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GOVERNMENT OF QUEBEC

STATEMENT BY
THE HONOURABLE
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Prime Minister,
Minister of Finances and
of Federal-Provincial Affairs

Federal-Provincial Conference
Ottawa, November 25th, 1963

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In the name of the citizens of Quebec, we would like to thank the Government of Canada for having convened the present Federal-Provincial Conference. We appreciate it all the more because the present fiscal arrangements are still in force, and should in principle remain so, until 1967. By its gesture in calling this Conference, the central government has recognized, as have most of the provinces, that the present fiscal arrangements are not satisfactory, and that they must be thoroughly re-examined, even before the date of termination of the agreements.

There is more. Canada is entering a period in which, more than ever before, the decisions concerning the country as a whole should be arrived at jointly by the government of Canada and those of the provinces. In order to reach this objective of a true federalism, or of a cooperative federalism as it is sometimes called, it is the whole Canadian federal system and its present workings that need to be thought out anew. The economic and social conditions of the era in which we are living are clearly different from those that existed at the time when, in the last century, this system was conceived. As a result, we shall perhaps be obliged within a few years from now, to put forward solutions which might to some seem daring. At all events, we shall all have to show a good deal of imagination and spirit of tolerance when we are called upon to bring remedies and correctives to the present federal system. We shall even be called upon to transform it, for the realities around us will inevitably lead us to question the system; it will perhaps

I - THE NEEDS OF THE PROVINCES.

The proposals that Quebec put forward at the July 1960 Federal-Provincial Conference, and which it is again in large measure repeating at the present Conference, are based upon certain principles that we find appropriate to restate.

At the very beginning of another Conference, even more important than that of 1960, we hope that their scope will be understood and that these principles will give rise, on the part of the government of Canada, to the decisions which, in our opinion, are called for.

A) Extent of Provincial Needs

There is, first of all, one striking fact, and all the provinces can easily confirm it. Their responsibilities in those sectors which fall constitutionally under their jurisdiction have created immense financial needs. Thus, it devolves upon the provinces - and, in certain cases, by the delegation of provincial powers to municipalities - to carry out the exploitation and development of natural resources, to provide the population with the indispensable means for its intellectual and material development, and to facilitate the general economic growth of their respective territories.

1) Revenues and Expenditures of the Governments.

During the period immediately preceding the last world war, more precisely from 1926 to 1939, the sharing of government responsibilities was accompanied by an almost proportional distribution of revenues between the three sectors of government. As a matter of fact,

as shown in the table below, the revenues and expenditures of the provinces and municipalities taken together represented about two thirds of the total revenues and expenditures of the governments in the country. It may therefore be assumed that the constitutional sharing of responsibilities among the three forms of government was, to a certain extent, recognized and put into practice.

PERIOD: 1926-1939 - Each Sector of Government in Annual Average Percentage of the Total.

	<u>Total Revenues</u>	<u>Taxation Revenues</u>	<u>Total Expenditures</u>	<u>Expenditures for Goods and Services.</u>
	%	%	%	%
Federal Government	38.8	46.2	32.4	25.3
Provincial Governments	23.0	17.9	28.8	24.3
Municipal Governments	38.2	35.9	38.8	50.4
Provinces & Municipalities together	61.2	53.8	67.6	74.7

The almost perfect equality between the revenues and expenditures of municipalities in relation to the whole of government activities must be underlined. This similarity no longer exists since the post war years.

During the second world war, the provinces and municipalities, recognizing the prior needs of the central government in circumstances of war, surrendered or rented the major part of their taxation fields to the Government of Canada. In addition, the central government expanded the scope of direct and indirect taxes and considerably increased the rates in order to fulfil its obligations. Government revenues, particularly those of the federal government, commencing in 1940, formed an ever growing proportion of the Gross National Product (GNP).

From 1936 to 1939, for example, the overall revenues of the three spheres of government together amounted to percentages varying between 14% and 22% of the GNP. This proportion exceeded 28% during the war, and since the end of hostilities, it has never been less than 25%. In 1962, the overall revenues of the governments rose to an unprecedented level, 30% of the GNP.

Now, the central government has retained almost all of this increase in revenue. In fact, from about 7% of the GNP that they were at the beginning of the thirties, federal government revenues, in recent years, have risen to more than 17% of the GNP. On the other hand, municipal revenues, of which the share in relation to the GNP was more or less equal to that of the federal government before the war, have not yet reached 5% since 1947. It follows that the considerable increase in taxation (direct and indirect) made necessary by the costs of the war, which rate of increase has not since diminished, has almost exclusively favoured the central government.

When hostilities ceased, however, the traditional responsibilities of the provincial and municipal governments reappeared, and with even greater intensity because the national emergency created by the war had postponed and relegated them to the background. Furthermore, new needs, the scope of which could not be clearly foreseen before the war, were added to the old ones. It suffices to mention the rapid growth of cities since 1945, new production techniques requiring a more and more specialized labour force, the increasing awareness on the part of the population and the governments of the necessity for a higher standard of education, and finally, the increase and improvement of social and welfare services, caused to a large degree by a general increase in population and rapid urbanization.

As all these spheres of activity belong to the provinces, the responsibilities of the provinces and the municipalities have increased considerably since the end of the war, and there is every reason to believe that they will continue to grow at an accelerated pace. In other words, there is no reason to believe that these responsibilities will, after a certain interval, level off and remain relatively stable over a more or less extended period. On the contrary, the demographic, technological and economic factors that influence provincial and municipal responsibilities are continually at work, and exert pressures that never cease to expand.

Before passing on to a more detailed description of provincial and municipal expenditures, let us first of all take a look at the distribution of revenues and expenditures among the three sectors of government since 1957.

PERIOD: 1957-1962 - Each Sector of Government by Average Annual Percentage of the Total.

	<u>Total Revenues</u>	<u>Taxation Revenues</u>	<u>Total Expenditures</u>	<u>Expenditures for Goods and Services</u>
	%	%	%	%
Federal Government	60.5	62.7	51.8	42.7
Provincial Governments	23.4	20.8	23.2	20.5
Municipal Governments	16.1	16.5	25.0	36.8
Provinces and Municipalities together	39.5	37.3	48.2	57.3

These percentages show that, with expenditures amounting to nearly half of governmental expenditures in the country, the revenues of the provinces and municipalities together make up only 39% of all government revenues. On the other hand, the federal government, with

expenditures almost equal to those of the provinces and municipalities, nevertheless has access to 60% of the aggregate revenues of the three spheres of government. It will be noted, furthermore, that the municipalities are gradually regaining their pre-war importance insofar as the provision of goods and services is concerned. If we consider only civil expenditures for goods and services, the importance of the municipalities becomes pre-eminent in this sphere of governmental activities, as shown by the following figures.

Civil Expenditures for Goods and Services
(excluding military expenditures)

Each Sector of Government in Average
Annual Percentage of the Total.

	<u>Federal</u> <u>Government</u>	<u>Provincial</u> <u>Governments</u>	<u>Municipal</u> <u>Governments</u>
	%	%	%
Period 1926-1939	21.9	25.2	52.9
Period 1957-1962	24.2	27.2	48.5

An objection could be raised regarding the figures shown above, namely that the 20% difference between the central government's revenues and expenditures is handed back to the provinces under various joint programmes. As a matter of fact, the amounts paid to the provinces in the form of conditional grants have increased considerably since 1952. These grants which amounted to about 6% of the net general revenue of the provinces in 1952, increased to nearly 18% in 1960. If, on the one hand, these payments may be considered a tacit admission on the part of the central government

of the urgency of provincial needs, they cannot, on the other hand, replace a more realistic apportionment of fiscal powers. As the Quebec government has mentioned on several occasions, the federal grants programme cannot constitute a permanent solution to the financial problems of the provinces. Even though they are useful under certain circumstances, it is imperative to find other means which would allow the provinces to meet their financial obligations in a more satisfactory manner, within the powers granted to them by the constitution.

2) Increase in the Direct Indebtedness of Governments.

The examination of governmental responsibilities and expenditures should take into account the increase in direct indebtedness, the service of which constitutes a substantial charge upon the budget. Even though the principle of financing investments by means of borrowing is accepted, it would nevertheless be advisable to pay these expenditures, insofar as possible, out of current revenues. The provincial governments (and the municipal governments to a much greater extent) cannot continually rely on substantial borrowing without eventually increasing the burden that the taxpayers have to bear. Furthermore, the provinces and municipalities cannot, like the federal government, count on the Bank of Canada to underwrite their debt as it does for the central government, in its role of legal agent for the administration of Canada's public debt.

The increase of direct indebtedness in the provincial and municipal sectors has been very much greater than the increase of the federal direct indebtedness since 1954. Indeed, considering the year 1954 as equalling 100, the direct indebtedness of the federal government had reached only 122.8 in 1960, whereas that of the provinces and municipalities had risen to 149.4 and 203.9 respectively.

More particularly, as regards the net funded debt of the government of Quebec, it is only since the 1959-60 fiscal year that one can really see its evolution.

Net Funded Debt of the Province of Quebec.

<u>Year</u>	<u>\$'000</u>	<u>Index: 1959-60=100</u>
1959-60	305,959	100.0
1960-61	384,120	125.5
1961-62	495,171	161.8
1962-63	644,962	210.8

Source: Quebec Year Book, Quebec Bureau of Statistics.

As this table indicates, the provincial debt has more than doubled within a period of only four years. In addition, the debt service during the same period, rose from \$12,059,000 to \$20,290,000. Finally, the direct indebtedness of Quebec's municipalities doubled between 1954 and 1960, and that of the school corporations has more than tripled during the same period.

3) Quebec's Objectives and Needs.

A study of the recent evolution of governmental expenditures in Quebec as well as an examination of their probable growth during the next few years cannot be made without a description, short as it may be, of the government's general objectives. Even though the latter have often been stated, we believe that it would serve a useful purpose to describe them once again in order to provide a better understanding of the attitude of the government of Quebec. One of the greatest concerns of the government has been to ensure the Province's economic expansion, which

constitutes the sine qua non condition of its social and economic progress. This is the manner in which the level of unemployment will be lowered and the ensuing social problem appreciably reduced.

The government of Quebec fully realizes that it is up to it to facilitate the development of the necessary foundation for the growth of productive capacity in the private sector, thus allowing it to reach a level of activity proportionate to the growth potential of the economy as a whole. The carrying out of these objectives, the effects of which will be beneficial to the entire country as well as to the provinces, implies that the activities of the provincial governments must be considered ahead of certain projects of the federal government. It is in this perspective that we can assert that the needs of the provinces must again take the priority that was temporarily ceded to the central government during the last war. Lastly, let us emphasize that the economic responsibilities of the provinces, notwithstanding the precise objectives of development, are rapidly increasing with the growth and accelerated urbanization of the population, as well as the continued appearance of new production techniques.

We would now like to describe a few of the specific needs that the government of Quebec, its municipalities and its school corporations will be called upon to fulfil in the years to come. The sectors most particularly affected are those of education, public health, social welfare, and transport and communications. If we add water purification and urban renewal to these, the list becomes even more impressive. A summary description of each one of these sectors will make evident the needs that the government of Quebec will have to meet in the immediate future.

However, the factors underlying the increase in each one of the spheres mentioned above, particularly the growth and the urbanization of the population as well as the technological developments, exert an ever growing force. It is difficult, therefore, to foresee exactly what their influence will be in its entirety. Let us remember that in any dynamic economy, when certain needs have been satisfied, other appear in their place with as much urgency as the first ones.

A) Education.

The total cost of education in Quebec more than doubled between 1956-57 and 1961-62, rising from \$286 million to \$612 million. During the ensuing five years from 1961-62 to 1966-67, this global cost will have jumped by an equivalent amount, increasing from \$612 million to \$1,203 million.

These amounts represent a minimum, because if they take into account certain factors directly influencing the average cost of education per student, (as for example the more than proportionate increase in the number of students at the secondary, technical or university level; the increase in salaries and the relative number of professors; the ever more complex scientific equipment) these factors are likely to follow a more accelerated ascending curve and, consequently, to add to the forecasts.

The global costs of education thus determined will be financed by the revenue sources which have up to the present sustained the various types of educational institutions: realty taxes of school corporations, gifts and tuition fees to private institutions, provincial grants, and direct financing of state schools by the government.

If it is taken for granted that these various sources of revenue will continue to contribute to the financing of education to an extent equivalent to that of the last few years, an ever increasing gap is observed between the revenues and the expenditures. This is what we term the additional financial needs of education. Indeed, education is the field in which the government's financial needs are the greatest. They are distributed amongst the principal sectors of education: the school corporations, technical and professional education, the universities, the subsidized private institutions. These sectors comprise 80% of the whole of the educational system of Quebec.

The increase in needs, which are analysed in a more detailed manner in an annex to this document, will be the consequence of the combined increase in school populations and the raising of the average cost per student.

Several factors today influence the increase in the enrolment in the various sectors of education. The policies applied by the Government of Quebec during the last few years have played a determining role in this respect by extending compulsory school attendance to the age of 15 years and by facilitating the financial and geographical accessibility of educational institutions. Further, the population itself is increasingly conscious of the imperious necessity of education to enable youth to obtain stable and remunerative employment. The citizens are becoming aware that it is necessary to keep the children in school as long as possible, in order that they may become an asset for the labour force. More complex occupations are tending to multiply and require on the part of the workers a better education and a higher degree

of specialization. The education of our youth should be such as to enable them to adapt themselves to the changes of employment which are necessarily implicit in technological progress.

In a general way, the principal factors which will contribute to the increase in the cost per student will be the raising of teachers' salaries and the proportionately greater increase in the number of students in the more costly branches of education.

B) Health

Following the coming into force of hospital insurance, expenditures for health, since the 1961-62 fiscal year, are difficult to compare with those of previous years. The increase of 24% that occurred between 1961-62 and 1962-63 is a fairly accurate indication of the rate of growth of these expenditures to be expected in the years to come. Indeed, the expenses for the administration of hospital insurance and the assistance to psychiatric hospitals can only increase over the next several years before it becomes more or less stabilized at a level impossible to determine at the present time.

The following figures furnish an idea of the magnitude of the expenditures that will have to be effected in respect to these social security measures in order to obtain maximum results.

<u>Year</u>	<u>Hospital * insurance</u>	<u>Psychiatric ** services</u>
	(in millions of dollars)	
1960	108	14
1961	139	15
1962	173	15
1963	204	22
1964 (estimated)	232	30
1965 (estimated)	257	39
1966 (estimated)	n.a.	45
1967 (estimated)	n.a.	50

n.a. not available.

* Year from January 1st, to December 31st. These amounts include federal contributions which amount to about 50%.

** Fiscal year ending March 31st, of each year: read 1959-60, 1960-61..

Up to 1962-63, about two million dollars a year in recovery of hospital fees are included. The estimates, on the other hand, from 1963-64, represent the net cost to the government of Quebec.

The data given above indicates that the net cost to the government of Quebec, for these two social measures alone, will, in 1965, amount to nearly \$168 million, compared to \$122 million in 1963, that is an increase of 38% in two years. These figures, however, represent only current expenditures, therefore, it is necessary to add capital expenditures thereto. For example, a certain number of hospitals must be built each year, representing, on the average, an increase of 1,500 beds per year, the cost of which varies between \$20,000 and \$30,000 per bed. These last estimates do not include the construction of psychiatric hospitals for which investments of some \$30 million will be required between now and 1966-67.

Finally, the government of Quebec does not intend to stop there. Other projects are at present being studied as, for example, health insurance, the application of which will call for important expenditures.

C) Social Welfare

Even though expenditures have increased considerably in this field during the last four years, the government hopes that when it has reached its general objectives, the rate of increase of these expenditures will diminish over the years to come. In other words, the various social allowances will decrease or stop increasing only to the extent that the government succeeds in carrying out its projects of economic development and social renewal. Furthermore, the establishment

of the universal pension fund will make it possible, if not to lower disbursements for social allowances, at least to slow down their rate of growth.

D) Transport and communications.

The annual average percentage of increase in the expenditures for this provincial activity since 1959-60, amounting to 6.6%, cannot serve as a true index of the future increase in expenditures in this sector. As a matter of fact, the putting into force of the provincial economic development plan and the programme for the development and exploitation of the Province's natural resources will call for expenditures that are hardly comparable with those of preceding years. It suffices to mention the improvements made to our road transport system, in general, the completion of our network of autoroutes, the construction of access roads to our natural resources and, finally, the opening of new highways, rendered necessary to ensure the success of the Montreal world fair.

The Department of Roads, for example, forecasts net capital expenditures of around \$490 million for the three fiscal years commencing in 1964-65. This amount includes a sum of \$170 million for the completion of the Trans-Canada Highway. These figures represent only provincial disbursements and do not include federal grants. Finally, capital expenditures that must be effected by the Department of Public Works for the construction of buildings, bridges, etc., are increasing considerably, and are expected to increase even more over the years to come.

E) Other Projects.

In addition to the sectors examined above, there are other projects of the provincial government which, even though they are less impressive, are nevertheless of capital importance to the balanced development of

the Quebec economy. It is enough to mention the rural development programme within ARDA, the building of homes for the aged, urban renewal, water purification and many others. The amount of the disbursements necessary to finance these projects is difficult to forecast because very little has been done in these fields so far. In any case, it can be said that the sums that will have to be put into these projects will be something that has never before been imagined.

B) The priority of provincial needs.

In financial matters it is always essential to be realistic. As the available resources are always limited in one way or another, this is why it might well come about that objectives which are completely justified socially or economically cannot be attained, or that their achievement must be postponed. If, for example, we were living in a time of war, our duty would be to devote all our energies and all our resources to victory, even while delaying the development of important projects. This is exactly what happened here in Canada from 1939 to 1945, when every Canadian was concerned with the "war effort." Domestic consumption was reduced, production of civilian goods came far behind production of military materials. And that was normal for that era.

After the war and for perhaps ten years, the Canadian economy had to adapt itself to new conditions.. A serious economic recession of the kind that followed the first world war had to be avoided. Also, our economy had to be fashioned in such a way as to ensure stability and control the danger of inflation, while taking into account our country's role in the post-war world and its dependence on international markets.

To reach these goals it was necessary to organize the constitutional framework of our country around the central government, the needs of which took precedence at that time over those of the provinces. The federal government thus perfected its principal tools of economic policy: the taxation system, exchange controls, control of the volume of credit, etc... It was imperative for the central government, in order that it be able to guide the movements of the economy and mitigate the effects of economic cycles, that it possess broad fiscal powers. During this time, in the provincial field, the sources of revenue were fewer, but this situation was understandable because of the importance of the role that the federal government had to play in matters of economic stability and international exchanges. The federal government had to give the post-war economy the means of securing for Canadians the high standard of living to which they had the right to aspire, especially after the period of wartime restrictions. In certain ways the very future of the country was at stake.

The fiscal arrangements necessary to meet this situation were to be only temporary. At the beginning, it was believed that the spirit of federalism would be reasserted as soon as hostilities were over, but the economic consequences of the war lasted several years longer, years during which the former arrangements were maintained.

But we are now living in 1962. There is no longer a state of war, and the economic problems which confronted Canada after 1950 are not those of today. It is the needs of the provinces which, after all these years, have to take

precedence over those of the federal government. Let us explain. When we say that our needs have to take precedence, we are not expressing a subjective point of view. We are basing ourselves on facts that anyone can verify for himself. In other words, our needs have not become priority ones because we wished them to be so, but because their nature rendered them thus.

We know that Quebec's needs are essential ones. We have already insisted upon this point. In brief, we have to improve our level of education, since the goal of national self-assertion for which we are now striving would otherwise be ephemeral. We have to raise the level of public health and social welfare in our province, so that our citizens may play a more efficient part as producers in our economy and so that they may become happier human beings. Finally, it is necessary that the province be henceforth in a position to carry out its responsibilities in the economic sphere.

Another of the reasons for which these essential needs must be given priority is that there is practically no longer any reason for the federal government to keep for itself sources of revenue for which it does not have the same needs as in the past. Its anti-inflationary role does not necessarily require immense sources of revenue; the central government can effect it through the controls it exercises over money, banking and the exchange rate. As for its stabilizing function, fundamental as it was both during and after the war, it is now less important. It must not be forgotten that for several years now, private enterprise of every kind has been planning its development over a long period. It is not so easily subject, as it used to be, to all sorts of influences the

nature of which it could not fully fathom; today, with the progress that has been made in economic research and thanks to market surveys, its operations fluctuate much less from year to year than they did in the past. In the public sector, the social security system that exists in Canada, and thanks to which Canadian citizens receive more than two billion dollars each year in the form of transfer payments, allows the maintenance of effective demand to remain at such a level that at the present time we can no longer have an economic depression such as the one that started in 1929. We will not go so far as to say the the problem of economic instability has become non-existent, but we believe that it is less acute for the reasons that have just been outlined.

Thus, the arguments that were valid to justify the priority needs of the federal administration during the war and post-war periods have since lost a great deal of their pertinence. But we continue to live within a framework conceived for an outdated situation.

The fact that the federal government has ended its recent fiscal years with records deficits does not weaken the preceding argument; it stems from another phenomenon upon which there is no need to dwell at the moment.

At the same time as the federal government's reasons for considering its needs as having priority over those of the provinces were losing their validity, another factor was manifesting itself, a factor of which all the countries of the world were aware, and the presence of which completely reversed the situation that prevailed from 1939 to about 1956. This factor is the new direction that must be followed by modern economic policy.

For many years, as we have pointed out, the problem of economic stability and that of inflation rightly preoccupied those who were responsible for the economic development of the country, and led them to adopt the measures that the situation called for. From the very fact of their actions and the cooperation of the private sector, these problems, without having disappeared entirely, have nevertheless been considerably attenuated. The problem that remains today, and in acute fashion, is that of economic development, and this problem is far from being solved; on the contrary, it might very well be the cause of a large proportion of the unemployment that is continuing to plague the economy of Canada and Quebec.

With regard to this problem, which, if it is not a new one, is at least more present than ever before, we only have one question to ask: which, of the federal government or the provincial governments can best find the solution? And our answer is: the two sectors of government can take part in its solution - but it is an undeniable fact that the provinces have a great part to play in this regard.

The reason for this is very simple. Under the Canadian Constitution, the important elements of economic growth and the development of the wealth of the soil, which are but one aspect of the question, fall within the jurisdiction of the provinces. The latter actually control the greater number of factors through which a true development policy can come and can have a chance of success. The provinces are also in a position to influence the rate of their own industrial progress by their actions in the location of secondary industries, by laying out roads and communications to facilitate access to basic resources and by their absolute jurisdiction over municipal structures. Furthermore, they can participate directly in investments for the development of resources and the establishing of industries in places

where economic conditions make it desirable. In other words, the provinces are better placed than the central government to initiate a policy of economic development, because they are closer to the particular problems of their people and the regions that make up their territory.

In all the developed countries of the world, in the United States, France, and elsewhere, the accent is at present on this type of policy. It is difficult then to see why, in such an extended and diversified country as ours, the necessary measures in this respect have not been adopted. Besides, the federal government itself recognizes the necessity for regional action, and we realize that such action can only be effective if the provinces themselves assume the greater share of the responsibility. It does not enter our minds to exclude the federal government forever from the initiation of a policy of economic development; our one aim is to recall the basic role that the provinces have to play in this matter.

Furthermore, if any policy of growth must involve the development of physical capital, it must be equally concerned with the development of human capital by appropriate measures on education, health and welfare. We are dealing here with spheres that come within provincial jurisdiction, the importance of which we pointed out a short time ago, particularly insofar as we in Quebec are concerned.

The provinces thus have an obvious responsibility in the economic development of their territory. This is implicitly laid down in the Constitution in the apportionment of federal and provincial powers; the facts require that the provinces carry out their responsibilities, but the heart of the problem is that they are at present incapable of doing so,

because they lack the necessary means. They are incapable of doing so because the federal government retains for itself sums of money to which the provinces should have first claim in order to satisfy priority needs and accomplish essential tasks. What is even more serious is that our people - and the people of Quebec in particular - have to endure a lower standard of living than they otherwise would if the central government handed back to the provinces, that are entitled to it, the means of collecting the revenues which they, conscious of their responsibilities, could devote to the establishment of a rational balanced policy of development, based upon concrete situations existing at the level of the economic regions.

C) Respect of provincial jurisdiction.

It is a recognized fact that, since Confederation, Quebec has always insisted very firmly that its jurisdiction be respected. Today, and perhaps more than ever before, we still have the same attitude. This attitude is based upon motives which belong to all the provinces, and also on others that are peculiar to ourselves. We wish to emphasize the latter because they are perhaps less well-known and less easy to understand than the others.

In all the dealings which its government has with the central government, the population of Quebec always considers two facts which anyone can easily establish. The first one is that the French-Canadian group which forms the great majority in our province is, however, only a minority in comparison with the population of the rest of Canada. This minority is obviously an important one, and has been established in the country for several centuries, a fact that gives it particular rights and particular duties. The fundamental right which it insists upon safeguarding is the maintenance of its traditions and its cultural characteristics.

Its principal duty, as a group having French culture and language, is to spread on the soil of America the human heritage of which it is the guardian, and for which it is responsible. This is why we so often say that from our point of view, Quebec is the mother country of all those who speak French in North America.

Today, the French-Canadian minority is solidly established in our country. There can be no longer be any question of its disappearing. If this were to have happened, it would have happened before now. It must be realized, however, that the historical and political development of our country has not always been favourable to us. But what is important doay is to assert and spread those values in which we believe; in short, it is to achieve the legitimate aspirations of French Canada. Its survival has been won, but it has not yet succeeded in playing the part that it should in our country.

The second fact to which we must constantly refer in order to understand properly the meaning of our present demands, is that Quebec - the political expression of French Canada - exists and is developing within a given political system. Our people exist in the concrete reality of every day living, and this reality has an influence upon their behaviour and their feelings, as would be the case for any other group of human beings. Now, Canada, of which Quebec is one of the ten provinces, has a federal form of government which guarantees - you only have to read the British North America Act to be aware of this fact - which guarantees, as we have said, to the minority that we are, the respect of the rights to which we referred above.

We must say, however, that our present position vis-à-vis the central government is not based only on juridical considerations, far from it. If we have mentioned the British

North America Act, we have done so in order to draw attention to an interpretation shared by all those who have some knowledge of the history of our country.

According to those of us who live in Quebec, one of the objectives of the federal system, an objective that is implicitly laid down in our Canadian Constitution, is to make it possible for the ethnic groups which founded and colonized the country, to retain, and above all to develop, their own characteristics. If this had not been the case, we can be sure that the French-Canadians, in 1867, would never have accepted to become part of Confederation.

In order for it to achieve its purpose, the federal system presupposes an apportionment of powers and responsibilities. Thus, in our country, important fields of action were set aside for the provinces, because it was felt, amongst other reasons, that provincial autonomy in these fields would allow the French-speaking group and the English-speaking group to grow in freedom. The fact that other provinces came into Confederation later changes nothing in its original aims. As we mentioned earlier, the French-Canadians of 1867 saw in this guarantee of provincial autonomy the satisfaction of one of their prime demands.

All this explains why we object so strenuously today every time we consider that the central government is entering into spheres of activity which, in our opinion, fall under provincial jurisdiction. In tendencies such as these, Quebec sees a great danger of gradually losing some of the guarantees which it insists should remain in the federal system under which, in 1867, it accepted to live.

Quebec is afraid that it will thus end up, in some way, by the rules of the game being changed in a unilateral manner. And then we would find ourselves in a situation unforeseen in 1867, and which is unacceptable at the present time.

For this reason, we must exercise constant vigilance. Nobody in Quebec believes that a given measure, - aid to municipalities, the contributory pensions programme, or federal assistance to technical education, for example - can, in itself, lead French Canada to assimilation by the English-speaking majority. Nor does anybody believe that any one of these measures, taken simply, is of a nature to threaten our entire cultural heritage. However, we must be systematically opposed to any federal move, whatever it may be, that reduces, in fact, or attacks the field of provincial jurisdiction. We absolutely cannot, even if it concerns a question which appears to be only a secondary one, remain passive in the face of federal initiative which we judge to be detrimental to the exercise of powers entrusted to the provinces. In fact, it is the whole of these measures that must be considered, and it is against each of the items comprising this whole that we must be opposed, because each of them is a threat to the autonomy of the provinces, a threat which constitutes a precedent which is later on invoked to justify to further threats of increasingly detrimental effect.

In short, we are not defending the autonomy of the provinces simply because it is a question of a principle, but rather because autonomy is to us the basic condition, not of our survival which is assured from now on, but of our assertion as a people. Our attitude is governed by the conditions of the reality in which we live, and not by theretical and abstract thinking.

People often ask themselves why Quebec has adopted such a firm attitude at the present time. They are wondering about the rapid developments that are taking place in our part of the country. We would like, in passing, to try and answer these questions.

Over the past few years, Quebec has become aware of what it is and, above all, what it can become. Its desire to assert itself is stronger than ever, and it must exercise all the powers that the Constitution of our country has granted to it. From this fact, and because of the reasons mentioned previously, Quebec is much more sensitive to any activities of the federal government in its own fields of action.

There is also another reason for our particularly firm attitude. We feel that the provinces can make an important contribution towards the solution of present problems, in matters of regional development, for example. The success of such an undertaking rests, however, on the decentralization of powers and on the possibility of provincial governments being able to dispose of sufficient financial resources. Without such resources, the use of those powers which come under provincial authority becomes illusory: constitutionally, the provinces can take action but, in fact, they find themselves incapable of carrying out their obligations. Under these conditions, it is difficult for the provinces to emerge from the passive position into which they are being led by the present apportionment of fiscal resources.

The Quebec of today refuses to accept this passivity. We are too realistic to think that we can do everything, but we believe that true respect for the legitimate autonomy of the provinces, and everything connected with it, calls for them to have all the indispensable levers at their disposal, so that they can effectively occupy those fields which come under their jurisdiction. In Canada, this essential condition for the success of provincial undertakings that have become necessary because of the size of the task that must be accomplished, has not yet been fulfilled. Federalism, as we

understand it, requires, however, that this be done. Other provinces worry about this just as much as we do.

The solution of this problem is one of our objectives. We are devoting all our energy to it, and we are doing this all the more enthusiastically and vigorously because we are convinced of the eventual success of our efforts. Moreover, the very future of our country hinges on it.

II - QUEBEC'S PROPOSALS

As several of the proposals which Quebec is presenting at this Federal-Provincial Conference correspond to those set forth at the July 1960 Conference, one might pause and assess the results of the latter.

A) Results of the 1960-61 Federal-Provincial Conference.

From several vantage points, the results of the 1960-61 Federal-Provincial Conference showed progress as compared with the former situation. We do not under-estimate this progress. On other points however, we have several reservations which show why we are bringing these matters up again today.

We had proposed the holding of interprovincial conferences and we are pleased to note that, due to the spirit of understanding and of cooperation of the provincial governments, these conferences have, in effect, been held at the Premiers' level while others have been held at the ministerial level on subject of common interest. It may be said that all the provinces of Canada, Quebec among them, drew notable advantages therefrom were it only from the vantage point of a fruitful exchange of opinions from one province to the other. Without exaggerating the bearing of these conferences, we do think that they show a way to interprovincial cooperation which it would be worth our while to better explore and use increasingly in the years to come.

At the same Conference, we had proposed that a permanent secretariat of Federal-Provincial conferences

be established, to be jointly financed and administered by the Federal and Provincial Governments. In this connection, there have been no notable development since 1960 and we shall come back to this matter later on.

We had formulated serious objections to joint programmes. These objections still stand today and we shall have occasion to discuss them further. However, as every one knows, in view of our needs and despite our reservations, we had to resign ourselves to the application of major joint plans in Quebec. Moreover, we could not allow ourselves to deprive the citizens of Quebec of money to which they had a right in view of their participation in federal taxation. This situation implied an injustice which it was our duty to bring to an end. Thus as of 1960 Quebec took the necessary measures to benefit on a temporary basis from practically all the conditional grants which it had not been receiving but which had been distributed to the other provinces by the Federal Government for quite some time. This is best illustrated when one realizes that in 1959-60, Quebec received \$46.4 million; for the present year, this amount will reach some \$255. million.

However, this was not the essential point in our demands. Above all, we wanted that the Federal Government vacate, to a larger extent, the personal and corporation income taxation fields and that it gives up succession duties. We had, in fact, suggested that the Federal Government secede up to 25% of personal and corporation income taxes. We have also stipulated that the succession duties field of taxation be totally vacated.

This sums up our demands in the purely fiscal domain. We also wanted that equalization payments be calculated on the basis of the yield from personal and corporation income taxes in that province where this yield is the highest.

In this respect, our legitimate demands were received with much less enthusiasm by the federal government representatives. In reply to our propositions, the Prime Minister of Canada advised us that his government was not disposed to change the present situation insofar as succession duties and taxes on corporation profits were concerned.

Where personal income tax is concerned the federal government stated that it was prepared - as of April 1, 1962 - to widen the field of taxation reserved to the provinces by an additional 2.1%, to bring this percentage to 16. The federal government thus kept 84% for 1962-63, while diminishing its share by 1% for each of the 4 succeeding years, until it falls to 80% in 1966-67. The effect of this measure was to permit the provinces to tax up to 16% in 1962-63, then, to increase this proportion from year to year till it reaches 20% in 1966-67, without there being double taxation.

This was a partial recognition of our needs. It allowed us to assert that in a couple of years the double taxation, caused partly by the increase in personal income tax which was brought into effect in Quebec in December 1960, would have totally disappeared.

However, insofar as equalization payments are concerned, we believe that the proposals of the Prime

Minister of Canada were such that whatever might have been considered advantageous for Quebec disappeared therefrom. Actually, the mode of calculation was changed by adding the revenue from natural resources to the three basic taxes and by establishing it on the average national yield of these sources of revenue. According to former agreements, the basis of equalization payments was the average yield of the three sole basic taxes in the two provinces where this average yield was the highest. In short, in our opinion, the very concept of equalization was totally distorted. Therefore, it was no longer a question of equalization at the top, but of equalization to the national average such that suddenly, several provinces became more "equal" than others

However, the federal propositions did include the following guarantee:

" No province entitled to equalization under the national average formula shall be worst off than it would be under a continuation of the present equalization formula and tax rental agreements, including the Atlantic provinces Adjustment Grants. Thus provinces with substantial fiscal needs are fully protected."

The provinces to which the new equalization formula was to apply thus obtained the guarantee that they would not receive less in total (fields of taxation and special subsidy to the Atlantic provinces) than they would have received if the 1957-62 agreements had remained in effect at the former rates. This proviso permitted several provinces to receive not less than under the former agreement. The new proposals brought no financial relief to Quebec. In fact, Quebec and several other provinces lost in equalization payments that which they had gained by a narrow widening of fields of taxation. To Ontario alone was this enlargement profitable.

The Prime Minister of Canada had just played a magic trick for by sleight of hand he withdrew with one what he had given with the other.

What is more, the Prime Minister of Canada announced at the same time that the refund to the provinces of 50% of the tax on the profits of companies generating or distributing electricity, gas or steam would come to an end on March 31st, 1962. For the Province of Quebec this would have represented a loss of several million dollars. Happily, the federal government thought better of the whole thing and decided to continue its former policy and, at the request of Quebec, even improved the way of calculating remittances to the provinces.

Except for a few points, our legitimate demands thus met with almost completely negative results. We then deemed it our duty to make a few counter proposals which, had they been accepted, would have attenuated in some measure the losses which were suffered by Quebec through the stiff attitude of the central government.

The Quebec government first proposed that the stabilization guarantee which the federal government was prepared to give should apply only to equalization payments, such as calculated by virtue of former agreements, instead of applying to the total yield of taxes plus equalization. If such a proposal has been accepted, it would have had the effect of permitting Quebec to add to its current income the yield of the personal income percentages which are given up by Ottawa each year from now to 1967 according to present arrangements. Actually, it would have prevented taking back with one hand what had been given with the other.

We also made another counter-proposal and urged the representatives of the federal government to reconsider their decision and enlarge the field left open to the provinces in the corporation tax domain by pointing out that, in Ontario and in Quebec in particular, there was double taxation of corporation profits to the extent of 2%.

Even these counter-proposals, which appeared very reasonable to us, were not accepted. The federal government consented in principle that federal Crown Companies pay the Provincial sales tax. In practice, however, nothing has happened yet. Provincial Crown Companies pay the federal sales tax while federal Crown Companies are exempt from Provincial taxes. This illogical double standard to cope with a like situation is just not acceptable. To the advantage of the provinces, the federal government also accepted a rebate equivalent to 2/3 of the taxes paid to the provinces on profits accruing from forestry operations.

Thus, these new arrangements, unfavourable as they were to our Province, came at a time when Quebec's development was gaining momentum. We sincerely believe that, under the circumstances, it is our entire population which is suffering the hard after-effects of the central government's rigid attitude. It was hoped that by attending the Federal-Provincial Conferences on fiscal matters, our situation would be understood. It is quite the opposite which took place. We came away with the impression that no one deigned to listen to us.

During the same conference, there appeared on the agenda an item concerning the uniformity of provincial taxes.

Quebec was requested to modify its corporation tax in order to bringing it more into lines with that of the federal government and that of Ontario. The Government of Quebec found this request justifiable and modified its corporation tax by establishing the depreciation allowance according to that of the federal government and by modifying the calculation of interprovincial distribution of profits by consecrating the principle of carrying over business losses. According to us, this constituted still another tangible proof of our desire to co-operate with the central government and the governments of the other provinces.

B) Quebec Proposals at the Federal-Provincial Conference of November 1963.

The precise proposals, which Quebec submits to this Federal-Provincial Conference, derives logically from the views expressed in the first part of this document.

1) Cooperation and Consultation on Matters of Economic Policy.

In suggesting in 1960 that a permanent secretariat of Federal-Provincial Conferences be established, it was our opinion that with such an organism, federal-provincial meetings and contacts as much at the ministerial level as at that of government officials, would be better prepared and even more fruitful. Furthermore, such a body would establish and maintain intergovernmental relationships on a permanent and regular basis. We reiterate this request, today, because we believe it even more pertinent than ever.

Actually, it is important to institute intergovernmental organisms of which the permanent secretariat of Federal-Provincial conferences should be the first.

Along the same lines, one should also think of a permanent Council of Provinces.

Such institutions have become indispensable. They are probably the only concrete means of avoiding that the provinces be faced with "faits accomplis" or with unilaterally dictated measures without previous consultation between and among themselves and with the central authority.

During the course of the past few months, we have had several unfortunate examples of a lack of consultation; the Municipal Loan Fund, the Pension Plan and the designation of depressed areas eligible for special economic aid. This latter measure, because it considerably modifies depreciation allowance rates, constitutes a serious onslaught on the fiscal and administrative economy of the provinces for without their consent, it influences their basis of taxation. Thus, it is one government which, without previous consultation, will determine the taxable income of another. It is true that Ontario and Quebec could refuse to grant this accrued depreciation allowance since they themselves collect corporation taxes. However, by acting in this way, one would reproach them, for creating many useless complications and with not cooperating with the Federal Government and those of other provinces.

An immense confusion which persists to this very day is the result of all these unilateral decisions. Too late we realized that the goals of the federal government did not necessarily meet with those of the provinces. It has provoked perfectly understandable spine stiffening. This offensive with centralization as the target inevitably gave rise to violent reactions.

Such experiences must never be repeated for the very essence of the confederate system shall disappear. It is no longer sufficient to make honourable amends after the harm is done and to promise that, in the future, intrusion in fields of provincial jurisdiction will be avoided. For, leave us not forget that the harm has been done and that it constitutes a precedent that no one will fail to invoke in the future, no matter what happens.

Quebec - and several provinces share its opinion in this respect - is definitely opposed to the federal government's jostling the priorities of the provinces by unilateral actions, probably well intended but not always well measured. This is obvious in the case of regional development and the locating of industries, which fields are clearly of the provincial jurisdiction. We do not conceive the role of the federal government as one giving direction to and determining the policies which the provinces should follow in fields of their own jurisdiction, but rather do we see the federal government helping the provinces by means which are properly its own and by constant consultation with them. Thus, shall the provinces put into effect policies of their own conception and adapted to the particular needs of their people and their economy.

All this presupposes co-ordination which should be founded on something other than mere good will; such co-ordination requires concrete instruments of action and the present Federal-Provincial Conference could be the birthplace of these instruments. At least, we hope so. The present policy of making decisions behind hermetically closed doors in the different sectors of government is no longer at all

acceptable. Especially is this so when one reflects on the complexity of economic problems which the provinces as well as the Government of Canada must face.

That is why intergovernmental relations are discussed in the context of a section of this document which is devoted to economic policy. In practice, therefore, the provinces should always be consulted by the federal government each time the latter wishes to effect policies which could have a repercussion on the economy of the provinces. Actually, there are few economic problems which are exclusively federal in their bearing. Economic policy measures almost always influence the provinces. Consequently, the provinces can no longer be satisfied with a passive rôle in such matters, nor can they resign themselves to suffer the consequences of unexpected, arbitrary federal decisions in which they have had no voice.

The federal government has just established a Department of Industry and an Economic Council. Obviously it has the right to act as it did, even more so when one considers that present economic difficulties such as unemployment and international competition necessitate a mobilization of all forces. However, these two new bodies should not lead to federal policies formulated unilaterally. We recognize that the precise area of reciprocal jurisdiction may be difficult to determine on economic matters. Therefore, the only way to avoid overlapping and inefficiency is to have permanent consultation of the provinces. Certain among them, Quebec in any case, do already have institutions aimed at economic growth and planning.

The federal government should not act as a substitute for these organisms, but, rather, should work

with them by means of frequent Federal-Provincial meetings on all subjects - and the more frequent these are, the more useful they will be. Moreover, on their side, the provinces will be increasingly brought to work together in solving their mutual problems. This is a trend which we are beginning to see and there is no reason to believe that it will take a downgrade. It will even be possible for them to formulate policies together either by groups of provinces or otherwise, in which the federal government would not have to participate unless such policies should have repercussion on it.

If provincial and interprovincial policies may, according to the circumstances, be made with or without federal government participation, those of the federal government should never be fixed without consulting the provinces for, inevitably, such policies affect the populations and the industries of the provinces which form Canada. For this reason, it is not exaggerated to demand that the provinces have some forms of participation through permanent Federal-Provincial organisms instituted for this purpose. They should have their voice in determining tariff structures, transportation and even the monetary policies of Canada, fields which up to the present were considered as exclusively under federal government jurisdiction.

All these proposals might seem revolutionary and might even lead one to believe that, if put in practice, we would be heading toward a multitude of organizations which, by their unwieldiness and their number might, tend to delay the rapid application of necessary policies. This will not be the case at all for, actually, the time saved in establishing certain unilateral policies is

subsequently frittered away in the discussions and the delays which they inevitably bring up. And this, without taking into account that they create a negative impression of the federal system, as it is understood today.

Thus does Quebec understand "co-operative federalism". It must, on the one hand permit the provinces to dispose of the necessary means to meet their responsibilities and, on the other, give rise to the joint and considered elaboration of economic policies. In our opinion, any other interpretation of "co-operative federalism" would be a mere play on words. For Quebec, it would be the equivalent of trying to hide the fact that we are being taken in behind a high-falutin' name.

2) Joint programmes

With regard to joint programmes, we would recall what was said about them at Federal-Provincial Conference of 1960.

Conditional grants paid by the federal government to the provinces in connection with joint programmes, administered by the provincial governments bring up all sorts of difficulties. We understand that, when the federal government decides to participate in such programmes it demands that the provinces abide by certain conditions, but these very conditions engender a number of complications.

Experience shows that, oftentimes, these conditional grants do not permit the provinces to use their own revenues as they see fit, nor can they reckon sufficiently with local conditions. Furthermore, they give rise to administrative difficulties which mean a loss of efficiency or overlapping and higher costs. The provinces have to have on staff, personnel with the special responsibility of making progress reports on these programmes to Ottawa. The federal government has, in turn, to have in their service personnel to supervise that the conditions which it has laid down are being met by the provinces.

In our opinion, this situation has become undesirable. The agreements in force have played the rôle of a stimulus to the economic and social development of the country. In many cases, they have replaced the initiative of the provinces. However, certain among these undertakings are now sufficiently well established at the provincial level so that the federal government could cease to participate in them and surrender these fields. The federal government declares its willingness to accept this demand. Obviously, it will be necessary to fully compensate the provinces for the additional financial responsibilities which they would be taking on. This financial compensation should take the form of additional taxation rights specifically reserved for provincial governments and of corresponding equalization payments, should the need arise. Each province would thus be free to dispose of its revenues as it sees fit in the fields of jurisdiction which belong to it, should the province judge it in its best interest to no longer participate in well-established joint programmes.

Other joint programmes have barely been started. This is more particularly the case in Quebec since 1960. Financial equivalence should therefore take into account the cost of these plans, had they been allowed to reach what might be called their "maturity". Briefly, if Quebec does not count on the abolition of conditional grants and on the financial equivalence which would result therefrom to obtain otherwise not expected revenues, there will be no question either of Quebec being satisfied with anything other than its fair share of federal funds. For this reason, each one of the plans implying shared costs, whether it be a matter of carrying out already well

established programmes or recently instituted plans, or undertakings not yet in effect in Quebec, we say that each one should be the subject of special discussions where all pertinent details will be carefully examined at the time when the federal government has decided to surrender them.

It is clear then that the compensation, that is to say the financial equivalent which the provinces would receive in the event that the federal government abandon its financial participation in joint projects, has nothing to do with the fiscal allotment concretized by our demand for 25-25-100. This is a completely different question. The fiscal apportionment which is demanded would serve the sole purpose of permitting the provinces to meet their responsibilities and to satisfy needs which have become top priority. Under no consideration should this fiscal apportionment appear as a compensation linked to the relinquishment of joint projects by the federal government.

3) Fiscal arrangements.

This question is divided into two subjects of major importance: the allotment of taxation fields and equalization payments.

a) Apportionment of taxation fields.

The principal and the most urgent of the motives which impel us to demand a new fiscal apportionment is the present priority of provincial needs. Fiscal allotment aims at satisfying these needs, that is to say, at permitting the provinces to devote themselves more adequately and more efficiently to putting the accent on human capital, if we may thus express ourselves. Education, welfare and health

legislation are various measures which tend in this direction. As a corollary to this, the desired fiscal allotment will permit them to meet their responsibilities in matters of economic development which, in turn exercises an undeniable influence on human development. These two objectives are intertwined and complementary to each other. It also follows that they come under provincial jurisdiction and, as we have already said, the provinces do not presently have the financial means to completely reach these goals. It is this situation of ill-omen which could compromise the very future of our country and which it is absolutely necessary to correct.

Once again, we demand as minimum taxation powers: 25% of personal income taxes; 25% of corporation income taxes, which in this case amounts to approximately 10½% of taxable income; and 100% of succession duties. The transfer of property comes under provincial jurisdiction. It is therefore logical that the tax on donations inter vivos should go back to the provinces, since these donations are of the same nature as estates. Does all this amount to final and rigid demands? Not necessarily - and this, for two reasons. In the first place, we are presently studying taxation problems in Quebec. Until the report of the Royal Commission of Inquiry appointed for this purpose has been handed down, the proportions mentioned here may not be considered as final. One thing is certain, however: for us these demands represent a strict minimum and they are certainly not beyond that which our current study on taxation would establish as such.

We are not taking an absolute stand on the proportions above determined. Naturally, it is the combination

which we would most prefer, but we would not refuse. for example, a percentage superior to 25% of personal income taxes, to compensate for a lesser percentage in the case of corporation taxes, or vice versa. Insofar as succession duties are concerned, it is possible that the federal government would like to keep a small percentage of it for the purpose of verifying other types of taxes. If we can presuppose equivalence on personal income taxes or on corporation income taxes, we would consent to the federal government keeping, let us say, 5% of succession duties. In brief, for reasons of administrative convenience which we readily understand, succession taxes could be treated in this way. Naturally, the implicit condition exists that the major share of succession duties are henceforth to be collected by those provinces desiring to do so.

It is important however that one be aware that the alternatives mentioned here in no way diminish the scope of our fundamental demands in fiscal matters.

b) Equalization payments.

In 1960, we had demanded that equalization payments be henceforth calculated on the basis of the per capita yield on personal and corporation income taxes, in that province where this yield was the highest.

Today, our stand on this subject remains substantially the same, except that to help the provinces with less revenue, we believe that the yield from succession duties should continue to be a part of the equalization formula, even though we asked that the federal surrender this field of taxation altogether. As a matter of fact, succession duties constitute an excellent measure of the relative wealth of individuals and, as such, could very logically serve as a partial basis for equalization.

We are indeed very happy to note that the present federal government, in the programme which it submitted to the people last spring, has promised that it would give to the provinces, equalization payments guaranteeing, in joint taxation fields, the same revenue per capita as that which the richest province draws. This clear and unequivocal attitude satisfies us, for it meets one of our fundamental demands. It is also our understanding that the term "joint fields of taxation" automatically excludes revenues from natural resources from the calculation of equalization payments. Here again, there is an improvement over the present formula. We are getting back to the spirit of veritable equalization from which the government of Canada had strayed to an appreciable extent with the arrangements now in effect.

One point, however, has not yet been cleared up. Presently, equalization payments are established on the average per capita yield of revenues which the provinces may collect from the following taxes: personal income tax at the rate of 17% in 1963, 18% in 1964, etc; corporation income taxes at the rate of 9% of taxable income by the federal government; succession duties at the rate of 50% and the average for the last three years of half the revenues from the development of national resources. In the new formula, which we are proposing, this latter type of taxes would disappear. Thus, there remains to be established what percentages of personal and corporation income taxes and of succession duties should henceforth serve as a basis for calculation. We suggest that these percentages should be 25, 25 (that is approximately 10½% of the taxable income of corporations) and 100, instead of 17, 9 and 50% according to present arrangements.

4) The Canada Pension Plan

It has been known since July last that Quebec refused that the Canada Pension Plan apply to its citizens. In this case, we have elected to stick to the spirit of the contracting out formula and we shall institute in Quebec, a system which will be provincial, public, universal and based on actuarial hypotheses.

However, an important problem remains. According to federal government plans, any citizen aged 65 to 69 will be allowed to claim an old age security pension at an amount which would be reduced but graduated upward according to age.

This will inevitably lead to a considerable drain on the old age security fund when the new programme goes into effect, and this drain will last for several years to come. The recent increase of 1% on personal income tax cannot serve to finance this need for it is entirely absorbed by the increase of \$10. per month, which has been granted not long ago. The Old Age Security Fund will therefore have to find new sources of income. A possible one would be an increase in personal income taxes. In our opinion, such a solution should be rejected. Another possible source would be to borrow the necessary sums from the Canada Pension Fund. If such a solution were adopted, the reduced pension applicable to the citizens of the ten Canadian Provinces would be financed by monies taken from a fund in which Quebec would not participate. These sums cannot be considered as a long term loan granted to the Old Age Pension Fund, for reimbursement would not be feasible. This situation, thus, presents a delicate problem for the federal government because it is quite obvious that Quebec

cannot accept to have its own pension fund serve to finance a pension payable by virtue of a federal programme.

To help iron out this difficulty, Quebec proposes that the federal government hand over the entire administration of old age security to which its citizens of 70 years and over are eligible, provided of course that, at the same time, be handed over the means which have already been devised for financing this programme or the fiscal equivalence thereof. This formula would also allow Quebec to standardize its entire old age social security programme and to better co-ordinate its component parts.

We are also prepared to propose to the Quebec Legislature that it accept an amendment to the British North America Act, such that the federal government be in a position to legislate on pensions, while taking into account, not only the needs of the aged, but also those of widows, orphans and invalids. We would consent to propose such an amendment on the express condition that the text thus modified includes for each province (insofar as old age security, aid to widows, orphans and invalids are concerned) the option of withdrawing completely from the federal programme with full financial compensation.

5) Lotteries

We are again repeating a demand which we had formulated on several occasion. When accepted, it will bring to the provinces so desiring it, additional income for which they have a pressing need at this time. The case in point is lotteries.

We would like, in fact, that the Penal Code which comes under federal jurisdiction be amended to permit the institution of lotteries for provincial purposes. It seems to us that this is a request which the federal government could easily grant.

6) Provincial Sales Taxes and Federal Crown Corporations.

As we have mentioned previously, we find it completely anomalous and inadmissible that federal Crown Corporations be exempt from provincial sales taxes while our provincial Crown Corporations must pay the federal sales tax just as any other citizen does. Thus, the Quebec Hydro was dealt a severe blow by having to pay several million dollars when the Minister of Finance for the Canadian government decided to extend the sales tax to building materials and machinery.

This situation is even more intolerable because the federal government promised to remedy it over two years ago. The Prime Minister of that day even announced this as being an important concession to the provinces. And yet, to this very day, nothing has been received.

7) Administration of Indian and Eskimo Affairs.

Quebec considers that these two questions should be treated separately.

Actually, the question of Indian Affairs is infinitely more complex than that of Eskimo Affairs. The former would engender negotiations between the federal government and all the provinces. Eskimo affairs, on the other hand and for all practical purposes, concern only the government of Quebec and that of Canada, although Manitoba may also be interested. Furthermore, federal government action toward the Eskimos of Quebec is linked to an opinion handed down by the Supreme Court of Canada in 1939, but it does not necessarily follow through from a legal point of view. By virtue of this opinion, the federal government has only legislative powers over the Eskimos - a power which, moreover, the federal government

has never used. It therefore follows that the transfer of Eskimo affairs from the federal government to the Quebec government could be effected by a simple administrative decision.

Such is not the case with federal jurisdiction over Indians which is an integral part of the text of the 1867 Constitution. It implies a good number of extremely complex factors such as the tribes, the treaty rights etc. Finally, it is important to note that Eskimos are fundamentally different from Indians, as much by their language and culture as by the geographic and economic milieu in which they live.

With these distinctions in mind, the Quebec government is disposed to pursue the necessary negotiations in order that the transfer of the administration of Eskimo Affairs from the federal government to the Quebec government be effected as of April 1st, 1964.

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