

Interim Supply

satisfied everybody, but in our view this was the one that on balance was the most satisfactory.

In these ways, by putting forward this particular formula, we found what we believed to be the best way to restore better equalization to our tax sharing arrangements for next year. That was our purpose. But we were engaged—and let me emphasize this—not in making unilateral decisions but in a genuine process of consultation. In that consultation all the provinces—and, leaving equalization aside for the moment including the wealthier provinces—put to the conference a strong case for more revenues generally. As I said this afternoon, we recognize their increasing responsibilities, especially in the field of education. The existing tax arrangements put into effect by the previous government, which provide an extra percentage point each year in the abatement of the federal tax on personal incomes, recognize that situation to some extent.

So it was our duty to weigh the provinces' arguments for a bigger increase within this formula, put forward most emphatically by the premier of Quebec, against the financial needs and problems facing the federal government and expressed in the federal budget. We came to the conclusion, after listening to the case put forward by the provinces, that the best interests of the country would be served by making some further increase next year in the tax shares of the provinces. As the committee knows, Mr. Chairman, the federal tax abatement which has remained unchanged since its inception is that of succession or estate duties. We decided that the most appropriate change to make at this time would be to increase that abatement from 50 per cent to 75 per cent.

This will free approximately \$32 million of revenue for the provinces next year. The main purpose of this change for next year was to do something to meet the needs of the provinces, especially, in this case, those provinces which do not benefit at all from equalization. Therefore the best thing to do, within the general limitation of what is financially possible next year, was to provide this extra abatement of federal tax without at the same time adding an additional element of equalization, to which we had not been committed.

There are, on the one hand, critics who say that equalization ought to have been carried further. There are some who say it should not be tampered with at all at this time. On the other hand, there are those who complain that the extra per capita revenue which the provinces will receive, as a result of the changes we are proposing, is greatly different for different provinces. Well, Mr. Chairman, that is true; there is no doubt about that.

That, indeed, is the point of the changes. There was not, in our view, adequate equalization before. The effect of the changes is to make it, not perhaps perfect but, we believe, considerably more adequate.

Therefore, the changes which would be made as a result of the formula we have put forward—including the new formula for equalization, the Atlantic provinces adjustment grants, additional grants to Newfoundland, the additional succession duty abatement of 25 per cent and the natural resource factor in the equalization formula—would mean that with this change, Newfoundland would receive \$3,282,000 more, Prince Edward Island, \$599,000 more, Nova Scotia, \$5,742,000 more; New Brunswick, \$5,558,000 more; Quebec, by the application of this formula, \$42,716,000 more; Ontario, \$14,416,000 more; Manitoba, \$7,023,000 more; Saskatchewan, \$2,469,000 more; Alberta, \$1,722,000 more; British Columbia, \$3,921,000 more—making a total of \$87,448,000.

I make no claim, as I made no claim this afternoon, that the fiscal arrangements we have made for next year are either perfect or final. That was not the purpose of the conference. There will be other conferences, and the next one quite soon. Consultation will be a continuing process. What we have achieved by this conference is to restore a better concept of equalization in our fiscal arrangements. We have made a large step forward toward full equalization. We have helped to meet the pressing fiscal needs of the provinces as a whole pending, if we can find it, a better solution to this problem of fiscal relations. In searching for that solution, we are now engaged.

We have done this at a conference where there was a great deal of harmony and a desire to co-operate and work together.

Some hon. Members: Hear, hear.

Mr. Pearson: We have, in the steps we have taken, preserved the essential interests of the government of Canada, which must be preserved. We have set ourselves, I believe, on the path of a successful and effective co-operative federalism, the path that is fundamental to the unity and progress of our country.

Mr. Martineau: Mr. Chairman, I wonder if the Prime Minister would answer a question?

Mr. Pearson: If I can.

Mr. Martineau: Does he envisage that it will be necessary to effect early changes to the British North America Act in order to implement the co-operative federalism of which he spoke?