

HOUSE OF COMMONS

Monday, April 20, 1964

The house met at 2.30 p.m.

DOMINION-PROVINCIAL RELATIONS

STATEMENT BY PRIME MINISTER RESPECTING
TAX SHARING, PENSION PLAN, ETC.

Right Hon. L. B. Pearson (Prime Minister): Mr. Speaker, I would like to table, in English and in French, the text of a letter which I sent last Thursday to the premiers of all the provinces. I would ask that the text be printed as an appendix to today's *Hansard*, if that is agreeable to the house.

Mr. Speaker: Does the house give consent?

Some hon. Members: Agreed.

[*Editor's note: For text of letter referred to above, see appendix.*]

Mr. Pearson: Because of the importance of the subjects dealt with in this letter I would like to make a statement summarizing the text of the letter and the government's position in regard to them.

The first subject I would like to mention, and which is dealt with in the letter in question, is our tax sharing arrangements with the provinces. Mr. Speaker, this government came into office sharing the view, which at times has been expressed very emphatically by all provincial governments, that the existing arrangements in this field are inadequate. These arrangements, it will be remembered, were made in 1961, for a five year period which ends in March, 1967.

There were, in our view, two ways in which these arrangements needed improvement. First, we felt they did not provide for a proper degree of equalization of provincial revenues from the shared fields. Such equalization is essential if all the provinces are to have not merely the right but the ability to provide a Canadian standard of services in the matters within their jurisdiction.

Accordingly, Mr. Speaker, at the conference last November it was arranged that a new equalization formula would come into effect for the current financial year. At the same time, at that conference we increased from 50 per cent to 75 per cent the federal abatement of succession duties, in order to provide some increase in the share of revenues available to all the provinces.

The effect of these two charges was to cut federal revenues this year by some \$87 million. We made it plain at that time that this was as large a change as we could regard as practicable during the year 1964-65. We also made it plain, however, that we recognized the increasing burden that is falling on the provinces because of the cost of the services which it is their constitutional duty to provide to their people. This is especially true of education, and we fully agree with those who say that in the disposition of public revenues as a whole the increasing needs of education merit a very high priority indeed.

At the recent conference in Quebec city, therefore we made, as already indicated to the house, a novel proposal. We suggested that the federal-provincial conference as a body—not the governments separately—should authorize a review of the tax structure in relation to the financial responsibilities of governments and the priorities given to their expenditures. I think this has been recognized as a constructive way in which to handle a most difficult problem, a problem which has faced us in one form or another ever since confederation and which, I suggest, is inherent in the federal nature of our constitution. But, of course, we all recognize that such a review will achieve its purpose only if it is thorough and, in particular, if it takes account of the various taxation inquiries which are already under way—and some of them are very near completion—both federally and provincially.

The provincial governments recognize—I would say all of them—the value of this inquiry, but they made it plain that they would like to know how they stand in the meantime pending the completion of this inquiry, and we agreed with that. Therefore, in the light of the discussions in Quebec, the federal cabinet reviewed this matter of tax sharing as we indicated to the conference we would do, and it was decided that we should tell the provinces now what we mean when we say we recognize their increasing needs, especially in the field of education. We mean that under the existing tax sharing arrangements, which have two more years to run after the present fiscal year, we are willing to reduce the federal personal income tax at an accelerated rate.

Arrangements at present provide that the rebate of federal taxes which, of course, creates room for provincial taxes, is 18 per