

## Foreword

When the Fathers of Confederation planned the Canadian constitution they allotted to the federal government those responsibilities that in their view were national, dynamic and likely to expand, and left to the provinces those that were local and static. To meet its constitutional responsibilities the Dominion was given unlimited powers of direct and indirect taxation. To pay their expenses the provincial governments were expected to rely on certain cash transfers from the federal treasury known as "statutory subsidies" and on natural resource revenues. In 1907-08, after Alberta and Saskatchewan had become provinces, the statutory subsidies totalled \$9.0 million; in 1985-86, these payments to the provincial governments totalled \$35.8 million. Under the *British North America Act* the provincial governments also were given the power to impose direct taxes, but this was to enable them to authorize local authorities to levy property taxes for municipal purposes; the thought that provincial politicians would ever bring themselves to introduce direct taxation for provincial purposes was regarded as risible. The founding Fathers never envisioned the importance of direct taxation; nor did they foresee the development of the national character of post-secondary education. The problems in post-secondary education financing today are a direct result of these decisions, which in hindsight appear to be misjudgments. The provinces have the constitutional responsibility for post-secondary education, while the federal government provides much of the money.

By the turn of the century the provincial governments, having found the statutory subsidies completely inadequate, were deeply involved in direct taxation of various kinds. During World War I, the Parliament of Canada introduced on a temporary basis income taxes on individuals and on corporations. Thus began the federal-provincial contest over access to the direct taxation fields. During World War II the federal government, by tax-rental agreements, paid the provincial governments to vacate entirely the individual income tax field, the corporate income tax field, and the estate (succession) tax field. After the war, by the abatement technique, the federal government made room for the provincial governments to revive provincial taxation in these fields; later this was replaced by "tax-sharing" arrangements.

This places in context the realities of the world of federal-provincial tax revenue sharing and the situation facing post-secondary education financing in Canada today. The Government of Canada currently copes with these realities by means of a block funding program popularly known as Established Programs Financing. This Committee has come to the conclusion that after ten years of operation this program has failed. This report demonstrates these failings and