

Dominion-Provincial Relations

As you are aware, since 1955 the provincial government allocates to the university institutions situated within its territorial and constitutional jurisdiction, annual grants on a basis and for amounts approximately equal to the subventions paid by the federal parliament to the Canadian universities' conference and earmarked by the latter for the Quebec universities.

As I mentioned to you last October, the Quebec government has decided to request the provincial parliament, during the present session, to set these grants on a permanent basis by adopting legislation which would make available to the provincial university institutions, proportionally to the number of their students, an annual sum equal to \$1.50 per capita of Quebec's population. If the provincial parliament, in the free exercise of its constitutional jurisdiction, should decide to adopt such legislation and to secure the funds necessary for carrying it out by an additional tax on the income of corporations (a field of taxation which is open to the provinces in pursuance of the constitution), I understand that your government would no longer request the federal parliament to vote credits for grants to the Quebec universities but would recommend that for a period of two years it should increase from 9 per cent to 10 per cent the deduction from the federal tax which would be allowed in this field to the Quebec taxpayer. In order that the loss to the federal treasury should not exceed the amount which it would be called upon to disburse for the payment of the grants to the Canadian universities' conference, you suggest that the adjustment should be made out of the equalization payment. Such at least is my presumption, inasmuch as it seems to me the only item from which such adjustment could be made.

Would you please confirm whether such is in fact your intention?

I note that no mention is made of the amounts accumulated in trust and which represent the total of the grants which our universities did not claim. Inasmuch as your letter was addressed to the ten provinces, I understand that it would not have been appropriate to refer to these amounts. This, however, is another aspect of the problem which you have inherited and which will also have to be considered.

I shall feel in duty bound to communicate to my colleagues your reply as soon as it reaches me and to consider it with them.

Yours very truly,
Paul Sauve

To that letter in which the late Premier Sauve was asking for further clarification of the original proposal of the Prime Minister of Canada in the light of its particular application to the province of Quebec, the Prime Minister of Canada on December 22 wrote this reply:

My dear Prime Minister:

I acknowledge receipt of your letter of December 14th concerning the new alternative plan outlined in my letter of December 9th in relation to federal grants to universities.

My letter, as you point out, was addressed in identical form to the premiers of the ten provinces, since the new basis is available equally to all of them. I am glad now to avail myself of the opportunity presented by your letter to indicate in greater detail how the plan would apply in the case of the province of Quebec, which has exercised its right to collect its own corporation tax and not to rent this field to the federal government in pursuance of the Federal-Provincial Tax-Sharing Arrangements Act. In this connection I have taken

[Mr. Fleming (Eglinton).]

due note of the statutory grants and the increased grants which you have asked the Quebec legislature to provide for the universities of your province.

If the legislature of Quebec chooses to adopt the new plan and the federal legislation is amended by parliament in the manner proposed by the government then for the next two fiscal years, commencing April 1st, 1960, and ending March 31st, 1962, the following terms will be in effect:

(a) If the legislature of Quebec should choose to raise the provincial corporation tax to 10 per cent or more of corporation profits, corporations liable thereto will be allowed an abatement of 10 per cent, instead of the present 9 per cent, against the federal tax on corporation profits;

(b) The grant of \$1.50 per capita of population which the federal government has with the sanction of parliament been providing for universities would cease so far as the universities of the province of Quebec are concerned;

(c) The difference between the yield from the 1 per cent additional tax abatement and the \$1.50 per capita of population of your province will be adjusted so that the fiscal position of the federal government remains unchanged. In other words, if the 1 per cent tax abatement exceeds the equivalent of \$1.50 per capita of population, as it will, the federal government will deduct this excess from the equalization payment now being paid to Quebec out of the federal treasury in pursuance of the provisions of the Federal-Provincial Tax-Sharing Arrangements Act. By way of illustration, if the new formula were applied to 1959 data the federal treasury would lose and the provincial treasury would gain about \$9,250,000 from the change in corporation tax rates. On the other hand, the university grants on the basis of \$1.50 per capita if applied to Quebec would amount to about \$7,500,000; and the difference of \$1,750,000 would be deducted from the equalization payment to Quebec, which in 1959 will be approximately \$67,000,000.

The foregoing plan, as above indicated, would apply to the next two fiscal years. As you point out, no express provision has yet been proposed respecting the amounts accumulated in trust for the universities of Quebec and which they have not claimed. This sum has now reached approximately \$25 million. Assuming that agreement is reached with respect to the payments for the next two years, we should be glad to discuss with you the proper disposal of these accumulated moneys.

I trust that the foregoing observations will sufficiently clarify the federal government's alternative plan with respect to university grants.

As I pointed out, Mr. Chairman, that letter was written on the twenty second day of December, 1959. It was received by the late Premier Sauve but his death intervened before any reply was sent. However, on January 21, 1960, Premier Barrette wrote the following letter to the Prime Minister of Canada:

Dear Mr. Prime Minister:

It was only a few days ago that I had the opportunity of examining the letter which you addressed on December 22nd last to the Honourable Paul Sauvé respecting the grants to the universities and I did not fail to submit your communication to my colleagues of the executive council.

I note your statement to the effect that, as the Honourable Mr. Sauvé indicated in his letter of December 14th, the alternative solution suggested by your government was submitted simultaneously to the ten Canadian provinces.

I accordingly presume that, in regard to the province of Quebec, your letter could only serve as