

*The Address—Mr. Drew*

and really satisfactory tax agreement at the termination of the temporary one, under which our constitutional problems would be solved, and under which we might have a better taxing method, for the advantage of all the people of Canada.

That weaknesses have developed in this federal system of ours, no one can deny. Those weaknesses in the British North America Act are the result of the great changes in the conditions in this country, the scale of our activities, and the scale of our production. The fundamental weakness lies in the fact that the provinces were given the right to raise revenues only by direct taxation for the purpose of carrying out their exclusive responsibilities, while the dominion government was given the power to raise taxation in any way.

That never created any problem until 1917 when, for the first time, the dominion government, in order to raise the revenue necessary to carry on the very heavy responsibilities of the war in those days, went into the income tax field. At that time, recognizing the practice which had been so clearly established since 1867, Sir Thomas White, then Minister of Finance, gave the assurance that they would vacate that field as soon as possible.

Time went on, and greater invasions of those fields took place. But it was not until the early part of the second world war that the great and substantial change in the financial relationship took place which really presents the critical basis of the problem at the present time. At that time the dominion government proposed to the provincial governments that they should give up their great progressive fields of taxation of personal income tax and corporation taxes for the duration of the war, in return for annual payments, so that the dominion government, with all the necessary centralization of authority, might also have what they regarded as centralized financial authority related to it.

At that time I was leader of the opposition in the Ontario legislature, and I agreed wholeheartedly with the premier of Ontario in the acceptance of that proposal. But might I remind hon. members that at the time the provincial governments gave up their great fields of taxation, which had been the basis of their economic and financial independence since confederation, they did it upon the firm and unqualified and very emphatic assurance of the Minister of Finance that the taxing power would be restored to the provinces at the end of the first fiscal year following the termination of hostilities, and that their taxing powers would be diminished in

no way by their acceptance of this proposal, which was for the purpose of meeting the emergencies of war.

In examining the situation today, in considering the necessity of early discussion of this whole subject, it is essential that it be remembered that the provinces gave up their taxing powers on that consideration. That undertaking was not only a verbal undertaking, it was not only one that was put in the form of a letter, it was actually given the sanction of a legislative promise by being included in the statute which approved the tax agreements themselves.

Let me make it quite clear that I did not suggest then, and I do not suggest now, that any particular tax should be made available to one government or another. What I do say is that a position has been reached where it is absolutely essential that the whole problem of taxation by all governments, dominion, provincial and municipal, be carefully examined so that the most efficient system possible may be devised. I said at the conference, and I say now, that I was not wedded to the allocation of one particular tax or another. I say, and in this I am simply echoing what has been said by the premiers of most of the provinces, that if the federal system is going to work and the local authority of the provincial governments preserved there must be real taxing powers available to those governments. If they are dependent upon subsidies for a substantial part of their revenue, their legislative and administrative independence will be illusory, because at every point where they seek to do something they must try to find out how much they are going to get from the government that is going to supply the necessary money.

I realize that there are those who believe that it would be a good thing if we had only the one government in Canada. No one need deny the right of anyone to hold that view. It is a perfectly natural question for anyone to ask whether one central government might not be more efficient than a dominion government with provincial governments dealing with local affairs. There are people who state that, and then there are people who state publicly that they believe in the federal system but who nevertheless are challenging all the lessons of history and following a course which if pursued is bound to destroy the federal system.

It is not mere accident that every nation with a land area one-third the size of Canada or more has adopted the federal system. That system is the only workable one for great land areas. The United States, Australia and other large countries have all found that to be the only workable system. But there are other reasons why we should be extremely