

Saskatchewan

ECONOMIC
REVIEW

The New Tax Rental Agreement

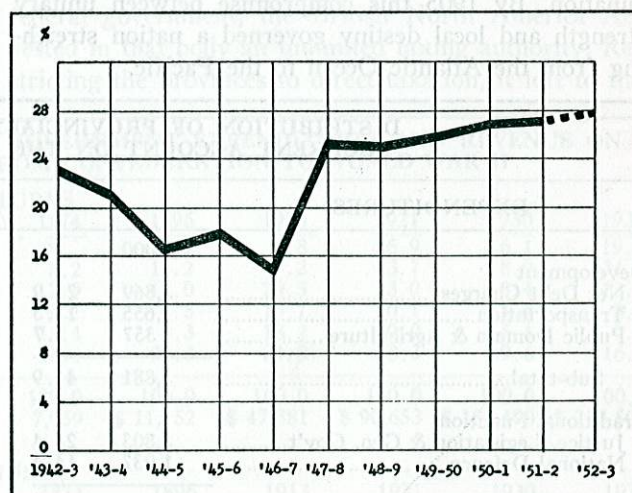
On April 30 of the present year, the Legislature of Saskatchewan enacted Bill 90, described as "an Act to authorize the Government of Saskatchewan to enter into a Taxation agreement with the Government of Canada". The contemplated agreement provides that the province will refrain from exercising its constitutional prerogative of collecting certain valuable taxes from its citizens, and in return the federal government stands prepared to pay an annual rental to the province for the privilege of being the sole occupant of these tax fields. The amount of the rental, negotiated during the preceding winter, is determined by a formula so constructed as to reflect annual changes in population and national income.

Described in such bald terms, this arrangement immediately brings to mind the ancient practice of "revenue farming" by means of which states in the past vested in private persons or institutions the function of tax-gathering in exchange for an immediate payment of cash into the public coffers. In actuality, its conception is very much a product of a modern and complex federal state. It represents a tentative and pragmatic solution to some of the fiscal problems of a country that lies sprawled over half a continent, beset by constitutional growing pains and a diversity of regional interests. An examination of its origins, in fact, lays bare the very fabric of the Canadian economy and illustrates the problems, both national and provincial, that have been engendered by more than half a century of growth.

The present five-year agreement, when signed, will be the third of its kind, the first one having extended from 1942 to 1947, and the second from 1947 to 1952. Under its terms the annual payments to Saskatche-

wan, which at first were of no great size, grew rapidly in the post-war period, reaching a maximum in 1951-52 of over \$18 million. When this amount is compared to the \$7 or \$8 million that the province might now be reaping from the relinquished tax fields, the advantage gained seems too obvious for comment. Income from this source now comprises over 26 percent of the funds used for all provincial non-self-liquidating expenditures, and is the largest single revenue item in the provincial budget.

TAX RENTAL RECEIPTS AS A PERCENTAGE OF
NON-SELF-LIQUIDATING EXPENDITURES



Why then is the federal government ostensibly paying so much for so little? The answer lies in the three objectives which the agreement sets forth: (a) to establish a more equitable system of taxation

throughout Canada by reducing duplication of direct taxation and of machinery for the collection of direct taxes; (b) to give a greater measure of stability to the provinces in order to enable them more adequately to carry out their responsibilities; (c) to enable Canada, with the co-operation of provincial governments, to carry out fiscal and other national policies intended to maintain high levels of employment and production. It is apparent, therefore, that the Tax Rental Agreement cannot be assessed simply by comparing rent received with area vacated. Nor is it sufficient to ask if it is adequate to meet its stated objectives. It is equally important to know if the objectives themselves are adequate to solve the problems out of which they have emerged.

THE DIVISION OF RESPONSIBILITIES

Eighty-five years ago, in 1867, "a band of scattered homes and colonies" in the eastern half of what is now Canada merged to become a new nation. Separated widely by expanses of water, rock, and forest, and even more widely by cultural and language differences, the colonies agreed to adopt a federal form of union. Such projects as national defence, inter-colonial transportation, and the opening of the western frontier were to be undertaken by a strong central government. To the provincial legislatures went the responsibility of guarding language and cultural patterns, and of exercising the right of local self-determination. By 1905 this compromise between unitary strength and local destiny governed a nation stretching from the Atlantic Ocean to the Pacific.

The essence of the federal union, which was the division of legislative powers between the central government and the member provinces, was embodied in the British North America Act of 1867. Under its terms, the federal government was responsible for the "peace, order and good government of Canada" in all matters except those expressly reserved to the provinces. The reservations included control over public lands, education, hospitals, asylums, charitable institutions, property and civil rights in the province, and "generally, all matters of a merely local or private nature in the province". Inter-provincial and international transportation and communication were specifically excepted from provincial control, and as examples of federal responsibilities the Act cited such matters as banking, currency, and regulation of trade and commerce.

The division of legislative jurisdiction was conceived in an era of rural self-sufficiency. The family farm produced its own food, clothing and household goods, and provided a haven for the ill and unfortunate. Local personalized charities took care of the destitute, and the open frontier beckoned and absorbed the unemployed. The young farm lad mastered his three R's as quickly as possible in the little red school-house and turned early to ploughing the land.

Though the new technology based on steam and steel was already foreshadowing an industrial society, the nation-builders were not oracles. No one then foresaw the growth of the factory system, the specialized market economy, or the thousands of unemployed to be engulfed in world depression. As a result, the B.N.A. Act makes no mention of unemployment in-

DISTRIBUTION OF PROVINCIAL† REVENUE AND EXPENDITURE ON CURRENT ACCOUNT ON THE EVE OF CONFEDERATION, 1865-66

EXPENDITURES		REVENUES	
	\$000 %		\$000 %
Development		Taxes	
Net Debt Charges.....	3,869 28.9	Customs.....	9,591 69.6
Transportation.....	1,655 12.3	Excise.....	1,895 13.7
Public Domain & Agriculture.....	357 2.7	Other.....	117 .8
Sub-total.....	5,881 43.9	Sub-total.....	11,603 84.1
Traditional Functions		Licences, Permits, Fees, etc.....	297 2.2
Justice, Legislation & Gen. Gov't.....	3,803 28.4	Public Domain.....	1,140 8.3
National Defence.....	1,937 14.4	Sale of Commodities & Other.....	686 5.0
Sub-total.....	5,740 42.8	All Other.....	60 .4
Welfare & Education		Sub-total.....	2,183 15.9
Public Welfare.....	485 3.6	Total.....	13,786 100.0
Education.....	855 6.4		
Sub-total.....	1,340 10.0		
Miscellaneous.....	444 3.3		
Total.....	13,405 100.0		

†—The Provinces at that time were known as Canada, Nova Scotia, and New Brunswick.

surance, of anti-cyclical investment programs, of old age pensions and housing schemes, of medical and hospital insurance or of unemployment relief.

It might seem clear that it was the intention of the founders of Confederation that all unspecified matters were in future to reside with the provinces if they were of a local and private nature, and with the Government of Canada if they were of common interest and national in character. But the courts held that it was their function to interpret not the intentions but the words of the constitution. In so doing they attached great weight to the vague words "property and civil rights in the province" included in the specified provincial matters. In a series of judgments from 1896 on, they indicated that no federal law was valid that affected property and civil rights, even if it were necessary to the peace, order, and good government of Canada, and even if its subject matter was not expressly reserved to the provinces. Thus, in 1937 they invalidated a contributory unemployment and social insurance act on the grounds that it interfered with the contractual rights of employers and employees.

While the courts were limiting the central government's jurisdiction to those subjects specifically enumerated in the B.N.A. Act as federal matters, Canadians themselves were of several minds as to how the new problems were to be met. Those provinces who enjoyed geographic and historic advantages wanted no interference from the senior government in the exercise of their "provincial rights". The federal government itself showed little inclination to accept new responsibilities, and to the provinces most vulnerable to the impact of the changing society it seemed that

the constitutional impasse was welcomed as an excuse for inaction in discharging duties that obviously only the federal government was fitted to perform.

In this controversial and indecisive atmosphere new burdens accumulated through the years on the doorsteps of the provinces. Where, in 1867, some 10 per cent of all current provincial expenditures had been devoted to public welfare and education, seventy years later these functions absorbed 46 per cent. The provinces became responsible for highway networks, hydro and steam power systems, and the development of new industrial areas. They had entered Confederation relieved of their debts by the federal government. In 1937 the carrying costs alone of the debt of all provincial governments constituted 20 per cent of current expenditures.

DIVISION OF REVENUES

In apportioning revenue sources, the theme of Confederation was "to each according to need". The federal government was to assume all provincial debts and the principal spending functions of the predictable future. As the municipal systems matured, they were expected to relieve the provinces still further of their relatively light responsibilities for welfare and education. It appeared that little would be left for the provinces to do, beyond their traditional functions of administering justice and keeping internal order among their citizens.

Anticipating a major and expanding role for the federal government, the British North America Act vested in that body an unlimited taxing authority. Restricting the provinces to direct taxation, it left to the

PERCENTAGE DISTRIBUTION OF TOTAL PROVINCIAL GOVERNMENT EXPENDITURES AND REVENUE ON CURRENT ACCOUNT FOR SELECTED YEARS FROM CONFEDERATION TO WORLD WAR II

	EXPENDITURES					
	1874	1896	1913	1921	1930	1937
Net Debt Charges.....	13.7	4.8	15.9	16.1	19.7	19.7
Public Welfare.....	8.2	13.2	9.2	13.7	18.9	34.0
Education.....	17.9	18.0	20.3	23.0	18.4	12.4
Agriculture and Public Domain.....	9.1	8.5	15.7	10.1	11.6	8.0
Transportation.....	15.4	8.3	18.2	9.0	15.4	9.7
Justice, Legislation, General Government and Miscellaneous.....	49.4	38.3	31.8	28.3	19.6	16.2
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
Total (thousands of dollars).....	\$ 7,959	\$ 11,152	\$ 47,381	\$ 90,653	\$ 183,400	\$ 258,500
	REVENUE					
	1874	1896	1913	1921	1930	1937
Statutory Federal Subsidies.....	57.6	43.1	28.6	13.1	8.2	8.7
Public Domain.....	21.2	28.1	24.6	16.4	9.8	8.6
Licences, Permits, Fees, Fines and Penalties†.....	9.8	17.6	14.9	9.2	5.7	3.6
Income, Corporation and Succession Duty Taxes.....	.....	6.0	16.1	23.6	23.8	33.4
Gasoline Tax and Motor Vehicle Licences.....	.....	.....	1.0	9.3	25.0	26.5
Liquor Control.....	.....	.....	5.0	8.7	17.8	12.3
Others.....	11.4	5.2	9.8	19.7	9.7	6.9
Total.....	100.0	100.0	100.0	100.0	100.0	100.0
Total (thousands of dollars).....	\$ 6,665	\$ 9,972	\$ 44,935	\$ 90,400	\$ 173,823	\$ 244,474

†—Excludes Motor Vehicles Licences.

central government the sole right to collect the lucrative customs and excise taxes which had constituted four-fifths of the total provincial revenue prior to Confederation. In return each province was granted an annual constitutional subsidy based largely upon population but otherwise fixed, it was presumed, for all time. Together with sales, licences and permit fees from public lands, these funds were expected to provide amply for the dwindling functions of the provinces.

Neither federal nor provincial governments were then interested in direct taxation. With a scattered and rural population the colonies had not yet developed machinery for collection of income taxes, nor concentrations of wealth from which to collect them, nor were the politicians of the day prepared to adopt what was then a radical and unpopular means of financing government services. But the new industrial age, which ushered in expanding responsibilities for governments, also brought expanding corporate and personal wealth, and this soon became the hunting ground of governments at all levels.

The courts had ruled that the constitution bequeathed to the provinces the major new social and financial responsibilities. In their search for new revenues the provinces turned to their other constitutional endowment, the direct tax. As early as 1896, income taxes, corporation taxes and succession duties were bringing in 6 percent—by 1937, more than one-third—of all provincial revenue. With the coming of the First World War the federal government was compelled to extend the use of its unlimited taxing power, and for the first time it, too, levied taxes on corporate profits and personal incomes. The war ended, but inevitably the taxes remained. Many municipalities, exhausting the returns from their property taxes, turned to levies on business, and some even to levies on incomes.

Under such a multiplicity of taxing authorities, there was neither uniformity nor equality in demands made on individuals and institutions. Estates were taxed substantially different amounts depending on the place of residence. Personal incomes of the same size and for the same family status were taxed as divergently as thirty dollars in Halifax and seventy-seven dollars in Winnipeg. Flat-rate taxes, taxes on capital stock, on places of business, on branch outlets, on products sold and on products consumed multiplied into hundreds of conflicting and unco-ordinated levies on corporations. Contrary to the tenets of orthodox fiscal science, they were charges, not on profits, but on operations and by becoming part of overhead, increased costs and helped to force marginal enterprises out of existence.

This chaotic tax structure evolved out of the attempt of the individual provinces to meet the ever-expanding demands upon government of an industrialized and specialized economy. Its inadequacies were made amply clear by the world wide depression of the thirties. As unemployment spread and government relief replaced private charity, provincial budgets were overwhelmed with the burden. Precisely when increased public works were needed to create new employment, provincial governments, unable to borrow the necessary funds, retrenched on these expenditures to meet relief demands. When taxes should have been lowered to keep industry viable, they multiplied with growing revenue needs.

The basic paradox of Canada's development as a federal nation arose from the contradiction between legislative jurisdiction and fiscal resources. While the federal government possesses control over credit and monetary policy, national taxation and international trade, and while it enjoys a borrowing power backed by the resources of the entire country, it lacks the clear authority to institute national schemes necessary to the "peace, order, and good government" of Canada, because they affect certain traditional "property and civil rights". The provinces individually have the necessary authority; what they lack is the financial means.

THE REGIONAL CHARACTER OF CANADIAN DEVELOPMENT

In the course of the transition from self-sufficiency and barter to specialization and a cash economy, the fortunes of the provinces varied to a marked degree, reflecting the unequal impact of technological change, national policies, geography, and dependence on foreign markets.

The metal steamships of the 1870's rang the knell of Maritime prosperity. The Maritimes had lived through a golden age plying their fish, timber, and carrying trade, and building their famous wooden sailing vessels. Now, not only did the newer technology pass them by, but the United States, compounding adversity, closed its markets to Canadian fish and the Maritime economy languished. The 1880's saw the reign of the "National Policy" which carefully nurtured the growing manufacturing industry of Ontario and Quebec behind a protective tariff barrier. British Columbia and the Maritimes, injured by the severing of their natural trade channels with the United States, responded with threats of secession.

With the 1900's came the wheat boom on the prairies, and the new provinces of Saskatchewan and Alberta were carved from the rich black soil of the western

plains. They specialized in raising wheat for export, and created a burgeoning new market for British Columbia's lumber, for Maritime iron and steel, and above all, a gigantic manufacturing boom for the central provinces. Destined to enrich the east, the prairies paid high prices for protected manufactured goods and high freight rates, while the price of their own products fluctuated with the vagaries of foreign markets and local climatic conditions.

The 1920's brought new emphasis on hydro power, industrial metals, wood pulp and paper. Manitoba's economy became more diversified, while Ontario and Quebec, shielded by tariffs, grew into a great manufacturing, industrial, and financial empire with all of Canada as its hinterland. But pre-eminently it was British Columbia's decade. With the opening of the Panama Canal and cheap export rates for her products, expansion in that province exceeded that of any other region. The Maritimes, too, gained somewhat in diversification, without enlarging the size of their economic pie, but less wholly reliant on the fortunes of a few export staples. Saskatchewan and Alberta, still in their economic infancy, continued to concentrate on wheat for export.

REGIONAL INEQUALITIES

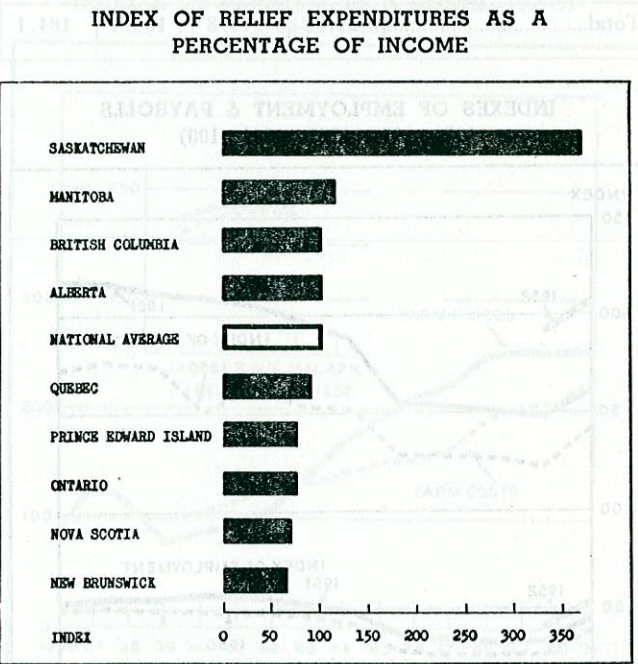
The regional nature of Canada's development entailed inability on the part of some provinces to exercise effectively their constitutional right to levy direct taxes. The central provinces had steadily attracted the head offices of national industries and financial houses. Many corporations, earning their income in transactions across the country, reported and paid taxes on net returns only to their head office province. Eighty percent of net corporate income subject to Dominion tax was reported in Ontario and

PROVINCIAL REVENUE FROM SUCCESSION DUTIES, INCOME AND CORPORATION TAXES, 1930 AND 1937		
Province	\$ Per Capita 1930	\$ Per Capita 1937
Prince Edward Island.....	1.92	2.62
Nova Scotia.....	2.53	3.05
New Brunswick.....	1.84	2.40
Quebec.....	4.03	7.19
Ontario.....	5.65	10.07
Manitoba.....	3.57	7.06
Saskatchewan.....	1.45	1.97
Alberta.....	2.38	5.31
British Columbia.....	10.59	13.67

Quebec in 1930. Here too were to be found the concentrations of personal wealth—four-fifths of all dividends from stocks and interest from bonds; 77 percent of all individual incomes over \$10,000 subject to Do-

minion income tax. The other provinces, unable to tax net returns on earnings within their borders, had recourse only to the less desirable taxes on operations, with striking inequality in the results.

The western provinces were hardest hit by the depression, and suffered most from the constitutional contradictions. National tariff policy protected the home markets for eastern manufacturers, but export prices received no corresponding protection. Then came the drought and the prairies, already impoverished, became destitute. While income declined 36 percent in Nova Scotia, the decline in Saskatchewan was 73



percent. Nine-tenths of its population were dependent upon one crop. Without wheat they had no cash; without wheat or cash they could not obtain seed with which to try again. Agricultural and direct relief quickly exhausted the reserves and credit of the municipalities, and shortly after, that of the province. Debts increased until the per capita deadweight debt of the province rose from one of the lowest to the highest in the Dominion. Borrowing on the bond markets became impossible and further credit could only be obtained from the federal government. In 1937 relief expenditures were fully twice as great as all municipal and provincial revenues, exclusive of subsidies.

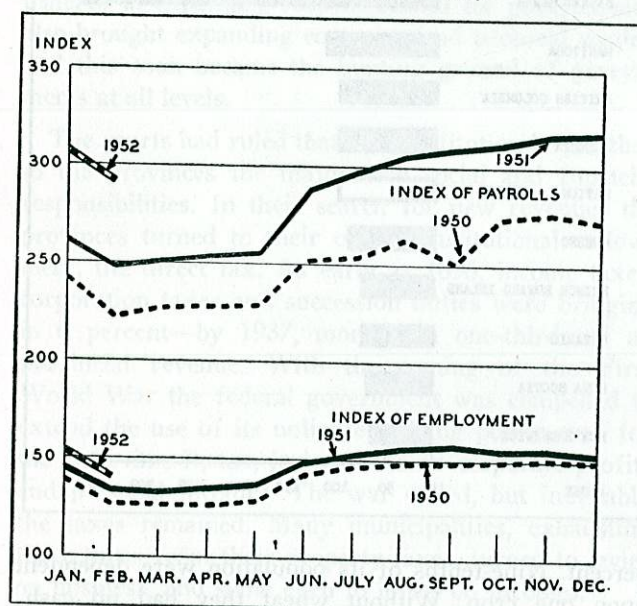
All the provinces had been caught up in the race between growing responsibilities and limited sources of revenue. With the advent of the depression, even the industrial provinces lacked the means to combat

Current Economic Trends

FARM FAMILY LIVING COST INDEX
(1935-39 = 100)

Group	January 1952		January 1951	
	Western Canada	All Canada	Western Canada	All Canada
Food.....	245.7	250.8	226.0	228.5
Fuel.....	200.9	186.5	188.5	172.9
Clothing.....	257.6	256.8	193.2	193.3
Household Equipment.....	241.8	230.8	198.1	189.0
Health Maintenance.....	171.7	171.7	156.3	156.3
Miscellaneous.....	122.6	123.1	118.5	119.0
Total.....	217.8	215.8	186.4	184.1

INDEXES OF EMPLOYMENT & PAYROLLS
1950, 1951, 1952 (1939=100)



LABOUR STATISTICS OF EIGHT LEADING INDUSTRIES
IN SASKATCHEWAN
(1939 = 100)

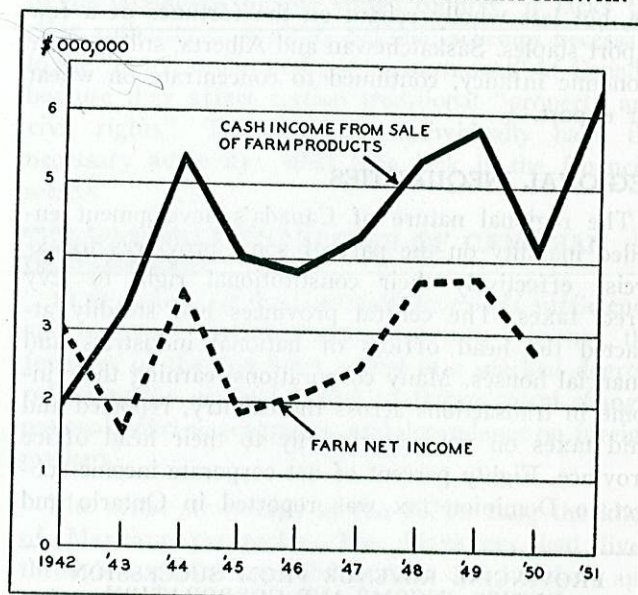
	1952		1951	
	Jan.	Feb.	Jan.	Feb.
Index of Employment.....	152.1	142.9	144.4	134.9
Average Weekly Salaries & Wages (Industrial Composite).....	48.67	49.68	44.13	44.89
Real Wages (in 1939 dollars).....	26.03	26.55	25.93	26.01
Unplaced Applicants (N.E.S.).....	8,138	11,312	10,896	13,486
Unfilled Vacancies (N.E.S.).....	690	759	561	637

CONSTRUCTION ACTIVITY IN SASKATCHEWAN

Year	Value of Building Permits		
	Nov. (\$000)	Dec. (\$000)	Jan. (\$000)
1951-52.....	1,434	693	183
1950-51.....	1,066	2,126	171

Year	No. of Dwelling Units			
	Under Construction Jan. 1	Started Jan. 1	Completed Dec. 31	Under Construction Dec. 31
1951.....	1,060	2,154	2,026	1,200
1950.....	1,452	2,904	2,813	1,502

FARM INCOME, CASH & NET, IN SASKATCHEWAN



PRELIMINARY ESTIMATE OF FARM CASH INCOME FROM
SALE OF FARM PRODUCTS, SASKATCHEWAN
Four Quarters

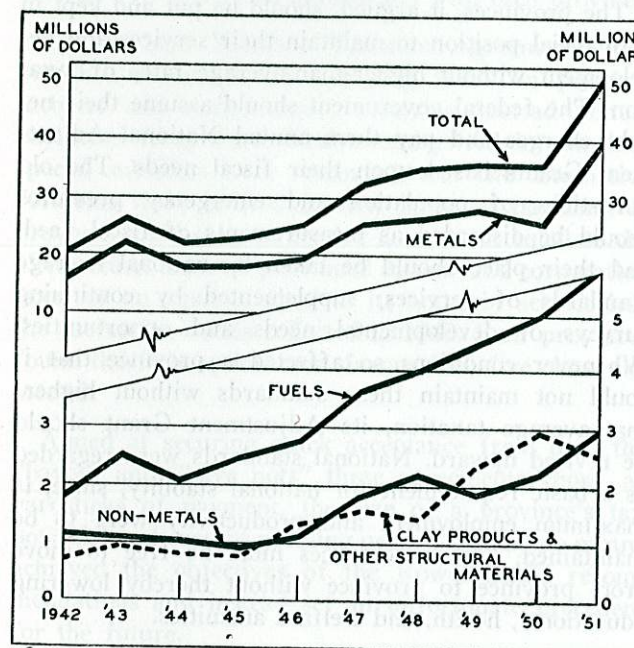
Commodity	1951 (\$000)	1950 (\$000)
Wheat.....	395,102	210,868
Course Grains.....	54,893	48,222
Livestock.....	111,947	100,793
Dairy Products.....	21,691	19,195
Eggs and Poultry.....	17,576	10,098
Other.....	25,000	19,112
Cash Income from Farm Products.....	626,627	408,288
P.F.A.A. Payments.....	5,546	8,227
Total Cash Income.....	632,173	416,515

ECONOMIC REVIEW

PERCENTAGE CHANGE IN SELECTED AND ALL RETAIL
SALES IN SASKATCHEWAN, 1951-2 OVER 1950-1

Group	Nov. %	Dec. %	Jan. %	Jan.-Dec. %
Department Store.....	+ 0.8	+ 9.1	+13.4	+ 6.8
Country General.....	+ 7.5	+14.3	+14.6	+10.3
Family Clothing.....	+13.9	+29.9	+32.2	+15.3
Furniture.....	+44.0	+25.8	+ 5.9	+14.0
Motor Vehicles.....	+17.9	+25.6	+12.3	+16.6
All Groups.....	+14.8	+20.9	+23.4	+12.3

VALUE OF MINERAL PRODUCTION
1942 - 1951



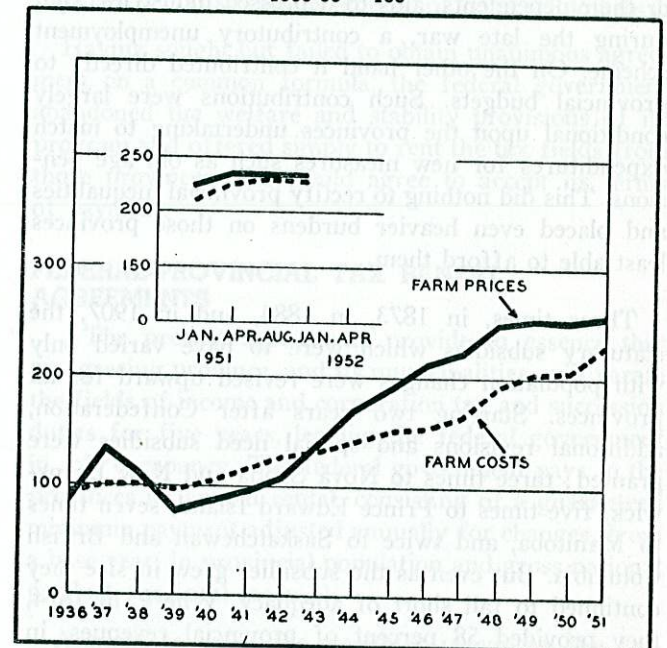
SASKATCHEWAN MINERAL PRODUCTION
1950 and 1951

	Fourth Quarter, 1950		Fourth Quarter, 1951	
	Amount	Value \$	Amount	Value \$
Gold, ozs.....	23,912	877,591	24,710	1,022,280
Silver, ozs.....	346,118	355,641	306,585	269,579
Copper, lbs.....	16,262,308	3,944,754	16,439,364	4,309,615
Zinc, lbs.....	15,695,077	2,721,718	22,373,183	4,625,660
Cadmium, lbs.....	22,012	58,589	24,220	59,946
Selenium } lbs.....	114,456	219,515	110,771	301,020
Tellurium }				
Total.....		8,177,808		10,568,100
Coal (short tons).....	903,387		946,781	
Crude Oil (bbl.).....	272,668		320,702	
Natural Gas (m.c.f.).....	276,565		248,137	
Bulk Salt, tons.....	5,133		7,700	
Sodium Sulphate, tons.....	42,145		50,075	

COST OF LIVING INDEX
(1935-39 = 100)

Group	May, 1951		May, 1952	
	Saskatoon	Dominion	Saskatoon	Dominion
Food.....	240.6	235.4	233.1	235.3
Fuel & Light.....	145.9	146.2	151.7	150.6
Clothing.....	204.3	201.5	218.7	210.1
Rent.....	128.6	137.6	132.3	146.3
Home Furnishings & Services.....	195.9	194.9	202.9	198.2
Miscellaneous.....	130.3	140.7	134.0	147.4
Total.....	179.0	182.0	181.0	186.7

INDEXES OF FARM PRICES & COSTS—1936-51
1935-39 = 100



AGRICULTURAL PRICES & MARKETING OF MAJOR
AGRICULTURAL PRODUCTS

Commodity	Prices Jan.-Mar.		Total Marketings Jan.-Mar.	
	1951	1952	1951	1952
Grain*	(\$ per Bu.)		(All Grades - 000 Bu.)	
Wheat (No. 5).....	1.72	1.68	15,134	38,467
Oats (No. 1 Feed).....	.99	.90	5,112	9,336
Barley (No. 1 Feed).....	1.50	1.34	1,765	6,526
Livestock†	(\$ Per Cwt.)		(No.)	
Cattle.....	30.96	26.72	48,254	32,181
Hogs.....	31.85	24.16	81,823	121,882

*—Cash selling prices of Canadian Wheat Board basis Ft. William-Port Arthur.

†—Prices quoted at the Saskatoon public market for good steers up to 1,000 lbs. and hogs No. Grade B1. Marketings include all livestock of Saskatchewan origin.

unemployment and maintain income. But with many provinces facing bankruptcy, it became obvious that aid would have to be forthcoming from the national purse.

II

PALLIATIVES PRIOR TO 1937

As pressures became irresistible the federal government had, throughout the years, made attempts to remedy the gap between provincial needs and means. On the one hand it undertook responsibility for certain functions, i.e., care and maintenance of ex-servicemen or their dependents, aids to depressed industries, and, during the late war, a contributory unemployment scheme. On the other hand it contributed directly to provincial budgets. Such contributions were largely conditional upon the provinces undertaking to match expenditures for new measures such as old age pensions. This did nothing to rectify provincial inequalities and placed even heavier burdens on those provinces least able to afford them.

Three times, in 1873, in 1884, and in 1907, the statutory subsidies which were to have varied only with population changes were revised upward for all provinces. Starting two years after Confederation, additional revisions and special need subsidies were granted; three times to Nova Scotia and New Brunswick, five times to Prince Edward Island, seven times to Manitoba, and twice to Saskatchewan and British Columbia. But even as the subsidies grew in size they continued to fall short of adequacy. Where, in 1874, they provided 58 percent of provincial revenues, in 1930 they contributed a mere 8 percent. By 1937 it was obvious that per capita subsidies, conditional grants, and emergency payments were feeble panaceas for the nation's ills. Finally a Royal Commission on Dominion-Provincial Relations was established to recommend means by which "a balanced relationship between the financial powers and obligations and functions of each governing body" could be effected within the framework of the federal system.

THE ROWELL-SIROIS COMMISSION

For three years the Rowell-Sirois Commission, as it came to be known, poked into the dusty corners of the economy. It examined the bare shelves of provincial and municipal cupboards, and surveyed the array of federal fiscal powers: unlimited taxing authority, control of banking and credit, and borrowing power backed by the productive wealth of the entire nation.

Recognizing the value of cultural differences and local responsibilities upon which the federal principle rested, the Commission recommended that the provinces retain their authority in the provision of educational and welfare services, and their responsibility for certain standards of "normal" developmental activity. Recognizing too that the modern phenomenon of mass unemployment was beyond the control of local authorities, it urged that the federal government assume responsibility for the relief of unemployed employables. It would then be in the interests of the Dominion to institute a program of timed public investment in co-operation with the provinces.

The provinces, it argued, should be put and kept in a financial position to maintain their services and development without higher-than-average rates of taxation. The federal government should assume their net debt charges and pay them annual National Adjustment Grants based upon their fiscal needs. The old yardsticks of population and emergency pressures should be discarded as measurements of fiscal need, and their place should be taken by national average standards of services, supplemented by continuing surveys of developmental needs and opportunities. Whenever conditions so affected a province that it could not maintain these standards without higher-than-average taxation, its Adjustment Grant should be revised upward. National standards were regarded as a basic requirement for national stability, since, if maximum employment and productivity were to be maintained, human resources must be free to move from province to province without thereby lowering educational, health, and welfare amenities.

To finance and maintain national stability, the federal government must be responsible for devising a single national policy for major taxes, putting an end to the chaotic practice of the past. It should have the sole right to levy the income tax—that most remunerative, flexible, and just of all taxes. It alone should have the right to tax corporations, and should dispense with the levies on operations which run counter to full employment and production. All this and more the Commission urged in its massive and able report.

The Rowell-Sirois recommendations implied a transfer of tax revenues from those provinces who had harvested them in such abundance to those who had reaped so thinly. If the language of the constitution had appeared rigid, and the interpretations of the courts more so, the "have" provinces now proved no less intransigent. Though pressed for the moment, they could and did look forward to a time when they would again enjoy lucrative provincial "rights" rather

than rue their provincial responsibilities. The three wealthiest provinces refused to vacate their tax fields, and in 1941 Dominion-Provincial negotiations came temporarily to a halt.

THE WARTIME TAX AGREEMENTS

The war necessitated compromise and temporary agreement. The federal government, catapulted into unprecedented national leadership, realized that a maximum war effort demanded an end to wasteful multiple taxation and required close central control of the fiscal life of the nation. Rather than exercise its emergency powers to achieve this, the Dominion entered into individual agreements with each province.

Under these Wartime Taxation Agreements each province refrained from levying taxes on personal incomes and corporations, receiving instead annual payments from the federal treasury. All interim and special subsidies were rescinded, and two alternative formulas were offered as new bases of payment. A province could elect to receive an amount equal to the 1940 return from its provincial income and corporation taxes or an amount equal to its net debt service less the succession duties collected in 1940. Four provinces found the first option most favourable; five chose the second.

Aimed at securing quick acceptance from both the "haves" and "have nots" these agreements chose, as yardsticks of payment, the size of a province's tax potential and current pressing need. These by no means achieved the objectives of the Rowell-Sirois recommendations and instead set an unfortunate precedent for the future.

THE POST-WAR PERIOD

In 1945 the provinces were invited to a *Dominion-Provincial Conference on Reconstruction*. At the conference the federal government placed before them a comprehensive and carefully documented program aimed at avoiding a return to grab-bag taxation, and assuring all Canadians of "high and stable employment and income, and a greater acknowledgment of public responsibility for individual economic security and welfare". In lieu of income and corporation taxes and succession duties, the federal proposals offered the

provinces annual per capita payments combined with specific commitments on health insurance, old age pensions, unemployment assistance, and a public investment policy designed to maintain income and employment.

This program rejected the Rowell-Sirois principles of national standards and flexible adjustment grants. The less affluent provinces protested that per capita payments were not a valid measure of their fiscal need, but the three wealthiest provinces took an obdurate view to the contrary. The war crisis over, national unity of purpose became diluted by expediency. The three provinces demanded a continuation of the principle of the Wartime Taxation Agreements, in which payment was based on the amount of taxes relinquished.

Having sought but failed to obtain unanimous agreement on a common formula, the federal government abandoned the welfare and stability provisions of its program and offered simply to rent the tax fields from those provinces that would agree to accept its terms of payment.

FEDERAL-PROVINCIAL TAX RENTAL AGREEMENTS

The present agreements provide in essence that an agreeing province, and its municipalities, will vacate the fields of income and corporation tax and succession duties for five years, leaving the federal government in sole occupancy. The federal government pays to the provinces an annual rental, consisting of a guaranteed minimum payment adjusted annually for changes, from a base year, in provincial population and gross national product (national income).

Anxious to enlist the wealthier provinces, the Dominion offered an alternative to its former per capita basis of payment. In 1947, a province could elect as its guaranteed minimum a straight \$15 per capita payment based on its 1942 population, plus its constitutional subsidy, or alternatively, \$12.75 per capita, plus its constitutional subsidy, plus 50 percent of the provincial income and corporation tax revenue collected in 1940. For the 1952-57 agreements, these minimum payments have been revised upward to provide for changes in population and gross national product between 1942 and 1948.*

* Those who find a mathematical rather than a verbal description more intelligible will prefer the following formulation:

$$\begin{aligned} \text{Guaranteed Minimum Payment 1952-57} &= \text{Guaranteed Minimum Payment 1947-52} \times \frac{\text{G.N.P. per capita 1948}}{\text{G.N.P. per capita 1942}} \times \frac{\text{provincial population 1948}}{\text{provincial population 1942}} \\ \text{Annual Adjusted Payment 1952-53} &= \text{Guaranteed Minimum Payment 1952-57} \times \frac{\text{G.N.P. per capita 1951}}{\text{G.N.P. per capita 1948}} \times \frac{\text{provincial population 1951}}{\text{provincial population 1948}} \end{aligned}$$

The 1947 concession to tax potential won British Columbia to the side of the signatories, and a further concession has been offered to Ontario in 1952. So far, both it and Quebec have remained adamantly opposed, and the Government of Canada has stated flatly that it has now completely divorced the agreements from any other aspect of federal-provincial relations, and that, in the words of the present Minister of Finance, "... universal acceptance is neither a condition of action nor a commitment to action in any other field". A saving clause in the agreements expressly states that neither Canada nor the agreeing province is committed thereby to the whole, or any part, of the cost of unemployment relief.

For Nova Scotia and Saskatchewan, the compromise between payment by population and by tax potential was a case of Hobson's choice. No concession being offered to the principle of payment on the basis of fiscal need, they elected the straight per capita option. Neither formula was judged sufficient to meet the needs of Prince Edward Island, and it was granted a flat minimum guaranteed sum.

III
EQUITABILITY OF TAXATION

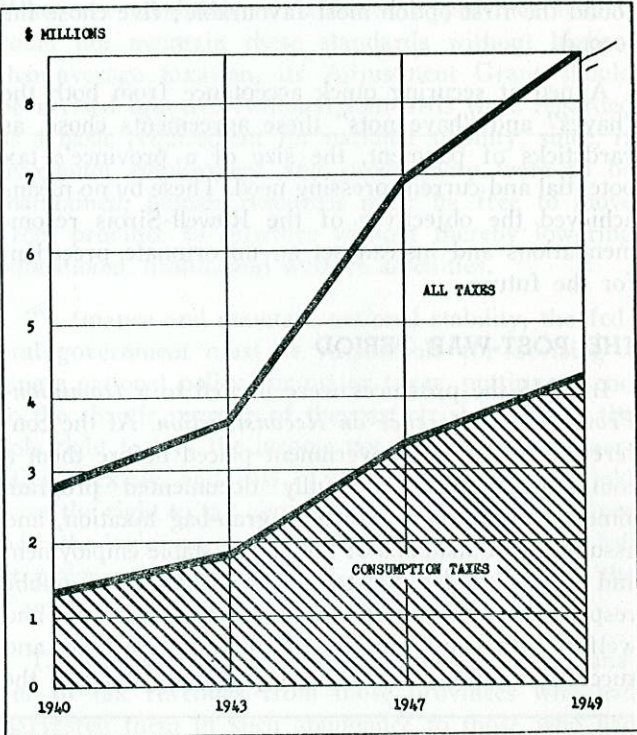
The first objective which the agreement sets out to accomplish is to eliminate duplication of certain double taxes and redundancy in collection machinery. In itself this represents a most desirable reform of the Canadian tax structure, and has to some extent been achieved in spite of the non-participation of the two central provinces. With revenues from other sources more than adequate for their present needs, they have not yet reverted to personal income taxes, so that at present the federal income tax is unique. While they do collect succession duties, the federal government allows for these a deduction of up to 50 percent of its own levy. Thus, in this area, there is little conflict with national tax policy.

But these provinces now impose a 7 percent corporate profits tax, and various other specific taxes on corporations which are charges on operations. Moreover, there is nothing to hinder them, if revenues become less buoyant, from re-entering the personal income tax field and increasing their succession duties and corporation taxes. Such measures would have the effect of impeding national policies directed at the maintenance of production and employment. Since these provinces contain the head offices of interpro-

vincial corporations whose price and output decisions affect the entire nation, the danger is a considerable one.

A more serious shortcoming exists in restricting consideration of fairness of taxation to the relatively narrow problem of double taxation. In the nature of things it is the fate of governments to thread a painful course between taxes which are concealed, sometimes with indifferent success, and frequently inequitable, and taxes which are overt and just, but unpopular. Consumption taxes are, at best, nuisance taxes; at worst they are regressive in that they fall most heavily on individuals least able to bear them, and in the case of sales taxes, add to production costs. Nevertheless, with inherently limited fiscal powers, and in the absence of a tax rationale based firmly on fiscal need, all provinces have come to lean heavily on consumption taxes.

CONSUMPTION TAXES & TOTAL TAXES FOR
ALL PROVINCES, 1940-1950



In each of the ten provinces, profits from liquor sales, gasoline and motor vehicle taxes are major sources of revenue, and five provinces now levy retail sales taxes.

STABILITY OF PROVINCIAL BUDGETS

Though an imperfect method of redistributing the national income, the agreement provides an avenue whereby Saskatchewan can tap the revenue from wealth created within her borders which heretofore has been inaccessible. The largest sum ever collected by the province in income taxes was \$1.3 million; in corporation taxes, \$750 thousand; in succession duties, \$650 thousand, or altogether a total of \$2.7 million.

MAJOR SOURCES OF FUNDS EXPRESSED AS A PERCENTAGE OF NON-SELF-LIQUIDATING EXPENDITURES

	1936-37	1942-43	1946-47	1948-49	Preliminary 1951-52	Estimated 1952-53
Dominion-Provincial Tax Agreement....	.....	23.2	14.8	25.1	26.8	27.5
General Retail Sales Tax.....	.....	15.2	13.8	10.3	19.2	13.7
Gas and Vehicles Tax.....	21.0	16.5	15.6	17.7	20.5	14.7
Liquor Profits.....	8.1	12.3	20.6	14.7	13.2	13.0
Borrowing.....	1.8	nil	7.5	9.0	13.3	16.8
Income Tax	.....	.....	.....	.....	.....	.....
Succession Duties }.....	4.8	.....	.....	.....	.....	.....
Public Revenue.....	9.5	8.3	5.0	.....	2.9	2.0
Dominion Subsidy.....	11.1	8.3	5.1	.....	2.8	2.5
Total Non-Self-Liquidating Expenditures.....	\$18,005,170	\$24,599,756	\$39,263,326	\$56,321,074	\$67,885,516	\$79,959,690

A projection of the trend in collections suggests that, instead of the \$18 million in tax rental that has been estimated for 1951-52, these sources might, at 1941 rates of taxation, now yield somewhat less than half that amount. Including the constitutional subsidy, the guaranteed minimum payment to Saskatchewan for the next five years will be \$20,026,085; the actual adjusted payment for 1952-53 will contribute some \$25.5 million. For the same year the total expenditure program, including capital, will total \$80.7 million. What measure of financial stability will this payment provide in enabling the province more adequately to carry out its responsibilities?

In 1936-37 the traditional revenue sources bestowed upon the province—permits, privileges, statutory subsidies, and miscellaneous taxes—provided almost two-thirds of the funds used for ordinary expenditures. In 1950-51 they provided only 7 percent of the funds, and payments in lieu of taxes under the agreement another 26.8 percent. The remaining 66.5 percent gap between traditional revenues and mushrooming expenditures was filled in the order of 20.5 percent by gasoline and motor vehicle taxes, 19.2 percent by a general retail sales tax, 13.2 percent by liquor profits, and the balance of 13.3 per cent by borrowing for capital purposes.

Should gross national product fall markedly, reducing the tax rental payment to its guaranteed minimum level, the repercussions would extend beyond the mere decrease in the payment. During a period of declining economic activity, profits from liquor control and retail sales taxes would certainly fall sharply. Gasoline and motor vehicle taxes, though apparently

less elastic, would also yield less revenue. Consequently, even though the minimum tax rental payment would remain constant, the overall picture would be one of declining revenue.

On the expenditure side, costs would not necessarily decline in the same proportion. First, there are the fixed costs, such as debt service and pensions. Second, demands on welfare services would multiply, and relief costs would also rise. As for salaries and wages,

it is both difficult and economically unsound to seek reductions at a time of falling income and employment. Above all, modern concepts of anti-depression budgeting lay a heavy responsibility on provincial and local no less than on national governments to close the "deflationary gap" with immediate and large-scale public works programs. The consequence, of course, is the deliberate adoption of deficit financing, and the provinces would be compelled to make heavy demands on lending institutions. Traditionally, at such times, the precept "neither a borrower nor a lender be" has gained added currency, and it remains to be seen whether current fiscal science when put to the test, will prevail against the older orthodoxy of financial circles.

This much, however, is evident. The agreement, welcome though it is as a guaranteed source of funds, has neither insulated provincial treasuries against cyclical shocks nor has it solved the problems of financing under adverse borrowing conditions.

FULL EMPLOYMENT

In terms of its third objective as an instrument for maintaining full employment the Tax Rental Agreement poses some significant questions for Saskatchewan. It is generally recognized that the well-being of the Canadian economy depends on two fundamental magnitudes—an undiminished volume of exports, and a high level of domestic investment. Through the years of depression and war the federal government has acquired an arsenal of devices intended to give it very extensive influence and authority in regulating the ebb and flow of economic activity. Some of them, such as foreign exchange controls, and international com-

modity agreements, are directed towards the maintenance of the import and export trades; others, including central bank control of interest rates and commercial credit, direct consumer credit restrictions, and taxes, are primarily of internal significance and are designed to stimulate or restrain, as the case may be, the spending, saving and investing habits of individuals and institutions, and even junior governments. The Tax Rental Agreement, insofar as it strengthens the hand of the federal government in manipulating fiscal policy, belongs in the second category.

It would be a serious over-simplification, however, to presume that what is necessary for Canada as a whole is also sufficient for each of the principal economic regions that compose it. For the predominantly agricultural prairies, and for Saskatchewan in particular, reliance on export markets for cereal and livestock production as a primary source of income renders irrelevant much of the machinery and policies with which the federal government can combat future depressions. Paralleling the vulnerability of export markets is the vulnerability from the ever-present menace of drought, frost, disease and pests. Against these twin threats, lower interest rates, incentive taxation, and a high level of domestic investment are of little avail to the prairie farmer.

In addition to external trade and internal fiscal policies, there is still a third way in which governments can maintain employment and production, namely, by instituting prompt programs of public works to employ the manpower and facilities thrown into idleness whenever private investment is curtailed. Although half a decade of heavy and sustained investment has elapsed since the federal government quietly dropped its "shelf" of public works projects, it still remains the decisive last resort for an industrial economy threatened with unemployment and shrinking purchasing power.

Unfortunately, Saskatchewan is not an industrialized province. Its economic setbacks in the past have taken the form, not of unemployment, but of employment unrewarded. The mainsprings of its income have become dried up either because of falling prices or loss

of crops or both, and the amount of income normally distributed as a consequence of investment is not a critical factor.

There is a sense, however, in which investment provides a partial solution to the needs of the province. For economic security in the long run, two things are essential: a more stable base for agriculture, and a greater diversification of industry. It needs programs for irrigation, soil conservation, encouragement of livestock production, and re-settlement of populations now on sub-marginal lands. It needs roads that will penetrate the north to tap the potentially rich harvest of uranium, base and precious metals, pulp and lumber, and plant facilities to transform them into marketable commodities. Much of the necessary funds should, and can only be provided by governments, since these are investments in future stability which necessarily must be made far in advance of the time when their impact will be discernible. They are, in fact, a measure of the province's fiscal need, bearing no direct relation to size of population or systems of per capita payments on which the present agreement is based. At no time since the abortive federal proposals of 1945 have they received the recognition or support which they merit.

* * *

The fundamental problem—the equating of government financial responsibilities with financial resources—has been shaped by three-quarters of a century of history, and sharpened by a long-standing clash of regional interests. It was perhaps inevitable that the particular historical development which forms the background for the present Tax Rental Agreement would thwart the best intentions of jurists, economists, and statesmen to devise a solution that would be both economically sound and politically acceptable. The outcome, instead, proved to be a compromise, conditioned as much by the personalities and circumstances of the post-war years as by the historic forces so penetratingly studied by the Rowell-Sirois Commission. Considered on its own merits, the present agreement represents a step forward; the danger is that it may postpone still further the basic readjustments whose importance has temporarily been obscured by post-war prosperity.