

program in either Canada or the U.S. for the payment of grants in lieu of taxes by a senior government to local governments. Nearly all Canadian provinces now also follow the same practice but, as I understand the situation, there has not been a parallel movement in your country. In Canada, some 2,500 local taxing authorities benefit from federal grants. While payments in total are not large, they are a fair substitute for what otherwise would be collected and are vitally important to some municipalities, particularly those with major federal installations.

Secondly, as mentioned earlier, important sums are transferred from a federal agency -- Central Mortgage and Housing Corporation -- to municipalities for urban-renewal schemes and sewage-treatment systems. These programs are frequently developed in co-operation with the provinces or with provincial housing corporations. For this reason it is not easy to put a dollar figure on the federal advances to municipalities, but it appears that the annual amounts provided more or less directly to municipalities, either through loans or grants, exceeds \$100 million, and even larger sums are channelled through provincial governments, particularly for public housing.

Finally, and undoubtedly most importantly, the Federal Government has transferred sums of money -- very large sums by Canadian standards -- to provincial governments, partly with a view to ensuring that the provinces can afford to make the necessary transfers to the municipalities. As a result, the most rapidly growing source of revenue of municipalities is the transfer of funds from other governments -- mainly from their provincial governments. Indeed, total transfers to municipalities from the provinces and the Federal Government appear to have exceeded revenue from property tax for the first time last year, although final figures are still not available. Two decades ago, such transfers were less than 15 per cent of municipal revenues from property tax.

Let me elaborate a little on this. The Canadian Federal Parliament recently passed a new Federal-Provincial Fiscal Arrangements Act, which establishes a framework of fiscal relations between the federal and provincial governments over the next five years. The act deals with a number of important matters, of which three are particularly relevant in this context:

Firstly, it is the basis for income-tax sharing between the federal and provincial governments. Most importantly, it provides a basis for these two levels of government to co-ordinate their use of the personal income tax and corporation income tax fields, without fixing limits or controls over the rates of tax which each level may impose, and it does this within a unified national tax system.

Secondly, because any given level of taxation provides a greater fiscal yield in some provinces than others, the act provides for equalization payments from the Federal Government to provinces whose *per capita* revenue-raising capacity is below that of the national average. Equalization payments were started explicitly in 1957, and they have been progressively broadened since then. Because of the differences in the size of our two economies, the