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## THE COURSE OF FEDERAL-PROVINCIAL FISCAL RELATIONS

In an address on March 24 to the Canadian Club of Victoria, British Columbia, the Minister of Finance, Mr. Donald M. Fleming, gave the following outline of the history of fiscal relations between the Government of Canada and the provincial government:

"...When the Fathers of Confederation settled the essential question of the division of powers and responsibilities in the financial field, the Federal Government was given power to raise revenues by any mode or system of taxation, whether direct or indirect. The taxing powers of the provinces were confined to direct taxation. In exercise of these powers, the Province of British Columbia was the first government in Canada to impose a personal income tax and a corporation tax. It first levied the former in 1876, the latter in 1901. It first imposed a succession duty in 1894.

"In the light of the provinces' present concern for their rights in the direct tax field it is an interesting footnote to history that Confederation nearly failed over the issue of the division of taxing powers. In those days the bulk of government revenue was derived from indirect taxation, chiefly the tariff, and the only direct tax of any consequence in use was the property tax. The provinces in 1867 were not prepared to cede rights in the field of indirect taxes without compensation.

"Thus it was recognized from the outset that the Union of the provinces in a federal

state could not be achieved without financial adjustments between the central government and the provincial governments. These took the form of statutory subsidies containing three main elements: *per capita* grants from the Federal Government, grants towards the general cost of government, and debt settlement. In one form or another these statutory subsidies were to be the basic component in the relations between the Dominion and the provinces for the ensuing 75 years. It is a commentary on the limits of human foresight that, when the Fathers of Confederation successfully devised the formula governing the statutory subsidies to be paid by Ottawa to the provinces, they presumed them to be 'in full and final settlement' of any claims by the provinces upon the Federal Government. It is a matter of record that, within six years after Confederation, four of the provinces had successfully achieved a revision of their statutory subsidies. Need I say that the general process of revision is still going on? Indeed, even in 1907, after the inclusion in Confederation of Manitoba, Saskatchewan and Alberta and the holding of two inter-provincial conferences had brought about a general revision of the statutory subsidies, the Parliament of Canada was naive enough in its petition to Westminster to amend the British North America Act to state its belief that the new terms governing Dominion-provincial financial relations would be 'final and unalterable'. These words, however, did not become

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