the agency. Our object is always to do the best for those who employ us, but not to enter into transactions which disappoint those for whom we work.

You will not therefore probably require an answer to your letter of 14 July, as it is not our habit to enter into competition for the reduction of commissions, especially if the system of the Province is to transact its business with those who work the cheapest regardless of past or other considerations. You will I am sure understand my dear Sir that we all feel that you are only anxious to do your duty according to the wishes and instructions of others, and I feel that nothing could be more courteous and friendly than the mode in which you expressed your disappointment with the arrangements with our firm. (78)

In all probability, friction between the Tory administration and Barings resulted from the close ties the latter had kept up with Joseph Howe over a period of more than ten years, both when he was in and out of office. (*) Concurrence between Barings and the Tories on their support for Confederation appears, however, to have smoothed the path toward financial agreement quite swiftly. Later correspondence refers to Barings letter of 10 August 1865 "stating the terms on which you [Barings] were willing to assume

the disposal of Provincial Bonds for this Province, and their [Tupper's and Henry's] acceptance on behalf of the Province the terms and conditions therein proposed", (79) and on the 11th of August, in concluding the negotiations, Tupper offered Barings "many thanks for your uniform kindness to ourselves, and considerations for the interests of the Province". (80) Tupper and W. A. Henry were among the Nova Scotia delegation in London carrying on negotiations with Barings, and the final agreement reached testifies to the amicability of their meetings. By January 1866, the Nova Scotia government had doubled its capital requirements from £150,000 to £300,000 or possibly even £350,000 sterling without protest from Barings, (81) so as to reconcile their capital account to the level of debt that would be tolerated within a Confederation arrangement as discussed at Quebec in 1864.

(*) Howe obviously had reason to be confident of their good will. In 1858, he requested their support for his claims on Her Majesty's Government for "promotion and distinction", (82) soon after which he was appointed an Imperial Fisheries Commissioner. Late in 1862 he wrote to Edward Watkins that "(y)our note of yesterday opens up a new field of labour in which we may still work together and do some good. That you should have asked my co-operation is a compliment. That we can mutually serve the interests of the great Company you represent [Baring Brothers] I have little doubt". (83)

Late in 1865, it had been agreed that Sanford Fleming, till then the Province's Chief Railway Engineer, would undertake the completion of the Pictou Extension on contract. Fleming was given his own account with Barings which was, on the government's request, periodically credited with the proceeds of bond sales. (84) The arrangement with Fleming was a matter of economy; but it was also a reflection of his secure political affiliation to the Tories. Fleming, a Confederation enthusiast, had helped Tupper arrange Maritime Provinces speaking tours by similarly minded persons; (85) and his concern for the fiscal arrangements of Confederation is witnessed in remarks he made to J. C. Brydges, engineer for the Grand Trunk Railroad, late in 1864.

"On the Union of the Provinces" Fleming wrote,

the existing Railways and the Pictou extension will belong to the Confederation Government[,] in the meantime the Government of Nova Scotia in order to facilitate arrangements with the parties disposed to carry out these extensions will be disposed to leave these lines receiving therefore the actual net earnings until the Union of the Provinces is effected. Upon the Union of the Provinces these Railways to be held under the Confederation Government upon such equitable terms as may be agreed upon. In the event of the Annapolis Line being completed before the Union of the Provinces is effected it will be operated in connection with the other Lines and under the same management...

The proposed arrangement embrace the following points 1st The working of existing lines in the Province and all line to be constructed under one management on equitable terms 2nd The building of the Annapolis Line under existing legislative enactments 3rd The commencement of the Truro and Moncton Section under the authority of the legislature already obtained 4th The completion of the branch[es] to Pictou and Annapolis for such a sum as will allow Nova Scotia to undertake the Union with a debt not exceeding \$8,000,000. [Emphasis added]. (86)

Fleming's contract was based on a fixed budget, which was undoubtedly one of its most attractive features from the government's point of view, for economy was becoming a matter of some importance to them. Just as the need for cash was again expanding rapidly, a leading London discount firm failed. A financial panic and a decline in the saleability of colonial bonds on the London market ensued.(87) In May 1866, Barings reported: "Our market is in such a very unsettled state that it is impossible to obtain any quotation of the expected selling price [of Nova Scotia debentures] whatever", (88) and in response to continuing tight markets, the Nova Scotia government, early in 1867, amended the act covering the sale of bonds so that the bonds might, for the first time, be sold under par.(89) The government did maintain its close supervision of the railway works, but while continuity was maintained in this respect, public policy by this time had obviously taken on a new orientation.

There is no question that at the time railway financing was initially negotiated the Nova Scotia government had been a novice in the field of debt management, (*) but the arrangements that they made to procure railroad financing were all designed to ensure the integrity and independence of their future actions.

(*) Symptomatic of this was the Receiver General's thanks to Barings early in their relationship for forms the company had sent to him, showing the manner in which they kept dividend books. This was followed up by the comment that the books did not appear very clear to him, but that he trusted that further study would prove enlightening.(90)

While it is true that Barings could influence the actions of the Nova Scotia government through their interpretation of the strength of the money market, there is no clear evidence that either Reform or Tory administrations curtailed or expanded their activities according to the dictates of their British bankers. It is, indeed, probable that Barings would have been interested only in larger scale government policies which would in some way rebound upon the public credit. A case in point would have been Confederation which involved the consolidation of the debts of three colonial governments. With respect to Confederation it is worthy of note that Barings influence was subtly applied, for though no indiscreet suggestions are to be found in the official correspondence, the Company's intimation of the increase that would be witnessed in the value of British North American bonds upon the completion of such an agreement no doubt formed part of the Tupper government's calculations.

It may also be noted that by the time Tupper came to power in 1864, Nova Scotians had gained considerable knowledge and experience in financing large projects. One example of this is the approval in 1860 of the issue of £50,000 debentures (about \$200,000) to finance the Windsor and Annapolis Line.⁽⁹¹⁾ Given the state of the bond markets, it seems likely that this was a political move on the part of Nova Scotia's Executive Council, intended to force the hand of the government of Canada with respect to proposed provincial debt ceilings entering Confederation. Another example occurred in June 1867 when Tupper

requested that Barings defer sales until there was time to negotiate with the Canadians, though he commented: "You will see that the Dominion of Canada will be under the Imperial Act, responsible for our entire indebtedness".(92) He proved to be correct in his assessment, for on 1 July 1867, Canada took on all the debts that Tupper had so carefully accumulated.

While great attention has been paid to Nova Scotia's negative reaction(*) to Confederation - much of which reaction was predicated on the belief that the agreement would entail an "outward drain on [Nova Scotia's] public and private resources"(93) - it should be noted that Confederation did provide a means by which Nova Scotia could extend her commercial and industrial empire. Shut out of the American market for coal by the abrogation of the Reciprocity Treaty in 1866, Nova Scotia's options were limited. While Confederation brought with

(*) It is also interesting to observe, of the development of the Confederation negotiations, that Barings attached more significance to opposition in the Maritime Provinces than did the Canadians. "I was surprised" Thomas Baring's nephew wrote to him in 1865 "to find how little importance the Canadians attached to the apparent unwillingness of the lower provinces to accept the proposed union". The letter went on to suggest that it was believed in Canada that "a little pecuniary persuasion and a promise of a place or two" would be enough to induce the Legislatures of New Brunswick and Prince Edward Island to accept the proposed union. Nova Scotians, by default, were attributed with more resilience. This is indeed indicative of the state of communications which existed between Nova Scotia and Canada before Confederation.(94)

it the transfer of initiative for development from the provincial to the new federal government, and with it a like transfer of provincial debts. It has been shown that Nova Scotians were buttressed by a belief in the natural advantages which their province enjoyed. First Reform and then Tory government's had built as public works the infrastructure necessary for success. In doing so, they had maintained their relative independence with respect to debt financing. With Confederation, many Nova Scotians could see the fruition of the railway policy to which so much of their efforts had been directed.

Responsible government brought with it many challenges for the political leaders of Nova Scotia. That they saw fit to respond in terms of large scale debt acquisition suggests much about their hopes and expectations. From the time Howe's government signed its agreement with Baring Brothers in 1855 - thereby profoundly altering the imperatives governing public finance in the colony - there was no turning back. The burden of debt incrementation did not become instantly apparent, but an increase in per capita indebtedness from approximately \$3.04 to \$22.33 between 1857 and 1867 - compared with an increase from \$1.77 to \$3.04 during the first nine years of responsible government(95) - reflects a substantial shift in popular notions about the role government ought to play in society. With the development of railroads the state was taking on new, expanded responsibilities, despite the popularity of the notion of economic laissez faire. Not only did the Nova Scotia government

accept the necessity for its intervention in the economy on a long-term basis, it assumed that the greater current costs associated with debt (that is, annual interest accruing) were justifiable on the way to achieving their ambitions for the colony. Despite several changes in administration over the remainder of the period, no discernible shift in policy becomes apparent in the capital account of the Nova Scotia government, save for the surge in the level of indebtedness associated with the cost of constructing the Pictou extension.

The capital account reflected the basic reality of the Nova Scotia government's financial situation. Railroads were the engine fueling all increases in this account, and it was the dreams engendered by an era of railroad building that led to the conception of British North American union, and ultimately to Confederation.

NOTES--CHAPIER-IMV

(1) Eldon Pringle Ray, "Transition to Responsible Government in Nova Scotia, 1835-1864" (University of Toronto: PhD Thesis, 1945), p.122. (Hereafter cited as Ray, "Transition to Responsible Government".)

(2) Joseph Howe, Speech of the Hon. Joseph Howe on Intercolonial Railroads and Colonization: Delivered at Halifax, Nova Scotia, May 1851 (Halifax: Richard Nugent, 1851), pp.7-8. (Hereafter cited as Howe, Speech on Intercolonial Railroads and Colonization.)

(3) Nova Scotia, An Act for the Union of Canada, Nova Scotia and New Brunswick Together with the Act Authorizing a Loan for the Halifax and Quebec Railway (Halifax: Compton and Co., 1867).

(4) Section 145 in 30 Victoria Cap 3, Statutes of Great Britain (1867).

(5) Public Archives of Canada - MG 24 D 21 - Baring Papers, vol 182 pp.82610-82611, "Circular - Nova Scotia Bonds (1853)". (Hereafter cited as PAC, Baring Papers.)

(6) PAC, MG 24 B 29 - Howe Papers, vol 7 pp.246-257, "Memorandum to Baring Brothers from Joseph Howe, 20 June 1855". (Hereafter cited as PAC, Howe Papers.) Sections of this memorandum were printed in the Journals and Proceedings of the House of Assembly of the Province of Nova Scotia (1856). (Hereafter cited as Nova Scotia Journals.)

(7) Calculated from Reports of the Public Accounts

Committed in Nova Scotia Journals (1849-1868).

(8) D. A. Muise, Coal Mining in Nova Scotia to 1925 "Canada's Visual History" vol 55 (Montreal: National Film Board, 1981), passim.

(9) Public Archives of Nova Scotia, RG 1 vol 257 - Manuscript Documents of Nova Scotia, Selections from the Files of the Offices of Government Officials, 1749-1870, #125, Herbert Huntington to Sir John Harvey, 4 December 1850. (Hereafter cited as PANS, Manuscript Documents.)

(10) Eldon Pringle Ray, "Transition to Responsible Government", pp.132-133.

(11) PAC, Howe Papers, vol 28 pp.11-15, Joseph Howe "Letter to the Party". Also, Ray, "Transition to Responsible Government", pp.132-3.

(12) Howe, Speech on Intercolonial Railroads and Colonization, pp.10-11.

(13) PANS, RG 1 vol 455 - Railways: Papers on the Construction, Maintenance and Operation of Railways in Nova Scotia, 1835-1870, #71, Joseph Howe to A. R. Cutbell, Commercial Bank (London), 26 August 1852. (Hereafter cited as PANS, Railway Papers.) Also, PANS, Railway Papers, vol 455 #72, Joseph Howe to J. W. Gillard, London and Westminster Bank, 28 August 1852.

(14) PANS, RG 1 vol 97 - Original Despatches from the Secretaries of State to the Governors of Nova Scotia, 1852-1867, William Jackson to Lieutenant Governor Lemarchant, 30 September 1853.

(15) PANS, RG 7 - Provincial Secretary's Papers, vol 29, Samuel Almon to Joseph Howe, 29 June 1853. (Hereafter cited as PANS, Provincial Secretary's Papers.)

(16) PANS, V/F vol 16 - Railway Correspondence of Nova Scotia Delegation, Despatches Laid Before the Legislature in the Session of 1851, on the subject of the Halifax, Quebec, and Portland Railroads, #18, Sir John Harvey to Earl Grey, 29 August 1850.

(17) PANS, Manuscript Documents, vol 236 #9, "Address to the Lieutenant Governor from the Executive Council, 14 February 1853.

(18) PAC, Howe Papers, vol 28 p.16, A. MacFarlane and Thomas Logan to the High Sheriff of Cumberland, 25 February 1852.

(19) * "Minute of the Executive Council, 25 August 1852" in Appendix 1 of Nova Scotia Journal (1853), pp.4-5.

(20) PANS, RG 31-107 - Provincial Debt and Currency, 1833-1870, vol 4, Printed announcement concerning the Savings Bank, 24 July 1852. (Hereafter cited as PANS, Papers on Debt and Currency.)

(21) Section 11 in 9 Victoria Cap 14, Statutes of Nova Scotia (1846).

(22) 11 Victoria Cap 22, Statutes of Nova Scotia (1848).

(23) 9 Victoria Cap 14, Statutes of Nova Scotia (1846).

(24) Calculated from Public Accounts in Nova Scotia Journals (1849-1868).

(25) Section 7 in 9 Victoria Cap 14, Statutes of Nova Scotia (1846).

(26) For Example, PANS, RG 31-101 vol 18 - Receiver General's Office, Letter Book, James McNab, 13 September 1855-19 December 1867, James McNab to Baring Brothers, 8 November 1855. (Hereafter cited as PANS, Receiver General's Letter Book.)

(27) PANS, Manuscript Documents, vol 259 #137, "Memo on Treasury Notes 1850".

(28) Calculated from Public Accounts in Nova-Scotia-Journals (1849-1868).

(29) Appendix 19 - Public Accounts, in Nova-Scotia-Journals (1868).

(30) Calculated from Public Accounts in Nova-Scotia-Journals (1855-1857).

(31) Calculated from Public Accounts in Nova-Scotia-Journals (1857-1868).

(32) PANS, RG 1 vol 202 - Executive Council Minutes, 14 July 1866. (Hereafter cited as PANS, Executive Council Minutes.)

(33) PANS, Manuscript Documents, vol 259 #137, "Memo Treasury Notes 1850". Also, "Population of 1861 and 1871, compared by Electoral Districts within their present limits (1872), with notes of changes since 1861", in Canada, Census of Canada 1870-1871 (Ottawa: I. B. Taylor, 1873), vol 1, table V. (Hereafter cited as Canada, 1871-Census.)

(34) PANS, Manuscript Documents, vol 257 #153, H. Cogswell, Halifax Bank, to S. P. Fairbanks, 2 August 1848.

(35) PANS, Manuscript Documents, vol 257 #156, S. N. Binney, Manager Bank of British North America, to S. P. Fairbanks, 4

August 1848.

(36) For example: 12 Victoria Cap 37, Statutes of Nova Scotia (1849); 13 Victoria Cap 47, Statutes of Nova Scotia (1850); 14 Victoria Cap 11, Statutes of Nova Scotia (1851); 15 Victoria Cap 12, Statutes of Nova Scotia (1852); etc.

(37) Public Accounts in Nova Scotia Journals (1850, 1862, 1863).

(38) Figures taken from PANS, RG 31-101 vol 5 - Financial Secretary's General Statements of Public Service Expenditures, 1851, 1853, 1856-9, "Interest Payments in 1853" and "Revenue Expenses - Interest 1859". Also, PANS RG 31-101 vol 4 - Financial Secretary's Office Accounts Journal, 1851, 1853, 1856-9, vol 5 #16 and vol 13 #26, respectively "Banks (1851)" and "Interest (1862)". Also PANS, RG 31-109 - Sundry Accounts. (Hereafter cited as PANS, Sundry Accounts.) Also, PANS, Papers on Debt and Currency, vol 4, "Abstract of Payments made on account of Interest on Funded Debt between 1 January and 31 December 1850". Also, "Receiver General's Report" Appendix 17 in Nova Scotia Journals (1854).

(39) PANS, Railway Papers, vol 455 #94, "Proposal of the Bank of Nova Scotia to advance money to the Provincial Government".

(40) PANS, Railway Papers, vol 455 #94, "Comments on the Proposal of the Bank of Nova Scotia to advance money to the Provincial Government".

(41) PANS, Railway Papers, vol 455 #70, Joseph Howe to M. B.

Almon, President Bank of Nova Scotia, 28 August 1852.

(42) M. B. Almon, Bank of Nova Scotia, to Joseph Howe, 3 September 1852, in Appendix 1, Nova Scotia Journals (1853).

(43) PANS, RG 1 vol 158 - Provincial Secretary's Office Letter Books, w. H. Keating to President of the Bank of Nova Scotia, 5 May 1854. (Hereafter cited as PANS, Provincial Secretary's Letter books.)

(44) PAC, Howe Papers, vol 7 p.246-257, Minute of Council, 7 June 1855, appended to a letter from Joseph Howe to Baring Brothers, 20 June 1855.

(45) PAC, Howe Papers, vol 7 pp.238-245, Joseph Howe to Lewis M. Wilkins, 6 July 1855.

(46) PAC, Baring Papers, vol 2 pp.741-743, Joseph Howe to Baring Brothers, 21 July 1853.

(47) PAC, Baring Papers, vol 2 pp.785-789, Joseph Howe to Baring Brothers, 10 November 1853.

(48) PAC, Baring Papers, vol 2 pp.809-811, Joseph Howe to Baring Brothers, 11 May 1854.

(49) PAC, Baring Papers, vol 2 pp.814-817, Joseph Howe to Baring Brothers, 23 June 1854.

(50) PAC, Howe Papers, vol 43 no page number indicated, "Minute of Council, 7 June 1855".

(51) PAC, Baring Papers, vol 2 pp.896-897, Thomas Baring to Mr. Bates, 22 June 1855.

(52) PAC, Howe Papers, vol 7 pp.246-257, "Memorandum to Baring Brothers from Joseph Howe, 20 June 1855".

(53) PAC, Howe Papers, vol 45 pp.84-90, Baring Brothers to Joseph Howe, 5 July 1855.

(54) PAC, Baring Papers, vol 2 pp.915-918, Mr. J. Bates to Thomas Baring, 3 August 1855.

(55) L. M. Wilkins, (Clerk of the Council) to Joseph Howe, 19 July 1855, in Appendix 4 Nova Scotia Journals (1856).

(56) PAC, Howe Papers, vol 45 pp.105-110, Baring Brothers to Joseph Howe, 16 August 1855. Also printed in Appendix 4 Nova Scotia Journals (1856).

(57) J. A. Maxwell, "A Financial History of Nova Scotia, 1848-1899" (Harvard University: PhD Thesis, 1927), p.10.

(58) Calculated from Public Accounts in Nova Scotia Journals (1850-1868).

(59) PANS, Manuscript Documents, vol 256, "Memorandum for Messrs. Baring Brothers 1852".

(60) PANS, Provincial Secretary's Papers, vol 28, Joseph Howe to Sir John Packington, December 1852.

(61) PAC, Howe Papers, vol 28 pp.54-57, "Memorandum shown to and discussed with Baring Brothers, but withdrawn".

(62) PAC, Howe Papers, vol 28 pp.65-69, "Memo to Barings".

(63) PAC, Baring Papers, vol 2 pp.919-920, Joseph Howe to Thomas Baring, 15 August 1855.

(64) PAC, Baring Papers, vol 2 pp.915-918, Mr. J. Bates to Thomas Baring, 3 August 1855.

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(67) Baring brother to Charles Tupper and W. A. Henry, 10 August 1865, in PAC (Library), Delegations to England from Nova Scotia in 1865 (Colonial Office: no publisher, 1865), p.19. (Hereafter cited as PAC (Library), Delegations to England.)

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(69) PANS, Receiver General's Letter Book, James McNab to Baring Brothers, 25 October 1855 and 22 November 1855.

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(74) PANS, Receiver General's Letter Book, James McNab to Baring Brothers, 21 May 1857.

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(76) PAC, Baring Papers, vol 3 pp.1684-1686, Charles Tupper to Baring Brothers, 12 May 1864.

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(78) PAC, Baring Papers, vol 4 pp.1796-1799, Thomas Baring

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(79) PANS, Receiver General's Letter Book, James McNab to Baring Brothers, 16 January 1866.

(80) Charles Tupper and W. A. Henry to Baring Brothers, 11 August 1865, in PAC (Library), *Delegations to England*, p.20.

(81) PANS, Receiver General's Letter Book, James McNab to Baring Brothers, 16 January 1866.

(82) PAC, Baring Papers, vol 3 pp.1147-1152, Joseph Howe to Thomas Baring, 10 February 1858.

(83) PAC, MG 24 E 17 - Watkin Papers, #42, Joseph Howe to Edward Watkin, 20 December 1862.

(84) PANS, Executive Council Minutes, 27 December 1865, #7. Also, PANS, RG 26 - Railways: Nova Scotia Railway/Pictou Extension Railway; Maps, Reports, Tenders, and Correspondence, 1859-1875, vol 25, Sanford Fleming to the Provincial Secretary, 31 March 1866.

(85) E. M. Saunders (ed.), The Life and Letters of the Rt. Hon. Sir Charles Tupper, Bart., K.C.M.G. (Toronto: Cassell and Company, 1916), vol 1, p.99.

(86) PANS, Railway Papers, vol 456 #33, Sanford Fleming to J. C. Brydges, 10 December 1864.

(87) Sidney Homer, A History of Interest Rates (New Jersey: Rutgers University Press, 1977) 2nd Edition, p.183.

(88) PANS, RG 31-119 - Miscellaneous Correspondence 1830s-1908 and n.d., vol 1, Baring Brothers to James McNab, 11 May 1866. (Hereafter cited as PANS, Miscellaneous

Correspondence.)

(89) PANS, Receiver General's Letter Book, James McNab to Baring Brothers, 20 March 1867.

(90) PANS, Receiver General's Letter Book, James McNab to Baring Brothers, 5 June 1856.

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(92) PAC, MG 27 I D 16 - Tupper Papers, vol 3 pp.1083-1035, Thomas Baring to Charles Tupper, 10 June 1867. Also, PANS, Miscellaneous Correspondence, Charles Tupper to Baring Brothers, 3 June 1867.

(93) Joseph Howe, "Botheration Letter No. 6" in PAC (Library), "The "Botheration Scheme", Nova Scotia and Confederation, 1865" (newspaper clippings). p.iii.

(94) PAC, Baring Papers, vol 4 pp.1733-1742, T. C. Baring to Thomas Baring, 20 March 1865.

(95) Calculated from PANS, Manuscript Documents, vol 259 #137, "Memo on Treasury Notes", and Public Accounts in Nova Scotia Journals (1850). Also "Population of 1861 and 1871, compared by Electoral Districts within their present limits (1871), with notes of changes since 1861", in Canada, 1871 Census, vol 1 table V, and Public Accounts in Nova Scotia Journals (1858, 1868).

CHAPTER THREE -- THE CURRENT ACCOUNT

The current accounts of the Nova Scotia government present annual statements of revenues and expenditures. They describe the activities of government within the context of the colony's established debt load. Decisions made with respect to the capital account affected the day-to-day financial situation in which the government found itself through the medium of interest payments, for these payments were fixed to the province's level of indebtedness. Beyond this constraint, the current account bears witness on the revenue side to the economic climate of Nova Scotia, and on the expenditure side to the priorities set by government. This chapter will examine the ongoing activities and interests of Nova Scotian administrations during the period of responsible government, and relate them to the long term objectives discussed in the previous chapter. The changing condition of the current account will be used to illustrate the impact that the province's debt formation had upon shorter-term government policy making.

* * * * *

Both revenues and expenditures were quite volatile during the period of responsible government. Though both revenue and expenditure disappointed expectations in only one year after the government began issuing budgetary forecasts, in eight of the nineteen years in question, actual revenue declined from the level of the previous year by between \$4,000 and \$85,000. The

FIGURE 3.1 - REVENUE AND EXPENDITURE
FROM THE CURRENT ACCOUNT, 1842-1867 (1)

same is true of expenditure, which swung by as much as \$100,000 in a year. (See figure 3.1) Nevertheless, the current account does admit of periodization - that is, there are discernable phases in the financial history of Nova Scotia during the period of responsible government which may be analyzed. These phases, to which we will refer as transitional (1849-1853), early railroad (1854-1860), and pre-Confederation (1861-1867), had internally consistent characteristics. In the transitional phase from Imperial rule to responsible government, caution was the first word in Nova Scotia's public policy as colonial politicians gradually became accustomed to their new duties. The early railroad phase saw government take a firm interventionist stance with its decision to build railways as public works. As a result of this decision, the scale upon which government operated in Nova Scotia expanded. During the pre-Confederation phase, railway interest payments started falling due. With their arrival the full impact of the government's railway policy became visible in its current account. It was within the context of the pressures that this created in the field of public finance that the Confederation debate took place.

The transitional phase commenced with the advent of responsible government and ended just before railway construction was initiated. The current account figures for these years certainly support Maxwell's contention that no significant

financial innovation was attempted in Nova Scotia during the early days of responsible government, (2) but this is hardly surprising for financial accountability was the greatest responsibility arising from the recent change in the colony's status. A belief in the desirability of government retrenchment characterized most of the British North American Reform Parties of this era, and Nova Scotian Reformers, both before the grant of responsible government, and when they formed its first administration, displayed an interest in both the rhetoric and the substance of economical, limited, government. Until negotiations over railroads could be satisfactorily completed, they felt that government could best serve the colony by keeping a tight rein on its own activities. This is reflected in the current accounts. Expenditure peaked in 1852 at £121,395. After the railway was inaugurated, total government expenditures never fell below £172,040. (See figure 3.1)!

As may be seen from figure 3.1, after an initial decline in 1849, government revenues rose at a steady but dignified pace from 1850 to 1853. Expenditure followed much the same pattern except for a decline in 1853 which marginally increased the government's customary current account surplus. In April 1849, however, shortly before responsible government became effective, the Provincial Treasurer had found it necessary to inform Howe, then Provincial Secretary, that

I am apprehensive from the present state of the Treasury and information from the Collector of Excise that I shall be unable to meet the appropriations for the last Session which require immediate payment.

I beg therefore that you will communicate this information to His Excellency the Lieutenant Governor, in order that I may be authorized to act upon the Bill recently passed for effecting a Loan in case the state of the Provincial finances should require it.(3)

Authority was given for the Treasurer "to take such steps as may appear to you most judicious for the negotiation of the contemplated loan". As a result of this temporary borrowing, £18,527 and £5,705 had to be paid back to the Bank of Nova Scotia in 1849 and 1850, respectively.(4) These payments contributed to the relatively high proportion of total expenditures in these two years which were attributable to debt servicing and coinage. (See figure 3.2) By 1852, prudent expenditures and an improvement in the economic climate altered financial conditions to such a degree that £10,000 could be expended on redeeming the "Principal and Interest of the Funded Debt".(5) In the remaining years of this transitional phase, 1851 and 1853, debt servicing and coinage comprised a mere 2.3% of total government expenditures. (See figure 3.2)

The overall picture was, in fact, even brighter than it at first seems, for there were positive aspects of Nova Scotia's economic climate that were not recorded in the colony's current accounts. A "Report of His Excellency the Lieutenant Governor on the State, Resources and Capabilities of the Province of Nova Scotia" made to the Legislature in October 1853 pointed out that

By comparison of the [value of import and export] totals [of 1852] it would appear that there is a balance of £225,394/15/8 against the Province: but when it is considered that the Exports are estimated at the comparatively low prices which they bring here, it would be apparent that if the higher prices which they

*command abroad, including the freights outward on our own vessels, were given, they would prove that Nova Scotia is fulfilling all the conditions of a healthy and profitable exchange.(6)

The report went on to suggest that the value of new vessels built in Nova Scotia for sale abroad ought also to be added to the figure for total exports. The report's emphasis on the health of the colony's commerce is crucial. By pointing to trade as the primary indicator of prosperity, the report suggests the degree to which the government was preoccupied with it. Duties on imports were the principal source of public revenue throughout the period of responsible government, but goods were taxed at fairly low rates to insure a good volume of trade, which in turn would generate revenues for government.

Public works projects during the first years of responsible government were confined, for the most part, to that quintessential exercise in patronage disbursement, road building. Proportional expenditures in this category increased in almost every year between 1849 and 1853, rising from 33.4% to 43.8% of total expenditures. (See figure 3.2) The contrast between this trend, and that of revenue expenses and expenditure on government operations, which rose to 1851 and then fell back marginally, further illustrates the popular view of the function of government. Government was to carry out its obligations with a minimum of waste and, as long as there was a positive balance in the current account, sinecures could be procured from government. In this way the government could improve the lot of certain Nova

Scotians without unduly interfering with the workings of the commercial economy. This approach to government was not substantially different from the practice of Imperial authorities in Nova Scotia. The emphasis was on free trade and reducing the financial burden of the colonies on Britain. The transition to responsible government was, in fact, achieved with a minimum of dislocation in colonial public finance.

FIGURE 3.2 -- EXPENDITURE FROM CURRENT ACCOUNT, BY CATEGORIES, 1849-1853 (7)

	1849	1850	1851	1852	1853	AVE
PUBLIC WORKS	33.4	34.2	41.2	40.4	43.8	38.68
GOVN'T OPERATION	14.1	22.0	23.0	18.8	18.5	19.28
REVENUE EXPENSES	9.4	10.1	12.0	10.0	11.6	10.62
DEBT SERVICING AND COINAGE	18.9	8.6	2.3	10.6	2.3	8.54
PUBLIC SERVICES	4.3	3.7	2.8	2.7	4.8	3.66
SOCIAL WELFARE	16.4	18.3	16.3	14.3	16.2	16.30
NATURAL RESOURCES	0.9	1.7	0.7	0.9	>0.1	0.84
OTHER	3.7	1.4	1.6	1.1	1.3	1.92

In order to generate revenue, governments everywhere must tax either their people, their resources, or their trade. Revenue during the transitional phase was, after the "emergency

infusion" of borrowed cash in 1849, the story of customs and excise duties. But the significance of these duties was double-edged for the Nova Scotia government. Customs and excise revenues were the most easily manipulated sources of income at the government's disposal, and hence were attractive as agents of policy making. During the struggle for responsible government, however, Reformers had taken a low tariff stance, labelling indirect taxes as regrettable because they applied "unequal pressure", and direct taxes as simply objectionable.(8) They were thus committed to the implementation of a low tariff policy once they came to power. In any case, their political strength came from the support of the commercial elite, which meant that their room for maneuvering was limited. Custom tariffs in particular were the means by which the government most directly impinged upon of Nova Scotia's commercial interests. Spokesmen for commerce protested vigorously any increase in tariffs as leading inevitably to the destruction of the commercial system which had served Nova Scotia so well. Even the operation of the customs establishment was of concern to the merchant community, as is evident in a note written by a Pictou merchant, Thomas Dickson, to Joseph Howe in 1849. "If consistent with your duties in other respects," Dickson wrote,

could you not give one inkling of the nature and amount of the change proposed, or likely to be made in regard to the Excise Department. [Now that responsible government is in place]. I, of course, may be supposed to speak interestedly but I really am of opinion that any very extensive changes, will create great dissatisfaction and give excuse, if not real cause, for eternal clamour, and in the end seriously weaken, and injure the Government by lessening its Patronage

influence.(9)

Nova Scotia's tariffs, relatively low by North American standards, remained constant between 1849 and 1853. The volume of trade, however, increased. Import and excise revenues rose accordingly by about £8,000 annually between 1849 and 1853.(10) (See figure 3.5)

FIGURE 3.5 - REVENUE IN CURRENT ACCOUNT BY CATEGORIES
1849-1853 (11)

	1849	1850	1851	1852	1853	AVE
DUTIES	69.0	87.1	87.9	76.5	81.1	80.32
DEBT INCREMENTATION AND COINAGE	23.6			7.2	0.8	6.92
PUBLIC WORKS	0.1	0.7	0.4	3.6		0.96
NATURAL RESOURCES/ CASUAL REVENUE	0.5	8.4	7.8	5.9	10.4	6.60
EXTERNAL SOURCES	0.1	1.3	0.8	0.8	1.5	0.90
GOVERNMENT SERVICES	0.4	0.8	0.5	>0.1	0.1	0.36
PUBLIC SERVICES						0.00
ADVANCES RETURNED	0.1			0.1	0.2	0.08
PAPER ASSETS	4.7	1.6	2.5	4.0	3.3	3.22
OTHER	0.4	0.1	0.1	1.9	2.6	1.02

Paper assets, composed almost entirely of surpluses carried over from the previous year, indicate the prudence and caution exercised by the government of Nova Scotia during these early years. The government appears to have wanted an ever increasing safety margin, for only in one year did the current account surplus not increase. Indeed, in 1853, government expenditure could have been fully 15% higher than it was without incurring any deficit in the current account.(12) Responsibility for the financial management of Nova Scotia was taken very seriously by Reformers who had fought long and hard for this right, and aside from their natural inclination to avoid increasing taxes, it is quite possible that they feared any sort of "loose" financial practice might lead to a reversion to their pre-responsible government status. Their financial conservatism is, therefore, less than surprising.

The other notable source of revenue was natural resources/casual revenue, over which the last fight on the road to responsible government had been waged. These revenues comprised, with variable consistency, monies received for land sold by the Crown Land Department, rents and royalties from coal and gold mining, Provincial Secretaries fees, fines and forfeits, and a catch-all category called casual revenue which was usually a compendium of some of the above sources. Revenue from this source had been intended to cover the "Civil List", a term interpreted in British North America to mean all expenses for the administration of justice and the support of civil

government.(13) In practice, revenue from natural resources/casual revenue, which fluctuated quite widely, proved insufficient to cover civil service salaries, legislative expenses, public printing, and the Board of Statistics.(14)

* * * * *

The early railroad phase covers the period between the start of construction on the trunk line from Halifax to Windsor, and the first payment of railway interest - that is, 1854 to 1860. The current accounts of Nova Scotia, from the start of this phase, began to reflect the major policy decision which had made government a much more active agent in the development of the province. Between 1853 and 1854, current account revenues jumped by 55.69%; expenditure grew 54.96%. (See figure 3.1) Although growth in revenue and expenditure was not constant, government now functioned at a different plateau. Average revenues between 1854 and 1860 were £201,720 compared to an average of £115,755 between 1849 and 1853. Average expenditures were £190,362 and £109,231 respectively for these two periods.

The late 1850s was not an easy time to radically alter the nature and scope of government activities. As may be seen in figure 3.1, Nova Scotia's revenues and expenditures were generally declining between 1855 and 1859. Reciprocity depressed the usual growth in tariff revenues, and world-wide financial dislocation came on the heels of the Crimean conflict. Railway building, moreover, produced new and unfamiliar policy

imperatives which had to be faced. To further compound problems, the period between 1857 and 1863 was one in which no government could secure a firm majority in the House of Assembly.

Predictably, public works provided the primary stimulus for the increased level of government spending. (See figure 3.4) During the transitional phase discussed above, public works had consumed an average of only 38.60% of annual government expenditures; during the early railway phase, the annual average spent on public works rose to 52.97% of expenditure. Although railroad construction only accounted for the lion's share of public works expenditures in three of these seven years, its impact on public works spending in general was considerable. Under pressure from railroad construction costs, road service expenditures dropped from £44,440 in 1854 to \$103,855 (£25,936) in 1860.(16) while Maxwell points out that road works were cut back by some £15,000 between 1857 and 1858 due to the disturbed financial conditions brought on by the Crimean War, it is significant that at the same time expenditures on railway construction rose from £27,131 to £32,975.(17) Even after the trunk line was officially completed, major expenditures continued to be made on railway construction.(18) It may also be noted that as a percentage of government expenditures, public works fell from 53.88% in 1854/58, to 39.85% in 1859/64, the latter being the period between major railroad building projects. This drop left public works expenditures fairly close, proportionately, to its pre-railroad building status. This trend indicates the

significance railways had with respect to public works spending in general.

Construction expenses of both roads and railways declined more rapidly than other forms of public works spending between 1854/58 and 1859/64. Road work alone decreased as a proportion of government expenditure from an average of 21.56% in 1854/58 to 13.63% in 1859/64. This reflects the heated debates over the division of the spoils in a legislature evenly divided among Tories and Reformers.(19) Beginning in 1860, however, railway service on the trunk line meant that railway operating costs (or railway revenue expenses as they were cited in the Nova Scotia Journals) entered for the first time the debit side of the government's current accounts. This produced a sharp upturn in the percentage of government expenditure devoted to public works between 1859 and 1860.(20)

As mentioned above, interest payments on the first sale of railroad bonds for the trunk line between Halifax and Windsor did not make an appearance in the current accounts till 1861, thus payments for debt servicing and coinage remained very low before that date. There was, however, a general upward trend in deposits at the Savings Bank during the early railroad phase, in response to which interest payments increased somewhat.(21) (It will be recalled that increasing the volume of deposits in the Savings Bank was one mode of financing used by the government of Nova Scotia to initiate railway construction.) The highest

figures in the category of debt servicing and coinage during the early railroad phase (1857 and 1859), were also directly related to early methods of railway financing. In 1857, a payment of £6,500 was made to the Savings Bank. No reason is given in the "Annual Abstract of the Accounts of the Halifax Savings Bank" for this "sum received from the Treasury", (22) but there is, in all likelihood, a connection between it and the state of affairs reported in an 1850 commission of enquiry: the "accounts [of the Savings Bank] do not exhibit a clear and satisfactory statement of the business of that department". (23) The Bank was under pressure from the increasing activity which had resulted from the government raising the deposit ceiling (an extension of the Bank's hours was authorized in 1858 "in consequence of Increased business"). (24) Its operations were also hampered by a less than adequate system of record keeping. The £6,500, and a smaller payment from the government in the following year thus appear to have been necessary to balance the Bank's books. (25) In 1859, upon the official completion of the trunk line, £8,000 in Treasury Notes were recalled. (26) Facing a general election, the ruling Conservatives presumably intended this to signal a return to efficiency and economy now that the main section of railway construction had been completed.

On average, proportional expenditure in the areas of both government operation and revenue expenses were reduced between 1849/53 and 1854/60: the former declined from an annual average of 19.28% of total expenditures in the transitional phase to

14.21% in that of early railroading; the latter dropped from an annual average of 10.62% of expenditures to 9.61%. Social welfare services also decreased in terms of proportional government expenditure. (See figures 3.2 and 3.4) In absolute terms, each of these categories rose during the early railroad phase, but only revenue expenses increased more rapidly during the late 1850s than it had earlier. It is worth noting the emphasis accorded each of these categories by government. The annual average increase in expenditure on revenue expenses moved from 7.58% in 1849/53 to 13.57% in 1854/60. Annual increases in government operations averaged 7.58% in 1849/53, but only 2.42% in 1854/60. Spending on social welfare, meanwhile, fell from an average annual increase of 1.53% in 1849/53 to 1.25% in 1854/60. (27) Government's spend money on policies defined to be most important. In this case, the current account clearly illustrates the attention lavished on railroads. Not only was a greater proportional weight being given to the government's public works, but funds were being channeled into those places where they could best assure the stability of revenues to finance them. Increases in spending in less favoured areas were kept to a minimum.

Illustrating this same trend, expenditure on public service proved to be the only category of expenditure to increase by more than a single percentage point during the second half of the decade. The rise in the proportion of government expenditure devoted to public services accounted for by increased spending

on postal communications which had recently been transferred from Imperial to provincial jurisdiction.(28) One of the arguments used in the early negotiations with the British government over Imperial support of an intercolonial railway was that a railroad would enhance the speed with which the Royal Mail might be forwarded.(29) Indeed, postal services came to be seen as a necessary adjunct to a system of rail communications, and ultimately dependent upon it for efficient service. This expenditure, then, far from detracting from the government's main policy focus, was quite complementary to it.

FIGURE 3.4 -- EXPENDITURE FROM CURRENT ACCOUNT, BY CATEGORIES
1854-1860 (30)

	1854	1855	1856	1857	1858	1859	1860	AVE
PUBLIC WORKS	61.8	59.9	47.3	49.9	50.5	45.2	56.2	52.97
GOV'T OPERATION	13.0	12.2	15.7	13.9	15.5	15.7	13.5	14.21
REVENUE EXPENSES	6.2	7.0	10.3	8.8	11.8	11.6	11.6	9.61
DEBT SERVICING AND COINAGE	1.2	1.7	3.3	5.5	3.4	7.5	2.3	3.56
PUBLIC SERVICES	3.4	4.2	6.2	4.9	4.7	7.5	6.3	5.31
SOCIAL WELFARE	9.9	11.8	11.5	12.9	12.2	11.0	9.0	11.19
NATURAL RESOURCES	0.5	1.1	2.3	0.6	0.2	0.3	0.2	0.73
OTHER	1.2	2.1	3.4	2.3	1.7	1.2	0.8	2.20

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Figure 3.1 shows that while revenues during the early railroad phase peaked some £23,730 above expenditures in 1855, the former shrank much more rapidly than did the latter. On the revenue side, the most important factor was the decline in customs duties. Implementation of the Reciprocity Treaty caused a consistent decline in customs and excise revenue between 1854 and 1856. The length of this trend was matched at no other time during the period of responsible government. Absolute revenue from customs and excise actually fell below that of the previous year in three of the seven years between 1854 and 1860. These developments, however, only contributed to a flattening of the general upward curve in these revenues as real annual average increases in customs revenues dropped from 9.9% in 1849/53 to 5.3% in 1854/60. (31) (See figure 3.5)

During the first three years of the early railroad phase, the revenue category debt incrementation and coinage rose to its apogee as a percentage of total revenue, for the entire period of responsible government. The increase in this category reflects the government's policy of funding the initial phase of railway construction by raising the deposit ceiling at the Savings Bank and issuing more Treasury Notes. Responding to the impact of this policy initiative, duties fell off as a percentage of government revenue from 80.32% in 1849/53 to 68.30% in 1854/60. This trend was concentrated during the years of construction of the trunk line. Between 1854 and 1858, duties accounted for only 63.90% of government revenue. (32) In 1854, 1855, and

FIGURE 3.2 -- REVENUE FROM CUSTOMS AND EXCISE,
1842-1867 (33)

1856, revenue from the Savings Bank and Treasury Notes alone accounted for, respectively, 15.3, 25.3, and 14.8% of total government revenues. This may be compared to the average of 1.92% of total government revenues for which the Savings Bank and Treasury Notes were responsible in the years 1849 through 1853.(34) In all, some £116,000 was obtained from the Savings Bank and Treasury notes between 1854 and 1856 - a sum which exceeded the annual average of total government revenues between 1849 and 1853.(35) This dramatically illustrates the extent to which the railroad policy decision changed the role of government in Nova Scotia. where previously economy had been of paramount concern, government was now prepared to borrow in only three years a sum which shortly before would have been sufficient to operate all of its functions for a full year.

It may be seen from figure 3.6, however, that revenue from debt incrementation and coinage declined as a proportion of government expenditure in the latter part of the 1850s. Although budgetary surpluses were still the order of the day, the government's margin for error had been much reduced and in 1857, coincident with the change in government which occurred in that year, it was decided that the current account of the Nova Scotia government was burdened to its limit. Funds, however, were already committed, and the new administration only sought an alternative source of revenue with which to cover them. They pressed Barings, who had been selling provincial debentures since 1856 and crediting the account of the Nova Scotia Railway, to

speed up bond sales. The London market, however, was going through a period of contraction.(36) In August 1857, the Receiver General informed Barings that "Our Railway Commissioners are pushing forward to completion the present season, the line to Windsor. This and the contracts to Truro involves a heavy expenditure. I regret therefore the diminished sales of Bonds in July which compel me to draw in anticipation of future sales".(37) This was the first time that the Nova Scotia government had been forced into this position, and their response seems to have been a case of their electing to defer the day of judgement. It was probably already clear that the current account surplus would be lower than it had been in the previous year, though it would have been hard to gauge by how much. There may well have been real fears of a deficit. In the end, the 1857 surplus was £6,593, well below the £22,384 in 1856.(38) In this situation, the government chose not to increase the pressure on current revenues in the hope that future ones, enhanced by expected railway revenues, would prove sufficient to meet short term obligations.

It should always be recalled when assessing the government's activities that the figures with which we are dealing reflect year end totals that could be predicted during the year with even less accuracy than they can be today. Revenue estimates were not of much assistance as during the years 1855 to 1860 they underestimated actual revenue by an average of £45,718 per year, or almost 40%. Government policy making was of a contingent

nature, as witnessed by the criticism Howe, then in opposition, made in 1850:

Come what will the credit of the Province will be maintained. All accounts and papers are not in but we have enough to show that if the Government had taken my advice, and reduced the Road vote to £30,000 and had not increased the School Grants, they could have gone through the financial year without raising the ~~ad valorem~~ duty from 6 1/4 to 10 per cent. We shall reduce this year and let the 10 per cents stand till we know what the [rail]Roads pay".(39)

During the initial phase of railway building and its immediate aftermath, the government was especially plagued by financial uncertainty. Not only were they experimenting with new activities requiring expenditures which had been estimated wide of the mark at best, but they were at the same time experiencing new trading conditions which adversely affected their most important revenue source. Moreover, Tories and Reformers, who switched positions of power in the legislature twice between 1857 and 1860, began developing different sets of assumptions about the best way of raising and spending money. Nevertheless, Nova Scotia still registered a surplus in each of the years of this decade, a testament to successive government's continuing caution with respect to the public purse and the public credit.

Figure 3.1 shows clearly that the government was not long involved with railroad construction before it lost the security of a current account surpluses. From 1855 through 1858, current account surpluses diminished steadily to a mere £1,223 in 1858. This was the "revenue" item which, next to duties and debt

incrementation and coinage, most changed during this early railroad phase. (40) Surpluses formed an important component of current revenues as "balances held over" in the year after they occurred, and their decline was an important factor in the evolving state of affairs. Thus railway building and the government's expenditure policy helped shape the revenue side of the accounts rather than *vice versa*.

FIGURE 3.6 -- REVENUE IN CURRENT ACCOUNT BY CATEGORIES,
1854-1860 (41)

	1854	1855	1856	1857	1858	1859	1860	AVE
DUTIES	63.1	53.9	58.9	67.6	71.0	86.1	77.5	68.30
DEBT INCREMENTATION AND COINAGE	15.3	25.3	15.3	7.0	7.5			10.06
PUBLIC WORKS	0.5				>0.1	0.1	9.5	1.44
NATURAL RESOURCES/ CASUAL REVENUE	9.9	8.5	7.2	8.1	9.7	6.8	5.7	7.99
EXTERNAL SOURCES	0.4	2.2	0.9	0.9	0.8	1.0	0.7	0.99
GOVN'T SERVICES	>0.1	>0.1	0.5	1.1	0.5	1.7	0.9	0.67
PUBLIC SERVICES							>0.1	>0.01
ADVANCES RET.	>0.1		0.6		1.1	3.5	0.2	0.77
PAPER ASSETS	8.4	5.2	12.1	10.9	3.6	0.7	1.5	6.06
OTHER	2.2	4.9	4.6	4.4	5.8	1.6	0.4	3.41

Natural resources, was an area of government revenue that was expected to benefit handsomely as Reciprocity gained access to American markets for Nova Scotian coal (on which the government was paid a royalty).⁽⁴²⁾ It did not, however, increase remarkably as a proportion of total revenue during this phase, though revenue from coal increased in absolute terms as the industry expanded. In the transitional phase (1849/54), natural resources/casual revenue had accounted for 6.60% of government revenues; during the years 1854 to 1860 it averaged 7.99%. (See figures 3.3 and 3.6) Moreover, the annual showing of natural resources/casual revenue in the current account figures of the early railroad phase is curious since Reciprocity provided a constant stimulus for the exploitation and export of Nova Scotia's coal resources. This category declined as a proportion of total revenue, rose again, and then fell off to close the decade at its lowest level of proportional importance.

Explanations for this behaviour are made difficult by the extraordinarily inconsistent manner in which these revenues were entered into the public accounts. This category of revenue was very sensitive to the kind of economic fluctuations which occurred during the years of the early railroad phase. Another contributing factor must have been the coal monopoly held by the General Mining Association, which was not broken until 1858. The government, bound by an arrangement dating back some thirty years, could not tax the first 20,000 chaldrons of coal brought to the surface each year, and received only a minimal royalty on

the rest.(43) A third consideration is that revenue from the Crown Land Department (land sold), fluctuated as a proportion of total revenues almost exactly in synch with the overall category of natural resources/casual revenue.(44) Howe saw public lands as a provincial asset which, like the postal service, was intimately connected with both the government's proposed system of railroads, and the general prosperity of the province. In June 1855, he commented in a letter to Baring Brothers that "(b)esides its power of taxation, to meet any liabilities that it may incur, the Government of Nova Scotia owns a large amount of public property, including 4,000,000 acres of lands, now, by the construction of public works, fast rising in value".(45) Others too, no doubt, saw this connection, and increasing proceeds from the sale of public lands during the railway construction years of 1856 to 1858 may well indicate that these funds were used to supplement the sums handed over by the Receiver General to the Nova Scotia Railroad Commission.

* * * * *

The third financial phase, comprises the period between the first payment of railway interest, and Confederation. It was a phase of unprecedented growth in both government revenues and expenditures. (See figure 3.1) Expenditures rose by an average of almost 11% annually, despite the fact that both 1864 and 1867 were fiscal years of only nine months duration.(46) It is not, however, coincidental that this pre-Confederation phase commenced

in 1861 with the first deficit experienced in Nova Scotia since the advent of responsible government. In that year, customs revenues were disappointing, and railway interest payments burst onto the scene to take up fully 23.8% of government expenditures.(47) Figure 3.7 makes it clear that the major financial burden of the government's railway policy was endured after 1860. Railway interest payments alone consumed an average of 18.13% of government expenditure during the last seven years of responsible government.(48) Although this figure is not a particularly high one in comparison to the contemporary Canadian situation, it represented a substantial change in the nature of government financing with which successive Nova Scotian administrations had to deal. Over the course of the pre-Confederation phase, debt servicing and coinage expenditures averaged almost twenty points higher than the 3.56% of total government expenditures for which they had accounted between 1854 and 1860, thus far outstripping the overall growth in expenditure. (See figures 3.4 and 3.9)

During the 1860s, public works expenditures, as a percentage of total expenditures, remained fairly stable. But this obscures the current trend toward rapid acceleration in real expenditure. Not only was there a new offensive in railway construction, but spending in two new areas relating to the execution of railroad policy - railway damages and railway revenue expenses - contributed to the increase in railway charges which occurred on the debit side of the current accounts. (See figure 3.8)

FIGURE 3.2 -- RAILWAY AND INTEREST COSTS AS A PROPORTION
OF GOVERNMENT EXPENDITURES, 1842-1867 (49)

The less important of the two new items of expenditure, railway damages, commenced in 1859 at 2.8% of total expenditures, but had declined to a mere 0.1% by 1866.(50) Railway damages were compensation for land or property expropriated for railway purposes. When calculating damages "the relative benefit as well as injury done to the property by the construction of the railway" were considered. Railway damages were officially appraised upon each county.(51) Legislation passed in 1860 made the county responsibility more explicit. It stated that a "Party

FIGURE 3.6 -- RAILWAY REVENUE AND EXPENDITURE,
1860-1867 (52)

	RAILWAY REVENUE	RAILWAY REVENUE EXPENSES	SURPLUS IN CURRENT ACCOUNT (RR)	PERMANENT CHARGES FOR RAILWAY IN CURRENT ACCOUNT OF NOVA SCOTIA GOVERNMENT
1860	\$ 82,116	\$ 79,500	2,616	\$ 193,902
1861	166,166	95,500	20,666	273,842
1862	132,777	94,500	38,277	252,973
1863	144,247	127,000	17,247	253,825
1864	118,616	110,000	8,616	165,691
1865	181,789	169,000	12,789	279,388
1866	257,629	205,000	52,629	289,495
1867	153,669	162,894	-9,225	258,834

in whose favour award is made in respect to damages for materials taken for railway purposes may elect to consider such award against the county".(53) Maxwell suggests that the government was unable to collect damages assessed on the counties due to the underdeveloped state of local government structures in Nova Scotia at this time. This forced the government to supply funds out of their own current account.(54) It seems, however that the government made no great effort to force the issue even though a fairly elaborate mechanism for local assessment and collection of poor rates, which could have been modified to accommodate railway damages, was in existence.(55) The government paid out at least \$54,800 for damages due on the 61.2 miles of track completed to 15 December 1856.(56) It seems reasonable to assume that, with spending on roads declining, these damages provided an alternative means by which patronage could be disbursed. At almost \$900 per mile compensation, the government was obviously determined to promote the new railroad as best it could.

The other new railway-related expense incurred at this time was railway "revenue expenses" - the operating cost of service on the trunk line. These expenditures first appear in the current accounts in 1860 at \$79,500, or 9.3% of total expenditures for the year. By 1867, they had risen to \$205,000, or 10.5% of expenditure.(57) In 1860, the railway also started to produce revenue, and officially was a money maker in every year except 1867. Figure 3.8 shows, however, that railway surpluses were minimal when compared to the fixed charges of the railway which

appeared year after year in the current account. Railway surpluses which went into the general revenues of the colony had no noticeable impact on policy making. Joseph Howe's 1863 comment shows the relative importance of railroad revenue. "We have an increase [in government revenue] of £60,000, equal to our whole Railway interest, in customs alone, besides nearly £10,000 net out of our Railway and a large increase also in Casual Revenue, Post Office, etc." (58) The weight of railroad financing continued to press upon government and no sinking fund was ever established with railway operating profits.

The rise in public service expenditure during the pre-Confederation phase is closely related to increased spending on the Nova Scotia militia. The proportional rise in this category was substantial - from 0.23% of expenditure in 1854/60 to 2.94% in 1861/67. (59) Increased militia spending was a logical response to fears arising from the on-going American Civil War. Much of the early discussion about the possibility of an Intercolonial Railroad had stressed the military value of such a road. (60) When the 1864 Quebec Conference laid the ground work for a federal union, the defensive capability that a united British North America would enjoy was one of the much touted benefits of the proposed arrangement. Rising militia spending brought home the difficulty and expense of a separate Nova Scotian defence policy, and may have confirmed Tupper's belief that closer ties with the rest of British North America were necessary. For the Reformers, however, the effect appears to

have been different. Howe, for example, explained to Edward Watkin of the Confederation scheme that

The Maritime Provinces are very happy and prosperous, as they are. They are willing to train their militia and pay their fair quota for defence, but they will not break down their Institutions and Burden their commerce with Great Britain and the United States and fifty British Colonies, for the benefit of one. The Canadians have broken faith with them before [over Intercolonial Railroad agreements] and Brown's scheme of representation by population places their trade, their revenues, and their future, at the mercy of the larger Province. (61)

Disappointed in their hopes for an intercolonial railroad without political ties, yet satisfied with Nova Scotia's autonomy, the Reformers were quite content to turn their backs on their sister colonies, who were not greatly valued as trading partners in any case. They feared the Confederation agreement because of its provision that customs revenue would come under the jurisdiction of the central government as this would mean abdicating local control over the colony's commerce. The fact that Canada's ~~ad valorem~~ duty was considerably higher than Nova Scotia's contributed to their apprehension.

Postal communications, and to a lesser extent, larger subsidies to steamboats, packets and ferries, also heralded increased public service expenditure. Spending on postal communications had risen fairly consistently from £3,414 (or about \$13,656) in 1853, to \$74,120 in 1867. It rose from an average of 3.8% of total expenditure in 1854/60 to 4.6% in 1863/67. (62) The subsidies for various types of water communications rose from £1,347 in 1859 (about \$5,200) to a peak

in 1867 of \$17,100. This represented an increase of from 0.77% to 0.91% of government expenditure.(63) Subsidies to steamboats, packets and ferries were, like the postal service, intended to link Nova Scotia's railway system with those of New Brunswick and Maine; they thus reflected the same policy trend which had produced a publicly financed system of railroads. Both Reformers and Tories supported improvements in the province's system of communications, but by this time the motives behind their actions were widely divergent. The former stressed its assistance to autonomous commerce, the latter its potential as a step towards binding together a new nation.

In absolute terms, the Nova Scotia government's revenue expenses rose slowly throughout most of the pre-Confederation phase. Such, after all, was the cost of the expanded role of government. Reformers, in power from 1860 to 1863, believed that the health of the commercial economy required them to maintain and even improve the level of administrative efficiency within the customs establishment. In this regard government procured in 1862 "additional rooms for the increased and increasing business of the Revenue offices and other departments" in 1862, were Howe also informed J. H. Anderson, the Receiver General, that

I am commanded by His Excellency [the Lieutenant Governor] to instruct you to carry out without delay, such improvements in the indoor branch at the Revenue Office at Halifax "as will ensure the due entry of goods and keep a check on the monies received". His Excellency desires that these securities may be perfect whatever the expense, as it cannot be longer endured that an office so important as the Halifax Office at which is collected four fifths of the whole Revenue of the province should be without them.(65)

Reformers had retained their predilection for economy in government, and in actual terms, spending on revenue expenses grew by an average of 2.64% annually under their administration. Under the Tories in 1857-1859 the comparable rate had been 8.21%. In addition, each of the items in this category of expenditure (revenue expenses, advances, drawback of duties, and crown land department) decreased in one of the three years of the Reformers term in office.(66) It was the relatively depressed level at which the Reformers financed this area of government activity that caused revenue expenses, as a proportion of government expenditure, to fluctuate at a slightly lower level during these years than they had done during the late 1850s. (See figure 3.9) Government operation and social welfare expenditures were also proportionately lower during the 1861/67 period than they had been in that of 1854/60. There can be little doubt that all this reflected a desire of the part of government to compensate for the increasing demands the railroad program was placing upon their resources.

Within the category of social welfare expenditures, an opposing trend may be noted. The Conservatives, late in the period of responsible government, forced through hotly contested legislation which created a system of publicly supported schools.(67) The current account figures show clearly that Tupper's Conservative administration used its power from 1864 to arrest and reverse the trend to declining government support for education. Education expenditures during the three phases

discussed here were 14.4%, 9.24%, and 6.62% of total government expenditures, respectively. In the years 1864 to 1867, however, 4.1%, 6.5%, 8.14, and 10.3% of government spending was devoted to this area of endeavour. In real terms this represented a rise from \$69,607 to \$159,585.(68)

FIGURE 3.2 -- EXPENDITURE FROM CURRENT ACCOUNT BY CATEGORIES,
1861-1867 (69)

	1861	1862	1863	1864	1865	1866	1867	AVE
PUBLIC WORKS	55.6	25.0	31.3	45.8	42.7	38.2	38.6	36.74
GOV'T OPERATION	11.8	7.9	9.6	10.8	8.3	6.1	7.3	8.83
REVENUE EXPENSES	10.3	7.8	9.9	9.2	8.5	7.3	9.4	8.91
DEBT SERVICING AND COINAGE	26.2	42.7	23.6	14.5	18.8	19.0	16.5	22.33
PUBLIC SERVICES	7.7	7.5	9.4	11.4	9.6	13.0	11.4	10.00
SOCIAL WELFARE	7.6	6.2	7.5	5.7	7.7	10.2	12.3	8.17
NATURAL RESOURCES	0.2	1.7	2.7	1.8	1.2	2.3	0.8	1.53
OTHER	0.8	1.2	5.9	1.2	2.2	2.3	1.8	2.20

In 1860, procedural changes in the Nova Scotia Assembly concentrated financial control within that body. Previously control had been diffused among various committees. This adjustment probably resulted from a concern about the relatively low current account surpluses in 1858 and 1859. In any case, it

was argued to be necessary in order to give the Executive the power to ensure a balanced budget.(70) Within a year, however, this power proved inconsequential in the face of an unforeseen drop in customs revenues. That drop produced the first current account deficit since the inauguration of responsible government. (See figures 3.1 and 3.5) The most telling effect this change was to have proved to be political; it strengthened enormously the hand of the party in power by concentrating financial control in the hands of departmental ministers. This was clearly the trend during Tupper's administration from 1863-1867.

Revenue from railway operations became an established fact in the pre-Confederation phase. (See figure 3.8) and it is this fact, rather than any diminution in customs revenue that is reflected in the decreased proportion of revenue attributable to duties. Revenue from customs and light duties had fallen short of expectations by over \$85,000 in 1861.(71) This probably resulted from market dislocation caused by the advent of the American Civil war, and contributed substantially to that year's current account deficit. Faced with this deficit, the Reformers preferred to override their predilection for low tariff rather than borrowing to meet expenditures. In 1862 a 2 1/2% surtax on articles regularly taxed at 10% *ad valorem* was "specifically appropriated to the liquidation of the balance of expenditure over revenue at the thirty-first day of December 1861".(72) But this was to be a short term arrangement. By February 1863, Howe was able to report to Edward Watkin that "Our Revenue has

increased bravely, down to the year's close...we have swept off the debt contracted last year, principle and interest. Shall strike off our 2 1/2 per cents and be ready for anything."(73)

From 1861 to 1866 revenue from customs surged ever higher. An increase was registered even in 1864 - a fiscal year of only nine months duration. (See figure 3.5.) Not only were tariff schedules adjusted on a regular basis, but a close check was kept on customs collections. It was not at all unusual to find letters in the Financial Secretary's papers from Customs Officers making enquiries about specific duties, or copies of letters from the Financial Secretary to these officers reproaching them for their incorrect appraisal of duties.(74) Thus too in 1866, S. Jones, the Customs Collector for Weymouth, was obliged to itemize "the various causes for the falling off in the Revenue".(75)

Despite its obviously different tactics and objectives, however, Tory policy had little immediate effect on the established trend in the colony's trade. The value of imports rose by roughly \$2,000,000 per year from 1862 through 1865. A modest decline of \$650 in 1866 can be explained by the fact that the figures for this year were calculated over a period which overran the abrogation of the Reciprocity Treaty by some six months.(76) (See figure 3.5) Toward the end of the period of responsible government, the administration's concern with the health of the province's trade became much more concentrated on its revenue rather than its commercial aspect. Where once the

government's function had been to protect and encourage trade by minimizing customs duties and interference. Trade now became a vital prop to the Nova Scotian administration, to be manipulated according to its financial needs. This change was partly a function of Tupper's greater concern for industrial over commercial development, and partly a function of the much higher level of expenditures to which government was becoming committed. In the face of expanded commitments, Tupper's administration could no longer afford to pander to Nova Scotia's commercial interests, especially since they appeared adamantly opposed to the Confederation scheme on which the Tories were set.

Debt incrementation and coinage revenue during the pre-Confederation phase was, in general, proportionately lower than it had been in the 1854/60 accounts. (See figure 3.6 and 3.10) Revenue from this source never again reached the relative peak it had in the years 1854 to 1856. However, the absolute amount collected from debt incrementation and coinage was far higher during this latter phase of railway building.(77) No difference marked Tory and Reform handling of these revenues. The sources of funding tapped in this category by administrations of either Reform or Tory stripe, were almost identical. Except for a \$136,689 loan from the Bank of Nova Scotia - acquired in 1862 to cope with the repercussions of the deficit in the previous year's current account, and paid off in the same year(78) - all the revenue in this category came from the Savings Bank (\$220,500) and Treasury Notes (\$175,000).(79)

FIGURE 3.10 - REVENUE IN CURRENT ACCOUNT BY CATEGORIES,
1861-1867 (80)

	1861	1862	1863	1864	1865	1866	1867	AVE
DUTIES	70.0	67.1	70.8	61.3	61.6	59.6	55.3	63.67
DEBT INCREMENTATION AND COINAGE		11.1	3.2	7.0	4.3	6.6	12.7	6.41
PUBLIC WORKS	13.2	10.9	12.0	10.7	10.8	12.9	11.1	11.66
NATURAL RESOURCES/ CASUAL REVENUE	7.5	6.3	6.6	8.0	7.0	5.9	7.1	6.89
EXTERNAL SOURCES	0.7	0.5	0.4			0.1		0.24
GOVN'T SERVICES	3.0	2.9	2.9	3.1	2.0	2.6	3.7	2.89
PUBLIC SERVICES	0.6	0.7	1.8	0.9	0.8	1.0	0.7	0.93
ADVANCES RETURNED	0.2	0.3	1.1	>0.1	0.1	0.1	1.5	0.47
PAPER ASSETS	4.9		1.0	8.6	13.1	10.9	7.8	6.61
OTHER	>0.1	0.3	0.2	0.2	0.2	0.3	0.2	0.20

In response to the pressures on the public purse, and assured that Confederation would soon lighten the financial burden carried by his administration, Tupper attempted a radical policy change in a different aspect of government financing. Early in June 1867, he wrote to Baring Brothers to request that they "advance to this Government for general purposes a sum not

to exceed fifty thousand pounds sterling" (about \$200,000) on the security of the bonds they already held.(81) To this query, Baring Brothers answered, with "great pleasure" in the affirmative.(82) Never before had it been suggested that the proceeds of debenture sales should be pledged toward any purpose other than that of railway building, and Tupper admitted that "as we go into Confederation the first day of July next we cannot make the revenue beyond that date immediately available but will make arrangements to repay you the amount loaned during the ensuing six months".(83) This represented a further step away from the ethic which had originally informed government's financial policy in Nova Scotia. Not only were the Tories willing to enlarge their obligations to build infrastructure; they were prepared to fund current government operations with contingency loans.

To the great surprise and chagrin of the Nova Scotian administration, the proposed advance became the cause of much consternation. Baring Brothers later denied that any such arrangement had ever taken place. Responding in October 1867 to Nova Scotia's Receiver General, Barings proved incredulous: "you allude to some proposed arrangement with Mr. Tupper to the extent of £50,000 of which we are not aware that we have any record or cognizance".(84) Much confused correspondence on this subject between Barings, A. I. Galt and John Rose of Canada, and James McNab (still Nova Scotia's Receiver General), suggests that Nova Scotia's finances were in something of a turmoil. Thomas Baring's

remark that "the financial affairs of the Province seem to be managed without regularity" may only have been only sour grapes after all the uproar, but the advice he gave to Galt ("it would be most satisfactory not only to us but to the future credit of the Province [of Nova Scotia] if you could advise more order") was acted upon promptly. (85) On 3 October 1867, Galt wrote tersely to McNab that "it must be distinctly understood that you are not to draw any more on Dominion Account. Messrs Baring have been advised to that effect". (86) A full four months after Confederation, McNab was still trying to clear the province's name. On November 7, he sent a lengthy missive to Galt, a portion of which read as follows:

[I] beg to enclose copies of the communication with Messrs Baring Brothers and Company in reference to the amount for the general purposes of the province. You will observe that Dr. Tupper asked for an advance of £50,000 stg. for this purpose of which we used only £23,000 the balance being applied to the Pictou Railway. Messrs Baring have advanced including this £23,000 about £268,610 stg against which they hold as collateral security £225,000 stg in Provincial Bonds leaving a sum uncovered of about £44,000 stg. These Bonds I was led to believe, the Dominion Government would retire and issue their own for the full amount as they could not fail to be more readily of sale when brought on the market than our Provincial Bonds and this was the reason I did not forward the full amount in Bonds to cover the advances made by them...

As respects the £23,000 used for general purposes I suppose it will have to form part of the indebtedness of the province if it cannot be met in any other way as Dr. Tupper's expectations "to repay the amount within six months" cannot be met. (87)

Any adjustment of government responsibilities as major as those brought about by Confederation could be expected to cause

confusion among administrators. In this case, however, the foreseeable problems were compounded as British North American politicians rushed arrangements forward in order to finalize matters before anti-Confederation forces could muster their full strength. The episode of the advance from Barings thus exaggerates the haphazardness with which Nova Scotia's financial affairs were managed. It nevertheless sheds a great deal of light on the transition from responsible government to provincial status in Nova Scotia. First, the £23,000 obtained from Barings was not enough to balance the 1867 current accounts, so the operations of government in the final year of responsible government produced a deficit. (88) As it was due to increased expenditures rather than diminished revenues, as had previously been the case, this deficit suggests that the scope of government activities in Nova Scotia had reached its reasonable limit within the existing tax structure. Second, it is clear that the Nova Scotian government's relationship with Baring Brothers underwent a swift, radical change. Nova Scotia was demoted from the privileged position of client, to that of inconsequential subordinate. Canada was now preeminent among Barings British North American customers, and by early 1868, John Rose, the Canadian Finance Minister - ignoring the Nova Scotians - commiserated with Thomas Baring about the repeal movement in the province, and indicated to him the policies which were to be implemented there in order to protect the public credit. "My only fear" he wrote

is that the Anti-Union deamons [sic] in Nova Scotia may

be reckless enough to stir the people up to make a run on the Savings Bank or for the redemption of their Provincial Currency. I do not think they will, but if they did I should like to stop it without resort to any extraordinary means.

We propose putting the Savings Bank system of the Maritime Provinces on a better footing, and recalling the Provincial Circulation of Nova Scotia and substituting our own...[illegible passage]...to assimilate the two currencies by Legislation as well as to get Parliamentary authority for the purposes, especially the promised proper specie reserves. The transactions of our Maritime friends have not, to say the least been characterized by perfect regularity or soundness".(89)

The third aspect of the transition that is illuminated is the state in which the revenue of the province of Nova Scotia was left by the Confederation agreement. Tupper had overestimated the resources of the provincial government when he had arranged the advance with Baring Brothers, and in this he had not been alone. Nova Scotia's insufficient taxing power became, of course, one of the pete-dore's of the Repeal Movement, and while discontentment was fairly easily quelled by the "Better Terms" arranged in 1869, these results were only temporary. The fiscal imbalance built into the Confederation agreement has, in fact, proved to be a problem endemic to Nova Scotia ever since.

* * * * *

In the previous chapter it was suggested that during the period of responsible government there was one great divide reflected in the capital account of Nova Scotia. This occurred when bonded debt made its sudden, dramatic appearance in the debit side of the ledger. In the current account, there were two

such great divides. The first occurred between 1853 and 1854. The magnitude of government activities in general changed dramatically when the colony embarked upon its railway building program. The major financial impact of that decision came several years later. The second occurred between 1860 and 1861, the latter year being ~~1860~~^{that in which} the first railway interest payments on debenture bonds sold to finance railroad construction had to be paid. This, in turn, marked the start of the final phase in the financial history of Nova Scotia during the period of responsible government. It was during this final phase that the railway policy on which various governments of Nova Scotia had been determined since 1849 became the most cumbersome burden on the Provincial Treasury, for in addition to fixed costs - escalating now with the onset of interest payments - the railway began incurring operating expenses. The Reform administration from 1860 to 1865 emphasized retrenchment to protect Nova Scotia's trade and commerce. But Howe had compounded his loss of credibility by imposing his customs surcharge in 1862, and the elections of 1865 gave the advantage to the Conservatives. In 1864, already well into this final phase and feeling its pinch, Tupper's government decided to incur further long-term debts in order to finance an extension of the provincial railway system. So determined were they on this policy that they were prepared to risk the public credit with much more daring than their predecessors. They were equally prepared ride roughshod over the opposition of an important segment of public opinion - the

province's commercial elite. The way in which Nova Scotian administrations coped with the weight of these commitments provides a useful perspective from which to observe the changing and diverging opinions of the role of government in Nova Scotian society.

NOTES - CHAPTER THREE

(1) Reports of the Public Accounts Committee in Journals and Proceedings of the House of Assembly of the Province of Nova Scotia (1849-1866). (Hereafter cited as Public Accounts in Nova Scotia Journals.)

(2) J. A. Maxwell, "A Financial History of Nova Scotia, 1848-1899" (Harvard University: Ph.D. Thesis, 1927), p.10. (Hereafter cited as Maxwell, "Financial History".)

(3) Public Archives of Nova Scotia, RG 1, vol 279 - Manuscript Documents of Nova Scotia, Selections from the Files of the Offices of Government Officials, 1749-1870, #100, S. Fairbanks to Joseph Howe, 10 April 1849. (Hereafter cited as PANS, Manuscript Documents.)

(4) Public Accounts in Nova Scotia Journals (1850-1851).

(5) Public Accounts in Nova Scotia Journals (1853). These were the same certificates to which reference was made in chapter two, page 34.

(6) Public Archives of Canada, MG 24 D 21 - Baring Papers, vol 182 pp.82533-82540, "Report of His Excellency the Lieutenant-Governor on the State, Resources, and Capabilities of the Province of Nova Scotia, 28 October 1855". (Hereafter cited as PAC, Baring Papers.)

(7) Calculated from Public Accounts in Nova Scotia Journals (1850-1854).

(8) "A Brief Political Catechism of Liberal Principles" 5 August 1847, quoted in D. C. Harvey, "Education for Responsible

"Government" Dalhousie Review 27(3), October 1947, p.344.

(9) Thomas Dickson to Joseph Howe, 7 August 1848, vol 1 in PANS, RG 31-114 - Board of Revenue, Correspondence, 1839-1861.

(10) Customs returns in Nova Scotia Journals (1850-1854).
Also, Statutes of Nova Scotia (1849-1853).

(11) Calculated from Public Accounts in Nova Scotia Journals (1850-1854).

(12) Calculated from Public Accounts in Nova Scotia Journals (1854).

(13) D. C. Harvey, "The Civil List and Responsible Government in Nova Scotia" Canadian Historical Review 28(4), December 1947, p.365.

(14) Calculated from Public Accounts in Nova Scotia Journals (1850-1854).

(15) Public Accounts in Nova Scotia Journals (1850-1861).

(16) Public Accounts in Nova Scotia Journals (1855-1861).

(17) Maxwell, "Financial History", p.31. Also Public Accounts in Nova Scotia Journals (1858-1859).

(18) Public Accounts in Nova Scotia Journals (1860-1865).

(20) Eldon Pringle Ray, "Transition to Responsible Government in Nova Scotia, 1835-1864" (University of Toronto: Ph.D. Thesis, 1945), chapter 4 - "Party Strife and Responsible Government, 1855-1864", pp.204-264.

(20) Calculated from Public Accounts in Nova Scotia Journals (1861).

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(22) "Annual Abstract of the Accounts of the Halifax Savings Bank", Public Accounts in Nova-Scotia-Journals (1858).

(23) Committee Report, appended to "Annual Abstract of the Halifax Savings Bank", Public Accounts in Nova-Scotia-Journals (1859).

(24) PANS, RG 1 vol 200 - Executive Council Minutes, 9 July 1858.

(25) "Annual Abstract of the Accounts of the Halifax Savings Bank", Public Accounts in Nova-Scotia-Journals (1858-1859).

(26) Public Accounts in Nova-Scotia-Journals (1860).

(27) Calculated from Public Accounts in Nova Scotia Journals (1850-1861).

(28) Maxwell, "Financial History", p.15.

(29) Nova Scotia, Railway Correspondence, Nova Scotia Delegation, Despatches Laid before the Legislature in the Session of 1850 on the subject of the Halifax, Quebec, and Portland Railroads (Halifax: no publisher, 1851), passim. (Hereafter cited as Nova Scotia, Railway-Correspondence.)

(30) Calculated from Public Accounts in Nova-Scotia-Journals (1855-1861).

(31) Calculated from Public Accounts in Nova Scotia Journals (1850-1861).

(32) Calculated from Public Accounts in Nova Scotia Journals (1850-1861).

(33) Public Accounts in Nova-Scotia-Journals (1850-1868).

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(1850-1854).

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(36) For example, PANS, RG 31-101 vol 18 - Receiver General's Office, Letter Book, James McNab, 13 September 1855-19 December 1867, James McNab to Baring Brothers, 21 May 1857. (Hereafter cited as PANS, Receiver General's Letter Book.)

(37) PANS, Receiver General's Letter Book, James McNab to Baring Brothers, 15 August 1857.

(38) Public Accounts in Nova-Scotia-Journals (1857-1858).

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(40) Public Accounts in Nova-Scotia-Journals (1855-1861).

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(42) D. A. Muise, Coal Mining in Nova Scotia to 1925 "Canada's Visual History" vol 55 (Montreal: National Film Board, 1981), passim. (Hereafter cited as Muise, Coal Mining.)

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(44) Calculated from Public Accounts in Nova-Scotia-Journals (1855-1861).

(45) Joseph Howe to Thomas Baring, 20 June 1855, vol 2, pp.877-895 in PAC, Baring Papers.

(46) Calculated from Public Accounts in Nova-Scotia-Journals (1862-1867).

(47) Calculated from Public Accounts in Nova-Scotia-Journals

(1862).

(48) Calculated from Public Accounts in Nova-Scotia-Journals (1849-1868).

(49) Calculated from Public Accounts in Nova-Scotia-Journals (1862-1868).

(50) Calculated from Public Accounts in Nova-Scotia-Journals (1860-1867).

(51) 20 Victoria Cap 13, Statutes of Nova-Scotia (1857).

(52) Calculated from Public Accounts in Nova-Scotia-Journals (1861-1868). Permanent charges comprise railway interest, railway construction, and railway damages.

(53) 23 Victoria Cap 16, Statutes of Nova-Scotia (1860).

(54) Maxwell, "Financial History", p.43.

(55) For example, 10 Victoria Cap 41, Statutes of Nova Scotia (1847).

(56) Calculated from Public Accounts in Nova-Scotia-Journals (1860-1866).

(57) Calculated from Public Accounts in Nova-Scotia-Journals (1861-1868).

(58) PAC, MG 24 E 17 - Watkin Papers, #47, Joseph Howe to Edward Watkin, 5 February 1863. (Hereafter cited as Watkin Papers.)

(59) Calculated from Public Accounts in Nova-Scotia-Journals (1855-1868). This reflected an actual increase from an average annual expenditure of \$1,728 in 1854/60 to \$44,828 in 1861/67.

(60) Nova Scotia, Railway-Correspondence, passim.

(61) PAC, Watkin Papers, #77, Joseph Howe to Edward Watkin, 15 March 1865.

(62) Calculated from Public Accounts in Nova Scotia Journals (1854-1868).

(63) Calculated from Public Accounts in Nova Scotia Journals (1855-1868).

(64) PANS, Manuscript Documents, vol 272 #151, Memo, 5 November 1862.

(65) PANS, RG 1 vol 159 - Provincial Secretary's Letter Books, Joseph Howe to J. H. Anderson, 29 April 1862.

(66) Calculated from Public Accounts in Nova Scotia Journals (1858-1864).

(67) Sir Charles Tupper, Bart., Recollections of Sixty Years in Canada (Cassell and Company, 1914), pp.42-43. Also 28 Victoria Cap 28, Statutes of Nova Scotia (1865).

(68) Calculated from Public Accounts in Nova Scotia Journals (1850-1868).

(69) Calculated from Public Accounts in Nova Scotia Journals (1862-1868).

(70) J. Murray Beck, The Government of Nova Scotia (Toronto: University of Toronto Press, 1957), p.123.

(71) Estimate for the Year, Appendix 27 in Nova Scotia Journals (1861). Also, Public Accounts in Nova Scotia Journals (1862).

(72) Section 7, 25 Victoria Cap 3, Statutes of Nova Scotia (1862).

(73) PAC, Watkin Papers, #47, Joseph Howe to Edward Watkin, 5 February 1863.

(74) PANS, RG 31-115 vol 2 - Financial Secretary, Correspondence, 1842-1867, passim. (Hereafter cited as PANS, Financial Secretary's Correspondence.)

(75) PANS, Financial Secretary's Correspondence, Sterns Jones to Financial Secretary, 2 April 1866.

(76) Public Accounts in Nova Scotia Journals (1863-1867).

(77) Public Accounts in Nova Scotia Journals (1862-1868).

(78) Public Accounts in Nova Scotia Journals (1863).

(79) Public Accounts in Nova Scotia Journals (1863-1868).

(80) Calculated from Public Accounts in Nova Scotia Journals (1862-1868).

(81) PANS, RG 31-119 vol 1 - Miscellaneous Correspondence, 1830s to 1908 and n.d., Charles Tupper to Thomas Baring, 3 June 1867. (Hereafter cited as PANS, Miscellaneous Correspondence.)

(82) PANS, Miscellaneous Correspondence, Baring Brothers to Charles Tupper, 27 June 1867.

(83) PANS, Miscellaneous Correspondence, Charles Tupper to Baring Brothers, 3 June 1867.

(84) PANS, Miscellaneous Correspondence, Baring Brothers to James McNab, 10 October 1867.

(85) PANS, Miscellaneous Correspondence, Thomas Baring to A. T. Galt, 17 September 1867.

(86) Miscellaneous Correspondence, A. T. Galt to James McNab, 3 October 1867.

(87) PANS, Receiver General's Letter Book, James McNab to A. T. Galt, 7 November 1867.

(88) Public Accounts in Nova Scotia Journals (1868).

(89) PAC, Baring Papers, vol 4 pp.2004-2007, John Rose to Thomas Baring, 17 January 1868. On the question of regularity and soundness, it is interesting to note that, as far as can be ascertained, at no time during the period of responsible government was a run on either the Savings Bank or the Treasury Notes feared, or even seriously contemplated.

CHAPTER FOUR -- CONCLUSION

Historical analyses of responsible government in Nova Scotia have concentrated on its politics - its political parties, their leaders, and the recorded speeches. The financial papers and public accounts provide an alternate means of assessing the political debates of the period. They illustrate in practical rather than rhetorical terms the direction policy took and the way in which various administrations coped with the consequences. They also reveal changes in the philosophy of government. During much of this period the political platforms of the two parties were virtually indistinguishable yet analysis of the public accounts reveals subtle and growing differences in their approaches to government.

Only once before has an attempt been made to sift through the financial records of the colony. J. A. Maxwell completed a doctoral study of the public accounts of Nova Scotia in 1927, covering a broader time period (1848-1899) than does this study. Maxwell, however, confined himself to published primary sources - the Journals of the Assembly and the Statutes of Nova Scotia. He also focused his analysis on "representative" fiscal years, largely ignoring the broader context in which they occurred. As a result, Maxwell missed both the continuity of focus in public finance during responsible government and the interconnection between the financial and political developments of the time. This is illustrated by his comments on railway interest payments.

Maxwell suggested that "as far as interest payments were concerned the government pursued a conservative policy, for it endeavoured to meet these entirely from recurrent revenue; and in only three of these years and to an amount of \$230,000 was this not done".(1) Maxwell's suggestion that the government pursued a conservative course is valid only if the necessity of debt acquisition has been conceded. Viewed from a different perspective, these interest payments were the direct result of a radical policy of government intervention which had led to a more than ten-fold rise in per capita indebtedness during the period of responsible government.

At another point, Maxwell criticizes the Nova Scotia government for treating the receipts obtained from the public domain as a source of revenue for normal recurrent expenditure. He argues that government "was, by this procedure impairing its capital and using up a natural resource". He notes with some surprise that "(s)tudents of public finance have long agreed that such revenue should be used either to finance the creation of capital assets or in the redemption of debts".(2) To argue the validity of the Nova Scotian government's actions in terms of theories of public finance seems odd in light of the political and institutional uncertainty of the period. Murray Beck, for example, concluded in a paper on Nova Scotian politics that

What was really being demonstrated during this period [1855-1863] was that the new order which had been established in 1848 had altered radically some of the institutions around which the game of politics was to be played, and until new rules could be prescribed to meet the new conditions political struggles might,

under some circumstances, be akin to internecine warfare.(3)

Beck has also suggested that "if principles and issues were needed to maintain stable alignments within a two-party system, they were almost non-existent" in Nova Scotia in the mid-1850s.(4) This thesis has demonstrated that, by the mid 1860s at least, a more stable party alignment was beginning to reflect the emergence of two opposing notions of public finance.

Though limited in extent, the railroad system completed in Nova Scotia between 1849 and 1867 became the primary focus of that colony's financial planning throughout the period of responsible government. Debts incurred to build railroads provided a testing ground for the management abilities of the maturing colony. Debt became the centre-piece around which the rest of Nova Scotia's financial policies were arranged. Railroads, in fact, fundamentally altered the nature of government's role in Nova Scotia by greatly broadening the base of both public revenues and expenditures. Government grew in response to the imperatives railways provided. In addition, railroad construction and financing created benchmarks by which public finance during the period of responsible government may be divided into manageable chunks for examination. Three distinct phases have been examined in the Nova Scotian government's current account - the transitional phase (1849-1853), the ambivalent phase of early railroad construction and financing (1854-1860), and the final, pre-Confederation phase (1861-1867)

during which the full implications of the policy of government directed railroad development became clear. Why then did the Nova Scotia government - holding a clean financial slate in 1849 - chose the railroad option?

Joseph Howe has been called an unnatural leader for the colony's Reform movement because of his commitment to railway led development.(5) The financial ramifications of such a policy were, after all, antithetical to the natural inclination of Nova Scotia's Reformers to keep government "off the backs of the people". This was particularly true for the commercial people who so largely comprised the colony's Reform Party. Nevertheless, Howe's drive and political stature in the late 1840s and early 1850s were crucial to the instigation of a policy of publicly built and operated railroads. Assisted by the prosperity which was confidently predicted with the signing of the Reciprocity Treaty, he was able to convince Nova Scotians of the commercial value of railways. The aspirations of the well-established Halifax merchant community, too, played a part in this decision. Halifax's commercial pre-eminence would be greatly enhanced by possession of what they hoped would be the railroad terminus for all of British North America. This helped secure the acquiescence of its commercial interests to Howe's dream of railroad construction.

The decision to build railroads marked the close of the first phase of responsible government. After a prolonged debate,

the necessity for direct intervention by the state to provide transportation infrastructure was conceded, and with it, the need for government to carry the financial burdens of its growth strategy. Moreover, in Nova Scotia the provincial government took on the entire financial responsibility for development. The lack of municipal government structures, which in Canada shared the burden of public debt, insured this result. Once railway construction began, and financing was arranged to cover its costs, there could be no return to the limited government of earlier years. Never again would a Nova Scotian politician be able to claim, as Howe did in his early negotiations with Barings, that a single year's revenue could cover almost the entire indebtedness of the colony.(6)

Having originated, like responsible government, largely in the boisterous enthusiasm of Howe's Reformism, railways went on to play an important part in the political development of the colony. The decision to build railways as public works had been a dramatic departure from established norms in Nova Scotian public finance, and the progress of railroads remained intimately related to the changing political mores of the time. In the 1850s and 1860s railways, and their financial implications for the government, became the centre of an ideological controversy over the future of Nova Scotia. During these years successive Nova Scotian administrations had to deal with changed policy imperatives on both the revenue and expenditure sides of the public accounts ledger as Reciprocity and railroads posed new and

unfamiliar financial problems. Railway construction expenses incurred in the mid-1850s led to growing public scepticism as to the value of burdening the future revenues of the colony to the extent that completion of all the planned railroads would require. The hesitance with which railway construction was pushed forward during this middle phase of responsible government illustrates in concrete terms a concurrent uncertainty in the political arena. Howe's vision of government assisted commercial expansion floundered on the rocks of railway expenses. In the ruins of this faith in railway generated growth were the seeds of the public debate (labelled "Increase of Taxes or Retrenchment" in a contemporary journal)(7) which was ultimately settled only by Confederation.

The lingering belief in old-style government was apparent as late as 1862 in remarks made in the Legislative Assembly by Conservative Annand Longly of Annapolis County: "a government should regulate their expenses by their income, or otherwise they could not expect to prevent the country falling into bankruptcy...[and it] was no use to form estimates if they were exceeded at mere pleasure".(8) Yet during the political doldrums of 1857 through 1863 it became apparent that the resources of the colony were too far committed to admit of withdrawal from the railway policy upon which its government had embarked in 1854. The full implications of railway financing became apparent in 1861 with the advent of railway interest expenditures. This had the effect of clarifying the financial setting for Nova Scotian

politicians. The Conservatives were returned to power with a clear-majority in 1863, and the central question now became how best to accommodate government activities to the established financial fact of railways.

It has been suggested that "the Nova Scotia of the early [eighteen] sixties appears to have been moving toward the political impasse which was bedeviling Canadian politics at the same time", (9) but the similarities ran deeper than the political controversy. Nova Scotia had pursued a financial policy comparable to that of Canada, although on the smaller scale befitting her smaller population. Government promotion of public works financed by British capital was the accepted mode of development in British North America, and in their use of this strategy Nova-Scotians, for all their nose-thumbing at spendthrift Canadians, appear to have largely shared their values and objectives. In effect, Nova Scotia had traveled much the same road as her continental sister colony, a fact somewhat obscured by the contemporary political debate.

It would be stretching an argument to suggest that railroads led Charles Tupper to his support for Confederation. There can be no doubt, however, that the two ideas dove-tailed in his mind. Tupper was convinced that union with Canada would magically remove the debts the colony had acquired to build its railroads - and in a way he was correct. Confederation and an Intercolonial Railroad, in the minds of Tupper and other positively oriented

politicians of the pre-union era, would also lead inexorably to industrial growth in Nova Scotia. This assumption also proved correct, at least in the short term. In addition, Tupper believed that within Confederation Nova Scotia, fueled by the province's coal resources, would indeed become the hub of all Canadian manufacturing. The price to be paid was negligible in contrast to the benefits which might be gained. Tupper had carried the 1863 election on a platform of government intervention. He had specifically promised the swift completion of the Pictou Extension, the western extension, and the line to the New Brunswick border if an acceptable arrangement for an Intercolonial could be reached with the other colonies. It was only after the 1864 Quebec Conference that concerted opposition to Tupper's plans emerged. Extending the colony's railways to Pictou so as to ensure land access to that county's coal during times when ice prevented sea haulage had gained the support of the electorate despite the fact that to effect this the colony's credit had to be similarly extended. When this policy was coupled with that of Confederation, however, Nova Scotia's commercial interests rebelled.

Tupper's political support was concentrated in urban, and potentially industrial areas of Nova Scotia. It is therefore less than surprising that the financial policies pursued by his government were not structured to benefit the traditional mercantile elite, whose formidable political strength was ranged against Tupper in this debate. To them Canada's high taxes

unwisely burdened commerce in order to service debts. Canada had been a "wild speculator" in public works. The Nova Scotian commercial elite feared that under Canadian control, Nova Scotia's customs tariff would be raised to the higher Canadian level, leaving their trade crippled while giving no corresponding boon to the public coffers. High tariffs, they argued, merely cut demand for the resulting higher priced goods. Abrogation of Reciprocity in 1866 added weight to their argument as the value of the colony's trade slumped, and the fisheries dispute that accompanied abrogation fuelled their discontentment.

Tupper's success against this coalition is largely attributable to their complacent belief that no political realignment of the sort contemplated by Confederation could be introduced without some appeal to the public in a general election. The energy with which the Pictou Extension was pushed forward should have alerted them to Tupper's determination. Their naivete with respect to the import of renewed railway construction - harbinger of the coming union - insured that their efforts to organize effective opposition came too late. However, once again their spokesman, led a delegation to England, but failed to gain redress for their grievances. Even the Repeal Government elected in 1867 could make no headway.

There can be little doubt that financial policy had a formative impact on the politics of Nova Scotia during the period of responsible government and that the focus of this policy was

always railroads. The total indebtedness of the colony was dramatically increased by the sale of Nova Scotian bonds in London. Bonded debt, which bore far greater annual interest charges than the Nova Scotian government had hitherto been used to paying came, almost overnight, to form the lion's share of the public debt. All this was done solely order to finance the construction of a system of railroads which were believed to be vital to the future progress of Nova Scotia. The objectives toward which those roads were directed changed somewhat according to the dictates of the party in power, but railways were always intended to promote a greater empire for Nova Scotia. The "Golden Age of wood, Wind, and Sail" encouraged such dreams of grandeur, but in the vision that prevailed in 1867, it played only a secondary role - surpassed by the new technology of coal, iron, and steam.

NOTES--CONCLUSION

(1) J. A. Maxwell, "A Financial History of Nova Scotia, 1848-1899" (Harvard University: Ph.D. Thesis, 1927), p.36. (Hereafter cited as Maxwell, "Financial History".)

(2) Maxwell, "Financial History", p.21.

(3) Murray J. Beck, "The Nova Scotian "Disputed Election" of 1859 and Its Aftermath" *Canadian Historical Association* XXXVI(4) (December 1955), p.313.

(4) Murray J. Beck, "The Party System in Nova Scotia" *Canadian Journal of Economics and Political Science* XX(4) (November 1954), p.293. (Hereafter cited as Beck, "Nova Scotia Party System".)

(5) Kenneth G. Pryke, *Nova Scotia and Confederation* (Toronto: University of Toronto Press, 1979), p.12.

(6) Public Archives of Canada, MG 24 D 21 - Baring Papers, vol 7 pp.246-257, "Memorandum to Baring Brothers from Joseph Howe, 20 June 1855".

(7) "Increase of Taxes or Retrenchment" *Yarmouth Herald* 3 April 1862.

(8) Report on "Provincial Legislature" *Yarmouth Herald* 3 April 1862.

(9) Beck, "The Nova Scotia Party System", p.515.

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