

It is not too much to say that the error of these assumptions and principles of the existing scheme of federal public finance would be exposed conclusively by any impartial and scientific investigation. A proper survey of dominion-provincial financial arrangements must now take account of the incidence of tariff policy as an integral part of the tax system of the dominion. It must be recognized, in other words, that the unequal effects of the tariff upon the wealth and income of the various provinces of the dominion should be neutralized by direct subsidies or developmental expenditures, or in the alternative that differences in the taxable capacity of the provinces should be recognized as an essential feature in any scheme for the readjustment of provincial subsidies.

I think that is a fair statement. The hon. gentleman then goes on to show that it is highly desirable that under these developments which have taken place the dominion should assume greater responsibility. In the next paragraph he says:

Broadly speaking, a reform program of federal public finance in Canada should include in the first place the assumption by the dominion of full financial responsibility for certain social services which now fall under the constitutional jurisdiction of the province. The services thus taken over by the dominion should be old age pensions, unemployment insurance and health insurance if and when the financial resources of the dominion will permit of this further extension of common minimum standards of social welfare. The assumption of these responsibilities by the dominion is recommended by a number of considerations. (a) They are services which were not in contemplation when the financial arrangements between the dominion and the provinces were established originally at confederation. (b) They are services which should be developed in accordance with common standards throughout the dominion. (c) They are services which ought to be established and controlled by the political authority which has access by taxation to the profits of industry and commerce throughout the entire dominion. It is evident that unless these services are assumed by the dominion with its unrestricted taxing powers the provinces with low taxable capacity will be compelled to maintain standards of governmental services inferior to those supplied by provinces which have been the chief beneficiaries of the fiscal policies of the dominion during the past sixty years. Their assumption by the dominion is one means of alleviating the continuing effects of the unequal incidence of the tariff upon the financial position of the provinces.

Again I commend that statement to the government, and I am glad that we have in the cabinet one member who has thought his way through some of these problems and will, I have no doubt, use his influence there to see that this program is carried out.

In the last line of the paragraph which I have just read, reference was made by the Minister of Labour to the unequal incidence

[Mr. Woodsworth.]

of the tariff, and perhaps that should enter into the consideration of the legislation now before us. In a preceding paragraph he has this to say:

The tendency of the tariff system of Canada has been to concentrate manufacturing activity in the provinces of Ontario and Quebec, whereas the burden of maintaining the protective tariff has been distributed throughout all the provinces and falls with particular weight upon those provinces whose income is derived chiefly from primary production and export markets. The abnormal concentration of manufacturing activity in the central provinces has had important effects upon the productivity of income taxes and corporation taxes in the various provinces. It has increased to a marked degree the number of companies subject to direct corporation taxation in the provinces of Ontario and Quebec. It has also contributed materially to the larger corporation and individual incomes of these provinces. It is not too much to say that the protective system has fertilized the income tax field in Ontario and Quebec by a process which has resulted in the partial impoverishment of this field of taxation in other provinces whose economic development has been prejudiced by the effects of the fiscal policy of the dominion. When, therefore, the provincial distribution of income is considered in relation to the effects of fiscal policy, it is apparent that the withdrawal of the dominion from the individual income tax field would benefit most those provinces which stand least in need of additional revenues. It would exaggerate the disparities in provincial finance which already exist and which have been aggravated by the unequal effects of national fiscal policies.

I thought of this particularly when the hon. member for St. Lawrence-St. George (Mr. Cahan) was speaking. He suggested that it was quite open to the provinces to raise their revenues by income tax, but the trouble is they have a very poor field, especially in the most needy provinces.

One more brief sentence from this article by the present Minister of Labour:

A study of the income tax collections from the various provinces of the dominion will indicate that on the basis of existing rates the provinces which are mainly dependent on agricultural production would gain very little by an arrangement which would give them the proceeds of individual income taxes within their boundaries.

What are we actually doing by this legislation? Are we in reality helping these poorer provinces? It is true that we are giving them powers over a very limited field of indirect taxation which powers, if applied, will, I am sure, accentuate the evils of the sales tax. The main sources of revenue are still available only to the dominion government, and further than that, as the minister in this article has so well pointed out, are located very largely in the wealthier provinces and are thus not available to the western provinces.