

to the national treasury in the year just past. The excise tax of one cent per pound on sugar was worth 10 million dollars, and the sale of excise stamps netted nearly five millions. Other excise taxes which went over the million dollar mark were those on matches, on cigarette papers and tubes, and on toilet preparations. Excise taxes providing between a half-million and a million dollars were those levied on telephone calls, on automobiles and on rubber tires.

The final main division of the national revenue to be considered is the income tax. This tax, collected from individuals and corporations, brought to the federal coffers \$120,000,000 in the year 1937-38. Of this sum, 40 million dollars was collected from individuals, 70 million dollars from corporations and 10 million dollars by the special five per cent income tax. The special tax of five per cent is levied on the income of non-residents of Canada when the income is derived from Canadian sources.

The individual income tax varies from three per cent on the lowest income to 56 per cent on the highest, after very liberal tax exemptions have been provided for the lower income group. Less than one-eighth of the individual income tax payers pay more than 85 per cent of the income tax. The corporation in-

come tax is not graduated as it is in the United States, but is a flat rate of 15 per cent. Because of the fact that income tax collections begin on April 1 on incomes earned in the previous fiscal year, peak income tax revenues lag behind by one year peak revenues from customs and excise duties and taxes. This has a certain stabilizing effect on year-to-year total collections, which is undoubtedly desirable from the government's point of view.

Such, then, is the structure of Canada's national revenue in the year 1937-38. It is not to be thought that there is anything long-enduring in the statistical picture here presented. Not only does the tax structure itself vary from year to year, and, more markedly, from government to government, but changes in the economic condition of the country will induce changes in revenue, the tax system remaining the same. In other words, some taxes are more "elastic" as revenue producers than are others. It must be the continuing duty of every government to provide such services as the people demand, with an optimum distribution of the individual burden of taxation and a minimum dislocation of the economic life of the country. It is no simple matter.

## Prince Edward Island's Case Before the Rowell Commission

By ANTHONY TRABOULSEE

PRINCE EDWARD ISLAND'S submission to the Rowell Commission opens with a brief foreword. The foreword complains that Prince Edward Island is not receiving an adequate share of federal assistance, it alleges that the "national tariff policy" is working to the detriment of the Maritime Provinces, and that the Island Province, despite

the utmost fiscal frugality, is denying its citizens certain public services enjoyed by citizens of the other provinces, and stresses the necessity for some measure of readjustment of the financial relations and constitutional positions of the Dominion and provinces.

The first proposal is to capitalize the

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Mr. Traboulsee's contribution concludes the series of articles dealing with the Briefs of the Maritime Provinces submitted to the Rowell Commission. The Nova Scotian Brief was discussed by Professor G. E. Curtis in Vol. I, No. 3, p. 114; the New Brunswick Brief by F. X. Jennings, Vol. II, No. 1, p. 3.

existing provincial subsidies at 3% and to abolish entirely the system of unconditional subsidies. The capital amount arrived at is to be applied to the reduction of provincial debts. The reasons for this proposal are: the subsidy question has always roiled the waters of Canadian unity, and, secondly, the "fixed" or "unalterable" subsidies have been anything but fixed: the principle of fixed subsidies is unsound owing to fluctuations in the purchasing power of the dollar and the everchanging requirements of State needs—fiscal needs if you like.

In Prince Edward Island's case the proposed capitalization will yield a sum exceeding provincial debts by about 15 million dollars. This sum is to be placed to the Province's credit at Ottawa with interest to be paid thereon at the rate of 3%, and option to withdraw capital amounts if deemed necessary. If further federal assistance is required, the corollary of conditional subsidies is proposed. This proposal is based on the "theory of transferences", elaborated by Prof. Adarkar in his *The Principles and Problems of Federal Finances*. This theory seems to be a "Share the Wealth" theory, so emphatically repudiated by Messrs. Hepburn and Duplessis. It is further submitted that if any provincial indebtedness remains after capitalization of subsidies, the Federal Government is to assume the resulting residue, "conditioned on the Province's yielding up assets and revenues to the Dominion Government commensurate with the new burden." A Federal Loans Council, patterned after the Australian model, is recommended.

Under the heading "Effects of the National Policy", three questions are discussed, viz., the entry of the Province into Confederation, the "Lotteries" question, and the national tariff policy. The second of these questions is peculiar to Prince Edward Island and may be disposed of summarily in a few words. In 1767, the Province of P. E. I., then a part of Nova Scotia, was divided into 67 townships, and these "lots" were granted to absentee landlords: quit-

rents were imposed by the Crown on the grantees, but these were never, or rarely, paid. The tenants of the original grantees, however, "were obliged to take the lands at whatever rent the proprietors chose to demand from them." When the colony entered Confederation, it inherited this problem. And in order to buy out this landed gentry, it was granted a loan of \$800,000 by the Dominion Government. The Dominion Government is now asked to cancel this loan. With regard to entry into Confederation, the brief says that "Prince Edward Island was partly cajoled and partly forced into the Union".

Regarding the incidence of the national tariff policy, it is pointed out that the Province is under a double liability, that of having to sell in a competitive market, and to buy in a protected market. All the Provinces, with the exception of Quebec and Ontario make the same complaint. The present Minister of Labour is quoted at length from his brief to the Jones Commission in 1934.

The brief stresses Prince Edward Island's inability to keep abreast of educational needs—general, vocational and technical. The thesis of equal educational standards throughout the Dominion is laid down, and it is added that "in P. E. I., we are able to spend far less per pupil *per annum* than any other province", e.g. \$31.95 to British Columbia's \$74.03. It is accordingly recommended that "substantial Dominion subsidies definitely earmarked for education be granted on some basis of provincial needs".

The section dealing with financial arrangements with the Dominion rejects the finality of the White Commission. The Duncan Report is quoted to show that the White Commission was appointed to effect certain readjustments between the provinces and the Dominion. But the White Commission came to the conclusion that "the assessment in detail of each of the claims presented before us is manifestly impracticable". This, the brief under review alleges, is the very reason for the setting up of the White Commission.

The brief looks with favor on the

minority report of Chief Justice Mathieson of Prince Edward Island who accepted the thesis of fiscal needs as the yardstick of financial arrangements between the provinces and the Dominion. This thesis was ably expounded by Premier Macdonald of Nova Scotia in his submission to the Rowell Commission. The thesis involves (to my mind) two assumptions: (1) that no province should lag behind any other province in its obligations—both promotive and protective—to its citizens, such obligations being defined by the needs of modern living and standards. This I take is another way of expressing the “theory of transferences” of Prof. Adarkar mentioned earlier, that is to say the theory “that welfare is maximized generally by making through the agency of taxation and public expenditures real transfers of consumable resources from the rich to the poor”. A less academic person would call this a “Share the Wealth” program. That these services should be frugally administered. The first assumption is rejected by Ontario and Quebec, but the second is conceded to all the provinces. The test of fiscal needs is that amount of money necessary for the performance “on a moderate but efficient footing of the functions which fall to the provinces”.<sup>1</sup>

Then follows a sort of *pro forma* budget based on the fiscal needs theory. This kind of budget, it goes without saying, is a wishful budget in that the Province admits its inability to spend more money on new services, or to extend and improve present services, unless it receives assistance in the form of conditional subsidies from the Dominion fisc.

A few remarks are appended to the model budget: direct relief, old age pensions, administration pensions, the Provincial sanatorium, grants to hospitals, and public health services (involving in all \$222,250) are to be taken over by the Dominion Government. In regard to education, the brief remarks that if the Dominion Government is not willing to take over direct administra-

tion throughout Canada, then it should be willing to supplement the Provincial budget with a subsidy of \$193,000, being the difference between the amount estimated in the model budget and the amount at present spent on education by the Province.

The fisheries are not provided for in the model budget. Local conditions and problems—as distinguished from general Dominion jurisdiction over the fisheries—call for further aid from the Dominion Government for (a) relief and re-establishment of needy fishermen, (b) the training of fishermen, (c) and the appointment of provincial officers to direct marketing operations and the curing and processing of fish products. Nor does the model budget provide for construction of permanent highways, the Provincial Government, therefore, reserves the right to claim from the Dominion Government “further substantial contributions towards the construction of hard-surfaced...highways”.

The last section takes up further recommendations and proposals. It alludes to the Province’s attachment to the principle of provincial autonomy within the Union, but finds that social conditions have shown up the inadequacy of our present constitution in certain respects. As to which body should amend the B. N. A. Act to make it harmonize with present needs, the Province is indifferent, as long as the machinery set up for deciding upon such amendments makes ample provision for the protection of provincial rights and provincial viewpoints.

Further recommendations are then submitted: old age pensions, mothers’ allowances, a certain portion of public health services, such as communicable and preventable diseases, unemployment relief, labour legislation, all these burdens are to be borne by the Dominion. The Provincial Government is willing to give up its succession and income taxes to the Dominion on condition that it is “assured of a compensating source of revenue besides the additional revenues already outlined or being dictated by fiscal needs”.

1. *Submission By the Government of Nova Scotia to the Royal Commission on Dominion-Provincial Relations*, 1936, p. 111.

Prince Edward Island, in line with New Brunswick, Nova Scotia and some of the other provinces, asks for a clarification of certain of the rights of the provinces in imposing gasoline, sales and amusement taxes. The Province regrets divided responsibility between the Dominion and the provinces in agriculture and forestry matters. But since this is inevitable, it recommends fullest co-operation. It is also recommended that companies with Dominion scope and operations should be chartered by the Dominion Government, and companies with provincial scope and operation, by the Provincial Governments.

A rather long recommendation on the administration of justice comes at the tail-end of the brief which states that the principle of legislation by the Dominion and administration by the provinces seems to work well. But difficulties arise in the field of quasi-criminal offences, partly provincial and partly federal. The most commonly known of these are the Customs and Excise Acts of the Dominion, and the Highway Traffic, and Liquor Acts of the several provinces. The Criminal Code and the different provincial statutes designate several distinct prosecuting authorities, e.g., under the Criminal Code, and the Highway Acts, the Attorney-General, under the Customs and Excise Acts, the Commissioners of Customs and Excise, both acting under the authority of the Minister of National Revenues. While under the Liquor Laws, different authorities are designated by provincial legislation. All this results in confusion, and a recommendation is

made that where quasi-criminal acts are similar throughout Canada, legislation should be lodged in the Dominion, but the prosecuting authorities in all cases be the provincial attorneys-general. Similarly in respect of provincial legislation uniformity may be attained after this manner: "those portions of provincial enactments which are substantially applicable throughout Canada could be embodied in Dominion legislation, with reservations for provincial and municipal regulation." For example, in the matter of highway traffic, the general laws of speed, rights of way, equipment of vehicles, and public safety could be entrusted to the Dominion.

Having done with the submission of Prince Edward Island, and having read seven of the provincial briefs submitted to the Commission, the writer is struck with the idea that two contending principles emerge from the (in part) conflicting provincial submissions. These are what may be called the centrifugal and centripetal forces, or centralization versus decentralization. The constitutional and fiscal issues involved will hinge upon the resolution of these forces. How the Commission will resolve this conflict, how Parliament and the legislative assemblies, and how the man on the street and in the field will react, is another story. It is abundantly clear, however, that the Rowell Commission, not unlike Atlas, will have to bear on its learned shoulders a universe seething with "internal disharmonies" as Premier Hepburn of Ontario put it. The Commission's report will be waited for with interest, if not with hope.