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CANADIAN FEDERAL FINANCE

BY

J. S. PRENTICE

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IN the July, 1915, and October, 1918, numbers of the *Queen's Quarterly* there appeared two articles by Dr. O. D. Skelton under the above caption, offprints of which were afterward issued as Bulletins 16 and 29 of the Departments of History and Political and Economic Science of Queen's University. In them he reviewed Canadian war finance down to midsummer, 1918. It is the purpose of this article to continue this survey to the close of the fiscal year 1925-26, by which time the country had adjusted its finances to peace conditions and was moving forward, at long last, to a period of renewed prosperity. The years 1913 to 1926 will however be viewed as a whole so as to get the correct perspective of post-war finance.

The war found Canada in the midst of a period of readjustment following a decade and a half of almost continuous prosperity. Free land in the area adjacent to the railways in the west was being rapidly exhausted. Homestead entries had reached their peak in 1911 when 44,479 had been made, and by 1914 had fallen off to 31,829. Immigration continued to rise until 1913 when it reached the enormous figure of 402,432. In 1914 Hon. W. T. (now Sir Thomas) White, Minister of Finance, estimated that the immigrants of the previous year had brought in capital goods to the value of $100,000,000. Since the beginning of the century about 2,000,000 immigrants had entered bringing with them over $1,000,000,000 in foreign capital. At first they had to buy, in large quantities, needed supplies, while their own productivity only gradually became of economic importance. In the meantime they had been provided with schools, colleges, hospitals, roads, railways, postal and judicial services, and all the other conveniences of a modern state at enormous expense to the country. Urban centres felt the full influence of the national optimism. Prairie towns pictured themselves budding cities, and cities budding metropolises, with the result that they expanded and provided themselves with equipment far beyond the country's needs. Meantime lands adjacent to towns east and west had been subdivided and sold as town lots. With altogether too much truth half a dozen other cities might have had the story told of them which is related of Edmonton. A man from the Windy City is alleged to have asked an Edmontonian, "Say, Eskimo, how big is Edmonton, anyhow?" to which the answer was given, "Oh! about the same size as Chicago, only it is not all built up yet." The single tax on land values, which had appeared in Vancouver in 1910, and had reached Saskatchewan towns by 1912, had encouraged the erection of scattered residences, and the extension of all municipal facilities far out into these subdivisions, thus enormously increasing municipal indebtedness. But, for the time being, all this development, urban as well as rural, spelt prosperity to mining, forest and industrial enterprises. Capital flowed into the country as never before. Hundreds of new concerns were established and old ones extended. In consequence of this vast amount of industrial and railway construction, as well as of the equipment of new farms, imports had mounted rapidly, while exports had, until 1912, remained fairly constant. But by that year a change had come. The majority of new industries and immigrants had become producers. Exports were rising and imports were rapidly declining. Then the 1913 economic crisis broke on the world, and on Canada in exaggerated form. The period of immigration, homestead entries, urban development, suburban lots, and Calgary oil leases had been brought to an end. The government, therefore, found the chief source of revenue—the tariff—drying up. To make matters worse, the war broke out while the country was slowly struggling to put her house in order and was totally unprepared for a second, and even greater convulsion in eighteen months.

At the outbreak of war the railways provided the most serious problem, from the standpoint of Dominion finances. By the beginning of the century it had already become evident that the single track line of the Canadian Pacific Railway would soon become inadequate to handle the rapidly increasing output of western farms. Consequently the government and the Grand Trunk Railway had combined to provide a second transcontinental system. The government was to build the line from Winnipeg eastward and lease it to the Company, while the latter was to build that from Winnipeg to the Pacific coast at its own expense but with government subsidies. The outbreak of hostilities found this system still uncompleted. It was deemed imperative to press forward construction so as to provide Canada with a second line of communications between east and west, and with an additional outlet for western produce, and to bring the enormous investment already made to a producing stage as quickly as possible. Meantime the Canadian Northern Railway, which had begun as a western system, had invaded Ontario in 1910 and was building through the Rockies to Vancouver when war was declared. Thus there were two unfinished transcontinental systems which had to be pressed forward to completion at war prices if the country was not to suffer the even greater losses that would be involved in the deterioration of work already completed, and in the payment of interest during the war on the money invested. In addition to these two systems the government had, in the fiscal year 1912-13, given way to western pressure and commenced construction of the Hudson Bay Railway as a national undertaking, and it was deemed unwise to resist the demand from the same quarter that construction of this line too be pushed forward. Table I[1] gives an indication of the very heavy burden which these

TABLE I[1]

Dominion Expenditure on Railways
(in thousands of dollars)

	CAPITAL ACCOUNT			Consolidated	Other Disbursements		
	I.C.R.	N.T. & H.B.R.	Govt. Rys.	Fund	Loans	Subsidies	Total
1913	2,509	16,378	....	14,433	*11,133*	4,935	49,390
1914	4,477	19,772	....	15,667	*21,372*	19,036	80,325
1915	7,484	17,421	....	14,603	*31,587*	5,191	76,288
1916	9,211	14,712	....	21,448	....	1,400	46,772
1917	5,482	9,254	....	27,874	*25,664*	959	69,234
1918	....	1,892	32,999	35,293	*33,004*	720	103,910
1919	....	2,285	14,827	46,053	*60,126*	43	123,336
1920	3,288	762	22,307	9,602	45,780	334	82,074
1921	731	50	6,221	9,990	100,662	....	117,556
1922	106	34	1,239	8,624	97,950	....	107,954
1923	59	27	1,313	7,691	77,863	....	86,954
1924	196	207	—94	2,126	23,710	—1,523	24,623
1925	....	—124	24	1,996	9,934	....	11,830
1926	....	—2	—30	745	10,000	....	10,713
	33,548	82,672	78,812	216,150	548,789	31,088	991,061

railways laid on the shoulders of government and country in the years of war and reconstruction.

The table serves to remind one that the Intercolonial Railway was, in the opening years of the war, even more unsuccessful than usual in balancing its accounts, and that it was not until the fiscal years 1917-18 and 1918-19 that the heavy military traffic provided it with a sufficient revenue. The National Transcontinental reached its peak of expenditure in 1912-13 at $15,000,000, thereafter declining to $6,-600,000 in 1916-17. The Hudson Bay Railway figures—$4,500,-000 in 1913-14, $4,900,000 in 1915-16, $1,900,000 in 1917-18, and $500,000 in 1918-19—indicate the fact that the temporary abandonment of this work only took place *when the war was over*. Meantime the italicized figures under "Other Disbursements: Loans" represent advances to the Canadian Northern, down to its being taken over by the government in 1917, of $56,500,000 and to the Grand Trunk and Grand Trunk Pacific of $42,200,000, in addition to G.T.P. bond purchases to the extent of $33,000,000 to maintain their price in the market, down to the passing of both into the hands of a receivership in 1917. The "Canadian Government Railways" were formed in that year by the uniting of the Canadian Northern with the National Transcontinental and I.C.R. and connected systems. The effect of this amalgamation is shown in a sharp decline in capital expenditures as shown under these separate headings and the appearance of a new and formidable item "Government Railways", which demanded very large sums during the next three years for the purposes of rehabilitating and organizing the lines—$33,000,000 in 1917-18 and $22,-300,000 in 1919-20. The rise under Consolidated Fund account from $27,900,000 in 1916-17 to $46,000,000 in 1918-19 is to be explained in the same way. In 1920 the Grand Trunk and Grand Trunk Pacific receiverships ended with the taking over of these railways also by the government, the whole of the publicly owned lines being now known as the Canadian National Railways. At the same time the finances of the system were separated from the general budget. Expenditures from 1921-22 onward, under Capital and Consolidated Fund Accounts either relate to the Hudson Bay Railway (not yet taken over), or to old obligations which it was felt the government ought to fulfil out of these funds. Assistance to the new system, since 1920, has been credited to "Loans", under "Other Disbursements." It is encouraging to note that these loans have declined from $45,780,000 in 1920-21 to $10,000,000 in 1925-26.

The significance of these railway figures will be seen when we place them in relationship to our war and other expenditures of the period. Thus, our total cost for War and Demobilization, to the close of the year 1925-26, was $1,694,-000,000, while that of our railways was $991,061,000, or 58% as much. It must also be remembered that only about $200,-000,000 of this was for Capital expenditure, or in other words, constructional work; $800,000,000, or *approximately half of our war bill,* was spent on bolstering up our system. Or, to put the position another way, the total figure for bonuses, loans, stock subscriptions, cash subsidies, bond guarantees, etc., etc., to private companies, and for expenditures of all kinds on government railways from 1850 to 1926 was $1,790,000,000, of which approximately 55% was incurred during *the period of war and reconstruction.* What proportion of this billion dollars spent on railways since 1914 may properly be charged as a war expense it is impossible to say. Some portion of it is due to the fact that the war's demands for capital made it difficult, if not impossible, for railways to raise money by ordinary market financing, thus placing the burden on the government; some that the war caused a sharp rise in prices, and so enormously increased the capital cost of the 10,000 miles of lines under construction; and some that the rise in prices was much more rapid than railway rates, thus leaving the railways in the condition of being constantly worse off than before the war, and causing the people to pay in taxes what they would normally have paid in rates. One can only conclude that a considerable proportion of the five hundred millions shown under "Loans" should be written off as a subsidy to the railways, and charged as a war cost.

Turning now to the actual costs of the war, Table II[2] fairly well indicates the enormous burden we have assumed. The "Interest on Debt" column includes that on pre-war debt, as it would be next to impossible to separate it from the war debt. Otherwise the table includes only war costs. The size of these figures may be indicated by the fact that only in 1912 did the Dominion revenue become large enough to meet the interest on the debt in 1926; that down to 1890 it was only large enough in the years 1883 and 1889 to pay our 1926 pension bill; and that war and demobilization between 1914-15 and 1919-20 cost more than all our national revenues from 1867 to 1909 inclusive. The total expenditure on debt, pensions, war and demobilization was $3,233,000,000, to the end of 1926, a figure almost exactly equal to our revenues from 1867 to Armistice Day, 1918.

The encouraging side of this table is to be found in the fact that the annual burden for interest on debt declined about nine million dollars between 1921 and 1926, both because of the conversion of maturing obligations into new ones at lower rates of interest, and because of the actual reduction of debt through the retiring of large blocks of maturing bonds. Furthermore, although the Pensions burden may seem to be moving in the wrong direction, since the figure for 1926 is the largest in the table, this can be explained by the dis-

Table II[2]

Debt, Pensions, War, and Domobilization
(in thousands of dollars)

	Interest on Debt	War Pensions	Soldiers' Civil Re-establishment	War and Demobiliz'n	Totals
1913	12,605	....	....	....	12,605
1914	12,893	....	....	....	12,893
1915	15,736	....	....	60,750	76,487
1916	21,421	307	....	166,197	187,926
1917	35,802	2,447	....	306,488	344,738
1918	47,843	7,262	....	343,836	398,942
1919	77,431	16,598	....	446,519	540,549
1920	107,527	23,308	45,869	346,612	523,317
1921	139,551	35,375	35,174	16,997	227,098
1922	135,247	34,828	17,781	1,544	189,401
1923	137,892	32,025	13,365	4,464	187,747
1924	136,237	32,344	10,312	446	179,339
1925	135,789	33,706	8,981	506	177,983
1926	130,691	35,970	7,734	191	174,587
	1,145,667	254,174	139,220	1,694,557	3,233,620

charge of large numbers of disabled soldiers, who had formerly been in military hospitals, or other institutions, and the consequent transfer of obligations connected with them from "Soldiers' Civil Re-establishment" to "Pensions."

Table III[3] summarizes our expenditures for the whole period. One is familiar with the oft-repeated story of the insatiable demands made by modern warfare upon the resources of a country, and some figures, which seem to bear this out, have been given. But, great as our war bill has been, when compared with our previous revenues, this table serves to show that it was only 52% of our total expenditure for the period under review. We have already noted that our railways were responsible for a billion dollars of our non-military budget. The "Defence" figures convey a very different impression. They remind us that, with all our vaunted equality of status we are to-day leaning more heavily on Britain for protection, than we were, wealth considered, before the war. But it is probably at least as justifiable to have our "navy" in the dry dock as to have it going the rounds of Maritime political picnics, as it was before the war. "Other Revenue Charges" show a sharp rise during the period for reasons definitely ascribable to the war. "Charges of Management of the Debt" rose from $483,000 in 1913 to $992,000

Table III[3]

SUMMARY OF EXPENDITURES

(in thousands of dollars)

Year	Debt Pensions and War	Defence	Railways	Revenue Charges Prov. Subsidies	Revenue Charges Other	Miscel.	Total
1913 . .	12,605	11,201	49,390	13,211	14,876	54,304	155,589
1914 . .	12,893	13,157	80,325	11,280	17,529	72,427	207,613
1915 . .	76,487	11,350	76,288	11,451	20,556	83,551	279,685
1916 . .	187,926	5,835	46,772	11,451	20,592	67,124	339,702
1917 . .	344,738	5,538	69,234	11,469	21,023	71,863	523,867
1918 . .	398,942	4,982	103,910	11,369	23,355	67,104	609,664
1919 . .	540,549	4,045	123,336	11,327	24,699	53,201	757,168
1920 . .	523,317	5,894	82,074	11,490	26,729	136,524	786,030
1921 . .	227,098	14,529	117,656	11,490	30,311	127,216	528,302
1922 . .	189,401	17,417	107,954	12,211	36,371	100,172	463,528
1923 . .	187,747	14,155	86,954	12,207	35,573	98,097	434,735
1924 . .	179,339	12,371	24,623	12,386	36,322	105,546	370,589
1925 . .	177,983	11,607	11,830	12,281	38,243	99,223	351,169
1926 . .	174,587	14,113	10,713	12,375	42,504	100,354	354,648
	3,233,620	146,198	991,061	166,002	388,687	1,236,715	6,162,316

in 1921. "Premium, Discount and Exchange" (to which account were charged and credited losses and gains connected with the making of sterling payments in London on debt and war account, and dollar payments in New York in connection with our borrowings there), rose from $19,000 in 1913 to $3,300,000 in 1922. Customs and Excise expenditures rose from $3,994,000 in 1913 to $5,955,000 in 1920. It should be noted under this head, however, that, although prices have been falling since 1921 the charges have continued to mount, touching $10,305,000 in 1926 owing to higher salaries and increased efforts to cope with smuggling along the international boundary. Post Office charges are also included here as being offset by revenues. They rose from $10,882,000 in 1913 to $20,696,000 in 1920 (due to war conditions), and to $32,099,000 in 1926, owing to increased salaries and more efficient service. Thus it is seen that the burden under "Other Revenue" Charges has risen, during the period, from $14,-876,000 to $42,504,000 and that a large part of the responsibility for the rise is to be laid at the door of the war.

One aim of this table is to isolate the expenditures of the developmental departments from those which might at best be described as necessary evils, as well as from those, which, while developmental, yield, like the Post Office, a large return to offset the expenditure. The Railways also have been placed in a class by themselves because, as has been shown, they bulk so largely in the expenditures of the period. All developmental expenditures, then, save those of the two departments in question, have been brought together under the head of "Miscellaneous." The chief Departments included are Agriculture, Canals, Immigration, Interior, Justice, Labour, Legislation, Marine and Fisheries, Public Works, and Trade and Commerce. The significant fact brought out by these figures is that these central departments spent a total sum which rose from $54,304,000 in 1913 to $83,551,000 in 1915 and then steadily fell to $53,201,000 in 1919. Thus, despite a rise in prices of 250% the cash outlay was, in the last year of the war back to the 1913 level. In other words, the government had cut its services to the public to about 40% of the pre-war level. The departments, on which the chief weight of the war fell, will be seen by examining Table IV[4]. These figures show that over a third of the 1912-13 expenditure was connected with Public Works and that almost the only cut of importance during the war came under this head. When the purchasing power of money is considered it becomes further evident that every department must have seriously curtailed services (or cut out wastes), but the Public Works Department cut its outlay from $19,525,000 to $5,736,-000. In 1913 this department expended 36% of developmental disbursements, but by 1919 this had been reduced to 22%. It may also be noted in passing that this figure was still further depressed by 1926 to a bare 20%. The sharp increase in Developmental expenditures after the close of the war is due to the launching of the Canadian Government Merchant Marine, which took $33,000,000 in 1920, $9,000,000 in 1921, and a constantly diminishing amount thereafter until in 1926 it was reduced to $668,000. The last four years' outlays are termed "loans", but we may well doubt, from past experience, whether the money will ever be returned or even interest paid on it.

The item "Provincial Subsidies" in Table IV serves to remind one that American critics of our system seldom recognize the fact that about 10% of our pre-war national revenues were paid out to the provinces as subsidies, and that this was part of the price of Confederation. Only in the Provinces of Ontario, Quebec and British Columbia, which derive large revenues from forests and mines, do the subsidies assume small proportions. Indeed, until 1900 direct taxation was all but unknown in Canada, and only became important when the inflation of prices during the war reduced the purchasing power of subsidies to less than half of their former value.

Table IV[4]

Expenditures of Developmental Departments
(in thousands of dollars)

Dept.	1913	1919	Dept.	1913	1919
Agriculture	2,647	3,434	Marine & Fisheries	4,579	3,694
Canals (capital) .	2,259	2,211	Public Works	19,525	12,000
Immigration	1,427	1,112	Trade & Commerce.	614	1,608
Interior	4,280	4,218	Miscellaneous	16,225	22,191
Justice	1,335	1,495			
Legislation	1,379	1,766	Totals	54,304	53,210

Canadian federal figures are not, therefore, comparable to American inasmuch as a very considerable portion of provincial, as well as of Dominion expenditures have been, until recently, financed out of Dominion revenue. Furthermore, in the column "Miscellaneous" there are included the Public Works Department figures, as we have already noted. A large part of them is made up of items that, in the United States to-day, would be left to the states or even towns. Indeed they were left in Canada to provinces and municipalities until the period of "abounding revenues" (as Sir Herbert Ames used to style them), before the war. Table V[5] provides a list of petty works taken over by the Dominion from the Provinces. It is from the list, in the Public Accounts known as "Harbour and River Improvements", but could be duplicated from that of "Buildings." The figures speak for themselves. That they are representative may be seen from the fact that of the 129 harbour works in Nova Scotia, in the same year, 39 had expenditures of less than $1,000, of the 28 in Prince Edward Island 15, of the 65 in New Brunswick 22, of the 133 in Quebec 50, of the 89 in Ontario 17, of the 10 in the Prairie Provinces none, and of the 46 in British Columbia 8. For the Dominion as a whole the smallness of these harbour works may be judged from the fact that, of the total of 500, only 3 were for amounts of over $500,000, 6 for sums between $100,000 and $500,000,7 between $50,000 and $100,000, 13 between $25,000 and $50,000, 44 between $10,000 and $25,000, 269 between $1,000 and $10,000, and 153 under $1,000. The nature of many of these items and the amount of real Dominion responsibility for them may be illustrated from the Mani-

Table V[5]

Harbour Works, Department of Public Works, 1912-13

		Smallest Work		Cost
Province	Total No.	Town	Work	
Prince Ed. Id.	28	H'd Peters' Bay	Reconstruction of wharf	$ 2.24
Nova Scotia	129	Cole Harbour	Wharf	22.55
New Brunswick	65	Green Point	Breakwater	38.44
Quebec	133	Ste Anne des Monts	Deep water wharf	50.42
Ontario	89	Belleville	Harbour improvements	26.72
Manitoba	6	Pelican Lake	Wharf	3492.12
Saskatchewan	2	Prince Albert	Wharf	9939.54
Alberta	2	Edmonton	Wharf	9660.10
British Columbia	46	Kalso	Wharf	20.27

toba instance, quoted in Table V, the project being in connection with the Provincial sanitarium at Pelican Lake. This policy of undertaking what are really Provincial or even municipal works may be compared with that of the United States where the present government insists that the works needed to protect the Mississippi valley states from a repetition of the 1927 floods are largely chargeable to the states concerned.

Revenues

Before turning to an analysis of the actual revenues of the Dominion, by means of which it was sought to meet our war and other national burdens, it may be well to make certain observations on taxation in general.

(a) The shells, guns, clothing, equipment, etc., etc., with which our troops had to be supplied in unheard-of quantities, had all to be provided by the generation then living. The actual burden of the war could not be left to future generations to bear. Those unborn would only be paying to others then alive such sums as we might, in war-time, have contracted for on their behalf. But the war generation could not, in any way, get possession of this future wealth. The *government* might postpone the obligation by borrowing, but the nation could not. Whether by taxing itself or by lending itself the money, it would have to find it. Those alive in 1914 had not only to produce the troops to fight but the entire supply of war materials for their equipment, and pay for both. This enormous demand on the existing population could only be met by saving. Luxuries had to be foregone so that the labour might be released from these trades and the cash raised to produce the supplies for our armies. It is true that by borrowing abroad the nation might postpone the obligation, but Canada did comparatively little of this during the war.

(b) Heavy taxation, either of the luxuries or of the incomes of the well-to-do, may be defended during a period of war, on the ground that it discourages or effectively prevents lavish expenditures on luxuries, on the part of those not sufficiently patriotic to be willing to contract their purchases of their own accord.

(c) Heavy taxation avoids the inflation of credit, and of prices which large scale borrowing seems inevitably to bring in its train.

(d) Heavy taxation avoids the complaint of those who go into the army, that while they fight others live in luxury and ease at home, by mobilizing the wealth of the country to assist the mobilized manpower to win the war.

(e) Heavy taxation during the war enables the country, in considerable part, to pay for the war while it is in progress, and thus avoid the crushing burden of taxation which has always come at the close of wars just when industry has had its war market cut off and is seeking to adjust itself anew to peace conditions.

These principles may be sound enough but it is not possible, over-night, on the declaration of war, to enhance taxation to the extent of being able to meet all obligations out of revenue. It always takes a year or more, after a new tax is imposed, before funds begin to flow into the treasury, at the permanent rate. Furthermore, the administrative problem of organizing the collection of a new tax is enormous, and to undertake the task during the first hectic weeks of a war would be impossible. Little can be done at that time beyond enhancing existing tax rates. Of course, not all taxes lend themselves to this treatment. It may well be that any increase in revenue could only, in certain instances, be secured by lowering rates, especially in certain protective tariffs, and that others would experience reduced returns if either enhanced or lowered. In some instances, too, to alter the rates would only result in striking a blow at industries already tottering under the shock of war. It is thus evident that not every item in the tax schedule can be made to yield additional revenue. This may be illustrated from the British revenue system during the war. From Table VI[6] it will be

Table VI[6]

British Tax Revenue Classified

(in thousands of Pounds)

	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19
Customs	35,450	38,662	59,606	70,561	71,261	102,780
Excise	39,590	42,303	61,210	56,380	38,772	59,440
Estate Duties.....	27,359	28,382	31,035	31,232	31,674	30,262
Stamps...........	9,966	7,577	6,764	7,878	8,300	12,438
Land Tax	700	630	660	640	665	630
House Duty.... ..	2,000	1,930	1,990	1,940	1,960	1,850
Income Tax	47,250	62,400	128,321	205,033	239,510	291,186
Excess Profits . ..	....	....	140	139,920	220,214	285,028
Land Values Duty	715	412	363	521	685	664
	163,029	189,305	290,088	514,105	613,040	784,278

seen that Britain derived her enhanced revenue as follows: £285,000,000 from Excess Profits Tax, £243,000,000 from Income Tax, £67,000,000 from Customs Duties, and £20,000,000 from Excise Duties. It is thus evident that Britain was dependent mainly on Excess Profits and Income Taxes, and that had the war ended at the beginning of 1917 the former would have played but a trifling role. The Excess Profits Tax was a new one, introduced in 1915 but not fully effective for *two years* thereafter, that is, not until the war had been in progress for three years. Britain's experience therefore serves to emphasize the moral that it is useless to wait until the beginning of a war to improvise new forms of taxation as they only yield substantial revenues after the lapse of at least two years. On the other hand, her income tax was of long standing. During the last four months of the fiscal year 1914-15 the tax was doubled and the response was immediate, the increase in revenue from this source being, as compared with the previous year, from £47,000,000 to £62,000,000. In the meantime enhanced Customs Duties had yielded only a bare six millions. In the first full fiscal year of war, 1915-16, revenues rose by £101,000,000, of which £62,000,000 came from Income Tax, and the balance in about equal amounts from Customs and Excise Duties. Had it been necessary to improvise the Income Tax during the war, nothing can be more certain than that the machinery could not have been put in operation sooner than in the case of the Excess Profits Tax, and Britain's financial strength, in the eyes of her allies, her enemies, and the world at large, would have been correspondingly impaired. It is true that Britain could look to her Customs and Excise Duties to an exceptional extent because her free trade policy had resulted in her imposing duties for revenue only, and therefore low in amount, and on only a few selected commodities like tea, coffee, sugar, rum, wines and other luxuries. This meant that, even though her trade with all of Europe save France, Italy, Spain, Portugal and Scandinavia was largely cut off, she was able, by widening and heightening her tariff wall, to increase revenues from this source from the very beginning of the war. As to the other sources of revenue only this need be said, that though they are not large in amounts, they diversify the system of taxation and render it more just in its incidence than it would otherwise have been. They one and all illustrate the point already made that not every tax can be made to yield additional revenue in time of need.

Turning now to Canadian taxation we find a very different situation. The war descended upon us while we were struggling in the depths of an economic depression. Our imports were dropping off sharply because of the contraction of foreign investments in Canada; because of our financial stringency, and because our tariff was encouraging us to buy the products of our factories at home. The depression had been aggravated because of the over-expansion of our towns and cities, especially in the west—an over-expansion which had resulted in such grievous indebtedness that the war shook the financial fabric of most of our municipalities to their foundations. The additional population on which many of them had depended to assist in carrying the tax burdens could not now be looked for, and not a few were temporarily compelled to repudiate their obligations, especially in Saskatchewan and Alberta. In their effort to pay their creditors our municipalities, at the beginning of the war, were forced to impose very heavy taxes—so heavy as to give Canada, when added to Dominion levies, as Dr. Skelton pointed out in *Canadian Federal Finance I,* a per capita taxation, national, provincial and local combined, in 1913, of $31.50 as compared with $30.90 in the United States and $24.63 in the British Isles. This combination of circumstances united to aggravate greatly the seriousness of the depression from which Canada was suffering when war broke out.

In view of the above figures of pre-war burden, it is interesting to note our actual tax legislation during the war. On the outbreak of hostilities the duties on coffee, tea, sugar, spirituous liquors and tobacco were all enhanced. In 1915 a further flat increase of 5% was made on all British Preference goods, and 7½% on all other classes, whether formerly free or not. In 1918 still further increases were imposed on tea, coffee, tobacco, matches, playing cards, automobiles, gramophones, player pianos, etc., and excise imposed on such as were produced in Canada. Since that date the only enhancement of the tariff was the quadrupling of the Customs and

Excise duties on spirits. The government had, however, as early as 1919, begun to respond to western pressure and "get off the backs of the people." The 5% levy on British preference goods, and 7½% levy on other goods were repealed, and, in addition, from 2½ to 5% was removed from various agricultural implements. Thus the reduction on implements was from 27½% to 20% on some and to 17½% on others. The tariff on cement was also lowered, to assist the needed construction of houses, there having been few erected since 1914. The tax on coffee was also reduced by 5 cents under the general tariff and 3 cents under the preference. In 1922 the serious economic condition in the west, owing to heavy taxation, and loss of markets in poverty-stricken Europe, forced a further reduction on farm implements, sugar, boots and shoes. In 1923 a cut was made of 10% on all goods, save liquors, under the British preference, and a special reduction was made on the sugar duty in the general schedules. In 1924 there were further reductions in duties on implements and other instruments of production used in agriculture, mining, lumbering and fishing. In 1925 the coal schedules were adjusted, some up and some down, in the interests of our mines. Definite cuts were also made in certain schedules of instruments of production overlooked the year before. Finally, in 1926 duties on certain foods, including coffee, and on automobiles were reduced. Thus, in the aggregate, there has been, on paper, a formidable reduction in our tariff wall. To what extent the critics are right in saying that our manufacturers have not suffered as the values at which various commodities have been admitted, have been scaled up, it is impossible to say.

Turning to the tax on sales, it should be noted that it partakes of the nature of a levy on consumption. It was imposed at the beginning of 1915, and remained unaltered until 1921 when it was increased, and the tax on the sale of foreign goods doubled. In 1923 the schedules were adjusted. But it was not until the sessions of 1924 and 1925 that the knife was finally applied and the tax seriously reduced.

Stamps on proprietary medicines, perfumes, money orders and postal notes, wines and liquors, imposed in 1915, were largely taxes on consumption. Taxes on railway and steamship tickets, berths, and pullman car seats, telegrams, etc., fell partly on consumption and partly on business, the former predominating. These were imposed in 1915 and enhanced in 1917, 1920 and 1921. Apart from the maximum tax on cheques, made in 1923, there had been no lightening of this burden up to the end of the period under review.

Turning now to taxes on production, it may be noted that the first were imposed at the beginning of the war. Early in 1915 a tax of ¼ of 1% was imposed on the average circulation of bank notes. As these might be expected to expand with prices, the tax was elastic. The rate has never been altered, and the effect of the tax may be summarized by saying that our total volume of note circulation was never so large, even in 1920, as to cause it to yield an appreciable revenue. From the standpoint of the banks the chief result was to cause the abandonment of many branches which had been established chiefly for the profit in the greater note circulation.

Trust and Loan Companies were at the same time taxed 1% on Canadian income, and Insurance Companies on Canadian premiums. These were definitely inelastic, as the companies' tariffs remained unaltered despite rising prices. They yielded trifling amounts and were therefore unimportant save from the standpoint of widening the basis of taxation.

The Business Profits tax was a new impost of decided significance in our revenue system. It was imposed at the end of 1915 when the levy was fixed at 25% of the amount by which the profits of an incorporated company exceeded 7% per annum, and the profits of an unincorporated concern exceeded 10%. Businesses with a capital of less than $50,000 were exempt. In 1917 the tax was graduated so as to provide a tax of 50% on profits of between 15% and 20% per annum, and one of 75% on greater profits. In 1918 the exemption limit was reduced from $50,000 to $25,000. In 1919 it was felt that such small companies were being unduly taxed and the rate on concerns with a capital of between $25,000 and $50,000 was fixed at 25% on the amount by which profits exceeded 10%, instead of 7%, per annum as before. In 1920 the tax schedules were reduced. Profits below 10% were no longer taxed in any case. Those from 10% to 14% were reduced from 25% to 20%, those from 15% to 19% from 50% to 30%. Those with profits of from 20% to 30% were reduced from 75% to 50%, and those over 30% from 75% to 60%. In 1924 the tax was withdrawn with retroactive effect as from December 31, 1920. Since then taxes under this head have related only to small sums due on profits made prior to 1921. The tax can only be justified as a war measure, and then only when, like the British tax, it is based on the amount by which war profits exceed pre-war profits. Such a levy would be a true war profits tax. This may, however, be said in favour of our tax as well as that of Britain. Both were elastic, expanding rapidly with prices and taking from concerns most of the profits which accrued from inflation. They did, therefore, respond to war-revenue needs as the consumption taxes did not.

There remains only the Income Tax to be noted. This was imposed in 1917 after great searchings of heart by the Dominion government, on the ground that, being a direct tax it should be left to the provinces. The original tax provided for a levy of 4% on incomes of unmarried persons or childless widowers or widows, of over $2,000, and on those over $3,000 of other persons. In addition there was a graduated supertax, rising from 2% on incomes of from $6,000 to $10,000, up to 25% on those over $100,000. In 1918 the limit for unmarried persons, and childless widows and widowers was lowered to $1,000, and for others to $2,000, with an additional examption of $200 for each child under 16 years of age. The supertax was extended upward at the same time on incomes over $200,000 so as to provide a scale rising to 50% on those over $1,000,000. A surtax was at the same time provided, graduated from 5% of the combined tax and supertax on incomes of $6,000 up to 25% of tax and supertax imposed on incomes over $200,000. Corporations were to pay 6% on all incomes over $3,000 but no supertax or surtax. In 1919 the surtax was increased so as to provide a scale extending up from 1% on incomes of $5,000 to 65% on those over $1,000,000. In 1920 all schedules on incomes over $5,000 were increased by 5%. In 1922 the allowances for children were extended from the sixteenth up to the eighteenth year, and were increased from $200 to $300 for each child. In

1924 these allowances were further raised to $500. In 1926 the exemption limit was raised from $2,000 to $3,000 in the case of married persons, or those with dependents, and from $1,000 to $1,500 in the case of other persons. The schedules were also lowered by 10% throughout, save that the simple tax on incomes under $5,000 was reduced from 4% to 2%. It will thus be seen that alterations downward, until 1925, were definitely in favour of those with small incomes.

Table VII[7] summarizes the results of our war tax legislation in actual revenues. It will be seen from it that in 1914 the sole sources of tax revenues were Customs and Excise. Now as our Customs revenue had depended, to a not inconsiderable extent, on imports of capital, it followed that, with the declaration of war, our customs revenue was bound to decline. Various enhancements in the tariff were made but all to no effect. Not until 1917 did the actual cash return rise again to the old level, and then only after a sharp rise in prices. It fell from $111,700,000 in 1912-13 to $75,900,000 in 1914-15, then slowly rose to its peak, $168,800,000, in 1919-20. From this point, with the collapse in prices, and in obedience to the sharp cut in the tariff, it fell 38% to $105,700,000 in 1921-22. Further reductions in the Customs tariff since that date have been considerable, as we have noted, yet revenues have steadily risen to $127,300,000 in 1925-26, and this despite the con-

Table VII[7]
Dominion Taxation Classified
(in thousands of dollars)

Year	Customs	Excise		Income	Taxes on Business		Total
		Ordinary	Sales, etc.	Tax	Business Profits	Banks, Insur., Trust and Loan Co's.	
1913 . .	111,764	21,447	....	....	....	....	133,212
1914 . .	104,691	21,452	....	....	....	....	126,143
1915 . .	75,941	21,479	98	....	....	....	97,679
1916 . .	98,649	22,428	1,536	....	....	....	124,666
1917 . .	134,043	24,412	2,059	....	12,506	1,736	174,578
1918 . .	144,172	27,168	2,227	....	21,271	1,881	196,720
1919 . .	147,169	30,342	11,888	9,349	32,970	1,969	233,688
1920 . .	168,796	42,698	15,587	20,262	44,145	2,083	293,574
1921 . .	163,266	37,188	78,803	46,381	40,841	2,359	368,770
1922 . .	105,686	36,755	73,656	78,684	22,815	2,327	319,926
1923 . .	118,056	35,761	106,482	59,711	13,031	2,409	335,453
1924 . .	121,500	38,181	120,676	54,204	4,752	2,403	341,718
1925 . .	108,146	38,603	85,810	56,248	2,704	2,401	293,914
1926 . .	127,355	42,923	98,097	55,571	1,173	2,453	328,135

stant decline in prices. When a reduction in the tariff results in increased revenue the presumption is that former schedules were higher than was justifiable, from a fiscal standpoint. It may be argued in reply that the returning prosperity was the cause of the increased revenues, and this is to a considerable extent true, but it is equally true that the prosperity was retarded by the heavy burden of taxation, and especially by its regressive character.

We have noted various enhancements to the excise revenues. The table shows that here too the taxes were disappointing. Revenues rose from $21,447,000 in 1913-14 to $30,342,000 in 1918-19, whereas prices had doubled. Since 1920 revenues have remained constant despite the decline of 36% in prices.

The Sales tax, standing as it did at $11,900,000 in 1918-19, was of little merit as a war measure. The doubling of the tax on foreign goods in 1920 had the effect of increasing revenues, in the face of falling prices, until 1923-24, when the total reached the figure of $120,600,000. Since then cuts in the tax have brought about a decline in the yield to $98,100,000 in 1925-26.

So far we have concerned ourselves with revenue from taxes on consumption only. When we turn to Business taxes we find that taxes on Banks, Insurance and Trust and Loan Companies fluctuated between $1,750,000, the figure for 1916-17, and $2,450,000 in 1925-26. Such narrow fluctuations and such small figures indicate the inelasticity and unimportance of these sources of revenue.

Business Profits Revenue began with $12,500,000 in 1916-17 and rose to $44,100,000 in 1919-20. The tax has been withdrawn but its slowness of action is shown in the small collections still being made on profits earned before 1921.

There remains but the Income tax. It was imposed in 1917 but yielded revenue for the first time in 1918-19—a meagre $9,350,000. There had been those who had forecasted the impossibility of collecting any revenue of sufficient size to be worth the expense involved. Great was therefore the general surprise and rejoicing when, in 1919-20 the figure jumped to $20,250,000, but, it is safe to say that no one dreamed of its ever rising to its 1921-22 peak, $78,600,000.

Reductions in the schedules in that year caused a recession in subsequent years to $55,600,000 in 1925-26. This tax has been the outstanding success of the war period, and, if it remains to broaden our tax system, our heirs may yet live to bless the Germans for giving it to them.

We have now examined the various taxes imposed and the revenues derived therefrom. In so doing we have had occasion to remark on the varying amount of elasticity possessed by different forms of taxation. We shall now enquire more fully into this very important aspect of war taxation.

Different taxes vary in their elasticity, that is, their responsiveness to enhanced schedules. A war tax, to be satisfactory, must rise more rapidly even than war prices, and that is asking a great deal. Turning to the tables we find that the British Customs and Excise Taxes were raised from the very beginning of the war. The reason was that their tariff was for revenue only, and so comparatively low, and on few commodities. It was therefore capable of being both widened and heightened before it could be compared with our tariff wall, though of course some of our schedules were beyond the point of maximum returns. During the war efforts were made to stiffen the tariff from time to time, but prices rose still more rapidly. The effect was that the large number of commodities entering under specific duties proved a drag on receipts. Thus the nominal rise in revenue was from £35,450,000 to £102,780,000, but the rise in prices had been 210.8%, so that the real rise was to not more than £49,000,000. Our Customs record was infinitely worse. Our revenue rose from $111,764,000 to $147,169,000, while our prices rose 209%, leaving us far worse off than before, that is with no enhancement of revenue out of which to meet war costs. British Excise revenues rose from £39,590,000 to £59,440,000, or less than 60%. Like all other British taxes save Income and Excess Profits Taxes, it therefore was worse than useless for war purposes. Our Excise revenue meantime rose from $21,447,000 to $30,342,000, an even worse showing than that of Britain, and so leaving one to infer that it is useless to expect this tax to respond to exceptional need. Our Sales Tax had, by 1919, only yielded $11,900,000, though it has since risen to $120,700,000. As it had been established in 1915 it is clearly not a tax to be depended on in an emergency unless it is already in operation. This tax is on an *ad valorem* basis and so does adjust itself, with considerable speed to changes in prices. If it did not appear to do so after 1920 it was due to the enhancement of it in 1921. The effect of this, in the face of falling prices, was that revenue from this source rose from $38,100,000 in 1920-21 to $100,990,000 in 1923-24. Cuts in the tax in that year reduced the figure for 1925-26 to $74,000,000.

Stamp taxes are more largely specific than *ad valorem* and so do not readily follow the movements of prices. In war time they are at best but subsidiary means of securing revenue. Enhancements to them are almost certainly bound to be more than cancelled by rises in prices.

To sum up, then, Britain's consumption taxes yielded her an increase from £89,547,000 to £175,547,000, or a rise of 197%, as against a rise of 210.8% in the index number. Meantime Canada's consumption taxes had increased from $126,143,00 to $189,400,000 or by 150%, whereas the index number had risen by 202%. That is, our real revenue from these sources had fallen in purchasing power 25%. The conclusion therefore seems to be that if consumption taxes are to be depended on in an emergency they must include the Sales Tax, and that this tax must be kept in operation so as to be ready when the occasion arises.

We have already suggested one reason why consumption taxes as a whole fail. The nation had to provide *all* the gigantic quantities of munitions of war, and pay the wages, upkeep, etc., of the army, as well as provide for the dependents, out of cash found somehow at home, whether by taxation or borrowing, and this while large numbers of former producers were serving in the defence forces of the Empire. Clearly those left behind could only provide these sums by consuming less, and equally clearly, only by workers being released from the luxury trades, could the war workers be found. Thus it is evident that, however satisfactory consumption taxes may have been in former wars (and Income taxes have been imposed by Britain in all big wars from the Commonwealth period), they are wholly inadequate to meet the needs of modern conflicts, since consumption must sharply decline and revenues based upon it correspondingly dry up.

Even more, in the years following a modern war there must be arrears of needed consumption to be made up somehow. At first prices may be depended upon to rise so that the burden of consumption taxes will not be felt, but when prices begin to fall their weight becomes absolutely crushing. Thus, at the close of the recent war, prices passed their peak in May, 1920, in Canada and in October of that year in Britain. Meantime consumption taxes rose from $189,400,000 in 1918-19 to $279,199,000 in 1920-21 in Canada, and from £175,547,000 to £368,131,000 in Britain. The following years brought a collapse in prices. In Britain, between 1920 and 1924 they fell 46% but consumption taxes fell only 17%, that is from £368,131,000 to £278,251,000. Meantime the decline in prices in Canada had been 36% while taxes had fallen only from $279,199,000 to $232,561,000, or 16%.

Turning to business taxes, we need only note in passing that the Bank tax on note circulation is elastic, since all price fluctuations work themselves out in alterations to note circulation. On the other hand, taxes on Trust and Loan, and Insurance Companies, are based on their net profits, and premiums paid, and these are subject to long term contracts, and so are highly inelastic. The Business Profits Tax is very sensitive to price fluctuations and prosperity. From this angle it is as satisfactory a tax, no better and no worse than the Sales Tax. But there are other arguments against it which will be considered later.

The Income Tax has proven itself exceptionally elastic. In Britain, where it is old, it responded instantly to enhancement on the outbreak of war. Our limited experience completely corroborates theirs, that it is an absolutely indispensable tax for a national government to possess. The country should retain the Stamp and Sales taxes, but above all it must insist on retention of the Income Tax for the same reason as we keep our militia—preparedness for whatever the future may bring forth. Those who would have us go back to Excise and Customs as the sole sources of Dominion revenue are more interested in reducing their own burden than in any desire that Canada should be prepared with an adequate tax system.

But there is another reason why we must insist on retaining the Income Tax. Our Customs, Excise and Sales Taxes are largely regressive in incidence, that is they bear most heavily on those least able to bear them. Consumption is no adequate basis for judging of ability to pay taxes, even in the case of a sales tax on expensive clothing. A man with an income of a million dollars a year does not consume a thousand times as much as a man with one of a thousand, although his capacity to pay is more than a thousand times as great. Furthermore, if two men have an equal income but one has a wife and six children while the other is single, the former will consume more, and so, although already the more heavily burdened, will have to bear the larger tax. A system of taxation which places the heaviest burdens, proportionately, on the poor, and those already most heavily burdened is most obviously both unjust and unsatisfactory.

From the national standpoint our dependence on Customs and Excise taxes has been a curse to us. No small share of the responsibility for the era of extravagance which preceded the war is due to the fact that these taxes were concealed in the prices people paid for commodities. It is always a wholesome check on extravagance for the taxpayers to be aware of the exact size of the sums they are paying into the exchequer; and it leads to an enlightened citizenship.

A further reason why it would be unwise to place sole reliance on Customs and Excise revenues once more is that they are, in considerable part, made up of specific and not *ad valorem* rates. The merit of specific levies is that they are easily calculated, and cheaply collected. They are, therefore, especially adapted to the taxation of commodities like liquors, wines, beers, medicines, perfumes, matches, cement, sugar, coffee, tea, tobacco, etc., where the weight or volume is a satisfactory basis of determining value. But the demerit of such a tax is that it remains constant in the face of rising prices, such as borrowing during a war inevitably produces. This merit the Income Tax possesses to an especial degree.

Why, then, in the face of these reasons, should a return to dependence on Customs and Excise taxes be advocated by anyone? The answer is to be found in the nature of the Income Tax. This tax is unpopular with the business world because it is progressive, that is, unlike Customs and Excise taxes, it presses most heavily on those best able to bear taxation. No one likes to be taxed, or, what amounts to the same thing, to know he is being taxed. Consequently, it is natural that they should lift up their voices in protest, and try to have the system altered. What is even more serious, they use their powerful influence at Ottawa to have it abolished. It is doubly unfortunate that this is so since parliamentary government means that the ministry depends for its existence on its popularity, and the rich and the business community dominate the press and are able to allign even the poor, in their ignorance of the real situation, in opposition to their own interests.

It is argued, in opposition to the Income Taxes, that their abolition would result in greater prosperity for our industries, and so more employment. The implication is that the government is in a position to cut the tax burden and that it is better to do so in this way than to reduce the tax on tea, coffee, sugar, clothing, farm implements, etc., used largely by the whole community. To see whither this policy is leading one must retrace his steps to the years before the war when we had no Income Tax. Our standard of living then necessitated the buying of many heavily taxed articles. We have shown that our *per capita* taxation was greater than that of the United States or Great Britain. It was unquestionably far more regressive than that of the latter, and probably somewhat more so than the former, thus making our poorer population perhaps the most heavily taxed in the world. Now all this goes to show that the industrialists' "make work" argument for the abolition of the Income Tax is unimpressive, if the burden is to be shifted from industry onto the backs of those who are already so heavily burdened, yet who would have to buy the additional goods produced.

The Business Profits Tax was of a different character. Like the American tax it was based on capital and was graduated. It was radically different from the British tax in which the amount taken was the amount by which the war profits exceeded those of preceding years. The merits of the British system were that the tax was based on pre-war profits, and not on capital; that it was definitely a war tax and only collected during the war when firms were expecting to be heavily taxed; and that it was not otherwise graduated. The Canadian tax tended to encourage deception and the building up of reserves. It also encouraged needless expansion. Finally, it was the most fruitful cause of the post-war orgy of advertising, as propaganda of this kind could be carried on out of funds that would otherwise go into the government's coffers, and so at the expense of the state. Furthermore, excess profits are no criterion of ability to pay since the ownership of stock is likely to be scattered among all ranks of society, This tax is, therefore, definitely unsatisfactory. There is no reason, however, why we should not copy the British Excess Profits Tax during any subsequent war, if the world should prove mad enough to precipitate one.

Having reviewed the various taxes on consumption, production and business, and noted their merits and demerits, it may be well to examine the relative importance of consumption taxes, as a whole, during the period. In Britain, in 1913, these constituted 52% of the whole, declining to 18% in 1918, (there was a drop of £18,000,000 in Excise duties on liquors and beers in 1917-18), after which they rose to 36% in 1920-21 and to 43% in 1924-25. Similarly, in Canada they declined from 100% in 1914-15 to 92% in 1916-17, to 81% in 1918-19 and to 68% in 1921-22, after which they began to rise again, until, as already noted, they reached 82% in 1925-26. The explanation of the British figures is that, apart from the brief Labour government, there have been steady enhancements of the Customs tariff and equally constant reductions in the Income tax. We have seen that in Canada the cause of the rise in consumption taxes since 1920 has been the abolition of the Business Profits tax and the great increase in the Sales tax, which have combined to far more than offset any advantage gained by the consumer, relatively speaking, by reductions in the Customs tariff. But even to-day, the Customs remains by far the most important single item in the revenue system, with the Sales Tax, since 1922, regularly standing second in importance. Our lowest point in consumption taxes was in that year, when the figure stood at 68% of our tax revenues. In Britain, on the other hand, consumption taxes were highest in 1913-14 (as far as our period is concerned), at 52%, and lowest in 1917-18 at 18%. It will be seen, therefore, that when allowance is made for the luxury taxes in our consumption tax schedules, and the taxes on production and industry, under Customs (small in amount because of the drawbacks allowed), Canada's system is infinitely more regressive than that of Britain. Consequently, when our provincial premiers and industrialists and others urge the abolition of the Dominion tax on income they are asking for our enormously heavy tax burden to be entirely borne by consumption taxes, with all their regressiveness and all the evils that regressive taxes bring in their train.

We made reference to the weight of taxation especially since 1920. Table VIII[8] indicates clearly the way in which, prices considered, our per capita taxation contracted during the war. Despite all our tax legislation the rise in the index number of prices, and the necessity of contracting purchases to release money and men for war effort, resulted in our adjusted per capita taxation dropping from $17.70 in 1912-13 to $11.89 in 1917-18. Then the Business Profits and Income Taxes began to take effect, and, *in the last year of the war,* our per capita taxation commenced, at long last, to rise, but still, at $13.13 it was only 74% of the 1912-13 figure. Thus, at the armistice we were still a more lightly taxed people than before the war. But, with the fall in prices in 1920, and the considerable enhancements to the Sales and Income taxes, we

Table VIII[8]

Dominion Taxation Reduced to 1913 Price Level

		In thousands of Dollars				
	Index Number	Actual Taxation	Taxation Adjusted to 1913 level	Estimated Population (thousands)	Unadjusted Per Capita Taxation	Adjusted Per Capita Taxation
1913	100	133.212	133,212	7,527	17.70	17.70
1914	102.3	126,143	123,307	7,693	16.40	16.03
1915	109.9	97,519	88,735	7,862	12.40	11.29
1916	131.6	124,666	94,731	8,035	15.51	11.87
1917	178.5	174,758	97,903	8,180	21.36	11.98
1918	199.0	190,720	98,352	8,328	23.62	11.89
1919	209.2	233,688	111,227	8,478	27.56	13.13
1920	243.5	293,574	120,564	8,631	34.01	13.97
1921	171.8	368,770	214,651	8,788	41.96	24.42
1922	152.0	319,926	210,477	8,940	35.78	23.54
1923	153.0	335,453	219,257	9,082	36.93	24.14
1924	155.2	341,718	220,179	9,226	37.04	23.89
1925	160.3	293,914	183,352	9,364	31.42	19.60
1926	156.2	327,575	209,715	9,508	34.45	23.06

experienced the tremendous increase from \$13.97 to \$24.42 in the one year 1920-21, or a rise of 74%. It was the weight of these Dominion taxes on the backs of a people already the most heavily burdened when war was declared that left us struggling in the depths of a business depression for four long years. Furthermore, it must be remembered that our taxes were, as has been shown, heavily and increasingly regressive during this period, a further reason for our factories and shops finding few to buy their goods. Moreover, in the meantime, our provincial and municipal taxation, especially the former, had been greatly increased, and, though the figures are not available for the period the combined weight of all, especially from 1920 to 1924, must have been very heavy indeed.

So far we have spoken only of our tax revenues since we wished to stress the weight of our fiscal burden. But it should be borne in mind that our non-tax revenues amounted to the not-inconsiderable figures of \$35,554,000 in 1914-15, \$79,258,000 in 1918-19, and \$53,170,000 in 1925-26. The chief items were the Post Office and Public Works, the former yielding \$13,046,000 in 1914-15, \$21,603,000 in 1918-19, and \$30,334,000 in 1925-26, and the latter \$12,953,000 (chiefly railway revenue, in 1914-15, \$38,751,000 (owing to the taking over of the Canadian Northern), in 1918-19, and a paltry \$495,000 in 1925-26 (due to the separation of railway finances). As war revenues these sources are of little importance. Enhancements did not keep pace with prices, and therefore absorbed part of the war taxation instead of increasing revenues available for war purposes.

Dominion Debt

We have considered Dominion expenditures and revenues at length. Space does not permit of more than the briefest summary of the growth of the Debt and of the floating of the various loans. On March 31, 1914, the net debt was \$385,-333,000. In 1914-15 \$146,961,000 was added, in 1915-16 \$166,322,000, in 1916-17 \$290,046,000, in 1917-18 \$381,403,-000, and in 1918-19 \$408,552,000. Thus, during the war years our actual war outlay was \$1,548,000,000 and we added to our debt \$1,393,000,000, showing that \$155,000,000, or 10%, was paid out of revenue, as against Britain's 25%. Down to the end of 1925-26 our Debt and War expenditure for the whole period was $3,233,000,000, and our debt, meantime, mounted by $2,004,000,000, thus indicating that not less than $1,229,000,000 had been paid out of revenue. The war years after 1915 were prosperous ones for Canada owing to war orders and war prices for agricultural products, yet, out of our prosperity we paid but 10% of our debt. During the seven lean years we made heroic efforts to correct our fiscal follies with the result already stressed and still further evidenced by the figures just quoted.

We can only note one very important change in Canadian finance during the period. Out of a debt of $385,000,000 in 1914 only $792,000 was held in Canada. But if Canadians did not put their hands into their pockets deeply during the war to pay taxes they did so to buy bonds. In 1915 they absorbed the first bond flotation in the history of the country, and this for $100,000,000. For subsequent years the figures were: 1916-17 $240,000,000, 1917-18 $540,000,000, 1918-19 $594,000,000, and in 1919-20 $590,000,000. Meantime the debt held in London had risen by but $34,000,000, but we had appeared in the New York market and borrowed $135,000,000. Thus, at the peak of our indebtedness, $2,066,000,000 was held in Canada, $336,000,000 in London, and $135,000,000 in New York. Out of our debt of two and a half billions we owed ourselves not less than 77%, a really wonderful feat for a country that had purchased almost no bonds of any kind before the war. If the Germans have taught us our wealth and the value of investment the war has not been fought in vain.

Only one other point can be touched on. It has been suggested that the floating of loans inflates the currency. This is brought about by the creating of bank credits, out of which men buy government bonds, and also by pledging these bonds later for the purpose of securing bank advances for business, or even passing them from hand to hand as money. By lending ourselves money we inflated our currency and made our war costs that much the greater. But lending showed that we had the surplus cash, and that, therefore, we could have borne far heavier taxation than was actually imposed during the war. This debt which was so aggravated by the inflation of prices has since become even more onerous by the deflation of our currency, as the war bonds have to be met with the dollar purchasing but 64% of what it did in 1920.

J. S. PRENTICE.