

hand, for outstanding liabilities on Reconstruction services, etc., the first year shows a deficit of \$5.7 million. In the second year there will be no windfalls, but the outstanding liabilities will also be heavily reduced and the net result is an estimated deficit of \$5.4 million. In the third year, the outstanding liabilities should practically disappear, but a deficit of approximately \$3 million would still remain. These figures are based to some extent on assumption and guesswork and must therefore be treated with caution, but every effort has been made to provide on a realistic basis for all known eventualities. It should, however, be realized that no provision is made for new or improved services, or works, nor for possible increases in costs.

It is clear from the "proposed arrangements" and from the existing set-up in Canada that the deficits may be covered in three ways:

- (1) by the imposition of new Provincial taxation (Provincial sales taxes, gasoline tax, etc.);
- (2) by the development of Municipalities which are financially able to relieve the Provincial Government of a share of the cost of hospitals, roads, police, etc.;
- (3) by drawings on the accumulated surplus — but this is limited to one-third of the total surplus, i.e. approximately \$9 million in all over eight years (Paragraph 9 of "proposed arrangements").

Course (1) will take a little time and the Provincial Government will need advice and instruction. The possible yield is obviously limited.

Course (2) is obviously a long process with little prospect of early relief.

As regards Course (3) on the figures shown, the allotted share of the surplus would be exhausted in the first three years allowing for some yield under (1).

If the Delegation are satisfied that the Provincial Budgets have been correctly estimated, they will presumably wish to negotiate for an increase in the transitional grant.

4. *Financial effects of political uncertainty.*

Owing to political uncertainty Newfoundland's Customs revenues have shown a declining tendency since January, 1948, and this has become much more marked since April. Thus the Customs returns for the first five months of 1948 are down by \$1.4 million as compared with 1947, and this compares with a total decline of \$1.2 million for the whole year estimated in the 1948 Budget. If this tendency continues, there is a risk of a considerable deficit in 1948-49 with corresponding reduction of the dollar surplus available to the Province.

The Delegation may wish to argue that any decline in the surplus due to these political circumstances, which are beyond the control of any of the parties involved, is a misfortune which should not fall entirely on the funds of the Province. Canada may therefore be asked to compensate the Province by a special increase in the transitional grant for the first year.

5. *Arrangements for transfer of Services.*

The proposals (paragraph 5 of "proposed arrangements") envisage the possibility of spreading the transfer over a period. Some delay in transfer would do no harm to the Province in the case of more or less self-supporting services like the