

WHO SHALL COLLECT THE TAXES?

The following is a summary of Prime Minister Diefenbaker's proposals to the Dominion-Provincial fiscal conference recently held in Ottawa:

"Despite the very high level of Federal payments to the provinces and the nature of the several provincial submissions, we are far from reaching what you would regard as the point of saturation. The federal and provincial governments are aware of the increasing needs for public services and the demands which are made on all levels of government. Under all the circumstances, the Federal Government suggests that the provincial governments consider whether the form of the arrangements which we have been using for some time are in fact the most suitable which can be devised, Taxes, whether federal, provincial, or municipal, must rest ultimately on the tax-paying capacity of Canadians. Both the federal and provincial governments have the constitutional right of access to the fields of taxation which have been shared by means of the tax rental agreements. Is it better to leave to the Federal Government the task of imposing each of these requests for additional money on the taxpayer or would it be better for each provincial government to assume its own responsibility in this regard?

AN ADAGE QUOTED

"It is an old adage of public finance that the government that spends the money ought to collect the money. It is a common observation among men that people tend to spend more wisely the money they earn. The provincial submissions indicate that the provincial governments believe that the Canadian taxpayer can bear heavier tax burdens but with the Federal Government imposing them. The question which I wish to raise is whether the provinces would like to have the opportunity to impose the additional taxes represented by the substance of the proposals advanced by each of the provinces when we last met, and I take them to be serious requests based on serious needs for additional revenue, having in mind the knowledge of the services which the Federal Government must perform, and having in mind also the fact that no agreement yet devised has been satisfactory to all provinces or has been satisfactory enough even to ensure unanimous participation.

"I wish now to place certain suggestions before you:

"First, the Federal Government is prepared to recommend to Parliament that federal tax rates in the three shared tax fields be reduced at the time of the termination of the present tax rental agreements, March 31st, 1962, by the amount of the present standard rates, that is, by 14-9-50 in terms of current tax rates. This will permit the provinces to re-enter these tax fields and to cultivate

them in the way they find necessary to meet their respective revenue requirements.

"Second, it is realized; of course, that handing these rental tax fields back to the provinces will not solve the whole problem of provincial finance. There are many provinces where the revenue yields from these taxes will not be large enough to meet the needs of provincial finance. The problems of such provinces must be recognized, and indeed we have recognized them and continue to recognize them. To meet the needs of the provinces with lower tax potential we would therefore ask Parliament to provide equalization payments or their equivalent in a total amount of \$220 million a year, which is approximately the scale of the payments this year. The amount so provided will take the place of the present equalization payments, the Atlantic Provinces Adjustment Grants, and the special grants to Newfoundland under section 2 of the Newfoundland Additional Grants Act.

EQUALIZATION PAYMENTS

"Being mindful of the necessity of maintaining a reasonable level of public services in areas of low tax potential, we will ask Parliament to provide this sum of money for equalization payments. While we are willing to recommend to Parliament that the present scale of equalization payments be made available to the provinces, we have some reservation about the present formula of distribution and would hope that the total might be distributed in such fashion as to give greater weight to provincial fiscal need. If the provinces can all agree on a better or more equitable formula for distribution of this amount, the Government will recommend it to Parliament, provided that each of the Atlantic provinces gets at least as much from such a provincial formula of distribution as it gets at the present time for the equalization payments, the Atlantic Provinces Adjustment Grant and the Newfoundland Additional Grants Act.

STABILIZATION PAYMENTS

"Third, some provinces in their submissions have placed considerable emphasis on the necessity for stabilization payments during the succeeding period. The logic of stabilization payments under a system whereby the provinces levy their own taxes is considerably less than under the present agreements. However, this Government is prepared to recommend to Parliament that stabilization payments be provided for during the new five-year period if they should be needed in addition to the equalization payments. Stabilization would be based on the yield of the standard taxes in the last two years of the current agreements. In other words, if the yield from