

off a much larger proportion of the purchasing power in the hands of the public. This could not be done equitably by the imposition of more severe taxes on corporate and personal incomes while the provinces also leaned heavily on these revenue sources. The Dominion, therefore, offered each province an annual payment equal to *either* (a) the revenue it had obtained from personal income and corporation taxes during the fiscal year ended nearest Dec. 31, 1940, *or* (b) the cost of its net debt service for the same period, as compensation for vacating these tax fields for the duration of the War and a certain readjustment period thereafter. Alberta, British Columbia, Manitoba, Quebec and Ontario accepted compensation on the first basis while New Brunswick, Nova Scotia, Prince Edward Island and Saskatchewan found the net debt service option more favourable. This is the major provision of the Dominion-Provincial Taxation Agreement referred to above. The provinces also argued that the rationing of gasoline imposed by the Dominion would operate to reduce their revenues from motor-fuel taxation and, by a further provision of the same Act, the Dominion Government guaranteed provincial revenues from the source at the level of the amounts obtained for the provincial fiscal years ended nearest Dec. 31, 1940.

Provincial representations were also made to the effect that the Dominion restrictions on the production of alcohol for civilian use seriously threatened revenues from the sale of alcoholic beverages. During 1943 agreements were drawn up by which the Dominion guaranteed provincial revenues from this source at the levels of a basic period, June 30, 1941-June 30, 1942.

As a result of these agreements and pre-existing arrangements, approximately 58 p.c. of gross provincial revenue (including subventions or grants-in-aid) is now either guaranteed by, or received directly from, the Dominion Government; and approximately 33 p.c. or roughly \$134,000,000 was actually received from the Dominion during the provincial fiscal years ended nearest Dec. 31, 1942.

During the first three years of the War, provincial revenues (excluding Dominion grants-in-aid) increased by more than \$75,000,000. There were concurrent increases in the expenditures on services which had been starved during the depression period but these were roughly offset by a decline of almost \$30,000,000 in the net provincial cost of relief. Consequently, many of the provinces achieved an over-all surplus. Total direct provincial liabilities declined by more than \$21,000,000 in the fiscal years ended nearest Dec. 31, 1941, and by almost \$44,000,000 in the following year.

Subsection 1.—Provincial Revenues and Expenditures

Provincial Revenues.—The great increase in the functions of government during the present century forced the provinces to depend more and more upon revenue from direct taxation and the development of new sources of revenue so that the two revenue sources which had once sufficed to support almost the entire structure of provincial government, viz., Dominion subsidies and natural resources, declined in relative importance. To-day, by virtue of the war-time Dominion-Provincial Agreements described in the preceding section, a very large portion of provincial revenues again comes from the Dominion Government while a further large part is stabilized by Dominion guarantee.