A STUDY OF THE REVENUE SYSTEM
OF THE
DOMINION OF CANADA.

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INTRODUCTION

From 1883 to 1914 Customs and Excise Duties constituted the entire income of the Dominion from taxation, and by far the greater part of all revenue receipts. In 1914 the Customs Tariff yielded $104,691,238, or 64.1% of the total; Excise Duties $21,452,037 or 13.1% of the total; Non-tax revenue $37,031,120 or 22.8% of the total. This made total receipts of $163,174,395.

New taxes levied to meet the cost of the Great War increased so rapidly that in 1922 their combined yield was greater than that from the old Customs and Excise. Their respective yields for 1927 are shown in the following table:

Consolidated Fund Receipts

Taxation -	Yield	% of Total
Customs Duties	141,968,678	35.6
Excise Duties	48,513,160	12.1
War Tax Revenue -		
Income Taxes including Business Profits and Corporation Taxes.	50,554,282	12.7
Excise Taxes, including Sales Tax, Tax on Cheques, Transportation Tax.	105,613,160	26.5
Non-Tax Revenue	52,046,504	13.1
Total Consolidated Fund Receipts	398,695,784	100.0

The combined new taxes here are shown to yield 39.2% of the total, the old pre-war taxes 47.9%. These facts are indicative of such far reaching changes in the system in recent years that an examination of its present efficiency seems not out of place.

The distinction, though, between war and pre-war taxes is not absolute for two reasons: (1) Alterations have been made in the rates of the old taxes as a consequence of conditions caused by the war; (2) Under the caption "War Tax Revenue" are included levies not dissimilar in nature to the pre-war taxes. To illustrate: Excise taxes and Excise duties each include a tax on cigars.

Any grouping of these taxes must be partially arbitrary, and in any case only relative to the purpose in hand. The above classification is arranged to draw attention to the comparative yields of the old pre-war taxes, and those new taxes necessitated by war expenditure. A more useful distinction for some purposes will be between taxes on expenditure and taxes on income. In the former class will fall all the customs and excise imposts, in the latter all taxes on the income of individuals and corporations. This brings us very near to the familiar distinction between direct and indirect taxes, the former being, in Mill's phrase, a tax taken from the person "who it is intended and desired should pay it"; the latter, a tax levied on one person "in the expectation and intention that he shall indemnify himself at the expense of another".

In the discussion that follows, we shall have recourse to each of the above classifications, but for the present we proceed to a brief examination of each of the major taxes in turn.

PART 1.

THE SOURCES OF FEDERAL REVENUE

Chapter 1.

Customs Duties

The Customs Tariff constitutes the backbone of the federal revenue system. It was provided in the British North America Act that the Dominion Parliament should possess the sole right of levying Customs Duties. And until recent years they, together with Excise Duties on a few commodities proved adequate in yield to meet the needs of the Dominion treasury. The following table, the data for which is taken from "The Annual Report of the Trade of Canada" shows the distribution of these duties on the various classes of commodities, and the rate of duty on the total imports both dutiable and free, for the year 1927:

	Duty Collected	Rate %
Agric. & Vegetable Products	40,560,706	19.0
Animals & Animal Products	4,219,143	7.9
Fibres, Textiles	30,236,121	16.5
Wood, Wood Products, & Paper	7,305,003	15.2
Iron, & its products	41,966,981	18.3
Non-ferrous metals	8,855,367	16.8
Non-metallic minerals	12,684,121	8.1
Chemical & Allied Products	3,332,820	10.5
Miscellaneous Commodities	8,351,852	13.4
Total Imports	158,966,369	15.4
Less returned duties	16,997,691	
Net Yield	141,968,678	13.8

As noted on page 1, this total constitutes 35.6% of the total income of the Dominion. Of the income from taxation, the percentage is 40.9. This percentage has been greatly reduced in recent years, not from any decrease in the yield of the Customs, but from a marked increase in the yield of other taxes. We take the liberty of reproducing from "The Science of Public Finance", by Professor Shirras, a table showing the relative importance of Customs duties in the budgets of a number of countries in 1914 and 1919 respectively:

	Percentage of Customs Revenue to Total Tax Revenue.	
	Pre-War	Post-War
GREAT BRITAIN	21.8	15.8
AUSTRALIA	76.3	34.9
CANADA	81.2	63.1
NEW ZEALAND	57.9	31.1
U. S. A.	43.6	10.0
FRANCE	15.9	10.1
ITALY	13.6	9.3
JAPAN	10.0	4.7

From this table it appears: (1) That the tendency to decreased relative importance of Customs Duties has been general but slower of operation in Canada than in the other countries; (2) That in Canada we have been and still are dependent for a greater proportion of our revenue from the Customs Tariff, than in other countries.

Chapter 2.

Excise Duties

COnsidering that over 12% of our total revenue is produced by these duties, the number of commodities from which it is raised seems small. In 1927 the distribution was as follows:

Spirits	$13,904,584
Malt Liquor	223,833
Malt	3,811,557
Tobacco	30,638,418
Cigars	536,845
Miscellaneous	24,676
TOTAL	49,139,913

Practically the entire amount is produced from spirituous liquors and tobaccos. The justification for this situation must be sought in the attempt to discourage their consumption. It is not because they are articles of universal consumption that are particularly appropriate subjects of taxation. In the excise duties of Canada, as in the case of a protective tariff, there are two antithetical purposes in view, - the raising of revenue, and the banning of the commodities taxed. Insofar as either end is attained the other is defeated. Such a policy has not been without its opponents in economic theory. Professor Bastable goes on record as saying, "Its (taxation's) definite and universally recognized function is the supply of adequate funds for the public services. To mix up with one very important object another different and perhaps incompatible one is to run the risk of failing in both".

Empirical evidence would lead me to suggest that the taxes under consideration fall far wide of their object in discouraging consumption. Rather, it seems to be the peculiar case of such commodities as spirits and tobacco that they will be had at any price, and the consumption of other articles, perhaps necessities, curtailed in order to make this possible. The only appreciable effect on the consumption of the particular articles taxed would seem to be the buying of inferior qualitites, and these often illegitimately. The harmful effect of this on the public health and morals may be greater than any good derived from the decrease in consumption resulting from the tax.

It would seem, then, that in one of its objects the success of the excise is very limited. But in the other object, viz., the production of revenue, there can be no doubt of its aptitude. Primarily, the grounds for questioning the propriety of the levy are the social effect of the discriminating treatment that it entails.

Chapter 3.

Excise Taxes

The distinction between Excise Duties and Excise Taxes here is that made in the Annual Report of the Department of National Revenue. The two are related, but the former includes the old pre-war Excise only; the latter, the new War-Excise only. Fundamentally it is something more than an extension of the underlying principle of its predecessor. For though it includes a tax on tobaccos, alcoholic beverages, matches, and playing cards, its major constituents are the Sales Tax and Stamp Tax. These are both quite general in their nature and have for their object mainly, if not solely, the raising of revenue, and not regulation of the consumption of the taxed articles. The table following gives a detail of the so-classed Excise Taxes with their yields for the year 1927:

Sales	$82,305,671
Stamps	9,325,276
Wines, Beer, etc.	5,344,133
Cigars, Matches	3,186,429
Playing Cards	286,022
Transportation	2,452,780
Automobiles	2,208,582
Not Classified	504,267
TOTAL	105,613,160

The Sales Tax calls for a few words of comment. It is an indirect tax intended by the government to be paid in the first instance only by the manufacturer, as its full title, "Consumption or Sales Tax", would suggest. That its object is achieved is evidenced by the practice of both manufacturers and wholesalers to list on invoices the amount of the Sales Tax as a separate charge along with the price of the article invoiced. It is applicable to domestic manufactures and importations alike, but not to goods sold for export. In general the classes of commodities to which the tax does not apply are the following:

1. Agricultural implements and materials to be used in their manufacture.
2. Farm produce.
3. Food stuffs.
4. Machinery and appliances to assist directly in the development of natural resources.
5. Goods bought for charitable purposes.

This list makes it seem that the object of the tax is the raising of as much revenue as possible with the least burden possible on transactions of the above kinds, which are exempted to avoid discouragement of them. That its object is attained is proven by the fact that in the year under consideration it produced approximately 24% of the total tax revenue.

Similar taxes exist in Germany and France. Professor G. F. Shirras is authority for stating that in 1924 the German tax was productive of 31.6% of the federal tax revenue, and the French tax in 1923 productive of 19.1% of their entire tax revenue.

Chapter 4.

Income Taxes

Since approximately 94% of the total money included in this class in the table on page one is produced by the personal income tax we shall concentrate our attention on it.

Per Capita Income Tax by Provinces 1927-28.

	Income tax yield ooo's omit'd	Population ooo's omitted	Income tax per capita $
P. E. Island) Nova Scotia)	616	630	.98
N. Brunswick	671	411	1.63
Quebec	19141	2604	7.35
Ontario	25602	3187	8.31
Manitoba	3213	647	4.97
Saskatchewan	818	836	.96
Alberta	1328	617	2.15
B. C.	5642	575	9.80
Yukon	24	3½	6.86
N. W. T.	----	9	----
Total	57956	9519	6.09

The above table is arranged to show the yield of this tax in the fiscal year 1928, by provinces. And with the use of the estimates of population as published in the "Canada Year Book" for the same year the per capita yield in each province is calculated. Since this is a direct tax, the burden of which in large part is borne by the person paying the tax in the first instance, the table may be taken to give a fairly accurate impression of the relative severity of this tax in different parts of the Dominion. The prairie provinces and the maritimes are the most fortunate in respect of this tax while British Columbia holds the position at the other extreme.

In point of yield the personal imcome tax is second only to the customs and excise. Though it is of comparatively recent origin in this country it appears to be here permanently. The increasing use of this tax is a characteristic of many revenue systems in recent years. The tendency, on the whole, is not to be discouraged for the tax on incomes conforms more closely than any other to the principle of "Ability to pay". Those in possession of the wealth of the country contribute on the basis of the income that it yields to the support of the legislative functions. It is difficult to see on what other basis equality of taxation can be gauged. True, Prof. Taussig argues that a man has no more right to pay for the services of the state according to his ability to pay than he has to pay for his loaf of bread on the same basis. But the plausibility of this argument is due to an erroneous conception of the nature and functions of the modern state. If the state is in essence only a joint stock company for the purpose of producing external defence, internal order, etc., then Professor Taussig's position is well taken. Each citizen should pay for these services on the same basis that he would any other commodity or service such as the loaf of bread. The fluctuations in price would be determined by demand and supply, and the limit of variation by the cost of production of the services. But if the functions of the state are to be broader, and money expended on humanitarian endeavour the expenses can not be met by those who directly reap the benefit; and Professor Taussig's test for determining who should in equity pay the cost, proves inadequate. Not benefit received but ability to pay must be the test of equality of taxation. And the income tax conforms most closely to this criterion.

Chapter 5.

Non-Tax Revenue.

The $52,046,504 under this head calls for little comment in a consideration of the system as a whole. Of this sum upwards of $29000,000 is the revenue from the Post Office which comes about $2,000,000 short of meeting the expenses of this service. About $8,500,000 is derived from interest on investments. The remaining $15,000,000 is composed of a number of minor items in the form of fines, fees, and licenses. A number of these would seem more properly classed as taxes. To instance one illustration: When the local grocer receives a five-minute call from the Government Weight's and Measure's Inspector only to be told that his scales are O. K., and charged seven or eight dollars he rightly feels that he has really paid a Business Tax of this amount and not a fee for any eight dollars worth of services actually performed by the Inspector.

But offsetting such cases as these there are those in this class, such as the Post Office above mentioned, where the charge made by the Government is insufficient to cover the cost of the service rendered. And when these are balanced, the one against the other, it is probable that neither the grocer nor any one else is very much the loser or gainer on the whole.

PART 2.

THE MERITS OF THE REVENUE SYSTEM

Thus far, this paper has been, in the main, descriptive. The object has been to make clear the nature and relative importance of the various taxes that constitute the revenue system, and to contrast the present situation with that of fifteen years ago. Such a survey gives rise to a number of problems which we now proceed to consider.

Chapter 1.

The Tax Burden, or The Revenue System from the Tax Payer's Standpoint.

One of the most striking features is the tremendous increase in the annual budget. The figures given on the first page show that since 1914 the yield of taxes has almost trebled. This leads us to wonder whether the taxpayer's burden has increased in like manner, and if not, to what extent it has increased. The following table has been compiled to aid in the answer of this question:

Year	Tax yield 000,000's omitted	Per Capita Taxation $	Per Capita Taxation in 1913 dollars.
1913	133	17.7	17.7
1914	126	16.4	15.9
1915	98	12.4	11.3
1916	125	15.5	11.7
1917	175	21.4	12.0
1918	197	23.6	11.9
1919	234	27.6	13.2
1920	294	34.0	14.0
1921	369	42.0	24.4
1922	320	35.9	23.6
1923	335	37.2	24.3
1924	342	37.3	24.1
1925	294	31.7	19.8
1926	328	34.9	22.4
1927	347	36.4	24.0

Since 1913 the population of Canada has been constantly on the increase. For our present purpose this means an increase in the number of persons among whom the burden of taxation was distributed. Hence, allowance has been made for this factor by finding the annual taxation per capita over the period under consideration. This was done by use of the estimates of population compiled by the Dominion Bureau of Statistics and published in the "Canada Year Book."

From this it appears that the increase from 1913-1927 is from 17.7 to 36.4 dollars or 105% in place of the total yield's increase of 160%.

The figures in the next column have been produced to show the effect of the reduction in the purchasing power of money. The taxpayer in 1927 when he paid $1.50 in taxes parted with no more actual purchasing power than he did in 1913 when he paid only $1.00 in taxes. Hence the annual per capita taxation in 1913-dollars has been computed by use of the Index Numbers of Wholesale Prices prepared by the Dominion Bureau of Statistics. The net result shown is that the increase was only from 17.7 to 24.0 dollars, or 35.6%.

Our finding thus far has been, then, that by taking account of increase in population and depreciation of the dollar the tax burden was only slightly more than one-third greater in 1927 than in 1913. Though the accuracy of these figures cannot be proclaimed as absolute, it seems reasonable to regard them as much less misleading than the crude figures of total tax revenue for the same years. It is encouraging to note too, that Mr. W. B. Hurd in an article published in the October-1928 issue of the "Journal of the Canadian Banker's Association" reaches a very similar conclusion. The period that he investigates is just one year later than the above viz., from 1914 to 1928. His finding is that having made allowance for increased population and the change in value of the dollar the tax burden in 1928 is 51% higher than in 1914.

The main reason for the discrepancy of 15.4% in the two results, other than minor details in the methods of calculation are two; (1) The tax yield in 1914 was 5.3% lower than in 1913; (2) In 1928 it was 5.2% higher than in 1927. The difference between the period chosen by Mr. Hurd and that used in my table above account, then, almost entirely for the small difference in our percentages.

There is yet a third factor to be considered as affecting the real burden of taxation and that is the per capita income or ability to pay. Obviously there would be less hardship felt in paying ten dollars tax on an income of two hundred dollars than on one of one hundred dollars. Hence if the annual per capita income in terms of a constant unit of purchasing power has increased from 1913 to 1927 the burden of taxation in the later year will be even nearer to that in the earlier year than above calculated. Unfortunately, there are no reliable estimates of the net national income in Canada for this period. So if allowance is to be made for the income factor, in Mr. Hurd's words, "It is necessary to resort to a makeshift." The makeshift to which he has recourse is the Weighed Index of the Physical Volume of Production prepared by Professor H. Michell of McMaster University. This cannot be regarded as a strictly accurate index of ability to pay, but the use of it for this purpose should give a result more nearly correct than the result that makes no allowance for the ability factor. His finding, as a result, is that the 1928 burden is again reduced, this time to be only 2% higher than in 1914.

Now, admitting as Mr. Hurd does that this final figure is only an approximation, it seems reasonable to conclude that the per capita or average real burden was not a great deal higher in 1927-1928 than in prewar years.

Note To form an opinion of the tendency in the year 1929 and the probable tendency in the year 1930 it may be well to take note of the budget estimates for the two years.

The estimated revenue from taxation for 1929 in the budget speech recently delivered shows an increase of 7.1% over 1928. This would seem to indicate that the tax load has been slightly heavier in the year just past than in the preceding year, though it would probably be small were account taken of counteracting forces.

The "Estimates" for the coming year, 1930, as presented to Parliament at the present session propose as increase in total expenditure of 1.6% over those for 1929. A corresponding increase in revenue will, of course, be anticipated.

Chapter 2.

Distribution of the Burden

or

The Revenue System from the Standpoint of the Relations between Different Classes of Taxpayers.

A second change in the revenue system during the period under consideration is the addition of new taxes as is obvious from a glance at the table on the first page. Who pays these new taxes? Everyone equally or nearly so? Do they fall on the same persons in nearly the same proportions as the old taxes?

Our contention in the preceding chapter may be granted, i.e., that the real per capita load of taxation is little more now than in pre-war times. This only means that the average burden is about the same. It does not mean that no one carries a heavier load of taxes than in 1913 or 1914, even though his circumstances, financial and personal, remain the same.

In pre-war years as we have previously noted, all tax revenue was produced by the Customs and Excise. This meant that all taxes were commodity taxes or taxes on expenditure. In order to pay any tax it was necessary to buy a taxed article. A taxpayer might earn $5000 in a year, but if he only spent $1000 he only paid tax on $1000, and in fact only on that part of it that was spent on taxed commodities.

Now all this is changed. In the first place, when he spends his $1000, there is much less chance than formerly of spending it on articles that are not taxed. For new imposts, especially the Sales Tax and Stamp Tax, have been levied on commodities that previously were exempt. In the second place, though he were not to spend a single dollar of his $5000, he would now pay some tax under the "Income War Tax Act". It is obvious from this that the distribution of the sacrifice entailed in the payment of taxes has been changed.

We proceed now to look more closely at the change, to get some idea of what class of taxpayer has benefited, and what class suffered. We shall then be in a position to judge of the respective merits of the old and the new tax system from the taxpayer's standpoint.

The pre-war taxes were commodity taxes levied in the main on articles of general consumption. The proposition that such a system weighs most heavily on the lower money incomes requires little proof. Commodity taxes mean taxes on expenditure. Now, though it is not invariably true that the higher a man's income is, the smaller the percentage of it spent, yet when comparing two classes of considerable difference of income, it is comparatively safe to infer that those in the higher-paid class will refrain from spending more, on the whole, than the lower-paid. To take an extreme case, suppose one class to be those working for the "minimum subsistence wage", and the other to be those on salaries of $5000 per year. Those in the latter class may spend two or three times as much as those in the former and yet not spend their entire income, whereas those in the former class must spend their entire earnings in order to subsist. Both classes have paid tax alike on their spendings only, except that the wealthier class may have paid a slightly higher tax on some of the articles that they bought. But to reach the higher incomes in this way, that is, to tax most heavily the articles on which only they will be spent, is a difficult task. Professor Pigou commenting on the possibility of it in his recently published book, "A Study in Public Finance", has this to say, "A large part of the income of the rich is spent , not on commodities but on services, e.g., foreign travel, of a sort that it is very difficult to hit by taxes. Moreover, the expenditure of the rich is scattered among a large number of different things, no great amount being directed to any one of them. To tax things of this sort involves very high administrative costs. Experience shows that 'the lucrative revenue-yielders are the staples consumed in great amounts, and consumed chiefly by the masses'. It is idle, therefore, to look in practice for a system of commodity taxes that shall be better than proportionate. Nor is this all. There is some risk that a system made up of commodity taxes will prove to be actually regressive. If food articles of large consumption are included, this is almost certain to happen. 'The man who possesses an income of £1000 a year does not, as a rule, drink ten times as much whiskey, tea, or beer, or smoke ten times as much tobacco as the man who possesses an income of £100 a year.' Again, if raw materials, a technically fairly easy thing to tax, are aimed at, there will be regression, because equal quantities of raw material are worked up in part (with more labour) into finer articles bought by the rich and in part into coarser articles bought by the poor". That the tax system of Great Britain actually is in part regressive is demonstrated by the table below prepared by "The Committee on Taxation and the National Debt". It gives their estimate of the total burden of taxation in percentages for an average married man with three children at various levels of earned income.

Income	% 1913-14	% 1925-26
$50	8.0	--
100	5.4	11.9
150	4.4	11.6
200	4.0	10.2
500	4.4	6.2
1000	5.2	11.0
2000	4.9	15.2
5000	6.7	23.2
10000	8.0	31.2

Now since this regression is to be attributed to commodity taxes, we would expect to find the Canadian system much more regressive than the British since, as the table given in Chapter 1, Part 1, shows, the percentage of commodity taxes in the total revenue yield is much higher in Canada than in Britain, though not as high now as in pre-war years.

It is beyond the means at my disposal to construct a similar schedule for Canadian incomes with any approach to accuracy. The computation of that portion of the tax that was levied directly on income would, of course, be a simple matter. But to ascertain the amount of commodity taxes at a given level of income, a prerequisite would be carefully constructed family budgets such as, to my knowledge, are not in existence. This would need to be followed by a laborious and painstaking examination of the Customs and Excise rates on the constituents of the varying budgets, in order to ascertain the proportion of expenditure taken in taxation in each case. We must abandon the thought, then, of constructing such a table for incomes in Canada. In place of this, we shall attempt to form an opinion of the tendency in this country from the above table by making a general comparison of the two revenue systems.

Consider first the scale of percentages in 1913-14. Note that the £50 and the £10000 incomes paid tax at the one rate of 8%, while those in intermediate positions were more fortunate. And this despite the fact that there was in existence at this time a graduated income tax. The 8% of the £10000 would in the main be paid in income tax; of the £50 it would be entirely paid in commodity taxes since incomes below £160 were exempted from income tax. This statement is substantiated by the fact that the percentages decrease as the incomes increase from £50 to £200 where the income tax begins to take effect. Then, presumably due to the graduation of the income tax, the percentages increase, though slowly relatively to income, until the high point of 8% is again reached for the £10000 income.

Now contrast this condition with that in Canada at the same time. Since there was here no direct tax on income, there would appear to be nothing to stop the downward trend of the percentages between the minimum and maximum incomes in the schedule. And in place of $50000 income paying 8% as in England, it would probably be paying in the neighborhood of 1% or 2%, perhaps less. In point of tax burden, or sacrifice on the part of the taxpayer, it would seem that in 1914 the lower incomes in Canada were in a very unfortunate position in comparison with the higher.

Now look at the figure for 1925-26 as representative of post-war finance. The £50 income is not considered, apparently because the depreciated value of the pound sterling has made this amount less than the minimum-of-subsistence income. For the same reason, i.e., the fall in the value of money, the same nominal income is not absolutely comparable in the two years, since an income of, say, £200 does not represent a standard of living as high in 1926 as in 1914. This is to say it is not possible to glance across the page and say that the burden on a £200 income in 1926 was $\frac{10.2}{4}$ or 2.55 times as heavy as in 1914. It is only the relative tax percentages in each period that the table is intended to convey.

Only a very general idea of the relation between the two years can be obtained from it.

The same condition holds here as in the former year. The percentage drops as the income rises, up to a point, then rises with the income. The downward trend is less rapid than before and would seem to be accounted for by new and increased commodity taxes. The upward trend is more rapid than before, probably due to the steeper graduation of the income tax, and surtax on higher incomes.

The percentage on the highest income given is now almost three times as great as on the lowest, whereas in the earlier year they were equal.

It is probable that with the introduction of a graduated income tax a similar change will have taken place in this country. But since the graduation is much less severe here it is very questionable whether the larger income pays anything like three times the percentage of the smaller. Large incomes in Canada now, as in pre-war years, are on the whole more favorably circumstanced in respect of taxation than in Great Britain.

This increase in the proportion of larger incomes taken in taxation is to be applauded if the minimum sacrifice principle is to have any place in regulating our revenue system. It is not possible to say just what the correct scale of percentages should be for different incomes since sacrifice is a subjective thing beyond the possibility of accurate measurement. It is, however, possible to detect the more glaring inequalities. For example: It could be safely said that in 1914 when a £50 and a £10000 income each paid the same fraction to the support of Government, that the system told unduly against the smaller. And in Canada the situation seemed even more unfair, since evidence points to the conclusion that the larger was an income the smaller was the fraction of it contributed in taxes.

The tendency in the period since 1914 has been to correct these inequalities. Whether the process has gone too far or not far enough is a problem too delicate to be decided by this investigation of the general trend.

Conclusion - Let us now put together the conclusions of this and the preceding chapter. There we argued that the per capita or average tax burden had increased only very slightly since pre-war years. And here we find that the distribution of the burden has altered considerably in favor of the smaller incomes. This makes the present position of the lower incomes appear even more favorable in comparison with 1913.

Hence it is very doubtful if their tax load is at all heavier now than fifteen years ago. In the case of higher incomes (and the higher the income, the more severe the tendency) the change in distribution of the burden has told against them, with the result that they are quite appreciably less favorably circumstanced than in 1914.

In point of number of persons there have doubtless been more gain than lose from the re-arrangement of distribution. Operators of small farms and manual laborers will probably have benefited most since theirs constitute the vast majority of smaller incomes.

It might be well to sound a warning, though, in conclusion lest the restricted application of the foregoing remarks be overlooked. They apply to federal taxation only and would have to be considerably modified to be applicable to total taxation, including provincial and municipal, where the increased taxation of land values complicates matters.

Chapter 3.

The Adequacy of the Revenue System in meeting the Requirements of the Government,

or

The Revenue System from the Standpoint of Expenditure.

Our conclusion in Part 2 , Chapter 1, to the effect that the present tax load is on the whole very little heavier than in 1913, calls for further comment. This state of affairs is not what we should expect when we consider that such a large proportion of our present expenditure is in payment of the expenses of the Great War. Payment of interest and repayment of principal of the War Debt in recent years constitute a new line of expenditure that did not exist in 1913. Consequently we should expect the result to be increased tax burden. If, as we concluded, this is not the case, then, curtailment of expenditure in some other direction has been necessary in order to make these new payments possible. This would lead us to suspect that some of the Dominion's responsibilities are being temporarily neglected in order to meet the costs of the War. From the side of revenue the question is this: Is the present revenue yield adequate both to pay the War costs and meet ordinary expenses?

Hence we offer the table below showing the relative importance of the chief items of expenditure in the pre-war and post-war periods. For the former the average of the two fiscal years 1912 and 1913 is taken; for the latter, the average of 1926 and 1927. The percentages are computed from the figures given in the "Canada Year Book".

	% of Grand Total Exp.	
	1912-1913	1926-1927
Consolidated Fund:-		
Interest on Debt	8.8	36.5
Management, etc.,	.3	.3
Pensions	.2	10.5
Public Works	8.4	3.4
Repayment of Debt	9.1	9.7
Provincial Subsidies	8.3	3.5
Post Office	7.1	8.6
Non-enumerated	32.5	17.2
Total Consolidated Fund Exp.	74.7	89.7
Capital Expense:-		
Railways	15.3	.4
Canals	1.7	3.6
Public Works, other,	3.6	1.8
Total Capital Expense	20.6	5.8
Other Expense:-	4.7	4.5
Grand Total Expenditure	100.0	100.0

Those items that have assumed tremendously increased proportions are interest on debt and pensions. Were it not that the years 1912 and 1913 were unusual in respect of repayment of debt this item would show a much greater increase. In each of these years the debt of the Dominion was reduced. This was only the second time since Confederation that a reduction had been made in two consecutive years.

The projects that have suffered decrease in importance are current expenditures on Public Works, Provincial Subsidies, and Capital Expenditure. There is, too as the "Non-enumerated" entry shows a number of minor services that have evidently been reduced in proportion.

Consider first the increases. Any attempt to pass judgment on the propriety of paying so much more interest on debt is out of place. The Government is under contract to meet this obligation, and if it did not, the accumulation of debt would in a few years endanger the country's solvency. Any reduction in this payment must be accomplished not by failure to pay interest but by "conversion" of the loans into lower-interest bearing liabilities. And this is a matter to be accomplished by the Finance Minister in close touch with the money markets of the world, taking advantage of favorable opportunities as they arise. On the whole, we must accept interest on debt as a first charge on revenue and spend our criticism in other directions.

The repayment of the principal of the funded debt is only slightly more debatable. Every year since 1924 the debt has been reduced. The average annual reduction for the five years has been over thirty-one million dollars. At this rate the entire debt would be wiped out in seventy-eight years. It is beyond our present scope to discuss in detail the adequacy of the provision thus made for repayment. At the Dominion-Provincial Conference of 1927 we find Premier Brownlee of Alberta expressing the opinion that "the Dominion was retiring it's national debt at a rate not necessary .....much quicker than any other country with the exception of the United States." There is no specific term of years that can be arbitrarily stated bestfor the purpose. The proper term for any country at a given time depends on the particular conditions existent in that country. On the one side it will depend on the amount of revenue available; on the other, it will depend on the urgency of the Government's other expenditures. We need onky note that it seems a reasonable pace that is being set, and that the Government Financiers can not be very severely criticised for instituting the policy of making regular reductions.

The pension system in its practical working is not above reproof, but the expenditure of large sums annually for the support of disabled soldiers and their dependents seems essential.

In regard to these three increased expenses, then, we shall simply accept the general situation,-large increases have been necessitated by the war. This suffices for our present purpose. Whether the wisest provision is being made in each case, we can not attempt to decide.

Turn now to payments that have depreciated in importance. It is possible in a period when rigid economy and carefully limited expenditure are necessary, that certain Public Works projects may be postponed without any serious loss or inconvenience. Even in normal times, in connection with any new proposal of importance there are always various shades of opinion. Witness the prolonged controversy over the Hudson Bay Railroad. Financial were not the only considerations. The St. Lawrence Waterways project might also be cited. In times of financial stress expenditure on new projects of this nature can be reduced to a minimum; but just how long they can be maintained there without serious harm is a disputable point in each individual case. For this reason it is impossible to pass judgment on the present provision for Public Works as a whole, though it seems reasonable to expect that the present situation can not continue indefinitely. For expenditure on Capital Account holds now only one-quarter the importance that it did in 1912-13; and current expenditure for Public Works retains less than one-half its former importance.

The Subsidies to the provinces we saw to be the other considerable item that had depreciated most in importance. The justice of this would seem to depend on whether the Subsidies are fulfilling their function as well as formerly in supplying the provinces with funds. In order to determine whether they are we will note the place of these payments in provincial revenue, taking the case of Manitoba as representative. In 1913 the Subsidy constituted 29% of the total revenue of the province, in 1926 only 17%. It provides only a little more than one-half its former proportion. This is not because it has been decreased in nominal dollars. It has, in fact, been increased some, but has not kept pace with the growing requirements of the province. The difficulty would seem to be this: A flat grant that varies only with population can not maintain a constant proportion with a sum (total provincial expenditure) that varies from several causes, of which population is only one. One of the chief of these is variation in the value of the dollar, the medium in which the payment is calculated. On this account there should now be one and a half dollars paid for every dollar in 1913. Another cause is the changing and increasing functions of the provincial bodies such as Public Health Service, Education, Old Age Pensions, and the building of motor high ways. If the Subsidy System is to remain in use and be to any degree satisfactory, some provision must be made for these fluctuations. But our immediate concern is notation of the fact that the lessened burden of provincial subsidies on the Dominion is unfair to the provinces. Of the several changes in importance of different Federal expenditures since 1913, this last seems most open to criticism.

There are two ways in which it would be possible to grant larger sums to the provinces in subsidies: (1) By directing part of the monies spent in other directions, say in retirement of debt, to the increase of subsidies; (2) By increasing Dominion taxation, if all the expenditures now being made are felt to be strictly essential. Our investigation has not been sufficiently far reaching to demonstrate which course would be preferable. But it does show that either course is possible. For, to double the present amount of the subsidies in all the provinces (which is more than would be required) would only mean a reduction of one-third in the amount applied to retirement of debt; or, if accomplished by increased taxation, would only mean an increased tax burden of 3.5%.

Summary- In Part 2, Chapter 1, it was demonstrated that the present tax burden is only slightly higher than before the war. Yet we are now contributing annually vast sums in payment of causes directly attributable to the war. This war expenditure, since it is not being met by increased taxation must be being met by retrenchment and economy, entailing the temporary neglect of certain other services. The two major services suffering most proved on examination to be Public Works including railways, and Provincial Subsidies. The wisdom of such curtailment of expenditure on the former is a problem that has to be settled separately in the case of each individual project. But inadequate provision of subsidies is an injustice to the provinces on account of their greatly increased requirements, and could be readily remedied either by increased Dominion levies, or reductions in present Dominion expenditures.

Chapter 4.

The Revenue System from the Standpoint of Competing Tax Authorities.

In Chapters 1 and 2, of Part 2, we considered our changed revenue system as it affects the taxpayer. But it is not only he that has felt the change. There are, too, the provincial tax authorities competing, as it were, with the Dominion in the attempt to "squeeze" money out of the taxpayer. And since there is a "limit of squeezability", to use the phrase of Professor Shirras, it may be that what is the gain of one jurisdiction by way of a new source of revenue, is the loss of another. The Federal Government, we found, had introduced new taxes that tended to give their system a better balance, when viewed from the side of the taxpayer. But what of the change as it effects the provincial finances? It will not be possible to examine the case of each province separately, so we shall confine our investigation to the province of Manitoba. What holds here will, in a general way, also be true of the other provinces.

We shall look first at the change that has taken place in provincial finance in the period under consideration. The following table shows the revenue of the province of Manitoba for the fiscal years 1913 and 1927 respectively, as presented in the "Public Accounts" of the province for these years.

Source	Yield 1913 in M	Yield 1927 in M
Dominion of Canada	1788	1804
Dept. of Att'y. General -		
Fines and Fees	424	516
Liquor	162	727
Dept. of Agriculture -	50	95
" " Education -	30	190
Legislation -	26	5
Dept. of Prov. Sec'y.-	80	47
Provincial Lands -	324	27
Dept. of Public Works-	302	197
" " Prov. Treas.-		
Interest	140	1165
Succession Duties	268	757
Corporation Tax	143	
Railway Tax	205	
Insurance Act Fees	33	67
Miscellaneous	59	35
Dept. of Railway Comm. -		54
" " Municipal " -		
Auto Licenses	35	713
Municipal Levy		1449
Corporation Tax		482
Railway Tax		621
Amusements Tax		458
Gasoline Tax		446
Income Tax		561
Miscellaneous		60
Telephones & Telegraphs	1814	879
Dept. of Public Welfare		238
TOTAL	5788	11593

There has been an increase of 100.3% in total revenue in this period. This is considerable, but comes far short of the Federal increase noted in Chapter 1, of Part 2, of 160%. We recall again that even this large apparent increase in the case of the Dominion, represented only a very small increase in real per capita burden. We should expect, then, that this proportionately smaller increase in the province would not be sufficient to keep the average tax burden as high as in 1913. Let us make allowance for change in population and depreciation of the dollar in the case of the province, as we did in Chapter 1., in the case of the Dominion.

Year	Total Revenue In M	Per Capita Revenue in Dollars	Per Capita Revenue in 1913 Dollars
1911	4454	9.7	10.2
1916	5898	10.6	8.0
1921	9359	15.3	8.9
1922	8382	13.6	8.9
1923	10617	17.1	11.2
1924	10455	16.7	10.8
1926	10432	16.3	10.5
1927	11593	17.9	11.7

The census year, 1911, has been used as the basal year, there being no reliable estimate of population for 1913, at which time it was rapidly on the increase. Our finding is that per capita taxation in terms of a constant unit of purchasing power has only increased from 10.2 to 11.7 dollars between 1911 and 1927, an increase of 14.7%. In the case of federal taxation, we found it to have increased 35.6%, using the same method of calculation.

By making allowance for the third factor, viz., change in ability to pay, the real burden of the average taxpayer would be shown to be less now than in pre-war years.

The conclusion to which this evidence points is this;- Neither total revenue nor the real burden of the average taxpayer has increased, in provincial finance, in as high a ratio as in federal. Why, then, should the province in post-war years be having so much more difficulty in raising sufficient revenue to meet its demands than is the Dominion? It is common knowledge that the financial administration of the province has been the foremost problem of the Manitoba legislature for some years. Various new taxes have been tried. Some it has been necessary to abandon, such as the Grain Futures Tax; others to modify, such as the Gasoline Tax. But the first table in this chapter shows the presence of several new taxes, e.g., Amusement Tax, Income Tax, Supplementary Revenue Tax. Yet despite these, the legislature finds it difficult to meet current obligations, without making any considerable outlay in the form of Capital Expenditure for such projects as a new university.

Why this difficulty? Our investigation above has shown that it is not in disproportionately heavy demands on the provincial treasury that the difficulty lies. Provincial expenditure has come considerably short of increasing in the ratio of Dominion.

(It did, in fact, increase somewhat more rapidly in the years 1913 to 1923 than the revenue percentages in the table above would suggest. For in these years, with one exception, expenditure was higher than revenue. But in 1911 and 1927, the years we are contrasting, revenue balanced expenditure, and approximately the same percentages would hold for the one as for the other.)

The difficulty, then, must be on the revenue side. It is here that we proceed to look for it, remembering that the same difficulty has not been experienced by the Dominion. Thus by noting the essential difference of the two systems, we may find the weakness of the provincial.

Consider first the pre-war period. The table given above shows the income of the province in 1913 to be derived, in the main, from the Dominion Subsidy and a large number of fees in each Department. Succession Duties, Railway Tax, and Corporation Tax, are the only taxes, and their yield is but 10.5% of the total. In the case of the Dominion we recall that 77.2% of the total income was produced by Customs and Excise Duties. Two revenue systems could not easily be more unlike. Taxes, two indirect taxes, provided the latter with more than three-fourths of its entire income; the former received only one-tenth of its revenue from taxation, and this from three direct taxes.

Now, what happened following 1913 when expenses began to increase due to increased population, depreciated value of money, and war costs? Prices rose. So did the yield of the Dominion's commodity taxes. It is difficult to conceive of a tax that could be more self-adjusting for changes in population and prices than an ad valorem tax on articles of general consumption. And such a tax is the Canadian Customs. With increased consumption, revenue rises; with increased prices, it rises also. But expenditure was rising from still other causes than these two, mainly due to new and additional war expenses. Accordingly arrangements were made for an Income Tax, Sales Tax, Stamp Tax, and several others of lesser importance. These met the increased meeds, and all was well with Dominion finance again.

Meanwhile, what was happening in the provincial realm? Expenditures here, too, were rising rapidly for the same reasons as in Dominion finance. But what of revenue? It showed no tendency to rise appreciably of its own accord as did the Dominion's self-adjusting Customs Duties. The Dominion subsidy and various fees, the major sources of revenue, increased slightly with increased population, but showed no tendency to rise with the more important cause of added expenditure, viz., depreciated dollars.

The subsidy and fees were flat sums in dollars, and remained very nearly constant quantities. Something, then, had to be done to make income meet expenses. So, we find the provincial financiers casting about for a remedy. But with what result? The Dominion-Provincial Conference of 1918, seeking an increase in the subsidy, was unsuccessful. The only alternative, after making such increases in their three taxes and various fees as seemed expedient, was the introduction of new taxes. But what taxes could and should they introduce? Customs and Excise, the most lucrative revenue yielders of the Dominion, were, according to the British North America Act, beyond their reach. The subsidy had long since displaced these in the provincial revenue system. The brightest hope that was not "ultra vires" seemed to be the personal income tax. But here the Dominion had preceded them. In short, their hands were tied in respect of finding an equitable producer; and the Federal Parliament, with the aid of the Constitution, it was that had tied them. The familiar result with the province was the introduction of a considerable number of minor taxes,- Amusements Tax, Gasoline Tax, Supplementary Revenue Tax, and a duplicate Income Tax. But since we are only considering the provincial situation in its relation to the Dominion, we need not go into details.

Our aim at the outset of this chapter was to ascertain the adequacy of the Federal system from the standpoint of the provincial legislatures as competing tax authorities. Our examination points to the conslusion that it is more than adequate. It makes use of all the best sources of revenue, and fails to recompense the provinces adequately in the form of subsidies. In order to raise sufficient funds, the province of Manitoba is forced into duplicating one of them, viz., the tax on personal incomes. This is, in consideration of the costs of administration, from the standpoint of economy, an absurb situation,- "a striking example of the indefensible public waste which results from lack of co-operation between the Dominion and Provinces".

CONCLUSION

From four angles we have viewed the changes that have been made in the federal revenue system during the past fifteen years. From the side of the average taxpayer, the present burden proved to be much less severe than is generally thought, only slightly more than in 1913. This is only true, though, of the taxpayer representing intermediate or average income. For those with larger incomes, the load is very much heavier; for those with smaller, it is only very little, if any heavier.

The money raised is being spent in different directions. This is directly attributable to expenses that are the result of the Great War. The result is apparent neglect of Public Works projects, and obvious neglect of subsidy payments to the provincial legislatures. This latter constitutes the grievance of the province concerning Dominion expenditure; but it is, in the last analysis, the result of the comprehensiveness of the federal revenue system, which does not leave adequate sources at the disposal of the provinces.

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