

FEDERAL-PROVINCIAL FISCAL ARRANGEMENTS

The following is part of a statement by Mr. E.J. Benson, the federal Minister of Finance, to a meeting of provincial ministers of finance and treasurers in reply to "criticisms that continue to be made that the Federal Government has ignored provincial needs and is proceeding in fiscal matters in a way detrimental to the continued development of a strong and equitable federalism":

...It is discouraging to hear these and similar charges repeated, not only because they detract from a harmonious co-operation in what are inherently difficult matters but also because they seem to overlook the many constructive changes over the past few years. The federal position is based on clearly-enunciated principles which were put forward two years ago and which I repeated at last month's meeting. I will not repeat them today but I will say that none of them has been challenged in principle in the discussions last month or today.

...The Government of Canada recognizes the difficulties that provincial and municipal governments are experiencing, as well as the Federal Government, in meeting the rising demands of the Canadian public for government expenditures. These demands for government expenditures are not matched by any corresponding willingness to subordinate private expenditures, and the combination of efforts to expand the public sector along with the support of a prosperous private sector in our economy is producing an inevitable problem in taxation, borrowing, and financing generally. It is evident that apart from the more westerly provinces, which have been able to balance their budgets in recent years, the provincial governments will need either to restrain expenditures more than they have contemplated or to secure additional revenues by one means or another.

The economic situation currently suggests that governments of Canada, in aggregate, should not be increasing their deficits in the current economic situation where we are all concerned about the dangers of inflation. The Government of Canada has tried to meet this situation itself by putting forward to Parliament programmes in which its own expenditures are held under restraint and additional taxes are proposed to avoid a budget deficit. The trends in provincial finance which are publicly evident show that, for most of the provinces, deficits are apt to increase unless action is taken either to curtail expenditures more substantially or to increase taxes. We have recognized that the poorer provinces have a very real problem under these circumstances and we have in the past two years increased our equalization payments substantially to help them meet it. We are also increasing our other programmes for the support of those provinces with less tax capacity or greater need. Even so, all provinces in this category are going to have to observe, I believe, extraordinary economies during this period when serious financial problems both in regard to taxation and borrowing confront all governments and municipalities. We have taken this action in regard to the poorer provinces and our programmes are under way.

In view of what has been said and published, I cannot now refrain from saying that, in my view, the Province of Ontario is inviting us to reduce our income taxes so that Ontario can use them instead; and that we should impose on all Canadians either higher taxes in some other form or reduced expenditure programmes across the country. Nothing specific on the latter is suggested. I do not believe that this is the right way to deal with the situation created by the growth of the expenditure programmes of Ontario and the persistent deficits they have incurred.

BORROWING PROGRAMME

Now I should like to turn to another point: that we should transfer revenues and assume a larger part of the combined deficits. The Government of Canada is not trying to avoid going to the market for funds to be used for constructive purposes in Canada. This year, our borrowing programme has been a very heavy one, as anyone familiar with the market is well aware. Next year, I have endeavoured to limit it to what we felt was a reasonable maximum demand — some \$700 million. All of this will be required for extra-budgetary purposes — housing, farm credit, power projects, transportation projects, etc. These are constructive revenue-yielding programmes which warrant borrowing within the capacity of the country and the market. To suggest that we should go beyond this is to enunciate a doctrine that we should borrow because we are closer to the central bank. This appears to be a suggestion that the Federal Government should do the borrowing because it is able to inflate the currency better than the provinces. This is a doctrine I cannot possibly accept. The borrowing capacities of governments must be appraised on some other basis which recognizes monetary policy as something that must be determined in the national interest, not in the interest of any particular government.

References have been made in provincial statements to the tax-reform programme and our apparent unwillingness to consult with the provinces in the redesign of the income tax base. We have invited provincial views repeatedly on this subject. We have promised to take up our ideas with the provinces. I would welcome a discussion of provincial views on our estate-tax changes now that they have been put forward. No one can argue that we have not had provincial revenue considerations in mind in the proposals that we put forward in October. That is evident in their nature and scale. Clearly, all provincial governments do not agree on the doctrines relating to death taxes. We simply do not agree with some of these provincial doctrines that have already been published and some of which have been conveyed to us directly, particularly those who feel that taxes of this kind should not be used.

If provinces want to make observations about other elements of other modest instalments of tax reform now before Parliament I should be glad to welcome them, and the sooner the better. For example, if they have views about the taxation of insurance companies, by all means let us know and