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.

He therefore offered a further modification of the federal proposals.

The scope of the new plan was much narrower than had been envisaged at the outset. Negotiation would be with *individual* provinces on an optional basis and only with respect to financial arrangements. The federal government was not prepared to go ahead either with an over-all or a piecemeal scheme of social security until its fiscal powers had been clarified. An agreeing province would levy (a) no personal income tax, (b) a 5 percent tax, to be collected by the federal government, on net corporate income as defined by federal law, (c) either no succession duties, or if levied, the province would accept an appropriate reduction of its annual receipts from the federal government. For a province that did not enter into a new agreement the federal government would "give a tax credit to the individual taxpayer of the amount of the [personal income] tax he had to pay to the province up to 5 percent of the tax payable to the Dominion by such taxpayer". Corporation taxes levied by a non-agreeing province "would not be regarded as a deductible expense for the purpose of calculating taxable income under Dominion tax laws".[28] The annual payments to an agreeing province would be those offered at the Dominion-Provincial Conference in May, less the amount of the collections made for it by the 5 percent tax on corporation income.[29]

The immediate effort of some provinces was to force or persuade the federal government to reconvene the Conference. Other provinces (New Brunswick, Manitoba, Prince Edward Island, Saskatchewan), however, promptly accepted the budget proposals "in principle", and the federal government held firmly to the position that "it would be inadvisable to have the Conference reconvene before [all] the provinces have indicated their attitude".[30]

The actual negotiations with the individual provinces were

[28] *Ibid.*, p. 2995.

[29] Each new agreement was to run for five years after the termination of the agreement it replaced. The reason for this lengthening—from three to five years—was that some provinces might delay in signing a new agreement.

[30] Conference. *Correspondence Since the Budget of 1946 on Matters of Substance Regarding the Tax Agreements with the Provinces* (King's Printer, Ottawa, 1947), p. 20. Letter of Prime Minister King to Premier Drew, October 18, 1946.

long drawn out. Not until July 11, 1947 was legislation concerning new tax agreements with seven provinces passed by the House of Commons. Ontario and Quebec had not budged from their position of May 1946; consequently, no agreements were signed with them. The other seven provinces had, however, managed to get considerably better financial terms from the Dominion. In brief, their guaranteed minimum payments were raised $10,700,000, and their estimated 1947 payments $14,500,000.[31] In addition, the federal government agreed to withdraw, effective April 1, 1947, its gasoline tax of 3 cents per gallon.

Detailed Explanation of the Federal Proposals

When the over-all negotiations failed, the Dominion's proposals concerning social security and public investment were suspended, and attention was concentrated on the financial arrangements. The Dominion promised, however, that "as soon as there is a sufficient acceptance of the proposed tax agreements", it would "be ready to explore in a general conference or otherwise the possibility of working out mutually satisfactory arrangements in regard to the whole or any part of our earlier public investment and social security proposals."[32]

Social Security

OLD AGE ASSISTANCE (PENSIONS)

The most important element of the social security program in terms of immediate financial cost is old age assistance. Under the existing system the federal government gives the provincial governments a grant in aid equal to 75 percent of the net cost of pensions, but not in excess of $25 a month per recipient. The age eligibility is 70 years, and the pensions are subject to proof of need, i.e., to a means test. A twofold expansion was

[31] If Ontario and Quebec are presumed to sign agreements, the over-all changes would be:

	1946 formula	*New formula*
	(millions of dollars)	
Minimum payments	181.4	206.5
Estimated 1947 payments	198.2	228.7

[32] Conference, *Correspondence Since The Budget of 1946,* p. 54.