

An examination of the tax sources now being used by the provinces reveals that these governments do, in fact, have access to revenue fields capable of yielding the required revenues. The real question is not whether they have access to such sources but rather whether there are practical considerations making it difficult for them to use their taxing powers. Under the constitution the provinces have access to the income-tax fields, both personal and corporate, just as the Federal Government has. Indeed, their use of these fields has risen substantially since the war: from 5 per cent of personal income tax 15 years ago to 25 per cent now, and from a tenth of the corporation income tax to about a quarter today. They are now levying taxes on commodities at the consumers level, while the Federal Government levies such taxes at the manufacturers' level. As I have indicated earlier, the provinces now collect some 40 per cent of all commodity taxes imposed in Canada, including nearly 40 per cent of the general sales taxes, some 50 per cent of liquor taxes, and virtually 100 per cent of gasoline tax. The provinces have full access as well to the asset-tax field; they and their municipalities now receive close to 100 per cent of all the property taxes collected, and 75 per cent of estate taxes or succession duties. The provinces also have access to resource revenues, as does the Federal Government; indeed provincial resource revenues now represent close to 100 per cent of the revenues from this source. Only the customs duties can be said to be exclusively collected by the Federal Government....

TWO FALLACIES

The conventional approach to this problem, during the post-war period, has been to argue that the Federal Government should reduce its taxes so as to give the provinces more "tax room".... The proposition that the Federal Government should reduce its taxes to ease increases in provincial levies must, in circumstances such as those I have described, be based on the assumption that Parliament is appropriating money for purposes less important than those being served by provincial expenditures. That governments should reduce expenditures is a proper subject for argument - taxpayers make it regularly, and apply it equally to federal, provincial and municipal governments. But we cannot accept as a general principle that federal expenditures are less important than provincial ones. The principle that *does* call for recognition is a different one: namely, that both Parliament and provincial legislatures must accept

their financial responsibilities and that each should look to its own electors for direction as to what money should be raised and how it should be spent....

The second convention of federal-provincial fiscal relations that must be questioned is that there is some particular share of income tax and estate taxes and succession duties, the so-called "shared taxes", which is rightly federal or rightly provincial. The fact is that both have constitutional rights in these fields.

What we must share now is the responsibility for the total taxes imposed on Canadians, taking into account what each other is doing. We must find ways of harmonizing federal and provincial tax actions, to ensure that the interests of the taxpayers of Canada are protected, both in the way and the extent to which the several tax fields are used. This must include the determination of what taxes tend to have national as opposed to provincial characteristics. The corporation tax is one of these, because corporation profits may be earned elsewhere than in the province where the head office is located and profits recorded.... There are also compelling reasons for the Federal Government to maintain a substantial position in the personal income tax field. This is the principal tax by which equity is achieved between the rich and poor across the nation. This implies that a substantial share of this tax should continue to flow to the national government. This tax, too, is one of the central instruments for regulating total demand in the economy, and Canadian Governments must not allow total federal income taxes to be abated so much that they can no longer be used for this purpose....

INTERGOVERNMENTAL LIAISON

The fiscal arrangements proposed by the Government of Canada combine into a consistent whole. They recognize as a fact of Canadian federalism that there are and must be both strong provincial governments and a strong Federal Government. Their purpose is a reform in fiscal arrangements under which both levels of government will have, in as balanced a way as possible, the fiscal strength they require, and the responsibility that must go with it. They provide a system of unconditional and automatic equalization payments to give meaning to fiscal freedom in the poorer provinces. They provide for the retention and the exercise by the Federal Government of those taxing and spending powers that are necessary to the proper management of the Canadian economy....
