proposals would be any different in the long-term result than has been the case with those subsidies agreed upon at Confederation. Even if the amount were adequate today to meet provincial requirements, it is not only possible but almost certain, that we would run into further difficulties in a comparatively short time. We recognize that the subsidy increases in accordance with the gross national product, but there is no allowance for increased production in any one province based upon its own efforts. There is also the possibility of inflationary prices; but lessened private employment and a resultant lower national product would leave the provinces with a static revenue to pay higher prices and wages. The difference is, that unlike our position after Confederation, we would have no important fields of taxation to which the provincial governments could turn.

There is another very important weakness in the financial proposals of the Dominion Government. On page 8 of the printed "Proposals of the Government of Canada" we read this statement:

> "The modern governmental budget must be the balance wheel of the economy; its very size today is such that if it were allowed to fluctuate up and down <u>with</u> the rest of the economy instead of deliberately <u>counter</u> to the business swings, it would so exaggerate booms and depressions as to be disastrous."

Nevertheless that is the very result which the acceptance of the Dominion Government's financial proposals would produce on provincial budgets, for the Dominion proposes to pay the provinces a subsidy which fluctuates in direct relation with the business cycle. The Federal Government would encourage the provincial and municipal governments to initiate and expand public works projects in depression, with the Federal Government contributing twenty per cent of the cost and the provinces and the municipalities bearing the lion's share of eighty per cent. This would require loan financing by all governments, but unlike the Dominion Government, the provinces and their municipalities would not have the flexible tax sources and buoyant revenues, even in periods of prosperity, to retire the debt they had created in depression by undertaking unemployment relief projects. This is particularly true of the Province of Ontario where the Dominion's proposals do not permit a balanced budget, let alone retirement of provincial debt. Failure to reduce debt when coupled with the provinces' loss of their progressive taxes would have a damaging effect on provincial credit.