TO RECONSTRUCT CANADIAN FINANCE

Income, Expenditures and Tariff—Should the Provincial Subsidies Be Abolished?

An interesting article on Canadian financial problems from the pen of Dr. W. A. J. Donald, McMaster University, Toronto, appears in the Journal of Political Economy for October. Dr. Donald discusses the financial effects of war and changes in economic organization, Canada's fiscal system, the effect of industrial depression, the effects of the war, the two most recent budgets, and concludes with the following remarks under the heading, "Methods of re-construction."

"The task of Canada's minister of finance during the next few years will not be an enviable one. The protective tariff will probably provide less revenue than in the last two years. The excise and customs duties on liquors and tobacco are probably as high as they could be placed without actually decreasing the revenue. It would not be wise to increase the issue of Dominion notes without increasing the gold reserve. Admittedly the market for governmental borrowings has an uncertain future and it would not be surprising if the Allies, including Canada, yet find it necessary to increase taxation heavily in order to bring the war to a satisfactory ending. In any case the government should not allow a continuance of a deficit on consolidated fund account. The Canadian government must therefore consider either a decrease of expenditures or the imposition of new taxes.

Expenditures on Public Works.

"The possibility of reducing expenditures is an interesting topic. Of course war expenditures will be maintained at the present level of $150,000,000 or more as long as the war lasts. Canada will probably borrow the interest on as well as the principal of those expenditures. She may as well face now the possibility of having to raise a part of them by taxation. Pensions will involve an annual expenditure of $2,500,000 on account of the first year, probably more and additional sums for each year that the war lasts. This is practically a new item in Canadian finance.

"Expenditures on capital account are largely for public works. They have never been more than $42,593,167 (in 1909) and they have averaged $30,000,000 since 1907. Most of the public works paid for in this way become productive of revenue for the treasury or of income for the nation at large. Many of them are highly ornamental. Doubtless necessity will eliminate any expenditures of doubtful value, such as the Georgian Bay Canal, which might be charged to this account.

Cost of Maintenance More.

"Expenditures on consolidated fund account are not likely to be reduced. The cost of maintaining most of the government services is likely to increase with the increase in the population. The cost of collecting customs duties is not likely to decrease so long as the protective system is retained, even though the collections decline. The cost of collecting excise duties will increase if new excise duties are imposed. The cost of administration of Dominion lands is likely to decline less rapidly than the revenues derived therefrom. The government may, however, receive a greater net revenue from a few departments, especially from the post-office, and possibly from the government railways. These, however, will not be sufficient to meet its needs.

Abolish Provincial Subsidies?

"Two possibilities of reducing public expenditure remain. One is the reduction of the expenditures for public works chargeable to income. Many of these are useless concessions to constituencies which have supported whatever government happens to be in power. It is well recognized that a constituency must support the government if it is to have public funds spent within its borders, and consequently promise of public works is a bait regularly held out by retiring governments in doubtful constituencies. The sooner this type of public expenditure is abolished the better.

"The other possibility is the abolition of the system of provincial subsidies, one of the most vicious outgrowths of the British North America act. Such a change would relieve the government of increasing obligations, which amounted to $11,280,468 in 1914, and would end the system which interprovincial politics disturbs every few years. It is unlikely that the system will be abolished; but this much may be said, that if the provinces are to receive increasing sums from the federal government they should not object if the federal government invades the field of direct taxation to which, according to the British North America act, the provinces are restricted. In all probability, then, the solution of Canada's fiscal problem must be the adoption of new taxes, direct and indirect, and a complete revision of the tariff.

Revision of the Tariff.

"The revision of the tariff will probably include the imposition of a heavy duty on tea. In Canada, where tea cannot be grown and where it is consumed by all, a duty would be an ideal war tax. Duties in coffee are doubtless less productive of revenue than they might be by reason of the omission of a duty on tea from the list of revenue-producing taxes. Diamonds, until lately free of duty, should be taxed much more heavily than 7½ per cent. Whether protection will be reduced no one can tell, but the probability is that the system of protection will remain in Canada until after it has disappeared from the United States. In the long run Canada would certainly benefit from the adoption of free trade and the diversion of capital and labor into those employments where the greatest efficiency obtains in Canada. Furthermore, a reduction of many duties which are practically prohibitive might bring greater revenue returns.

Suggests Excise Duties.

"Excise duties on domestic manufactures of several kinds, which might very well be imposed without great injury to the industries, would provide a very large revenue. An excise tax on war-order products might prove the best method of taxing war profits.

"By the British North America act the federal government may raise revenue from either indirect or direct taxation, but heretofore no attempt to introduce direct taxation into the federal fiscal system has been made, because the provinces are restricted to direct taxation. Another reason for refraining from the use of direct taxes is the fact that the federal government has not a taxing machinery adequate for the task. The provincial governments may, however, have to give up their subsidies from the federal treasury or allow the federal government to impose direct taxes. As they will probably prefer to keep the subsidies, one may regard direct taxation in the form of corporation taxes, an income tax, a land or property tax, or succession duties as an almost inevitable addition to the federal fiscal system.

Local Assessment and Federal Finance.

"There is one other possible source of revenue worthy of serious consideration: namely, the application of the local assessment principle to federal finance. It has been the custom for the federal government to raise the cost, and otherwise meet the expense, of constructing many public works which benefit particular localities or particular individuals. The improvement of Toronto's harbor provides a good illustration. It is generally accepted that since Toronto is a Conservative city and sends eight Conservatives from the eight constituencies, one may expect the present federal government (Conservatives) to spend huge sums on the improvement of the harbor, and real estate interests argue that therefore the future of Toronto's real estate values is assured. If property-owners frankly confess that such an improvement will affect the price of property favorably, the suggestion that a large part of the cost of the improvements (in this case about $26,000,000) should be assessed on the property-owners of Toronto is worth considering. One can scarcely deny the justice of the proposal or deny that such a scheme would put an end to the system of unnecessarily spending public funds in constituencies where proper support is given to the party in power or where the issue of an election is doubtful. It would have provided the revenue to defray a very large part of the increased expenditures of recent years, and might well be expected to provide large revenue in future. The tax could be charged directly on the municipality."

UNITED STATES COMPANY LOCATES AT CHATHAM

Chatham, Ont., is the location of the Canadian branch of the American Well Works Company, of Aurora, Ill., U.S.A. The city has closed a deal with them whereby they are to acquire the factory formerly occupied by the Defiance Engine Company. Additions to the buildings and equipment will be needed.

The company will manufacture pumping plants for waterworks, irrigation works, and well-drilling machinery. It is expected that they will start with a force of about 50 or 60 hands. The city surrendered its interest in the old plant for the sum of $12,500.