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TABLE 2

Percentage Distribution of Aggregate Income, 1942, by Income Groups, excluding Agriculture and the Armed Services

| | Quebec | Ontario | Canada except Quebec |
|---------------------|--------|---------|----------------------|
| Under \$1,000 | 18.8 | 14.3 | 15.9 |
| 1,000-2,000 | 38.3 | 41.7 | 40.6 |
| 2,000-5,000 | 27.7 | 30.9 | 30.8 |
| 5,000-10,000 | 6.5 | 6.2 | 6.3 |
| 10,000-25,000 | 4.8 | 4.2 | 4.1 |
| Over 25,000 | 3.9 | 2.7 | 2.3 |
| | 100.0 | 100.0 | 100.0 |

Dominion Bureau of Statistics, *National Accounts, Income and Expenditure, 1938-1945* (King's Printer, Ottawa, 1946), pp. 40, 42, and 36.

Factors of this sort, consciously or unconsciously, influenced the attitude of the Commission. In addition, the political history of the Liberal Party in Canada has been dominated by an awareness of Quebec. The present Prime Minister, Mackenzie King, has an innate appreciation of the significance of provincial autonomy and has taken an uncompromising position against conditional subsidies.¹²

DOMINION-PROVINCIAL CONFERENCE, 1941

The Commission did not conclude its deliberations until after Canada had entered the war, and the federal government had to consider whether it should call a Dominion-provincial conference to deal with the Report. As the Report looked toward long-term revision of Dominion-provincial relations, to consider it in wartime might seem inappropriate. On the other hand, the war was certain to aggravate and magnify certain defects of existing Dominion-provincial arrangements. To maximize the war effort of Canada, the federal government would have to levy high rates of income tax, to invade fields of revenue occupied by the provinces, to ration gasoline, thereby reducing provincial revenues. No question of its constitutional rights to take such steps as war measures could be raised, but the provincial government might financially be left in the lurch. A Conference to work out methods of alleviating provincial embarrassments seemed advisable. Accordingly, on November 2, 1940, Prime Minister King sent a letter asking the provincial govern-

¹² See J. A. Maxwell, *op. cit.*, pp. 253-6.

ments to meet in Conference "in order to secure, if possible, the adoption of the Commission's recommendations".¹³

Soon after the Conference assembled on January 14, 1941, it became evident that the Premiers of Ontario, Alberta, and British Columbia were sharply averse to proceeding upon the basis of the Report of the Royal Commission. It is not merely coincidence that if the Report had been followed, these three provinces would have not received any national adjustment grants. However, Premier Hepburn of Ontario based his opposition upon the contention that the Report was a peacetime measure and that the exigencies of war should not be made the cloak for hasty action. Premier Aberhart of Alberta and Premier Pattullo of British Columbia took a similar stand (although the views of the former were somewhat obscured by his advocacy of social credit). In the face of this dissent, the Conference broke up the next day.

It had, however, served a purpose. In a blunt speech the federal Minister of Finance, J. L. Ilsley, had indicated the severity of the financial measures he intended to utilize, and the provincial Premiers had declared their willingness to help "in every conceivable manner so far as prosecuting this war is concerned".¹⁴ This commitment was soon to push the provinces along the road the Commission had marked out.

THE WARTIME TAX AGREEMENTS

On April 29, 1941 Mr. Ilsley proposed that the provincial governments surrender to the federal government, for the duration of the war and one year after, the field of income taxation, both personal and corporation. As compensation they were offered either the revenue they actually collected from this source in 1940 or the net cost of debt service in 1940 (less their revenue from succession duties), and also a subsidy based on fiscal need if need could be shown. All the provinces accepted the offer and signed 'tax suspension agreements'. Four provinces—Prince Edward Island, Nova Scotia, New Brunswick, and

¹³ *Dominion-Provincial Conference, January 14-15, 1941* (King's Printer, Ottawa, 1941), p. V.

¹⁴ *Ibid.*, p. 101.