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Present-Day Conditions Make Pact Acceptance Imperative, Says Conant

First Reading of Tax Transfer Bill in Legislature Finds Attorney-General Emphasizing Province Can Re-enter Fields on Termination of War

The axiom that it was wrong for one authority to collect taxes and hand them over to another authority was sound in ordinary times, but not under present-day conditions, Attorney-General Conant declared in the Legislature yesterday.

The Attorney-General was speaking at first reading of the bill which validates the transfer from Ontario to the Dominion of corporation and income taxes. As compensation Ontario is to receive \$28,000,000 from the Federal Treasury. In addition the Dominion guarantees the Province a fixed minimum gasoline tax revenue.

"These are by no means ordinary times," said Mr. Conant after explaining the bill in detail. "We are confronted by the most serious emergency that has ever beset Canada or the British Empire. Different considerations must, therefore, apply and we must approach the problems of Government and of the relationships between Government in the light of such an emergency."

Mr. Conant said it may be pointed out that this agreement and the validating legislation imperil the fiscal autonomy of the Province. But in view of the grave crisis confronting the democracies, ordinary standards would not suffice, he asserted.

Contrary to Spirit of Act.

"It may also be said that the agreement and the legislation now before the House offend against the spirit if not the letter of the British North America Act," said the Attorney-General. "But before endeavoring to justify the agreement and the legislation to authorize it, I propose to explain the agreement itself and later the bill to which it is a schedule."

The Attorney-General then went into a detailed explanation of the agreement and the bill. He emphasized that one provision provided for the Province re-entering the vacated fields on the termination of the war.

Other clauses provided for termination of the agreement by default. The Province may levy specific corporation taxes which become due and payable after Sept. 1 of the year in which the agreement terminates. If default terminates the agreement, the Province is empowered to re-enter all fields as soon as the necessary machinery is set up. In the matter of gasoline tax, the Dominion will pay the Province the difference in each year between the net amount collected by the Province in 1940-41 and the amount collected in the Province in the year. The net sum in that fiscal year was in excess of \$26,000,000.

"If the agreement ends in 1947, we can re-enter the fields in 1948, taxing the income earned in 1937," said Mr. Conant. "This is a suspension, not a repeal of Provincial taxation."

Traces Belief Back.

It had been said that a danger existed in connection with getting back into the fields of taxation, continued Mr. Conant. He traced that belief back to the days of the first Great War when Sir Thomas White, Dominion Finance Minister, introduced the first Dominion income tax in 1917. He quoted from an address by Sir Thomas in which the Minister said: "I have placed no time limit upon this taxation measure but I do suggest . . . that after the war is over this taxation measure should be deliberately reviewed."

Mr. Conant contrasted this view with the "clear, unequivocal" statements of Mr. Ilsley, Dominion Finance Minister, and of his predecessor, Mr. Ralston. Mr. Ilsley said that it was proposed, "as a temporary expedient for the duration of the war only, to ask the Provinces to vacate these two tax fields." He added: "I should like to emphasize that this is not an attempt to get the Provinces out of these tax fields permanently. The arrangement with the Provinces will be discontinued and the Dominion will cease making the payments which are contemplated in the proposal, and will agree to reduce its taxes in these two fields proportionately within one complete fiscal year after the termination of the war."

The Attorney-General, in reviewing the powers of the Dominion under the War Measures Act, said that many drastic regulations had been set up by the Federal authorities.

"No purpose would be served in discussing the legality or constitutionality of these regulations," he said. "We may assume, however,

that under the 'Peace, Order and Good Government' provision of the British North America Act and the War Measures Act most, if not all, of these regulations are valid. Undoubtedly the Dominion Parliament can impose taxes of any kind; can raise money by any mode or system. Government also probably has the right to ration gasoline or prevent the sale of gasoline entirely if they decide to do so; to prevent the sale of tires; to regulate the speed of motor vehicles or to prevent their operation for pleasure or private purposes. Such being the case, we really have little or no alternative.

Revenues Imperilled.

"Undoubtedly we could continue our corporation and income taxes," continued Mr. Conant. "The Dominion Government does not deny that. Undoubtedly, also, we can continue our gasoline tax. But the results in terms of revenue are very problematical. In short, our revenues from gasoline tax to the extent of over \$26,000,000 are seriously imperilled. No one can foretell to what extent our gasoline tax revenues may be reduced. It is probable, however, that the decrease will be substantial and will materially affect the financial position of the Province if they are not supplemented in the manner provided in the agreement. I again assert that in the final result we have little or no option but to accept and validate the agreement now before the House."

Leopold Macaulay, Acting Opposition Leader, said the fundamental objection to the bill was that it vested in a central authority the right to raise money and pay it out of taxation. The Dominion back to the Provinces in the form of a subsidy, thus making the Provinces wholly dependent on the central authority for their budgetary position.

"There is a fundamental belief that in the division of authority lies the strength of the Dominion," said Mr. Macaulay. "I think that the interests of the Dominion will be maintained best by a strong Ontario and a strong Quebec, just to mention two of the pillars of Confederation."

Mr. Macaulay said that all agreed Canada was facing one of the most critical years in her history. It spoke well for the morale of the Anglo-Saxon world that they were able to withstand this "cataract of disaster," though their heads were "bloody but unbowed," he declared. While emphasizing the desire of the Opposition to stop at nothing to help Canada beat Hitler, Mr. Macaulay said certain considerations would have to be kept in mind with regard to the measure before the House. He claimed that two-thirds of the recommendations in the Sirois Report, rejected by Ontario, were contained in the tax agreement.

"Let us be realistic," urged Mr. Macaulay. "The Premier, with all his faults, is a realist. He gets to the root of things far too quickly to suit some of our appeasers. This bill satisfied all the Provinces because it has brought them out. Canada is paying a price for this, and I think it is worth the price at the moment. The Attorney-General has gone over the various objections which may be raised. He has given the bill what I would say was qualified approval."

The acting Leader of the Opposition then developed his argument that the Provinces, by virtue of the bill, would be left wholly dependent on the central authority for their budgetary position. He predicted that this objection would become fully apparent when the war concluded and Governments started to "unscramble the omelet."

"The Dominion Government holds all the high cards, yes even down to the ten-spot," said Mr. Macaulay.

The acting Leader expressed doubt that the power of the Dominion under the War Measures Act, could extend to the amending of the constitution.

"Although in these preliminary remarks I give the bill my blessing, I wish to point out that I have not consulted my colleagues," said Mr. Macaulay.

Premier Hepburn, in the course of a brief rebuttal of Mr. Macaulay's claim that the tax agreement was similar to the Sirois Report recommendations, declared that the Dominion had dealt "rather fairly" with the Province regarding the gasoline tax refund proposal.

Both the Premier and Mr. Macaulay will speak at greater length today on the tax bill when the measure comes up for second reading.