

end, the Federal Government was given full control over currency, trade and commerce and all methods or systems of taxation. On the other hand, the provinces were given control over social measures - practically non-existent at the time - and over local development. It was felt then that such limited responsibilities would be further reduced following the establishment of municipal governments. It was for that reason that the provinces were given restricted sources of revenue, to which, however, a system of statutory grants was added.

Such was the original spirit of Confederation. Even though the provinces succeeded in freeing themselves gradually, this tutelary type of federalism lasted, in effect, until after the First World War.

Federalism of Co-existence

The second important phase of our political evolution, from 1920 to 1940, was characterized by provincial autonomy and a federalism of co-existence. The Federal Government had discharged the heavy responsibilities entrusted to it in 1867. Nevertheless, thanks to technical progress - for instance, the invention of the automobile - and to industrialization and suburban planning, which gave rise to economic instability and social insecurity, and, finally, following certain decisions of the Privy Council, the responsibilities of the provinces were considerably increased in such fields as highways, education and social welfare, because the municipalities could not cope with the duties incumbent on them. During the same period, the provinces had to increase their revenues and, rather than take advantage of the area of direct taxation to which they had statutory access, they invaded, by means of a legal device, the field of indirect taxation, which is constitutionally denied them. For instance, the Province of Quebec levied a tax on gasoline as early as 1920, while the first provincial personal income tax was imposed in 1939. Thus, each province increased its area of responsibilities and augmented its revenues without troubling too much about what was being done by the neighbouring provinces and the Federal Government, which, it must be added, was leading the way. This was the era of federal co-existence.

Return to Centralization

The failure of this "confederate federalism" was brought about by the slump in the 1930's, and the Second World War put the finishing touches to it, once and for all. The provinces alone, like the municipalities before them, could not effectively combat unemployment and social insecurity. Furthermore, it was realised that provincial finances were inadequate, not because the taxing authority of the provinces was too limited but because the tax base was too restricted and the tax yield much depleted during a period of depression, which, in turn, greatly reduced the possibilities of borrowing. Confederate federalism had been successful in solving the economic and social problems of its period, but it had brought several provinces to the verge of bankruptcy. The third phase in