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between the responsibilities of the national and the provincial (state) governments has tended over the decades to nullify the theory of separation.

The tenacity with which the provincial governments pressed their claims is, however, wholly understandable. If in every crisis the area of federal taxes expanded, with no reversion afterwards to the former position, the provinces would be left with few assured sources of revenue. The semblance of fiscal independence would be lost to them. Federal control of certain minor taxes was not necessary in order to implement a program of high employment. The yield of these taxes to the Dominion was, moreover, relatively small. The provincial governments argued, therefore, that cession would be a small price to pay for agreement on the larger program.

### CONCLUSION

During World War II the fiscal program of the federal government expanded enormously compared with that of the provincial and local governments. Federal tax collections in 1943 were five times as great as in 1937, while provincial and local collections remained nearly stationary (Table 6). The types of tax employed by the federal government also underwent a remarkable change. Whereas in 1938-39, 71.0 percent of federal revenue came from indirect taxes, by 1944-45 the figure had shrunk to 34.4 percent. Income taxation supplied 63.7 percent in the latter, and only 26.3 percent in the former year (Table 7).

TABLE 6

#### Tax Collections in Canada, 1937 and 1943

	1937 (millions of dollars)	1943	1937 (percentages)	1943	1937 (\$ per capita)	1943
Federal .....	449	2,437	48	84	41.00	206.40
Provincial .....	159	173	21	6	17.50	14.70
Local .....	266	293	31	10	26.40	24.90
Total .....	874	2,903	100	100	84.90	246.00

Conference, *Comparative Statistics of Public Finance*.

These figures alone do not indicate the full impact of the financial program of the federal government. By virtue of war-time powers, it had been able to centralize and integrate fiscal decisions, and the effectiveness of this program quickened the

thought that something of the sort should be done after the war. In 1945 the federal government announced "unequivocally its adoption of a high and stable level of employment and income, and thereby higher standards of living, as a major aim of Government policy".<sup>75</sup> But federal action would be more effective if important instruments of fiscal power, which in peacetime were in the hands of the provincial governments, could be placed under federal control, and if a plan could be worked out for coordinating provincial decisions concerning expenditures, revenues, and debt with those of the federal government. In essence, the aim of the federal government is to increase the flexibility of its action in pursuit of a policy of high employment. Assumption of responsibility for such a policy carries with it responsibility for establishing machinery that will translate decisions into action with reasonable promptness.

TABLE 7  
Distribution of Federal Taxation  
(in percentages)

	1938-39	1944-45
Direct Taxes		
Personal income .....	9.7	32.4
Corporation income .....	16.6	31.3
Death duties .....	...	.7
Others .....	2.7	1.2
Subtotals .....	29.0	65.6
Indirect Taxes		
Customs .....	22.8	4.8
Sales, excises, and miscellaneous .....	48.2	29.6
Subtotals .....	71.0	34.4
Totals .....	100.0	100.0

Conference, *Comparative Statistics of Public Finance; House of Commons Debates*, Daily Edition, June 27, 1946.

The federal program as originally presented had three major parts: social security, public investment, tax and subsidy revision. As a top estimate the added governmental cost of the full program may be reckoned at \$600 million for the federal government and \$200-300 million for the provincial governments.<sup>76</sup>

<sup>75</sup> *Employment and Income* (King's Printer, Ottawa, 1945), p. 23.

<sup>76</sup> These figures were suggested by Mr. Bracken, the leader of the opposition in the House of Commons (*House of Commons Debates*, Daily Edition, July 18, 1946, pp. 3660-1). This reckoning is speculative since at no stage of the negotiations were figures given on the amount of the proposed grants for public investment or on the cost of the expanded program of unemployment insurance.

The level of federal expenditure for a normal postwar year may be \$1,800 million and that of the provincial governments \$360 million. In such case full implementation of the program might increase federal expenditure one-third and provincial one-half. The added cost would constitute 7.3 percent of a gross national product of \$11 billion.

The scope of the program was, however, much reduced after the failure of the Conference. Expansion of federal responsibility for the unemployed employables, introduction of an over-all plan of social security and of the coordination of public investment were to be "held in abeyance". The federal government, under the limited agreements made in 1947, will for five years pay seven of the nine provinces annually about \$87.9 million, compared with \$39.4 million paid to them in 1945, as a "rental" for their rights in the fields of income and corporation taxes and succession duties.

The significance even of partial agreement should not be measured chiefly in terms of the direct effect on governmental revenue and expenditure. Federal control of the taxes specified, even within a limited area, is an important accretion to federal power. Within this area, it should minimize, even eliminate, multiple taxation, and it may permit effective increase or decrease of rates, exemptions, and collections according to a countercyclical plan. Here is an instance in which implementation of countercyclical policy in Canada is much more advanced than in the United States.<sup>77</sup>

<sup>77</sup> Federal control of income and death taxes in the United States has often been discussed, although attention has centered on issues of equity and long-run economic benefits rather than of countercyclical fiscal policy. And reformers usually stop short of the recommendation of complete centralization and propose instead state supplements to a uniform federal personal income tax, state adoption of the corporate net income tax with a uniform formula for apportioning interstate income, and extension of the crediting device with respect to death taxes. This failure to discuss complete centralization and its merits in terms of fiscal policy is surprising, the more so because recent emphasis has been on the superiority of variation in taxes as compared with variation in governmental spending for countercyclical purposes. If tax variation is superior as an instrument of countercyclical policy, then centralization of the income tax and death duties would put great powers in the hands of the policy makers. It may be, of course, that the reluctance of writers in the United States to discuss complete centralization stems from a feeling that the proposal is not practical politics (although the hypothetical nature of other of their speculations and recommendations makes this explanation implausible).

In implementing countercyclical policy Canada has other advantages. Its governmental system—federal as well as provincial—merges legislative and executive functions, thereby making it the more likely that policy can be both promptly determined and enacted into law. In the United States a program of compensatory spending would, in the first instance, be a matter for executive determination. Congressional consideration would come later, and in this process delay and modification are inevitable. In Canada such a program, after formulation by the Cabinet, usually could be carried through the parliament speedily and without major alteration. And the legislation is much less likely than in the United States to tie the hands of the executive by strict rules. Proposals of writers on fiscal policy that Congress (Parliament) give the executive the power to make temporary revisions in tax rates and spending are much more “practical” politics in Canada than in the United States.<sup>78</sup>

In Canada, moreover, the mechanism for intergovernmental determination and coordination of policy is better developed. In recent years Dominion-provincial conferences have met frequently. It would seem that regular meetings could be scheduled and that, through them, an opportunity for reaching decisions at the highest level would be provided. Sometimes, to be sure, the conferences have appeared to be divisive in their results because provincial premiers have used them as a sounding-board from which to air grievances. This sort of behavior is inevitable. And the proper conclusion to draw is simply that an outlet for grievances is desirable. Australia provides an instructive model. The so-called Premier's Conference meets frequently to consider a wide range of problems and to lay down broad principles of national policy even on matters that are constitutionally the responsibility of the states. A similar development seems much more likely in Canada than in the United States.

Yet the remarkable fact is that at lower official levels federal-state consultation in the United States has advanced further and been more successful than in Canada. In the United States, officials, both federal and state, concerned with the administra-

<sup>78</sup>R. A. Musgrave and others, *Public Finance and Full Employment* (Postwar Economic Studies, 3, Board of Governors of the Federal Reserve System, 1945), pp. 17 and 43.

tion of legislation on social security, public health, public roads, etc., meet regularly. The reason for their effective functioning appears to be the greater utilization of the conditional grant. So far these meetings have been devoted to administrative issues rather than to the formulation of policy. And no matter how important the former may be, they have only a secondary usefulness for implementing a national economic policy by fiscal measures.

This difference between Canada and the United States indicates, however, one weakness in the Canadian plan—a weakness that stems from the lag of Canada in the development of joint administration. In Canada, policy makers (including the members of the Royal Commission on Dominion-Provincial Relations) have been predisposed toward separating governmental functions. They have favored a precise division of responsibility with unified administration under a single authority. If responsibility could be divided, no other approach would have to be considered. But attempts at precise division face the danger that development may be pushed along two inconsistent lines. One, which leads to centralization, transfers important functions to the federal government; the other, which leads to decentralization, leaves important functions completely in the hands of the provincial governments, and bolsters their financial position by unconditional subsidies.

The fact is that, in a federal nation, some uniformity of governmental action is desirable concerning matters about which the constitutional right of each government to act separately is not at issue. One provincial government, for example, is interested in what another does with respect to forest fire protection, labor legislation, etc., and the federal government is interested in the actions of both. Major responsibility for many important governmental functions must be left in provincial hands, and the problem is how to attain a reasonable uniformity with a minimum of delay, compromise, and indecision. The best practical answer is often joint administration. Beyond a doubt this sometimes makes the reaching of decisions a protracted process. But it is illusory and defeatist to seek short cuts through centralization or separatism.

The relevance of these generalizations to the success of certain

features of the Canadian program can be illustrated by an example. In the United States by all odds the most important single outlet for a program of compensatory spending would be public roads. Federal aid to highways has been in existence for thirty years, and the Public Roads Administration has evolved an elaborate and effective mechanism for planning and execution. In Canada nothing of the sort exists. The federal government has, to be sure, made up its mind to use federal aid to stimulate and retard public investment. But translation of this into practice will be quite another matter because the machinery for federal-provincial cooperation is rudimentary.

The federal government in Canada has been impressed by the generalization of fiscal planners that governmental inaction is more dangerous than action and that nowadays there is an imperious necessity to do something. It believes that its actions have a great and distinctive influence upon individual and business incentives, that it can make investment and saving more or less attractive, and that it can affect the propensity to consume and the desire to work. The whole approach is, however, intended to assist the system of private enterprise to function more efficiently. Except in depression, government itself is not to expand its provision of jobs; rather is it to encourage business to provide jobs. While committed to compensatory policies against inflation and deflation, the Canadian government will also pursue basic policies designed to minimize the extent of either. A remarkable feature of the official pronouncements is their confident tone. They manifest no political escapism to justify doing nothing. Certain things are to be done, and no doubt is expressed that they are the right things.<sup>79</sup>

<sup>79</sup> The academic person surrounds his generalizations with qualifications both because of a desire to present a complete picture and to forestall future criticism. Once a policy has been adopted, the responsible government official neglects the qualifications because his job is to carry through the policy and because he is aware that no criticism will be diverted by the prior expression of doubts.