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each agreement stated that a province should not "be deemed to have surrendered, abandoned, or given over to the Dominion any of the powers, rights, privileges or authority" vested in it.[19] As far as words went, no doubt could exist that provincial power had not been impaired. No great perspicacity was required, however, to forsee that the forces that made for federal occupancy during the war would not be spent after the war, that taxpayers might wish to retain the luxury of one law and one return, and that those provincial governments which received more by way of subsidies than from provincial collections might prefer to continue the agreements.

The income tax was an important element in the wartime fiscal effort of Canada. Canadian rates of personal income tax were well above those of the United States, especially in the middle brackets. Federal revenue from the personal income tax in 1944 was five times greater than in 1941, and that from corporation taxes three and one-half times.

## THE DOMINION-PROVINCIAL CONFERENCES OF 1945-1946

On August 6, 1945 a Dominion-Provincial Conference on Reconstruction assembled at Ottawa. The purpose was to work out a scheme that would "ensure the maximum of cooperation between the Federal government and the governments of the provinces in order that the Canadian people, working together, may achieve the constructive goals of peace as effectively as they have carried on the essential, though inevitably destructive, tasks of war".[20] To this end the federal government laid before the provinces an extensive and explicit set of proposals.[21] These were not simply financial; they covered, in addition, the broad fields of "public investment policy" and "social security". The details of the proposals are examined below. In essence the federal government offered to *all* the provinces, in return for their relinquishment of the right to levy the income tax and succession duties for a term of years, unconditional subsidies

[19] *Ibid.*, p. 61.

[20] Dominion-Provincial Conference, 1945, ***Dominion and Provincial Submissions and Plenary Conference Discussions*** (King's Printer, Ottawa, 1946), p. 2. The words are those of Mr. King.

[21] Conference, ***Proposals of the Government of Canada.*** August 1945.

which would vary with gross national product and which were considerably more generous than the payments under the tax agreements. It offered also a program of old age pensions and unemployment assistance by which the burden carried by the federal government would be greatly increased, as well as a series of conditional grants in aid of public health and a plan for health insurance. It offered finally a program for the coordination of activities with respect to public investment.

The essential point to bear in mind is that the focus of the new proposals was not that of 1941. The new program aimed explicitly at maintaining a high level of employment and income. Responsibility for creating conditions that would ensure high and stable employment was declared to rest upon government, federal and provincial. And throughout the entire exposition of the federal case rang the confident note that this responsibility could be met.

Current events impressed upon the delegates assembled at Ottawa the urgency of speed in postwar planning. On August 6, the first day of the Conference, an atomic bomb fell on Hiroshima, and on August 8 the USSR declared war on Japan. After a week of deliberation the Conference appointed a Coordinating Committee, consisting of the Prime Minister and the nine provincial premiers, and adjourned until November 26. During the intervening months the provinces were to appraise the federal proposals.

At this preparatory Conference, provincial attitudes had run along traditional lines. The prairie and maritime provinces favored the negotiation of some reasonable facsimile of the tax agreements; 'have-not' provinces, they stood to gain financially from the allocation of income tax jurisdiction to the Dominion, both because they could not utilize the income tax effectively and because the subsidies offered them seemed a generous substitute. For Ontario (and to some extent, Quebec) the case was the opposite. Such a scheme would bring about a net transfer of current income from their residents. Financially, and in the short run—unless the federal program really augmented the national income—they stood to lose. Quebec, moreover, has always felt its separateness from the rest of Canada. By an accident of politics the Premier, Mr. Duplessis, was an extreme advocate of Quebec nationalism and a political opponent of Mr. King.[22]

During the next nine months representatives of the federal government and the provinces met frequently to discuss the federal program. On April 29, 1946 the Conference reassembled at Ottawa to consider revised proposals. By then the federal government had made two major concessions: it raised the payments it was prepared to make to the provincial governments, and it promised to limit its own utilization of certain taxes. Further alterations were not debarred, but they should not operate to increase the financial burden upon the federal government; they should be "on the basis of financial equivalents".[23]

By this time it was apparent that the key to agreement was in the hands of Ontario and Quebec. Except for minor qualifications, the seven other provinces would accept the revised proposals. The attitude of Quebec was enigmatic, although the generalizations of Premier Duplessis were such as to connote the impossibility of agreement: the provinces had a constitutional "priority" in direct taxation, succession duties were "essentially a provincial tax", the federal proposals threatened "the scuttling of confederation".[24] Premier Drew was more specific in his demands for Ontario. He was prepared to negotiate a "transitional" agreement by which the field of the income tax was rented to the federal government for a cash payment. But the federal government, in addition, should vacate certain tax fields—from which it was getting an annual income of $102 million—to the provincial governments, and it should enlarge its social security program. A rough reckoning indicated that acceptance of the Ontario proposals would add at least $134 million a year, and possibly $234 million, beyond what the federal government had set as its maximum concession. On this rock the Conference foundered on May 3. So large a

22 The Premier of Ontario, Mr. Drew, also belonged to the opposite political party to Mr. King, but he was prepared to negotiate and, indeed, declared that some cooperative arrangement to replace the tax agreements had to be achieved. Dominion-Provincial Conference, 1945, *Submissions and Discussions*, p. 8.

23 *Ibid.*, p. 389.

24 *Ibid.*, pp. 409-15.

difference, after negotiations extending over nine months, seemed impossible to bridge.[25]

## THE FEDERAL BUDGET OF JUNE 27, 1946, AND SUBSEQUENT NEGOTIATIONS

Mr. Ilsley, as a result, had to prepare the federal budget for 1946-47 on the assumption that no substitute for the tax agreements could be found. This budget was presented to the House of Commons on June 27. Each wartime tax agreement had provided that, upon termination, the federal government would reduce its rates of tax on personal and corporation incomes "by such an amount as will enable the Province again to use the income tax and corporation tax fields, and, in particular, the Dominion undertakes to reduce its rate of tax on corporation incomes by at least ten percent of such incomes". Accordingly, Mr. Ilsley in the budget speech of 1946 declared that the federal flat rate on corporation incomes would be reduced from 40 to 30 percent as of January 1, 1947. The personal income tax was lightened by raising exemptions from $440 to $750 for single persons and from $1,200 to $1,500 for married persons, and by making reductions that amounted to 10-15 percent for the majority of taxpayers.[26]

The Minister of Finance did not, however, disguise his apprehension over the prospective expiration of the agreements. He did not see how many of the provincial governments could finance themselves without resort to fiscal devices—arbitrary and discriminating taxation, extension of government ownership for the sake of obtaining additional revenue—which would "impair the capacity of private enterprise to provide high and expanding employment" and "weaken and perhaps destroy the federal system".[27] To allow such a situation to develop without another attempt to prevent it would be irresponsible.

[25] Premier Duplessis made a theatrical departure before the Conference adjourned *sine die.*

[26] In the budget speech delivered April 29, 1947, Douglas Abbott, who had succeeded Mr. Ilsley as Minister of Finance, reduced the average amount of the personal income tax about 29 percent. The reduction was graduated so as to amount to 54 percent for the bottom bracket and 7 percent for the top.

[27] *House of Commons Debates,* Daily Edition, June 27, 1946, p. 2994.