

during the war and has continued. It was designed to reduce the tax jungle in this area as much as possible. There is the straight tax sharing arrangement. Most provinces which do not receive any equalization payments receive certain points of the personal and corporation income taxes. That is one aspect of this bill. It is a stand-pat arrangement in that regard.

Provinces which do not receive any equalization payments will receive the same proportion of revenues from personal and corporate income taxes as they receive under the agreement that has been in effect since 1967, except there will be a guarantee that they will not receive less in any one year than they received during the previous year. I want to emphasize that this is a stand-pat arrangement in this regard as well as with regard to the concept of equalization. The minister stressed the national importance of the equalization aspect of the measure. He may not have used the words "national unity", but he stressed the importance to the concept of Canada and the importance of providing something like an acceptable standard of provincial services across the country. It does not really do that. As I am sure the premier of any Atlantic province would argue, it does not really achieve that entirely. He would argue, I am sure, that municipal revenues should be included in the equalization concept. If the minister has not heard that argument I am sure he will hear it frequently in the future.

• (1640)

The equalization formula has been improved over the years. It is not yet to be regarded as perfect. I emphasize that this bill does not bring about any further change in the equalization formula except that the guarantee is moved up from 95 per cent to 100 per cent. The bill does two things in this regard. It shares tax revenues which arise from a field of common jurisdiction, personal income tax and corporate income tax, as well as the equalization aspect. The reason I emphasize this is that prior to the arrangements which were incorporated in legislation back in 1967, a limited study was conducted by a team of federal and provincial officials. The purpose of that study was to forecast provincial expenditures across Canada over the ensuing five year period based on programs then in existence and to forecast provincial revenues over the ensuing five year period based on taxes then in existence. The same was done with respect to forecasting federal expenditures and revenues. Of course, this study had to be conducted on the basis of certain assumptions, but the team of officials agreed on results which show that, on the basis of programs then in effect, provincial governments would run into positions of increasing deficit and that the federal government would move into a position of increasing surplus. To my knowledge, these findings have never been disputed. I believe there was also a ten-year forecast which indicated the same thing.

I can recall very well the vividness of the disappointment of those responsible for provincial financial matters when, having authorized the study and having carried it through jointly with a team of federal officials, they found that the federal government was paying absolutely no attention to these findings and had proceeded to put into operation the tax sharing arrangements which are now in

#### *Federal-Provincial Fiscal Arrangements*

effect, ignoring completely the consequences of that study. This is one of the things that are annoying to so-called "have" provinces—the fact that their share of the proportion of the field they are constitutionally entitled to occupy, personal income tax and corporate income tax is frozen, although the joint study to which I have referred has indicated that the revenues needed to discharge their responsibilities are growing at a rate much more rapid than the increase in federal costs.

I am dwelling on this point because I believe it is one of the factors which is weakening the desire of the people who live in those provinces to support the principle of equalization as fully as they did a few years ago. This is why I emphasize that we are dealing with a stand-pat arrangement with regard to the tax sharing aspects of this formula as well as the equalization aspects of it. Since 1967, it is fair to say, most provinces have been obliged to raise their taxes, not for the purpose of fighting inflation but in order to find money to meet their expenditures and to provide services directly, or to ease the municipal or urban tax load to some extent. As a consequence, as the minister himself mentioned, most provinces are now levying income tax in addition to the general prevailing rate across the country, revenues from which are shared. The Province of Nova Scotia is moving toward this position at the present time. At least, that is the intention of the government if it can get a bill through the legislature down there, as one supposes it will.

The increase in provincial expenditures arising from the nature of provincial responsibilities during the last five years has obliged the provinces generally to increase their taxes. At the very time the so-called tax reform bill is coming into operation, the provinces are already levying rates of taxation at levels substantially above the rates specified in the federal tax legislation. I am bold enough to forecast—I shall probably be called a prophet of gloom for doing so but I venture to believe I am being a realist—that the situation will continue to deteriorate during the five years of the arrangement we are considering, if it stays in effect for five years. On the basis of the prediction made some five years ago by federal and provincial officials that the cost of provincial programs and services would continue to grow, even the most prosperous provinces will be struggling to find new means of revenue to finance those programs and services, and the rate of taxation in the so-called tax reform bill passed just before the end of the year will bear less and less relationship with reality as those five years go by.

I think we should understand that the kind of taxation we are discussing, particularly personal income tax, is the most elastic form of revenue that exists in the country. It is the form of revenue which grows most rapidly as compared with other revenue sources available to provinces. This is another reason for expecting increasing resort by provincial governments to imposing, within their provinces, income taxes at rates above the schedule in the tax reform bill. Provinces are already resorting in increasing numbers to succession duties in a manner which bears no relation at all to the capital gains tax incorporated in the tax reform bill. No attempt has been made to integrate the two. The result is that succession duties will be piled on top of the capital gains tax, although I believe all us realize there ought to be some form of integration.