

The Deadlock In Dominion Provincial Finance

By "ECONOMIST"

THE recent decision of the Privy Council, declaring that it is beyond the powers of the Dominion Parliament of Canada to pass legislation on minimum wages, hours of work, unemployment and other social insurance, has brought to a head the difficulties that have been growing in Dominion-Provincial financial relations.

The British North America Act is the document that records the Canadian constitution, making the Dominion responsible for peace, order, and good government, and the Provinces responsible for securing justice and for dealing with local affairs. When the Act was passed in 1867 it seemed as if the Federal Government had the big jobs, and up to the end of the 19th Century, the Dominion was spending annually per head more than three times as much on ordinary account as the Provincial Governments together. But with the changed social ideas of the 20th Century, it soon became apparent that the Provinces had a great potentiality of powers, and that they had to provide increasing expenditures for welfare purposes. The Provinces, which had hitherto depended for revenue on federal subsidies, and on the returns from the Crown Lands, had to begin levying direct taxation, mainly in the form of corporation taxes and succession duties.

During the period of the Great War, Federal expenditures forged ahead again and the Dominion had to enter the field of direct taxation, by the levying of the income tax. By so doing, the balance of the fiscal power passed to the Dominion Government. But the calls on the Provincial Governments and on the Municipalities have continued to increase since that time.

In particular it has become the duty of Provincial Governments to see to the security of each and every citizen in sickness, unemployment and old age. And the Municipalities, with little but real estate to tax, have to spend from a quarter to a third of their revenue on relief, and on new educational facilities that were unknown a generation ago.

According to the recent decision handed down from the Privy Council, it is the Provincial Governments, and not the Dominion, that have power to deal with these social questions. But under the fiscal system which has grown up, and which puts the main weapons of revenue-raising into Federal hands, the Provinces lack the revenue necessary to meet the many new functions that now fall on them.

The Immediate Need

The immediate need, therefore, is to find a means of relating the constitutional powers, and

the powers of raising revenue. This need is acute at present, and it seems likely to become more so as new incentives for further social legislation arise in Canada. It is therefore necessary to consider how the constitutional system and the fiscal system may be altered and readjusted, so that they can effectively co-operate to fulfil the new ideas on the functions of governments that could not be entirely foreseen by those who framed the constitution in 1867. A Royal Commission is being appointed to make recommendations on this question. We may consider briefly the questions that this Commission will have to study.

At the outset, it is well to remember that in any federal state, there must always be some difficulty in defining clearly the respective functions of the Dominion and the Provincial Governments. In Canada at present, the Province marries you, but the Dominion divorces you. Similar more or less arbitrary elements in the separation of powers between Dominion and Provinces will probably always exist, but in the matter of financial relations between the Governments—which touch each and every citizen—the separation of powers must be sound in principle, and economic in operation.

Three ways seem possible for relating the constitutional and the fiscal systems.

(1) The constitutional powers may be left unchanged (i.e. the Provinces may continue to look after social insurance, etc.) and the main powers of raising revenue may be left with the Dominion, which, as the wealthy government, may pay subsidies to the Province according to their expenditures on social insurance.

This would be only a slight change from the existent system, relieving the Provinces of a greater part of the financial pressure involved by their present social expenditures. But this method would preserve all the uneconomic features of the present arrangement. There would still be ten governments in the field of agriculture, ten in health, ten incorporating companies, and ten looking after the social services of pensions, unemployment, sickness, etc. In short, this system would involve some unnecessary duplication in administration.

In addition, Canadians must by now be somewhat dubious of a method that depends on the grant of unconditional subsidies by the Dominion to the Provinces. Hitherto the giving of grants has been a political football, and Provincial parties have been known to make extravagant promises to electors in the hope that they could later secure a subsidy to meet the expense that their promise involved.

Whether Canada can outlive this past, and devise a scheme of subsidies from the Dominion to the Provinces that is free from abuse, may be a doubtful point. Clearly any such scheme would have to include many safeguards against abuse, and too many safeguards lead to clumsiness. We can conclude, however, that a continuation of the present system which lays many duties on the Provinces, and leaves the main tax weapons with the Dominion, can hardly be properly worked by grants of unconditional subsidies from the Dominion to the Provinces.

(2) A second method of meeting the question would be to leave the constitutional powers unchanged (i.e. leave the Provinces to look after welfare services, etc.), but to devise means of increasing the revenue-raising powers of the Provinces.

It seems almost impossible for the Provinces to increase their revenue adequately by expanding their present tax-systems. The Provincial Treasuries are filled mainly by taxes on gasoline, motor vehicles, amusements, corporations, capital and inheritance, and these taxes cannot be expanded without risk of grave disturbances. Some Provinces have also income-taxes, but this weapon is not of much avail in Nova Scotia and in those Provinces where the population is mainly engaged in agriculture, fishing, and the extraction industries, which are difficult to assess for income tax. It seems, therefore, that all the Provinces can not adequately meet the welfare and other services without new tax weapons. The main weapon is the income-tax, but the efficient administration of an income tax is best left in the hands of the Dominion Government. In Ottawa, administration can be centralised, and this tax can be made national in scope. Furthermore it seems advisable that the Dominion should always have this tax at its full disposal, in order to meet national emergencies that might arise.

The second method of meeting the question by increasing the taxes at the disposal of the Provinces seems a doubtful possibility when the Dominion has to have the main tax—the income tax—at its command.

(3) The third way out of the present difficulty is to alter the constitution, so that the Provinces would transfer their power over the social services to the Dominion Government.

This method, however, must be suspect in a

region so large as Canada. By centralising the administration of social services in Ottawa, it seems that grave administrative difficulties would arise, because in Ottawa it is difficult to appreciate detailed local problems of relief, pensions, etc. in the remote parts of Provinces. These local problems are best met by local administration, because these questions vary from district to district, and their understanding requires an administration that is flexible and sympathetic. These requirements are more likely to be present if the service is administered locally by the Provinces themselves.

Each method of meeting the difficulty seems to contain its own germ of disruption. Nevertheless this diagnosis has brought to light some features that might be combined to form a healthy scheme.

It is clear that the increased social and welfare services, which now lie mainly on the Provinces, cannot be met by them from their existent revenues. It is also clear that these services are national in character, and that, therefore, the Dominion Government ought to ensure that the schemes of relief, pensions, etc. are equal as between the Provinces, and that it ought to aid in the financing of these schemes. But we have already seen that the Dominion ought not to grant unconditional subsidies to the Provinces on this account. We conclude, therefore, that only one reasonable compromise is possible, namely for schemes of social and welfare services to be arranged under Dominion supervision, but with local and Provincial administration. This would require co-operation between the Provinces and the Dominion, in order to have national schemes of relief, pensions, health and unemployment insurance etc., laid down, as common to all Canada, and as requiring uniformity of legislation. Then the Federal Government would make grants to those Provinces that participated efficiently and properly in the particular national scheme of social service. This method would combine national co-ordination with Provincial administration, and would give to the Dominion some control over the grants made to meet the services.

Whether the coming Royal Commission considers the question in this way, or whether its attentions will be focussed on other phases of Federal-Provincial finance, it seems that there is an immediate opportunity for statesmanlike co-operation between the Provinces and the Dominion on matters of social and welfare questions.