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FEDERAL FINANCE IN PEACE AND WAR

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INDIAN FINANCE AND BANKING

THE SCIENCE OF PUBLIC FINANCE (2 vols.)

THE BURDEN OF BRITISH TAXATION (with Dr. L. Rostas)
(National Institute of Economic and Social Research)

AN ENQUIRY INTO FEDERAL FINANCE
(National Institute of Economic and Social Research)

and other publications

FEDERAL FINANCE IN PEACE AND WAR

*With special reference
to the United States of America
and the British Commonwealth*

BY

G. FINDLAY SHIRRAS

DEAN OF THE FACULTY OF ECONOMICS AND COMMERCE,
UNIVERSITY COLLEGE, EXETER

LONDON
MACMILLAN & CO. LTD

1944

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INTRODUCTION

“FEDERAL Finance in Peace and War” is an Enquiry complementary to that made into the burden of taxation,¹ and has been undertaken in consultation with the National Institute of Economic and Social Research, without whose assistance it could never have been instituted. It has involved a somewhat minute study of the Budgets and other Financial Statements of the United States of America, Canada, Australia, South Africa and India. These countries were selected because they possess fundamental constitutional likenesses and continuity of history, which make the treatment of their systems of public finance a suitable single field of study. It was decided to restrict the Enquiry for two reasons. In the first place, it was not possible to cover all Federations in the world, such as Switzerland, Germany, Russia, Mexico, Brazil and the Argentine, and, secondly, a description of the temporary structures of totalitarian countries, such as Germany, would be largely dependent upon political analysis. Municipal as well as Provincial or State finance has been examined as it is intimately connected with the Central or Federal Government's finance. The years chosen for examination include the pre-rearmament year 1937-38 and a recent war year, usually 1941-42. The effects of the greatest depression of the machine age, that of 1929-32, have been so widespread as to affect to a very remarkable degree the tax structures, and on this account crisis finance could not be omitted.

It is well known that a Budget covers only part of a nation's economic and financial activity and, therefore, in the early stages of the Enquiry it was realised that a study of the National Income technique of Public Finance had to be considered. This meant that attention had to be given to the National Income, Public Expenditures and Public Debt, apart altogether from a study of the tax structures of the countries and of the units in the Federations. It has been rightly pointed out that a Budget is not a balance-sheet in which all assets and liabilities of the concern are given, but is similar to a Profit and Loss account of a business enterprise, only the changes are over a twelvemonth. The Budget itself is no longer regarded as the national balance-sheet but only a part of it. In short, we have to take into consideration the quantitative estimate

¹ G. Findlay Shirras and L. Rostas, *The Burden of British Taxation*. The National Institute of Economic and Social Research Studies No. 2, Cambridge University Press, 1942, also American Edition, The Macmillan Company, New York, Jan. 1943.

of the whole economic activity of the country and not merely the cross-section of it with which the Government is concerned. When unemployment is at its worst an expansion, and not a contraction, of public expenditure to meet the decline in tax revenue is essential. It is only within recent years that in official circles it has been realised that unemployment could be avoided by a policy of regular and large Government expenditure.¹ Deficits are not, as Gladstonian finance always regarded them, thoroughly bad in themselves and to be avoided; they are even desirable for the stabilisation of economic life. Nothing has been so revolutionary in public finance in recent years as this idea of the inclusion of items hitherto undreamt of in the philosophy of budgetary finance. Since 1941 annual tax proposals have been based on an examination of the nation's total income and expenditure as set out in the White Paper on "The Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure". From this the so-called "Inflationary gap" can be measured. We have to consider not merely the domestic expenditure and revenue of the Government but overseas resources, extra-Budgetary receipts, sums available for investment as depreciation in war-time cannot be made good, and, most important of all, new savings obtained through the National Savings movement and similar movements for investment. Similarly, there is the "Deflationary gap" in budgeting for full employment. The difference between the potential savings of the community, the savings if the national resources had been fully used in production, and the actual loan expenditure on capital construction by private firms, individuals and local authorities other than the Central Government, has to be made good by the Government's supplementing this regularly to the extent of the difference. It has also been realised that tax policy as well as expenditure has a part to play in economic stability. May not taxation play its part as a factor helping inflation or deflation, expansion or contraction? May not a planned system of taxes be flexible enough to be used to increase or decrease saving or investment? In the downward swing of the trade cycle, tax policy may remove maladjustments by a relatively light tax burden upon spending and a relatively high tax burden on surplus savings. A tax policy might aim at reducing liquidity preference, *e.g.* in regard to undistributed profits to prevent relapse and at another to prevent excessive

¹ Accepted by the British Government in 1944, *vide* White Paper on Employment policy (Cmd. 6527), "The Government accept as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war."

expansion by curtailing excessive profits. In both cases stability would be assisted. Even if purchasing power is being restored by Government expenditures, a taxation policy is complementary and worthy of examination, as a tax system often has many taxes the effect of which is the curtailment, during a depression, of consumers' purchasing power. In other words, the effects of a taxation policy must be considered as well as a policy of public expenditures. Financial equilibrium is not merely equilibrium of Budgetary revenue and expenditure but equilibrium of the country's annual income and expenditure, an equality between spendable income and available resources. This may indicate in the future, at all events in the countries of chief industrial importance, the very countries which tend to save too much, the presentation of a Capital Budget quite apart from a Revenue Budget. For this and other reasons in this Enquiry a study of National Income, Public Expenditures and Public Debt has been linked up with an analysis of tax structures.

The report is divided into three parts. The first deals with the Scope and Method of the Enquiry and the Public Finance and National Economy of the oldest of the Federations, the United States, and a similar analysis of the Federations comprising the British Commonwealth — Canada, Australia, South Africa and India. The tables in Part I are Summary tables and are set out in the table of Contents. Part II consists of the general principles underlying the study of Part I with special reference to intergovernmental financial relations, not merely as applied to conflicts between Federal and State Governments, between State and Local Governments and Federal and Local Governments or between States of the Federation or between Nations, but also to financial relations in regard to specific taxes and specific functions. It deals also with the solutions for these conflicts. Part III contains statistical tables other than the Summary tables in Part I. An Index has been prepared for facility of reference.

I desire to place on record my deep sense of appreciation to the Governments which have not only provided official data but explanations regarding financial relations. My second duty is to thank the High Commissioners of Canada, Australia, South Africa and India; the Dominions Office; the American Embassy in London; the American Treasury Committee, over which Professor Luther Gulick was Chairman; the Rt. Hon. Viscount Bennett, P.C., K.C., LL.D., formerly Minister of Finance and, from 1930 to 1935, Prime Minister of Canada and member of the Council of University College, Exeter; Dr. S. A. Cudmore, Dominions

Statistician, Canada ; Professor Haig of Columbia University, New York ; Miss Mabel L. Walker, Director of the Tax Institute of the University of Pennsylvania ; and many other non-official experts. Mr. Henry Clay and Mr. Geoffrey Crowther have acted as the Sub-Committee of the Institute connected with the Enquiry, and their judgment on various points has been of great value. Mrs. F. Stone, Secretary of the National Institute of Economics and Research, has always been most ready to serve the interests of the Enquiry, and her ability and tact have been greatly appreciated. Dr. G. Rusche and, especially, my Research student, Mr. J. R. L. Schneider, B.Sc., have assisted with the heavy statistical work, and Miss Joan Ambrose and Mrs. W. M. Timms have performed the secretarial work of the Enquiry with energy and success. Mrs. E. J. Condon greatly assisted with the proofs and with the Index.

G. FINDLAY SHIRRAS

15th January 1944

APPENDIX I

*Abstract of the Leading Recommendations of the Royal Commission on Dominion-Provincial Relations*¹

THE Report which the Commission has prepared is the outcome of two and a half years of carefully planned study. In the present summary the aim is to set out the principal recommendations embodied in the Report and to indicate briefly the reasons for them. At the heart of the problem lie the needs of Canadian citizens. The basic problem before the Commission lies, therefore, in finding a way in which the financial position of the Provinces could be improved and assured, without disastrous financial consequences to the Federal Government on whose efficient functioning all Provinces are dependent. National unity must be based on Provincial autonomy, and Provincial autonomy cannot be assured unless a strong feeling of national unity exists throughout Canada.

The Commission did find one onerous function of government which cannot, under modern conditions, be equitably or efficiently performed on a regional or Provincial basis. This function is the maintenance of those unemployed who are employable and of their dependants. In reaching this conclusion (which is amply supported by the Evidence and the research studies) the Commission merely confirmed conclusions which had been reached by earlier Commissions. So firmly is the Commission convinced of the validity of this conclusion that, even when it comes to consider the situation which will arise if its main recommendations are not implemented, it proceeds on the assumption that the relief of the unemployed who are able and willing to work will become a Federal function.

Another function closely analogous to that of relief for employables is that of assistance to a primary industry (e.g. agriculture) in the form of operating cost advances. When relief is on a small scale the responsibility can be borne without difficulty by the Province. But in the event of widespread disaster with which a Province is unable to cope without assistance from the Dominion, or in the event that the Dominion by such means as an exclusive marketing organisation has already established effective control of the industry concerned, the Commission recommends that the Dominion should assume direct administrative and financial responsibility rather than render indirect assistance by way of advances to the Provinces affected.

The Commission's treatment of these expensive functions of government may be contrasted with its treatment of another expensive function, namely the payment of non-contributory old-age pensions. As the Federal Government is already paying as high a proportion of their cost as it can reasonably pay without assuming control of the administration of the pensions, and as the Commission was convinced that it is more satisfactory that the Provinces

¹ *Vide* Report of the Royal Commission on Dominion-Provincial Relations, Book II, Section G. The Appendix above is a summary of the abstract in the Report.

should continue to administer non-contributory old-age pensions, it could not recommend any further financial help to the Provinces in this connexion. But the Commission is of the opinion that if non-contributory old-age pensions were to be superseded or supplemented by a contributory system the latter should, for various reasons, be under the control of the Dominion.

There is, however, an important financial burden of which Provincial Governments can be relieved without any sacrifice of autonomy. This is the deadweight cost of their debt service. The burden taken up by the Dominion, if it were to assume this deadweight cost, would be less than the burden of which the Provinces were relieved because, as maturities occurred, the debts could be refunded more advantageously by the Dominion than by the Provinces. To this extent a saving would accrue to Canadian taxpayers. The Commission has, therefore, recommended that the Dominion should assume all Provincial debts (both direct debts and debts guaranteed by the Provinces) and that each Province should pay over to the Dominion an annual sum equal to the interest which it now receives from its investments. The reason for this proviso is that it would not be expedient that the Dominion should take over liability for a debt which represented a self-liquidating investment retained by a Province. Conditions governing future Provincial borrowing are outlined in detail in the Report.

In the case of one Province this recommendation as to debt requires an important modification. The Provincial debt of the Province of Quebec is low in comparison with the *per capita* debt of other provinces, and is an unusually low fraction of the combined municipal and Provincial debt of the Province. To meet this situation, which has arisen through the policy of this Province in imposing on municipalities onerous functions which are performed elsewhere by Provincial Governments, the Commission has recommended that the Dominion should take over 40 per cent of the combined Provincial and municipal net debt service in Quebec.

If the Provinces are relieved, in accordance with this recommendation, of the deadweight burden of their debt, it is not unreasonable that they should surrender to the Dominion the subsidies, whatever their character, which they now receive. Prince Edward Island alone would give up subsidies more than equivalent to the deadweight cost of its debt, and, as will be seen, this apparent loss will be more than made up in other ways. The abolition of the Provincial subsidies will be in itself no inconsiderable reform, for their history is long and tortuous. The subsidies have been based on no clear principles and it has been impossible to say whether or not different Provinces have received equal treatment.

The Commission had also to consider how to provide the Dominion with sources of revenue which would enable it to carry its new burdens. This enquiry (as will be seen) was combined with the consideration of efficiency and equity in taxation specifically entrusted to the Commission. There could be no question of increasing the legal taxing powers of the Dominion since these are already unlimited. But the Provinces, in return for the benefits which they would receive, and for further payments which the Commission finds it necessary to recommend, should be prepared to renounce some of the taxes which they employ (or are entitled to employ) at present.

The Dominion, for its part, should be able and willing to refrain from competing with the Provinces in respect of sources of revenue left to them and should leave the Provinces free to collect these revenues in whatever way appears to them most efficient even if the method of indirect taxation should be involved.

Just as the assumption of Provincial debts by the Dominion will lead to savings in interest from which taxpayers will benefit, so there are several taxes from which, if they are under unified control, as great a revenue can be obtained as at present with less hardship to the taxpayer. What is more important, a reorganisation of these taxes, of a character which is possible only if they are under unified control, can remove many hindrances which in the recent past have been detrimental to the expansion of the national income (i.e. to the sum-total of the incomes of all citizens of Canada). As this income expands, as the result of what may be fairly termed greater efficiency in taxation, the same revenue as at present can be obtained by taxes imposed at lower rates than those of to-day.

The first of the taxes which the Commission recommends that the Provinces should renounce is the tax on personal incomes. Not all Provinces impose this tax. Those which get most revenue from it are often taxing incomes which other Provinces think that they should have a share in taxing, because they are in part at least earned in them although they are received in those Provinces in which investors live, or in which large corporations have their head offices. Nor is this all. The general equity of the whole Canadian tax system — and the Commission has been instructed to concern itself with equity as well as with efficiency in taxation — requires that the tax on personal incomes, which is one of the very few taxes capable of any desired graduation, should be used to supplement other taxes and should be uniform throughout Canada.

The second form of taxation which the Commission recommends that the Provinces should forgo includes those taxes imposed on corporations which individuals or partnerships, carrying on the same business as the corporation, would not be required to pay, and taxes on those businesses which only corporations engage in. They include, therefore, the tax on the net income of corporations and a multitude of taxes devised to raise revenue from particular classes of corporations which a Province cannot conveniently subject to a tax on net income. They do not include *bona fide* licence fees, the power to impose which would remain with the Province. These Provincial corporation taxes are peculiarly vexatious to those who pay them and particularly detrimental to the expansion of the national income. The cost of tax compliance is high. The tax is often payable by a corporation which has no net income. The tax is very likely to be a tax on costs rather than on profits. These taxes are also a frequent source of interprovincial jealousy. Great benefits may be expected if they are swept away and the equivalent revenue raised by Federal taxes chiefly on corporate net income.

To ask the Provinces to give up the entire revenue which they now derive from taxing corporations would, however, intensify a grievance of which the Commission received complaint in more than one Province; for the Dominion would receive a tax on income which was in part derived

from the depletion of irreplaceable natural wealth. It is clearly desirable that revenue of this character should be used for developmental work which will compensate for the damage which has been done to the resources of a Province. The Commission has, therefore, recommended that the Dominion should pay over to the Province concerned 10 per cent of the corporate income derived from the exploitation of the mineral wealth of the Province. When what is required is the conservation of natural resources by maintaining their productivity, rather than compensation for depletion by new investment, the Provinces are in a position to use their own taxing power.

The third tax which the Commission recommends that the Provinces should forgo consists of various forms of succession duty. These differ from the income taxes in that they have not hitherto been used by the Dominion : but they are taxes to which the Dominion might at any time be compelled to resort. The use made of them by the Provinces has given rise to bitter complaint because the Provinces have not made equitable arrangements with one another so as to tax each item in an estate in one Province only. The differences in rates between Provinces, and the dangers of double taxation, seriously distort investment in Canada.

At this point there must be a refinement in the calculations. What is significant for the purposes of the Commission is the size of the surplus or deficit which would exist in a Province if it were to provide the normal Canadian standard of services and impose taxation of normal severity. It is not the services which each Province is at present providing, but the average Canadian standard of services, that a Province must be put in a position to finance. It is not the revenue which its taxes yield at their present level which matters, but the revenue which it would derive from them if its people were as heavily taxed as Canadians in general. Just as in the case of debt it is necessary to take account of the fact that some Provinces are more accustomed than others to provide services for their people through municipalities or other agencies instead of directly. The Commission has, therefore, attempted to compute, Province by Province, what the cost would be if the Province and its municipalities taken together were to provide services on the Canadian standard. Adjustments have been made for the cost of the developmental services appropriate to the Province, and for the weight of taxation in the Province. The result has been that the Commission has been able to make a recommendation as to the amount, if any, which each individual Province should receive from the Dominion annually to enable it to provide normal Canadian services with no more than normal Canadian taxation. The Commission recommends that each Province found to be in need of such a payment should receive it by way of an annual National Adjustment Grant from the Dominion. This grant as originally fixed would be irreducible. The Commission recommends, however, that National Adjustment Grants should be re-appraised every five years. For special emergencies, which might arise in respect of any Province (and which exist in one Province to-day), special provision should be made, as it would be undesirable either to fix an annual grant in perpetuity on the basis of conditions that are transitory, or to fail to provide for serious emergencies.

The Commission also recommends the establishment of a small permanent

commission (which may be called the Finance Commission), assisted by an adequate technical staff, to advise upon all requests for new or increased grants, and to re-appraise the system of grants every five years.

The recommendations which have been described would, if implemented, safeguard the autonomy of every Province by ensuring to it the revenue necessary to provide services in accordance with the Canadian standard. Every Provincial Government (including those whose position will be so good as to make adjustment grants unnecessary) would be placed in a better financial position than it is in to-day. And the financial position of every Province would be immeasurably more secure than it is to-day. The Commission looks on this as its primary achievement. It is convinced that this fundamental problem must be faced and it has not been able to discover any alternative way in which it could be solved.

The recommendations which the Commission has made must be judged as a whole. They cannot with fairness either to the Provinces or to the Dominion be considered in isolation for any one of them taken alone might produce grotesque results.

At what cost, it may be asked, will the Provinces have secured these advantages? There will be a certain cost to the Dominion and, therefore, to the Dominion's taxpayers. The taxes forgone by the Provinces, if replaced by Dominion taxes of equal yield, would not provide all the money which the Dominion will probably be called on to pay under the Plan. It is necessary to say "probably" because the Dominion, unlike the Provinces, will be left with highly variable expenditures (*e.g.* those on unemployment relief) and variable revenues. The long-run effects of the proposed arrangements should, as has been explained, be to increase employment and to increase the national income and, therefore, the national revenue. But the expectation of the Commission is that the Dominion, in the first instance, will have to increase taxes somewhat. Even without increasing tax rates it will obviously increase the taxes payable by citizens of those Provinces which have no personal income tax to-day. It is hardly necessary to add that, in view of the end to be attained, the price seems low.

There will, of course, be adjustments. At every stage of the Commission's enquiry it has endeavoured to frame recommendations which, if implemented, will avoid the minor hardships or inequities that might result if the measures which have, perforce, been somewhat crudely described in this summary, were crudely applied. One or two examples will be given here. Others will be found in the Report itself. But the whole spirit of the Report would suggest that analogous adjustments should be made, even if the Commission has not thought of them and, therefore, has not mentioned them.

If the administration of a service or the collection of a tax is transferred from one Government to another it is desirable that those who have administered the service or collected the tax in the past should continue to do so in the future and that their skill and experience should not be lost to the nation nor their personal expectation of continuous employment disappointed. The Commission has, therefore, recommended that the Dominion, if it takes over a Provincial function, should continue the employment of those previously employed by the Provincial Government concerned. This recommendation

is particularly important when questions of language are involved.

If a tax now levied by one Government is to be replaced by a tax levied by another the new tax should be adjusted to the circumstances of the people on whom it is to be imposed, and advantage should be taken of the opportunity to design the new tax as equitably as possible. Thus, if the Dominion collects succession duties, it is important that the administration for their collection should be decentralised and that small estates should be rapidly cleared without correspondence having to go through Ottawa. And the taxation scales should be arranged so as to tax an estate more lightly when it is divided among many children.

If legislative powers (*e.g.* in relation to unemployment insurance) are to be conferred on the Dominion in addition to those which it now enjoys, it is important that they should be strictly defined so as to avoid the danger of their being extended by interpretation in unexpected ways which might interfere with the civil code in Quebec, or with the corresponding interests of other Provinces.

This brief summary would lose its way among details were it to attempt to enumerate the recommendations — some of them important recommendations — which the Commission has felt bound to make in its Report. What has been said should indicate the structure of the Dominion-Provincial financial relations which would, in the opinion of the Commission, characterise a healthy Federal system in Canada. Before passing on to mention a few of the subsidiary recommendations, it may be worth while to point out that the Commission's financial proposals are, in terms of the economic life of 1939, very similar to what the provisions of the British North America Act were in terms of the economic life of 1867.

As far as the municipalities were concerned, they are the creatures of the Provinces in which they are situated and their financial powers and duties are such as the Province chooses to confer on them. The financial plan which has been described has taken account of municipal expenditures and taxation as part of the Provincial picture and it will, if it is implemented, have very important indirect effects on municipal finance. It will relieve the municipalities of their share in providing relief for employables and their dependants. It will put every Provincial Government in a better position than it is in to-day for extending such aid as it may think fit to its municipalities, whether by relieving them of the cost of services which they now perform, or by contributing financially to the cost of these services.

In respect to marketing legislation great difficulty has been experienced in framing Dominion and Provincial legislation which will cover the whole field, even when the wishes of Dominion and Provinces are identical. The Commission has sought to remedy this situation by recommending that the Dominion and the Provinces should have concurrent legislative powers to deal with the marketing of a named list of natural products to which additions may be made from time to time by common consent.

Nor is this the only instance in which it has seemed appropriate that a power of delegation should form part of Canadian Federal relations. The Commission has recommended that this power should be quite general and that the Dominion should be able to delegate any of its legislative powers to

a Province, and that a Province should be able to delegate any of its legislative powers to the Dominion. Delegation should provide a convenient means of dealing with specific questions as they may arise from time to time without limiting in advance the power of either the Dominion or the Provinces. In some instances one or more of the Provinces might be prepared to delegate powers to the Dominion while other Provinces were unwilling, and in such cases the advantages of a power of delegation over constitutional amendment would lie in flexibility.

The Commission has come to consider the transportation problem of Canada one of the problems which cannot be solved without close collaboration between the Dominion and the Provinces. It realises, however, that its own technical competence is slight in this field and has, therefore, confined itself to discussing the issues which will have to be faced, in the hope of doing something to clarify the problem of jurisdiction. It points out, however, the great advantage which might be derived from a Transport Planning Commission which would be concerned both with planning transportation developments in a broad way, and with facilitating the co-operation between the Dominion and the Provinces in transportation matters which is necessary for the taxpayer.

Co-operation between the autonomous Governments of the Federal system has to-day become imperative. The Commission recommends as the principal means to this end that Dominion-Provincial Conferences, which have hitherto met at infrequent intervals, should now be regularised, and provision made for frequent meetings, say every year. It urges further that the Conference should be provided with an adequate and permanent secretariat for the purpose of serving the Conference directly, and of facilitating co-operation between the Dominion and the Provinces in general.

In conclusion of this summary it remains to add that the decisions underlying the recommendations contained in the Report were reached before the outbreak of war. The Commission decided, after deliberation, to complete the Report exactly as it would have been completed had war not been declared. The basic recommendations of the Commission concerning the re-allocation of the functions of Government and the financial relations of the Dominion and the Provinces were framed with the possibility of emergencies in mind and are, it is hoped, sufficiently flexible to be adjusted to any situation which the war may produce.

Of the subsidiary recommendations many are concerned with matters not in the least likely to be affected by the strains and stresses of war, while some may require modification in the light of events. The need for some action designed to enable the people of Canada to throw their whole weight into any great national effort, such as the struggle to which they have committed themselves, and at the same time to ensure the smooth working of the social and educational services on which the welfare of the mass of the people depends, is far greater and far more urgent in time of war and of post-war reorganisation than it is in time of peace. And it is precisely to these two main objectives that the chief recommendations of the Commission have been directed.

The financial proposals have been designed to enable every Province of

Canada to rely on having sufficient revenue at its command in war-time as in peace-time, in years of adversity as in years of prosperity, to carry out the important functions entrusted to it. They are also designed to produce this result while leaving the fiscal powers of the Dominion as wide in fact as they have always been in law, so that it may direct the wealth of the nation as the national interest may require. If some such adjustment of Canadian economic life appeared sufficiently urgent to lead to the appointment of the Commission in time of peace, how much more urgent is it in time of war? How much more urgent will it be in the critical transition from war to peace again? The Commission does not consider that its proposals are either centralising or decentralising in their combined effect but believes that they will conduce to the sane balance between these two tendencies which is the essence of a genuine Federal system and, therefore, the basis on which Canadian national unity can most securely rest.

JOS. SIROIS, *Chairman*

JOHN W. DAFOE

R. A. MACKAY

H. F. ANGUS

ALEX. SKELTON, *Secretary*

ADJUTOR SAVARD, *French Secretary*

APPENDIX II

Summary of Recommendations, made in the Report by the American Committee on Intergovernmental Fiscal Relations (Dr. Luther Gulick, Dr. Harold M. Groves and Dr. Mabel Newcomer), in Terms of an Action Programme for each Level of Government

I. FEDERAL GOVERNMENT

A. For Immediate Action

1. Negotiate with State representatives and pass legislation to create a Federal-State Fiscal Authority.
2. Amend the income tax law to make State income taxes deductible on an accrual basis even though other expenses are reported on a cash basis.
3. Revise, modernise and broaden the death tax credit.
4. Give the Federal estate tax a thorough overhauling, integrating death and gift taxes, substantially reducing exemptions and co-ordinating the Federal and State taxes.
5. Eliminate tax-exempt securities in a manner to secure States and municipalities against loss arising from the taxability of their securities.
6. Defeat discrimination resulting from State community-property laws by providing that they shall not apply in the operation of Federal tax laws.
7. Provide a clearing-house and "board of appeals" (Federal-State Fiscal Authority) for more careful and consistent treatment of payments in lieu of property taxes on Federally owned property. Such payments should be generous, especially during the war.
8. Provide a special joint committee of Congress to consider legislative proposals for payments in lieu of taxes; provide facilities for maintaining a permanent inventory of Government property.
9. Allow State sales tax application to contractors working on Government orders.
10. Modify and improve the co-ordination and efficiency in unemployment compensation by increasing the Federal credit from 90 to 100 per cent and requiring the States to furnish part of the cost of administration.
11. Disallow sales taxes as a deduction in Federal income tax practice; if the deduction is retained, make it general and not conditioned upon certain technicalities in the tax law.
12. Pay more heed to cost of compliance in framing tax laws.
13. Extend the Civil Service coverage to include all personnel engaged in Federal tax administration.
14. Consider the provision of a suitable bond instrumentality for the investment of State and Local surplus funds during the war. This might take

the form of a non-negotiable bond redeemable after the emergency or upon a showing of war-created need, and to be matched by the Federal Government if used for approved public works.¹

15. Continue and enhance co-operative efforts to improve State and Local accounting and reporting ; provide annual compilation of cost of government and total taxes.
16. Expend more effort on Federal-State collaboration in the administration of overlapping taxes.
17. Repeal the automobile use tax, or, if it is retained, require receipt as a condition for obtaining a State licence.
18. Further promote better uniform governmental accounting and reporting.
19. Assume the responsibility of annual calculation and publication of the over-all cost of government and other fundamental fiscal data.
20. Cultivate an attitude which regards States and Localities as partners in a joint enterprise.

B. For Immediate or Future Action

21. Develop in consultation with the States, standard rules for income and death tax jurisdiction ; develop suitable rewards for State compliance with these rules and other suitable procedures so that the Federal Government may serve as an umpire in multiple taxation disputes.
22. Develop in consultation with the States rules of uniform income tax procedure ; promote the adoption of such rules looking toward single administration of a relatively uniform State and Federal income tax.
23. Adopt a Federal-Collection-State-Sharing programme for the tobacco tax.
24. Enact legislation providing for Federal incorporation of corporations doing an inter-State business.
25. Provide distribution of welfare grants to the States through a graduated bracket system as suggested in the Connally amendment.

C. For Future Action

26. Abandon motor vehicle taxes to the States reserving the right to tax motor fuel used in aviation.
27. Inaugurate a thorough study of the cost of tax compliance and the burden of multiple taxation on inter-State companies ; reserve action on centralisation of business taxes until this evidence is available.
28. Use a public investment technique (if necessary) to cope with post-war deflation and unemployment ; dual Budget ; creative public works (health, housing, nutrition and regional development) ; full liquidation of outlays.
29. Reduce repressiveness of the tax system by de-emphasising business taxes and by equalising burden upon equity-financed companies compared with those financed by means of indebtedness (through a partial credit to the corporation for dividends paid out).
30. Broaden Federal aid to include relief and elementary education.
31. Broaden the Social Security programme to include uncovered groups under

¹ Written before recent developments which cover, to some extent, the needs of the States.

- old-age insurance and unemployment compensation. This would not only provide more equitable coverage but would also make possible some simplification of pay-roll taxes.
32. Recognise a national minimum status for elementary education by provision of a differential (equalisation) grant.
 33. Provide controls which will ensure improvement in the division of educational revenues, local districting, and the quality of the educational product, at the same time ensuring against coercive interference with Local autonomy and minority views concerning education.
 34. Provide for Federal scholarships to ensure the adequate development of talent through higher education.
 35. In the interest of simplification, repeal Federal liquor licence fees retaining licences where needed for administration.

D. Contingent Action

36. If a Federal retail sales tax is enacted, provide legislative implementation and administrative action to ensure the fullest co-operative use of State personnel and machinery.

II. STATE GOVERNMENTS

1. Negotiate with Federal representatives and collaborate in the development of a Federal-State Fiscal Authority.
2. Negotiate with Federal officials and Congress to inaugurate a programme for the elimination of tax-exempt securities in such manner as not to embarrass States and municipalities fiscally.
3. Tighten property exemption provisions; relax ceiling and uniformity requirements as to Local property tax levies; develop more adequate supervision of property tax administration.
4. In collaboration with municipalities, refrain from demanding unreasonable war-time aid from the Federal Government, thus recognising the importance of Local independence.
5. Apply surplus revenues, where possible, to the elimination of debt and the development of a reserve against war-time loss of revenue and post-war need for public works.
6. When revenues will permit, allow Federal income taxes as a deduction in calculating State income taxes.
7. Redouble attack on trade barriers, multiple taxation, and special inducements for the location of industry; use of education, reciprocal agreements and inter-State compacts toward these ends; pass legislation allowing credit to new residents for automobile licence taxes paid in the same year to other States.
8. Collaborate with the Federal Government looking toward Federal arbitration of jurisdictional disputes and joint determination and promotion of uniform practices in income and business taxation especially with regard to questions of jurisdiction.
9. Further collaborate with the Federal Government in the joint administration of overlapping taxes.

10. Adopt legislation on their own initiative that would make payment of Federal automobile use tax a condition for the receipt of a State licence.
11. Mitigate the rotten borough system by providing more adequate representation for cities in State legislatures.
12. Give more consideration to cities in the distribution of shared taxes, particularly motor vehicle taxes.
13. Adopt enabling legislation that would permit cities to supplement the general property tax with a rental tax on occupiers.
14. Adopt enabling legislation that would facilitate surplus financing during war-time.
15. Adopt legislation requiring more adequate and more uniform governmental accounting and reporting.
16. Cultivate an attitude that regards all Governments as partners in a joint enterprise.
17. Collaborate with the Federal Government on a broader and more generous programme of Federal aids, accepting controls, but insisting that they be co-operatively applied rather than dictated.

III. MUNICIPAL GOVERNMENTS

1. Negotiate with Federal representatives and collaborate in the development of a Federal-State Fiscal Authority.
2. Negotiate with Federal officials and Congress to inaugurate a programme for the elimination of tax-exempt securities that will not fiscally embarrass States and municipalities.
3. In collaboration with States, refrain from demanding unreasonable war-time aid from the Federal Government, thus recognising the importance of Local independence.
4. Apply surplus revenues, where possible, to the elimination of debt and the development of a reserve against war-time loss of revenue and post-war need for public works.
5. Broaden the property tax programme by supplementing the property tax with a rental tax on occupiers.
6. Strictly interpret property tax exemptions.
7. Inaugurate a thoroughgoing study of possible new sources of independent Local revenue.
8. Study successful procedures for safeguarding reserve funds, and enact legislation needed for this purpose.
9. Develop more metropolitan co-operation and the use of large metropolitan districts for financing functions of common interest.
10. Emphasise raw-material-producing districts' claim upon aids and shared taxes because their tax base does not represent their contribution to the national product.
11. Demand more equitable representation in State legislatures.
12. Demand more equitable distribution of shared revenues, particularly motor vehicle taxes.
13. Provide for more adequate governmental accounting and reporting.

14. Cultivate an attitude which regards all Governments as partners in a joint enterprise.
15. Prepare for collaboration with the Federal Government in a post-war public investment programme.
16. Collaborate with the Federal Government on a broader and more generous programme of Federal aids, accepting controls, but insisting that they be co-operatively applied rather than dictated.

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